Available online at www.sciencedirect.com
ScienceDirect
International Business Review 16 (2007) 142–158
INTERNATIONAL BUSINESS REVIEW
www.elsevier.com/locate/ibusrev

The impact of foreign ownership, local ownership and industry characteristics on spillover benefits from foreign direct investment in China

Peter J. Buckley[a], Chengqi Wang[b,c,*], Jeremy Clegg[a]

[a] *Centre for International Business, University of Leeds (CIBUL), Leeds University Business School, The University of Leeds, Maurice Keyworth Building, Leeds LS2 9JT, UK*

[b] *Nottingham University Business School, The University of Nottingham, Jubilee Campus, Nottingham NG8 1BB, UK*

[c] *Business School, Ningbo University, China*

Received 31 March 2005; received in revised form 16 October 2006; accepted 15 December 2006

Abstract

This paper finds that significant variation in FDI spillover effects on local industry is obscured through the aggregation common in most studies. Breaking Chinese industrial data for 2001 down by category of ownership of foreign investor, local firm, and by host industry, we find evidence of greater positive spillovers from FDI in technology-intensive industries than in labour-intensive industries. We also find that overseas Chinese affiliates from Hong Kong, Macau and Taiwan (HMT) generate spillovers to locally owned enterprises (LOEs) in labour-intensive industries, in contrast to western affiliates, which positively impact on the performance of LOEs in technology-intensive industries. Chinese state-owned enterprises (SOEs) benefit from the presence of both HMT affiliates in labour-intensive industries and of western affiliates in technology-intensive industries. Other LOEs (OLOEs), however, benefit only from HMT affiliates' presence in labour-intensive industries. These findings offer some support to host government policies offering generous incentive packages to attract foreign investors in high-technology industries. We find that some aspects of China's status as a transition economy—for example the considerable resources and effective control deployed by the state and SOEs—has helped its development process; however we argue that it is possible for non-transition developing economies to implement similar policies.

Keywords: FDI; MNEs; Spillover effects; China; Industry; Locally owned enterprises; Transitional economy

*Corresponding author.
E-mail address: Chengqi.Wang@Nottingham.ac.uk (C. Wang).

0969-5931/$ - see front matter © 2007 Elsevier Ltd. All rights reserved.
doi:10.1016/j.ibusrev.2006.12.006

1. Introduction

The past two decades have witnessed a striking transformation in the Chinese economy: from a centrally planned to an essentially market-oriented system, and away from an inward-orientated industrialisation strategy to 'open-door' policies aimed at integration with the global economy. Accompanying the progressive marketisation and internationalisation of the economy in this period, has been an unprecedented expansion in inward foreign direct investment (FDI) into China by multinational enterprises (MNEs). Indeed, in 2003 China overtook the USA and became the largest recipient of FDI (United Nations Conference on Trade and Development (UNCTAD), 2004). This growth in inward FDI is widely believed to be a key component of China's economic miracle. However, simply measuring the direct effects of inward FDI on Chinese industrial productivity will underestimate the overall contribution of foreign investment if spillover effects are significant (Buckwalter, 1995; Murphy, 1992; O'Malley, 1994). Therefore this study examines the spillover effects that arise from FDI in Chinese manufacturing.

There is little controversy within existing theoretical research on the causes of spillovers, but a considerable amount of debate within empirical work to date, largely because the evidence on spillovers remains stubbornly inconclusive (Blomström & Kokko, 1998). Part of the problem may be that existing studies typically treat foreign affiliates (FAs), of whatever home origin, and locally owned enterprises (LOEs), of whatever type of domestic ownership, as a whole. They also pay no regard to the characteristics of the industry in which these firms operate. Such studies, therefore, look at the aggregate impact of overall inward FDI on all LOEs, across all manufacturing industries. More recent research (e.g., Buckley, Clegg, & Wang, 2005) has started to unpack these overall results, to allow for relationships within the aggregate data that can vary with category of foreign investors and by group of local spillover recipients.

In a commentary article on the perspective paper of Meyer (2004) and Ramamurti (2004) calls for future research in the area of spillovers to follow Buckley, Clegg, and Wang (2002) and Gillespie, Riddle, Sayre, and Sturges (1999) in investigating the impact of diasporas on economic development in poor countries. By way of a response, this study aims to offer a step forward in breaking down the general relationship between FDI and LOEs' performance. We group the whole of Chinese manufacturing into labour-intensive and technology-intensive industries; FAs into those originating in Hong Kong, Macau and Taiwan (hereafter, HMT) versus those originating from western countries; and the LOEs recipients of spillovers into state-owned enterprises (SOEs) and other LOEs (OLOEs). These classifications form the basic analytical framework of this study.

These distinctions are particularly crucial in the context of China. First, it is generally agreed that China's comparative advantage is its relatively low labour costs compared with developed countries and with other emerging economies (Cheng & Kwan, 2000). This has been a leading motive for MNEs to invest in labour-intensive activities in China (Fung, Lau, & Lee, 2002). Second, the two major groups of foreign investors in China—firms from HMT and from western countries—differ enormously, in terms of both motivation and investment behaviour (Huang, 2004). This contrast means that FAs in these two ownership groups can be expected to impact differently on LOEs. Third, SOEs and OLOEs are two very heterogeneous ownership types dominating Chinese manufacturing industry. They diverge substantially in many respects. These include the structure of property rights, technological capability, learning incentives and government support,