

"Economic Globalization and Asia"

William R. DiPietro

"Economic Globalization and Asia", by Ramkishan S. Rajan.

Rajan's book looks at globalization through the eyes of an economist and provides what might be called scatter shot mosaic of globalization. Each chapter in the text is a self-contained article that focuses on a particular aspect of globalization, and each chapter is followed by a comprehensive and extensive bibliography. The chapters are filled with references and sprinkled with authoritative quotations. The book's special geographic interest is Asia. While the writing is sophisticated and somewhat technical, it is not mathematical, and is therefore accessible to a wide audience.

To get a flavour of the book, here is a quick synopsis of four of the nine chapters (globalization topics) that particularly caught my eye.

Chapter 2 tracts international capital flows for the various phases of the East Asian financial crisis of the 1990s for five countries (Indonesia, Malaysia, Philippines, Thailand and South Korea). It also discusses contagion, and the various and assorted channels through which financial crisis can spread. Rajan notes that contagion tends to be more a regional than a global phenomenon with a crisis tending to spread more in the neighbourhood of an originally infected country than further a field geographically. He also points out that countries with weaker economics are more likely to be susceptible to contagion and more prone to be severely damaged if and when they are infected.

Chapter 4 is called "Choosing the Right Exchange Rate Regime for Small and Open Economies in East Asia". Here, Rajan disagrees with the position that in our modern world the only viable exchange rate regime is either a freely fluctuating exchange rate regime or a fixed exchange rate regime. After reviewing some of the pros and cons of a few of the variants of these two exchange systems, Rajan advocates some form of an intermediate (adjustable peg) exchange rate regime as the best type of currency regime for emerging economies. He believes such a regime allows developing countries to capture the best features of both the fixed and floating exchange rate systems.

Under the implicit assumption that the major potential source for poverty reduction from trade liberalization is through its effect on economic growth, Chapter 5, entitled "The Nexus between Trade Liberalization and Poverty in Asia", reviews the theory and the empirics of the two key component relationships in this chain, the relationship between trade liberalization and growth and the relationship between economic growth and poverty. The author cautions the reader that even if trade liberalization increases economic growth, growth is a necessary but not a sufficient condition for a sustained reduction in poverty. For any real chance of success in alleviating poverty, trade liberalization must be accompanied by a whole host of comprehensive and complementary policies, including solid macroeconomic management, the inclusion of the agricultural sector, a favourable investment climate, the removal of labour market rigidities, and the fostering of adequate labour market mobility.

An extremely noteworthy chapter is the very last chapter in the book, chapter 9, "Economic Globalization and Taxation: With Particular Reference to Southeast Asia". In this chapter, Rajan talks about the problems of tax policy facing countries in an increasingly globalized world (particularly in generating tax revenues) in the presence of antiquated tax structures based on national tax sovereignty. There are a whole series of tax consequences associated with spreading globalization. Potential inconsistency between national tax efficiency and global tax efficiency becomes more pronounced. Multinational firms manipulate transfer pricing so as to minimize their tax burdens. More mobile factors such as capital and skilled labour and less easily taxed and therefore less likely to be taxed at the expense of relatively less mobile factors such as unskilled labour. The potential resource wasting and resource distortion from prisoner's dilemma style competition between countries for scarce foreign direct investment using various incentive devices becomes more prevalent (this is especially true for developing countries as they become more insecure in a globalized world). The spread of E-trade leads to a reduction in the tax base, and brings in its wake issues regarding new forms of taxation to deal with the new form of commerce. Lastly, there is the problem of regulating the free flow of financial capital across borders through altered tax policy so as to mitigate financial crisis.

For people with dissimilar tastes from mine, Rajan's other five chapters are: "Economic Globalization and Small and Open Economies: Finance, Trade and Taxation", "Liquidity Enhancing Measures and Monetary Cooperation in East Asia : Rationale and Progress",

"India's Decade Long Trade Reforms: How Does it Compare with Its East Asian Neighbors?", "Singapore's Drive to Form Cross-regional Trade Pacts: Rationale and Implications", and "International Trade in Infrastructural Services in East Asia: Telecommunications and Finance".

Rajan's book is concisely written and packed with information for anyone interested in globalization, and, especially, for those who are interested in the impact of globalization on Asia.

William R. DiPietro

Professor of Economics, Daemen College

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