level in order to reduce crisis, and manage them better. However, developing economies need to seek strategic rather than full integration into the international financial system; regional arrangements could be one such possibility.

Aziz Ali, in Part IV, covers the issue of reforming the IMF. He purposely does not take any extreme position regarding the Washington-based institution, but reviews the arguments of those who want the Institution to play a constructive role as an international credit co-operative. In this case, the issue is not how to reduce, but rather how to enlarge the IMF's role in the global economy by developing, for instance, its role in creating international liquidity, and increasing its powers for surveillance. The question of access to the Fund was also raised.

For the reader, the contributions cover a wide range of approaches, which gives a thorough analysis and a fresh perspective of the global financial architecture in light of the recent crisis. The IMF, for instance, was under fire for its way of managing the 1997 crisis. By examining this issue, and presenting the institution's perspective on how to reform the international financial system, the book provides an important input. It is worth recalling here that the term "international financial architecture" was first coined by then U.S. Treasury Secretary R. Rubin during the Asian financial crisis. In addition to the main articles, the comments, based on the floor discussions that followed each presentation at the seminar, are very well reported, and add insights and value to the book.

In short, the overall presentation of the book serves not to deliver final solutions to the reader, but to stimulate serious rethinking of the international financial architecture and how to manage crisis. *Reforming the International Financial System* is recommended reading for those with an interest in finance, but also for those seeking to understand the more fundamental aspects and implications of crisis prevention.

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***Looking Forward: Korea after the Economic Crisis.* Edited by Heather Smith.** Canberra: Asia Pacific Press, 2000. Pp. 206.

The volume under review is the outcome of a conference on financial reform and macroeconomic policy management in Korea held under the auspices of the Korea Economy Program at the Australian National University (ANU) in 1998. The contributors to the volume are from Australia and South Korea, and the editor, Heather Smith, has done an able job in putting together diverse papers on macroeconomic policy, the financial system, corporate governance, and the labour market around the theme of Korea's economic crisis of 1997–98.

The first chapter, "Lessons from Korea's Crisis", by Heather Smith and Sandra Eccles, offers a comprehensive coverage of the various issues relating to the crisis. Its discussion of the causes of the crisis, government responses to the crisis, lessons from the crisis, and future challenges is comprehensive and well balanced, and the reader will get a good bird's-eye view of the Korean crisis.

The second chapter, "Macroeconomic Origins of the Korean Crisis", by Peter G. Warr, is more narrowly aimed at showing that by 1997, the Korean economy became vulnerable to crisis but could have avoided the crisis if correct macroeconomic policies had been used. As he sees it, the Korean crisis was a collapse of a boom that was caused by erroneous macroeconomic policies such as a more or less fixed exchange rate system. The boom was fuelled by foreign capital inflow, which brought about a "Dutch disease" phenomenon in the Korean economy, undermining the competitiveness of its traded goods sector.

A lengthy chapter by Heather Smith then follows, in which she analyses the impact of the crisis and the International Monetary Fund (IMF) policy prescriptions on Korea's real economy. It thus deals with the highly controversial issue of whether the IMF adjustment programme that was initially adopted in Korea was appropriate and whether it in fact worsened the situation in Korea. An overall verdict she seems to reach is that although the orthodox stabilization policy was warranted at the beginning of the crisis, it went on too long, given the depth of the domestic downturn and weak external demand.

The next two chapters are on Korea's financial system and capital market liberalization. The chapter by Sungsoo Koh and Donghyun Ji provides a brief history of Korea's financial system and then discusses and evaluates the reforms that have been undertaken since the crisis. Although the chapter makes it clear that the reforms are all in the right direction, one is yet to be convinced that they will in fact lead to the establishment of a strong financial system in Korea. Only time will tell.

In his chapter on Korea's capital market liberalization, Sunho Kim basically makes the point that developing long-term capital markets is essential for the future economic growth of Korea. Although one can hardly disagree with this point, it is nevertheless ironic that doing so would require, as the author points out, the growth of the government bond market and government borrowing. One of the virtues of Korea's macroeconomic policy has been its conservative fiscal stance, which one would argue has kept Korea's long-term capital markets underdeveloped, and what is needed for their development is increased government borrowing! If this is correct, then the silver lining in the Korean crisis is, as the author puts it, the prospect for the growth of the government bond market as the crisis has made the government run huge budget deficits.

The chapter by Seong-min Yoo is on corporate governance. That is, it is on one of the most important issues facing Korea — what to do with the *chaebol* system. The chapter discusses various reforms relating to the system but, more importantly, it raises a fundamental question on the *chaebols*: that is, whether they should be dismantled and what should be the alternative forms of corporate organization. Would they be more efficient than the *chaebol* system? And what would be the cost of changing the *chaebol* system to a new system?

The author does not offer any answers to these questions but by raising these questions he makes it clear that reforming corporate governance in Korea is not simply a matter of dismantling the *chaebol* system, contrary to what the popular view in Korea seems to demand.

The final chapter in the volume is on the Korean labour market by Chris Manning. It has a good coverage on issues relating to labour market adjustment to the shock of the crisis, the impact of the crisis on social welfare and income inequality, and the long-term consequences of the crisis on Korea's labour market. The chapter argues that up to the crisis, Korea retained labour market characteristics common in many lower income countries, including the underdevelopment of social security. It was, however, the infancy of social security system at the time of the crisis that gave the Korean labour market its flexibility and thus its ability to adjust relatively quickly to the shock of the crisis. However, the author predicts that in the long run, the labour market in Korea will become less flexible as incomes rise and as the share of informal sector workers declines.

Overall, the volume can serve adequately as a standard reference book on the Korean crisis of 1997–98 and the reforms that have been undertaken since then. Presumably because of their relevance to the crisis, the volume chose the four topics of macroeconomic policy, financial markets, corporate governance, and the labour market. Clearly, there are other issues such as the educational system and social institutions that Korea must develop if it is to progress towards a more advanced economy in a globalizing world. It is the reviewer's hope that the next conference organized by ANU's Korea Economy Program will address some of such future-oriented issues facing Korea.

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