

the three most important areas, that is the United States, Japan, and the EC, in the near future.

This scholarly piece of work, besides being useful and invaluable to policy makers, enhances significantly theoretical and empirical stimulation and interest in further academic research in this area.

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***The Impact of Trade-related Investment Measures on Trade and Development.* By United Nations Centre on Transnational Corporations/United Nations Conference on Trade and Development. New York: United Nations, 1991. Pp. 98.**

Trade-related investment measures (TRIMs) along with Trade-related aspects of intellectual property rights (TRIPs) and trade in services represent some of the more recently generated contentious issues within the framework of talks on the General Agreement on Tariffs and Trade (GATT). This UN-sponsored study reviews existing theory and evidence from available studies and then concludes with policy implications on TRIMs. Its principal author is Theodore H. Moran.

TRIMs have no commonly agreed upon definition of core components. This is due mainly to conflict between developing and developed countries over what actually distorts trade and investment flows. Fourteen potentially distorting measures have been introduced mostly by developed countries who seek their ban or restriction. In some cases these measures may describe the same practices. These include investment measures, local equity requirements, licensing requirements, remittance restrictions, foreign exchange restrictions, manufacturing limitations, transfer-of-technology requirements, domestic sales requirements, manufacturing requirements, product-mandating requirements, trade-balancing

requirements, local content requirements, export requirements and import-substitution requirements.

This study focuses largely on local content requirements and export performance requirements (perhaps because the U.S. proposals have singled out these measures for complete ban). For the Association of Southeast Asian Nations (ASEAN), of course, these often represent high profile policies that are frequently implemented by its individual countries to stimulate the most advantageous type of foreign direct investment (FDI) possible. Even the ASEAN Industrial Joint Venture Programme contains its own unique set of local content requirements and export performance rewards.

The major point of contention between developed countries and developing countries is whether such measures are to be regarded as distortionary per se or demonstrated to be so on a case-by-case basis. Developing countries argue that these measures are often necessary to offset trade restrictive and distorting effects of transnational corporations, and do not inherently have any adverse effect on world trade. Singapore and India go even further than this in their GATT submissions by arguing that GATT articles pertain only to border measures and not in any way to production measures. On the other hand, developing countries, particularly the United States and Japan, argue that it is unrealistic to deal with perceived distortionary measures after the fact, so they need to be prohibited as a grouping in order to avoid negative trade effects.

Parts I and II of the book serve to summarize many of the significant surveys and case studies on TRIMs (conducted mostly during the 1980s) and to discuss applicable theory. Part I entitled "Characteristics of Trade-related Investment Measures" summarizes the results of six surveys of corporations. Five were commissioned by U.S. Government entities and one by the World Bank. (It is unfortunate that none could be found from the EC or Japan.) The most surprising conclusion from the collection of surveys was that although large numbers of countries with a great deal of foreign direct investment within their borders

have TRIMs on their books, most foreign investors do not report that their subsidiaries are governed by TRIMs. The author suggests several explanations for this. First, TRIMs may not be enforced across the board, but on a discretionary and selective basis. Secondly, the direct application of TRIMs may be subject to negotiation on an industry-by-industry or company-by-company basis. Thirdly, TRIMs (particularly local content and export performance TRIMs) may merely speed up implementation of policies by parent firms that were already under serious consideration. In this case, such implementation may initially have been impeded by transnational corporation home country "political" considerations (that is discomfort with closing less efficient home country production facilities).

Part II explores which current theoretical models most aptly describe the environment where TRIMs are normally employed. The author argues that for the most part strategic trade theory rather than neo-classical theory seems to describe foreign investment flows, particularly those made in less developed countries. The market structure of industries in which FDI is prevalent consist of small concentrations of participants which, according to strategic trade theory, implies market imperfections and barriers to entry. Because of this phenomenon, it is possible that resulting "producer surplus" or rents are available to transnationals who are operating efficiently. Within this context, what TRIMs are supposed to do is allow host countries to take control over such producer surplus and then decide on the feasibility and nature of its potential reallocation.

Of course, producer surplus may be returned to the producer provided that certain host country policy goals such as additional investment in export producing activities are met. As "there may be a large amount of arbitrary or purely historical determination in the location (by foreign investors) of production and other flows of trade, (such) positive government intervention is required". Since the "first best" solution of using subsidies to foreign investors is not available, the "second best" solution of using TRIMs to reallocate this surplus may be chosen.

Part II then moves into a summary of collective surveys and case studies on the impact of TRIMs on trade and development. As in Part 1, most evidence from collective surveys show only sporadic major impact of TRIMs. Case studies, on the other hand point to dramatic success or failure of such measures when used at quantitatively high levels. Most impressive among the success stories was the use of export promotion policies by Mexican officials to bargain with several information technology transnational corporate investors. The result was an agreement that granted such corporations a waiver of the entire 51 per cent local equity requirement in return for pledges for additional investment in "industrial complexes" with planned export percentages of approximately 90 per cent of production. With respect to the dramatic failures, the author reminds readers that TRIMs carry much higher risk than non-action since intervention can clearly worsen a situation by placing artificial supports behind inefficient industries.

Part III entitled "Conclusions and policy implications" continues to draw on the work of others. Theoretically, the author claims that direct subsidies of local industry or transnational corporation subsidiaries represent the best type of TRIMs. This option is not really feasible for most developing countries (at least not on a major scale). Local content and export promotion policy are then examined on a practical level. The author clearly prefers the latter. Export promotion allows governments to effectively use its threat-of-loss and promise-of-gain powers. Local content requirements, on the other hand, can easily become indistinguishable from infant industry protectionist strategies that have become discredited in many developing countries.

One of the most interesting sections of the book effectively unveils an area of potential inconsistency of the developed country positions on TRIMs. The author presents studies which show an underlying equivalency between locational investment incentives provided by developed countries and TRIMs. Within the United States, for example, numerous state governments (which are largely responsible for such economic

development policies there) provided incentives ranging from US\$14,000 to US\$108,000 per job to lure automotive industry investment. Certain EC countries have made comparable subsidies. The author postulates that it would difficult for developed countries to prove that such measures do not influence trade and investment flows. Using this and other arguments, the author concludes that any discussions regarding TRIMs must be considerably more broadly based than that on commonly mentioned TRIMs. In other words, "the exclusive focus on TRIMs is itself distortionary".

The appendices contain a very useful background on the history of TRIMs. Of particular note is a fairly comprehensive review (assembled by UNCTAD staff, detailing divergent positions on TRIMs taken by (1) the United States and Japan, (2) The European Community and the Nordic Countries, and (3) Developing Countries.

The book represents an excellent effort of bringing together applicable theory and evidence pertaining to TRIMs. Its conclusions seem to flow logically from these summaries. It is understandable but still unfortunate that most of individual country work seems to come from the United States and very little from Japan or the EC. Also, a key issue, the underlying equivalency of developed country locational incentives with TRIMs, is only elaborated on in the last few pages of the book. Nevertheless, this work should provide excellent background to the reader who wishes to avoid a certain amount of "dogmatism" pro-pounded by developed countries on the issue of TRIMs.

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