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

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Abstract

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.

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Abbreviations

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