

# **Foreign Direct Investment in China: Determinants and Impacts**

Submitted by

*Ning Zhang*

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## **Abstract**

China has experienced high foreign direct investment (FDI) inflows for the past 30 years since it opened its door to foreign investors especially after the early 1990s. As a result, with more and more foreign invested enterprises in China, China has experienced dramatic changes in its economy and society. This study conducts an empirical analysis on the determinants of FDI regional and sectoral distribution in China and evaluates the impact of FDI on Chinese domestic investment. The dataset used for this study spans from 1990-2008 and involves both regional-level and sector-level data in China. The key findings of this thesis can be summarised into four points. First, on regional level, foreign investors base their investment decisions by tax rates, geography, labour costs and market size. Moreover, tax incentive effects are proved to be greater in the eastern areas than in the western areas. Second, at sectoral level, foreign investors are affected market size, employment, wage rate, exchange rate and state ownership degree, but not by the level of openness degree. Third, FDI has a significant crowding out effects on domestic investment on national level and in particular the eastern area, but has a crowding in effect in the middle area and no effect for the western area. Fourth, there is no significant evidence that FDI crowds out domestic investment on individual sector level. This study provides some valuable insights into foreign investors' decision making and the economic costs/benefits of FDI, which have important implications for scholars, practitioners and policy makers alike.

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