

most frequently quoted Japanese official documents, constitutes Chapter 3 of this book.

There is considerable concern about the effectiveness (or ineffectiveness) of the prescription proposed by the IMF and the World Bank, because of a series of setbacks in Sub-Saharan Africa, former USSR, and East Asian emerging markets. Under the circumstance, our major task is to enhance our stock of knowledge and art of understanding and tackling crucial agendas in the developing countries. The Ohnos make a notable contribution towards this task through illustrating rich and diverse paths to the market. It is hoped that developing countries and international institutions draw hints from their messages.

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***Booty Capitalism: The Politics of Banking in the Philippines.* By Paul D. Hutchcroft. Ithaca, New York: Cornell University Press, 1998. pp. 278.**

In the 1950s and the 1960s, the Philippines had impressive economic growth coupled with political stability. However, since then, despite the presence of favourable attributes for successful economic development including “tremendous entrepreneurial talents, a well-educated and anglo-phone workforce, a rich endowment of natural resources, a vibrant community of economists and development specialists, and abundant overseas assistance”, the Philippine economy has generally displayed a very dismal economic performance. It registered very low and even negative rates of economic growth particularly during the 1980s when it posted a mere 0.9 per cent average growth rate. What went wrong? This is the central question of Hutchcroft’s book. Among the studies which attempt to explain why the Philippine economy has done badly, Professor Gerardo Sicat (a former government minister) commended the Task Force report of some professors at the University of the Philippines School of Economics

[UPSE] and cited that it has become a major document, due to thoroughness of its coverage and the depth of the effort at quantifying claims, that has opened some interesting propositions that would in the future be debated.¹ In their analysis of the Philippine economic crisis, the UPSE report (1984) concluded that:

Different and often competing explanations have been put forward for the occurrence of the country’s economic debacle, among which, that (1) it was entirely or primarily due to external circumstances which were affecting all developing countries, and over which the present leadership [Marcos] had no control, (2) it was entirely or primarily due to mismanagement of the [Marcos] regime [which was generally too expansionary in its fiscal and monetary policy, and hence was a complete departure from a more conservative macroeconomic policy during the 1950s and the 1960s], and (3) it was entirely or primarily due to an unforeseen random event which was the [1983] assassination of Aquino [which affected the economy through the following channels: capital flight from the Philippines and waning investors’ confidence on the political and economic stability of the Philippines]. While there is some truth to each of these [factors], none of them is a sufficient explanation by itself.²

Hutchcroft’s argument is certainly one of the studies which helped to explain what went wrong in the Philippines. He asserts that a major source of obstacles to sustained development in the Philippines lies in the long-standing deficiencies in the Philippine political sphere particularly in terms of the relations between the state and dominant economic interests. He concluded that successful economic development in the Philippines has been constrained to a large extent by weaknesses in political development. His book is indeed an excellent evaluation of the significant role of booty capitalism in the development process of the Philippine economy as it relates to the politics of banking, a sector in which the Central Bank interacts with the powerful oligarchic extended families.

The first two chapters provide a very strong foundation of the theoretical framework and a broad overview of the evolution of relations

between the state and oligarchy in the Philippines. The Philippine economy does not exhibit key characteristics of either *laissez-faire* or statist capitalism. Hutchcroft classified the Philippine economy as booty capitalism whereby a powerful business class extracts privilege from a largely incoherent bureaucracy. This is in contrast to bureaucratic capitalism whereby a bureaucratic business élite extracts privilege from a weak business class. Booty capitalism arises out of the political foundations of the patrimonial oligarchic state while bureaucratic capitalism is built on the foundations of patrimonial administrative state. The third chapter compares polities that demonstrate strong patrimonial characteristics. Hutchcroft argues that the Philippine patrimonial oligarchic state presents particularly obstinate structural barriers to the demise of patrimonial features and the creation of a more rational-legal state. This is in contrast to a Thai- or Indonesian-style patrimonial administrative state where a bureaucratic élite traditionally predominates. The fourth chapter provides a historical evolution of the overall banking system in the Philippines prior to 1960 including a survey of the American colonial period and the immediate post-independence years, the birth of the central bank in 1949, the imposition of import and exchange controls, and the changes in the banking structure during the 1950s.

The fifth through the ninth chapters focus on the relationship between the Central Bank of the Philippines and the commercial banks (in particular the private domestic banks) between 1960 and 1995. The fifth chapter includes an analysis of the following: the impact of the lifting of import and exchange controls, the major causes of the mushrooming of banks in the early 1960s, two contrasting case studies of bank failures, one case study of a bank (the Far East Bank) which practices self-regulation, and the Central Bank's unsuccessful regulatory attempts. The sixth chapter details some bank reforms and crony abuses during the martial law period from 1972–80 including the recurring episodes of bank instability which rocked the financial system in the mid-1970s. Although cronyism was already

prevalent during the 1950s and the 1960s, it has blossomed to greater heights during the 1970s particularly for those who have enjoyed the closest access to the political machinery. The seventh chapter gives a detailed account of further reforms and further failures during the period from 1980–83 including an analysis of a financial crisis and a massive bailout operation which fuelled rising business resentment against crony capitalism. The eighth chapter provides a historical account of the Fernandez years from 1984–90, when banker Jose B. “Jobo” Fernandez became the governor of the Central Bank of the Philippines. He saw through the last two years of Marcos and the six years in power of Aquino. During his time, Fernandez staged a crusade to reform the banking sector.

The ninth chapter discusses the death, resurrection and renovation of the Philippine banking sector. The death of the central bank was brought about by its massive losses since the 1980s. Hutchcroft (pp. 207) reported that the bank losses were fifteen times greater than its net worth, and averaged more than 2.5 per cent of GDP from 1983 into the early 1990s and hence contributed a full 55 per cent of the consolidated public sector deficit. These losses arose from the three major types of giveaway programmes: the assumption of some US\$3 billion in foreign debt in the process of rescheduling foreign debt, loans arising from swaps and forward exchange cover programmes, and the floating of high-interest, low risk central bank bills.

In order to “clean up” or resurrect the central bank, a new central monetary authority was created known as *Bangko Sentral ng Pilipinas* (BSP) with massive bailout and other forms of financial assistance from the national government. Renovation activities include a substantial liberalization programme of the banking sector involving opening up the domestic banking industry to foreign competition. This has resulted in the entry of ten foreign banks in 1995. Instead of promoting competition, however, it has been commonly argued that the entry of foreign banks has simply expanded the membership of the bank cartel in the Philippines. The final chapter

presents a summary of the highlights of the book, a discussion of the general lessons derived from the Philippine case, and a broad assessment of prospects for fundamental change. In a nutshell, the book has provided an excellent picture of the phenomenal growth of the Philippine banking sector, which has been owned mostly by the powerful oligarchic families, and their “romantic” interactions with the central banking authority.

Hutchcroft’s book is certainly an impressive, well-written and insightful contribution to the analysis of the interdependence between political and economic development as it applies to the Philippines. Moreover, it is theoretically sound and empirically strong, indeed a reflection of the author’s enduring attachment to the Philippines and its people. It is strongly recommended for students, teachers and researchers with strong interests in the political economy of banking in the Philippines.

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NOTES

1. See G.P. Sicat, “A historical and current perspective of Philippine economic crisis”, Discussion Paper 8409 (University of the Philippines School of Economics, Quezon City, Philippines, 1984), pp. 3, as cited in T.C. Daquila, “Macroeconomic Policy and Its Impact on the Philippine Economy”, Ph.D. thesis, Canberra, Australian National University, 1998, also published in the United States by UMI, Michigan, pp. 10.
2. See E. S De Dios, D.B. Canlas, R.V. Fabella, F.M. Medalla, S.C. Monsod, M.F. Montes, V.P. Paqueo, E.M. Remolona, E.A. Tan, and R.L.P. Tidalgo, “Analysis of the Philippine economic crisis: a workshop report” (1984), pp. 3, as cited in Daquila, 1988, pp. 10. It is to be noted that Hutchcroft was able to interview some of these authors from a long list of interviews (see pp. 263–66) during his visit in the Philippines.

Transnational Corporations and Business Networks: Hong Kong Firms in the ASEAN Region.

By Henry Wai-chung Yeung. London and New York: Routledge, 1998. pp. i–xxi, 297.

Given the increasingly important role of transnational corporations (TNCs) in the global economy as well as in economic development, it is not surprising that TNCs and their operations have become the focus of many academic studies. The activities of TNCs have been particularly well documented but, as argued by the author of this book, largely from a western-centric perspective. This view has been presented “not as geographically and historically specific but as the norm from which all others are an aberration.” (p. xv)

Henry Yeung, in this book, presents compelling arguments that the activities of TNCs from Hong Kong (HKTNCs) pose a fundamental challenge to the conventional wisdom about “Third World multinationals”. In this study of HKTNCs, Yeung argues that the different conceptualizations of TNCs (read “western”) as “firms that rely upon networks as a form of organising activities” (p. 7) or as “enterprises which control assets – factories, mines, sales office and the like – in two or more countries (UNCTC 1978, p. 158 as quoted in Yeung 1998, p. 7) or as firms which co-ordinate production across national boundaries without using market exchange (p. 7) leads to a conceptual ambiguity.

Yeung thus sets himself the task of developing a network approach to the understanding of TNCs through a deconstruction of existing Western-centric perspectives and a rebuilding of a generic network perspective to take account of time-space specificities in transnational operations (p. 3). Yeung also argues that Third World multinationals have been misleadingly stereotyped as “very small in their assets and sales, labour-intensive in their operations, low in technological capabilities and restricted in geographical coverage” (p. 3). However, this contention is not directly addressed in the book as one would have expected.

The background upon which Yeung seeks to explain the role of business networks in HKTNCs is richly prepared through his analysis of the emergence of transnational corporations from