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FACTORS DETERMINING LOCATION CHOICE OF FOREIGN DIRECT INVESTMENT IN CHINA: A PERSPECTIVE FROM AN INLAND PROVINCE

A dissertation presented in partial fulfillment of the requirements for the degree of
Doctor of Philosophy
in
Management
at Massey University, (Albany),
New Zealand.

Yulong Liu
2009
This study aims to formulate a conceptual framework regarding foreign direct investment (FDI) location choice made by multinational enterprises (MNE) and to investigate factors determining FDI location choices, through empirically testing the framework and associated hypotheses in the research setting of one of China’s inland regions. FDI has been widely recognised as a major driving force of globalisation, which is a powerful catalyst for achieving national economic development and global integration of MNEs. In respect to the various key issues of MNE’s FDI, the location choice is complex, multidimensional, and critical and it affects the economic growth of host countries, as well as the efficiency and effectiveness of the MNE’s investment abroad. Considering that the emerging economies, such as China, have achieved dramatic development on FDI flows, this new phenomenon of FDI location in emerging economies challenges the existing FDI location theories, which were built in the setting of developed countries. The existing literature also suggests that more attention should be paid to the examination of FDI locational determinants, as the existing literature in this field has been dominated by research into FDI location at a cross-national level. At the sub-national level regional differences in terms of FDI location choice can be examined at great length. It is, therefore, expected to bring forth more accurate and concrete evidence regarding the sensitivity of FDI decisions to locational determinants.

To address the research gap of FDI location choice, this study develops a conceptual framework regarding FDI location choice by MNEs based on an integration of various FDI theories. Hypotheses derived from the framework are empirically tested using data collected through a postal questionnaire survey. The survey was conducted during the period from December 2006 to March 2007 in Gansu - an inland province of China. All foreign-invested enterprise firms in Gansu were included in the sample and the survey resulted in 106 firms returning valid responses. The conclusions drawn from this study suggested that an investing firm’s FDI location choice is made based on the consideration of a series of factors, including the firm’s capability, location factors from host region, strategic motives, and internalisation factors. This study contributes to the literature of FDI location choice by constructing a conceptual framework that can explain foreign direct investment location choice of MNEs in a setting of an inland
region of a developing country. The empirical evidence from the study supports the contention that firm size, international experience, cost factor, investment incentives, agglomeration, investment risk and other factors in regards to the firm’s strategic motives, play a critical role in FDI location choice in China’s inland regions.
Acknowledgements

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<tbody>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CSY</td>
<td>China Statistical Yearbook</td>
</tr>
<tr>
<td>DEFDI</td>
<td>FDI Flows to Developed Countries</td>
</tr>
<tr>
<td>DIFDI</td>
<td>FDI Flows to Developing Countries</td>
</tr>
<tr>
<td>EJV</td>
<td>Equity Joint Venture</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FIE</td>
<td>Foreign Invested Enterprise</td>
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<td>FIP</td>
<td>Foreign Invested Project</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>JV</td>
<td>Joint Venture</td>
</tr>
<tr>
<td>MNE</td>
<td>Multinational Enterprise</td>
</tr>
<tr>
<td>SSB</td>
<td>State Statistical Bureau (China)</td>
</tr>
<tr>
<td>NIC</td>
<td>Newly Industrialised Country</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OLI</td>
<td>Ownership, Location and Internationalization</td>
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<tr>
<td>PLC</td>
<td>Product Life Cycle</td>
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<tr>
<td>SEZ</td>
<td>Special Economic Zone</td>
</tr>
<tr>
<td>TNC</td>
<td>Transnational Corporation</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>UNCTC</td>
<td>United Nations Council for Transnational Corporation</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>WFDI</td>
<td>Global FDI</td>
</tr>
<tr>
<td>WFOE</td>
<td>Wholly Foreign-owned Enterprise</td>
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<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
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