

Stehn, Jürgen

Book Review — Digitized Version

[Book Review of] The Triad in foreign direct investment,
United Nations Centre on Transnational Corporations
(UNCTC), New York, 1991

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is done by comparison with the U.S. which makes this chapter as well as the previous one quite clear.

Part III (Chs. 6 and 7) turns to the development of the postwar system (1940–1987). Chapter 6 describes the postwar federal investment in research and development which exhibited strong growth if compared to the prewar period. Federally funded R&D was largely carried out by private industry whereas universities do the basic research component. Total R&D spending increased from 1 percent of GNP in the postwar years to 3 percent in the mid-sixties after which it declined again. The large share of military R&D raises the question of spillovers to civilian products or processes. The authors discuss the cases of semiconductors, transistors, integrated circuits, computers, airplanes, communication satellites and microelectronics. The impact of military research is held to be low and decreasing because of diverging needs between civilian and military sectors; sometimes the influence goes even from civilian to the military sector. University research was growing fast (if compared with the prewar period) with a constant federal share of funding at 63 percent.

Chapter 7 provides an in-depth treatment of the U.S. commercial aircraft industry. Again, there is much emphasis placed on basic research, military funding, demand and spillovers, the role of regulation policy and international collaboration and trade.

Part IV deals with the new environment and new research organizations. The changing context of innovation from 1980 to the present – Chapter 8 – is characterized through a higher financial risk due to strong increases in development costs of some sectors on the side of the inventors. On the other hand, Japan has reached the technological frontier by using institutions which were designed for catching up. The crucial question is whether they can adapt their institutions in such a way that they will become the leading inventors of the future. Again the authors emphasize the necessity of a good interplay between policy and private enterprise. However, quite contrary to public opinion, they deemphasize the role of MITI. Unfortunately, the analysis of this point is rather short.

International and domestic collaboration in research and development as alternatives to export, licensing and direct foreign investment are discussed in Chapter 9 with special reference to the antitrust policy, trade policy, R&D subsidization and intellectual property rights protection.

Chapter 10 discusses the merger of technology and trade policy which is necessary because of an increasing importance of technology in trade for the increased international technology transfer.

In a final chapter, the authors summarize their views concerning economic policy which are quite plausible.

The book is based on admirably detailed knowledge of industrial technology and the working of research systems. Unfortunately, the book suffers from the rather nonrigorous treatment of neoclassical theory which the authors want to criticize. If this criticism had been done more rigorously, it might have been a good guide for presenting the material more concisely. As it stands now the detailed knowledge of the broad historical analysis is the main virtue of the book.

Thomas Ziesemer

United Nations Centre on Transnational Corporations (UNCTC), World Investment Report 1991. The Triad in Foreign Direct Investment. New York 1991. VIII, 108 pp.

This study is the first “World Investment Report”, “a series of annual reports which will present data and trends relating to transnational corporations and foreign direct

investment” (p. (iii)). As such, the World Investment Report “will provide up-to-date, comprehensive information on an annual basis and will provide in-depth analysis of a variety of themes, selected for their relevance to policy-making in the field of foreign direct investment” (ibid.). Moreover, “each volume will focus on a topic which emerges from the Centre’s ongoing research activities” (ibid.).

This volume gives a survey of the global trends in foreign direct investment (Ch. I), analyses the Triad (Japan, the European Community, and the United States) in terms of foreign direct investment and looks at the role transnational corporations play in promoting regional economic integration around the three poles of the Triad (Ch. II), describes the linkages between foreign direct investment and trade, technology and financial flows (Ch. III), and finally derives policy implications for developing countries and the international community (Ch. IV). The most important findings are:

- Multinational companies increased investments outside their home countries by 29 per cent a year between 1983 and 1989. By comparison, world gross domestic product grew by only 7.8 per cent a year, while exports rose at an annual rate of 9.4 per cent.
- Corporations tripled their stock of foreign direct investments during the decade. More than 80 per cent of the capital flows were within the Triad.
- Annual flows of foreign direct investment are increasingly concentrated in industrialized countries. By the late 1980s, less than 20 per cent of flows went to developing countries.
- Within the Triad, the United States lost its status as the most important source of corporate foreign investment, becoming instead the main target. On the other hand, EEC Member Countries increased their share of the total foreign direct investment stock to 34 per cent, roughly equal to that of the United States.
- Developing as well as Central and Eastern European countries are strongly linked to individual Triad members. In most of these countries, a single Triad member accounted for 50 per cent or more of the foreign direct investment stock invested in these countries. For instance, Latin American states are dominated by United States investments, Asian countries by Japanese companies and Central and Eastern European countries by subsidiaries of EEC Member States.
- Apart from influencing international trade flows, multinational corporations are increasingly important agents for transferring technology. Analysing four channels for the international transfer of technologies, the UNCTC concluded that multinationals dominate two, namely direct investment and technology sales (licensing), and play a substantial part in a third channel, exports of capital goods.

The value-added of an empirical study which aims at compiling data on the worldwide investment activities of multinational firms may be best measured with respect to the additional information which it provides for policy-makers and economists working in this field of economics. With regard to this criterion, the “World Investment Report” may be of some relevance to politicians and economists who want to get a first survey of the regional allocation of foreign direct investments in the world economy. However, from the viewpoint of an economic researcher who urgently needs not only regional but also sectoral disaggregated data to analyse the determinants of foreign direct investments and to evaluate the explanatory power of the flood of approaches trying to explain the activities of multinational corporations, this study may be rather disappointing. The report does not give any information on the sectoral allocation of transborder investment flows, although most of the theories of foreign direct investment emphasize that firm and industry characteristics play an important role in explaining the activities of multinational corporations. Certainly, the information costs of compiling a matrix of disaggregated regional *and* sectoral data on the foreign direct

investment activities of multinational corporations for each single country are very high since these data are only available from national central banks and ministries. To be sure, a project which aims at providing "up-to-date, comprehensive information on an annual basis," (p. (iii)) and which is ambitiously entitled "World Investment Report" is expected to include more than just a description of data which are provided by standard statistics on foreign direct investments.

Jürgen Stehn

United Nations Industrial Development Organization (UNIDO), India. *Dimensions of Industrial Growth.* Oxford, Cambridge, Mass., 1990. Basil Blackwell Ltd. XXIII, 253 pp.

One of the basic objectives of United Nations Industrial Development Organization – as the name suggests – is to promote industrial development in the Third World. The present study is certainly going to serve this objective by availing the necessary data and analysis of one of its member countries, viz., India, to all those interested and involved in her industrialization process.

This book has six chapters and a number of useful annexes. The first two chapters present a very good review of the Indian macroeconomic conditions and problems, e.g., growth of income, fiscal and monetary policies, capital formation, industrial production, trade, investment patterns, role of small scale industries, foreign investment, import of technology and balance of payments. The third chapter deals with 11 industrial branches occupying the most important places in the Indian economy, viz., textiles, steel, leather, cement, non-ferrous metals, engineering, electronics, chemicals, fertilizers, automobiles and food processing. In each of these branch profiles, attention is concentrated on distinguishing characteristics and problems rather than giving voluminous data and a description of the past.

Chapter IV explains the policy and institutional framework in which the Indian industries have to work. They had undergone a radical change even before the balance-of-payments crisis of 1991 which forced the Indian government to adjust the exchange rate by one fifth, to liberalize trade and investment for domestic and foreign investors radically and to reduce the budget deficit. The fifth chapter deals with agricultural, mineral, human and financial resources at the disposal of the country for industrial development. The last chapter outlines the main features of the eighth plan which was to commence in April 1990. Moreover, the book contains 13 annexes, many of which are very valuable for prospective investors. They include, for example, rules and regulations on foreign investment, local taxes, fiscal incentives for investors, free trade zones, a list of institutions supporting industries, and addresses of consulting firms. Some of them have, of course, to be revised after the "grand" liberalization of summer 1991.

This book is like an expertise for those looking for an authentic quick view of the Indian economic conditions and problems. It is very useful especially for foreign investors who are thinking of undertaking direct investment in India for the first time. Much of the optimism of its authors is naturally based on the limited internal and external liberalization measures introduced in the 1980s. But the failure of the Indian economy to earn enough foreign exchange to finance the additional imports resulting from the liberalization has led it into a serious external economic crisis. Let us hope that UNIDO would soon publish a revised version of this report incorporating the latest developments in India.

Jamuna P. Agarwal