with DC MNCs, they are seen to be at comparative disadvantage in all the essential aspects of their operation, i.e., finance, technology, management, and marketing (naturally, not without some exceptions). It is not far off the mark to say that LDC MNCs, when compared with DC MNCs, are the producers of "unbranded, low R & D, low quality products that compete on the basis of price," and Indian MNCs are no exception. Lall's emphasis on technological advantage as the basis of the expansion overseas of Indian MNCs has relative validity only when they are compared with MNCs of other LDCs (particularly with those of Hong Kong type), but is far less valid when comparison is made with the MNCs of the U.S. type.

We further note that the general character of Indian FDI from the overall view is rather decisively different from that depicted by Lall. Among its general characteristics are:

(1) All Indian FDI in the manufacturing sector is in the form of joint ventures and 80 per cent of it involves India only in minority equity participation;

(2) Most of India's investment abroad is directed to Southeast Asia and Africa, hardly any of it going to the manufacturing sector in developed countries;

(3) Joint ventures in operation with Indian capital participation as of the end of August 1980 numbered 117 cases, and the total investment stood at Rs.357.1 million (about U.S.$44.6 million), meaning that the average per unit investment amounted to a meager Rs.3 million or U.S.$0.38 million (the average per unit investment by Taiwanese enterprises was U.S.$0.74 million for 1959–82 on the approval basis, and that for Korea was U.S.$0.74 million for 1970–82 also on the approval basis, both amounting to almost twice that for India); and

(4) In terms of the forms Indian equity adopts in the 204 ventures in operation and under implementation as of end-August 1980, over two-thirds of total equity contribution has been in capital equipment provided from India and another 11 per cent has been in the form of capitalized knowhow, while only 6 per cent of the equity participation has taken the form of cash. Thus, it is more appropriate to call FDI by Indian firms a variation of commodity/technology export than capital export per se.

This reviewer, therefore, finds it difficult to avoid the impression that it may well constitute an abuse of the term to refer to Indian firms involved in FDI as "multinationals," although it could be argued that it depends on how that term is defined. Lall has superbly depicted one aspect of the comparative advantages enjoyed by Indian firms nurtured under the strategy of indigenizing technologies, but his excessive preoccupation with technology or, alternatively, with management/marketing as the factors contributing to the characteristic features of Indian FDI seems to have lead the author to an underevaluation of the all-important financial or ownership factor. (Hideki Esho)

Third World Multinationals: The Rise of Foreign Investment from Developing Countries by Louis T. Wells, Jr., Cambridge, Mass., MIT Press, 1983, viii + 206 pp.

I

This book is a compilation of the established results of research on the behavior and characteristics of multinationals of, or the direct investment from, developing countries mainly in Asia and Latin America. The eminent conclusions of this book stem from the results of the research conducted by the author and his associates.

A forerunner of this book was *Multinationals from Developing Countries*,[1] which is an account of the proceedings of the East-West Center conference on multinationals from developing nations organized by Mr. Krishna Kumar in 1979. In comparison, Mr. Wells's book centers more on three aspects of direct investment from developing countries, namely, (i) the comparison of direct investments from Asian and Latin American countries, (ii) competitive advantages which makes overseas investment by developing countries possible in the host country, and (iii) specific motives for investment abroad.

One of the reviewer's main interests regarding multinationals or direct investment from developing (or Third World) countries is whether they are similar to the traditional multinationals from advanced Western countries or to Japanese multinationals which are alleged to have different behavior. The author has compared Third World multinationals only with those from the advanced Western countries, especially from the United States, although he paid some slight attention to those from Japan. The comparison of Latin American and Asian foreign investments is of special interest to the reviewer.

There are more issues brought up concerning multinationals from the Third World. (1) In which country are most of the multinationals based? Are they based in Asian or Latin American countries? (2) Are they investing in manufacturing, mining, or service industries? (3) What role will these multinationals play in the world economy? This book has given hypothetical answers to these questions. It also has given the analyses of the aspects mentioned above.

In Section II we shall describe the book in the order of chapters and in Section III we would like to present some observations related to the book, as well as some evaluations.

II

This book consists of ten chapters, an appendix on data sources, and notes and select bibliography. Chapter headings are as follows: Chapter 1, The New Multinationals; Chapter 2, Understanding Foreign Direct Investment; Chapter 3, Small-Scale Manufacturing as a Competitive Advantage; Chapter 4, Local Procurement and Special Products as Competitive Advantages; Chapter 5, Access to Markets as a Competitive Advantage; Chapter 6, Motivations for Foreign Investment; Chapter 7, Invest or License?; Chapter 8, Nonmanufacturing Investments; Chapter 9, Government Policies; Chapter 10, Prospects for the Firms.

Chapter 1 presents an overview of the entire problem and explains the terms and the data sources used. The "Third World" means the developing countries (p. 8), and in this book the two words are used interchangeably. No definition is given to the word "multinational," and firms with subsidiaries in several countries are treated in the same way as firms having only one direct investment project in one country. The book focuses on "firms in developing nations that have recently made direct

[1] See, Krishna Kumar and Maxwell G. McLeod, eds., *Multinationals from Developing Countries* (Lexington, Mass.: Lexington Books, 1981).

investments abroad" (p. 1), but it is not made clear how long a period is meant by "recently."

Chapter 2 presents the summary of the arguments on advantages in Chapters 3 to 5 and motives for investment in Chapter 6. The author presents the question of why firms of developing countries invest abroad, and answers by citing advantages and motives based on the observations of investment cases in the past.

In Chapter 3 we find that direct investment from developing countries has a special characteristic: that technological advantage in the host country stems from small-scale manufacturing, reflecting the small market in the home country.

Chapter 4 presents another example of a technological advantage which also reflects conditions surrounding the investing firm in the home country. This advantage is the use of raw materials and intermediate inputs available in the host country.

Chapter 5 clarifies the following points: (1) multinationals from developing countries are as effective in marketing as those from the advanced countries, and (2) the multinationals from developing countries can use brand or trade names for marketing even in a host developing country.

Chapter 6 questions the motives of the firms of developing countries for overseas investment. The author asserts that as is the case of firms of more advanced countries, most of the investing firms from developing countries begin their overseas production when their exports are threatened (pp. 67–68).

In Chapter 7, the advantages obtained from markets abroad for firms from developing countries can be questioned as the actual reasons for investment abroad; since such investment has weaknesses as well as strengths when compared to licensing or technological cooperation contracts. The "internalization" of an advantage abroad is considered a merit for the firm in the case of overseas investment; whereas in the case of a licensing contract, it is considered advantageous that local entrepreneurs are more familiar with the conditions of the local environment.

Chapter 8 points out that concepts which are effective in explaining investment by manufacturing firms are sometimes applicable to the investment or establishment of subsidiaries by nonmanufacturing firms. Investments in the service industries can be seen to have important differences.

Chapter 9 reviews the policies concerning investment abroad of the governments of host countries, home countries, and industrial countries or international organizations, and points out that these policies have not been always favorable for the investing firms from developing countries. According to the author, investment from developing countries has many favorable points compared to investment from advanced countries and the host country receives benefits from it. Policies such as exemption of the host legal body from income tax have only a limited impact (p. 144).

Chapter 10 presents the author's prospect for firms from developing countries for investment abroad in the future. The author tells us that the history of earlier periods suggests difficulties in the future. The data on Indian investment suggests a mixed success (p. 155). When a firm does not have an advantage in the overseas market, the firm does not invest or it may retreat because of the fact that management abroad is too costly. Even when the firm has an advantage, it may retreat at rather an early time because it cannot keep it, depending on the kind of advantage. For example, the seeking of raw materials needed by the home country through vertical integration of firms abroad may have less advantage than before (p. 160).

The reviewer feels that the chapter-by-chapter structure of the book presented above gives a rough description of the issues, method of approach, and hypothetical conclusions obtained. The Appendix on data sources following Chapter 10 is useful, although it does not cover all of the developing countries that have firms investing abroad.

III

The prominent features of this book, such as comprehension of the characteristics related to the advantages or behavioral patterns of Third World multinationals which differ from those of the multinationals of the advanced Western countries, are most distinctively presented in Chapters 3, 4, and 8. For example, the author's view that small-scale production becomes an advantage when a firm of a developing country invests abroad is presented in Chapter 3 and other aspects of competitive advantages are sought. These views are rather unique in the sense that while the modern industries' scale economy of production in the advanced countries is identified as an advantage, the author suggests that an advantage which better fits the firms of modern industries in the developing countries would be in their being of small scale. This argument is against the view obtained from the experiences of advanced countries. However, the author does not present enough evidence to convince the reader of his view. In many Asian developing countries, joint venture firms funded by developing countries are relatively large in scale, or they show no advantage of being small in scale, but rather suffer from it.

One competitive advantage which the author takes up in Chapter 4 and the reviewer considers to be important (although few examples are presented) is in the technical characteristics of local procurement and special products. The author considers this advantage the fruit of technical innovation of firms of the developing countries. His view is different from the common saying about the firms of advanced Western countries that it is best to practice marketing in the host countries, while practicing technical innovation in the home countries. Technical innovation could be an advantage, but again, there is no evidence showing that the technical innovation attained in the home country could be applied to the conditions in the host countries. It cannot be said that the techniques of sugar milling prevalent in the Philippines can also be used in other sugar-producing countries like Thailand, where the local conditions of the bagasse supply differ considerably.

What roles are Third World multinationals to play in the economic development of the host developing countries? Or more broadly, in the formation of the world economy? Judging from the author's emphasis on the competitive advantage of small-scale production or local procurement of materials for Third World multinationals and on the fact that firms of advanced countries have a good trade name while firms of the developing countries have not (p. 156), the author seems to be of the opinion that Third World multinationals will have favorable effects on world economic development. These statements also suggest that the investment or the behavior of Third World multinationals resemble those of the Japanese multinationals.

Because the Japanese multinationals started relatively later than Western multinationals, they would be expected to have more common characteristics with multinationals from the developing countries from a historical perspective. As the multinationals from Asia or Latin America are expected to spread, it is important that these multinationals and the host countries develop harmoniously in the future.

Comparisons with multinationals from Japan would provide an important contribution. As Professor Kojima has pointed out,[2] Japanese investment is rooted in the labor-intensive sectors where it has a comparative advantage in the Southeast Asian countries, while it has lost this advantage in Japan. The Japanese type of investment, which is said to benefit both investing and invested countries, is labeled as a trade promotive type. The author's assertion that Third World multinationals are willing to have joint ventures with those of the advanced countries and exchange their technical advantages with the trade-marks of the latter[3] is also suggestive of further studies on the roles of Third World multinationals, and the reviewer agrees with him on the importance of this point.

There are some tokens that suggest the difference between Third World multinationals and those of Japan in the author's opinion. Mr. Wells claims that the advantages of Third World multinationals are technical ones. The multinationals of Japan search for and have their advantages in the area of their markets.

In regard to the evidence presented by the author to support his statement that the technology or production processes brought in by Third World multinationals contribute more than those contributed by the firms of advanced countries, the reviewer thinks that more information is needed to evaluate the author's judgment.

There are a few minor points to be raised about the book. First, the number of the developing countries taken up is rather small. For example, seven countries are chosen from Asia, eleven from Latin America, including the countries which appear in the Appendix. As the author points out, the number of investments from the countries in Africa or the Middle East is small (p. 3), and there is a problem of data availability. However, it would have been desirable if the book had discussed the cases from the Middle East more.[4]

Second, the author has pointed out that "the factors influencing Latin American firms are similar to those that influence Asian firms" (p. 11). Recent studies on the macroeconomic performance of the countries in both regions have suggested a difference in their macroeconomic policies. In opposition to these, the statement in the book that similar factors are at work in both regions (although at the firms level) indicates the necessity of further studies. The reviewer suggests that one big difference might be found in the effects of firms' policies or the government aid policies of a large neighboring advanced country. At present, the influence of Japanese firms or the policies of the government of Japan are different from those of the United States. Japanese influence has been historically short (except in Taiwan and R.O.K.) and has expanded recently in a very short period of time. The reviewer has two different ideas on the future prospect for investment by the firms. Is the gloomy prospect by the author applicable to the "growth region" in East or Southeast Asia, too? Looking back at what the author has said about the present state of firms in Malaysia, Singapore, or Hong Kong in Chapters 1 to 3, or of Mauritius or Latin America in Chapters 5 to 7, the reader is left with a feeling that direct investments

[2] See, Kiyoshi Kojima, *Kaigai chokusetsu tōshi-ron* [On the direct overseas investment] (Tokyo: Diamond, 1977) and others.

[3] See, L. T. Wells, Jr., "Third World Multinationals May Benefit the West," *Asian Wall Street Journal*, December 13, 1983.

[4] For example, more companies in the Middle East are taken up in "Umi o wataru tojōkoku-kigyō" [Firms of developing countries going abroad], *Nikkan kōgyō shimbun*, November 6, 1981–August 27, 1982.

and activities like multinationals from developing countries will be expanding from now on. More studies are really necessary.

Third, little attention is paid in this book to positive motives of firms from developing countries for investment abroad. The motives for investment are biased and limited to the threat to exports. In other words, they are biased toward motives of negative aspect. In contrast to this, as recent overseas investment by a Korean firm shows, the plant exports, which accompany overseas investment and business activities abroad, from developing countries have increased. These cases suggest that there are also positive motives that strengthen export competitiveness.

As Third World multinationals are changing their characteristics rapidly at present, it is rather difficult to grasp their nature completely. Followers of the subject, including the reviewer himself, may benefit greatly from this book, although the analysis does not cover all of the issues concerning foreign investment from developing countries.

(Kōji Taniguchi)