

BOOK REVIEWS

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***Banking and Economic Rent in Asia: Rent Effects, Financial Fragility, and Economic Development*, edited by Yasushi Suzuki, Mohammad Dulal Miah, Manjula K. Wanniarachchige and S.M. Sohrab Uddin.** Oxon and New York: Routledge, 2017. Pp. 204.

In most parts of Asia, the banking sector plays an important role in mobilizing funds and transmitting monetary policies. The banking sector, given its importance, is heavily regulated and protected such that it has “rent” opportunities; it earns returns above what may be implied from purely competitive market scenarios. The excess returns serve as an incentive for banks to carry out prudential screening and monitoring of customer credit risks. It also incentivizes banks to improve their financial infrastructure so as to extend financial services to the unbanked communities and hence, help deepen the financial sector.

This book sets out to survey the different schools of thought on the concept of “rent” and how this may apply to the banking sector. It also extends this discussion to Islamic banking, an area in which existing “rent” literature seems silent. Besides, it also studies the applicability of “rent” in the context of a country’s quantitative easing initiatives, a fairly new economic phenomenon.

The book is organized under two parts. While the first part builds the theoretical framework for empirical analyses, the second discusses empirical studies of several Asian countries. The four-chapter Part 1 begins with surveying the various schools of thought on the concept of “rent” and its role in financial system development. Particularly, it discusses the important and unique roles played by banks in financial intermediation. This is seen in the aspects of more efficient lending coordination activities, and the saving of transaction costs through scale economies in credit analysis. Hence, banks help reduce the problems arising from information asymmetry and transactional costs. Considering the limitations in the findings of existing studies, the authors propose exploring two aspects other than “price rent”: operating rent and macroeconomic rent. This is graphically depicted in a “bank rent cube” that facilitates analyses of the implications of “rent” on the costs and opportunities from these three aspects. Finally, the fourth chapter proposes an approach to analyse Islamic banking rent. This approach considers two key items that differentiate Islamic banking from conventional banking: (1) the cost of shari’ah compliance; and (2) the uncertainty in returns for profit-and-loss sharing contracts.

Part 2 looks into the findings of the authors’ empirical studies. First, it studies China and its high economic growth rate, despite relatively low financial sector development. Next, it focusses on Sri Lanka which seems to have enjoyed financial stability, but this was mainly due to resolution of the civil war and not necessarily real financial sector deepening. It also delves into the Islamic banking of Muslim-majority countries, namely Bangladesh, Pakistan, Indonesia and Malaysia. One of the important findings here is that asset-based financing is more prevalent than those based on a profit-and-loss sharing approach. This is perhaps a reflection of the need to capture rent opportunities to protect the banks’ franchise values.

It also finds that in the Gulf Cooperative Council (GCC) countries, Islamic banking earns consistently higher spreads than the conventional banks. Finally, a study of Japan's experience post-quantitative easing provides a new aspect to "rent" literature studies.

The book broadly achieves its aims. It is written in an easily understood manner and illustrates the "rent" concept well. It also extends the discussions to the less-covered area of Islamic banking and to quantitative easing, a fairly recent concept. However, while it covers several Asian countries, the choice thereof is not obvious. In terms of the more developed Asian countries, it includes only Japan, without devoting any writing space to Singapore, Hong Kong and Taiwan. Likewise, the book has also not covered major developing economies such as India and Vietnam.

If the authors' intention was to explain the "rent" concept from different angles in each chapter, the book has achieved this objective. If, however, this was coincidental, then one may wish to consider reducing the level of repetitive phrases so as to achieve parsimony. After all, the concept can be explained and discussed upfront. The latter chapters could focus on each country's contextual uniqueness without excess reiteration of "rent".

It seems odd that the discussions on China used the 2003 statistics as the latest. It would be useful to extend the data to a more recent date. Also, the lengthy discussions on Sri Lanka's historical background and Japan's quantitative easing initiatives seem to detract the reader's attention from the book's core focus of "bank rent".

The discussions on p. 133 regarding why Indonesia has higher proportions of equity-based financing (than Bangladesh and Malaysia) has to be read in the proper context. The authors state that the insights were obtained through interviews with Indonesian bank directors made "in passing". Among the ways to enrich the insights would be to interview bank directors outside Indonesia such as Bangladesh and Malaysia, or even other countries or organizations.

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***Handbook of Empirical Research on Islam and Economic Life*, edited by M. Kabir Hassan. Cheltenham, UK and Northampton, USA: Edward Elgar Publishing, 2017. Pp. 754.**

The Islamic financial service sector today represents approximately 1 per cent of global financial assets. Nevertheless, it has been growing strongly over the past decade. In 2011 alone, for example, Islamic financial assets expanded by US\$1.086 trillion, an impressive 21 per cent growth over the previous year. Furthermore, the global Islamic finance sector has nearly doubled in size from 2007 to 2010, a period when many conventional banks across the globe were struggling. In fact, then, and even till today, as claimed by many experts in the field, not a single Islamic bank has needed to be bailed out by taxpayers' money. This reality has increased general interest in the soundness and resilience of the Islamic finance model.
