

Book Review

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Yanqing Jiang (ed.), *China: Trade, Foreign Direct Investment, and Development Strategies*, London: Chandos Publishing, 2014, 232 pp. + xiii.

Studies on the development of China's economy tend to be interesting and controversial. Economists want to find out the true story of China's marvellous economic development, either from institution or policy perspective. Under the guideline of Deng Xiaoping's "theory of the primary stage of socialism", China has tried to utilize the development experience of Western countries in its process of reform and modernization. Trade, foreign direct investment, and effective government policies constitute the initial power of development for China. The rapid economic growth of cities in eastern China such as Guangzhou, Xiamen, Shanghai and Tianjin is the result of first two factors driven by the central government's development policies.

This book edited by Yanqing Jiang, an associate professor at Shanghai International Studies University, includes 13 chapters which explain the effect of trade and foreign direct investment on development strategies, and both theoretical and empirical methods are used to explore this topic. The main theme of this book is introduced in Chapter 1 which also gives a short description of subsequent chapters. Although China experiences rapid development during the last few decades,

regional disparities have become a crucial problem as it results in much social malaise. In Chapter 2, a theoretical framework which is based on the Solow growth model is constructed as the foundation for the discussion in this book. Regional growth can be seen as a result of various factors such as human capital, physical capital, and the level of productivity.

Accompanying the economic development of China, regional inequality became prominent during the transition from a central-command economy to a free market. In Chapter 3 of this book, interventionist and liberal approaches are brought forward as two different ways in dealing with this problem. The interventionist approach means that the government needs to equalise the distribution of the outcome of economic growth by using government authority, while the liberal approach attempts to achieve this aim by offering level playing fields with equal opportunities. By using panel data of 28 provinces from 1996 to 2011, the empirical results show that the main reason of regional inequality is the unbalanced distribution of physical capital.

The effects of trade and foreign direct investment (FDI) on economic development are discussed in Chapters 4 and 5 respectively. Empirical results show that both factors have positive relationship with economic growth, as trade and FDI bring about technology diffusion and capital accumulation. In Chapter 6, international openness, coastal-inland market integration, and human capital are used to test the effects on inland economic growth. As hypothesised, all those three factors play an important role for inland economic growth. Chapter 7 mainly tests the effect of foreign trade and FDI on China's structural transformation which has changed significantly in the poorer areas. The regional openness for trade and FDI promotes the labour share shifting from the agricultural sector to the manufacturing sector.

Inadequate research has been done on China's economic transformation by analysing economic factors. The relationship between the pattern of comparative advantage and the economic structure is discussed in Chapter 8 to bridge this gap. Based on the previous chapter's conclusion, the specialisation index for a certain industry which is defined as a country's trade balance divided by total trade is used to explain the intensity of comparative advantage. From the 1990s, the specialization index of primary goods has a declining trend, while the specialization index of manufacturing goods has been increasing steadily. This means that comparative advantage has changed according to the change in economic structure.

As transaction efficiency has great effect on infrastructure and institution, it can be used to explain trade pattern, economic growth, and economic development. From the theoretical perspective, Chapter 9 looks at transaction efficiency and patterns of specialization. Based on the old Ricardian model, the inframarginal method is used to explain development and inequality problems. In developing economies, the domestic transaction efficiency has a negative relationship with inequality, which means that an increase in domestic transaction efficiency will reduce inequality. Meanwhile, the international transaction efficiency has a positive relationship with the whole welfare of a nation. Policy-makers would have to rethink the future path of economic development according to above conclusions. Foreign direct investment and trade not only affect economic growth but also have an effect on interregional disparity through the distribution of manufacturing activity in China. Chapter 10 mainly explores the relationship between foreign direct investment and trade, regional development, and interregional disparity in China. The results are significant as the testing of the regression model suggests positive relationship between these variables.

Chapter 11 focuses on the role of knowledge on the economy. Knowledge as an input in production promotes economic growth. Knowledge accumulation is mainly from education, especially higher education. Empirical analysis shows that college admissions in China affect the human capital movement from the western region of the country to the eastern region.

Chapter 12 examines the relationship between FDI and trade, pollution emission, and economic growth. The outcome suggests that China should be more open for trade and FDI while cleaner technologies and goods can be more widely used in production.

Finally, in Chapter 13, knowledge is discussed from a tentative perspective. It is hoped that China could accumulate knowledge from high-tech investment, trade, and outward capital flows.

This book uses mostly quantitative methods to look for resolution of the problems, and each chapter can be seen as being independent to others. The relationships between foreign direct investment, trade, economic growth, and interregional disparity are systematically examined. It gives the readers a clear and deep understanding of the effects of these factors on the economic and social problems. Sophisticated function deduction gives us a systematic map of understanding the source of function. All these processes prove the rationality of choosing the specific model. In a way, the book aims to scientifically investigate the issues with a econometrical approach. As with the references in each chapter, this book can be used as a textbook to further explore the role of foreign direct investment and trade in economic development in China. But, from another perspective, it still lacks systematic theoretical methods to explain the fundamental theory of foreign direct investment and trade to facilitate readers' understanding. All in all, this is a very useful book that explores the topics of China's trade and foreign direct investment.

Chang Le
Faculty of Economics and Administration
University of Malaya
Malaysia

Chang Le (常樂) is on the staff of the Malaysian Ministry of Higher Education/University of Malaya High-Impact Research (HIR) grant project “The China Model: Implications of the Contemporary Rise of China” (2013-2016) at the Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya, and a PhD Candidate at the faculty. <Email: changle1984@siswa.um.edu.my>

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