

Introduction

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This is the result of an international joint research project titled “Managing Development and Transition in a Globalizing World: A Comparative Analysis of Economic Policy Reform and Corporate Behavior in Developing Countries and Former Socialist Countries”(hereinafter referred to as “MDT”). About 25 researchers gathered from 11 countries in September 2000, and launched the MDT project. After 4 joint workshops,² 2 public symposia,³ and 1 project seminar,⁴ they submitted final papers in September 2002. After extensive discussion and editorial work, we hereby present the result of the MDT project. The MDT had three objectives.

First, it aimed at acquiring a general overview of globalization in the target countries in the 1990s through the analysis of the various aspects of globalization: globalization and the fate of state; the changing role of the Bretton Woods/GATT institutions in the 1990s; regional economic integration in the course of globalization; and the diffusion process of neo-classical economic policy in the target countries. These analyses enabled us to grasp the complicated and multifaceted phenomenon of globalization in developing countries and the former socialist countries.

Secondly, it aimed at conducting a comparative analysis of economic policy

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² The 1st workshop was held in September 2000 in Tokyo. The 2nd workshop was held in Rio de Janeiro in February 2001. The 3rd workshop was held in Tokyo in March 2002. The 4th and final workshop was held in Tokyo in July 2002.

³ The 1st symposium was held in September 2000 in Tokyo, titled “Managing Development and Transition in a Globalizing World.” Its result was published in the following two forms: “ISS Symposium on ‘Managing Development and Transition in a Globalizing World’,” *The Journal of Social Science*, Vol.52, No.5 (2001), pp.1-123; Akira Suehiro & Akio Komorida eds., *Comparative Studies of Liberalization, Economic Crisis and Social Restructuring in Asia, Latin America and Russia/Eastern Europe – Part I New Perspective on Critical Issues, ISS Research Series No. 1*, Tokyo, Institute of Social Science, University of Tokyo, 2001 (in Japanese). The 2nd symposium was held in July 2002 in Tokyo, titled “Financial Liberalization and Financial Crises: Asia, Latin America and the IMF.” Its result will be published in Junji Nakagawa ed., *Financial Liberalization and Financial Crises: Asia, Latin America and the IMF, ISS Research Series No.5*, Tokyo, Institute of Social Science, University of Tokyo, 2003.

⁴ The project seminar was held in March 2002 in Tokyo, titled “The Crisis in Argentina and the Reaction of the IMF.” Its result will be published in Junji Nakagawa ed., *The Crisis in Argentina and the Reaction of the IMF*, ISS Discussion Paper Series No.232, 2002.

reform of the 1990s in major developing countries in East Asia, Southeast Asia, and Latin America, and former socialist countries in Central and Eastern Europe. We thought this type of empirical research⁵ was indispensable for the acquisition of accurate knowledge concerning the successes and failures of economic policy reform, focusing upon financial sector reform, FDI policy reform and social security reform, in these target countries. Based upon the accurate knowledge, we believe we could evaluate the adequacy of economic policy reform, most of which were supported by the IMF and the World Bank, and make innovative proposals for a better economic policy reform.

Thirdly and finally, it aimed at conducting a comparative analysis of the reaction of the private sector, both domestic and foreign, to globalization in the target countries, focusing upon corporate governance and FDI. These analyses revealed the thoughtful and fully worked-out activities of the private sector to meet the changing international business environment, especially in the course of economic and financial crises, and helped us acquire the in-depth understanding of the impact of globalization on the private sector in the target countries.

(Explanation about our research interest, research targets and goals and the characteristics of the research distinguished from preceding works.)

In the following pages, I will briefly explain the chapters that follow, and show the readers how the chapters are arranged in an organized and a coherent manner.

Part 1 – Globalization

This part consists of 8 chapters. In **Chapter 1, George DeMartino** tackled with the concept of globalization and its impact on the fate of state. Before turning into the main topic, he provides an elaborated definition of globalization: the unprecedented market-based international economic integration, which he calls “global neoliberalism.” He then poses his main question – Can the state today enact measures deemed vital to social welfare, without risking economic stagnation in the world of global neoliberalism?

⁵ In addition to comparative analyses of economic policy reform, we conducted a systematic fact finding and data gathering of the target countries. Part of it was published in Akira Suehiro & Junji Nakagawa, *Comparative Studies of Liberalization, Economic Crisis and Social Restructuring in Asia, Latin America and Russia/Eastern Europe – Part II Chronology, ISS Research Series No.2*, Tokyo, Institute of Social Science, University of Tokyo, 2001.

In trying to answer this question, he provides three distinct concepts. First, state sovereignty means the *formal* right of a state to pursue a certain course of action independent of the preferences of other nations. Secondly, policy autonomy means the ability of a national government *to implement and sustain* policies of its own choosing. Thirdly, state capacity means a state's ability *to achieve* an intended objective via some policy choice.

He argues that global neoliberalism threatens policy autonomy in social democratic policy domain, and will also undermine state capacity to that domain because in an open international economic regime, the institution of a domestic neoliberal agenda by some countries threatens social democratic governance in all other countries. He argues that, in contrast to a prevalent view that global neoliberalism threatens state sovereignty, states do not lose their sovereignty because even surrendering its policy autonomy through regional/multilateral agreements is the act of state sovereignty, not surrender of it. He concludes by proposing several means to restore policy autonomy through regional/multilateral agreement, such as multilateral controls on short-term capital flows and multilateral performance standards on FDI (e.g. Codes of Conduct).

Haider Khan deals with the role of the IMF and regional financial architecture in **Chapter 2**. After a brief but insightful overview of the current globalization, marketization and the role of global capital markets, he analyzes the role of the IMF under the current globalization moves, based upon an evolutionary, path-dependent theory of international financial institutions, which he calls "the extended panda's thumb" approach.

He then identifies two types of possible Global Financial Architectures (GFA): an *overarching type*, exemplified by the classical gold standard and the defunct Bretton Woods system, which he finds unfeasible, and a *hybrid form* that allows for the existence and co-evolution of some Regional Financial Architectures (RFA). He argues that the "Washington Consensus" policy mix of monetary tightening and fiscal restraints, imposed as part of the IMF conditionalities in the course of the Asian financial crisis, turned out to be counterproductive. He then tries to work out a workable hybrid GFA, which consists of the RFAs, the IMF and national policy management. The challenge here is how the transition towards a hybrid GFA is to be effected.

Focusing on the post-crisis Asia, he points out the importance of enhancing regional financial architecture consisting of exchange rate coordination and

surveillance mechanism, which could evolve into an RFA that could have its own institutional structure. In order for this RFA to be enhanced, the IMF must transform itself in a path-dependent manner. One important principle is that of burden sharing. This means that in times of crisis the IMF should share the management burden with the RFAs and through them also with the affected countries and their neighbors. Along this line, he finally enumerates various steps to be taken for the better management and prevention of financial crisis. To mention a few, the incorporation of new provisions in loan contracts so that orderly work out procedures become possible, reducing the reaction time, a more flexible IMF policy package where the RFAs and national governments will play significant roles, and introduction of global Tobin tax.

Masahiro Kawai's main argument is to rethink the role of the multilateral development banks (MDBs), including the World Bank, the Asian Development Bank, Inter-American Development Bank and the European Bank for Reconstruction and Development. In **Chapter 3**, he starts by summarizing the functions of the MDBs as money bank, knowledge bank, reconstruction bank and crisis bank, where more emphasis is being put on knowledge bank as mobilizer of global knowledge on best practices and tailor of the knowledge to the reality and specific needs of a particular country.

The main objective of most of the MDBs is to help developing countries achieve sustainable economic development and reduce poverty. He concisely explains the efforts of the MDBs, especially the World Bank in pursuing this objective, such as the International Developmental Goals (IDGs), Comprehensive Development Framework (CDF) and Poverty Reduction Strategy Paper (PRSP). Major focus is put on a comprehensive, long-term approach, country ownership, partnership and outcome linked to performance and built on transparency.

Kazuyori Ito deals with the GATT/WTO, the third pillar of the Bretton Woods/GATT institutions in **Chapter 4**. He examines whether and to what extent the GATT/WTO contributed to the political democratization and economic liberalization in the target countries of the MDT.

He argues that the GATT did not lead these countries to trade liberalization directly because many of them were not its members, and those who were the members were allowed to keep protective trade measures. However, he argues that the strengthened protectionism and interventionism meant the ever-growing economic distortion, which contributed the eventual collapse of the authoritarian, protectionist

regimes in the 1980s: he calls this the indirect convergent function of the GATT.

The WTO, with more comprehensive membership and broader issue coverage, has pressured the target countries to harmonize their economic policies with those of developed countries, and has provided substantial technical assistance for this goal. At the same time, however, due to the differences in historical, institutional and regional settings, each of the target countries has gone along different path in democratization and (trade) liberalization, and the WTO has provided flexibility to allow this. The WTO, therefore, has had a diversifying effect on the target countries.

Isidro Morales' and **Tadeusz Kowalik's** papers deal with an important aspect of economic policy reform in the target countries to meet the new globalized environment: regional economic integration. In **Chapter 5**, **Morales** takes the NAFTA as an interface between multilateral and North-South policies. His core argument is that the regionalization process formalized under the NAFTA has become a major strategy of U.S. trade diplomacy for advancing and expanding a new regulatory framework for dealing with the pressures of globalization.

He starts his argument by stressing that globalization has caused the fragmentation of state's power and authority. So, the term "governance" is becoming more accurate for explaining the new relationship between states, markets and non-government actors. He then argues that regional clubs, that is, principled-regimes or organizations grouping different states around common interests, are the most adequate devices for dealing with global governance, because they reduce the political cost for building and maintaining a minimum threshold of governance on specific global issues such as trade, investment and financial openness, and provides an interface between unilateral and multilateral actions.

As regional clubs are nested on political asymmetries and bargaining capabilities, leadership is necessary. The NAFTA would not have been realized without the leadership of the U.S., whose major objective was to level the playing field among its trading partners. After describing the road to the NAFTA in detail, he goes on to the assessment of the NAFTA from the viewpoint of the regional governance of trade and investment flows. He concludes that the NAFTA has made protectionist policies of the U.S. more manageable, though some deep-rooted protectionist interests of the region persist, as shown in softwood lumber dispute between Canada and the U.S. or cross-border trucking dispute between Mexico and the U.S. Also, the NAFTA has disproportionately empowered market actors vis-à-vis governments by means of Chapter 11 procedure.

He finally discusses the possibility of deepening and/or widening the NAFTA. Again, the U.S. priorities will remain a decisive factor. In order to balance a corporate-led integration scheme, currently prevailing in North America, a social, labor and welfare-led agenda will become important for the integration of the region.

In **Chapter 6, Tadeusz Kowalik** analyzes the scope and depth of systemic differences among the national economies under the conditions of globalization, focusing on the integration of Central and Eastern Europe into the EU. Based on a broad and critical analysis of theories on globalization including Marx, Rosa Luxemburg, Schumpeter, Keynes and K. Galbraith, he argues that globalization will not lead the world to a single and unified market economy. In contrast to those who opt for convergence, or “the end of history” view of the market and the state, he argues that there are different social philosophies to manage globalized national economy; Anglo-Saxon, individualistic social philosophy and German-Japanese, communitarian social philosophy. He finds a good example of the battle between these two types of social philosophies in Germany under the current social democratic coalition government.

He then poses his main question: Will Central European economies converge with the EU? His answer is much pessimistic. Citing Robert Boyer, he speculates that “(t)he simple dynamics of convergence is only one out of many other evolutions: cumulative divergence, catch up and collapse, catch up and then forging ahead, partial convergence and the stabilization of the productivity gap.” He concludes his argument by saying that there are many models of growth, and that globalization, as well as integration, is harmful to future development.

In **Chapter 7, Michael Herrman** conducts an empirical comparative analysis of trade patterns and development between those countries that are the target of the MDT project (MDTCs), and least developed countries (LDCs). He looks at the role of international trade in the process of economic development. The major target countries are the MDTCs. However, for the purpose of clarifying the effect of international trade on development, he selects several LDCs and uses their data as the reference.

The MDTCs and the LDCs display a very different performance with respect to GDP growth and poverty reduction. He argues that this cannot be explained by the difference of their levels of economic integration in the world economy because the LDCs are now fairly integrated through structural adjustment programs. Rather, he argues that it is the form of trade integration that influences the development prospects

of countries. The MDTCs, which have managed to diversify into manufactures exports, have benefited from increasing market shares in relatively dynamic markets. By contrast, the LDCs, which strongly specialize in non-oil primary commodities, have witnessed declining international prices for their exported goods and deteriorating export revenues and deteriorating import capacities.

In conclusion, he maintains that it is important that developing countries better mainstream trade in their development strategies, and that their development partners more actively support strategies to develop productive capacities and export competitiveness.

In **Chapter 8**, **Shin Yasui** conducts an interesting analysis of the process of technocrat-led economic policy reform in Chile and Indonesia. These two countries have a lot in common. Economists trained in the United States – “Chicago Boys” in Chile and “Berkeley Mafia” in Indonesia – under the university agreements that were promoted as part of the post-war U.S. aid policy, occupied important posts in national bureaucracy and kept their position until the next generation took them over. However, the course of economic liberalization taken in each country differed.

There are different views as to the role of the technocrats in the economic liberalization process in developing countries. One extreme view pays little attention to them, because economic liberalism has prevailed just because it provides a correct policy. On the opposite side, those who belong to the dependency theory assert that the technocrats were the key agents of dependency conspiracy. Yasui provides a more nuanced view, and explains the difference in the way liberal economic ideas are internalized in these countries from the difference in their political setting.

In Chile, Pinochet maintained “relative autonomy” in economic policy making, which provided the “relative insulation” of economic technocrats from domestic interest groups. On the other hand, as Soeharto’s New Order government had to distribute political patronage among his constituency, it also advocated interventionist tendency of the economic nationalists. Thus, in times of prosperity Soeharto used to let the latter take the initiative, whereas facing economic difficulties he turned to the former, letting them lead the economic management. He concludes by saying that ideas rarely float freely, but rather deliberately, and that overemphasis of conspiracy in the dissemination process could result in overlooking the peculiarities of each case.

Part 2 – Liberalization

In part 2, 4 Chapters deal with financial sector reform.

Ilene Grabel in **Chapter 9** provides a general account of financial globalization and financial crisis in emerging economies. Based on the experience of Asian financial crisis, she argues that neoliberal financial integration, both a cause and effect of global financialization, introduces distinct risks to emerging economies – currency, flight, fragility, contagion, and sovereignty risks.

She then examines the adequacy and effectiveness of the financial policies endorsed by the heterodoxy as alternatives to financial policy mix prescribed by orthodox neo-classical economists. They are transaction taxes, such as Tobin tax, “trip wires” – “speed bumps”, or monitoring and early warning with quick response mechanism to control financial *inflows* to be taken by the borrower countries, convertibility restrictions, the Chilean model of exchange rate and capital inflows management, and a publicly managed mutual fund. She considers whether these policies mitigate the risks, and whether they could have prevented the Asian financial crisis.

Her conclusion is positive. She asserts that the Asian crisis was preventable, that the mantra “there is no alternative” to neoliberal finance and the risks thereof is simply wrong, that a program of crisis prevention in emerging economies necessitates the implementation of a comprehensive and consistent set of complementary policies advocated by the heterodoxy. However, she admits that we do not know whether implementation of these policies by *a few* emerging economies will increase or decrease the hurdle rate necessary to attract private capital flows. So, she asserts that it is necessary for *all or most* emerging economies to adopt them at the same time. She finally warns that efforts to reduce the risks of financial crisis will be frustrated by corruption, waste and evasion and might purchase stability at the cost of growth.

Alicia Giron analyzes the financial sector reform in Mexico. In **Chapter 10**, she takes up the reorganization of Mexican financial system between national banks and those with great foreign participation as a classic model of the deregulation of a national financial system going into an integration process to the international financial system. Her major goal is to demonstrate how the Mexican financial system goes from a repressive regulatory structure to a liberalized one before and after its crash in 1994.

In the first stage of the Mexican financial crisis (1989-1994), bank assets, after a significant increase in real terms, contracted 14.8% up to the 3rd quarter of 1995 in spite of the establishment of new banking institutions. This stage was characterized by

the expansion of Mexican banking system's competence together with credit boom. Also, deepening of overdue loan added to uncertainty prevailing during 1994. Besides, the increase in U.S. interest rates from February 1994 made investment in the U.S. more attractive than in emerging markets. All these led to the crisis in 1994.

In the second stage of the crisis (1995-2001), the Bank of Mexico activated the banking rescue through the Bank Fund for Savings Protection (Fobaproa) and the Temporal Training Program (Procapte) in order to help banks get rid of overdue loans. Undoubtedly, this was done at high economic, political and social costs.

The Mexican financial restructuring transformed the Mexican banking system from national system to a great foreign participation, with 73% of the assets controlled by foreigners. As the recession all over the world have affected Mexican economy and it hasn't have the amount and the number of credits of the level before 1994, Mexico must find a strategy for growth and development.

Barbara Stallings and Rogério Studart conducts an extensive analysis of the financial sector in Latin America. In **Chapter 11**, they start from the fact that the new, private-sector oriented economies in developing countries cannot function properly without a robust domestic financial system, and that the challenges of managing financial systems have greatly increased with the greater integration of local systems into world financial markets. The core of the challenges is the tradeoff between stability and growth in a fragile and vulnerable financial system in developing countries.

In the second section, they survey the recent changes in Latin American financial systems, which can be summarized as liberalization, crises, rescue and more foreign participation. The third section focuses on questions of financial stability, especially the role of regulation and supervision of the banking sector in preventing crises. They found that Latin American countries measure up reasonably well in regulation and supervision. The fourth section turns to the questions of growth and equity, concentrating on the investment process and the access to credit, especially for Small- and Medium-sized firms in Argentina, Brazil, Chile and Mexico, where Chile provides the clearest and most successful case of the growth-finance link.

They finally draw several important lessons for governmental authorities. First, concerning stability, good regulation and supervision will not produce the desired financial stability if macroeconomic conditions are volatile. Hence there is a need of close coordination between financial and macroeconomic authorities. Secondly, to help overcome the stability-growth tradeoff, it is important for governmental authorities to consult with banks to find out what incentives would be necessary to stimulate them to

lend, at the same time that they talk with potential borrowers to see what problems exist of the demand side. Thirdly, concerning the expansion of access to credit to underprivileged actors (households and small firms), a major task is to evaluate existing governmental initiatives to see which ones have achieved success and what the chances are for the expansion of the successful ones to larger arenas. A remaining but important issue is to evaluate the role of the foreign banks and financial institutions in tackling with these issues.

In **Chapter 13, Choong Yong Ahn** analyzes the financial and corporate sector restructuring in Korea. He gives a detailed explanation of what Korea has accomplished in terms of restructuring its financial and corporate sectors since the 1997 crisis. A special focus is given to how Korea has cleaned up its bad debts accumulated in the financial sector. Because of the intertwined nature of the financial and corporate sectors, he also addresses some important restructuring issues of still highly leveraged corporations, which are so critically linked to the creation of sound and healthy financial institutions.

Finally he addresses the unfinished restructuring agenda and a newly emerging development paradigm with some policy implications. First, “market induced restructuring” should replace the “administered restructuring.” In this regard, the sequence and schedule of privatizing nationalized banks must be clearly spelled-out in advance. Secondly, accelerated restructuring of heavily indebted corporations, as well as modernization of insolvency system, are necessary. Thirdly, strengthening the management of public funds for financial institutions is necessary. Fourthly, further improvements in accounting, auditing and financial disclosure are also necessary. Finally, as required under the IMF conditionality, Korea must carry on reforms in public sector and labor sector.

Part 3 – Private Sector

In this Part, we have 9 chapters that deal with various aspects of the reaction of private sector to globalization in the target countries.

In **Chapter 13, Joao Carlos Ferraz** examines how and to what extent economic liberalization has influenced the ownership change and proceeded inward internationalization of companies in Latin America. He starts by briefly describing the recent Latin American history, focusing on changes in national regimes of incentives

and regulations for private enterprises, both national and foreign. Then, he conducts a comparative analysis of internationalization of capital in the region, taking developed countries and Asian MDT countries as the reference. One characteristic of FDI inflows to Latin America is the high ratio of M&As, which increased from 14.1% of total inflows to 29% from 1995 to 2000.

Based on these contextual accounts, the process of ownership change in Argentina, Brazil, Chile and Mexico in the 1990s is analyzed, featuring privatization and M&As, and the increasing share of FDI in these. From this analysis, he concludes that Latin American policy makers are facing challenges associated with how to attract investments that is likely to induce the creation of long lasting value to firms and their related environment. In other words, the challenge is how to promote a national regime of incentives and regulations for activities that generate qualifying jobs in a context of open economies and ownership internationalization.

Yoichi Tajima conducts a case study of Mexican FDI policy and the behavior of U.S. MNCs in **Chapter 14**. First, he follows the drastic change in Mexican FDI policy from strict regulation under the Foreign Investment Law of 1973 to the completion of full-fledged liberalization under the Salinas administration in 1993. He then analyzes the role of U.S. MNCs in the Mexican export-oriented industrialization in the 1980s and 1990s. The U.S. MNCs in Mexico can be characterized by rapid increase in production and export during the research period, much focused in manufacturing sector with fairly big job creation effects at low-wage level and low, even declining level of R&D investment. He asserts that NAFTA reinforce this tendency.

In sum, the Mexican FDI resulted in the intensification of intra-firm international division of labor between the U.S. and Mexico.

(Valente)

In **Chapter 16**, **Akira Suehiro** aims to compare similarities and differences in economic performance, government expenditure patterns, the role of private firms, targets of economic reforms to overcome the crisis and institution building efforts in East Asia and Latin America.

In terms of economic performance, the most marked difference in the two regions is export performance in terms of both export growth and the ratio of manufactured exports against total exports, where Latin America is far behind East Asia. He explained this by differences in government policies and the role of private

firms since the end of 1960s. Another interesting fact is a wide gap in the proportion of social service expenditures against total public expenditures in the two regions. In 1998, that of East Asia was 27% and in Latin America it was 57%. This reflected the difference in national targets and class structure, and in non-governmental social welfare system of the two regions.

Sequences of liberalization, economic crisis and structural adjustment are also different in the two regions. In Latin America, economic crisis due to accumulated external debt took place first, followed by intensive economic liberalization as part of structural adjustment. In East Asia, Korea, Taiwan and Singapore started privatization and liberalization without any outside pressure. However, quick financial liberalization with no actual development of domestic financial institutions and supervision led to the crisis in 1997. Hence, economic liberalization was a part of the reasons for the crisis in East Asia.

This sequential difference in liberalization and crisis naturally produced another difference in major targets in economic reforms. Instead of taking “getting price mechanism right” approach, focusing on the restructuring of public sector, taken in Latin America, East Asian countries are taking “getting institutions right” approach of the second generation Washington Consensus. The IMF and the World Bank focused on corporate governance and institution building in financial sector. He finally poses a question: Can we assume that these reforms will lead Asian economy to sustainable growth in a real sense? In Thailand, the introduction of American corporate governance has not contributed to an improvement in corporate performance and the movement of the stock market. He urges the East Asian governments to create economic environments that support corporate self-effort in the improvement of management quality and corporate competitiveness. Also, he mentions the question of how to enhance the international competitiveness of domestic industries.

Keun Lee deals with an interesting aspect of private sector in East Asia: family controlled firms or business groups. In **Chapter 17**, he tries to answer two questions with Korean Chaebols as a major reference: why the business groups are flourishing in so many countries, and what went wrong in many of them?

Concerning the first question, in contrast to the prevalent view that business groups develop in the settings with market failures, he sees the business groups as an organizational device for economic catch-up, which fills the gap of capital scarcity, lowers the barriers to market entry.

Then, he moves on to the long-term danger with the business groups. First,

decrease in value creation by group diversification and the globalized business environment in the 1990s fell the business groups into a difficult situation. Looking from the organizational side, the business groups, as controlling minority structure (CMS) firms, go into unjustifiable investment drive since the actual share of the controller is so small. Finally, the vested interests of the big business groups distorted market.

Takeo Kikkawa analyzes the impact of liberalization on Japan's energy industry in **Chapter 18**. Its major goal is to examine how progress in the liberalization of the Japan's power industry and liberalization of trade in energy services under GATS will relate to reform in Japan's energy industry. He starts from looking at "the four wonders" in Japan's energy industry. First, Japan's oil companies don't show much interest in upstream operations, concentrating on downstream operations. Secondly, Japan imports crude oil from the Middle East at prices relatively higher than those of Western importers. Thirdly, Japan is also importing natural gas at prices above international levels. The fourth and final wonder is that the power industry has not yet abandoned the goal of establishing its own nuclear fuel cycle and fast breeder reactors.

The four "wonders" are not accidental. They are all inevitable consequences of the vulnerability and rigidity of Japan's energy industry. In oil sector, Japan has "too little for too many" industrial organization nurtured by governmental regulation. Japan's power industry still suffers from the sense of crisis that arose at the time of the oil shock. It has been caught in an obsession to raise energy self-sufficiency, and to secure by all means fuels and raw materials for power generation and city gas supplies.

He asserts that in order to overcome these "wonders," three scenarios must go forward: (1) horizontal integration in both the upstream and downstream operations of the oil industry; (2) vertical integration between the upstream and downstream operations of the oil industry; and (3) strategic alliance among oil, power and gas industries. However, scenarios (1) and (2) are not feasible due to the weakness of Japan's oil industry. It is highly probable that electric power companies will take the lead in shaping the future of Japan's energy industry. Liberalization of power supply and liberalization of trade in services in energy sector under the GATS have the potential to stimulate this.

In **Chapter 19**, **Hilda Eitzen** deals with the FDI policy and corporate strategy in Kazakhstan. She describes how Kazakhstan, a Eurasian former socialist country rich in oil and other natural resources, managed to diversify FDI inflows, build a direct

pipeline to China and the Pacific. Nazarbaev and his government adopted the East Asian state interventionism, but the IMF and the World Bank criticized this in the wake of the Asian Financial Crisis.

On the other hand, Kazakhstan's government and business leaders turned within to establish local corporate groups rather than depending solely on FDI. She provides a short but informative account of Kazakhstan's private sector in the late 1990s, focusing on the big business groups and the creation of integrated financial groups with internationally recognized standards in capital adequacy and accountability.

She then moves on to several case studies of "local meets global." Consumer-good multinationals entered Kazakhstan with less controversy but with increasing competitive environment. As extractive multinationals grew in size in Kazakhstan, on the other hand, they also were obligated to take on country rehabilitation projects. She shows us an interesting story about how a transition country and its private sector is trying to manage their fate in a globalizing world environment. She, however, doesn't forget to warn that the corruption and nepotism of Nazarbaev administration might not last long.

Nauro Campos and Yuko Kinoshita contributes two co-authored Chapters. In **Chapter 20**, they assessed the effect of FDI on economic growth of host countries in Central and Eastern Europe. They provide empirical support of the proposition that FDI has a positive impact on economic growth, using cross-country evidence spanning meaningful periods of time in transition economies. They asserts that transition economies have the "enabling environment" that lacks in many developing countries, but share their long distance away from the world technological frontier. These conditions make the transition experience the perfect testing ground for the impacts of FDI on growth.

The target of their research is the 25 Central and Eastern European and former Soviet Union "transition" countries between 1990 and 1998. Their main findings are that FDI has an impact on economic growth that is positive, statistically significant, direct, unconditional, causal and robust. The first set of results substantiates the claim that FDI is not endogenous with respect to economic growth, using the Granger causality framework and reporting Anderson-Hsiao estimates. The second set of results refers to the impact of FDI on economic growth in transition economies, using panel data estimates. They conclude that FDI is a crucially important explanatory variable for growth in transition, maybe more important than education or liberalization.

Using basically the same data with Chapter 20, **Yuko Kinoshita and Nauro Campos** conducts an econometric analysis of the location determinants of FDI in transition economies in **Chapter 21**. They present two innovations. One is the attention to the effect of agglomeration, in contrast to classical factors of comparative advantages, an issue that has been highlighted recently in the works of economic geography. The second innovation is that they look at all transition economies instead of focusing on a few countries.

They find that the main determinants of FDI in transition economies are agglomeration (for all the target countries), the degree of external liberalization (for non-CIS countries), and the quality of the bureaucracy (for CIS countries). They also find an important difference between CEE and CIS countries. The agglomeration effect is greater for CIS countries than in non-CIS countries. For non-CIS countries, the more liberalized the trade regime is, the more FDI they attract. For CIS countries, availability of skilled labor and the rule of law are the main factors influencing FDI flows.

The findings have an important policy implication as to what the host government can do to attract FDI, namely, improving institutional governance such as bureaucratic quality is a strong signal of favorable investment environment for many foreign investors. Once a host country secures macroeconomic stability in the earlier stage of transition, institutional dimension of the transition process becomes more important. This conclusion is reinforced by **Eitzen's** analysis on Kazakhstan in **Chapter 19** and those of **Ferraz (Chapter 13)**, **Lee (Chapter 17)**, **Valente (Chapter 15)** and **Suehiro (Chapter 16)** on Latin America and East Asia.

Part 4 Social Policy

Part 4 consists of 5 Chapters, three Chapters deal with Central and Eastern Europe and the other two Chapters deal with Latin America and East Asia, respectively.

How has globalization influenced welfare state development in postcommunist Europe? **Mitchell Orenstein and Martine Haas** tackles with this important question in **Chapter 22**. They focus on the pension reform in Poland, Hungary and the Czech Republic, and show that these countries have experienced radically different welfare state developments since 1989 from their neighbors, especially those in the former Soviet Union.

They demonstrate that countries closer to the EU, a regional trading bloc with strong welfare state norms and commitments, have used welfare state programs to compensate citizens for the traumas of transition, while the welfare systems in the former Soviet states have collapsed to a far greater extent. Then, they explore the roots of differentiation within the Central and Eastern European welfare states. They argue that these differences can best be explained with reference to the domestic politics of transition, but that a “global politics of attention,” or the role of powerful international actors, especially the World Bank, in social policy advice, led to convergence in social policy in the late 1990s. This is an example of the World Bank’s poverty reduction strategy, discussed by **Kawai** in **Chapter 3**. In sum, globalization thus appears to have very different effects on welfare states, depending on their geopolitical position and the interplay between their domestic politics of decision-making and the global politics of attention.

In **Chapter 23**, **Nauro Campos and Aurelijus Dabusinskas** takes up an important but rarely investigated issue of social policy, the process of occupational change in the course of transition from plan to market, its magnitude and determinants, using data on Estonia.

They found that between 35% and 50% of all employed workers changed occupations between 1989 and 1995 in Estonia, the bulk of which occurred very early in the period. They also found that the typical occupational change involved stepping down both the schooling and earnings ladders.

Then, using the econometric model of Shaw (1987), they try to analyze the main determinants of this process of occupational change. They find that job tenure and gender (female) are the main (negative) determinants of occupational mobility. They also show the remarkable speed with which the market mechanism takes root: the returns to current and alternative occupations play, over these few years of transition, increasingly meaningful roles in explaining occupational change in transition economies.

Finally, **Yasuhiro Kamimura** conducts a comparative analysis of East Asian Welfare states in **Chapter 24**. So far, comparative study of East Asian welfare states is underdeveloped. He tries to fill this gap by answering three questions: why are the social expenditures in the region much lower than those of the advanced countries?; has the region come along a single trajectory?; can the region successfully develop the universal welfare systems in times of globalization?

The tentative answer to the first question is that economic standard and aging level are the major determinants of the social expenditures. The size of the agricultural sector might be another determinant.

Concerning the second question, the significant difference in the timing and coverage of pension schemes can be explained by the difference of political structure (state-labor relations) in the regime formation period of each country in the region. There are two paths. One is the early introduction path of Taiwan and Singapore, which results from “inclusionary corporatism.” The other is the late introduction path of Korea and Hong Kong. He, therefore, concludes that a single trajectory cannot be expected in East Asia.

Finally, he poses a negative answer to the third question. Based on his previous research on Taiwan, he asserts that institutional legacy and increasingly competitive international environment hinder the development of universal welfare systems in the region.

He finally formulates an agenda for future research, namely, the analysis of the framework of social risk management, which includes “functional equivalents” as well as state welfare system, study in the causes of similarities and differences in the region, focusing on institutional legacy, and the scrutiny on the impact of economic and ideological globalization on the welfare reform discussion of the region.