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Foreign Investment and Socio-Economic Development in China

The Case of Dongguan

Godfrey Yeung

Lecturer

School of Social Sciences

University of Sussex

Foreword by

Robert Ash

Chiang Ching-kuo Professor of Taiwan Studies

Co-ordinator, EU–China Academic Network (ECAN)

School of Oriental and African Studies

University of London

palgrave

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To the memory of Professor Gordon White

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Contents

<i>List of Tables</i>	ix
<i>List of Figures</i>	xi
<i>Foreword by Robert Ash</i>	xii
<i>Preface and Acknowledgements</i>	xiv
<i>List of Abbreviations</i>	xvii
1 Introduction	1
1.1 Research objectives	2
1.2 Terminology defined	3
1.3 Research methodology	8
1.4 Significance of this book	12
1.5 Organization of the book	15
2 Theoretical Foundation	20
2.1 Western theories of FDI	20
2.2 Socio-economic effects in the host country	31
3 The Economy of Dongguan	44
3.1 Historical background	44
3.2 Historical overview of Dongguan's economic structure	47
3.3 Foreign investment policy	68
3.4 Foreign investment in Dongguan	72
4 The Investment Environment	93
4.1 The development strategy of Dongguan	93
4.2 Infrastructure	96
4.3 Factors of production	110
4.4 Bureaucratic red tape and the abuse of power	115
4.5 Customs	120
4.6 Favourable investment factors in Dongguan	125
4.7 Applicability of the eclectic paradigm of international production	135

5	The Socio-economic Impact of Foreign Investment	141
5.1	Economic structure	141
5.2	Regional differentiation of economic growth	149
5.3	Locally-funded and foreign-financed industries	162
5.4	Connections and management of foreign-financed firms	166
5.5	Competitive approaches of foreign-financed firms	170
5.6	Infrastructure	174
5.7	Environment	177
5.8	Work environment and industrial safety	183
5.9	Mentality of migrants	188
5.10	Mentality of local people	191
6	Conclusions and Implications	207
6.1	Concluding remarks	207
6.2	Lessons to be learned	210
6.3	Theoretical implications	216
6.4	Policy agenda	227
	<i>Appendix I: The 33 Administrative Towns and District in Dongguan, 1997</i>	236
	<i>Appendix II: Common Misconceptions in the Relocation of Manufacturing</i>	237
	<i>Appendix III: Selected Statistics of Dongguan</i>	242
	<i>References</i>	249
	<i>Index</i>	271

List of Tables

1.1	Categories of foreign investment in China	4
1.2	A synopsis of CJV and EJV	5
1.3	Characteristics of 26 case studies in Dongguan	9
2.1	A typology of theories of foreign direct investment	21
2.2	A taxonomic summary of country, industry and firm-specific OLI	28
2.3	The OLI characteristics of FDI, exports and licensing	30
3.1	Social indicators for Dongguan, 1952–97	65
3.2	The composition of contracted and utilized foreign investment in Dongguan, 1979–97	76
3.3	The composition of export value in Dongguan, 1978–97	80
3.4	Foreign investment in Dongguan as a percentage of foreign investment in Guangdong, 1980–97	82
3.5	Foreign investment in Dongguan as a percentage of foreign investment in China, 1979–97	85
3.6	A comparison of economic indicators of the 'Four Little Tigers' and Shenzhen, 1997	86
4.1	Transportation of passengers and cargo, Dongguan, 1980–97	98
4.2	Development of roads, Dongguan, 1980–97	100
4.3	Taxonomic summary of major motor roads developments, Dongguan, 1978–97	101
4.4	A taxonomic summary of major electricity developments, Dongguan, 1987–93	105
4.5	Telecommunications, Dongguan, 1980–97	108
4.6	Taxonomic summary of major telecommunications developments, Dongguan, 1986–93	109
5.1	Percentage share of industrial output value by various sectors, Dongguan, 1980–97	142
5.2	Real GDP and real industrial output in 33 towns, Dongguan, 1997	145
5.3	Major agricultural output per capita and productivity, Dongguan, 1980–97	148
5.4	Value of contracted and utilized foreign investment, 33 towns, Dongguan, 1997	152

5.5	Export value of 33 towns, Dongguan, 1997	154
5.6	Pearson correlation coefficients matrix of economic proxies, 33 towns in Dongguan, 1997	156
5.7	Selected proxies, 26 administrative regions in Humen town, 1995	159
5.8	Pollution in Dongguan, 1985–97	179
5.9	Villages a and b, Dongguan, 1993 and 1995	181
5.10	Major indicators of living standards of local population, Dongguan, 1985–97	193
5.11	Major indicators of living standards of various income groups, local population, Dongguan, 1997	194

Appendix tables

A.1	The administrative towns and districts in Dongguan, 1997	236
A.2	Selected expenditure of foreign-financed carton manufacturing firm, Xiegang town, July 1997	239
A.3	Population in Dongguan, 1949–97	242
A.4	Gross value of industrial and agricultural output, Dongguan, 1949–97	243
A.5	Export values, Dongguan, 1955–97	244
A.6	Nominal GDP and its composition, Dongguan, 1978–97	246
A.7	Number of foreign investment contracts signed, Dongguan, 1978–97	246
A.8	Contracted value of foreign investment, Dongguan, 1978–97	247
A.9	Utilized value of foreign investment, Dongguan, 1978–97	247
A.10	Gross value of industrial output by foreign-financed firms, Dongguan, 1985–97	248

List of Figures

2.1	Output and welfare effects of capital flows	24
3.1	Location of Dongguan	45
3.2	Real value of industrial and agricultural output, Dongguan, 1949–77	51
3.3	Value of total export and export per capita, Dongguan, 1955–77	54
3.4	Real GDP and real GDP per capita, Dongguan, 1978–97	56
3.5	Composition of real GDP, Dongguan, 1978–97	59
3.6	Real value of industrial and agricultural output, Dongguan, 1978–97	60
3.7	Value of total exports and exports per capita, Dongguan, 1978–97	63
3.8	Total value and per capita value of foreign investment, Dongguan, 1979–97	74
6.1	Socio-economic paradigm of foreign investment, Dongguan	218
6.2	The ‘dynamic symbiosis’ paradigm of FDI in the host country	219
6.3	‘Colonialism-remittance’ capital inflow to Dongguan, pre-1949	220
6.4	‘Ethnic-network’ capital inflow to Dongguan, 1949–1977	221
6.5	‘ <i>Guanxi</i> -network’ foreign investment, Dongguan, 1978–1990s	222
6.6	Proposed ‘rule-of-law’ by foreign investment in Dongguan, 1990s onwards	228

Foreword

China's size remains, as it has been throughout its modern history, a critical factor in all aspects of its development, creating political, social and economic tensions that have become increasingly evident in the wake of post-1978 reforms. The importance of regional investigation to address China's immense diversity is reflected in the many fine provincial-level studies that have been published in recent years. But whether viewed in demographic or physical terms, many Chinese provinces are themselves as big as average European countries. Nor can a single province provide a microcosm of the whole of China. Hence the need for greater disaggregate analysis, focusing on even smaller entities below the provincial level. It is precisely this kind of micro-geographical investigation that Dr Yeung's path-breaking study offers.

The adoption of radical open-door policies has been a defining feature of China's post-1978 reforms. By common consent, these policies have contributed much to the country's impressive recent growth record, although it is the coastal provinces – Guangdong, above all – that have benefited disproportionately from the huge inflows of overseas capital (particularly foreign direct investment). On the surface, Dongguan – a county-level city in Guangdong containing 1.5 million inhabitants and covering some 2500km² – might seem a distinctly minor focus for investigation of this phenomenon. The reality is quite different. Dr Yeung shows that Dongguan has absorbed well over 10 per cent of cumulative foreign investment in Guangdong since 1980. Given the latter's pre-eminent national role as a beneficiary of such inflows, the implication is that Dongguan on its own has accounted, on average, for about 4 per cent of annual inflows of foreign investment into China – and, at its peak, for almost 8 per cent. Indeed, Dr Yeung describes Dongguan as 'one of the fastest growing regions in the world'.

There already exists a rich literature on the nature, rationale and impact of foreign investment in China – much of it focusing on flows of capital between Hong Kong and the Pearl River Delta region (of which Dongguan is a part) in Guangdong. The thrust of such analysis has tended, quite reasonably, to be governed by what are normally thought of as the boundaries of conventional economic analysis. A notable feature of Dr Yeung's study is, however, its willingness to

address not only the economic impact of foreign investment in Dongguan, but also its social consequences and implications.

Readers will find in this book careful analysis of Dongguan's changing economic structure and its recent development strategies. Special consideration is given to its investment environment and the author shows how the attractiveness of the region to foreign (especially Hong Kong) investors has been influenced by locational, economic, administrative and 'cultural' factors. Through the detail made possible by the micro-geographical focus of this study, given vivid expression by the findings of the author's informal and candid interviews in Dongguan and Hong Kong, Dr Yeung's study highlights the complex, mutual interaction of these factors – something likely to be missed by more macro explanations of foreign investment behaviour.

The social implications of Dongguan's development strategy are most obviously captured in the analysis of changing regional differentials associated with its recent growth performance. No less interesting, and perhaps even more original, are the findings with respect to the impact of foreign-investment-driven growth on social values and behaviour in an environment in which local migrants and foreign entrepreneurs have come to assume a strong presence.

Dr Yeung's study, based as it is on hitherto unavailable archival sources (including rich statistical materials) and drawing on the author's direct experience of living and working in the region, is a valuable contribution to understanding the complex and mutually-reinforcing processes of social and economic change in contemporary China. The insights offered in this book will be of the greatest interest to all those involved with China, whether academically, commercially or professionally.

ROBERT ASH

Preface and Acknowledgements

The economic integration undertaken in southern China and its subsequent rapid economic growth has always fascinated me. I have had the privilege of observing and being involved in this integration process, both in southern China directly and indirectly in England. For various reasons – ranging from a desire to facilitate further economic reform in China, to official propaganda – some Chinese officials and Sinologists both over-emphasize (or even dramatize) the beneficial economic effects of the ongoing process of integration and understate its potentially negative socio-economic consequences. This ‘win-win’ ideology is further promoted by the mass media.

As one of the most important (and researchable) aspects of economic integration, the issue of foreign direct investment naturally became the focus of my research. I was surprised to find that the majority of the literature on the issue of foreign direct investment focused either on the macro (the whole of China) or meso-geographical scale (the provincial level). I believed that a detailed case study of a municipal or county-level region in southern China would shed more light on the interaction between the inflow of foreign direct investment and its socio-economic effects, both in qualitative and quantitative terms.

Based on twenty-six case studies, this book investigates the causes and socio-economic effects of foreign direct investment in the Dongguan municipality of southern China during the 1990s. The effects of foreign investment in Dongguan have been momentous. Between 1978 and 1997, the average annual growth rates of real gross domestic product (GDP) per capita, real industrial and agricultural output value, and export value were 13 per cent, 20 per cent and 30 per cent, respectively. Largely based on the fieldwork conducted between 1996 and 1997, this book illustrates (in Chapters 4 and 5) how the inflow of foreign capital has had both ‘desirable’ and ‘undesirable’ socio-economic effects. Despite the government’s efforts, some of the welfare gains resulting from rapid economic growth have been offset by the increase in crime, the intensification of labour abuse (especially that of migrants), the generation of rent-seeking opportunities, the polarization of income and increased pollution (especially from industrial waste).

In addition to being the first comprehensive research based on primary quantitative and qualitative data undertaken in Dongguan, the book proposes a 'dynamic symbiosis' paradigm of foreign direct investment in Chapter 6 to investigate interaction between the political and socio-economic spheres, and their mutual dependence on and relationship with different players in the host country. Unlike the segmented analyses and asocial approaches associated with conventional Western theories of foreign direct investment, the proposed paradigm identifies the political and socio-economic relationships between different players in the host country. By applying the paradigm to Dongguan, the political and socio-economic impetus to foreign investment and the resultant effects are illustrated together with the interaction between and the influence of the various players. As the existing inflow of foreign investment based on personal connections begins to run out of steam, it is suggested that the government should promote a 'rule-of-law' society in order to control rent-seeking activities and enrich its human capital endowment.

A number of people and organizations contributed to the completion of this book. Generous financial support from the Suzy Paine Fund and Cambridge Political Economy Society Trust provided the necessary funding for my nine-month field survey in Dongguan, which subsequently constituted the empirical chapters of the book.

I would like to express my greatest gratitude to Professor Peter Nolan, the Sinyi Professor of Chinese Management at the Judge Institute of Management Studies, University of Cambridge, and the editor of this series, who has shown profound interest in my book. Without his dedication and countless hours of hard work in reading all my drafts, his valuable and critical comments, insights and encouragement, a mere two-page research proposal would not have developed into a book. Professor Malcolm Warner of the Judge Institute of Management Studies; Professor Robert Ash of the School of Oriental and African Studies at the University of London; and Drs Chris Bramall and Ajit Bhalla of Sidney Sussex College at the University of Cambridge also read through the manuscripts and provided numerous critical comments on all chapters. Moreover, Professor Ash kindly prepared the foreword of this book. Their valuable suggestions have certainly improved its readability.

Apart from all the people who granted my requests for formal and informal interviews, and the government officials who facilitated the field survey (who all prefer to remain anonymous), a number of scholars and friends have kindly lent a helping hand at different

stages of the research. Professors Barry Rider of Jesus College at the University of Cambridge, Adrian Wood and Hans Singer of the Institute of Development Studies at the University of Sussex, Doctors Vincent Mok at the Hong Kong Polytechnic University, Leo Cheung at the Hong Kong Baptist University and Alfred H. Y. Lin at the University of Hong Kong, Bilai Zhang, Anxu Wang, Doreen du Boulay, Fran Whittle and Iris Chan have all been particularly helpful. As usual, I bear the sole responsibility for all the remaining omissions and errors in this book.

I am deeply indebted to the unquestioning support of my parents and my wife, Juanita, over the years. Without their encouragement, spiritual support and financial sacrifice, the writing of this book would not have happened. After being elected as a research fellow of Sidney Sussex College, the support of other fellows and the Master allowed me to concentrate my energy on revising the manuscript for publication. The patience and support of the Publishing Director and the Senior Commissioning Editor (Nicola Viinikka) of Palgrave and the Editorial Services Consultant (Keith Povey) were also essential for the publication of this book.

Finally, I would like to pay tribute to Professor Gordon White, late professorial fellow at the Institute of Development Studies at the University of Sussex, who regrettably passed away during the writing of this book. This was a tremendous shock to me. Without the love and encouragement of Gordon when I was an M.Phil. student in the Institute, I might not have been able to finish my graduate education in a foreign country. It is very unfortunate that Gordon is unable to see the fruits of his support in the publication of this book.

GODFREY YEUNG

List of Abbreviations

ASEAN	Association for South-East Asian Nations
CCP	Chinese Communist Party
CJV	Contractual joint venture
DCs	Developed countries
DCFERT	Dongguan's Commission for Foreign Economic Relations and Trade
ECLAC	Economic Commission for Latin America and the Caribbean
EJV	Equity joint venture
EOI	Export-orientated industrialization
FDI	Foreign direct investment
GDP	Gross domestic product
HK	Hong Kong
HK\$	Hong Kong dollars
IDP	Investment development path
JV	Joint venture
KW	Kilowatts
KWh	Kilowatts/hour
LDCs	Less developed countries
NIEs	Newly industrialized economies
OEM	Original equipment manufacturer
OLI	Ownership (O), locational (L) and internalization (I) advantages for foreign direct investment proposed by John Dunning
P&A	Processing and assembling
PRC	People's Republic of China
R&D	Research and development
RMB	<i>Renminbi</i> , Chinese currency, the unit is <i>yuan</i>
<i>sanlai yibu</i>	Foreign investment in forms of processing and assembling and compensation trade
<i>sanzi qiye</i>	Three forms of foreign-financed enterprise, including equity joint ventures, contractual joint ventures and wholly foreign-owned ventures
SEZ	Special Economic Zone
SMEs	Small and medium-sized enterprises
SOEs	State-owned enterprises

TNCs	Transnational corporation
TQM	Total quality management
TVEs	Township and village enterprises
USA	United States of America
US\$	United States dollar
VAT	Value added tax
WFV	Wholly foreign-owned venture
WWII	The Second World War

Notes:

1 billion = 1000 million

1 US\$ = 8.28 RMB in 1997

1 *mu* = 666.66m²

Apart from well-known names, such as Mao Tse-tung, all the Chinese terms in the text are in Mandarin (*pin-yin* system) rather than Cantonese (Yale romanization system).