BOOK REVIEWS

Globalization, Economic Restructuring and Development: The Raul Prebisch Lectures

The sixth in the series delivered by John H. Dunning at the Palais des Nations, Geneva, on 29 April 1994[1]

In this sixth Prebisch lecture, John H. Dunning zeroes in on, and examines carefully, from the perspectives of history and evolutionary economics, the underlying and ever-changing forces of modern capitalism. Over the past two centuries or so, these evolutionary forces have shaped, and are still shaping today at an even quicker tempo, the landscape of the world economy, affecting the fortunes of its constituent economies. Dunning's analytical approach is, indeed, in the best tradition of Raul Prebisch's holist orientation that interprets the path of economic development in individual countries as an integral part of the evolution of the world economy.

The lecture consists of three parts: first, how the present trajectory of the world economy is different from those which preceded it; second, some of the likely benefits and costs of globalization; and third, some of its implications for the macro-governance of economic activity. The major theme developed in the first part is that the capitalist system has already gone through two distinct phases: entrepreneurial capitalism, which lasted between 1770-1875 and hierarchical capitalism, which lasted from 1987 to 1980. Today, the system stands ''on the threshold of a new era'', which Dunning names ''alliance capitalism''.

The nomenclature of each phase of capitalism connotes its correspondingly unique techno-economic and social-institutional regime. Entrepreneurial capitalism is represented by the prevalence of entrepreneurial pursuits by relatively small independent enterprises whose craft (or batch)-based production is coordinated largely by the market in an arm's-length fashion. This system evolved into hierarchical capitalism which is characterized by the dominance of mass-production (scale economies) pursued by large-scale hierarchical enterprises, ultimately compelling governments to serve as providers of human capital (education and training) and other public goods

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and as regulators to control abuses of market power. The new era of alliance capitalism features networks of alliances among enterprises which are focused on flexible or innovation-driven production. The scope of enterprises' operations have also changed during this transformation, from sub-national or national, to national or international, and presently to regional or global.

The new production paradigm is drastically different from the conventional system of mass production and mass marketing in treating factory workers and sales personnel on the shop floor. In this paradigm, all employees need to be regarded as generators/providers of commercially valuable front-line information. They are no longer brawn workers; their brain—and even personality—inputs are a key determinant of the enterprise's competitiveness. How people are organized to produce, i.e., organization of the workplace, matters most. Here, Dunning persuasively argues that "This is why the flexible production system has been called 'organcentric' in contrast to the 'technocentric' or 'machinocentric' production system of the Fordist era and why the 'hierarchical' enterprise is being replaced by the 'alliance' enterprise, and by 'enterprise networks' " (p. 14).

As to the consequences of the current trend of globalization for economic development (the second segment of his lecture), Dunning argues that "just as globalization is qualitatively different from previous stages of internationalization, so its effects on development are distinctive" (p. 18) and that "the international economic order of the 1970s is no longer appropriate for the 1990s and calls for a new order, a global economic order" (p. 18).

Dunning is optimistic about capitalism-propelled growth itself: ". . . the structural transformation of the world now occurring does hold out great promise for the future. It is also the case that the political changes and technological advances of the last decade have provided a stronger basis for economic growth than at any other time since the mid-1940s" (p. 18).

Yet, he is very much concerned about the impact of such rapid growth on the labour market, as well as on the political system because ". . . the new system requires a different mix of labour skills than of the one it is replacing, and to match these needs, not only do labour markets need to be more flexible, but quite huge retraining programmes are needed" (p. 19). In addition, a deepening interdependence among nations means a greater frequency of the occurrence of externally transmitted economic disturbances. He calls these "the possible Achilles heel of globalization and alliance capitalism" (p. 19).

Dunning cites East Asia as the successful case in "turning hierarchical capitalism to its own advantage" by the use of "a judicious combination of market-led import substitution and export-led development strategies, and sound macro-economic policies". It is there where he sees "the emergence of a new brand of capitalism, which blends the richness of the Confucian ethos of cooperation with that of the West" (p. 19).

Referring to the opportunities for developing countries to participate in, and gain from, the new era of global capitalism, Dunning maintains that developing nations may be better positioned than their advanced Western counterparts in terms of organizational flexibility, since the advanced nations have unfortunately been socially rigidified because of their involvement in the techno-economic system of mass production and its accompanying labour relations (often confrontational) and other restraining "social compacts".

In the third part of the lecture, Dunning discusses a milieu for alliance capitalism which is more intricate compared with the previous systems. He believes that under the new circumstances, stability and effectiveness of economic systems cannot be left to the markets alone. This calls for a more active role for governments, co-partners with hierarchies and markets, as triad of complementary (not substitutable) agents of economic coordination.

Dunning calls for "a more holistic and integrated set of macro-economic and macro-organizational policies" (p. 27). At the macro-world level, he stresses the need for supranational regimes (inclusive of the World Trade Organization) for two reasons: the adverse effect of the unilateral parochial behaviour of governments on global welfare and the incidence of some cross-border market failures involving such areas as "satellite communications, the exploitation of the sea bed, the protection of the ozone layer, environmental pollution and military security" (p. 29).

From these perspectives, Dunning points out that "Prebisch's advocacy for a closer networking among firms from developing countries is as appropriate today as it was twenty-five years ago; as, indeed, was his belief in a strong and supportive role of government in the developmental process" (p. 25).

In sum, Dunning helps us see how scattered and seemingly unrelated phenomena around us (e.g., the sudden emergence of flexible production, the new form of competition, the encapsulation of time and space brought about by technological progress in transportation and communications, the networking of TNCs across borders, etc.) are all the manifestations of the new age of capitalism. Due to its richness of insights and thought-provoking observations, Dunning's lecture will no doubt be read widely and for a long time to come, and will be cited in the future literature on transnational corporations, economic development and structural changes in the global economy. ■

Terutomo Ozawa

Professor of Economics
Colorado State University

Les privatisations. Un défi stratégique, juridique et institutionnel

Pierre Guislain

(Bruxelles, De Boeck-Wesmael, 1995, 342 pages)

With the demise of state-controlled and centrally planned economies, the acceptance is spreading virtually everywhere that sustainable economic growth is facilitated by dynamic development of private businesses. Governments increasingly allow private companies to own and manage previously state-owned enterprises. The accelerated growth of privatization programmes has caused an increase in writings seeking to provide guides for the appropriate design and implementation of such activity.

In 1992, Pierre Guislain set out to assist public officials involved with legal aspects of privatization when he prepared his World Bank Technical Paper (No. 186), "Divestiture of state enterprises: an overview of the legal framework". Drawing upon this work, *Les privatisations* goes considerably further in providing commentary on the lessons learned from privatization programmes that have so far been implemented.

Guislain maintains that the political, bureaucratic and economic reorientations which are required for, and flow from, privatization programmes are significant. Any government embarking on such a programme should respond to certain essential questions, such as: what is meant by "privatization"? who should benefit? how should the programme be organized? how is broad public consensus achieved? what institutions are needed? what rights and obligations should programme managers have? what methods of privatization ought to be permitted or encouraged? which enterprises should be privatized? and, in what ways should the role of the State be altered as a result? The author explores these issues and the various reactions to them in different countries. He clarifies that there are no overall solutions suitable to all countries. Rather, each country has its own unique conditions and the resulting solutions. Regardless of country context, however, Guislain's analysis shows that a coherent and widely accepted strategy supported by sustained political commitment is a *sine qua non* of success.

Three stages of privatizations are analyzed and different approaches to each are presented in this book. First, actual privatization programmes are reviewed as are the legal and institutional frameworks that are required to allow them to occur. Second, the challenges posed by privatization of certain industries, in particular infrastructure industries such as telecommunications, electricity, gas, water, ports, airports, autoroutes and railways, are examined in detail. In these cases, in addition to the transformation of enterprises for privatization, a reorganization of the entire industry is inevitably needed, once the concept of public monopoly is abandoned in favour of competition and private participation. Third, a large-scale privatization, in particular the systematic transformation of a planned and centralized economy into a market economy, is analyzed. *Les privatisations* sets out the principal ingredients of a market economy without which no programme of privatization will prove successful.

In any country context, privatization programmes inevitably present strategic, legal and institutional challenges. As *Les privatisations* makes clear, however, these tend to be most difficult in economies which are either in rapid transition or at the early stages of private-sector development. In many economies in transition, the questions posed above have received inadequate responses, a fact which is not surprising given the lack of government experience with the principles of market economy, such as how private business operates efficiently and what kind and extent of public support is appropriate to encourage such efficiency.

Given his background as a lawyer and an economist, and his role as a senior adviser on private-sector development issues at the World Bank, Guislain is highly qualified to analyze and draw conclusions from his own experience and his colleagues' work in advising many governments concerned with policy reforms, the drafting of laws and regulations and the development of institutions, which are required for successful privatization programmes.

Les privatisations is essential reading for anyone interested in privatization, particularly, administrators, politicians and legal and other advisers involved in any aspect of the formulation, enactment or enforcement of privatization policies. Also, private-sector investors and financial institutions with a stake in the privatization process will find this book very useful.

A 25-page annex provides a less than exhaustive list of privatization laws and regulations by country. Athough the list is already dated, it will prove helpful mainly for historical purposes. (Privatization legislation has, for instance, recently been enacted in Algeria.) There is also an extensive bibliography—organized both alphabetically by author and geographically by region and country—as well as a listing of relevant specialized periodicals.

For the time being, the audience for *Les privatisations* will inevitably be restricted to French readers, but an English translation is to be published early in 1996. ■

Eric G. Haythorne*

Senior Counsel
Legal Reform & Private Sector
Development Unit
Legal Department
The World Bank

* The views expressed in this review are personal and do not necessarily represent those of the World Bank.

Foreign Direct Investment in the United States

Edward Graham and Paul Krugman

(Washington, D.C., Institute of International Economics, 1995, 207 pages, 3rd edition)

Amidst the rhetoric about inward investment in the United States which flourished in the 1980s, this book by Edward Graham and Paul Krugman appeared as the voice of reason. The third edition maintains that status. A few points of emphasis have changed to reflect the dramatic decline in United States foreign direct investment (FDI) in the early 1990s, the hiatus in Japanese inflows and the growth of national security concerns. But much of the book remains the same, particularly the clear and compelling logic. There are, nevertheless, certain points which could be expanded upon in the next edition.

The book begins with a thorough review of what is now familiar terrain, namely the dramatic growth of FDI in the United States in the 1980s and the subsequent decline in the early 1990s. The authors prudently avoid declaring the gold rush over, especially since 1994 showed yet again the power of attraction for foreign firms of the huge United States market. Indeed, 1995 appears to be shaping up to be yet another record year for FDI in the United States, based on figures for the first half.

One of the greatest contributions of this book is to explain both why this growth has occurred and to discuss what it implies for the United States economy. The United States has traditionally been the largest home country to transnational corporations (TNCs), and will likely continue to be for the foreseeable future. What changed in the 1980s was the sudden appearance of the United States as the largest host country to TNCs. According to Graham and Krugman, this shift resulted in large part from the general decline in United States technological and managerial superiority. Shifts in exchange rates, taxation and protection played important roles in explaining the timing of FDI in the United States, rather than being the fundamental cause of that investment. In the words of the eclectic paradigm, it is these shifts in relative ownership advantages rather than in relative location advantages that explain the shift to host status for the United States economy. The size of the United States market has always offered a sufficient motivation for investing there; what was lacking in the past was precisely this ownership advantage for many foreign firms.

What does the growth in FDI mean for the United States economy? The authors appropriately compare any potential gains with those from integration more generally, such as enhanced comparative advantage, greater economies of scale, increased competition and also technology transfer but shy away from making any estimate of the magnitude of such gains. While such prudence is to be expected given the nature of some of these gains, it is also disappointing. In the absence of credible figures, perhaps a few anecdotes would have served to illustrate the way gains are disseminated in practice. If, as the authors claim, the gains from rationalization and increased competition may exceed the direct reduction in the cost of transacting, then why not provide a few illustrations? Even if this only leads to counter-anecdotes from critics of FDI in the United States, at least it would give greater balance to a chapter which provides three pages on the gains from FDI and then devotes the rest of the chapter to the potential costs, even if the aim is to refute those potential costs.

The discussion of these potential costs is one of the most lucid parts of the book, combining both economic theory and common sense. The authors dismiss claims of any employment effects at a national level. They suggest that the quality of employment and the level of research and development in foreign-owned affiliates are essentially empirical questions and that the evidence does not support those who fear the installation of screwdriver plants on United States soil. As with the employment issue, trade-balance effects are driven by macroeconomic rather than microeconomic factors. It is only the greater propensity of foreign affiliates, particularly Japanese ones, to source most of their inputs abroad, which provides any note of caution, and even here the potential effect on the United States terms of trade is estimated to be small.

Another potential cost is labelled as a strategic effect, similar in concept to that of strategic trade theory whereby firms build on closed markets at home to capture market shares abroad. The authors play down this possibility, but, nevertheless conclude with respect to Japan that the strategic issue is one worth monitoring in the future, and it gives some priority to United States demands for parity of treatment in Japan (p. 67). The notion of Japan as an outlier in terms of investment flows reappears throughout the book. While the authors tend to dismiss much of the criticism of Japanese investment in the United States, they do nevertheless adopt a more critical line when discussing the relatively low level of foreign investment in Japan.

If the first half of the book deals with the economics of FDI, the second half is devoted entirely to United States policies towards inward investment. National security occupies a much more prominent position in the third edition compared to the first one from 1989. The authors take seriously the threat to United States security posed by the United States dependence on foreign firms for vital technologies. To cope with these situations, the authors recommend mandatory foreign investment coupled with local-content requirements. The authors are quick to criticize performance requirements in general but suggest that they may be a necessary expedient in this case. While it is common for countries to close off certain sectors to foreign investors for national security considerations, it is hard to see how foreign governments would not react negatively to such a proposal.

The authors then discuss the various fora in which the United States might participate to develop multilateral rules for investment, building on the investment provisions of the North American Free Trade Association (NAFTA) and on the extensive network of bilateral investment treaties already in place. Given that such multilateral negotiations are already being undertaken at the OECD, much more could have been said on the issue, especially since the outcome of these negotiations will almost certainly have implications for the scope of unilateral actions by the United States.

Given the reputation of the authors, it would be surprising if their analysis lent itself to substantial criticism as to the content and its grounding in economic theory. Where the book does disappoint, however, is in its narrow focus. It is not too great an exaggeration to say that the first part on the economics of FDI is devoted to Japan and the second part of policies to national defence. Japan is not the only investor in the United States and, if anything, may become relatively less important in the short term following certain spectacular disposals of United States assets by Japanese firms. Furthermore, Japan may have a high ratio of outward to inward investment, but other countries have high ratios by other criteria such as cross-border mergers and acquisitions in the United States compared to in their own country.

In terms of policies, the investment clauses of the NAFTA agreement could have been described in more detail, as could any potential multilateral agreement. Furthermore, policies towards inward investment at the state level could have been given greater emphasis since they also affect the distribution of gains from FDI. The authors do discuss investment incentives and the potential for bidding wars among states. They conclude that "a number of authors . . . have suggested that it would make sense for the Government of the United States to ban state investment incentives to foreign investors, and that the States themselves would be better off under such a ban. We agree that such a ban would make sense." (p. 141). As is often the case throughout the book, the authors make clear where they stand on issues, but there is not enough effort made to try to convince others. Too often, one is left with the impression that the authors are saying: "that's our view; take it or leave it". The arguments are enumerated, but always too concisely and rarely with sufficient empirical details. How important are State and local incentives to investors? How much do they cost per worker employed in the investing firm? State policies also affect investment through the statutory takeover controls which many of them have adopted. Since acquisition is the most common form of investment, these so-called controls can deter foreign investment.

The book is about FDI in the United States and should not be criticised for neglecting issues not dealing directly with FDI, but it is nevertheless useful to ask whether that is the appropriate frame of reference. In an era when the United States is both the largest home and host country to TNCs, should the book not be about FDI and the United States? Can we really look at inflows in isolation, without considering outward investment by United States TNCs? The authors refer on a number of occasions to such outward investment but never in great detail. It is the increasing degree of transnationality of firms which calls into question current United States policies, not just the fact that foreign firms are now more active in the United States. This approach would almost certainly encourage a discussion of multilateral solutions to policy conundrums rather than unilateral ones. It would also allow for more discussion of some provocative proposals such as those made by Robert Reich.

These comments should not be interpreted as criticism of a book which should be essential reading in every office in Congress and elsewhere. The quality of the work speaks for itself. It is instead a plea for more of the same: more discussion of the gains from FDI and the harm from certain policies; more on how FDI into the United States fits into the global growth of FDI flows since the early 1980s, etc. Perhaps for these issues, we should eagerly await the fourth edition.

Stephen Thomsen*

Administrator
Directorate for Financial, Fiscal
and Enterprise Affairs
Organisation for Economic Co-operation
and Development

* The views expressed in this review are personal and do not necessarily represent those of the OECD.