

Fdi in international politics



**ASSIGN
BUSTER**

Literature Review

FDI (Foreign Direct Investment) is one of the important areas in the study of International Political Economy (IPE) today. The emergence of MNCs (Multinational Corporation) in the beginning of 1960s has led to the growing research about the impacts of MNCs on nation-state. As MNCs become not only significant in numbers but also gain significant power over time, many scholars started to assess to what extent MNCs contribute to the national welfare and to what extent they undermine the national interest. Before going in-depth into the analysis of the existing research, I will firstly examine the definitions of FDI and MNC. Scholar Stephen Cohen described FDI and MNC as “two inextricably intertwined concept but not perfect synonyms”. In other words, they are both referring to the same phenomenon of international business operations, yet present different facets of the phenomenon. The definition of FDI in the paper will follow the widely accepted definition according to OECD, which is an international venture made by an investor in an economy to acquire a lasting interest in an enterprise residing in another economy[1]. “Lasting interest” in this framework indicates that the investor holds a significant degree of long-term influence in the management of the direct investment enterprise, which normally holds 10 percent of voting stock. On the other hand, the paper refers MNC as a business enterprise that engages in FDI and upholds value-added holdings in more than one country[2].

In the following section I will be reviewing the existing literature that are related to my research question of whether Australia should relax its investment regime. I will be dividing the existing literature into two camps,

conservative camp and liberal camp. Specifically, conservative camp argues that the potential level of threat to national interest is greater than the benefits of the increased investment, which indicating a strict or tighten investment regime is more suitable for the country. Liberal camp advocates that the benefits of the increased investment is greater than the level of threat to the nation-state, which implying a loosen investment regime is more preferred for the country.

Conservative camp is usually dominated by scholars in the field of political science. With the rising market power and the growing importance of multinationals in the global economy, more and more scholars and politicians have viewed the increasing danger of FDI have on the nation-state. Some scholars even assert that FDI is already transforming the nature of international economic and political affairs in manners that diminish the nation-state and integrate national economies. A famous scholar of international political economy, Susan Strange expresses that the state sovereignty is under attack, by stating that cross-border commercial activities has become “ more powerful than the states to whom ultimate political authority over society and economy is supposed to belong. Where states were once the masters of markets, now it is the markets which, on many crucial issues, are the master over the governments of states”[3]. Strange attributes the cause of the diminishing state power to the structural changes in the world economy, specifically the technological and financial changes as well as the accelerated integration of national economies into a single global marketplace, which the overall changes have shifted in favour of multinational. That being said, Strange is still considered not as radical

compared to other conservatives, as she still views MNCs as a parallel authority.

Unlike Susan Strange, Scholar Robert Walters is a more radical conservative. He illustrates that there are two views of MNCs[4]. First view is where MNC “is an independent actors operating in the interstices of state-to-state relations”, and it challenges the sovereignty of all states. He further asserts that good regulation governing these MNCs could benefit the global economy. The second view is where MNC is viewed as instrument serving the home country’s foreign policy, which can in turn allowing the home country to penetrate and secure effective economic and political dominance over the world such as the United States. However, at the end of the day, he still stresses that no matter what view the MNCs takes, they both have a tendency “to threaten the capacity of states to pursue effective their national economic and political goals through such standard devices as fiscal policy, monetary policy, investment controls, and so forth.”

Somewhat similar to the two views of MNCs introduced by Robert Walters, Joseph Nye demonstrates three ways of how MNCs influence the world politics. The first is the direct role of MNCs, in which the MNCs are affecting the governments and the politics of other countries by dealing with them directly. The second way is the unintended direct role of MNCs, where MNCs are used by the home government as an instrument in the host countries. The third is the indirect roles of MNCs in setting the agenda for their home government. With the growing influence of MNCs have on world politics, Joseph Nye views that even though States will not cease to exist, “transnational production unites will over a large part of their role in proving

for the citizen's welfare and will even claim a proportionate share of their loyalties"[5].

Given that Australian investment regime prevents any foreign governments that have a free hand to pursue political agendas in Australia, some scholars question the pure commercial motives of Chinese ODI and refer these investments as instruments utilised by the Beijing government to serve its political goal. Scholar Mark Wang points out that " China's investment overseas has been one element of a broader process of restructuring and political activities in which the government plays an important role." [6] Similarly, Tomasic and Xiong [7] who examines the Chinese SOE in Australia claim that " SOEs have served as national champions working for the advancement of China's national interests." For that reason, they claim that Chinese SOEs should not be treated in the same way as privately controlled foreign companies. They further conclude that the Australian regulation governing Chinese SOE in Australia is seen as reasonable and not dismissed as populist.

There are several issues worth nothing existing in the literature of this camp. Most radical conservative scholarly articles are written a long time ago, given the political uncertainty at the time particularly after the World War two, they might overestimate the power of MNCs and underestimate the role of government. Another issue of this camp is that almost none of the underlying rationale is based on hard empirical data. Finally, most of the academic debate also suffers from the tendency to view the situation as a zero-sum game.

In contrast to conservative camp, liberal camp sees MNCs will not challenge the role of the government and national sovereignty. This school of thought upholds the superior role of the government. As scholar David Fieldhouse argues[8], the nation-state is “ still the only universally recognized way of organizing political life.” In other words, he believes that the host government still has the upper hand and can set the rules of engagement. A government has the jurisdiction and is able to force a foreign firm to leave by tightening regulatory controls, raising the cost of doing business, or threatening to arrest executives. Even a weak government has the authority to physically block the entrance of a foreign subsidiary that is not welcomed. Despite that the states have lost bits and pieces of their sovereignty, this erosion of sovereignty does not signify that they have all become dysfunctional or obsolete[9].

Scholars including Bergsten note that the existence of MNCs should not be viewed as engaging in a zero-sum game of domination with governments. To the extent that MNCs serve as means for governments to exert and enhance national power, they are sovereignty affirming rather than sovereignty diminishing[10]. Scholar Gilpin also believes that nation-state remains the predominant actor in international economic affairs. He criticises the critic for being exaggerate the veils of the MNCs and their role in the world economy. Despite that some MNCs do exploit and damage the world, the MNC as an institutions is beneficial to many people worldwide. He asserts MNCs is a major source of capital and technology for economic development[11].

The common issues of these two camps: lack of looking at the motives of China's ODI, lack of looking at the new trend of China's ODI in developed countries (resource rich to real estate)

Additional references

- Rosen and Hanemann, " China's Changing Outbound Foreign Direct Investment Profile," pp. 20-21.
- Pamlin and Long, Re-think China's Outward Investment Flows, pp. 25-26; and Schüler-Zhou and
- Schüller, " The Internationalization of Chinese Companies."
- Wu, " The Globalization of Corporate China," p. 19; Pamlin and Baijin, Re-think China's Outward Investment Flows, pp. 19-20; and Rosen and Hanemann, " China's Changing Outbound Foreign Direct Investment Profile," p. 20.
- Hong and Sun, " Dynamics of Internationalization and Outward Investment," p. 622; Deng, " Investing for
- Strategic Resources and Its Rationale," pp. 74-75; and Yip, " Foreign Acquisitions by Chinese Firms," p. 216.
- Hong and Sun, " Dynamics of Internationalization and Outward Investment," p. 623.

[1]OECD. (2008). OECD Benchmark Definition of Foreign Direct Investment. Retrieved from <https://www.oecd.org/daf/inv/investmentstatisticsandanalysis/40193734.pdf>

[2]Shah, F. A. (2012). A Critical Review of Multinational Companies, Their Structures and Strategies and Their Link with International Human Resource Management. IOSR Journal of Business and Management, 3(5), 28-37.

[3]Susan Strange , *The Retreat of the State-The Diffusion of Power in the World Economy* (Cambridge: Cambridge University Press, 1996), p. 4

[4]Walters, R. S. (1972). International Organizations and the Multinational Corporation: An Overview and Observations. The ANNALS of the American Academy of Political and Social Science, 403(1), 127-138.

[5]Nye, J. S. (1974). Multinational Corporations in World Politics. Foreign Affairs, 53(1), 153.

[6]Wang, M. Y. (2002). The Motivations behind China's Government-Initiated Industrial Investments Overseas. Pacific Affairs, 75(2), 187.

[7]Xiong, Ping and Tomasic, Roman, Chinese State-Owned Enterprises in Australia – Legal and Investment Challenges (2015). *Australian Journal of Corporate Law* , Vol. 30, 2015.

[8]David Fieldhouse, " ' A New Imperial System'? The Role of the Multinational Corporations Reconsidered," in Jeffry [sic] A. Frieden and David A. Lake, eds., *International Political Economy* (Boston: Bedford/St. Martin's, 2000), p. 178.

[9]Arie Kacowicz, " Regionalization, Globalization, and Nationalism," Kellogg Institute for International Studies, Working Paper Series no. 262, December

1998, pp. 39-40, available online at <http://www.nd.edu/~kellogg/WPS/262.pdf>; accessed June 2005.

[10]C. Fred Bergsten, Thomas Horst, and Theodore Moran, *American Multinationals and American Interests* (Washington, DC: Brookings Institution, 1978), p. 333.

[11]Robert Gilpin, *U. S. Power and the Multinational Corporation* (New York: Basic Books, 1975), pp. 139, 161.