Developing China: the Remarkable Impact of Foreign Direct Investment
By Michael J. Enright (Abingdon and New York: Routledge, 2017), 260 pages

At a time when globalization is increasingly challenged, it is rewarding to read a book that touts the promise of globalization, in particular the benefits of foreign direct investment (FDI). While international trade takes centre stage in the popular media, FDI is not only related to it but also at least as important in its own right, not just economically but also politically, geopolitically, socially, and otherwise. As most economic and social phenomena, it has multiple facets, of which the author chooses to highlight one, namely its critical role in economic growth and development.

The book starts with a very brief historical introduction, frankly too brief for my taste though understandable given the focus on the modern, post 1979 period. To me, the importance of a historical perspective rests not only with the 19th century humiliation of the country which the author rightly noted as a guiding light in China’s approach to FDI, but with a lot more, starting with the limited entry of foreign influences millennia earlier and continuing with the “Self-Strengthening” search for “Western technology without western values”, which underwrote much of the later ambivalence towards FDI. I am also missing a comparative perspective as the Government of China looked closely at the experience of Japan, in particular, and later also the Republic of Korea and Taiwan Province of China, imitating some of the relevant policies (e.g. limits on full foreign ownership in the early reform phases). At the same time, China did not follow Japan and the Republic of Korea in democratizing its political system, defying traditional economic views on the correlation between such reform and FDI volume. Indeed, one underexplored angle here is how the Government of China and the ruling party have leveraged China’s unique system to extract concessions from foreign investors. This comparative angle merits, perhaps, a separate book, which may now include the lessons other nations have learned (or should learn) from the Chinese experience with FDI.

The book’s focus is clearly on the modern reform period, where it does a good job in describing, in some detail, how China has leveraged foreign investment to transform a stagnant, backwater struggling economy, representing a mere three percent of global GDP, into what is now the second largest world economy and a foreign investor in its own right. To be sure, foreign investment was not the only factor catapulting China’s rise, and most of the benefits accrued to the country would probably not have been materialized without concomitant internal changes, a point that should not be lost on those seeking to learn from the Chinese experience. Without market liberalization (albeit limited and incremental), property rights (ambiguously drawn and enforced but a huge step forward), and other transformational changes, FDI would have had but a limited value to the Chinese economy. Though the linkage between FDI and internal changes is not the focus of this book, it must be considered by any government fancying to replicate China’s advance.
Among the book’s many advantageous points are the accounts of FDI impact across industries (though not strictly from a comparative perspective, that is, FDI in different industries is outlined but rarely compared directly) and regions (where a map would have helped, also showcasing the impact on economic and social disparity), and the various case studies of different locals (e.g. Chongqing) and different companies (e.g. P&G). Here too it would have been helpful to develop some cases of Chinese companies of different sectors (state-owned, collective, private, hybrid) and how they have benefited from knowledge spillovers by foreign investors, intentioned or not. And again, it would have been instructive to note the negative impact in terms of company closures and the like, macro bird’s view notwithstanding.

In its overall tone, the book is more descriptive than analytical, a plus for those looking for a fairly concise, yet comprehensive and full of relevant details, summary of foreign investment in China, but somewhat less useful to those seeking a deeper level of understanding and, in particular, debate; including scholars (more on that later) and other readers looking for, perhaps, a more balanced treatment, inclusive of negative repercussions for Chinese society and the rest of the world. For example, while foreign investment has helped China achieving double digit growth for decades, in the process lifting millions of Chinese from poverty and enabled its companies catch up with competitors, it also played a role in causing grave pollution, something that is acknowledged by the author but more in passing. Again, this should not be construed as criticism as every book has a domain and there will always be a limit in the extent to which a topic can be treated. Still, I expected to see more on the increasing disparities in China which FDI has surely impacted, in more ways than one, the current lamentation about the creation of a moral vacuum, and the resurfacing theme of “with Chinese characteristics”, which can be partially seen as a backlash to FDI and its correlate influences, whether in media industries or otherwise. And, returning to the point of having a comparative perspective, what about the other dark side of China’s inward FDI showing up in thousands of shutdown factories in the United States, Mexico, and other parts of the world, the impact of the rampant expropriation of intellectual property rights by any means possible (e.g. forcing foreign investors to transfer their technology, piracy, counterfeiting), and its possible squelching influence on global innovation. Again, this is probably beyond the scope of the book, but avoiding the issue does not help answer criticism that globalization is a zero-sum game. It is easy to label foreign investment as a “win-win” situation, it is more difficult, but important, to confront its dark side and convince people of the overall positive balance, if done right.

The book may appeal to policymakers, though those from developed nations in particular may find its treatment a bit one-sided. Adding a social and political context and, especially a comparative perspective, to the macro-economic perspective presented here should make this book even more potentially useful for policy makers who should also be reminded that “Chinese characteristics” is not only a slogan used...
by Chinese leaders but also a relevant context without which any policy analysis will come short.

The book will also appeal to broader readership who seeks a good and succinct yet detailed descriptive summary of one of the biggest waves of foreign investment ever launched, a backdrop as well as an enabler to multiple other giant waves such as the rural to urban migration of hundreds of millions of Chinese. The book will be of more limited value to executives, not only for its macro-economic thrust but also, perhaps, because there are only brief case descriptions of foreign multinationals and, importantly, no cases written from the perspective of the knowledge recipients (or takers...).

Finally, the book will be of marginal benefit to most scholars except the uninitiated seeking a summary introduction to FDI in China as it does not (and, again, in all fairness, is not set to) address most of the theoretical issues and concepts in the field, such as entry mode choice and performance, knowledge transfer and management, knowledge management, cross-border alliances, and so on. For those, FDI in China provides a series of unmatched opportunities with which to test and or develop theory. Indeed, while the book is rich in references, the work of major international business and management scholars such as Peter Buckley and John Child is missing, among that of many others leading scholars. Once again, this is not a criticism of the book itself, which is comprehensive and insightful, but rather a reminder for readers that many of the questions raised by the phenomenon of FDI in China are answered elsewhere.

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