

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-

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operation topics. Part 5 concludes with issues relating to infrastructure development and prospects for regional co-operation in that area.

This publication is a welcome addition to the growing literature on economic co-operation in Asia. Overall, it is a recommended read for practitioners and novices alike, not least due to the comprehensive coverage it provides on the myriad initiatives and developments on key fronts of Asian economic co-operation. Up-to-date statistics are also sprinkled throughout the book thus making discussions current with implications for policy-making. In particular, the inclusion of an oft-neglected issue of infrastructure co-operation makes a good attempt to address and highlight a pressing issue in many parts of Asia, without which further developments on the trade and investment fronts would be hampered.

The opening chapter embarks on a rather commendable attempt to introduce and link the remaining chapters. Detailed background of ASEAN economic linkages, ASEAN ties with China and India, as well as financial integration and monetary co-operation in the region in the wake of the 1997 crisis are particularly helpful for readers who are not well acquainted already with the region. The identifying of nuances in the various waves of regionalism, the section on developments of the Asian Bond Market, as well as the discussion on prospects for deeper integration are some highlights of the chapter.

Part 2 of the book spanning Chapters 2 to 4, focuses proper on regional co-operation and prospects with particular attention paid to Asia's position in the world economy. Interesting ideas can be gleaned from Chapter 3 including a suggestion of an FTA involving Japan, ASEAN, China, India, Korea (JACIK), the expansion of the existing Asia swap facility, setting up of a Reserve Bank of Asia, as well as that of an Asian strategic petroleum reserve (SPR) to safeguard against rising oil prices from the Organization of Petroleum Exporting Countries (OPEC). Given the growing presence of the Indian economy as well as large foreign reserves accumulation in China, India, Japan, and Singapore, to name a few, these are ideas worth mulling over. Chapter 4 follows

closely with a relevant discussion on the appropriate sequencing with regards to trade, monetary and financial integration. The debate on the use of the optimum currency area (OCA) criteria to judge monetary integration is again brought on board. Here, the author provides a broad survey of the literature as well as empirical results that would prove useful in considering this complex issue.

Part 3 of the book spanning Chapters 5 to 7, goes in-depth into the topics most persistently discussed; that of trade and investment. Possible pitfalls of the current regionalism drive is a recurrent concern, with Chapter 6 focusing on issues of free trade agreements (FTAs) in relation to the rules of origin (ROO), the scarcity of resources, and the stumbling block impact on multilateralism. Case studies of ASEAN's trade with India and China also provide insights into economic relations of Southeast Asia with the growing economic powerhouses in the region. In particular, Chapter 7 is a worthy read for ideas on the FDI-trade nexus. Linkages theoretically include that of the market seeking, labour seeking, the resource extracting, production fragmenting, differentiated product delivering, and services providing FDI-trade relationship where the gravity model is used to explore such linkages. Another point of contention brought up remains that of a complementary or substitution impact of FDI on trade.

However, it is in the latter parts where the pre-eminent value of the book lies. Chapters 8 to 10, written by experts in the fields of money and finance are dotted with theoretical discussions, empirical evidences, and probing questions. Compared to prior discussions that may at instances appear recycled and uninspiring, Part 4 stands out with more rigorous analyses. Chapter 8 draws upon the European experience in the discussion on the prospects for an Asian monetary union. It would be of use to policy-makers indeed, as recommended, to distinguish necessary conditions, such as possession of a common transmission mechanism and open capital accounts, from pseudo preconditions such as fiscal transfers and deficit ceiling.

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The debate continues in Chapter 10. The author, in his discussion on financial and monetary integration, makes clear that much remains to be done, particularly with regards to empirical work. On financial integration, the drawbacks of empirical assessments and the necessity for “soft infrastructure” such as regulation and governance were discussed. On monetary integration, it was suggested that other than testing for common shocks within the Blanchard-Quah framework, supply shocks, labour mobility, and the endogeneity of an OCA were pertinent issues to be considered. The author in recognizing that “ultimately, the choice of exchange rate regime is a political decision” (Mussa 1997) also provides astute observations of institutions on the local, regional, and multilateral levels.

Chapter 9 adds to the vibrancy of the discussion in testing for macroeconomic interdependence in major East Asian economies. Basic cross-correlations as well as cluster analysis are used to measure the degree of closeness. This is followed by a principal component analysis that attempts to measure confluence of real, financial, and price variables both within these economies and against non-East Asian economies. A structural VAR model is also adopted to identify underlying shocks as well as tests for impulse responses

Having come to the last part of the book, the reader would by now be well acquainted with macro issues revolving around regional co-operation on the various trade, investment, financial and monetary fronts. Certainly, these are pertinent topics that have gained wide exposure in ongoing debates. However, one grouse is that there has been a lack of discussion as to how these measures would translate into poverty eradication and aid for developing the Asian states, many of which are still in their early stages of development. This may be where Chapters 11 to 13 can play an informative role.

Chapter 11 is recommended as it provides a detailed analysis of the relationship between infrastructure; namely transportation and communication, with that of globalization, poverty reduction, and economic development. Analyses are drawn based upon the concept of networks,

culminating in the identification of selected major issues and a series of recommendations towards facilitation and operation. The focus on the less developed regions such as the Greater Mekong Subregion (GMS) is apt and ensures that the less developed regions are not left behind. Regionalization, in terms of production network, is brought up and the need for regionalism in the form of government network as complements, is recognized. Related empirical works are carried out in subsequent chapters addressing barriers to infrastructure development both within a country and across borders. The role that supranational organizations could play and the impact of infrastructure in reducing transaction costs are but some of the key lessons learnt in this path towards development.

In short, this is a wide-ranging publication that meets its aims of promoting an understanding of the various regional initiatives in Asia. The first step has been taken and it remains to be seen if this understanding would be translated into further policy considerations and the much needed actions.

#### REFERENCE

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*Asia-Pacific Economic and Security Cooperation: New Regional Agendas. Edited by C. M. Dent.* Hampshire: Palgrave Macmillan, 2003. Pp 271.

*Governing the Asia Pacific: Beyond the “New Regionalism”. Edited by K. Jayasuriya.* Hampshire: Palgrave Macmillan, 2004. Pp 192.

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Both edited volumes by Christopher Dent and Kanishka Jayasuriya together marshal respectively twelve and nine eminent chapters on the Asia-