

## BOOK REVIEWS

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***From Reform to Growth: China and Other Countries in Transition in Asia and Central and Eastern Europe.* Edited by Chung H. Lee and Helmut Reisen. Paris: OECD, 1994. Pp. 286.**

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This gathering of papers arises out of the contributions to a conference with much the same name that was jointly organized by the Organization on Economic Co-operation and Development (OECD) and the East-West Center that was held in Honolulu during December 1993. In this volume is a valuable collection of insights and diverse viewpoints on one of the most pressing issues of the 1990s, viz. a comparative analysis of the sequencing of transition policies. In summary, the differentials in output performances of the numerous economies surveyed are explained by institutional, structural and policy differences. Within this context the discussion of the relative merits of “shock therapy” and “gradualism” become more situational. This may be one of the best books available in terms of breadth and depth of analysis of the issue of economic transition and growth. My biggest complaint is one that I have made before in reviews of other contemporary texts. In these days of the simplicity introduced by desktop publishing there is simply no excuse for not including an index!

Some of the papers that appear echo work which has appeared elsewhere. For example, supporters of the Institute of Southeast Asian Studies (ISEAS) were privy to a sneak preview into the fine insights of Dr Kiichiro Fukasaku (his co-author here is David Hall) during his visit in early 1994. Their paper provides an excellent

historical description and offers a valuable source of tables and data. The paper by Jeffrey Sachs and Wing Thye Woo is part of a tandem project that appeared in *Economic Policy*. Their contribution is to direct the focus of the comparison of transition policy results to account for pre-existing economic structures.

There is a little point to carrying out a tedious review of each paper in terms of their separate contribution(s). Instead, this reviewer's comments shall provide a summary of the work at large.

Several issues spring to mind. One point that might have been helpful, especially to non-specialists (perhaps the editors might have addressed this point in some detail), is the inevitability of some transition costs regardless of the sequencing choice. This would make it clear to scholars and policy-makers that while these costs may be deferred, they cannot be avoided. Other implicit arguments raised by this discussion might also have been made explicit, even if not covered in detail. Clearly the question of sequencing raises the issue of the relationship between democracy and development. There is no consensus over whether democracy inhibits or promotes economic growth. Numerous apologists for neo-authoritarian regimes provide circumstantial evidence for the economic merits of repression. However, Mancur Olson (1993) has offered a forceful argument that concludes that democracy is more conducive to long term growth than despotism.

There are separate camps among analysts of the issues at hand. As indicated above, there are of course those who promote rapid institutional changes (“big bang”) and those who promote a

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stepwise, gradualist approach. Interestingly, several proponents of gradualism in this text seem also to fall into a camp promoting an "Asian Way", — despite the success of Vietnam's post-1988 "big bang".

The impetus for economic transition arose out of the ineffectiveness of government over-reach in attempting to control exchange and production. Gradualism too often operates as a ruse for unreconstructed interventionists to maintain their dead hand at the levers of political power. As long as they can deliver economic results, their political legitimacy remains intact. Thus, after spending 45 years impoverishing one-fifth of the world's population with its rigid and oppressive economic policies and ill-fated social experiments, the Chinese Communist Party has been able to remain unchallenged through delivering the economic goods, as it were.

China's initial rapid economic progress is unsurprising as the principal problem with China's economic performance was abject mismanagement of a country richly endowed with mineral wealth and industrious citizens. However, neither is it surprising that much of the miracle growth reported in recent years is proving to be illusory. Nor is it surprising that the internal contradictions of the half-way house of "market socialism" is beginning to unravel in the face of macroeconomic instability. The re-imposition of price controls during August 1994 in response to inflation that is spiralling out of control is but one indicator of the failure of gradualism. In other words, short run gains of propping up state-owned enterprises with easy credit has led to the long run losses of inflation. Prompt introduction of private property rights and a steady hand on the flow of money into the economy would surely have forced the inevitable transition costs to the fore. Many of these would already be resolved. Perhaps the Chinese authorities believed their own good press in their initial successes to believe that the truly hard choices would never have to be faced. Too much praise based upon past victories makes generals and policy-makers apt to fail in future campaigns. Unfortunately too few of these studies provide much in forward looking analysis.

Rana and Paz cite precious few studies to contradict their general support for gradualism. However, they rehabilitate their narrow range of study somewhat by admitting that the successes of microeconomic reform are being threatened by postponement of macroeconomic reform. Professor Kuen Lee reveals his bias in his title ("Making Another East Asian Success in China"), yet he too seems to be able to admit to the failure of Chinese authorities to revitalize the state sector. This understatement is then matched by his demurring remarks about the constraints placed upon China's reform leaders (what leaders do not face similar constraints?), and praises them for "showing increasing flexibility". Interestingly he offers no clear evidence of this remarkable claim. Barry Naughton ("Reforming a Planned Economy: Is China Unique?") applies his analytical skills to an encyclopaedic knowledge, finds little to fault the Chinese authorities, and suggests a more universal applicability of the promise of success for imitators. Professor Gerard Adams begins with the opposite question ("Economic Transition in China: What Makes China Different?") but he seems to come up with little difference in response to his rhetorical query.

While two of the papers take distinctly Euro-centric views (Heimenz and Funke; Kirkpatrick) they make valuable contributions. Heimenz and Funke provide important guides for identifying the essential elements of successful macroeconomic stabilization, and policies for structural adjustment. Kirkpatrick points to the importance of establishing credibility and consistency as a means to reassure domestic producers and to encourage foreign investors. He understands well the importance of institutional structure as the basis for shaping market incentives. On balance this might be the best paper in the lot as it offers solid empirical analysis with fully informed theoretical insights.

The last two papers deal with transition economies that are not often discussed. John Gonzales examines the experiences in Mongolia, and provides some assurance that its performance is closer to that of Estonia than of Ukraine. The co-editor, Chung H. Lee, offers insights into the

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prospects of reunification of North and South Korea. His discussion successfully marries an understanding of the experiences of German unification and the theoretical issues involving transition of an autarchic command economy.

#### REFERENCES

- Olson, M. "Dictatorship, Democracy and Development". *American Political Science Review* (September 1993) 567-76.
- Sachs, J. and Woo, W.T. "Structural Factors in the Economic Reforms of China, Eastern Europe and the Former Soviet Union". *Economic Policy* 18 (April 1994): 102-45.

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***Technology Management and International Business: Internationalization of R&D and Technology.*** Edited by Ove Grandstrand, Lars Hakanson, and Sören Sjölander. Chichester, U.K.: John Wiley and Sons, 1992.

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This is a very informative and rather comprehensive volume that focuses primarily on explaining the degree to which technology-related activities are internationalized in multinational corporations and the implications of the degree of internationalized observed. Although the book is a collection of conference papers by several authors, the volume is in general remarkably well-focused and well-organized. The editors provide an overview of the book in Chapter 1, and an extremely concise and helpful summary of the book's various results in Chapter 2. Their attempt to summarize the major results on pages 236-38 is particularly useful and quite ambitious in view of the wide range of issues they try to summarize. Chapter 2 also provides another general overview of the issues involved that is of some interest.

The book's core studies attempt to add to the rather sparse empirical literature in this field, and

can be divided into two broad types. Chapters 3-5 and 7 are all rather comprehensive statistical studies based on large samples of firm level data. Chapters 3-4 use a database on U.S.-registered patents controlled by a large sample of the world's largest manufacturing firms, both showing that technological activities of these firms tend to be heavily concentrated in their respective home countries but with the latter study emphasizing the variation in patterns observed across countries and industries. Chapter 5 analyses locational determinants in a large sample of R&D establishments belonging to the 20 largest manufacturing firms in Sweden, emphasizing the importance of demand-related variables in the location decision. Chapter 7 summarizes the results of a survey of the role of overseas R&D units in the increasing use of global approaches to innovation in a large number of the world's largest firms.

In contrast, Chapters 6, 8, and 9 are based on much more limited surveys and are best characterized as case studies of a limited sample of firms. Chapter 10 is also based on a descriptive analysis of individual cases and thus falls in this category though this chapter is somewhat of a disappointment since originally generated empirical information is not presented. In general, these more limited studies focus on examples of how multinationals internationalize their technological activities, but it is difficult to attach much significance to the conclusions from such limited studies, especially when the more comprehensive statistical studies provided ample evidence that internationalization of R&D and technology is rather limited in multinationals at best. Indeed, given this evidence, one might ask why write a book about internationalization of R&D and technology in multinationals when such activity is apparently extremely limited? Clearly the implication is that the more comprehensive studies are missing aspects of this internationalization that the case studies do a better job of revealing. My economic intuition tells me there may be something to this point of view but the statistician in me wonders about the significance of such observations. Moreover, one must clearly be cautious in this respect as excess focus on limited case