

## BOOK REVIEWS

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***International Industry and Business: Structural Change, Industrial Policy and Industry Strategies.* By Robert H. Ballance.** London: Allen & Unwin, 1987. Pp. xxi, 357. Hardback £30, paperback £12.95.

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A great deal of discussion of economic policy in the Newly Industrialized Countries (NICs), the ASEAN area, and the Pacific rim has been put in terms of laissez-faire vs intervention, market economy vs command economy, and in a few cases the converse, market failure vs government failure. In the classical world of Adam Smith government had three duties: to preserve law and order, provide for the national defense, and to undertake those limited public works too large to be left to the market. In a neo-classical Keynesian world, government is additionally assigned responsibility for macro-economic stability. In both instances, however, responsibility for the allocation of resources among competing uses, and for economic growth are left to the tender mercies of profit-seeking entrepreneurs.

The earliest form of government intervention in resource allocation consisted in the interposition of tariffs and less frequently prohibitions against imports, for infant-industry encouragement and in a few instances geriatric sustenance. Government gradually developed additional functions such as protection of the ignorant against the rapacity of the market in

such areas as patrolling the honesty of weights and measures, maintaining the integrity of money against counterfeiting, enforcing standards of sanitation, pure food and drugs, fraud in security markets, small depositors against malfeasance of bankers, and the like. Some public goods in education, decent housing, and health care are provided in most countries, and general support of industry, additionally, by government sponsorship of research and development.

Most recently, however, governments have flirted, experimented and in many cases embarked on what is called "industrial policy," a rather ill-defined field of endeavour that sometimes means choosing and supporting industrial "winners", nursing or killing off industrial "losers". The debate between industrial policy and government action limited to the maintenance of macro-economic stability rages in the United States. As this is written, the press notes that Michael Dukakis, the virtually certain winner of the Democratic nomination for the presidency in the 1988 election, has no favourite economic adviser but consults both Robert Reich of the Harvard Business School, who favours industrial policy, and Lawrence Summers of the Harvard University Economics Department who is dubious of its practicality and confines his advice to macro-economic policy. Dean Lester Thurow of the MIT Sloan School of Management is an ardent proponent of industrial policy. Charles Schultze who has served widely in Democratic

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governments, as a leading economist of the Brookings Institution and a university professor, is a convinced opponent. In two recent analyses of the economy of the Pacific Rim, one observer, Dean Staffan Burenstam Linder of the Stockholm School of Economics and a former Conservative politician, attributed the success of the NICs to their policies of non-intervention, whereas Professor Heinz W. Arndt of Australian National University ascribed it to industrial policy.

Professor Arndt's paper was prepared in collaboration with the Regional and Country Studies branch of UNIDO, the United Nations Industrial Development Organization in Vienna, established for the specific purpose of studying industrial development, largely in developing countries. This is the organization with which Robert Ballance, the author of *International Industry and Business*, is now associated. UNIDO's functions include the collection of an enormous volume of statistics, used by Ballance (and Arndt), as well as the analysis of industrial policies. As an organization, however, it is fully committed to the cause of governmental intervention.

Ballance's book is intended to be supplementary reading for university courses in international trade, international business, industrial organization and industrial economics more generally. It does not try to develop new theories, paradigms or models but is interested in applying existing ones to industrial strategies, strategies of business to a limited degree, but mainly those of government. Ballance elucidates the theory of comparative advantage from the point of view of how *policy-makers* (my emphasis) can choose industries for exports and products for imports, rather than in the usual case, explaining how the market does so.

The emphasis is on manufacturing, with little attention paid to mining, to oil, or to shipping, all of which are major items in international trade and international business. Some students might be interested to learn how the

greater reduction in the real costs of ocean transport relative to production costs of manufactures has changed some industries such as steel from being strongly supply-oriented to almost as footloose as woollens, in which it pays to bring wool from Australia, 14,000 miles to Britain, have it manufactured and the product shipped 14,000 miles back. Complex locational problems in the siting of oil refineries might have been worth attention. The UNIDO and Ballance assumption that manufacturing is what mostly counts gets some support from the present OPEC troubles after the golden years of the 1970s, and the failure of attempts of other raw-material producers to duplicate OPEC's ephemeral success, as some economists in Western countries feared and as the United Nations Conference on Trade and Development (UNCTAD) so fervently hoped.

The book has a lot of good things. One of special interest is the blurring between manufacturing and service industries as hardware must increasingly be accompanied by software, produced within the firm. The treatment of some topics such as VERs (Voluntary Export Restraints) and the Canadian-American automotive agreement are satisfactory, but that of the New International Economic Order, say, and Generalized Tariff Preferences seem a little sketchy.

I have the feeling that if I were again to teach undergraduates economics, I would be pleased to have them read this book for its institutional exposition, but only after having devoted some time to explaining that despite strong views on all sides of the intervention-vs-free market issue, the jury is still out. The Japanese Ministry of Trade and Industry (MITI) is almost universally held up as a shining example of the success of intervention, but even that staunch advocate of intervention, Professor Arndt, observes that MITI's record in picking "winners" is not completely untarnished. Some Japanese industries were unblessed but succeeded; others were annointed and failed. Before launching enthusiastically into industrial

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policy, it seems to me, a country would do well to get its macro-economic policies right and see how far they and the market carry it along the road to growth.

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***ASEAN at the Crossroads: Obstacles, Options and Opportunities in Economic Cooperation.*** Edited by Noordin Sopiee, Chew Lay See, Lim Siang Jin. Kuala Lumpur: Institute of Strategic and International Studies, Malaysia (ISIS), 1987.

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Since the establishment of ASEAN in 1967, there has been a proliferation of articles and books on the Association's development and achievements. ISEAS' *ASEAN: A Bibliography* published in 1984 listed over 6,300 entries on ASEAN-based studies. One of the latest and perhaps also one of the most comprehensive additions to this impressive list is the Malaysian Institute of Strategic and International Studies' (ISIS) publication, *ASEAN at the Crossroads: Obstacles, Options and Opportunities in Economic Cooperation*. This publication contains all the keynote speeches and papers presented at the First ASEAN Economic Congress held in Kuala Lumpur from 13–22 March 1987. The meeting was organized by the Group of 14 on ASEAN Economic Co-operation and Integration and ISIS and was attended by about 400 politicians, civil servants, businessmen and academics from the ASEAN states, the European Community, the European Free Trade Association countries, Japan, Australia, New Zealand, and the United States as well as other countries. It is a credit to the editors that they were able to edit and bring out such a voluminous publication in less than a year following the conclusion of the Congress. (A shorter companion publication, *ASEAN The Way Forward: The*

*Report of the Group of Fourteen on ASEAN Economic Cooperation and Integration* was published earlier and presented to the ASEAN-CCI in Bangkok on 3 July 1987 for transmission to the governments of ASEAN.)

In view of its timely debut there is little doubt that the ISIS publication provided a useful input for the policy-makers and participants at the ASEAN Summit Meeting in Manila in December 1987. A glance at the contents of the book shows that the various papers covered a wide range of issues relating to ASEAN economic co-operation. These issues ranged from ASEAN economic co-operation in trade, industry, money and banking, institutional framework, commodities, energy, minerals, food and agriculture, forestry, transportation, tourism, and education. In addition, the book also contained contributions from the EC and Australian and New Zealand scholars on the lessons of economic co-operation from their home countries. In short, this book resembles a useful and up-to-date compendium on various aspect of ASEAN and other forms of regional economic co-operation.

Many of the papers were well-researched and contain a variety of recent information and data. There were some interesting prognoses and prescriptions for more effective ASEAN economic co-operation. In his paper, Professor Jacques Pelkmans of the European Institute of Public Administration proposed a good mix of integration at the centre and co-operation at the periphery. He suggested that ASEAN should define a collective policy on the General Agreement on Tariff and Trade (GATT) for its future industrialization programmes and shift its orientation from the United Nations Conference on Trade and Development (UNCTAD). Prof Pelkmans implied that ASEAN could achieve a lot of things with such a co-ordinated policy towards GATT. Prof Pierre Maillet from the University of Lille (France) emphasized the need for a well-defined timetable such as for removing regional tariff barriers. He felt that there was a