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Comment Stephen Yeaple

The foreign activities of American corporations have long been a source of concern to both the American public and to American policymakers. The list of potential concerns is long. Does the expansion of foreign production capabilities abroad threaten the availability of jobs that have traditionally been filled by American citizens? Does the transfer of technologies by American corporations to their foreign affiliates result in the loss of American competitiveness in key industries? What impact does multinational activity have on the balance of payments of the United States? It is concerns such as these that have motivated the careful collection of data by the U.S. Bureau of Economic Analysis (BEA) over the last several decades the on the foreign activities of American multinationals. More recently, these traditional concerns about the foreign activities of U.S. multinational enterprises (MNEs) on the U.S. economy have been magnified by the rapid expansion of economic activity in China.

In this chapter, Professors Bramstetter and Foley argue that assertions frequently made by commentators with respect to the activities of U.S. MNEs in China are false. These assertions essentially are of two types. According to the first, the activities of U.S. MNEs have had a substantial impact on Chinese economic development and its integration into the international trading system. According to the second, the activities of U.S. MNEs in China

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have resulted in a substantial diversion of economic activity away from the United States and from other countries that host affiliates of U.S. MNEs. Unfortunately, there is no direct way to falsify these assertions because we cannot observe the counterfactual state of the world in which U.S. MNEs cannot invest in China. Instead, Professors Bramstetter and Foley ask whether the magnitude of activity of U.S. MNEs in China is consistent with an important impact on the global structure of economic activity.

The recurring message throughout the paper is that the magnitude of U.S. multinational activity into China is quite limited in size and scope. First, compared to U.S. multinational activity in traditional hosts, such as Canada, Mexico, and the European Union, the activity at the Chinese affiliates of U.S. corporations does not appear unduly large and so is unlikely to have had an unusually large impact on Chinese economic development. Second, this activity appears primarily geared toward the Chinese market rather than toward serving the American market and so is unlikely to have displaced much economic activity in other countries. Third, there is no direct evidence that American firms that increase employment in China reduce employment elsewhere, which further reduces the concern that U.S. foreign direct investment (FDI) in China diverts economic activity from elsewhere. Finally, American research and development (R&D) does not yet appear to be in the process of being offshored to China.

The sober assessment of U.S. multinational activity in China provided by the authors is well taken. If the popular view is that U.S. multinational activity is “large” in the sense that it dwarfs all U.S. multinational activity elsewhere, then the popular view is mistaken. However, “large” is not a very precise term, and an alternative reading is that U.S. multinational activity is reasonably substantial at least according to some metrics. Hence, it may be premature to conclude that U.S. FDI in China has been of little importance to the Chinese economy or to the economies of other countries.

Consider one particular metric of the size of U.S. MNE activity in China: the magnitude of employment at the Chinese affiliates of U.S. firms relative to employment at majority-owned manufacturing affiliates located in different countries. Table 13C.1 reports employment statistics from the BEA for U.S. affiliates for the seven host countries in which U.S. MNEs are the most active. Table 13C.1 shows the name of the host country and the aggregate manufacturing employment at U.S. affiliates by host country. The countries are listed in order of the size of employment. As the table reveals, China is the fifth largest according to this metric and second largest among middle-income countries. Whether U.S. FDI in China is “small” depends on your frame of reference. Surely, U.S. MNEs have a larger impact on the economy of Mexico than on the economy of China, but relative to most countries, it is not clear that the impact of U.S. MNE activity is unusually small.

Even if one were to conclude that the aggregate employment of U.S. manufacturing affiliates in China is small, China may still be “large” in specific industrial categories. Table 13C.2 reports the host country employment

Table 13C.1 Employment of majority-owned foreign affiliates of U.S. multinational enterprises in 2004 (manufacturing)

Country	Manufacturing (in thousands)
Mexico	526.0
Canada	405.3
United Kingdom	368.7
Germany	364.8
China	275.8
Brazil	249.7
France	237.9

Table 13C.2 Employment of majority-owned foreign affiliates of U.S. multinational enterprises in 2004 (computers and electronics)

Country	Computers and electronic products (in thousands)
China	98.3
Mexico	78.5
Malaysia	63.2
Singapore	39.6
Canada	38.0
United Kingdom	29.2
Germany	28.5

of U.S. affiliates in the computer and electronic product industries. In this particular industry, employment by U.S. affiliates in China is larger than in any other host country. Again, the question of whether in an absolute sense Chinese employment is large can be debated, but relative to other countries, it is not small.

That China is relatively large in terms of manufacturing employment in 2004 is all the more impressive given how small China was a decade ago. Since 1994, employment at the Chinese affiliates of U.S. companies has grown 390 percent, which is by far the fastest of any major destination country! Much of this growth can be thought of as a stock adjustment from very low levels of employment in the mid-1990s to a level consistent with the size of the Chinese economy by the turn of the century.

Figure 13C.1 illustrates the difference between the actual level of manufacturing employment (in logarithms) at U.S. affiliates and the level predicted by a simple gravity equation. The figure reveals that U.S. multinational activity into China in 1994 was far below the level expected for a country of China's size. By 1999, the gap between actual and predicted disappears, and there is little deviation thereafter. Keep in mind, however, that the Chinese economy has grown very rapidly over the last four years, and employment growth has kept apace. The stock adjustment of the late 1990s may well have

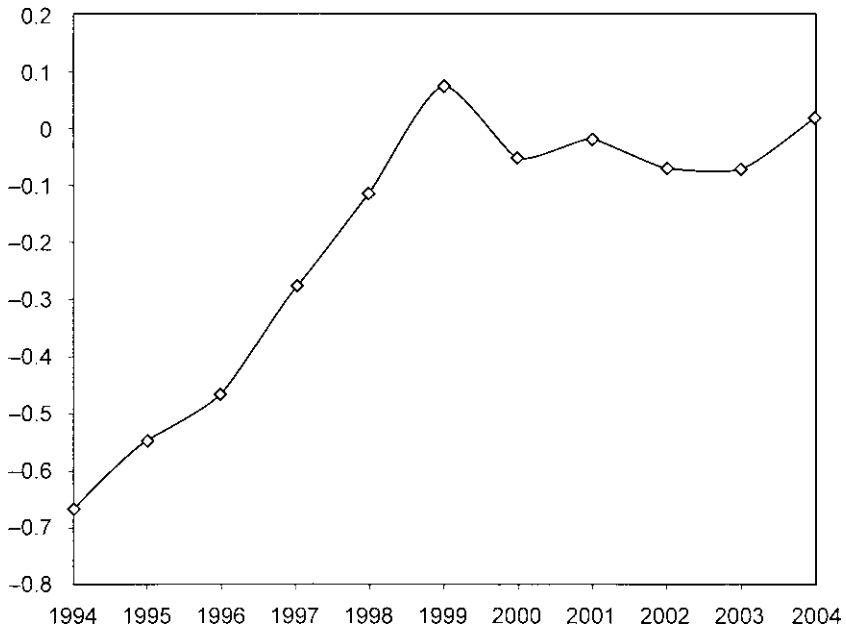


Fig. 13C.1 The difference between actual and predicted log employment at U.S.-owned Chinese affiliates

inflated perceptions about the size of U.S. FDI into China, but given the rapid growth of the Chinese economy, it would still seem to be safe to say that this expansion has been “large.”

Assessing whether the rapid growth of employment at Chinese affiliates over the last decade has proven disruptive to other developing countries is a tricky exercise. Certainly the perception that China is a threat is strong in other middle-income countries such as Mexico. It is worth noting in the case of Mexico, that between 2000 and 2004, when the employment of U.S.-owned Chinese manufacturing affiliates expanded from approximately 193,000 to roughly 276,000, the employment of the Mexican manufacturing affiliates of U.S. firms contracted from about 642,000 to 526,000. Other examples of contraction can be found as well: employment at U.S. manufacturing affiliates in Malaysia contracted from 108,000 in 2000 to 82,000 in 2004. Whether there is any direct link between these facts cannot be substantiated using the publicly available BEA data, but the fact that employment has fallen over this period in other major middle-income countries makes the rapid growth in China all the more impressive.¹

An important point made by Professors Bramstetter and Foley is that very

1. It would be worthwhile to apply the analysis used to create table 13.8 in Branstetter and Foley to individual countries.

little of what is produced by U.S. affiliates in China is exported directly back to the United States and so is unlikely to have directly resulted in substantial American job loss. As is frequently the case in large countries, U.S. affiliates appear to serve primarily the host-country market. One interesting fact that would be useful to explore further is the sales category, “exports to third countries.” While the value of total sales of U.S. affiliates grew 168 percent between 1999 and 2004, the value of exports to third countries has grown 235 percent. This suggests that U.S.-owned affiliates operating in China are increasingly integrated into Asian production networks. To the extent that these production networks ultimately result in exports to the United States, it may be a bit premature to argue that U.S. FDI in China has had very little direct effect on the U.S. economy simply because the volume of direct exports is low.

Perhaps the strongest point made by Bramstetter and Foley concerns the R&D conducted by U.S. multinationals in China. Here, the hype in the popular press appears to be the most out of touch with the facts as presented in the chapter. It may be a long time before U.S. multinationals can be accurately accused of offshoring technology development to China, and so American prowess in R&D does not appear to be undermined directly by the technology sourcing of American MNEs. It should be pointed out, however, that this does not mean that American FDI in China has not had an impact on Chinese productivity: technology spillovers and agglomeration benefits through upstream suppliers are alternative channels through which U.S. FDI could affect the relative productivity of Chinese firms.

In conclusion, as Professors Bramstetter and Foley argue, it is easy to overstate the size and activity of U.S. MNEs in China. Public perceptions of the role of U.S. firms in offshoring production to China may well be out of line with reality and so overstate the economic importance of U.S. MNE activity in Chinese economic development. As the authors convincingly demonstrate, relative to a “gravity equation” benchmark, the level of U.S. multinational activity in China is unexceptional. Further, to the extent that multinationals play an important role in Chinese economic development, it is probably multinationals originating from other Asian countries such as Korea and Japan that have had the largest impact.

China is an exceptional country, however, in terms of its size and in terms of its breakneck speed of economic growth. It would be hard to argue that events in China have not had wide-ranging economic ramifications throughout the world. Indeed, the growth of employment at U.S. multinationals in China has been exceptionally fast even as it has fallen in other major middle-income host countries. It is premature, therefore, to conclude that the ability of U.S. firms to invest in China has not resulted in a diversion of economic activity, particularly in the case of certain industries, such as computers and electronics, and in the case of particular alternative host countries, such as Mexico and Malaysia.