Book Reviews

Australian Indonesian Relations since 1945: the garuda and the kangaroo

Bob Catley and Vinsensio Dugis
Ashgate Publishing, Aldershot, 1998.
Pp. v + 356. ISBN l 840 14835 3.

This history of Australia–Indonesia relations is co-authored by a political scientist (a former Labor member of Parliament) and a former graduate student of his at Adelaide University. It is primarily a political history, giving a detailed account of the not always easy relations between the 'garuda' and the 'kangaroo', from the birth of the Indonesian Republic in 1950 to (almost) the present. The political history concludes with a chapter on defence co-operation in the 1990s. To this are added a chapter on "Increasing economic integration" following trade liberalisation and deregulation in both countries during the 1980s and a final chapter on the Asian crisis which ends with the resignation of President Soeharto in May l998.

The political history is well done, though on some of the issues which most seriously disturbed bilateral relations the authors tend to accept too uncritically the anti-Indonesian propaganda which has at times dominated the Australian media. This applies especially to the East Timor issue, "the most delicate in the bilateral relationship" (p. 226). The reference to the death of five Australian journalists at Balibo ignores the findings of a special report commissioned by the Australian government, and on the 'Dili massacre' of 1991 they prefer the propaganda version that "the incident claimed probably hundreds of lives" (p. 226) to the official Indonesian finding that 51 persons were killed. But in relation to another incident, the rejection by Australia of General Mantiri as Ambassador to Canberra, they mention the treatment of the issue by "the 'anti-Indonesian' element within the Australian community, led particularly by the pro-East Timor groups and the left wing of the ALP [Australian Labor Party]" (p. 226).

The economic chapter consists mainly of numerous tables of statistics of Australian–Indonesian trade, aid and investment during the decade l986–96, illustrating the significant growth in bilateral trade but disappointing FDI in either direction. The final chapter on the 'meltdown' of 1997–98 tells the story of how the Asian financial crisis transformed Indonesia "from a Tiger economy to a struggling bankrupt in half a year" (p. 149) but says nothing about the outstanding achievement which gave Indonesia, under the guidance of the Berkeley Mafia of its leading economists, 7 per cent per annum economic growth over 30 years. Written before May 1998, the chapter presents a picture rather more pessimistic than more recent data would indicate. But the story of the economic development of Indonesia and its economic relations with Australia is peripheral to a useful account of the political relations between the two countries in the past half century.

The proof-reading, however, leaves much to be desired; numerous misprints and some blunders, such as the references to the distinguished Indonesian economist Dr K.W. Thee as "Wee" or "Wie".

H.W. Arndt
Australian National University

East Asian Development: will the East Asian growth miracle survive?

F. G. Adams and S. Ichimura (eds)
Praeger, Westport, CT, 1998.
Pp. xiii + 218. ISBN 0 275 96411 6

"Of making many books there is no end", as the prophet said 2,000 years ago. Books on the Asian crisis are coming in a steady stream. This collective volume arises from workshops held at the Centre for the Study of East Asian Development in Kitakyushu in 1996, well before the onset of the East Asian crisis. But a postscript chapter written in January 1998 discusses the causes of the crisis and the prospects for the future.

The book is admirably edited by Professors Adams and Ichimura. The latter's Preface is followed by five sections, on the process of East Asian economic development, on the sources of economic growth, on the role of savings and foreign direct investment (FDI) and on the crisis, each section introduced by brief summaries of individual chapters.

To Adams, the process of East Asian economic growth appears as a 'development ladder', rather than a 'flying geese' pattern: "The critical issue in East Asian development appears to be the linkage between economies". Extra-regional linkages (FDI flows), intra-regional linkages (largely through Overseas Chinese) and intra-country linkages ('virtuous circles' of high saving, human resources development etc) promoted what he regards as the crucial factor: changing comparative advantage. The second chapter in this part, by Mitsuo Ezaki, emphasises globalisation, which he sees going beyond economic into political and philosophical dimensions—'truth, goodness and beauty'.

Parts II, III and IV cover familiar ground: the debate about the East Asian miracle and the role of technical progress (without reference to the article by Edward Chen in the May 1997 issue of this journal which largely cleared up the confusion), the significance of high saving rates and the contribution of FDI. Harrigan makes the important point that a high saving rate alone is not enough; it needs to be supported by institutions and policies that are 'market-friendly'.

The postscript chapter on the crisis is excellent, though, written in January 1998, it inevitably dates. It focuses chiefly on Thailand, but the contagion is mentioned and implications for other countries are discussed. Oddly, there is no reference here, or elsewhere in the book, to Japan's macroeconomic malaise. There is also less discussion of exchange rate policy issues than one would find in later books on the crisis. One of the conclusions deserves another book: "Political uncertainties may stand in the way of effective economic policies. It is not clear whether popular democratic government can effectively manage development policy in East Asia."

H. W. Arndt
The Australian National University

Chinese Business in Malaysia: accumulation, accommodation and ascendance

Edmund Terence Gomez
Curzon Press, Richmond, UK, 1999.
Pp. xxi + 234. ISBN 0 700 71093 0

Academic conferences and seminars on the Overseas Chinese tend to downplay the Overseas Chinese as commercial actors and stress their non-commercial aspects, for example, their role in politics, their migration history and so on. At conferences devoted to the Indonesian Chinese there will be papers on, say, the relatively acculturated Chinese of central Java, but rarely if ever on the much more vigorously commercial Chinese of Medan, who are anything but assimilated.

This book goes some way to redress the problem, at least in so far as Malaysia is concerned. It is about what the Chinese are known for: business. There is a brief overview of Chinese business in Malaysia during the colonial period, a thorough section on the Malaysian government's redistributive NEP policies and the response of Chinese business to those policies and also a section on the Chinese in the era of privatisation and economic liberalisation in Malaysia. As well, there are in-depth case studies on prominent Malaysian Chinese business people. In fact, much of Gomez's book is really about this upper echelon of business identities. The state of Chinese business below the conglomerate level barely rates a mention. The way Overseas Chinese business networking operates is that connections that come through a shared background can lead to networking if required, particularly in hostile and difficult business environments where legal structures are poor. That is all.

The book is a mine of information. This can be both praise and criticism. At various points Gomez seems more a chronicler than an analyser. Nonetheless, the book is readable and does not get bogged down in unnecessary detail.

The book is not confined to Malaysian Chinese. It contains valuable information on senior *bumiputra* business figures. Many of Gomez's sources are secondary and in some instances dated. Reliance on dated sources means repeating what was once true as if it were still.

Fascinating anecdotes and vignettes enliven the book. For instance, Gomez pinpoints the genesis of the extraordinary level of merger and acquisition activity that occurred in Malaysia in the 1980s to attendance by Malaysian businessmen-cum-politicians Daim Zainuddin and Tan Koon Swan at a short business management course at Harvard University in the mid-1970s. The book contains a lengthy table showing the political affiliations of prominent non-Chinese business figures, some of whom are partners of prominent Malaysian Chinese. The book is worth buying for this table alone.

Michael Backman
Sydney

The Riddle of Malaysian Capitalism: rent-seekers or real capitalists?

Peter Searle
Asian Studies Association of Australia in association with Allen and Unwin, St Leonards / University of Hawai'i Press, Honolulu, 1999.
Pp. xvii + 318. ISBN 1 864 48628 7

Beyond the striking but enigmatic cover picture of this book one finds a volume which carefully and intelligently explores the complex circumstances of latter-day Malaysian capitalism. The work is based on research in Malaysia during 1987 and subsequent visits assessing changes up to the mid-1990s. It revolves around the key questions of the evolving nature of state control including its encouragement of capitalism, and of the characteristics of entrepreneurs emerging as a result. The book is grounded to a large extent on case studies, which are used to illustrate dominant themes. The discussions have high relevance to present events and to what some observers perceive as deficiencies in the patrimonial state and its concomitant crony capitalism.

After clarifying his philosophical position, Peter Searle presents an overview of the political economy of Malaysia regarding business from the 1950s to the 1990s. He then looks at the role of the state and the government's attempts to expand Malay ownership of business and scrutinises the ways in which this transition took place. He addresses the key part played by Malaysia's dominant political party, the United Malay National Organization (UMNO). He examines relations between capital supplied through this party and private Malay capital, exploring the nature of the latter and the prime movers involved. Searle next scrutinises the parallel development of Chinese capital, looking first at the disastrous attempt by the Malaysian Chinese Association to promote business through the institutional vehicle of the Multi-Purpose Holdings Berhad and then at experiences of 'new wealth' groups founded since 1970 and earlier 'old wealth' firms. He finally draws broad conclusions from his study.

Searle's analysis emphasises the crucial role in many enterprises of the right political connections and the increasingly patrimonial cast of the Malaysian polity as the Malay business element grew in size and linkages with key regulatory agencies of government. He draws attention to the changing nature of the civil service, where the "new Malay entrepreneurs had found elements of the bureaucracy conservative and obstructionist". There was a shift in high positions from "technically competent" persons to those who were "politically loyal and committed to the leadership's world view" (p. 47). Searle cites various well-known politically loyal Malaysians whom the government appointed to key positions in officially controlled public companies, suggesting that such appointments were at least a partial reason for subsequent financial disasters. Much of the material presented echoes events in Thailand, Indonesia and the Philippines, where patrimonialism and associated encouragement of business were also prominent in rapid economic development up to 1997.

Searle answers the question of his book title by acknowledging the development of prominent rent-seeking, but perceiving at the same time the emergence of a "core of productive investment" by *bumiputra* groups with "greater independence of patronage" (p. 246). He finds a similar nexus between the state and business for Chinese capital, but again sees the expansion of independent entrepreneurs. This answer is very much in line with the observations of scholars like Hewison and Robison whom he quotes in his introductory section.

In Searle's opinion, phenomena such as Yoshihara's *ersatz* capitalism are only way stations en route to the more independent and competitive business structures that emerge if economies continue to expand. While Searle does not emphasise it, the patrimonial structure of business growth may be viewed as almost inevitable in the Malaysian and wider Southeast Asian cultural context and once more likely to disintegrate under competitive pressures. In fact, many politically loyal Malaysians whom Searle quotes in critical tones have turned out to be generally competent managers. Searle himself refers to the unexpectedly excellent performance of Daim Zainuddin in promoting unpopular measures of structural adjustment (p. 8).

The book makes a useful contribution by documenting key features of recent Malaysian business development and relating these to issues of how best entrepreneurship can be encouraged. Malaysia's measures, in vigorously encouraging *bumiputra* as well as other business over the last three decades, have produced a critical mass of *bumiputra* entrepreneurs, but also assisted local Chinese enterprises. They have promoted economic growth and assisted in speeding recovery from the recent financial crisis.

While illuminating interactions between business and the state, the book does not really address the crucial issue of how the government apparatus itself has been affected by the policies and changes it describes. There is little doubt that infiltration of the Malaysian (as well as the Thai and Indonesian) bureaucracies by persons more sympathetic to business interests than wider social goals is one unfortunate result of these policies. The infiltration is likely to have serious long-term consequences for economic and social growth. Untrammelled support for business may well lead to later social breakdown and consequent economic reversal.

Colin Barlow
The Australian National University

International Migration in Southeast Asia: trends, consequences, issues and policy measures

Carunia Mulya Firdausy (ed.)
Southeast Asian Studies Regional Exchange Program; Toyota Foundation and Southeast Asian Studies Program, Indonesian Institute of Sciences, Jakarta, 1998. Pp. xi + 254. ISBN 9 799 51250 6

Migration is clearly a significant social phenomenon in the development of Southeast Asian economies and societies. Although occurring in various forms throughout history, migration as a corollary to economic development emerged only in the last two decades, but expanded quickly in size and forms. Estimates of migrants in the countries of the region reach perhaps four million, at least half of them irregular. The large flow of unskilled and semi- skilled labour has been accompanied by migration of professionals in the economies emerging from the crisis.

A volume on migration in the region confronts various issues. Distinct migration systems, one centred on Malaysia and Singapore, the other on Thailand, have emerged. The inter-relation of agents, employers and intermediaries requires better understanding as it constitutes the under-pinning for both regular and irregular migration. So does the role of the informal economy and social networks.

This volume, which contains contributions from established scholars in the field, provides some insights on these issues, particularly on the relationship between migration and development, on irregular migration and on the conditions of migrants, particularly the Indonesians in Malaysia. But the book is somewhat disap- pointing in its overall structure. It appears to be a compilation of papers produced for different purposes and at different times.

The opening chapter by Ronald Skeldon examines the relationship between migration and development in the region. He outlines the long-term development of migration within a diffusion framework progressively linking urban settlements from the core to the periphery. Such a trend appears inevitable to the point that migration policies cannot modify it and should simply accommodate it. This and other insights, such as the importance of timing in the linking of develop-ment areas to globalisation, merit additional discussion by researchers. However, they are already in the public domain, the author having developed them in an earlier volume.

Graeme Hugo contributes a useful chapter on irregular migration in Southeast Asia. To explain the determinants of irregular migration, he briefly overviews the major migration theories, concluding that the role of networks and migration recruiters appears crucial. However, this does not add to our understanding of the causes of irregular migration in Southeast Asia and the author is hesitant in suggesting options for policy.

A second chapter by the same author does little more than review the literature on female migration in the region. Migrant women, particu-larly from the Philippines and Indonesia, have increasingly become the focus of research; what is needed now is a discussion of specific aspects of policy aspect.

There is a chapter on Asian migration to Australia, hastily compiled from a few published sources without additional analysis; the remain-ing chapters focus on Indonesian migrants in Malaysia and on return migration to Indonesia. On the basis of interviews with small samples of migrants, the chapters provide some interest-ing information, particularly on the working and living conditions of Indonesians in some suburban settlements in Malaysia. Unfortunately, the chapters do not go beyond description of frequencies. Disappointingly, the implications for policy of the Asian financial crisis are missing from the analysis of Indonesian migrants in Malaysia and return migration to Indonesia.

The uneven quality of contributions in this volume does not do justice to the issue of migration in Southeast Asia. Shabby layout and poor editing also diminish from its impact.

Graziano Battistella
Quezon City

Towards a New International Financial Architecture: a practical post-Asia agenda

Barry Eichengreen
Institute for International Economics, Washington, DC, 1999.
Pp. xv + 189. ISBN 0 881 32270 9

Barry Eichengreen has produced a very useful book which provides a readable, balanced assessment of the recent Asian financial crisis and a set of recommendations that appear to be influencing key policy-makers in governments and international financial institutions. Starting with a comprehensive survey of the literature, Eichengreen analyses the nature and causes of the crisis, the measures taken to resolve it, and, most importantly, the measures proposed for reforming the international financial system so as to mitigate future crises. He sets out his own reform proposals, which, as he says, "stake out a middle ground between the overly ambitious and politically unrealistic schemes of independent commentators and the excessively timid and ambiguous reports of the international bodies and organizations" (p. 4).

Six assumptions undergird Eichengreen's recommendations. Liberalised financial markets have compelling benefits. International financial liberalisation and growing international capital flows are inevitable and irreversible. Capital markets are characterised by information asymmetries that can give rise to overshooting, sharp corrections and financial crises. This instability provides a compelling argument for erecting a financial safety net despite the moral hazard that may result. Information and transactions costs can prevent decentralised markets from quickly and efficiently resolving financial problems. Economic policy is framed in a politicised environment.

Financial crises come in two main forms: old-fashioned balance of payments crises resulting from excessively expansionary monetary and fiscal policies that are inconsistent with exchange rate commitments; newfangled high-tech crises driven by the interplay of domestic financial-sector weaknesses and international capital flows.

Eichengreen focuses on the second type of crisis. While supporting calls for improved management and prudential regulation, he recognises that these cannot be achieved quickly or easily in most developing countries and therefore advocates a major role for private sector organisations in helping to formulate and promote better prudential standards (p. 11). He acknowledges that capital requirements often fail to deter excessive risk-taking because they are neither observed nor enforced. To restrain undue short-term foreign borrowing, he recommends a Chilean-style tax on all domestic entities. As regards crisis management, Eichengreen emphasises the need to reorient international debt contracts to permit easier restructuring of debt payments in times of trouble, create standing committees of creditors to facilitate quick communication between creditors and debtors and encourage the IMF and others to continue lending to countries in default if they are making serious efforts to resolve their problems. Such measures are deemed more acceptable and politically feasible than many of the extreme proposals that have been put forward. In fact, the IMF, with encouragement from the G-7, seems already to be accepting many of them.

Eichengreen's assessment and recommendations still appear to be too optimistic about the capability of most developing countries to enforce prudential regulations and to take steps to restrain short-term capital inflows if they are accelerating too rapidly. Prudential regulation can be quickly and quietly subverted by political interference. Similarly, relying on 'elected' governments to tax short-term capital inflows and tighten domestic monetary policy, especially in the run-up to an election, may well be asking too much.

An alternative approach (Cole and Slade 1997, 1999) would rely on automatic rather than discretionary stabilisers and administrative surveillance. Solvency reserves, held in the form of both domestic and foreign government securities and linked to all third-party liabilities, could supplement or replace capital requirements for all kinds of financial intermediaries. The solvency reserve requirement for short-term liabilities could be higher than that for longer-term liabilities, or even adjustable upward for institutions that exceeded specified limits. It could be higher for foreign currency liabilities than for domestic liabilities. Holding such reserves in foreign currency-denominated securities would help to provide foreign exchange reserves to meet an unexpected outflow and discourage financial institutions from borrowing abroad at short term to invest in risky domestic ventures. Finally, solvency reserves held by the central bank on behalf of the individual financial institutions would provide a more easily monitored and enforced requirement than the capital-to-risk-asset requirement that Eichengreen correctly deems inappropriate for most developing countries.

David C. Cole

References:

Cole, David C. and Slade, Betty F. 1997. "Speeding up by slowing down: a market-building approach to monetary management and prudential regulation" in Wallace, Laura (ed.), *Deepening Structural Reforms in Africa: Lessons from East Asia*, International Monetary Fund, Washington, DC.

—— 1999. "The crisis and financial sector reform", in Arndt, H. W. and Hill, Hal (eds), *Southeast Asia's Economic Crisis: origins, lessons, and the way forward*, Institute of Southeast Asian Studies, Singapore.

The Asian Contagion: the causes and consequences of a financial crisis

Karl D. Jackson (ed.)
Westview Press, Boulder, CO, 1999.
Pp. iiv + 312. ISBN 0 813 39035 4 (pb)

This worthwhile collection of papers on the Asian financial crisis airs three questions.

1. "Who (or what) done it?" Three possibilities are entertained: cronyism (a hypothesis popular with political scientists), panic (the favourite of economists) and bad fundamentals (the preferred answer of market players).

The evidence presented in *Asian Contagion* favours the hypothesis of bad fundamentals. The tale of excess supply in Thailand is here vividly retold. "In early 1995, Bangkok was becoming a city of dark towers, where completed buildings stood empty against the night sky" (p. 9). At this time the editor of this volume, Karl D. Jackson, calculated in a memorandum submitted to the Bank of Thailand that even under the assumption of constant 8.5 per cent growth "there was no way the Bangkok market could absorb all the modern office [space] and luxury condominiums being opened". And so it was.

More generally the marginal product of capital in Thailand is estimated to have dropped from 0.5 in mid-1987 to 0.25 in 1996. Japan had been experiencing a decline in capital productivity since the early 1970s, and by the early 1990s lagged behind the USA. The construction of factories destined to produce little or nothing in China is notorious. Official Chinese statistics report that by 1995 car factories operated at 44 per cent capacity, VCRs at 40 per cent and air conditioners at 33.5 per cent.

But excess capacity in China raises the second question:

2. "Why me?" or "Why not me?" Why is it that China did not have a financial crisis with such bad fundamentals? It had the excess capacity: "In Beijing, Shanghai and Shenen there are millions of square feet of unoccupied luxury villas and townhouses and even larger amounts of first class office space" (p. 89). It had a rotting financial structure: " … financial losses caused by fraud, corruption and other lending irregularities in Chinese banks seem greater than those associated with crony capitalism in Indonesia or by corrupt Korean bank lending practices" (p. 84). But despite all this, no crisis. The simple explanation, advanced by Nicholas R. Lardy ("China and the Asian financial contagion"), is capital market regulation: "Chinese savers who are concerned about the viability of the country's financial institutions do not have the option of legally converting their renminbi deposits and then purchasing foreign currency". But, a critic may reply, Chinese savers do have the option of purchasing real domestic assets. Thus if the fundamentals warranted a depreciation (that is, made inevitable a depreciation) there would have been a certain inflation as Chinese currency was dumped for real assets. Has there been such an inflation?

The "Why not me?" question for China can be paired with the "Why me?" question for the Philippines. Between 1 July 1997 and 24 January 1998 the peso depreciated by 39 per cent, and that is comparable to the 45 per cent depreciation of the ringgit and the 49 per cent depreciation of the won. Yet the Philippines financial system was in a relatively healthy state, its central bank was independent, and there were not the indications of over-investment evident in other East Asian countries: the investment share of GDP in the Philippines was in the low 20s compared with 34 per cent in Indonesia, 35 per cent in Malaysia, and 40 per cent in Thailand. Finally, the Philippines had been excluded from the hype of East Asia; it was conspicuously absent from the World Bank's best selling 1993 volume on the Asian Miracle. Yet none of these factors spared the Philippines. In "The Philippines as an unwitting participant in the Asian economic crisis", Manuel F. Montes contends that the Philippines should have been spared, and appears to explain its misfortune as caused by crudely informed capital markets tossing the Philippines into the 'East Asia' box. However, it must be allowed that the Philippines' current account deficit was 4.6 per cent of GDP in 1996, and the country was in the midst of a political crisis when the ill winds struck. This introduces the third question:

3. "Is your government weak enough to achieve economic reform?"

This question is raised by Surjit S. Bhalla in a paper on "East Asian lessons for India". He points out that the reforms of Rao and Singh were undertaken by a minority government, and ceased as soon as a comfortable majority was achieved. This observation conflicts with the conventional precept that reform requires a strong government. This precept derives its plausibility from the implicit presumption that government is public-spirited. Plainly, if government is public-spirited then its strength will assist it in achieving reforms over vested interests. But if government is not public-spirited, but the tool of vested interests, strong government will only mean strong vested interests. It is the weak government, not the strong one, that will allow reform. In keeping with this hypothesis the country with one of the strongest governments in the region, Indonesia, was the country the most resistant to reform. Malaysia is a similar case. Thailand, Korea and the Philippines are also congruent in that reform in those countries was slow to non-existent under these countries' strong governments of the 1960s and 70s, and quickest under the unstable, democratising governments since then. Japan seems to violate the hypothesis: both strong and weak governments seem equally incapable of reform. China and Vietnam are also anomalous: their strong governments supply an incongruous conglomerate of accommodation and resistance to reform.

Clearly the political economy of reform is complex and ill understood. The greatest strength of this volume, dominated by political scientists, is its examination of the complex political economy of the reform process. I would single out especially William Turley's telling account of policy paralysis by ideology, "Vietnam: ordeals of transition".

But do we need another book on the Asian crisis? To adapt Ecclesiastes, "Of making many books on the Asian crisis there is no end". But it would be regrettable if this volume was lost sight of in the sea of titles. This book adds value. The only blemish worth registering is that it lacks a chapter on Malaysia.

William Coleman
University of Tasmania

Vietnam—the incomplete transformation

Peter Wolff

Frank Cass Publishers, Ilford, UK, 1999.
Pp. 152. ISBN 0 714 64931 7

Vietnam is not an easy country to understand or learn about. It is one of the few nations in the world that has not yet allowed its normal economic data to be published by the IMF. Normal commercial data are still treated as secret information, even compared to China. While it was seen by some as a 'tiger cub' in the now distant days of the Asian capital bubble, it is no longer viewed as a hot investment location. Many firms have pulled out and others have reduced their exposure as they hope for profits somewhere down the road. What are their prospects?

The author of this short book would probably suggest that it will take a while longer before economic prospects in Vietnam are truly positive, at least until there are further reforms. The title suggests the findings. After a decade of reform, a terrific start has become bogged down. The tough and successful macroeconomic stabilisation and switch to market prices and private farming, along with high levels of capital flows through 1996, created a sense that further reform was not needed. Growth was high (8–9 per cent), inflation low, and export growth rapid. The limited consolidation of the state enterprises in the early 1990s (from 12,000 to 6,000 firms) looked more impressive than it was, since it was mostly very small and local firms that were merged with other state firms or shut down. Some were not in operation and were simply taken off the registration list. Attitudes by the Party towards private firms above the household level remain suspicious or even hostile. Licensing restrictions and limits on the use of land for collateral restrict credit. The financial system, dominated by the state-owned banks, is hobbled by bad debts, ill-judged real estate loans, and a still-significant tendency to lend to shaky state enterprises when asked to by authorities. There is no stock market, and confidence in the currency and banking system is low. Dollars and gold are widely held in private hands. Aid or direct foreign investment, rather than domestic savings, has financed much investment, the latter mainly through joint ventures (JVs) of foreign firms with state enterprises. The Vietnamese partner supplies land and gets a nominal 30 per cent share of the JV, even if the land is worth far less. Most of this investment, when not directed at oil or real estate, is for high-cost import-substituting industrial products. However, about a third of foreign industrial investment is in export-oriented products such as shoes, garments, food processing and electronics. Accentuating export-led growth, including domestic private sector firms, will be necessary and desirable because of limited land and natural resources; a growing literate and productive labour force and commitments to integrate into the ASEAN Free Trade Area. However, more focus on sustainable development and the legal system will be needed to keep the process acceptable to Vietnamese and attractive to potential investors. The author suggests that foreigners should adopt best-practice technologies with respect to pollution. This would have a highly beneficial effect. The reduction of poverty should provide some political support for further reform, though progress as of mid-1997 had been slow.

The author is clearly aware of conditions in Vietnam and the modest literature on its economy. His data unavoidably stop in 1995 or 1996; the Asian economic crisis had not yet hit when he had finished most of his writing. Despite that, his qualified optimism mixed with scepticism still holds up well for the current situation. The GDP growth rate in 1998 was reported officially as 5.8 per cent, though other estimates are lower. The growth of oil product imports—normally equal to real GDP growth—was only 3 per cent from the first quarter of 1998 to the first quarter of 1999. Growth in 1999 is now projected to be lower than in 1998. Foreign direct investment approvals have fallen sharply, especially when allowance is made for show-case approvals unlikely to be financed. Exports in the first quarter of 1999 are falling in value, though not volume, while imports fell sharply by either measure. In short, growth has slowed noticeably and prospects are poorer than was widely thought likely only a year or two ago. Why?

Again, the author's observations were prescient. Certainly, the backwash from the Asian crisis hurt Vietnam, if later than its ASEAN neighbours. Lower raw material prices and greater competition in manufactured exports have hit hard. Real costs of labour in Thailand and Indonesia fell in dollar terms, though the instability in Indonesia should have helped Vietnam attract some investment. Yet the policies of Vietnam have arguably had a greater impact even than the crisis. High levels of protection are ill-judged and unenforceable. Workers' wages at foreign firms are fixed in dollars, not in local currency or even in real terms. Dollar bank accounts of most companies (even foreign) are to be largely converted to dong, with the firm able to use its own money only with the approval of authorities! It is not surprising that a recent survey found Vietnam's economic management of the crisis to be the worst of any Asian country.[1] Meanwhile, domestic private sector industrial development is still modest. State industries remain mired in losses or low profits and the banks remain weak and probably insolvent. There are indications that some in the government understand the problem, but many in the state enterprises, Party, and some ministries resist further reform, especially rapid reform.

However, the most durable gains in the economy have been in the rural sector where reform has gone the furthest. Much aid is now being tied to meaningful reform. A continuation of uneconomic projects under Soviet aid rules will not be allowed to persist. Some regions, especially in the south, have allowed 'normal' investors to set up and operate without undue interference and they are doing well even while the nation has slowed or reversed. Wolff might have said more about these regional differences than he did. This, and persistent limits on government revenue from failing state enterprises, lower oil prices, and sluggish exports will tend to push economic managers in a reform-oriented direction. Some glimmers of this are already evident. If others resist their efforts, the limited employment growth will aggravate social tensions. Examples of rural unrest, even in the north (for example, Thai Binh province, among others), already serve as a warning. Thus, Wolff's conclusion that Vietnam "must be guided less by a fixed pattern forged in party conference decisions and more by the fundamental factors that form the basis of the Asian economic miracle" is correct. The groundwork has been laid, but the building must be built. As Vietnam comes to view itself as a normal nation competing for investment rather than a special case that cannot fail, it will become a very effective competitor. The question is one of timing, and of how many opportunities will be lost.

David Dapice
Tufts University

[1] The survey of 400 executives in Asia by the Hong Kong-based Political and Economic Risk Consultants was quoted in the 29 April, 1999 *Far Eastern Economic Review*. A dozen countries were rated and Vietnam got the worst grade, lower even than Japan and Indonesia, the next two worst rated. Singapore and China were top rated.

Indonesia: the challenge of change

Richard W. Baker, M. Hadi Soesastro, J. Kristiadi and Douglas E. Ramage (eds)
Institute of Southeast Asian Studies, Singapore, 1999.
Pp xx + 305. ISBN 9 813 05569 3.

Post-Soeharto Indonesia: renewal or chaos

Geoff Forrester (ed.)
Institute of Southeast Asian Studies, Singapore, 1999.
Pp xxi + 255. ISBN 9 812 30046 5.

As the Indonesian crisis unfolds, there is something a little untoward about reviewing two collections of papers with the benefit of hindsight, one formulated just prior to the crisis and one just after the fall of Soeharto. In their own way each collection provides an intriguing snapshot of Indonesia at two key junctures that are critical for an understanding of the evolving crisis. Both these collections rest on the belief that Indonesia's underlying economic problems arose from the lack of institutional development during the New Order government of Soeharto.

Indonesia: the challenge of change arose from a collaboration prior to the crisis between the East–West Center and the Centre for Strategic and International Studies, Jakarta. This volume of papers explores how rapid economic growth affected institutional change, in Indonesia. This is an interesting and difficult question that is not effectively addressed by all the contributors. The stability focus of the Soeharto government clearly did inhibit political change, with negative implications for many institutions. At the same time the government garnered much of its legitimacy from its ability to deliver rapid economic development.

To achieve sustained and rapid economic growth, the government undertook major economic policy changes, such as the shift from a resource-reliant economy to a non-oil export based economy in the mid-1980s. Indonesia was one of the very few developing economies where economic policy advice was valued to the point that the government would routinely pay to have access to outside experts. Compared with other countries, the top economic bureaucracy was technically superb and the economic policy institutions were well developed and resilient.

In fact the New Order government achieved one of the most rapid growth rates in the developing world as real growth averaged close to 7 per cent per annum, an increase of almost 5 per cent per annum in per capita terms. Even more important was the government's success in reducing poverty to only 11 per cent in 1997.

Given this success in achieving rapid economic development, it is perhaps not surprising that politically related institutional change lagged behind. The lack of institutional development also reflected deficiencies in the economic development programs of the major donors, which generally failed to give enough assistance to institutional changes required over extended periods to successfully implement policy changes. The underlying problem was the lack of political support for needed regulatory actions in cases where the banks were owned by President Soeharto's family.

The even larger failure of market-based governance to develop in Indonesia appears to have been a negative externality of rapid development and paternalism where even very weak entrepreneurs with the right connections could succeed. In light of these combined government and market failures, conditions were ripe for abuse.

This volume clearly demonstrates the institutional rigidities that arose from the government's focus on stability. Most interesting perhaps is the centralisation of power by President Soeharto that left parliament and the courts fully dependent while dooming decentralisation to failure. In general, however, the reader is left to assess the importance of these institutional failures, as the increasing demands on institutions arising from economic development are not well covered. One clear exception is the excellent contribution by Dedy Hidayat, who examines the development of the media. He explains the inter-dependence between economic growth and media development, the tension between business and political demands on the media, the evolving maturity of the media and the bouts of political repression. Certainly a bright spot has been the full role that the media has been able to play in Indonesia's elections, given their new unrestricted press freedom. Overall, however, this collection shows that Indonesia's institutions were not able to support the modern, market-based economy that had begun to emerge from the rapid economic growth during the New Order.

Post-Soeharto Indonesia: renewal or chaos brings together papers presented at the Indonesia Update conference held at the Australian National University in September 1998, four months after the fall of Soeharto. It not only explains the origins and dynamics of the crisis but looks perceptively at the underlying institutional weakness that made Indonesia so vulnerable, providing a detailed chronology of the major changes associated with Soeharto's fall within a broader perspective of the underlying trends.

Richard Borsuk points out that Soeharto's personalised system of governance led to the development of a few large conglomerates but failed to nurture the development of small and medium enterprises required for economic vitality and resilience. He is also correct in saying that Indonesia must develop a business environment based on the rule of law; that will take years of hard work.

The transition from Soeharto to Habibie is well documented in a paper by Marcus Mietzner. This anchors a good set of papers that includes a very interesting synopsis of the Habibie government by Dewi Fortuna Anwar, insightful pieces on the armed forces (ABRI) by Patrick Walters and J. Kristiadi and a political update by John McBeth.

Other papers deal with a wide range of issues repressed in Indonesia during the Soeharto years. Amien Rais, the leader of the political party Partai Amanat Nasional (PAN), explains the political aspirations of the Indonesian Muslims. Jamie Mackie provides an excellent analysis of the 'Chinese problem' while other authors cover the Javanese issues, the rural poor and the ethnic conflicts. One notable omission is the lack of a detailed analysis of the unresolved East Timor issue.

The Forrester collection also includes a useful index that makes the volume user-friendly for students and researchers. This volume should find a place on the desk of all those who study Indonesia.

Paul Dickie
Victoria University

Southeast Asia's Economic Crisis: origins, lessons and the way forward

H. W. Arndt and Hal Hill (eds)
ISEAS, Singapore, 1999.
Pp. 184. ISBN 9 813 05589 8

The Asian Crisis Turns Global

Manuel F. Montes and Vladimir V. Popov
ISEAS, Singapore, 1999.
Pp. vi + 123. ISBN 9 812 30050 3

The Asian Crisis: is there a way out?

Max Corden
ISEAS, Singapore, 1999.
Pp. 82. ISBN 9 812 30043 0

These three small books deal with the financial and economic crisis which erupted unexpectedly in Southeast Asia in 1997. Taken together they constitute a prompt, timely and forward-looking account and analysis of the episode and its far-reaching consequences. The Institute of Southeast Asian Studies, Singapore, deserves congratulations for its initiative in producing these valuable publications without delay.

As Hal Hill points out, the crisis was first of all remarkable in being virtually unseen by anybody. It emerged suddenly, spread quickly and became also a crisis of political, social and civil order. In each affected country the manifestations reflected particular local features, and the ASEAN bloc has so far been of little use or relevance in managing the crisis.

Heinz Arndt and Hal Hill organised thirteen other authors to deal with events in six countries—

Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam—and to consider six transnational themes—exchange rates, financial sector reform, economic modelling, equity and poverty, political institutions, ASEAN. The twelve essays are preceded, and nicely summarised, by an overview essay from Professor Hill. The contributors to this volume are knowledgeable and the essays are authoritative, succinct and well-written. This is the book for anyone who seeks a single, comprehensive volume about the Asian crisis.

The short book by Manuel Montes and Vladimir Popov attempts a more general treatment, beginning with theories and typologies of currency crises, discussing exchange rate management principles, describing both the Asian crisis and that of Russia in 1998, and reflecting on the future of globalised capital markets. The book makes important points about avoiding currency over-valuation and ensuring that excessive and speculative capital inflow is prevented, either by restrictions or by prudential regulation, according to the specific circumstances of each country. That said, the book lacks balance in design and cohesion in structure; the result is an unblended mixture of theoretical speculation, factual snippets and tables and figures (which together occupy 21 of the 106 pages).

Max Corden's short monograph—which is the text of a lecture given in Singapore on 6 August 1998, with a three-page postscript about Indonesia—is lucid, elegant and original. Alone among the profusion of writings about the Asian crisis, Corden's essay tells a simple Keynesian demand story. His main point is that Keynesian analysis, and in particular the prescription of expansionary fiscal policy to remedy a recession, is highly relevant to the Asian crisis. Corden focuses on the transmission of financial crisis to the real economy; he discusses the effects of, in turn, the Keynesian mechanisms which cause declines in consumption and investment demand, the problems associated with fiscal expansion, exchange rate depreciations, and the breakdown of domestic financial systems. Corden devotes one-fifth of his text specifically to the IMF, laying out—and to an extent endorsing—the main criticisms of its actions in Asia, but at the same time scrupulously putting the other side of each issue as seen by the IMF; he stresses that there are invariably trade-offs involved in policy decisions. He points out, too, that errors of short-term policy can lead to damaging long-term outcomes including, as noted also by other authors, increased xenophobia and the flight of Chinese capital and skills.

There is a measure of agreement among the three books along the following lines. Domestic economic policies in Asia before the crisis were basically sound; financial sector liberalisation went too far, too fast; private sector borrowing and lending behaviour (domestically and internationally) precipitated the crisis; the response of the IMF, at least initially, was inept and insensitive and may have exacerbated the crisis. There is general agreement, too, that the opening of the international capital account requires the support of appropriate prudential or other regulation, and should in any case be a staged process. And there seems to be no dissent from the view that the countries of Asia should not revert to protective policies but continue to pursue liberal trade, microeconomic reform and transparency in the long term. Reform rather than revolution is the advice of these books, and that should be taken to include the approach and operations of the IMF as well as of national governments.

P. J. Drake
Sydney

Women in the New Asia

Matsui Yayori
Spinifex Press, Victoria, 1999.
Pp. x + 194. ISBN 1 875 55986 8

In this book, translated from the Japanese by Noriko Toyokawa and Carolyn Francis, Matsui Yayori sums up the efforts of women's and local community organisations in various Asian countries to address the related issues of rural impoverishment and economically generated infringements of the human rights of women. The book is a series of case studies, in which the author interviewed community activists in Thailand, Malaysia, the Philippines, Nepal, Taiwan and those from other countries at the Fourth UN World Conference on Women in Beijing.

Yayori details human rights abuses and presents examples of successful economic initiatives by village women and political campaigns that have slowed or halted such abuses. A journalist by training, she expresses rage and grief at the fate of Thai village girls sold into prostitution in Bangkok and Japan, the exploitation of Filipina domestics in Hong Kong and the economic ruin of people evicted for construction of the Batangas Port on Luzon, but waxes optimistic over the success of community initiatives like the Negros Campaign among former Philippines sugar plantation workers and the lily bulb enterprise founded by a Chinese women's credit co-operative in Jiangxi.

Yayori argues that the trend of economic policy in Asian states since the 1980s has adversely affected low-income earners, especially women. She claims that the effects of export-oriented development policy at the national level and policy parameters imposed through GATT and the World Bank at the international level are so destructive among low-income earners in many parts of Asia that political action is needed to redress them.

The Structural Adjustment Program imposed on debtor nations by the World Bank is at fault because cuts to welfare budgets leave women with more unpaid 'social work' in the family; cuts to the public sector make clerical workers, many of whom are women, lose jobs and export-oriented agriculture damages the economy of farming communities and adds to the number of impoverished young women migrating to the cities or to Japan to work as domestics or in the sex industry. GATT further affects agriculture by distributing cheap imports. Internationally owned factories established in Asian countries under favourable terms employ a mainly female workforce, but the poor and dangerous conditions and the low wages do not compensate for lost or missing opportunities in small farming or handcraft production. Aid goes to dams, ports and highways, industrial infrastructure that attracts overseas manufacturers but causes environmental damage that impoverishes farmers and fishermen. These are direct consequences of the current international economic structure.

Although *Women in the new Asia* succeeds in demonstrating that grass-roots business initiatives undertaken by community organisations in Asia can be socially useful and turn a profit, its credibility is hampered by lack of documentation and translation errors. Yayori does not attribute her information. Footnotes would have made a difference, particularly for the statistics. Chinese names are consistently misspelled. Despite these criticisms, for anyone interested in the impact of globalisation on women in Asia, *Women in the New Asia* is worth reading.

Josephine Fox
University of Sydney

Our Future with Asia: proposal for a Swedish Asia strategy

The Asia Strategy Project
Ministry for Foreign Affairs, Stockholm, 1999.
Pp. vii + 312. ISBN 91 630 7917 8

In comparison with Australia, New Zealand and other countries on the eastern shores of the Pacific Ocean, Europe has been slow to recognise Asia's increasingly important role in global economic and political affairs. However, European views have changed significantly in recent years, both because of the rapid development of many East and Southeast Asian economies between the mid-1980s and mid-1990s and because of the spillover effects of the Asian financial crisis. The Asia–Europe Economic Meeting (ASEM), established in Bangkok in 1996, is one example of the European Union's ambition to strengthen relations with Asia. Several individual European countries have also prepared their own Asia strategies. The recently presented proposal for a Swedish Asia strategy is one of the more ambitious national programs. Not only does it include all countries in South, Southeast and East Asia; it also covers a wide variety of issues, ranging from security policy and human rights to trade and cultural contacts.

Formulating an Asia strategy may have appeared relatively simple some years ago, when it seemed easy to predict continued rapid development for many parts of Asia. Today, against the backdrop of the Asian crisis, things are more complicated, and the differences within Asia are much larger than many of us realised. One of the strengths of the Swedish Asia strategy is that both uncertainty and heterogeneity are taken seriously. To provide a solid foundation, the Asia Strategy Project commissioned some 30 background studies on various topics, engaging most of the Swedish Asia expertise (and some foreign experts) in the project. A reference group, with representatives from Swedish business, NGOs, labour unions, universities and public administration, met several times to discuss the findings. Several hearings were also arranged for more detailed discussion of specific topics. These investments have paid off. The description of Asia in the late 1990s and the assumptions for Asian development up to the year 2010, as well as the recommendations for Swedish policy, appear plausible.

Among the predictions for Asian development are the following: most countries will have recovered from the Asian crisis by 2010, some of them perhaps stronger than before thanks to the economic and political reforms undertaken because of the crisis. The number of people living in deep poverty will fall, but the gap between the richest and the poorest will grow, both nationally and internationally. Widespread poverty will remain in South Asia. The total population of the region will grow by about one billion, reaching nearly five billion. The number of elderly will increase, particularly in Japan and other relatively rich countries. Democratisation is expected to advance throughout the region, with increasing popular participation in the political process, particularly through a strengthening of NGOs. Even the remaining socialist economies (with the possible exception of North Korea) are expected to become more open.

A few important question marks are also identified. As regards China, there is much uncertainty about the direction of economic and political reforms, as well as the stability of the financial system. As regards Japan, the questions concern the path and pace of economic recovery. Throughout the region, there is heavy pressure on the environment, and sustainable development requires improved management of natural resources. The long-term security situation is particularly difficult to assess, with increased tension between India and Pakistan adding to the problems regarding Taiwan and the Korean peninsula.

Using these assumptions as a starting point, the project recommends priorities and actions in several areas. First and foremost, any Swedish Asia strategy must be based on Sweden's own interest and objectives. These include peace, security and higher living standards. In an international context, these objectives require promotion of economic development, sustainable use of natural resources, free trade, democracy and human rights throughout the world, including Asia. Sweden should primarily act in various multilateral organisations (UN, EU, WTO,ASEM) to promote these objectives. In addition, several proposals for unilateral and bilateral action are offered. Regarding commercial contacts, the proposals centre around the establishment of an effective organisation to promote trade and investment between Sweden and Asia. Apart from traditional trade promotion activities, this includes creating a think tank to strengthen Swedish knowledge about Asian economies and markets. In the area of development co-operation, the strategy calls for more reciprocity, mainly in education and research, but also through a deepening of commercial relations. Particular emphasis is placed on environmental technology, both as a research topic and an export sector. Increasing opportunities for student exchange and decentralised research co-operation between Swedish and Asian institutions is identified as another priority area. A number of more detailed suggestions regarding how to achieve these broad objectives are also presented.

Most of the recommendations included in the proposal for a Swedish Asia strategy are well founded. It can also be argued that the funds invested in the project were wisely spent, in the sense that the project collected much knowledge about Asia at a time when global events—especially the Asian crisis—clearly demonstrated that Sweden is affected by developments in the region. However, the project begs one important question: what concrete results can an Asia strategy be expected to yield? In a few areas, such as trade and investment contacts, it is perhaps possible to set up quantitative objectives. In most other areas, it is not. The problem is that all of the proposed measures require some amount of funding, and compete for other uses of public money. Although the proposal does not provide any cost estimates, it is likely that the annual total would reach several hundred million dollars. This implies a rather pessimistic conclusion regarding the future of the Swedish Asia strategy. I would be surprised if more than a few of the suggestions are ever realised.

Ari Kokko
Abo Akademi University, Finland

Preparing for Electronic Commerce in Asia

Douglas Bullis
Quorum Books, Westport, CT, 1999.
Pp. viii + 275. ISBN 1 567 20206 3

In this very modern book—web and e-mail sites outnumber books in the bibliography in the ratio 3:2—Bullis (a writer, editor and current owner of Atelier Books) explains what business can expect from the Asian marketplace for information technology and electronic commerce in the next five to seven years. The financial crisis of 1997 is seen as a temporary setback with renewed promise of business efficiency from information services, communications technology and electronic business. By 2005, there should be a regional infrastructure, enabling the free flow of information. As the stories unfold in the 27 chapters, Bullis warns: "There are long cultural antecedents that work against the free flow of information—face, denial, secrecy, disinformation, autocracy, hierarchy, cronyism" (p. 2).

The chapters are rich in anecdotal detail, especially those relating to developments in Singapore and Malaysia which have the most clearly articulated information infrastructure projects: Singapore's IT200 and SingONE and Malaysia's Multimedia Super Corridor (MSC).

Large investment outlays by government have been undertaken with prospects framed in terms of technological possibilities rather than business profit perspectives or social gains. The only Malaysian company to figure in A. D. Little's 1997 survey of Asia's fifty most competitive companies was its casino, Genting Bhd (p. 175).

There are major issues of relative competitiveness in these information developments, as between Asian countries and between those countries and the rest of the world from which the new technologies are drawn. These involve foreign investment, dependence on foreign technology and, given the emphasis on the benefits of free information flow, electronic colonialism.

Bullis focuses on his list of hazards in the best section of the book, Part IV: "E-commerce's sociological complexities", which goes a considerable way to redressing the widespread neglect of organisational and sociological aspects of e-commerce. These chapters examine the new markets, dissemination structures and discrete information elements (corporate, bureaucratic, urban and village), Chinese psychology and business style, Malay male psychology and behaviour and Indian psychology and behaviour.

However, Bullis' evidence suggests equal or even greater importance should be attached to the unreal, technologically-oriented evaluation of prospects. He quotes an investor who points to MSC tax exemptions, lack of export prospects, low telephone density, low Internet use and the dominance of information services by government and asks: "Who do they think they're kidding?" (p. 173).

Developed countries might well reflect on their own wild dreams of the Internet Age and e-commerce. There too prospects have been framed in terms of the technological possibilities. While technological constraints are being eased, there are knowledge, organisational and institutional constraints that cannot be brushed aside as minor, costless blocks. There needs to be a thorough assessment of cost impacts, with attention to economies of scale and agglomeration. Homogeneous goods account for most trade on the Internet and many expectations turn on the future development of sophisticated software agents. E-commerce success could well bring new calls for regulation, bound up with confidentiality, fairness, property rights and privacy, all with cost consequences.

These questions require research but there is no guarantee that policy decisions will be guided by the findings of such research. Meanwhile, policy in Asian and other countries continues to be dominated by the thinking of the IT players: the technologists, international managers, investors and consultancies.

Don Lamberton
The Australian National University

Korean Management: global strategy and cultural transformation

Kae H. Chung; H. C. Lee and K. H. Jung
Walter de Gruyter, Berlin, 1997.
Pp. xiv + 268. ISBN 3 110 14669 1

This book reviews the transformation process of the Korean economy from an agrarian society to a dynamic industrial one and examines the changing forces in Korea's business environment and the response of Korean businesses to these forces. Korea's industrial growth was fast and successful until the IMF crisis (as I would call it).

Scholars warned of the latent forces of failure and recommended a new paradigm for Korea's transformation from NIE to a developed economy, but in vain.

The book, finished just before the IMF crisis, provides an overview of Korea's industrial system, business and government relations, the characteristics and globalisation of Korean firms, corporate culture, technological transformation and labour–management relations. It argues that Korea has to go beyond relying on an investment-driven strategy toward the development of an innovation-driven economy. That means the transformation of the Korean economy from an investment-driven developing economy with protected markets to an innovation-driven advanced economy with open markets and product differentiation.

The book only sketches issues for the future Korean economy. For example, it proposes an international competitiveness cycle (p. 246), which includes corporate restructuring with core competencies, industrial restructuring with high value-added and social change and reform to control corruption. Reduction of labour and land costs will help international competitiveness in the short term, but the real issue is high value-added innovativeness which can overcome high labour costs in the long term. The authors fail to stress the critical importance of R&D in this regard.

The book highlights most of the salient factors influencing the Korean economy (efficient capital markets, business–government relations, labour–management relations, *chaebols*). Recently, the *chaebols* have been criticised as monstrous conglomerates. Before the IMF crisis they were praised as Korea's engines of fast economic development. They are the result of government policy and development strategy. Future criticism of *chaebols* should focus on recommendations for change of governance structure and future research should focus on specific issues such as new management practices with global standards.

Jinjoo Lee
Korea Advanced Institute of Science of Technology

Reform of State-Owned Enterprises in China: autonomy, incentive and competition

Ron Duncan and Yiping Huang (eds)
Asia Pacific Press, Asian Pacific School of Economics and Management, The Australian National University, 1998.
Pp. 147. ISBN 0 731 52391 1

By the mid-1950s, the Chinese Communist Party (CCP) had made state-owned and managed enterprises one of the command economy's centrepieces of economic life, the other being the commune. The former, located in cities and large towns, produced and distributed manufacturing products and services, whereas the latter covered all forms of rural production and exchange.

The state enterprise was not just a workplace for its people. This socialist organisation provided a unique way of life for the working people: low-cost housing, services and education. It also monitored people's behaviour and regulated their lives. In the late 1960s and early 1970s the CCP experimented with new state enterprise management–worker relationships, but its property rights, management and style of operations in the command economy did not seem to change until after 1979. In that year, the CCP decided to reform the command economy by eliminating the commune and modifying the behaviour of the state enterprise.

China's socialist command economy had operated with too much inefficiency and waste. The command economy could not compete with the East Asian economies which had not only expanded more rapidly than China's but achieved higher productivity and living standards.

China's reform process moved slowly until 1992, when the CCP accelerated the pace of reform, declaring that by the year 2000 the government would have surveyed all state enterprises, reorganised their property rights and management–labour relations, and placed them in a market economy in which their survival depended upon their profits.

These reform goals were too ambitious. Moreover, state enterprises suddenly experienced falling profits, bankruptcies, rising indebtedness and more unemployed workers, which signalled a growing economic crisis for the state. In 1996, the party leadership agreed to dispense with the survey of state enterprise assets, selected 1,000 of the most efficient, important manufacturing and services firms to remain state enterprises and let the remainder adjust as best they could in the market economy.

The CCP now envisages the old planned economy, based on state enterprises, being replaced by a market economy comprised of a small core of large-scale, modern state-owned enterprises and a variety of other enterprises having mixed property rights while operating independently of state control and assistance.

Around 2005, this brave new economic world will have the following characteristics, if current trends continue: tens of thousands of former state enterprises will be owned by different shareholders made up of the state, other firms (Chinese or foreign), former managers and workers, etc. Many others will have gone bankrupt. These new enterprises will pay taxes to the local and central authorities, negotiate wage and welfare agreements with their workers, obtain their financial capital from earnings, bank loans and other sources and survive by making profits and reducing their costs. The new Chinese market economy will look very much like that of Taiwan's enterprise system in the 1950s when a small core of state-owned and managed enterprises co-existed with a wide range of private enterprises of different sizes.

The CCP and the government have avoided using the term privatisation, preferring instead the term share-holding enterprises. The same process seems to be taking place in the township–village enterprise sector, which has been under the control of local officials with property rights still owned and managed by the township–village authorities. Gradually, those local authorities are transferring ownership and managerial rights to the local people to operate their enterprises in a market environment.

Five essays in this book describe this remarkable story in a concise, lucid manner (the sixth essay describes state enterprise reform in Vietnam). But there are some important omissions.

First, the reader does not learn why the post-1979 period had high economic growth rates at the same time as a large number of state enterprises with the greatest share of capital assets and producing the largest share of value-added steadily incurred debt, bankruptcy and unemployed workers.

Second, we do not know how those new organisations created by the state actually reformed the planned economy and carried out their state enterprise reform policies.

Third, these essays do not explain or give concrete examples of why restructuring failed in some cases and succeeded in others.

Finally, they do not make clear why the distribution of products and services were marketised more rapidly than the capital, land and labour markets. This issue has a direct bearing on whether the new market economy is developing a high degree of oligopoly market power or is becoming competitive. Many Chinese enterprises are typically organised on a network basis called *jituan*. That type of enterprise organisation seems to have the power to practise price discrimination and sell poor quality products because its market is not competitive.

The former command economy was unable to generate a process of economic growth which could innovatively industrialise China while eliminating poverty and enhancing state and society's economic power. Whether China's reformed state enterprises can lift that huge country out of its poverty and make it a competitive industrial power in the global market will be the real test of the current state-enterprise reform. These essays are a useful and important starting point for examining that question.

Ramon H. Myers
Hoover Institution
Stanford University

Indonesia's Industrial Transformation

Hal Hill
Institute of Southeast Asian Studies, Singapore, 1997.
Pp. xiv + 405. ISBN 8 813 05586 3

This volume collects the author's papers on Indonesia's industrial development. All the chapters efficiently exploit the best set of data available, ranging from the micro-data collected by the author's own field surveys to government statistics.

The book presents an excellent treatment of the subject, full of rich statistical information, subjected to appropriate investigation. It deserves the attention of all concerned with developmental policies, especially the proper balance between market and government.

Indonesia is sometimes regarded as a showcase of achievements under strong leadership from the central government. The picture drawn by Professor Hill departs widely from such commonly held assumptions. According to Hill (p. 113), the country's autonomous development was initiated only in the 1980s, as a direct consequence of timely economic liberalisation, exchange rate policies (devaluation), supplemented and strengthened by prudent institutional innovation (trade liberalisation). On the other hand, the government's industrial policies since the mid-1960s provided a strong impetus for rapid capital formation and advances in technology.

Indonesian growth had a characteristic not found in East Asian models of development. Not only did it place special emphasis on the development of metal-fabricating from a relatively early phase of its development (p. 144), but its garment industry never accounted for a significant share of exportables (p. 104).

Hill notes (p. 58) that the transformation of Indonesia's economic policies was directly prompted by the world-wide fall of oil prices by 1981. Arguably, the Indonesian success story of the 1980s, characterised by noticeable improvements in productive efficiency and rising shares of labour-intensive commodities in manufacturing exports, was a case of a menace having been turned into a blessing.

Much useful information is presented on the textile industry. For example, the weaving sector faced a wide, though discontinuous, choice of techniques, ranging from minimal to high levels of capital intensity. The firms that enjoyed relatively high capital intensity were characteristically joint ventures between foreign firms and the Indonesian government, a phenomenon explained in part by low rates of interest set by the government to attract foreign capital (ch. 9). Interestingly, labour and capital in the garment industry were fairly readily substitutable with each other; the rate of elasticity of substitution was found to be 1.5 (p. 258).

On the other hand, the manufacturing industry's overall performance in technical progress and output growth is explained not so much by the relative factor price ratios, as by the type of industry, the forms of capital ownership and access to technical information (ch. 7).

All in all, Hill advocates proper reliance on the market, as indicated by the title of Chapter 12 "Industrial policy and performance: 'orthodoxy' vindicated". He considers there is little justification for government support of the development of small and medium-scale industry (ch. 11). On this point the reviewer differs. Indonesia's industrial policies and strong government leadership before the 1980s must have provided the highly needed social overhead capital without which any further development would have been ineffective. Education and occupational training are still inadequate throughout the country (ch. 8). This is an area in which the government (and probably only the government) can exert indispensable leadership.

A reader new to the topic may find this volume hard going, as it is filled with technical details and statistical tables. But Hill's writing style is succinct and accurate, though reserved. The same careful, uncompromising approach informed his rewarding general reader (*The Indonesian Economy since 1966: Southeast Asia's emerging giant*, CUP, 1996).

Konusuke Odaka
Hosei University

Nations and States in Southeast Asia

Nicholas Tarling
Cambridge University Press, Cambridge, 1998.
Pp. x + 136. ISBN 0 521 62564 5.

This slim and thoughtful book will come as a surprise to those who know Nicholas Tarling as a prolific empirical historian of the British presence in Southeast Asia. His numerous books have copiously mined the British sources for reliable histories of everything from Burma to Borneo and from the late eighteenth century to the late twentieth. Since editing the *Cambridge History of Southeast Asia* in 1992, he has been taking a more reflective look at the region as a whole. This book consists of a series of short essays on the political and international status of Southeast Asia's modern states within the world system.

The prime aim is to understand the nation-state in a region where states have presided rather tenuously over a great deal of social diversity. Its first third narrates the development of the major states out of colonial and pre-colonial backgrounds, in five sensible summary chapters. The central section of the book is Part II, "Problems and policies", in which the international relations of the region are discussed in the form of twelve different thematic chapters.

The strength of these thematic essays lies in the author's detached scepticism about his subject. He has the historical depth to see the shallowness of nation states in the region, and to be able to show how concepts such as nationalism, democracy and independence came to mean different things in different times and places. His habit of beginning the short thematic chapters with a general discussion of how the concept in question developed in the West provides a useful context for the contested politics of the present. He sets everything in an overall strategic context kept in place by British naval hegemony in the nineteenth century, and by America joining the hegemonic system by taking over the Philippines in 1900. The hard-nosed realism underlying the essays provides numerous asides, some of which work better than others. In the opening chapter on frontiers there is an expert and convincing account of British strategic concerns in the nineteenth century and how they forged the current map of Southeast Asia. Short chapters on democratic institutions and independence enable the author to raise interesting questions about the international system of theoretically equal states and how it was developed and maintained in a complex region such as Southeast Asia. In "Armies", Tarling shows the unusual demilitarisation of Southeast Asia in the high colonial period. International order was arranged by great power manoeuvres in other parts of the world, and the colonial armies were a kind of armed constabulary for keeping internal order—a role continued by most independent states. In "Foreign policy" there is a useful description of the way the colonial powers subverted older systems of tributary relations.

The format however does not allow for all these subjects to be developed adequately, and some chapters resemble a sequence of interesting assertions that cannot be adequately documented or debated. The book has to assume too much to be used as an introduction to the subject for students. For the already informed, it has much of interest, but cannot engage the theoretical literature on any one of the issues addressed sufficiently to overthrow any paradigms.

In the last two chapters, forming a brief Third Part labelled "Periods and perspectives", Tarling addresses the historiography of Southeast Asia. He briefly reviews a second phase of nationalist historiography which he perceives in Brunei, the Philippines and Thailand thirty years after the initial decolonising initiatives, and attributes to a reaction against globalisation. He concludes that "a sense of belonging" will best be served by histories which are "more subtle and more inclusive" than a chronicling of the dominant socio-cultural group, and which confer knowledge of others as well as oneself (p. 124).

The final chapter considers how Australia and New Zealand might best relate to Asia by being themselves. Tarling rejects the rhetoric which interpreted the Antipodes as part of the Asian region: "an over-reaction itself, it produced another over-reaction". He rejects also a "Septentrionalism" (the title of this chapter) which would stereotype Asia and Australasia in the manner of Orientalism and Occidentalism. He favours asserting a distinct national identity and dealing with Asian countries on an adult state to state or people to people basis. Finally he makes a generous tribute to the role of the universities in Australia in advancing such a view: "it is not part of Asia, but it may be the place where parts of Asia [meaning Southeast] are being best studied" (p. 131). Though he writes this as an outsider (just), Nicholas Tarling has played no small part in bringing this situation about, through a lifetime of teaching and writing on Southeast Asia from Brisbane and Auckland.

Anthony Reid
The Australian National University

Human Capital as an Engine of Growth: the East Asian experience

Joseph L. H. Tan (ed.)
ISEAS, Singapore, 1999.
Pp. 249. ISBN 9 812 30018 X

Did human capital formation drive the economic growth that transformed East Asia over the past half-century? Although many believe that it did, efforts to give this proposition a firm empirical footing encounter serious problems of definition and measurement.

In 1980 Richard Easterlin wrote that the global spread of education since World War II had helped more countries to share in economic development. During 1980–93, however, per capita income growth continued only in East Asia and, to a lesser extent, South Asia. Yet education continued to expand everywhere, including regions where per capita income stagnated or declined. This called into question previously accepted analyses of education and development such as measured rates of return to education in sub-Saharan Africa and the specification of the education variable in endogenous growth models.

Did East Asian countries follow distinctive human resource development policies that helped them grow rapidly after 1980 while economies in other regions stagnated? It is clear that economic growth generated resources that helped the high-performing East Asian economies expand and improve education. It is also evident that these countries, unlike many in other regions, were able to boost the demand for educated workers rapidly. What is less clear is that East Asian countries did something distinctive on the supply side, in creating human capital, that helps explain their rapid economic growth. Overall, the facts are consistent with the broad hypothesis that increases in human capital are a necessary condition for economic growth but not sufficient themselves to bring growth about.

In the book under review, Rolf Langhammer and Erich Grundlach highlight an important analytical difficulty: the two-way relationship between human development activities such as education and health and economic growth. Better education and health promote economic growth, but the converse is also true. Since there is no truly exogenous variable in the relationship, if human capital formation is an engine of growth then economic growth is equally an engine of human capital formation. "It comes as no surprise," Langhammer comments in his introductory essay, "that the puzzles have not been solved [in this book]", whose contributions are made at a more modest level.

Derived from a conference held in Singapore in 1996, the book consists of a short introduction and six papers on various aspects of the topic of human resource development in East Asia. Grundlach reviews the role of human capital in endogenous growth models but does not focus on the East Asian region. Sung-Yeal Koo provides a broad review of educational development in ten East Asian countries over the past thirty years. Alejandro Herrin analyses health and demographic transitions in the region. Siti Norazah Zulkifli canvasses nutritional patterns, trends and programs in Malaysia. Chew Soon Beng and Rosalind Chew review industrial relations systems and on-the-job training in six countries of the region. Myo Thant looks at the financing of human resource development in Japan, Singapore, Korea and Taiwan.

The remainder of this review discusses some of the more interesting findings. After reviewing some rather familiar information on enrolment trends, Koo boldly tackles the difficult problem of educational quality and its effect on economic development. Once nearly all children are in school, attention shifts to what they are learning and what difference their attainment makes for economic development. There is ample evidence, frequently ignored, that enrolment expansion has an adverse effect on quality, but how to define and measure quality is a serious problem. Input and process measures like expenditure per pupil/year, pupil/teacher ratios and time on task are sometimes used. Koo finds that, except for Japan and Malaysia, East Asian countries have neither had unusually high enrolment ratios by international standards nor spent unusually large sums on educational inputs. What we really want to measure, however, is not inputs but outputs. International tests that try to measure achievement comparably across countries indicate that students from Japan, Korea and Singapore do very well while students from other East Asian countries do comparatively poorly (when their governments consent to include their students in such tests). While a few East Asian countries thus produce students who are good at taking tests, this does not get us much closer to understanding how education contributes to economic development. As everyone agrees, more research is needed.

The contribution of health to economic development is even harder to analyse than that of education, as Herrin's interesting essay shows. Problems of conceptualising and measuring both health itself and health-promoting activities are complicated by pervasive mutual causation. While the health of East Asians has improved greatly, it is hard to say what contribution this has made to economic development.

The Chews' contribution deals with an important but frequently ignored form of human resource development. Unlike schooling, on-the-job training is sure to teach skills that have economic relevance. Employers are in the best position to provide occupationally relevant training, but their incentive to do so is weakened by the fear that employees, once trained, will depart for greener pastures. Tight labour markets worsen the problem. Public intervention to encourage on-the-job training seems appropriate, but Singapore is one of the few countries to have successfully organised such a scheme.

Finally, Myo Thant shows that rapid economic growth in Japan, Taiwan and Korea swelled demand for education. Governments in these countries quickly universalised primary education and then expanded secondary schooling, but they balked at the enormous outlays required to satisfy the demand for higher education. This led to rapid growth of private provision and financing. Thant also notes in passing an important but often neglected aspect of human resource development in East Asia: the role of external contacts such as overseas education and technology transfer.

Donald R. Snodgrass
Harvard Institute for International Development

Agricultural Reform in China: getting institutions right

Yiping Huang
Cambridge University Press, Cambridge, 1998.
Pp. xiv + 225. ISBN 0 521 62055 4

This is an important volume for two reasons: first, it provides an accessible overview of two decades of agricultural reforms in China; second, it argues that the way forward for Chinese agriculture is through full internationalisation for the entire sector. This policy approach is characteristic of the Australian School, which focuses on trade opportunities for a small country rather than on the impact of imperfect factor markets (land, labour, and capital) on the distribution and rate of growth of income. The appropriateness of such an approach for China is questioned in the discussion below.

The sub-title for the volume, “getting institutions right”, is a misnomer. Although it is no doubt true that institutions are all the rage in development economics these days, that is still no excuse for defining *everything* as an ‘institution’. A more accurate sub-title for the volume would have been “getting markets to work”.

Huang deals with three major topics that have exercised Chinese reformers during the past two decades: how resources are allocated at the farm level; what prices producers receive and consumers pay for the resulting output and how well connected individual commodity markets are across space, both domestically and internationally. Relatively little attention is paid to temporal market integration. Overlaid on these three themes is a continuing discussion of how Chinese policy-makers learned what innovations worked and how to implement them. One of the most fascinating elements of China’s reform experience has been its willingness to experiment, often using entire provinces as laboratories for initiatives that would have been considered wildly radical in Beijing if implemented nationwide. Many of these experiments were designed and conducted by the Development Institute of the Research Center for Rural Development of the State Council of China, a hotbed of market-oriented researchers with a keen understanding of ‘Chinese characteristics’. Huang received his early training at this institute, helping to explain his clear and deep understanding of the process of rural reform and the barriers facing it.

The emergence of the Household Responsibility System (HRS) in the early 1980s, after sporadic and often politically dangerous experimentation in various locales for more than two decades, is the unquestioned success of the reform effort. Huang makes it clear that the HRS was not an institutional innovation designed and promulgated as a policy by the central government. Rather, it evolved almost spontaneously from the countryide once the political agenda put aside class struggle in favour of rapid economic development in late 1978. Two critical factors accounted for the speed of its adoption. First, it was something farmers themselves desperately wanted after the failures of the collective system. Second, enormous gains in productivity were forthcoming almost instantly, without requiring significant changes in the rest of China’s economy. The entire reform process was energised by this early and strikingly visible, but singular, success.

Rationalisation of producer and consumer prices has been somewhat less successful, although Huang probably underestimates just how difficult ‘getting prices right’ can be if some element of stabilisation is desired.

Perhaps the most problematic part of Huang’s analysis is his discussion of the third area of reform, the freeing of markets domestically and internationally, so that China’s farmers and consumers can reap the full benefits of division of labour. Huang seeks the source of the stagnation in agricultural productivity after 1984. He identifies two important factors: the freedom after 1985 of farmers to work in rural industry and the reactionary response of policy-makers to food price instability, when they reimposed price and market controls for both producers and consumers. In effect, rural labour became free to seek the best return for its effort, but farm commodities were bottled up in each locale or province in the name of local food self-sufficiency. The result was a slowdown in agricultural growth even while rural incomes kept rising.

Huang blames the reformers for not understanding that food price instability resulted from the incompleteness of reform. If the reformers had just had the courage to go all the way to free markets, both domestically and internationally, then food price instability would not be a problem. Unfortunately, shocks to agricultural supply and demand happen even with free trade, but governments who have committed to it have no policy instruments available to stabilise prices for their producers and consumers. Such governments do not last, a lesson the Chinese reformers understand fully.

Hence Huang's strong, almost impassioned, plea for full internationalisation of Chinese agriculture seems peculiarly insensitive to the political economy of the debate. Indeed, after China escaped the Asian financial crisis almost unscathed, China's reformers must be even more sceptical of the real advantages of a free-trade approach to the world for such politically sensitive sectors as food and finance. Given the lack of progress in negotiating entry into the WTO, China seems further from freeing its food-grain markets than at any time in the past decade. The interesting question is what alternatives it will pursue domestically and how it will cope with the political imperative to stabilise food prices.

Peter Timmer
Harvard

The Chinese Economy in Transition

Leong Liew
Edward Elgar, Cheltenham, 1997.
Pp. xi + 188. ISBN 1 858 98250 2

Understanding the logic of China's economic transformation into a market economy has never been easy. The importance of specific institutional constraints in shaping a country's reform trajectory cannot be exaggerated.

This book focuses on Chinese agriculture, industry and macroeconomic management. It is an amalgam of narratives and theoretical models, including game theory, public choice approach and new institutional economics. Some of the models are well known in the development literature; others constructed by the author himself are motivated by the peculiar features of the Chinese economy. The author's choice of such an approach is understandable. The Chinese economy is probably too complex to be accurately delineated by an all-encompassing model.

For those who are teaching a course on the Chinese economy, this book is a useful starting point. Students who are steeped in mainstream economics and have not been extensively exposed to new and rapidly evolving fields in economics will find many of the ideas stimulating. The book may also be of interest to social scientists and China experts, who want to learn more about new lines of thinking in economics. However, those searching for an across-the-board survey of the Chinese economy will not find such important topics as foreign trade and foreign direct investment, long-term growth prospects of the Chinese economy, regional disparities, poverty and social security reforms.

Kai-yuan Tsui
The Chinese University of Hong Kong

Adjusting to Capitalism: Chinese workers and the state

Greg O'Leary (ed.)
M. E. Sharpe, Armonk, NY, 1998.
Pp. xviii + 181. ISBN 0 765 60039 0

The change in employment relations brought about by China's transition to a market economy has raised many issues of political sensitivity and economic significance. In this book scholars in contemporary Chinese affairs discuss some of the critical components of industrial and labour reform and their attendant social outcomes. In addition to an introduction by the editor, the book consists of six chapters on issues of labour market development, changing industrial relations, altered roles for trade unions and conflict between labour and the state and labour and capital.

Since reforms began in 1978, much of the agricultural labour force has moved to cities in search of better economic opportunities. Solinger documents the lingering effects of the state in six trades (ch. 1). The Chinese state still plays an active role in separating the 'floating population' of the labour market into various channels. For the individual worker, networking in these environments makes a profound difference to well-being.

Chapter 2 examines the impacts of labour policy changes on various sectors of employment and suggests that a new class of workers is emerging whose relationships with the state, employers and trade unions are significantly different from those of the past.

Minghua Zhao and Theo Nichols show that a work system of Western capitalist employment practices is emerging in state-owned textile factories (ch. 3). Elizabeth M. Freund documents changes in manpower mobilisation in one of the most important Chinese enterprises, the Baoshan Iron and Steel Works (Baogang) (ch. 4). Freund suggests that other state industrial firms could be revitalised through adopting similar market-oriented reforms in production and labour management.

China has attracted substantial foreign direct investment since the introduction of reforms and the open-door policy in 1978. Anita Chan discusses the appropriate role of trade unions and the adequacy and effectiveness of collective bargaining in resolving problems of exploitation (ch. 5). Jude Howell explores the impact of foreign capital on the All-China Federation of Trade Unions (ACFTU) and concludes that ACFTU has to accelerate its pace of adaptation for it to be effective in addressing this issue (ch. 6).

This interesting and informative book should be read by anyone interested in understanding changing employment relations and their impact on state organisational control in China. The past twenty years in China have underscored the importance of markets for growth and prosperity. But the country's transition from a command to a market economy is incomplete. Two areas are particularly important: first, establishing a rule of law that supports market institutions and protects workers' interests and rights; and second, instituting a comprehensive social insurance program to detach social welfare from enterprise management and to promote labour mobility. China has made considerable progress in these areas. Yet the issues raised in this book call for further reforms in separating the roles of government and markets and clarifying rights and responsibilities. Looking ahead, China will need to encourage market forces to allocate resources and people to sustain improvements in income and welfare. At the same time, the government will need to help Chinese workers manage the increased risks and uncertainties generated by the market and build support mechanisms for the most vulnerable.

You Qiang Wang
The Chinese University of Hong Kong