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BOOK REVIEWS

Exchange Rates under the East Asian Dollar Standard: Living with Conflicted Virtue by Ronald I. McKinnon, Cambridge, Mass., MIT Press, 2005, x + 279 pp.

I

This book brings together several papers that Ronald McKinnon has published during the past few years. Although most of these papers are joint works with various coauthors, they all discuss in a coherent manner the exchange rate policies of East Asian countries and their macroeconomic repercussions. Armed with newly written introductory and final chapters, this book provides a comprehensive analysis of the region's monetary affairs and proposes a set of policy reforms. All chapters are written in a typical McKinnon style—clear, full of colorful phraseology, and highly readable. In my view, however, this book's analysis and policy proposals are misplaced. In the next section, I first summarize what I understand to be this book's core argument. Section III then discusses why this argument fails to convince me.

II

This book's fundamental premise is that contemporary East Asia is a de facto U.S. dollar zone, in the sense that the region's monetary authorities are inevitably driven to keep their currencies stable with respect to the dollar. According to McKinnon, although the Asian countries' informal dollar pegs have so far served as a quasi regional monetary anchor, they are not sustainable in the long run and should be buttressed with explicit commitments by, and policy coordination among, relevant countries. In his view, the reasons are as follows.

As the dollar is the dominant invoicing and settlement currency in international trade, and since exports have long been a mainstay of the East Asian economies, the region's monetary authorities are wary of letting their currencies fluctuate wildly against the dollar. In addition, since the Asian countries are increasingly important export competitors to each another, one country's dollar peg has the effect of reinforcing the desire of other countries to do likewise.

In East Asia, Japan, Singapore, and Taiwan have been running current account surpluses for more than two decades, having accumulated by today huge external assets. In the wake of the Asian currency crisis, the current account balances of most other countries have also swung to a sizable surplus, with some of these countries now turning themselves from an international debtor to a creditor. Nonetheless, the Asian countries are building up external claims not in assets denominated in their own currencies but mostly in the form of U.S. Treasury bonds, for there is no other asset that is equally liquid and available in sufficiently large quantities. However, as East Asia's private investors accumulate dollar assets, they naturally become concerned about their exchange-rate and default risks. To avoid a disorderly flight of private capital from the dollar and a resulting sharp appreciation of their currencies, the region's monetary authorities are forced to provide an assurance that such an event will not happen, by engaging in increasingly massive exchange market interventions. McKinnon argues, however, that this policy is doomed to fail in the long run, just as persistent deficit countries cannot prop up their currencies indefinitely.

McKinnon also calls attention to long-term politico-economic implications of the status quo. Lying behind the East Asian countries' growing external surpluses and foreign exchange reserves are, of course, the ever-expanding U.S. current-account and budget deficits, which are increasingly financed by the Asian monetary authorities' exchange market interventions. As Japan continued to run a large trade surplus with the United States during the 1980s, Japanese policymakers came under increasingly heavy pressure from their U.S. counterparts to rectify their "unfair" trade practices and let the yen appreciate. In McKinnon's view, not only has the United States' repeated "Japan bashing" made the yen extremely volatile vis-à-vis the dollar in the short to medium term, but it has also generated the "syndrome of the ever-higher yen," i.e., the expectation that the yen can only move upward in the long run. Large medium-term swings in the yen/dollar exchange rate have generated unnecessary boom-bust cycles among smaller Asian countries that compete with Japan in export markets. The *endaka* syndrome, meanwhile, has forced Japan into its current deflationary slump, destabilizing its financial system and indirectly those of its neighbors as well. McKinnon claims that this episode is now being repeated in China, with the risk of spreading its negative externalities to other regional economies.

Then what should the East Asian countries do? Although McKinnon stresses that East Asia needs a common regional monetary anchor to support its ongoing economic integration, he dismisses an EU-style monetary union as politically unrealistic. McKinnon also rejects a regional basket peg, in which emerging Asian economies target their currencies to the same basket of industrial-country currencies, arguing that such an arrangement would remain fragile and leaves the issue of their long-term price stability in the hands of outside countries.

Instead, McKinnon argues that all East Asian countries, including Japan and China, should *collectively* and *formally* peg their currencies to the dollar, while urging the United States to support their efforts by fixing its domestic price level in terms of a broad set of tradable goods and by forswearing engineering the dollar's slide for commercial or other reasons. If the relevant parties demonstrate their commitment to this "East Asian Dollar Standard," says McKinnon, the system should garner the trust of private investors and render their expectations on future exchange rates regressive. Although occasional speculative attacks may force some countries to suspend their dollar parities temporarily, restoring the original parity should then prove semiautomatic and would not put undue strains on their real economies. McKinnon predicts that, as a stable common monetary anchor accelerates the region's economic integration through intra-regional trade and investment, each country's incentive to stay on this collective dollar standard will become reinforced over time, making the system even more robust and credible.

III

In my view, the foregoing analysis seems at times factually inaccurate, and on other occasions politically naive. Consider, for example, its fundamental assumption that the East Asian monetary authorities are *inevitably* driven into a dollar peg. Although McKinnon discusses in Chapter 1 why he considers contemporary East Asia as a de facto dollar zone, the only hard "evidence" he presents is the result of OLS regressions borrowed from Frankel and Wei.[1] Although this method may provide some (noisy) information about the way in which the monetary authorities manage daily or weekly exchange rate volatility, it tells us essentially nothing about their medium- to long-term policies. As I have discussed elsewhere, most Asian currencies have in fact been more flexible vis-à-vis the dollar than McKinnon claims, although there are reasons to suspect that further flexibility would be in their interest.[2] In 2000/2001, for example, when the export performance of East Asian countries deteriorated sharply because of the collapse of the U.S. IT bubble and simultaneous recessions in major industrial countries, a number of Asian currencies depreciated by much larger proportions than would have been necessary to keep their real effective values stable, suggesting that the region needs substantial exchange rate flexibility in times of serious real shocks.

In Chapter 2, McKinnon claims that the business cycles of the ANIES and ASEAN countries are generated principally by recurrent swings in the yen/dollar exchange rate. While McKinnon dismisses at the outset the possibility that their business cycles are driven by real shocks, the trade and production structures of the Asian countries are skewed heavily toward electronic goods, and the world electronics industry is notorious for its own boom-bust cycle. If one reestimates McKinnon's empirical model, which regresses the GDP growth rates of the emerging Asian countries on the yen/dollar exchange rate and other proximate factors, by taking account of cyclical fluctuations in the global electronic market, what once appeared to be strong effects of yen/dollar fluctuations largely disappear.[3] Yet McKinnon regards taming the so-called negative externalities of yen/dollar fluctuations as an important purpose of his grand exchange rate regime.

These issues aside, would McKinnon's East Asian Dollar Standard be helpful in promoting the region's macroeconomic stability? To see why this is unlikely, let us describe the kind of world that underlies this book's analysis in terms of a few equations and consider what is required for the McKinnon Dollar Standard to remain viable in the long term. For simplicity, I consider here the world composed of the United States and one East Asian country, which I call Japan for expository convenience.

In Chapter 4, McKinnon discusses at length why Japan's deflation is not home-grown but

[1] Jeffrey Frankel and Shang-Jin Wei, "Yen Bloc or Dollar Block? Exchange Rate Policies of the East Asian Economies," in *Macroeconomic Linkages: Savings, Exchange Rates, and Capital Flows*, ed. Takatoshi Ito and Anne O. Krueger (Chicago: University of Chicago Press, 1994).

[2] Masanaga Kumakura, "Exchange Rate Regimes in Asia: Dispelling the Myth of Soft Dollar Pegs," *Journal of the Asia Pacific Economy* 10, no. 1 (2005): 70–95.

[3] Masanaga Kumakura, "Are Fluctuations in the Yen/Dollar Exchange Rate Really Responsible for East Asia's Export and Business Cycles?" *World Economy* 28, no. 10 (2005): 1509–37.

rooted in the ever-higher-yen syndrome. His analytical framework is the standard interest parity equation augmented with a risk premium:

$$\Delta e = i - \hat{i} + \varphi, \tag{1}$$

where Δe is the rate of change in the yen price of one U.S. dollar, i and $\hat{i}$ are nominal interest rates in Japan and the United States, and φ is the risk premium Japanese investors demand on their dollar assets.

In McKinnon's view, the real exchange rate between two countries is stable over the medium to long term and has no implication for their trade balance. Letting Δp and $\Delta\hat{p}$ denote the price levels in Japan and the United States, this proposition implies (relative) PPP:

$$\Delta e = \Delta p - \Delta\hat{p}, \tag{2}$$

According to the standard view, Δp and $\Delta\hat{p}$ are largely determined within each country, to which Δe adjusts so as to maintain equation (2). In McKinnon's view, the United States decides $\Delta\hat{p}$ independently while Δe is also set effectively by U.S. policymakers and remains negative because of the *endaka* syndrome. Thus Δp now becomes an endogenous variable and, once the U.S. inflation rate has fallen to a sufficiently low level, causes deflation in Japan. Whichever view is correct, equations (1) and (2) imply

$$r = \hat{r} - \varphi, \tag{3}$$

where $r = i - \Delta p$ and $\hat{r} = \hat{i} - \Delta\hat{p}$ are the real interest rates in the two countries. While there may or may not be a stable relationship between risk premium φ and the size of Japan's net external assets, there is, at each point in time, a one-to-one correspondence between the two countries' real interest rates.

Let us next recall the familiar identity between the national savings and current account. Writing down this relationship independently for each country,

$$N_p(Y, r; \bullet) + N_G(\bullet) = CA(Y, \hat{Y}; \bullet), \tag{4}$$
$$\hat{N}_p(\hat{Y}, \hat{r}; \bullet) + \hat{N}_G(\bullet) = -CA(Y, \hat{Y}; \bullet), \tag{5}$$

where $N_p(Y, r; \bullet)$ and $\hat{N}_p(\hat{Y}, \hat{r}; \bullet)$ denote the net savings by the two countries' private sectors, which are typically an increasing function of their income level and real interest rate. $N_G(\bullet)$ and $\hat{N}_G(\bullet)$ are the excess savings by their governments, while $CA(Y, \hat{Y}; \bullet)$ stands for Japan's current account balance. Large dots in parentheses $(\bullet)$ denote a number of policy variables and parameters, other than those shown explicitly, that influence each term. For example, the dots in $N_p(Y, r; \bullet)$ and $\hat{N}_p(\hat{Y}, \hat{r}; \bullet)$ may include the two countries' tax incentives for private savings and investment.

By adding up the two sides of equations (4) and (5) and noting equation (3), we obtain

$$N_p(Y, r; \bullet) + \hat{N}_p(\hat{Y}, r+\varphi; \bullet) = -N_G(\bullet) - \hat{N}_G(\bullet). \tag{6}$$

According to McKinnon, once his Asian Dollar Standard has taken root, Japan should be freed from its exchange-induced deflationary slump, allowing both Y and $\hat{Y}$ to remain in the neighborhood of their respective full-employment levels. Leaving aside the question of whether or not this is really the case, it then follows logically that, once the values of $N_G(\bullet)$

and $\hat{N}_G(\bullet)$ are given, equation (6) determines the corresponding values of the two countries' real interest rates, r and $\hat{r} = r + \varphi$, which in turn determine CA by way of equations (4) and (5).

As long as the two governments decide $N_G(\bullet)$ and $\hat{N}_G(\bullet)$ at their own discretion, however, there is no reason for CA to remain close to 0. And as long as the United States continues emitting large current account deficits, it is impossible for Japan to maintain the yen's long-term dollar parity, however hard its monetary authorities try to do so by piling up their dollar reserves. In other words, for McKinnon's East Asian Dollar Standard to remain viable, it is clearly not enough that the East Asian countries peg their currencies to the dollar and the United States stabilizes its domestic price level. What is also crucial is an explicit arrangement which maintains the external balances of the participating countries at a level that looks to private investors as compatible with their exchange rate arrangement. Although McKinnon pays lip service to the need for eternal adjustment in the United States, he provides no explanation as to how other countries can ensure that the U.S. government actually implements policies that are, at least in the short run, highly unpopular domestically.

In the foregoing model, moreover, one country's external deficit is the other country's surplus. This implies that one country cannot manage its external position by its policy initiative alone, and that the two countries must explicitly agree on a mutually consistent macroeconomic policy. I also stress that such a policy package will *by necessity* be quite intrusive, for national savings-investment schedules are typically influenced considerably by policies that are normally off-limits to international negotiations, such as domestic tax codes and pension systems.

Notice also that what I have called Japan in the above discussion is in reality a group of ten or more countries, with disparate levels of economic development and geopolitical clout. As the trade and production structures of many Asian countries are still changing rapidly, and as their economies are surrounded by numerous uncertainties, it is almost certain that their collective policy for external balance management needs to be updated and adjusted frequently. And considering the past experience of industrial countries, it seems unlikely that all countries remain cooperative and behave as promised. It seems more plausible that such formal policy coordination will expose the conflicting interests of individual countries and perpetuates their haggling over who should do what and who has reneged on which promise—an apparently perfect recipe for exchange-rate and macroeconomic instability.

It is perhaps true that increasing regional trade competition and the rigid dollar pegs of some Asian countries have the effect of making it difficult for other countries to manage their currencies flexibly. That this state of affairs will remain in the future, however, does not seem self-evident to me, not least in light of recent policy changes in China and Malaysia. Policymakers in East Asia would be wise to examine carefully whether the kind of grand regional exchange rate regime envisioned in this volume would really enhance their economic well-being. (Masanaga Kumakura)

Poverty and Social Exclusion in North and South: Essays on Social Policy and Global Poverty Reduction edited by Paul Mosley and Elizabeth Dowler, London and New York, Routledge, 2003, x + 276 pp.

The *World Development Report 2000/2001*[1] set forth a number of strategies for poverty reduction based on concepts of opportunity (such as investment and household assets), empowerment (such as equality, decentralization, and reduction of social barriers), and security (risk management, prevention of conflicts, and combating HIV/AIDS). The report elicited many responses from researchers in academia and people involved in practical development activities. The book under review is one of those responses. It is a compilation of papers by mainly European researchers from noneconomic disciplines and practical experts working in development programs. The papers were originally presented at a one-day conference on poverty and social exclusion that took place at the University of Sheffield on April 9, 2001.

In the introduction the editors draw attention to two related trends in thinking taking place in both developed and developing countries. One is the reconceptualizing of poverty to see it in terms of insecurity and vulnerability within the context of globalization; with this is a corresponding reconceptualization of anti-poverty policy which calls for (social) risk management within the same globalization context. The second common trend in thinking between North and South is the concept of social capital (pp. 3–4).

The chapters of the book fall into four sections: the relationship between social policy and development literature; the argument for a linkage between social capital and risk; the influence of the discourse on globalization; and finally operational solutions. Within each section the editors have paired essays expressing enthusiasm for a concept with more skeptical essays.

The first group of papers (Chapters 2 and 3) reviews the changing context of the analyses of poverty and action against it in both North and South. The second group of papers is concerned with the book's linkage of risk and social capital, the argument being that the relationships which form social capital can be expected to reduce interpersonal risks. The third group of papers deals with policies for coping with poverty and social exclusion. The final group of papers is more locally focused and centers on the politically crucial issue of urban deprivation (in northern countries found mainly in the inner city, in developing countries seen more frequently in the outer city of shanty towns).

In the area of measurement, there has been some convergence in the use of a broader range of poverty indicators in both North and South. In the area of assessment and interpretation, this volume brings out three trends observable in the analysis of poverty: the renewed awareness of the cumulative (often intergenerational) causation of poverty, the increased awareness of inequality as a cause of (rather than a separate problem from) poverty, and the rise of social capital as a dominant influence in reducing both poverty and inequality (pp. 10–12).

In Chapter 2 (by Bob Deacon), it is argued that the prospects for equitable social provi-

[1] World Bank, *World Development Report 2000/2001: Attacking Poverty* (New York: Oxford University Press, 2001).

sion in a globalizing world depend on: a greater Northern commitment to global social transfers, a larger voice being given to the South in the articulation of international social standards, and the fostering in the South of a regional approach to social policy which echoes the model provided by the European Union (p. 18).

Chapter 3 (by Arjan de Haan) collects a number of "stylized facts" regarding globalization, poverty, and inequality. The author argues that open markets do not automatically mean more growth, and growth does not automatically turn into poverty reduction. The focus of the latter part of the chapter is on national policy making, and acknowledges that there is a hugely important agenda at the international level regarding more equitable access of countries to international institutions (pp. 39–40).

Chapter 4 (by Robert Holzmann) presents a forward-looking approach to social protection which focuses on vulnerability (a dynamic view of poverty) and the need to offer risk-management instruments to the population at large and poor people in particular in order to reduce future poverty (p. 77).

Chapter 5 (by Geof Wood), which relies on a context-oriented and actor-oriented epistemology, attempts to provide a social policy theory which applies to societies with weak market mechanisms. According to the author, the poorer regions of the world do not comfortably comply with the two key assumptions supporting the OECD model of a welfare regime: a legitimate state, and a pervasive formal-sector labor market (p. 118). The author argues that any social policy of poor countries moves on to the agenda of "civil society compensating for the inequities of the state" instead of the OECD welfare regime principle of "the state compensating for inequities of the market" (p. 119).

Chapter 6 (by Paul Whiteley) examines the relationship between social capital and economic growth in a sample of cross-country data, building on the theoretical framework of a neo-classical model of economic growth. The findings suggest that social capital, measured in terms of interpersonal trust, has had important impacts on economic growth in the sampled countries. However, the author argues that there are no really poor countries in the sample, and the findings cannot be generalized to all countries (pp. 124–25).

In Chapter 7, the author (John Campbell) delves into the rich anthropological literature to undertake a critical review of a central argument of development: that social capital—anchored in trust, shared norms, and cooperation—facilitates collective social action and provides a basis for economic development. According to Campbell, many writers who use the concept of social capital tend to *assume* [italics in the original] its existence (p. 161), and/or they see it as conceptually equivalent to solidarity, participation, cooperation, or trust. Few studies define social capital with sufficient clarity to allow the term to be observed or measured, with the result that research work has produced contradictory findings and confused policy analyses.

Chapter 8 (by Fran Bennett) takes up some issues of globalization and focuses on Oxfam's work in the United Kingdom. The author argues that in the longer term there is a common interest between those living in poverty and disadvantaged by discrimination and inequality, wherever they live, in preventing job insecurity and ensuring that the better-off throughout the world bear a greater share of the costs in the process of achieving a vision of fairer globalization (p. 173).

In Chapter 9, the authors (Paul Mosley with assistance from Jane Tate) examine the manner that globalization has transformed the role of home-based workers, the implications of this transformation for global poverty, and policies for reducing this poverty. The authors discuss three distinct channels (informational and organizational services, financial services, and training and other support services) through which the rights and welfare of home-based workers could be advanced globally.

Chapter 10 (by Elizabeth Dowler and Geoff Tansey) argues that the problems of food and poverty have to be tackled in ways that address the broader aspects of food, which include livelihood, health, freedom from environmental destruction, enjoyment, and participation (p. 201). The authors briefly look at four tools for controlling operations where various actors are engaged to minimize or offset risks and maximize or optimize the benefits the actors can obtain. These four tools are: information; management; laws, rules, and regulations; and science, technology, and biotechnology (p. 203).

In Chapter 11 the authors (Paul Mosley and Lucy Steel) assess the adequacy of expectations generated by microfinance as a tool for the reduction of poverty and a cause for social exclusion in both North and South. A majority of microfinance schemes in both North and South have been able to raise assets, employment, and income in relation to the performance of a control group. But loan-based schemes in particular have seldom benefited the very poorest because these people seldom become borrowers (p. 216). Nevertheless, there may be indirect benefits from these schemes for the very poorest. One of the most important of these, given that the poorest have few things to sell other than their labor, may be that microfinance enables entrepreneurs to hire people who are extremely poor, even if few of the entrepreneurs are extremely poor themselves (p. 217).

In Chapter 12, the author (Marek Markuš) seeks to show how the findings regarding social capital relate to micro-enterprise development, and more specifically to microfinance in the context of the Integra Foundation (a grass-roots initiative, established in Slovakia in 1995).

The author of Chapter 13 (Jo Henderson) describes her experience of working as a consultant to an NGO (Manor and Castle Development Trust, MCDT) which has been handling part of the urban regeneration project in two highly disadvantaged wards in the southeast of Sheffield. The author argues that funding organizations may prefer micro-credit because the risk is transferred to the individual, but the author prefers grant-aiding projects that develop residents' personal capacities without exposing them to increased risk which can worsen their personal circumstances (p. 245).

The reviewer is interested firstly in the relationship between social capital and individual empowerment or investment in human capital. In the case of poverty reduction, policy intervention can enhance the well-being of the individual directly and indirectly. Amartya Sen[2] argues that a person's ability to promote his or her well-being directly and indirectly can be interpreted as human capability; and from the human capability perspective, human capital which indirectly enhances human well-being through income generation can be understood as a special case of human capability. According to the book, social capital can be understood as a social arrangement which directly and indirectly enhance human well-being and

[2] Amartya Sen, *Development as Freedom* (New York and Oxford: Oxford University Press, 1999), pp. 292–97.

quality of life, but it is necessary to provide a theoretical explanation regarding the relationships among human capital, human capability, and social capital. This is because investment in human capital (or promotion of human capability) may not automatically lead to the accumulation of social capital.

Secondly, all of the chapters attempt to link poverty in developed and developing countries, and if we take the views expressed in this book, I have to wonder how to discriminate between developed and developing countries. This is because the book attempts to provide a unifying theme of poverty reduction for both the North and South. It pays special attention to inequality and the social dimension of poverty, and it is not sufficient to define developed countries by per capita income or macro indicators for the standard of living such as the Human Development Index.[3] In order to enhance the comparison of social policy outcomes in developed and developing countries, performance measures for gauging the social capacity to manage risk and for judging income support programs need to be prepared in order to assess the development performance of the countries.

Thirdly, since the book focuses on topics such as poverty, social capital, and microfinance, it is difficult to identify mechanisms which link poverty reduction and social protection at the micro or regional level, and long-term economic growth (or social and institutional change) at the macro level for risk reduction and employment generation. For example, the *World Development Report 2000/2001* (pp. 31–41) identifies distribution, opportunities, empowerment, security, and other institutions as factors linking economic growth and poverty reduction, and this framework enables the reader to study conditions for pro-poor growth. The present book likewise should provide some sort of unified approach for economic development.

Finally, the book is a product of interdisciplinary studies regarding poverty reduction and social policy, but it dose not try to compare itself with alternative approaches to poverty issues. The authors explore their arguments in diverse models, theories, and standpoints, and these scattered approaches reduce the impact of the arguments and achievements of the papers.

This book summarizes the recent literature that links poverty reduction in developed and developing countries, and the comprehensive bibliography of the book is valuable. I hope that many researchers and experts in the fields of economic development will read the book and grapple more deeply with the issues discussed in the *World Development Report* and *Human Development Report*.

(Hiroki Nogami)

[3] United Nations Development Programme (UNDP), *Human Development Report 2000* (New York: Oxford University Press, 2000).

Economic Development of Myanmar by Myat Thein, Singapore, Institute of Southeast Asian Studies, 2004, xvii + 289 pp.

The economic policy of the present military government of Myanmar is unpopular not just among the Myanmar people but also among foreign investors, international financial organizations such as the IMF, World Bank, and ADB, and countries that are aid donors. To begin with, we do not know whether the present government has a set of consistent economic polices, or whether it simply relies on ad hoc piecemeal administrative fiats. The government has so far failed to implement much needed economic reforms in areas such as macroeconomic stabilization, liberalization, and privatization. In fact policy seems to be moving in the opposite direction, for whenever the present government wishes to promote economic and industrial development, it constructs state-owned factories that produce goods such as *longyi* cloth, slippers, soap, sugar, soft drinks, and bicycles. The governments of high-performing East Asian economies tend to provide a better investment climate for private enterprise, and encourage inwards investment by foreign companies rather than going into direct production by themselves. Everyone recommends the present government of Myanmar to emulate this approach, which seems to have proved more successful than the state-owned factory strategy. But they have not done so. Why? As regards this question, this book, which looks at Myanmar from the viewpoint of economic history, gives us food for thought.

This book provides a comprehensive and detailed picture of Myanmar's economic policy and performance for the period between 1948, when Myanmar became independent, and 2000. The first chapter provides a chronology, in which the author divides the half century into three periods, namely, the period of parliamentary democracy (1948–62), the socialist period under military rule (1962–88), and the market-oriented period under military rule (1988 to the present). The second chapter deals with the first period, Chapters 3 and 4 discuss the second period, and the fifth and sixth chapters cover the third period. For each period, the author first assesses macroeconomic and external sector performance and then examines sectoral and social developments. The final chapter offers a conclusion.

The book makes several useful contributions. First, it helps to make good the paucity of literature on Myanmar's economic history. As the author says, "to date, there is not a single textbook on the economic development of Myanmar whose content encompasses the entire post-war period from 1948 to 2000" (p. xv). Moreover, the fact that this book was written by one of the most prominent native economists permanently residing in Myanmar is of particular significance. The preceding few economic histories of Myanmar were mostly written either by foreigners or by natives, most of whom lived abroad in one way or another. The fact that the author has always lived in Myanmar, even during the socialist period, gives authenticity and depth to his descriptions and analyses, which are based on first-hand knowledge and personal field observations. This is all the more valuable when one takes into account the scarcity and unreliability of the economic and social statistics available in Myanmar.

The author, moreover, makes a useful contribution in bringing together in a single well-structured volume a number of already published studies undertaken by native and foreign economists covering different periods and various aspects of postwar economic development. These studies, which are neither the work of the author nor always to his liking, have been restructured so as to make a coherent account. The result reads well.

The third main contribution of the book is that it provides a balanced explanation of the process of economic development, and one that refers to general and/or stylized economic factors as well as noneconomic and/or more country-specific factors such as insurgency problems, ethnic conflicts, the bitter experiences of the colonial period, and religious trends. While the author pays sufficient attention to the latter factors, he does not overemphasize them. He cautiously avoids falling into any sort of determinism, and does not argue, for example, that the country was forced to follow a particular path by a particular kind of environment. On the contrary, instead of trying to find excuses for the lack of economic development in Myanmar, the author tries to learn the lessons of the past and show their appropriateness for the future. In this way, the presentation of the argument is both fair and balanced.

What, then, can we learn from the book? In the epilogue, the author writes "as in the past, it [the government] cannot get rid of its negative outlook on private sector activities and often resorted to what has been termed as 'swingdoor' policy" (p. 241). The reviewer cannot agree more. The economic history recounted in this book presents an abundance of such examples. For example, whenever successive governments have tried to harness the energy of the private sector in the interests of achieving a higher rate of national economic growth, their efforts have often been followed by failures in the management of state-owned economic enterprises (SEEs), and have led to the establishment of joint-venture corporations between state and private businesses. This strategy has been repeatedly tested as a first and partial retreat from the state-factory approach. Another recurrent theme is that whenever the military took power whether by force or legitimately, they established their own business organizations and sought to create a kind of self-reliant and self-contained enclave economy outside the confines of the national economy.

Ever since Independence, every government, whether civilian or military, and whether democratic or socialist, has approached the problem of the private sector with great concern and trepidation. Whenever political leaders have wanted to accommodate the energy of private enterprise within the national economy, a socialist philosophy, an anti-capitalist attitude, a xenophobic disposition, and probably, a military-strategic way of thinking have always left the redefinition of the role of the private sector vague, as though abandoned at a halfway stage.[1] In this regard, we see in the approach of the present administration not so much the introduction of new initiatives, but rather the persistence of continuity with, and repetition of, the economic policies and institutions of the past. On examination, any introduction of new systems or institutions by the present military government turns out to be a sort of revival of past experience after all. History seems to be repeating itself. This is probably one of the most important messages conveyed by this book.

Let me now touch on some limitations of the book, although most of them are in fact mentioned and qualified by the author himself. First of all, as he admits, it has been possible to take a holistic approach only in a rather limited manner (p. xvi). He says the failure of

[1] See Toshihiro Kudo, "Transformation and Structural Changes in the 1990s," in *Industrial Development in Myanmar: Prospects and Challenges*, ed. Toshihiro Kudo, ASEDP Series no. 60 (Chiba: Institute of Developing Economies, JETRO, 2001).

development should not be attributed to noneconomic factors. "Thus, while unique country experiences should be taken into consideration, it is important not to overemphasize them" (p. 12). I agree with him, and as I mentioned earlier, this stance prevents him from falling into any kind of determinism. Nevertheless, at the end of the day, readers are likely to be satisfied and persuaded only by a thoroughgoing holistic approach. For example, the author seems to stick to the conventional interpretation of attributing the socialistic disposition of successive post-Independence governments to the bitter memories of economic dominance by foreigners during the colonial era. While this interpretation is valid enough, the question is to what extent this factor on its own is able to explain the forty-year- or even fifty-year-long resilience of dirigiste attitudes in Myanmar. Other questions need to be answered. What was the influence of the cold war in Southeast Asia? How important was the leadership personality of Ne Win? Such noneconomic issues seem to have exerted a considerable impact on economic policy and performance in Myanmar.[2]

Second, the book seems not to provide a framework or narrative of a kind that might help readers to understand the mechanisms of development or underdevelopment in the Myanmar economy. The book provides plenty of facts and descriptive materials, which are of immense value as they stand, but the facts and descriptive materials are not incorporated within a frame of reference. Of course, this book is meant primarily as an easily accessible textbook for those interested in the Myanmar economy. Nevertheless, since the author is well known as the most eminent, provocative, and outspoken economist in Myanmar, the reviewer cannot help wishing that more attention had been given to the author's views and analyses of the mechanisms of Myanmar's economic development or underdevelopment during the entire postwar period.

It is here perhaps relevant to point out that the Institute of Developing Economies (IDE), Japan, has organized a study group, headed by Professor Koichi Fujita, Kyoto University, with the aim of comprehending the economic policy, performance, and transformation of economic structure of Myanmar under the transition to a market economy since 1988. This study and its research were summarized in a Japanese-language book published in 2005[3] which will appear in English translation next year. This book tries to present a framework, hypothetical though it might be, for understanding the structural changes in the economy that occurred between the early 1990s and 2004. In a way, this study developed from Professor Myat Thein's book, which proved to be an excellent starting point for the study team. This reviewer hopes that the author will read the forthcoming English version of our book and that he will exchange views with the contributors in the near future.

Lastly, even though it was published in 2004, the book under review covers the period only up to and including 2001. The preface was written in October 2001. Of course no book can cover the period after its publication. Nevertheless, it is unfortunate that there is no coverage the events that have occurred in the Myanmar economy since 2002. Perhaps the most important of these was the banking crisis of February 2003 which exerted a considerable impact on the entire economy. This event revealed many of the structural problems that

[2] See Toshihiro Kudo, "Political Basis of Economic Policies under Burmese Socialism," *Southeast Asian Studies, Tokyo University of Foreign Studies,* no. 4 (1998): 139–77.

[3] Koichi Fujita, ed., *Myanmā ikōkeizai no hen'yō: Shijō to tōsei no hazama de* [Myanmar's economy in transition: Market versus control] (Chiba: Institute of Developing Economies, JETRO, 2005).

beset not just Myanmar's financial sector but the whole of the economy. The crisis also revealed what had long been going on under a veil of secrecy in the banking sector in a highly distorted macroeconomic environment. Some economists and so-called Myanmar watchers regard the period between 2001 and 2003 rather than the Asian crisis year of 1997 as a turning point in the country's economic development. Since then, Myanmar's economy has continued its downwards spiral. Discussion of this important event might have changed, albeit slightly, the author's treatment of the economy.

To be sure, this reviewer is probably requesting something beyond the objectives and scope of the book. What is beyond doubt is that this book is a first-class textbook of the economic history of Myanmar during the whole postwar period. It will be an important starting point for all students who wish to study the Myanmar economy. (Toshihiro Kudo)