Foreword

Chunlai Chen has written an important book about the Chinese economy. Here he documents the growth of foreign direct investment (FDI) flows into China, their determinants and their effects, not only in China but also in the rest of the world.

The China FDI story is a remarkable one. As Dr Chen writes, not so long ago FDI was banned in China. Today the accumulated inflow is around $US1000 billion. The annual growth of the inflow was over 30 per cent a year in the 30 years since 1979. During 2000 to 2009, China accounted for 6 per cent of world total inflows and 17 per cent of FDI inflows into developing countries. China has become the largest recipient among developing countries.

This transformation certainly deserves attention, and Dr Chen brings his life’s research together in this volume for that purpose. He does that with good organization and great clarity, and with the application of powerful research methods.

The book covers some of the big questions in the study of FDI flows – is China too big as a recipient, why does the sectoral distribution look odd, why is the source of the inflows unusual and why have some provinces missed out?

The book contains some remarkable findings. Dr Chen identifies the uneven patterns of FDI inflows across regions of China and comes up with an explanation for that. He analyses the sources of the inflows: he finds that over three-quarters come from other countries and economies in the region, such as Hong Kong, Taiwan, South Korea and Singapore. The role of the big developed countries is less than might have been expected. The growth in FDI is a manufacturing phenomenon, but is increasingly in technology intensive activities. Dr Chen provides an explanation of these trends. He designs an index of attractiveness at provincial level that will be of great interest to policy-makers working on their country’s FDI strategy. Dr Chen also examines and identifies differences in behaviour of investors of different origins. This, too, will be important reading for FDI agencies.

There has been a concern that China has attracted ‘too much’ FDI. By studying the determinants of FDI flows and applying that analysis to China, Dr Chen finds that, on the contrary, China’s performance was
only moderately above what might have been expected. He also finds that inflows into China are associated with a positive effect on inflows into other developing countries. Dr Chen identifies a couple of contributors to this result.

With respect to impacts of FDI, Dr Chen looks at the effects on growth at the aggregate level, on productivity at the firm level and on exports. The book reports on empirical work on a series of linkages between foreign and domestic firms which is not often studied.

With this background, Dr Chen also draws out some policy lessons. He refers to the questions of national treatment, regional development strategies, incentives for investment in particular industries, and mechanisms for enhancing the positive effects on domestic firms.

This book is written by a researcher in touch with the big questions about China and about FDI. It is also written by someone who is a great teacher. The skills of the teacher to mobilize interest in a topic and then explain and digest material which is relevant are all evident here.

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