BOOK REVIEWS

World Investment Report 2005: Transnational Corporations and the Internationalization of R&D

(New York and Geneva, United Nations, 2005),
xxxii+332 pages

In the manner of the previous editions, the *World Investment Report 2005* (*WIR05*) contains two parts: Part I, which describes the latest trends in foreign direct investment (FDI) and Part II, which is thematic and analyses a specific issue. Part I, titled "End of the downturn", is focused on the signs of recovery after the downturn in the 2001-2003 period and provides a standard analysis of the factors explaining FDI trends. This part of *WIR05* brings several new analytical points that are worth highlighting.

First, while the general trend towards more welcoming FDI policies continues, the number of measures that are less favourable to FDI has increased to the highest level (36) since 1991 when UNCTAD started monitoring changes in national laws (table I.4 and p. 26). This issue is further illustrated in the case of Latin American countries, where analysis points to disenchantment with the results of the economic reforms related to FDI promotion and privatization.

Second, despite a seemingly very intensive wave of transnationalization of firms from developing countries (mainly from Asia), *WIR05* shows that the total foreign assets of all the 50 largest TNCs from developing economies in 2003 were barely equal to those of General Electric, the world's largest TNC, alone (p. 17). Another interesting new trend is the decreasing transnationalization of the top 100 TNCs, which suggests that they were refocusing more on their domestic markets at a time of worldwide slowdown.

Third, a very high transnationality index of the South-East Europe and the CIS countries suggests that this is now the region where the importance of FDI in the local economy is highest. However, individual country data suggest that this is a very diverse group of countries, and the region's high transnationality index reflects economies with a strong presence of TNCs in resource-based industries as well as in those economies that are particularly weak. Unfortunately, there are no tables that present data that are used to calculate the transnationality index, but only the indices.

WIR05 contains a few methodological changes. First, the analysis in Part I is influenced by the inclusion of the Central and East European countries (CEECs) into the European Union. As a result, these CEECs, by a stroke of pen, have been "promoted" to the rank of developed countries. The distinction between developed and developing countries used in *WIR05*, whereby we find countries like the Republic of Korea and Singapore are among developing countries while the relatively poor CEECs are categorized as developed countries, does not say much. The categorizing of developing countries into one group does not reflect the increasing differentiation that has taken place within this group in the past 20 years. Also, *WIR05* had to make a new grouping of the "South-East Europe and the CIS" countries, which share very little in terms of economic structure. These new groupings result in a rather useless set of tables that aggregate M&A sales by sector and industry and, basically, hide very different country situations. At the same time, the analysis has necessarily become fragmented, as it has to address each specific sub-group within new groupings.There is probably very little that the authors can do in this respect as long as they are obliged to follow the UN convention, but it undermines the analytical value-added of the *Report*.

The second methodological change to note is that *WIR05* has, for the first time, introduced a list of the 50 largest financial TNCs. These data also show an increasing role of financial TNCs from developing countries.

Part II of *WIR05* is devoted to the issue of "R&D internationalization and development". The starting point is two assumptions that *WIR05* tries to debunk: first, R&D is the least internationalized function of TNCs; and second, R&D undertaken by TNCs in developing countries is almost exclusively for adapting products and processes to local conditions. The argument is that this is now changing as depicted in the following trends:

- the degree of internationalization of R&D is rising in all key home countries as part of the trend towards the offshoring of services;
- R&D internationalization is growing fastest in developing Asia;
- the drivers of the internationalization of R&D are changing and this process is no longer driven by adaptation to local conditions but, by a variety of new pull and push factors;
- R&D in developing countries now goes well beyond adaptation and involves complex stages of R&D; and
- developing countries' firms are slowly establishing R&D centres abroad.

These trends are explained as resulting from two factors. First, the scale factor or the sheer size of FDI that is going to developing countries suggests that R&D may now be undertaken on a much larger scale. Second, the internationalization of R&D is a sign of an increasing fragmentation of services and increasing opportunities to offshore parts of R&D processes.

The analysis starts with the description of the geography and trends of R&D. Data suggest that the share of R&D undertaken outside developed countries is rising fast but it is confined to a few large developing countries (Brazil, China, India, the Republic of Korea, Taiwan Province of China) and Russia.

As a methodological novelty created for this edition of the *Report*, the authors have produced an index of innovation capability in a manner that is currently in vogue, i.e. composite indicators. The UNCTAD Innovation Capability Index is composed of a Technological Activity Index and a Human Capital Index, each of which consists of three indicators (R&D personnel per million population, United States patents granted per million population; scientific publications per million population; and literacy rate as % of population; secondary school enrolment as % of the age group; tertiary enrolment as % of the age group). While this may have some analytical value, it also suffers from the usual weaknesses associated with these types of indicators. First, variables are chosen because of their availability rather than their desirability as an indicator. In conceptual terms, the relationships between sub-indices are rather complex and impossible to trace in this type of exercise. Finally, the Technological Activity Index actually measures R&D efforts at the technology frontier, while the majority of technology activity in developing countries takes place well "behind" the frontier. The Human Capital Index suffers from the shortcomings of enrolment rates data, as they measure the extent of the current generation in formal school systems rather than what it is supposed to measure i.e. accumulated human capital through years of schooling in the past.

Even if we ignore these problems, a question remains as to whether the Innovation Capability Index really brings value added into analysis. I would say only partially, as the links between the internationalization of R&D, FDI and new indices have not been explored. While the *Report* states that "innovative capabilities are directly relevant to the location of internationally mobile R&D" (p. 116), this line of analysis has not been pursued further by using the index in understanding determinants of FDI in R&D.

The next chapter addresses the issue of R&D by TNCs and developing countries. It shows that TNCs dominate global business R&D, and among TNCs, a relatively small number of enterprises dominate R&D activity in only a few industries that are major spenders on R&D. There seems to be a clear trend towards a growing share of R&D being undertaken outside the home economy. The other two trends are the growing role of foreign affiliates in host-country R&D and the increasing use of strategic alliances in R&D. However, this latter trend has not been further explored and relies on somewhat outdated sources.

A few points in this part are worth emphasizing. Analysis shows that the expansion of R&D by TNCs into developing countries is mainly confined to five countries (Brazil, China, Mexico, the Republic of Korea, Singapore), which account for 70% of R&D undertaken abroad by United States TNCs. *WIR05* has developed a quite useful taxonomy of greenfield R&D projects, which shows that the largest number of these projects (953) have been from developed countries investing in developing countries, while the number of R&D-related FDI projects between developed countries has been smaller (612).

Despite the high concentration of R&D by TNCs in a few countries, TNCs play a significant role in the patenting activities of these countries that expanded their patenting in the United States. However, these patents are assigned to owners i.e. TNCs headquarters. This indicates that R&D activities are still closely controlled by the headquarters of TNCs.

A separate chapter addresses the drivers and determinants of internationalization of R&D. It concludes that most of R&D internationalization is driven by the need to adapt products and processes to local markets, though it recognizes that technology sourcing and efficiency driven R&D is gaining in importance. It also recognizes that internationalization of R&D is driven by "a complex mix of driving forces" encompassing demand factors (growing markets, available talent pools at favourable costs, etc), supply factors (shortage if skills, rising costs etc.) and various enabling factors (ICT, liberalization, etc.). Among these factors, the IPR regime does not seem be a determining factor in attracting FDI in R&D. This chapter also contains a well-written case study of the rise of chip designing in Asia, which shows how technology has become more systemic and how it leads to rising costs and complexity of R&D.

Overall, the *Report* does show new evidence that supports the arguments in favour of increasing internationalization of R&D as well as the emergence of new types of R&D that go beyond adaptive R&D. Equally, the *Report* shows that adaptive R&D still dominates and that technology generation activities are still centralized at TNC headquarters.

Development implications of the growing internationalization of R&D are framed around potential benefits and costs for both host and home countries. This is a quite well structured analysis, which is, however, undertaken only at the conceptual level and at the level of individual examples, but not at the country level.

The major policy implications for host countries are analysed around the following issues: effects on the structure and performance of the national innovation system (NIS); human resource implications; knowledge spillovers form R&D by TNCs; and contributions to industrial upgrading. The discussion only tangentially touches on the role of the global R&D as a contributor to both “virtuous” as well as “vicious” growth circles, which is a very relevant issue in countries with very limited business R&D.

The discussion on spillovers is quite interesting, especially when it tries to explain the apparent lack of evidence for spillovers between countries that are already technological leaders. The argument is that the further apart the source and the recipients are in terms of the level of technological advancement, the larger the potential positive spillover from knowledge flows on the recipients (p. 189). This argument is exactly the opposite of the one advanced until recently in the literature on spillovers, which has typically argued that when a gap is too large, then spillovers may not occur (see, for example, the 1997 edition of the *World Investment Report*). A big gap in our understanding of the effects of R&D on industrial upgrading is clearly reflected in the section, “Contributions to industrial upgrading”.

Issues related to the costs of internationalization for host countries’ R&D are structured around several aspects: downsizing of the existing R&D capacity and losing control of technology; unfair compensation for locally developed intellectual property; crowding-out in the host country labour market and potential harm to basic research; the possible negative impact of fragmentation of R&D by TNCs; the race to the bottom and unethical behaviour. On the home country side, the benefits analysed are: improved overall R&D efficiency, reverse technology transfer and market expansion. In comparison, analysis of costs is discussed much less.

The chapter on national policies is framed around NIS policies, i.e. promotion of R&D-related FDI and industry specific policies to enhance the benefits of FDI in R&D. This part points out that "the challenge facing countries is (…) to ensure that they connect in the most effective way with global R&D networks of TNCs and the innovation systems of other countries" (p. 222). The second important aspect is not so clearly conveyed although it is present within the *Report*. It concerns coherence between domestic NIS and FDI policies. In the world of globalization and fragmentation of business functions, globalization of R&D does not necessarily lead to technological development in a host country. This aspect has not really been given analytical prominence, although the *Report* points to the importance of strengthening the NIS. However, this by itself is not of much help as NIS policies isolated from FDI policies are not the most effective measures for catching up.

In conclusion, *WIR05* has managed to maintain the high standard of the previous editions of the *Report*. The weaknesses which have I pointed out are not of such magnitude as to undermine the very positive analytical and policy contributions that UNCTAD continues to make in the area of FDI. Analytical depth and ambiguity are things which always clash with the need to provide clear policy recommendations. The *World Investment Report* series stands between two worlds – the academic and policy worlds - and *WIR05* confirms that the authors have continued to swim successfully between these two worlds by making both sides relatively happy.

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Transnational Corporations and International Production Concepts, Theories and Effects

Grazia Ietto-Gillies
(Cheltenham, Edward Elgar, 2005), xii+252 pages

This book is a welcome addition to the available literature in International Business (IB), responding to the urgent need of more textbooks in this subject. Indeed, since the publication of John Dunning's *Multinational Enterprises and the Global Economy* (1992) and the second edition of Richard Caves's *Multinational Enterprise and Economic Analysis* (1996), there have been no new major comprehensive textbooks related to IB from an economics perspective.

This volume's main aim is to provide a general background/introduction to the IB field. It does so in a clear, well-presented, reader-friendly and didactic way. Its strong focus on economics differentiates it from other recent textbooks in IB that adopt a more managerial, strategy-focused and empirical/case-based perspective. Grazia Ietto-Gillies's book, in contrast, is dedicated to the theories and to the effects of TNCs' activities.

The book is structured around four distinct parts. The first part introduces the reader to key concepts, providing also a summary of trends and patterns related to transnational corporations (TNCs) and their activities, including a reference to the historical evolution of TNCs and the growth of their operations. Parts II (2 chapters) and III (11 chapters) present the theoretical approaches explaining the existence of TNCs and the internationalization of their activities. An historical perspective is adopted in these parts, dividing the theoretical approaches into "pre-World War" theories and "modern" theories (the latter referring to those approaches following the seminal work of Stephen Hymer). Ietto-Gillies provides a competent presentation and a critical appraisal of the theoretical approaches covered (both on their own and in comparison to other approaches), mentioning also some of the unresolved problems in the field. The last part (Part IV) aims to provide a framework for the analysis of the TNC and its activities, in terms of their effects. It has five chapters, the first of which deals with relevant methodological aspects that help to tackle the ever-complex task of assessing the impact of TNCs' activities. The remaining chapters are dedicated to discussing specific effects, notably on performance, on labour, on international trade and on the balance of payments.

In all, this book, written by a well-respected and knowledgeable specialist in the field, provided a very pleasant read, and I found it very useful and successful in attaining its aims. It is thus a competent textbook.

Writing textbooks is no easy task, as there are always choices that have to be made regarding the content, the focus, and the level of detail. Some limitations are unavoidable. Ietto-Gillies is very clear and objective about the valid choices she made in order to put together an organized, not at all confusing, relatively small and very-reader friendly textbook. In particular, I liked her boldness in giving relevance to Marxist and neoclassical authors - something that is not very common in the field, at least with such a level of detail.

However, there are some aspects that I would like to see covered in this volume, as well as in any other modern IB textbook. These additions, as well as some comments that follow, are meant to be constructive suggestions that may be eventually taken into account in a future revision.

In Part III ("modern" theories), I would recommend the explicit consideration of three very influential theoretical approaches/areas of literature. One is the so-called knowledge-based view. At the moment, there is a thorough consideration of Cantwell's theory of technological accumulation, which is very pertinent, but I would prefer that chapter to include other authors and strands that complement Cantwell's ideas. For instance, I would like to see a reference to the "dynamic capabilities" approach (David Teece and other authors) and also insights from the extremely influential resource based-view (based on the work of Edith Penrose and more recent authors, mainly in the United States). This literature is too influential to be ignored. I would also recommend mentioning the "network theory", that is also appearing frequently in various IB publications. Another area of relevant literature that is not included in this theoretical review and that, in my opinion, is very important to consider would be a reference to the vast literature on affiliate strategy and evolution, including the considerable body of work on headquarters (HQ)-affiliates relations. The author includes references to control issues in different parts of the book, although in the vast recent literature on vertical HQ-affiliate and lateral affiliate-affiliate linkages, these matters are treated in a very interesting and more realistic way than in the traditional literature referring to control from a rather "imperialist" and negative standpoint. These additions would provide a more up-to-date and balanced view of the most influential theoretical approaches.

The chapters in Part IV discuss key types of effects. I found these very well chosen. I would have, however, preferred to see the impact on innovation/technological development in more detail and within its own chapter. Presently, it is included in performance, which is a valid option (theoretically, all these areas in one way or another could be put into the performance umbrella), although nowadays I think innovation/technology would deserve to be treated as one of the main areas of potential impact, possibly being more relevant for the host countries that scramble to attract investment, than most other effects (and to home countries whose TNCs also conduct strategic asset-seeking investment). This last part would also benefit, in my opinion, from a more detailed reference to competitive effects (not only from a negative, monopolistic standpoint), especially the competitive stimulus eventually provided to local companies and also pointing to complementary linkage and demonstration effects. It would also be interesting to have greater consideration of the impact on clustering and agglomeration of activities, and that would also complement some of the theories presented in the earlier parts of this volume. The part on effects is much shorter than the part on theories, so it could eventually be slightly extended in this way, even by considering some of these other effects in a residual "other effects" chapter.

The last of my comments concerns policy. Ietto-Gillies is very clear that she does not wish to dwell on policy considerations, which is a quite reasonable decision. Nevertheless, in my opinion, it would be valuable to have a last chapter with an account of the main policies, TNC-focused or more general, that may be useful to governments in their efforts to attract or maintain TNCs if they wish to do so, or to maximize the positive impact and minimize the potential negative effects of TNCs' activities.

Writing a textbook is a complex and challenging endeavour. Ietto-Gillies, with all her experience and knowledge of the field, has achieved this very competently. I believe this volume will be very useful to readers such as students of IB and for related courses at the undergraduate or postgraduate level, especially for students introduced to the subject for the first time, and lecturers and researchers who wish to have an overview of the subject and its development. I will certainly recommend this book to my students and colleagues.

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Legal Framework for the Admission of FDI

Thomas Pollan
(Utrecht, Eleven International Publishing, 2006), 321 pages

In this gap-filling book, Thomas Pollan seeks to provide a comprehensive analysis of the legal provisions governing the admission and establishment of foreign direct investment (FDI), to categorize a Host State's available policy options into six admission models arranged according to their degree of openness towards foreign investment, and to assess the pros and cons of each model with due regard to the functional peculiarities of the various types of investment instruments at the national, regional and international levels. The goal of the author is to describe general trends towards greater liberalization on each of the regulatory levels, to evaluate how policy decisions regarding the entry of FDI may impact the overall attractiveness of a Host State's investment climate, and ultimately to recommend legal and policy options in the context of today's increasingly interdependent world economy in which foreign investment remains, nevertheless, a scarce and unevenly distributed resource.

The issue of admission of foreign investment is at the core of FDI law, which is one of the fastest changing fields of international law and is equally dynamic at the national level. The clear ongoing trend towards greater liberalization of admission rules and procedures is particularly well demonstrated by the fact that between 1991 and 2000, 1,121 of approximately 1,185 changes in national investment laws created a more liberal FDI climate, with a strong tendency towards more open admission rules and more efficient and transparent admission procedures. At the international level, this trend can be illustrated by the significant increase since the mid-1980s of bilateral investment treaties (BITs) that extend the national treatment to the pre-establishment period thereby granting the concerned foreign investors not only a post-establishment protection but also a right of admission.

The regulatory dynamism of FDI law is connected in part to the increasing importance and rapid growth of global FDI flows since the 1980s. According to the data of UNCTAD, global FDI flows amounted to $897 billion in 2005, which was more than three times the flows of $240 billion in 1990 and more than ten times the flows of $55 billion in 1980. It can also be linked with the progressive geographic expansion of FDI since the 1960s from a phenomenon that almost exclusively concerned the developed world into a truly worldwide economic activity. However, most international investment continues to take place within developed countries (approximately two thirds of the total FDI flows in 2004). Moreover, notwithstanding significant increases of FDI flows to developing countries since the 1990s, such international investment remains highly concentrated (with China, Brazil, Mexico and Singapore as the main recipients).

The relative scarcity and the geographically uneven distribution of today's FDI flows are the premises of one of the key arguments upon which the author bases his conclusions and recommendations: States increasingly compete for the available FDI! A Host economy can increase its attractiveness for foreign investment by adopting a more open and transparent admission regime, whereas FDI restrictive measures, such as entry conditions, sectoral exclusions, burdensome admission procedures or regulatory non-transparency, send negative signals about its investment climate and adversely impact the inflows of FDI. The investor's expectation of additional transaction costs due to less liberal entry rules may indeed influence his investment location decision and may ultimately result in the diversion of investment flows to other countries, even though they are less attractive from an economic perspective. Hence the author cautions: "admission and admission procedures serve as a county's business card" (p. 17).

Another assumption is that the potential adverse effects of FDI on a country's development and overall prosperity are generally outweighed by its beneficial effects, such as the transfer of technology, know-how, management skills, the creation of new local jobs and tax revenues, opening up access to export markets, intensifying domestic competition, and increasing international competitiveness. Therefore, countries have more often than not a strong incentive to adopt liberal admission rules and procedures. The author recognizes, however, that the overall impact of FDI depends on many factors and therefore stresses that each country needs to have appropriate policies in place in order to enable it to absorb the positive effects, and cautions that liberalization does not suit all countries and all sectors at all times (p. 10).

The book is admirably systematic and lucid. It dissects the topic of FDI admission in nine chapters that are skilfully arranged together in an original but logical manner. The first two chapters introduce the topic. While short and concise, the first chapter ("Determinants of admission policies") provides a solid overview of the main determinants that shape FDI policies: history, economics, culture and politics. The author compares the needs of the foreign investor with those of a Host State and reminds us of the somewhat antagonistic interests of the latter: keeping sovereignty and control over its economy but at the same time attracting a larger share of valuable FDI by adopting more liberal entry rules and procedures. While the neo-classicist argues for the total liberalization of FDI, the more recent but less dominant *developmental state perspective* emphasizes the virtues of leaving at least a certain amount of regulatory flexibility with the State, which should enable it to drive its economic growth by measures such as the protection of its infant industries. This comparative methodology enables the author to support the conclusion that increasing competition for FDI has a liberalizing effect by functioning as a regulatory mechanism that balances the interests of each party in their investment relations. Chapter two ("The scope of admission provisions") provides the necessary conceptual background by clarifying key concepts and major issues associated with the definition of "investment" and "investor". It is observed that most modern investment instruments incorporate a broad definition of FDI, thereby increasing the liberalizing effect of open admission clauses.

The main purpose of chapter three (“Admission and sources of FDI law”) is to provide a complete overview and description of the different sources of FDI law. It is recalled that according to international customary law, FDI admission is subject to state sovereignty, meaning that a county’s total discretion to grant a right of admission, to admit conditionally or to deny admission to an investment is only limited by its treaty-based obligations. The author successively analyses different types of investment instruments at each of the regulatory levels. The admission provisions at the national level, which are often contained in national investment codes, are the first source analysed, and then follows the examination of the international sources, i.e. general international law, BITs, free trade agreements (FTAs), regional agreements and finally, multilateral instruments and soft law. In regard to BITs, the comparison of the limited liberalizing effect of traditional BITs, which provide only for post-establishment protection, with United States-Canadian style BITs, which grant a right of admission by extending the national treatment standard to the pre-establishment period, is of particular interest. Although still minor, the latter has been regarded with progressively greater favour over the past 25 years. The chapter also observes a general trend towards further liberalization in respect to bilateral FTAs and regional agreements. In relation to the latter, the author also concisely discusses the advantages of regional economic integration from the perspective of its effect on a Host State’s ability to attract FDI, and subsequently highlights how inter-regional FDI competition has the potential to accelerate liberalization processes. This is followed by a relatively extensive discussion of the FDI admission regimes of the 15 most important regional integration agreements, including well-known groupings such as the Common Market of the Southern Cone (MERCOSUR), the North American Free Trade Agreement (NAFTA) and the European Union, as well as more recently established ones such as the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of West African States (ECOWAS). At the multilateral level, the author briefly discusses the unsuccessful attempts at negotiating a comprehensive multilateral FDI agreement, the relevant provisions of GATS and those of the OECD Codes of Liberalization, and ultimately the most relevant international soft laws, in particular the 1992 World Bank Guidelines on the Treatment of Foreign Direct Investment.

In chapter four ("Models of FDI admission"), the author distinguishes and characterizes six FDI admission approaches, arranging them on a continuum by the extent of openness towards FDI. The author's admission models can be considered as a further development of a similar categorization developed in UNCTAD (1999). The least liberal policy approach is the *investment-control-model*, which preserves full state control over admission (e.g. traditional BITs). The *open-admission-model* is the most liberal approach but can only be found at the national level (e.g. the national investment codes of Albania and Cameroon); the right of entry is restricted only by general public policy exceptions. It is a rarely encountered approach because even the most liberal states generally preserve at least a few sectors of their economy for their own nationals (or the state itself) on economic rather than public policy grounds. The four intermediate models identified are respectively:

- the *positive-list-model*, which grants a right of entry for those sectors expressly enumerated in a list (e.g. GATS);
- the *regional-TNC-model*, which accords a right of entry to regional transnational corporations in order to promote intra-regional investment (e.g. Agreement for the Establishment of a Regime for CARICOM Enterprises);
- the *mutual-national-treatment-model*, meaning absolute liberalization of intra-regional FDI flows, but not extended to FDI from third countries (e.g. the European Union);
- the *negative-list-model*, which is internationally the most liberal approach to admission: this policy option grants open admission except in those sectors expressly exempted from free entry and establishment (e.g. United States-Canadian style BITs, NAFTA, and increasingly used in national investment codes).

Each of the six models is analysed in the same systematic manner: description of its main characteristics, the general form of its expression in investment instruments, the contexts or situations in which the model is most often used or generally considered most appropriate, and most importantly the pros and cons of each admission model in connection with the diversity of investment instruments at the distinct regulatory levels.

The following three chapters are a necessary complement to the other chapters, as they examine in more detail certain major issues referred to in the former chapters. Chapter five ("Exceptions to admission") analyses the two common forms of FDI exemptions in regimes characterized by a certain extent of openness towards FDI. The first form analysed is the sectoral exceptions, which are motivated on economic grounds. It is noted that the number of sectors closed for FDI can vary greatly from one system to another. The second form is the generally applicable exception for public policy reasons, such as national security, public order, national health or public morals. Although similar concepts are used in most systems, the interpretation of public policy exceptions can vary significantly. An assessment of the effects and dangers of exceptions to admission, from the perspective of a state's attractiveness and openness towards foreign investment follows. The purpose of chapter six ("Conditions and incentives") is to analyse the rationales and the impact of two other methods that serve a state's need for regulatory flexibility: applying entry conditions and granting investment incentives. Inserting these two topics in the same chapter makes sense, as both methods pursue, to a certain extent, a common goal: attracting the most valuable FDI. A pertinent analogy with the sticks and carrots scenario is made: "the use of incentives as carrots is preferable to the use of conditions as sticks" (p. 234). Chapter seven ("Procedure") focuses on the rules governing admission procedures. In contrast with notification procedures, which simply require the registration of entering investment for statistical and tax purposes, screening procedures subject the entry of investment to approval by the Host State. The latter type of entry procedures is characteristic of the strictest form of admission (the *investment-control-model*) but can also be used in more liberal regimes with regard to areas exempted from free FDI admission for economic or public policy reasons (e.g. the United States Exon-Florio provision establishing a mechanism to review and, if necessary, to restrict FDI that threatens national security). The hurdles of screening procedures can dissuade foreign investors and divert FDI flows to other locations. Therefore, countries have generally a clear incentive to avoid non-transparent, burdensome and time-consuming or corrupt procedural rules.

Chapter eight summarily refers to three issues that are related with FDI transactions: *a)* the existence of multiple competition and merger control regimes causing higher transaction costs and therefore having the potential of distorting investment flows; *b)* the main environmental concerns arising from the competition for FDI and *c)* the increasing importance of corporate social responsibility for transnational corporations.

In the concluding chapter, Pollan wraps up with a number of sound recommendations for legal and policy options at the micro and macro levels. At the micro level, the author argues that the most reasonable policy options are the *'Infant Industry Model Revisited'* and the *'Open Admission Option'*. Whereas the first option is recommended when a country is not yet able to compete internationally but nevertheless is in a position to enhance its infant industries on its own; the latter option is the best alternative for two groups of states: those economically mature enough to compete internationally and, on the other side of the spectrum, those that are economically too weak to initiate industrialization on their own. With regard to the macro level, the author first recapitulates the different legal expressions of the ongoing trend towards more open admission systems in most investment instruments, and subsequently evaluates the potential benefits of a liberal global investment agreement. He asserts, however, that in any event, due to the intense competition for FDI, liberalization is likely to keep advancing rather quickly even if no such global investment agreement would ever see the daylight.

Overall, this easily readable, though rigorous book offers a wealth of quantitative and qualitative information on every legal aspect of FDI admission. One of its main contributions to the literature is that the legal issues and the different policy options are systematically and thoroughly analysed and evaluated at each regulatory level (national law, BITs, free trade agreements, regional agreements, multilateral instruments and soft law). Furthermore, the author succeeds in converging theory and practice by abundantly illustrating the different components of FDI admission by well-selected and geographically diverse provisions from these different types of investment instruments. If there are any shortcomings, it might have been helpful for the less familiar reader if the author had concisely addressed in the introduction the other legal issues that impact investors' location decisions, in particular the subsequent treatment of FDI. I also believe that the book would have benefited from a less descriptive and more extensive chapter six regarding conditions and incentives.

My overall impression is that this book will be highly valuable, both as a research tool and as a complementary reading, to a relatively wide readership ranging from policy makers, foreign investors, lawyers and academics, to postgraduate students and others interested in FDI law.

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Corporate and Institutional Transparency for Economic Growth in Europe

Lars Oxelheim
(Amsterdam, Elsevier, 2006), xxii+444 pages

The past decade has seen an upsurge of interest in the subject of transparency. Corporate scandals and severe cases of fraudulent mismanagement (such as those of Enron, Parmalat, WorldCom, etc.) as well as a series of financial crises in emerging market economies have drawn the attention of the wider public to the issue. The importance of "transparency' has also been underlined in the recent macroeconomic policy debate about the transparency of economic policies, in particular stabilization policies. Furthermore, the emergence of e-commerce and the strengthening of the EU single market have raised concerns about the transparency of the markets for goods and services. However, the concept of transparency is not new. It has long been an important aspect of many microeconomic theories. "Any theory that incorporates the idea of asymmetrically distributed information between different economic agents makes an assumption about transparency, and is potentially affected by altered assumptions about it" (p. 3).

Transparency is a multidimensional concept which is often used with little specification about what dimension is used and without linking the different dimensions from a global perspective. Accordingly, the causal link between transparency and economic growth can well be compared to a "long and winding road that (…) has never been mapped out in a coherent way" (p. xv). Although transparency is an issue of highest concern and despite numerous works which have been published on transparency, no comprehensive analysis of the causal link between transparency and economic growth has been available. This volume bridges this gap in the literature by providing a suite of well-structured articles on transparency "in three main areas: in economic policy, in the corporate sector, and in the institutional and regulatory structures surrounding the markets" (p. xvii).

This book is written by a network of renowned contributors from various professional backgrounds, who believe in the importance of exploring the issue of transparency in Europe. The publication marks the completion of a process similar to that of peer-reviewed journals. Drafts were discussed at two successive workshops and the resulting version was edited by Lars Oxelheim. The authors present their personal, well-researched perspectives, which provide the reader with interesting insights. The strength of this volume lies in its interdisciplinary approach taken by contributors trained in finance, law, political science and economics. Coming from diverse intellectual backgrounds, the authors address the issue from various angles, incorporating different research areas and methods.

The basic hypothesis put forward is that transparency reduces the risk premium and thus the cost of capital which, in turn, leads to an increase of real investment and, consequently, to economic growth. The arguments to support and develop this hypothesis cover the effects of transparency on the allocation of resources in three interdependent areas: economic policy, the corporate sector and market regulation. The fourteen articles of this book address a wide array of domains where transparency is crucial, ranging from bankruptcy laws to lobbying; from the activities of the European Central Bank to competition and environmental policies.

In the first contribution, Jens Forssboeck and Lars Oxelheim outline "a conceptual framework for the multidimensional analysis of transparency" (p. xvii). They discuss the different dimensions of transparency and they go on to model the causal link between transparency and economic growth. The following articles are discussions of specific topics concerning transparency and are linked together by the lead article in chapter one. In chapter two, Iain Begg analyses the effects of central bank transparency, in particular on the formation of expectations and the transmission mechanism. Philippe Gugler focuses in chapter three on the issue of transparency in competition policies. Competition is generally considered a main driver of economic growth; accordingly, the effectiveness of competition agencies, the EU competition regime and the international dimension of competition policy are vital dimensions of transparency. Chapter four investigates the impact of the EU's environmental policy on firms according to the political level (supranational, national, and local levels). Emphasizing the importance of human capital for economic growth, in chapter five Erik Mellander and Christina Håkansons document the formulation and implementation of human capital policy by individual member states. Bankruptcy codes, the costs of bankruptcy procedures and the effects of these costs on the cost of capital are the topic of chapter six.

In chapter seven, Jean-Pierre Casey discusses the effect of transparency on the governance of the financial industry of the EU. Chapter eight also focuses on the financial dimension. Apanard Angkinand and Clas Wihlborg discuss the consequences of predictable procedures for distress resolution in the banking industry on the market discipline of financial industry firms. Davide Lombardo and Marco Pagano, in chapter nine, investigate how legal institutions influence the functioning of equity markets and thus, the cost of capital. Chapter ten documents the effects of the adoption of International Financial Reporting Standards (IFRSs) on corporate transparency in Europe. The impact of the Sarbanes-Oxley Act (SOX) on statutory risk disclosure is the issue of chapter eleven. In chapter twelve, the impact of disclosure standards on the financial structure of firms is analysed using data from fourteen European countries. The effects of transparency on the lobbying activities of transnational corporations are discussed by Amjad Hadjikhani and Pervez Ghauri in chapter thirteen. Finally, chapter fourteen discusses the issue of corruption as a form of lack of transparency.

The book raises important questions and offers a clear-cut and compelling analysis of the effects of transparency on economic growth in Europe. However, there is undoubtedly a need for additional analysis on how to generalize the findings to a non-European setting. The analysis would also have gained from more emphasis on formal modelling and empirical testing. It would furthermore have been interesting if the authors had further developed the practical (political) implications of their findings. Nevertheless, Lars Oxelheim has produced a book that can rightly claim to be the most interdisciplinary collection of articles on the impact of transparency on economic growth. The wealth of insights provided, as well as the lucid and accessible argumentation, ensure that this book will be of great use to a wide spectrum of audiences. The book is a must read for all scholars and researchers on transparency and for those who are interested in understanding the impact of transparency on economic growth.

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