BOOK REVIEWS

Parental Supervision: The New Paradigm for Foreign Direct Investment and Development

Theodore H. Moran
(Washington, D.C.: Institute for International Economics, 2001), 88 pages

Theodore Moran's short, but well-researched and written book, *Parental Supervision,* is an interesting and valuable exercise in rhetoric. His main purpose is to show that affiliates in developing countries that are tightly integrated into the parent firm's strategy and operations are most likely to benefit the host economy through up-to-date knowledge transfer to the affiliate, linkages with local suppliers, positive spillovers and other externalities. The main underlying reason is that transnational corporations (TNCs) engaged in fierce international competition must, perforce, ensure that all parts of their global operations are efficient, which encourages, for example, ongoing transfer of technology to host country affiliates and a tight supervision of suppliers' quality, delivery and other aspects of performance. The argument is based on substantial empirical evidence, drawing on studies from across the world, especially in the automotive and computer/electronics sectors (which is reasonable since these industries are among the most internationalized and, potentially, major harbingers of knowledge transfer and broader development). Based on this evidence, Moran makes a very important case for measuring the impact of foreign direct investment (FDI) on development in a careful and appropriate manner.

His examination of the evidence shows that many previous studies do not, for instance, properly distinguish various forms of ownership (for example, joint venture versus wholly owned affiliates, with the latter presumably being more tightly linked with the parent firm) or the directions of potential spillover (horizontal versus vertical integration, with TNCs being less likely to prevent technology leakage in the latter). Such studies tend to understate the positive impact of FDI on development. Various policy implications for governments flow from this.

However, rhetoric – even excellent, empirically based rhetoric such as this – can lead to a case being overstated or, perhaps, not being nuanced. This is the case here. Moran is right to stress the need for appropriate measures, especially regarding the degree of an affiliate's integration into a parent's strategy, but by the same token there are other control factors to consider. In terms of ownership, for example, a joint venture might arise because the affiliate is local-market orientated (not because of government requirements, which Moran decries), and the possible subsequent lower transfer of technology (because of goods being made for "less sophisticated" developing country markets) would thus be fully in line with the parent company's strategy. At the same time, there are examples – from the Republic of Korea, Singapore and elsewhere – of joint ventures playing a valuable role in development as part of an industrial policy. It is telling that the best evidence available to Moran on the impact of efficiency spillovers comes from studies in two *developed* countries, Germany and the United Kingdom. This reflects the paucity of relevant studies in developing countries (making it difficult to draw definitive conclusions), but it also reflects the nature of such economies. In particular, rapid, large gains from FDI are undoubtedly dependent on the existing capabilities of host-country companies: these might be reasonably expected in developed countries, but are often weak or absent in developing countries. As a result, it is not unusual for supplier linkages, for instance, to be made with affiliates of other foreign TNCs, with little impact on local suppliers. This is contrary to Moran's expectations, based on the book's arguments, but it results from his ignoring of other evidence and, in particular, of the possibility that careful and selective government policies (including the creation of local capabilities through joint ventures and other measures) can potentially accelerate the benefits that an economy might enjoy from FDI.

This being said, of course there is considerable truth in Moran's arguments. But all truth is contingent on context, circumstances and goals (of companies and countries), especially in a dynamic and complex world. Moran makes a good case for the benefits which can flow from FDI where a *wholly owned* affiliate is tightly integrated into a parent's *global market* strategy; however, this is not a sufficient condition and it is a mistake to imply that all other types of FDI are hindered in terms of their contribution to economic development.

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Globalisation? Internationalisation and Monopoly Capitalism: Historical Processes and Monopoly Capitalism

Bob Milward
(Cheltenham and Northampton, MA, Edward Elgar, 2003),
viii + 198 pages

In a world in which the trend is for academics to research deeper and deeper into smaller and smaller aspects of the world, this is a book that unusually adopts a broad, sweeping approach to a range of issues that ultimately shed light on key dilemmas facing humanity such as poverty, development and globalization. In less than two hundred pages, the author rejects globalist and internationalist positions as explanations of contemporary developments in the world economy and offers an alternative Marxian framework of analysis as a way of rationalizing the world's economic, social and political problems. He does this both from a theoretical perspective and by examining a number of factors that figure prominently in what has conventionally become known as "globalization" but which the author would regard as simply another phase in capitalist development. It is this broad sweep that is both a strength and weakness of the book.

The book benefits from a clear structure. The first three substantive chapters are key and set out the author's stance on conventional explanations of globalization and establish his own position. Later chapters examine key related individual facets of globalization from within his preferred explanatory framework.

The first substantive chapter is a critique, and ultimately rejection, of the neo-liberal paradigm that underpins explanations of increasing global interconnectedness. The author acknowledges that globalization has a diversity of meanings but argues that it has essentially become "a synonym for the idea that we live in a world in which certain forces cannot, and should not, be restrained or questioned" (p. 10) and is dominated by the idea of free market economies, free trade and western style democracies. A distinction is made between "weak" and "strong" globalization that depends on the extent to which the nation state retains influence over trade, production and financial markets but, ultimately, in the author's terms, what unites the globalists is far more important. The author argues that globalization is not really global, that it relies erroneously on variations of the argument that there is no alternative to globalization and that factors of production are not truly mobile given the relatively immobility of labour. None of these arguments on their own, or even together, necessarily invalidate the notion of globalization, they merely make it more complex and highly nuanced. Indeed, in trying to dispense with the neo-liberal paradigm within fourteen pages, the author is in danger of setting up a straw man that can easily be knocked down and would not necessarily be recognized by those engaged in debates over the concept.

However, for the author, the argument that really exposes the flaw in the neo-liberal case is the paradox surrounding competition that, according to the neo-liberals, underpins markets, leading to greater efficiency. However, from the monopoly capitalist perspective, as capitalism develops, economies of scale lead to bigger and bigger enterprises that cover wider geographical areas. The survival instinct under this intense competition results in mergers, acquisitions and a tendency towards monopolization rather than competition. This tendency to monopolization forms a key component in the author's alternative explanatory framework for developments in the world economy.

The second substantive chapter explores the internationalization thesis that argues that globalization is not new and that the interdependence talked of by globalists is nowhere near as developed as claimed. Transnational corporations (TNCs) remain rooted in the advanced economies and the movement towards freer trade has resulted in regionalism, not necessarily a precursor to greater openness. However, for the author, the internationalization perspective retains the underpinning of the neo-liberal paradigm with the difference that it tends to be supported by the social democratic view that the excesses of unfettered markets can be restrained to provide improvements in living standards for all. According to the author, this overlooks the inevitable widening of inequality and the increase of impoverishment arising from the capitalist mode of production.

Having rejected both globalization and internationalization, the author offers his own perspective in the third substantive chapter. Essentially, he turns to ideas of monopoly capitalism to provide “a more credible theoretical framework, one that has greater potential for explaining the empirical facts and … how the internationalization of the relations of production is logically the outcome of the inner workings of the capitalist system” (p. 37). The core of the argument is that the “dynamic nature of the capitalist mode of production itself produces the need for competitive firms to expand markets and to find more labour to exploit” (p. 37).

Intrinsic in this view is the labour theory of value in which it is labour that creates the added value within the production process. However, capitalists see it in their interest to maintain a large surplus of labour, perhaps by new forms of technology and organization, to keep the cost of labour (that is, wages) down. Inherent in this is one of the contradictions of the capitalist process: large armies of unemployed labour help capitalists retain the upper hand in the labour-capital power relationship but they are unable to make a profit out of the surplus value created by labour as low wages mean there is insufficient demand for the product. Welfare systems can offset this problem for a while but not indefinitely. The continuous search for profit results in increasing merger and concentration, initially at a national level and then internationally first through imperialism and colonialism and then through imperialism via the TNCs rather than by the State – a condition that represents the current state of play. However, in the long term, capitalism will destroy itself because the contradictions and problems inherent at national level will manifest themselves in an increasingly serious series of international crises.

Having established where his own theoretical preference lies, the author then embarks upon a series of short chapters that examine important factors in the current globalization debate from within a Marxian framework and the perspective of monopoly capitalism. These chapters cover global finance, industry, culture, labour, welfare states, trade, development and underdevelopment, regulation and regionalism. These chapters raise many interesting issues and provide food for thought but in many respects they are also unsatisfactory. In the process of covering so much material in an extremely short space, the author has inevitably had to condense and simplify arguments. In one sense, this has been done very well. The author has explained issues and developed his critique with a great deal of clarity. However, there is also an element of oversimplification that inevitably reduces the effectiveness of the author's own case. The author has declared the need for a theory that better explains empirical facts. However, for example, in his zeal to explain what he views as the inevitable exploitation of workers as capitalists search for lower-cost workers to exploit, he fails to explain why wages often increase in places where transnational corporations are active.

The development chapter similarly mentions the role of developmental States in East Asia (a model that certainly rejects the notion of pure neo-liberalism). However, these States still represent essentially capitalist systems of production and, albeit not in their early stages of development, did seek to make progress through increasing engagement with the international system, and their populations have seen their living standards improve as a result. The author's preferred Marxian framework will have an explanation for this phenomenon but the inevitable simplification of the arguments required by the sweeping scale of the book often do not lend themselves to convincing the reader of the strength of the author's case.

Notwithstanding these caveats, the author is to be commended for covering such a wide range of issues and for putting forward a consistent perspective that provides an alternative to the many shades of neo-liberalism and internationalism that dominate these debates. He has attempted an almost impossible task in covering so many, albeit related, issues within such a tight space and, although far from totally convincing in his advocacy of monopoly capitalism as the prime explanation of what he sees as an essentially unharmonious and conflict-ridden world, he is thought-provoking. The book is a welcome and useful addition to the growing mountain of literature on globalization.

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Holding Corporations Accountable: Corporate Conduct, International Codes and Citizen Action

Judith Richter

(London and New York, Zed Books, 2001), xii+241 pages

This book approaches the controversial subject of global governance and the regulation of transnational corporations (TNCs). It argues in favour of a shift from global governance to democratic control, and contributes to the debate by stating precise ways of achieving this aim. Judith Richter, a sociologist specializing in international development, uses the case of the infant nutrition industry as an illustration of the evolution of relationships between regulators, civil society and corporations. The author's analysis focuses on the two main actors of this power struggle: the private sector and associations of citizens.

The first two chapters set the scene by providing a historical overview of the evolution of TNCs' regulation. In particular, the author highlights the shift from the idea of democratic control of corporations to the notion of co-regulation by industry and other societal actors. Globalization and the economic and political changes of the past 30 years have created the need for new means of holding corporations accountable to society at a global level. The author explains how the initial attempts to control businesses through international binding regulation in the 1970s failed because of a strong political opposition, based on neo-liberal economic theories, which view interventionist policies as stifling trade and investment, and eventually reducing global welfare. The early 1990s have seen the growing consensus that companies would behave in a more responsible manner if left to regulate themselves through guidelines, standards of good practice and other voluntary initiatives.

In the late 1990s, however, the collapse of the Mexican economy and the Asian crisis convinced the international community, as well as TNCs, that a wholly unregulated global market could have negative impacts on society and corporations alike. Businesses turned to the United Nations, asking for better regulations for improving the predictability of the business environment, while still minimizing interference with the ability of companies to maximize shareholder value. The author argues that this resulted in the creation of numerous public-private partnerships, whereby the private sector kept a certain level of control over the formulation of regulations of corporate activity.

Today, the consensus is that the problem of checks and balances on the market is an issue of good governance rather than that of democratic control. However, civil society organizations and some United Nations agencies continue to demand regulations that are independent from the industry. The United Nations Development Programme, for example, advocates the establishment of a more coherent and democratic architecture for global governance that would include a binding code of conduct for transnational corporations.

The following five chapters are devoted to a comprehensive and detailed account of the development of regulations of the infant food industry's marketing practices, from the moment manufacturers came under international criticism in the 1970s, to the current implementation of the International Code of Marketing of Breast-milk Substitutes. The book analyses the role played by the industry in the process undertaken by intergovernmental organizations to develop, adopt and implement an international code of conduct regulating marketing practices. It highlights the industry's initial resistance to initiatives taken by health professionals, citizen action groups and United Nations agencies, and the influence of campaigns raising public awareness in the decision of corporations to take the issue seriously. It also shows how the consequent actions taken by the industry resulted in the formulation of an International Code of Marketing of Breast-milk Substitutes, which is a mix of external regulation and co-regulation. It indicates that, under industry pressure, the code evolved from a tightly worded text into a code open to interpretation, and that it was adopted by the World Health Assembly in 1981 as a “recommendation”, the weakest of the three legal forms allowed under the World Health Organization’s constitution.

The book goes on to explain how the implementation of the Code at national level was uneven and in some cases non-existent. The author argues that this is due to legacies of the process of code formulation and adoption, to the industry dissemination of its own interpretations of it, and more generally to a change in the international political climate concerning transnational corporations’ regulation. To date, 21 countries have enacted national laws based on the entirety of the Code. In some cases, political will and support from United Nations agencies and civil society groups have helped overcome obstacles to the implementation of the Code. Linking this initiative to the Convention on the Rights of the Child also helped in doing so, but still there are reported cases of harmful marketing activities on the part of the infant food industry.

The International Code of Marketing of Breast-milk Substitutes is one of the few codes envisaged in the 1970s that were eventually adopted. The author argues that the analysis of the process of its formulation, adoption and implementation raises issues that are relevant to the current debate on the regulation of TNCs. For example, it shows the gap existing between industry statements of corporate responsibility and actual practices, and puts in perspective the comparative powers of civil society organizations and those of business associations. It also shows how corporations influence legislation and political processes through newly developed public relations tools – specifically, international issue management and engineering of consent – and how dialogues and public-private partnerships can be used to further corporate interests.

The final chapter of the book draws the lessons learnt from this case, and argues that they should be taken into account in any attempt to increase corporations’ accountability towards society. First, it argues that self-regulation and co-regulation are insufficient provisions for ensuring that corporations take a comprehensive approach to social concerns. The reason for this lies in the inability of industry associations to determine and to implement effective self-regulation: policies might interfere with profit maximization; industry associations are not always representative of all companies in their sectors and do not have power to police their members; and the determination of acceptable standards of risk for society is a political decision. A second lesson to be drawn from the case of breast-milk substitutes is that the regulated party should not play any a part in the formulation of regulation, nor in the monitoring and sanctioning of its implementation. The assessment of what is best for society should remain exclusively as a political process, and should not be brought into balance with the interests of corporations.

The third and final lesson concerns the balance of powers between TNCs and governments, particularly those of the poorest countries. These governments need support from the United Nations and other international agencies, and public interest networks in order to be able to implement and enforce strong regulations. A good knowledge and understanding of corporate power is necessary to determine the appropriate support. The author outlines strategies to be explored in the way of making corporations more accountable to society.

This book should be read by anyone who is not yet familiar with the history and current mechanisms of TNCs' regulation. It gives a comprehensive and easily readable overview of the concepts and institutions involved in this debate and describes in a clear manner its actors, their interests and power resources. The use of the case study on the infant food industry's marketing practices gives a context to the discussion and grounds it into reality. The particular interest of this book lies not only in the quality of its analysis of the balance of powers between the various societal actors and the arguments for and against external binding regulation, but also in the fact that the analysis is supported by concrete proposals for the ways and means of making corporations more accountable to society. These include, for example, relaunching the debate on political antitrust legislation at the international level in order to restore the balance of power between TNCs and governments. The author also recommends recognizing the need of corporations for social legitimacy at the global level, and offsetting the ability of corporations to engineer consent. A United Nations Centre on Transnational Corporations should be re-established to provide public insights into the practices and structures of large corporations. Another recommendation made is to reassess the value of public-private partnerships and to set ethical baselines for such partnerships where there are conflicts of interest. Finally, the author recommends the strengthening of civil society organizations in their monitoring and whistle-blowing activities, and the use by United Nations agencies, national authorities and moderate civil society groups of the mechanism of naming and shaming, thus avoiding the "radicalism" stigma currently attached to groups using this method.

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Selling China: Foreign Direct Investment during the Reform Era

Yasheng Huang

(Cambridge and New York, Cambridge University Press, 2003), 383 pages

For many observers, the reason that China has become the new centre of global foreign direct investment (FDI) flows is essentially due to its large fast-growing domestic economy and its progressively opening markets. Yet, Yasheng Huang provides an alternative explanation for this development by provocatively arguing that it is fundamental institutional weakness in China that has really underpinned the large inflows of foreign capital in recent years.

In his intellectually stimulating book, *Selling China: Foreign Direct Investment during the Reform Era*, Huang states that it is the uncompetitiveness of Chinese domestic firms resulting from "political pecking" and market fragmentation that has paved the way for foreign firms to invest heavily in China. Domestic firms have failed to capitalize on new business opportunities because of the legacy of the economic planning system and administrative barriers to capital mobility, thus enticing foreign firms to move in to capture growing markets. State ownership underlies both "political pecking" and market fragmentation as it constrains market-based investment decisions and free movement of capital by domestic firms. Establishing joint ventures with foreign companies becomes a way of gaining economic freedom and management know-how. In this sense, the phrase "selling China" is appropriate, as many Chinese assets in the form of land, plant, franchise and brand are sold out as inputs of newly established foreign affiliates.

To support his assertion, Huang provides detailed evidence on the nature and structure of FDI in China. He starts by describing a number of anomalous patterns of FDI in China: (1)

an unusually high dependency on FDI relative to domestic investment and contractual alternatives; (2) a sharp rise in FDI inflows combined with a dramatic contraction of contractual alliances; (3) the dominance of foreign affiliates in the production and exporting of labour-intensive industries; (4) the presence of small-scale foreign investors. Then he proceeds to conduct an institutional analysis to provide explanations for these anomalies after introducing his analytical framework in chapter 2.

In chapter 3, the author sets the stage for a detailed analysis of FDI in China by describing the institution-driven inefficiency of Chinese corporate sectors. Chapters 4 and 5 demonstrate the contrast in the motivations for attracting FDI between non-state firms and state-owned enterprises. For the former, it is largely due to the capital constraint that non-state firms face and market expansion considerations. For the latter, it is an alternative way of securing privatization by transferring existing assets and management control to foreign investors. In an overall common context, in line with the Government’s discrimination against domestic private firms and insolvent state-owned enterprises, Chinese authorities have resorted to FDI as a means of privatizing state-owned enterprises. In chapter 6, Huang shows how market fragmentation associated with administrative decentralization raises the demand for FDI, which facilitates capital mobility across regions, to fill unsatisfied needs for capital. Again, it is a lack of an adequate number of effective domestic private firms that induces FDI to play a major role in this area.

The author also argues that, precisely because of the unique nature of investment flows to China, FDI has provided many of the functions required for privatization. These functions include provisions of venture capital to credit-constrained private entrepreneurs, and the promotion of interregional capital mobility. The author further argues that domestic firms should be able to supply these functions and advocates that China should rethink its overall reform strategies.

Both of these assessments are particularly valid given the sharp contrast in efficiency between foreign affiliates and domestic firms: in 2002, FDI accounted for only one-tenth of China's gross fixed capital formation. However, foreign affiliates contributed to one-third of the industrial output, one-quarter of the value added, more than a half of the exports and nearly three-quarters of the foreign-exchange balances held in the Chinese banks by business corporations. Foreign affiliates also generated nearly one-fifth of the total tax revenues and 23.5 million jobs, employing about one-tenth of the urban workers (National Bureau of Statistics of China, 2003). These numbers reveal that foreign affiliates are highly efficient and contribute greatly to the Chinese economy. The state-owned enterprises and domestic private firms cannot compete with foreign affiliates in many manufacturing industries. As entry barriers are further reduced in the services sector, foreign affiliates will play an even more dominant role in the Chinese economy. How to encourage stronger development of domestic entrepreneurship has thus become a strategic issue in order to sustain the rapid growth of the Chinese economy.

Like many other good writers, the author raises issues in the book that deserve further critical consideration. Among them are the balance between economic factors and institutional factors in explaining large amounts of FDI inflows, and formulation of effective development policies for encouraging both foreign investment and domestic private investment.

It is true that the institutional factors elaborated by Huang are critical in understanding the *pulling elements* of FDI in China (that is, factors that attract investment), a transition economy characterized by a pervasive inertia of the traditional planning system and by regional development gaps. At the same time, as the assessments of investment opportunities into China are made by transnational corporations (TNCs), we also need to take account of the *pushing elements* of FDI in China (that is, motives of TNCs for choosing China). As granting preferential treatments to TNCs is common in many developing countries, especially economies in transition, why have so many TNCs chosen to go to China rather than to other countries? There must be some features distinguishing China from other economies in pushing TNCs to invest in China. As widely understood, these seem to be a combination of the large size of the Chinese economy with the fast GDP growth and the progressive opening-up of domestic markets. It is essential to integrate both economic factors and institutional factors in interpreting the FDI legends in China. As institutional barriers are gradually phased out, it becomes more important to define the respective locational advantages of the Chinese economy in attracting different kinds of foreign investment.

The institutional deficiencies in the Chinese economy have led to corporate inefficiency and preferential treatment extended to foreign investors. As the author rightly points out, China chose to rely heavily on FDI for its privatization process. It was perhaps a necessary or unavoidable option, given the political and economic constraints that the Government of China and the state-owned enterprises faced in the 1980s and 1990s. Due to the preferential treatment given to foreign affiliates, however, this has produced distortions in the economy over time. The use of FDI as a financing source for privatization or interregional capital mobility is not a problem *per se*. The issue is the distortionary effects of preferential polices on domestic firms and less-favoured regions.

The further development of the Chinese economy demands a rule-based open competitive market environment for all firms, domestic and foreign alike. As China progressively complies with its World Trade Organization commitments further to open up its markets, it is important to remove preferential treatments for foreign investors so that domestic entrepreneurs can compete on an equal basis. It is, therefore, desirable that China should adopt a strategy that allows removal of distortions created by FDI and a reduction of its reliance on foreign affiliates for stimulating economic growth. At the same time, China needs to complement this *"FDI exit strategy"* with an active *"domestic investment promotion strategy"*, broadening the market entry opportunities for domestic non-state-owned enterprises and improving their market environment.

If the goals in attracting FDI are to introduce advanced technology, to improve management and to expand overseas markets, a direct measurement of success in attaining these goals will be the following results: more and more spin-offs of foreign affiliates prove capable of competing with existing foreign affiliates and further expansion in the global markets realized. Perhaps the author can enlighten us on these issues in his future research.

Selling China delivers its key messages by combining well-documented data, solid econometric analyses and first-hand interviews. Beginning with a story on daily life in Beijing by *Times* reporter Elizabeth Rosenthal, the book ends with an argumentation on Deng Xiaoping's well-known remark "It does not matter whether the cat is white or black, as long as it catches mice". The author provides numerous tables and case studies, presenting various interesting details to support the arguments outlined above. For readers who wish quickly to gain insights into the FDI experience in China, or for serious scholars who have a sustained interest in reviewing the exact nature and impacts of FDI in China, this work is a book to be read for its rigour and entertainment.

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