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Jung Won Sonn and Yang Zhao

Introduction to special issue
The diverse colours of money: the country-of-origin effects of foreign direct investment within East Asia

In the existing literature on foreign direct investment, it is often assumed that multinational corporations and their direct investments reduce institutional differences among economies. Building upon this assumption, those influenced by management studies and mainstream economics see multinational corporations as an agent that upgrades local business conventions to global standards. Geographers do not usually accept this convergence theory and claim differences among host economies prevents convergence in business practices. The difference between these groups of scholars is that the non-convergence camp acknowledges the resilience of local business practices while the convergence camp does not.

The papers comprising this special issue question this shared assumption of foreign direct investment as a cause of convergence. As outlined in this introductory paper, and explored in detail in the following papers, we pay attention to the simple fact that the foreign direct investment is from a company or individual whose business practices are inherently influenced by their experiences of business in the nation or region of origin, and these experiences indelibly influence, to varying degrees, their local operations in investment destination. Once we accept such an obvious fact, recent debates on variety of capitalism and related literatures on the developmental state, welfare regime and other concepts all become relevant to understanding of the local operation of foreign-owned businesses.

Keywords: multinational corporations, globalisation, Southeast Asia, Northeast Asia, variety of capitalism, developmental state

Introduction

Foreign direct investment (FDI) is one of the most discussed topics in development studies. In the existing literature, it is often assumed that multinational corporations (MNCs) and their direct investments reduce institutional differences among economies. Building upon this assumption, those influenced by management studies and

Jung Won Sonn is an associate professor at Bartlett School of Planning, University College London, Central House, 14 Upper Woburn Place, London, WC1E 6BT, UK; Yang Zhao is a PhD student at Bartlett School of Planning, University College London, Central House, 14 Upper Woburn Place, London, WC1E 6BT, UK (Corresponding author); e-mail: j.son@ucl.ac.uk; yang.zhao.21@ucl.ac.uk

mainstream economics see MNCs as an agent that upgrades local business conventions into global standards. Geographers do not usually accept this convergence theory and claim differences among host economies prevents convergence in business practices. These debates between the two groups were particularly active in early 2000s but have since tapered off without clear conclusion or resolution.

The crucial difference between these schools of thought is that the non-convergence camp acknowledges the resilience of local business practices while the convergence camp does not. They are similar in seeing foreign capital as the agent of convergence. We question this shared assumption. We believe this shared assumption is an epistemological error, as Amin (2002) has previously argued. Therefore, we pay attention to the obvious fact that the FDI is from a company or an individual whose experiences in their origin nation or region always, though varying degrees, influence their operation in investment destination.

Once we accept such an obvious fact, the recent debates on variety of capitalism (VoC) (Hall and Soskice, 2001) and its related but separate literature such as developmental state, welfare regime, and others, all become relevant to understanding of the local operation of foreign-owned businesses. Each MNCs has its own corporate culture but VoC literature teaches us that the national differences should have influenced corporate cultures and strategies, which in turn influences MNCs' local operation in global South. Study of the link between the FDI in the global South and VoC is the aim of this special issue, and as the introduction to the special issue, this paper discusses the problems in the earlier debate and offers theoretical alternatives. The rest of this paper comprises three sections. The theoretical discussion is in the next section followed by an exploration of East Asian regional economies as the context of empirical studies, and concludes with the introduction of other papers in the special issue.

FDI and global convergence

Views on FDI and regional development

Historically, debates surrounding FDI have been sharply polarised. Mainstream economists have posited that FDI catalyses predominantly positive transformations in host societies. Their argument proceeds that as low-income economies typically experience capital shortages while possessing labour and resource abundance, FDI can augment productive capacity and thereby drive economic growth (e.g. Lal, 1983). Conversely, several theories, notably the dependency theories (for example, Amin, 1976; Cardoso and Faletto, 1979) and works on branch plant syndrome (Firn, 1975; Watts, 1981; Sonn and Lee, 2012), contend that the repercussions of FDI are predominantly detrimental. These scholars argue that foreign capital monopolises prime segments of local economies – whether natural resources, labour or land – and exploits those segments for their own benefit, thereby draining the growth potential of the host economy. While the foreign capital may yield immediate employment opportunities, these theories argue, the long-term consequence is often the stagnation of the local economy.

However, in recent years, such contrasting views have started to converge, primarily because of numerous instances illustrating FDI's pivotal role in fostering the long-term economic growth of cities, regions and nations. Economies of Taiwan, Singapore and more recently Ireland and mainland China, have strategically hosted foreign investments and emerged as paradigmatic cases of rapid economic advancement attributable to such investments. These instances underscore that the adverse impacts of FDI are manageable if not completely avoidable. China's adept leveraging of foreign investments in its special economic zones has inspired researchers and policy makers across the globe (Oqubay and Lin, 2020), while the burgeoning prevalence of special economic zones and free trade zones is a testament to evolving perspectives on foreign investment.

Moreover, the success stories of FDI have evolved into imperatives. In stark contrast to the success stories, particularly those in East Asia, some promising developing economies in Asia and Latin America have encountered setbacks, partly due to their autarkic strategies (Evans, 1995). As transportation costs diminish and technology evolves across sectors, economies of scale have become increasingly pivotal. Achieving such scale is challenging for developing economies without the influx of foreign capital and access to global markets (Oqubay and Lin, 2020).

Contemporary literature on FDI, while maintaining dialogues with earlier critiques, often deems affiliations with MNCs as crucial for the economic progression of regions and nations. For instance, proponents of the Global Value Chain (GVC) school argue that integration into the supply chain of a MNC or its local subsidiary is a plausible pathway to economic advancement for the global South (Gereffi, 2018; Gereffi et al., 2005). Similarly, the Global Production Network (GPN) school posits that if a regional economy possesses value-creating assets, local firms and workers can transcend the exploitative inclinations of MNCs and secure high-value niches within the GPN (Coe et al., 2004; Coe et al., 2008). Relational economic geographers have introduced the 'global pipeline' concept, asserting that MNCs serve as conduits for innovative information (Bathelt et al., 2004), arguing that hosting a branch of an MNC can enhance the innovative capabilities of a region. Overall, it is increasingly evident that approaches that treat all forms of FDI as enemies of development are extremely rare, with a more nuanced and complex set of debates and approaches emerging.

FDI as a cause of global convergence

Earlier discussions of FDI within human geography and urban studies were closely related to discussions on globalisation. Although research on FDI in economic geography existed much earlier (e.g. Britton, 1976; Stewart, 1976), discussion on FDI gained momentum beyond this subdiscipline in the 1990s when globalisation became a pivotal topic in many social science disciplines.

The initial debate, stimulated by management strategists and journalists, centred on an exaggerated view of globalisation as a convergence of economic, social and cultural norms across nations (e.g. Ohmae, 1990). Proponents of what we term the Strong Globalisation Perspective (SGP) come from various disciplines but generally align with conservative views on space. Mainstream international economics posits that advanced practices of MNCs will spill over to local firms through various channels such as employee mobility, the branch plant's quality control of its local subcontractors, and the local firms' use of the branch plant's superior products. This perspective aligns with earlier views in human geography, development studies and other social sciences, collectively grouped under 'modernisation theory'. Within human geography, the modernisation theory often examines spatial diffusion of innovation as a mechanism of modernisation. The study of the diffusion of innovation in sociology, such as Rogers (1962), has a significant spatial dimension and was integrated into various versions of modernisation theory to elucidate how interactions with advanced societies can expedite development in less developed societies (Brown et al., 1974; Whitehand, 1970; Berry, 1967; Gould, 1969).

Contrarily, those against SGP argue that national economies remain pivotal as MNCs are still deeply rooted in their countries of origin as important decisions, including R&D functions, predominantly occur in the home nation (Patel and Pavitt, 1991). Thus, economic geographers such as Storper (1992) argued that there is a clear limit to globalisation (see also Kang et al., 2023; Sonn and Storper, 2008).

Despite various differences in the convergence and divergence arguments noted above, both schools of thought presuppose that MNCs represent the *global standard*. Rather than critically engaging with this contention, debates instead revolve around the extent to which an MNC can influence the institutions and culture of the host region. The critics of convergence contrast the local with the global and categorise foreign investment as part of the latter. As Amin (2002) highlighted, the critics of SGP inadvertently assume that the local is somehow more authentic, humane and inherently good, while foreign investment is deemed homogeneous, inhumane and global.

However, MNCs are also rooted in specific places, not spaceless entity. As much as they represent the global standard, they are influenced by the institution and culture of their origins, i.e. what we call, the origin effect. That is because the origins are where MNCs' circulations and networks are denser and more diverse. In short, MNCs are local, too.

Once origin effect is taken into account

Such points are not extensively discussed in development planning and development geography. In recent years, this point has been partly recognised by management researchers who found that the origin of FDI affects the degree and methods of a firm's internationalisation (e.g. Cuervo-Cazurra et al., 2018; Hobdari et al., 2017). Examining how specific formal or informal institutions influence a firm's foreign operations, these researchers have identified institutional stability (Barnard and Luiz, 2018), state ownership (Estrin et al., 2016), and a high level of unpredictability in the home country (Cosset & Roy, 1991) as the main influencing factors for investment decisions. However, this special issue attempts to go beyond these findings in management studies by adopting a more holistic approach to foreign firms' local operations, rather than focusing on individual factors.

Such efforts are both feasible and necessary; acknowledging the existence of country-of-origin effects allows us to utilise various theories and concepts previously developed to explain the national characteristics of the origin countries in understanding the local operations of foreign capital. In political science, institutional economics, economic sociology and economic geography, numerous useful approaches can be found. For instance, Hall and Soskice (2001) categorised advanced capitalist economies into two groups based on the relationship between businesses and finance. Research on 'variegated neoliberalism' (Brenner et al., 2010) has shown that neoliberalism manifests differently in various economies. Additionally, there are diverse social science streams examining subnational, national and continental differences in capitalism. Developmental state literature (Amsden, 1989; Johnson, 1982; Wade, 2003) has argued that the interventions of Japanese, South Korean and Taiwanese states were distinct from those of other capitalist states, contributing to the rapid growth of these states' economies. Esping-Andersen's (1990) pioneering work spurred a burgeoning literature in social policy on the variations in welfare regimes among capitalist economies, applications of which extend beyond social policy.

From these and other perspectives, papers in this special issue scrutinise how the characteristics of capitalism in the origin economies impact the international investment decisions of firms and the structuring and managing of relationships with local partners. These characteristics also influence how MNCs from these economies interact with non-firm local actors, including, but not limited to, governments. This special issue sheds light on some of these pertinent issues.

FDI in East Asia

The region

In this special issue, we choose to focus on FDI flows within East Asia for two reasons. First, Southeast Asia is an understudied area in FDI research, human geography and urban studies. This dearth of research is unfortunate because Southeast Asia is currently one of the most dynamically changing areas in the world. Second, the region is extremely diverse in terms of income level. One of the main reasons for FDI is savings in labour costs. Some international regions such as Western Europe, North America and Latin America are relatively homogeneous in income levels, but East Asia is very diverse, featuring some of the highest-income economies like Singapore to low-income economies. It can be roughly divided into the Eastern North (Singapore, Japan, Taiwan, South Korea, Hong Kong SAR) and the Eastern South (Mongolia, Southeast Asia except Singapore, and North Korea). Finally, as we will see later in this paper, countries in Eastern North tend to invest in Eastern South more than other regions in global South, thereby making East Asia a microcosm of global South/global North divide.

Here, we have to point out that, discussion of North/South divide based on the national representation of GDP per capita obscures significant regional disparities within individual countries. For example, large nations such as China and Indonesia exhibit substantial internal disparities in income, and such disparities influence international investment of businesses in those countries. Let us look at China that is categorised as upper-middle income. Within its mainland, prosperous cities like Beijing and Shanghai have achieved high-income GDP per capita levels, contrasting sharply with less developed regions like Guizhou and Guangxi Provinces, which barely attain upper-middle income status, as shown in Figure 1. Such regional disparity makes China one of the biggest origins of FDI in recent years despite that it is not a high-income economy as a nation. Nearly all the investment comes from those developed regions. For that reason, we consider the developed part of China, not China as a whole, as a part of the Eastern North. Unlike businesses in developed regions in other countries, Chinese businesses from the developed regions have options to expand to the Central and Western regions or go abroad.

The stark regional disparity is also the cause of China's earlier, even premature, transformation from a net recipient of FDI to a net investor. Unlike South Korea and Taiwan that shifted to net investors upon reaching high-income levels, China achieved this status considerably earlier. As Figure 1 illustrates, substantial regional disparity compels some regional economies to contend with elevated labour costs, necessitating the relocation of their low value-added activities. While the Belt and Road Initiative has facilitated such relocations, they likely would have transpired independently of the initiative.

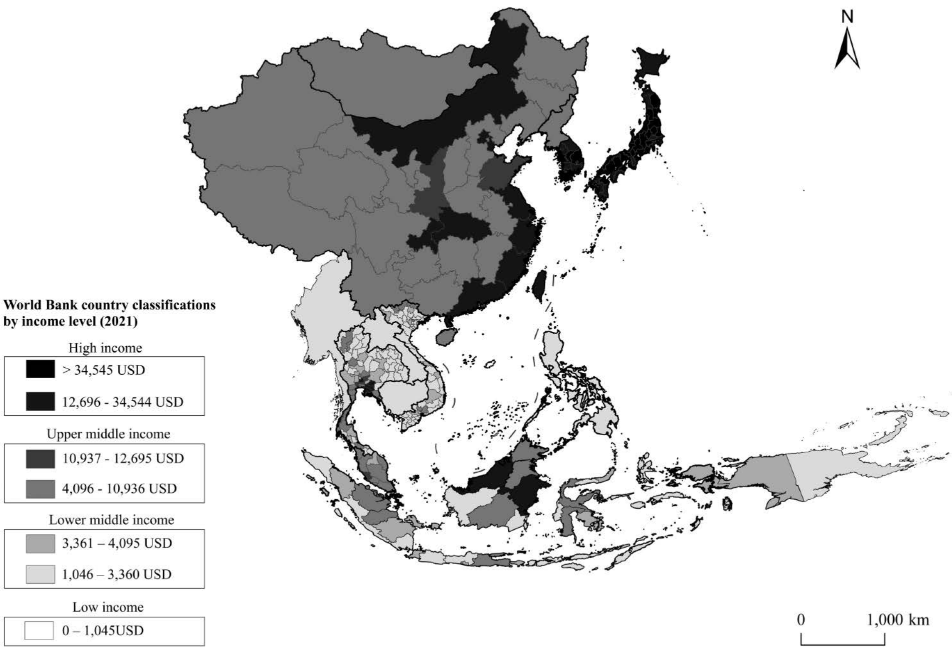

Figure 1 Income level of subregions in East Asia
Note: We could not find recent data for subnational income level in Myanmar, Laos, Cambodia, North Korea and Papua New Guinea, so we used national GDP per capita.
Source: World Bank (2022); National Bureau of Statistics of China (2022); Cabinet Office, Government of Japan (2023); Statistics Korea (2023); Statistic Indonesia (2023); Department of Statistics, Malaysia (2022); Philippine Statistics Authority (2023); General Statistics Office of Viet Nam (2023); National Statistical Office of Thailand (2023)

FDI in the region

In our analysis, we focus on investments in Eastern South countries located geographically in the south. Southern countries to the geographical north, like Mongolia and North Korea, have smaller national economies and have small inward FDI. Additionally, data for these nations is scarce. Figure 2 illustrates the ten-year total inward FDI flow for Southeast Asian countries (2013–2022) in US$ at current prices. As expected, those with higher incomes like Malaysia and those with larger populations like Indonesia, tend to attract more FDI, as illustrated in Figure 2. Even Viet Nam, celebrated for its effective FDI-led economic growth, does not particularly stand out as exceptional in this regard.

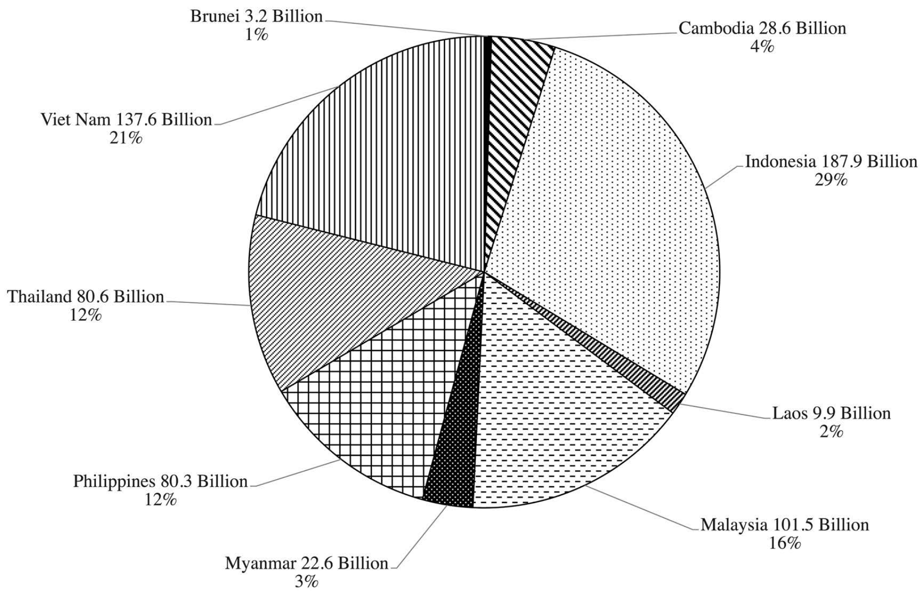

Figure 2 Inward FDI flow in Eastern South, ten-year total (2013-2022), US$ current price
Source: UNCTAD (2023)

The origins of the investment also align with expectations, but one noteworthy observation is that countries in the Eastern North exhibit a stronger tendency to invest in the Eastern South compared to North American or European countries. This trend is especially clear in the investments from South Korea and Taiwan, which invested 12.5 per cent and 15.6 per cent of their international investment to Southeast Asia respectively. Even Japan, a substantial global investor, maintains a higher share of investments in Southeast Asia compared to that of the US or European countries. However, China is an exception, with only 5.6 per cent of its investments going to Southeast Asia. This divergence is likely due to China's recent endeavours to expand its economic territory globally through BRI (Liu et al., 2018). Nonetheless, China still maintains a higher share of investments in Southeast Asia compared to the US. The data confirm a pronounced flow of investment from Northern Asia to Southern Asia. Singapore has a high concentration of FDI in Southeast Asia, not only because local businesses actively invest in neighbouring regions, but also because North American and European companies often channel their investments into Southeast Asia through their Singaporean branches. Similarly, Hong Kong's limited investment in Southeast Asia can be attributed to its role as a gateway for North American and European companies to mainland China.

Table 1 Foreign direct investment flow to Southeast Asia by origin, 2013–2022 total (unit: billion US$ current price)

Rank by FDI to S.E. Asia	Origin	FDI to S.E. Asia (A)^	Total outward FDI (B)*	Share of S.E. Asia (A/B)
1	US	208.8	4,949.5	4.2%
2	Japan	197.3	2,223.3	8.9%
3	Singapore	154.2	689.6	22.4%
4	China	105.8	1,898.5	5.6%
5	Hong Kong SAR	86.5	1,424.1	6.1%
6	South Korea	70.7	565.0	12.5%
7	Netherlands	37.4	927.7	4.0%
8	Taiwan, China	36.0	231.1	15.6%
9	Luxembourg	34.0	407.1	8.3%
10	Ireland	30.7	478.8	6.4%

Source: * ASEAN Stats Data Portal (2023); ^ UNCTAD (2023)

Papers in this special issue

The four subsequent papers in this special issue present empirical analyses and theoretical discussions related to investment flows from Eastern North to Eastern South. They scrutinise investments from Japan to Indonesia, Singapore to Vietnam, and South Korea to both Vietnam and Indonesia. Although varying in theoretical orientations and methodologies, each paper discusses the country-of-origin effects of investments, utilising existing theories on institutions in Eastern North, either implicitly or explicitly.

Arifin criticises GVC literature for its concentrated focus on the upgrading process and underscores that entry itself represents a substantial opportunity for local firms. His analysis, based on the data from his fieldwork on Japanese automobile assemblers in Indonesia and their local subcontractors, demonstrates that the assembler's Japanese origin significantly influences the entry process. This influence is reflective of the renowned Japanese system of hierarchical, long-term subcontracting relationships, extensively celebrated in the 1990s as symbolising a new phase of capitalism, often labelled post-Fordism or flexible specialisation (Piore and Sabel, 1984).

Being part of this system offers the benefit of enduring relationships, contrasting with short-term, competitive relations in North American or European MNCs. However, this durability poses challenges for newcomers to forge subcontracting relationships or to ascend to higher value-added positions within the system. Such durability also compels Japanese MNCs to bring their domestic partners to host countries.

These Japanese subcontractors, sometimes called 'mega suppliers' (Humphrey and Memedovic, 2003), are typically larger and more technologically sophisticated than local firms, restricting opportunities for local firms to attain first-band subcontractor status, which often involves higher-value-added tasks.

Lee and Khoo delve into the transplantation of the Singaporean model of industrial estate development in Vietnam through joint ventures between Singaporean public developers and Vietnamese local governments. The distinctive features of the Vietnam-Singapore Industrial Park (VSIP) include development control through a master-plan approach, hierarchical planning managed in the Singaporean style, well-coordinated mixed-use development by JTC Corporation, a statutory board, and the implementation of Singaporean management, comprising investment incentives, administrative processes and regulatory guidelines (Phelps and Wu, 2009). These characteristics mirror Singapore's industrialisation strategy in earlier decades, which is predominantly driven by FDI and necessitates the establishment of industrial estates with superior residential environments in proximity to workplaces to ensure the comfort of dispatched managers from MNC headquarters.

Drianda et al. elucidate how the prevalence of Korean pop culture, or the Korean wave, in Indonesia aids Korean businesses in investing in related industries. The allure of Korean TV shows, films and music minimises the cultural distance between the two nations, thereby promoting investments in diverse and, notably, cultural product sectors. The development of internationally appealing Korean pop culture is connected to structural transformations in Korea's society, economy and geopolitics.

The Korean wave exemplifies the transformation of the developmental state of South Korea, which is renowned for its industrial policies that propelled heavy and chemical industries to international competitiveness in the 1970s and 1980s (Amsden, 1976; Chang, 1994; Sonn and Choi, 2022; Sonn and Lee, 2015). While early research emphasised the role of the government (Kwon and Kim, 2014; Jin, 2014; Walsh, 2014), it is now widely acknowledged that the Korean wave is not largely indebted to governmental support. Instead, the government, recognising the wave's momentum, sought to claim credit by introducing various forms of financial support. The sector's growth is partly attributed to the maturation of the South Korean economy, which led to a saturated domestic market and prompted producers to explore export opportunities. Unlike earlier decades when the state orchestrated and mandated exports in the development of heavy and chemical industries, the entertainment sector made inroads into the international market on its own accord.

Access to the Chinese market played a pivotal role for many entertainment firms. Its cultural and geographical proximity and substantial market size allowed Korean firms to invest more and enhance the quality of their products. However, entry into the Chinese market was heavily contingent upon the geopolitical environment (Sonn and Hsu, 2022). In the early 2000s, when Korean entertainment products began penetrating the Chinese market on a large scale, relations between China and the US and between China and South Korea were more amicable than ever. However, after the onset of US–China conflicts during the Trump administration, the Chinese government substantially restricted access to Korean entertainment products. By then, however, the Korean wave had reached beyond East Asia, allowing the sector to continue its prosperity.

The spontaneous emergence of the Korean wave illustrates the maturation of the South Korean economy and the transformation of the developmental state into a more liberal form. However, the subsequent state intervention and attempts to claim credit reveal the enduring characteristics of the developmental state. Civil servants' endeavours to claim credit whenever possible and legitimise budget increases are typical, as posited by the public choice school (Buchanan and Tullock, 1962; Kiese and Wrobel, 2011; Niskanen, 1987). Nonetheless, the fact that civil servants leveraged the overseas success of the Korean wave demonstrates that the legitimacy strategy of the developmental state, in which export success played a significant role, persists within the state and South Korean society (Sonn and Kang, 2016; Sonn et al., 2022).

Shin and Hang Bui investigate a less-explored type of international investment emanating from international networks formed by international marriages. Vietnamese wives and South Korean husbands, residing in South Korea, invest in properties or businesses in Vietnam. These middle- or lower-class couples manage such investments due to price/income disparities between the two countries. These investments have become viable following Vietnam's reforms, which permit overseas Vietnamese citizens to own properties and conduct businesses in Vietnam, and the more foundational Doi Moi reforms initiated in 1986, but it is also related to the emergence of multiculturalism in South Korea.

The ascent of multiculturalism in South Korea is not solely a shift in ideology and public policy but is also an economic imperative due to structural transformations in South Korean capitalism. Contributing factors include rapid urbanisation, economic growth from the 1960s to 1980s, maturation of the economy, and multiculturalist policies to counterbalance a deficit of low-skilled workers. International marriages between Vietnamese women and South Korean men are ramifications of shifts in South Korean capitalism and large-scale investments in Vietnam in the early 2000s, driven by escalating wages and other costs in South Korea.

Concluding remark

FDI is not a new topic in development studies, economic geography and other related fields. What has been largely ignored in this large body of literature is the diversity that the influence of institution and culture of the investment origin on already diverse mixture of local institution, MNC's corporate strategy, and the 'global standard' in the hosting economy. This special issue therefore attempts to start further discussion on this subject.

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