

An Open Economy Calls for New Development Theories

ZHANG Youwen¹(张幼文)

Editorial note: Ever since reform and opening up policies were adopted in the late 1970s and early 1980s, the comparative advantage theory, factor endowment theory and "two-gap model" theory have been the basic guidelines for China's reform and opening up. On this basis, China has proposed a strategy of "exercising the comparative advantage of cheap labour". However, now that production factors have realized worldwide free flow alongside economic globalization, is this kind of traditional strategy still suited to China? The following article has explored this question and proposed a "new approach to opening up", considering advantages ranging from cheap labour to factor scarcity.

In recent years, a great deal of research into the benefits of China's opening up has provided forceful confirmation of its tremendous achievements. Offering sufficient evidence and reliable conclusions, the results have proved the soundness of opening up to the outside world as a national strategy. At the same time, we can see that it was necessary to carry out an in-depth theoretical study into the benefits and issues related to opening up. Analysis and strategic exploration of the actual issues involved constitutes

the "new approach to opening up",¹ for which the theoretical basis is the principle that profit is determined by the scarcity of economic factors in the global economy.

I. Limitations to cheap labour as a comparative advantage strategy

China's economic opening up was initiated in the late 1970s and early 1980s. Faced with ideological and theoretical hurdles inherited from the planned economy that had been closed to the outside world,

Chinese academics have worked hard to explore basic theories. In the course of our necessary and fruitful research upon this subject, emphasis was given to three theories: the comparative advantage theory, the factor endowment theory and the "two-gap model" theory. Against the historical background of ideological liberation, these three theories were gradually accepted in China as the basis for an opening up strategy. The expression "make the most of the comparative advantage of cheap labour" has been the premise of many

¹ The Institute of World Economy, Shanghai Academy of Social Sciences

theoretical studies as well as the focus of opening up policies and strategies.

Despite representing major progress in China at the time, this expression is unspecific and even confusing in terms of precise theoretical meaning. Comparative advantage and factor endowment are separate theories at different stages in the history of international trade theory development. The comparative advantage theory is illustrated by the model of "two countries and two commodities" based upon the theory of labour value, of which the best aspect is its logic structure featuring dual comparison. The absolute advantage theory, which departs fundamentally from the core feature of the comparative advantage theory, is applied if two countries are compared in terms of one commodity. The factor endowment theory involves comparisons between two countries in terms of the absolute price differences between various factors. This theory has not only pushed the comparative advantage theory forward from single factor to multi-factor, but has also adopted absolute advantage instead of comparative advantage. Therefore, "make the most of the comparative advantage of cheap labour" has muddled two different trade theories into one expression and actually means no more than "make the most of the absolute advantage of the low cost of labour",

turning a comparison of labour productivity into a comparison of factor price and thus only embodying the factor endowment theory and not the comparative advantage theory.

In practice, the "make the most of the comparative advantage of cheap labour" theory has led to a single strategy of utilizing low-cost labour, causing China's opening up theory to become a factor endowment theory based purely upon low labour costs. The core structure of the universally applicable comparative advantage theory has been discarded. The goal of opening up is not to establish a structural comparative advantage, nor to build up a dynamic comparative advantage, but rather, simply to make use of the labour price advantage. Many issues of the opening up strategy are formed on such a basis. The principle of "choosing the lesser of two poor choices", which can be clearly seen in a single factor analysis of the comparative advantage theory, has been excluded by the comparative affluence of these two factors: the labour intensive model has been simplified into an ordinary labour-intensive processing model, and when it comes to inexpensive knowledge labour which can generate higher productivity, the principle of "choosing the better of two good choices" has been totally ignored. This is why we have been emphasizing ordinary processing labour-intensive industries rather than knowl-

edge-based labour-intensive industries.

Relying on cheap labour alone has resulted in a backward overall industrial structure and export structure: the rapid growth of foreign trade is built upon the absolute advantage of low labour costs; processing trade export has been surpassing 50% for many years; and ordinary trade mainly features labour-intensive products. A serious problem is that two basic phenomena have been formed based upon the absolute advantage of low labour costs. One is the backward industrial structure, i.e., the absolute advantage of low labour prices has been turned into an "absolute disadvantage of the backward industrial structure" and an "absolute disadvantage of China's low position in the international division of labour". In 26 years, China has received a great deal of international industrial transference, developed numerous labour-intensive industries, and taken over the export status previously held by other Asian countries and regions. The second is the "export without industry" phenomenon. China's export product structure has been improving gradually with an increasing share of high-tech products, but most of these products are only processed or assembled in China for export trade, and are far from forming an industry. Even worse, the supply of homemade parts and components is at a very low

level. Despite our continuous calls for improvement of the foreign trade structure, we cannot expect any fundamental changes to take place if the cheap labour strategy remains in place.

Admittedly, as a backward developing country, China's opening up must proceed from the participation of cheap labour in the international division of labour and will continue to rely upon cheap labour as an advantage for a long period to come. Any strategy that exceeds China's reality is unfeasible. However, we must also see that for a leading nation, implementation of a long-term low price strategy is not only unfavourable, but unsustainable as well. This has frequently been proven by international market frictions and developing domestic competition.

II. Attributes of the development stage of national identity in international economic theories

At the new stage of development, it is impossible for China to seek theories of international economic relations directly from existing western theories. The history of theories upon trade and investment and economic development indicates that any economic theory is shaped by its own objective historical background, is produced to

address the particular issues of historical conditions at that time, and serves to solve the particular strategic issues of the country or nation at that historical stage. It is entirely reasonable to say that a theory upon international relations that "transcends countries and developmental stages" does not exist.

(I) Historical features of international trade theories

Ricardo's comparative advantage theory proved the necessity of having trade benefits for all countries, but its universality causes people to overlook the historical background of free trade theory formation. In fact, this theory emerged from Britain's need to push free trade after industrialization. The protective trade theories of Friedrich List and Hamilton respectively represent the characteristics of Germany and the United States as latecomers to industrialization at that time. Krugman's strategic trade policy theory is another representation of the nationalist nature of trade theories. His theory originated from the historical background of a relative decline in the international competitiveness of the United States and provided guidance upon how to establish new advantages. It can thus be seen that the dominant theory of a country's international economic relations possesses distinctive national and historical features.

The development stage and national characteristics of trade theories also imply that theories provide a service to countries regarding how to participate in the international division of labour and obtain greater profits. We can gain inspiration from classical trade theories upon revenue distribution methodology, but given that these theories came into being before economic globalization, we do not directly seek conclusions upon their revenue distribution for the factor flow conditions of today's economic globalization. Economic globalization is the premise of various trade theories for the fundamental transformation of international economic relations based upon factor flow. As a result of factor flow, commodities in international trade are no longer merely the output of a country's factors; fundamental changes have therefore taken place in the international trade structure and interest distribution relations.

(II) A reassessment of economic theories for opening up development strategies

For more than half a century, a series of classical opening up theories have come into being along with development strategies for developing countries in the international free trade environment, especially with regard to interest distribution in this

kind of opening up. These theories have offered ideas upon how to explore interest issues in the global economy from another perspective.

The "centre-periphery doctrine" emphasizes the marginalization of developing countries in the international division of labour and the flow of trade interests from the periphery to the centre. This doctrine is based

ferences in the direction of interest flow from international industries.

Bhagwati's immiserizing growth theory has explained that export growth leads to the deterioration of trade conditions and is thus detrimental, revealing the negative side of trade expansion.¹² The conclusion that trade development, including rapid export growth, is not nec-

alyze the massive flow of international capital under the conditions of economic globalization. Excessive policy incentives for the use of a certain factor will lead to factor distortions in the economy. Modern distortion theories have proven that policy incentives for the use of one productive factor will necessarily result in rejection of the use of another productive factor, and this unavoidably will lead to losses in revenue for open economies.¹³ In the process of China's opening up, widespread use of incentive policies has rendered policy-induced distortions more common and more serious.¹⁴

Chenery's two-gap theory explains that foreign exchange and capital gaps must be compensated by the expansion of trade and absorption of foreign capital so as to initiate development. China's own development experience has also proven how important it is to make up the two gaps. However, as the two gaps are no longer the main obstacles in China's development, it is obviously inappropriate to continue to regard making up the gaps as the basic task of a development strategy. Export and introduction of foreign capital remain highly significant in China today, but its significance lies in the expansion of job opportunities and industrial development rather than in compensating the two gaps. This requires a shift in our strategic emphasis.



upon division of labour and competition in trade, and is of major significance in analyzing how a country's industrial structure influences international division of labour interests. However, booming international investment has given rise to modern industries in developing countries, thereby reducing the international gap determined by the development levels of different countries. This has made it difficult to analyze directly dif-

essarily favourable is especially worthy of our attention at present. We do not need to opt for a closed development strategy owing to the possibility of immiserizing growth, but we must pay close attention to the real benefits of trade growth. On the other hand, we can also see in Bhagwati's analysis that export still refers to products as a country's own productive factors. The issue appears more serious when we further ana-

(III) Attributes of the domestic identity of the transnational corporate investment theory and its significance for the host country

There is an obvious deviation in China's research upon foreign capital theories that has overlooked the following important fact: the transnational corporation theory is essentially the theoretical achievement of economists in developed countries. Their focus is the cause and direction of international investment, the revenue of investment companies, the strategic significance to the home country, etc., in order to provide guidance regarding the strategic options of developed countries rather than to study the influence of international investment upon host countries. They thus cannot be perceived as the strategic basis of the host country. Meanwhile, China's international investment theory is concentrated in the representation of the foreign capital introduction theory, and likewise regards the advantage of cheap labour as a basic advantage in introducing foreign capital. Therefore, the foreign capital theory has also been established on the basis of the cheap labour advantage.

Our task is to analyze the influence of international investment upon the host country in view of the theory of transnational companies'

investment.

(i) "Monopoly advantage" is a condition for realizing international direct investment, and determines the monopoly status that will be formed by transnational companies in host countries. Hymer has applied the monopoly theory from the industrial organization theory to the analysis of direct foreign investment by transnational companies. He pointed out that imperfect market competition and the monopoly advantages of monopoly capital groups were fun-

transnational corporations could have on China.

(ii) The "production life cycle and transference rule" determines that host countries can only bring in mature products from developed countries. Vernon's production cycle theory has proven that corporate foreign direct investment represents the various responses of innovation, growth and standardization to the three stages in the production life cycle.^[10] The production life cycle theory indicates that international

We should not only passively accept investments from transnational corporations making use of their advantages, but also develop our own advantages to attract foreign capital

damental to the steep increase in international direct investment after the Second World War.^[11] Kindleberger elaborated upon Hymer's theory, emphasizing the flaws and the monopolistic advantage in the market structure.^[12] This theory indicated that direct investment by transnational companies will enable them to form monopoly status in host countries. However, in recent years, when Chinese academics were largely concerned with the reasons for international direct investment and policy demands, they overlooked the possible impact that

investment is the representation and reinforcement of the differences in industrial development at various stages. However in China, as we realize that it is the cause of direct international investment and vigorously emphasize international industrial transference opportunities, we have overlooked the inevitable fact that this kind of transference will lead to differences in product cycles in the international division of labour.

(iii) "Transaction internalization" has saved on the costs of transnational companies, enhanced

their efficiency and improved their revenue. The market internalization theory has proven that efforts to overcome market externalization lead to low efficiency in intermediary product transaction.¹⁰¹ According to the economics of property rights, due to market flaws and a lack of efficiency, the transaction costs of businesses have increased. If transaction activities are incorporated internally into businesses in a certain organizational form, and corporate internal administration thus replaces market mechanisms, then transaction costs can be cut. The market internalization theory provides for the possibility of international direct investment by transnational corporations, and is a major complement to market imperfectness. This is obviously correct as a corporate theory. However, what we have overlooked is that transnational corporations are able not only to cut costs through internalized transactions, but can externally transfer interest gained in host countries as well. Such transfers are not merely limited to price transfers. Similar theories include "expansion of marginal industries", which proves that the country can only export relatively disadvantageous industries and thus can only assume a backward position in international division of labour. Koyimo has proven that the external transference of "marginal industries" from developed countries con-

tinues to occur.

(iv) The "corporate advantage structure" theory provides proof of the international business methods of transnational corporations, in which direct investment is chosen by transnational companies so that they can possess the three advantages of ownership, internalization and location at the same time.¹⁸ However, when advantages are combined in this way, the geographical advantage of the host country is merely the ability to utilize fixed factors while withdrawing from its own market.

(v) The "value chain" theory determines that emerging countries, especially those with scarce capital, can only participate at the lower end of the value chain. According to the theory of international production and business arrangements carried out on the value chain, production

and business activity processes are an interlinked "value chain", and the business principle of transnational corporations is to distribute the links of the value chain around different countries and regions. The lowest cost of a certain production stage in a country may represent its advantage, but can also mean that the country may profit from this division of labour in the value chain. Correspondingly, in this kind of value chain arrangement, transnational corporations may obtain the highest revenue from low-cost links and seek even higher revenue by engaging in sectors with high added value. Many developing countries expect to bring in technology through foreign capital, but research indicates that although the effects are positive in small domestic businesses with foreign stocks, they are detrimental to the productivity of small domestic busi-



nesses with no foreign investment. The positive and negative effects offset one other, and the net impact of foreign investment is limited. Almost all the revenue brought about by foreign capital is acquired by foreign-funded enterprises.⁸

The purpose of explaining the impact of transnational corporations upon host countries is not to prove that it would be better to reject international investment. Rather, it aims to seek a more effective way of utilizing foreign capital. We should not only passively accept investments from transnational corporations making use of their advantages, but also develop our own advantages to attract foreign capital. Transnational corporation investment theories actually involve the realization and creation of factor advantages; they are clearly significant to the global economy as a factor flow rule and interest distribution rule.

III. The "new approach to opening up": scarce factor determinism

China's theoretical development of an open economy is urgently needed to provide solutions to practical issues. China has yet to form an international economic relations theory that is suited to a major developing nation, or to answer the new questions arising from her changed situation. Economic globalization is a new reality that came into being at the turn of the century; however, despite

the fact that China has taken this opportunity to develop, she has not formed an open economic theory that reflects the special features of the global economy.

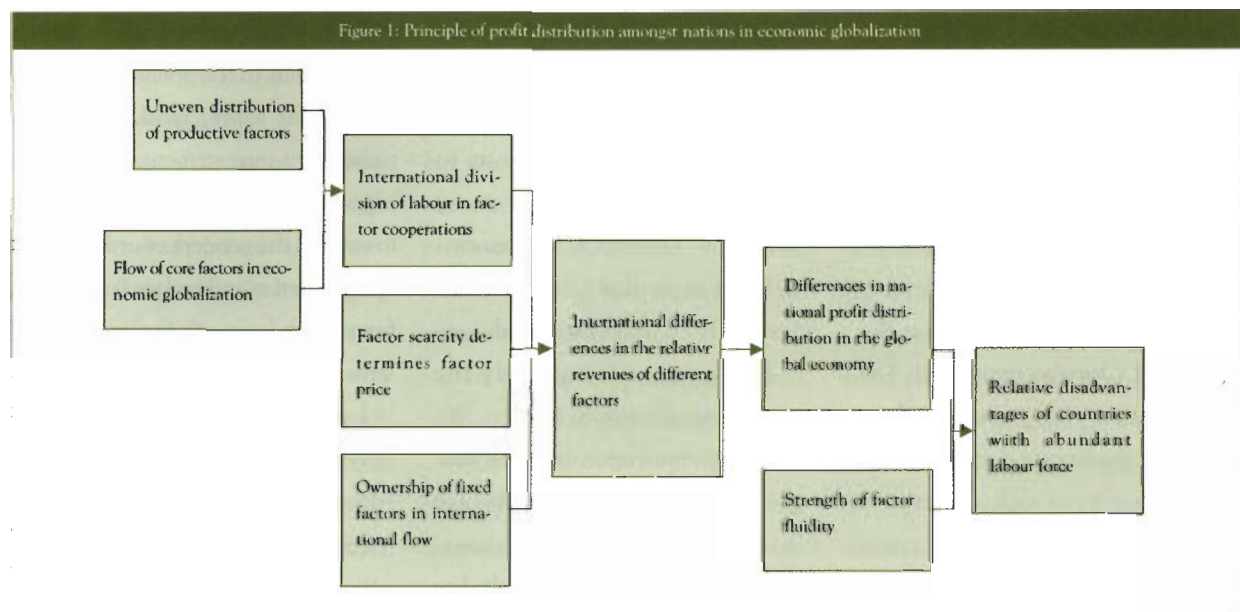
(I) Factor flow and the profit distribution of the global economy.

New theories in relation to the open economy must make sufficient reference to the achievements of classical theories, but they should not be founded upon the classical international trade theory, development economics or radical economics, but rather, upon globalization economics. The basic feature of economic globalization is the international flow of factors, which is totally different from the circumstances of the traditional trade theory and the development economics theory. Under economic globalization, the international flow of factors has also brought profound changes to a series of traditional concepts including international competition methods, the factor endowment structure, the international division of labour, national strength, etc. Underlying the profound changes in these concepts are the global business arrangements of transnational corporations across geological national borders.

The nature and basic features of global economic factor flow have determined that, through the inflow of factors, an opening economy has ac-

complished the combination of various productive factors in China. Because of this, the concept of the international division of labour in the traditional sense has been transformed. An international division of labour featuring the national differences of industries in the second half of the 20th century has intensified into a division of labour featuring the national distinctions between products. In the booming era of economic globalization since the 1990s, an international division of labour based upon productive factors has been established - all the productive factors of various countries are integrated within one country to form an industry that produces a certain kind of product for export. Trade structure is no longer the hallmark of the international division of labour, and the international differences between productive factors are the basis and kernel of the international division of labour. In this sense, division of labour can be termed as "division of factors". In fact, division of labour has lost its original meaning and become "cooperation" or "involvement", i.e., countries engage in the process of international production with one kind or several kinds of productive factors. In this sense, it is international specialization at a more profound level, or the specialization of countries in factor supply, which can be referred to as the style of "factor cooperation" in the "international

Figure 1: Principle of profit distribution amongst nations in economic globalization



division of labour".

The basis determining profit distribution within the global economy is that the international flow of factors does not change the ownership of factors and will not alter the nationality of factors. Hence, using the level of factor scarcity to determine prices has taken on a broader form: the comparative level of factor scarcity of a country participating in international cooperation determines the relative amount of profit.

Despite the fact that the basic feature of economic globalization is the flow of factors, the fluidity of factors varies considerably. Capital, technology and management are extremely fluid and the high quality labour force is fairly fluid, whereas the ordinary processing labour force has a very low fluidity, and land and natural resources are not fluid at all. The fluidity of factors has led to two

results. One is that factors with high fluidity in the global economy flow into places with low factor fluidity so as to realize the combination of factors; second is that international prices of factors with high fluidity will converge while the huge differences in the international prices of factors with low fluidity will be retained.

China's factor advantage for involvement in economic globalization is her almost infinite supply of cheap labour, which is the cause of her disadvantageous position in terms of profit distribution in economic globalization. The low fluidity of ordinary processing labour has allowed differences in labour supply between each country to be maintained, while an excess labour supply in some countries preserves their low labour costs. China's factor cooperation status in terms of participation in the globalized economy was established

in this way.

From this we can conclude the principle of national profit distribution in the global economy (see Figure 1).

(II) The advantage of cheap labour and the benefits of China's open economy

The relative level of revenue is a core issue, but one which brings incomparable difficulties. The industrial structure, factor structure, competitive advantages, etc., of different countries determine their relative revenues in global cooperation. Differences and disparities in revenue are inevitable and are largely determined by factor scarcity. From this perspective, the sizes of the relative revenues of different factors are not able to be compared. Therefore, the question is transformed into two aspects. One is how to obtain higher revenues by enabling China to ac-

quire more scarce factors. The second is how to eliminate unfavourable factors in the non-market mechanism which affect the country's revenue level. The latter is precisely the focus of Chinese academic work. Irrational international mechanisms have had a severe impact upon the benefits of China's opening up. The key to institutional research is how to change inaccurate directional targets and remove vicious competition.

China's cheap labour force is prospering, which makes it competitive and forms the basis for China's absorption of international industrial transference and development in the export of labour-intensive products. However, labour costs should not be determined only by the relationship between supply and demand. As the reproduction cost of the labour force, labour costs encompass both the reproduction requirements and the development requirements of the labour force itself. It is subject not only to economic factors and the market supply and demand situation, but to social factors as well. In the course of social development, the needs of the labour force are bound to advance. For reasons arising from the policies on foreign capital and foreign trade, the incomes of a large proportion of labourers in foreign funded enterprises in China have not increased in line with the nation's economic and social growth. Their development, work and living con-

ditions remain the same despite higher standards of social responsibility in the world at large. They have been stripped of the opportunity to receive an education under many conditions. Therefore, it is reasonable for us to say that China's labour price has been underestimated.

Employment is currently the most pressing issue in China. We cannot elaborate upon desirable strategic options without first looking at China's employment issues. However, human resources are the key to a knowledge-based economy, and human capital is the labour force with more relative investment and also capital condensed in the labour force. In other words, the labour force itself is a prerequisite for developing a knowledge-based economy. Once this has been proved, a plentiful labour force will no longer be simply a factor for developing traditional processing labour-intensive industries, but will become a factor for developing a knowledge-based economy.

(III) Development of China's advantageous and scarce factors

In the global economy, the priority of China's development strategy is to alter the factor structure and acquire scarce factors through cultivation, purchase and other means in order to form factor advantages and change her position in the division of labour and profit distribution.

The production factor is the basic

concept of economic analysis, which mainly refers to the analysis of capital, the labour force, land, resources, technology, management, etc. Analyzing economic globalization requires us to expand the concept of ordinary production factors and replace "production factors" with "economic factors" in a broad sense. With regard to the concept of the global economy, economic factors include global production and business networks, international market channels, transnational enterprise organizations, national competition mechanisms, national infrastructures, etc. Economic factors in the concept of the knowledge-based economy include qualified scientists and technicians, patented technology, brands, standards, information, etc. Strategies for the development of scarce factors in the global economy should be planned in the broad factor sense.²¹

Michael E. Porter, author of *The Competitive Advantage in Nations*, has categorized production factors into basic factors and advanced factors. Basic factors include natural resources, climate, geographical location, non-skilled workers and semi-skilled workers, financing, etc. Advanced production factors include modern communication infrastructure, employees who have received a higher education, university research institutes, etc. Reduced demand is the reason for the diminishing importance of basic factors, as well as relatively high supplies that

can be obtained by transnational enterprises through global market networks, lessening their geographical importance. Advanced production factors are far more vital in terms of competitive advantage. To obtain high-level competitive advantages, businesses must rely upon advanced productive factors.^{xiii}

The factor structure principle of the knowledge-based economy has drawn attention to the significant transformation of contemporary production and economic factors, and signified that the strategic emphasis of keeping pace with the development of the knowledge-based economy is to develop the core factors of the knowledge-based economy. The basic features of factor flow in the global economy and analysis of its dominant factors have revealed the possibility of developing a factor-based strategy that can transcend the actual endowment of factors.^{xiiii} The crux of the knowledge-based economy is not capital. Consideration of capital alone will merely lead to the development of an industrial economy, or a processing style of knowledge-based economy. Attention should not only be given to the utilization of foreign factors but also to the creation of scarce factors. Utilization of the labour force in this country should not be limited to the manufacturing and processing industries; instead, the significance of China's labourers to the structural features of the knowledge-based

economy should be reviewed. The key point of development strategies is not merely to make use of external factors, but more importantly, to create new economic factors in areas which have previously been lacking in order to form a "dynamic factor affluence" to reverse their weak status.

In the development of scarce factors, a philosophy of institutional competition must be established. We must create an effective institutional environment conducive to corporate growth and a clustering effect to shape a growth environment for scarce factors. Traditional ideologies based on comparative advantage and factor advantage must be transformed; instead, efforts should be made to establish a scarce factor development ideology based upon factor cultivability and fluidity.

The key point of development strategies is not merely to make use of external factors, but more importantly, to create new economic factors in areas which have previously been lacking

In the development of economic factors, the government and enterprises should play different roles. Ordinary production factors such as infrastructure and labourers with a basic education are an essential condition for the formation and development of advanced industries, but

enterprises are either unwilling or unable to invest in these factors. Therefore, they should be the focus of national investment. On the contrary, advanced production factors such as specialist technology are the source of corporate core competitiveness and profits. Enterprises are more concerned with investment in these kinds of production factors. Investment in advanced production factors is highly risky with high returns, and is thus suited to corporate investment. The private sector is the main force in creating professional and advanced productive factors - without it, creating production factors that are favourable to industries would be impossible. The government may also create professional and advanced production factors, but their response to external situations

is slow and it is difficult for the government to identify the particular needs of industries, meaning that its efforts in creating and providing investment for productive factors ultimately fail.^{xv} With regard to the relationship between the government and enterprises, the key is that the

government should create a powerful social risk investment mechanism to promote the formation of scarce factors. China should work hard to develop risk investment funds and speed up their growth in a standardized manner. Risk investment entry and withdrawal mechanisms should be formed in the market, so as to absorb social funds more effectively into risk investment and create advanced pro-

ductive factors. Risk investment as the principle component, the risk investment market as the entry and withdrawal channel, scientists as the innovators and entrepreneurs as combiners of factors are the integrated conditions for the development of high-tech industries. The key to the mechanism is support for industries provided by the financial sector.

As a large country, China has a

multilayered industrial structure and labour force structure. The key to this lies in rapidly changing the strategic basis that continues to view China overall as an ordinary labour-rich country and thus lays stress upon the development of processing labour-intensive products. We should allow regional differences, but the national strategic emphasis should be upon structural improvement. ■

References

- [1] S. H. Hymer. *International Operations of National Firms: A Study of Direct Foreign Investment*, MIT Press, 1976.
- [2] C. P. Kindleberger. *American Business Abroad: Six Lectures on Direct Investment*, New Haven, Yale University Press, 1969.
- [3] P. J. Buckley and Mark C. Casson. *The Future of the Multinational Enterprise*, London: Macmillan, 1976.
- [4] 小島清 (Kiyoshi Kojima). *Japanese Direct Foreign Investment: A Japanese Model of Multinational Business Operations*. Croom Helm, London: 1978.
- [5] John H. Dunning. Toward an Eclectic Theory of International Production: Some Empirical Tests. *Journal of International Business Studies*, Spring/Summer, 1980.
- [6] 张幼文. *当代国家优势[M]*. 香港: 远东出版社, 2003.
- [7] (美) 迈克尔·波特. *国家竞争优势[M]*. 北京: 华夏出版社, 2002.
- i For the new approach to opening up, please refer to the following of my papers: Establish a New Approach to Opening Up and Safeguard National Economic Security appeared in China Today: Development, Security, Value, in November 2004, Shanghai People's Press; A New Approach to Opening Up - Nine Dilemmas confronting the Transformation of Opening Up Strategies, November 20th 2004, Jiefang Daily; The New Approach to Opening Up, December 20th, 2004, Wen Hui Bao; The New Approach to Opening Up: Realizing the Scientific Development of Opening Up to the Outside World, August 14th, 2005, Jiefang Daily; Themes and Ideas regarding the Assessment of Opening Up Benefits - Explore a New Opening Up Strategy with a Scientific Approach to Development, Issue 8, 2004, World Economic Research; Economic Globalization and National Economic Power, Issue 5, 2005, World Economic Review; Dynamic Evolution of the Development Goals for Economic Opening Up, Issue 1, 2006; Themes of Theoretical Development in the New Stage of China's Opening Economy, Issue 3, 2006, Academic Monthly.
- ii J. Bhagwati. Immiserizing Growth. A Geometric Note, *Review of Economic Studies*, 25 (1958), pp. 201-205.
- iii H. Herberg and M. C. Kemp. Factor Market Distortions, the Shape of the Locus of Competitive Outputs, and the Relation between Product Prices and Equilibrium Outputs, in *Trade, Balance of Payments, and Growth: Papers in International Economics in Honor of Charles P. Kindleberger*, edited by J. Bhagwati et al, Amsterdam, North-Holland, 1971; H. G. Johnson: Optimal Trade Intervention in the Presence of Domestic Distortions, in *Trade, Growth and the Balance of Payments*, edited by R. E. Baldwin et al, Chicago, Rand McNally and Amsterdam, North-Holland, 1965.
- iv Zhang Youwen. *Distortion of Dual Systems and Foreign Trade Benefits*. 1995 edition, Shanghai Sanlian Bookstore.
- v S. H. Hymer. *International Operations of National Firms: A Study of Direct Foreign Investment*. MIT Press, 1976 (original doctor's thesis in 1960).
- vi C.P. Kindleberger. *Monopolistic Theory of Direct Foreign Investment*, 1975; Charles P. Kindleberger. *American Business Abroad: Six Lectures on Direct Investment*. Conn: Yale University Press, 1969.
- vii R. Vernon. International Investment and International Trade in the Product Cycle. *Quarterly Journal of Economics*, vol. 80, 1966, pp. 190-207.
- viii P. J. Buckley and Mark C. Casson. *The Future of the Multinational Enterprise*. London: Macmillan, 1976.
- ix John H Dunning. Toward an Eclectic Theory of International Production: Some Empirical Tests. *Journal of International Business Studies*, Spring/Summer, Academy of International Business and University of South Carolina.
- x Brian J. Aitken and Ann E. Harrison. Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela, *The American Economic Review*, June 1999, pp. 605-618.
- xi Zhang Youwen. *Contemporary National Advantages*. Far East Press, 2003.
- xii [US] Michael E. Porter. *The Competitive Advantage of Nations*, translated version in Chinese. Huaxia Press, pp. 72-73, 2002, January Edition.
- xiii Zhang Youwen. *Productive Factors and their International Division of Labour in the Knowledge-based Economy*. Issue 8, 2002, China Industrial Economy.
- xiv [US] Michael E. Porter. *The Competitive Advantage in Nations*. translated version in Chinese, Huaxia Press, p. 77, January edition, 2002.