Foreign R&D in Developing Countries: Empirical Evidence from Shanghai, China*

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Abstract

This study examines foreign R&D in Shanghai and reveals that Shanghai has become one of the most concentrated centres of foreign R&D in China. Through interviews at 18 foreign R&D facilities in Shanghai, the study confirms the findings from previous studies that the majority of foreign R&D in China is adaptive and tactical in nature to serve the Chinese market. However, strategic foreign R&D does exist and such establishments are engaged in projects not only for China’s local markets, but also for the global market; they are not only involved in short-term product development, but also in long-term original research.

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Shanghai’s concentration of foreign R&D is clearly contingent upon the convergence of forces at the national, regional and local scales: China’s burgeoning market at the national scale, the concentration of manufacturing and foreign investments in the Yangtze River Delta at the regional scale, and Shanghai’s eminent position in China’s economic landscape and its attractiveness to quality labour at the local scale.

Introduction

Multinational corporations (MNCs) increasingly are adopting a global strategy for their research and development (R&D), and academics have shown growing interest in this phenomenon since the early 1990s.¹ Topics researched range from the classification of MNCs’ overseas R&D, to examination of their motivations and organization.² However, most studies have focused on developed countries, while developing countries have received scant attention, despite the fact that developing countries such as China and India have become hot spots of MNC R&D facilities.³

In addition, most studies have focused on the national scale and there is a lack of studies on foreign R&D locations at the regional/local levels, such topics having only recently received academic attention.⁴ The bias towards the national scale may be because the majority of scholars working on this subject come from disciplines such as management, business and economics, which have a tradition of downplaying the role of locations in their conceptualization and theory-building.

Recently, there have been a few studies exploring foreign R&D in China.⁵ It has been found that most foreign R&D establishments are adaptive and tactical in nature and focus on product development for China’s domestic markets. However, creative and strategic foreign R&D does exist in China and some MNCs have set up facilities with the aim of conducting research for the global market in the long term.⁶ Existing studies also reveal that MNCs choose to establish R&D in China because of the need to develop and customize technologies for the local market, and the availability of high-quality labour with much lower costs than in developed countries.⁷ Other studies have explored the barriers to establishing foreign R&D in China.⁸ Nevertheless, most studies on foreign R&D in China have focused on the overall picture and the richness of empirical evidence has been sacrificed. It is unclear exactly what kinds of activities are being conducted in such foreign R&D establishments.

Through interviews with 18 directors/managers at MNC R&D