

Hamilton-Hart's research is that despite adopting the "correct" policy, outcomes may be perverse or the desired results not forthcoming because of weak governing capacity. Although all three countries displayed a fairly high degree of financial sector internationalization and high capital mobility, their degree of success in undertaking interventionist financial policies, and all three countries did adopt such policies, differed in line with their differing governing capacities. Hence, in Indonesia, both liberalized as well as interventionist financial policies had high costs. On the other hand, Singapore's interventionist financial policies were successfully executed while Malaysia's record was mixed. Thus, it appears that it is less the type of policy adopted that matters, albeit within a fairly wide though not unbounded range of policy options, and more whether the policy chosen is effectively implemented in a consistent and rule-abiding manner that does not impose high costs on the economy.

A second point of interest relates to Malaysia's heterodox response to the 1997–98 financial crises, namely the imposition of limited capital controls. Much of the discussion in the literature on this issue has tended to focus on whether the controls were necessary, and responsible for Malaysia's recovery from the crisis. What Hamilton-Hart's analysis does is take us beyond this sometimes unproductive debate to point to an aspect of the Malaysian capital controls that is often missed in these discussions, namely the capacity of the Malaysian state, its central bank in particular, to effectively design, implement, monitor, as well as review and fine-tune the capital control policy in a manner that did not impose high costs on the Malaysian economy. This episode suggests that governments with relatively high governing capacity have access to a wider range of policies, even so-called heterodox ones, than are available to governments with low governing capacity.

Hamilton-Hart's insightful analysis raises two questions about the role of states in an era of globalization. First, could state organizations built around regularity and internal discipline make it more difficult for them to respond to external

pressures in novel ways, as such attributes tend to ensure that things are done in pretty much the same way as they always have been accomplished? In short, could the presence of such governing capacity, necessary though for effective policy implementation, nevertheless, prevent "thinking outside the box"? A second, and related question, is whether states with high governance capacity, and past success in economic management derived from it, would be tempted to "tinker" with the economy to effect certain desired outcomes in ways that may turn out to be counterproductive, particularly in unfamiliar situations? With globalization ratcheting up the degree of risk, uncertainty and volatility associated with economic and financial markets, such questions become highly salient.

Hamilton-Hart's thought-provoking book is a very valuable contribution to the literature on states and the financial sector more broadly, and on Southeast Asian comparative political economy more specifically. It offers us new insights into a little studied phenomenon in political economy, namely the manner in which policies are implemented and the institutional factors that influence that process. We are, as a result, able to take some significant steps forward in our understanding of financial sector governance, a highly salient issue in a world characterized by globalization of the economy and especially of financial markets.

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Finance for Growth: Policy Choices in a Volatile World. A World Bank Policy Research Report. New York: Oxford University Press, 2001. Pp. xv+212.

This book provides a coherent approach on how financial sector policies can be designed and used effectively to foster economic growth and to

reduce poverty. Policy recommendations highlighted in this book were based on empirical evidence from recent financial sector research. Although the scope of this book goes beyond Southeast and East Asia, many of the issues discussed are clearly relevant for countries affected by the Asian financial crisis of 1997–98.

The causal linkage between finance and economic growth are well argued in this book. Financial institutions could be seen as performing some important economic functions such as mobilizing savings and allocating capital funds. To support this causal relationship, econometric evidence showed that the contribution of finance to long-term economic growth was achieved through improvements in total factor productivity rather than on capital accumulation.

The development of banks and securities markets were found to be complementary, i.e., one does not constrain the other's development. Also, an efficient financial market environment would require a well-developed legal infrastructure as well as a regulatory and supervisory framework that ensures constructive incentives for financial market participants. The book stressed that the use of incentives — to limit undue risk-taking and fraudulent behaviour in financial management and supervision — is crucial to the well-being of the financial sector.

However, in most developing economies, bank financing tends to be the most dominant source of capital. The challenge would therefore be for a more balanced financial sector development — especially in the development of equity financing. Information symmetry has always been one of the major stumbling blocks in equities markets development, particularly in countries where financial disclosure and corporate governance are weak. This book found the asymmetry of information between users and providers of capital has not reduced in developing countries and may have actually got worse.

There is an interesting examination of deposit insurance schemes as a financial safety net for banks. There has been growing interest in such schemes in Southeast Asia. In fact, the pros and cons of implementing deposit insurance schemes

are currently being debated by policy-makers in Malaysia, Singapore, and Thailand. This book found that such schemes could heighten the risk of a banking crisis and slow down financial development in countries where institutional infrastructure is weak.

This book recommends facilitating the entry of foreign financial institutions (FFIs) to the local market as they increase competition, promote efficiency, and enhance the quality of the financial structure. However, the argument that opening up to FFIs is good for economic growth is not entirely convincing. For example, the dramatic collapse of regional equity markets during the Asian financial crisis was caused by a sudden huge outflow of portfolio capital by foreign investors such as FFIs. In this case, financial liberalization had the opposite effect on economic growth. Many Southeast and East Asian economies were only able to attain pre-1997 GDP levels a few years after the crisis.

Southeast Asian governments are also keen to develop domestic small and medium enterprises (SMEs) as a new source of economic growth. But foreign banks with little knowledge of the domestic market are unlikely to provide financing to such enterprises. Besides, multinational financial institutions that enter a local market tend to be more interested in financial services with fat profit margins such as corporate finance and private banking.

Although financial liberalization is inevitable in this increasingly globalized economy, it is important for the domestic financial sector to be ready for more competition. Efforts to strengthen the domestic financial sector are evident in recent mergers and acquisition activities by domestic banks and stockbroking firms in Southeast Asia.

This book has also highlighted the future role of Internet-based financial services or “e-finance” as a tool to globalize finance. However, the jury is still out whether information technology will revolutionize the industry. It also remains to be seen how this new technology can take off in the developing world where access to computers and Internet penetration is significantly lower than in industrialized countries (the digital divide is even more pronounced than the economic divide!).

Six years has past and most Southeast and East Asian economies have since recovered from the financial crisis. Nevertheless, financial restructuring is still an ongoing process in the region. Hence, this book would be a useful handbook for financial practitioners including policy-makers and regulators. It is well written and relatively jargon-free.

However, there is a lacuna in the book as it tends to focus too much on banks. It would have been more complete if there was more discussion on the other major pillar of finance, i.e., capital markets. In particular, a chapter on capital market development — especially bond markets as a means of creating a more balanced financial structure would have been interesting.

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The Emergence of a National Economy: An Economic History of Indonesia, 1800–2000. By Howard Dick, Vincent J. H. Houben, J. Thomas Lindblad, and Thee Kian Wie. Honolulu: Asian Studies Association of Australia in association with Allen & Unwin and University of Hawaii Press, 2002. Pp. xvii + 286.

This is the second book on Indonesian economic history that covers a very long period; the first being the book by Anne Booth *The Indonesian Economy in the Nineteenth and Twentieth Centuries* (1998). The title of this book mentions 1800–2000, but one chapter is devoted to the history of the period prior to 1800, dating back to the period of the *Vereenigde Oost-Indische Compagnie* (VOC), or the Association of Dutch Trading Companies in East India. This book is special because its authors are scholars who have spent many years studying the economic history of Indonesia, with many publications to their names. It is rich in information on past economic events, reflecting extensive and

intensive research that has been undertaken by the authors. This book has covered almost all the available information on this subject.

The economy of the chain of islands in Southeast Asia, now called Indonesia, has been developed in successive stages. In 1966 it became a nation-state economy with the introduction of the New Order. The successive stages are as reflected in the chapter titles. In the Introduction, Howard Dick points out that the periodization was based on the waves of globalization or capitalist economic penetration that have washed through the archipelago for centuries.

The first penetration was in the seventeenth century with the arrival of the VOC for trade. The history of this period is the subject of Chapter 2 (Houben). The second penetration was during the nineteenth century, and the activities are characterized by investments mainly in plantation and the growth of the Dutch company on the island of Java and Outer Java. The story of this part is the subject of Chapters 3 (Houben) and 4 (Lindblad). The third penetration was from the late nineteenth century to early twentieth century, during which the colonial government governed the archipelago, and the islands were officially named Netherlands Indies. During this period, Java Island and the Outer Islands were integrated into a single colonial polity, and the colonial economy was export oriented. This is the subject of Chapter 5 (Lindblad).

From the first page, this book brings the readers to a journey from the period of pre-industrial to modern industrial time. In that journey we learn how the chain of islands became interlinked through economic activities, and the economic activities became more and more complex. Finally, a cohesive economic entity was formed, but the country was still not a nation-state yet. This book also describes the gradual changing of the structure and system, which is the essence of history.

Finally, Chapter 6 “Formation of the Nation State, 1930–1966” presents the most critical period when the national economy of Indonesia was being formed. This book suggests that during