

region. A word of caution would be on making the assumption that findings from this book can be generalized to represent the picture of SMEs in East Asia. More careful comparison and contrast with comprehensive data would be necessary before we can generate any common themes.

AEGEAN LEUNG
*Faculty of Business Administration
National University of Singapore*

***Globalization and the Quality of Foreign Direct Investment.* By Nagesh Kumar. New Delhi: Oxford University Press, 2002. Pp. 257.**

This book is a valuable addition to the large literature on foreign direct investment (FDI) policies in developing countries. Traditionally, the focus of these policies has been on the quantitative dimension, that is, the amount of FDI which is attracted by the host country. This book, however, also examines the qualitative dimension of the FDI as well.

It is the combination of the quantity and the quality of FDI which determines its impact on the developmental goals of the host country. It is against the above background that this book analyses the role of different structural and geopolitical characteristics and the policy regime of the host countries in explaining the patterns of quantity and quality of FDI inflows. This is to assist countries to assess their comparative advantage for specific types of inflows so as to differentiate and strategize between various forms of FDI to maximize the benefits from it. It further attempts to analyse the implications of the emerging World Trade Organization (WTO) regime and draws policy implications for international intervention in the context of developing countries.

The analysis is undertaken across various branches of industry, across countries, and over time using the available data set covering overseas production by U.S. and Japanese multinational enterprises (MNEs) in seventy-four sample

countries and three points of time over the 1982–94 period. Four measures of the quality of FDI inflow have been employed to capture the positive externalities accruing to a typical developing host country. These include (a) the extent of localization of affiliate output reflecting the depth of involvement of a MNE in a host country; (b) participation in technology-intensive or modern industries that are likely to generate a greater amount of knowledge spillovers and hence facilitate the technological up-gradation of the host economy; (c) extent of export-orientation, especially the proportion of output going to third countries involving informational externalities on the export potential for domestic firms; and (d) R&D intensity that may have significant knowledge spillovers for local firms.

This book contains three main parts. Part A deals with MNEs and host country industrialization. Chapter 2 identifies factors that determine the extent of MNEs' involvement across host countries and then examines the role of locational factors in influencing the extent of MNEs' involvement. The finding suggests that country size, level of income or development, and extent of urbanization seem to favourably affect a country's ability to attract globalized production from MNEs. Also, country size and income levels are likely to have greater influence on the extent of localization of affiliate production and hence relatively smaller, poorer, and agrarian countries have their limitations on tapping the resources of MNEs for their industrialization. The author observes that between the two sources of FDI, U.S. investments and their depth are more sensitive to country size and income levels than the Japanese investments. It is observed that while a free trade regime in a host country would tend to attract more MNEs, the depth or extent of localization may be inversely related to openness.

The book argues that geographical proximity between home and host countries encourages intensive investment links. The analysis also brings out that the availability of better infrastructure, abundant low cost labour, and the host country policy environment as the factors that contribute to the attractiveness of a country to

MNEs. Hence, resolving a trade-off between quality and quantity of FDI by the governments of developing countries in consonance with their development policy objectives is a clear challenge.

At the overall level, it is seen that the extent of localization of production of affiliates of U.S. MNEs has declined between 1989 and 1994 in response to trade liberalization. The extent of value-added generation by Japanese MNEs abroad, on the other hand, has increased over the same period presumably in response to the appreciation of the yen. Chapter 3 analyses the determinants of inter-country variation in MNE activity across countries in seven broad sectors of manufacturing. The analysis was extended to specific sector-level estimations following the differences observed especially between technology-intensive and others in response to factors such as accumulated technological capabilities and agglomeration economies in influencing FDI in technology-intensive industry. The study supports the hypothesis that the MNEs' operations in modern technology industries are highly sensitive to the specialization of host countries in these industries and on their technological capabilities. By locating in countries that have established skill-intensive industries, MNEs try to exploit agglomeration economies and complement their core competencies.

Part B deals with MNEs and export-oriented production in host countries. Chapter 4 provides a descriptive analysis of trends over time and inter-industry and inter-country patterns in the export-orientation of U.S. and Japanese affiliates. Chapter 5 analyses the determinants of export-oriented production by U.S. and Japanese MNEs, characterizing export-platform production gearing both towards home markets and serving the third country markets. It is argued that the two types of export-oriented production are different in nature and hence they are determined by different influences. The home country market-oriented production by both U.S. and Japanese MNEs takes place in countries that offer them low-cost educated workforce, good infrastructure, and trading facilities. In addition, countries with geographical proximity and preferential trading

arrangement are an added advantage over others. The third country market-oriented exports of U.S. and Japanese affiliates were found to be influenced more by strategic and geopolitical factors than factor cost considerations. Regional economic integration is seen to play an important role in increasing the chance of developing countries to attract export-oriented FDI from MNEs. It is argued that third country market-oriented production requires a more liberal trading regime than home market-oriented production. Chapter 6 extends the analysis by introducing continuous sector characteristics to capture the differences in the nature and pattern of offshore production by U.S. and Japanese MNEs. The result suggests that the offshore production by U.S. MNEs would seem to be more "globalized" linking subsidiaries in home and host countries vertically. The offshore production of Japanese MNEs involves moving production of certain branches of industries in which they have lost competitiveness to foreign locations. It is further observed that East and Southeast Asian countries enjoys special advantages for export-oriented FDI in terms of conscious efforts by governments and domestic partners to strengthen local technological capabilities. The quantitative analysis, however, suggests that this advantage is largely confined to the electrical and electronic industry.

Part C deals with MNEs and innovation in host countries. Chapter 7 examines the role of MNEs as technology generators and transferors and their ability to influence the global pattern of location of innovative activity. Chapter 8 presents a quantitative analysis of factors affecting the location of overseas innovative activity of U.S. and Japanese MNEs across countries. Although R&D is the least internationalized of MNEs' activities, of late they have been increasingly looking at some developing countries with well-developed scientific and technological infrastructure and human resources, to set up global and regional R&D centres at much lower costs. Chapter 9 concludes by providing possible implications of the emerging international regime on investments for developing countries.

The findings highlight that the attraction of

quantity as well as quality of FDI inflows is associated with larger market size. Hence regional economic integration, that is, joining some trade blocs can be used, particularly by smaller developing countries, as a strategy to overcome the market size constraint. The study also demonstrates that cheap labour advantage alone is inadequate in attracting quality FDI and needs to be complemented by the skilled manpower available at a relatively lower cost. Also, contiguity and regional integrative systems play an important role in attracting FDI inflows with a potential for knowledge spillover and technology transfer.

This book is unique in that as it contributes to the existing literature by introducing the quality dimension of FDI from the perspective of a developing country and provides valuable insights to policy-makers on how to design investment policies to attract quality FDI based on long-term prospects. Thus it calls for an urgent need for

developing countries to carefully assess their comparative advantage for specific types of FDI and accordingly refocus their foreign investment policies. The book also holds particular relevance for academics, researchers, and policy-makers in East Asian and ASEAN economies that have relied heavily on FDI inflows for their development process, and are now attempting a better balance between domestic and external sources of growth. It is therefore hoped that the book will be widely read, and some of its themes will be further researched, and debated in the context of the priorities and capacities of particular countries. Reasonable pricing (US\$13) adds to the accessibility of the book. It is to be hoped that more such high quality research will become available in the future at such reasonable prices.

SADHANA SRIVASTAVA
*South Asian Studies Programme
National University of Singapore*