

BOOK REVIEWS

Investing in Asia. Edited by C.P. Oman, D.H. Brooks and C. Foy. Paris: Asian Development Bank and Organization for Economic Co-operation and Development, 1997. Pp. 248.

The growth of foreign direct investment (FDI) flows since the mid-1980s is spectacular in total volume compared to expansion of FDI in the past. Recent FDI growth was so conspicuous that it was substantially higher than that of exports, world output and gross domestic capital formation. In tandem with the growth of FDI flows, governments have increasingly established national frameworks within which FDI can flourish and contribute to economic growth. The issue of establishing the FDI rule in the global trading system has been addressed in various international fora over the past half century. It is nowadays discussed in the OECD Multilateral Agreement on Investment (MAI) framework, and is expected to be a potential issue for future work by the World Trade Organization (WTO).

Dynamic Asian Economies (DAEs) such as ASEAN and China have attracted a disproportionate share of investment inflows in the developing world. The stock of FDI in Asia doubled in the seven years from 1988 to 1995 and the value of FDI flows increased from \$32 billion in 1992 to \$60 billion in 1994. This amount represents more than half of the total investment flows to developing countries. Most of the investment comes from Japan and the United States: however, Europe's share has decreased in recent years in China and the ASEAN countries.

So we can say that there is a problem of European underinvestment in Asia.

Against this background the OECD Development Centre and the Asian Development Bank held their joint International Forum on Asian Perspectives on the issue of "Investing in Asia", with particular reference to European investment in the region. The volume under review is the result of a two-day meeting on the subject in June 1996. The study is timely because in early 1996 Asia-Europe Meeting (ASEM) started to bridge the DAEs and Europe. The volume is composed of two parts. The first part, titled "Common Interests", collects eleven short articles, explaining the viewpoints of various countries, businesses, APEC and the OECD.

To enhance FDI in the DAEs Europeans need to try harder to understand the Asian culture, admits Willy de Clercq. He says that European young people should have greater opportunities to learn Asian languages and to learn about Asian culture. He argues that Europeans have to abandon their feelings of supremacy, thinking that the rest of the world including Asia has to speak European languages, accept European culture and accept European ways.

Regarding outward investment, Xavier Musca cites the following lessons mostly from the French experience in FDI. First, liberalization of capital movements and investment is the logical consequence of trade in goods and services. As soon as customs barriers and obstacles to trade are removed, it is in a country's interest to try to attract the manufacturer who produces for the area to be located on its territory. Second, liberalization of investment is an important factor for

regional integration. Third, foreign investment brings growth and employment, and permits the transfer of technology. The fourth lesson cited is that foreign investment is a sound way to finance the balance of payments.

Without a doubt, FDI plays a very important role in China's economic and social development. About 50 per cent of the country's industrial output value is due to FDI and enterprises with foreign investment earn about one-third of the country's foreign exchange. However, China is concerned that only 30 per cent of FDI came from countries of the world other than a part of China. For instance, European countries account for less than 10 per cent of the total FDI inflow. Like Willy de Clercq, Zhang Xiaoqiang, who is the director in charge of foreign investment utilization in the Chinese Government, stresses that mutual understanding between the European countries and China still needs to be improved.

Indian specificities are explained by Narayanan Vaghul. In India, reforms will be dictated by requirements for cross border investment, which is critical for economic development. Narayanan notices the characteristics of family groups in corporate governance in India and the inefficiencies arising from that. It is necessary for European investors to understand that particular investment atmosphere. Narayanan adds that as the Indian corporations are gradually globalizing their funding, a transformation is taking place in corporate governance because of the requirements of the international capital market.

From the European viewpoint, Nicolas Imboden argues that incentives and administrative protection have very little effect at that level. What is important, in his eyes, is not so much the legal framework, but the opportunities which exist. Confidence in the future, the economy's dynamism and the return on investment are the crucial factors. Although he argues that the incentives and administrative protection are of minor significance in attracting investment, it is doubtful considering the role of incentives to investment in Southeast Asian countries for the past decades.

Hugh P. Barras explains the strategy of European businesses in the age of globalization. Alcatel Alsthom, for instance, looks to local nationals to be the senior managers in other companies. It integrates local software developments into its global research and development programme. It seeks to obtain benefits from the experience and training given to all its employees for its company as a whole.

ASEM aims to increase the two-way investment flows between Asia and Europe which are apparently less than those between Asia and North America, and between Europe and North America. In the relationship between Europe and Asia, Japan is unique for its large FDI flows to Europe. Ippei Yamazawa stresses that Japan has been a pioneer among Asian economies in investing in Europe. Similar business culture and geographical proximity together with low wages might have been the determinants of Japanese FDI into ASEAN and China.

In 1995 the OECD Ministers committed their governments to reach an agreement called the Multilateral Agreement on Investment, with high standards of investment liberalization and protection and effective dispute settlement procedures, and to aim at achieving a higher standard of liberalization. The MAI initiative aims at providing a strong and comprehensive framework for FDI activities, widening the scope of existing liberalization and providing legal security for international investors. William Witherell expects that there are likely to be core conditions that all parties must meet; for instance, the investment protection, dispute settlement provisions and a commitment to the basic underlying principles.

The second part, entitled "Dynamics and Opportunities", collects several relatively lengthy articles. European worries about the ability of non-Asian firms to contribute to, and profit from, Asia's economic dynamism tend to stem less from perceptions of any formal *de jure* barriers to trade or investment in Asia, than from feelings that *de facto* business practices in Asia can make it difficult for western firms to succeed as investors in Asia. Jean-Pierre Lehmann's argument, however, is that it is wrong to believe that

corporate governance in the West differs fundamentally from that in the East. He argues that although three types of government-industry relationships can be identified, all three of which can be found both in East Asia and Europe, the dividing line is not between Europe and East Asia, but between economies in which governments take a hands-on or a hands-off approach to business affairs.

Lehmann characterizes the corporate governance of the world's largest economies in terms of people, products and profits. According to his interpretation, Japan and Germany place the first priority on people and products, respectively. Meanwhile, the United States and the United Kingdom place the first priority on profits. He interprets the impact of government-industry relationships on corporate governance styles in terms of four models: government as referee, as manager, as coach, and as crony. According to his interpretation, Korea was quite clearly a case of the government as manager, although in recent years it has moved in the direction of the government as coach. This would apply to other East Asian countries, and thus they will feature under both models, with the differences either determined by stage of development or other circumstances.

He proceeds to corporate governance in East Asia, focusing on the Japanese Keiretsu, Korean Chaebol, and Chinese bamboo network. In Japan, companies joined together in a horizontal group to represent one form of *keiretsu*. These horizontal keiretsu are all associated with a major bank, they include companies from most industries in the primary, secondary and tertiary sectors. The Korean *chaebols* do not include banks. In addition, the Korean *chaebols* do not include the vertical supplier and/or distribution chains that exist in Japan. He evaluates that most foreign businessmen believe the Korean market still to be closed, that it is an extremely difficult environment in which to operate. Unlike the Korean economy, the Chinese Taipei economy is dominated by small and medium sized enterprises and the large enterprises sector is weak. Relationships are between individuals, not between

firms. He concludes that greater understanding of each other's economic and political systems and forms of corporate governance will increase the scope for co-operation.

The chapter by Sigurdson starts with the observation that in the current context of globalization, inter-firm alliances have become increasingly important. Sigurdson argues that the potential of the DAEs constitutes a continuing competitive challenge to Europe, which will induce closer relationships between the two regions. Strategic alliances will be at the heart of those relationships. They will initially be dominated by partnerships where European partners provide technology and management inputs while the Asian side provides other essential inputs for meeting market demands. Sigurdson is sure that in the longer term such alliances will develop into partnerships that encompass full mutuality, although transition to such a stage is not explained fully.

The chapter by Douglas H. Brooks and Elizabeth E. Leuterio highlights the critical role of infrastructure in raising the productivity of natural resources, labour and capital, and in improving the quality of life in countries at all levels of development. As the authors note, the cost of inadequate infrastructure can be enormous. Underdeveloped financial markets constitute a serious constraint to infrastructure development in Asia. Their arguments seem to be especially true when we think of the recent problems faced by Thailand. They provide some factual background on infrastructure, saying that there has been considerable growth of infrastructure in recent decades, although a majority of the population still lack access to water and sanitation facilities.

The chapter by Jesus Estanislao clarifies both the extent to which those countries have liberalized their investment regimes and the current limits to that liberalization. The country-by-country breakdown of information on specific policy reforms is especially valuable. They comprise various aspects such as general policy provisions, restrictions on FDI, FDI in special zones, privatization, government procurement policies, subsidies to particular sectors, and

formal dispute settlement mechanisms. Although Estanislao's comparison of bribery and corruption, interest groups, and general attitude towards foreigners is subjective, they seem to be judgments based on common sense. Finally, Estanislao suggests that, first, China and the ASEAN region must step up their privatization programmes. Second, the region's dispute settlement mechanisms are suggested to be improved, because these procedures remain deficient in most countries in the region, making it difficult to enforce decisions needed to assure long-term investments.

The last chapter by Naomi Chakwin and Naved Hamid compares the investment atmosphere of Asian countries more flexibly than Estanislao. They stress that the region is composed of countries with important differences in culture and history as well as in economic policies and performance. They focus their analysis on Indonesia, Malaysia, Thailand, China and India. The chapter presents a very positive picture of likely FDI trends in virtually all countries in the region. They show that the factors that affect the host country's decisions for attracting investment are political and macroeconomic stability, infrastructure, natural resource endowment, economic policies relating to industry, trade and finance, wages, the investment incentives and the institutional framework such as the legal system, etc. Finally, they provide estimated FDI in the near future.

Most of the articles in the volume stressed the importance of understanding the cultural as well as institutional characteristics of the Asian countries, before deciding on the location of FDI. Some of the papers provide excellent reviews of the institutional details concerning FDI in the East Asian countries. The discussions in the OECD, MAI, Trade-Related Investment Measures (TRIMs) in the WTO together with the idea of setting up the ASEAN Investment Area (AIA) are expected to affect the FDI performance of each country in the region. Although the MAI will be a plurilateral rather than multilateral agreement, it is expected to influence future negotiation under the WTO system. Therefore, if there were a few substantive papers (added to the volume) dealing

with the effects of the MAI on the WTO system and on investment in Asia, it might have been more fruitful to the readers to predict the future of FDI flows into and out of Asia.

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Sending Workers Abroad. By Manolo I. Abella, with the assistance of Maria Alcestis Abrera-Mangahas Geneva, International Labour Office, 1997.

There is an increasing flow of migrant labour across borders, as countries rapidly exhausting their national reserves of labour attempt to source for labour externally to maintain their competitiveness in global markets. This cross-border migration flow is particularly important for ASEAN, with member economies ranging from the low- to the high-income group. Some of the ASEAN countries, such as Singapore, suffer from a shortage of labour, while others, like Thailand, Indonesia and the Philippines, have found the role of the external labour market significant in expanding employment for their nationals.

This book, together with a companion volume on policies and procedures for the employment of foreign workers, was prepared under the ILO's Interdepartmental Project on Migrant workers, which was carried out in 1994-95. This is a timely study on an issue which is becoming increasingly weighty as cross-border flows of labour increase with globalization.

The book addresses the concerns of middle- and low-income countries in managing labour migration processes of directly hired contract workers, workers hired through private recruiters, and workers hired through employment services. It aims to provide guidelines for the formulation of a foreign employment policy that takes into account the specific social and economic environmental conditions so as to fully capitalize