further impeded by the multiple issues that confront decision-makers in a complex, interdependent world. As a result, a nation could fail to formulate foreign policy objectively and to maximize its national interest in relation to other nations.

These issues are important and the author's hypothesis is interesting, as we are all affected by our countries' policy towards other countries (and vice versa), and we would like to know if policy-makers' decisions are governed by hard logic, or influenced by their psychological biases. Hence it is unfortunate that these issues are hardly taken up in the rest of the book. In the discussion of Japan's foreign policy *vis-à-vis* the United States, China, Korea, and ASEAN (in Chapters 3 through 5), the author cites public opinion polls conducted in Japan in order to identify Japanese perceptions towards these countries. In view of the statement in the Introduction, it is puzzling that neither "psychological predispositions of foreign policy decision-makers" nor "foreign policy élites' perceptions or views of a country" play any role in this analysis. One possible interpretation is that the author implicitly assumes that the foreign policy decision-makers' views broadly reflect those of the general public. If this assumption was held by the author, however, this book would lose its original perspective to investigate the formulation of foreign policy from a decision-makers' subjective perspective.

Only in Chapter 5 is something close to the analysis of "foreign policy élites' perceptions" presented with respect to the "young leaders" in ASEAN countries. Views of these young ASEAN leaders polled by a Japanese newspaper must be similar, if not identical, to those held by foreign policy-makers of their respective countries (although this poll has a bias as it does not cover senior leaders). The author attempts to test, based on this poll's results, the hypothesis of the link between perceptions and foreign policy, and reaches "ambivalent" conclusions. Some ASEAN countries may have achieved their national interest with respect to Japan, and some of them may not have. Decision-making by some ASEAN members was not impeded by emotional issues with Japan (such as the memory of Japan's wartime acts of aggression), while foreign policy by some was influenced by their negative perceptions of Japan.

This total lack of hypothesis testing regarding Japanese foreign policy-making, as well as a limited and inconclusive analysis of ASEAN leaders, is especially disappointing as the hypothesis was presented in a refined theoretical discussion. This gap between the Introduction and the rest of the book may stem from the fact that this book is a collection of articles that were previously published in various journals. It is a difficult task to unite, under a coherent framework, essays that were separately produced. For this book, the uniting theme is no more than to introduce the *sakoku* mentality as a potential explanatory variable of Japanese policy and people's behaviour. The author was a little too ambitious in preparing the Introduction, and offered a thesis that proved to be more than this book could deliver.

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***Toward a New Financial Architecture: A Practical Post-Asia Agenda.* By Barry Eichengreen.** Washington, D.C.: Institute of International Economics, 1999. Pp. 189.

Building the World, One Piece at a Time

Perhaps the distinguishing characteristic of Eichengreen's contribution is his greater sensitivity to political influences and conditions that are more prevalent and unique to Asia (and emerging markets in general), as compared with developed economies. There is no discomfiture in defying conventional wisdom and insisting that:

> There is no double standard in arguing that emerging markets, where conditions are fundamentally different, need to follow fundamentally different policies. (p. 50)

This has led to proposals that have carefully weighed the merits of high theory with the feasibility of their implementation. In this sense, then, the approach of pragmatic incrementalism resembles that of Bergsten (2000), as opposed to the more polar views held by others in the profession.[1] The book's treatment of the issue is organized around three main themes: crisis prevention, crisis prediction, and crisis management. Several of the more cogent and pertinent arguments are examined here.

Crisis prevention has moved from the standard macroeconomic recipes of ensuring monetary and fiscal discipline towards microeconomic reform such as bank regulation and corporate governance. Echoing the proposals of most multilateral institutions,[2] Eichengreen hashes together the usual suspects: improving standards for bank supervision; securities market regulation; data dissemination and corporate bankruptcy reform. In each example raised, the proposal is exposited — often drawing from the deep pool of experience the author possesses — and often related to contemporary cases. The underlying thread that runs through all of these appears to be the prevalence of existing private sector institutions that provide the bedrock for any further, concerted international effort to introduce reforms. As a representative example, consider the section on securities market regulation (pp. 25–27). The International Organization of Securities Commissions (IOSCO) has, for almost a decade now, been actively involved in a wide range of regulatory issues with implications for systemic risk. In addition to mandatory monitoring and dispute resolution tasks, it has also been active in pushing for higher international standards in transparency and accountability. The IOSCO is not alone: other bodies, such as the Basle Committee and the International Corporate Governance Network (ICGN) exist, although the efficacy of these private bodies are limited by the incentive to comply to recommendations.

However, Eichengreen omits the importance of differences in the principal-agent problem in different contexts — for example, different perceptions of the role of management in Japan and East Asia, and simply adopts the Anglo-American owner-shareholder model as the standard. Although there is probably merit in the Western model, practical realities dictate the need to address these variants as well, within the context of transparency and accountability.[3]

Eichengreen recognizes that crisis prediction remains far more of an art than a science, and that academic research in the area, although growing increasingly sophisticated, is far better at yielding *ex post* theories than *ex ante* warnings. Correspondingly, he systematically rejects both suggestions that involve monitoring variables in theoretical models,[4] as well as politically unpalatable options. He instead elects for Chilean-style taxes on capital inflows, after careful examination of empirical experience. The evidence pertaining to capital-inflow taxes in view of Chile's experience (pp. 51–55) is considered carefully, and the conclusion is that the taxes have been largely effective, although their efficacy was gradually reduced over time as private agents began to seek and subsequently exploit loopholes. The recommendation, therefore, is for the implementation of capital-inflow taxes as a transitional measure, at least until the domestic financial market matures.

With regard to this issue, Eichengreen does, however, establish a curious distinction between capital *inflow* and *outflow* taxes. Whilst much of the succeeding discussion concerning the limitations of outflow taxes as a third-line defence mechanism is sound, it is hard to see the need to differentiate the two when considering long-run reform of countries' financial policies. Rational foreign agents will view the costs of any tax on capital movements to be equivalent and, save for minor regulation and monitoring differences, this differentiation of the two is largely illusory.

The Eichengreen concept of crisis management centres on the bailing-in of the private sector, that is, involving the private sector and hence making them more aware and accountable to problems of information asymmetry. The range of measures brought to bear includes negotiating standby lines of credit, new provisions for loan contracts, and International Monetary Fund (IMF) lending for arrears. The critical problem with all these ideas stems from Eichengreen's insistence on suggesting modest, politically-acceptable approaches; although not without its merits, this results in no real, convincing reform plan. Even what Eichengreen admits as possibly the best option, discouraging short-term borrowing, sounds like a hollow attempt at providing a grudging answer to the crisis management question.

In a persuasive chapter (pp. 79–95), Eichengreen systematically critiques a whole host of varying proposals, such as an international court for sovereign debts, an international debt insurance agency, and a Tobin tax, mostly on the grounds that these were not realizable, either because of lack of political will or economic infeasibility. He also includes a chapter discussing the reform of the IMF (pp. 97–121).

Two omissions stand out from Eichengreen's overall largely comprehensive treatment of the subject: the absence of proposals directed towards monitoring action on the part of the developed nations,[5] and suggestions pertaining to exchange rate arrangements. The former is not trivial: the indiscriminate lending by European banks meant that capital flight due to panicky Western bankers was as much a precipitator of the Asian crisis as was weak banking systems. The latter neglects the very convincing work on a band-basket-crawl regime, expounded most recently by Williamson (2000). However, the book is on the whole thorough and exhausts most avenues; both academics as well as policy-makers will benefit from the analysis. In addition, its non-technical style also renders it readily accessible to business practitioners and students, or even the layman wishing to be informed about an important and critical topic that is bound to have deep ramifications for many years to come.

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NOTES

1. Amongst those favouring the major institutional reform approach is Rogoff (1999). Meltzer (2000) is the most prominent voice amongst those preferring a no-holds-barred market-based approach.
2. See, for example, Group of 22 (1998).
3. It should be noted that this is not an endorsement of poor business practices, but rather that there is a need to recognize institutional and cultural differences and tailor policies that work with situation-specific idiosyncrasies to enforce market discipline, yet are firmly founded on property rights and the rule of law.
4. Such as the first-generation ones *á la* Krugman (1979) and the second-generation ones exemplified by Obstfeld (1996).
5. This has been raised in detail by Bryant (1999). A redeeming point has been that Eichengreen does, however, devote an entire chapter (pp. 59–78) to discussing the bailing-in of the private sector, which necessarily includes foreign market participants.

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