Foreign Direct Investment, China and the World Economy
Also by Peter J. Buckley

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Foreign Direct Investment, China and the World Economy

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Foreword by Professor Klaus Macharzina

One of the most prolific and inspiring writers in International Business has prepared a reader in which he republishes those articles that in one way or the other, can be qualified as *Peter Buckley’s* hit list covering the last three years or so. Several of the papers have been co-authored by Jeremy Clegg, some three to four papers by Adam Cross, Chengqi Wang and Hui Tan, and two articles by Ping Zheng, Hinrich Voss and Xin Liu, respectively. Other co-authors include Don Lessard, Niron Hashai, Mark Casson, Mario Kafouros, Pamela Siler, Gianluigi Giorgioni, Frances Ruane, Nicolas Forsans and Kevin Reilly. So the team of authors included in this volume represents an interesting mixture of highly distinguished scholars and young academics from different countries.

The book has the title ‘Foreign Direct Investment, China and the World Economy’; it is structured in four sections: theory, Chinese outward foreign direct investment, foreign direct investment in China, and policy. As is documented by ten papers, clearly Peter Buckley’s regional emphasis over the last two decades has been on China. Two of those papers deal with determinants and trends of Chinese outward foreign direct investment, two papers look at spillover effects of inward foreign direct investment in China, and two papers discuss special spillover effects on productivity in the electronics and automotive industry, respectively. One paper is on China’s inward foreign direct investment success, one on export performance, and another one on cultural awareness; lastly, a case-study of Sinotrans, the Chinese state-owned service intermediary, rounds the picture. The foreign direct investment policy papers have appeared in ‘The World Economy’ and are related to Ireland and Canada.

As a general pattern the empirical research papers dealing with China start with an analysis of the literature and a focused theoretical discussion from which hypotheses are derived. The empirical test of those hypotheses mainly relies on published official Chinese data, provided e.g. by China’s State Administration of Foreign Exchange, the Ministry of Commerce or the State Statistical Bureau of China. Other sources employed include yearbooks of the industries under study. The empirical evidence of the cultural awareness and the Sinotrans is
primary data collected by fieldwork using in-depth interviews with multiple interviewees in the selected case companies.

The spillover papers generate interesting results and add to the literature in so far as curvilinear relationships between foreign direct investment from Chinese MNEs and productivity spillovers could be found, especially for low-technology and labour-intensive industries, but not for other (Western) firms. Also there is evidence that foreign direct investment seems to promote exports from China. In the study on Chinese foreign direct outward investment (OFDI) it is shown that the latter seems to be associated with high levels of political risk in, and cultural proximity to, host countries throughout, and with host market size and geographic proximity and host natural resource endowments. Also the authors found that Chinese OFDI is similar to, yet distinct from the standard model of emerging country OFDI. There is of course the general problem that the secondary data used suffer from the drawback of a considerable time-lag between the years of publication of the data and the publication of the actual papers, and eventually their republication in a reader. As a consequence there is almost no empirical evidence included in the book about Chinese investment behaviour and its effects in the post WTO period. So there is room for future research, of course also with a view to India which I suspect Peter and some of the other authors are already studying.

In the theory section the ‘historical’ papers on Stephen Hymer and Edith Penrose caught my special attention. The former paper distinguishes three phases (PhD, neoclassical, Marxist) in Hymer’s work and argues that those phases – although not reconcilable at first glance – can be reconciled around the central core of an economic theory of the multinational corporation that was truly dynamic reflecting the rapid changes in the world economy co-evolving with Hymer’s thought. How intriguing it would have been to learn about Hymer’s reflection on our present world economic crisis!

To me the Penrosian paper is the strongest among the entire collection of high quality essays. It represents, in my opinion, a successful attempt to merge two distinct theories by way of formalising Penrose’s Theory of the Growth of the Firm and combining it with the Buckley and Casson model of the Multinational Enterprise. The resulting model is a two-dimensional generalisation of the one-dimensional Penrose theory. The (Penrosian) entrepreneur or management has identified a technological innovation generated by the (Buckley and Cassonian) R&D team who may generate a series of product innovations (growth 1). Management by way of market entry takes each product to a series
of national markets (growth 2). Multinationality arises because each national market is sourced by local production. The limits of growth are related to its costs which increase due to the declining productivity of human resources, the R&D team on the one hand and management team on the other. Would it be an idea to expand the model and take it from multinationality to globalisation because of global markets, global sourcing and regional R&D centres spread over the globe and located in regions with superior talent and competences in certain areas? This, by the way, as a future project could serve as a conceptual platform supporting the third pillar in the book’s title, namely the ‘World Economy’ which seems to be a little under-represented in the present collection.

I hope by highlighting some selected flashes of the all-in-all rich contents I have succeeded in trying to make potential readers curious about, and hungry for this fine book. In my opinion it is of high quality and has value. Even in a world of increasingly electronic publishing where you have almost unlimited access to published articles we still need that kind of focused volumes which integrate the material scattered over many outlets. Moreover, I strongly believe in the superiority of presenting such material in the form of a book (rather than a screen) you can hold in your hands and enjoy reading. Congratulations to the Editor. With this volume he has managed very well to achieve the standard that he set jointly with Don Lessard at the outset when demanding: ‘This requires researchers ... to be crystal clear in their theoretical derivations and advances, and to defend rigour at all costs.’