

Regionalisation in Europe,
A theoretical and empirical examination
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Main points

- Cross-border flow of *capital*: not just goods or money, but control over management and profit redistribution.
- FDI within EU: geographical asymmetry. The capital-rich (W) “invades” the capital-poor (E).
- FDI from outside EU (case study with Japanese plants and subsidiaries):
geographical concentration of European HQs in high-wage, high-employment locations!?

Das Kapital

- Capital \neq capital goods.
- Capital \neq money.
- Economic theory: stock investment = running the business. In reality, however, mere portfolio investment and FDI aiming at managerial control (such as M&A) bring distinct implications.
- Open question: Is capital mobility always desired (in the sense of “gains from trade”)?

FDI within EU

- Nett flow from the capital-rich (W, home) to the capital-poor (E, host).
- Cross-border specialisation (different home countries provide qualitatively distinct capitals)?
- Through profit redistribution, the capital-rich may further impoverish the capital-poor.
- Open question 1: Does FDI benefit the host?
- Open question 2: Does the host an active decision maker in accommodating FDI?

FDI from outside EU

- Japanese FDI (similarly to American predecessors) tends to install European HQs and other production plants in different locations, so as to exploit the benefit of European integration.
- HQs locate in high-wage, high-employment areas, contrary to what labour economics should predict.
- Does FDI offer distinct capital service from local capital (gains from trade)?

Regionalisation in Latin America:
Trade, Finance, and Firm Behaviour
by Barbara Stallings

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Main theme

Latin American regionalisation has historically been schizophrenic in that:

- government led rather than private-sector driven, but
- oriented toward economic integration rather than political unification

as opposed to

- Asia: private-sector driven + economic
- Europe: government led + political.

Points of interest (not exhaustive)

1. Latin American regionalisation has been “singularly unsuccessful” – trailing behind other regions such as East Asia. (Why?)
2. Intra-regional trades in Latin America are *substitutes* rather than complements, contributing to procyclical instability.
3. Transnationals from “developing countries” are predominantly from Asia.

0. Is the government evil?

- Not obvious if economic integration “should necessarily” be private-sector driven rather than government-led.
- Little “economic theory” judging whether the private sector outperforms the government or vice versa, in terms of economic efficiency.
- Corporate interest versus national(ist) interest. (Not always straightforward to quantify.)

1. Is Latin America special?

- Is the quality of life really worse in Latin America than in developing Asia and Africa?
- Do Latin Americans cross-border trade/invest less than, say, Asians mainly because they are (or they think they are) self-sufficient? (Do Asians have little choice but to trade?)
- Integration ain't just economic: language, culture, mutual understanding, etc. Don't Latin Americans know about each other better than Asians do?

2. Little gains from trade?

- Latin Americans are similar, they trade substitutes rather than complements.
- Necessarily procyclical?
- Economic theory predicts procyclicality if substitute imports are somewhat “less necessary”; countercyclicality if they are imported mainly because they are cheaper (inferior) substitutes to domestic products.

3. Developed or developing?

Of 50 top transnationals from “developing countries” (2003):

- From developed *Asia*: HK, Sg, Tw, SK, etc.
- From developing *Asia*: PRC 5, India 1, etc.
That is, only half a dozen from 2.3 billion people = 1/3 of the world’s total population!
- 7 from (supposedly developing) Latin America.
Latinos cross-border invest a lot per head as compared with other developing regions.
“Singularly unsuccessful”? “Behind”?