

FDI Location Choice at Provincial China

YUAN-HSIN RITA CHIANG

Following the United States, China has become the second largest foreign direct investment (FDI) recipient in the world since 1993. FDI from the rest of the world has contributed to a substantial portion of China's promising economic growth. However, previous analyses on this phenomenon often treat China as a unity and neglect the sub-national differences such as the level of development, investment environment, and the government capacity across provinces. Furthermore, the language barrier and the lack of transparency have prevented most researchers from collecting detailed information for dynamic time-series analysis. In this paper, John Dunning's eclectic FDI theory is utilized to determine the optimal FDI locations for multinational firms in China at the provincial level. The panel data is collected from multiple officially-published government yearbooks, which contains a variety of economic, social and political information for 30 Chinese provinces and 4 municipals from 1996-2006. The preliminary empirical results confirm the positive influences of infrastructure, such as highways and human capital, and agglomeration economies on FDI, which are suggested by the previous literature. The primary goals are to explore the impacts of both economic and policy environments on international firms when they are selecting investment location within China, and to provide implications for government officials in order to attract more FDI to the region.

Keywords: FDI locational choice, Agglomeration, FDI Determinants