

ABSTRACT

This research aims at investigating the location factors affecting foreign direct investment distribution in each province across China and exploring the relationship between the magnitude of FDI inflows and various location factors.

For FDI inflows, there are six variables to be tested: market size (GDP), total import and export amount (OPENNESS), labor cost (WAGE), general level of education (ED), transportation infrastructure (RLWAY), policy position (COAST).

The data for this research is secondary data reported of 30 provinces of China. The analysis is conducted of time period from 1992 to 2001. All data is collected at Beijing Capital Library from various editions of China's Statistical Yearbook respectively.

Pooled regression analysis estimated using time period of 1992-2001 and cross sectional of 30 provinces of China. The regression results show that provincial difference of FDI distribution can be explained by GDP, degree of openness, general level of education, transportation infrastructure and policy position because they are positive related to foreign direct investment (FDI) inflows. These findings indicate that the dominant factors can enhance FDI inflows China because they are positively and significantly determinants of FDI inflows China.

One of the conclusions is that the labor cost variable is found to be an insignificant determinant with FDI inflows. Actually, lower labor cost has been considered as one of the most important comparative advantages to attract FDI to China. This may be because the average wage variable does not carry sufficient information about foreign investors' performance in the areas of productivity or profitability.

This study tries to provide the valuable information for provincial officials that some location factors are significantly related to FDI inflows in host provinces of China. Also, policy makers have been suggested to build up a favorable investment environment and to design preferential policies, these will have a positive impact on FDI inflows.

