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BOOK REVIEWS

***Review of Sectoral Flows of Foreign Direct Investment in Asia and the Pacific*. ESCAP Studies in Trade and Investment 5**. New York: United Nations Economic and Social Commission for Asia and the Pacific, 1995. Pp. 194.

This study was prepared under instructions to examine, for Asian and Pacific countries, which sectors had attracted foreign direct investment, which sectors might attract it in the future, and which countries and types of companies were sources of such investment.

Chapter 1 is an introduction and summary. It sets forth the purposes for the study and explains the time series framework in which the quantitative aspects of it were conducted, a somewhat puzzling choice of methods in view of the questions set forth. The next section summarises the main results, both quantitative and non-quantitative, of the individual country chapters. The main conclusions of the study, as summarized here (pp. 13–15) are:

1. Changes in host country variables explain "the vast majority of the variation in FDI inflows. This indicates that policy makers have the ability to influence FDI flows by influencing economic fluctuations in the host countries".
2. Host country wages and interest rates are negatively correlated with inward flows of foreign direct investment.
3. Liberalizing host country restrictions on investment and business activities is a necessary condition for attracting foreign direct investment.
4. Incentives to foreign investors have little long-run effect.
5. Liberal trade regimes attract foreign direct investment.

Some background material, including a very brief review of earlier studies, is included in Chapter 2. After a brief account of the Ownership-Locational-Internalization advantages framework this chapter introduces the "standard neoclassical investment theory" that is applied to financial flows of investment in several later chapters. It also discusses the role of other factors, such as wage costs relative to labour productivity, exchange rates, and investment incentives that could influence investment inflows. There is also a summary of data on foreign direct investment inflows into Asian countries, mostly from standard sources such as UNCTAD's World Investment Report.

Chapters 3 through 8 contain the main empirical work of the book, a series of country studies of flows of foreign direct investment into six Asian destinations: Hong Kong, Singapore, Indonesia, Malaysia, Thailand, and India. Each of the chapters includes a set of tables giving the available data on flows and stocks of foreign direct investment, broken down, where possible, by industry or by country of origin. There are also very useful descriptions in each chapter of the availability of data on flows and stocks of foreign direct investment.

Chapter 3 reviews Hong Kong's policies towards inward foreign direct investment and describes earlier studies of reasons for investing in Hong Kong. It draws some conclusions about

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effects of government policy, although without any quantitative analysis. The judgement is that Hong Kong is a case of a successful non-interventionist policy, but one in which the government played an important role by macroeconomic management and the provision of physical and human infrastructure.

The next chapter, on Singapore, describes the evolution of that country's industrial structure, adapting to the permanent scarcity of land, and the increasing cost of labour. As in the case of Hong Kong, the role of government has been important in providing education, physical infrastructure, and efficient government services. However, Singapore has been much more interventionist, actively encouraging inward foreign direct investment by offering tax and other incentives.

The chapter on Indonesia begins with a review of historical and regulatory developments. It then continues with empirical analyses of the determinants of fluctuations in flows of foreign direct investment into manufacturing as a whole and nine industry subdivisions. The independent variables explaining foreign direct investment inflows are industry value added, the lagged real stock of inward investment, the wage share of value added, the real interest rate, and the exchange rate. The performance of the model is appraised favourably, although that judgement seems a little generous. The regression R-squares are high but no diagnostics are presented or discussed. The period covered is short and, in addition, much of the variation in flows took place in an even shorter subperiod. The signs of the coefficients are sometimes perverse and the explanations for the unexpected signs do not encourage a reader to place much faith in even the coefficients with the expected signs.

Malaysia has more of a data base to work with, including, in particular, information not only on financial flows and stocks but also on fixed investment expenditures by, and fixed investment stocks held by, foreign-owned firms, disaggregated by both industry and country of origin. Time series models similar to those in the previous chapter are applied to Malaysia. However, there are additions. One is the attempt to explain fixed investment, more closely matching the idea of an accelerator. And foreign direct investment flows into Thailand are added as an explanatory variable. As in the previous chapter, satisfaction is expressed with the performance of the models. The R-squares are high but some of the explanation is provided by year dummy variables, not much of a substantive explanation, and little attempt is made to associate the dummy variables with substantive events. A further problem is that the coefficient of the wage share of sales is sometimes positive and sometimes negative, even when it is statistically significant.

Flows of investment into Thailand, another recent growth and investment success story, are analysed in Chapter 7. Although only financial flow data are available, this chapter is almost a mirror image of Chapter 6, to the extent that phrases and paragraphs are repeated, with hardly more than a country name changed. The results are mostly as expected, with high significance for income changes, mostly negative coefficients for wage shares of value added, and no need for year dummies. In these respects this is the most successful application in the book of the time series analysis.

The final story, in Chapter 8, is about investment in India which, despite its size, is the least receptive to foreign direct investment among these countries. No attempt is made to fit the acceleration model, and changes in investment flows are attributed to one main cause: the considerable discrete moves towards liberalisation that have taken place.

The virtues of this report are that it provides fairly parallel descriptions of the inward direct investment situation in each of the countries. These include summaries of policy history and current policy towards inward direct investment and data on flows and stocks of inward investment by industry and by geographical origin. In addition, surveys of motivations for investing in each country are summarized. There are also very brief accounts of past research on investment in

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each country, useful as references even if they are too sketchy to permit a reader to judge the reported results of the research.

An unfortunate decision, in my view, was to eschew all cross-sectional analyses of "... why FDI is relatively high in industry I but not industry j, or why FDI is relatively high in country X but not in country Y." The reason given is that such factors do not change much in the short, or even the medium term. Yet, differences among industries, or especially among countries, may reflect policies that governments can change if they wish to encourage investment. In contrast, the accelerator models used in several chapters often depend, for their explanatory power, on income growth or on the existing stock of capital or investment. They yield little in the way of policy solutions for the host country governments.

The conclusions in Chapter 1 are, for the most part, very sensible. The only one that seems to me to be excessively optimistic is the first one, to the effect that because inward direct investment is positively related to the rate of growth in the time series equations, "... policy makers have the ability to influence FDI flows by influencing economic fluctuations in the host economies. In other words, policies which contribute to economic growth are the most important elements attracting FDI". The problem is that increasing the rate of economic growth is not a simple matter. Countries are interested in promoting inward FDI because they think it will promote faster economic growth. What help is it to them to say that all they need to do is grow faster and the FDI will come?

Some problems with the report suggest the effects of extreme haste in its preparation. That is hinted at in the statement that "This publication has been issued without formal editing" (p. ii) and the reference to preparation on "a high priority basis" (p. iii). That may account for the excessive repetition and the excessive quoting of numbers, without comment, from nearby tables. Haste may also explain the presentation of regression results in almost unreadable form, with t-statistics wandering far from the coefficients they are supposed to refer to, and it may explain the reference in the text (pp. 122, 123 and 124) to figures that were nowhere to be seen.

Acquire the report for the summaries of data, of motivations for investing, and of policies towards direct investment, but do not expect a smooth path from analysis to conclusions. Perhaps the able group of contributors will have a chance at a more thorough examination of these issues in the future.

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World Development Report 1995: Workers in an Integrating World. **World Bank.** New York: Oxford University Press for the World Bank, 1995. Pp. ix, 251.

This is the eighteenth annual review published by the World Bank. Each *Report* consists of two parts: an analysis of a problem that is of concern to low and middle income countries and a set of World Development indicators that are relevant to international comparisons of individual countries' economic structures and progress, with averages for income groups and regions.

The second part of this issue continues the admirable series of data that makes this annual survey an indispensable document for analysts of economic development. They provide comparable data on such subjects as levels of income and rates of growth; inflation rates; structure of production, imports and savings, investment and consumption; central government revenue and expenditure; money and interest rates; official development assistance; external debt; population and labour force; health; education; infrastructure; and natural resources for 132 countries with populations over 1 million; and less complete data for 77 other countries. As might be expected, reasonably complete data are available for only approximately half the 200 countries. All the statistics referred to in this review are taken from

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