

Oliver Morrissey - Validity of conclusion

February 21, 2018 - 17:47

The gravity analysis is fine in demonstrating the link between Chinese OFDI, exports to and imports from African countries. This does not however establish that Chinese FDI and trade are a significant benefit for African countries, or at least does not counter the types of criticisms in the literature. The ...[more]

... conclusion that Chinese FDI is 'good for Africa' (or that the limitations on benefits are invalid) is not justified by the analysis.

To the extent that the relationship relates to FDI and trade in mineral resources, the contribution to economic development may well be limited (for a range of reasons established for Africa, not only with China). FDI in manufacturing may be beneficial but demonstrating that it is requires evidence on local linkages (including ownership) and input demands (which may be largely sourced from China), and whether production is for export (is any back to China) or the local/regional market (which may displace African firms). The criticism of Chinese FDI is that it is tied to Chinese firms (ownership), inputs (imports) and even labour, so the potential benefits for the host economy are minimised. The analysis in the paper is unsuitable to address these issues (for which a gravity model is not informative) so the conclusion should avoid unjustified inferences.

Henning Mühlen - Why the strong focus on Africa?

March 07, 2018 - 14:10

In principle, I agree with you that there are unjustified inferences. But, I don't understand the strong focus on Africa in your comment as there are 167 partner countries included. The comment suggests that the paper is only about China-Africa relations.

Oliver Morrissey - clarification

March 08, 2018 - 11:25

To clarify, I meant the inference was not justified for China-Africa. Circumstances are different for other regions, although the general point of inference applies.

Inmaculada Martinez-Zarzoso - Answer to Oliver Morrissey - Validity of conclusion

March 08, 2018 - 14:03

Many thanks for your comment. We agree with your statement that the links shown in the estimations between FDI and trade do not necessarily translate in a benefit, in terms of economic growth, for African countries. We will acknowledge this fact in the revised version of the paper. Concerning the ...[more]

... sectors or industries involved, since the analysis is done for aggregate trade and FDI, we are not able to differentiate between FDI in mineral resources and manufacturing industries. We will modify the abstract, introduction and conclusions of the revised version of the paper to avoid unjustified inferences. Moreover, we will refer to Amendolagine et al (2013), Boly et al. (2015) and Coniglio et al. (2017) and Morrissey (2011) and mention that to identify the contribution to economic development of increasing links between FDI and trade between Africa and China using input-output linkages is outside the scope of the paper and is left for further research.

References

Amendolagine, Vito, Amadou Boly, Nicola Daniele Coniglio, Francesco Prota and Adnan Seric (2013) FDI and Local Linkages in Developing Countries: Evidence from Sub-Saharan Africa, *World Development* 50, 41-56.

Boly, Amadou, Nicola D. Coniglio, Francesco Prota and Adnan Seric (2015) Which Domestic Firms Benefit from FDI? Evidence from Selected African Countries, *Development Policy Review* 33 (5), 615-.

Coniglio, Nicola D., Rezart Hoxhaj and Adnan Seric (2017) The demand for foreign workers by foreign firms: evidence from Africa, *Review of World Economics* 153, (2), 353-384.

Morrissey, O. (2011) FDI in Sub-Saharan Africa: Few Linkages, Fewer Spillovers, *The European Journal of Development Research* 24, 26-31.

Henning Mühlen - Comments

March 07, 2018 - 13:53

From my point of view, the topic is relevant and the approach is appropriate in general. However, there are some concerns.

1) There are critical aspects regarding the estimation equations (1 to 3).

-The regional dummies: When introducing these dummies, it is not clear how a region is ...[more]

... defined. Subsequently, it becomes clear that a region refers to a continent. It is stated that the regional dummies “account for multilateral resistance factors”. This aspect is associated with two strong assumptions. (i) The multilateral resistances do not vary within a region. In the given case where a region covers numerous countries it is very likely that this assumption does not hold. Finally, this may bias your estimates of interest. To address this problem the authors could instead include time-invariant dummies at the “j” level (partner country level). Doing that, the equations will be reduced to an expression where Dist, Colony, Comleg, and Comlang are excluded. However, these are not the variables of interest. (ii) Given that the regional dummies are defined as time-invariant factors, the multilateral resistances (of regions) are assumed to be constant over time. I doubt that. Regarding the given data structure, it won’t be easy to overcome this problem. At least, one should discuss this issue critically.

-“Dist” should be indexed with a “j” only since it stands for the time invariant geographical distance.

2) I agree with Oliver Morrissey regarding the criticism of particular parts in the conclusion. What can be concluded from the gravity estimations is that there is a link between FDI and trade. However, based upon this the authors state that “Chinese FDI is not that bad after all” (or in the abstract “Therefore, the popular claim that Chinese investment could be detrimental for developing countries is not supported by the data.”). These are indeed unjustified inferences.

Inmaculada Martinez-Zarzoso - Response to Henning Mühlen

March 08, 2018 - 14:07

We appreciate comment (1); we will give the definition of regional dummies earlier in the paper. Thanks also for comment (i); we will take it into account for the revision of the paper. We considered the specification with continental dummies because we wanted to retain the cross-sectional variation of ...[more]

... the data, which will be washed away if the approach you suggest is used. We agree with your comment (ii), that we consider MR of regions constant over time, and a discussion of this issue will be added to the revised version of the paper, thanks. Finally, we will revise the conclusion to avoid unjustified references.

Anonymous - Referee report

March 28, 2018 - 12:55

The paper “The Relationship between the Chinese “Going Out” Strategy and International Trade” (by Ana Lucia Abelianky and Inmaculada Martinez-Zarzoso) tests whether Chinese exports, imports, and outward foreign direct investment (FDI) are complements. Its innovation is that it considers all three economic flows in a single empirical framework. The focus ...[more]

... on China is timely in light of China’s rise in the global economy.

However, a couple of decisions would have deserved more explanations:

- Why does the paper analyze trade in both directions (imports and exports) but looks only at one direction (outward) in the case of FDI? Given their importance for the global economy, both outward and inward FDI flows deserve more attention in the literature as their trade linkages are poorly understood.
- The derivation of the hypotheses is very short. For example, I would have liked to learn why the authors expect that “China exports more to destinations where it is active in FDI.” Why don’t they expect as well that China imports more from destinations where the country is active in FDI? For example, China may invest to extract natural resources, which would be then registered as imports to China. Would it make sense to extend the hypothesis?
- In which units do you measure trade and investment? US dollars? Constant or current values? No information is given in the text.
- What do the variables colonial relationship, common legal origin, and common language mean in the Chinese case? More details would be helpful since China has never been (completely) colonized and it shares a common language with few countries.
- Why does the sample start in 2003 and end in 2012?
- Why does the analysis exclude country fixed effects? What are the consequences of this decision?
- The statement that “Many have challenged the benefits of the Chinese investments in the local economies” (and similar statements). References would be helpful to guide the reader through the existing literature.

While I find the results interesting, I have two major concerns about the empirical approach and the interpretation of results:

- It is not clear to me why your instrumental variable (two-year lag of the endogenous variable) could satisfy the exclusion restriction. Most obviously, past investment could still affect today’s trade patterns. This calls for explanations or an alternative causal estimation strategy. That said, I also do not understand how you can run a Hansen test if you have two endogenous variables and two instruments. Maybe I misunderstand your IV approach but fear that other readers might also need more explanations.
- I am concerned about the paper’s broader conclusion. The paper ends with the statement that “Chinese FDI is not that bad after all - despite being correlated to higher imports from China, it is also associated to higher exports to China.” This is a bold claim. The increase in exports to China could be driven Chinese-owned firms

that employ mainly Chinese laborers without significant benefits to the local economy.

Finally, a couple of extensions would have increased the reader's knowledge gain. First, it would have been valuable to run separate regressions for services and manufacturing. At minimum, it should be clarified whether the trade and FDI data in the analysis both cover the service sector. Second, as the authors acknowledge in the conclusions, sector-specific regression would have helped the reader to learn more about the dynamics at play.

Finally, the paper contains a couple of typos (e.g., "seemly unrelated gravity equations" rather than "seemingly unrelated gravity equations"). The section "4.2 Main results" should start in a new line. De Sousa (2012), Head and Mayer (2014), as well as the exact sources of the data obtained from UNCTAD, COMTRADE and WDI are not listed in the bibliography. Johnston et al. (2015), which is listed in the bibliography, is not mentioned in the main text.

Ana Lucia Abeliasky and Inmaculada Martínez-Zarzoso - Response to referee report

July 04, 2018 - 09:33

see attached file

Ana Lucia Abeliasky and Inmaculada Martínez-Zarzoso - Revised version

July 04, 2018 - 09:39

see attached file

Anonymous - Recommendation

April 25, 2018 - 11:19

The study is thought-provoking indeed. Chinese Going-Out strategy is actually fueled by China's hotly debated Belt & Road Initiative. This study could take a brief look at the Belt & Road Initiative as background information. The paper is overall interesting. I congratulate.