FOREIGN DIRECT INVESTMENT, REGIONAL DISPARITY, AND ECONOMIC GROWTH: A PANEL DATA STUDY FOR CHINA, 1995–2008

By ENLONG JIN, FENGBAO YIN, SHIGEYUKI HAMORI

This paper empirically analyzes the effects of foreign direct investment (FDI) on China’s economic growth using panel data for China’s 29 provinces, autonomous regions, and municipalities for the period 1995-2008. The analysis yields the following two main results: (1) FDI fulfills important functions for the economic growth process in China. The extent of its contribution to economic growth exceeds domestic investment. This is evident both from the national-level analysis and from the analysis by region. These results are robust to the model specifications. (2) Unlike in the existing research, the analysis finds that during the analysis period FDI has also been fulfilling important functions for China’s economically lagging central-western province and that the degree of contribution is higher than that observed for the eastern provinces.

1. Introduction

In July 1979, the Chinese government promulgated the first part of the Equity Joint Venture Law concerning the admission of foreign capital into the country. Over the following 32-year period, foreign direct investment (FDI) proved an indispensable factor in China’s economic reform and opening policies, and significantly contributed to achieving Gross Domestic Product (GDP) real growth rates averaging 9% or more.

FDI has been defined as a combination of capital stock, management expertise, and technology (Balasubramanyam et al., 1996). Moreover, Balasubramanyam et al. (1996) proved the hypothesis proposed by Jagdish Bhagwati, that FDI plays a greater role in economic growth in export promoting (EP) than in import substituting (IS) economies. FDI has been an important motor of growth for China’s export-oriented economy. The positive effects on economic growth obtainable through the acceptance of FDI by the way of capital formation, external trade promotion, and technology transfer have been widely noted in the literature (See, for example, Wei, 1996; Branstetter and Fenstra, 1999; Yao et al., 2006). The importance of FDI in the Chinese economy, combined with China’s rapid income growth in the last three decades, seem to suggest that in no other economy has FDI played such a dynamic and significant role.

However, while FDI has added to China’s economic development, negative effects have emerged at the same time. FDI in China has the potential to cause regional distribution disparities as well as imbalances between China’s foreign trade and industrial structure. Rising regional inequality in China is an issue of intensive research in the literature, particularly its

1) The full name is “The Law of the People’s Republic of China on Joint Ventures Using Chinese and Foreign Investment.”

2) China has been the largest FDI recipient in the developing world since 1992. By the end of 2009, cumulative FDI in China was $997.4 billion. China’s real GDP in 2010 reached $5878.3 billion, exceeding Japan’s, and China replaced Japan as the country with the second-largest GDP globally.
determination and the consequences for further economic development.

Wei (2002) by using panel data for China for 1985-1999 obtains a statistically significant FDI coefficient for the economically advanced eastern regions, while the FDI coefficient is statistically insignificant for the economically lagging western regions. Based on this finding, Wei (2002) notes that the dualistic structure of China's regional economies is caused by differences in FDI.\(^3\) Results almost identical to those of Wei's (2002) were also obtained by Wang et al. (2002).

Based on the research of Borensztein et al. (1998), a panel data analysis undertaken by Shen and Geng (2001) finds that the effects of FDI were positive and contingent on the availability of specific human capital. Estimates by region suggest a much higher estimated human-capital coefficient for the eastern region than for the inland regions, leading to the conclusion that human capital distribution is more favorable in the eastern region.\(^4\)

More recently, Fleisher et al. (2010) used provincial data for the period 1985-2003 to assess the effects of human capital, infrastructure capital, and FDI on regional disparity and economic growth in China, and find that FDI had a much larger effect on total factor productivity (TFP) growth before 1994. After 1994, its effect becomes negligible. Fleisher et al. (2010) attribute this to the encouragement and increasing success of private and quasi-private enterprises. Moreover, Fleisher et al. (2010) find both direct and indirect effects of human capital on TFP growth. Human capital investment can achieve economic efficiency and can reduce inequality especially in the less-developed regions.

Since 1978, China's opening to the outside world has evolved gradually, starting along the coast and moving inland in a south-north direction. The explicit policy of the Chinese government has been to develop the eastern coastal provinces first. Furthermore, FDI has been drawn to regions of faster growth or greater potential that were more attractive to foreign transnational corporations (TNCs). Thus, FDI in China tends to cluster in specific regions. Until 2008, 82% or more of FDI concentrated on the eastern coastal regions (Figure 1). However, since 1995, the promulgation of policy incentives geared at foreign capital, such as various types of tax relief for FDI, initiated a structural change in FDI.\(^5\) Subsequently, in order to sustain economic growth, and because of concerns about the widening disparities in per capita income between the fast-growing, FDI-fueled coastal provinces and the sluggish interior provinces, China's government began to test regional-oriented adjustment policies.\(^6\) During this new period, individual provinces experienced economic progress to a certain degree. At the same time, empirical results show that in the 1985-1999 period, the GDP growth rate differences between the developed eastern and developing inland regions were about 90% due to FDI.

The stock of human capital limits the absorptive capability of FDI (Borensztein et al., 1998).

According to official sources, until 1996, FDI from developing Asian nations accounted for the overwhelming majority. However, since 1996, a rising percentage of FDI from Japan, Europe, and North America has been the reason that the overall activities of foreign-invested enterprises in China have become somewhat more focused on the domestic market and less on exports (Edward and Erika, 2001).

In 2000, the Western Region Development Program of the government of China placed emphasis on investment in infrastructure as well as on attracting inward FDI and upgrading of human capital through education and inward migration. After joining the World Trade Organization (WTO) in 2001, China implemented a policy of revitalizing its old industrial bases in the country's northeastern region (2003) and a strategy of developing the central regions (2006).
time, the relationship between FDI and economic growth at the national and regional levels changed, making an empirical analysis that probes the relationship between FDI and economic growth meaningful during this time.

![Figure 1 Regional distribution of FDI in China (1987-2008)](image)


This paper proposes to expand on the roles of FDI in China’s economic growth process using panel data for China’s 29 provinces, autonomous regions, and municipalities for 1995-2008. Furthermore, the changes in the degree of contributions from FDI to regions affected by disparities, and the factors causing them, especially after the implementation of a string of policies, will be discussed. This paper is structured as follows. Section 2 offers a brief introduction to the endogenous growth theory and provides the theoretical underpinnings of the empirical analysis. Section 3 explains the econometric models and the data used in the empirical analysis. Section 4 contains separate empirical analyses of the relationships between China’s economic growth and FDI at the national and regional levels. Finally, the principal results of the analysis are summarized and we conclude with a few thoughts on the future of FDI, emphasizing on the relationship between foreign direct investment and China’s economic growth.

2. The theoretical argument

The endogenous growth theory provides an effective analysis framework for analyzing the role of FDI in the economic growth process. Its outstanding characteristic is that, it assesses and integrates, unlike the conventional neo-classical growth theory, the accomplishments of
economic activities such as technological progress. Another characteristic is that the marginal productivity of capital is not subject to diminishing returns. In the discussion of the neo-classical economic growth theory, the sources of economic growth have been assumed to be invested capital and labor plus technological progress as an exogenous added factor. Moreover, under the assumption of diminishing returns of invested capital for the receiving country, FDI is seen to amount merely to an increase in capital stock with only short-term effects on economic growth. Over the long-term, FDI is not seen to affect economic growth at all. If this were the only theoretical framework, explaining China’s strong economic growth would indeed be a problem.

By contrast, the endogenous growth theory, which takes technological change as an economic endogenous factor into consideration, makes possible to explain economic phenomena on the basis of system-internal variables instead of extraneous factors. Moreover, endogenous factors that enhance capital stock in a wider sense, such as R&D activities and human capital improvements, are deemed sources of economic growth. FDI is the prime source of human capital and new technology to developing countries, and this factor is included in the production function in order to capture the externalities, learning by observation, and spillover effects associated with FDI (Balasubramanyam et al., 1996).

In the case of China, this is precisely what happened. Until now, foreign capital in China has not only contributed to economic growth by fixed capital formation, but also helped raise the efficiency of capital formation. Regarding technological transfers, foreign corporations need to transfer a minimum of technology in order enable local production, which gradually generates ripple effects. Especially in the recent years, relatively advanced production technology such as electronics, telecommunications equipment, and automobiles has been transferred by TNCs in areas of rapid growing FDI. This has materially helped raise the level of Chinese production technology and enabled the production of high-quality goods. Through the intake of FDI, advanced foreign management techniques were introduced into China, which created higher labor productivity. Moreover, FDI has intensified domestic competition, compelling local industries to produce more efficiently. In this way, diminishing returns on investment capital in the receiver country have been overcome by extraneous effects associated with the acceptance of FDI, enabling FDI to lift economic growth not only in the short term, but also in the long-term. The endogenous growth theory provides a useful theoretical basis for an analysis of the functions of FDI.

3. The model and data

The analysis of the relationship between FDI and economic growth is generally based on the production function approach. To analyze the relationship between FDI and economic growth, based on De Mello (1997), we used the following two models.

7) For example, the quantitative model for researching spillover effects created by Wang et al. (2002) based on the Diamond Model; the models created by Zhang (2006) using methodology taken from Feder (1982) and Levin and Lakshmi (1997); and Yao et al. (2006)’s long-run static model are, without exception concepts based on the production function.
Model 1 takes an approach that analyzes the overall impact of FDI on economic growth. This model considers labor, capital, FDI, ownership structure toward privatization as variable of openness, and human capital. Model 2 considers transportation as an internal environmental variable, in addition to the variables considered by Model 1. Note that \(i=1,2,\cdots,29\) and \(t=1995,\cdots,2008\) denote provinces \(i\) and years \(t\), while \(\epsilon_i\) are error terms. Definitions for each variable are given in Table 1. The data are based on a panel of 29 provinces and municipalities for 1995-2008.\(^8\) China (mainland) has 31 provinces and municipalities, but Tibet was excluded because of a lack of reliable data for our period of study. Chongqing became a central municipality after separation from Sichuan province in 1996. To maintain consistency for all years, the data for Chongqing is merged with Sichuan.

Furthermore, for the variables shown in percentages, logarithms have not been calculated. In the production function, capital corresponds to the cumulative stock of property, plant, and equipment. Fixed capital formation includes domestic investment and FDI. This makes the introduction of FDI into the model a critically important point. If the FDI amount were to be included as an independent variable together with capital stock, multicollinearity would arise. To prevent this, the introduction of FDI is established in the form of its proportion to investment in property, plant, and equipment of the entire nation. Thus, its coefficient is able to in-

\(\text{Table 1 Variable definition} \)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
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<tbody>
<tr>
<td>GDP</td>
<td>Real Gross Domestic Productivity</td>
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<tr>
<td>CS</td>
<td>Real capital stock</td>
</tr>
<tr>
<td>FDI</td>
<td>Stock of FDI / Stock of (domestic capital + FDI)</td>
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<tr>
<td>L</td>
<td>Labor input</td>
</tr>
<tr>
<td>UNV</td>
<td>Number of students enrolled in higher education / population</td>
</tr>
<tr>
<td>INDU</td>
<td>Percentage of total industrial production value of non-state enterprises</td>
</tr>
<tr>
<td>TRAN</td>
<td>(Railway + highway)mileage per 1 km$^2$ of land area</td>
</tr>
</tbody>
</table>

Model 1

\[
\log(GDP_i) = \alpha_i + \beta_1 \log(CS_i) + \beta_2 \log(L_i) + \beta_3 FDI_i + \beta_4 UNV_i + \beta_5 INDU + \epsilon_i
\]

(1)

Model 2

\[
\log(GDP_i) = \alpha_i + \beta_1 \log(CS_i) + \beta_2 \log(L_i) + \beta_3 FDI_i + \beta_4 UNV_i + \beta_5 INDU + \beta_6 \log(TRAN_i) + \epsilon_i
\]

(2)

8) The use of panel data has two advantages. One is the ability to identify province-specific effects; the other is to avoid potential problems of time-series data like non-stationarity, co-integration, and autocorrelation (Macnair, et al., 1995).
dicate not only the relationship between FDI and economic growth, but also the relationship to domestic investment. If the coefficient is positive, the effect of FDI exceeds the effects of domestic investment (Yao, et al., 2006).

Human capital is normally defined as the knowledge and skills that determine the capabilities of people engaged in production activities. Increases in human capital count as the principal source of economic growth. Regarding human capital, it would thus be desirable to have data for the average number of years of education of the regional labor force, but since data on the level of education of China’s workers are insufficient, a proxy variable is used. This variable is the number of persons enrolled at universities relative to the population by province. This kind of proxy variable has been widely used in literature about China’s economy (for example, Zhang, 2006).

In addition to labor and human capital, which are commonly used in this type of analysis, two additional variables are used to capture the determinants of the Solovian type of residual, and thus improve the quality of our estimations. These variables are: the levels of marketization and infrastructure. In order to express the degree of marketization, the percentage of industrial production in each province by non-state-controlled enterprises is used as a proxy variable. The higher the percentage is, the higher the degree of development as a market-driven economy. As a measure for infrastructure, the total mileage of railways and highways under operation per square kilometer by province is used as a proxy variable. Although the transport capacity of railways and highways differs depending on the province, in this case a simple 1:1 conversion was used.

The dependent variable is the real GDP with 1952 as the base year. Since FDI is reported in U.S.-dollar, its values have been converted into Yuan based on the average annual exchange rates. Except for the data for non-state-owned enterprises, total industrial output value, and capital stock, data are from the China Statistical Yearbook for the respective years. The data for industrial production are from the same source. Since Chinese government publishes no data on capital stock, most authors have tried various ways to measure capital stock (e.g., Chow, 1993; Shan, 2008). This paper uses data by Shan (2008), which are widely used in the literature. Real capital stock is based on 1952 prices, similar to the real GDP. Shan (2008) estimated capital stock as shown below.

\[ K_t = K_{t-1}(1 - \delta) + I_t \]  

(3)

In the above formula, \( K \) denotes capital stock, \( I \) denotes fixed capital formation, and \( \delta \) denotes the depreciation rate. Shan (2008) estimated the 1952 national capital stock at 34.2 billion Yuan and the depreciation rate at 10.96%. Since estimated data are available only until 2006, we have extrapolated the data until 2008 using the above method.

9) The simplest way to measure transportation is to add the total lengths of different means of transportation (Liu et al., 1997). Moreover, in China, any possible conversion difference is small because highways account for a predominant proportion of the total transportation volume (Yao, et al., 2006).
4. Results and discussion

Regarding the method of analysis, using samples at the national level, the analysis starts by verifying samples related to China’s economic growth, especially concerning the role of FDI. In a second step, samples are divided into the coastal areas (eastern regions) and inland areas (central and western regions), and the effects of regional disparities relative to the relationship between FDI and economic growth are examined.10)

4.1 Empirical analysis at the national level

Table 2 shows the results of the analysis of the relationship between FDI and China’s economic growth when national-level samples are used. By looking at Table 2 we observe that no statistically significant difference exists between the results of Model 1 and Model 2. Thus, in the following, the analysis concentrates on the results of Model 2.

The Hausman test resulted in a p-value of 0.000. The null hypothesis was rejected and a fixed effect model was used. Post-adjustment R is 0.998, thus consistent with the model. The FDI coefficient is 0.23, positive and statistically significant. This result is similar to the empirical results of earlier studies (e.g., Shen and Geng, 2001; Wang et al., 2002; Zhang, 2006). In other words, during our analysis period, FDI continued to have a sustained positive impact on China’s economic growth. The result also shows that the effects of FDI exceeded those of domestic investment. Possible causes for why this happens may be lower efficiency of domestic investment compared with FDI during our analysis period, and a lower technology level on the part of domestic industry compared with foreign corporations. The capital stock coefficient is 0.11 and is statistically significant. Moreover, coefficients for labor, human capital, degree of market economy attainment, and infrastructure are also positive and statistically significant as we expected. Thus, these four factors have a positive influence on China’s economic growth.

At the end of 1978, China adopted its “reform and opening” policies. Based on these policies, China’s government proactively began to allow foreign capital into the country and pave the way for China’s economic growth. Subsequently, at the end of 1992, the transition from a planning economy to a socialist market economy framework occurred. The subsequent rapid growth proves that China’s economic policies based on a market economy platform are stronger than those of its previous plan-based economy. Currently, state-owned enterprises still account for the majority of China’s domestic investment. Our results shows that the progress in China’s transition to a more market-driven economy has important implications for regional economic growth.

4.2 Regional level

The result of the analysis of all samples separated into eastern and central-western provinces

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10) According to government (State Statistical Bureau) definitions, the geographical grouping of the province is as follows. Eastern region: Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangxi, Guangdong and Hainan; Central region: Shanxi, Inner Mongolia, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, and Hunan; Western region: Sichuan, Guizhou, Yunnan, Shanxi, Gansu, Qinghai, Chongqing, Tibet, Ningxia, and Xinjiang. This paper includes Guangxi in the western region to emphasize the economic dimension of the issue.
is shown in Table 3. In this case, the focus of the analysis also rests on the results of Model 2. The Hausman test p-values are 0.275 and 0.000 for the eastern and central-western provinces, respectively. Based on these values, random-effect and fixed-effect models were chosen for the eastern and central-western provinces, respectively. Post-adjustment final coefficients are 0.804 and 0.998, respectively, consistent with the models chosen.

FDI coefficients are 0.15 and 0.26 for the eastern and central-western provinces, respectively. Both results are positive and statistically significant. In other words, FDI has positive effects on the economic growth of China’s regions. Moreover, the result shows that, compared with domestic investment, FDI’s contributions to economic growth are higher not only at the national level, but also at the regional level. In other words, direct investment fulfills an important function for China’s regional economic growth as well.

It is worth noting that the FDI coefficient for the economically lagging inland provinces is also positive, and able to provide a statistically significant estimate higher than that for the regions of the coastal provinces. This result is different from previous studies. As mentioned above, much of the existing literature was unable to obtain statistically significant results for the regions of China’s economically lagging inland provinces (see, for example, Wei, 2002; Wang et al., 2002). Therefore, many studies concluded that the impact from direct investment was most notable in the economically advanced coastal provinces. Possibly, the main reason for why this paper obtains a different result could be because it uses a different analysis period. Much of the earlier research analyses China during the 1980s and 1990s. By contrast, this paper’s analysis period is 1995-2008. In the 1980s and 1990s, China’s acceptance of foreign capital was still in a preparatory trial stage and at the initial stage of development. The coastal zone offered advantageous geographical conditions, and under the incentive policies of the Chinese government provided the environment for investment as well as certain human capital stock. It was therefore more capable than the inland region of using and absorbing foreign capital. Thus, the economically advanced coastal region of the eastern provinces enabled a more efficient use of foreign capital than other locations in the country. Once unleashed, however, these municipalities and areas gradually extended their reach from the coastal region of the eastern provinces toward the inland regions.\(^\text{11}\) Moreover, while the coastal region was gradually approaching saturation from the steady progress made during our analysis period, the western provinces experienced infrastructure improvements thanks to the policies initiated since 2000, such as the Western Region Development Program, making for a vastly enhanced investment environment. It is thought that once a certain advanced level and capability to absorb certain technologies has been reached, the effects of direct investment may have played out more strongly in the inland regions. The research of Borensztein et al. (1998) asserts that in the economic growth of developing countries (excluding China) there exists a relationship between the effects of direct investment and the recipient country’s human capital, and that a minimum threshold stock of human capital exists beyond which the functions of direct investment are maximized.

\(^{11}\) In July 1981, four special economic zones (SEZs), namely Shenzhen, Shantou, Zhuhai, and Xiamen were established. In 1984, fourteen coastal cities were announced to be opened to the outside world. In 1987, China made Hainan, its second-largest island, the largest SEZ and a separate province. Meanwhile, other parts of China, including the Yangtze River Delta surrounding Shanghai, the Pearl River Delta surrounding Guangzhou, the Southern Fujian Triangle, and the Liaoning and Shandong peninsulas, were designated as destinations for FDI.
investment can bear. The difference between the earlier research findings (i.e. investment in the western provinces in the 1980s and 1990s had no effect) and this paper findings (i.e. that effects indeed exist) suggests that the minimum threshold stock of human capital proposed by Borensztein et al. (1998) may also apply in the case of China.

The capital stock coefficients are without exception positive and statistically significant. This means that the increase in capital stock has had positive effects on regional economic growth in both the eastern and central-western provinces. The higher coefficients for the central-western provinces compared with the eastern provinces suggest that the functions of capital stock are more important for the western provinces.

Moreover, labor coefficients are without exception positive and statistically significant, indicating that manpower continues to be needed in both the eastern and western provinces. Manpower is needed mostly in the economically advanced eastern provinces, where FDI has been concentrated. The significant difference of labor elasticities between regions implies that barriers to free factor mobility among regions exist in China, although there is evidence that labor migration from the inland to the coastal region takes place on a large scale (Yao et al., 2006).

Human capital coefficients are positive without exception, but they are statistically significant at the 5% significant level only for the eastern provinces. This result suggests that economic growth in the inland regions may be hampered by a lack of human resources or other circumstances like lack of basic education due to poor economic conditions. During the analysis period, the eastern provinces were able to develop for many years under the incentive policies of the Chinese government, which resulted in a full-featured economic environment that has worked to attract human resources. De Mello (1997) argues that an increase in the productivity of FDI can only be achieved if there is already a sufficiently high level of human capital in the recipient economy.

We also find that market-oriented reform has been one of the major forces driving economic growth in China. This is reflected in Table 2, where the marketization variable in all equations is positive and statistically significant. Similarly, the infrastructure coefficients are positive and statistically significant without exception. In both instances coefficients for the western provinces are higher than those for their eastern counterparts. For the central-western provinces, progress in the transition to a market-driven economy and infrastructure enhancements are essential. This finding is different from the conclusion drawn by Yao et al. (2006) who suggest that transportation plays an important role in the eastern region but not in the inland regions.

12) The stock of human capital in the host country limits the absorptive capability of a developing country, as in Benhabib and Spiegel (1994). This is believed to apply in the same way at the regional level.
5. Conclusions

The inception of FDI roughly coincides with the beginning of China’s reform and opening policies at the end of the 1970s. Today, FDI figures as a major force driving the sustained development of Chinese economy. This paper attempts an empirical analysis of the effects of FDI on China’s economic growth using panel data for China’s 29 provinces, autonomous regions, and municipalities for the 1995-2008. The analysis starts by looking at a production function. In order to analyze the relationship between FDI and economic growth at the national and regional levels, empirical analyses are performed at both levels. The analysis yields the following two main results.

(1) FDI fulfills important functions for the economic growth process in China. The extent of its contribution to economic growth exceeds domestic investment. This is evident both from the national-level analysis and from the analysis by region. These results are robust to the model specifications.

(2) Unlike existing research, the analysis finds that during the analysis period FDI has also been fulfilling important functions for China’s economically lagging central-western provinces, and that the degree of contribution is higher than that observed for the eastern provinces.
As for the other variables, highly statistically significant coefficients for marketization and infrastructure, suggest that the investment environment was relevant for the economic growth of the inland regions. The statistical evidence suggests that progress toward a market-driven economy and infrastructure maintenance are important for direct investment and, likewise, for the economic growth of the inland provinces. The coefficient for human capital variable is not statistically significant for the inland region. The reason for this becomes clear when considered in conjunction with the strong positive effects that the labor variable has on the economic development of the coastal region.

Based on the above results, future policy adjustments by the Chinese government and requirements for foreign corporations are considered to be the following.

For China’s economic growth to continue and economic disparities to be corrected, wide-ranging adjustments need to be made to current policies regarding foreign capital. Specifically, concerning the development of the central-western provinces, incentive policies are needed in combination with the adjustment of policies by region and type of industry to make inland locations attractive to foreign capital. Investment environments, in terms of marketization and infrastructure, need to be further improved in order to develop domestic markets and broaden domestic demand. Given the importance of human capital for the absorption of FDI, a major

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Table 3 FDI and Economic Growth, Each Region (1995-2008)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th>Model 2</th>
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<tbody>
<tr>
<td></td>
<td>East region</td>
<td>Central &amp; West regions</td>
</tr>
<tr>
<td>C</td>
<td>1.46***</td>
<td>1.31***</td>
</tr>
<tr>
<td></td>
<td>(3.52)</td>
<td>(3.54)</td>
</tr>
<tr>
<td>LOG(CS)</td>
<td>0.07***</td>
<td>0.15***</td>
</tr>
<tr>
<td></td>
<td>(4.70)</td>
<td>(10.52)</td>
</tr>
<tr>
<td>FDI</td>
<td>0.16**</td>
<td>0.27***</td>
</tr>
<tr>
<td></td>
<td>(2.29)</td>
<td>(2.98)</td>
</tr>
<tr>
<td>LOG(L)</td>
<td>0.30***</td>
<td>0.22***</td>
</tr>
<tr>
<td></td>
<td>(5.29)</td>
<td>(2.48)</td>
</tr>
<tr>
<td>UNV</td>
<td>4.17***</td>
<td>3.10*</td>
</tr>
<tr>
<td></td>
<td>(3.85)</td>
<td>(1.70)</td>
</tr>
<tr>
<td>INDU</td>
<td>0.18***</td>
<td>0.23***</td>
</tr>
<tr>
<td></td>
<td>(3.88)</td>
<td>(9.12)</td>
</tr>
<tr>
<td>LOG(TRAN)</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>(1.36)</td>
<td>(5.24)</td>
</tr>
</tbody>
</table>

Sample size 154 252 154 252
Adjusted- R-squared 0.800 0.998 0.804 0.998
P value
(Hausman Test) 0.104 0.000 0.275 0.000

Notes: *** , ** , and * denote values significant at the 1%, 5%, and 10% levels, respectively.
question for the Chinese government will be how to ensure the availability of human resources in the inland provinces. Foreign corporations, in turn, will need to address carefully the incentive measures recently implemented.\(^{13}\) China’s transformation from “world factory” to “world market,” new developments in foreign exchange regulations and minimum wages, and other such changes.

China’s government continues to look to foreign capital as an important factor for economic growth. For another 5-10 years, China is likely to remain an attractive location for investment for foreign corporations. China’s quest for sustainable growth, for which sustainable FDI inflows have been argued to be a critical factor, will continue to attract the attention of researchers.

REFERENCES


\(^{13}\) Super-preferential tax policies for international companies were fully abolished on January 1, 2010.