Title	[Book review] "Taiwanese Firms in Southeast Asia: Networking across Borders edited by Tain-Jy Chen"
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BOOK REVIEWS

Taiwanese Firms in Southeast Asia: Networking across Borders edited by Tain-Jy Chen, Cheltenham, Edward Elgar, 1998, xv + 275 pp.

Since 1985 East Asia and Southeast Asia have experienced great structural change in their economies, and an undeniably important factor in this has been the huge amount of foreign direct investment (FDI) from Taiwan to the ASEAN countries and mainland China. This is a completely new phenomenon which has had a big impact on Taiwan itself as well as on the countries that have been recipients of its investment, and it has been a primary force in bringing about the formation of a new international division of labor in the region. The book presently under review is the first effort at a comprehensive study of Taiwanese FDI to the Southeast Asian countries.

This book is the product of joint research done by Taiwanese scholars and researchers from Indonesia, Malaysia, Thailand, the Philippines, and Vietnam, five countries which have been recipients of Taiwanese investment. James Riedel of Johns Hopkins University also collaborated in this work, and the Chung-Hua Institution for Economic Research coordinated its production. The research relied principally on a questionnaire survey which was carried out on enterprises in Taiwan which have invested in Southeast Asia and on Taiwanese-owned firms operating in Southeast Asian countries. A common questionnaire was used for the surveys in the five Southeast Asian countries. This was supplemented with interviews conducted at the targeted firms.

The book is made up of eleven chapters. Chapter 1 is an introduction which reviews past research on direct investment, and which also discusses the "network approach" that is taken up in the study; this approach "views foreign direct investment as a process of constructing linkage between a domestic network and a foreign network" (p. 6). Chapter 2 undertakes a review of direct investment by small and medium-sized enterprises (SMEs) in the advanced countries to serve as a reference for the analysis of direct investment by Taiwanese firms. Chapter 3 uses the questionnaire survey to analyze the motives and behavior of firms in Taiwan for investing in Southeast Asia. Chapter 4 presents the results of the questionnaire surveys in the five recipient countries and analyzes the effects of Taiwanese direct investment on these countries from the aspects of its employment effect, trade effect, linkage effect, and the transfer of technology. Chapter 5 focuses on noneconomic aspects of direct investment by Taiwanese firms, again using the information from the survey done in Taiwan. Chapters 6 through 10 undertake analyses of each of the five recipient countries, examining the motives, the operations, and the effects on the recipients of Taiwanese-owned firms. Chapter 11 presents the conclusions of this study and also examines the significance of Taiwanese direct investment from two perspectives, one being the industrial restructuring in Taiwan caused by the country's FDI, the other being the dynamics of the East Asian economy. An appendix is included at the back showing the questionnaire used for the survey in the five Southeast Asian countries.

A point consistently stressed in this book is that most of Taiwan's FDI is undertaken by SMEs and that it is of a new type. This book asserts that FDI by Taiwanese SMEs was preceded by that of Japanese firms, but the former has had different characteristics from the latter. Direct investment by Japanese SMEs has been systematic as represented by the *keiretsu* system (although this reviewer feels that such a characterization is rather an oversimplification), whereas Taiwanese SMEs have carried out their direct investment independently as individual firms, not showing the systematic approach observable in Japanese investment.

Another important characteristics that the surveys in this study brought to light was that most of the Taiwanese SMEs after undertaking FDI cease their production in Taiwan. In most cases the parent firm that remains in Taiwan provides logistical support for the subsidiary company in Southeast Asia, and this gives the latter an advantage over its local competitors. However, this also opens up the possibility of transferring all the remaining functions in Taiwan to the local subsidiary. In the conclusion, Chen, the editor of the book, terms the rapid localization of direct investment by Taiwanese firms "industrial migration" (p. 243) rather than the internationalization of Taiwanese firms, clearly distinguishes it from the FDI of oligopolistic enterprises analyzed by Stephen Hymer and Richard Caves or the Japanese form of direct investment presented by Kiyoshi Kojima. Bringing to light this distinctive characteristic of Taiwanese FDI is one of this study's major findings.

The reader will find an abundance of other findings that come out of the surveys in this book. One of the most interesting is the strong orientation that Taiwanese firms, especially small and medium-sized ones, have toward selling in the domestic markets of their subsidiaries. Taiwan's SMEs have always been highly export oriented. Confronted with the rising costs, including the appreciation of the New Taiwan dollar, the primary motive for undertaking FDI has been the aspiration for access to low-wage labor. This point is clearly brought out in the questionnaire surveys. Despite this however, after making their direct investment, these firms show a strong desire to sell in the local market rather than export to third countries. This strong interest of Taiwanese subsidiaries in local markets is interpreted in this book as due to the frailness of their technological advantages. Should these advantages be lost, their exports will be pushed out of third-country markets. To hedge against this possible market risk, it has been necessary for them to try to enter local markets as an alternative to exporting (p. 52). This is a most interesting observation and one very much calling for further research. Of particular interest would be to know what advantages Taiwanese-owned firms are using in their efforts to make inroads into the local markets.

While this study has many outstanding aspects, it still has some points that need more study. One of the main issues it has sought to examine is how the division-of-labor networks in Taiwan have been transformed by FDI and how these networks have been transplanted to the recipient countries. The book provides no small number of findings concerning these points, but they are not fully satisfactory, and this is due to the questionnaire surveys.

The questionnaires suffer from a deficiency in the questioning. In the analysis of the division of labor, the most important question is No. 6, "sources of components and parts" (p. 248). The surveyed firms could select from four responses to this question: "procure from local supplier," "import from third-party countries," "import from other suppliers in

Taiwan," "import from the parent company." However, in order to understand the changes in the structure of the division of labor fully, this question needs to have two additional choices: "in-house production" and "procure from local Taiwanese-owned firm." Without taking these two sources into account, the degree of localization can be overestimated. If there is a large amount of components and parts produced in-house, the high rate of local procurement (which is calculated by dividing purchases from local suppliers by the total of purchased components and parts) does not mean that the production system is highly localized. Or if there is a large amount of procuring from Taiwanese-owend suppliers, then the rise in the rate of local procurement does not indicate the progress of localization; rather it would be appropriate to view this as a relocation of the division-of-labor network as a whole from Taiwan to a recipient country.

When this reviewer did surveys in Guangdong and Fujian provinces in China, he saw how important these two methods of procurement were. Also this book reports two facts contradicting normal understanding; the one is that large-scale Taiwanese-owned enterprises are more export oriented and have higher rates of local procurement than Taiwanese-owned SMEs in Indonesia (pp. 142–43), the other is that the more export-oriented a Tawanese-owned firm, the more it purchases locally in Malaysia (p. 166). If the two choices mentioned above had been added to the question, perhaps this could have done away these paradoxes. In-house production and procuring from Taiwanese-owned firms are mentioned in a number of places in the book (e.g., pp. 91–92), so it is unfortunate that they were not incorporated into the questionnaire.

There is another less than satisfactory question on the questionnaire concerning division of labor networks which asked only about sources of "components and parts" and of "machinery and equipment." However, along with these, "subcontracting of processes" (*waibao*) is also important in Taiwanese division-of-labor networks. This is usually clearly differentiated from the purchasing of standard components and parts (*caigou*). This point was also left out of the questionnaire.

Another problem is the limitation caused by ignoring the differences in the industrial sectors. The division-of-labor systems for Taiwanese enterprises have many points in common, nevertheless they also have numerous structural and functional differences due to technological and market conditions. This means that the restructuring of these systems brought about by FDI also takes different forms. Furthermore these differences could also have different effects on the recipient economies. From the surveys done by this reviewer in Guangdong Province, Taiwanese-owned firms in the shoe industry showed a great increase in the rate of in-house production compared with when they had had their production in Taiwan. In the bicycle industry, however, the same type of divisions of labor as in Taiwan, which was composed of independent parts-makers and assemblers, was formed. The present study does not give enough consideration to these sorts of differences among industries. Also this work would have been much enhanced if two or three case studies of industries had been included.

Research on FDI by Taiwanese firms is only at its beginning, and there are a large number of issues yet to be studied. The deficiencies noted above do little to detract from the accomplishments of this new study. Rather one of the merits of this book is that it brings up numerous issues calling for further research. This work has opened the way and set down a solid foundation for future research, for which I would like to express to the contributors of this study my fullest approval and gratitude. (Yukihito Satō)

Southeast Asia's Misunderstood Miracle: Industrial Policy and Economic Development in Thailand, Malaysia and Indonesia by Jomo K. S. et al., Boulder, Colo., Westview Press, 1997, xiv + 196 pp.

In *The East Asian Miracle: Economic Growth and Public Policy* published in 1993, the World Bank evaluated governmental roles in economic growth and analyzed their effectiveness. At about the time that this report was released, there were heated debates among researchers over the reasons for the rapid economic development that had taken place in East Asian countries in the lead up to, and during the first half of the 1990s. The point in question was whether this development could be explained wholly in terms of the traditional neoclassical school that it was achieved through market mechanisms, or whether the economic growth was the result of selective government interventions. The role of the government was frequently analyzed when examining the Northeast Asian economies, but infrequently analyzed when dealing with the Southeast Asian economies. Instead, in some quarters, Southeast Asian economic growth was ascribed to market mechanisms, with government intervention seen as having proved ineffectual.

In the book under review, the neoclassical school, with its emphasis on free market forces, has been rejected, along with arguments based on the developmentalist state. The book criticizes both schools of thought and focuses on the historical analysis of the role of governments, especially industrial policy, in the recent economic growth and industrialization of the second-tier Southeast Asian NICs. I will evaluate this approach with some rigor, and begin my review with a brief introduction to the book.

Chapter 1 summarizes the principal thrust of the World Bank report, *The East Asian Miracle*. While acknowledging considerable government intervention, especially in Japan, the Republic of Korea, and Taiwan, the report concludes that the gains from industrial policy are ambiguous. On the other hand, the report concludes that Southeast Asian NICs have achieved rapid growth and industrialization without resorting to industrial policy (Thailand), or by abandoning it (Malaysia and Indonesia). In other words, Southeast Asian governments found it difficult to acquire the capabilities needed to implement industrial policies in a disciplined way. The social and political circumstances in the Northeast Asian economic miracle are unlikely to prevail elsewhere. The report points instead to the second-tier Southeast Asian NICs' supposed record of rapid growth and industrialization without industrial policy as more desirable, alternative models for emulation. Thus, the Miracle study claims that second-tier Southeast Asian NICs have grown rapidly by relying on mar-

As the book under review was published before the currency crisis of 1997, I have refrained from commenting on the Southeast Asian economies in relation to the crisis.