

## BOOK REVIEW

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***Managing Capital Flows in East Asia (Development in Practice)***. Washington, D.C.: World Bank, 1996. 143 pages

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Any intelligent discussion of the profound social and economic transformation presently taking place in the Asia-Pacific region cannot afford to overlook the myriad of complex issues surrounding the flow of capital and investment to East Asia's economies. As East Asian markets have continued to develop since the 1960s, private investment (originating primarily from *within* the region) has replaced official aid transfers from traditional donor countries, such as Canada, France, Great Britain, the Soviet Union and the United States. Not only has the changing nature of these flows had a significant impact on the developmental process, but it has also generated a series of macro and micro-economic policy issues with which governments and central bank officials in the region must now contend. As one of the most recent titles in the World Bank's *Development in Practice* series, *Managing Capital Flows in East Asia* presents readers with a comprehensive overview of how the very nature of capital and investment flows has changed and what some of the policy responses have been from the governments of Asia's emerging economies.

Because of its structure, *Managing Capital Flows in East Asia* serves as a valuable educational tool for those who are seeking to learn more about investment in East Asia and how it is transforming the region. Beginning with a general overview of investment and capital flows to the developing world, the book then moves to a closer

assessment of investments flows to East Asia and tries to illuminate some of the unique experiences of particular East Asian states. With its review of traditional as well as contemporary issues, this text is a useful resource for students and researchers wishing to incorporate an understanding of international capital mobility and its effects into their work, and for business executives and other professionals who are attempting to grapple with the historical evolution of foreign direct investment (FDI) in East Asia and its policy implications. For them, *Managing Capital Flows in East Asia* is a timely and informative work.

Despite the richness of the text and its comprehensive nature, there are a few areas where a future/updated version could undertake a more thorough exploration. One such issue, which would be of particular interest to business people and government policy makers alike, is the effect of slowed economic growth in the Asia-Pacific region and the region's financial flows. Although East Asia has continued to experience phenomenal growth, there are a number of factors which might contribute to a slowing of the region's economic growth. As the Japanese experience shows, growth rates tend to decline (and, sometimes, even come to a stand still) as industrializing economies mature and become post-industrial societies. At the same time, other factors, such as labour troubles, changes in political leadership, and macroeconomic policy adjustments can also have a profound impact on the pace of growth in developing economies. Not only could declining growth rates have an impact on the robust integration process we have seen thus far (that is APEC and AFTA), but they will

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affect regionwide efforts towards the co-operative management of investment flows (such as the possibility of an APEC Investment Code). Combine these considerations with the possibility that slowed economic growth may threaten market openness and stability throughout East Asia, and it becomes clear how greater attention to these matters would shed light on an array of very important issues. While the text begins to hint at these sorts of concerns (p. 16), a more thorough examination would push the discussion to a more profound level.

Another issue on which the authors might have spent more time is the importance of domestic political stability and the implications of this condition on investment and growth in Asia-Pacific markets thus far. In examining the country profiles provided in Chapter 3, one cannot help but notice the lack of attention which has been paid to this important issue. The ability of East Asian governments to maintain domestic political stability has been an important factor in their continued economic performance as well as their ability to attract increasing amounts of FDI. While some additional discussion of these sorts of issues would certainly be interesting from an historical perspective, it would also force readers to think more carefully about the future and, in doing so, raise some intriguing questions regarding the future stability of East Asian markets. As the twenty-first century approaches, and we begin to see increasing labour troubles and/or expect leadership changes in some of the region's most dynamic economies (that is China, Indonesia and the Philippines), questions should be raised regarding the impact of political risk and how it should influence the thinking of investors.

Another issue which is central to the ongoing economic growth and stability of these markets, is precisely *how* the region's governments have succeeded in attracting foreign direct investment (FDI) rather than portfolio investment. Portfolio investment has traditionally shown itself to be much more fluid (and, hence, destabilizing) than FDI. As the Mexican peso debacle showed, portfolio investment in Latin American capital markets (which accounted for most of the foreign

investment in these economies at the time) proved unsteady when the Mexican peso was forced to undergo some necessary adjustments in late 1994/early 1995. This resulted in capital flight from a number of Latin American economies. Not only would more information on the sorts of policy regimes which have allowed East Asian governments to avoid this be interesting on its own, it would also raise some interesting questions on how these policies may be changing. As East Asian economies continue to develop, portfolio investment has begun to assume a greater profile in the region's economies. Whether or not East Asian governments have altered their investment policies in response to this change, and the implications that doing so may have on continued market stability in the region, is an important set of issues to which the authors might have paid more attention.

Finally, further discussion of the remaining impediments to investment and capital mobility throughout the region would also have been welcome. Not only would such an outline be interesting to policy makers and business people who might be concerned with what the remaining obstacles are, but it could have led to a discussion of how these remaining barriers continue to distort capital markets and the sorts of inefficiencies which are being generated as a result.

Despite these concerns, however, this text is a very important one for policy makers and business people alike. Not only is it informative, but it focuses attention on a very important aspect of economic growth: foreign investment. In doing so, it helps unravel some of the mysteries surrounding the linkages between investment flows and the continued openness of the global economy. At the same time it provides another lens through which to assess the impact of globalization on East Asia's economic growth and social development.

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