BOOK REVIEWS

Multinationals in North America

Lorraine Eden, ed.

(Calgary, University of Calgary Press, 1994, 557 pages)

In May 1993, a conference was held in Ottawa on ''Multinational corporations in North America''—defined as Canada, the United States and Mexico. This volume is the outcome. The book went to press before the United States Congress ratified the North American Free Trade Agreement (NAFTA) in the autumn of 1993 and before NAFTA went into effect 1 January 1994; it was published before the United States Congress endorsed the conclusions of the Uruguay Round of Multilateral Trade Negotiations in December 1994. These steps, however, do not make the book any less topical; quite the contrary, for most of its authors, their underlying assumption was that trade would be freer and NAFTA would become a reality. And, of course, the United States-Canada Free Trade Agreement (FTA) had been in existence since 1 January 1989, so there was a testing ground. The book is pertinent and germane. Lorraine Eden, who chaired the conference and has edited the volume, believes that not only are transnational corporations (TNCs) and nation-States facing changes, but there is an important underlying technological paradigm shift from mass to flexible production that must be studied in the context of TNC behaviour. She and all the other contributors are aware that foreign economic policymakers have been blind to the significance of TNCs.

Eden has put together an exciting work, brimming with new information, ideas and insights. This is a sensible, nondoctrinaire, stimulating collection of papers. Yet, no author anticipated that the decline of the peso might affect TNC location decisions; in fact, one article contrasts the exchange-rate instability in the European Union to the stability in the NAFTA group! The book provides few insights on the consequences of foreign exchange fluctuations on NAFTA. In this respect, it is typical of the pre-NAFTA debate. Economists failed to forecast the deep economic troubles Mexico faced in the Spring of 1995 (when this review was written), although one contributor to this volume, Kurt Unger, does point out the uncertainties in the Mexican outlook.

The volume begins with a segment on theory. There is Raymond Vernon's brilliant assessment of TNCs and governments as key actors in NAFTA, an essay imbued with a wisdom derived from about three and a half decades of study of TNCs. His article is followed by two informative chapters by B. Curtis Eaton, Richard G. Lipsey and A. Edward Safarian. Once again, we have the judgements of experts. Eaton and Lipsey's joint work on location theory is well known. Richard G. Lipsey was deeply involved in the arrangements for United States-Canada FTA, while Safarian has long been an authority on TNCs in Canada (and more recently has considered public policies and TNCs in OECD countries). The titles of these two papers are: "The theory of multinational plant location in a regional trading area" and "The theory of multinational plant location: agglomerations and disagglomerations". The first covers determinants of foreign direct investments (FDI); TNCs and North American trading relationships; how a nation gains if it attracts FDI; what a free trade area does, including the differential results of changes in tariff and non-tariff barriers for large and small countries; the provisions of the United States-Canada FTA and NAFTA; and the investment-diversion effects. It concludes that "the gains from rationalizing investment are probably underestimated in the models in which technological change is exogenous compared with models that reflect the fact that technological change is largely endogenous to the system" (p. 73). The second Eaton, Lipsey and Safarian chapter deals with the impact of economies of scale and scope and transportation costs on agglomeration and on the location of research and development facilities by TNCs.

Alan Rugman and Joe R. D'Cruz provide an excellent essay on business network theory, presenting a model with a flagship firm and four partners—suppliers, customers, competitors, and non-business infrastructure (from universities to trade unions). Wharton's Bruce Kogut offers an "evolutionary perspective" on NAFTA in an adventurous contribution.

Part Two of the book—comprising seven chapters—is on evidence: it contains descriptive materials on TNCs in North America (John Knubley, Marc Legault, and Someshwar Rao), location strategies (Eden), Japanese TNCs in North America (D. Eleanor Westney), TNC activities in North America compared with those in the European Union (John Dunning), intra-firm trade in North America and the European Union (Dennis Encarnation), and FDI in Mexico (Unger) and Canada (Jorge Niosi).

The section gives a rich overview. Knubley and his co-authors analyse productivity performance of leading North American firms (measured by sales in 1991) to gain an understanding of the "competitive position" of the

United States, Mexico and Canada. My students who read this paper had a hard time determining the difference between a country's comparative advantage and its competitive position. Once a static concept, comparative advantage of nations (and firms) is now seen by these authors as subject to "rapid shifts." The arguments and the documentation are extremely useful. Eden's paper provides a comprehensive survey of the impact of NAFTA, arguing that it is much more than a free trade agreement. She offers criteria for measuring its effects. For most United States TNCs investing in Mexico, she believes "low wages are a minor consideration" in their location decisions.

Westney points out that, since 1990, the surge of Japanese FDI in the United States has subsided; she thinks this is part of a trend (p. 256). On the other hand, she sees the stronger yen pushing more Japanese activities offshore (p. 270). Her comparisons on Japanese and "western" TNCs are thoughtful, but like most students of Japanese overseas business, she very inappropriately assumes an identity of behaviour of western—e.g., United States, British, German, Swiss, and French—TNCs. Actually, although she is unaware of it, her discussions of the need for Japanese firms to change managerial structures over time parallels similar work on the history of United States-headquartered TNCs. I missed in her commentary the truly profound difference between Japanese and "western" TNCs that lies in the matter of language. Few Westerners speak Japanese. If managerial structures are to work, there must be communications. Translations create high transaction costs.

Dunning's comparative essay on the European Union and NAFTA follows. As ever, Dunning is thorough and knowledgeable; he has probably written more on TNCs than any of the other contributors. Despite his huge output, Dunning always presents new and challenging ideas. It is a learning experience. Encarnation explores the importance of majority-owned foreign affiliates in achieving market access; he emphasizes that the sales of majority-owned foreign affiliates of United States TNCs are much larger than United States merchandise exports and that this has been true for many years. He investigates important aspects of trade and investment linkages. Unger turns to Mexico, giving a brief but very valuable presentation on FDI in that country. His materials on the *maquiladoras* is especially useful.

Niosi found that bilateral trade rather than FDI between Canada and the United States had risen since the United States-Canada FTA had come into effect. He explains why Canada has attracted a small but declining share of Japanese FDI. As a host nation, Canada's share in worldwide FDI has been going down—from 18.2 per cent in 1967 to 8.5 per cent in 1987 (the last figures that he provides). He also discusses the geographical and sectoral distribution of outward Canadian FDI; he suggests that Europe 1992 is more exciting to Canadian (and United States) firms than the conditions established under the FTA.

The third part of the book is on policy. Fred Bergsten writes about international investment policies. He is blunt in his comments on how the Asia Pacific Economic Cooperation Group "hate the NAFTA" (p. 398), fearing the North American connections will divert United States and Canadian attention away from the Pacific region. Sylvia Ostry considers trade, industrial and competition policies in the context of FDI policies. She argues that trade-related investment measures (TRIM) reflect the dialogues of the 1970s; in the 1990s, policymakers should be thinking about investment-related trade measures (IRTM). In policy making, she endorses multilateral rules over bilateral bargaining. Neither Bergsten nor Ostry presents core fundamentals on FDI as a guide for shaping international policy.

In a nicely done chapter, Robert Thomas Kudrle surveys the changes since 1980 and the existing rules and regulations governing inward investments in the United States, Canada and Mexico. He reviews the policy goals of security, autonomy and prosperity and opens the way for articles on particular policy questions. Ellen Frost and Edward M. Graham, in an outstanding paper, examine the intimate relationships between national and economic security; consider dual purpose technologies (those used for defense and commercial ends); and explain the danger of equating national and economic security with autarchic policies. Then Graham, now with Mark A. A. Warner, writes on competition policy. And, in the last of the policy chapters, Frederick Mayer considers social policy, including environment, workplace standards and labour rights.

A concluding 25-page section, entitled "Lessons and new directions", consists of short comments by Christopher Maule, Murray G. Smith and Alan Nymark on the previous eighteen papers.

This 557-page work has no index, a bad omission, for this is a set of essays that a reader would like to continue to consult. Unless he or she does his or her own indexing (or has a phenomenal memory), there is no way of going back and comparing, for example, the complementary material on maquiladoras in the Encarnation and Unger articles. There is much herein for students of TNCs, not only those who study North American matters. The essays were extremely well selected to explore a very wide range of topics involving TNCs. The altered situation in Mexico (since the peso plunge) only marginally detracts from the volume's up-to-date analysis. I recommend the book highly. ■

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La France face à l'investissement international

Fabrice Hatem and Jean Daniel Tordjman

(Paris, Economica, 1995, 371 pages)

The book consists of two parts. The first provides a general overview of the main trends of globalization during the past decade. It focuses on changes in trade and foreign-direct-investment (FDI) flows and on the analysis of regionalization (i.e., European Union, the North American Free Trade Agreement, Asia-Pacific Economic Co-operation). It also reviews the restructuring of transnational corporations (TNCs) through the establishment of networks and mergers and acquisitions. This part provides relevant information and detailed analysis of the globalization process and it aims at providing a framework for the presentation of the French case, which is analysed in the second part of the book.

The second part offers a comprehensive survey of the great changes that have occurred in France since the mid-1980s, as a consequence of the globalization of the world economy. These changes are reflected in both outward and inward FDI trends. Over the past decade, French TNCs dramatically increased their activities abroad. In 1992, France ranked as the world's fourth largest investor. French TNCs have been particularly active in mergers and acquisitions. The most active investors in foreign markets were TNCs in services, mainly in banking, insurance and distribution. Investment flows were mainly directed to European countries and to the United States—France's most important trade and investment partners. More recently, French TNCs have increased their presence in Asia as well. The most striking feature of the new regional distribution of French outward FDI is the declining importance of sub-Saharan Africa as host region.

During the past decade, France has also become more attractive as an investment location. In 1992, France received an unprecedented large amount of FDI flows and was the largest host country among OECD countries. The largest FDI flows came from the United States, but a significant proportion of the increased FDI activity in France was due to greater investment by European countries. Transnational corporations invested mainly in services; however, in terms of assets, employment, value-added and number of investing firms, the foreign presence in manufacturing was still much stronger compared to services.

The last two chapters of the book are devoted to the analysis of the factors determining the attractiveness of France as an investment location. The experience of France is illustrated within the framework of European promotion policies. These chapters well reflect the commitment to European integration of the new *Délégation française aux investissements étrangers*. Authors are, respectively, Jean Daniel Tordjman, Ambassador at large, Head of the *Délégation*, and Fabrice Hatem, Chief of the Department for Research and Information.

To conclude, Hatem and Tordjman's book is a very useful input for academics and researchers interested in the impact of globalization on national governance. In the case of France, the present attractiveness is a result of different economic policies followed by the Government of France. The traditional "French model"—a mix of State intervention, inward looking industrial policies, based on a large public sector and national champions—has been replaced by a new liberal economic orientation.

The growth of French TNCs and the increased presence of foreign affiliates in its economy show that the governance of the French economy is less and less under State control. Consequently, the role of public enterprises in the economy has diminished while that of private enterprises, both domestic and foreign, has dramatically increased. By giving up using the "French model" the power of the French élite (coming from *grandes écoles*) has been weakened in the management of the economy. Furthermore, as this study points out, the French economy is now fully integrated with the economies of other European countries (members of the European Union). This integration raises new challenges and opportunities for both governments and corporations to ensure that benefits of economic development can be fully shared by all partners. ■

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Transaction Costs, Markets and Hierarchies

Christos Pitelis, ed.

(Blackwell, Oxford, 1993, 280 pages)

This volume brings together some of the many areas within economics which now embrace transaction-cost theory as an essential part of the basic analysis. This analysis raises a series of interesting questions concerning transaction costs and the actions of economic agents within various institutional frameworks. The thrust of the book is how transaction-cost theory is applied as a basis for entrepreneurial decisions, moving the analysis somewhat away from the basic *Markets and Hierarchies* (Williamson, 1983). An important point is Christos Pitelis's assumption, expressed in his introduction, that resources are directed through entrepreneurial decisions rather than using the market as a signalling mechanism. This view contradicts Mark Casson's (1982) work on the theory of the entrepreneur.

Malcolm Sawyer's chapter provides an interesting link between transaction-cost economics and neoclassical economics. His chapter is based on the proposition that the analysis of market economics cannot be carried out solely on the basis of market transactions, but it must also include an analysis of internalisation. This is indeed a well made point.

Frederick Fourie contends in his chapter that firms do not develop due to the fact that they supersede the market, but because there are institutional reasons for their existence. Market relations, according to Fourie, cannot produce productive capacity. They can only link it. He therefore suggests a more moderate approach than the one which views markets and firms as alternatives.

To continue on this theme, Keith Cowling and Roger Sugden state that it is the nature of the transaction that matters. The transaction-cost approach therefore should focus on why some decisions are controlled internally, and others not. They are using as their unit of analysis a definition of a firm as a centre of strategic decision making.

Gregory Dow in his critique of transaction-cost economics stresses that internalisation can not be only a method of reducing transaction costs, but also of appropriating rents. The structures that develop from transaction-cost analysis depend on their ability to create and distribute rent in a manner consistent with the survival of the coalition. This is somewhat different from an approach which emphasises structures as a way to minimise transaction costs. An assessment of structural efficiency must be based on individual payoffs, rather than on minimising transaction costs.

Michael Dietrich makes a similar point, when he argues that analysis should be seen in terms of the benefits of a transaction rather than the cost. In terms of an assessment of structures, Dietrich suggests that structure should be seen as endogenous to the problem.

In analysing transaction costs in employment relations, Paul Marginson maintains that transaction-cost economics can be used to conceptualise bargaining power, and to point out the extent to which transaction costs can be turned to the employer's advantage. Any employment relationship will generate firm specific human capital, which is bound to affect the distribution of bargaining power. This is a similar line of argument to Cowling and Sugden in the previous chapters.

William M. Dugger examines the role of the State in terms of transaction-cost economics. Intuitively, the State is a transaction-cost minimiser, but markets would not exist unless the State acted to protect property rights. From this perspective, the market itself can be seen as an institution, and the coordination question is endogenous in determining the nature of production. This is in line with Neil Kay's argument which expresses the idea that it is the cost of coordination that is important, not merely the cost of the transaction. This indeed is a central issue in the application of transaction-cost economics to the theory of TNCs, and something which is referred to in this volume numerous times, yet not sufficienctly explored by any of the writers.

Steve Thompson and Mike Wright focus on the cost of control in their work on divestments. They argue that the ideal of an M-form can never be achieved. Therefore, while the markets and hierarchies approach would suggest a strategy of internalisation, divestments, particularly where long-term arm's-length agreements are put in place, may provide a better method of harnessing opportunism.

Overall in its original approach to transaction-cost economics, this book provides an interesting insight into the different theoretical approaches to resource coordination. A more explicit assessment of some of the major issues related to international economics, such as franchising or subcontracting, would have added largely to its appeal to the international business audience. Many writers in the area of theory on transnational corporations are cited by the various authors, but there is little devoted to transaction-cost economics in this context. ■

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Multinational Companies in United States International Trade

F. Steb Hipple

(Westport, Conn., Quorum Books, 1995, 315 pages)

It is a fair comment on the state of economic analysis to say that the world has become globalized, yet mainstream economic analysis is still relying on closed-economy models. *The World Investment Report 1993: Transnational Corporations and Integrated International Production* laid out in stark detail the degree to which transnational corporations (TNCs) have come to dominate the global economy (UNCTAD-DTCI, 1993), particularly so in those industries that rely heavily on proprietary technology. In the course of this process, TNCs have capitalized on the advantages of internalization to enhance the allocative efficiency of the world's economic system. In such a context, a book which ''puts an unnoticed but definitive data set into the hands of researchers and analysts'' (p. xv) must be invaluable—especially when the analysis is done with great attention to detail, with a thorough understanding of both the data base and the subject, and with insight. Steb Hipple's book does just that. Neither trade theorists nor policy makers can afford to neglect this book.

The book is based on data published by the United States Department of Commerce. The Department conducts benchmark surveys on the operations of United States TNCs abroad and also collects data on the activities of foreign affiliates located in the United States. The book presents analyses of three surveys on inward investment in 1974, 1980 and 1987 and three on outward investment in 1977, 1982 and 1989.

The first chapters are devoted to basic concepts and definitions, a description of the data sources and what may be termed ''Hipple's matrix''. The matrix breaks down total trade by United States TNCs and foreign affiliates in the United States according to the status of the trading partner (parent companies, foreign affiliates and domestic firms).[1]

For general analysis on the importance of TNC-related trade, exports between a United States parent and a foreign affiliate of another United States corporation would be included under the *Xpa*, while *Xap* would include exports of foreign-based affiliates with its own as well as with unrelated foreign parent corporations. When intra-firm trade is the focus, *Xpa* and

[1] The matrix identifies: *p* parents; *a* affiliates; *o* other firms.

Xap (and their import equivalents) are defined in terms of related parents and affiliates (p. 34). Chapters 5 and 6 also spell out how the estimates have been arrived at from the original benchmark data sets. It is crucial that any reader of the book devotes time to a complete understanding of the matrix approach to the data set: despite careful exposition, the matrix approach is not easy to grasp because it is a new and different approach to trade data.

The data sets presented by the author's analytic framework and his application of that matrix to the new original data provide additional insight not captured by the analysis. The data are analysed for twelve sub-groups (six non-manufacturing categories and six manufacturing categories and four regional breakdowns (Canada, Europe, Japan and other regions). The regional breakdown is of special interest to analysts of bilateral trade between the United States and other regions.

The analysis by industry reveals substantial variations across industries in the importance of intra-firm trade. As may be expected, with the exception of the oil companies that were among the first to exploit the economies of common governance, TNCs' intra-firm trade features more in manufacturing industries.

The breakdown of total trade into its components allows analysis of the role of intra-firm and affiliate trade in the United States balance of payments. The author suggests that ''multinational corporations were a significant factor in the deterioration of U.S. trade performance'' (p. 28). This statement could be better analysed by explaining that the deterioration in the United States trade balance was concentrated to a significant degree in ''Schumpeter goods'' which are heavily reliant on proprietary technology and managerial efficiency for their competitiveness. In these industries TNCs predominate and have a strong influence on trade patterns.

This book, like the benchmark surveys data on which it is based, is a path-breaking undertaking. It is to be hoped that other countries will follow the example of the United States and that other economists will emulate Hipple's work for analysis of trade patterns of other countries. Consistency of methodology would be very desirable in order that cross-country comparisons could be undertaken. Such studies will enhance the understanding of trade patterns in an increasingly globalized world economy. ■

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