



European Union Direct Investment in China: Characteristics, Challenges and Perspectives,

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European businesses have often been scolded for missing the opportunities arising in East Asia. As China began to open to foreign investment in the early 1990s, European businesses seemed more occupied with European integration and the 1992 project. European investors accounted in 1996 for only 4% (p. 170) of inward foreign direct investment (FDI) in China, though this share has risen to 7.5% by 2000 (p.39). Motivated by a concern that Europe misses the business opportunities of China, van den Bulcke, Zhang and do Céu Esteves have launched a major research initiative in 1997 to investigate the patterns and characteristics of European FDI in China. They teamed up with local research teams in seven Chinese provinces to collect survey data. The present book reports the results of this research effort, with analysis of both official data and the original survey data.

The book starts by reporting the institutional change in China that facilitates and regulates FDI flows, including some useful tables tracing policy changes and the establishment of special economic zones. Chapter 3 then reviews aggregate patterns of FDI based on data published by the Chinese authorities. Chapter 4 reports data in greater detail data on European FDI, including comparisons of investors from different European source countries. These data show that European investors typically fall in the category of high tech and capital-intensive investors, and among the Europeans firms from Denmark and Germany are most capital intensive and high tech. Other data report variation by equity stake, duration of the investment contract, and location pattern.

Most interesting in view of the overall research question are Tables 4.13 and 4.14, where European investors are benchmarked against Japanese, North American and Asian NIC investors. Such an exercise ought to provide evidence on whether Europeans truly lagging behind. The data reveal that Europeans indeed less likely than firms from Japan or Asian NICs to have entered before 1992, yet they have been catching up over the 1990. Moreover, European investors are more likely to set up large projects in scale intensive industries, and be located outside the (export-oriented) special economic zones established along the coast. Europeans are more likely to invest in majority ownership yet without full control, while Japanese appear to insist on 100% ownership and North Americans are more willing to accept minority stakes.

Chapter 5 takes a headquarters perspective and reviews the Chinese operations of European MNE through a variety of sources including AMADEUS database and a small survey conducted among headquarters. The survey indicates that European investors were primarily motivated by

market-seeking motivations, and aimed to establish strategic positions in key markets in view of anticipated market growth.

The third part of the book reports findings from the survey study of 311 subsidiaries in seven Chinese provinces. Chapter 6 provides descriptive statistics on the dataset, which are largely consistent with those of official statistics, yet providing a more detailed picture. For instance, the reader learns that 65.5% of local partners were state-owned enterprises, and that already by 1996, 13.6% of foreign investors increased their equity stake, while 3.2% decreased their stake. The chapter moreover compares the characteristics of early and late entrants, and of large and small MNE. Early entrants have by the time of the survey larger operations, are more likely in Coastal regions, partner with state-owned enterprises, and hold exactly 50% of equity. Later entrants more frequently invest with collective enterprises as partners and hold majority equity stake.

I found the data on R&D activity most interesting, and somewhat surprising. 79.8% of respondents reported to be conducting R&D in the local affiliate in 1996, and 8.9% spend more than 10% of their sales revenues on sales (p.117-118). Internationally few firms other than pharmaceuticals spend more than 10% on R&D. The R&D is mainly focused on developing or adapting products to the local market. If these data can be trusted, foreign investors thus are highly engaged in R&D in China, contrary to popular perception of production in China. Yet, the large number of missing values (157 of 311) raises major concerns over self-selection biases. Moreover, the R&D-related data reported in Tables 6.7 to 6.9 (p.117-118) differ from those in tables Figure 7.1, Tables 7.4 and 7.5 (p.136-137). It seems that the same questionnaire items are reported, but with different numbers of observations, and thus slightly different percentages. Apart from the unnecessary repetition, such inconsistency in reporting the dataset is confusing.

Chapter 7 provides local managers' views of their own company and the business environment. For instance, most managers see other foreign investors as their main competitors, followed at a distance by imports and by locally owned local producers (p.129). Consequently, quality of products and brand names are considered as most important sources of competitiveness (p.131). Subsidiaries report a high degree of autonomy with respect to marketing, production and employment decisions, but not with respect to financial decisions (p. 139). Autonomy is for most decisions, not surprisingly, higher for joint ventures than for wholly foreign-owned firms (p. 141). The main obstacles perceived by local Chinese managers is the complexity of Chinese bureaucracy (p.144), especially among those working for wholly foreign owned firms (p.145). Generally, firms serving the local markets report more obstacles to business in China than those exporting.

Chapter 8 presents an analysis of sourcing strategies in China, including the book's only regression analysis (presumably a multinomial Logit model). The authors distinguish sourcing strategies by two categories, domestic versus internationally, and in-house versus outsourcing. The determinants of the sourcing are mostly industry-specific effects. Moreover, investors in inland regions are more likely to source from local JV partners, whereas firms in coastal regions are more likely to source from independent local firms. Equity stakes also matters: a higher stake of the foreign investor leads to more sourcing from other affiliates of the MNE in China, whereas a higher share of the local partner increases sourcing from affiliates of the local partner.

The final chapter summarizes the main findings and suggests some policy implications. Among other propositions, the authors suggest that sectoral liberalization and development of infrastructure would be necessary to attract more FDI to inland regions. They advocate incentives "to create a favorable environment for both domestic and foreign enterprises to engage in R&D activities and to favour partnerships between universities, research institutions and enterprises". To enhance the development impact of FDI beyond the coastal regions, the authors emphasize the need for a program for "creating backward linkages between domestic and

foreign firms on the one hand and establishing alliances between coastal and inland regions on the other hand”.

No study is perfect, neither is this one. My main concern concerns the research design. The study is motivated by the apparent underperformance of European investors. To assess whether this is true, and in what ways, there ought to be more systematic analysis benchmarking European investors against other investors, such as North Americans. This would allow better-grounded conclusions. For instance, the number of 7.5% Europeans appears very small – until it is compared to the 9.3% held North Americans! FDI in Asia is largely an intra-regional phenomenon, and some European FDI may in fact come indirectly via Hong Kong. Seen in this perspective, and acknowledging that many European countries have many SME and fewer global MNE, the European ‘underperformance’ is not quite that substantive.

A second major concern is the publication lag. China has a rapidly changing business environment, and patterns of FDI have been evolving rapidly. The study has substantively been completed in 1999, and the book has been published 2003. This delay, for which the authors do not provide an explanation, is most regrettable. Third, as a matter of presentation, many of the tables reporting respondents’ assessments on a 5-point Likert scale are difficult to interpret without the exact formulation of the questions and the scale.

In its subtitle the book promises “Characteristics, Challenges and Perspectives”. The book keeps mainly to the first item, outlines some challenges, but offers little in terms of outlook for the future. Overall, this is a highly interesting study, which however due to the publication lag and some lack of attention to detail in reporting the data and analysis will have less impact than it might have had.

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