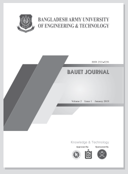

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A Book Review on 'Banking and Economic Rent in Asia: Rent Effects, Financial Fragility, and Economic Development'

Hasan A K M Kamrul[1]

[1]Graduate School of Asia Pacific Studies, Ritsumeikan Asia Pacific University, 874-8577, 1-1 Jumonjibaru, Beppu, Oita, Japan

Abstract: The reasons for existence of financial institutions are discussed in the basic economics texts. Especially from the transaction cost analysis, it is evident that asymmetric information is the chief reason for existence of bank in the economic activity. Rent seeking has consequences in both conventional and Islamic banking system however the process is different. For example, 'Financial restraint' model and 'Murabaha mode of financing' are creating rent for conventional banks and Islamic bank respectively. Here in this article we reviewed edited the book from two perspectives. Firstly, how the authors argued in favor of rent seeking behavior of the banks. Secondly, a short brief regarding the case studies discussed in the book. In this article we summarize the edited book to provide the readers a quick view regarding the book.

Keywords: *Rent seeking; Financial constraint model; Islamic bank; Murabaha mode.*

Introduction: Although "Bank rent" or "rent seeking" is frequently used term in financial institution theories but Asian focused economies and Islamic finance industry was awaiting for such comprehensive analysis on this issue especially on how financial restraint model could create bank rent and Islamic banks are struggling to create sustainable rent for themselves. The book 'Banking and Economic Rent in Asia: Rent Effects, Financial Fragility, and Economic Development' edited by Yasushi Suzuki, Mohammad Dulal Miah, Manjula K. Wanniarachchige, S.M. Sohrab Uddin, published by Routledge 2017, IBSN (978-1-138-67532-2) has two parts, such as "Theoretical framework for empirical analyses" and "Empirical studies. In theoretical parts the authors describes about the market failure from the view point of information asymmetry and transaction cost. Mentionable here that Williamson [1] discussed transaction cost comprehensively whereas information asymmetry was widely discussed by Akerlof [2], Spence [3], Stiglitz and Wesis [4]. In short, the discussions about the profit seeking methodologies from both socialist and capitalist point of view provide the readers a comparative picture about the issue. The role of banks as financial intermediaries and functions of the banks such as "facilitation of information collection, economizing transaction cost, absorbing general uncertainty and maturity transformation and liquidity insurance" are well described in this book. This discussion is quite advantageous while designing appropriate institutional framework for maintaining a resilience financial system.

Methodologies: In this paper, we follow the two step book review methodology. Firstly, we attempt to summarize content of each book chapter and then we provide some contemporary academic researchers view to give the readers a different flavor on same issue. Finally, we provide concluding remarks at the end of this article.

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Corresponding author details: HAKM Kamrul
E-mail address: hasan.hasanakmkamrul@gmail.com
Tel: +080-9060-5719

Discussion: The first two chapter of the book dedicated for classical theoretical discussion on rent and banks role as financial intermediary. Non- economics background readers might get quiet basic concept about the heterodox economists view regarding 'rent' concept and 'rationale for existence of bank' in the financial system after reading the first and second chapter of the book respectively. Advanced readers can consult with well referred book "Microeconomics of banking" by Freixas and Rochet for better understanding the role of bank from mainstream economists' point of view. The third chapter of the book briefly described about how 'bank rent' created in the developing countries context. The authors argue that under "Financial restraint model", bank rent (which is considered as excess income) provides incentives to take high risk and financial innovation in the market. However, as developing countries markets are not perfectly competitive, the implication of this model is not so rosy in such economics. The book argues that in perfect market, credit rationing can minimize the adverse selection and moral hazard that arises due to information asymmetry and higher transaction cost but in practice it has less chance to work. Authors also referred that "Financial restraint model" as an advanced level solution to avoid adverse selection and also create rent opportunities to bank. To overcome the limitation of financial constraint model in developing countries context, this book has developed an extended model that could better fit with the developing countries realities. In page 47 of the book, the model described with pricing, operational and overall macroeconomic perspective. The brief elaboration of the model and the impact analysis of this model is really interesting. I agree with the author that the implication of this model depends on the nature of the banks exists in the market, good governance and the degree of autonomously decision making enjoyed by central bank from the government in developing countries. The argumentative preposition presented by the authors is really appreciable.

"Islamic Bank rent', the term used in chapter four might be considered as new terminology in Islamic finance industry. The Main objectives of this chapter is to theoretically investigate the root cause of so called "Murabaha Syndrome" and how Islamic bank rent differ from traditional bank rent. According to authors, the prime reason for Murabaha Syndrome is the marginal efficiency of Capital. Because it is easier for banks to estimate yield when it invest in murabaha mode. Authors also mentioned that main challenge for Islamic banks is to create rent after absorbing both credit risk and shariah risk that the Islamic banks deals with. This argument also supported by Kettell [5], Hasan [6], Rosly and Bakar [7]. In this respect "Murabaha" or Asset based financing creates enough incentives/rent for Islamic bank to cover profit loss sharing risk. Authors have justified their claims from comparative analysis of Islamic Banks and conventional banks operating and profitability ratios. This observation obviously explores the new window for analyzing the performance of Islamic banks from "Bank rent" point of view.

Empirical parts of this book can be considered as corner stone of this book. The Cases developed and discussed in the book are consists with Japan, China, GCC countries and South Asian countries as well. While discussing about China case, the book analyses from 1980s when China adopted reform policy in its economy. In this period the dependency of state owned enterprises (SOE) on State owned commercial banks (SOCBs) has increased sharply which ultimately shifted the depositors money to the SOEs. But the non-performing loans also increased tremendously during this period as SOCBs loans to SOEs are actually "policy loans" rather "commercial loans" as government instruct to disburse the loans as subsidies to the SOES. Authors referred those as "Policy burden of Big Four Banks". Chinese regulator has adopted financial restrain model and create rent to revive its economy. But there is high chance of burst the bubble in Chinese housing sector, which authors mentioned carefully. The book's suggestive approach to China for sustaining its rapid economic growth and avoiding financial slump are creditable especially addressing the messes exists in the informal financial sector in China.

The book mentioned that Sri Lanka has failed to develop financial restraint model which will create rent to the banks. This claim is evident from the comparative banking data analyses between India and Sri Lanka. With detailed empirical analysis the author has differentiate the price rent and operating rent in banking industry which is exciting . But it could be considered that India has almost steady economic growth and political stability than Sri Lanka in the observed period. The comparative analysis of Islamic banking vs. conventional banking (in the context of Bangladesh, Indonesia, Malaysia and Pakistan banking industry) is well portrait in the book. The authors' research shows that Indonesian Islamic banking investment mode, is a bit innovative rather than other countries. It also finds that murahaba syndrome creates "Islamic Bank rent opportunity" in Bangladesh and Malaysia. On the other hand, insufficient bank rent opportunity hinders the growth of Islamic bank in Indonesia and Pakistan, This analysis obviously unlock the further research opportunities on "Islamic Bank Rent" in the region studied.

With reference to GCC countries the book mentioned that the Musharaka/Profit and Loss Sharing (PLS) mode of investment can ensure more bank rent to Islamic Banks, Qatar, KSA and Bahrain for example. In UAE the scope for Islamic bank rent is a bit limited as low presence of Islamic banks in the market. The authors claim is evident from the performance matrix of five GCC countries where it shows, Islamic bank rent can be enjoyed by Islamic bank in these regions when it come forward to challenge the uncertainty under PLS mode rather than asset backed murabaha mode. However, Alqahtani et al. [8] and Zulkhibri [9] research findings on GCC countries case, Malaysian Islamic banks case respectively advocates to continue murabaha contract mode rather than PLS mode.

The effect of Quantitative Easing (QE) on bank rent and its ultimate consequences on banking channel are well discussed in the book with Japan's perspective. Although quantitative easing (QE) policy is an unconventional monetary policy, Japan mainly used it to overcome the fragility in its financial system and specially Bank of Japan (BOJ) intention was to implement zero interest rate policy (ZIRP). But during the period of QE and ZIRP Japanese banks rent opportunity basically depends on interest income of governmental bonds. Therefore, QE was not so successful in Japan. The authors also mentioned that implementation of negative interest rate by BOJ has increase the Japan premium which ultimately create a financial rent for US Dollar fund providers to Japanese firms. The analytical approaches used in this regard are attractive and quite convincing. The findings of Yoshino & Taghizadeh-Hesary [10] and Hanabusa [11] are similar with the authors view. Interested readers can view the works of Belke [12] and Perillo & Battiston [13] to see how quantitative easing was worked in United States and Euro-zone respectively.

Conclusion: In case of better understanding of financial stability and bank rent, the book can be considered as lamppost. In addition, Murabaha syndrome of Islamic banks has both theoretically and empirically analyses by the authors in this book. In a word this is a must read book for the student and researchers of institutional and financial economics.

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