Kevin P. Gallagher and Lyuba Zarsky, *The Enclave Economy: Foreign Investment and Sustainable Development in Mexico's Silicon Valley*

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Over the last two decades, the mantra that foreign direct investment (FDI) is vital in the effort to reduce the gap between wealthy and poor nations has become pervasive in international policy discussions. FDI is also increasingly touted as a key ingredient for the achievement of *sustainable* development. However, despite the uncritical approach to FDI found in many international organizations and think tanks, academic debate on the investment-development nexus is longstanding and unresolved. When the discussion is shifted to incorporate the social and environmental concerns that make up the more recent and amorphous concept of sustainable development, it is unsurprising that an academic consensus on the costs and benefits of FDI has failed to emerge. While strong rhetoric abounds, empirical evidence remains thin. In this context, the rigorous and detailed case study of FDI in the information technology (IT) sector in Mexico in Kevin Gallagher and Lyuba Zarsky's new book *The Enclave Economy* is a welcome contribution to the literature.

Unlike the majority of studies on foreign investment, this book examines not only the economic impacts of FDI, but also concomitant social and environmental impacts. Addressing all the possible influences of FDI in each of these areas would make a research project unwieldy, and the authors thus narrow their focus to a subset of impacts. In economic terms, they concentrate on the effect of FDI on the "endogenous capacities of domestic firms and workers to learn, innovate, and produce for domestic and/or global markets" (p. 5). In social terms, they focus on job creation, particularly with regard to employment of lower and middle classes. Finally, in environmental terms, they focus on the generation of spillovers (of clean technology, "best practices," etc.) that mitigate the adverse environmental and health impacts of industrial growth (p. 6). The authors employ both quantitative and qualitative methods to evaluate FDI performance against these criteria.

The first chapter of the book outlines the broad debate about the role of FDI in development and the different policy approaches to FDI that have been recommended by

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international institutions and adopted by governments. The authors summarize the “promise of FDI” as a source of jobs and capital in the short-term and as a means to upgrade skills and acquire new technologies in the long term (p. 14). However, they go on to argue that these benefits of FDI don’t automatically materialize in practice. Depending on the type of investment and the context in which it is made, spillovers can be positive or negative, and domestic investment can be crowded in or out (p. 35). Similarly, foreign firms may or may not be better environmental stewards than domestic firms (p. 32). The authors conclude that while the mainstream development paradigm, which is based on neo-classical economic theory, advances a “let the market do it” approach, the balance of evidence suggests that governments must be proactive to capture the economic, social, and environmental benefits of FDI (pp. 35–41).

The second chapter delves into the history of Mexico’s foreign investment policy, with a focus on the radical shift in the country’s approach to FDI in the 1990s. It was in this period that Mexico, like many developing countries, liberalized its economy and opened its doors to foreign investors. The country also signed the North American Free Trade Agreement (NAFTA), which contains far-reaching provisions for the protection of foreign investors, including the right to sue host states in international arbitration. While the liberal policies adopted by Mexico had the desired effect of attracting FDI flows, this did not, in turn, result in the expected benefits for the economy or the environment. Gallagher and Zarsky conclude that a profound transformation occurred as a result of Mexico’s liberalization policy, but it was not a transformation to a more sustainable economy. Instead, what resulted was the creation of an “enclave economy” (p. 69).

In the next five chapters, the authors direct their focus more squarely at the IT sector, both globally and in Guadalajara—Mexico’s “Silicon Valley.” For a study that aims to look beyond the economic impacts of FDI, the choice of the IT sector as a case study is, in itself, an interesting one. As pointed out by the authors, the sector is often mistakenly viewed as “clean and green” by host governments (p. 88). In fact, there are significant environmental, health, and safety issues associated with IT production, the most significant ones being: worker exposure to lead and chemicals in the production process; the energy intensity of production; and the problem of the disposal of “e-waste” at the end of the product life-cycle (p. 89). In developing countries such as Mexico, where environmental regulation and oversight are not well developed, environmental risks are exacerbated (p. 88).

In the final chapter, the authors draw conclusions that are in sharp contrast to the optimism about FDI that has been prevalent in international policy discussions since the early 1990s. They argue that the benefits to Mexico as a result of FDI in the IT sector have been “meager” in economic, social, and environmental terms. In Guadalajara, FDI in the IT sector “generated few, if any, knowledge spillovers” and created mainly low-skilled contract jobs (pp. 178–179). In terms of environmental performance, new plants built by foreign firms were generally more efficient in terms of energy and water use than older plants, but occupational health hazards and the disposal of toxic waste continue to be serious problems (p. 179).

While Gallagher and Zarsky’s study focuses on the experiences of only one sector in one country, it is nevertheless clear that their findings extend beyond the borders of the Guadalajara enclave. The authors present an articulate critique of the prevailing orthodoxy of the Washington Consensus that governments should take a “hands-off” approach with respect to markets (p. 2). They argue instead that “supportive public policies are needed to nurture domestic industries and capture the benefits from FDI” (p. 10). They also emphasize the fact that positive environmental spillovers are not automatic and a sound

policy framework is required to ensure that investment contributes to sustainable development. They perhaps phrase it best in the statement that “[t]reating FDI as an end in itself rather than a means to sustainable development is more likely to generate enclaves than spill-overs” (p. 186). The authors also briefly remark on the topic of international trade and investment agreements and their impact on national policy space, an issue of increasing interest in the environmental policy field (see, for example, Gupta and Tienhaara 2006). They note that the NAFTA, in particular constricts policy space, which, in turn, decreases the ability of governments to harness FDI for sustainable development.

Overall, *The Enclave Economy* is not only engaging but also highly accessible to a broad audience. It would be of interest to students at undergraduate and graduate levels in a variety of disciplines (e.g., development studies, political economy, and environmental studies). One can hope that it will also be read with interest by policy makers at the national and international levels.

Reference

- Gupta, J., & Tienhaara, K. (Eds.). (2006). Special issue on investment and sustainable development. *International Environmental Agreements: Politics, Law and Economics*, 6(4).