BOOK REVIEWS

Global Corporations and National Governments

Edward M. Graham

(Washington D.C., Institute for International Economics, 1996), 150 pages

This is an important book about an important topic. It is essential reading for anyone interested in the future of the international trade/investment regime—or more generally the relations between transnational corporations (TNCs) and governments. Its relative brevity and Graham's crisp writing style make it readily accessible to public sector officials and business executives as well as scholars. At the same time, it offers a serious treatment of politically sensitive issues.[1]

The central theme of the book is that new international rules on investment are "urgently needed" (p. 2) in the light of the tremendous increases in foreign direct investment (FDI), followed by deep integration of national economies in recent years. This argument is supported by interpretation of data on trends in the world economy, as well as by exegesis of existing international agreements and prescription of the components for new agreements.

The basic structure and content of the book are as follows: chapter 1 briefly presents four premises underlying the book's arguments—that the globalization of business is increasing; that TNCs face a variety of national policies which create inefficiencies; that conflicts between TNCs and national governments are inevitable; and that both TNCs and governments have legitimate though different goals. Chapters 2 and 3 concern, respectively, trends and explanations of the globalization of business.

The core of the book is in chapters 4-6, which focus on issues associated with the development of international investment rules. The logical sequence of these three chapters is clear and compelling. Chapter 4 is a normative analysis of the features of an international regime that the author

[1] See also UNCTAD (1996) and several recent articles in the present journal (Brewer and Young, 1995, 1996; Brittan, 1995; Graham, 1995).

would like to be created. It specifies principles, rights and obligations for both governments and TNCs that it would incorporate. Chapter 5 is a description of existing international agreements concerning investment and an analysis of the extent to which those agreements meet the criteria postulated in the previous chapter. The topic of chapter 6 is the venue for efforts to develop further international rules—the World Trade Organization (WTO) and/or the Organisation for Economic Co-operation and Development (OECD). These core chapters are supplemented by two appendices which contain an analysis of the technological spillovers of FDI in developing countries and a game theory analysis of the problems that arise in enforcing international economic agreements.

The book is, in part, an answer to the argument sometimes made, to the effect that the widespread unilateral liberalization of national investment policies, together with the large increases in FDI, particularly in recent years, implies that there is no need for new international rules on investment. According to this argument, there is already a relatively open, liberal array of national policies and bilateral treaties that facilitate the free flow of investment. However, as Graham notes, there are in fact still many barriers to FDI—not only in developing countries. Furthermore, increases in FDI create additional pressures for strengthened institutional mechanisms which have the potential to mitigate additional conflicts between both governments and TNCs and governments.

Graham thus makes a case for developing new international rules for investment that would constrain the collectively self-defeating "beggar-thy-neighbour" policies of national governments. These rules should be developed in a manner similar to that in which the international trade agreements negotiated through GATT and later WTO during the past half century were developed. On the basis of a simple numerical analysis, Graham illustrates that "the potential benefit of eliminating these distortions is very high" (p. 4). The worldwide sales of the foreign affiliates of TNCs in 1992 were US$ 5.2 trillion. New international rules that could increase this figure by 1 per cent through restrictions on national government policies that distort investment and create inefficiencies would increase world output by US$ 52 billion, and this is probably a conservative estimate. He illustrates the point with several examples. One of these is of a TNC that decides to locate a large chemical facility in an Asian country that has offered a very generous subsidy, despite the TNC's own study which indicates that a more efficient alternative is to invest in another country. Other examples concern national regulatory regimes that protect local firms from foreign competition

both in service industries through regulations on foreign ownership and in manufacturing industries through export-performance requirements that divert sales from the local markets where FDI projects are located. Some of these national policies are becoming part of the WTO disciplines as a result of the Uruguay Round Agreements. The author argues, however, that these existing rules are largely inadequate.

Another factor motivating interest in the development of new *multilateral* rules on investment is the patchwork problem, i.e. the existence of a large and growing number of bilateral and regional agreements that give rise to complexities, uncertainties and inconsistencies and cause problems for both investors and governments. Regional agreements, for instance, can have international investment-distorting effects (as well as trade-distorting effects), as firms invest inside instead of outside the region because of the competitive disadvantages faced by those that produce outside and try to serve local markets by importing into it. Regional agreements, however, can also provide some prototype elements for new multilateral agreements, a point developed by the author in relation to the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Cooperation group (APEC) in particular.

Graham's vision of a comprehensive new multilateral policy regime is impressive in both its breadth and structure. Organized around rights and obligations for governments and firms, it includes a broad array of provisions concerning government policy liberalization, TNC conduct, investment protection and enforcement of obligations. Among them are the key elements, investor rights/host government obligations concerning establishment and national treatment. The discussion also includes an interesting analysis of the reasons for obligations for TNCs, as well as governments. It proposes a series of ancillary codes which could include matters such as taxation, transfer pricing, competition policy, accounting and reporting standards, as well as environmental issues, labour standards, corruption and intellectual property rights.

The analysis of the venue issue—that is, whether to proceed with international investment rule-making in WTO and/or in OECD—is likely to receive much attention during the next couple of years. Because OECD already has in progress formal negotiations to create a new binding Multilateral Agreement on Investment (MAI), its role would probably increase substantially in the future (even though its ambitious June 1997 target date for completion of the MAI negotiations was not met). Graham's preference

for action in WTO, however, is clear. His reasons for that preference are also clear: WTO is much more comprehensive in its membership, as it includes many major developing countries. Moreover, WTO offers the prospect of a more thorough integration of new international investment rules with international trade rules. On the other side, there are those who argue that the WTO members are not likely to form a consensus to undertake serious initiatives on investment issues for several more years and that, if they do, the resulting standards in a WTO agreement will be lower than those likely to result from the OECD negotiations. There are, it should also be noted, a variety of other arguments and counter-arguments about this issue. In any case, one can plausibly imagine the evolution of a pluralistic regime involving both OECD and WTO, with a shift in the centre of activity from the former to the latter over the next several years. However, there is a broad range of unsolved issues about the substance of any agreement as well as the forum in which negotiations take place, and issues about substance and process will continue to interact.

As this is a timely book about an evolving topic of current interest, some of its parts do of course face the risk of becoming outdated rather quickly. For instance, when the book was published, the Singapore Ministerial Meeting of WTO in December 1996, was a forthcoming event. Nevertheless, the Ministerial meeting itself increased interest in the topic of the book. Indeed, the topic will no doubt become increasingly salient—and controversial—over the next several years, and this book will continue to be an excellent introduction to many of the most relevant facts, concepts and issues. ■

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Financial Markets in Transition: Globalization, Investment and Economic Growth

Lars Oxelheim

(London, Routledge, 1996), 434 pages

The condition of a country's financial markets is a major criterion for transnational corporations (TNCs) to evaluate potential locations for their foreign direct investment (FDI). The more developed that market is, and the more integrated it is with the global financial market, the easier it will be to move capital into (and out of) the country and, if desired, raise capital inside the country. But while TNCs use many tools to determine how their local investment can be integrated with their global operations, few tools are available to measure the development of a country's financial market and its level of integration with the global financial market. Lars Oxelheim's well-documented book makes an ambitious attempt to create such a tool.

Oxelheim starts from the premise that a global financial system is in place, and it may be asserted with some confidence that this is true, as witnessed by unprecedented cross-border financial transactions, including foreign-exchange dealings, whose daily volumes amount to trillions of dollars. This global financial system incorporates a diversity of transactions, ranging from simple ones (e.g. forward currency contracts) to complex ones (e.g. index-based interest rate swaps), as well as a wide range of instruments from bonds to stock futures. How can such a complex system be captured in a single, readable volume? Frankly, it cannot and, to Oxelheim's credit, he does not attempt to capture it. Rather, he has chosen a plausible proxy—bond markets—to illustrate the evolution of the global financial system. And to further facilitate discussion, he has chosen to look at bond markets in Denmark, Finland, Norway and Sweden only.

There are good reasons for this particular focus. First and foremost, bond markets are a laboratory where national economic policies and foreign (and domestic) reactions can be observed. Government participation in bond markets influences domestic interest rates, as well as the amount of domestic credit. First, too much government debt can raise interest rates, crowd out domestic firms and affect adversely the country's creditworthiness. Second, once bonds are issued, they can be traded in the secondary market, which

can become an indicator of the issuer's economic health. Oxelheim points out correctly that a well-functioning secondary market is one of the key components of economic growth, as it is in the secondary market where funds, from whatever source, are marshalled for investment.

The Nordic countries have been chosen for analysis because they share similar economic conditions (except for Norway's oil reserves), but have dissimilar regulatory environments. This allows for comparison of differing regulatory approaches to similar economic conditions. The geographical proximity of the four countries also opens up the discussion to regional influences. In other words, it is possible to explore the possibility that, by operating either collectively or cooperatively, these four countries enjoy advantages that would not be available to them by acting individually.

The book is divided into three segments. The first one lays the foundation of the study. In this segment, chapter 5—"On measuring the international dependence of national markets"—deserves special attention. One of the great difficulties in understanding foreign direct and portfolio investment flows stems from a narrow approach to the real motivations of investors. Since the mid-1960s, theoretical work by Hymer, Vernon, Buckley, Casson, Rugman, Dunning, Ozawa and others has provided a rich body of literature to explain why a TNC would choose FDI over a more traditional arm's-length transaction to pursue its global business strategies. The whos, whats, whys, wheres and hows of FDI continue to be analysed today. As for explanations of foreign portfolio investment, most of them waver between endogenous and exogenous factors. The former ones include a country's macroeconomic policies and economic growth, while the latter ones are economic conditions in key markets such as the United States, western Europe and Japan. Support for either view is provided by a variety of statistical analyses, in which capital flows to and from markets are tracked against specific variables such as interest rates in the United States. So far the results are ambiguous.

A shortcoming in many studies is that the level of integration between the market to which the capital is flowing and the market from which it has come is not explicitly addressed. Oxelheim, on the other hand, looks at this issue explicitly. He places the degree to which a national economic system is tied to the global financial system on a scale between disintegration and total integration, where expected real interest rates are equal in the markets in question. In between lie indirect integration and direct integration. The former implies that returns in one country are indirectly linked to returns in

another, for example through a third party. Under the latter, risk-adjusted, as opposed to real, rates are the same in markets.

To measure integration, Oxelheim looks at the gap between national bond rates and the ''global'' bond rate. A commonly used proxy for the global bond rate has been the United States bond rate, but the expansion of the Eurobond market, as well as other bond markets, makes this proxy less justifiable. Oxelheim suggests an aggregated bond rate composed of the rates of the world's major economies. When he turns to measuring the level of integration in the four countries, he uses both the United States bond rate and an OECD rate as benchmarks. The advantage of using the degree of financial integration to explain capital flows is that it allows the creation of an analytical framework in which the methods traditionally used to analyse differences in returns among markets can be incorporated.

The second section of the book applies the analytical framework to the particular circumstances of Denmark, Finland, Norway and Sweden. In doing so, Oxelheim makes several important contributions to the literature on financial market analysis. The first, and most important, is that he presents a historical review of the four bond markets. In fact, these chapters could be virtually excerpted as a separate text and still be valuable. Another valuable contribution of this section is Oxelheim's approach to political risk. In the literature, it is tied to a country's ability (or willingness) to meet its obligations to foreign creditors, or to facilitate the payment of foreign obligations owed by the private sector. In contrast, Oxelheim views political risk as the propensity of governments to ''change the rules'' for bond markets. The reason for this approach is that political risk manifests itself in a risk premium which investors demand for the uncertainty they face. Determining the size of risk premium is, however, difficult. Unfortunately, using the propensity to change the rules as an indicator of political risk does not help in this regard, mainly because, as Oxelheim points out, it is hard to separate an interest rate gap into exchange-risk and political-risk components. To overcome this difficulty, Oxelheim maps out periods of time in which rule changes occur frequently and then ties them to changes in interest rates, thus identifying periods when political risk was present. This approach to political risk is not entirely new. The macroeconomic stabilization programmes favoured by IMF are an implicit proof that instability (rule changes) does indeed have adverse effects. Oxelheim just makes this connection more explicit. And while he might be challenged on his definition of political risk, he should be lauded for drawing attention to rule changes.

Oxelheim synthesizes his findings in the last section of the book. He charts in this section the historical pattern of differences between domestic bond rates and his proxies for the "global" bond rate. He also presents here his conclusions on the timing and degree of integration to the global financial system. An interesting finding is the mixed empirical support for the Fisher Effect; sometimes strong correlations between nominal interest rates and expected inflation are present, but sometimes not. This is noteworthy because the test was done on good-quality data. And whether or not one believes in the Fisher Effect, the existence of differences between expected inflation and nominal rates is a good indicator that the integration of markets has not yet occurred.

It may be tempting to test the viability of Oxelheim's findings on the pattern of integration in these four countries by extending the study to other countries and/or regions. It would be equally interesting to carry on a prescriptive analysis on the integration of national financial systems into the global financial system. But caution would be required in such exercises. Even though Oxelheim describes an "optimal sequence of integration", he does not mean it as a prescription to be followed. This is reasonable because each national financial system is at a different stage of integration and each has a different history and pattern of relationships with other systems. Another reason is the unequal quality of data in other countries. Oxelheim could not have produced this work without access to good, reliable data, not matched from many other parts of the world. The inability to extend the findings of this study to countries other than the four analysed should not be viewed as a criticism, however. What Oxelheim has provided is a road map for future analyses of this type.

Oxelheim's main message is that the de facto existence of integration (unrestricted foreign access to a market) and the *de jure* reality (the regulatory framework through which access from and to foreign markets is permitted) have to mesh. How and when this will occur depends on country-specific variables.

This is an important book, mostly because it ventures into a territory few have braved. No doubt those who choose to follow in Oxelheim's footsteps will improve parts of the map and discard others. It provides interesting insights for students of international finance, investors and policy makers, although it is not easy reading. It also suffers, to a certain degree, from what may be characterized as an identity crisis. Indeed, is this supposed to be a text on the development of financial markets? Is it a theoretical piece? Is it an empirical work? To whom is this book really addressed? Some proficient readers might find parts of the book too elementary. Readers schooled

in corporate finance may, for example, wish to skim through the text on bond markets in a corporate perspective and efficiency of secondary bond markets. However, readers unfamiliar with corporate finance will find it useful. Part of the problem is the title; it hints at a broader scope of analysis than actually delivered and leads to an expectation of extensions of the analysis beyond Scandinavia. In turn, from the second section on, the book's best parts are revealed. At its heart, it is a superior analysis of how the national bond markets of Denmark, Finland, Norway and Sweden developed internally and then established ties to financial markets outside their borders. Oxelheim could well have limited his discourse to simply tracing and analysing this history and still would have had a worthwhile book. ■

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A survey of foreign direct investment firms in Turkey

Deniz Erden

(Istanbul, Bogazici University Press, 1996), 228 pages

This is an important and timely book examining foreign direct investment (FDI) in Turkey. It was commissioned and supported by the Association for Foreign Capital Coordination, a private agency of foreign firms operating in Turkey, in cooperation with the Foreign Investment Directorate of the Under-secretariat of the Treasury of Turkey, the sole authority dealing with foreign investment applications, which also assists foreign investors in exploring opportunities in Turkey (Foreign Investment Directorate 1991).

As the purpose of the study was to provide a general profile of foreign firms operating in Turkey, Deniz Erden selected a sample of 330 firms from a total of 2,358. Both the intensity of the follow-up efforts and the support of the Association for Foreign Capital Coordination probably contributed to a high response rate (66 per cent).

In chapter 2, the sample data are grouped by three measurements of size (the amount of capital, the level of sales and the number of employees), sectors, home countries and the date of entry. Although before the publication of this book, up-to-date and complete information on all foreign firms operating in Turkey with monthly updates coupled with information on the regulation of foreign investment, as well as statistics about each and every foreign firm operating in Turkey (for example, Yabanci Sermaye Baskanligi 1990), has been available in the foreign capital reports of the Foreign Investment Directorate, these reports are in Turkish, a language few non-Turks are familiar with. By examining the entry motives and ownership structure (chap. 3), managerial control (chap. 4), expansion trends, export performance, product development and training efforts in Turkey (chap. 5), and the perception of country advantages and operating risks (chap. 6), this book makes a significant contribution, in the English language, to FDI research in Turkey. Statistical methods such as Pearson correlation, hypothesis testing and one-way analysis of variance were used appropriately to show whether the hypothesized relationships were statistically significant.

Notwithstanding the above-mentioned positive aspects, the book has certain shortcomings which could be corrected in a future edition. Some basic terms such as "partners" and "shareholders" are not always employed according to general usage. Therefore, in table 5 of chapter 3, page 43, the "number of shareholders" should have been the "number of partners". On the same page, "joint ventures" were called "partnerships" while "wholly owned" subsidiaries were referred to as "singly owned". '"Entry form" was used for explaining ownership proportions rather than the form of involvement such as licensing and franchising. On the next page, in table 7, the distinctions between "new company", "local company acquired" and "joint venture" are not clear. Since a new company or a local acquisition can be a joint venture at the same time, such classification is not comprehensible.

The findings of the questionnaire could have been analysed more in depth. For example, on page 50, when the share of foreign investors' capital was presented by subsectors, it was found that most service firms in trade, banking and insurance had either majority (51-99 per cent) or full foreign ownership. However, there was no explanation about the possible causes of this phenomenon. Other studies show that many service firms tend to have low capital intensity and are therefore more capable of forming wholly or majority owned subsidiaries (Erramilli, 1991, 1996). Tourism is the only service subsector where most firms have minority foreign ownership (15 versus 4). One reason might be the possibility of achieving de facto control over resources through contractual or collaborative associations without having *de jure* control with 51 per cent or more equity stake (Dunning and McQueen, 1981; Dunning, 1989).

Although many experts believe that the amount of foreign capital brought into the host country is one of the main motives of control (Hodgetts and Luthans, 1997), this study reported no relationship between the foreign investor's capital and the degree of control exercised. However, a significant relationship was found between ownership structure and control (pp. 60, 63 and 75). It is difficult to understand why investors would not be concerned with control when they invest a large sum, but would be apprehensive when they have a majority share in a small venture.

Conflicting results are reported concerning the foreign investor's share and control. In chapter 4, page 61, it is stated that, in insurance firms, control was shared between foreign and local partners (the degree of control is 3 on a 1 to 5 Likert scale). On page 63, a statistically meaningful relationship was found between ownership share and the degree of control; the higher the

percentage of foreign ownership, the higher the degree of control. That is, investors who have a majority share exercise tight control. However, in chapter 3, table 12 shows that 10 out of 13 insurance firms had either 100 per cent or majority ownership in the study sample. Since insurance firms do not show a high degree of control, the conclusion about a majority share leading to tight control (on p. 63) does not seem to follow the findings of page 61 for all sectors.

In chapter 5, table 1 shows the types of new investment. Since the author does not give definitions of the types listed in the table, it is not possible to distinguish between "new plant/office" and "capacity expansion". The lack of definitions again leads to confusion in chapter 6, when Turkey is compared with other countries in terms of country risk.

An inaccurate analogy leads to a doubtful conclusion in chapter 5 (p. 132). The author compares the export performance of foreign firms in Turkey with those of the domestic firms engaged in exporting from their home country to international markets, as examined by Bonaccorsi (1992) and others. Since the subsidiaries of foreign firms operating in Turkey typically follow the strategic decisions of their headquarters, and their presence in Turkey is mainly to serve the large Turkish market, their export behaviour is not comparable with those of the domestic firms studied in previous works. Therefore, the negative correlation between firm size and export performance is not comparable with the findings of the Italian study.

To Erden's credit, she tries to find meaningful relationships between several factors, as shown in copious tables throughout the book. Still, some important points were omitted. For instance, in chapter 6, table 25 gives the number of firms by subsectors which reported negative treatment by public authorities or the general public. However, there is no further explanation on the allegations of these firms. Let us take the example of two mining firms that reported negative treatment. Part of the explanation is in table 21 of the same chapter: mining firms are the only ones which find environmental protection legislation to be a serious problem, with 1.5 points on a scale from 1 (very serious) to 4 (not at all serious). Further explanations could be found in the protests against the exploration and extraction of gold in western Turkey by some foreign mining companies, as reported by both the Turkish and foreign news media. Turkish people have become very apprehensive about the environment, and do not want their land to be seriously polluted by any firm, foreign or domestic. This attitude is very likely directed against environmental disasters, and not foreign firms *per se*. Finally, some more editing

and the addition of an index would have enhanced the readability of the book.

Despite these shortcomings, Erden's book presents interesting information on FDI in Turkey. The study, which fills a lacuna in a neglected area, should be beneficial for scholars and specialists as well as investors, both foreign and Turkish.

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Korean Enterprise: The Quest For Globalization

Gerardo R. Ungson, Richard M. Steers and Seung-Ho Park

(Boston, Massachusetts, Harvard Business School Press),
257 pages

This timely book analyses the challenges and responses of the economy and the firms of the Republic of Korea in an era of economic liberalization, political democratization and globalization. It therefore addresses broader issues than its title suggests. The theme revolves around seven policy prescriptions necessary for the growth and development of the economy and the firms of the Republic of Korea. These imperatives are to:

1. develop a new industrial policy;
2. restructure the conglomerates, or *chaebols*;
3. stimulate the growth and development of small- and medium-sized firms;
4. expand the globalization of the major firms;
5. enhance technological development capabilities;
6. create new management structures;
7. develop human capital.

These prescriptions are to be understood in the context of the *segyehwa* (globalization in Korean) movement initiated by former President Kim Young Sam in early 1993. The movement covered social, political and economic reforms aiming to prepare the country for the twenty-first century. It had three intertwined spheres of change: (i) political and social reform (the quest for freer and more mature democratic society); (ii) economic renewal and the strengthening of economic competitiveness; and (iii) cultural development. The main tools of the movement were increased deregulation of enterprises, enhanced market liberalization, reduced reliance on the Government as an economic partner, greater support for small- and medium-size firms, and the pursuit of more equitable partnership between management and labour.

In many ways, the first policy prescription was the most important of all, as it provided the framework for the other six ones. Under the title of industrial policy, broader issues such as the development of a macro-economic and macro-organizational strategy as described by Dunning (1993) were discussed. As it implied a holistic, systemic and integrated strategy, it was inseparable from the more general industrial, trade, competition and technology policies, as well as other government policies.

Until recently, the major thrust of industrial policy in the Republic of Korea used to be government intervention in the private sector designed to achieve national economic development. Industrial policy was conducted on the basis of reciprocity: the Government offered incentives *on the proviso* that firms deliver on predetermined performance requirements (mostly in the form of export targets). Government support was justified by infant-industry arguments.

The new industrial policy evolved from the outward-oriented industrialization of 1962-1971, the sectoral-oriented policy of 1972-1981 and the trade and market liberalization of 1982-1992. The post-1992 policy was a continuation of trade and market liberalization but cut much deeper. It called for both *internal liberalization* and *external liberalization*. The former meant the minimization of government interference in the private sector, and greater emphasis on market forces to create and allocate resources for economic development. The role of government in industrial adjustment became more indirect, through investments in technology, human capital and infrastructure. Central to this objective was deregulation "to facilitate industrial adjustment by eliminating entry barriers, streamlining socio-economic regulations, simplifying administrative procedures, and inducing foreign competition" (pp. 59-60). In the light of these objectives, as well as the requirements of OECD membership, the Republic of Korea had to liberalize its financial and capital markets.

The major goal of external liberalization was to open the historically closed domestic market to greater foreign competition. The imperative for this stemmed fundamentally from international pressures by major trading partners in the light of the emergence of the Republic of Korea as an economic power.

The predicament that government policy makers faced was how to liberalize financial and capital markets, imports and foreign capital inflows without significant macroeconomic dislocations, and undermined competitiveness of domestic firms and industries. One way was to stipulate that con-

glomerates should finance 20 per cent of their overseas investment from their own internal funds—a move that could constrain globalization. This underscored one of the conflicts between liberalization, deregulation and globalization.

The book discussed the other objectives of the 1993-1997 five-year plan—the development of small- and medium-size firms, of the promotion of technology development and of human resources development as three separate policy prescriptions. Restructuring efforts aimed at reducing the size and diversity of the Republic of Korea conglomerates (or *chaebols*) were not explicit goals in the 1993-1997 five-year plan. Rather, these efforts stemmed indirectly from the need to redefine the role of the Government in economic development, the increasing pressures for fair trade from the major trading partners of the Republic of Korea and by shifts in management strategy and corporate governance, including the development of small- and medium-size firms. The political and social reforms of the *segyehwa* movement were forcing a re-examination of protectionism and economic concentration. With political democratization, many would regard the close relationship between government and business to be less justifiable and sustainable in the future.

The restructuring of the *chaebols* raised important questions. While it may have been justified to forgo protectionism and financial support to the *chaebols* as they had progressed beyond the infant stage, there seemed to be no real economic imperative to eliminate economic concentration other than that it was in line with political and social reforms under way. First, scale and scope economies have proved paramount in high-technology competition and, in fact, have made the *chaebols* more profitable than their American and Japanese counterparts. Second, the size of the *chaebol,* although not negligible, was smaller than that of large western or Japanese MNEs. The Republic of Korea's largest *chaebol* as of 1995 (Samsung) was smaller in size by several orders of magnitude than Japan's largest *keiretsu* (Mitsubishi). Yet the current trend is to downsize and specialize them. Third, unlike Japanese *keiretsus,* these firms were not allowed to own banks until recently. With reduced financial strength and increased risks, could the *chaebols* compete against the larger and better-financed firms from the more developed countries, particularly in higher value-added industries? Fourth, it is important to remember above all that more than 80 per cent of the country's GNP is generated by the 30 or so family-owned Korean conglomerates. The economic success in the past decades of the Republic of Korea particularly and of many other countries in the region more generally have, in a

large part, been made possible by the Korean *chaebols*, the Chinese business groups and the Japanese *keiretsus* whose business dealings have tended to be based on highly valued Confucian-style relationships. To restructure the *chaebols* may therefore have negative implications on the very basis of the growth and prosperity of the Republic of Korea and the Asian region.

In any event, the envisaged restructuring of the *chaebols* did not proceed very far under President Kim as these companies became even more powerful and larger with their continued expansion into newer markets financed on the basis of debt. It remains to be seen whether the economic crisis would have greater success in implementing this policy initiative.

The growth and development of small- and medium-size firms as engines of growth was the mirror image of the restructuring of the *chaebols*. Small and medium-size firms accounted for 43 per cent of total exports in 1993, and for some 20 per cent of outward foreign direct investment (FDI) in 1994. Their growth and development were not so much a new policy priority as a renewed emphasis. In the mid-1980s, the Government already had stipulated the shift of support from *chaebols* towards small and medium-sized firms. But this had proved ineffective, particularly in the period after 1988 when many of these firms were allowed to sink or swim in the face of high labour costs and declining labour productivity.

The priorities for the 1990s lay in increasing the competitiveness of SMEs in response to the demands of industrial restructuring, market liberalization and globalization. In addition, as in developed countries, particularly in Japan, small and medium-size firms acted as key suppliers of intermediate inputs such as specialized parts and components to large assembling industries operated by conglomerates. These were substantial challenges for SMEs, particularly in the light of their limited financial resources and inadequate funding, lack of qualified and motivated employees, etc. Meeting those challenges required the enhancement of their technological and entrepreneurial capabilities, government support and the use of newer sources of finance for companies. Indeed, it is no longer possible to continue to provide low-cost, government-financed loans—the basis of the country's past economic miracles and a contributory factor to its current economic débâcles.

The expansion of globalization efforts—the fourth policy prescription—was at the core of the growth and survival of the firms of the Republic of Korea. The book reviews the globalization efforts of the big four *chaebols*: Samsung, Hyundai, Daewoo and Lucky-Goldstar (LG). Globalization was

required to protect and expand markets, and to build technology, as well as an important instrument of domestic industrial restructuring.

As far as technological development is concerned, the book outlines the responses of the Republic of Korea: enhanced local R & D efforts, increased overseas investment, increased exports of technology and increased technological alliances. Perhaps what was far more important was the development of an indigenous technological base that would have been enriched not only by the responses outlined above but also by inward FDI, research-based outward FDI and imports of technology which were likely to assume increasing importance with external liberalization. With the incursion of the firms of the Republic of Korea into high-technology (particularly semiconductor) production, new and more innovative modalities of acquiring foreign technology were required since technology partners and suppliers tended to be more self-protective and less willing to share. Besides, the element of technology that forms the basis of firm-specific competitive advantage is unique, firm-specific, tacit and differentiated and therefore non-tradable across firms (Cantwell, 1994). Its transfer is made difficult, particularly to firms of a different technological experience, and more so to firms in countries at a different stage of economic development.

While the book describes the responses of the 1990s in the field of technological development, mentioning the Government-initiated projects to develop essential technologies and the growing importance of strategic technological alliances involving cooperative R & D and cross-licensing, the specific technology strategies for the development of small- and medium-sized firms—a policy priority—seemed to be lacking.

The sixth policy prescription raised important issues of organization and management. While the requirements of global competition could have made it necessary to adopt Western-style organizational structures and management systems, the main challenge was not to unnecessarily shake the cultural foundations—the Confucian values—that continued to form the basis for the economic vibrancy of the Republic of Korea and many countries of Asia. The book draws lessons for the Republic of Korea from the experience of Japan that shares similar Confucian values and where moderate decentralization and professionalization of management had been clearly established.

The development of human resources was the last but by no means least important policy prescription, as it was intimately linked with other policies. Together with other created assets such as technology, the develop-

ment of human resources is regarded as the critical competitive asset to the contemporary success of firms and countries. There is a lengthy analysis in the book of human resource management, recruitment, training and motivation, comparing the Confucian approach with the modern, Western, more "professional" approach. However, there was little discussion in this context of the more fundamental, although difficult, task of overcoming the inherent inertia in people's mind-sets and attitudes towards change—the secret behind the prosperity of Samsung, LG and many other *chaebols*. The recent economic meltdown in the country and in other parts of the region associated with the bankruptcies of many companies may just underscore the need for such reform. ■

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