

# Chapter 11

## Foreign Direct Investment in China: Its Impact on Economic Growth (Revisited)

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### ABSTRACT

*In accounting for the gaps in the literature between the period 2011 and 2016, more recent literature – particularly empirical related studies on the topic have been consulted to consolidate on the paper “Foreign Direct Investment in China: Its Sectoral and Aggregate Impact on Economic Growth”. As highlighted by Wei (2013), it is important to recognize and acknowledge that the relationship between FDI and employment is affected by many variables, such as growth of the national population, increased exports, and growth of the domestic economy. Furthermore, as illustrated by Iamsiraroj and Doucouliagos (2015), whilst positive and negative effects may be demonstrated in relation to economic growth, in some countries, no effects can be deduced as regards the relationship between economic growth and FDI in certain other countries. This chapter also aims to accentuate the need for greater focus on environmental issues - as well as poverty alleviation - than is currently the case within the sphere and framework of Carroll’s pyramid of Corporate Social Responsibility.*

### INTRODUCTION

As well as the consideration of other objectives which will be introduced towards the end of this section, this chapter is aimed at highlighting why corporate governance mechanisms such as audits are assuming an ever increasing role in mitigating information gaps resulting from lack of investor confidence and growing mistrust, as well as the mitigation of information asymmetries and uncertainties which have the potential to generate shocks, panics and turmoils in financial markets.

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## **Foreign Direct Investment in China**

According to Agrawal and Khan (2011:71,72):

*FDI is an important factor in the globalization process as it intensifies the interaction between states, regions and firms. Growing international flows of portfolio and direct investment, international trade are all parts of this process. Globalization offers an unprecedented opportunity for developing countries to achieve faster economic growth through trade and investment. In the period 1970s, international trade grew more rapidly than FDI, and thus international trade was by far than most other important international economic activities. This situation changed dramatically in the middle of the 1980s, when world FDI started to increase sharply. In this period, the world FDI has increased its importance by transferring technologies and establishing marketing and procuring networks for efficient production and sales internationally (Shujiro Urata, 1998). The large increase in the volume of FDI during the past two decades provides a strong incentive for research on this phenomenon.*

*After the global financial crisis, the status and importance of Asian economies have increased a lot because of their more than expected resilience to financial crisis. Asian economies are expanding rapidly and their growing clout can be felt from the fact that out of top 5 economies of the world (in terms of GDP by PPP) 3 are Asian. Asia, with the exception of Japan, South Korea, Hong Kong and Singapore, is currently undergoing rapid growth and industrialization spearheaded by China and India - the two fastest growing major economies in the world.*

However, recent global trends, reports and developments reveal a slowing down in the pace of growth – as well as anticipated growth in the emerging economies – and notably, China. Whilst many factors are contributory to such developments, it is also vital to consider corporate governance related aspects which may have contributed to the quality of financial reporting and the reliability of financial reporting instruments and financial data in China.

It is recently acknowledged that the level of accuracy of financial data constitutes a huge matter of concern for financial investors in global markets and this has also been evidenced by the recent volatility in leading global financial markets.

Whilst the value relevance of accounting information and data in capital markets of selected jurisdictions constitutes the focus of investigation and analysis in another publication (Ojo, 2016), this chapter will briefly consider the importance of accounting information for investors – as well as Foreign Direct Investment in many emerging economies.

This chapter also aims to analyze and consolidate on the findings of Adi and Ogbole (2013) in relation to their paper “Foreign Direct Investment in China: Its Sectoral and Aggregate Impact on Economic Growth”.

Since the results from their studies are based on data analysis which spans a period of 2005 to 2010, this chapter also aims to mitigate the gaps in the literature by way of reference and consultation to more recent research on the topic. The chapter will also illustrate why environmental concerns and poverty alleviation still constitute vital areas in need of redress and greater focus within the framework of Carroll’s pyramid of Corporate Social Responsibility.

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