

Globalization of technologies

The role of Foreign Direct Investment

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Foreign Direct Investment (FDI) has been successfully adopted worldwide to catalyze transfer and globalization of technologies. It is largely effected by multinational firms through their transnational activities, which include investments, joint ventures, licensing, etc. But a firm's ability to catalyze globalization of its technology through FDI channels depends on many competitive factors. This article discusses the role of FDI as an instrument to bring about globalization of technologies for the benefit of SMEs.

Introduction

Foreign direct investment (FDI) is growing rapidly, enlarging the role of multinational firms in globalizing technologies. FDI can be a catalyst of technology transfer, which can accelerate the growth of the host economy and enhance the competitiveness of the multinational firm. In other words, both the investing firm and the host economy will benefit from the globalization of technologies. To understand these impacts correctly requires a good analytical model; accordingly, we shall use Michael Porter's diamond model to analyze these benefits. We shall then present a case study of FDI in China, and derive some policy implications from it.

The diamond model

Although several theories in international economics and business have tried to

explain the competitiveness of nations and firms, today's global economy is too complicated to be understood with these rather simplistic versions. A breakthrough came in 1990, however, when Michael Porter introduced a new competitiveness theory, the diamond model. Porter introduced this model after conducting a four-year study covering 10 nations and 100 industries. The results are documented in *The Competitive Advantage of Nations*¹, which, as its title suggests, is meant to be a contemporary equivalent of Adam Smith's *The Wealth of Nations*.

Porter criticized traditional doctrine, whose origins date back to Adam Smith and David Ricardo, asserting that it is at best incomplete and at worst incorrect. According to Porter, national prosperity is created, not inherited. Porter's model is thus dynamic. His model is also comprehensive because it includes not just

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