is, to some extent, explained by the timing of industrialization and the economic and social gaps between advanced and transitional countries in the initial conditions. Dore's work,[4] which uses the late-development effect to explain the origins of Japanese "organization-oriented" forms of employment, is one of the famous studies of late-industrialization countries. If readers attempt to reorganize findings of the present book within the framework of initial conditions and the late-development effect, the concept of catching up will be an effective tool for understanding the diverse patterns of transitional countries.

The fourth comment concerns the role of government in the catching up and transition process. Traditionally, market failures due to public goods and externalities are economic reasons for government intervention. The arguments concerning catching up industrialization cannot provide new insights or rationale for the role of government. Transition problems also need to be reconsidered regarding the role of government. If the author theoretically explores the roll of government in the catching up and transition process, we can evaluate how the government contributes to the network building of firms.

Finally, the book attempts to interpret the economic and historical implications of transition within the framework of catching up industrialization, and this reviewer basically agrees with the arguments of the book. In sum this book provides a basis for a detailed reconsideration of the concepts of catching up and social capability. (Hiroki Nogami)

[4] Ronald Dore, *British Factory, Japanese Factory: The Origins of National Diversity in Industrial Relations* (Berkley, Calif.: University of California Press, 1973), pp. 411, 417.

Managing FDI in a Globalizing Economy: Asian Experiences edited by Douglas H. Brooks and Hal Hill, Basingstoke, Palgrave Macmillan, 2004, xx + 340 pp.

I

The book here under review is the outcome of a research project at the Asian Development Bank (ADB) that delved into changes in policy approaches under the impact of globalization. The book focuses on the utilization of foreign direct investment (FDI) in the rapid economic development of Asian countries. Written and edited by economists inside and outside of the ADB versed in the relevant issues, the book underscores the fact that the rapid growth of developing Asian countries has been both a cause for and a result of the inflows of FDI from developed countries which include the EU, the United States, and Japan. The book points out that there are potential benefits in the inflow of FDI as a result of the transfer of financial and managerial/technical resources from the investing enterprises. But as the book also indicates, there are potential costs as well associated with FDI. Therefore governments in the region have been seeking an appropriate policy mix for FDI to maximize the net benefits for their economies. Given the considerable variation in the national policies and experiences with FDI, the book examines the FDI inflows, policies, and consequences that have transpired in six developing Asian countries: China, India, the Republic of Korea, Malaysia, Thailand, and Vietnam.

Chapter 1 gives an overview of FDI in recent decades and describes the political climate these six countries have faced during these decades. The chapter focuses on the surge in worldwide FDI outflows which have surpassed the exports and production increases of the developed countries. Seeing FDI as a factor for stimulating economic growth, developing countries including the six Asian countries examined here have adopted generally pro-FDI policies. Chapter 2 reviews the experiences of the six Asian countries regarding FDI. Although these have been diverse, the six can be divided into three categories: those with historically very restrictive FDI regimes (China, India, and Vietnam), those with open and progressive FDI regimes (Malaysia and Thailand), and one (Korea) which was initially highly selective in accepting FDI but has become progressively more open over time.

Chapters 3 through 8 examine the experiences of each of the countries in more depth. Although the FDI regimes of the six have in general become more open, considerable selectivity still remains in each of the economies. In this respect, these "case-study" chapters are able to characterize each country's policy approach for attracting FDI. Chapter 3 deals with China and reiterates the country's experience with surging FDI inflows which can be attributed mainly to the market-oriented economic reforms of the past few decades but also to the great allure of the country's cheap labor. It then points out some potential worrisome concerns for China, those of foreign-technology dependence, profit outflows, and national security. The chapter also strongly reiterates the need for China to further improve the FDI environment for investors including improving its legal framework and business practices. Chapter 4, on India, describes the country's reluctance to incorporate FDI issues into the WTO's multilateral trade negotiation process, and its government's eagerness to attract through performance requirements the kind of FDI that it favored, i.e., that which generated output and exports, and promoted balanced regional development and technological capabilities. Chapter 5, on Korea, gives the historical background to the country's concern over foreign domination and initial reluctance to accept FDI, then its later favorable attitude toward the competitiveness-enhancing character of FDI. Since its participation in the WTO (in 1995), its accession to the OECD (in 1996), and the experience of the Asian financial crisis (in 1997), Korea has progressively opted for more FDI inflows and outflows, and this trend is expected to continue into the foreseeable future.

Chapter 6 discusses Malaysia's heavy reliance on FDI especially for its manufacturing of electronics products, despite the country's protectionism in the automotive sector. The electronics sector has been the prime mover of the country's export-driven economic development all through its import-substitution and export-orientation periods, and the extent to which the country has leveraged and utilized the FDI-cum-technological competitiveness is well argued. Chapter 7 deals with Thailand and points to FDI as a stabilizing source of funding when the country confronted the 1997 financial crisis. The chapter also describes the country's intermediate degree of success in realizing the full technological potential of FDI, particularly in the nation's automotive and electronics sectors. Chapter 8 looks at Vietnam's transition from a full-blown communist economic regime to a capitalistic, market-conscious system as a consequence of the country's economic reforms (*doi moi*). Albeit a latecomer to a capitalist-oriented economy, Vietnam has enjoyed a rapid export-driven expansion since opening up its domestic markets through the enactment of a law on foreign investment in 1987. Again as a latecomer, the country is still in the process of adjusting its policy approach in order to tap FDI's full potential.

The book draws lessons from the experiences of these six countries in their ability to attract FDI through reorienting their domestic policy frameworks. As indicated in Chapter 2, the book's summary chapter, only a handful of countries in the world have completely open FDI regimes. With this in mind, the authors of the individual chapters describe how each of the countries achieved their major policy changes away from protectionism and in favor of market opening.

II

During the two and a half decades from 1965 to 1990, the East Asian region had registered a fast rate of economic growth exceeding 5 percent per year. In more recent years, India and Vietnam have joined this trend. There have been contending arguments over the reason for the rapid growth in these Asian economies. The World Bank originally emphasized the role of productivity-based industrial upgrading and resultant export competitiveness as the source of Asia's growth.[1] However the contribution of this role was estimated to be roughly one-third of the observed output growth, with the remaining two-thirds coming merely from the increase in factor inputs. Economists including Krugman[2] stressed that East Asia's growth during the said period was, after properly taking into account all the factor inputs including labor force participation (instead of aggregated total population), little more than simply a consequence of input growth rather than technological growth brought about by direct technological transfer and, more predominantly, the attraction of FDI from the technologically developed parts of the globe.

Whether the real source of Asia's growth in the above period was input-driven or productivity-driven, the further economic development of the six nations examined hinges on the region's potential for technical progress, or industrial upgrading. Industrial upgrading could be realized through various combinations of government policy intervention. Among the important areas for policy intervention from a theoretical perspective are the three spheres: firms, factor endowments, and the government. Present-day governments have only limited discretion in influencing the sphere of the firms. This is even more true of the sphere of factor endowments. Inasmuch as the economic behavior of the external sectors has a direct relevance on the domestic economy in the form of FDI, the host country's government is deemed to have the justification to intervene in the flow of FDI yet cannot actually exert its influence to its satisfaction, due to the limited controllability, almost by definition, of FDI by third parties including host governments.

As the book eloquently presents, there is significant asymmetry in the FDI promotion regimes of these six Asian economies. Indeed, one country is not "monolithic" in terms of

[1] World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993).

[2] Paul Krugman, "The Myth of Asia's Miracle," *Foreign Affairs* 73, no. 6 (1994), http://www.foreignaffairs.org/19941101faessay5151/paul-krugman/the-myth-of-asia-s-miracle.html (accessed March 15, 2005).

its FDI promotion due to sectoral differences in the "salience" of FDI. Overall, this sort of asymmetry is indicative of the Asian region's dual-track strategy of import substitution and export orientation, as highlighted in the book. From a dynamic point of view, this situation is somewhat worrisome. I believe in the welfare improving property of dynamic interaction, or what could be termed the "globalization cycle" of continuous innovation and imitation, and this signifies that economic resources are pretty much locked into those "protected" sectors of the economy, which I think might hinder the country's qualitative phase transition in favor of knowledge-based development, especially when facing the network-oriented growth strategy of firms. Put differently, those Asian countries could discriminate against their own industrial sectors through selective FDI measures. Again from a dynamic as well as static point of view, this is not an economically sound growth scenario.

The book's baseline argument is sound in that it captures just this point: efficiency-seeking FDI and rent-seeking FDI coexist in the current FDI behavior of business firms, which is paralleled by the host governments' adoption of efficiency-seeking and rent-seeking FDI policies. Whether a host government takes a benign attitude or harsh one hinges much on the extent to which the country's domestic industrial sectors wish to enhance dynamic competitiveness rather than static and artificially created competitiveness. Among the six countries examined, China, India, and Vietnam as less-developed economies would have more justification for attracting FDI as a source of employment creation at the "cost" of an enhanced yet relatively limited presence of foreign capital. Short-term adjustment cost is of course of utmost concern for indigenous capital-oriented growth strategy, yet given the ever-changing character of industrial technology, it would seem that a benign attitude would pay off over the long run. From this perspective, Malaysia's automotive sector could better follow Thailand's approach for attracting FDI into the said sector. Korea as the economically most advanced country among the six would benefit most from technological interaction with Japan and other engineer-oriented countries outside of the region.

It would appear that selective FDI measures are endogenous to the extent to which the imposing country has a static comparative disadvantage in the sector concerned. Static comparative disadvantage, however, does not signify little scope for acquiring dynamic comparative advantage. Accumulation over time of codified as well as un-codified technological/managerial assets through FDI—a dynamic consideration—would be the most efficiency enhancing in the end, and this point comes out from the findings of this book. All told, the book has elucidated the overall positive trend of FDI inflows along this line of reasoning, albeit with considerable variation—a novel finding of this empirical work[3]—which persists in the policy formulation of these six countries in their pursuit of FDI-driven economic development.

(Hikari Ishido)

[3] This book would complement more statistics-oriented works on the issue of FDI in Asia. See for example, Takatoshi Ito and Anne O. Krueger, eds., *The Role of Foreign Direct Investment in East Asian Economic Development* (Chicago: University of Chicago Press, 2000).