

APEC's liberalization progress depends on the contemporary international and regional economic environment, as much as foreign political policies.

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Foreign Investment in Developing Countries.

Edited by H. S. Kehal. Hampshire and New York: Palgrave Macmillan, 2004. Pp. 261.

This book is an edited volume consisting of twelve diverse chapters that focuses on the theoretical, empirical, and policy issues of attracting foreign direct investment (FDI) in developing countries. While the first two chapters focus more on the theoretical aspects of FDI and its determinants, the remaining chapters are more empirical in focus and constitute country studies on the determinants of FDI or the impact of FDI on their economies. Some of these studies focus on the experience of the ASEAN countries.

Among the empirical studies, Chapters 3 and 4 focus on China, which attracted the largest share of world FDI among the developing countries. These two chapters address two very interesting questions: (1) the impact of inward FDI on the Chinese economy and its determinants; and (2) how to maximize benefits from FDI and minimize the risks associated with it, and the lessons that can be learnt from China's experience. The analysis holds important implications for other developing countries that are too much FDI-dependent for their growth prospects and need to strike a balance between technology transfers and domestic market protection.

The next two chapters involve studies on the Indian economy, which is emerging as a favourable investment destination, after a decade of economic reforms that has integrated it further with the global economy. Chapter 5 does not

specifically focus on FDI but analyses the ways to enhance foreign investment flows in a broader sense. Chapter 6 specifically deals with FDI and the resource gap in India. It argues that FDI has not played a significant role in enhancing the profitability and efficiency of Indian firms even after a decade, and identifies the important constraints that deter the flows of FDI into India, including the policy environment for investment. This chapter comes out with a very interesting fact that after liberalization of the economy, Indian FDI and non-FDI companies seem to be competing against each other via larger advertisement expenditure than R&D expenditure or selling commission, indicating that unlike China, most of the FDI in India appears to be market oriented, with little focus on R&D.

Chapters 7 and 8 then undertake empirical studies on ASEAN economies, viz. Indonesia and Malaysia, with the former specifically focusing on bilateral FDI flows from the EU. These two chapters undertake an econometric exercise of the determinants of FDI flows in each of them, and observe that while these countries have been generally successful in attracting FDI for their growth prospects, they face increasing competition from other developing countries, and need to undertake important policy changes to continue to be competitive in attracting global FDI.

Chapter 9 by Sadhana Srivastava and Ramkishan S. Rajan, by far the longest and one of the most interesting chapters of this book, makes an important contribution to the policy discussion on the impact of China's economic rise on trade and FDI flows in ASEAN and India. While there have been several studies on the impact of China on ASEAN, this is one of the first comparative studies analysing the impact on India as well, in the light of increasing economic linkages between China and India. The chapter highlights that contrary to popular perceptions, China's economic rise offers significant opportunities for both ASEAN and India to reap, and attracting FDI is unlikely to remain a zero-sum game among them, with one gaining at the expense of others. This

chapter brings forward the growing importance of bilateral regional trading agreements in the region and their likely implications on attracting FDI flows from within Asia.

The last three chapters are rather disjoint from the discussion in the earlier parts of the book, and focus on three different aspects. Chapter 10 by P. K. Vasudeva, the weakest chapter in terms of analysis in this book, undertakes a case study of foreign investment and foreign trade issues for India and China. However, in real sense, the chapter does not go into any detailed micro-level case study, but instead focuses on the macro aspects, many of which are well known and do not contribute in any way to the existing literature. The author's comparisons of FDI data on India and China seems to be a direct copy from an earlier study on this issue by Srivastava (2003). Further, the discussions on IMF and RBI reports are devoid of any analysis.

While most empirical studies focus on FDI issues in Asian economies, Chapter 11 by Dale Colyer changes focus to study the impact of FDI in the primary sector of the Mexican economy. While the discussion is useful, this chapter is also more descriptive than the previous ones, and appear disjoint from the previous ones. The last chapter by Richard Fletcher provides a theoretical perspective on the issues of cultural differences between source and host countries and how this can impact on FDI flows. While this is a very interesting contribution in this book, it is completely unrelated to any of the previous chapters, yet again.

Overall, the book is a valuable source of information and policy analysis on FDI issues in Asia, and contains some important contributions in this area to the theoretical and policy literature. Nevertheless, the diverse nature of topics covered, and the wide differences in quality of the chapters, highlights the fact that the book has not been properly edited for its contents and quality of research. Nevertheless, given the importance of the topic and some of the countries covered, the book would be useful for students and academics working in this area.

REFERENCE

Srivastava, S. "What is the True Level of FDI Flows to India?". *Economic and Political Weekly* 38, 15 February 2003, pp. 608–11.

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Innovative East Asia: The Future of Growth. By **Shahid Yusuf et al.** Washington, D.C.: World Bank and Oxford University Press, 2003. Pp. 439.

The seduction of the universal applicability of successful institutions in a global society has increasingly been based on the assumption that successful institutions can be replicated and that success in the originating country is more important than context. This has resulted in various instances of replication failures such as Taiwan's Hsinchu Science City, modelled after the successful Hsinchu Science-based Industrial Park, and other science parks modelled after Silicon Valley. The cases of Silicon Valley-emulators illustrate the dichotomy between universalism and contextualism in replicating successful institutions.

It is against this backdrop that *Innovative East Asia*, a book by Shahid Yusuf and seven other contributors, offers the timely lesson that many East Asian countries, particularly the high and middle-income economies, need to move on to new ground. As the main volume in a series of publications on the economic future of East Asia co-sponsored by the Japanese Government and the World Bank, the book argues that institutional growth and competitiveness can no longer depend solely on foundations of past success that had been characterized by strong macroeconomic fundamentals. Instead, East Asian countries need to go beyond the "catch up" or imitative phase of development to the innovative phase, where the countries would move up the value chain of production to stay ahead of lower cost producers.