Chinese Foreign Direct Investment: A Subnational Perspective on Location

Tao Qu and Milford B. Green
ALDERSHOT, U.K., ASHGATE PUBLISHING LIMITED, 1997

Reviewed by Rod B. McNaughton
UNIVERSITY OF OTAGO, NEW ZEALAND

China is second only to the United States as a recipient of foreign direct investment (FDI), and yet relatively little is known about how patterns of FDI have developed since the “open door” policy began in 1979. This book provides a description of the urban pattern of FDI in China, and attempts to explain why some cities have attracted more investment than others, and why investors from different home countries show preference for certain cities over others.

The first chapter introduces the unique political and economic context of FDI in China, and outlines four objectives for the book. These are: (i) To develop a theoretical model of investment location choice at the sub-national level; (ii) to identify the relevant locational determinants in China; (iii) to characterize the pattern of investment in China; and (iv) to investigate differences in the locational choices of investors from different home countries.

In the second chapter, the authors review theories of FDI and associated empirical research. This literature is well known to readers of JIBS. However, Qu and Green also review the theoretical and empirical contributions of corporate geographers, and this literature is less familiar. Corporate geographers draw on economic and organizational theory to explain the emergence of spatially separated (often international) functional units of large corporations, and the spatial organization of value chains. They are also concerned with the problems of governing spatially separated corporate units, and the economic impact of the corporate spatial systems that emerge.

The review of the geographic literature and its juxtaposition with traditional International Business (IB) literature is instructive, but it is disappointing that Qu and Green do not use the opportunity to explore the obvious linkages between these bodies of literature. It is clear that there are some common underlying economic and organizational concepts, but that the emphasis given to these is different between the two bodies of literature. Further, the IB literature is not reviewed from the point of view of what particular theories contribute to the understanding of locational issues. For example, the short description of the internalization approach does not mention roles for location and distance in generating the transaction costs that underlie the existence of multinational enterprises.

Qu and Green conclude that the extant literature on IB and corporate geography does not contain an adequate model of the spatial dimensions of FDI, particularly at a sub-national scale. Thus, they set out in Chapter Three to develop a more comprehensive model to explain the locational choices of investors within countries. The resulting model might best be described as a modification and extension of Dunning’s eclectic theory. It has three dimensions: Firm-specific variables (FSVs), location-specific variables (LSVs), and dynamism. The third dimension captures such things as changes in host economies, evolution of a firm’s products and organizational structure, and the interaction between FDI and environmental variables. The model is summarized as a set of functional relationships (p. 41). It is unclear whether a vector of FSVs and LSVs is intended, and what functional form the relationships are expected to take (a multiplicative model is eventually specified on p.88 for reasons of goodness of fit. Further, the dynamic aspect of these functions makes them difficult to operationalize, so the authors must resort to a series of cross-sectional analyses over time.

The data used in these analyses are also described in this chapter. Data were collected from various Chinese government publications (e.g., *China Urban Statistics, China Statistical Yearbook*, and *China Almanac of External Economic Relations and Foreign Trade*), and a secondary source survey of foreign ventures registered in China. The result is information on foreign investment and urban characteristics for 87 Chinese cities for the period 1984-1991. Unfortunately, the authors do not discuss these data in detail, leaving unanswered questions about the accuracy and potential for bias in their sources. As an example, some analyses use the amount of FDI pledged in a given year as the dependent variable. The rate at which pledges are followed by real capital investment is not discussed.

The fourth chapter is devoted to a discussion of China’s policies toward FDI, especially since the “open door” policy of 1979 signaled a significant shift away from autarchic economic development strategies. This is an excellent account of the changes in policy toward foreign investors, and contains useful descriptive statistics on the patterns of investment in China between 1979 and 1992.

The fifth and sixth chapters present the results of a number of multivariate statistical analyses of the investment and urban characteristic data. A “laundry list” of variables are used to explain why some cities receive FDI, while others do not, and second, the variance in levels of investment between host cities. The primary conclusions are that when China first opened its doors to investment, proximity to the coast, government policy, and large local markets were important determinants of whether or not a city received FDI. By 1991, all cities had some level of FDI. In terms of the level of investment, market size, government policy, social and physical distances are significant explanatory variables.

These chapters are tortuous reading. There are no hypotheses that explicitly link the explanatory variables to the authors’ conceptual model. Without this guidance, the numerous multivariate analyses are exercises in data exploration, and the reporting of results follows no clear plan. Potential explanatory variables are subjected to factor