be used as a premise for democratic, market-based reform — the point being that open, democratic countries lead to prosperity (p. 227). The problem with this argument is that, first, it conflates political with economic freedom; and second, that it assumes that the correlation between democracy and GNP implies causality. Recent research (Barro 1996) in the democracy and growth literature has in fact questioned this latter relationship.

As another example, consider Hafez's assertion that (economic) size is relatively unimportant insofar as enhancing trade is concerned (pp. 233–34), drawing his inference by a comparison of the cases of Singapore and Indonesia. However, this ignores the dynamic effects of market size, as well as the substantial literature on the gravity equation that finds that GDP is a significant predictor of bilateral trade flows (Feenstra, Markusen and Rose 2001).

Finally, the discussion of institutional defects in AFTA is somewhat misguided. Hafez's claim is based on the fact that given that "AFTA has no institutional structure of its own [and] works under the institutional structure of ASEAN", (p. 248) and since ASEAN lacks a clear-cut institutional structure — especially in comparison to bodies such as the WTO or EU — this therefore constitutes a deficiency in AFTA. The problem here is that Hafez misunderstands the manner by which institutions arise in order to solve collective action problems. Institutional evolution is endogenous to the idiosyncratic co-operative dilemmas present in each given historical circumstance; hence, a richer institutional structure is only necessary if such problems exist and need to be addressed. Unfortunately, Hafez gives us no reason (or evidence) to believe, *ex ante*, that AFTA faces such problems in its routine operation.

In spite of these problems, Hafez has done a tremendous service with his detailed report card of the state of AFTA. While the strong claim that "AFTA thus far is a failure" (p. 206) probably needs to be tampered, he has nonetheless raised many relevant issues of concern in AFTA's current operation and its direction forward. The book will prove useful to scholars seeking to enhance their knowledge of AFTA, as well as to policy-makers contemplating FTAs involving economically and politically heterogeneous parties.

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NOTES

1. These requirements are that RTAs must eliminate barriers on substantially all trade among members, and that they do not become more restrictive on trade than prior to their formation, respectively.
2. These are the Turkey — Restrictions on Imports of Textile and Clothing Products and Canada — Measures Affecting the Automotive Industry cases.

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***Sustaining Competitiveness in the New Global Economy*. Edited by Ramkishen S. Rajan.** United Kingdom: Edward Elgar Publishing Limited, 2003. Pp. 296.

The book delves into a topic pertinent to modern developing economies — that of sustaining competitiveness in an age of globalization.

Chapter 2 provides an analytical overview of globalization on several fronts. These include the new models of production networks brought about by technological advancement over the past decades, changing government strategies in response to new external stimulus and global interdependence as well as the influence of multilateral organizations such as the World Trade Organization (WTO) on international trade. In so doing, Anderson succinctly draws out both the pitfalls and benefits that globalization would create, particularly in relation to small economies. This provides a useful setting upon which the rest of the book follows.

Chapter 3 by Lall focuses proper on the difficulties of measuring the nebulous concept of competitiveness. Lall took care to point out at the outset that in the measurement of national competitiveness, in view of market failures often seen in developing countries, it was important to focus on variables that could affect the dynamic comparative advantage so as to remedy the market failures that stood in the way of competitiveness of these economies. The well-known indices commonly used to assess competitiveness by the World Economic Forum (WEF) and the International Institute for Management Development (IMD) came under close scrutiny by Lall, who critiqued that these indices were often fraught with methodological weaknesses and unrealistic assumptions. In response to these weaknesses, Lall puts forward the Competitive Industrial Performance (CIP) index with the key objective of helping in the benchmarking of a country's industrial structural features, through the capture of both industrial performances and their related drivers. The chapter maps Singapore's performance based upon the CIP index as well as provides an interesting case study on the implications of China's rise on the East Asian economies.

Chapter 4 delves into a topic highly relevant to Singapore; that of cross-border production sharing and components trade. In highlighting these developments, the author throws doubt on the conventional measurements of the trade balance and the current account as well as hints at the implications for trading agreement negotiations. This chapter makes a case for Singapore to move up the value-added chain of component production in order to stay competitive, an argument in line with current economic policies. It would be more interesting at this point if a comparative analysis of how countries in the region are working towards consolidating their niche in the value chain is provided. This chapter sets the ground for such research to follow.

In the analysis of competitiveness, it is necessary not to neglect the role of services, particularly in the case of Singapore. Chapter 5 deals with this pertinent issue and makes the point that while Singapore is often seen as a net exporter of services based on conventional balance of payment measurements, it is a net importer when foreign direct investment (FDI) in services are taken into account. This observation relates to the difficulties in measuring services trade and the need for better measurement tools. Revealed comparative advantage (RCA) as well as the ranking of impediments to trade in services provides value-added insights as to the competitiveness of the Singapore service sector. Granted the difficulties in measurement of services, however, these indices should only serve as a rough guide until a more comprehensive database is developed.

In assessing national competitiveness, it is imperative to analyse the role of the government. Chapters 6 to 8 prove instructive in the understanding of the specific political economy of the Singapore economy. Chapter 6 provides a review of the development of "Singapore Inc." as well as an examination of the government's initiatives made towards enhancing private corporate ownership. The author manages to fairly reflect the difficulties as well as the necessity of adjustment in the government's strategies in response to the new demands arising from globalization and as it moves towards a value-added knowledge based economy. Likewise, the prominent role of the government also came under scrutiny in a thorough assessment of the structural issues and fiscal scenarios facing Singapore under Chapters 7 and 8 respectively.

The focus on a knowledge based economy is better understood with a reading of Chapters 9 and

10. Chapter 9 raises micro questions as to how entrepreneurship could be promoted and, as well, provides a good review of the literature on the links between entrepreneurship and growth. It further touches on the shifting locus of entrepreneurship policies. Chapter 10 proves a complement to Chapter 9 with its focus on examining, on a more macro level, the relationship between industry productivity and ownership structures as well as providing a measurement of spillover from foreign-owned industries on locally owned industries, with the interesting results that the spillover effect takes place in locally controlled industries with foreign equity and not for wholly locally owned firms.

The book ends with the assessment of the macroeconomic fundamentals of Singapore, namely the progress on its financial markets development as well as a re-examination of the exchange rate policy using the NATREX model in Chapters 11 and 12. There is a constant focus throughout on the need for market practitioners to adopt a bigger stake, and this is a statement echoed throughout the book. The lessons gleaned from the wide-ranging topics discussed in the book serves as a good guide for all interested in tackling the demands brought about by globalization.

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Managing FDI in a Globalizing Economy. **Edited by Douglas H. Brooks and Hal Hill.** New York: Palgrave-MacMillan, 2004. Pp. 340.

The co-editors begin their volume by putting forth two propositions that provide the foundation upon which the remainder of their book's contents are constructed. The first is: "Investment, whether domestic or foreign, is an essential ingredient for sustainable growth: productive investment translates into increased output. Especially where domestic resources are insufficient to steer a country towards its long-term growth path, the role of foreign investment becomes indispensable" (p. xvii). The second is: "Whether, and the ways in which, FDI is beneficial or harmful to the host country depends on the context in which the investment takes place and in which the resulting economy activity occurs" (p. 8).

The volume presents examinations of the two propositions in eight chapters with the first two providing a general historical and empirical background that sets the stage for analyses of six countries' experience with foreign direct investment (FDI). The focus is on the People's Republic of China, India, the Republic of Korea, Malaysia, Thailand, and the Socialist Republic of Vietnam. The chapters, written by the co-editors and thirteen other competent and thoughtful scholars, were supervised and co-ordinated by the Asian Development Bank (ADB) staff professionals. The ADB maintains a continuing interest in encouraging debate over the various aspects of FDI flows and the collateral activities of multinational enterprises (MNEs) that are conducted in a highly globalized world that includes the above countries whose populations collectively comprise more than 40 per cent of the world's population.

The evaluation of whether FDI is beneficial or harmful, and in what proportion, starts with the observation that until the 1980s many developing countries viewed FDI with great wariness because of its magnitude and the sheer size of MNEs from which the investments flowed. The enterprises were suspected of practising harmful unfair business practices, price fixing, and transfer pricing, and their links to parent companies residing in developed, market-economy countries posed problems. During the 1980s, a transformation took place since as many restrictions imposed against FDI and MNEs were lifted in the face of beneficial technological change, integrated production and marketing networks, bilateral trade and investment treaties and the success of economies that were open to trade, investment and financial capital flows.