

BOOK REVIEWS

***Financial Liberalization and the Economic Crisis in Asia.* Edited by Chung H. Lee.** London: Routledge Curzon, 2003. Pp. 233.

There are a number of books on the Asian crisis, which provide detailed case studies of what went wrong with the financial reforms in Asia. This book is one of them. It forms a series of publications launched by the European Institute of Japanese Studies at the Stockholm School of Economics. As part of this book project, two workshops were held at the East-West Center, Honolulu, in 1999. The participants in the workshops were outstanding scholars and experts in Asian financial systems from Asia and the United States. While the workshops were timely held after the 1997–98 Asian crisis, the book seems to have a dated appearance.

As presented, this edited volume consists of an introduction and eight chapters of country studies — four of them suffered from the Asian crisis whereas the other four escaped from the crisis with not much significant adverse effect. In the introduction, the editor explores the theoretical literature on financial liberalization over the past three decades. It is well written and truly helps the reader to apprehend preconditions and necessary steps for creating a market-based financial system. It also gives a summary of what actually happened in financial reforms in the eight Asian countries selected for comparison. With value of hindsight, the editor makes a strong remark that financial liberalization should include prudential steps

ranging from removing government intervention from markets to presence of appropriate institutions in order to build a well-functioning free-market economy. Lastly, policy recommendations on preventing financial instability and managing crises are presented broadly.

For the eight country chapters, nine scholars look into the complexity and difficulties involved in carrying out the financial reforms. Further, they examine whether the manner in which financial systems were reformed had anything to do with the Asian crisis.

The first country chapter is on Thailand, the trigger country of the 1997–98 crises. The readers would benefit from this informative and insightful chapter. The author begins the chapter with an analysis of interest rate deregulation and capital account liberalization started in the early 1990s. His analysis leads to a conclusion that the opening of the capital account before establishment of prudential regulations was a major policy blunder for pre-crisis Thailand. The chapter would have provided the whole picture of Thailand's crisis and effects of the financial liberalization if it took in a discussion of the multilateral institutions' responses in the wake of the crisis and the weaknesses of banking and corporate sectors emerged during the storm.

In the chapter on Indonesia, the author examines the financial sector reforms initiated in the early 1980s. He makes pertinent points on Indonesia's weak banking system and a large external debt in the pre-crisis period. Factors contributing to Indonesia's banking crisis are well

discussed and comprehensible. The appendix of the chapter also helps the readers to apprehend the chronological events of Indonesia's banking reforms over the period 1969–99.

The next chapter focuses on Korea. The author examines how the country's financial liberalization, started in early 1980s, changed the structure of financial markets and corporate sector's financing pattern. A discussion is given to the link between the financial liberalization and the weaknesses in banking and corporate sectors. The chapter is well written and directly sheds light on the crisis. The policy recommendations on financial liberalization are well addressed.

The chapter on Malaysia contains insights into the long history of banking and stock market developments. Financial vulnerability and lessons for Malaysia from the financial crisis are scholarly examined. It is noted that unlike Thailand, Indonesia, and Korea, the crisis in Malaysia was primarily exacerbated by vulnerability of its relatively large stock market to international investor sentiment. In addition, the authors remark that Malaysia at that time was not ready to be a key financial centre in Southeast Asian because the country did not develop any well-conceived prudential regulatory instruments to manage the more volatile and greater portfolio investment inflows.

In the chapter on Philippines, the author examines the financial liberalization that began in 1971 and the macroeconomic conditions during the Asian crisis. He clearly breaks down the factors that made the Philippine's financial system to survive the crisis relatively unscathed. Interestingly, the country's interest rate deregulation policies are described in comparison with that of Korea and Taiwan. Policy recommendation on appropriate regulatory and supervisory structure is well remarked and convincing.

The chapter on Japan is worth reading. The author details the liberalization process and the accumulation of economic and financial distress. The economic and financial reforms in the second half of the 1990s are also examined. The chapter calls for attention on the lessons from Japan's economic problems and the contribution of the Asian crisis to Japan's poor economic

performance. The summary table is helpful for the readers to comprehend the changes in Japan's financial sector over the period 1976–2001.

In the chapter on China, the author presents the changes in the financial system with economic and financial reforms beginning in the late 1970s. He asserts that the reforms fell short of liberalization on the eve of the Asian crisis. China therefore could have avoided the crisis because its financial system was relatively closed. The author also examines the country's current financial system and finds that the system is not sustainable. However, policy recommendation on China's financial liberalization is too general and inconceivable. They also fall far short of lessons from the crisis-affected economies.

Finally, the chapter on India is comprehensive and well written. It begins with macroeconomic policies and financial sector reforms since 1951. The discussion on financial reforms in 1990s is excellent in explaining how India managed to escape the Asian crisis even though its financial sector was very fragile. Factors impeding the country's financial liberalization are also prudentially explored.

Overall, the volume is a well-researched study. The editor deserves special credit for making all chapters in the book coherent and relevantly defined. However, this book misses out a discussion on multilateral institutions' response to the crisis. It needs to be scrutinized more closely whether the institutions are adequately structured to prevent crises in the future, and whether new global arrangements will have to be established to prevent financial instability and manage the future crises. In addition, the Singapore case study is left out. Significant structural changes have been taken place in Singapore's financial sector since the early 1990s. Its financial sector has survived the currency turmoil period in relatively calm and stable conditions.

In spite of the above omissions, sound analysis and substantive conclusions make this book worth a read and is a valuable addition to the literature on financial liberalization and Asian economic and financial crisis. The book will be of particular interest not only to policy-makers but also to

researchers in the history of economic development and those interested in the Asian economies and the aftermath of the Asian financial crisis.

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***Asian States, Asian Bankers: Central Banking in Southeast Asia.* By Natasha Hamilton-Hart.**
Ithaca and London: Cornell University Press, 2002. Pp. 215.

Why are some countries more prone to financial crisis than others? Natasha Hamilton-Hart's innovative work on central banking in Southeast Asia accounts for this in terms of a state's governing capacity, which she argues helps determine how governments manage the challenges associated with capital mobility and globalized financial markets. Governing capacity, which is rooted in the organizational attributes of central banks and state financial institutions, allows governments to undertake complex administrative tasks, exercise self-restraint and impose public authority over private actors. Elaborating on this thesis in Chapters 1 and 2, the author argues that it is the degree to which a state, and its constituent organizations, "resemble a Weberian rational-legal governing system with an organized, disciplined and skilled bureaucratic apparatus run according to rule-based and meritocratic precepts" that is central to governing capacity (p. 7). Governing capacity affects financial sector outcomes in three ways: it determines the degree to which stated policy is implemented in a rule-abiding or consistent manner; it expands the range of policy choices available to a government; and it influences the prospects for international co-operation. Empirical support for this thesis is derived from comparative analysis of Indonesia, Singapore, and Malaysia, all fairly internationalized economies that, nevertheless, displayed different degrees of success in managing and regulating their respective financial sectors.

Through careful and detailed research, Hamilton-Hart documents the evolution of state organizations and central banks in these three countries in Chapters 3 through 5, focusing in particular on the nature of their organizational attributes, which underpin governing capacity. Of the three countries studied, Singapore's financial institutions most closely resemble the rational-legal Weberian model, although Singapore's governing capacity in this area also rests on the presence of informal institutions that link the public sector with the private financial sector, thereby facilitating considerably effective policy implementation. Although Indonesia's financial institutions displayed some degree of organizational coherence, particularly the technocratic central bank, they only minimally resembled rationalized bureaucracies due to their high degree of informality and personalized accommodation with outsiders. This led to considerable gaps between financial policy and its implementation as substantial distortions were generated through personalized interventions. Malaysia occupies a position midway between the Singapore and Indonesian cases. Malaysia's successful financial policies may be attributed to its central bank, which is one of the more rationalized state organizations in the country. Nevertheless, the increase in politically mediated intervention in the regulation of the banking sector since the 1980s, the concomitant erosion of bureaucratic structures in the country, and the increasingly blurred distinction between public and private sectors impaired governing capacity, although such trends did not completely undermine the central bank's regulatory effectiveness. Hence, Malaysia's mixed record in terms of both successes and failures in its financial management. The remaining three chapters in the book examine how these three countries' respective governing capacities affected: (a) patterns of financial policy implementation in an open economy setting; (b) their reform efforts after the 1997-98 financial crisis; and (c) the prospects for regional economic integration, especially in money and finance.

One of the more interesting points raised by