ISEAS Document Delivery Service. No reproduction without permission of the publisher:
Institute of Southeast Asian Studies, 30 Heng Mui Keng Terrace, SINGAPORE 119614.
FAX: (65)7756259; TEL: (65) 8702447; E-MAIL: publish@iseas.edu.sg

investment in 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.

ROBERT E. LIPSEY
National Bureau of Economic Research, Inc.

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 the *Report's* World Development Indicators.

© 1996 Institute of Southeast Asian Studies, Singapore

The first part of the *Report* is concerned with the key issue of employment and the welfare of workers in an integrating world. "A 120 million or so [potential workers] are unemployed world wide and millions have given up hope of finding work" (p. 2 — parenthesis added). The *Report* attempts to indicate the breadth of employment problems from those in very poor developing countries to the re-emergence of unemployment in high income industrial market economies.

The "green revolution" and other increases in agricultural productivity have averted the world food scarcity feared only 20 years ago. The problem now is to create jobs so that people everywhere can earn incomes that will give access to food, shelter, clothing, education and increasingly, the good things in life. The magnitude of the problem is sometimes hard to grasp in Southeast Asia where tough policy decisions and hard work have led to such remarkable economic growth, and through increasing agricultural productivity and job creation, to the marked reduction of unemployment and poverty. The indications of how much remains to be done elsewhere in developing and transitional countries, is a timely reminder that Southeast Asian countries should not slacken their pace.

The high income industrial countries are trying to put the blame for their unemployment and stagnating wages on competition from manufacturing in developing "low wage" countries. The *Report* reviews this literature. It points out that the principal conclusions are that those high income countries that are facing unemployment and wage stagnation for unskilled and semi-skilled workers have failed to adjust to technological change and to world-wide shifts in the location of production. Those that have adjusted continue to increase their per capita incomes. Switzerland, the highest per capita income country in the *Report*, shows the advantages of adjustment.

The causes of unemployment differ across the world. In developing countries it reflects slack macroeconomic policies and a continuing unwillingness to liberalize trade so that growth does not take place. In most of the low and lower middle income countries with low rates of growth, and consequently low demand for labour, inflation has been 30–35 per cent per year since 1980, and in those in the upper middle income group with stagnant or negative growth, inflation was over 50 per cent a year. In most of these cases increases of money were over 20 per cent a year (200 per cent in Bolivia and 300 per cent in Peru). Two-fifths of the low and middle income countries for which detailed data are given in the *Report* had declining per capita incomes in 1980–93. In Southeast and East Asia in contrast, Singapore, Thailand and the Republic of Korea had per capita growth rates of more than 5 per cent per year. It is not surprising that unemployment was not a problem.

In industrial countries, unemployment reflects the lack of adjustment which cannot prevent the loss of "old" jobs, but fails to create "new" jobs, and hence damps down the demand for labour. Wages and working conditions that are unrelated to productivity and excessive welfare payments are part of that lack of adjustment. In Germany unemployment has recently risen from less than 5 per cent to more than 10 per cent as a result of wage settlements unrelated to productivity. Unemployment in the high-income countries is a problem for the entire world. These countries with only 15 per cent of the world's population still account for over 40 per cent of the world's output. Their unemployment leads to a lack of demand for the products of all countries. If this demand could be increased, workers throughout the world would benefit. Severe unemployment in the OECD countries also threatens a return to protectionist policies that would undermine the global trade liberalization from which Southeast Asian countries have so greatly benefited.

The *Report* recognizes that "Increasing the skills of and capabilities of workers is key to economic success" (p. 36). It devotes considerable attention to the number of years of primary and secondary education received by workers in a few countries, though with remarkably little attention to vocational education (Chapter 5). It concludes that "Low work force skill levels appear to be less

© 1996 Institute of Southeast Asian Studies, Singapore

the failure of the market for training than of a generally low level of labor demand" (p. 40). The challenges of increasing demands for quality education and training are highly applicable to Southeast Asian countries.

The World Bank has served development well by pressing actively for the adoption of liberal economic and trade policies, and for adherence to sound macroeconomic policies. This *Report* indicates that much remains to be done.

G.S. DORRANCE
Visiting Fellow, Institute of Southeast Asian Studies

The Emerging Asian Bond Market. The World Bank. Washington, D.C.: The World Bank, 1995. Pp. 142.

The World Bank is forecasting that East Asia is about to witness a revolution in the way the region's companies raise financing for investment projects, with a striking shift towards greater reliance on bond issuance as a means of raising capital. With limits now being placed on the terms of bank lending, relatively illiquid equity markets reaching foreign ownership limits, an ever-increasing need for long-term and fixed-interest financing, plus a spectrum of other factors, the already marked growth in East Asia's bond markets seems destined to accelerate further in the coming decade.

This publication stems from a recent World Bank survey of Pacific Asia's major bond markets, undertaken in a bid to both identify the best practices that have allowed these markets to develop in recent years, and propose an agenda of reforms that might permit their development to continue in the future. The survey examined the bond markets in China, Hong Kong, Indonesia, South Korea, Malaysia, the Philippines, Singapore, and Thailand. According to the Managing Director of The World Bank, Gautam Kaji, these bond markets are "poised for growth", and the bank expects that they will "become a major source of financing investments in industry and infrastructure that are essential to sustain rapid development in the world's most dynamic region".

Having now established fairly advanced banking systems and equity markets in these countries (these eight countries have stock markets cumulatively capitalized at around US$1.1 trillion), the expectation is that over the next decade, attention will increasingly turn to capital market issues, and especially bond markets. Until now, the growth in East Asia's bond markets has not matched the growth in the equity markets, and the region accounts for just 2.1 per cent of the world bond market. Significant growth in the bond markets of the region will not only complement the existing equity markets, but also help harness the (long-term, fixed-rate debt) capital required for the impending heavy investment in infrastructure, essential if the region is to meet its economic growth targets. Further, "... well-functioning bond markets will allow policymakers and market participants to manage their risks better, improve liquidity, and reduce intermediation costs relative to comparable instruments like bank deposits and equities", as well as "enable central banks to carry out indirect monetary policy through open market operations". The encouragement for private companies to engage in substantial infrastructural projects, and other large-scale investments necessitates that more bond issues are enacted to raise financing.

Most of the figures tend to support The World Bank's assertion that having grown markedly in the first half of the 1990s, and already fairly substantial in size, these bond markets have the potential to grow considerably further in the coming decade. Together, the East Asian bond markets included in the survey have blossomed from a cumulative size of US$166.7 billion in 1989 to US$338 billion in 1994 of which South Korea is by far the largest, accounting for almost 48 per cent of the regional total. As a percentage of GDP, these national bond markets, in 1994, ranged from just under 6 per cent in Indonesia, to

© *1996 Institute of Southeast Asian Studies, Singapore*