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BOOK REVIEWS

***After the Storm: Crisis, Recovery and Sustaining Development in Four Asian Economies.* Edited by K. S. Jomo.** Singapore: Singapore University Press, 2004. Pp. 318.

This volume brings together a set of papers written on selected themes of the 1997–98 Asian financial crisis, with emphasis on the four countries most adversely affected by the crisis — Indonesia, Malaysia, Thailand, and South Korea. Although much has been written about the Asian crisis, this book is unique in its attempt to analyse post-crisis policy-making in political and societal terms, going beyond the narrow confines of pure economic analysis. It also provides considerable new insights into the debate on the role in the recovery process of the standard Keynesian expansionary policies as against the structural adjustment policies advocated by the IMF.

The volume opens with a comprehensive editorial introduction which traces the key policy trends during the pre-crisis era and economic adjustment following the onset of the crisis, followed by a preview of the ensuing chapters. Chapter 2 by Joseph Lim examines the role of premature financial sector liberalization and capital account opening in the making of the crisis against the backdrop of the conventional wisdom on sequencing of liberalization reform. It also takes a critical look at the policies recommended by the IMF in the aftermaths of the crisis and highlights the virtues of the Keynesian reflationary policies in the subsequent recovery. In Chapter 3, C.P. Chandrasekekhar, Jayati Ghosh, and Smitha Francis dwell on the silent features of the rapidly evolving global financial system and the need for an international framework for debt workouts with view to cushioning emerging market economies against the danger posed by unregulated capital flows. Andrew Rosser (Chapter 4) probes the political economy of financial sector liberalization in Indonesia in the 1980s and how the haphazard and partial nature of the reform process contributed to the vulnerability to the crisis. Jonathan R. Pincus and Rizal Ramli (Chapter 5) provide an analytical narrative of how capital flights, in combination with domestic financial fragility, set in train the corporate collapse in Indonesia, ultimately paving the way for state control over a larger share of the industrial and financial sectors. Pasuk Phongpaichit and Chris Baker (Chapter 6) examine crisis management and recovery in the Thai economy. Chapter 7 by K. S. Jomo is a synthesis of his previous work on the role of capital controls in crisis management in Malaysia. Chin Kok Fay (Chapter 8) studies Malaysia's bank restructuring and its role in the recovery process. Jang-Sup Shin (Chapter 9) analyses the role of Keynesian policies in the recovery process in South Korea against the backdrop of a critical assessment of the IMF-led structural adjustment reforms implemented in the aftermaths of the crisis. The final chapter by M. Mustafa Erdogdu examines the role of the capacity of the state, evolved over four decades during the pre-crisis era as part of the state-led industrialization strategy, in crisis management in South Korea.

As is the case with most edited volumes, a major structural limitation of the book is its lack of cohesion. The introductory chapter raises the reader's expectation that the book, as a whole, would provide a careful examination of a number of important issues relating to the choice and formulation of crisis management policies, the recovery process and future growth trajectory of the economies under study. Unfortunately, the ensuing chapters do not live up to this expectation. The volume reads more like an *ad hoc* collection of papers written by the contributing authors at their own choice, rather than a systematic compilation of chapters of individual contributions commissioned with a central theme. Some of the key issues listed in the introductory chapter with a view to guiding the reader, in particular, the prospect for regaining pre-crisis growth dynamism by the crisis-affected countries and the implications of the crisis for the mainstream advocacy of the East Asian Miracle as a preferred model for emulation by other countries, are not mentioned even in passing, let alone analysing it systematically, in the ensuing chapters. Moreover, Chapters 3, 4, and 10 appear to have been included without a sufficient discussion of their relevance in the framework of the book's overall theme.

The authors of individual chapters have done a commendable job in putting together a vast amount of material relating to pre-crisis policy trends and economic performance, the political economy of policy-making, and post-crisis economic adjustment of the four countries under study. Unfortunately in most cases this wealth of material is not properly harnessed in the context of a well-conceived theoretical framework and analysed in the context of the related literature. For instance, the discussion on the causes of the crisis in Chapters 1, 2, 6, and 9 is marred by a failure to make a distinction between the standard economic performance indicators (GDP growth, export growth, inflation, factor productivity growth, etc.) and indicators of vulnerability to a financial crisis. This failure has led to the inference that the crisis was simply caused by capital market opening in the early 1990s, which made the countries susceptible to capital exodus in the wake of unwarranted market panic. A number of systematic analyses of the source of vulnerability of these countries to the financial crisis have, in fact, forcefully argued that while liberalization of capital movements and vastly increased capital flows were an essential part of the story, vulnerability to capital exodus was rooted in domestic economic policy slippage in the lead-up to the crisis. (See Athukorala and Warr 2002 in the works cited therein.) This view is also consistent with the fact that some countries in the region (in particular Singapore and Australia) did not succumb to the crisis notwithstanding their open capital account regimes.

It is inferred in Chapter 7 that capital controls imposed by Malaysia in September 1998 were "too late to stem capital flight" and that these controls did not play any "special role" in the recovery process. These inferences reflect a fundamental failure to understand the underlying logic of Malaysia's capital control-based policy package. The purpose of capital outflow controls was to prevent outflow of funds, both local and foreign-owned (particularly the former given that much of the short-term capital had already left the country) when the economy embarked on the Keynesian reflationary polices (Bhagwati 2000, Chapter 5). The possibility of the exodus of liquidity newly injected into the domestic economy was presumably much greater in Malaysia compared with the other crisis-hit countries both because of the pivotal role played by the Singapore money market as a convenient alternative to the domestic market for the Malaysian investor, and the policy indecisiveness of the Malaysian authorities for over a year following the onset of the crisis that had already shattered market confidence. There is, indeed, convincing evidence that, once the Malaysian authorities decided to deviate from the IMF route and follow the conventional Keynesian recipe for crisis management, capital controls did play a useful role in providing a conducive setting for the effective pursuance of such policies (Corden 2002, Edison and Reinhart 2000, Kaplan and Rodrik 2001). The severance of the link between domestic and world interest rates through capital outflow controls enabled Malaysia to recover through expansionary macroeconomic policies, with a far smaller legacy of national debt burdening future growth, while minimizing social costs and economic disruptions associated with a more market-oriented path to reform.

Despite these shortcomings, the reader of this volume, on balance, would gain considerable insights into the causes of the financial crisis, crisis management policy, and post-crisis economic performance in the countries under study. It should be of interest not only to economists working on East Asian economies, but also to others interested in broadening their understanding of the open economy dimensions of national development policy in an era of rapid globalization.

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***Free Trade Agreements: US Strategies and Priorities*. Edited by Jeffrey J. Schott.** Washington D.C.: Institute for International Economics (IIE), 2004. Pp. 450.

This volume is the outcome of an IIE programme on free trade agreements (FTAs) and U.S. trade policy launched in May 2003. It analyses the motives, incentives, and objectives behind the proliferation of FTAs involving the United States, and the strategies and priorities that the United States should adopt in pursuing its FTAs. This is one of the few books that provides an in-depth analysis into the U.S. experience with its existing FTAs, as well as its new and proposed initiatives with countries in different parts of the world. It provides excellent insights into U.S. foreign trade policy and the extent to which political and economic objectives define its free trade agenda.

The book is fairly lengthy, consisting of thirteen chapters divided into six sections. The first section provides a general assessment of FTAs and their implications for the multilateral trading system. The second section, divided into three chapters, assesses U.S. experience with its existing FTAs with the North American Free Trade Agreement (NAFTA) countries, Israel, Jordan, Chile, and most recently with Singapore among the ASEAN economies. The next three sections assess the new and ongoing initiatives of U.S. FTAs with countries in the Asia-Pacific, Latin America, and Africa and the Middle East respectively. The final section assesses the implications of the existing and ongoing FTA initiatives of the United States and provides some interesting policy conclusions on the basis of the several criteria chosen by the United States in shaping its FTA policy. There is also an appendix that undertakes a quantitative assessment of the economic impacts of these FTAs on the United States and partner countries.

Section I of the book devotes exclusively to the age-old debate on the question of whether FTAs are building or stumbling blocks to global free trade. There seems to be a general agreement that FTAs are likely to be most beneficial when they