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BOOK REVIEWS

Fiery Dragons: banks, moneylenders and microfinance in Burma

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NIAS PRESS, 2009
Pp. xxiii + 387. ISBN 978-87-7694-040-9

Monograph case studies of money and finance in developing countries are scarce and scholarly contemporary works on Burma are even rarer. So this fine book on money and finance in Burma is doubly welcome.

Initially, one is surprised by the narrow institutional frame: the finance sector of Burma, we are told, consists merely of '. . . its banks, moneylenders and "microfinanciers" ' (p.1). Surprising, too, in an academic work, is the rather dramatic and passionate tone of the forematter and introduction. The explanation of these surprises is depressingly simple. After political independence in 1948, early moves towards a free, independent and self-sustaining financial system were quickly and ruthlessly suppressed under the dogmatic command policies of later socialist and military governments.

The substance of the book begins in Chapter 2, and from here on passion gives way to cool, objective analysis, grounded in very diligent empirical research. Primary and secondary sources have been well-mined and one may be confident of the integrity of the author's research. Beyond the rich official data and reports of the colonial era, Burmese primary sources are difficult to obtain and access; the author has dredged up pieces from all around the world including 'Burmese government reports whose existence is sometimes confined to one or two crumbling physical copies' (p.xiv). The author is well-read and informed also on the social and political circumstances within which monetary and financial matters have been determined.

The book is skilfully constructed and developed. Each chapter is essentially an historical narrative, interwoven with thematic and institutional material. Clarity of understanding is greatly assisted by an introductory section on structure and outline, a timeline of events and, within each chapter, an opening synopsis. Chapter 2 is devoted to the great importance of the Indian Chettiars—the 'Fiery Dragons'. They first appeared in Burma at the outset of British rule in 1826 and from the 1870s increased vastly in number and power, and spread all over Burma until they largely fled from the Japanese in 1942. They were not welcome to return after 1948. The central role of the Chettiars in the colonial economy was not as mere moneylenders but '. . . instead as proto-financial institutions that created monetary, and ultimately real, resources in Burma' (p.49). It was the pattern of organisation within the Chettiar group that produced a multiplied money base to fund the peasant farmers in Burma's rice bowl.

Chapter 3 turns to co-operative credit societies, introduced from India by the British as a means of marginalising the Chettiars. However, the co-operatives never displaced the Chettiars and captured only a small part of the credit needs of cultivators. Chapter 4 covers the slow evolution of central banking in Burma. Until after Independence in 1948, Burma was part of the monetary system of British India, using the *rupee* as currency and served by a few banks, dominated by the Imperial Bank of India. That institution was by then a hybrid of a large commercial bank with some added central bank functions. After 1935, the central banking role was assumed by the new Reserve Bank of India, which continued to hold sway over Burma even after its separation from India in 1937—one bank for two countries!

Given the nature of Burma's colonial economy, it is no surprise to learn in Chapter 5 that its commercial banking featured dominant British exchange banks, overwhelmingly concerned with financing Burma's rice export trade by way of short-term bills of exchange and having little direct dealing with Burmese producers. However, the banks did support the Chettiars, and thus indirectly furnished credit to the rice growers. Moreover, a uniquely Burmese institution was Dawson's Bank, a model of soundness and success in mortgage lending to rice farmers until the Great Depression devastated rice prices and land values. Dawson's Bank survived a run on its deposits but its lending contracted and it ended up with substantial land assets that it had to manage.

When the Japanese invaded Burma in 1942, the British and most other foreign banks fled; but they returned by 1946. The Japanese occupiers and their collaborators set up various banks, and an occupation currency was forcibly imposed. The exiled British banks commendably objected to the 1945 demonetisation of the occupation currency, because of the great distress that would ensue for the ordinary Burmese; but British military and government authorities were not swayed.

The early post-war years were most notable for the establishment in 1947 of the Burma Currency Board (BCB), which was, regrettably, wound up at the end of 1952 to make way for Burma's first true central bank. Chapter 6 covers these developments extremely well. The author is very familiar with the general literature of currency boards and the operations of the Burmese version. He rightly judges that '. . . with a general level of profound distrust in money of all forms, Burma in 1947 was ripe for the benefits promised by a currency board . . . the BCB was the right instrument at the right time' (p.140).

Chapter 7 describes various efforts by government, in the period of 'parliamentary democracy', to create appropriate and stable financial institutions; but at the same time private banking declined. After the military coup of 1962, financial 'development' became increasingly *dirigiste* and inevitably catastrophic. The sorry tale of 'the road to ruin' is one of bank nationalisation, suppression of moneylenders, wild monetary expansion to feed the government, inflation, demonetisation of the currency (not once nor twice but thrice) and a swelling black market in foreign exchange and imported goods. It was all a case of monetary debauchment.

Between 1988 and 2002, much of the financial dirigisme was reversed: private banks returned, state banks were reformed and a new central bank was empowered with seemingly reasonable and prudent controls over the banking system. However, that system was inherently fragile and the central bank was weakened by virtually limitless lending to the government. After 2002, a period of financial 'undevelopment' occurred: finance companies collapsed, there was a run on bank deposits, money laundering (for the narcotics trade) was rife, and the central bank was immobile and therefore blameworthy. Curiously, the Burmese *kyat* strengthened in the black market because it was sought as a medium of exchange when bank money was useless. The book's final content is a short chapter on contemporary microfinance, which leaves this reader wondering whether the Chettiars might have been better.

In a brief 'Afterword' the author notes the absence of property rights, the failure of money and 'the almost universally destructive role of government' (p.353), all of which leaves Burma without a credible, functioning financial system.

Throughout this work, the author's approach is factual rather than polemic and he does not fail to give credit where it is due. But it is seldom due: his condemnation of Burmese socialist/military governments for ignorance, ineptitude and rank prejudice in monetary matters is entirely justified.

Turnell has given us a most engaging work, in which substantial historical and empirical research is blended with serious and correct analysis. The book is well-fitted to stand among the other authoritative case studies of financial development in the countries of Southeast Asia. It is therefore rather a shame that the production is blemished by poor proof-reading (for example, 'straights' when it should be 'straits', as in 'Straits Settlements' and 'dire straits') and that the rich bibliography fails to include some key works mentioned in the text, notably, Edward Nevin's masterly and timeless *Capital Funds in Underdeveloped Countries* (Macmillan, London, 1961).

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Addressing China's Water Scarcity: recommendations for selected water resource management issues

Jian Xie with Andres Lieberthal et al.
International Bank for Reconstruction and Development and the World Bank, Washington DC, 2009,
Pp. xxiii + 160, ISBN 978 08213 7645 4

This timely book, authored by Jian Xie with the assistance of several co-authors, is a World Bank publication. It synthesises the principal findings of the World Bank's Analytical Advisory Assistance to China, which began in 2006. This assistance tries to develop institutional reforms to help resolve China's water scarcity (quality and quantity) challenges.

The problems faced by China in terms of preventing further declines in water quality are huge. Fortunately, the best practices and reforms proposed in this book provide a way forward. The authors emphasise that the problems vary greatly across China as some parts are, relatively speaking, 'water rich' while other locations are 'water scarce'. For example, while overall water availability per capita per year in China is 2,156 kL (the world average is over 8,000 kL), it is less than 800 kL/year (the average Australian household in terms of residential use only consumes about 100 kL/year) in northern China where withdrawals from the Huang (Yellow) River exceed 50 per cent of the gross flows and more than 90 per cent of gross flows in the Hai–Luan River Basin.

The challenge is not just one of water quantity but also water quality. For example, Wuxi, a city of over two million people in eastern China, relies on Lake Tai as its water source. The lake receives major agricultural run-off (fertiliser, pesticides, and livestock wastes) and in 2007 there was a large-scale algal bloom that made about 70 per cent of the water supply unfit for human use. Although an extreme event, the problems of water pollution exist in many parts of China. The economic costs are large in terms of increased rates of mortality and morbidity that the World Bank estimates to be at least 0.5 per cent of GDP per year. Add to this the costs of fishery losses, reduced yields and ecosystem losses, the total costs of water scarcity and water pollution are estimated to be about 2.3 per cent (1.3 per cent due to scarcity and 1.0 per cent due to water pollution) of GDP per year.

China's water problems are caused by overuse and misuse that has accelerated over the past 30 years with its rapid growth in GDP. Much of the growth in water demand has occurred in urban/industrial use. This growth in withdrawals, coupled with insufficient investment in treatment and infrastructure, has compromised the quality of inflows and outflows. Fortunately, China is beginning to face the challenge and 2007 was the first year that chemical oxygen demand (COD) discharges had a reported decrease.

The World Bank's plan of action offers sensible and feasible reforms that will, in time, allow China to improve its water quality and ensure scarce water is allocated to its highest value in use (and non-use). These reforms are summarised below:

(1) Improve the legal framework and enforcement to ensure water can be governed and administered effectively;
(2) Strengthen water rights and promote sustainable allocations and diversions; and
(3) Ensure users pay the full cost of delivery, including external costs based on supply, delivery, treatment, depletion, and environmental costs.

The value of this book is that it provides detailed guidance as to how these reforms/actions can be implemented given China's existing institutions. For instance, water is increasingly being transferred from upstream and primarily rural uses to downstream and primarily industrial/urban uses. If a market for environmental services were created that allowed water consumers to compensate upstream water diverters and land users to protect watersheds, then much could be achieved to prevent further losses from increasing water demand. Such schemes could be developed and built on the US$8 billion/year 'Grain for Green' program on the Yangtze River through better targeting of who pays, who receives payments and for what actions. Urban water tariff reform is another key reform that could be built on better pricing practices in Shanghai where prices approximate the economic costs of supply. Water markets can also be fostered based on insights from pilot programs (such as in Hangjin Irrigation District and in the Hai–Luan River Basin in northern China) and China's Water Law 2002 that allows for water abstraction permits. None of these reforms will be easy but are needed to face the huge challenges of water scarcity.

The book is highly recommended to anyone interested in understanding how to overcome the water problems faced by China, or indeed any water-scarce country. Its insights and suggested reforms provide a solid framework for overcoming China's water challenges.

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Globalization and National Autonomy: the experience of Malaysia

Joan M. Nelson, Jacob Meerman and Abdul Rahman Embong (eds)

Institute of Malaysia and International Studies, Bangi and Institute of Southeast Asian Studies, Singapore, 2008, pp. 353 + xx
ISBN: 978-981-230-816-0/817-7

More open economies generally grow faster than less open ones, providing the requisite complementary institutions and policies are in place, and except during periods of global economic contraction. But globalisation has its 'discontents', one of which is, to quote from the Introduction to this excellent volume, '. . . the perception that [it] progressively circumscribes the autonomy of governments, nations and peoples' (p.1). Of particular importance is the alleged loss of 'policy space' as countries become ever more enmeshed in the global economy and its institutions. The authors of this volume have chosen Malaysia as a case study through which to explore these issues. The selection is highly appropriate, since Malaysia has been one of the most open developing countries in its 52 years of independence.

The country's policy settings have resulted in one of the great success stories in the developing world. Yet, Malaysia also frets about the impact of globalisation on its society and economy. It has the developing world's most successful program of affirmative action, and it worries about challenges to that strategy. It is also conscious of being 'trapped in the middle', between efficient lower-income neighbours, notably China, and the more advanced Asian NIEs (newly industrialising economies).

The authors provide a comprehensive, balanced, and nuanced examination of these questions. There are 11 chapters by eight authors, all staff members or affiliated with IKMAS at the National University of Malaysia, and representing the disciplines of economics, political science and sociology.

Joan Nelson introduces and summarises the volume, including also a conceptual discussion of the notions of 'globalisation' and 'autonomy', noting that both are elusive terms. There follows a brief introduction to Malaysia, emphasising how the country connects well to the central theme with respect to its economy, society, religion, demographics and international affairs. This chapter provides a comprehensive and balanced account of the main issues addressed in the volume. While recognising the economic success, the author also notes some key concerns: continuing high levels of inequality, the ambivalence of some in the non-Malay communities towards the country's more overtly Islamic flavour, and the fact that the country has been run continuously by an 'inner circle' in the governing UMNO party.

Abdul Rahman Embong asks whether Malaysia can be considered a 'developmentalist state'. While observing that much of the international literature on this subject draws on the experience of several Northeast Asian states, with which Malaysia shares much in common, he emphasises the differences, particularly the latter's experiment with race-based affirmative action since 1970. Identifying eight key features of Malaysian economic policy making, he cautions that '[T]he dependence of the ruling [political] elite on maintaining support through patronage is in many ways impeding Malaysia's competitiveness in the global arena'. (p.52)

Jacob Meerman addresses what he terms the 'Malaysian paradox', of how a country with such overtly redistributionist policies could achieve high growth. He emphasises that several of these policies were in fact conducive to growth, notably the large investments in education and agricultural development. Moreover, it is often forgotten how unusual was Malaysia's adoption in the late 1960s of export-oriented manufacturing with a large multinational enterprise (MNE) presence. Hence the country enjoyed an early mover advantage for at least the first decade of the new economic policy (NEP). The evidence as to whether the strategy of building a Malay business class has been successful is less clear. He identifies three 'attenuating factors' that have slowed growth: certain NEP programs, the costly heavy industry program, and the costs associated with the ruling party's patronage and money politics. This chapter, the best general evaluation of the NEP this reviewer has read, notes Malaysia's 'remarkable success', but also worries about the strategy's 'high costs in financial losses', and the 'accelerated deterioration of institutions in public life and workplace behaviour' (p.107).

Ragayah Haji Mat Zin and Tham Siew Yean provide comprehensive analyses of Malaysia's record of poverty alleviation and its trade policy, respectively. Poverty incidence has fallen quickly, driven by rapid growth together with programs in education, rural development and industrialisation. Significant challenges remain, however: the management of the very large, mainly low-income, foreign worker presence; continuing high levels of inequality, both in aggregate as well as across regions and ethnic groups; and the special needs of those in the 'hard core' poverty group. Trade policy was initially multilateral in approach, apart from the special case of ASEAN. However, over the past decade the government has felt compelled to negotiate a number of bilateral and regional agreements, which are more far-reaching and may affect some sensitive services sectors.

Joan Nelson examines policies and outcomes in the education sector, including a detailed discussion of NEP education interventions. Clearly, educational outcomes in aggregate have improved rapidly, and the desired goal of narrowing inter-ethnic labour force differences has been substantially achieved. There are however questions related to educational quality, and whether the state-dominated university system is supplying graduates with the requisite skills for a country intent on industrial upgrading. Language policy and ethnic quotas continue to be sensitive issues.

In the concluding chapter, Joan Nelson notes that while globalisation has affected many aspects of Malaysian society and policy, the country's '[. . .] economic policy space has been surprisingly unconstrained by globalization pressures' (p.313). Whether the past successful formula can be maintained is an open question, according to the author. First, a ruling coalition in continuous power since independence has arguably bred aloofness and capture by vested interests within UMNO. Second, the affirmative action programs need to be reformulated so that they are needs-based rather than race-based, yet this will encounter strong opposition. Third, the country's public institutions, and particularly its bureaucracy, may not be adapting quickly enough to the challenges posed by high-growth countries in the neighbourhood.

Other chapters in the volume examine the country's 'Look East Policy', health policy, Islam and cultural policy. It is a landmark study, and model of how to conduct country-based inter-disciplinary research addressing an important contemporary analytical and policy issue.

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Development Economics through the Decades: a critical look at 30 years of the World Development Report

Shahid Yusuf, with Angus Deaton, Kemal Dervis, William Easterley, Takatoshi Ito and Joseph E. Stiglitz.
The World Bank, Washington DC, 2009
Pp. xiv + 188, ISBN 978 0 8213 7255 5

This interesting, short book provides a survey of development thinking over the last three decades with particular reference to the changing content and focus of the Bank's flagship annual report, the World Development Report (WDR), which began its life in 1978. Shahid Yusuf is the main author. Angus Deaton, Kermal Dervis, William Easterly, Takatoshi Ito, and Joseph Stigliz provide commentaries.

Yusuf's contribution charts the elements of change and continuity in development thinking in recent decades. He notes three big shifts: 'from state-directed to market-guided development, from structural to sectoral issues, and from macroeconomic concerns to microeconomic ones' (p.45). The elements of continuity are also striking. The first WDR to draw attention to the importance for development of the quality of government was in 1983. The first WDR to focus on poverty reduction was the 1980 one.

Perhaps the bigger changes in the WDR are in style and approach. The first WDR had 68 pages of text, and no references; the 2008 WDR runs to 365 pages and has hundreds of references. Over time, both the analysis and the recommendations have become more complex. The 1994 WDR on infrastructure confidently supported privatisation of state utilities. A decade later, and with, at best, mixed results, the 2003 WDR on service delivery explicitly rejected a one-size-fits-all approach in favour of a menu of eight possible and quite different approaches to the reform of government services.

Yusuf thinks that with ever longer reports on ever more narrow topics, and in the face of stiff competition from the many imitators it has spawned—inside and outside the Bank—the

WDR has lost its way. But he is optimistic about the future. The WDR can be reinvented, and 'again become a vehicle for mobilizing global opinion and for guiding strategy' if it starts to 'deliver messages on crucial elements of development strategy' (p.104).

Angus Deaton dissents from Yusuf and argues that the WDRs will never regain their pre-eminence, because the Bank has (irretrievably) lost its. I share Deaton's scepticism, though not his reasoning. The problem is not that the Bank is no longer the premier global development institution, but that there are no longer clear answers to big questions.

I have already mentioned the prevailing agnosticism around service delivery. More generally, institutions are now widely regarded to be critical for successful development, but there is no clear menu of institutional reform. On growth, Easterly concludes that 'we don't know how to raise growth in the short to medium term' (p.122). Not all would go as far as Easterly, but few would dispute the conclusion of the recently-concluded Commission on Growth and Development that there is 'no generic formula' for growth. Against this background, it is over-optimistic to think that analysis of the complex topics that Yusuf proposes to rescue the WDR—including how to build resilience, and the politics of development —is likely to result in the production of 'practical guidance and rules of thumb' (p.87).

Perhaps the WDRs are best conceived of as global research projects, which try to illuminate rather than fully resolve important areas of development policy. Deaton argues that the most important contributions of the WDRs have been not their policy prescriptions but the provision of new data, not only the World Development Indicators (which started with the WDR, but have now been spun off), but also innovations such as the DALY (disability-adjusted life years) measure introduced in the 1993 health WDR, and measures of service-provider absenteeism in the 2003 service delivery WDR. Building on this tradition of global research would play to the Bank's strengths, would be useful for both academics and policy makers, and is perhaps the best that can be hoped for in a world in which there are no longer easy answers to the difficult questions that the WDRs have been posing for the last 30 years.

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Innovation for Development and the Role of Government: a perspective from the East Asia and Pacific region

Qimiao Fan, Kouqing Li, Douglas Zhihua Zeng, Yang Dong and Runzhong Peng (eds)
The World Bank, Washington, DC, 2009
Pp xix + 204, ISBN 978 0 8213 7672 0, ISBN 978 0 8213 7673 7 (electronic)

Published as a post-2006 conference volume by the World Bank in collaboration with the Asia-Pacific Finance and Development Centre in China, the eight chapters in three parts examine innovation and competitive development, financial development, and China's government policies.

Unsurprisingly, China's innovation is explicitly clear. A proactive role of government ensures indigenous innovation, especially in small and medium-sized enterprises (SMEs), establishes a national innovation system with market guidance, and ensures protection of intellectual property rights (IPRs). Agenda-setting from above has a clear mandate, given the externality and public good nature of research and development (R&D). Innovation and new products, processes, markets, supply sources, and distribution also need the softer aspects of management practices and organisation structures to grow and deliver.

Of the factors identified in Chapter 1, Part 1, the U-shaped relationship between innovation and competitiveness is balanced by the government's role in making the right policies for IPRs and the business environment and enabling human resource development. Traditional industrial clusters—from Silicon Valley to US automobiles—are contrasted with government efforts in Korea and Singapore to catalyse transformation; and technology funding in Finland and Norway is contrasted with the latter's emphasis of technology transfer to SMEs. All ensures competitiveness as capabilities for sustainable economic growth and increases in living standards. Market structure and market power may dictate financial resources for R&D. But an innovative culture in Bangalore and SMEs as innovative growth agents can be as successful.

Part 2 includes Chapter 2 on what financial innovation does, followed by Chapters 3 and 4 on China's financial sector, and Chapter 5 on Asia-Pacific Economic Cooperation (APEC). There is no mention of either the 2002 dot com boom-andbust or the financial innovations as in the over-leveraged securitisation leading to the ultimate market fragility witnessed in 2008. China has yet to unleash its financial depth in legal and institutional market-opening, including bond development, as demonstrated in Chapters 3 and 4. Chapter 5 seems a token discussion on APEC, with more on aspirations than on successful tangible R&D projects.

The last three chapters in Part 3—on China's innovation policies and fiscal and taxation policies focusing on innovation—are generally prescriptive. Recommendations in Chapter 6 range from promotion of SMEs to regional industrial clusters, especially high-technology industries, including industries in knowledge-based economies that need intellectual creativity. The problems are not unique, but China's size and finance undergird the suggestions. Chinese enterprises are weak in technology and depend on imported technology to be effectively diffused across-the-board. Apart from legal and IPR challenges, large scale government procurement can set technology conditions and incentives as further policy options.

Chapters 7 and 8 examine fiscal and taxation options to encourage multinational corporations (MNCs) in R&D. More than throwing money at the problem or tax savings for the right MNC and R&D project, China needs complementary policies, even quality living, to attract the talents used to liberal lifestyles and working conditions elsewhere. The chapters can lighten up on the recreational and entertainment aspects.

It is not the R&D grants, MNCs, and their laboratories and facilities *per se* that make creative innovations; it is the research engineers and scientists (RSEs), especially global R&D talents, who need cities in China that are good places to work, live and enjoy life in. Even the indigenous Chinese RSEs and innovative creators need intellectual space for free and open communication and exchanges in ideas as the raw material of innovations. This human need is noted throughout the volume. Organisation and institutional structure, including management strategies and practices as corporate culture, is the language of R&D as well.

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The Korean Economic System: governments, big business and financial institutions

Shin Jae-Seung and Lee Moosung,
Ashgate, Aldershot, 2008
Pp x + 209, ISBN 978 0 8213 7546 7078 0

Self-sustaining economic development based on export orientation is both a myth (p.1) and, indeed, a contradiction in terms. The book questions the validity of neoclassical and dependency theories as well as developmental-statist analysis of Korea, in particular, to find a fusion of all three for 'universalisation' of the Korean model (p.3). While not entirely new and covering only up to 2002 as Roh Moo-Hyun succeeded Kim Dae-Jung, Japan's positive influence, as empirically presented in Chapter 7, is refreshing.

The authors' use of figures throughout the book to depict various theories, particularly in Chapter 2, offers comparisons of the roles of market, government, and external factors (Table 2.2, p.31). Understandably, any multiple-factor thesis that leaves nothing behind cannot be precise in assigning relative magnitudes. The propositions may be elegant qualitatively, but the book is not about econometric modeling and hypothesis-testing.

What is promised as 'universalisation' of Korean development seems delivered from both Part 1 (theoretical underpinning and evolutionary theory of institutions) and Part 2 (applying the theory) of three chapters each. The authors are clear how internal and external factors interacted to produce the Korean economic system, without coining any distinctive lexicon, but an opportunity to be explicit about a *keiretsu–chaebol*-state 'theory' for the two East Asian successes seems missed.

To bring into context the literature of the East Asian financial crisis (the 2008–09 global crisis being too recent), both Japan and Korea were affected less by their financial sectors than Thailand, Indonesia and Malaysia. Neither one was an innocent bystander like the financially robust city-states of Hong Kong and Singapore, which were caught in the contagion. Both the recovery and long-term sustainability of Japan, with its 'lost decade', deepened by its ageing demographics, have parallels in Korean society.

There is something more theoretically and empirically latent in the *keiretsu–chaebol*-state nexus. Logically, it can be embellished more than mere definitions and comparisons of *zaibatsus*, *keritsus* and *chaebol*s and drawing in the state as affecting resource allocation and 'national service' performed in industrial policy and industrialisation. The role of the state has some nationalistic leeway, be it postwar Japan producing a miracle in economics, or Korea with its northern baggage. Such political economy is beyond regime change (Table 5.15, pp.98–9) and state intervention in financial institutions (Chapter 6).

Taken to its logical conclusion, a nascent theory of the *keiretsu–chaebol* state from Japan and Korea would be stronger than is acknowledged in Chapter 7 on Japan's influence on the Korean economic system. Granted that neither Japan nor Korea is free from domestic development problems on top of the globalisation backlash from connectivity and competition as double-edged. The East Asian model is not altogether without its familial-social merits.

Moreover, East Asian integration, however defined, needs a diversity of economic models for pragmatic solutions. It is futile to debate the ideological divide of state or market when the reality is state-and-market as seen in Korea. Asian developmental states or western capitalism are idiosyncratic country-peculiar. The right question is which is better. Excessive greed and loss of corporate governance is universally fatal in any system. To the question how best to depict Korean economic development, the authors find the answer in their last chapter that another book is required as 'an empirically relevant theory of both the general paradigm of developing countries and its special independent factor' (p.180).

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Spending for Development: making the most of Indonesia's new opportunities – Indonesia Public Expenditure Review

The World Bank
The World Bank, Washington DC, 2007
Pp. xxiv + 199. ISBN 978-0-8213-7320-0

The optimistic reference to 'new opportunities' in the title of this comprehensive and valuable Review reflects Indonesia's large endowment of oil and gas reserves at a time when their value has increased greatly. Notwithstanding significant fluctuations in world oil prices since the Review was undertaken in 2007, the fundamental argument remains valid: provided this windfall is not foolishly dissipated on subsidies that flow overwhelmingly to Indonesia's wealthiest citizens, it provides the 'fiscal space' to boost spending significantly in areas that really matter—in particular, education, health and infrastructure. Investment in the latter fell dramatically during the late 1990s' crisis, from 5 to 6 per cent of GDP to about only 1 per cent. Despite significant recovery subsequently, public infrastructure investment remained at only 3.4 per cent of GDP in 2007, holding back Indonesia's economic progress.

The magnitude of the current windfall is similar to that generated by the oil boom of the mid 1970s—which former president Soeharto cleverly exploited by spending heavily in precisely these same areas—and there is no good reason now not to follow suit. In addition, there is considerable scope for boosting such spending by trimming bloated public sector administrations, including by modifying current arrangements under which local governments' wage bills are completely covered by their general allocations of funds from the centre, leaving them with no incentive to economise.

The Review rightly argues for increased emphasis on quality rather than quantity in relation to the provision of education services, but also draws attention to the need to address gross regional and urban–rural education disparities. Some 55 per cent of schools have an oversupply of teachers, while 34 per cent are understaffed. Solving this problem will require significant change to the salary structure so as to provide reasonable incentives to teach in remote regions. The current poor salaries also reflect false economy since they encourage absenteeism, thus reducing schools' performance. It is noted that education policy is the subject of considerable confusion at present, because the law on education absurdly interprets the constitutional requirement for governments at all levels to spend at least 20 per cent of their budgets on *education* to exclude spending on *teacher salaries*. Abiding by this interpretation would be prohibitively expensive, correspondingly reducing governments' capacity to spend in other important areas.

Indonesia lags behind its neighbours on important health indicators such as infant, child and maternal mortality. Not only is aggregate spending on health too low at less than 1 per cent of GDP, but also the benefits of such spending, like fuel subsidies, are enjoyed disproportionately by the wealthy. The poor have very low utilisation rates for hospital health care, for which a solution could be found by issuing them with cards entitling them to access to such care free of charge. As with education there are significant regional disparities, with public health spending tending to benefit richer districts. But whereas Indonesia has sufficient teachers in aggregate, it has too few doctors, pharmacists and nurses. The shortage of doctors in health clinics is particularly severe in remote areas; again, the explanation can be found in unrealistically low salaries. Absenteeism is a problem here also, because public sector doctors need to operate their own private practices if they are to earn reasonable incomes.

Aside from the levels of spending in these broad areas, the Review focuses also on public sector financial management. Much reform remains necessary to ensure that fiscal resources are spent efficiently. The budget system is inflexible, in part because the budget documents are excessively detailed. There is consistent underspending on investment relative to the budget, and a chronic failure to spread such spending evenly over the fiscal year. Although the legal framework for public sector procurement has been improved, implementation remains a problem—not least because most public officials lack good career path or remuneration incentives to take up procurement responsibilities. The introduction of the state audit law in 2004 creates the opportunity to raise fiduciary standards, but the staffing and other resources of the state audit agency remain inadequate relative to its responsibilities. Moreover, the commendable efforts of that agency will continue to count for little unless much greater success is achieved in taking action on its findings.

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Exchange Rate Systems and Policies in Asia

Paul S. L. Yip (ed.)
World Scientific, Singapore, 2008
Pp. xxi + 174, ISBN 13 978 981 283 450 8

World Scientific publisher is fast gaining a reputation for publishing timely books on important economic policy issues in Asia. This book on exchange rate regimes in Asia is no different. The nine chapters in this edited volume offer useful insights on the topic. Unlike many other volumes that might concentrate on just East Asia, this book has chapters on Japan, China, India and Singapore. A criticism would be that it fails to include analysis of many other countries in Asia, notably Korea and other ASEAN economies. Given that Korea, Thailand, Indonesia and the Philippines have all adopted inflation targeting regimes, it would have been useful to, at least, have a chapter on such regimes in the Asian context (for instance, see Chapters 2 and 3 in Cavoli and Rajan, 2009).

The introductory chapter is well written and offers a useful overview of the issues at hand. Some topics by well-known economists like John Williamson's discussion of intermediate exchange rate systems and Ronald McKinnon (on Japan's deflation and liquidity trap) (Chapters 3 and 4) are not likely to be new to those who have been following their writings. However, the discussion on China's exchange rate regime by Paul Yip (Chapter 6) and Yin-Wong Cheung, Menzie Chinn and Eiji Fuji (Chapter 7) are new and insightful. The chapters on India and Singapore by Pami Dua and Arunima Sinha (Chapter 8) and Chow Hwee-Kwan (Chapter 9), respectively, while useful, are more descriptive than analytical.

While the Reserve Bank of India (RBI) is commonly believed to target the real effective exchange rate (REER), much empirical analysis suggests that the Indian *rupee* has been predominantly influenced by the US dollar. The chapter by Dua-Sinha, unfortunately, does not shed much light on the details of India's *de facto* exchange rate regimes (see Chapter 3 in Cavoli and Rajan, 2009) though it offers some helpful analysis on India during the East Asian financial crisis of 1997–98.

The Singapore exchange rate regime is especially intriguing as the country effectively seems to operate an exchange rate-based monetary policy rule where the trade-weighted exchange rate is used strategically as a policy instrument to satisfy domestic inflation objectives. The chapter by Chow (Chapter 9) provides a useful description of some of the implementation issues involved but fails to offer much insight into the monetary policy rule pursued (see Chapter 4 in Cavoli and Rajan 2009).

Overall, with the rise of China, India and re-emergence of East Asia from the financial crisis of 1997–98, there has been significant interest in understanding monetary and exchange rate issues in the larger Asian region. Monetary policy in Asia has taken on particular significance as the region holds the largest international reserves in the world and consequently plays a significant role in global macroeconomic imbalances (for instance, see Rajan, Thangavelu and Parinduri 2008). This book helps to advance our knowledge on the region's exchange rate regimes. Much more work remains to be done, however, particularly with regard to how small and open economies should conduct exchange rate and monetary policies in the presence of sharp capital account shocks and on Asian monetary and financial cooperation.

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Readings:

Cavoli, T. and Rajan, R.S., 2009. *Exchange Rate Regimes and Macroeconomic Management in Asia*, Hong Kong University Press. Hong Kong.

Rajan, R.S., Thangavelu, S. and Parinduri, R. (eds), 2008. *Monetary, Exchange Rate and Financial Issues and Policies in Asia*, World Scientific Press, Singapore.

Migration and Social Protection in China (Series on Contemporary China – Vol. 14)

Ingrid Nielsen and Russell Smyth
World Scientific, Singapore 2008
Pp. 265, ISBN 13 978 981 279 049 1 and ISBN 10 981 279 049 7

With China's rapid economic development, a number of social problems (poverty, income inequality, and social stability, to name just a few) have arisen. Among them, the plight of migrants stands out. It is estimated that China has some 120 to150 million internal migrants from the countryside living in its cities, and these people have contributed significantly to China's high rate of economic growth. Meanwhile, insufficient attention has been given to the establishment of a social-protection regime for migrant workers. This edited volume makes its contribution by bringing together top scholars from China, Hong Kong, Australia, and Britain to examine the key issues involved in establishing social protection for migrants.

At the outset, the editors contend that the book provides both an overview of the challenges facing China in extending social protection to its migrant workers and the extent to which it has been successful in realising this goal. Some recent social insurance schemes for migrants are discussed, and migrants' coping responses and participation are analysed. In the end, the book advocates for the rights of the migrants.

The book has five sections (social protection and social justice, migrant participation in social protection schemes, the role of the household, state and market in providing social protection, as well as an introduction and conclusion) divided into 12 neatly laid out chapters.

This book captures a number of salient themes:

- Social and economic development ought to go hand-in-hand;
- However, few migrants (a group particularly prone to accidents and sickness) participate in social insurance schemes;
- The stated goal of realising a harmonious society characterises the Hu–Wen Administration, forming the backdrop for the recent governmental concern for migrants;
- The *hukou* system is detrimental to migrants because it disenfranchises them;
- Recent social protection measures promoting the rights of migrants have been sporadic and limited in impact, with the main drawback being low participation by migrants themselves;
- A variety of models of social protection have been implemented to assist migrants across the country, but many of these models remain rhetorical rather than practical;
- A variety of coping strategies have been used by migrants to alleviate this lack of social protection support; and
- Economic growth has been promoted at the expense of basic economic and social rights, that is, the antithesis of the Hu–Wen Administration's 'harmonious society' goal.

The past several years have seen a burgeoning academic interest in Chinese migrants. A large number of books, research monographs, and reports from Asia and elsewhere have looked at the issue. This book is a serious and useful addition to the collection, helping us to understand the hard reality Chinese migrants face. Methodologically, the various contributors draw upon different sources to carry out their analyses: governmental documents and reports, including

State Council Documents; and surveys and in-depth interviews collected by the Chinese Academy of Social Science and the Development Research Centre of the State Council. Additionally, a few contributors (Bingqin Li, Mark Duda, Huamin Peng, Linda Wong and Zheng Gongcheng) rely on their own research in different parts of China. Overall, the book is rich in data.

This book is strong in its analysis of (a) the lack of social protection for migrants and (b) the migrants' coping strategies. It is, however, weak when it comes to discussion of alternative policy options, which remain far too sketchy. It is hard to dispute the editors' assertion of the need to advance social rights for migrants, but the important question of how to put this principle into practice is unanswered. Notably, a discussion of some *effective* ways to accomplish changes in the lives of the migrants would be illuminating, perhaps drawing on other countries' experiences. Importantly, the grounding of the analysis in a theoretical framework would have considerably strengthened the book. But this is, admittedly, difficult to achieve in an edited text.

This weakness does not seriously flaw the text, though it does detract from its strength. Still, the book is informative, rich in data, and readable. It should have wide appeal, particularly to those (students, officials, and academics) concerned with migrants and their problems. Above all, it makes an excellent reference for courses on China's social policy, international political economy, or development studies.

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Decentralization Policies in Asian Development

Shinichi Ichimura and Roy Bahl (eds)
World Scientific, 2009
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Rapid economic growth and poverty reduction has transformed much of Asia in recent decades. Yet, the extent of growth and poverty reduction has been uneven across and within countries, sharply differentiated by urban–rural, upland–lowland, and other ethnic, geographic, and place-based divides. For example, in Papua and other eastern Indonesian provinces, poverty rates are as high as least developed African countries, while resource-rich Indonesian regions have per capita incomes many times higher than Mexico (p.245).

To address these anomalies, many Asian countries assign state powers, responsibilities and resources to sub-national authorities and to private and civil society agencies under various forms of transfer of authority, contract, partnership or principal-agent relationship. Yet, both the theory and evidence supporting these approaches is much debated. This book presents a selection of papers contributing to these debates, drawn from the 2003 Asian Development Conference: Development and Decentralisation in Asia, held in Kitakyushu, Japan.

The introductory essay by co-editor Roy Bahl sets out the expected benefits and possible costs of decentralisation. A key benefit is that sub-national governments can structure their budgets and service packages to respond to varying citizen preferences in each jurisdiction; this should lead to greater citizen satisfaction with government, more accountability of government officials, and greater willingness of citizens to pay taxes, since they get the services they want. A related benefit is sub-national authorities can broaden the tax base by more effectively reaching taxpayers difficult for central authorities to reach, such as small businesses, individuals, and owners of immovable property, and persuading/coercing them to pay.

A key potential cost is the loss of macroeconomic control by central governments. Stabilisation policies are harder to carry out during economic downturns as local governments may not face hard budget constraints, and subsidies from central to local governments may be politically difficult to cut. It may be challenging to achieve national infrastructure objectives. Decentralisation may increase regional inequalities if there is heavy reliance on own-source revenue. And local governments may lead to inefficiencies through lack of capacity and duplication of services.

The rest of the book documents recent decentralisation practice in Asia, ranging across the income scale from Japan to India. Each chapter covers a wide range of country experiences, analytical structures, and other issues raised in Bahl's essay. The chapter on Indonesia is one of the few with evidence of greater citizen satisfaction following decentralisation: based on two nationwide surveys, 70 per cent of households believe that health and education services have improved compared with before decentralisation; they also believe that administrative and police services have improved (p.250–1). The Thai chapter also provides survey results, in this case showing that trust in local authorities and city councils improved between 2002 and 04, as decentralisation reforms were underway. However, the meaning of these results could be questioned, since trust in national civil service officers increased even more during the same period (p.217). The Philippines chapter points out that there have been pilot efforts to assess the performance of local governments since the enactment of the Local Government Code of 1991, but no systematic, nationwide effort. There is evidence neither of large gains nor losses (p.178).

There is little evidence provided that decentralisation was a factor in broadening the tax base. From other sources, it can be seen that one of the countries presented here, Vietnam, did increase tax revenues from 21.6 per cent of GDP in 2001 to 27.1 per cent in 2006. This was mainly due to increased oil revenue and improved central level tax administration, but there is some evidence of improvements at the sub-national level (Wescott et al. 2009).

Loss of macroeconomic control comes through in the Philippine case, where the cost of the large and growing inter-governmental grant is indicated as one of three reasons for the ballooning deficit from 1998 to 2004. The evidence of impact on inter-regional equity is mixed, as predicted. Although one normally looks at the distribution of inter-governmental transfers for evidence of such impact, the China chapter points out a different aspect: that central government policies provide perverse incentives to relatively prosperous local governments to curb in-migration of peasant workers, thus exacerbating regional inequalities. There are also incentives to convert agricultural land to non-agricultural use in what can be a wasteful manner, and discouraging farmers from making long-term investments. Such policies can and should be changed (p.102–3).

Perhaps in part because of the limited evidence of decentralisation leading to desirable results, the sub-national share of government expenditure as a proportion of GDP has not increased in developing countries worldwide, remaining at 13–14 per cent for the last three decades (p.8). Indeed, a recent work uses formal modelling and game theory to argue that the key arguments surrounding decentralisation are based on unrealistic assumptions and logical inconsistencies, and that there is no reason to expect that decentralisation will have any predictable effects (Treisman 2007).

Yet based on the cases described in this book, Asian governments and their international partners are investing considerable energy and resources in enhancing decentralisation reforms, with great hopes of better outcomes. Additional research is needed both to further develop the theoretical framework on which their decentralisation policies are based, and to provide better evidence of the benefits of these policies in practice.

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Governing Finance: East Asia's adoption of international standards

Andrew Walter
Cornell University Press, 2008
Pp. xv + 235. ISBN 978 0 8014 4645 0

In the wake of the current financial crisis (2007–08), criticisms of past and present policies of financial authorities centred on the need for greater regulatory reform. Financial crises are unavoidable as market bubbles and crashes cannot be entirely eliminated, but their most destructive consequences (such as 'panic') can be greatly mitigated with proper preparation. This perspective has several implications for the types of regulatory reform needed. As such, Andrew Walter's *Governing Finance* offers an astute response to this ongoing debate of financial regulation. This book on the studies of the 1997 financial crisis in East Asia examines in detail the quality of compliance with international regulatory standards. Using four crisis-hit cases of Indonesia, Thailand, Malaysia and South Korea in the post-1997 period, Walter suggests that there are limits to global regulatory convergence in the absence of support from domestic politicians, institutions and private sectors.

To support his argument that regulatory neoliberalism is an ideal type and so-called 'mock compliance' will be sustainable due to domestic politics, Walter (chapter 1 and 2) outlines important differences between the appearance and substance of financial governance reforms and presents his version of the compliance theory and explains how power and interest shape differential reform outcomes by placing domestic political forces at the heart of the analysis.

With careful assessment in the areas of banking regulation and supervision, corporate governance, and accounting, this book (Chapter 3 to 6) captures the experiences of the crisis-hit countries after 1997 and imparts valuable additions to the repertoire of international standard measures. The book also reveals that domestic political factors largely drive compliance outcomes because external pressures for substantive compliance are often weaker than many suppose. The book also reveals that (1) domestic political factors, in response to international pressure, largely drive compliance outcomes; but (2) external pressures for substantive compliance are often weaker than many suppose so that (3) well organised domestic interested group are often in a position to block substantive compliance.

Based on his assessment, Walter draws together the results and discusses the implications of the effects of compliance outcomes and the future of international financial reform (Chapter 7). One message that is clearly expressed is that institutional reform is necessary to achieve more effective financial regulation, but as 'mock compliance' often took precedence over substantive change, focusing on compliance with current international standards may not be the best tactic. Furthermore, mock compliance strategies specifically are more appealing and more viable under the following three conditions—high costs in the private sector, outright non-compliance, and third party compliance-monitoring costs.

The book raises a number of issues generic to global financial architecture. In particular, it demonstrates that the major Western countries have been far too confident of the superiority of their own regulatory framework and its relevance for other countries. Walter's book seeks to provide an understanding of the key issues that should be kept in mind in reforming regulatory systems. The book is on the whole thorough and exhausts most avenues; academics as well as policymakers will benefit from the analysis.

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