VOLUME 11 NUMBER 1 APRIL 2002

TRANSNATIONAL CORPORATIONS

United Nations
United Nations Conference on Trade and Development
Division on Investment, Technology and Enterprise Development

Editorial statement

Transnational Corporations (formerly *The CTC Reporter*) is a refereed journal published three times a year by UNCTAD. In the past, the Programme on Transnational Corporations was carried out by the United Nations Centre on Transnational Corporations (1975-1992) and by the Transnational Corporations and Management Division of the United Nations Department of Economic and Social Development (1992-1993). The basic objective of this journal is to publish articles and research notes that provide insights into the economic, legal, social and cultural impacts of transnational corporations in an increasingly global economy and the policy implications that arise therefrom. It focuses especially on political and economic issues related to transnational corporations. In addition, *Transnational Corporations* features book reviews. The journal welcomes contributions from the academic community, policy makers and staff members of research institutions and international organizations. Guidelines for contributors are given at the end of this issue.

Editor: Karl P. Sauvant
Associate editor: Kálmán Kalotay
Managing editor: Kumi Endo
Production manager: Tess Sabico
home page: http://www.unctad.org/en/subsites/dite/1_itncs/1_tncs.htm

Subscriptions

A subscription to *Transnational Corporations* for one year is US$ 45 (single issues are US$ 20). See p. 155 for details of how to subscribe, or contact any distributor of United Nations publications. United Nations, Sales Section, Room DC2-853, 2 UN Plaza, New York, NY 10017, United States – tel.: 1 212 963 3552; fax: 1 212 963 3062; e-mail: publications@un.org; or Palais des Nations, 1211 Geneva 10, Switzerland – tel.: 41 22 917 1234; fax: 41 22 917 0123; e-mail: unpubli@unog.ch.

Note

The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the United Nations. The term "country" as used in this journal also refers, as appropriate, to territories or areas; the designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. In addition, the designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgement about the stage of development reached by a particular country or area in the development process.

Unless stated otherwise, all references to dollars ($) are to United States dollars.

ISSN 1014-9562

Printed in Switzerland

Acknowledgement

The editors of *Transnational Corporations* would like to thank the following persons for reviewing manuscripts from January through December 2001.

Wilfried Altzinger
Christian Bellak
Americo Beviglia-Zampetti
Jean Boddewyn
Alexander Bulatov
Jeremy Clegg
Nigel Easton
Saul Estrin
Jarko Fidrmuc
Torbjörn Fredriksson
Janos Gacs
H. Peter Gray
Robert Grosse
Khalil Hamdani
Roger Hayter
Inkeri Hirvensalo
Gabor Hunya
Rumy Husan
Masahiro Igarashi
Dai Jinping
Yuko Kinoshita
Ari Kokko
Bernardo Kosacoff
Sanjaya Lall
Donald Lecraw
Jong-Kun Lee
Linda Lim
Robert E. Lipsey
Henry Loewendahl
Andrés López
Padma Mallampally
William L. Megginson
Peter Mihalyi
Michael Mortimore
Ram Mudambi
Lilach Nachum
Rajneesh Narula
Maurice Odle
Terutomo Ozawa
Michael Pfaffermayr
Josef Pöschl
Slavo Radosevic
Eric D. Ramstetter
A. Edward Safarian
Tagi Sagafi-nejad
Grazia Santangelo
Magdolna Sass
Franz Schubert
Joseph Smolik
Marjan Svetlicic
Miklós Szanyi
Urmas Varblane
Dale R. Weigel
Louis T. Wells
Paul Wessendorp
Christopher Wilkie
Janina Witkowska
James X. Zhan

Transnational Corporations

Volume 11, Number 1, April 2002

Contents

FDI, regional differences and economic growth: panel data evidence from China

Peter J. Buckley [*], Jeremy Clegg [**], Chengqi Wang [***] and Adam R. Cross [****]

This article investigates for China the proposition that economic and technological conditions in a host country modify the relationship of inward foreign direct investment (FDI) with growth. Data are employed for China as a whole, and for 29 provinces in sub-samples, for 1989-1999. We find that host country conditions impact strongly on the growth relationship at both the national and the provincial levels. Our results demonstrate that FDI favours growth in the economically stronger provinces, and that the full benefits of FDI are realized when competition (of both foreign and local origin) in local markets is at its strongest. From our results it is clear that policies need to be crafted at the provincial level to maximize the growth benefits of FDI. Market reform emerges as a very successful general policy that increases growth in a wide range of circumstances and which, our results suggest, is bolstered in its effects by FDI in the more developed provinces.

Introduction

Development economists have long argued that countries pursuing externally oriented development strategies are more likely to achieve higher rates of economic growth than those that are internally focused. A number of studies have examined the relationship between inward FDI and economic growth in the

[*] Professor of International Business and Director of the Centre for International Business, University of Leeds (CIBUL), Leeds University Business School (LUBS), Leeds, United Kingdom.

[**]Jean Monnet Senior Lecturer in European Integration and International Business Management, CIBUL, LUBS, Leeds, United Kingdom.

[***]University Research Fellow in International Business and China, CIBUL, LUBS, Leeds, United Kingdom.

[****] Senior Lecturer in International Business, CIBUL, LUBS, Leeds, United Kingdom.

developing host countries.[1] A generally accepted conclusion is that FDI has played a significant role in promoting economic growth in host countries because FDI represents "the transmission to the host country of a package of capital, managerial skills, and technical skills" (Johnson, 1972, p. 2). An interesting finding of previous studies is that the economic and technological conditions of a recipient economy influence the extent to which FDI contributes to growth.

FDI in China is one of the most palpable outcomes of China's Open Door Policy, which was adopted in December 1978. Already in 1993, China held a position second only to the United States as the largest host country for FDI (UNCTAD, 1994). By the end of 1998, China had attracted $267 billion worth of FDI, and had approved 324,712 foreign-invested projects (*Almanac of China's Economy*, 1999, p. 81).

The geographical distribution of FDI in China is characterized by its concentration in the eastern coastal area. As shown in table 1, between 1989-1998 the eastern region has attracted most FDI. The central and western regions attracted only 9 per cent and 3 per cent of the total FDI inflows, respectively. In terms of per capita FDI, the central and western regions achieved only $8.63 and $1.67, respectively, far behind the level of the eastern region's $45.98 and the national average of $21.19.

Considerable qualitative evidence on the positive effects of inward FDI on the Chinese economy has been found in recent years (Kueh, 1992; Lardy, 1995; Henley et al., 1999). Shang-Jin Wei (1995) finds statistical evidence that FDI is positively associated with cross-city differences in growth rates in China. In his comment on Wei's work, Wing Thye Woo (1995) argues that FDI is correlated with total factor productivity (TFP) growth because the incidence of FDI is a good proxy for the degree of economic liberalization; and the greater the degree of liberalization, the higher the TFP growth. Other studies draw a conclusion similar to Wei (1995). For example, Stephane Dees' (1998) evidence supports the view that FDI affects China's growth through the diffusion of ideas; Chung Chen et al. (1995) find that FDI has been positively associated with economic growth and the increase of total fixed assets investment in China; Peter J. Buckley et al. (2001) find that FDI improves the performance of Chinese indigenous firms. The above empirical findings point to the collective

[1] For a literature survey, see de Mello, 1997.

importance of the elements in the package of resources associated with FDI (Dunning, 1977, 1993).

The vast land area of China is inevitably associated with enormous contrasts in conditions, both natural and artificial, between provinces. The degree of economic development is substantially different across the provinces of China, and the geographic distribution of FDI is characterized by its concentration in coastal areas. Whilst an overall positive impact of FDI on growth is supported by the empirical literature, China's large absolute size and economic diversity may mean that this finding masks wholly mixed impacts between geographic and economic areas. The aim of this article is to shed some light on how the FDI-growth relationship is affected by regional differences in China at the provincial level.

The article proceeds as follows: the following section reviews the literature; data and methodology are briefly explained next; the empirical results are presented in the subsequent section; and concluding remarks are offered in the last section.

Table 1. Geographical distribution of FDI in China by region,[a] 1989-1998

Year	FDI inflows ($100 million)			FDI inflows per person ($)		
	Eastern region	Central region	Western region	Eastern region	Central region	Western region
1989	28.12	1.17	1.22	5.54	0.46	0.28
1990	29.72	1.22	0.72	5.91	0.45	0.16
1991	38.88	1.68	0.68	7.78	0.61	0.16
1992	97.94	7.25	1.96	19.75	2.64	0.46
1993	236.83	23.80	10.14	48.40	8.79	2.38
1994	290.89	25.99	14.03	59.93	9.71	3.32
1995	324.58	33.24	11.42	67.45	12.57	2.73
1996	365.20	39.21	8.13	76.58	15.01	1.97