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Book Review

United Nations Conference on Trade and Development. ***World Investment Report 1998: Trends and Determinants,*** *New* York and (Geneva: UNCTAD, 1998. 4 28 pages.

The annual publications of the principal agencies of the United Nations almost invariably achieve a high standard of analysis and provide an excellent source of data on their respective areas of focus. The focus of the *World Investment Report* is foreign direct investment (FDI), transnational corporations (TNCs), and the policy setting in which TNCs conduct FDI. The *World Investment Report,* 1998 maintains the standards its public has come to expect. It provides detailed information on the flows and stocks of FDI and addresses *both* the activities of TNCs in the different regions of the world and the policy concerns arising from their operations. Although it will offer little in terms of theoretical insights to most member to the Academy of International Business, the *Report will* provide, for other economists and non-economists, an overview of the contributions of this type of organization and its related phenomena to world welfare as well as of the international organizational problems which must be confronted. Essentially, this involves the conversion of the agreed-upon "rules of the game" from a narrow focus on international trade to the much more intricate arena of trade and investment (international economic involvement). In the course of this, the *Report* makes a great deal of data available.

This review focuses mainly on Chapters II, III, and VII and addresses a definitional issue which arises in Chapter V.

Chapter II, "The Largest Transnational Corporations," identifies the largest 100 TNCs, their parent countries and the industries of which they are a part (pp. 36-38). Ten of the largest 40 are automotive firms. Recent mergers will reduce that number in future reports.

The chapter also computes a measure of the firms' "transnationality." This index measures the degree to which the major TNCs divide their activities between their home country and the various host countries in which they have affiliates. The transnationality index is a simple arithmetic average of the ratio of foreign-to-total assets, sales and employment. Obviously, this depends heavily on the size of the home country and two Swiss corporations. Asean Brown Boveri and Nestlé are ranked second and third. The most transnational TNC is Seagram Company (listed as “beverages”) from Canada with an index of 97.3 percent. Seventy-five firms had indexes in excess of 35 percent and the median value is approximately 57 percent. A detail study of “transnationality” and its measurement by G. Ietto-Gillies is forthcoming in *Transnational Corporation* and forms the basis of a box which tries to reconcile the concept of transnationality, as defined previously, and the number of foreign countries in which the TNC has a presence.

The Transnationality index raises an interesting problem: the ratio of foreign-to-local assets is based on balance sheet concepts and, therefore, largely on the book value of physical assets. One can surmise that intellectual property is becoming an increasing source of quasi-rents and that expenditures on research and development (R & D) are, for technology- intensive industries, a much higher proportion of revenues or profits than in the past. For these industries, balance sheet asset figures will understate the value of assets "located" in the home country although, if the intellectual property is transferred to a

foreign affiliate, its existence may be partially captured in the ratio of foreign-to-total sales.[1] Joint ventures which are R & D-oriented form the basis of many of the more interesting examples of alliance capitalism.

Chapter II also addresses the existence and characteristics of TNCs based in developing countries.[2] As expected, these TNCs come from the richer developing countries which can best be described as industrializing/developing. These countries can be clearly distinguished from the lower echelon of developing countries. The *Report* provides data on the largest 50 TNCs from developing countries. These TNCs are less transnacional (the median value of the index is about 35 percent) but the data probably offer a degree of confirmation of Ozawa's wild-geese-flying -theory.

Chapter III reports on "Investment Policy Issues" at both the national and supranational level. There exist special regimes at the national level in 143 countries: these regimes include both incentives for TNCs and constraints on their operations. Of the 76 countries enacting changes in *1997, 67* were favourable to inward FDI and TNCs operating in those countries. Many of these changes derived from international commitments such as the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) and the WTO Agreement on Trade-Related Investment Measures (TRIMS).

In addition, there exist important ongoing negotiations within the Organization for Economic Cooperation and Development (OECD) and within the Western Hemisphere. There was an agreement in Santiago, Chile, in April *1998,* to launch negotiations for a "Free Trade Agreement of the Americas" (FTAA), and the Working Group on Investment has been meeting since 1993. Perhaps the crucial measure of interest here is the carryover of the idea or a hemispheric system of perfectly free international economic relations including trade, investment and national treatment, and the creation of a climate which encourages international investment. There is no hint that regional blocs will or could impede the creation of a free global system (Kobrin, 1995). The Report of the Working Group sketches out the multiplicity of dimensions on which some prearranged agreement must be established. The Agreement (FTAA) is expected to be concluded by 2005: given the difficulties in reaching agreement in the different dimensions, this must be considered an optimistic timetable.

In addition to negotiations in the western hemisphere, the OECD was attempting to develop a Multilateral Agreement on Investment, with the purpose of creating a standard of the environment for international investment which will parallel the environments available within industrialized countries.

All these attempts at the creation of multilateral agreements and sets of standards for investments must recognize the need for some (less developed) countries to allow themselves time to build the institutions and the expertise needed to be able to meet the conditions of the agreement.[3]

Chapter III also provides information and analysis of "double taxation Treaties" which are bilateral agreements to specify how TNCs will be subjected to tax by the two (host and home) governments. It is important that the same revenues and/or profits not be taxed by both. Clearly, the taxation of value-added or profits is a matter of serious concern for any TNC and the issue becomes more complex because taxation incentives can be, and often are, used by a would-be host government as a means of attracting inward FDI. The chapter provides a thorough introduction to the complexities of this issue.

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[1] Sales are, of course, in inferior measure, to value added

[2] (U.N. Development Program UNDP. 1996. p. 2) reports on the dichotomization of developing countries into those which are achieving acceptable and apparently sustainable rates of economic growth and those which are near stagnation. The Report *identifies countries* with 25 percent of the world's population, as suffering from "failed growth."

[3] Fischer (1998) recognized that any proposal of (complete) freedom from restraints on international capital movements must be qualified for countries that Lack the necessary socio-economic infrastructure.

Chapter V examines the developments in FDI among the countries *of* the industrialized world. There is a question of what constitutes *international investment in* the modern context when the European Union (EU) is on the verge of renouncing national currencies and generating virtually uniform regulatory environments. Should members of the EU that have adopted the euro be considered as separate countries? There us logical argument for regarding such countries as a single nation. The Report (pp. 154-156) goes part way toward recognizing this problem by identifying the amount of FDI in the industrialized world that is conducted among members of the EU. However, the tax systems are far from harmonized and there exist reasons for not adopting identical tax systems among a group with wide level of income disparity (Kiel Institute, 1998). In this reviewer's judgement, those members of the EU which are fully committed to the Euro should be considered as a single "nation" from 2002 on in assessing patterns of trade and FDI.

Chapters VI through IX examine developments in FDI in four developing regions: *Africa;* Asia and the Pacific; Latin America and the Caribbean; and Central and Eastern Europe. The latter is, in effect, a study of economics in transition.

Given the financial crisis that arose in Asia in 1997, the impact of the crisis on Asia and the Pacific has the greatest analytical interest and has been selected for inclusion in the review. Clearly, economists and non-economists interested in other regions will do well to read the chapters dealing with those particular regions. It is an interesting question whether subsequent crises, already experienced in Russia and Brazil, will be subject to the same analysis.

Data show that the inflow of FDI into five Asian industrializing/developing countries (Indonesia, Korea, Malaysia, the Philippines, and Thailand) continued to be positive in 1997 even though portfolio equity investment and bank lending turned sharply negative. Clearly, export-oriented affiliates located in countries whose currency has been sharply devalued, can be expected to be invaluable sources of economic strength and foreign exchange and can be expected to expand.[4] The determinants of inward FDI will change in the short term at least, following a financial crisis-provided always that the industrialized world and non-crises developing countries are able to keep their markets open to imports from the crisis-affected countries. But the stresses are likely to promote protectionist fervour in many industrialized countries and the more widespread the crisis or crises, the greater the likelihood that imports from crises countries will be restrained in response to political protests in the importing countries.

At the same time, there is the danger that distressed home-country firms will be merged with or acquired outright by foreign TNCs to the detriment of the host country's nationhood. This may prove to be a very high price to pay for earlier policy mistakes.[5]

Tie chapter provides four extremely interesting case studies (Seagate Technology, Toyota in Thailand. Honda in Thailand, and Motorola) and reports on two surveys in Thailand (general) and Malaysia (The electrical and electronics industries). The Report also generates its own analysis of the effect of the crisis on Japanese FDI in the five countries. All these studies suggest that TNCS are a beneficial force in the aftermath of the financial crisis, as straightforward economic theory would suggest, although the effects are not evenly spread among the five countries.

World Investment Report 1998 is a valuable document. It warrants reading by all students of international business as well as by economists interested in the complex issues of international negotiations and in the aftermath of the Asian financial crisis.

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[4] Fry (1966) provided dam an the benefits to the current account of Asian developing countries from inward FDI

[5] UNCTAD (1998) reported on the very high ratio of financial leverage common to many firms in East Asia. This high ratio makes firms vulnerable to collapsing in a crisis which many did: those that survive can be taken over by foreign TNCs relatively cheaply.

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