Preface

Industrialized countries are becoming more and more knowledge based, with the use of advanced technologies in production and marketing, the operation of their financial sectors, and the functioning of their systems of governance. The highly complex systems which are being formed are said to be 'new economies', in several senses, referring to their degrees of integration, their productivity levels, and the scale and diversity of their allocations of investment, but also to their interdependencies. Their structural linkages with each other are becoming larger, through transnational production and arm's-length trade, with high-volume financial flows. In this vast process the evolution of their economic structures is being shaped more and more by multinational corporations, and those corporations, as competitors or alliance partners, are also becoming more interdependent with each other.

In the emerging global pattern, efficiencies result from large-scale coordinations of operations within corporations; market efficiencies and failures result from collaboration and rivalries between the corporations; and government efficiencies and failures interact with the market efficiencies and failures as policy levels engage with macromanagement tasks through fiscal, monetary and microeconomic measures. Altogether there is deepening integration in the world economy, and its evolution depends very much on scales and methods of coordination, in all the complexities of intercorporate relations and of policy interdependencies.

Coordination in the financing of productive activity is especially important for all the interdependent growth, and the main purpose of this volume is to assist understanding of this very demanding requirement for stable development in the world economy, including Third World areas where industrialization has been very difficult. Financial sectors, while operating with understandable home-country bias, are funding international production, more and more, in search of high returns, under pressures from investors with generally short-term expectations. Firms attaining higher profits and higher-growth countries thus tend to be advantaged, while market discipline challenges less efficient enterprises and lower-growth national economies. All the productive funding, however, is linked with high-volume speculation, which can involve excessive risk-taking.

The speculation, when successful, causes asset appreciations which tend to generate irrational investor optimism, and can encourage collusive market

manipulation. Several attributes of a country's economy can facilitate or hinder the speculative asset appreciation, and, when this begins, it draws more investment from other countries where speculation is less active and growth is lower. Investor optimism, however, can give way to a sharp decline, triggering herd-like quests for safer investments. A financial crisis, then, can cause a recession, with severe effects on the real economy and on others with which it is linked through investment, cross-border production and trade.

The vicious sequence has been evident in the USA since the ending of its speculative boom in the 1990s, and has been apparent, with more serious results, in Japan since the early 1990s. Financial sector problems in each case have been issues in larger contexts of failures in meeting coordination requirements. A key failure has been a divergence of financial enterprises away from the funding of production in real economies. This has become an extremely urgent macromanagement challenge.

We are very grateful to Saint Mary's University, Halifax, for sponsoring our conference on the ways in which real economies are affected by the operations of international financial markets, and we are especially grateful to the university president, Dr J. Colin Dodds, for his participation and hospitality. We see wide scope for new forms of advice to corporations and governments in the new economies of the industrialized countries, and in the emerging economies of the Third World, for which challenges of dependent growth have become more demanding, indicating needs for collegial cooperation by Western and Japanese firms and administrations.

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