

international trade, community and rural development. It will be of special interest to managers of international organizations and foundations” (pp. ix and x). While agreeing with his contention, it should be noted that the book would be extraordinarily valuable to students who could use the book to augment the primarily traditional texts that are assigned in courses in economic development, agricultural economics, and international economics.

The book is extremely well edited, rationally organized, content laden, and clearly worth reading. Its topics provide explanations of fundamental connections between the influences of global economic power and the challenges to achieving sustainable development in agricultural-based communities in lower income countries. While its contents do not specifically concentrate on Southeast Asia’s rural communities, the book’s chapters put into perspective the economic, social, and political conditions that they tend to share. There are excellent examples of how community-based efforts try to meet challenges through a more radical and more moderate movements in Thailand.

A more radical, grass roots movement is The Assembly of the Poor that came about in January of 1997 when a coalition of rural villagers and urban slum-dwellers demonstrated at a mass gathering in front of Government House in Bangkok. The result became a national movement involving some 20,000 people who have mobilized into a non-violent movement aimed at forcing government to respond to grievances that range from better property rights protections to improved access to social services and economic support mechanisms. An excellent book by Bruce D. Missingham provides an exceptional analysis of The Association of the Poor and its activities.<sup>1</sup>

A more moderate approach is the Sufficiency Economy movement associated with the philosophy of His Majesty King Bhumibol Adulyadej. It promotes grass roots community development based upon the principles of moderation, reasonableness, and participation in Community Development Plans (CDPs). Sufficiency Economy’s goal is to create efficiency

and sufficiency at the family, community, and national levels and to do so via CDPs that are supported by the Sufficiency Economy Unit of Thailand’s Office of National Economic and Social Development Board (NESD). The essence of sufficiency economy principles are described and analysed in a superb book by Priyant Piboolsravut and Artisuda Na Nakorn.<sup>2</sup>

In conclusion, it is instructive to observe that implementing movements similar to Thailand’s successfully requires meeting five basic challenges that are specified in Christy’s book. The challenges are how to gain access to input and product markets; decrease instabilities in incomes and prices; understand the country’s institutional policy framework; maintain social services and technical support mechanisms; and privatize economic functions previously within the purview of government administration (p. viii).

#### NOTES

1. Bruce D. Missingham, *The Assembly of the Poor in Thailand: From Local Struggles to National Protest Movement* (Chiang Mai: Silkworm Books, 2003).
2. Priyanut Piboolsravut and Artisuda Na Nakorn, *Literature Review on Sufficiency Economy* (Bangkok: Office of National Economic and Social Development Board, 2003).

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***Malaysia “Bail Outs”? Capital Controls, Restructuring and Recovery.*** Edited by Jomo K. S., Wong Sook Ching, and Chin Kok Fay. Singapore: Singapore University Press, 2005. Pp. 320.

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During the Asian financial crisis, Malaysia stood out for using unorthodox measures such as capital controls to stem the vicious fallout of the crisis. The economy later recovered, and the authorities often tout such controls as the magic bullet that did the trick.

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The claim remains contentious both in academic and policy circles. Yet, with the trend of huge financial flows accelerating across borders, thanks to globalization, the need to critically examine the efficacy of capital controls as a crisis resolution tool remains as important, if not more so than before.

This useful book turns its analytical lens onto the Malaysian experience during the Asian financial crisis. It seeks to shed new perspectives on challenging issues such as the nature of the crisis and the Malaysian government's responses to it, with emphases on its capital controls as well as the bank and corporate restructuring exercises.

#### *Did Capital Controls Work?*

One of the most interesting aspects of the Malaysian experience is whether capital controls had led to the country's economic recovery. The debate has been split, with some arguing that the controls provided precious respite from the intense speculative attacks on the ringgit in the offshore markets and others saying that the measures were counter-productive and only served to undermine market confidence further.

In a detailed chapter focusing on crisis management in Malaysia, K. S. Jomo, a noted Malaysian economist, concluded that the capital controls' contribution to recovery was ambiguous at best, and at worst, it may even have slowed down recovery.

The ambiguity primarily stems from the fact that given the many factors at play at the time, it is difficult to pinpoint any causal relation between capital controls and economic recovery. For instance, other factors that may have contributed to growth include fiscal pump-priming efforts as well as a timely surge in electronics demand, which is one of Malaysia's key exports.

Another fortuitous development which occurred in Malaysia's favour was the U.S. Federal Reserve's lowering of interest rates at around the same time. This benefited Malaysia in two ways. First, the lower U.S. interest rates helped to stem capital outflows from Asia and also gave Malaysia leeway to lower its interest

rates to stimulate its economy. Second, Asian currencies appreciated, thanks to lower U.S. interest rates and the ringgit, being pegged to the U.S. dollar, depreciated by default, leading to an export-led recovery.

If the capital controls have not done any good, did they do any long-term damage to the Malaysian economy by, for instance, deterring foreign direct investment (FDI)? Again, the impact remains unclear. While Malaysia's FDI did fall after the crisis, so did that of other Asian economies as China became the new magnet for greenfield investments. However, the controls, sudden as they were, may have undermined investor confidence in the overall consistency of government measures.

But all these do not mean that capital controls are completely irrelevant. Indeed, a unique contribution by Jomo in his analysis of the Malaysian experience is the focus on financial liberalization as a major systemic cause of the crisis. This is particularly the case for Malaysia. Unlike other crisis-hit Asian economies such as Korea and Thailand whose external liabilities were mostly short-term, U.S. dollar-denominated debt, Malaysia's financial vulnerability stems mainly from the volatility of international portfolio flows into its stock markets.

Indeed, the massive portfolio inflows during the early and mid-1990s led to about a third of the stock of companies comprising the KLSE Composite Index to be held by foreign institutional investors. Malaysia was, therefore, more prone to herd behaviour among foreign investors. Among the crisis-affected countries, Malaysia's KLSE fell the most during the crisis.

In light of this experience, it remains worrisome that in the years after the financial crisis, Malaysia is still actively seeking the return of capital inflows, including short-term capital.

Cautioning against an ideological embrace of economic liberalism, Jomo argued that Malaysia should remain prudent about capital inflows. It should also institute a permanent but flexible market-based regime to moderate inflows and reduce speculative surges. A key suggestion was to curb on the internationalization of the ringgit,

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which had facilitated speculative attacks during the 1997 crisis.

### *Corporate and Bank Restructuring*

Other than refreshing insights into the efficacy of capital controls, the book also explores other controversial aspects of the rescue package including corporate and bank bailouts. Often the word “bailout” evokes negative connotations involving corruption and cronyism. Therefore, in order to delve into the issue without preconceived bias, the book devoted a chapter to a useful conceptual review of corporate bailout: its pros and cons, and whether it should be state- or market-led. The overall conclusion is that bailouts are neither good nor bad in themselves, and whether the benefits of bailouts exceed its costs depends on the nature of the rescue packages and their implementation.

These concepts were then applied to the Malaysian context, with a chapter written each on the bank restructuring as well as corporate restructuring experiences. The latter included detailed case studies such as that of Malaysian Airlines (MAS), United Engineers, and Renong.

The overall picture that emerged out of the corporate and bank restructuring exercises was markedly more negative. For instance, even though the previously fragmented banking sector was consolidated into ten banking groups by end-2002, questions have been raised over the merger process, particularly the speed and scale of the mergers and the somewhat biased selection of anchor banks based on political interests.

Likewise, a detailed examination of the bailouts of MAS, United Engineers, and Renong suggests that political connections have also distorted the process and the costs of the bailouts were often more than necessary, representing a waste of public funds. For example, the owners of the mismanaged entities such as MAS were not only undisciplined but even rewarded when the government paid a premium for their stakes.

If these underlying political dynamics remain unchanged, the roots of Malaysia’s poor corporate governance problem will not be eradicated. This is

a message worth keeping in mind, especially given the government’s renewed focus on the reform of government-linked companies (GLCs) since 2004. Despite the impressive GLC transformation manual that was recently unveiled, it will be hard to implement meaningful reforms if the underlying political economy in Malaysia remains unchanged.

### *Conclusion*

Overall, this book adds to the literature on the causes and consequences of the Asian financial crisis. It is particularly useful to any reader seeking an in-depth understanding of the Malaysian experience as the book is rich with conceptual discussions and concrete examples. The reader is likely to walk away with a keener appreciation of the complexities of the crisis and a more critical attitude towards issues such as financial liberalization. Written in accessible prose, the book will attract not just academics and students but the interested lay reader as well.

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***Asian Economic Cooperation and Integration: Progress, Prospects and Challenges.*** By Asian Development Bank. Philippines: Asian Development Bank, 2005. Pp. 388.

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This publication is based on papers presented at the High-Level Conference on Asia’s Economic Co-operation and Integration held on 1–2 July 2004, organized by the Asian Development Bank. It is aimed at promoting understanding of the different aspects of regional co-operation in Asia.

Divided into five parts, Parts 1 and 2 provide a broad overview of Asia’s standing in the world economy and an introduction into growing regional co-operation in the fields of trade, investment, and monetary and financial integration. Part 3 delves into a series of issues relating to trade and investment regional co-operation, while Part 4 covers a range of monetary and financial co-