

companies in their Malaysia, Philippine, and Singapore operations tends to confirm what was already perceived to be the case for the U.S. and European firms. The author examines ownership strategies of Japanese firms through five possible explanatory factors: R&D, advertising, marketing, capital and labour, and time of market entry. Among his results, Takagaki finds that higher values of R&D and marketing intensity prompt a greater likelihood that Japanese firms will opt to enact wholly-owned operations in these Southeast Asian countries. However, early market entry would be likely to prompt opting for a joint-venture operation. In conclusion, "R&D was found to be the most important ownership advantage [in this sample of Japanese investors in Southeast Asia], just as it is for U.S. and British firms". And since "the competition in R&D is increasing this suggests that the number of Japanese wholly owned subsidiaries in South East Asian countries may increase." Trends in global marketing may also support this trend. However, Japanese firms in labour-intensive industries, or with little experience of the local market or management, will still display a propensity to enact joint ventures.

Perhaps the one main weakness in this chapter is the author's comparison with increasingly dated models of the U.S. and European firms' ownership strategies, where he cites studies of the latter that originate from the 1970s and 1980s. More recent work — such as the recently published *International Production Networks in Asia*, edited by Borrus, Ernst, and Haggard — indicates that the U.S. firms' investment activity in the region has further evolved in the 1990s. Even in high R&D intensity operations, such as relatively advanced electronics, there is a move by the U.S. firms towards a much more "open, competitive supply architecture", where local Asian companies provide fairly considerable value-added. The example of Cisco can be cited, as a U.S. firm — with a market capitalization of around US\$350 billion — that even enacts most of its R&D activity through alliances with key suppliers overseas. These suppliers are not bound to Cisco by anything more than a contractual arrangement, with no

equity relationship at all. In this respect, Takagaki's study of Japanese investment in Southeast Asia is making a comparison with what may be a U.S. model of ownership strategy that pertains less and less, as cross-border production networks become increasingly complex and "open".

This volume provides some interesting insights into the current state of play of IB research, and contains some illuminating chapters that pertain directly to Southeast Asia. As such, it is a useful addition to the literature on international business activities in the region.

NICK J. FREEMAN

*Institute of Southeast Asian Studies*

---

*Reforming the International Financial System, Crisis Prevention and Response. Edited by Jan Joost Teunissen. The Hague, FONDAD: 2000. Pp. 224.*

---

Given the experience of the recent currency crisis, combined with the size and significance of current capital flows, there is undoubtedly a need for a greater understanding of how to reform the international financial system. This book, *Reforming the International Financial System, Crisis Prevention and Response*, is therefore very timely. The book is based on research papers prepared for a seminar "Crisis Prevention and Response: Where Do We Stand with the Debate on the Reform of the International Financial Architecture?" held in the Hague, Netherlands, on 26–27 June 2000. The seminar was organized by the Dutch Ministry of Foreign Affairs and co-sponsored by the Dutch Ministry of Finance, International Development Research Centre (IDRC), Economic Council for Latin America and the Caribbean (ECLAC), the Commonwealth Secretariat, the International Monetary Fund, and the United Nations Conference on Trade and Development (UNCTAD).

The increasing frequency of financial crises suggests that a part of the problem is located in the

---

system of global finance, which has been characterized by flexible exchange rates and large-scale private capital flows since the early 1970s. *Reforming the International Financial System* analyses the arguments in a focused and incisive manner, and adds to the debates surrounding this issue. Moreover, the issues are presented in an accessible style. The book is organized into four parts, containing thirteen independent contributions — six papers followed by a comment on each one — made by authors from Asia, Europe, America, and Africa. This variety in perspective is one of the main strengths of the book.

The book starts with a general introduction to the international financial system, providing background information and an overview of the content. Part I focuses on the positive and negative aspects of recent reform proposals. Part II presents a new framework for private sector involvement in crisis prevention and management. Part III looks at the recent initiatives to improve the regulation and supervision of private capital flows. Finally, Part IV examines how the International Monetary Fund could be reformed.

The first article, by Griffith-Jones and Ocampo, explores the issue of volatility and concentration of capital flows. The authors state that there is no consensus on institutional arrangements for international regulation. “Self-insurance” by countries remains the main means of preventing crisis. The authors go on to assert that a permanent system of capital account regulations, backed by adequate institutions may be a crucial instrument for preventing crises. However, there are actually no strong arguments in favour of moving towards capital account convertibility in developing countries where, in fact, the volatility of capital flows can be an additional source of instability. To fight against this instability and to prevent crisis, one of the fundamental tasks of the international financial institutions is the provision of liquidity and large-scale emergency packages. In the authors’ view, the role of the International Monetary Fund (IMF) should therefore be to further develop into an international lender of last resort.

In the next article, Yung and Wang present the arguments both in favour and against regional

financial arrangements. They discuss the proposal for setting up international standards. While some already exist, they cannot be a panacea for the prevention of crisis. Against this background, Yung and Wang consider the role of the IMF as a crisis manager and crisis lender. They conclude that the lack of progress in reforming the IMF is one of the major reasons why some East Asian countries have started to seek their own regional credit support mechanism, under the leadership of Japan. Such an arrangement would also lead to a redefinition of Japan’s status in the region. Yung and Wang’s advocacy of regional arrangements is shared by the author of the comment accompanying their article. The commentator considers regional arrangements from the perspective of an African country — Uganda — which is facing similar problems related to the volatility in international financial markets.

In Part II, Allen and Boorman extend the scope of the debate by considering the potential role of the private sector in preventing and resolving crises, in addition to examining the role of the IMF. The authors, both working at the IMF, outline the IMF’s responsibility for multilateral surveillance, and explain the reasons why this has recently been subject to intense scrutiny. The comment that follows focuses on the nature of capital markets in emerging economies and the borrower–lender relationship.

Part III consists of two articles, which reflect upon recent regulatory initiatives in relation to private capital flows. In the first of the two articles, White points out that good policies often lead to excessive capital inflows. He, therefore, emphasizes the need for the regulation of private capital flows and their excesses, principally based on the recommendations and work of the Financial Stability Forum. Specific attention is given to transparency and data improvement in assessing the external vulnerability of individual countries. In the second article in Part III, Akyüz asserts that there is fairly incontrovertible evidence that developing countries are more subject to currency, financial, and debt crisis. After explaining why these countries are more vulnerable, he advocates the need to establish institutions and mechanisms at the global

---

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.

MARIE-AIMEE TOURRES

*Institute of Strategic and International Studies  
(Malaysia)*

---

***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