

## BOOK REVIEWS

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### *The Globalization of Business: the Challenge of the 1990s*

John H. Dunning

(London and New York: Routledge, 1993), 467 pages.

John H. Dunning has distinguished himself by his incisive writings in the area of international business over the past five decades and is the recognized authority of the discipline. This book brings together 15 essays by the author written over the past five years, published earlier as journal articles or book chapters. These essays analyse the globalization of the world economy and the role of transnational corporations (TNCs).

The book is divided into four parts. The first part comprises just one chapter incorporating the author's presidential address delivered in San Diego in October 1988 to the Academy of International Business. In that essay, Dunning discusses the challenges facing international business as a discipline in the 1990s. He makes a plea for an interdisciplinary approach to the study of international business in light of the new challenges created by the globalization of the world economy.

Part II on challenges for theorizing about TNCs and their activities puts together four essays. Chapter 2 on micro- and macro-organizational aspects of TNCs suggests that the changing characteristics of intra- and inter-firm relationships require an extension or reappraisal of the internalization theory, and that the explanation of the extent and location of TNC activity requires a more systematic treatment of the role of cultural and government-related variables in affecting the configuration of ownership, locational and internalization (OLI) advantages. Thus, the need for a multidisciplinary approach is stressed. Chapter 3 reviews the changing dynamics of international production and brings out a complex interplay between the behaviour of TNCs and the exogenous variables which both affect and are affected by that behaviour. In chapter 4, Dunning attempts to synthesize the global strategic-management and international-production theories. He finds a scope for incorporation of strategy-specific variables as "dynamic add-ons" to the OLI configuration of variables that explain international production. Chapter 5 is essentially a review article of Michael Porter's *The Competitive Advantage of Nations* and provides a critique of it, especially in terms of its relevance in

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understanding international-business activities. Dunning finds inadequate the analysis of the role of inward and outward foreign direct investment (FDI) in affecting the shape of the diamond of competitiveness of countries. He then explains the role of FDI and its impact on the competitiveness of countries.

Part III on challenges to established patterns of TNC activity comprises six chapters and is more empirical in nature. Chapter 6 reviews the evolution of Japanese FDI over the past ten years, comparing the different strategies of Japanese TNCs in the United States and Europe. Dunning finds that, in some respects, Europe is following one or two steps behind the United States. The nature, modalities and the relative importance of Japanese FDI in Europe seem to differ from those of Japanese FDI in the United States. Recent trends indicate, however, that Europe could become more strategically important to Japanese TNCs than the United States in the post-1992 era. Chapter 7 examines the influence of European integration on the pattern of transatlantic FDI. It explores the likely impact of economic integration since 1957 on the competitive advantages of European Union and United States owned firms and on the comparative advantages of the European Union and the United States as locations of high value-added activity. Chapter 8 reviews major developments related to strategic alliances, particularly in research and development. Strategic alliances are seen as a substitute as well as a complementary organizational form to FDI necessary to create, maintain and enhance the technological and ownership-specific advantages of the firms and specific advantages of countries. Chapter 9 reviews the prospects for FDI in Central and Eastern Europe which are found to be "highly promising". Chapter 10 deals with the globalization of service activities. Dunning shows that a comprehensive explanation of the growing internationalization of service enterprises from different countries can be made in the framework of the OLI framework. Finally, in chapter 11, Dunning, after analysing FDI trends during the past decades, builds scenarios for FDI in the 1990s. His speculation is that TNCs in the late 1990s could be "the centre of governance for a network of pluralistic organizational and operating units, each of which is systematically linked to the other as part of a regional and global heterarchy" (p. 310).

Part IV of the book is devoted to challenges to national and regional government policies and comprises four chapters. Chapter 12 examines the way in which the contribution of three main organizers of economic activity, viz. Governments, firms and markets, has changed over the past 100 years, how the form of that involvement has changed, and speculates on the future. Chapter 13 discusses these issues in greater detail and suggests a paradigmatic framework whereby it is possible to assess the costs and benefits of

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these alternative organizational mechanisms. The concept of market failure is used to trace the changing relationships between TNCs and Governments over the past 20 years or so. Chapter 14 continues the discussion further by detailing the way in which the political economy of TNC activity has changed over the past two decades, especially the instruments used by the Governments of host countries. The final chapter analyses some implications of European economic integration and its impact on TNC activity in the European Union. Dunning observes that in their attempts to promote the economic well-being of their citizens, individual Governments of members of the European Union are likely to be paying more attention to their macro-organizational policies because central to these policies is the role played by FDI and cross-border collaborative alliances. In this respect, it may be that the 1990s will see a new era of cooperation between Governments and firms, as the role of the former is steered increasingly towards compensating for market failures that inhibit the latter from achieving their full economic potential.

The volume covers a vast ground, addresses some very topical and significant issues concerning the internationalization of business and provides an authoritative discussion on the subjects covered. The fact that the volume combines much of the material already published elsewhere does not diminish its worth because Dunning has added value by including up-to-date information in the chapters and by providing connecting links and a cohesive structure. It is certain that the book would be found valuable by researchers and practitioners of the subject. ■

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## *Foreign Investment and NAFTA*

Edited by Alan M. Rugman

(Columbia: University of South Carolina Press, 1993), 323 pages.

This book is a collection of papers prepared for a seminar series on the North American Free Trade Agreement (NAFTA) held at Western Washington University in Spring 1993. Among the many possible NAFTA-related themes, the organizers selected foreign direct investment (FDI). The structure of the volume is along conventional lines: four general studies that cover the politics and economics of NAFTA; three industry studies (including one that deals generally with industry strategies rather than a specific industry); a section on the impact of NAFTA on outsiders; and a concluding section.

One might assume that a book based on studies concluded more than six months before NAFTA was finally signed would be either dated or superfluous. That is not the case. The editor quite correctly asked one author to update her study following the signing of the side agreements, which appear as an addendum. The book is remarkably free of convoluted reasoning based on imaginary alternative scenarios. The authors correctly assumed that NAFTA would pass essentially as negotiated. It is also helpful that the authors chose to focus on one of the Agreement's most important issues. Many observers have noted that the real contribution of NAFTA is not so much in the free movement of trade, which was impeded only slightly by modest tariffs prior to NAFTA, but in freeing capital to move into Mexico which historically has had substantial entry barriers.

Steven Globerman surveyed the analytical studies on the economic impacts of NAFTA. No study has found substantial gains for either Canada or the United States arising from NAFTA when calculated in terms of an increase in GNP. For Mexico, the gains can be large—as much as 7 per cent of GNP by some calculations. Globerman does not seem content with the notion of small gains for the other NAFTA States. He outlines the ways in which the assumptions of the computable general equilibrium (CGE) and other macroeconomic models used in grinding out the welfare-gain estimates could be conservatively biased to produce stingy results. However, by a leap of faith (and certainly not logic) he concludes (p. 14) that, if a conservative bias can exist, then it must exist and the welfare-gain calculations are, in fact, understated. Globerman provides no empirical support for the contention that the assumptions are conservative.

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Two other chapters contributed by the editor and two co-authors examine the conceptual framework for NAFTA's investment chapter. On the whole, the authors found that the investment provisions of the Agreement contribute to greater transparency. However, NAFTA does nothing to liberalize the Canadian and United States investment regimes. Both Canada and the United States have retained exceptions to national treatment at least partly, according to the authors, to facilitate the political bargaining needed to produce an agreement.

In a section devoted to studies of the three countries, Edward M. Graham suggests that NAFTA meets all of the goals that the United States has insisted on in its bilateral investment treaty programme, such as national treatment, right of establishment, dispute resolution and mitigation of performance requirements. Graham finds that NAFTA's rules of origin implicitly discriminate against investments by firms not domiciled in the three-country region. In some cases, the rules of origin even bias investment decisions within the region. According to Graham, the rules of origin draw firms to the major market (i.e., the United States) because firms in Canada and Mexico may not qualify for the preferential tariff treatment if they rely on a major input sourced from a non-NAFTA country. Firms may relocate to the United States to avoid this discriminatory treatment.

The two chapters on Mexico and Canada trace the evolution of both FDI and investment laws in the two countries. The authors of the chapter on Canada, Alan Nymark and Emmy Verdun, note that the Free Trade Agreement with the United States was the major turning point in investment policy for Canada. This chapter has an interesting section on post-NAFTA initiatives to promote greater capital mobility. Canada, along with the United States, has advocated multilateral investment agreements through OECD (such as the Wider Investment Instrument) and through GATT/WTO.

Edgar Ortiz, the author of the chapter on Mexico, focuses on the impressive achievements of Mexico in liberalizing its investment regime. Few countries have moved further or faster than Mexico in this respect, and this has paid dividends in the form of substantially increased investment inflows. Ortiz found that, while the NAFTA agreement leaves the financial industry in Mexico highly protected, the same industry in the United States and Canada have similar, if not as restrictive, protective barriers.

Another section of the book deals with industry studies. One general chapter summarizes the impact on all industries, and two chapters concentrate on the forestry and energy sectors, respectively. With the exception of

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energy, the conclusion of these chapters is that NAFTA will have little impact on investment flows in Canada and the United States but a large and positive impact on inflows into Mexico. Energy represents something of a failure in the light of NAFTA's overall liberalizing achievements. The authors of the energy chapter concluded that "the potential gains from trade and investment in North American energy markets will not be realized unless NAFTA evolves beyond its current form" (p. 226).

This is a polite way of saying that NAFTA failed to do anything in the energy sector, largely due to Mexico's constitutional prohibitions to losses of control of investments in energy and related fields. The authors note that the exceptions made for Mexico in this sector go beyond even what is required by the constitution of Mexico.

The last two chapters provide insights into what is certainly one of the most controversial issues raised by NAFTA—its impact on outsiders. One chapter examines the implications of the agreement on Japanese investments in the region. The authors conclude that NAFTA will not alter substantially the trend towards greater off-shore production that Japan launched almost a decade ago. Due to the rule-of-origin bias noted above, Japanese investments will still be drawn to the main market within the region, i.e., the United States, even though more efficient locations could possibly be found in either Canada or Mexico.

It is fairly easy to find topics that the authors of the compilation of commissioned papers for this book failed to cover, especially when the main theme has been as narrowly defined as it has. The authors have not attempted novelty in their analytical methods nor have they amassed new data. They have, however, provided a very useful concentration of scholarly brain power on one of the linchpins of NAFTA. When future authors sit down to assess the impact of NAFTA on the North America region and the world, this is one book that they would be well advised to consult. ■

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