BOOK REVIEWS

Foreign Direct Investment and Governments: Catalysts for Economic Restructuring

John H. Dunning and Rajneesh Narula (eds.)

(London and New York, Routledge, 1995), 455 pages

The editors are authorities on the investment development path (IDP), i.e., the relationship between net outward foreign direct investment (FDI) and the level of economic development (per capita GDP) (Dunning, 1981; Narula, 1995). The IDP is an interactive concept, recognizing both the host country's desirability as a site for inward FDI and the stage of development as an indicator of the ability to generate outward FDI. Important among the conditions affecting the desirability (in addition to per-capita GDP) is the degree to which host country policies provide the infrastructure that transnational corporations (TNCs) seek. The editors are, therefore, very well equipped to assemble a collection of country studies on the roles of the net investment position *and* government policies on economic structure, and to set the stage by generalizing and updating the concept of IDP. The volume is well summarized by Sanjaya Lall.

There are 11 country studies, which provide an excellent cross-section of economies by level of development (in sequence): the United Kingdom; the United States; Sweden; Japan; New Zealand; Spain; Mexico; Taiwan Province of China; Indonesia; India; and China. Students of national patterns of FDI will want to consult the relevant studies (in addition to the first and last chapters). Each provides a valuable analysis of the individual experience of country considered and ties that experience to the focus of the book: the role of government in using FDI to generate structural change and growth or development. One of the important findings of the undertaking is that, while the country studies show government's role to be a factor, it is by no means the exclusive cause of national idiosyncrasy.

This review will concentrate on the introductory first chapter and on three country studies (those on Japan, Spain and Mexico).

The introductory chapter is a masterly study of the increasing complexity of the modern global economy and of the way in which TNCs have both contributed to and tried to keep up with a global economy undergoing rapid and accelerating technological evolution. Using the IDP as the basic analytical tool, the authors chart and confirm the greater complexities of FDI patterns and net outward investment positions in the 1990s. Here, the growth in the relative importance of created assets and in knowledge-seeking FDI among Triad countries is fundamental, and the simple "fit" of the IDP has been reduced in consequence. In response to these changes, the concept of the IDP has also changed and is now more usefully laid out in terms of gross outward and gross inward investment and their relationship with economic growth and development. (This refinement has the advantage of eliminating the condition that the sum of all countries' net outward investment is zero by definition.) The greater emphasis on created assets and recognition of the need for development of the relatively immobile cooperating factors is the source of the new importance of governments' macro-organizational strategies. (While it is not explicitly tested, it would seem that the greater complexity in FDI behaviour is found predominantly in the industrialized, stage-4 and stage-5, countries and that "North-South" FDI follows the original concepts more closely.)

The introductory chapter advances the hypothesis that FDI will lead to a convergence among the industrialized countries in terms of resources bases and income levels and that "Such countries ... may be expected to settle down to a fluctuating equilibrium around a roughly-equal amount of inward and outward investment" (p. 9). In the light of substantial and probably immutable differences in national attitudes towards economic openness, substantial differences with respect to social policies, differing degrees of dependence on imports of and proceeds of exports from natural resources, and the differing compositions of regional blocs, this is an heroic hypothesis. It receives little evidential support in the country studies, although, as Edward Graham notes (p. 97), fluctuating equilibria can take a very long time to be identified by data.

Terutomo Ozawa's analysis of Japan (chapter 5) provides an historical/analytical account of the role of FDI and the IDP in the success of Japan over the past 40 years. The chapter is informed, insightful and analytically creative. It shows how the IDP can, as a result of a strategy which deliberately limits inward FDI in favour of the importation of technology through licensing agreements, be successfully reincarnated as a "technology development path" (p. 154). This path is measured by net receipts and payments

of "royalties and fees". Japan's technological development position is still negative, although the country enjoys surpluses with several individual countries.

The analysis of Spain, by José Manuel Campa and Mauro F. Guillén, concludes that Spain does not fit well into the IDP framework. This conclusion may be attributed to the relatively recent entry of Spain into the European Union and the flood of inward FDI which resulted (4.2 per cent of GDP in 1991). Because of their greater and broader experience with FDI, TNCs are likely to react to the entry of Spain into the European Union more quickly than Spanish firms, and the growth of outward FDI will lag behind the growth of inward FDI. Another reason is that Spain has been relatively backward in research-and-development expenditures. It is to be expected that foreign TNCs seeking to acquire locational assets in Spain are likely to react to Spanish entry more quickly than Spanish firms and can adjust faster to the new conditions and identify and acquire foreign assets which will contribute to their own optimal locational portfolios, so that induced growth in Spanish outward FDI would lag behind the growth of inward FDI.

The study of the Mexican experience (chapter 8) by Alvaro Calderón, Michael Mortimore and Wilson Péres addresses the modern Mexican experience through the travails of the debt crisis and the successful negotiation of the North American Free Trade Agreement. It concludes that FDI, together with some major changes in the economic role of government following the debt crisis, played an important part in the success of Mexico's economic policies which have allowed the modern sector of the economy to grow at a very good rate, despite severe structural problems.

Inward FDI has played an important role in the transformation of much of the Mexican economy from its traditional, natural resource base into the advanced, high-productivity sectors. Equally impressive is the contribution of TNCs to Mexican export performance, including, of course, substantial growth in exports to the neighbouring United States market.

The concept of IDP addresses, indirectly, the question of whether FDI is an "engine" of growth for developing countries. An argument can be made that any mechanism that transfers technology, capital and foreign exchange cannot be detrimental to growth, provided always that the transfers are not dissipated by the government's lack of probity or efficiency and/or the TNC's unawareness of its socio-economic role in the host economy. The essence of the findings of this volume is that good government policy in the host country is vital if inward FDI is to be attracted on a scale that will

permit positive spread effects to spill over among sectors and to set the host economy on the road to industrialization.

In sum, this well-produced book should be read by all students interested in TNC activities and their implications. The country studies are extremely useful as analytical sources for the interaction between FDI and economic performance. ■

H. Peter Gray

Professor
Rutgers University
New Jersey, United States

References

Dunning, John H. (1981). "Explaining the international direct investment position of countries: towards a dynamic or developmental approach", *Weltwirtschaftliches Archiv*, 119, pp. 30-64.

Narula, Rajneesh (1995). *Multinational Investment and Economic Structure* (London: Routledge).

The Foreign Investment Debate

Cynthia A. Beltz, ed.

(Washington D. C., American Enterprise Institute Press, 1995), 136 pages

The title of the book refers to the ongoing debate concerning conditional national treatment of foreign direct investment (FDI). Under conditional national treatment, a host government would grant foreign investors and their investments conditions similar to those granted to domestic investors and their investments, but only if the home government of the investor granted similar treatment to the investors and investments of the host nation. This issue is embodied in the Manton Amendment to the 1993 National Competitiveness Act, a bill which did not pass the United States Congress, and other legislation proposed around the same time.

Although a very useful contribution to this debate, the book is now to some extent obsolete because the debate seems to have been resolved—at least in the United States—in a decision against conditional national treatment. None of the proposed bills embodying such treatment actually passed into law. This is a happy development because, as it is argued convincingly in the book, conditional national treatment is a bad idea.

Although national treatment and conditional national treatment standards could in principle apply to any foreign investor and its investments, these standards are of most relevance to the overseas affiliates of direct investors. Obviously, the conditional standard is of relevance only if a host nation is also a home nation for a significant amount of FDI. This criterion is clearly met by the United States, which is both the largest home and host country in the world in absolute terms. It is also met by Europe and by a large number of the fast-growing developing countries.

The fact that the conditional national treatment debate is solved at the present time should not cause the potential reader to ignore this book. Conditional national treatment is kept alive in the United States in a number of issues. Also, certain United States government programmes already embody explicitly or implicitly (as in the clean car programme) conditional national treatment standards.

This book contains the proceedings of a conference held at the American Enterprise Institute in July 1994. While it can be difficult to distinguish

between Republican and Democratic Party politics in general, in the domain of policy towards inward FDI their policies could not be more contrasting. In particular, the Republicans have removed conditional national treatment from the Congressional agenda.

The various essays making up the book include one by the editor, Cynthia Beltz, arguing that "foreign investors make lousy crowbars" (p. 16). The theme of this essay is that, because foreign investors can and do bring to host countries tangible benefits, irrespective of how the home nations of these investors treat FDI coming into their own nations, it would be a great mistake to pursue unfavourable policies towards investors justbecause their governments' policies are considered inadequate. If the goal is to induce other governments to change their policies, the conditional national treatment approach might not be a particularly effective means of achieving it. Alas, governments do not seem to accept this argument. The newspapers have recently been full of stories about threats by certain governments to punish local affiliates of foreign firms unless the home governments of those firms change their policies.

Richard Florida of Carnegie Melon University follows Beltz's essay with two chapters, in which he argues, with supporting empirical evidence, that foreign affiliates in the United States have made positive contributions to the United States technology base. Also, he examines in detail the evidence regarding the benefits and costs of FDI to the United States, largely on the basis of a review of the literature, including a very ample review of his own contributions. The overall conclusion is that the evidence does indeed overwhelmingly support the proposition that FDI brings net benefits to a host country (or, specifically, to the United States).

Other contributions include chapters by Clyde Prestowitz, Daniel Price and Ellen Frost. Prestowitz runs somewhat against the tide of this book when he argues that "not all foreign investment is the same" (p. 40). In the real world, crowbars are needed and foreign investments can make better crowbars than Beltz would have the reader believe. The crowbar value of a foreign investment is enhanced, according to Prestowitz, if the intrinsic value of the investment to the host nation is low. Prestowitz might be cheered by the economic planners of certain developing nations which have kept out FDI in the computer and other high-technology industries in order to enable local firms to become world-class competitors. The problem is, of course, that this approach has worked less well in some countries than in others.

Daniel Price, a private attorney who served as Deputy Counsel to the United States Trade Representative (USTR), where he was chief negotiator on the investment issues for NAFTA, maintains that the Manton Amendment and other proposed legislation embodying conditional national treatment are suboptimal means to achieve the end of opening foreign markets. He argues that, in general, changing legislation in host countries (again, in this case, the United States) is a poor approach to negotiating with other governments. Negotiation should be, he believes, the task of the executive branch of government, which should be given maximum flexibility and not be constrained by legislative mandates.

Price's arguments might seem almost *sui generis* to non-United States citizens. However, given the unique (and, in many ways, flawed) United States system in which the powers of the Congress and the Executive are separate but often overlapping, his arguments are both valid and valuable. They are based on the knowledge of someone who has actually been a United States negotiator and who knows the perils of undertaking this role under the United States system.

Ellen Frost, who was at the time she wrote her chapter Special Counsel to the USTR, argues that the policies of the Clinton Administration towards inward FDI are in line with Beltz's position. She argues against the use of technology policy as a vehicle to put pressure on foreign governments, and that, indeed, the United States penchant for "interacting with foreign governments only on a punitive level" (p. 51) should be replaced by a more positive approach. Given the persistence of the Clinton Administration's punitive approach during the months following her presentation at the American Enterprise Institute, one wonders if hers might not have been a lonely voice in the Administration. Indeed, in early 1996, she left her position with the USTR to join your reviewer as Senior Fellow at the Institute for International Economics. ■

Edward M. Graham

Senior Fellow
Institute for International Economics
Washington, D.C., United States

Financial Integration, Corporate Governance, and the Performance of Multinational Companies

Mitsuhiro Fukao

(Washington, D. C., The Brookings Institution, 1995)

The relationship between alternative models of corporate governance and the economic performance of companies, industries and countries has been the subject of intense interest in recent years. In this succinct and very well written study, the author surveys much of the literature on this subject, and describes briefly four models for bank-industry linkages, each of which assigns central, but quite distinct, roles to financial institutions: the equity-market system, the bank-based system, the bank-industrial cross-holding system and the state-dominated system.

In the equity-market system, shares of corporations are held by the public, either directly or through institutional investment vehicles (such as mutual funds and pension funds). These shares are actively traded. There is a high level of transparency and reliance on public information, with systematic surveillance by equity investors and research analysts. Fears of hostile take-overs prompt management to act in the interests of shareholders. The control of credit institutions over this *outsider* system is mainly confined to arm's-length financing, including take-overs and internal corporate restructuring. This system is most common in the United Kingdom and the United States.

In the bank-based system, major equity stakes of corporations are held by banks, which act as both commercial and investment bankers to their clients. With substantial equity, as well as debt exposures, banks exert a significant monitoring role in the management of corporations, including active board-room participation and guidance with the benefit of non-public (*inside*) information. Markets for corporate equity and debt tend to be poorly developed, with relatively large investor holdings of public-sector bonds as opposed to corporate bonds or stocks. Financial transparency tends to be relatively low, as are the free float of shares and (in some cases) stock-market liquidity. External efforts to gain control of corporations against the wishes of management are virtually unknown. This system is best exemplified by the German, Swiss and Austrian approaches, as well as by some of the economies of Central Europe, such as the Czech Republic.

In the bank-industrial cross-holding system, non-financial corporations maintain significant stakes in one other and control of one other. Banks hold shares in industrial companies and play a significant role at the board level, and are at the centre of equity cross-holding structures. There is a significant free float of shares and there are relatively well developed corporate equityand debt markets. The management of companies connected through cross-holding structures is typically acting in the interests of public shareholders. Hostile take-overs by investors in this system are virtually unknown. The Japanese *keiretsu* and some aspects of the German control structures are examples for this approach.

Finally, the state-dominated system is similar to the banking industry's cross-holding system, except that the government owns or controls significant stakes in banks and/or industrial companies. In countries such as Italy and France, the State has traditionally held both direct and indirect stakes in industry and in banks, and the latter in turn have also held significant equity positions in industry.

In this volume, the author reviews the role of limited-liability companies in the modern economy, as well as the associated alternative governance structures in the second and third chapters, and then tries to develop a general set of performance-related conclusions. It is here that disagreements inevitably begin to take hold.

Scholars have tried for years to assess which of the systems delivers the best economic performance over time. The empirical assessment of the performance of different industry-bank-government models of corporate governance is, however, basically futile, owing both to the complexity of the dependent variable, and to the tracking of measurable performance attributes, either longitudinally for a single country or cross-sectionally across countries. Moreover, most such assessments are essentially static, and focus on such issues as cost of capital, although the far more important question is how production-function dynamics and the rate of economic growth are affected by the corporate control and governance process. A number of questions remain largely unaswered. For example, does the system provide the kind of venture capital market that can facilitate the emergence of often high-risk firms and industries? Does it, at the same time, deny capital to firms and industries that have lost competitive advantage in the global economy?

Furthermore, the author does not do much with the issue of how the German or Japanese approaches to corporate governance actually work. For example, how can one be the chief executive of a major corporation and at

the same time sit on the boards of five or ten other major companies without doing an inadequate job even with the best of intentions? Theory and practice, in other words, may diverge substantially. In the United States system, at least, there is the possibility of personal liability of directors if they can be shown to have violated the "duty of care" and the "duty of loyalty" to shareholders. There is nothing like personal liability in the presence of aggressive shareholders and avaricious lawyers to sharpen performance and to hold management accountable.

Another issue which is too often ignored is the opportunity costs of bank-based or cross-holding-based governance systems. As the German and Japanese cases have demonstrated, once such approaches become the norm, they are very difficult to dislodge. Germany's underdeveloped equity, corporate debt and venture-capital market and Japan's lack of financial transparency are illustrations of the outcomes of these systems. It is tempting to prescribe the *insider* approach to emerging-market countries or to the transition economies in Central and Eastern Europe, and indeed it does have significant advantages, especially to economies in transition. However, as global finance becomes increasingly integrated and national firms can access external financial institutions and markets, the choice of national financial system is less important.

There is likely to be some degree of convergence among the competing approaches discussed in this volume, as well as among the structures of national banking and financial systems. This is not inconsistent with financial liberalization and the wider use of security markets by continental European corporations, or with increasingly performance-oriented portfolio management on the part of mutual funds, insurance companies and other institutional investors. Both appear to be leading to a gradual shift away from bank finance and a weakening of tight industry-bank relationships.

One specific criticism is that the author does not focus sufficiently on the topic suggested by title of the book, namely the impact of all this on the performance of transnational corporations. Differences among countries in corporate-control approaches may be expected to be reflected in growth or profitability measures of transnational corporations based in various countries—an issue which is not dealt with in this book.

Ingo Walter

Professor
Stern School of Business
New York University
New York, United States

Investment Issues in Asia and the Pacific Rim

Carl J. Green and Thomas L. Brewer (eds.)

(Dobbs Ferry, Oceana Publications, 1995), 278 pages

This volume is edited by Carl Green of Georgetown University Law Center, an analyst of Asian business law, and Professor Thomas Brewer of Georgetown University School of Business, a leading scholar on the economics of international investment. They were able to assemble some of the leading scholars on Asian law and economics for a four-day conference in Washington D.C. in the autumn of 1994 to discuss an investment regime for the Asia-Pacific Economic Cooperation (APEC) grouping. The articles published in this volume are the proceedings of that conference.

In the first chapter, the editors discuss the role of APEC and foreign direct investment (FDI) in the region by briefly describing the history of the formation of APEC and setting forth APEC's non-binding investment principles. In the next chapter, Edward M. Graham, of the Institute for International Economics, describes FDI patterns and trends in the region; in the context of these trends, he concludes that there is a need for a binding, but optional, investment code.

The next three chapters focus on the increasing importance of transnational corporations (TNCs) and FDI issues. John H. Dunning, with his usual clarity, describes the globalization of national economies and the consequent strategies and operations of firms, particularly those involving strategic alliances. Masao Sakurai, of Keio University describes the strategic responses of Japanese firms, as well as of the Government of Japan to globalization. Douglas Worth, of IBM, gives a useful perspective on how a large technology-based TNC has grappled with the challenges posed by globalization and reminds us that despite the much-vaunted investment liberalization in the region, there remains a quilt of informal barriers to FDI, including practices of private firms.

The next section of the book sets the stage for the discussion of investment principles in the Asia-Pacific region. It opens with the perspective of Alister Smith, a Canadian trade negotiator, on the negotiations of the Multilateral Agreement on Investment within the OECD. Smith gives an insider's view of the history of the negotiations, and suggests that they should be un-

dertaken more appropriately in the WTO. The rationale for this view lies in the fact that most APEC members, except China, are part of the WTO, but only a few are members of the OECD. Thomas Brewer provides a useful survey of the attempts to achieve the modest results of the investment annex to the General Agreement on Tariffs and Trade of 1994. He concludes that multilateral agreements will influence the APEC negotiations and suggests that APEC should be active in shaping the emerging global agenda on FDI, rather than just a passive or reactive forum.

The core of the volume is in the section addressing the development of the APEC investment principles. Bijit Bora traces their development. He concludes that priority should be given to strengthening those principles by, for instance, adding commitments to standstill or rollbacks of existing restrictions on FDI. Unlike Edward M. Graham, Bora argues that the APEC principles should be strengthened before they become binding.

Stephen Guisinger focuses on the investment incentives of host governments and how they have been and could be further constrained. He laments the lack of significant multilateral success in disciplining the use of such incentives, and argues that APEC should address the problem more directly in a gradual plan. The first phase would last about five years, and would involve the study of the nature and extent of performance requirements in the region. The second phase would involve implementing the binding policies which would be formulated on the basis of the findings of the first-phase study. The final phase would include agreements on the limit of the subsidy component of incentives packages in a way similar to that employed by the European Union. Mary Ryekman, a United States trade negotiator, argues that successful negotiation of an investment code—in whatever the forum—will require a distinction between policies that facilitate investment and policies that promote investment, and suggests that a broad agreement across many sectors will most likely not be a very deep one enveloping many binding principles.

The next section of the book includes a chapter by Mari Pangestu, who provides an ASEAN perspective on the APEC principles and stresses the importance of non-binding principles among economies at different stages of development. Jiro Timura, of Keio University, describes the Japanese administrative guidance applied to FDI. This chapter is interesting but is probably more useful when read together with the chapter by Sakurai. Perhaps the most provocative chapter in the book is the chapter by Carl Green, entitled "Plurilateralism and its discontents". Green is doubtful

whether regional trade or investment agreements will have trade-creating, rather than trade distorting effects. Therefore, he calls for a clear statement by the United States as to how regional agreements fit into the overall objective of global trade and investment liberalization. He argues that there is an inherent tension between these agreements and the principle of non-discrimination that was used so successfully to ratchet down trade barriers within the GATT 1947 regime. Finally, Green argues that APEC might provide a cover for the already rigid Asian practices that deter FDI and that the United States might confront these practices more successfully with coalitions built in the WTO.

The optimism of the other authors, who favour open regionalism, stands in sharp contrast to the pessimism of Green. Nowhere is this contradiction more apparent than in the concluding chapter by Green and Brewer, which ends on an optimistic note decrying the scepticism about the APEC non-binding principles.

This volume is an impressive collection of well-written pieces that will no doubt become essential reading for anyone who aspires to current knowledge about investment liberalization globally and economic integration within the Asia-Pacific region specifically. ■

Mark A. A. Warner

Assistant Director and Assistant Professor
Center for International and Comparative Law
University of Baltimore
Baltimore, United States

Foreign Direct Investment in Latin America

Institute for European-Latin American Relations

(Madrid, Institute for European-Latin American Relations, 1996), 149 pages

This short book (which contains 69 pages of text and 80 pages of methodological notes and a statistical appendix) highlights in a simple and concise way the most important recent trends in foreign direct investment (FDI) in Latin America. It is an interesting text, covering a relevant topic and written in a semi-journalistic language, which makes it readable to academics, business persons and government officials. The timely initiative of publishing this useful book is very welcome. ECLAC's 1995 *Latin America Investment Report*, which has a similar scope and is a complements the publication under review by the Inter-American Development Bank/IRELA, has unfortunately not yet been translated from the original Spanish version into English.

The book comprises seven chapters. The first is a short introductory text in which the magnitude of FDI flows to Latin America is compared with FDI flows to other parts of the world.

Most comments here are directed to the second chapter, entitled "FDI flows to Latin America by countries of origin", which presents data from the OECD's Development Cooperation Directorate and the central banks of OECD members. The choice of OECD data reflects a new approach to statistical information on FDI flows to Latin America, which so far have been mainly described on the basis of balance-of-payments data (as in the IMF's publication) and on the basis of data from central banks and other institutions in the recipient countries (as in ECLAC's *Foreign Direct Investment Directories*). The chapter presents the geographical breakdown of FDI flows to Latin America for 1980-1994 from Europe, Japan and the United States, and demonstrates that there has been an extraordinary increase in thos flows during the 1990s. But OECD data conflict with the information provided by balance-of-payments statistics in several respects.

First, according to the OECD data, total FDI flows to Latin America during 1990-1994 are smaller than what is shown by balance-of-payments figures, namely $42.7 billion instead of $64.4 billion. Second, there are large differences for individual countries. In the case of Brazil, for example,

OECD figures are much higher ($14.9 billion instead of $8.1 billion) and in most other countries much lower: Argentina and Mexico received only a fraction of what balance-of-payments data report ($5.3 billion instead of $16.1 billion and $13.6 billion instead of $24.1 billion, respectively). Third, OECD data differ from balance-of-payments data in the geographical distribution of FDI, with the latter reporting lower shares of FDI originating from Europe and higher ones from the United States compared to theformer.

Why do data differ so much and which are better? Part of the difference—a small part—stems from the fact that the OECD data do not cover all countries of origin of FDI to Latin America (for example, FDI from Canada, Australia, intraregional flows of FDI, etc. are not included). The methodological notes (in the appendix) draw attention to the fact that different sources are not comparable because they use different methodologies for measurement. For instance, among the six largest FDI source countries, Germany, the United Kingdom and the United States consider profit reinvestment as part of FDI, while France, Italy and Japan do not. As balance-of-payments data always include profit reinvestment, part of the difference may be attributed to these distinct procedures. The problem is severe because there is no information in the book on balance-of-payments statistics, and readers can accept the OECD data as accurate without any doubts, which is not the case.

The intention here is not to determine the superiority of one set of data over another, as preferences depend of course on what one wants to measure, but rather to guide readers through the differences. For instance, readers should be alerted to the fact that, according to other statistical sources, the share of European FDI in total FDI in Latin America is higher than the OECD figures show.

The third chapter deals with major trends in FDI flows to Latin America. It explores the causes for the upsurge of FDI in Latin America during the 1990s and convincingly attributes it to macroeconomic stabilization and structural reforms (liberalization, privatization, etc.) as well as to the formation of regional blocs and the economic recession in developed countries. It stresses the importance of higher shares of FDI in total capital inflows to avoid the volatility shown in the Mexican case. The chapter continues with a description of basic characteristics of FDI inflows in the region's largest countries, and of its sectoral distribution. The figures show that service industries have been the major recipients of FDI in the largest countries. The

chapter ends with a very positive assessment about future possibilities for FDI inflows (in spite of the Mexican crisis).

The fourth chapter is on privatization and FDI, and offers a brief but very informative description of the privatization of large state companies in the region which were sold to local or foreign firms. It shows that privatization has become an important FDI channel in the region as a whole since the early 1990s.

The fifth chapter deals with regional integration as a stimulus to FDI. It is an important and necessary complement to the other chapters, as both intraregional trade and intraregional FDI are increasing very rapidly in Latin America. It draws attention to dynamic effects of economic integration on FDI flows. The case for integration as a means of enhancing FDI might perhaps have been further strengthened on the basis of TNCs simultaneously operating in several Latin American countries, which form the basis for integration-driven FDI.

The last two chapters, on privatization and on regional integration, are a timely contribution to the literature on FDI in Latin America, because readers may not be aware of the potential impact of FDI on these processes. These topics should be more extensively analysed in future research on FDI. The good results obtained in this present book may serve as a recommendation for such an endeavour. ■

Ricardo Bielschowsky

TNCs Affairs Officer
ECLAC/UNCTAD Joint Unit on TNCs
Santiago, Chile

Inversión extranjera directa en América Latina: su contribución al desarrollo

Manuel R. Agosín, ed.

(Santiago, Inter-American Development Bank/Fondo de Cultura Económica, 1996), 209 pages

This book could hardly been published at a better time, as there is substantial foreign direct investment (FDI) activity in Latin America. In addition to increased inflows, several political initiatives have been launched, such as the United States-sponsored integration of the Americas (which has a working group on FDI) and the OECD Multilateral Agreement on Investment (which is seeking Latin American adherents).

The question addressed, which is presented in the preface, is: what policies are needed to maximize the potential benefits from the inflows of FDI? In answering this question, the authors employ what this reviewer considers to be the best methodology for the subject matter, that is, country case studies based on direct interviews (via questionnaires) of the principal foreign companies. The central message is that the liberalization of FDI policy is necessary but not sufficient to maximize the benefits from FDI.

The book consists of three country case studies and an overview of the findings. The countries analyzed are Argentina, Chile and Colombia. Argentina was studied by Daniel Chudnovsky, Andres Lopez and Fernando Porta. The authors did a professional job in constructing an insightful questionnaire and distributing it to 28 foreign affiliates operating in Argentina. Their analysis illustrates that FDI was a central element in Argentina's growth during the 1990s. They attribute the role of FDI in Argentina to three special conditions: the huge privatizations in the natural resource and services sectors; the MERCOSUR integration scheme (especially the Protocol 21 which affects the automobile industry); and the temporary rebound of the internal market of the agro-industry and chemicals during the 1990s.

The Chilean case study was undertaken by Luis Riveros, Jaime Vatter and Manuel Agosín. This 40-page piece is more descriptive in nature, and the questionnaire, applied to 15 foreign affiliates, plays a much less prominent role, although this is compensated to some degree by an econometric analysis. FDI is a significant element in the Chile's economy as well. The surge of FDI in Chile is related to special circumstances, such as the

debt-equity conversion programme of the late 1980s, comparative advantages in the natural-resources sector, as well as stable FDI policy norms in the form of a mining code. Incentives were critical to getting the FDI ball rolling in the mining sector, which presently is the recipient of huge FDI projects.

The study of Colombia was carried out by R. Steiner and U. Giedion. It is 48 pages, based on a very professional questionnaire administered to 53 companies with foreign capital. Unfortunately, it is based on companies with foreign capital in the manufacturing sector only, the old focus of FDI in Colombia, and not in petroleum, where the new inflows are concentrated. The subsequent analysis is very penetrating and shows that, unlike in Argentina and Chile, FDI has not not played a central role in Colombia's development.

The overview, written by Manuel Agosín, attempts to draw together the research findings in order to reach some general lessons regarding ways to attract FDI and maximize its contribution to development. The case of Mexico—the focal point of FDI in Latin America over the past decade—is added to further enrich the discussion. Manuel Agosín concludes that FDI policy is not the central aspect of attracting FDI to a country, although it is clearly necessary. The case studies clearly indicate that special conditions in the form of debt-equity conversion programmes, privatizations, integration schemes (MERCOSUR and NAFTA) etc. acted as central forces in attracting FDI inflows to these countries (Colombia excepted) over the past decade.

The analysis related to the contribution of FDI to development is less crisp because the statistical or questionnaire-based information related to capital formation, export growth, diversification, technological change and training of human capital is much more fragile. Nevertheless, the analysis leads to significant conclusions. For example, it suggests that, where explicit subsidies are involved (i.e., FDI via the debt-equity conversion and privatization mechanisms), it would be adequate to restrict their use to industries which, under normal conditions, would not attract FDI. Furthermore, the analysis suggests that higher performance requirements, such as contribution to exports, complementary investments, technology transfers and the training of personnel, should complement the incentives. Finally, the incentives should be spread over time in order to reduce their inflationary impact. The book outlines additional policies that are necessary to maximize the benefits from FDI to development, and this is a very interesting and welcome contribution.

Like all studies, this book has its weak points, though in this case they are few. The coverage in terms of case studies could be questioned. Any book carrying the title of ''FDI in Latin America'' should necessarily include Mexico and Brazil, the biggest host countries for FDI in the region. The Colombian case, while interesting, is not among the most relevant. Thus, the case study selection could have been better. Another shortcoming is the unbalanced treatment of the case studies selected. There is a considerable disparity in terms of the number of companies interviewed (28 in Argentina, 15 in Chile and 53 in Colombia) and the length of the studies (74 pages for Argentina, 40 for Chile and 48 for Colombia). Moreover, there appears to have been some important differences in defining the whole population of firms, selecting the sample and administering the questionnaires. The methodology used in the case study of Chile is far from clear. Most of these problems could have been avoided by a different title to the book, such as: ''FDI in Latin America: case studies of Argentina, Chile and Colombia''.

However, Manuel Agosín and his collaborators should be congratulated for a timely and relevant contribution to an important developmental theme in Latin America and the literature related to it. ■

Michael Mortimore

TNC Affairs Officer
ECLAC/UNCTAD Joint Unit on TNCs
Santiago, Chile

Las inversiones extranjeras en América Latina, 1850-1930. Nuevos debates y problemas en historia económica comparada

Carlos Marichal, ed.

(Mexico City, El Colegio de México, Fideicomiso Historia de las Américas, Fondo de Cultura Económica, 1995), 298 pages

The first golden age of foreign direct investment (FDI) (1870-1914) fascinates both economists and historians. The 20-volume United Nations Library on Transnational Corporations devotes a complete volume to the historical perspective (Jones, 1993). Is this interest in the past due to a feeling that the turn of the twentieth century has something in common with the turn of the twenty-first century? It is true that, for United Kingdom firms, the use of outward FDI to reach foreign markets was already quite widespread at the beginning of the present century. Even more interestingly, FDI was heavily concentrated in transport and communication—and these are the same sectors that seem to be regaining importance at the end of this twentieth century.

The publication by Mexico's Fondo de Cultura Económica of 12 studies by authors from three continents is thus very timely. These studies, collected with the help of the History of the Americas Trust Fund and the Colegio de México, set out to shed new light on Latin American aspects of the history of FDI. In the nineteenth century, Latin America was by far the most advanced region of the developing world, and it attracted the bulk of FDI inflows of the developing countries.

The 12 essays employ very different methods. Their depth and length also vary, hence the difficulty in providing a conclusive and convincing synthesis on the basis of such heterogeneous material. Still, all in all, this is good business history.

The first five essays—on investment cycles and selected home countries (France, United Kingdom, Germany and Canada)—do not seem particularly original for the reader who is familiar with the general literature on the history of FDI. Nevertheless, there are interesting contributions on the propensity of French firms to engage in public services, on the reliance of German firms on their banks as vehicles of investment, and on the Canadian investor's special niche in electrical engineering. Unfortunately, an analysis of United States FDI in Latin America is absent from this part.

What most intrigues the reader is the underlying question about the reasons for the slow-down and backlash in the 1920s and 1930s. There are some bits and pieces in the articles that may answer this question, at least partly. For example, Charles Jones develops further Mira Wilkins' interpretation of the free-standing company (Wilkins, 1988). As modern methods of communication did not exist at the beginning of the twentieth century, control of subsidiaries meant the long-term transfer of managers to host countries, where they were largely left to their own initiative and resources. Scant parent-company control and support made FDI more fragile *vis-à-vis* hostile local developments. These developments could involve economic and financial factors, such as the improved competitive positions of local enterprises not dependent on long supply routes, or political backlashes against perceived predatory behaviour by foreign firms. Sometimes these difficulties were coupled with a lack of efficient protection by home-country diplomacy.

The most fascinating parts of the book, however, are the six sectoral studies on Argentine tramways, Mexican and Argentine railways, Brazilian banks and various sectors of the Chilean economy. These vivid stories of the wide-ranging domestic interaction and impact of FDI prove once more that the theory of enclave economy is not supported by facts. Did you know, for example, that in 1911 the Anglo-Argentine Tramways Co. Ltd. transported 84 per cent of tramway passengers in Buenos Aires? Although this share had declined to 48 per cent by 1930, the tramway network of this TNC helped to shape and extend Argentina's metropolis, making it the biggest city in South America at that time. And did you know that by 1914 Argentina had the densest railway network in Latin America thanks to fierce competition between British and French railway builders?

Mario Cerutti's study on railways and productive activity in northern Mexico in 1880-1910 and the study by Flávio Azevedo Marques de Saes and Tamás Szmrecsányi on the role of foreign banks in the early industrialization phase of São Paulo are particularly interesting.

Cerutti's study describes how the extension of railways created by foreign capital gave rise to a sophisticated division of labour among the production zones of northern Mexico. This affected not only primary products such as coal, cotton and citruses but also steel, soap, glass and cement. Production in northern Mexico was oriented as much to the domestic market as to the United States market. Nowhere were the domestic linkages so evident as among coal and steel producers and the railways

themselves. Coal was transported on railways to steel mills and then steel was used to build new railways. Railways created dynamism and efficiency in local economic relations, multiplied the exchanges among actors, and drove all sorts of productive chains. Who would now qualify this configuration of interactions catalysed by foreign-funded railways as an enclave economy?

The topic chosen by De Saes and Szmrecsányi (banking) is particularly important because it is a service industry which, according to Geoffrey Jones (Jones, 1996), has not received due attention in business history. Examining the banking statistics of the State of São Paulo, the authors first find a spectacular increase in the share of foreign banks (from 10 per cent of deposits in 1887 to 72 per cent by 1920) and then a sharp decline (to 25 per cent by 1928). The decline was not only relative: the deposits of foreign-owned banks declined from £39 million in 1920 to £24 million in 1928. What happened? Between 1920 and 1928, the scope for transactions by foreign banks was reduced by the establishment of the rediscounting facility of the Banco do Brasil (1920), by competition from the Banco do Estado de São Paulo, another public entity, and by the federal banking reform in Brazil (1921), which laid down stricter criteria for the operations of foreign banks. A question for future research is whether this is enough to explain the decline of foreign banks. It is particularly striking that, in almost all the industries analysed, from 1920 onwards foreign capital was losing ground.

Whatever the reason for this decline, at their peak the foreign-owned banks maintained close links with both the banking and the productive sectors of the State of São Paulo. They contributed to the emergence of the local industrial groups that later on became the leading enterprises not only in Brazil but also in South America as a whole.

This book is thoroughly recommended to everybody who is interested in the history of TNCs and FDI, and in the lessons this history can provide with. If you cannot read Spanish yet, here is one more reason to start learning! ■

Kálmán Kalotay

Division on Investment, Technology and Enterprise Development
UNCTAD
Geneva, Switzerland

References

Jones, Geoffrey, ed. (1993), *Transnational Corporations: A Historical Perspective,* United Nations Library on Transnational Corporations, vol. 2 (London and New York: Routledge).

_________ (1996). "Transnational corporations: a historical perspectives", in *Transnational Corporations and World Development* (London and Boston: International Thomson Business Press, on behalf of the UNCTAD Division on Transnational Corporations and Investment), pp. 3-26.

Wilkins, Mira (1988). "The free-standing company, 1870-1914: an important type of British foreign direct investment", *Economic History Review*, XLI, 2, pp. 259-285.