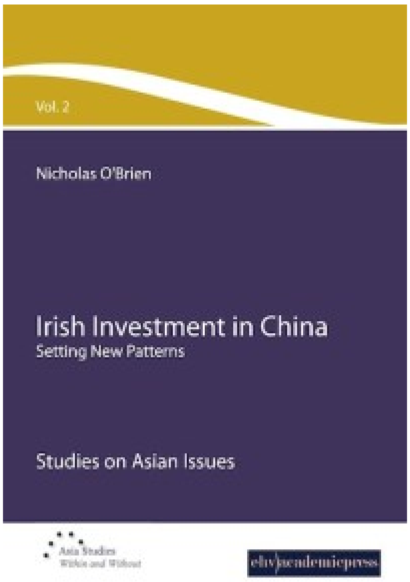
# Chapter 5: Irish FDI In China ~ Evidence, Potential And Policy ~ Irish Investment In China. Setting New Patterns




*Introduction*
Having set out the locational advantages and disadvantages which China possesses, this chapter will explore the non-applicability of Irish FDI in China to Barry et al's (2003) model for developed economies, and will attempt to explain why there is such a divergence. It can be argued that there is a view which equates outward FDI with the re-location of jobs abroad. In order to address this perception, the effects of outward FDI on the home economy will be explored. Acknowledging that our sub-hypothesis holds and that the investment climate in China is different from that faced by Irish investors in developed economies, we will explore our prescriptive research question, namely the role which exists for government in supporting potential investors who wish to enter the Chinese market.

*Barry's Model*
Barry et al's (2003) model states that Irish outward FDI is disproportionately horizontal in nature and oriented towards non-traded sectors. This model is based on an analysis of Irish FDI in the traditional destinations for Irish FDI, namely the US and UK, both of which are developed economies. This research analysed Irish FDI in China, a developing economy. While accepting the limited nature of this research, it was found that 82% of FDI is in the traded sector and only 18% in the non-traded sector. It can be said, therefore, that this finding is at variance with the model for developed economies, as set out by Barry et al (2003). Secondly, in relation to the horizontal or vertical nature of Irish FDI in China, this research identified 55% as being of a horizontal nature and 45% as being vertical. Barry et al's model states that Irish traditional FDI in developed economies is "disproportionately horizontal in nature'. 55% could not be described as

'disproportionately horizontal'. Accordingly, this finding also deviates from Barry et al's model. Accepting the difficulty of measuring the true level of horizontal versus vertical FDI, as highlighted in the literature review, the figure of 55% is below the level of 70% which Moosa (2002) contends may be the general order of horizontal FDI. This points to the level of horizontal Irish FDI in China being somewhat lower than the norm and not as strong as would have been anticipated had it been in accordance with Barry et al's model.

We can say that this research indicates that the current wave of Irish FDI in China is predominately in the traded sector and marginally horizontal in nature.

Accepting that the sample size for this research is limited, it is nevertheless an accurate reflection of current investment patterns by Irish MNEs in China.

**Table 5: A comparison of Irish investment in the US and China by sectoral composition (in percentage terms)**

| Sector | Irish Investment in China(rounded) | Irish Investment in the US |
|---|---|---|
| Food, drink and agribusiness | 20 | 17.5 |
| Print, paper and publishing | 10 | 16.2 |
| IT, telecoms and electronics | 20 | 4.0 |
| Chemical and pharmaceuticals | 10 | 9.5 |
| Other manufacturing | 20 | 5.8 |
| Construction, property | 10 | 22.2 |
| Financial services | 0 | 22.5 |
| Services (consulting, retail etc) | 10 | 2.3 |
| Total | 100.0 | 100.0 |

Table 5: A comparison of Irish investment in the US and China by sectoral composition (in percentage terms)

*Irish FDI in China and Barry's Model*

It is also interesting to examine whether the limited Irish investment in China diverges or conforms to the sectoral composition identified by Barry et al (2003) for developed economies. Using the categorisation of Irish investment in the US put forward by Barry et al (*see table 3 in previous chapter*), the following comparisons can be made (*Table 5*):

The percentage for food, print and chemicals is not greatly different between both categories. IT, telecoms and electronics are considerably more important in the case of China. Significant deviations can be identified in 'other manufacturing', financial services and construction to a lesser degree. Notably, the Irish financial service sector is absent from China. Again acknowledging the small sample size of this research, current Irish investment trends into China show a divergence from patterns identified for investment in the US.

Why then does Irish FDI deviate from Barry et al's model and also diverge in sectoral composition from that identified in traditional destinations for Irish outward FDI? There may be several possible explanations.

Recalling that firms invest abroad because they possess ownership and internalisation advantages, Barry et al (2003) suggest that R&D and superior product differentiation through advertising are generally found to be the most important firm-specific assets associated with multinationality; but Irish MNEs do not appear to follow the standard pattern associated with multinationality. Instead, they propose that the predominant proprietary assets which Irish firms possess are in the fields of management and expertise, mainly in non-traded sectors. However, this research found that the composition of Irish MNEs investing in China is largely in the traded sector. It is possible, therefore, that because the expertise of Irish MNEs largely lies in the non-traded sector, this is inhibiting current levels of FDI in China, given the largely manufacturing and traded nature of the Chinese economy at this point in time.

Secondly, the structure of the Irish economy can be broadly defined as highvalue output with little high-volume low-value manufacturing. (This results from the relatively high cost structure of the economy, as compared with developing economies). While Barry et al point out that the Investment Development Path hypothesis is silent on the distinction between vertical and horizontal FDI, they claim that as production costs rise there is an incentive for domestic firms to engage in vertical FDI, moving labour-intensive components to countries with a locational advantage in low-cost labour. This opportunity was identified by a very limited number of Irish MNEs. While China's low wage cost environment may facilitate some Irish investment, market opportunity remains the primary investment objective.

Barry et al point to a large increase in outward investment by Irish firms in the US in hi-tech sectors such as information technology and the pharmaceutical industries. There has been limited investment by the Irish information technology industry in China and none by the pharmaceutical industry. IPR is a substantial component of ownership advantage in both of these industries. This research identified the risk to intellectual property rights (IPR) which investing in China may pose. This view was reflected not only among Irish MNEs which have invested in China, but also among executives of Irish MNEs which have invested in Eastern Europe. The threat to IPR was identified by the latter category as the most significant reason not to invest in China. The absence of predictable contract law was also cited. This was also evidenced by Irish investors in China in the food and chemical industries in China. Therefore, the information technology and the pharmaceutical industries may not be willing to commit to China until they are assured that their primary ownership advantage, namely IPR, will be adequately protected.

A factor possibly underlying the high level of investment in traded sectors may be the rapid emergence of China's consumer base. In the case of China, the development of a critical mass of high-spending consumers has occurred in a relatively short period of time. It is possible that indigenous firms have not developed adequately to respond to the demands of consumers. However, with the focus in Irish industry on the service sector, Irish firms may not be well placed to take advantage of current consumer trends in China. A fifth possible explanation is that China's service sector is in the early stages of development, whereas this represents a strong component of Irish industry. Therefore an explanation for the divergence in Irish investment in China from that identified by Barry et al for developed economies could be that it is the Irish manufacturing sector which is predominately investing in China, as against in developed economies.

The reasons advanced for the divergence between the results of this research and that of Barry et al (2003) point to the under-developed service sector, the lack of respect for legal norms, and the large manufacturing component in the Chinese economy. Du Pont (2000) has identified the emergence of the service and construction sectors. This may present additional locational advantages for Irish investors. By analysing industries in which Irish MNEs possess ownership and internalisation advantages it would be possible to identify which sectors may be keen to exploit China's locational advantage in the coming years.

Table 6: Asia Strategy - Targeted Sectors

| Economic Sectors | Targeted Asian Priority Countries |
|---|---|
| SERVICES EXPORTS | |
| Information Technologies | Japan, Korea, China, Singapore, Malaysia, Thailand Vietnam, India, Australia/NZ |
| Telecoms Applications | Japan, Korea, China, Singapore, India, Australia/NZ |
| Financial Software and Services | Singapore, India, Australia, New Zealand, China |
| eLearning | China, India Australia/NZ |
| Education Services | China, Korea, China, India, Malaysia, Singapore, Australia/NZ |
| Construction Services | Japan, Korea, China, India |
| Consultancy Services | China, India |
| Others – for example, Aviation, Security, Biometrics | Japan, Korea, China, Singapore, Malaysia, Thailand, Vietnam, India, Australia/NZ |
| GOODS EXPORTS | |
| Healthcare Devices and Pharmaceuticals | China, Japan, India |
| Biotechnology | Japan |
| Agricultural Machinery and Veterinary Pharmaceuticals | Australia/NZ, Korea, |
| Electronics and Industrial Goods | Japan, China, India |
| Consumer Products | Japan, Australia/NZ |
| Nanotechnology | Japan |
| Food, Drink and Seafood | Japan, China, Hong Kong and other Asian markets |

Note: Although Australia/NZ are not included in the Asia Strategy, they are included in the above chart.

Table 6: Asia Strategy – Targeted Sectors
Note: Although Australia/NZ are not included in the Asia Strategy, they are included in the above chart. Source: Government of Ireland (2005)

*The Potential for Irish Investment*

The Government of Ireland's (2005) Asia Strategy provides assistance is seeking to identify which sectors of the Irish economy are likely to possess the ownership and internalisation advantages required to exploit China's locational advantages and overcome potential locational disadvantages. While the focus of the Asia Strategy is trade, it can be argued that these sectors are also likely to succeed in the investment domain, given the strong relationship between trade and investment. *Table 6* sets out the Government's recommendation as to which sectors of the economy should intensify their efforts in particular Asian economies.

The major sectors highlighted for the Chinese market in the goods sectors are healthcare devices, electronics, and food, drink and seafood. In the services sector, the categories are information technology, telecoms, financial software, education, and construction. Of these, Irish MNEs have already invested in the electronics, food, information technology and construction categories. In the case of the four remaining sectors, non-Irish MNEs were included in this research so as to capture the experience and perceptions of executives from all eight industrial sectors which are suggested as target sectors for developing economic links with China. The following section will consider issues of note raised by the executives from these industries and potential areas for investment will be highlighted. However, an in-depth analysis of the sectoral opportunities for investors lies outside the scope of this research.

Within the goods sector, the need to strengthen IPR protection was identified as a locational challenge by the executives from the electronics and food sectors. The food MNEs which have invested in China have decided to participate in the business-to-business sector and not the retail sector. They identified this as a stronger means of protecting intellectual property and also recognised the high cost of entry barriers to the retail market in terms of advertising costs. One food sector executive also spoke of the MNE's plan to service the market in the west coast of the US from its Chinese plant rather than from Europe, which is what it does at present. This locational advantage for European investors was not highlighted in the literature on European investment in China. A food sector executive also spoke of the lack of national treatment. The electronics executive identified the critical mass of electronic MNEs in China as a key consideration in deciding to invest.
Barry et al (2003) point to the increase in the number of Irish IT MNEs investing abroad since 2000. This research identified a divergence of views between the executives of the Irish and the non-Irish IT MNEs, with the former citing IPR risk as being at the same level as in other markets, whereas the latter spoke of the significant risk which IPR violation poses. An executive of an Irish IT MNE which has invested in Eastern Europe cited the potential risk to IPR as a reason for not investing in China. McDonnell (1992) argues that if a sufficient return accrues to the parent firm to compensate for this risk, then the location of R&D overseas is deemed worthwhile. It would appear that if a firm is manufacturing retail software in China, there is a potential risk of IPR violation. This risk is reduced when the MNE operates in the business-to-business sector exclusively.

There is currently no Irish investment in the telecoms sector in China. There is a high level of state control in the telecommunications industry. 'As the reform of state-owned telecoms continue, the market is not creating opportunity for foreign actors as understood under China's WTO commitments'. (European Union Chamber of Commerce in China, 2005: 223) The fixed line and mobile network is state owned and there is scope for investors in the telecoms equipment sector only. No particular locational disadvantages were identified in this sub-sector.

The financial sector was identified as one of strong regulation, but also one of opportunity. China's growth over the past 25 years has been achieved within the context of a closed banking system. This worked by channeling individual savings into state-owned banks which were used to fund state-owned enterprises. With the opening up of the banking sector in 2006 in response to WTO obligations opportunities will increase for foreign banks to offer loans to profitable private and state-owned enterprises. This presents an opportunity for niche market lending. It also offers significant financial service opportunities as the state-owned 'big four' banks will be obliged to restructure and modernise. The banking executive identified a skills deficiency in Chinese banks. This represents a locational challenge for foreign investors who wish to establish banking operations in China, but a market opportunity for providers of specialised financial services.

The education sector in China is closely regulated, as identified by an executive from this sector. If Irish investors wish to enter this sector, it would seem that the optimal route is to co-invest with a Chinese minority shareholder. Because of the risks which joint ventures pose to ownership advantage, as identified in this research, this structure is best avoided. It is also important that education providers appreciate the changing structure of the Chinese market. 'China graduated a million technicians and engineers in 2001. That figure leapt to 2 million in 2003 and will go still higher. And the quality of engineering training has improved to the extent that fewer Chinese are now going to the United States for engineering degrees because they can obtain excellent education more cheaply at home'. (Lieberthal and Lieberthal, 2004: 4-5) This trend points to fewer Chinese students being willing to make the investment associated with studying abroad. If this trend continues, education providers from developed economies need to re-focus their efforts and seek to create strategic partnerships with Chinese colleges and, in addition, to consider the direct provision of education services in China, rather than seeking to attract Chinese students to study abroad exclusively. An option which several Irish third-level institutions have successfully established is one whereby students study in both the Chinese and Irish institutions e.g three years study in China and one in Ireland.

As identified by Barry et al (2003), the construction sector is one of the most active in Irish outward FDI. Xianming (2004) gives an indication of the size of this

sector in China. 200 million metric tons of cement are produced every year in Western Europe. In China the figure is 1,000 million metric tons. Irish construction multinationals have already displayed their ownership and internalisation advantages and have an overseas presence. China would seem to be the appropriate next stage of investment, given the nature of the expanding industry in China and the locational advantage which this confers.
In addition to these sectors, some Irish firms may wish to examine the opportunities for moving low-value manufacturing to China and strengthening their head-office operations at home. This could have the outcome of placing the firm on a stronger financial footing in the medium term. The reality is that it is becoming increasingly difficult for Irish companies to profitably manufacture lowvalue products in Ireland, given the relatively high cost base as compared with Asia. If a firm wishes to protect its ownership advantage, it may have to evaluate its internalisation advantage and examine the option of creating a manufacturing subsidiary in China whilst retaining the higher-paid jobs in the home economy e.g. finance, design etc. This practice is sometimes portrayed as the relocation of jobs, but the reality is that it is difficult to continue such manufacturing in developed economies. In the medium term, the result is the retention of higher paid and more skilled jobs in the home economy.

*Home Country Effect*
'People take national pride when their MNEs do well in Fortunes' ranking of the largest firms in the world, but they worry when they see their companies closing domestic plants and opening up new ones in cheap-labour countries. Feelings are mixed because the issue is intricate'. (Navaretti and Venables,2004: 217) Responding to this argument, O' Toole (2007: 397) argues that 'the small number of studies that examine the productivity effects of offshoring production at an aggregate economy wide level suggest that it has a positive impact in the long run, particularly for small countries like Ireland'. In the same vein, Forfás (2001) argues that outward FDI should not be seen as an indication of economic decline, but a restructuring into higher value-added activities that will form the basis of long-term growth in competitiveness, exports and employment.

While by no means conclusive, overseas studies suggest that outward direct investment has been broadly beneficial for the 'home' economies concerned, boosting domestic exports, employment and wages, and providing a catalyst for restructuring of the domestic economy into higher value-added activities… Where

key drivers in the business environment, such as taxation, infrastructure and the availability of skilled workers are supportive of high value-added activities being located in the domestic economy, then outward direct investment acts as a positive force in economic development, leading to the creation of high-skilled, highly paid employment. (Forfás 2001: Foreword)
Outward FDI is seen as having effects primarily in the areas of employment, taxation, and technology transfer. There is still considerable debate among economists about the employment effects of FDI in both the host and the home economies. In particular, the effect of outward FDI on employment levels at home is a controversial issue. (Moosa, 2002) Critics argue that outward FDI diminishes employment levels at home as the output of foreign subsidiaries becomes a substitute for output from the parent firm in the home economy. However, proponents of outward FDI contend that FDI creates jobs in the domestic economy because domestic firms export more when they have foreign subsidiaries.

Blomstrom et al (1988) analysed the employment data of Swedish MNEs, which showed that MNEs with subsidiaries abroad have higher levels of employment in head office operations when compared with firms which have not invested abroad. Head and Ries (2001) conducted research on 932 Japanese manufacturing firms over a 25-year period. They confirmed a complementarity between FDI and employment. The relationship, however, varies across firms. They found substitution when firms are not vertically integrated and assembly facilities in foreign countries are not supplied by intermediates produced at home.

Forfás (2001) clearly does not subscribe to the notion that outward FDI is a relocation of Irish jobs that will damage Irish industry.

*Despite fears that outward direct investment by Irish companies may lead to a 'hollowing out' of industry and loss of exports, studies of countries with long experiences of high levels of outward direct investment all indicate that outward direct investment and exports are broadly complementary. According to one OECD study of member countries, each $1 of outward direct investment was associated with $2 of additional exports and a trade surplus of $ 1.70.* (Forfás, 2001: 4-5)

Forfás also points to the international evidence which suggests that outward FDI has broadly positive effects on employment and wage levels in the domestic economy. Research commissioned by Forfás shows that ‘overseas investment by Irish companies has created demand for high-skilled employment at their respective head offices in Ireland e.g. for accountants, managers and marketing specialists’. (Forfás, 2001: 5)

In support of this view, the executive of an Irish MNE specifically argued that the company’s investment in China has added value to global operations and not threatened jobs at the Irish parent firm. Indeed, it was argued that having an R&D facility in China has helped the firm acquire new clients in China and grow global operations. The literature on the effect of outward FDI on employment in the home economy is far from conclusive. There appears to be some evidence that vertical FDI may complement domestic activities, whereas horizontal FDI may have a substitution effect. ‘These results contrast with the general belief that investments in cheap-labour countries weaken home activities, whereas those in other advanced economies enhance the national presence in foreign markets.
The reason is probably that vertical investment reduces production costs for the MNE as a whole, therefore raising output and employment of complementary activities at home or at least preventing them from declining’. (Navaretti and Venables, 2004: 44) This research established that Irish FDI in China does not follow the general trend identified by Barry et al and is not predominately horizontal. If vertical FDI is complementary to employment in a home economy, then Irish FDI in China may have less of an impact on employment in Ireland than outward FDI to other locations where horizontal FDI dominates.
Even if commentators hold differing views on this issue, there is a public perception that outward FDI involves the relocation of jobs to a third country. Perhaps this is an issue which needs to be addressed by commentators. While it may not be the most popular issue to address, the Irish economy is in a state of transition, having recently become a net exporter of FDI. From an economic governance perspective, it is important that issues surrounding this development are explored and policies enunciated.

Outward FDI also has an effect on taxation. Feldstein (1994) considers the effect of outward FDI in both the host and the home economies on taxes and tax credits. He argues that in the event of outward FDI the national income of the home economy will be affected, depending on the magnitude of the loss of tax revenue to the host economy and the use of foreign debt. He analyses these two factors, assuming most national savings remain in the home economy. He points out that the payment of tax to the host government by a subsidiary of the investing firm represents a loss of revenue by the home government. If investing firms receive tax credits for these payments, as they would do if a double taxation treaty exists, the firm will be indifferent to where the tax is paid. The firm will remain indifferent until the after-tax rate of return on the foreign investment is equal to the after-tax return on domestic investment. Another pertinent issue is whether or not outward FDI has an impact on technology up-grading and investment in R&D in the home economy.

Technology transfer to the host economy can take place through the adoption of foreign technology and the acquisition of human capital. FDI by MNEs is considered to be a major channel for the transfer of technology to developing economies. (Moosa, 2002) However, multinational enterprises will invest in technological research or the adaptation of their technology or in up-skilling local labour only to the extent that such investment holds a clear prospect of profit. The gains which accrue to the host economy are largely incidental, arising from the fact that it is in the multinational's interest for such transfers to take place (McDonnell, 1992). Moosa (2002) argues that the benefits of technology's accruing to the investing firm and the host economy are substantial.

From the perspective of the home economy as a whole, rather than the individual firm, there is an interest in retaining the key technological components at home. What may be of value to the home economy is exporting slightly obsolete technology to the host economy, which can be used to increase market penetration.**[i]** In order to maximise long-term growth, technologically advanced countries need to protect high-value technology. However, the individual firm is a profit-maximiser and will be indifferent as to where it locates its intellectual property as long as the ownership advantage can be adequately protected.

While there will be understandable adverse comment on individual factory closures in developed economies when manufacturing facilities are relocated to lower-cost economies, the evidence would appear to indicate more positive than negative effects. 'Foreign investments are more likely to strengthen than to deplete home activities… Comparing firms investing abroad and national firms just operating in the home country, we find that investing abroad enhances the productivity path of investing firms'. (Navaretti and Venables, 2004: 239)

Acknowledging that research on home country effects is limited, the material available indicates that it is in the long-term interests of the home economy for its firms to invest abroad because of the potential for market expansion or the production of goods at a lower cost. In the case of Ireland, a detailed econometric model would be required to accurately predict the likely outcome. One of the problems identified by Moosa (2002) is the lack of data to adequately assess the impact of outward investment on employment.

*Irish Public Policy*

The sub-hypothesis under study has been found to be valid, as this research has indicated that the business environment in China is relatively different from that experienced by Irish investors in traditional destinations for Irish outward FDI. Given this challenging environment and the presence of imperfect market conditions, the question arises as to the role which exists for state intervention in ameliorating these market imperfections.

There is no enunciated government policy on outward FDI. While there are understandable emotive connotations associated with outward FDI, in today's globalised economy national governments evaluate their economic strategies and policies on an on-going basis. With Ireland now a net exporter of FDI, perhaps it is opportune for a policy debate on this economic governance issue.

Ireland is an extremely open economy and subject to external economic pressures. The degree of transnationality of host countries, as measured by UNCTAD's Transnationality Index,**[ii]** shows that the most transnationalised economy in 2003 was Hong Kong, which was followed by Ireland in second place. (UNCTAD, 2006) In addition, Forfás and Enterprise Ireland (2004) point out that companies supported by Enterprise Ireland supported over 23,000 workers in overseas operations in 2003. This figure is equal to 17.5% of total employment in these companies. Given the positive effects of outward FDI, particularly in strengthening high-value wage employment at the head office, such developments have policy implications and require consideration.

Table 7: FDI Promotion Programmes of Industrialised Countries

| Country | Information | Match-making | Missions and Seminars | Sectoral Studies | Feasibility Studies | Project Development and Start-up |
|---|---|---|---|---|---|---|
| Austria | X | | X | | | X |
| Belgium | X | X | X | X | X | X |
| Canada | X | X | X | | X | X |
| Denmark | X | X | | | X | X |
| Finland | X | | X | X | X | X |
| France | X | | | | X | X |
| Germany | X | X | X | X | X | X |
| Italy | X | X | X | X | X | X |
| Japan | X | X | X | X | X | X |
| Netherlands | X | X | X | X | X | |
| Sweden | X | X | | | X | |
| Switzerland | X | X | X | X | X | X |
| United States | X | X | X | X | X | X |

*Source: International Finance Corporation (1997: 23)*

Table 7: FDI Promotion Programmes of Industrialised Countries

Source: International Finance Corporation (1997: 23)

Indeed, governments in a number of other developed economies accept that market imperfections exist in the case of outward FDI, and operate investment promotion programmes to help national firms that wish to invest abroad. These programmes are generally focused on the provision of information on the target country, sponsoring missions of potential investors, matching potential investors to projects, and giving financial support for feasibility studies. Small- and medium-sized enterprises are normally targeted on the assumption that they lack the resources to seek out investment opportunities. The International Finance Corporation (1997: 23) argues that 'the use of public funds is justified by a market imperfection, in this case the cost and difficulty of securing information about investments in developing countries'. *Table 7* sets out the range of services available to potential outward investors in 13 developed economies.

In an interview with a senior executive of Enterprise Ireland it was confirmed that assistance may be provided to outward investors if it could be shown that outward FDI would not adversely affect employment in the Irish firm's operation and would add value to the Irish firm. Assistance in gathering information would be offered on this basis. Also, it would be possible to include such companies in trade missions, but not to provide a specific investment focus. Perhaps consideration could be given to formalising such arrangements. Understandably, government agencies must operate within very careful parameters and not be seen to assist any company relocating and shedding jobs in the home economy, but they do work with companies who need to outsource certain activities which will make the company's overall position more secure and help make it more competitive at home.

Currently no individual state agency has responsibility for outward FDI in the manner in which Enterprise Ireland is charged with promoting Irish trade and the Industrial Development Agency is responsible for attracting inward FDI in Ireland. Understandably, facilitating Irish outward FDI is a sensitive issue but, as argued above, such FDI should be developed if Ireland is to further develop its economy.

This research identified market imperfections in the Chinese economy, which investors must deal with. Economic theory makes provision for state intervention when market imperfections exist. (Mulreany, 1999) Drawing on the findings of this research, potential areas of state support could be explored with a view to ameliorating the impact of China's market imperfections. Barry et al (2003) suggest that Irish MNEs do not exhibit the normal proprietary assets associated with the horizontal multinationalisation of the firms. They point to the difficulties facing firms in late-developing regions in surmounting FDI entry barriers. This strengthens the case for government intervention in facilitating investors and seeking to reduce the impact of imperfect market conditions.

Perhaps the first objective of any government intervention must be based on an informed and constructive debate on the impact of outward FDI on the Irish economy. As argued above, this is an important dimension of economic governance, given Ireland's status as a net outward investor of FDI. Responding to concerns that outward FDI is the relocation of Irish jobs to a third country, arguments proposed by commentators such as Navaretti and Venables (2004) to the effect that outward FDI actually strengthens economic activity in the home economy could be drawn on. The case of the US could be cited. It is the source of most outward FDI, yet it is the largest global economy. Arguments could be advanced that the goal of assisting Irish firms to invest overseas would be to protect the higher value, more skilled employment, with a focus on maintaining head office, R&D and core functions in Ireland.

Consideration might also be given to the expansion of the Government's Asia Strategy to incorporate the facilitation of outward FDI. IBEC (2006: 63) argues that 'Asia clearly shows potential for increasing outward foreign direct investment by a number of Irish companies'. The focus of an expanded Asia Strategy could be on providing information and assistance to medium-sized firms that wish to invest overseas, sponsoring missions of potential investors, matching potential investors to projects, and giving financial support for feasibility studies All forms of international activity are management intensive, foreign investment particularly so. Information gathering, a crucial part of the feedback process, is particularly time intensive. IBEC (2006) found that China scored the highest of the twelve Asian countries included in its research on a lack of market intelligence. The comment by one executive of a firm which has invested in Eastern Europe but not in China, that the management team did not feel competent to deal with the challenges associated with investing in China, points to the desirability of some form of government assistance. In addition, 'small firms face a high degree of risk in going international, it is likely that the proportion of resources committed to a single foreign direct investment will be greater in a small firm than a large one'. (Buckley, 1997: 35) Consideration could be given to putting in place a range of services for investors, similar to those identified in table 8 above, with a view to providing market intelligence and support for those Irish firms which wish to invest in China.

All Irish and non-Irish participants bar one saw no role for the home country government in providing financial support to investing MNEs. They were of the clear view that it was inappropriate for home governments to subside investment overseas and that investment should be undertaken based on clear economic rationale. However, all executives envisaged a role for home government 'soft' supports to varying degrees.
Utilising the analytical framework of state supports employed by the IFC, as set out in table 8 above, the executives of Irish MNEs interviewed within the framework of this research identified the need for a greater provision of information by state agencies. In addition, the lack of assigned responsibility to any state body for the provision of assistance for outward investors was identified. The lack of a specific focus on outward investment in 'trade missions' was raised, as were the lack of potential 'match-making' and funding for feasibility studies. With a very slight re-focussing, the introduction of these services would assist Irish MNEs in their endeavours to invest abroad.

Specific issues of note were also identified by this research. The most significant locational challenge identified by executives is the potential threat to intellectual property, which investing in China poses. Government has a role to play in lobbying for greater protection for this ownership advantage. It is probably fair to say that most lobbying on this issue is undertaken by the European Commission on behalf of EU member states, and by the European Chamber of Commerce. Perhaps a role exists for concerted lobbying by individual EU governments in addition to the role played by the European Commission. There is a temptation to leave issues such as this to the European Commission, as trade is a competence of the European Commission. However, concerted action is likely to lead to stronger results. Lobbying at governmental level is also required when national treatment is denied to foreign investors.
Managing government relations is an important dimension of investing in China which Irish investors would be unfamiliar with. While China is a transition

economy, it maintains many of the hallmarks of a centrally-planned economy. Government tends to intervene in the economy to a greater degree than in western economies. (Robins, 1996) Osland (1994) argues that, when operating in an economy with an element of arbitrariness in decision-making, maintaining good relationships with officials is critical to long-term success. Robins (1996) points to the close involvement which the Chinese authorities maintain in the economy and their willingness to intervene and manage markets.

All executives acknowledged and were deeply appreciative of the role played by diplomatic missions and state agencies in assisting entry into the Chinese market and in facilitating contact with relevant Chinese officials. The location of diplomatic missions should be reviewed periodically to assess if additional locations are required to reflect emerging Irish investment location patterns in China. The findings of this research are supported by IBEC (2006: 63), which found that 'over half of the companies surveyed found the support offered by Diplomatic and State Agency offices important or critical'. It was also found that these supports were perceived as relatively more important to companies doing business in Asia than elsewhere.
The policy of providing limited venture capital merits further consideration. An Irish MNE specialised textile manufacturer found it difficult to raise capital. It was only after the state agency responsible for the promotion of trade decided to invest that it proved possible to raise the required capital. The State may be required to take on such a role on a case-by-case basis. Enterprise Ireland commonly takes a shareholding in start-up companies in Ireland. There may be a need to extend this practice and actively take a shareholding in firms which wish to invest abroad, but only in cases where this would result in the maintenance and strengthening of the Irish base of operation. Such an investment should be undertaken only in firms which can exhibit that they possess ownership and internalisation advantages.

Governments also have a role to play in providing the legal infrastructure to facilitate FDI. At the end of 2006 there were 2,944 double taxation treaties globally (International Bureau of Fiscal Documentation), pointing to the importance which governments attach to this issue. Jun (1989) identifies three channels through which tax policies affect the decisions taken by MNEs. First, the tax treatment of income generated abroad has a direct effect on the net return on FDI. Second, the tax treatment of domestic income affects the profitability of domestic investment. Finally, tax policies affect the relative cost of capital employed in FDI. By using an inter-temporal optimisation model, Jun shows that an increase in the domestic corporate rate of tax leads to an increase in the outflow of FDI.

What is important is the existence of a double taxation treaty with the country in which they are investing. Ireland has 41 double taxation treaties, including one signed with China on 19 April 2000. (Department of Finance, 2006)
However, Ireland does not have a Bilateral Investment Treaty (BIT) with China. In fact, Ireland has only one BIT, which was concluded with the Czech Republic in 1996. In comparison, 19 of the EU's 25 member states have BITs with China. In fact, of the EU15 (member states prior to the May 2004 enlargement), all of the other 14 have BITs with China. (UNCTAD, 2007) Ireland's policy relating to Bilateral Investment Treaties was discussed with a senior official in the Department of Enterprise, Trade and Employment. He set out the Government's general policy that multilateralism is the preferred framework for issues of this nature, given our membership of the EU. He stated that there are many EU trade and competition regulations which impinge on investment treaties and which have to be taken into account. When third countries suggest a bilateral investment treaty (BIT), the Department declares its preference that the country should negotiate a comprehensive agreement with the EU, which will have legal effect in Ireland.
The Chinese authorities attach considerable significance to the signing of international agreements as a visible expression of friendship between two nations. The author has witnessed this penchant for signing Memoranda of Understanding during trade missions. While there are very valid reasons why Ireland does not negotiate BITs, perhaps consideration could be given to evaluating the potential merits of such a treaty with China, given its status as the prime location for inward FDI.
The challenge facing the Irish Government is to manage the impact of the increasing levels of outward FDI in order to ensure that core technology remains in Ireland and that higher value employment is created, while at the same time strengthening Irish companies to enable them to compete in the global economy. The Government can assist by providing information and expertise to companies which wish to invest in China's challenging market. This should not be seen as advocating the movement of large tranches of the Irish industrial base to China. Rather it is a recognition of the market opportunities which China offers to Irish

indigenous companies which possess the required ownership and internalisation advantages, as a means of further strengthening the Irish industrial base.

*Conclusion*

As indicated above, Irish FDI in China does not conform to Barry et al's (2003) model that Irish outward FDI is disproportionately horizontal and largely in the non-traded sector. Irish FDI in China is predominately in the traded sector and marginally horizontal. While it is difficult to precisely identify trends, it is clear that there has been no significant change in this pattern since 2007 and there is unlikely to be a shift in the near future. In the medium term there is the possibility that the nature of Irish FDI will alter as the service sector develops in China. The extent to which Irish MNEs can exploit this development depends on the level of ownership and the internalisation advantages which firms in these sectors possess.

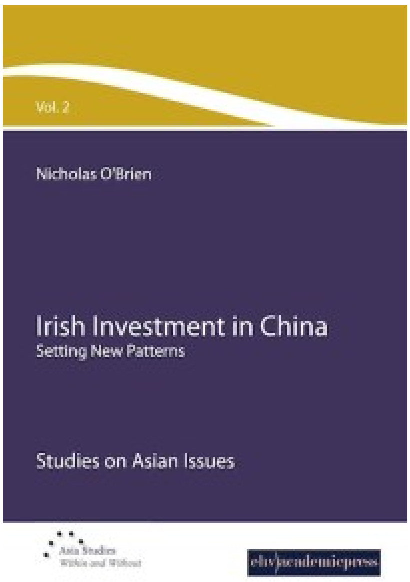
Based on the locational disadvantages which China poses, the market imperfections which exist, and the potential to expose the ownership advantages of Irish MNEs to risk, a role exists for state intervention. There is merit in the government's engaging in a policy debate on the nature and impact of Irish outward FDI, particularly in view of Ireland's recently-acquired status as a net exporter of FDI. Given China's pre-eminent ranking as the largest recipient of inward FDI, the effect of outward Irish FDI to China, as well as FDI to traditional FDI destinations, merits further consideration.

NOTES>

**[i]** An example of this is the relocation from Europe and the US of moulds for the production of obsolete car models for sale in the Chinese market. Given the substantial cost involved in producing moulds, this represents a saving to car manufacturers.

**[ii]** This is measured by an average of four shares: FDI inflows as a percentage of gross fixed capital formation for the past three years; FDI inward stocks as a percentage of GDP in 2003; value added by foreign affiliates as a percentage of GDP in 2003; and employment of foreign affiliates as a percentage of total employment in 2003. (UNCTAD, 2006: 11)

# Chapter 6: Conclusions & Bibliography ~ Irish Investment In China. Setting New Patterns




*Introduction*
Based on research undertaken on Irish outward FDI into the US and UK, both of which are developed economies, Barry et al conclude that Irish FDI is disproportionately horizontal and oriented towards non-internationally traded sectors. As China is now the largest global recipient of inward FDI, and is a developing economy, research was undertaken among all Irish MNEs which have invested in China to ascertain if current Irish FDI into China conforms to the model identified in the case of Irish FDI into the US and UK.  Accepting that the level of Irish FDI in China is at a relatively low level, the value in considering this hypothesis is that Irish FDI in China will presumably increase, given China's pre-eminent role in inward FDI.
While there are several investment theories, Dunning's eclectic paradigm was chosen as the optimal framework within which to conduct this research, as it facilitates simultaneous analysis of the advantages enjoyed by both the MNE and the host economy.
Desk-based research and semi-structured interviews were conducted to explore the nature of Irish FDI in China. The decision to use semi-structured interviews to obtain data on the perceptions of executives can be considered appropriate, as the executives provided rich data on the rationale underlying the investment decision and the locational advantages and disadvantages which China poses.
Executives of non-Irish MNEs which have invested in China were interviewed in addition. The inclusion of non-Irish MNEs provided an opportunity to corroborate the views of executives of Irish MNEs and provided a broader pool of expertise from which to gather perceptions on the locational advantages and disadvantages which China poses for investors. Executives from Irish MNEs which have invested in Eastern Europe were interviewed separately to gain an understanding of why

the level of Irish FDI into China is relatively low.

*Main Findings*

Barry et al (2003) analysed the nature of Irish outward FDI and observed an increasing level of Irish outward FDI. The main destination for this FDI is developed economies, particularly the US and the UK. It is suggested that Barry et al made a significant contribution to the research into Irish outward FDI by their identification of Irish outward FDI as being disproportionately horizontal and oriented towards non-internationally traded sectors. This research builds on their model and extends the knowledge of Irish outward FDI by examining the nature and scope of Irish FDI into China, a developing economy. The value in studying FDI in China lies primarily in its status as the principal recipient of inward FDI globally. Since the introduction of the 'opening-up' policy in 1979, economic reforms in China have created an increasingly favourable climate for inward FDI. However, considerable challenges still remain with inadequate legal protection and challenges to intellectual property rights.

*But Beijing's desire to expand the service and private sectors, combined with its willingness to allow foreign firms to compete nearly across the board, means that the China market is now becoming a real opportunity just as the purchasing power of Chinese consumers is beginning to increase. And China is likely to remain the world's fastest growing major economy for the coming decade and beyond …Understanding how to do well in China and with Chinese resources will become a critical component in a global competitive strategy. (Lieberthal and Lieberthal, 2004: 11)*

In order to deepen our understanding of the nature of Irish FDI and specifically the nature of Irish FDI in the largest global recipient of inward FDI, this research has examined the hypothesis that the nature of Irish outward FDI, as identified by Barry et al, varies in the case of China. This research has contributed to our understanding of Ireland's investment development path by introducing a study of Irish outward FDI in a developing economy for the first time.

The research was undertaken among all Irish MNEs that have invested in China. The aim was to identify initial trends and patterns, while relating this to the existing, albeit scant, literature on Irish outward FDI. While accepting that this is a small sample size, the results of this research indicate that Irish FDI in China is predominately in the traded sector (82%) and is marginally horizontal (55%) as opposed to vertical (45%) in nature. This represents a deviation from Barry et al's earlier findings in the case of Irish FDI in developed economies, namely the US and UK. It can be said, therefore, that current Irish FDI into China is chiefly in the traded sector and marginally horizontal, and that Barry et al's model does not apply to the current wave of Irish FDI in China. In addition, the sectoral composition of FDI in China varies from that in the US, as identified by Barry et al. IT, electronics and telecoms have a higher proportion of investment in China than in the US. However, FDI in financial services and construction is at a lower level in China.

The question has to be asked why Irish FDI in China deviates from that in the traditional destinations for Irish FDI. This research found that perhaps the most significant locational disadvantage which China poses is the challenge to the preservation of intellectual property rights. Barry et al point to the strong growth in outward FDI in Irish IT and pharmaceutical industries. However, the potential risk of IPR violation may be restricting FDI in China in these sectors.

This view is supported by research undertaken among executives of Irish MNEs which have invested in Eastern Europe. Another possible explanation for the relatively low levels of Irish FDI in China is the relatively under-developed nature of the service sector in China, which is particularly strong in the Irish economy. Given the large manufacturing base of the Chinese economy, it is possible that investors in Irish manufacturing sectors are in the first wave of Irish FDI in China. They may be followed by MNEs from the service sector, as this sector gathers pace in China.

Structural changes are occurring in the Chinese economy, with a reduction in manufacturing and increases in construction, utilities and the service sector. The shift in the composition of industry should be of benefit to potential Irish investors, given the largely non-traded element of Irish outward FDI in developed economies. It can be speculated that as the importance of the nontraded sector increases in China, more Irish MNEs may invest. This could alter the composition of Irish FDI in China, increase the non-traded component, and move Irish FDI in China closer to Barry et al's model.

In order to deepen our knowledge of Irish investment into China, this research also examined a sub-hypothesis and, on this basis, advanced some prescriptions regarding the role of public policy. It is hypothesised that the business environment in China is different from that experienced by Irish investors in more traditional destinations for Irish outward FDI. On the basis of this, an additional argument was made that consideration should be given to ameliorating these market distortions through public policy.

Before summarising the findings of this research in relation to locational disadvantages, it is important to identify the locational advantages which China offers investors. The principal locational advantage identified by investors is market opportunity. There is recognition of the existence of a growing and affluent middle class, which will drive consumer spending. Of the Irish MNEs which have invested in China, over 80% described market opportunity as the rationale underlying their investment in China. The focus of Irish MNEs on market opportunity confirms that Ireland conforms to the categorisation of investors in China as proposed by Li and Li (1999), who found that MNEs from developed economies will focus on market opportunity in China, whereas MNEs from developing economies will be attracted by the low-wage environment. The investors also identified the importance of investing in China if an Irish firm is supplying another MNE which decides to invest in China, as a means of preserving existing supply contracts. Irish MNEs did not identify the incentives available from the Chinese authorities as particularly pertinent to their decision to invest. While the literature on incentives is inconclusive, the views of Irish MNEs support Devereux and Griffith (1998), who argue that incentives do not influence the decision to invest abroad, but once the decision has been taken, they play a role in the choice of location.

Research among the executives of MNEs which have invested in China identified locational disadvantages which China may pose. The principal locational challenges are in the areas of the protection of intellectual property rights (IPR) and the enforceability of contract law. The threat to IPR is significant for MNEs in the high-tech sector. One executive pointed out that IPR is the core asset of the MNE and, should this ownership advantage be compromised, a threat to the operation of the MNE would be posed. Regarding contract law, an apparent contradiction among executives was identified. While the executives pointed to the difficulty in legally enforcing contracts, they also spoke of negotiating detailed contracts which sought to cover all eventualities. This apparent contradiction results from the executives seeking to set out responsibilities in some detail so as to use this level of detail to negotiate solutions, should difficulties emerge. Lawyers were interviewed as part of this research to seek their views on this issue. They pointed to the historical context within which the Rule of Law issue must be seen. The focus of the Chinese Government since the reform process commenced in 1979 has clearly been on the creation of an environment conducive to economic growth and they have been spectacularly successful in this regard. Allied to this is the strong cultural heritage which China exhibits, particularly in the area of guanxi. One of the effects of the pervasiveness of Chinese culture is that the Rule of Relationships rather than the Rule of Law dominates. (Jones, 1994) Jones suggests that this occurrence supports the view that China is replicating what has happened in the other four Dragon Economies in Asia, where the Weberian concept of the Rule of Law has not developed.

While executives seek to negotiate detailed contracts, there is also the realisation that relationships and not legal documents are the fundamental basis upon which business in conducted. This finding supports Macauley's (1963) seminal work on the nature of contract law. Indeed, in this respect conducting business in China is not dissimilar to conducting business in any other country.

A common thread that emerges from the research is the strongly regional nature of China. Provincial and municipal governments have considerable powers and offer competing incentives to attract inward FDI. However, the principal regional variation is in purchasing power parities. The developed eastern seaboard has the highest levels of disposable income, making this the most attractive location for investors seeking to exploit market opportunity. The potential consumer market is not one in five of the world's population but approximately 350 million people located in the cities along China's eastern seaboard, who have been the main beneficiaries of the opening-up policy.

Lieberthal and Lieberthal (2004) identify management shortcomings as a constraint on the competitiveness of indigenous Chinese companies. They see the problem as embedded in the economic system because of the dominance of state-owned enterprises in the major manufacturing and service industries, which dominance has resulted in greater emphasis being placed on political skills than on modern management techniques. This presents an opportunity for Irish investors. Irish MNEs which have the ability to invest overseas will have developed ownership advantages within the context of Dunning's eclectic paradigm. These ownership advantages often involve management skills.

In addition, if economic growth in Ireland is to be sustained, one of the contributory factors will be proactive outward FDI focused on developing economies such as China. '[R]ises in future economic welfare will depend primarily on increases in productivity. FDI can enhance the productivity of the Irish economy, by allowing Irish firms to focus on areas where they have a comparative advantage, by creating new market opportunities for a firm's existing products and by promoting the creation on new dynamic firms'. (O'Toole, 2007: 397)

There is an understandable hesitancy to engage in a debate on outward FDI as it can be presented in an emotive manner as the relocation of Irish jobs to low-cost locations overseas. While the literature on the effects of outward FDI on employment is not conclusive, the evidence points towards vertical FDI's being complementary to employment in the home economy. There is an argument that society should engage in a broad discussion on Irish outward FDI. Given the increasing levels of outward FDI, with Ireland now a net exporter of FDI, this issue is likely to require attention in the coming years. In order to have an informed debate, there is a need for the creation of a broader statistical database on FDI.

Consideration might be given to an extension of the current high range of services provided to exporting MNEs to those Irish MNEs which wish to invest in third country markets. Consideration might also be given to the negotiation of a Bilateral Investment Agreement with China. It would also be necessary to continue to lobby the Chinese authorities in the areas of protection of IPR and national treatment.

The insights gained from this study are a contribution not only to the academic debate on Irish FDI in China but will hopefully stimulate the study of Irish FDI in the other important developing economy, namely India. This would allow a comparative dimension to be explored and facilitate the development of a model for Irish FDI in developing economies.

*Conclusion*

This research identified a divergence in Irish investment patterns in China from that in the traditional destinations for Irish outward FDI. The nature of FDI in China is different, with most of it being in the traded sector. Challenges associated with investing in China were also identified, with China's legal environment posing locational challenges. Failure to take due account of such challenges, through the appropriate exploitation of the MNE's internalisation advantage, could pose a threat to ownership advantages.

It is easy to set out here the challenges that investors face, as these have been highlighted during the performance of the research. However, what cannot be over-emphasised is the enormous potential which China offers. Those MNEs which moved into China early are now reaping the benefits. China is simply too large a market and too important a market for MNEs to ignore, if they wish to develop an international footprint. If Irish MNEs would engage in China more deeply and in a more sustained manner, their efforts would be sure to contribute to the strengthening of the Irish economy.

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# The Why, The What, And The How Of Asian Studies

*The articles in this section aim to promote the knowledge gathered in Asia Studies, as well as the relations between Asia and other regions of the world, and give impulses in order to advance research in this field. This also means pushing boundaries forward and push them beyond the often prejudiced views from within and without.*

*The Why, The What, And The How Of Asian Studies*

*Abstract*
Management education frequently presents on a quasi-technical dimension. This is a matter of dealing with things but also the definition of what is relevant: for many in the field, only what can be technically managed is defined as relevant for business. Such strategy starts from presumptions that lack basic sociological knowledge. Even Max Weber, who centred a large part of his scientific work on showing the development of the iron cage of a bureaucratic system, underlined that such a system can actually only work if, at certain points, the basic rules are disregarded.

In the present contribution, the authors go beyond such a stance and claim that successful and sustainable strategies of management do not depend on occasional disrespect of the rules but on actively widening the framework to which those strategies refer. Centrally, it means that defining the focus of any management theory and management strategy culture has to play a central role. This is achieved not just by providing an adjunct position to culture but by highlighting its role as a central element discursively informing management issues in theory and practice.
Methodologically, this is guided by the concept of *Sustainable Social Quality*, which suggests a holistic approach by seeing the social as emerging from people productively developing the tension between processes and structures.
This approach will be empirically taken in this paper by looking at experiences in the field of teaching Chinese business.

*Introduction*
Looking historically at the development behind today's thinking in the management sciences, we find a perspective that may in some ways come as surprise. Management had been the original core of the entire process, linking

the different dimensions of a "good life", as would be the focus of any socio-economic activity in Aristotelian thinking. In today's language, these dimensions can be outlined as:
*the administration and distribution of given resources;*
*the integrity and sustainability of distribution;*
*social appropriateness and justice;*
*the maintenance of borders.*

Although production in the strict sense of the term does not appear on this list, the entire process is nevertheless focused on production. More importantly, the social is a matter of producing and reproducing everyday life. The socio-ecological relationship stands at the very centre of the process and we may say that the immediate and genuinely inherent link is guaranteeing sustainable growth and the effectiveness of management. In other words, the objective of management is inherently defined by the quality of growth, the latter being a matter of securing the "good life" in its own right. Importantly, the understanding of management and production was in the past fundamentally different to today's understanding. Today's Western take on management is characterized by (a) being separated from production, (b) being a tool, defined by its instrumental, technical character, (c) being subordinated to production, and – importantly – (d) being both disjoined from everyday life, defined by the reflexive understanding of an economy that has lost its political character, and being reduced to a means of producing exchange value for an anonymous market. Part of this new vision is the modernist double-step of the "as more as better" and "everything is possible", suggesting not only the possibility but also the need for an exponential growth.
Paradoxically, management re-enters everyday life by changing the understanding of what life is about and suggesting that its goal is growth. This goes hand-in-hand with a fundamental and permanent push towards individualization.
It can now easily be claimed that this is a general and global development – and the legitimacy of such a statement should not be underestimated. We may even claim that management indeed equals management sui generis – and that it can be applied, and equally taught, in the same way in different countries and regions. With this in mind, we can then say that from this perspective it actually does not matter if we are talking about management in the West or in the East, in the North or in the South, or in any specific country. Moreover, we should be well aware of the power of prejudices and the mechanisms of self-fulfilling prophecy –

mechanisms that are also relevant beyond influencing individuals' behaviour and attitudes or the behaviour and attitudes of small groups. Nevertheless, it is equally true that any economy – and subsequently any economic thinking – is heavily influenced by the very traditional notion that still underlies the modern pattern of the global and world economy.

We may refer to the works of Karl Polanyi, who points out that capitalist market societies are historically an exception in human socio-economic relationships:
*"Markets are not institutions functioning mainly within an economy, but without."* (Polanyi, 1944, p. 58)
This is another formulation of what Marx says when he points out that the economic and productive process is a social process in the twofold sense of (1) production by way of producing with others, and (2) producing social relationships. As general as markets may be, just as specific is their capitalist shape.
This brings us to the point that from any sound management strategy we have to return to a more fundamental issue of what economic development is about, namely, we need to focus on a process of relational appropriation. Relations are here seen as a matter of the relations of:
*individuals with themselves;*
*between individuals in general;*
*between individuals as members of specific social entities (as in particular classes);*
*and, finally, between human beings and organic nature, or what we usually call the natural environment.*

Even and perhaps especially today it is important to consider these general dimensions. Although global capitalism defines global rules, these are only an approximation and provide as such a very general framework within which concrete processes manifest themselves.
In addition, we have to consider that talking about global capitalism is problematic in its own terms. There are two principal reasons for this: first, the experience of socialist countries – be it the People's Republic of China, the countries of the Council for Mutual Economic Assistance (Совет экономической взаимопомощи, Sovet ekonomicheskoy vsaymopomoshchi, СЭВ, SEV), or today's Cuba – clearly shows that they had been/are definitive part of a world system or global economy but that they are/were so without applying capitalist rule; second,

though it is in some ways correct to speak simply of capitalism, it is in another respect not sufficient: capitalism is a complex interplay of accumulation regime and a mode of regulation (see Lipietz, 1986). And it is complex also in the sense of occurring in various formats, differentiated in a perspective that considers the different positions within the world system (cf. Hall and Soskice, 2001). If we take such an approach, we surely have to re-consider our understanding of management, asking what it actually is about. The following such reconsideration will look at four dimensions: (1) the need for management to reflect the specific mode of production towards which it is directed; (2) the inevitability of understanding socio-economic formations not least as part of complex cultures; (3) the existing patterns of teaching management as influenced by Western models; and (4) the outline of an alternative generalist approach on the basis of the Social Quality Approach.

*Management as Part of a Specific Mode of Production*

Both affirmation and critique of economic systems are in many cases very much characterized by the use of a broad brush to characterize the system. Of course, today, the commonly used terms and concepts are those of capitalism and neo-liberalism. Such a view is very much based on accepting the approach of modern economics that – following Marshall – deprived economic thinking of its political dimension. Perhaps this is also a crucial momentum that actually characterizes neo-liberalism itself. Although it is frequently described as a political philosophy, neo-liberalism is actually focused on the depoliticized "homo oeconomicus", bereft of a political context and functioning completely independently from an adjunct moral system which would have been claimed as guiding and controlling; for instance, the Smithian version of the species of the homo oeconomicus. One surely has to criticize the classical liberalism for the separation of moral and economic thinking. However, neo-liberalism goes further by aiming to establish individualist morality itself as the highest moral and ethical instance: crucially, neo-liberalism paves the way for understanding the economy as completely "technicized", i.e. reduced to a calculable relationship. Leaving more radical approaches aside, we know that for Weber, rational domination actually depends on the continued existence of charismatic and traditional modes of domination. Thus, we see that management is indeed very much caught in a contradiction. On the one hand, it is about the fundamental need to develop coping strategies to deal with real life; on the other hand, life itself is in this perspective reduced to a technical appendix of an economic process that is posited on quantifiable growth.

However, two problems go hand in hand with this. First, if such a "de-culturalized" approach can be viable at all, it can only be so for a limited period of time. This can be clearly seen by the fact that systems of capitalist production frequently enter phases of crisis. Such crises go beyond interruptions of the circle of production and exchange. They are more fundamental, concerned with the temporarily emerging question of meaning. These questions are of a general character and can be interpreted as cultural turning points in the mode of capitalist production. Second, we suggest that such cultural shifts are subsequently complemented by three further shifts, namely the techno-economic shift, which is presented by linking our thoughts to the Kondratieff idea of major cycles, the related shift of accumulation regimes, and the subsequent shifts of modes of regulation – all four can only be understood as one genuine entity.

*Major cycles*

It can easily be made out that there is a tight link between economic development and a change in the technological basis of production. However, it is useful to go a step further by characterizing some changes as inherently being techno-economic changes. In broad lines, we may refer to Kondratieff and his proposal that some bol'shie tsiklys, i.e. major cycles, are elementary forms of an overhaul of the entire productive basis. Importantly, "productive" refers to the complex understanding of production as outlined by Marx in his "Grundrisse" (1857), an entity made up of manufacturing, productive consumption, distribution, and exchange. We can go so far as to interpret technological change as an alteration of the metabolic relationship between human beings and the organic environment, that is, general social relationships and subsequent specific property relationships. Parts of these changes are actually for periods only relevant in some regions, without reaching others – even today some regions are barely reached by inventions that are commonly seen as "global appliances". However, some of these inventions may be seen as global, inventions quickly "travelling" and being applied in different national contexts. Others are specifically re-invented, i.e. general technological possibilities are utilized to solve nationally and regionally specific challenges. In any case, the utilization and implementation is always merging with specific conditions, emerging as something that is specifically determined by what political science calls path dependency. In this light, we see that we can find major cycles always specified by specific "cultures": the given mode of production and something that we name "property attitudes". Briefly, property attitudes are societally dominant blueprints

of responsibility that specify power and control:
*"The important aspect is that this meant a subsequent division of power, splitting the process of appropriation into the two fundamentally different strands of generating and maintaining propriety on the one hand and the execution of control on the other hand.*
*Important is to note that the momentum of control has itself again two dimensions, the one of it being a matter of contestable legitimacy, the other a matter of actual capabilities."*
(Herrmann and Dorrity, 2009, p. 12 f.)

As abstract as it may sound, it is actually a matter that is of immediate relevance to our present discussion. For instance, we can think of the typical definitions of enterprises and also the degree of technical (dis-) integrity of enterprises, i.e. degrees of specialization and outsourcing. Of immediate interest furthermore are the structures of supervision and the focus on "competitive closure" – the latter may be exemplified by juxtaposing the strategies of Mircosoft and Linux in developing open source software.
In short, we may speak of national patterns of implementing Kondratieff cycles in a very specific way – and subsequently, we propose to speak of major national cycles of management. These parallel Kondratieff cycles and can be seen as specific translations between major technological changes and national traditions of management and work organization.

*Accumulation regimes*
To understand this thoroughly in its entirety, we have to look at the wider context, namely modes of production. The first point of reference can be seen in the definition of the accumulation regime as given, for instance, by Lipietz, who contends that:
*"[a] system of accumulation describes the stabilization over a long period of the allocation of the net product between consumption and accumulation; it implies some correspondence between the transformation of both the conditions of production and the conditions of the reproduction of the wage earners. It also implies some forms of linkage between capitalism and other modes of production. [. . .] A system of accumulation exists because its schema of reproduction is coherent . . ."* (Lipietz, 1986, p. 19)
The core challenge is to analyse the aforementioned process of "translation" into the economic process. However, going beyond the focus that is traditionally taken

by the regulationist approach, we should adopt a wider understanding of the political-economic process as point of reference. This is, at its very core, defined by the fact that: *"production is appropriation of nature on the part of an individual within and by means of a definite form of society."* (Marx, 1857, passim)

This has to be considered against the background that:

*"[t]he human being is in the most literal sense a political animal not merely a gregarious animal, but an animal which can individuate itself only in the midst of society. Production by an isolated individual outside society . . . is as much of an absurdity as is the development of language without individuals living together and talking to each other."* (ibid.)

This allows us to review the so-called factor theory put forward by mainstream economics in a socio-cultural light. The factors of production are then importantly characterized from two additional perspectives (additional to the techn(olog)ical side): the first relates to the cultural element that defines the individual factors and their relative meaning, the second to the way in which the different factors are related to each other. This is relevant in two regards, namely production and consumption.

Again this may sound abstract, but it is again a matter of very concrete interest to the management sciences. The economies of scale and their concrete "use" in fostering the productive process are also important at this stage. Similarly important are the degree and the way of financing: depending on a variety of factors, from the natural environment and the size and structure of the enterprise to the degree of diversification, we see that a specific pattern emerges that defines the relationship between the different elements of the accumulation regime. One may say that there is no need for cars in places without distance.

*Mode of regulation – political systems and property relationships*

We are thus concerned with a complex field in which, on the one hand, the "economic sphere" is becoming very much a matter of immediate political culture of the mode of production, and in which, on the other hand, regulation itself is a core moment of the economic process. Usually, the regulatory tradition is first and foremost oriented towards analysing the institutional and non-institutional aspects of the overall political system (government and governance). However, it is useful to also include the management level. The reason for this is twofold: first, it is distinct layer in the overall governance structure. But more important for the present argument is the second reason: the fact that we are now dealing with another layer of translation. Both general societal norms and the power and

property structures are core moments and part of the commonality of global capitalism, and at the same time it's partial disintegration – systemic collapse would be (and frequently is) the consequence in those cases in which political and management activities are limited to the application of formal rules.
Though one may surely reflect on a hierarchy between these different dimensions this is, for the present debate, not of interest. Instead, it is useful to understand these four dimensions of social quality, elaborated further below as elementary forms of a complex entity that is a political-economic specification of the social – this will be presented at a later stage as part of the Social Quality Approach.

*The Cultural Dimension of Socio-Economic Formations*
Huibin and Dirlik highlight the need to be conscientious when it comes to contemplating the character of globalization as:
*"globalization of capitalism is accompanied by its disintegration into a variety of social, political, and cultural formations. It is capitalism . . . that provides the commonality that makes it possible to speak of globalization or global capitalism. It is the contradictions created by difference that make many wonder if there is such a thing as globalization and that present obstacles even to global organizations such as the WTO."* (Huibin and Dirlik, 2008, p. 173)
The problematique we are facing is also well expressed in the following sentence, taken from a text that claims to be highly critical of globalization and in which Irogbe contends:
*"After all, 'pure' cultures rooted in one particular geography are as mythical a conception just as pure races undiluted by miscegenation. Therefore, throughout history, cultures, along with people, have constantly diffused and re-fused in new settings and forms. Despite the diffusion of cultures, there are still discernible cultural differences among peoples of different nations. A country's cultural heritage reflects its history, faith, and value system. The poorer the country, the more the people cling to their cultural heritage. In less-wealthy nations, cultural treasures are part of the citizens' identity. When people's dignity is shattered we have to help them to restore their faith and values. We can assist them in achieving stability and security by honoring their traditions and identity. And that is consistent with internationalization and multiculturalism rather than the pursuit of globalization or homogenization."* (Irogbe, 2005, p. 51)
Cum grano salis, this reflects the same pattern of argument as is criticized by Huibin and Dirlik (2008) in their examination of "post-societies". As much they see "post-societies" as being defined by their residual character, with no

character that is genuinely their own (Huibin and Dirlik, 2008, p. 146), we see in the approach pursued by Irogbe (2005) the permanence of reference to the hegemonic "rich countries", which actually defines the standards for assessing "otherness" – though he claims this has genuine status in its own right. In other words, even if it is not about striving to be like the West, the "negativity" is core of the consideration and a positive juxtaposition is not presented – the old question of adjustment and delinking (on this general debate, see for example Mahjoub, 1990).

The fundamental challenge is to recognize the very limited approaches of contemporary debates that are determined by uncritically accepting spatial ("Western") and temporal ("presence") hegemonies, i.e. which adopt the presumption of the present West being the standard against which the rest of the world, "the other", is assessed for all eternity – and indeed it carries with it some teleological character. Even if the time and space change, it does not affect the superiority of the standard. Of course, this evokes paradoxes, as for instance in the view that the "strength" of newly emerging BRIC countries is very much not related to the performance of these countries but instead to the mal-performance of the "old hegemony" and the high degree of adaptability of the BRIC countries to the ground patterns of "the West". It can be concluded that even in critical thinking globalization is very much also considered as globalizational socio-cultural pressure towards conflation. This is, of course, a relevant statement; however, it neglects the fact that a crucial part of this process is that "advanced" accumulation regimes always depend to some extent on less advanced modes of accumulation – this was pointed out earlier when the definition of an accumulation regime was presented by quoting the work of Lipietz (1986). To be more precise, globalization, from the perspective of world systems theory, is exactly related to the fact that different modes of production are insolubly linked due to and on the grounds of the differences between them. This goes hand in hand with a specific pattern in the level of the enterprise. Max Weber's typology of different modes of authority/domination is well known, including the charismatic, traditional, and legal/rational. If we accept this as rough heuristic guideline that can also be used for analysing management structures, we can propose that these modes of authority/domination can actually be seen as somewhat parallel to modes of production. Thus, we arrive at a multi-layered process-orientation of management that comprises four layers:
*the developmental stage of the mode of production;*

*the developmental stage of the mode of authority/domination;*
*the developmental stage of personalities or “national characters”;*
*the adaptability of management strategies to different conditions and the ability to adequately respond to the challenges on the different levels in a “consistent” and holistic approach.*

From this it follows that management is the skill of dealing with differences in time, space, scope, and depth. Translated further into the language of international management education, we are here confronted with the challenge of responding to the interpenetration of different socio-economic systems by developing new research, approaches, and teaching material.

*Understanding of Management in Teaching Asian Studies*
The end of World War II saw the U.S. emerge as the most powerful society in the world. Much followed from that, not least the attempt to both export U.S. good practices and imitate them. This was particularly marked in the management sciences. Business education had emerged in the U.S.A. in response to the economic crisis of 1929, which was widely blamed inter alia on the lack of the existence of a professional management cadre independent from ownership, whether individual or family. It was Harvard University that responded to this insight by developing the Harvard Business School and the case approach to management education. This became the touchstone for management education worldwide.

The view that economic recovery would be well served by the development of management as a profession with its own body of knowledge was reinforced by additional political concerns. The need to develop civil society as dense societies consisting of a range of standalone robust professional groupings independent of the state was seen as critical to blocking the re-emergence of totalitarian regimes, whether of the right or of the left. The development of management education as distinct from economic or social science education post-1945 stems from these considerations. All this linked back to the U.S.’s attempt to gain global dominance . There then followed a massive development of American-style business education with the exception of the socialist world. So what was it that was being emulated with such speed and enthusiasm?
American management science rests on two cultural dimensions, namely a belief in the application of reason and a commitment to the individual’s right to happiness. Belief in the appropriateness of reason, seen as a cultural phenomenon

accessible to all honed though debate, links back to the 18th century French tradition and ultimately to the ancient Greeks. In addition, the pioneering experience of the early settlers only reinforced the significance attached to the pursuit of happiness, the right to happiness seen as having been achieved through a constant focus on problem solving and achieving practical outcomes.
And with pursuit of happiness came the belief that anything was possible, that wealth could grow unrestrainedly for the betterment of the individual worldwide. We are speaking here of an ideology that has continued to drive the development of management education in the West.

Not all the countries of Europe responded post-1945 to the belief that the development of management education as an academic subject in management schools was the way to ensure economic reconstruction. Germany was the only exception and remained outside this trend .
The years between 1980 and 2000 saw the creation of the vast majority of business schools worldwide. During that period, for example, the U.K. alone saw business schools created in Manchester, London, Bradford, Warwick; in Scandinavia in Copenhagen; in the Netherlands in Rotterdam; in France, INSEAD and EM in Lyon; in Italy in Bocconi; in Spain, ESADE and IESE; and, finally, in Ireland, Smurfit and Limerick. Ireland now has the highest per capita percentage of business schools in the world.
These developments did not occur without tensions, between, for example, the certainty of U.S.-derived models and realities on the ground. But behind this was the wider buy-in to the assumption of convergence with the U.S. “models of excellence” at both an organizational and personal level worldwide. If excellent companies were now believed that they needed to mimic American models in order to grow academics in the management sciences needed to be imbued with such understanding . It followed that academics in the management area were also going to imitate the behaviour of their American peers. Significant career opportunities became available outside the U.S. for American academics in the management area.
For non-U.S. academics, to be excellent in the area demanded that one had to be trained in or have spent time as a visiting professor in the United States, returning as an expert in the field of American management theory, teaching American material. Career advancement, both in and outside of the U.S., now required citations in U.S.-based journals whose boards were U.S. dominated.

Against this background, how has China addressed the issues of management education? China has seen in the last 20 years a significant development of senior university-based business schools, including the emergence of internationally recognized elite schools of world-class standard, such as Fudan University School of Management and Shanghai. Jiao Tong University Such schools play an increasingly prominent role in Chinese society and are sought after not least by the central government authorities, who constantly draw on leading academics in the management areas, expecting input into the development of the next five-year plan, each plan setting the trajectory for China over that time period.
As these schools have developed, they have gradually increased their international faculties, moving from only offering visiting or short-term appointments to the development of internationally recruited China-based faculties. This development echoes a central theme in China, that of "Catching Up". As with development of Special Economic Zones, a major driver of international academic recruitment in China has been the acquisition of know how to be then mainstreamed into Chinese business practice. There has been significant know how leveraging based on the return of academics drawn from the descendants of the Chinese expat community.

Nor are Chinese academics now tied to seeking publishing outcomes in the West. There has been a huge increase in the number and reputation of Chinese-based academic periodicals. The index to the list of main periodical in the humanities and social sciences as of 2012 showed 500 citations. So far, this development appears similar to the developments that took place elsewhere after 1945. But at a curriculum level, there are differences not just organizationally but in terms of the focus and range of subjects covered. In sharp contrast to much management education in the West, Chinese schools give significant weight to Chinese philosophy and public sector macro-economic management. The interface between academic activities and the state is also different. Not only are academic appointments at all levels overseen by the state but research interests can also be constrained.

Then there are the administrative schools, which have clearly defined areas of excellence, to which only members of the party are invited as students. This means that management education in the party is dominated by the approach found in the administrative schools. The schools of administration and Party schools have featured highly in management education over the last decades.

With a primary focus on state officials at all levels, they have increased in both number and scope and now include managers in state enterprises. The curriculum offered is very distinct, centred around the three themes of contemporary society, “historical significance, scientific context and the road to socialism with Chinese characteristics.” (e.g. F N Pieke: The Good Communist Cambridge University Press 2009) All curricula in these schools contain these three elements. The schools are important for management education in China as they offer training not only to public sector officials but also to managers in state-owned enterprises. This means that many of the senior managers in the largest companies in the state have been educated in these schools rather than as in the West in executive programmes in main stream universities . Administrative schools have recently begun to contribute to academic journals in China and provide significant intellectual input into Chinese state policy.

The development of Chinese-based management academics as world leaders is likely to have several outcomes. While U.S. management theory is tied to Socratic dialogue, a link that is largely historic and focused on shareholder value, Chinese management theory is likely to emphasize group harmony and long-term cultural continuity. Analysis suggests a move from a Western-based convergence theory for management theorists to a theory of embededness. For management educators in the West, there are significant implications if we are aiming to prepare our students to be effective in an increasingly Asian-centric world. If that is the goal, we will need to change business curricula to encompass philosophy, both Western and Eastern, and particularly the logic of discourse and mutual history, without minimizing previous difficulties. We will need to refocus on relationship skills, including limao, while teaching the distinction between normative politeness and strategic politeness as a must. We urgently need to think though the implications for learners presented with conflicting models of excellence in joint degrees. We also need to change the focus of our work to include issues relevant to domestic Chinese issues, though that will only occur if we achieve both research access and credibility and learn to interpret the information supplied. And we have to acknowledge language skills as central, minimally requiring mandatory situational language acquisition. Finally, we have to examine minimally propositions focused on parity of esteem for Chinese and Western business models.

As Rolf Cremer recently argued, business schools need to support this shift in mind-set by promoting a vision of business success as a transformation process based on mutual trust between the different stakeholders involved. Rather than relying on a leadership ideal that fosters quick growth by means of a finance-oriented approach, China may find itself in a unique position where it is confronted with the possibility of transforming leadership in ways that can truly enhance the ability of people to regulate their behaviour and decisions towards a more sustainable economy.

*The Social Quality Approach as Alternative Generalist Approach*

Looking back at the beginning of this contribution and interpreting in that light the development, it is clear that the mainstream teaching of management is limited in two ways: (1) it focuses on one side of the entire spectrum of the socio-economic process, and (2) it narrows the economic dimension itself to a "technicality", suggesting that it can be treated in a schematic way. Thus, we may say that in this version of management (education), human beings are reduced to a narrowed version of the homo oeconomicus and that, furthermore, this limited human being is reduced to a functioning instrument, not only bereft of a political context but also bereft of its character as agent.

Certainly, thus legitimizing a specifically bounded rationality finds some justification – but actually it is the justification of a crisis economy that is limited in a self-reflexive orientation. Even to the extent to which a "human dimension" is added, we find that this is only by way of referring to labour as productive factor ("human capital" as it is usually and misleadingly called). Without delving into this debate, it is from various angles clear that this is insufficient. The theory of productive factors is frequently criticized for actually fading out the fact that it is not labour but labour power that is entering the productive process. And it is equally clear that we are dealing with complex historical processes that require attention in their multiplicity in order to clearly understand the complex dimension of actor-defined processes within certain spacetimes (on spacetime, see Herrmann, 2013; Jourdon and Herrmann, forthcoming).

In this case, the orientation on Social Quality may offer a valid contribution as it actually questions the social itself by looking for a definition of it, asking for the meaning of the noun. In the work of the European Foundation of Social Quality, it is then understood as:

*"an outcome of the interaction between people (constituted as actors) and their constructed and natural environment. Its subject matter refers to people's interrelated productive and reproductive relationships. In other words, the constitutive interdependency between processes of self-realisation and processes*

*governing the formation of collective identities is a condition for the social and its progress or decline."* (Van der Maesen and Walker, 2012, p. 260)
The architecture is analytically composed of three sets of factors, which are presented in the following table (*Table 1)*.

***Table 1. Architecture of the social (source: Beck, Van der Maesen, and Walker, 2012, p. 66)***

| Constitutional | Conditional | Normative |
|---|---|---|
| (processes) | (opportunities + contingencies) | (orientation) |
| personal (human) security | socio-economic security | social justice (equity) |
| social recognition | social cohesion | solidarity |
| social responsiveness | social inclusion | equal valuation |
| personal (human) capacity | social empowerment | human dignity |

This outlines at least some framework for management (studies) in fields of distinct cultural character – and, actually, its application should not be restricted to large-scale differences, i.e. differences such as those between the U.S. of Northern America, Europe, Latin America, Africa, and Asia. Instead, it is equally relevant as a point of reference for intra-systemic analysis. The crucially important point is that management is rejoined with the wider array of production and furthermore that production is rejoined with the (re-)production of everyday life. As such, management is seen not as the provision of a set of guidelines but as a structured field for the evaluation of processes. This reflects another definition of the social, namely, as a process of relational appropriation, as briefly mentioned above. One of the crucially important aspects is that management is, from this perspective, always process management: a matter that is in its own terms in a fourfold process linked to interculturality. First, it needs to be compatible with the existing cultural paradigms of action; second, it needs to be itself geared toward practice, thus going far beyond a sequence of individual acts; third, this way it allows to connect also to different contexts as it is concerned with posing the why-questions instead of assuming the quid-pro-quo as given; fourth, it allows also for dealing with difference in a constructive way.

Adopting such a framework – here only presented in very broad terms – aims at understanding management (education) as matter of social enablement. It can be transposed into a strategy of transformative learning, as expressed by Babacan and Babacan:
"Critical reflection and dialogue are central to the process of transformative learning. Mezirow (1990, 1991, 2000) argues that in transformative learning, the most significant learning takes place in the communicative domain. This process

involves identifying problematic ideas, values, and beliefs, by critically examining the assumptions upon which they are based, testing their justification through dialogue and the making of decisions upon the ensuing dialogue (Nazzari, McAdams, and Roy, 2005; Taylor, 1998, p. 43).” (Babacan and Babacan, 2013, p. 205, with reference to: Mezirow, 1990; Mezirow, 1991; Mezirow, 2000; Nazzari, McAdams, and Roy, 2005; Taylor, 1998)

Of course, this is not just a fancy theoretical notion, a kind of utopian claim. Such a strategy of transformative learning is in the Chinese understanding a very concrete challenge that has transformed training processes. Managers, fully trained and qualified, are still requested to return every four years for some kind of retraining. One could also say that this way of transformative training emerges as reflexive practice.

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