Tracing the Chinese Challenge to US Hegemony in Foreign Direct Investment Activities

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Abstract

The theoretical framework of this analysis is the world-system approach of Wallerstein (1974, 2004) and Braudel (1982). The world-system theory upholds that the current capitalist system was formed in the 15th century and that it takes the form of a world-economy, that is, a system with a unified economic space but with numerous political units as actors[1]. Another defining feature of world-systems is their stratification structure, which implies a power asymmetry in the system. More precisely, states can take the position of core countries, semi-peripheries and peripheries.

Chase-Dunn et al. (2015) argue that while the relationships within the core are doubtlessly important for the evolution of the system and its reproduction, the (cyclical) dynamics of modern world-systems are attributable to the semi-periphery. The working hypothesis of this paper is that China, as a middle-income country but with a massive lever in global trade and investment is currently in the position of a semi-periphery which combines features (e.g. production techniques and specialisation patterns) of a core economy and of a periphery country that is politically, economically and/or technologically dependent on the core economies. Furthermore, China obviously strives for core status and, given the systemic differences, therefore needs to challenge the hegemonic position of the United States. In this context, Wallerstein (1983, p. 101) defines hegemony as a situation where the rivalry among the core states is so unbalanced that a single power can de facto impose its rules upon the system in the economic, political, military and cultural domain[2].

China is therefore working towards a rebalancing of the capitalist world-system, where the dynamics of (relative) rise and (relative) decline of core powers are defining feature of world-economies, known as 'hegemonic sequence'.

Changes in the relative power positions of countries can be brought about in various forms and proceed with varying speed in different domains. We focus on the economic domain and more precisely on foreign direct investments.

Two questions are of particular relevance. First the amount of foreign direct investment which is evidence of some sort of international competitiveness of the investing firm. Second, which

[1] The world-economy proved to be more suitable to build a global system than previous attempts via empire building (characterised by a relatively homogenous political structure).

[2] Even a hegemon is not unconstraint in her action though, that is, is not omnipotent (Wallerstein, 1983, p. 102). Nevertheless, hegemony for Wallerstein means simultaneous advantage in the three economic domains of agro-industrial production, commerce and finance.

position do countries take in GVCs and the world-economy in general. In this context, Baldwin (2013) as well as Baldwin and Lopez-Gonzalez (2015) categorise countries as factory economies on the one hand and headquarter economies on the other hand. The former are specialised in fabrication activities[3], which are associated with relatively low potential for creating value added (Shih, 1996; Shin et al., 2013; Mudambi, 2008) and low skill requirements. In contrast, headquarter economies organise and control production networks are typically responsible for strategic functions such as controlling or research and development (R&D).[4] Hence, functional specialisations reflect cross-country technological asymmetries between production partners in global value chains (GVCs), which is investigated empirically by Stöllinger (2021) and Kordalska et al. (2022). Factory economies and headquarter economies have their correspondences in world-system theory where they are referred to as core economies and peripheries respectevily.

In line with these papers, we use project-level data on greenfield to tackle the following research questions:

1. Which countries dominate global foreign direct investment activities and can a a hegemonic position of the US be identified in the data?
2. Related to that, which countries shape the functional specialisation of countries as factory economies in the global economy?
3. Despite the existing evidence of the persistence of functional specialisation patterns of country in Europe and beyond (Stöllinger, 2021; Kordalska et al., 2022) is there more functional upgrading identifiable for China which would be an indication of a move from a peripheral (factory economy) position to a semi-peripheral or even core position (headquarter economy). The latter could be argued if a shift to a headquarter economy is coupled with a massive uptick in foreign investment activities.

Literature

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[3] In the context of value-chain functions we use the terms production and the less common term fabrication interchangeably. The reason is that when referring to production activities as one function of the value chain, the term 'fabrication function' avoids the ambiguity implied by the term 'production function', which has an entirely different meaning in economics.

[4] Baldwin (2006) first used the concept of 'Factory Asia' to describe the observed trend in Asian production processes in which Japanese companies headquartered in Japan manufacture high-tech parts in Japan and ship them to factories in East Asian countries for labour-intensive production steps, including assembly, and then distribute the final products to Western markets or back to Japan. Other countries, such as Taiwan, Singapore and Hong Kong, followed the Japanese practice. Hence the latter group of countries were referred to as 'headquarter economies', while the low-wage East Asian countries were labelled 'factory economies'. This terminology is still used in the GVC literature.

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