

## BOOK REVIEWS

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### *Trade Liberalization and APEC*

Jiri Okamoto (ed.)  
Routledge, London, 2004.  
Pp. xvi + 271. ISBN 0 415 31806 8

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The Asia-Pacific Economic Cooperation (APEC) forum has spawned a number of efforts to analyse the evolution of this grouping, which was created in 1989 and now involves 21 member states on both sides of the Pacific. *Trade Liberalization and APEC*, in contrast to previous works, focuses on a very narrow time frame and issue: the effort to promote sector specific liberalisation (known as early voluntary sectoral liberalisation or EVSL) through APEC, which occupied the agenda from 1997 to 1999.

Does such a short time period warrant a whole book? In my view, the answer is a clear yes, as this is a compelling read and deals with a critical time period in APEC's evolution. In the early 1990s, APEC appeared to be growing in importance as a forum for trade liberalisation, particularly as the Uruguay Round of GATT experienced delays. Yet at the end of the decade, most analysts and scholars had lost interest in APEC as an institution to promote reductions in trade barriers. Increasingly policymakers and scholars have turned their attention to bilateral trade negotiations as the dominant alternative. Whether such a trend will be beneficial for the trading system is a hotly contested issue but one that Okamoto's book only briefly touches on.

It is worth noting that this book is an English translation of a book published in Japanese in 2001. Thus one cannot really evaluate the book for timeliness as it is several years out of date in terms of its broader analysis. Yet in terms of discussing the crucial episode of the failure of EVSL this volume is by far the most comprehensive and thorough work on the subject. The book is in three parts, with the first part containing a comparison of APEC and WTO trade liberalisation procedures, a short history of EVSL, and an analytical framework by Okamoto and Michael Wesley. The latter chapter builds on Robert Putnam's oft-cited article 'Diplomacy and domestic politics: the logic of two-level games' (*International*

*Organization*, 42(3): 427–60). This work, with some modifications by Okamoto and Wesley, serves as the basis for the empirical chapters that follow in the second part of the volume, which consists of country case studies of policymaking in Japan, the USA, Australia, South Korea, Thailand and Indonesia. Okamoto summarises the findings of the book in the final part of the volume.

In terms of organisation, the case study chapters are particularly well formulated. For the most part, all of the authors carefully follow the basic arguments about two-level games and examine the domestic policymaking process in each country, examining the role of government ministries, business groups and politicians. Although this discussion is uniformly illuminating, I was often struck by how little a two-level game perspective added. As a metaphor this approach is clever; as a theoretical basis for analysis it is clearly wanting. As others have also noted, simply talking about domestic political constraints on negotiators and then developing pseudo-scientific conceptions of 'win-sets' does not really tell us much.

The real strength of this book is its detailed focus on the policy process in key states that led to the breakdown of the EVSL process. By systematically tracing the constraints that policymakers faced and the demands that various groups placed on negotiators, the book provides a rich discussion of the various issues that confronted each country. The conclusion of the book recalls criticisms of APEC by this review's author and others: that a lack of consensus on the basic principles and norms of APEC would prevent any serious movement forward on trade liberalisation.

What is most surprising about this work is the willingness of its authors to be directly critical of Japanese intransigence on trade. As becomes readily evident when reading the book's analysis of the negotiations, the Japanese government had no intention of moving forward on trade liberalisation in sensitive sectors (fish and forestry products, for example, which were introduced onto the agenda by Indonesia). Instead, the Japanese government hoped to hide behind APEC's ambiguity on liberalisation processes to avoid making

any commitments. Japan's current efforts to exclude politically sensitive sectors from negotiation in its bilateral preferential trade agreements clearly does not bode well for a shared effort to promote global trade liberalisation. Finally, without greater attention to Chinese trade strategies, any discussion of the future of APEC will remain adequate at best.

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***Globalisation, Culture and Inequalities: in honour of the late Ishak Shari***

Abdul Rahman Embong (ed.)  
Penerbit Universiti Kebangsaan Malaysia, Bangi, 2004.  
Pp. 418. ISBN 9 679 42672 6

This significant volume was written as a tribute to the late Professor Ishak Shari, who passed away in 2001 after a distinguished career studying inequality and poverty. Ishak was director of the Institute of Malaysian and International Studies—one of the focuses of which is globalisation—at the Universiti Kebangsaan Malaysia. The volume, which is mainly concerned with globalisation in the Southeast Asian context, is comprised of an introduction, followed by 17 chapters by scholars who knew Ishak well. The work is in five parts, covering separate facets of what the editor, Abdul Rahman Embong, terms 'a complex and multifaceted phenomenon' that 'should be seen as a historical process, a system and condition, as well as an ideology' (p.19).

The volume contains diverse views on many aspects of globalisation, which should serve to stimulate debate on this major phenomenon. In the initial 'Discourses on globalisation', Jomo K.S. cites the period of globalisation commencing five centuries ago under the Iberians. He also refers to the nineteenth century European-led globalisation process facilitated by imperialism, which opened Malaysia to international trade in tin and rubber and deals also with the current period of globalisation, questioning the benefits to developing countries of some aspects of economic liberalisation. Next, Diana Wong discusses cultural dimensions of globalisation, noting the inability of the US, leader of the present global hegemony, to assert unquestioned moral authority in the manner of previous superpowers. Maybe

this is not new, however, for while all imperialists have 'running dogs', a silent majority usually reaches different conclusions. This is the view of James Mittleman, who explores 'micro-resistances' to the 'dark side of globalization' (p.77) in Japan.

In the second part of the volume, which addresses country responses to globalisation, Yoshihara Kunio—for whom globalisation is an integration process (p.83)—looks at its problems for Malaysia, which needs to maintain a balance and resist globalisation in the weak spheres of national language and culture. Hing Ai Yun then discusses how globalisation adversely affects low and middle class Singaporean families. Lee Poh Ping describes how Japan has rejected military and political action and is constrained by the presence in Asia of the US, Russia and China. As a result, Japan has taken on a constrained role in regional economic leadership, in order to further its own interests and to protect local countries from adverse globalisation effects.

In the third part of the book, which scrutinises the way in which globalisation influences income distribution and poverty, Rajah Rasiah examines the effects of export orientation, FDI flows and government interventions in Malaysia, Indonesia and Thailand. Export orientation is found to have no clear relationship with distribution but, critically, is found to reduce poverty. FDI flows are found to have an indeterminate effect but government programs are normally successful in improving distribution and incomes. Medhi Krongkaew compliments this analysis in relation to Thailand, concluding that targeted state interventions at a grass-roots level usefully complement a sensible macroeconomic management program, being more effective than trickle-down effects (p.173). Ragayah Haji Mat Zin argues that while the National Economic Policy initiated in the early 1970s increased income levels and narrowed disparities, subsequent deregulation from the late 1980s raised inequality, making social safety net programs important. Ismail Md. Salleh examines recent Malaysian rural development thrusts. He notes the existence of a widening disparity between rural and urban incomes after liberalisation in the 1980s, and suggests that this should be countered by education expenditure and a 'big push' to enhance rural infrastructure and services (p.222).

In the fourth part of the book, which reviews links between globalisation and industrialisation, Suresh Narayanan examines small and

medium-sized enterprises that have a major role in Malaysian manufacturing. He notes their limited participation in e-commerce and poor awareness of forthcoming trade liberalisation, stressing the need for these enterprises to adapt. Tham Siew Yean and Liew Chei Siang examine the effect of foreign labour in Malaysia, finding that after the early 1990s, foreign labour in Malaysia reduced labour productivity and delayed industrial deepening. Hal Hill examines the state's role in Southeast Asian industrialisation, noting successes in Singapore and Malaysia only, and arguing for industry policies developed in a rigorous framework giving cognisance to political economy.

In the final part of the book, Hans-Dieter Evers discusses the knowledge society and questionably constructed 'knowledge gap' (p.302), assessing the merits of the latter and noting that this gap is widening in Malaysia despite knowledge-producing investment. Shamsul A.B. scrutinises the relationship between knowledge production, globalisation and information technology, emphasising the 'dividedness' of knowledge circulated through the latter and its restricted availability for most Malaysian and other populations. Abdul Rahman Embong addresses language and globalisation and along with Kunio sees English, the language of both former colonialists and modern globalisers, as merely complementing the use of Malay and other languages. Lastly, Johan Saravanamuttu and Francis Loh examine political culture and development in Indonesia, Thailand and Malaysia, arguing that the 'deepening of democratization remains an urgent project' (p.174) only partly assisted by recent constitutional and other changes, including the growth of NGOs.

This volume represents a rich and remarkably diverse menu for its readers, who learn there is nothing new about globalisation, which has both good and bad effects and is, probably fortunately, constrained by numerous barriers. Its direct economic impact has not been propitious for lower income groups, and as a result, government action to provide safety nets and facilitate responses to economic opportunities is desirable. As a whole, its cultural impact has been unfortunate, with a need for countries to maintain their languages and other aspects of their heritage. In addition, its spinoffs, in terms of the organisation of knowledge, have been distorting, and have certainly influenced the ways in which people

view the world. The authors argue that globalisation is a process that demands a rigorous response—not just on the part of government but by political and community institutions, sometimes to facilitate and sometimes to oppose the particular incursions being made. The spread of active democracy and civil society, which underpin independent community responses, is hence key in insuring that people benefit from the best features of globalisation, whilst effectively countering its adverse influences.

Nevertheless, except for the chapter by Hing, this volume lacks a treatment of the human impact of globalisation, as would be highlighted by case studies, and more remains to be done in this regard. The book certainly provides an excellent overall perspective on globalisation, but at one level may be seen as a collection of rather remote academic analyses grounded on theories and secondary data. Yet, Ishak was always fascinated by the mechanics of improvement, as illustrated by his work on Kuala Lumpur squatters (Ishak Shari, 1977) and poverty in Sarawak (Ishak Shari *et al.*, 1994). It would be useful to have more such material as a background. However, as Rahman notes in his introduction, it is hoped that 'the volume will provoke further . . . investigation into the issues in question' (p.3) and a publication with such a background would be especially welcome.

All in all, the book is a valuable and unique contribution, which, in celebrating the memory of a great man, deals with matters that his successors would be wise not to overlook. It deserves a wide readership and will be of interest to all who are concerned with one of the most significant issues of our time.

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***Reaching for the Dream: challenges of sustainable development in Vietnam***

Melanie Beresford and Tran Ngo Angie (eds)  
 Nordic Institute of Asian Studies, Copenhagen, 2004.  
 Pp. x + 302. ISBN 8 791 11419 5

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With one or perhaps two exceptions, the papers that make up this collection are disappointing. We need to know more about the long-term sustainability of the powerful change processes that are occurring in Vietnam. This is not least because Vietnam is one of those very few poor countries that is experiencing rapid globalisation, rapid GDP growth, and falls in reported poverty rates. Can the advances continue and how can we judge views about these changes?

Central to these questions must be politics and processes: what impact, if any, does policy have upon the process? How do issues to do with the environment, social differentiation, gender and so on, impact on sustainability?

The introduction, however, takes as central to the discussion the issue of whether the slogans of the ruling Communist Party do or do not 'translate into reality' (p.7). There is thus no proper analysis of what is driving—in terms of interests or other factors—peak politics. This is a crucial omission. It also takes various swipes at what it calls 'orthodox development theory', for example 'in its tendency to assume that growth can be achieved in a linear fashion (all countries proceed through the same stages)' (p.3). This seems unfair as I can think of few decent courses in development studies that would not criticise 'linear stages of growth' theory (*à la* Rostow).

There are chapters examining the coal and textile sectors. The chapter on coal adopts a theoretical framework that represents a 'cultural approach to environment and development' (p.250). This approach seems to need defence from the editors (p.15) against possible allegations (to my mind well-founded allegations) that it simply conflates cultural realms with highly aggregate interest groups. It makes little attempt to explore the political implications of a sector in which we know, from the work of Greenfield, that labour relations have been highly contested and official Trade Unions largely quiescent. Similar criticisms of the position taken can be levelled at the study of the garments industry, the main thrust of which is the need for policy to support vertical linkages through some form of

state intervention. Apart from pointers towards data mining in the econometrics (p.170), this assumes a developmentalism that is strikingly risky, since the paper does not ask the question, central to any market economy, of why capital is not freely flowing into such links already.

Against these statist tendencies can be found two papers that take the reader in a different direction. The chapter on rural finance argues that state support is surprisingly inept (paternalistic), ignoring a wide range of international experience in continuing to subsidise state credit and so reduce the incentives for the emergence of a vibrant financial services sector. The paper concludes that this is politically motivated, but goes no further. This theme of ineptness is developed with far greater sophistication in the paper on the labour market by Abrami and Henaff. This paper argues that it would be wrong to construe state activities as part of coherent developmental policy, as outcomes are very different from those intended. A push to regulate the parts of the labour market they examine experienced problems, as those who had benefited from earlier stages of the process found themselves losing out.

A chapter on the lessons of the East Asian financial crisis is mainly concerned with the familiar debate over the possibly positive role of state-owned enterprises (SOEs). It argues, I think misleadingly, that 'the state has largely left the SOEs to their own devices' (p.85), suggesting that there is no SOE interest that is exerting an influence on policy. Another chapter on the process of transition to a market economy seems mainly aimed at appropriating, for various personalities, the concept of progress. Attempts over the years to get around the pressures of Stalinism through illegal activities (fence-breaking) are all defined as 'reforms' (p.35). This is absurd and has an obvious politics of legitimisation associated with it.

Perhaps the most interesting tension within the book is the contrast between the lack of decent political analysis and the evidence presented that state practice can be incoherent and based upon limited and one-dimensional policy rationality. This could suggest that the use of focussed and policy-based state power to secure sustainability in Vietnam remains unlikely. Rather, rapid growth is driven by societal and commercial logics. This, as we know from many hard lessons, can be very risky.

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***China's West Region Development: domestic strategies and global implications***

Ding Lu and William A.W. Neilson (eds)  
World Scientific Press, Singapore, 2004.  
Pp. 578. ISBN 9 812 38800 1

The campaign to 'Open up the West'—which is seemingly designed to expedite the development of China's vast Western Region—was first announced publicly in the middle of 1999, with the intent of a start to the project at the beginning of the following year. This new direction in regional development policy has subsequently become the subject of considerable academic interest outside the People's Republic of China (PRC). This volume is the most recent collection of essays in this growing literature, which has already seen a range of publications, including those from the usual suspects: the Chinese University of Hong Kong's regional China research group (see *Developing China's West*, edited by Y.M. Yeung and Shen Jianfa); *The China Quarterly* (see their June 2004 special issue); and Barry Naughton (who wrote a chapter on the topic in Barry Naughton and Dali L. Yang (eds) *Holding China Together: diversity and national integration in the post-Deng era*).

In many ways, *China's West Region Development* both starts where Naughton's chapter leaves off and provides details for his analysis of the potential for, and difficulties facing, any attempt to ensure economic development in China's interior. The strength of this volume is its attempt to get to grips with the details of the development policy for the Western Region of China. The volume is the result of a conference of academics—largely economists—held at the University of Victoria, Canada, in early 2003. Its weakness is an insistence on seeing the Western Region development policy as concerned primarily with economic development, and in largely ignoring the greater logic of this initiative (Bedeski's chapter on 'Human Security and National Security' is partly an exception), which has its foundation in concerns about resistance on the part of minority nationalities; the need to secure China's international borders in the northwest; the desire to colonise (and civilise) China's interior; and the dynamics of internal leadership politics within the Chinese Communist Party (CCP).

On the whole, the twenty-four chapters presented in this volume provide a rather bleak

outlook for the campaign to open up the west. The volume highlights not only the substantial economic underdevelopment of the provinces and autonomous regions within the newly defined Western Region, but also the obstacles to change: the lack of appropriate human and physical infrastructure, the fragility of the environment in terms of its ability to support development, and the poor prospects for foreign investment inflows. Most of the new Western Region is physically separated from global markets. Labour may be cheap but it is poorly skilled compared to labour in the coastal provinces. Freight and transport problems cannot be overcome simply by employing fiscal policy. As Ding Lu and Elspeth Thomson point out in their excellently argued chapter on 'The Western Region's Growth Potential', even were the campaign to open up the West to be overwhelmingly successful, far greater potential for growth still resides in the East and Southeast coastal provinces, and notably the metropolitan areas centred on Shanghai, Guangzhou, Beijing and Tianjin (p.247). The prospect is for inequality to increase, not to be reduced.

In their introduction, written well after the 2003 conference, the editors reflect on this conclusion in light of regional policy statements made in the PRC during the intervening period. They see in recent developments hints that the campaign to open up the west may be running out of steam, not least because of the change in the leadership of the CCP that occurred recently. It may well be that the campaign to open up the west will continue to have minimal economic impact on the regions and localities of the Western Region. However, at the same time as its economic imperatives have rapidly evaporated, the campaign's political and cultural impact has been considerable. The essential concern of the new regional development policy to secure China's perceived national borders has led—particularly in the wake of 11 September 2001 and concerns about various forms of Islamic fundamentalism—to intense repression of resistance to the PRC, especially in the Xinjiang Uighur Autonomous Region of Northwest China.

Less dramatically, it is also clear that for embattled provincial-level and local leaders in the PRC, the campaign to open up the west provides a legitimacy to follow initiatives and ideas that hopefully will benefit their areas and which they previously may not have felt adequately

emboldened to experiment with. It may be, as the editors highlight, that top-down initiatives, such as the campaign to open up the West, are always more risky endeavours than those that commence from the bottom-up, especially where the generation of market forces is concerned. At the same time, recent experiments in the reform of state socialism suggest the need for a balance between government direction and market activities.

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***Economic Globalization and Asia: essays on finance, trade and taxation***

Ramkishen S. Rajan  
World Scientific Publishing, Singapore, 2003.  
Pp. 257. ISBN 9 812 38389 1

Ramkishen Rajan's volume provides a well-balanced overview of the major economic issues challenging Southeast Asian countries and considers how globalisation has affected the economic policies developed to address these issues. Beginning with a chapter examining how globalisation affects small open economies and ending with a chapter on globalisation and its implications for taxation in small open economies, the remainder of the volume focuses on regional monetary and financial issues (three chapters) as well as trade issues (four chapters).

Rajan's discussion (Chapter 2) of the East Asian financial crisis emphasises two main points: first, that the countries affected by the crisis had poor economic fundamentals, and second, that contagion effects—where a currency crisis in one country leads to negative trade and financial effects in a second country—are typically more regional than global in scope. These findings set the stage for Rajan's discussion of regional monetary and financial cooperation in Chapter 3. After noting that the gains from monetary and financial cooperation by countries with poor fundamentals are likely to be limited, he argues that because the contagion effects of currency crises are regional, it would be best if a regional cooperation arrangement responded to the crisis. While recent steps toward regional monetary cooperation—the Chiang Mai Initiative, which builds a regional network of currency swaps and repurchase agreements is one example—

may be limited in their ability to ameliorate a crisis, they should be viewed as initial steps towards building a regional capacity to respond to crises. Chapter 4 discusses the choice of exchange rates by Southeast Asian countries and emphasises that the choice 'is not a black-or-white issue; shades of grey abound' (p.95). Sceptical that most Southeast Asian countries have sufficiently sophisticated financial markets to allow for low-cost hedging against exchange rate fluctuations, he emphasises the potential for countries to gain by implementing more sophisticated fixed exchange rates systems. Pegging a currency against a market basket of currencies rather than a single currency; specifying a sliding peg based on inflation differentials; and establishing wider bands of fluctuation around the fixed peg are policy options which Rajan presents in a favourable light.

Chapter 5 provides a good summary of the literature evaluating the links between trade liberalisation, economic growth, and poverty. Rajan stresses (p.123) that trade liberalisation will only be successful if it is accompanied 'by a milieu of other policies'—in financial, labour, and product markets—that facilitate efficient resource reallocation, labour retraining, and foreign investment. Chapter 6 considers the trade reforms put in place in India during the 1990s and finds that they played a central role in India's economic revival. The chapter stresses, however, that India continues to have highly protectionist trade and investment policies and that future growth will be dependent on new rounds of reforms. Chapter 7 ponders why Singapore decided to change its trade strategy by negotiating bilateral trade agreements. Rajan's conclusion—that Singapore should stand firm against including trade-restrictive features in its bilateral trade agreements—is, however, misplaced. It is the large economies—Japan, the European Union, and the United States—that should take this stand. Chapter 8 discusses the rise in international trade in telecommunication and financial services in East Asia. Its finding—that the specific commitments offered by many Southeast Asian countries under the World Trade Organization (WTO) Agreement to liberalise their financial service sectors are not as strong as the current practices in these countries—raises troubling questions about the WTO service liberalisation process and the commitment of these countries to service liberalisation.

It is interesting how little China enters into Rajan's discussion, and this is surely because most of the underlying essays were written prior to China's entry into the World Trade Organization. Despite this omission, Rajan's volume should be read by anyone interested in regional cooperation and interdependence in Asia. Its balanced and integrated discussion of trade, finance and monetary issues sets the stage for a coherent discussion of public policies in these arenas.

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***Asian Economic Cooperation in the New Millennium: China's economic presence***

Calla Wiemer and Heping Cao (eds)  
World Scientific Publishing, Singapore, 2004.  
Pp. xiv + 431. ISBN 9 812 38762 5

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Regional economic cooperation has been developing very quickly in the past two decades and has become a topic of heated discussion. What has attracted the attention of an increasing number of people is the participation of China in this rapidly developing process. Her efforts in quickening the establishment of closer economic ties with the outside world include engagement in regional and bilateral preferential trade arrangements (PTAs). This volume is the outgrowth of a timely conference held at Peking University in May 2002, which focused on economic cooperation in Asia and China's economic presence. This is also the first volume in a series entitled *Advanced Research in Asian Economic Studies*. It delves into issues of trade and investment, exchange rates and macroeconomic policy, preferential trade agreements, and other forms of economic cooperation in Asia.

This book has several strengths. It gives a comprehensive overview of regional economic cooperation in Asia and touches upon its relationship with the global multilateral trade system. As is commonly known, the debate over the role of regional trade arrangements (RTAs) in increasing trade openness is far from resolved. Disagreement remains over whether RTAs are stepping stones or stumbling blocks in the realisation of global free trade. Most of the authors in this volume see the development of regional economic cooperation in Asia as a healthy countervailing force to the American and European

blocs. Dutta argues that integration within Asia, by putting the region on a more competitive plane with the EU and the US, advances the forces of globalism. In an excellent paper on this issue, Ramon Clarete, Christopher Edmonds and Jessica Seddon Wallack apply a gravity model of exports in analysing the effects of 11 PTAs on trade among members versus trade with the rest of the world and on trade specifically between members and China. The significant findings of their empirical study are especially worth noting. They demonstrate that the major PTAs of Asia—APEC, AFTA and SAFTA—have low and declining trade concentration ratios, revealing that member countries trade with each other at about the same rate they trade with the rest of the world. They also find that these PTAs have not made particularly great strides in achieving economic integration. Overall, the work of these authors demonstrates that there is diversity in the effects of PTAs, some being trade creating and others being trade diverting.

Another strength of the book is that a comprehensive analysis is carried out of the development of economic cooperation in Asia and China's role in regional cooperation. The papers rightly point out the features, difficulties and problems of various forms of cooperation in Asia. It is good that a paper on regional economic cooperation in South Asia (especially the South Asian Association for Regional Cooperation) is included, as this tends to be less discussed in academic publications. Saleen Khan and Zahira Khan rightly attribute the slow progress of regional cooperation in South Asia to political tensions and mistrust among member countries. However, the association does not look north to Central Asia, or west to Iran, or east to Myanmar and Laos, as the authors expect. Actually, India has been quite active in promoting its economic ties with ASEAN. As to China's role in regional cooperation, a rather balanced view is presented in the book. For example, some authors point out the worry and concern that ASEAN has over China's rapid rise and the increase in competition with China occasioned by the establishment of the China-ASEAN free trade area (FTA) (p.375). In relation to the role of China, that nation is actually only an active player and a force in promoting regional cooperation, rather than a leader as some argue.

The value of the book could be enhanced if some papers discussed in more detail the issue of

the relationship between regional economic cooperation and global multilateral cooperation. Though the issue is touched upon in some papers, and regional cooperation is regarded positively, some of the authors fail to elaborate in detail and make their arguments convincing. For example, it would be better if the authors explained why the ASEAN–China FTA could ‘contribute to an Asian institutional identity and lead to an escape from the “spaghetti bowl” effect’ (p.377) and why Asia, by becoming more unified, can further globalisation by guarding against the dislocations that ultimately fuel protectionism and retreat.

Some papers, though very well written on their respective topics, are not linked closely with the themes of the book: regional economic cooperation and China’s presence in the regional context. For example, there is a paper on industrial and commercial firms’ responses to the East Asian financial crisis and one on the financial market in Japan. The paper on bank regulation in China, though giving a detailed description of China’s banking system, concentrates on domestic aspects and fails to link with the regional issues that are the theme of the book.

All in all, the editors have assembled an erudite and thought-provoking set of analyses. This book can certainly serve as a valuable reference for research scholars and students concerned with regional economic cooperation in Asia and China’s role in regional affairs.

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***Citizen Power, Politics, and the ‘Asian Miracle’: reassessing the dynamics***

O. Fiona Yap

Lynne Rienner, Boulder, 2005.

Pp. x + 187. ISBN 1 588 26344 4

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This volume is a compact but refreshing book of six chapters, and the author’s model of citizens’ economic cooperation is an invaluable contribution, both to the literature on Asian political economy in general, and in applying robust quantitative methodology in particular. Combining economics and politics in econometric modelling is no mean feat and the author makes a useful contribution in conducting a multidisciplinary empirical study spanning four Asian newly

industrialising economies (NIEs): Korea, Taiwan, Singapore and Malaysia.

In the first chapter, Yap defines citizens’ economic cooperation as the investment of their resources, such as labour quiescence and production investment, to support the economy or the government’s policies. This is followed in the next chapter by an examination of the political economy of the four nations under investigation, which more seasoned Asianists may give a miss. A succinct summary of the common variables picked for the model would have been illuminating.

The model in Chapter 3 incorporates two hypotheses. First, citizens invest in resources if economic performance is strong. The model uses the non-accelerating inflation rate of unemployment (the NAIRU at 4 percent) as a proxy for economic performance. Second, if economic performance deteriorates, or unemployment rises about the NAIRU, citizens will only invest in resources if the government offers credible apologies. A joint-hypothesis takes care of the high correlation between the two independent measures of a government’s credible apologies (government bargaining, and government bargaining and economic performance in interaction).

The findings support the model and hypotheses with predictable variations across countries. Specifically, the full political-economic model improves relative to the baseline model for all economies. The economic performance variables of unemployment and real GDP per capita growth are more significant statistically for Korea and Singapore than for Taiwan or Malaysia. The most interesting finding is the effect of government bargaining in all four economies, with the results statistically consistent in showing that bargaining can improve investment when economic performance takes a downturn. The findings from the pooled cross-national time-series analysis support those from the analyses of the individual countries.

Chapter 4 provides examples of cases of motivation in the four economies during the 1960s, 1970s and since the East Asian financial crisis, conducting a comparison of government reactions to increased accountability and transparency. Even seemingly authoritarian governments in the absence of formal constraints appear to be constrained by their citizens’ preferences and provided credible apologies. Thus, while governments may not always offer credible apologies, the model shows there are consequences if they do not.

Chapter 5 examines cases in which governments failed to offer credible apologies and there were consequences in terms of citizens' economic cooperation. While Korean citizens may have demonstrated dissatisfaction by increasing strikes—and thereby withdrawing resources—the Singapore government's refusal to offer credible apologies did not precipitate resource withdrawal. In all the case studies, the government abjured bargaining, justifying their posture by highlighting the threats to security or livelihoods and emphasising the previous success the government had experienced in securing a 'good life' and a healthy economy.

The final chapter draws lessons from all the economies to substantiate the author's model of citizens' cooperation, and to examine its implications in terms of government accountability and responsiveness. Having outlined the seven ways in which the model explains citizens' economic cooperation, the author suggests that future research may wish to examine the impact of credible apologies by governments on democratisation and participatory government.

However, there are a couple of relevant questions that the book does not address. For example, what effect does generational and demographic transition have on the behaviour of policymakers and citizens? It might also be useful to address the age-old Asian cultural attitude towards work, resource investment (especially in education) and productive ability. Finally, it might also be useful to consider external factors that condition citizens' cooperation besides interests rates and growth in the US. Such factors might include: openness to trade and the extent and nature of globalisation, the development of information communication technology and the role of India and China.

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***Papua New Guinea: the road ahead***

Economic Analytical Unit  
Department of Foreign Affairs and Trade, Canberra,  
2004.

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With so much of the current commentary on conditions in Papua New Guinea poorly informed

and frequently alarmist, the publication of a broadly based economic survey that provides balanced and up-to-date information is welcome. The Economic Analytical Unit (formerly the East Asia Analytical Unit), which is in the Australian Department of Foreign Affairs and Trade, has consulted widely, both in Papua New Guinea and Australia. Although some of its early consultations might have given grounds for fearing another simple-minded, economic overview, the final product is a comprehensive review which locates the major economic issues in their social and political context and details the problems which Papua New Guinea faces while also acknowledging the initiatives being taken to address them. The general tone of the report is not overly optimistic about Papua New Guinea's longer-term prospects, but it avoids the mindless prophesies of doom that characterise the commentaries of some Australian think tanks and media, and contains a wealth of data and bibliographic references.

The report begins with an economic overview, which briefly details the economic contraction of the late 1990s and early 2000s, noting the issues of poor governance that contributed to Papua New Guinea's problems in this period, while also acknowledging the importance of external risk factors (commodity prices and investor perceptions). The overview also details the enhanced economic performance that the country has experienced since 2003. This is attributed largely to good weather and rising export prices but the report also notes the significance of 'prudent monetary policy and improved budgetary performance' (p.2). This is followed by a discussion of the mining, oil and gas sectors, as well as the general economic outlook. The report observes that while the mining and petroleum sector has contributed significantly to Papua New Guinea's GDP over the past decade (longer, in fact), poor use of the revenue generated by big mining, oil and gas projects has limited the impact of these big projects on the rest of the economy. The report does not, however, take up the debate concerning the extent to which big resource projects should be considered a curse. It is no coincidence that the areas of greatest conflict in Papua New Guinea—Bougainville and the Southern Highlands—are also among the provinces most richly endowed with mineral and petroleum resources, and the conflicts largely generated by them go a long way towards explaining why the

proceeds of the big resource projects have been squandered.

A chapter on finance, trade and labour market policy notes that economic performance has not kept pace with the high rate of population growth and makes some predictable demands for further reductions in tariffs and export taxes, but generally reports favourably on developments in the finance sector and regarding labour market policy. Similarly, a chapter on fiscal and public sector reform, though noting a significant growth in the public service to 2002 (a trend which may have been reversed in the past few years) and a 40 per cent rise in the government's salary bill between 1999 and 2003, has generally positive things to say about public sector reform initiatives. This chapter provides a useful description of ongoing reform measures, though those with a long memory of public sector reform in Papua New Guinea might be excused for wondering whether another set of acronyms and increased support from Australia will be sufficient to sustain the initiatives introduced by the Morauta government and continued under Prime Minister Somare. The call for a 'focus on strengthening systems and institutions' is incontrovertible, but in the past, Papua New Guineans have displayed a great propensity for adapting systems and institutions to fit the demands of local politics. Much will depend on achieving more effective governance at a provincial and local level.

An analysis of transport infrastructure identifies this, probably correctly, as 'perhaps the single greatest constraint to doing business', but maybe underestimates the enormous cost of transportation in a country with Papua New Guinea's topography, rainfall and often sparsely settled population. This is followed by useful overviews of utilities, and forestry and fisheries. Again, the call for 'effective management of forests and fisheries' cannot be argued against, though one might wonder whether the authors are fully aware of the extreme difficulties, with the resources available, of policing forestry regulations and safeguarding fish stocks against illegal fishing.

The penultimate chapter looks at agriculture. Around 85 per cent of Papua New Guinea's population live in rural areas and are primarily dependent on subsistence agriculture. It is no mean achievement that, notwithstanding high population growth, over 80 per cent of food energy is produced locally. Furthermore, fresh

food is the second most significant cash crop in terms of production after Arabica coffee. Oil palm, based largely on a nucleus estate model, is the recent success story, and vanilla has enjoyed a boom (without the input of government extension services) following cyclone damage to Madagascar's vanilla industry. However, there is virtually no prospect that agriculture can fill the income and revenue gap if, as is forecast, mining and petroleum production declines sharply after 2010.

A final chapter looks, in a positive but realistic way, at Australia–Papua New Guinea business opportunities, arguing that 'relative economic stability... presents opportunities for reviving and strengthening trade and investment between the two countries'. Unfortunately, the promise of the Australian government's Enhanced Cooperation Program, outlined in Chapter 1, has been overtaken by events—underlining Papua New Guinea's unpredictability.

One of the report's principal messages seems to be that 'broad-based economic recovery requires an enabling environment for private sector led economic activities to flourish and take primacy' (p.31). Part of this enabling environment is seen to be 'a much more business-friendly environment'. Some might argue, however, that elements of the public sector are already far too friendly with some businesses, and that without the political stability, credible and strong institutions, safe and secure working environment, stable macroeconomic and financial market conditions, and so on—that the report lists as also essential for economic progress—a more open and business-friendly economic environment will do little to benefit the mass of the population who live in rural areas and are starved of services. It is how these other requirements are to be achieved that poses the really big questions.

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***The Rise and Fall of the East Asian Growth System, 1951–2000***

Xiaoming Huang  
RoutledgeCurzon, London, 2004.  
Pp. 304. ISBN 0 415 35212 6

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The rapid growth rates attained by East Asian economies and the patterns of these growth rates

have attracted considerable research interest, resulting in a plethora of studies devoted to understanding the nature, patterns and consequences of growth in these countries. Xiaoming Huang's study, *Rise and Fall of the East Asian Growth System*, is another contribution designed to improve our understanding of the East Asian growth experience. The study represents a departure from previous studies on East Asia with the inclusion of China and a discussion of the Chinese experience alongside that of the other East Asian economies. Huang's study also departs from others in the manner in which the East Asian economies are classified. Japan and China are examined as individual entities while Korea, Singapore and Taiwan are analysed as a group. Past studies have placed the high performing, newly industrialising East Asian 'miracle' economies into two groups: the first comprising Korea, Taiwan, Singapore and Hong Kong; the second, Malaysia, Indonesia and Thailand. Japan is usually studied separately.

Huang's book is premised upon the need to clarify misunderstanding of East Asian growth that has arisen as a result of wide-ranging controversies surrounding the facts of East Asian growth. The inability of previous studies to incorporate the rich evidence arising from the growth experiences of East Asia has created a lacuna in mainstream theories of economics and development. The book examines the future direction of East Asian economic growth amidst concerns arising from the lost development decade of Japan, the East Asian financial crisis, and the emergence and expansion of China and its economic reforms. East Asian growth is analysed in a holistic manner using a framework that encapsulates the pattern of growth, the form of growth and the growth system.

The book begins with a critical review of the debates over the rapid growth rates of East Asian economies and tests the veracity of recorded growth figures by examining the accumulated changes that have taken place in these economies over a period of five decades and benchmarking these changes against those of the OECD countries.

An examination of the processes, mechanisms and institutional settings that have led to rapid growth in East Asia constitute the main body of the book. An overview of the initial conditions prevailing in the selected East Asian economies provides a backdrop to assist in understanding the growth patterns, forms and systems in these economies. The initial conditions in these econo-

mies fuelled various responses that provided the impetus for rapid growth. These countries had to be internationally competitive. In order to sustain such competitiveness, East Asian economies required the support of institutional arrangements, which are shaped and influenced by the social and cultural context of the economies in which they operate. Huang's study provides interesting insights into the cultural and social settings of the East Asian economies and the key operational mechanisms of East Asian growth, growth cycles and institutional aging that defined the rise and fall of the growth system.

While providing a comprehensive and refreshing analysis of East Asian growth, Huang's study falls short in not taking the reader through some future scenarios that could arise, given the various challenges that confront the East Asian economies. In the introduction it is stated that this study is pertinent in view of various changes that have occurred in East Asia, but this has not been picked up in the rest of the book. For instance, much has been written on the East Asian financial crisis and its impact on economies in the region, the concerns arising from the emergence of China and India as major economic powerhouses, the changing role of Japan in East Asia and possible developments in North Korea. Some attempt to incorporate a short discussion of these matters would have contributed tremendous value to this book.

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### *Sustaining Competitiveness in the New Global Economy*

Ramkishan S. Rajan (ed.)  
Edward Elgar, Cheltenham, 2003.  
Pp. 296. ISBN 1 843 76407 5

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This volume brings together papers presented at a symposium hosted by the Institute of Policy Studies in Singapore in July 2002. While the title suggests a contribution with a more general orientation, the focus is more specific, concentrating on the economic challenges confronting Singapore as it seeks to remake itself following the 1997 crisis. Readers familiar with Singapore will be aware there has, in recent years, been much discussion about this reinvention of the Singapore model, with a flurry of government committees

soliciting opinions and making recommendations on a wide range of matters. This present volume is intimately connected with that process, being in many ways an effort to influence discussion on the economic future of the country.

Seen in that light, the volume may be judged to be valuable. It is highly informative and offers an insightful overview of the challenges facing Singapore. Informed by recent advances in economic theory, contributors have offered penetrating analyses of the Singapore condition, and on the basis of these, sometimes posited provocative recommendations. Although slightly technical on occasion, the volume is written in a remarkably accessible style. A coherent focus is maintained, partly through contributors drawing links with other papers, but largely thanks to an excellent introductory chapter by the editor.

The volume is divided into six parts, each section speaking to a set of issues that are significant in the re-making of the economy. In setting out a broad context, part 1 focuses on trends in globalisation and the implications for small, open economies like Singapore, particularly concerning their competitiveness. A thoughtful piece is offered by Kym Anderson, which sets out the wider globalisation picture, while Sanjaya Lall follows with a discussion of industrial competitiveness, drawing on his previous work with the United Nations Industrial Development Organization (UNIDO).

Part 2 develops this external focus further by exploring international trade. In contrast to Lall's focus on competitiveness, Sven Arndt offers a piece examining Singapore's comparative strengths, and the potential these offer in production sharing arrangements. Christopher Findlay and Alexandra Sidorenko build on Lall's industrial focus, by discussing Singapore's trade in services and the issues and challenges involved.

In perhaps the most fascinating part of the volume, Part 3 examines the role of government—a topic, most would agree, that goes to the very heart of the Singapore model. In a paper discussing the development of a knowledge-based economy, Linda Low offers a perceptive critique of Singapore Inc.—the pervasive developmental state most obviously manifest in the form of government-linked companies. Manu Bhaskaran extends this critique through a more wide-ranging examination of the role of government in the economy, suggesting this may have become counter productive, and calling therefore for a scaling back of this role. Mukul Asher completes

Part 3 with a very thoughtful piece examining the longer-term fiscal policy challenges facing Singapore, drawing attention to the dilemmas posed by an ageing population, the presence of a state-centred savings regime and the need to restructure taxation. As in preceding papers, Asher urges a rethink of policy in this area, even to the extent of considering previously taboo subjects such as social safety nets.

Part 5 focuses on entrepreneurship, innovation and productivity. David Audretsch provides a useful study of what is required to sustain entrepreneurship and innovation, pointing out inconsistencies with the customary top-down, command approach that typifies much of the way Singapore works. Shandre Thangavelu and Toh Mun Heng, in turn, discuss Singapore's total factor productivity performance, examining the connections between this concept and the organisational structure of manufacturing.

The final part of the volume explores issues relating to the exchange rate and financial market development. Employing the concept of a 'natural equilibrium real exchange rate', Ramkishan Rajan and Reza Siregar consider the extent to which exchange rate management has been successful in Singapore. Ngiam Kee Jin and Lixia Loh follow this with an examination of the financial sector in Singapore, highlighting the need for its further deepening.

In all, this is a thoughtful volume providing a well-rounded treatment of some of the main economic issues currently confronting Singapore. It will be of greatest interest to Singapore watchers, but given the range of issues it grapples with, a much wider audience of policymakers and those interested in development economics will also find it stimulating.

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***Towards an Asian Economic Community:  
vision of a new Asia***

Nagesh Kumar (ed.)  
Research and Information System for Non-Aligned and Other Developing Countries, and ISEAS, New Delhi and Singapore, 2004  
Pp. 203. ISBN: 8 171 22094 0 and 9 812 30280 8

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This volume is a collection of papers initially presented at a conference entitled 'Building a New

Asia: Towards an Asian Community' in March 2003 in New Delhi. The ten chapters in the volume explore a number of issues pertaining to Asian regionalism, including the question of membership, intraregional trade and investments, and prospects for monetary and financial cooperation. While the range of topics in the volume is wide-ranging and of general interest, one could argue that the focus is a bit too broad at times and the volume lacks a coherent theme or definition of what constitutes an Asian region. For instance, while some chapters focus on the issue of membership, and in particular, whether some important countries like India should be part of a broader 'East Asian Community', others focus on recent events in East Asia, oblivious to the broader membership debate.

So the fundamental question that needs to be answered is how should one define Asia as an economic entity? While everyone would recognise the infeasibility of including all the 40-plus Asian members of the Asian Development Bank (ADB) or the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP), even something narrower, like the 22-member Asian Cooperation Dialogue (ACD) Forum inspired by the Thai Prime Minister, Thaksin Shinawatra, may be too broad. An overly broad-based membership with heterogeneous countries will make any sort of Asian economic alliance far too unwieldy and ineffective, as well as being susceptible to the 'convoy problem' in which progress of the economic alliance is limited by the least willing member.

Assuming there is genuine interest in truly pan-Asian, as opposed to sub-regional, economic cooperation, there is a growing recognition that a logical starting point might be the so-called JACIK—Japan, ASEAN-10, China, India and Korea. The JACIK would constitute 40 per cent of the world's population and one-third of global national income (in terms of purchasing power parity). This is a point convincingly emphasised by some chapters in the volume, especially Chapter 1 by the volume's editor, Nagesh Kumar.

Continued pursuit of India's decade-long 'look East' policy is belatedly but rapidly integrating India with the rest of East Asia, with countries like Singapore and Thailand engaging much more intensively with India in recent years. Indeed, both these ASEAN members are negotiating bilateral free trade agreements (FTAs) with India. Sub-regional cooperation between

India and some of the transition ASEAN members has also accelerated. Some of these issues are discussed in Chapter 6, which is by Mukul Asher and Rahul Sen.

The broadening and deepening of bilateral economic and strategic links between China and India that has been taking place in the last few years has the potential to dramatically alter the Asian landscape both economically and strategically over the medium and longer-terms. Yet, this growth story in bilateral linkages has gone virtually unnoticed in other parts of Asia, including Southeast Asia. There is even some discussion of a China-India FTA as pointed out by Li Wei in Chapter 5 of the volume.

The volume was published too early to be able to comment on the newly created East Asian Summit (EAS). Of particular relevance is the fact that ASEAN has recently outlined three criteria as necessary conditions for attaining membership of the EAS. First, the candidate country must have substantive relations with ASEAN. Second, it must be a full dialogue partner with ASEAN. Third, it must be a signatory to ASEAN's Treaty of Amity and Cooperation. In addition to the three North Asian countries—China, Japan and South Korea (which together with ASEAN constitute the ASEAN Plus Three or APT framework)—India too has been invited to the inaugural EAS, which will be held in Kuala Lumpur in December 2005. These countries (JACIK) may be the initial core members of a new, cohesive and outward looking Asian regional alliance. There are promising signs that New Zealand and Australia may also be part of the core.

Europe has been able to shed the Cold War induced estrangements, tensions and biases, and is consciously building a 'new Europe' by expanding membership eastwards. It remains to be seen if a 'new Asia' can similarly rise to the challenge and look forward with foresight and optimism rather than be held hostage to the past. This volume offers a useful starting point for discussing some of these issues.

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### *Helping Countries Develop: the role of fiscal policy*

Sanjeev Gupta, Benedict Clements and Gabriela Inchauste (eds)

International Monetary Fund, Washington DC, 2004.  
Pp. xi + 528. ISBN 1 589 06318 X

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I opened *Helping Countries Develop* with great anticipation. Finally, a book on fiscal policy devoted to developing countries! This was a refreshing break with the norm in public sector economics: all recently published mainstream texts are focused on developed economies. However, my optimism quickly turned to disappointment as I read the book. While many of the papers provide excellent reviews of state-of-the-art research on contentious issues in fiscal policy, several of the papers either state the obvious, albeit unclearly, or present findings that are counterintuitive, usually unconvincingly. Moreover, a number of critical topics are omitted entirely.

The strongest chapters in *Helping Countries Develop* are those that deal with three areas: first, the interrelationships between macroeconomic and fiscal policies, especially the impact of fiscal policies on growth (Chapters 2–4) and the specific effects of alternative debt strategies on growth (Chapters 5–6); second, foreign aid and fiscal policies, most noticeably the tradeoffs entailed in grant versus loan assistance (Chapters 15–17); and third, expenditure efficiency and effectiveness, particularly in respect to productive and pro-poor expenditures in health and education (Chapters 8–10). These chapters present complex and controversial topics in a rigorous, compelling manner.

The remaining chapters in the volume are either less enlightening (for example, Chapter 18's conclusion that armed conflict and terrorism hurt economic growth both directly and indirectly) or fatally flawed conceptually and methodologically (for example, Chapter 13's conclusion that the VAT in Ethiopia is progressive).

The omissions are even more puzzling. It is surprising that the volume's treatment of expenditure policies in developing countries does not explore the distribution function of government. Resource transfers to individuals and households for social protection in the form of either social insurance schemes or social safety net programs are often significant expenditures with dramatic

fiscal, political and social implications, especially in the context of structural adjustment. Resource transfers between levels of government in the form of tax sharing and revenue sharing are key public sector redistributive tools and intergovernmental fiscal relations are essential elements of any fiscal decentralisation program.

On the revenue side, it is startling that only three of nineteen chapters are devoted to public sector resource mobilisation. There is no discussion of non-conventional ways to finance public infrastructure and services, such as via capital markets and private sector participation, and aside from the case study cited above, there is scant treatment of the economic efficiency, social equity and administrative feasibility of tax policies.

In short, while *Helping Countries Develop* attempts to address a critical need in the discourse on fiscal policy—that is, the need for applied policy analysis devoted to the concerns of developing countries—the result is only partially successful. The quality of papers is very uneven, there is an unsettling imbalance in the topics treated and the presentation of material is unnecessarily obfuscated by academic gymnastics that should have been relegated to technical appendices more often.

Perhaps if the International Monetary Fund had been more responsive to the needs of its target audience and had relied more on an external peer review protocol, the publication would be more consistent in its credibility and accessibility. However, despite falling short of its potential, *Helping Countries Develop* nevertheless offers many valuable insights and helpful references in relation to fiscal policy in developing countries. The reader just has to be extremely selective: *caveat lector*.

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### *Growth and Productivity in East Asia*

Takatoshi Ito and Andrew K. Rose (eds)  
University of Chicago Press, Chicago, 2004.  
Pp. 360. ISBN 0 226 38680 5

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The study of economic growth, productivity and structural change was revived in the 1990s. This revival was the result of three independent developments. First, endogenous growth theory, in which productivity growth is not seen as

exogenous but generated by economic activities themselves, was resurrected. Second, the impact of advances in information and communication technology (ICT) on the structure and pace of global economic growth was significant. The acceleration of growth in the US economy in the mid-1990s has been linked to the production and use of new ICT capital goods, combined with complementary disembodied organisational change such as the emergence of new retailing concepts (for example, Wal-Mart). Third, the increasing public availability of micro-level data sets makes it possible to link trends at the macro-level with underlying dynamics at the firm or plant level. This linking has provided a rich framework in which the productivity effects of, for example, changes in regulations, can be measured through their impact on the entry and exit rates of firms.

This edited volume from the National Bureau of Economic Research (NBER) provides a good sample of the studies in this field as it covers both macroeconomic and microeconomic papers on growth and productivity in East Asia. It contains papers from the thirteenth annual East Asian Seminars on Economics, which took place in June 2002 in Melbourne. It contains studies on East Asia (Japan, Korea and Taiwan) as well as on Indonesia and Australia. The latter addition is not surprising, given the location of the conference, and the fact that the Australian growth experience deserves close scrutiny, as it has been one of the most resilient economies in the world in the past decade. The intriguing chapter by Dean Parham tries to unravel the fundamentals of the Australian productivity surge. He argues that the 'smart' use of ICT has been a source of productivity gain for the Australian economy, but that the contribution to aggregate growth has been small. In the first chapter of the volume, Steve Dowrick suggests that increases in educational attainment and skills are a major driver of economic growth. This might be true in the long run, but Parham argues that in the case of Australia the timing of the increase in educational attainment and skills does not sit well with the productivity surge in the 1990s. Instead, he suggests that the implementation of wide-ranging policy reforms in the 1980s was the main explanation for Australia's stellar performance. In a more competitive and open environment, Australian businesses were forced to catch up and restructure, moving to best-practice enhancing

overall efficiency levels. Unfortunately, this claim is not backed up by direct quantitative evidence, but must be seen as a residual explanation, as the explanatory power of ICT investment and education was found to be small.

Although placed in the second part of the volume, which is entitled *Micro-productivity*, the study by Kyoyi Fukao, Tomohiko Inui, Hiroki Kawai and Tsutomu Miyagawa is best placed in the first part of the book, which deals with macro-productivity, as it is concerned with industry data, albeit at a detailed level. Their contribution is a first peek at an extensive new database on output and input growth in 84 industries in Japan over the past 30 years: the Japan Industrial Productivity (JIP) database. It contains a wealth of information on various type of intermediate, labour and capital (both ICT and non-ICT) inputs and covers a large number of sectors outside manufacturing that are becoming increasingly important. In addition, the sectoral database is linked with data on foreign direct investments, research and development expenditures, and import and export flows. Unfortunately, due to space constraints, the chapter could not offer much in terms of analysis, but the main contribution is the presentation of the JIP database to the public. It is made accessible through the Internet, an effort for which the authors and their research group should be saluted. It will be a very valuable resource for all those interested in analysing Japan's recent growth performance, and hopefully sets an example for other researchers compiling similar databases for other countries.

Four other chapters report on the use of firm-level databases in assessing a wide variety of productivity determinants. Keiko Ito looks at the effect of foreign ownership on productivity growth in the Indonesian automobile industry and finds an important role for scale effects and capital utilisation for both domestic and foreign establishments. Too much protection, resulting in too low volumes of production, seems to prevent the take-off of the Indonesian car making industry. Three other chapters deal in turn with the effects of R&D expenditures on productivity growth in Taiwan's manufacturing firms, the impact of bankruptcy policy reform on total factor productivity dynamics in South Korea, and the link between ICT investment and firm economic performance in South Korea. Unfortunately, all these studies suffer from a problem for which the authors are not to blame: the turbulence

created by the East Asian financial crisis seems to wash away much of the studied productivity effects.

The papers on the Asia-Pacific region are complemented by four other papers that do not have a particular regional focus. The issues addressed in these papers are certainly important and they are well executed, but do not particularly contribute to the coherence of the volume. If one is interested in the effects of institutions on the volatility of growth paths, the effects of GATT/WTO accession on growth, a gravity model of foreign direct investment, or the link between discrete adjustment and aggregate fluctuations, one might want to look at these chapters as well. As usual in the NBER series, the edited volume contains comments of discussants after each chapter that are always worthwhile reading.

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***Behind the Teak Curtain: authoritarianism, agricultural policies and political legitimacy in rural Burma/Myanmar***

Ardeth Maung Thawngmung  
Kegan Paul, London, 2004.  
Pp. 263. ISBN 0 710 30935 X

*Behind the Teak Curtain* is an important book that examines a much neglected sector of a much neglected country. The book shines a light into the dim world of agriculturalists in Burma, but it also highlights an inescapable fact of life for agriculturalists throughout the region—that whatever the inequities imposed by the marketplace, they are nothing compared to those that can be exacted by an overly interventionist state.

The ostensible theme of *Behind the Teak Curtain*, prominent on the book's dust jacket and in its introductory and concluding chapters, is that despite its oppression and its many mistakes, Burma's military regime enjoys a degree of legitimacy in the countryside. This legitimacy comes from the fact that the Burmese agriculturalist is tormented by more than the central government. Local authorities of various forms also impose upon the farmer, and the extent to which the centre defends them against local injustices confers upon it some support, or at least silent acquiescence. Of course, such a phenomenon is typical

of authoritarian regimes, in which competition between state agencies and levels of government is sometimes the farmers' sole hope of representation. The fact that authoritarian regimes are not monolithic entities, nor incapable of some good deeds, is therefore neither remarkable nor necessarily worthy of lengthy exposition.

All of which is why it is pleasing to report that (dust-jacket and other places notwithstanding) questions of the political legitimacy or otherwise of various Burmese state actors is not the main focus of *Behind the Teak Curtain*. Taking centre-stage, rather, is Burmese agriculture itself—the sector that employs almost two-thirds of Burma's workforce and upon which the survival of 75 per cent of its population depends. Burma's agricultural sector should be extremely prosperous. Its primary agricultural lands, the Irrawaddy Delta, are blessed with abundant water and fertile alluvial soil, and Burma was once famously the 'rice bowl' of the British Empire and the largest exporter of rice in the world. Burma's agricultural sector was not without its difficulties in the colonial era (not least as manifested in the alienation of much its cultivatable land to foreign financiers), but in the nearly 60 years of Burma's independence—over 40 of which have been under military rule—it has been traduced by bad and arbitrary policy and an inability to construct the institutions necessary for a prosperous rural economy.

This book documents some of these travails by examining the fate of four programs instigated in the last three decades by the Burmese authorities in an effort to turn things around. These four programs—the attempt to cultivate high-yielding varieties (1976–1982), reforms aimed at 'partial liberalisation' (1987–present), the efforts to cultivate rice all year round via the 'summer paddies program' (1992–present) and a substantial 'land reclamation' plan (1991–present)—all failed, or are in the process of failing, for reasons directly connected to Burma's unreformed political economy. Perhaps most representative of this reality was the failure of the partial liberalisation plan, under which the Burmese Government's long-standing policy of compulsory rice procurement at below market prices—in order to supply the country's underpaid urban workers with cheap rice—was partially relaxed. The subsequent dramatic increase in the price of rice, and the inevitable urban riots that followed, were indicative of a system whose political imperatives were

inconsistent with the needs of good economic policy.

*Behind the Teak Curtain* is a book whose heart is very much with the suffering majority in rural Burma, but it is certainly no polemic. The first fieldwork-based study of rural Burma to emerge in many decades, it is a significant work in its own right, but it will also provide a rich vein of material for other scholars to mine for years hence. It deserves to find a wide audience amongst all those interested in Burma and all those concerned with economic development in the most challenging of environments.

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***The Microeconomics of Income Distribution Dynamics in East Asia and Latin America***

Francois Bourguignon, Francisco H.G. Ferreira and Nora Lustig (eds)  
World Bank, Washington DC, 2005.  
Pp. 416. ISBN 0 821 35861 8

*The Microeconomics of Income Distribution Dynamics* represents an important advance in the understanding of the relationship between economic growth and income inequality. The editors present results from seven World Bank country case studies in Latin America and East Asia, which use new techniques to decompose changes in income distribution over time. The technique separates changes in income distribution into price, endowment and occupational effects. Showing how these different, and often countervailing, forces can interact to produce different outcomes in inequality is the book's most important contribution.

The work is complementary to macroeconomic empirical studies on growth and inequality, as well as being an advance on previous microeconomic work in the area. Earlier microeconomic studies used only a summary measure rather than the entire income distribution, and were unable to distinguish between the effect on inequality from a change in an attribute (such as years of education) and the returns to that attribute (for example, returns to schooling). The decomposition methodology common to all seven case studies resolves these issues. However, the authors may be too kind to the macroeconomic studies, whose well-known omitted-variable and

endogeneity problems are briefly discussed here. Just as the current work's strength is its identification of components underlying the changes in income distribution, the macroeconomic regressions' use of a single summary measure (most commonly the Gini coefficient) in a cross-country setting restricts the interpretation of results.

It is not so much the results of individual country studies that are interesting as the illustration of the technique's usefulness in decomposing changes in inequality. However, one result common to a number of the countries studied merits note: educational expansion reduced poverty but could increase inequality, even if it decreased the inequality of distribution of education (which the editors call the MIDD effect). This counter-intuitive result is due to the convex nature of returns to schooling. As years of education increase for individuals, so does their income; however, the returns are increasingly higher for those with higher levels of education. In economies with such convex returns, broad increases in education can widen the gap between high and low income earners.

The book has other strengths. It focuses on income distribution, not just wages; and, taken as a whole, the seven case studies are effective in demonstrating how countries with relatively similar demographic and educational trends can have quite different inequality outcomes.

However, some limitations remain. Parameters are estimated in reduced form, so the results cannot be interpreted according to a particular structural model; no causal inference can be drawn. The interpretation of (sometimes large) residuals is still a concern—these unobserved factors increased the Gini coefficient by four percentage points in Indonesia between 1980 and 1996.

The selection of countries was driven largely by data availability, but a Thai case study would have been interesting. While Malaysia was included, which saw strong growth and increasing inequality for much of the period under study, inequality was higher and increasing more sharply in Thailand. Breaking down more extreme trends such as this could prove instructive.

Perhaps more importantly, the studies consider the period up to, but not including, the East Asian financial crisis. While this was probably due to the absence of a suitable dataset, it will be interesting to see the decomposition technique applied to the crisis period and beyond. For example, the data seem to indicate that Malaysia

saw a three point drop in the Gini coefficient between 1997 and 1999. Understanding what drove this is important. Too little attention has been paid to understanding the (varying) effects the crisis had on inequality in the East Asian region. While inequality fell in Malaysia, it rose in the Philippines and Thailand. Similarly, extending the Argentine and Brazilian coverage would include a crisis period.

Ultimately, developing techniques that allow us to infer causality is crucial. However, until

such a time when these techniques have been developed, the decomposition presented in the book provides us with useful insights. Extending such methods to crisis periods as well as poor countries are immediate future steps. While the studies represent a good cross-section of middle-income countries, we still know very little of inequality evolution in poor countries—in large part due to unavailability of data.

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