

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

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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.

The book starts by laying out a comprehensive survey of the East Asian economies with notable emphasis on the problems carried over from the financial crisis of the late 1990s, and goes in-depth into the various regional co-operation efforts that spans exchange rate and monetary policy, financial, trade, and other areas. Strong emphasis is placed on addressing revealed weaknesses in demand management and public spending, exchange rate management, regional co-ordination, financial and corporate governance.

The main thrust of the book on innovative growth occupies five chapters in the book. The authors reiterated that encouraging the growth of more innovative East Asian economies requires the foundation provided by the strengths of the past — macroeconomic stability and trade-oriented policies — as well as addressing the weaknesses revealed by the crisis of 1997–98 in financial and corporate governance and in regulatory and judicial oversight. Innovative economies can generate new ideas on a continued basis and also facilitate their being brought to market. Creating such an environment requires investment in tertiary education, in research and development, and in the supporting infrastructure of information and communication technology. It calls for the networking of public and private institutions, the interaction and circulation of knowledge workers, and agglomeration of firms in dynamic urban clusters. On the demand side, it calls for competitive markets that require both and reward innovation, and a corporate policy which encourages small firms to emerge as start-ups and to evolve into mature entities either through IPOs or mergers and acquisitions.

Under the umbrella of chapters on innovation, Chapter 5 on “Education for Growth” is noteworthy for its comprehensive review of the role of secondary and tertiary education for developing innovative economies. The authors suggested several reforms to generate quality and creativity which includes infrastructures for lifelong learning and incentives to promote innovative research. However some of the observations arising from using citation indices

and ranking of country scholarly output as a measure of “high-impact” and innovative research (pp. 206–11) may warrant further qualification. The authors need to consider that there are nodal points where knowledge is produced and from where it is globally distributed. Research on Indonesia, for example, may be carried out mostly by foreign scholars, affiliated to universities or research institutions around the globe, rather than Indonesian nationals or scholars attached to its local institutions. This unequal production and distribution of knowledge is widening the knowledge gap between highly productive and less productive countries, which raises the issue of which knowledge is produced locally for local needs? While the book’s thesis is clear that it is not enough to imitate knowledge from one country to another, it has not considered the necessity for the knowledge-generating country to be able to acquire and to adapt it to local needs, and subsequently to produce “innovative” knowledge endogenously along the same line.

Chapter 6 on “Making Clusters Innovative” is one of the more important conceptual contributions. While clusters as innovative entities have been well covered in recent years by volumes such as Nelson’s (1993) *National Innovation Systems* and OECD’s (2001) *Innovative Clusters*, this volume provides a masterful synthesis of past and recent arguments for innovative clusters. The authors rightly emphasized the factors why some well-endowed science centres *have not* become innovative clusters, rather than issuing prescriptions and best-practices prevalent in past and current literature on the topic. However, conspicuously missing from the chapter is an elaboration on what is going on in clusters in terms of knowledge flows both within and between tenant firms and their local, regional, and international collaborators. Other relevant questions that could have been addressed include: what does it take for knowledge sharing to take place? Which social, organizational, and cultural factors influence knowledge sharing both within and among tenant firms and other stakeholders in

industrial clusters which is often key to the development of an epistemic culture of innovation? The construction of an effective and innovative culture of knowledge production or “knowledge habitat” has been seen by many as a crucial precondition for the creation of new knowledge and product-service innovations. In the case of Singapore, administrators, policy planners and technocrats have been proactive in promoting an “innovative milieu” and conducive R&D environment in clusters such as the Singapore Science Park, a specific state-initiated corporate entity to boost R&D in the country. Nevertheless, the chapter provides an excellent overview of the topic and has addressed new issues on governance structures and networks that extend outside the cluster such as diasporas of knowledge workers. These are substantive areas that the chapter contributes to the literature.

The authors then moved on to address the role of international production networks in developing innovative firms. It addresses the difficulties faced by firms in progressing from the original equipment manufacturing (OEM) phase to the original design manufacturing (ODM) phase that is one of the hallmarks of innovative capacity. One of the more interesting contributions in this chapter is some original survey data on high-performing East Asian firms and qualitative evidence from the automobile and electronic part sectors. The survey found that networked firms tend to generate more export growth and innovation but do not necessarily lead to higher employment or value-added compared to non-networked firms. The final chapter reviews the role information and communication technology (ICT) has played in the region’s growth and weighs the policy options for stimulating both the production of ICT and its use in the future. It argues that the region’s future is crucially linked to its ability to ensure that ICT is mastered by and readily accessible to the population in East Asian countries.

The study concludes with ten policy recommendations which come across as

obligatory and, at times, conflicting with the arguments and evidences supported in the earlier chapters. Recommendations such as “prudent debt management”, “flexible exchange rate management”, “regional coordination”, and so forth are recommendations that are not really new and do not directly contribute to an understanding of how innovation can be fostered to begin with. What have been more useful are policy implications for economies moving towards innovative growth and an elaboration of the various drivers contributing to an epistemic culture of innovation. A more relevant conclusion and assessment on the structural changes needed to promote innovative activities in globally-linked cities can be found in Yusuf’s most recent journal contribution, “Creative Industries in East Asia”, which appeared in the April 2005 edition of *Cities*. It explores these issues and suggests how policies and institutions can induce and furnish an urban environment that supports innovative activities that in turn lead to rapid growth.

Overall, *Innovative East Asia* is well written and, like other World Bank publications, is highly readable and incorporates relevant ideas and substantial empirical data for policy use and implementation. It is suitable for non-specialists, professionals, and policy-makers who are interested in understanding how growth can be sustained through innovation, the various policies and market initiatives needed to foster innovation, and an assessment of East Asian economies in their route towards innovative growth.

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