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Catching Up and Falling Behind: Post-Communist Transformation in Historical Perspective by David A. Dyker, London, Imperial College Press, 2004, viii + 379 pp.

The book under review is concerned with the comparative analysis of transition and development patterns in the countries of the former Soviet Union and East Europe. It employs the framework of "catching up" and "social capability" used by Abramovitz.¹ According to the author, the most important problem of the old socialist system was inefficiency of organization and management of technological change. Successful transitions depend on the resolution of organization and management issues, and this is one reason why the book focuses on technological change. Abramovitz used the concepts of "catching up" and "social capability" in comparative studies that examined the historical records of economic growth in developed countries. The author looked at the social, historical, and political obstacles to technological catching up and social capability building in transition countries. The perspective of the present book resembles that of Abramovitz in its scope, and it includes issues regarding political factors in policy making, factors promoting innovation, and social capability building in Russia and East Europe for catching up economic development. The majority of the chapters contained in this book have already been published as articles in various journals since 1995. Chapters 4, 7, 10, and 12 are products of collaboration between the author and the coauthors of the original articles. The author has reorganized these articles into the present volume, and the objective of the book is shown that the path of self-improvement that transition economies have to traverse is conditioned and constrained by the cultural and technological limitations of the organizations of those societies.

Chapter 1 provides an overview of the book and explains the central theme of the book: "the issue of catching up and falling behind" (p. 4) in transition countries. The author explains the complexities and paradoxes of development patterns in transition countries. Chart 1 (p. 4) describes a set of pairs of antonyms (e.g., falling behind and catching up, strengthening the market and strengthening the state) which bring out the key paradoxes of the transformation process. The author attempts to clarify the mechanism underlying the complexities and paradoxes of transition. According to the author, where the old socialist systems were increasingly and ultimately hopelessly inefficient was in their organization and management of technological change. A successful transition depends on the resolution of the organization and management issues, and this is one reason why the book focuses on technological change.

¹ Moses Abramovitz, "Catching Up, Forging Ahead and Falling Behind," *Journal of Economic History* 46, no. 2 (1986); reprinted in *Thinking about Growth and Other Essays on Economic Growth and Welfare* by Moses Abramovitz (Cambridge: Cambridge University Press, 1989).

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In Chapter 2, the author identifies the political system of the *nomenklatura* nationalist regime as one of obstacles to developing a market economy. The *nomenklatura* was a bureaucratic system which made the socialist central planning system workable. The *nomenklatura* system deteriorated into territorial patterns of power and privilege over effective policy choice. After the breakdown of the socialist system, the privileged classes and political elites used the *nomenklatura* system to reorganize their territorial networks into a manipulative, top-down nationalist regime. The author calls the regime a *nomenklatura* nationalist regime (what he also characterizes as a feudal-bureaucratic regime). *Nomenklatura* nationalism is firmly based in an essentially territorial view of authority and management (p. 26). The "feudal-bureaucratic attitudes [underlying the regime] tend to produce a systematic overestimation of the importance of land and natural resources, and/or of labour as an undifferentiated factor of production, and a systematic underestimation of the region" (p. 47).

Chapter 3 deals with structural factors underlying Russian economic stagnation. According to the author, development of a market economy has to be based on networks of firms undertaking innovation and utilization of foreign direct investment (FDI). However, the territorial view of authority and management held by a *nomenklatura* nationalist regime prevents the development of a market economy. The author points out the rigid industrial structure (such as the dominance of heavy industry and Soviet-style agriculture), the weak banking sector which fails to mobilize and channel savings into the development of new lines of production, new technologies, and R&D for basic science and defense. The Russian economy remains largely dependent on the extraction and export of raw materials and natural resources (such as energy materials and metals), and the performance of the humancapital-based sectors continues to be disappointing (p. 81).

Chapter 4 deals with the technological integration of Central-East Europe (hereafter CEEC) into the European global trading system. Relying on Polish empirical studies, the author states that the "legacy of autarky and the command economy appears to weigh more heavily in terms of lagging technological capabilities than in terms of factor intensities of manufactured and traded output . . . FDI has shown a tendency to *complementary assets creation* as far as factor proportions are concerned, and to *asset absorption rather than asset creation* in terms of the technological ranking of industries" (p. 112).

Chapter 5 explores how the CIS (Commonwealth of Independent States—the former Soviet Union minus the Baltic countries, p. 14) derives a comparative advantage, which is driven by a differentiation in the economics of the endowment of factors of production, from natural resources and low wages, but suffers from a shortage of capital. "It is particularly important in the context of former centrally planned economies to stress that comparative advantage does not always translate into *competitive advantage*" (p. 117). The author argues that to achieve economic development through economic integration, the governments inside and outside the CIS and international organizations should do everything possible to accelerate the accession of all CIS countries to the WTO.

Chapter 6 explores empirically how the eastward enlargement of European economic integration has affected economic performance in the European Union as a whole, and how it has affected economic performance specifically in the acceding countries themselves. "Casual empiricism would suggest, therefore, that the trade effects of enlargement on the

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acceding countries would not greatly exceed the 1 per cent of GDP estimated for the impact of the original Common Market" (p. 143). Scale and competition effects are in practice potentially very substantial. Many sectors in the former communist countries still operate largely through the networks of medium-large firms inherited from the communist period. "There is enormous scope for rationalization in both directions—for the exploitation of economies of scale and exploitation of the economies of small-scale production" (p. 144).

Chapter 7 deals with the role of industrial networks in Hungary and Slovenia in the context of economic transition. The author looks at how the Hungarian and Slovenian firm relates to the market, to an overlapping complex of local, national, and global networks, and to the EU and the Hungarian and Slovenian states (p. 175). The author evokes a picture of the Hungarian and Slovenian firm as a striving, learning organization, strongly dependent on an interactive complex of networks as a source of information, learning, and innovation. Accession to the EU will make it easer for firms in Hungary and Slovenia to develop a closeness and depth in their networking relationships, and to achieve first-tier supplier status.

Chapter 8 is concerned with key factors for innovation and technology transfer in the context of economic transition. The author argues that while R & D in the West is dominated by small firms and giant corporations, the industrial sectors of the transition economies are still largely populated by medium-large firms (enterprises) inherited from communism. Overall, SMEs remain at best precocious infants within the transition economies, often weak and hesitant in marketing themselves, and having nothing like the impact they typically have in Western economies. Rather more important, and increasingly important with every year that passes, has been foreign direct investment (FDI) (pp. 206–7). However, "the overall impact of FDI, in terms of improving the technological capabilities of host economies, has been less than it might have been" (p. 207). This is because policy implementation of the governments has been generally ineffective (p. 208).

Chapter 9 is concerned with studies on the process of development and dissemination of technology in Russia through the medium of cooperation between Russian organizations and foreign firms and/or the employment and training by foreign firms of Russian nationals. FDI in Russia has served as a vehicle for East–West technology transfer, but concerning soft technology, the particular pattern of FDI in Russia does not affect the pattern of technology transfer at all. The market for East–West technology transfer is conditioned by three key features of the Soviet legacy: (1) the overdevelopment of specific elements within the Russian human capital stock on account of key weakness in the technology array of the Soviet Union, (2) the priorities and capabilities of the military-industrial complex, and (3) the isolation that the Soviet Union experienced.

In Chapter 10 the author attempts to analyze the policy issues involved in the transformation of transition countries into knowledge-based economies. The author argues that there is a need for the integration of structural and transition policies, to induce economic growth and initiate structural change. The basic criterion for assessing privatization policies from a knowledge-based economy perspective is the extent to which they allow for the diversity of enterprise forms, sizes, and strategies which is essential for knowledge diffusion and generation. The author argues that R&D policy should be decided on the basis of policy implementation capability. This means that it is necessary to implement policies that tackle restructuring of the R&D supply system, enhance demand for technology within enterprises, and prepare a broad range of intermediate institutions for a knowledge-based economy (pp. 282–83).

Chapter 11 is concerned with comparative studies on economic performance in the transition economies. The author argues that the countries that have managed to achieve GDP growth have generally done so on the basis of rising productivity, with industrial productivity taking the lead (p. 303). Looking at the totality of the evidence, it is clear that FDI has been an important factor promoting economic performance in the post-socialist region (p. 308). "While the process of transition has revolutionized the understanding of the process of innovation, it has failed to revolutionise the structure of S & T [science and technology] in the region" (p. 313).

Chapter 12 takes up factors related to social capability building for economic catching up in post-socialist countries. The author argues that statistics reveal that the post-socialist countries are all catching up or at least potential catching up countries. The author also argues that "*extensive development* on the old communist pattern, based on mass mobilization of human and natural resources, is no longer an option . . . the post-socialist countries can only catch up on the basis of *intensive development*, founded on the consolidation and enrichment of human capital and knowledge stocks" (p. 324). There is a consensus in the developed industrial countries that a strong foundation in basic research is a key condition for innovatory dynamism and industrial competitiveness. However, in order to develop complex business networks, generalized engineering skills are no longer enough, and technological catching up demands a combination of very specific "hard" technological capabilities with high-level "soft" management capabilities (p. 334).

In Chapter 13, which discusses what transition efforts have learned from economics, the author emphasizes the need for (1) appropriate transition policies based on a clear understanding of the nature of the crisis out of which transition is sought, (2) identification of clear macroeconomic priorities related to underlying microeconomic goals, and (3) sharp diagnoses of the problems affecting ultimate implementation of these microeconomic goals (p. 364). Regarding what economics has learned from transition efforts, the author points out (1) professional humility which enables collaboration between economists and experts in other social sciences, (2) analytical pragmatism which combines the quantitative analysis of neoclassical economics with the insights from the evolutionary approach, (3) the importance of organization and management rather than property relationships because privatization per se defines neither the extent and nature of the private sector nor the manner in which that sector is organized and managed, and (4) the importance of dynamic efficiency which reduces failure in resource allocation (p. 365).

The problem of economic transition has mobilized interest in the issue of institution building in development strategies. But in the context of orthodox institutional economics, firms tend to be regarded as actors accepting incentives embodied in existing institutional structures. However, firms have the potential to create new networks and promote the transformation of existing institutional frameworks. The book under review explains how the firms of the former Soviet bloc suffer from the institutional legacy inherited from the socialist economies. However, the author also focuses on the firm as an institutional innovator which creates networks and promotes transformation of the economic system as a whole. This is one of the interesting topics in this book.

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Turning to this reviewer's comments, the first concerns the significance of the concept of "catching up" for transition countries. In order to refine the author's argument, it is necessary to provide sufficient explanation why the transition countries need a pattern of development based on catching up. Abramovitz's work,² which is famous reference of analysis based on the concept of catching up, proposes the following hypothesis:

- One should say, therefore, that a country's potential for rapid growth is strong not when it is backward without qualification, but rather when it is technologically backward but socially advanced (Abramovitz 1986, p. 388).
- The combination of technological gap and social capability defines a country's *potentiality* for productivity advance by way of catch-up (Abramovitz 1986, pp. 389–90).

For Abramovitz, the development pattern based on the catching up process is one possible path for developing countries which have already achieved a high level of social development. A country which is poor in natural resources but rich in human resources can enjoy benefits of technological diffusion from advanced countries. A country with handicapped social development should not give priority to development strategies based on catching up. The book under review explores how the post-communist transition countries suffer from the existing patterns of trade, industry, and human capital reinforced by their historical legacy and their resource endowment, and this fact seems to indicate little possibility for catching up industrialization as described by Abramovitz. Therefore the author needs to explore the reasons why he still continues to recommend catching up industrialization for the post-communist transition countries. The urgent need for employment creation, the sustainability of the existing development pattern based on natural resource extraction can be reasons for pursuing catching up industrialization. The problem of transition is one of important issues in economics. The present book reviews this problem in historical perspective and utilizes the concept of catching up as a basis for its analysis. For this reviewer, the concept of catching up is useful for describing the growth of economies of stable national states in the nineteenth and twentieth centuries, and the experiences of globalization and economic transition seem to undermine the basis of catching up industrialization.

My second comment concerns the concepts of catching up and social capability as analytical units for studying post-communist transitional countries. Abramovitz explored the characteristics of economic growth in developed countries within the framework of the catching up of stable national economies, and Abramovitz's analysis³ can be reasonably described using the level of GDP per man-hour, i.e., the level of social productivity. In case of the transition countries of Russia and East-Central Europe, the institutional framework of the national economies is unstable, and there is diversity in each country. Within the context of transition, the concept of the social capability is useful in reference to a small country or a region which is homogeneous in historical and cultural conditions.

My third comment concerns the significance of initial conditions and the late-development effect in the understanding of diverse transitional patterns. The concept of catching up is utilized in the context of studies concerned with the rapid economic growth of late-industrialization countries. Within the context of transition, the diversity of development patterns

² Abramovitz, "Catching Up."

³ Abramovitz, "Catching Up," pp. 391–92.

is, to some extent, explained by the timing of industrialization and the economic and social gaps between advanced and transitional countries in the initial conditions. Dore's work,⁴ which uses the late-development effect to explain the origins of Japanese "organizationoriented" forms of employment, is one of the famous studies of late-industrialization countries. If readers attempt to reorganize findings of the present book within the framework of initial conditions and the late-development effect, the concept of catching up will be an effective tool for understanding the diverse patterns of transitional countries.

The fourth comment concerns the role of government in the catching up and transition process. Traditionally, market failures due to public goods and externalities are economic reasons for government intervention. The arguments concerning catching up industrialization cannot provide new insights or rationale for the role of government. Transition problems also need to be reconsidered regarding the role of government. If the author theoretically explores the roll of government in the catching up and transition process, we can evaluate how the government contributes to the network building of firms.

Finally, the book attempts to interpret the economic and historical implications of transition within the framework of catching up industrialization, and this reviewer basically agrees with the arguments of the book. In sum this book provides a basis for a detailed reconsideration of the concepts of catching up and social capability. (Hiroki Nogami)

⁴ Ronald Dore, *British Factory, Japanese Factory: The Origins of National Diversity in Industrial Relations* (Berkley, Calif.: University of California Press, 1973), pp. 411, 417.

Managing FDI in a Globalizing Economy: Asian Experiences edited by Douglas H. Brooks and Hal Hill, Basingstoke, Palgrave Macmillan, 2004, xx + 340 pp.

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The book here under review is the outcome of a research project at the Asian Development Bank (ADB) that delved into changes in policy approaches under the impact of globalization. The book focuses on the utilization of foreign direct investment (FDI) in the rapid economic development of Asian countries. Written and edited by economists inside and outside of the ADB versed in the relevant issues, the book underscores the fact that the rapid growth of developing Asian countries has been both a cause for and a result of the inflows of FDI from developed countries which include the EU, the United States, and Japan. The book points out that there are potential benefits in the inflow of FDI as a result of the transfer of financial and managerial/technical resources from the investing enterprises. But as the book also indicates, there are potential costs as well associated with FDI. Therefore governments in the region have been seeking an appropriate policy mix for FDI to maximize the net benefits for their economies. Given the considerable variation in the national policies and experiences with FDI, the book examines the FDI inflows, policies, and conse-

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