

*Multinational Enterprises in India: Industrial Distribution, Characteristics, and Performance* by Nagesh Kumar, London and New York, Routledge, 1990, xv+141 pp.

This book examines the relationship between the presence of foreign direct investment (FDI) and its performance in India. Commendable aspects of the book are a careful survey of existing theory of FDI, a concise description of Indian government policy, and rigorous empirical study of the subject. Regarding his theoretical framework, Kumar is undisputably classified as one of the architects of eclectic paradigm originated by J. H. Dunning.

Chapter 1 summarizes the host government policy from 1948 to 1988, or the post-independence period. Of particular importance is perhaps the fact that the government has taken selective policies toward FDI; the greatest importance has been attached to the manufacturing sector. As a result, it has accounted for nearly 87 per cent of the stock of FDI in 1980. The reader will anticipate that the industrial organization approach which Kumar has taken is penetrative in such a market structure.

Chapter 2 estimates the foreign share in Indian industries, and concludes that the share in sales or assets of the organized private corporate sector was 24 per cent and 23 per cent respectively in the period 1980–81. This estimated figure is said to be lower than the figures of previous studies.

The analysis of Chapter 3 was first published in the *Weltwirtschaftliches Archiv* in 1987. This chapter tries to analyze the determinants of foreign shares and licensing in manufacturing industries. The intangible assets, internalization advantages, and locational advantages are all considered. This is a well-known eclectic paradigm, which is applied to explain the determinants of FDI. An usual regression analysis is performed. The result brings together the theoretical prediction of intangible asset diversification and locational advantage. However, one needs to be aware that the internalization advantages which Kumar has stressed are neither statistically tested nor empirically verified. Kumar has not picked up any proxy variables which persuasively reveal "high" or "low" transaction costs. What was tested was the relative abundance of intangible assets among industries and the effect of the government's industrial policy. If transaction cost was to be stressed as an analytical tool rather than a commonly used modifier, Kumar should have examined the organizational structure of multinational enterprises (MNEs) in India. In addition, it may not be satisfactory to eliminate heteroscedasticity by the logarithmic transformation of the variables. Feasible generalized least square (GLS) regression analysis after one of Glejser, Goldfeld-Quandt, or a likelihood-ratio test, is a familiar textbook way of treating the matter.

Chapter 4 compares conduct and performance differences between foreign and local firms in India. Both univariate and multivariate discriminating analysis reveals the following statistically significant parameters; average net sales per firm, profit before tax as a proportion of net sales, earnings of high-income employees as a proportion of total salaries, value added as a proportion of total net sales, and ratio of current assets to current liabilities. Although the independent variables are abundant, it is somewhat irritating that no actual data is presented in the book. How much does the price-cost margin actually differ between foreign and local firms? To what extent does the interest cost affect the profitability of local firms? Could the fund raising capacity of MNEs be a competitive advantage? Or could it be translated as a difference of transaction cost?

Chapter 5 highlights the differences in profitability of foreign and local firms which is made clear in Chapter 4. A hypothesis is that foreign firms are more protected by entry barriers than local counterparts. The empirical analysis shows that statistically significant independent variables are earnings of high-income employees as a proportion of total salaries, in-house R & D expenditure and remittances on account of royalty and technical fees as a proportion of net sales, and the firm size variables. The firm size variables have a negative sign for profit margins of foreign firms whereas it is positive for local ones. This is interpreted to mean that the relationship between firm size and profitability may be an inverted U-shape. Kumar also found that a four-firm concentration ratio has never been related to profitability. It is inferred that the operational inefficiency resulting from the lack of competition offsets the relative profitability.

In Chapter 6 Kumar elucidates the determinants of export behavior of foreign and local firms. The impetus of the study is to make clear whether or not foreign firms help to promote Indian exports. It is reported that the firm size variable of foreign firms is positively related to export performance. Again, concentration proxy was not significant in any equation. The final chapter summarizes and concludes the study.

Overall, this study amply tests the structure-conduct-performance relations in the field of FDI in India. The study may, however, not be free from certain limitations.

First, in his survey of the theory, Kumar misses two important theoretical antecedents of the study of FDI. Similar to traditional understanding, Kumar refers to Hymer as an originator of the intangible assets approach. I would like to point out, however, that Penrose<sup>1</sup> had already proposed the intangible assets approach, coining the concept of "managerial resources." More importantly, Kumar writes that after "the initial proposition by McManus<sup>[2]</sup>" (p. 33), the internalization approach has been enriched by the contributions of Dunning, Magee, Rugman, Teece amongst many others. This is also misleading since the work of Hymer<sup>3</sup> is neglected. Horaguchi and Toyne<sup>4</sup> insist that Hymer should be recognized as a pioneer of the internalization theory and our paper sums up the controversy about Hymer's contribution toward the study of FDI.

Second, there exists a certain limitation of econometric method upon which Kumar is heavily dependent. As a researcher who has been trained in such a data processing procedure, I am personally very sympathetic to the employing of regression analysis. However, regression analysis does sometimes drop important information to infer fundamental elements of market structure. In Chapters 5 and 6, for example, it is reported that the four-firm concentration ratio has never been found statistically significant. This may be because geographical dispersion has been neglected. According to the spirit of the eclectic paradigm, one can argue that locational factors, such as that the market in India is geographically segmented, should have been considered to evaluate the performance of both local and foreign firms.

<sup>1</sup> E. T. Penrose, "Foreign Investment and the Growth of the Firm," *Economic Journal*, Vol. 66, No. 262 (June 1956).

<sup>2</sup> J. C. McManus, "The Theory of the International Firm," in *The Multinational Firm and the Nation State*, ed. G. Paquet (Toronto: Collier Macmillan, 1972).

<sup>3</sup> S. H. Hymer, "La grande 'corporation' multinationale: Analyse de certaines raisons qui poussent à l'intégration internationale des affaires," *Revue économique*, Vol. 14, No. 6 (November 1968).

<sup>4</sup> H. Horaguchi and B. Toyne, "Setting the Record Straight: Hymer, Internalization Theory and Transaction Cost Economics," *Journal of International Business Studies*, Vol. 21, No. 3 (Third Quarter 1990).

In spite of these technical limitations, this study makes an important contribution to our understanding of FDI in India and is recommended to anyone studying international comparison of industrial organization, FDI, and the economy of India. Given the richness of the information contained in this book, we can expect a stream of collaboration between researchers of the sourcing countries and of the recipients of FDI.

(Haruo Horaguchi)

*Japanese Agriculture: A Comparative Economic Analysis* by Cornelis L.J. Van der Meer and Saburo Yamada, London and New York, Routledge, 1990, xvi+217 pp.

Of the many comparative studies of Japanese agriculture, this is certainly one of the most impressive. The principal emphasis of the book is on comparative analysis of agriculture in Japan and the Netherlands during the period 1960–85, but there are also comparisons with Taiwan and the United States, and many of the statistical tables include valuable comparative data on a number of other developed and less developed countries. Finally, in addition to the analysis of the poor performance of Japanese agriculture in recent decades, there is a short but illuminating comparative treatment of the long-term process of structural change in Japan and other countries.

One of the most interesting chapters examines agricultural development in Japan and the Netherlands over the extended period 1880 to 1985. The Netherlands was selected for an in-depth comparison with Japan because it is a technological leader in European agriculture. Between 1960 and 1980, the Netherlands registered an impressive increase in output per male worker from 43 to 109 wheat units that was associated with a modest increase from 6.0 to 7.7 hectares cultivated per worker. The increase in the United States over that twenty-year period was considerably greater—from 94 to 285 wheat units per male worker. But that increase was associated with a huge rise in the area cultivated per male worker from 117 to 247 hectares.<sup>1</sup> In Japan, a sharp decline in the agricultural labor force from 5.1 to 2.4 million male workers made possible a larger percentage increase in area cultivated per worker; but the increase was from only 1.3 to 2.3 hectares. The number of male workers in agriculture in the Netherlands was already down to 388 thousand in 1960; not surprisingly the decline to 263 thousand male workers in 1980 represented a considerably smaller percentage reduction. Japan's increase in output per hectare from 8.6 to 12.2 wheat units was less than the rise in the Netherlands from 7.2 to 14.1 wheat units. While the increase in output per male worker from 10.3 to 27.8 wheat units somewhat narrowed the gap between Japan and the Netherlands, its agricultural labor productivity in 1980 was still only slightly over a fourth as high as in the Netherlands.

Although Japan's total population is eight times larger than that of the Netherlands, both countries are densely populated and have had similar rates of population growth

<sup>1</sup> Yujiro Hayami and Vernon W. Ruttan, *Agricultural Development: An International Perspective*, rev. and enl. ed. (Baltimore and London: Johns Hopkins University Press, 1985), p. 120.