This book is about recent foreign investment activities in Southeast Asia (SA), its regional regime of inward foreign direct investment (FDI), and the prospects for attracting future FDI. All the SA countries are pursuing a strategy of FDI-driven, export-led economic development, a strategy that stands in contrast to the more self-reliant approaches taken by early postwar Japan and by Taiwan and South Korea more recently. In other words, the region as a whole is now far more dependent on foreign multinationals for capital, expertise, technologies, and access to markets. Thus, FDI—as well as foreign portfolio investment (FPI) which is increasingly related to M&As—is the most critical, indispensable ingredient for—and hence, the most important determinant of the pace and structure of—SA’s industrial development and economic growth. The focus of this book on foreign investment activity is, therefore, most appropriate.

The book covers the major features and issues related to FDI and FPI in the region. It contains 12 chapters (four co-authored), which are written by 12 scholars, including some well known authorities on multinational corporations (such as Peter Buckley) and on SA (such as Hal Hill). Ten countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) comprise the region. Given the complexities of the research agenda, “The book does not aim to span every aspect of foreign investment into and within the region; nor is it intended to present a comprehensive history of such activity” (Preface).

Despite this caveat, the book succeeds examining a comprehensive set of important topics related to the region, such as the implications of the new economy for FDI strategies; the impact of AFTA on FDI flows; economic security issues; cross-border production networks; the impact of China’s WTO accession on the region’s FDI, intra-regional cross-border M&As; stock markets and FPI in SA; regional cooperation for inward FDI; and FDI in transitional economies in Indo China.

FDI-driven, export-led economic development is a process of catch-up industrialization driven by synergistic interactions between FDI and the host governments (and local business interests). In this regard, the study is appropriately approached from two perspectives, one representing MNEs’ business strategies, and the other reflecting the host region’s existent economic conditions and policy formulation for inward FDI.

The book emphasizes two fundamental changes as the new undercurrents affecting the region: one is the major shift in the strategic modality of FDI away from stand-alone greenfield ventures in a given host country and more toward cross-border network-type investments and M&As; and the second is the explosive growth of China that is also engaged in the same strategy of FDI-driven, export-led economic development. These two developments are putting the SA countries at a serious disadvantage.

The rise of cross-border network-type investments and M&As reflects an on-going worldwide reduction in
barriers against trade and investment—hence, stepped-up global competition—which results from policy liberalization and technological progress in communications and transportation—and a structural evolution of global capitalism toward components-intensive, assembly-based manufactures (e.g., electronics). These are the footloose industries that are increasingly being dis-integrated in a given location but re-integrated via network-type FDI across borders, straddling a number of the host countries. To attract this new type of FDI, the SA countries need to further integrate under the ASEAN scheme.

In fact, the policy theme of regional cooperation (a deeper integration of ASEAN and intra-regional infrastructure building) resonates across chapters and throughout the book. But the book does not propose any specific measures of intra-regional reform. Relevant here is a recent study (McKinsey & Co, 2004) that offers an interesting advice: “Reforms across the entire economy are not only politically difficult but also risky... ASEAN [should] begin an accelerated integration program in selected critical sectors—mainly consumer goods and electronics—and then roll out the program more broadly.”

The second fundamental undercurrent that is creating a dramatic sea change in the region is the China factor. The rivalry between China and ASEAN in attracting and hosting inward FDI boils down to the issue of creating a pro-business—specifically pro-FDI—environment. China is thus putting additional pressure on ASEAN to adopt greater regional cooperation to form a larger, more integrated market that can counter to China’s huge domestic market. Moreover, ASEAN may have to even go beyond the boundaries of its current regional bloc by integrating with China itself. An adage, “If you can’t beat them, join them,” seems quite relevant. China’s recent overture for a free trade pact with ASEAN—and also, Japan’s similar countervailing offer—may be creating an ideal opportunity to set up a free trade area involving ASEAN, China, and Japan—and even the NIEs (that is, pan-Asian integration).

In this respect, Chapter 7 makes a sensible policy suggestion that the region should strengthen its business, economic and political ties with China. Actually, direct links have already been developed by outward FDI from major ASEAN countries through the overseas Chinese business diasporas, an important topic related to FDI activity in the region, though it is unfortunately discussed in the book.

Beside a stepped-up ASEAN integration, moreover, all the member countries need to build up human infrastructure (education, skill formation, entrepreneurship) —in addition to physical industrial infrastructure (port facilities, telecommunications, transportation), and business infrastructure (corporate governance, business accounting, financial services, corruption elimination). What Buckley calls “state-of-the-art electronic infrastructure” for the new economy touches all the three types simultaneously.

To these policy ends, Singapore can play a role model, though not specifically suggested in the book. That small city-state has already gone beyond the ASEAN arrangement; it has recently signed up for a free trade treaty first with Japan and then with the United States. (Who knows China may be the next!) This pro-trade Singaporean approach is a logical extension of its earlier trade policy. Taking a cue from Israel’s experience, Singapore early on decided not to rely so much on its then poor neighbors but to link up directly with the rich advanced world—U.S., Europe, and Japan—by creating and offering a pro-business FDI-conducive environment (Lee, 2000). Singapore also succeeded nurturing talent (educated and trained professionals) at home and attracting talented foreign workers. It was thus able to graduate very quickly from the earlier stage of low-cost-labor-dependent industrialization and move up the ladder of development by hosting high-tech, high-value-adding FDI.

All in all, the chapters in the book are carefully researched, well written, and thought-provoking, a good source of reference for IB scholars and policymakers.

References


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