The social responsibility of international business scholars

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Abstract

Purpose – The paper aims to argue that the social responsibility of international business (IB) scholars is to seek truth, disseminate learning, and make a difference on issues crucial to the global economy.

Design/methodology/approach – Instead of making philosophical and abstract arguments on the importance of the social responsibility of IB scholars, this article focuses on a leading debate of the times: how to view the rise of China's outward foreign direct investment (OFDI)? The article argues that the so-called "China threat" brought by such OFDI, as it is often portrayed by the (Western) media, is a myth that cannot be substantiated by evidence-based scholarly analysis.

Findings – At present, China's OFDI stock represents a mere 1.21 percent of global OFDI stock. It would be absurd to believe that such a tiny sum can "buy up the world". Based on findings, three hypotheses on what is behind the myth about China's OFDI are offered.

Practical implications – Although some IB (and management) scholarships have been criticized for their alleged lack of relevance to practitioners and policymakers, this paper disagrees. IB scholars need to engage with issues of grave importance not only to the IB field but also to the wider world, such as China's OFDI.

Social implications – The article ends with a series of suggestions on how IB scholars, driven by social responsibility, can shed light on, clear the air, and steer the course of public perception, by drawing on time-honored, evidence-based scholarly tradition.

Originality/value – To the best of the authors' knowledge, this is the first article in the literature on IB scholars' social responsibility.

Keywords Social responsibility, International business scholars, China's outward foreign direct investment, Evidence based, China

Paper type General review

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Introduction

The social responsibility of international business (IB) scholars stems first and foremost from the social responsibility of scholars. All scholars seek truth (through research), disseminate learning (through teaching), and make a difference (through service) (Peng and Dess, 2010). What then specifically is the social responsibility of IB scholars?

Surprisingly, there is no previous research on IB scholars' social responsibility[1]. Endeavoring to partially fill the gap, we argue that the social responsibility of IB scholars is to seek truth, disseminate learning, and make a difference on issues crucial to the global economy. Instead of making philosophical and abstract arguments on the social responsibility of IB scholars, in this article, we focus on a leading debate of our time: how to view the rise of China's outward foreign direct investment (OFDI)?

While the IB literature on the rise of China's OFDI brought by its multinational enterprises (MNEs) is rapidly mushrooming (Alon, 2010; Buckley *et al.*, 2007; Morck *et al.*, 2008; Peng, 2011; Peng *et al.*, 2010; Sun *et al.*, 2011b; Wei, 2010), discussion of the rise of China is no longer limited to the IB (or "AIB") community. Rather, there is no shortage of media reports produced by non-scholars. If we can summarize the hundreds of media reports and books on the rise of China in the Western (English-speaking) world, one pervasive theme seems to be a general sense of the "China threat". Lampton (2010), a leading China scholar in the USA, has labeled this literature "China on steroids". To the best of our knowledge, no previous IB research has confronted this crucial question: how should we as IB scholars respond to the so-called "China threat" portrayed by the "China on steroids" literature?

We argue that IB scholars have a social responsibility – in addition to our scholarly and professional responsibility – to join this debate and clear the air. As scholars, we have unique capabilities and advantages relative to other groups, such as journalists, policy gurus, and social commentators who are visible in articulating the "China threat" view. We are more empirical; we have a deeper respect for data and facts; and we are less ideological. In this article, we will focus on the core areas of IB scholarship, FDI and MNEs[2], and we will let better minds in other disciplines such as international political economy to deal with the political, military, and social implications of the rise of China. Our central argument is that the so-called "China threat" brought by Chinese MNEs' OFDI is a myth that cannot be substantiated by evidence-based scholarly analysis.

The "China on steroids" literature

If one believes what is printed by the media, it is hard not to believe that emerging multinationals from China are such a dominant force "intent on buying the world" (*BusinessWeek*, 2009, p. 36). The following are some recent cover stories:

- *The Economist* (2007): "America's fear of China" (19 May).
- *BusinessWeek* (2009): "China goes shopping" (27 July).
- *Fortune* (2009): "China buys the World" (26 October).
- *The Economist* (2010): "Buying up the world" (11 November).

A number of popular books such as *When China Rules the World* (Jacques, 2009) have played up the "China on steroids" theme and sold thousands of copies. Overall, three impressions emerge:

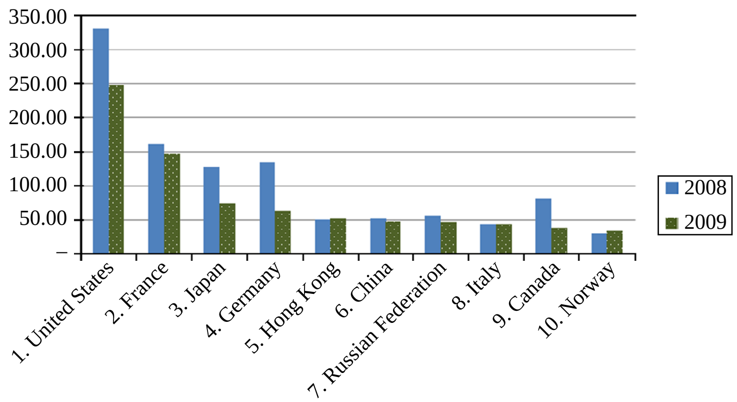
(1) China is a dominant player in OFDI in the world.
(2) China is the number 1 OFDI player among emerging economies.
(3) Chinese OFDI has significant global reach.

As IB scholars, we need to ask: Really?

What do the data suggest?

The data suggest that all three impressions are unsubstantiated. First, in terms of China's alleged "global dominance" in OFDI, Figure 1 shows that in 2009 (the most recent year on which data are available), China was not even among the top five OFDI generating economies. While the USA, France, Germany, and Japan generated more OFDI than China, we have not found any media report alleging that MNEs from these economies are "buying up the world".

The same *BusinessWeek* (2009) article, which leads readers to believe that China is buying up the world, reveals a startling (but accurate) data point: total stock of Chinese OFDI is only 1/30th of total US OFDI. If China's tiny sum of OFDI stock could indeed buy up the world, then US MNEs would have bought up the world 30 times (!). On a worldwide basis, the *World Investment Report 2010* documents that China's share of global OFDI stock was only 1.21 percent in 2009 (UNCTAD, 2010, pp. 172-5)[3]. While it is clearly accelerating, in 2009, it only represented 4.4 percent of global OFDI flows (UNCTAD, 2010, pp. 167-71). Now, how can MNEs from a country that has just over 1 percent of the global OFDI stock be in a position to "buy up the world" (even if they wanted to)? Clearly, any PhD candidate making such a bold conclusion based on this kind of data would have had his/her dissertation rejected and his/her candidacy disqualified.



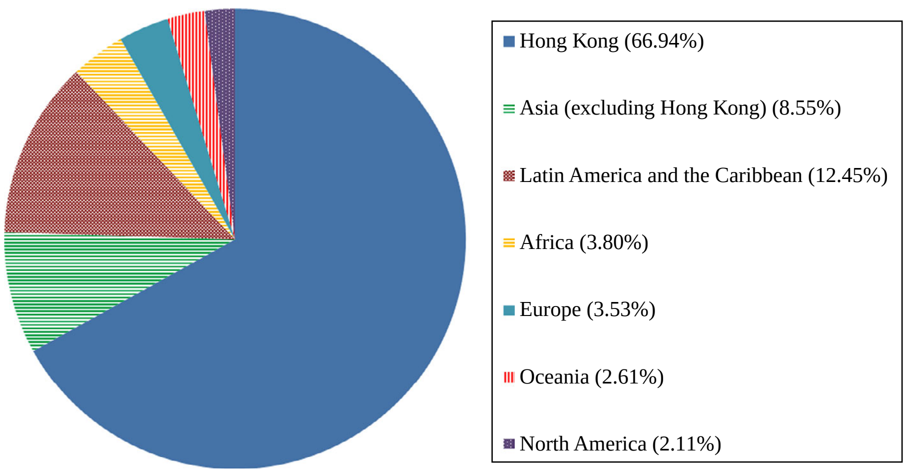
Notes: Rankings are based on the magnitude of 2009 FDI outflows; in other words, not all the top ten countries in 2009 made top ten in 2008; in 2008, the top ten rankings (in descending order) are: (1) the USA, (2) France, (3) Germany, (4) Japan, (5) the UK, (6) Switzerland, (7) Canada, (8), Spain, (9) Belgium, and (10) Hong Kong; note China failed to make top ten in 2008; in fact, the year 2009 was the first year China made top ten in annual FDI outflows
Source: Data extracted from UNCTAD (2010, Annex Table I, pp. 167-71)

Figure 1.
Top ten economies for FDI outflows, 2008 and 2009 (billions of US dollars)

A second impression one easily gets from the media is that China must be the largest OFDI originating country among emerging economies, such as the bloc known as Brazil, Russia, India, and China (BRIC). Again, this is not the case (Kalotay and Sulstarova, 2010). The *World Investment Report* published by UNCTAD (2010, pp. 172-5) shows that while China's OFDI stock (1.21 percent of global OFDI stock) is indeed more than that of both India (0.41 percent) and Brazil (0.83 percent), Russia's (1.31 percent) OFDI stock is greater than China's. Yet, there is hardly any literature on "Russia on steroids" trying to "take over the world" (at least not since the collapse of the Soviet Union in 1991). And there is certainly not much coverage about the "Brazil threat" brought by its OFDI[4].

A third impression on the alleged global reach of Chinese OFDI can be refuted by the actual geographic distribution of Chinese OFDI stock. Data show that Chinese MNEs are not comfortable competing globally. Figure 2 shows that despite media headlines about China's OFDI in Africa, only 3.80 percent went to Africa. Hong Kong commanded a lion's share of 66.94 percent, while the rest of Asia received another 8.55 percent. Of the 12.45 percent that went to Latin America and the Caribbean, the Cayman Islands and the British Virgin Islands (BVI) absorbed 11.65 percent. China's OFDI stock in the more competitive, developed economies of Europe (3.53 percent), North America (2.11 percent), and Oceania (2.61 percent) was relatively insignificant. The special case of tax havens (the Cayman Islands and the BVI) aside, we can conclude that Chinese MNEs are not very global, but rather are very regional – centered on Asia (Rugman, 2005).

Further digging reveals two interesting insights. First, although (mainland) Chinese, Hong Kong, and international authorities such as UNCTAD (2010) record investment between China and Hong Kong as "cross-border" and "international" (Fung *et al.*, 2011), such deals evidently are not very "foreign" – the F in FDI. While one can hardly make a case that China's OFDI has taken over the world, a case can be made that it has taken over Hong Kong (absorbing two-third of total Chinese OFDI stock).



Source: Adapted from Ministry of Commerce (2010); data refer to 2009; total OFDI stock from China was $246 billion as of 2009

Figure 2.
Regional distribution of China's outward foreign direct investment stock

Second, after taking out Hong Kong's share, the rest of the world only receives approximately 0.40 percent of the global OFDI stock from China (that is: 1.21 percent of total global OFDI stock × 33.06 percent of Chinese OFDI that does not go to Hong Kong). Take, for example, North America, which has received 2.11 percent of total Chinese OFDI. Simple math shows that total Chinese OFDI in North America represents a tiny sum of 0.026 percent of global FDI stock (that is: 1.21 percent of global total × 2.11 percent). Rather than "threatening", Chinese OFDI is clearly "negligible" in North America (Scissors, 2010, p. 8).

Overall, none of the three widely held impressions can withstand scrutiny from an empirical, evidence-based standpoint. China's OFDI stock (1.21 percent of global total or 0.40 percent if "FDI" to Hong Kong is excluded) hardly warrants the kind of disproportionate (Western) media attention and hoopla that it has received. A lot of the conclusions and opinions on the "China threat" as represented by OFDI from Chinese MNEs are therefore unsubstantiated, overblown, and often "absurd" (Scissors, 2010, p. 7)[5].

What is (relatively) unique about Chinese OFDI

If quantitatively Chinese OFDI does not deserve the disproportionate attention and sensation it commands in the Western media, then are there any unique, qualitative attributes associated with it? While significant components of the strategy and behavior of Chinese MNEs are consistent with what we observe of MNEs from other countries, we agree that new research by scholars and new reports by the media need to focus on the unique aspects of such emerging multinationals (Peng, 2012). Based on our own research, we identify two unique aspects associated with Chinese OFDI. But, we contend that these aspects still do not justify the disproportionate attention that Chinese MNEs and OFDI have received.

First, the scale and scope of capital round tripping, under the cloak of OFDI, are substantial. A careful look at the top ten recipient economies of China's OFDI stock and top ten investing economies in China's inward FDI (IFDI) stock shows that Hong Kong, the Cayman Islands, and the BVI occupy the top eight positions (Table I). To put things in perspective, Chinese MNEs invest more in the Cayman Islands and the BVI than they invest in the USA, the UK, and Germany combined. In turn, together the Cayman Islands and the BVI invest more in China than the USA, the UK, and Germany combined. The only reason to explain these puzzling FDI patterns is capital round tripping (Desai *et al.*, 2006)[6]. In other words, some Chinese MNEs invest in these "tax havens" to transform themselves into "foreign-domiciled" companies, which then can invest in China as foreign investors to take advantage of tax and other concessions back home. Hong Kong has long served such a role (Fung *et al.*, 2011). But as China's control over Hong Kong gradually intensifies, some Chinese MNEs find it necessary to go to locations as far as the Caribbean in order to avoid being discriminated against as domestic firms at home (Witt and Lewin, 2007; Yamakawa *et al.*, 2008). Because a lot of Chinese OFDI has gone back to China via round tripping, the "real" Chinese OFDI that stays in host economies is substantially less than what the numbers suggest[7]. Since the Cayman Islands and the BVI absorb 11.65 percent of Chinese OFDI stock and the entire region of Latin America and the Caribbean receive 12.45 percent, an inescapable conclusion is that all the other "real" economies in the region (such as Brazil, Argentina, and Chile) only receive a combined total of 0.8 percent of total Chinese OFDI stock – again, hardly a "threat"[8].

Top ten economies receiving outward FDI stock from China (until 2009)			Top ten economies contributing to inward FDI stock in China (until 2009)		
Country/region	Value ($ billion)	Proportion of total OFDI (%)	Country/region	Value ($ billion)	Proportion of total IFDI (%)
1. Hong Kong	164.5	66.94	1. Hong Kong	395.7	40.00
2. British Virgin Islands	15.1	6.13	2. British Virgin Islands	101.4	10.25
3. Cayman Islands	13.6	5.52	3. Japan	69.5	7.03
4. Australia	5.9	2.39	4. USA	62.3	6.29
5. Singapore	4.9	1.98	5. Taiwan	49.6	5.01
6. USA	3.3	1.36	6. Republic of Korea	44.6	4.51
7. Luxemburg	2.5	1.01	7. Singapore	41.4	4.19
8. South Africa	2.3	0.94	8. Cayman Islands	19.1	1.93
9. Russia	2.2	0.90	9. UK	16.4	1.66
10. Macau	1.8	0.75	10. Germany	16.3	1.65

Source: Adapted from (1) Ministry of Commerce (2010); (2) *China Statistics Yearbook* (2010); (3) Davies (2010); data refer to the end of 2009

Table I. Top ten economies associated with China's OFDI and IFDI

If Chinese OFDI is a threat to anybody, it (at least some of it) is a threat to China. Specifically, the "threat to China" has two dimensions. The first "threat" is to China's domestic tax base because a lot of Chinese firms, in search of lower tax rates, have become foreign-domiciled companies via OFDI and then IFDI (round tripping) (Fung *et al.*, 2011; Huang, 2003). Until 2008, China's tax laws discriminated against domestic firms. Domestic Chinese firms were assessed a 33 percent corporate income tax rate, while foreign firms, funded partially or wholly by IFDI, were only required to pay about half of that amount (15 or 24 percent depending on the industry). Executives at Chinese firms are simply being rational by engaging in such capital round tripping to take advantage of the lower tax rates as "foreign" firms (Peng *et al.*, 2009). Although the removal of such unequal tax treatment (technically abolished as of 2008) may reduce some capital round tripping, substantial round tripping still takes place (Davies, 2010)[9]. One recent trend is that many Chinese firms, which are listed on overseas stock exchanges, use the Cayman Islands and the BVI's offshore jurisdictions to overcome the burden of China's stricter regulations on financing or the internet. Similarly, when foreign private equity or venture capital investment firms want to invest in Chinese firms, they prefer to use the islands' corporate law to improve Chinese firms' corporate governance (Sun *et al.*, 2011a).

Second, since approximately 92 percent of China's OFDI is undertaken by state-owned enterprises (SOEs)[10], some of this OFDI may be a potential threat to the strengthening of state assets in China. It may also be a threat to shareholder value. Chen and Young (2010) document that most of the announcements of overseas acquisitions made by listed SOEs immediately destroy shareholder value by pulling down stock prices, because Chinese investors themselves have little confidence in these MNEs' ability to effectively manage OFDI. These Chinese investors know a lot more about these home-grown multinationals than individuals in host economies, and Chinese investors likely view these OFDI deals as evidence of SOE executives' empire building for possible personal enrichment (such as more power, prestige, and pay) – at the expense of shareholders. If the Chinese investors themselves dismiss such OFDI deals as value destroying, why should the rest of the world feel "threatened"?

In addition to the scale and scope of round tripping, a second unique aspect is what we call Chinese synergy. Inspired by Rugman's (1981, 2005) concept of country-specific advantage (CSA), we define Chinese synergy as the unique ability to link China-based resources (such as market size and government relationships) and capabilities (such as cost effective research and development (R&D) and smart supply chain) with international assets to unleash their value creation potential primarily in China (and only secondarily overseas). In other words, while cross-border M&As have been used by many firms interested in overseas expansion, a large number of Chinese firms are interested in doing cross-border M&As for the explicit goals of enhancing their competitive positions at home – in China.

For example, Zhejiang Geely Holding Group acquired Volvo from Ford for $1.8 billion in March 2010. Compared with other potential buyers, Ford believed that Geely could rejuvenate Volvo in the largest car market – China. Affluent Chinese bought 340,000 luxury cars and SUVs in 2009, and the demand level could climb to 650,000 by 2015. A leading cause of Volvo's problems was the lack of economies of scale – it only sold 334,000 cars in 2009, one-third of Mercedes-Benz's sales. With Geely's support, Volvo can gain significant economies of scale in the high-growth luxury car market in China.

Another recent case is Citic Capital Partner's $65.6 million investment in Tri-Wall, a heavy-duty packaging firm headquartered in Tokyo. Foreign companies usually face resistance in Japan, and large US and European private-equity firms have often struggled to complete deals there. Tri-Wall specializes in triple-layered corrugate packaging, and knows the importance of the China market, which comprises over 40 percent of its sales. The deal will help it grow in China, a burgeoning economy, especially when compared with the stagnant Japanese economy. Citic Capital Partners has made significant investments in several Japanese companies, such as coated-film maker Higashiyama Film, tableware-products maker Narumi China, and food and beverages maker Pokka, with the aim of helping them expand in China. Given the traditional Japanese discrimination against Chinese firms and the documented resistance against inbound foreign M&As in general, a crucial factor in the success of the deals put together by Citic Capital Partners is that Japanese target firms are convinced of the "China synergy".

Of course, the uniqueness associated with Chinese OFDI is relative, and is not absolute (Peng, 2012). But do these two aspects justify the disproportionate media attention on such OFDI resulting in the "China on steroids" literature? Hardly! If anything, these two aspects undermine the argument that China's OFDI is a "threat" to the rest of the world, because they suggest that Chinese OFDI is more domestically oriented and has focused more on how to effectively compete back home in China.

Three hypotheses on the myth

It is not an exaggeration to suggest that the so-called "China threat" has now become a myth in the Western world. Although typically disconnected from realities and unsubstantiated by facts, myths have a tendency to take on a life of their own[11]. As scholars, we need to ask why the "China threat" myth has risen in the first place. We suggest three hypotheses:

H1. By influencing the media, the US Government may be interested in taking advantage of China's rise as a new "*Sputnik* moment" in an effort to revive the US economy.

The *Sputnik* moment refers to Americans' shock in 1957 when they discovered that the Soviets launched the first satellite to outer space. The fear of falling behind led the US Government to significantly invest in education and R&D during the 1950s and 1960s. President Obama said in December 2010, "Our generation's *Sputnik* moment is back, we need to do what America has always been known for: building, innovating, educating, making things" (*The Economist*, 2011, p. 43).

A second hypothesis is that:

H2. Certain branches of the US Government and their stakeholders – in particular, the military and defense industry – may have vested interests in fueling the myth on the "China threat" in order to protect their budgets and jobs.

During an age of skyrocketing government deficits and shrinking defense budgets, emphasizing a "threat" from a rival makes sense.

While these two hypotheses are both interesting and plausible, as noted earlier, we believe they may be more appropriately investigated by experts in disciplines such as international political economy than by IB scholars. Therefore, we refrain from commenting on these two hypotheses further. Drawing on our expertise and experience in business schools (and the business world), we argue that the third hypothesis also makes sense. The third hypothesis is an industry-specific hypothesis concerning the nature of the media industry. It suggests that:

H3. The media industry, due to its competitive nature, has an inherent bias to exaggerate new phenomenon and to ignore non-supportive evidence.

Unlike scholars who take time to systematically gather and analyze evidence, journalists compete on the timeliness and provocativeness of their reports. Focusing on "hot news", media reports are almost entirely anecdotal. In other words, media reports are non-systematic and non-scientific due to a lack of hypothesis testing based on large sample, hard data. Reports about routine events (such as "Nobody was murdered last night" or "Norway's OFDI made the top ten in 2009 but threatened nobody") are unlikely to garner much attention and result in higher news sales. Unfortunately, approximately 20,000 journalists lost their jobs since the 2008 global financial crisis. We can further hypothesize that the remaining journalists may have a tendency to produce more extreme, more biased reports on what they deem to be newsworthy events, such as the rise of China's OFDI. The notion of the "China threat" thus becomes a self-fulfilling prophecy.

We are aware that our third hypothesis goes against the "objective" reporting of truth that the media industry would like to have us believe. All of us are avid consumers of the media. As scholars, we appreciate the contributions made by our colleagues working in the media industry and some of them, such as Friedman's (2005), have made tremendous contributions to the IB field by popularizing the notion of globalization. Therefore, we are not here to castigate the media industry and its hard working contributors. We do not imply that a media "conspiracy" exists. Rather, we believe there is a media tendency to exaggerate – essentially an informal norm (Peng *et al.*, 2009). As scholars, here we endeavor to put forward three hypotheses to explain the likely causes behind the myth associated with biased reporting on the scale and scope of Chinese OFDI that is not substantiated by data[12].

Embracing the social responsibility of IB scholars

As society's "brain trust", scholars have the sacred social responsibility to seek truth, disseminate learning, and make a difference. Accordingly, IB scholars cannot shy away from the leading debates of our time, such as how to appropriately view the rise of China as a global economic power. To embrace our inescapable social responsibility, we suggest that IB scholars intensify our engagements in three areas.

First, seek truth by undertaking more insightful research. Decades of research on FDI and MNE have focused on MNEs' technological, financial, and managerial capabilities, and have underappreciated the role of institutions – both at home and abroad. Rugman's (1981, 2005) work on CSA is an example of paying more attention the specific institutions associated with various country environments. Such thinking has recently been broadened to become a part of the institution-based view (Cantwell *et al.*, 2010; Dunning and Lundan, 2008; Peng *et al.*, 2008). While the proposition that "institutions matter" is hardly novel or controversial, we have yet to unlock the institutional "black box" behind the rise of China's OFDI. Specifically, we need more research on how the domestic institutions in China, especially unequal tax and other treatments between domestic and foreign firms, give rise to China's OFDI. Existing theories on FDI and MNE either ignore capital round tripping or have a hard time explaining it[13]. From an institution-based view (Peng *et al.*, 2008, 2009), firms that undertake capital round-tripping essentially engage in institutional (or regulatory) arbitrage (Fung *et al.*, 2011). Clearly more solid research, along the lines of Desai *et al.* (2006) and Fung *et al.* (2011), is needed.

Second, as educators, we need to teach our students not to believe every word that is printed by today's media. Enhancing critical thinking skills is not only a time-honored (but largely informal) tradition for all educators, but is now an explicit formal mandate for business school professors (per AACSB accreditation standards). Despite their timeliness and provocativeness, media reports obviously are not textbooks. For any students deeply believing in the thrust of the "China on steroids" literature, we can point out: what happened to the "Japan on steroids" literature a generation ago? Is there any "Japan threat" anymore?

Finally, IB scholars need to seek to influence the views of the media, practitioners, and policymakers by fostering dialogues, disseminating new evidence, and helping craft sensible and balanced media reports, industry practices, and public policies. In our view, the ultimate social responsibility of IB scholars is to promote world peace by enhancing the trade and investment links among countries in the world[14]. The USA and China are the two largest economies in the world with significant economic interdependency. While US OFDI has a long (30-year) history in China, China's OFDI in the USA is one of the most recent episodes of this important bilateral relationship. Given the forces inside the USA fueling the "China threat" sentiments (which, rightly or wrongly, have fueled the "anti-US" sentiments in China), protectionism is a likely direction. This scenario is especially likely given the devastation of the post-2008 economic crisis and the slow and jobless recovery from it. If the USA launches protectionist moves, China will certainly retaliate. Such exchange of (trade) blows will not only damage the bilateral relationship, but will undermine global confidence because other smaller countries will learn from the behavior of the "G-2". The upshot? When countries curtail or stop trading with and investing in each other, war becomes a less costly and more acceptable policy. This is not a theoretical speculation. The protectionist mechanisms put up by various countries in the post-Great Depression era (1929-1933) directly led to the outbreak of Second World War. In another example, the Japanese in 1941 only made up their mind to attack Pearl Harbor when the USA cut off all exports of war-making materials (such as oil, steel, and scrap metal) crucial to the Japanese military at that time. Out of our social responsibility, IB scholars need to draw on these historical experiences to make our case for the necessity of strengthening the trade and investment links among countries for the sake of world peace, in addition to the traditional goals such as economic development and corporate profits.

While China "has the same right to engage in international commercial activity as any country" (Scissors, 2010, p. 10), China's OFDI, like all OFDI, will not be perfect. In other words, China's OFDI will certainly bring both benefits and costs to host economies. We argue that policymakers in host economies embrace pragmatic nationalism as opposed to being exclusively influenced by the "China on steroids" literature, which is not substantiated by data analyzed earlier in this article. Pragmatic nationalism refers to "considering both the pros and cons of FDI and approving FDI only when its benefits outweigh its costs" (Peng, 2011, p. 193). If China's OFDI in certain cases are deemed potentially undermining the national security of host economies, a case can certainly be made to disapprove such deals. But an indiscriminant, one-sided, negative approach, influenced by the "China on steroids" literature, is not warranted. An exhaustive review of the pros and cons of Chinese FDI in the USA by two IB scholars – an American and a Canadian – note:

> It seems feckless on the part of US policymakers to stigmatize Chinese investment in the United States based upon imprecise and likely exaggerated estimates of the relevant costs and risks of that investment (Globerman and Shapiro, 2009, p. 180).

Globerman and Shapiro (2009) proceed to advise US policymakers that Chinese OFDI necessitates no additional, specific legislation. At a time when the US unemployment is high, global FDI volume is down, but "companies from China are spending billions to build factories in the US – and creating new jobs for American workers" (*Fortune*, 2010, p. 84), maintaining a welcoming investment climate is clearly beneficial to the host economy. This holds true not only for the USA but also for other host economies as well. Policymakers in host economies dealing with Chinese MNEs can take comfort in knowing that relative to Japanese and Korean MNEs, Chinese MNEs are more likely to appoint more host country nationals as managers. This may be due to the lack of international talents among their ranks. The upshot? More managerial jobs for locals. These jobs are not necessarily limited to those in the Chinese subsidiaries, and may also include consulting, financing, legal, and training jobs outside these firms.

Overall, we are not suggesting that China's OFDI brought by its emerging MNEs does not deserve IB scholars' attention. It certainly does. We have personally engaged in a series of research on this topic (Peng, 2011, 2012; Sun *et al.*, 2011b). What we are suggesting is that China's OFDI does not deserve the disproportionate media attention, which has resulted in some unbalanced and unhealthy perception that cannot be substantiated by data. In other words, a socially sensible approach is not to view Chinese MNEs as scary, fire-breathing "dragons" on the verge of taking over the world – they are far from being capable of doing that. To be sure, host country governments, firms, and the public need to be serious in dealing with this previously unknown breed of organizations on the global scene. Therefore, a useful metaphor is to view these emerging multinationals as fast, strong "horses" unleashed by the forces of globalization in the twenty-first century (Peng, 2012).

Conclusion

Although management (including IB) scholarship has often been criticized for its alleged lack of relevance to practitioners and policymakers, we disagree. The truth is that few management and IB scholars care nothing for practice (Peng and Dess, 2010, p. 292). On issues of grave importance not only to the IB field but also to the wider world, such as the rise of China's OFDI, IB scholars have the sacred social responsibility to shed light, clear the air, and steer the course of public perceptions, by drawing on our time-honored, evidence-based scholarly tradition. While this article has focused on the debate on China's OFDI, we are confident that IB scholars can make a difference in many other areas as well. If we fail to do that, we believe we will be failing both our students who are being trained as future IB practitioners and the international community that we seek to serve. That, in our view, is the essence of the social responsibility of IB scholars.

Notes

1. Disappointingly, the web site of IB's leading professional association, the Academy of International Business (AIB), has no information on this topic. All our searches on the AIB web site on "social responsibility" and "social responsibility of IB scholars" resulted in entries on corporate social responsibility (search on 24 January 2011).
2. In other words, we focus on the "D word" (direct) in FDI, and do not cover the nature and implications of non-direct investment from China (mostly purchases of foreign government bonds such as US Treasury bills). Such non-direct investment is typically labeled foreign portfolio investment in IB textbooks (Peng, 2011).
3. Year 2009 was the first year China's OFDI surpassed the 1 percent mark of global OFDI stock. In 2008, China's share of global OFDI stock was only 0.9 percent (UNCTAD, 2009, pp. 251-3). In 2008, China's OFDI outflows only represented 2.8 percent of global OFDI flows in that year, and did not make the top ten (UNCTAD, 2009, pp. 247-9).
4. In 2008, while China's OFDI stock (0.9 percent of global OFDI stock) was indeed more than India's (0.4 percent), Russia's (1.25 percent) and Brazil's OFDI stock (1 percent) was significantly ahead (UNCTAD, 2009, pp. 251-4).
5. While outside the scope of our focus on FDI, we acknowledge that the fact that China is now the largest holder of US Treasury securities (holding $896 billion as of the end of 2010) may also feed into the media hoopla on China's investment in the USA. However, to put things in perspective, it is important to note that during 2010, China decreased its holdings by 4 percent, while Japan increased its holdings of treasury securities by 10 percent (to $877 billion), making it the second largest holder – note a mere $19 billion difference between Chinese and Japanese holdings. The UK more than tripled its holdings to $511 billion, making it the third largest holder. Despite such large increases, we have not heard much of the "Japan threat" or the "UK threat" in the USA.
6. A similar country is Samoa, which had a GDP of $558 million and a population of 178,000. In 2009, Samoa invested $2 billion in China, with IFDI stock of $14 billion (ranked 11th, but not reported in Table I).
7. Fung *et al.* (2011, p. 153) estimate that round tripping may represent between 33 and 40 percent of China's FDI inflows.

8. The Brazilian and Latin American media, much like the Western (English-language) media, is also obsessed with China's OFDI. In an interview with *Brasil Econômico* (2010), the first author emphasized what the data suggested.
9. Of course, capital round tripping is not a uniquely Chinese phenomenon. After all, the Cayman Islands and the BVI earned their reputation as "tax havens" before Chinese MNEs emerged. A fair question is if the Chinese Government is creating distortion that leads to capital flight to the Cayman Islands and the BVI, how is it different from the loopholes in the US tax law that lead to so many special purpose entities by American multinationals? The answer boils down to the magnitude of degree (Peng, 2012). It is true that such US OFDI in tax havens may become a threat to US tax base. But despite the numerous US special purpose entities in the Cayman Islands and the BVI presumably for tax haven purposes, these countries appear neither among the top five recipient countries of US OFDI, nor among the top five countries making IFDI in the USA. These countries are routinely among the top ten for both OFDI stock from China and IFDI stock in China (Table I).
10. Chen Jian, Vice Minister of Commerce, said that only between 5 and 7 percent of OFDI from China is from private enterprises in 2010, based on the statistics from China's Ministry of Commerce (**Source:** www.finance.sina.com.cn/g/20101101/11408878999.shtml).
11. Confronting this myth, the Chinese media, policymakers, and average citizens often complain there is a Western "conspiracy" against China. Not surprisingly, the Chinese media has often featured pieces about the "threat of a hostile West", with provocative titles such as "China is unhappy" and "China can say no". Discussion of how IB scholars should react to the perception (and perhaps also the myth) of the "threat of the West" in China is outside the scope of this article, but remains a fascinating topic for future research.
12. OFDI is not the only area where China-related reporting has been biased. IB scholar Bapuji (2011) documents the case that in toy recalls, China has also unnecessarily and disproportionately received biased, negative reporting. In the most exhaustively researched book on toy recalls simply titled *Not Just China*, Bapuji (2011, p. 145) concludes that "the increases in product recalls may not have been caused by China" and that most toy recalls are caused by design flaws made in the headquarters country of the toy companies.
13. Our complete search of IB's leading journal, the *Journal of International Business Studies* (*JIBS*), using key words "round tripping", "institutional arbitrage", and "regulatory arbitrage" in the title or abstract of an article, has found a grand total of one article by Fung *et al.* (2011) since *JIBS*'s founding (1970).
14. A leading China scholar and Dean of Faculty at the Johns Hopkins University School of Advanced International Studies, David Lampton is not an IB scholar. But he makes a similar point: "economic interdependence is the most powerful integrative force available to reduce mutual strategic distrust" between China and the USA (Lampton, 2010, p. 24).

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