

**Explaining the Forms of FDI in China:
Economic Approach or Political and Policy Explanations?**

By Yingying Na

yna@darkwing.uoregon.edu

Department of Political Science

University of Oregon

March 13, 2004

Submitted to Illinois Conference for Students of Political Science

Introduction

In the proposed thesis, I am exploring the question of why the forms (modes) of foreign direct investment (FDI) in China have changed since China first adopted the “Open Door” policy in 1979. This question has been largely ignored in the existing literature. On the one hand, there exists an economic literature exploring firms’ entry mode strategy abroad both theoretically, such as the transaction-cost approach, the OLI model, and the internalization theory, and empirically, such as the studies of the entry strategies of U.S. firms in their overseas operations (Anderson and Gatignon 1988) and the studies of the Japanese ownership strategies in the United States (Hennart 1991). There is also an extensive literature both in business and in economics exploring FDI in *China*—explaining why there is such a large demand for FDI in China and the comparison of China’s FDI performance with that of other Asian countries (Huang 1998), studies on the industry distribution of FDI in China (Pei 2002; Broadman and Sun, 1997), studies on the regional distribution of FDI in China (Wei et al. 1999; Broadman and Sun, 1997), and studies of particular forms of FDI in China, for instance, the Casson and Zheng’s (1991) work on joint ventures in China. While some of the studies of FDI in China consider Chinese macro-economic conditions such as GDP growth rate, improvement in infrastructure, labor costs, inflation rates, and domestic investment etc., as independent variables, most of the studies treat Chinese policies toward inward FDI as the most important independent variable. However, the question of how to explain the transformation of the forms of FDI in China over time remains unstudied.

To explain why the forms of FDI in China have changed over time, I draw upon both economic theories explaining firms' entry modes strategy and policy explanations proposed by students of FDI in China. I want to find out to what extent each of the two approaches can explain the transformation of the forms of FDI in China, or in other words, which of the two approaches has more explanatory power.

The Empirical Puzzle

First, we should know what the forms of FDI in China are and how they have changed over time. The main forms of FDI in China are equity joint ventures (EJVs), contractual joint ventures (CJVs), wholly foreign owned enterprises (WFOEs), cooperative development, and compensation trade¹ (Statistical Yearbook of China, China Statistical Yearbook, various issues; Grub and Lin 1991; Casson and Zheng 1991). The foreign company has equity stakes in equity joint ventures and in wholly foreign owned enterprises, but no equity stakes in contractual joint ventures, cooperative development, and compensation trade.

An equity joint venture is established according to the *Law on Joint Ventures Using Chinese and Foreign Investment*, promulgated in 1979. Both profits and risks are distributed between the foreign partner and Chinese partner according to the share of capital they contribute to the joint venture. Foreign contribution usually takes the

¹ Equity joint ventures are also called "joint ventures (enterprises)", contractual joint ventures are also called "cooperative operation (enterprises)", wholly foreign owned enterprises are also called "foreign (investment) enterprises", and cooperative development are also called "joint exploration", which mainly concerns with joint natural resources exploration such as offshore oil exploration. "Under compensation trade arrangements, the Chinese enterprise purchases equipment and technology from foreign companies on credit and pays both principal and interest, fully or in part, with products produced using the imported equipment and technology. In some cases, payment may be made with products that are not directly produced with the imported equipment and technology. In all compensation arrangements, the foreign partner is responsible for marketing the finished products outside of China." (Grub and Lin 1991)

form of “machinery and equipment, technology, cash (in convertible currencies), industrial property rights, and managerial experience”, and the Chinese partner provides “land, factory buildings and facilities, raw materials, and cash in local currency”. (Grub and Lin 1991)

A contractual joint venture, which involves no equity stake, does not necessarily lead to the creation of a new legal entity. A third party can be appointed by the foreign partner and the Chinese partner to manage the venture, or the foreign partner can entrust the Chinese partner to manage the venture. Profits and risks are distributed between the two partners not according to capital contribution, but predetermined by the terms and conditions laid down in the venture agreement. (Grub and Lin 1991; Casson and Zheng 1991)

A wholly foreign owned enterprise is owned entirely by a foreign company, by means of either green-field establishment or acquisition (usually purchase of a Chinese state owned enterprise (SOE)).

Table 0 shows how the forms of FDI in China have changed overtime.

Table 0: Forms of Contracted FDI as a Percentage of Total Value of FDI Annually, 1984-1999

Year	EJVs (Value)/ Total FDI (Value) (%)	CJVs (Value)/ Total FDI (Value) (%)	WFOEs (Value)/ Total FDI (Value) (%)	Other Forms (Value)/ Total FDI (Value) (%)
1984	37.1	51.62	3.48	7.8
1985	34.22	58.95	0.0077	6.82
1986	46.87	46.28	0.692	6.16
1987	52.59	34.58	12.70	0.13
1988	59.16	30.66	9.07	1.11
1989	47.48	19.34	29.53	3.65
1990	40.99	19.01	37.05	2.95
1991	50.77	17.85	30.62	0.76
1992	50.11	22.81	27.00	0.08
1993	49.51	22.88	27.33	0.28
1994	48.61	24.55	26.55	0.29
1995	43.54	19.53	36.87	0.06
1996	43.50	19.51	36.59	0.40
1997	40.63	23.66	34.62	1.09
1998	33.18	22.37	41.75	2.7
1999	32.79	16.50	50.23	0.48

Calculated from *Statistical Yearbook of China, 1986-1987, China Statistical Yearbook, 1988-2000*²

² It is an interesting fact that the amount of utilized FDI in China is always greatly below that of contracted and sometimes the amount of utilized is only about 27% of that of contracted.

We can see now from the table that from 1984-85, CJV was the dominant form of FDI in China with EJV the second most important and WFOE a tiny percentage; from 1986-1999, CJV has experienced decline over time and now is the least important form among the three, in contrast, WFOE has experienced increase during the time and now is the most important form among the three. EJV is still the second most important among the three but the percentage it takes in the total FDI declines. I propose to investigate what causes the transformation of forms of FDI in China. As mentioned above, I will focus in this thesis on two kinds of possible explanations for changes in the forms FDI has assumed in the period 1984-1999. First, I want to find out to what extent the economic approach can explain the transformation; second, I want to find out to what extent Chinese policies towards foreign direct investment in China can explain the transformation.

Development of the Hypothesis—Economic Approaches to MNCs (Multinational Corporations) and FDI

There are various theories explaining why firms engage in foreign direct investment, such as the transaction costs approach (Caves 1996), the OLI Model (eclectic framework) (Dunning 1980, 1988, 1993), the internalization theory (Coase 1937; Hymer 1976; Buckley and Casson 1976, 1991; Dunning 1977; Casson 1979; Rugman 1980), the currency-area model (Aliber 1970, 1983), and theories from the perspective of firms strategic behavior towards their foreign production—product cycle model (Vernon 1966, 1974, 1983), oligopolistic strategy model (Knickerbocker 1973), and

risk diversification model (Stevens 1972; Prachowny 1972). Most existing studies of firms' market entry strategies adopt either the transaction costs approach or the OLI model (Tse, Pan, and Au, 1997). So I begins with transaction costs approach and the OLI model, followed by internalization theory, and other theories explaining why multinational firms exist.

Transaction Costs Approach: A Theory of Why Multinational Firms Exist and a Theory for the Specific Issue—the Choice of Entry Forms

The transaction costs approach hypothesizes that the horizontal MNCs exist because they could increase profits through the administrative allocation of resources within the firm instead of the market allocation of resources between firms. Then why could the horizontal MNCs attain lower costs or higher revenue? It is argued that some *governance* or *transaction-cost advantage* to placing the plants under common administrative control lies in the MNCs' proprietary assets (intangible assets, firm-specific assets), which on one hand can hardly be transferred through external market (internalization advantages), and on the other hand provide firms advantages over the indigenous firms in the host country (ownership advantages). Vertical MNCs exist, the transaction costs approach argues, because firms prefer the provision of intermediate goods by the internal market of the firms to the negotiating and supervising and haggling costs of contracting with an independent firm to provide those intermediate goods. (Caves 1996) "The vertically integrated firm internalizes a market for an intermediate product, just as the horizontal MNE internalizes markets

for proprietary assets.”³ These are the basic ideas of the transaction costs theory explaining why MNCs exist.

Then how can the transaction costs theory explain the choice of the forms (modes) of FDI when firms first enter host country markets? In the Chinese case, as mentioned above, the forms of FDI mainly refer to wholly foreign owned enterprise, equity joint venture (majority share, 50/50 share, or minority share), contractual joint venture, compensation trade, and cooperative development, ranked according to the decline of the degree of control by foreign partners. The transaction costs approach argues that as far as the choice of the entry modes is concerned, a firm has to make the following considerations. (1) The degree of *control* the firm has over the venture. Higher control means a higher ability to influence systems, methods, and decisions of a foreign enterprise, a higher ability to obtain a larger share of the foreign enterprise’s profits, and a higher ability to prevent the dissipation of proprietary assets. (2) Whereas higher control is attractive to entrepreneurs, control must be traded off with *risk* associated with doing business abroad. Sometimes firms need a local partner who has a good knowledge of the host marketing and other environmental conditions, who has a good ability to deal with local government, and who can share risks and financial burdens. (3) Control must also be traded off with *resource commitment*. A lower resource commitment by the foreign firm means lower control, but it has the advantage of flexibility to withdraw partially or completely from the host market in the case of volatile economic, political, and policy environment in the host country. (4)

³ Caves, 1996.

Sometimes, firms just need access to *complementary assets and technologies* belonging to other firms to improve profits, and the costs of contracting and dissipation of its own specific assets are more than offset by the value created through the venture's distinctive combined assets. (Caves, Chapter 3 1996; Anderson and Gatignon 1986)

Based on the above framework, a series of propositions have been developed to summarize firms' consideration on the choice of entry modes in certain circumstances.

Proposition 1: Modes of entry offering greater control are more efficient for highly proprietary products or processes;

Proposition 2: Entry modes offering higher degrees of control are more efficient for unstructured, poorly-understood products and processes;

Proposition 3: Entry modes offering higher degrees of control are more efficient for products customized to the user;

Proposition 4: The more mature the product class, the less control firms should demand of a foreign business entity;

Proposition 5: The greater the *combination* of country risk (e.g., political instability, economic fluctuations) and transaction-specificity of assets (proprietary content, poorly understood products, customization, product class immaturity), the higher the appropriate degree of control;

Proposition 6: The entrant's degree of control of a foreign business entity should be positively related to the firm's cumulative international experience;

Proposition 7: The larger the foreign business community in the host country, the lower the level of control an entrant should demand;

(Anderson and Gatignon 1986)

The OLI Model

The eclectic framework explaining why firms become multinational is principally developed by Dunning (1980, 1988). It is a synthesis of the Ownership Advantages argument, Internalization Advantages argument, and Locational Advantages argument, so it is also called OLI model. The theory argues that for a firm to be doing business abroad, it must possess some advantages over the indigenous firms in the host country compensating the costs of unfamiliarity with the host country conditions. These advantages are the ownership advantages, including proprietary product and production assets, ability to create new technologies, management skills, possession of brand names, "advantages of common governance", and advantages arising from multinationality *per se*, among others. Internalization advantages in Dunning's mind refer to the advantages of using the internal market of MNCs over external market. Due to *transactional market failure* in firms-specific assets and in intermediate products provision, and due to *structural market failure* because of government intervention, it is advantageous for firms to internalize transactions. Actually, many

scholars have claimed that market failure is both a necessary and sufficient condition to explain the existence of MNCs, which has been known as the *internalization theory* of FDI and MNCs. However, Dunning insisted that it is logically correct to distinguish the capability of firms to internalize market (ownership advantages) and the willingness of the firms to do so (internalization advantages). The locational advantages are also indispensable in that firms match ownership advantages with host country locational advantages to maximize overall advantages. It has been proposed that globally oriented firms are often drawn to host countries which have necessary market size, low uncertainty, and “thick market externalities”. (Krugman 1991; Katseli, 1991)

The Internalization Theory

Actually, the internalization theory could be seen as a variant of the OLI model in that the internalization theory emphasizes that the internalization advantage is both a necessary and a sufficient condition for the existence of MNCs. The theory contends that in a perfect competitive market, free trade and individual investment will dominate and there will be no basis for MNCs and FDI. When external market failure exists or the external market doesn't exist at all (such as the market for knowledge), MNCs and FDI become the most efficient method in the circumstances for production and marketing. There are two kinds of market imperfections—natural market failure and unnatural market failure. The former refers to the situation in which firms possess some intangible assets which have the characteristics of public goods, such as

knowledge and information, technology, management or marketing skills. These firm-specific assets are very hard to price due to opportunism in which the buyer doesn't want to pay as much as the seller wants, or due to the fact that the assets could be priced only after use. Even if pricing is not a problem, the firm risks dissipating its specific knowledge and information to others when licensing or selling the intangible assets to others. This kind of natural market failure usually leads to horizontal integration, i.e. the affiliates produce the same products as the parent firm across country boundaries. The second kind of natural market failure occurs when a firm needs another independent firm to provide it intermediate products such as raw materials. The costs of negotiation and supervision of a contract could be too high to be desirable, so this kind of natural market failure usually leads to vertical integration in which the provision of intermediate goods operates in the internal market of the MNCs. It is obvious that the above two kinds of market imperfections are all *factor market imperfection*—market imperfection in intermediate goods: knowledge or raw materials.

Contrary to the natural market failure, there exists the unnatural market failure, which refers to government intervention or regulation. Taxes and tariffs or non-tariff barriers are often cited by the literature as the examples of government intervention. When tariffs exist, for instance, the perfect market for free trade is distorted, and firms response by means of establishing affiliates in the countries where they export in the absence of the tariffs. It is equally obvious that this kind of unnatural market imperfection is *goods market imperfection*.

The Implication of the OLI Model and the Internalization Theory on Choice of Entry Forms

The implication of the OLI model and the internalization theory for the specific issue of the choice of entry modes has also been explored. While some scholars such as Agarwal and Ramaswami emphasize the inter-relationships among the ownership factors, internalization factors, and locational factors in influencing firms' entry mode choice (Agarwal and Ramaswami 1992), it is fair enough in the Chinese case to clarify the independent influence of ownership advantages, internalization advantages, and locational advantages on firms' entry mode choice firstly.

The influence of ownership advantages on the choice of entry modes:

- (1) The ability of the firm to develop differentiated products is positively related to the higher control mode of entry, which has received substantial empirical support. (Anderson and Coughlan 1987; Caves 1982; Coughlan 1985; Coughlan and Flaherty 1983; Davidson 1982; Stopford and Wells 1972)
- (2) Firm size, which has been argued to reflect a firm's ability to absorb costs of doing business abroad and thus a proxy for ownership advantages, is positively related to the higher control mode of entry. This has also received wide empirical supports. (Buckley and Casson 1976; Cho 1985; Caves and Mehra 1986; Yu and Ito 1988; Kimura 1989)
- (3) A firm's multinational experience, which has been argued to be another form of asset power, is positively related to higher control mode of entry. (Agarwal and

Ramaswami 1992)

The influence of locational advantages on the choice of entry modes:

- (4) Market potential in the host country has been argued to be positively related to higher control of entry mode, at least the equity stakes modes rather than the no equity stakes modes. (Forsyth 1972; Weinstein 1977; Khoury 1979; Choi, Tschoegl and Yu 1986; Terpstra and Yu 1988; Sabi 1988)
- (5) The investment risk in a host country (uncertainty about the economic and political and policy conditions) has been argued to be negatively related to higher control mode of entry. (Agarwal and Ramaswami 1992)

The influence of internalization advantages on the choice of entry modes:

- (6) Small numbers problem, which means that the host country market is unable to provide competing alternative local partners, is positively related to higher control mode of entry. (Agarwal and Ramaswami 1992).

Actually, the economic approaches used are static in that they are usually used to explain MNCs' market entry forms strategy when firms first enter host countries' market. What this thesis proposes to explain is the variance of the forms of FDI in China over time, and it means that the economic approaches are tried to be applied in a dynamic context.

Other Theories Explaining Why Firms Become Multinational

Currency-Area Model

The currency-area model explaining why multinational firms exist was developed principally by Aliber (1970, 1983). Aliber also emphasizes the failures in market and the advantages of MNCs over indigenous firms as the most important reasons why firms engage in foreign direct investment. But the failures in market here refers to imperfections in foreign exchange rates and capital markets, which assist MNCs obtaining the advantage of lower interest rates in their investment over those firms in host country. While Aliber's theory is helpful in explaining the existence and the direction of FDI between currency areas, including those between dollar area and Renminbi area, it is hardly relevant to the explanation of the forms of FDI MNCs choose.

Product Cycle Model

The product cycle model is developed principally by Vernon (1966, 1974, 1983). According to Vernon's theory, the process of American firms becoming engaged in foreign direct investment in the less-developed countries is the same process in which a product evolves from unstandardized to maturing and finally to standardized. This theory is also hardly relevant to the explanation of the forms of FDI.

Oligopolistic Strategic Model and Risk Diversification Model

The oligopolistic strategic model is developed principally by Knickerbocker (1973). According to the model, foreign direct investment is largely a reaction to competitors'

investment. The risk diversification model (Stevens 1972; Prachowny 1972) argues that MNCs engaging in foreign direct investment is analogous to individual investors choosing a portfolio of risk assets in that both of them spread risk through combination of different investments. Again while the models are helpful to explain why FDI occurs in certain circumstances, they are hardly relevant to the explanation of the forms of FDI.

Economic Hypothesis—the Implication of the Economic Approaches on the Forms of FDI

According to the transaction costs approach, the OLI model, and the internalization theory, which are the theories relevant to the explanation of the forms of FDI, we can get the following propositions about what affects the choice of forms of FDI:

I, the influence of the characteristics of the industry firms engage in on the choice of entry forms

- (1) Higher proprietary product and production assets, for which R&D is a good proxy, including product differentiation, for which advertising is a good proxy, are positively related to higher control mode of entry.
- (2) Unstructured, poorly-understood products and processes, for which complexity is a good proxy (Teece 1983), and products customized to the user, which demand considerable local knowledge, are positively related to higher control mode of entry.
- (3) More mature product class is negatively related to higher control mode of entry.

II, the Influence of the Characteristics of Host Country on the Choice of Entry Forms

- (4) As far as the host country risk (uncertainty about host country economic and political conditions) is concerned, the economic approaches disagree with each other about whether higher control or lower control is desirable.
- (5) Larger foreign business community in the host country is positively related to lower control mode of entry.
- (6) Market potential is positively related to higher control mode of entry.
- (7) Small number problems, which mean that the host country market is unable to provide competing alternative local partners, are positively related to higher control mode of entry.

III, the Influence of the Characteristics of Firms on the Choice of Entry Forms

- (8) International or multinational experience is positively related to the higher control mode of entry.
- (9) Firm size is positively related to higher control mode of entry.

IV, Other Factors

- (10) GDP per capita, which is a proxy for wealth, is positively related to higher control mode of FDI.
- (11) Education is positively related to higher control mode of FDI.
- (12) The distance from Hong Kong to each province has an effect on the forms of FDI considering that Hong Kong is the largest direct investors in mainland China.

Political and Policy Hypothesis

(13) The number of “special economic zones” (SEZs) and the number of “coastal open cities” (COCs) in a province, which reflects Chinese region-based policies towards inward FDI, is positively related to higher control mode of FDI.

(14) 1993 and 1997 Chinese government policies reforming State-Owned Enterprises (SOEs), which pose a less intervention image of government, are positively related to higher control mode of FDI.

Model

The three models selected to find out to what extent the economic approach can explain the transformation of the forms of FDI in China over time, and to what extent Chinese laws, regulations, and policies toward inward FDI can explain the transformation, are summarized as following:

$$y_{it}^W = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \beta_7 X_{7it} + \beta_8 X_{8it} + \beta_9 X_{9it} + \beta_{10} X_{10it} + \varepsilon_i \quad (1)$$

$$y_{it}^j = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \beta_7 X_{7it} + \beta_8 X_{8it} + \beta_9 X_{9it} + \beta_{10} X_{10it} + \varepsilon_i \quad (2)$$

$$y_{it}^c = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \beta_7 X_{7it} + \beta_8 X_{8it} + \beta_9 X_{9it} + \beta_{10} X_{10it} + \varepsilon_i \quad (3)$$

y_{it}^W = Percentage of registered wholly foreign owned enterprises in the total registered enterprises with foreign capital, by provinces, the end of year (percwfoe)

y_{it}^j = Percentage of registered equity joint ventures in the total registered enterprises with foreign capital, by provinces, the end of year (percenjv)

y_{it}^c = Percentage of registered contractual joint ventures in the total registered enterprises with foreign capital, by provinces, the end of year (percecjv)

x_{1it} = Percentage of staff and workers in other ownership units in the total staff and workers (the total units include state-owned units, urban collective units, and other ownership units; whereas other types of ownership includes Share Holding Units, Joint-owned Units, Limited Liability Corporations, Share-holding Corporations Ltd., Enterprises Funded by Entrepreneurs from Hong Kong, Macao and Taiwan, and Foreign Funded Enterprises) (perswoow)

x_{2it} = Number of Special Economic Zones (SEZs) and Coastal Open Cities (COCs) (nusezsco)

x_{3it} = Final consumption expenditure by provinces (household consumption and government consumption) (consumpt)

x_{4it} = 1993 Chinese government policy reforming State-Owned Enterprises (policy93)

x_{5it} = 1997 Chinese government policy reforming State-Owned Enterprises (policy97)

x_{6it} = The distance from Hong Kong to each province (distanceHK)

x_{7it} = Provincial GDP per capita (pergdp)

x_{8it} = Percentage of student enrollment in institutions of higher education in the total population in a province (perceducation)

x_{9it} = Foreign investments in innovation or technical updates (100 million yuan) (foreitechinvest)

x_{10it} = trend, time is treated as an independent variable, which can measure MNCs' international or multinational experiences

Statistical Findings

For the above three models, the statistical findings of a random effect generalized least squares regression are summarized as following:

Table 1: Regression Coefficients of the Independent Variables on Dependent Variable Percentage of registered wholly foreign owned enterprises in the total registered enterprises with foreign capital, by provinces, the end of year

	Coefficient	z	P>z
percwfoe			
perswoow	.0128333	0.12	0.906
nusezsco	-.0152266	-0.65	0.514
consumpt	.0000344	4.04	0.000
policy93	.1492663	2.08	0.037
policy97	-.0159797	-1.30	0.192
distanceHK	-.0000553	-1.65	0.099
pergdp	-3.20e-06	-2.39	0.017
perceducation	8.647036	1.56	0.118
foreitechinvest	.0010819	2.62	0.009
trend	.0099299	2.65	0.008

number of observations= 145, number of groups= 31, Wald chi2 (9)= 396.98 Prob>chi2= 0.0000

Table 2: Regression Coefficients of the Independent Variables on Dependent Variable Percentage of registered equity joint ventures in the total registered enterprises with foreign capital, by provinces, the end of year

	Coefficient	z	P>z
percenjv			
perswoow	-.0384392	-0.28	0.778
nusezsco	-.0220967	-1.04	0.297
consumpt	-.000017	-1.62	0.106
policy93	.7693199	10.72	0.000
policy97	.0025343	0.17	0.868
distanceHK	.0000732	2.44	0.015
pergdp	3.20e-06	1.96	0.050
perceducation	-9.302273	-1.64	0.100
foreitechinvest	-.0015335	-2.96	0.003
trend	-.0104342	-2.24	0.025

number of observations= 145, number of groups= 31, Wald chi2 (9)= 1441.94 Prob>chi2= 0.0000

Table 3: Regression Coefficients of the Independent Variables on Dependent Variable

Percentage of registered contractual joint ventures in the total registered enterprises with foreign capital, by provinces, the end of year

	Coefficient	z	P>z
percecv			
perswoow	-.0207841	-0.42	0.676
nusezsco	.0370314	3.81	0.000
consumpt	-.0000129	-3.34	0.001
policy93	.0501417	1.64	0.101
policy97	.0028643	0.51	0.608
distanceHK	-.0000152	-1.09	0.274
pergdp	1.03e-07	0.17	0.865
pereducation	2.047871	0.85	0.393
foreitechinvest	.0003995	2.12	0.034
trend	.0026358	1.55	0.122

number of observations= 145, number of groups= 31, Wald chi2 (9)= 1441.94 Prob>chi2= 0.0000

First, I look at the validity of the three models. The observed P value for Wald chi2 test is 0.00 for all the three models, which shows that the null hypothesis: $\beta_1=\beta_2=\dots=\beta_{10}=0$ can be rejected with less than .05 probability of type 1 error, and the three models are all valid.

Then I look at each independent variable. For model 1, the observed P value for the independent variable— percentage of staff and workers in other ownership units in the total staff and workers— is 0.906, which is too high to be significant. So the null hypothesis that the size of foreign business community in China doesn't affect the share of wholly foreign owned enterprises cannot be rejected. The observed P value for the independent variable— number of Special Economic Zones (SEZs) and Coastal Open Cities (COCs)—is 0.514, which is also too high to be significant. So the

null hypothesis that the establishment of Special Economic Zones and Coastal Open Cities by Chinese government in certain provinces doesn't affect the share of wholly foreign owned enterprises cannot be rejected either. The observed P value for the independent variable— 1997 Chinese government policy reforming State-Owned Enterprises—is 0.192, which is also too high to be significant. So the null hypothesis that the 1997 policy doesn't affect the share of wholly foreign owned enterprises cannot be rejected either. The observed P value for the independent variable—percentage of student enrollment in institutions of higher education in the total population in a province—is 0.118, which is also too high to be significant. So the null hypothesis that education doesn't have an effect on the share of wholly foreign owned enterprises in each province cannot be rejected either.

The observed P value for the independent variable— final consumption expenditure by provinces (household consumption and government consumption)—is 0.000, which means that this independent variable is significant at ≤ 0.05 significant level. So the null hypothesis that Chinese domestic market doesn't have an effect on the share of wholly foreign owned enterprises can be rejected with less than 0.05 probability of type I error. With a plus sign, the hypothesis that Chinese market size has a positive effect on the share of wholly foreign owned enterprises in the total registered enterprises with foreign capital has been confirmed at 0.05 level of significance.

The observed P value for the independent variable— 1993 Chinese government policy reforming State-Owned Enterprises—is 0.037, which means that

this independent variable is significant at 0.05 significant level. So the null hypothesis that the 1993 policy doesn't have an effect on the share of the wholly foreign owned enterprises can be rejected at 0.05 level of significance, and with a plus sign, the hypothesis that the 1993 Chinese government policy reforming State-Owned Enterprises has a positive effect on the share of wholly foreign owned enterprises has been confirmed at 0.05 level of significance.

The observed P value for the independent variable—provincial GDP per capita—is 0.017, which means that this independent variable is significant at 0.95 confidence level. So the null hypothesis that provincial GDP per capita doesn't have an effect on the share of the wholly foreign owned enterprises can be rejected at 0.95 confidence level, and with a plus sign, the hypothesis that provincial GDP per capita has a positive effect on the share of wholly foreign owned enterprises has been confirmed at 0.05 level of significance.

The observed P value for the independent variable— foreign investments in innovation or technical updates—is 0.009, which means that this independent variable is significant at 0.95 confidence level. So the null hypothesis that foreign investments in innovation or technical updates doesn't have an effect on the dependent variable can be rejected with less than 0.05 probability of type 1 error, and with a plus sign, the hypothesis that this independent variable has a positive effect on the share of wholly foreign owned enterprises has been confirmed at 0.05 level of significance.

The observed P value for the independent variable—the distance from Hong Kong to each province—is 0.099, which means that this independent variable is

significant at 0.90 confidence level. So the null hypothesis that the distance from Hong Kong to each province doesn't have an effect on dependent variable can be rejected with less than 0.1 probability of type 1 error. The subtraction sign shows that this independent variable has a negative effect on the share of the wholly foreign owned enterprises.

The observed P value for the independent variable trend is 0.008, which means that the hypothesis that MNCs' international or multinational experience doesn't have an effect on the share of wholly foreign owned enterprises can be rejected with less than 0.05 probability of type 1 error.

For the second model, from table 2 we can see that the following independent variables— percentage of staff and workers in other ownership units in the total staff and workers, number of Special Economic Zones (SEZs) and Coastal Open Cities (COCs), final consumption expenditure by provinces (household consumption and government consumption), and 1997 Chinese government policy reforming State-Owned Enterprises (policy97) are not significant.

The observed P value for the independent variable—1993 Chinese government policy reforming State-Owned Enterprises—is 0.000, which means that the null hypothesis that the 1993 Chinese government policy doesn't have an effect on the share of equity joint ventures can be rejected with less than 0.05 probability of type 1 error. With the plus sign, we can conclude that the 1993 policy has a positive effect on the share of equity joint ventures.

The observed P value for the independent variable—the distance from Hong Kong to each province—is 0.015, which means that the null hypothesis that the distance from Hong Kong to each province doesn't have an effect on the share of equity joint ventures can be rejected at 95 confidence level. And with the plus sign, this independent variable is positively related to the share of equity joint ventures.

The observed P value for the independent variable—provincial GDP per capita—is 0.05, which means that the null hypothesis that provincial GDP per capita doesn't affect the share of equity joint ventures can be rejected at 0.05 level of significance. And with the plus sign, provincial GDP per capita is positively related to the share of equity joint ventures.

The observed P value for the independent variable—percentage of student enrollment in institutions of higher education in the total population in a province—is 0.1, which means that the null hypothesis that education doesn't have an effect on the share of equity joint ventures can be rejected at 0.1 level of significance. With the subtraction sign, education is negatively related to the dependent variable.

The observed P value for the independent variable—foreign investments in innovation or technical updates—is 0.003, which means that the null hypothesis that this independent variable doesn't affect the share of equity joint ventures can be rejected with less than 0.01 probability of type 1 error. With the subtraction sign, this independent variable is negatively related to the share of equity joint ventures.

The observed P value for the independent variable trend, which measures MNCs' international or multinational experience, is 0.025, which means that the null

hypothesis that MNCs' international or multinational experience doesn't affect the share of equity joint ventures can be rejected at 0.05 confidence level. With the subtraction sign, MNCs' international or multinational experience is negatively related to the dependent variable.

For the third model, we can see from table 3 that the independent variable—number of Special Economic Zones (SEZs) and Coastal Open Cities (COCs)—is positively related to the share of contractual joint ventures, the independent variable—final consumption expenditure by provinces (household consumption and government consumption)—is negatively related to the share of contractual joint ventures, and the independent variable—foreign investments in innovation or technical updates—is positively related to the dependent variable; all the other independent variables are not significant at all.

To What Extent Can Chinese Laws, Regulations, and Policies Explain the Transformation of the Forms of FDI in China?

Chinese government policies surely can explain lots of the changes of the forms of FDI in China, especially those laws, regulations and policies mandating the forms FDI could take. In 1978 when the “open door” policy was firstly implemented in China, Chinese government prefers EJV to WFOE out of ideological, political, and historical reasons. Although *the Law on Joint Ventures Using Chinese and Foreign Investment* promulgated in 1979 stipulated that a minimum 25 per cent of the total

equity investment in EJVs should be from the foreign partner, and that means an equity joint venture could become a wholly foreign owned enterprise once the foreign partner takes 100 per cent, the government seldom approved more than a 50 per cent foreign equity stake. Until 1984 WFOEs were in practice allowed only in the Special Economic Zones (SEZs). The basic law governing WFOEs were drafted in 1986 by Ministry of Foreign Economic Relations and Trade (MOFERT) following the significant reduction in foreign investment in China during that year. On April 12, 1986, the promulgation of *the Law of the PRC on Wholly Foreign Owned Enterprises* made China the first socialist country to pass a law governing the establishment of domestic enterprises wholly owned by foreign investors. (Grub and Lin 1991; Casson and Zheng 1991; Torbert, 1986) In 1988, the State Council approved a transfer of a portion of MOFERT's authority for the approval of manufacturing WFOEs with 10\$ million or less in total investment to provinces and localities. (Barale, 1990)

From table 0, we can see that the share of wholly foreign owned enterprises in the total value of FDI jumped in 1987 and 1989, which shows that the Chinese government policy change from forbidding to allowing wholly foreign owned enterprises have a great positive influence on its share in the total value of FDI. I should have included these policies in the regression model as dummy variables and test the effects of the policies, but I cannot access the data before 1990.

From the regression result, we can see that the 1993 policies reforming State-Owned Enterprises thus increasing Chinese market competitiveness have a positive effect

both on the share of wholly foreign owned enterprises and on the share of equity joint ventures. The year 1993 marks a breakthrough in China's reforms on State-Owned Enterprises (SOEs), which is reflected in three respects. First is the Chinese enterprise ownership structure change. Since 1979 to 1993 roughly, Chinese government had begun incremental and experimental reforms on State-Owned Enterprises (SOEs), including decentralization of the managerial autonomy of the SOEs, decontrol of prices, and the creation of a hard-budget constraint on State-Owned enterprises. However, the general direction of the reforms on SOEs during this period is the steady expansion of operational autonomy of the SOEs without touching on the issue of privatization. Then, "a fundamental change in official philosophy about SOE reform occurred at the end of 1993 when the Central Committee of CPC identified the ambiguity of property rights to be an important cause of the unsatisfactory performance of SOEs". (Sachs and Woo, 1997) This fundamental change in official philosophy can be demonstrated in the Central Committee of CPC's decision:

Large and medium-size State-Owned enterprises are the mainstay of the national economy; ... [for them,] it is useful to experiment with the corporate system... As for the small State-Owned enterprises, the management of some can be contracted out or leased; others can be shifted to the partnership system in the form of stock sharing, or sold to collectives and individuals.⁴ (Sachs and Woo, 1997)

Second is the change in the fiscal relationship between state and enterprises, which is reflected both in banking reforms and taxation reforms. One important reason why State-Owned enterprises have always borne so many inefficiencies is that the state and the banks did little to create a hard-budget constraint. In late 1993, "the State Council approved a far-reaching blueprint for banking and financial reform that

⁴ "Decision of the CPC Central Committee on issues concerning the establishment of a socialist market economy structure," *China Daily*, Supplement, November 17, 1993.

took as its objective the commercialization of the banking system.” (Lardy, 1998) Thus, banks will no longer loan money to State-Owned enterprises without caring about if the SOEs can return the loans back. At the same time, in January 1994, an income tax system replaced the contract responsibility system (CRS), thus SOEs are subject to a hard-budget constraint, no longer being absolved of the responsibility of paying the contracted amount to the state if the financial outcome are poor. (Sachs and Woo, 1997)

Third is the provision of a legal framework for the establishment and operation of large and small companies throughout China’s “social market economy” in 1993. *The Company Law of the People’s Republic of China* was passed by the Standing Committee of China’s National People’s Congress on December 29, 1993. (Torbert, 1994) And this new legislation had been argued to help China achieve several goals—it provides a legal framework for transforming State-Owned enterprises into independent market-oriented entities; it provides a legal framework to regulate the entities selling shares; it provides a legal framework to attract foreign investment; and it provides a legal framework for the rapidly growing cooperative and private sectors of the Chinese economy to develop further. (Torbert, 1994)

Fourth is that in 1993, the State Statistical Bureau (SSB) began to provide business-related information through a consulting agency, the All-China Marketing Research Co. (ACMR). It is for the first time that detailed information on Chinese leading firms in China is revealed. (Li, Gao, and Ma, 1995)

As mentioned above, the main forms of FDI in China include wholly foreign

owned enterprises (WFOEs), equity joint ventures (EJVs), contractual joint ventures (CJVs), cooperative development, and compensation trade, ranking according to decreasing degree of foreign control over the enterprises. The 1993 Chinese government policies and regulations have a positive effect both on the share of wholly foreign owned enterprises and on the share of equity joint ventures, however, such a positive relationship cannot be found between the 1993 policies and the share of contractual joint ventures. These results confirm the argument that Chinese government policies reforming State-Owned enterprises thus posing a less intervention image of the government will be positively related to higher control mode of FDI. The reasoning is straightforward. First, these policies allow for new ownership forms and signal that Chinese government tries to fundamentally alter the ownership structure of the enterprises. With the Chinese government claim that “grasping the large and letting go the small”, Chinese government allowed the so-called small companies to be sold to domestic or foreign investors, to be corporatized into a limited liability or joint stock company, and to be converted into stock cooperatives. (Newfarmer and Liu, 1998) At the same time, some other types of ownership such as Town and Village Enterprises (TVEs) were also encouraged. All these meant that private ownership was allowed in China although State ownership was still taking more weight. This pose of less government intervention gives foreign investors more confidence in Chinese economic environment, and foreign investors have more confidence in establishing enterprises with higher stake in it.

Second, the 1993 banking and tax reforms reduced state subsidies to SOEs,

and SOEs as the most strong and most hostile interests group towards foreign-funded enterprises were weakened, which is beneficial to foreign-funded enterprises with high foreign stake in it.

According to the regression result, the 1997 Chinese government policy to reform State-Owned enterprises have no much influence either on the share of wholly foreign owned enterprises, or on the share of equity joint ventures, or on the share of contractual joint ventures, although it seems that Chinese government put lots of efforts on reforming SOEs in 1997. The 15th Congress affirmed the correctness of the 1993 reforms in SOEs, banking, and taxation. Moreover, Chinese government committed to expand SOE reform by promulgating regulations for disposing bankrupt enterprises' assets and by creating "re-employment centers" to aid laid-off workers. (Miller 1998) But the positive influence of this commitment to deeper SOE reforms seems to be dampened by the Chinese government orientation on the role of foreign investment. In the 15th Congress, the selective approach to guiding foreign investment into specific sectors, which was introduced by the 1995 *Catalogue Guiding Foreign Investment in Industry* which prohibits wholly foreign owned business in many sectors, had been affirmed. In this case, foreign investors will be reluctant to bear the risk of high stakes in investing in China. In a word, even SOEs as the interests group hostile to foreign firms had been weakened further by 1997 Chinese government SOE reforming policies, the selective approach dampened the positive effects the SOE reforms bring.

According to the regression result, the presence of SEZs and COCs in certain provinces doesn't have an effect on the share of wholly foreign owned enterprises and equity joint ventures, but has a positive effect on the share of contractual joint ventures. This seems to contradict the reality that Special Economic Zones and Coastal Open Cities have always been given policy priority regarding foreign investment, and the expectation that foreign investors have high stake when they do business in SEZs and COCs because they have much more confidence in the policies there. I cannot explain this phenomenon right now and I will pursue it in my future research.

To What Extent Can the Economic Approach Explain the Transformation of the Forms of FDI in China?

Final consumption expenditure by provinces (household consumption and government consumption) is positively related to the share of wholly foreign owned enterprises and negatively related to the share of contractual joint ventures, which confirms the business economist theory that market potential is positively related to higher control mode of entry. Foreign investments in innovation or technical updates is positively related to the share of wholly foreign owned enterprise and the share of contractual joint ventures, but is negatively related to the share of equity joint ventures, which seems to trouble the business economist theory that higher proprietary product and production assets, for which R&D is a good proxy, are

positively related to higher control mode of entry. Actually, the regression results do confirm the theory. In China, the equity joint venture is the easiest way for a Chinese partner to get the technology from the foreign partner. And the purpose of Chinese government to require some share of local firms in foreign invested enterprises (FIEs) in the form of an equity joint venture is to get technologies. The contractual joint venture, as mentioned above, involves no equity stake, and does not necessarily lead to the creation of a new legal entity. A third party can be appointed by the foreign partner and the Chinese partner to manage the venture, or the foreign partner can entrust the Chinese partner to manage the venture. So the foreign partner has no risk in dissipating technologies and know-how by establishing contractual joint ventures. Trend (times as an independent variable) is positively related to the share of wholly foreign owned enterprises, and negatively related to the share of equity joint ventures, which demonstrates that the business economist theory that international or multinational experience is positively related to the higher control mode of entry has also been confirmed. Unfortunately, we cannot identify the relationship between trend and the share of contractual joint ventures according to the regression result.

From the regression results, we can see that the independent variable percentage of staff and workers in other ownership units in the total staff and workers, which is a proxy for the foreign business community in the host country, is not significant in all the three models. So the business economist theory that large foreign business community in the host country is positively related to lower control mode of entry

cannot be confirmed here.

The independent variable the distance from Hong Kong to each province is negatively related to the share of wholly foreign owned enterprises and positively related to the share of equity joint ventures, and is not significant in the third model. The independent variable provincial GDP per capita is also negatively related to the share of wholly foreign owned enterprises and positively related to the share of equity joint ventures, and is not significant in the third model. I cannot explain the above regression results and I will pursue it in my further research.

Notes

Data are collected or calculated from *Statistical Yearbook of China, China Statistical Yearbook, China Foreign Economic Statistical Yearbook, Xin Zhong Guo Wu Shi Nian Tongji Ziliao Huibian*.

Bibliography:

- 1, Agarwal, Sanjeev and Sridhar N. Ramaswami (1992), "Choice of Foreign Market Entry Mode: Impact of Ownership, Location, and Internalization Factors", *Journal of International Business Studies*, 23 (1), 1-27.
- 2, Aliber, R. (1970), "A Theory of Foreign Direct Investment", in C.P. Kindleberger, *The International Corporation*. Cambridge: MIT Press.
-- (1983), "Money, Multinationals and Sovereigns", in C.P. Kindleberger and D.B. Audresch, *The Multinational Corporation in the 1980s*. Cambridge: MIT Press.
- 3, Anderson, Erin & Barton Weitz (1986), "Make or Buy Decisions: A Framework for Analyzing Vertical Integration Issues in Marketing", *Sloan Management Review*, 27 (Spring), 3-19.
-- & Hubert Gatignon (1986), "Mode of Foreign Entry: A Transaction Cost Analysis and Proposition", *Journal of International Business Studies*, 17 (3), 1-26.
-- & Hubert Gatignon (1988), "The Multinational Corporation's degree of control over foreign subsidiaries: An empirical test of a transaction cost explanation", *Journal of Law, Economics, and Organization*, 4 (2): 305-36.
-- & Anne T. Coughlan (1987), "International Market Entry and Expansion via Independent or Integrated Channels of Distribution", *Journal of Marketing*, 51 (January), 71-82.
- 4, Angel, Juvenal L. (Juvenal Londoño), *Directory of American Firms Operating in Foreign Countries*, (9th ed.) Volume 1, New York, Simon & Schuster [etc.]
- 5, Barale, Lucille (1990), "Wholly Foreign Owned Enterprises: To wary foreign companies—and cash-poor Chinese—solo foreign investment is looking more attractive", *The China Business Review*, 17, Number 1, January-February 1990.
- 6, Broadman, Harry G. & Xiaolun, Sun (1997), "The Distribution of Foreign Direct Investment in China", *World Economy* 20, no.3: 339-61.
- 7, Buckley, Pete, & Mark Casson (1976), *The Future of the Multinational Enterprise*. Basingstoke and London: Macmillan.
-- (1991), *The Future of the Multinational Enterprise*, second edition, Macmillan.
- 8, Casson, Mark (1979), *Alternatives to the Multinational Enterprise*. London: Macmillan.
-- & Jurong Zheng (1991), "Western Joint Ventures in China", *Discussion Papers in International Investment and Business Studies*, Series B, Vol. III (1990/91).
- 9, Caves, R. E. (1982), *Multinational Enterprise and Economic Analysis*, New York: Cambridge University Press.
-- (1996), *Multinational Enterprise and Economic Analysis, Second Edition*, Cambridge University Press.
-- & Sanjeev K. Mehra (1986), "Entry of Foreign Multinationals into U.S. Manufacturing

Industries”, in Michael E. Porter, editor, *Competition in Global Industries*. Boston: Harvard Business Press.

10, Cho, Kang Rae (1985), *Multinational Banks: Their Identities and Determinants*, Ann Arbor: UMI Research Press.

11, Coase, Ronald H. (1937), “The Nature of the Firm”, *Economica*: 386-405. Reprinted in *Readings in Price Theory*, Edited by G. Stigler and K. Boulding. Homewood, Illinois: Irwin, 1952.

12, Choi, Sang-Rim, Adrian E. Tschoegl and Chwo-Ming Yu (1986), “Banks and the World’s Major Financial Centers, 1970-1980”, *Weltwirtschaftliches Archive*, 1, 48-64.

13, Coughlan, Anne T. (1985), “Competition and Cooperation in Marketing Channel Choice: Theory and Application”, *Marketing Science*, 4 (2), 110-29.

-- & M. Therese Flaherty (1983), “Measuring the International Marketing Productivity of U.S. Semiconductor Companies”, in David Gautschi, editor, *Productivity and Distribution*, Amsterdam: Elsevier Science Publishing Co.

14, Davidson, William H. (1982), *Global Strategic Management*, New York: John Wiley.

15, Dunning, John H. (1977), “Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach”, in *The International Allocation of Economic Activity. Proceedings of a Nobel Symposium held at Stockholm*. Edited by Bertil Ohlin *et al.* London: Macmillan.

-- (1980), “Toward an Eclectic Theory of International Production: Some Empirical Tests”, *Journal of International Business Studies*, 11 (1), 9-31.

-- (1988), “The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions”, *Journal of International Business Studies*, 19 (1), 1-31.

-- (1993), *Multinational Enterprise and the Global Economy*, Addison Wesley, Workingham, England.

16, Forsyth, David J.C. (1972), *U.S. Investment in Scotland*, New York: Praeger Press.

17, Grub, Phillip Donald & Jian Hai Lin (1991), *Foreign Direct Investment*, Quorum Books, New York.

18, G.V.G. Stevens (1972), “Capital Mobility and the International Firm”, in *International Mobility and Movement of Capital*, eds. F. Machlup, W.S. Salant and L. Tarshis, New York.

19, Hennart, Jean-Francois (1991), “The Transaction Cost Theory of Joint Ventures: An Empirical Study of Japanese Subsidiaries in the United States”, *Management Science*, 37: 483-97.

20, Huang, Yasheng (1998), *FDI in China: an Asian perspective*, Hong Kong : Chinese University Press ; Singapore : Institute of Southeast Asian Studies.

21, Hymer, Stephen H. (1976), *The International Operations of National Firms: A Study of Foreign Direct Investment*. Cambridge: Mass. : MIT Press.

22, Katseli, L (1991), *Foreign Direct Investment and Trade Interlinkages in the 1990s: Experience and Prospects of Developing Countries*, Paper prepared for UNCTC/UNCTAD project on The New Globalism and Developing Countries: Investment, Trade, and Technology Linkages in the 1990s.

23, Khoury, Sarkis, J. (1979), “International Banking: A Special Look at Foreign Banks in the U.S.”, *Journal of International Business Studies*, 10 (Winter), 36-52.

24, Kimura, Yui (1989), “Firm Specific Strategic Advantages and Foreign Direct Investment Behavior of Firms: The Case of Japanese Semi-conductor Firms”, *Journal of International Business Studies*, 20 (Summer), 296-314.

25, Knickerbocker, F.T.(1973), *Oligopolistic Reaction and the Multinational Enterprise*.

Cambridge, Mass.: Harvard University Press.

26, Krugman, PR (1991), *Geography and Trade*, The MIT Press, Cambridge, Mass.

27, Lardy, Nicholas R. (1998), *China's Unfinished Economic Revolution*, Brookings Institution Press, Washington D.C.

28, Li, Shaomin & Yuxian Gao & Guangqin Ma (1995), "Picking the Winners in Profitability and Productivity: A new database allows investors to size up Chinese firms", *The China Business Review*, 22, Number 4, July-August 1995.

29, M.F.J. Prachowny (1972), "Direct Investment and the Balance of Payments of the United States", in *International Mobility and Movement of Capital*, eds. F. Machlup, W.S.Salant and L. Tarshis, New York.

30, Miller, Lyman H. (1998), "Preparing for Change with Promises of Continuity: Stability and State-sector reform were the watchwords of the 15th Communist Party Congress", *The China Business Review*, 25, Number 1, January-February 1998.

31, Ministry of Foreign Economic Relations and Trade (MOFERT), *Almanac of China's foreign economic relations and trade*, MOFERT Press, Beijing, Various Issues.

32, Newfarmer, Richard & Dana M. Liu (1998), "China's Race with Globalization: Successful SOE reform and a solid financial system are the keys to smoothing China's integration into the global economy", *The China Business Review*, 25, Number 4, July-August 1998.

33, Pei, Changhong (2002), "The Changing Trends of FDI Patterns in China", in Fung, Hung-Gay & Kevin H. Zhang (eds.), *Financial Markets and Foreign Direct Investment in Greater China*, M.E. Sharpe, Inc. New York.

34, Rugman, Alan M. (1980a), "Internalization as a General Theory of Foreign Direct Investment", *Weltwirtschaftliches Archiv* 116 (June): 365-79.

35, Sabi, Manijeh. (1988), "An Application of the Theory of Foreign Direct Investment to Multinational Banking in LDCs", *Journal of International Business Studies*, 19 (Fall), 433-48.

36, Sachs, Jeffrey D. & Wing Thyee Woo, "Understanding China's Economic Performance", *NBER Working Paper Series, Working Paper 5935*.

37, State Statistical Bureau (SSB) ((1986-1987)), *Statistical Yearbook of China*, China Statistics Press, Beijing.

-- (1988-2000), *China Statistical Yearbook*, China Statistics Press, Beijing.

38, State Statistical Bureau (SSB), Department of Trade and External Economic Relation Statistics, (1996), *China Foreign Economic Statistical Yearbook*, China Statistical Publishing House, Beijing.

39, Stopford, John. M. & Louis T. Wells (1972), *Managing the Multinational Enterprise: Organization of the Firm and Ownership of the Subsidiaries*. New York: Basic Books.

40, Teece, David J. (1983), "Technological and Organizational Factors in the Theory of the Multinational Enterprise", in Mark Casson, ed., *The Growth of International Business*, 51-62, New York: George Allen and Irwin.

41, Terpstra, Vern & Chwo-Ming Yu (1988), "Determinants of Foreign Investment of U.S. Advertising Agencies", *Journal of International Business Studies*, 19 (Spring), 33-46.

42, Torbert, Preston (1986), "Wholly Foreign-Owned Enterprises Come of Age: New law protects both Chinese and foreign interests", *The China Business Review*, 13, Number 4, July-August 1986, 50-53.

-- (1994), "Broadening the Scope of Investment: The Company Law may provide investors with

more protection and investment options”, *The China Business Review*, 21, Number 3, May-June 1994.

43, Tse, David K & Yigang Pan & Kevin Y. Au (1997), “How MNCs Choose Entry Modes and Form Alliances: The China Experience”, *Journal of International Business Studies*, 28, , 779-805.

44, Vernon, R. (1966), “International Investment and International Trade in the Product Cycle”, *Quarterly Journal of Economics*, 80, 190-207.

-- (1974), “The Location of Economic Activity”, in J.H. Dunning, *Economic Analysis and the Multinational Enterprise*, London: Allen and Unwin.

-- (1983), “Organizational and Institutional Responses to International Risk”, in R.J. Herring, ed., *Managing International Risk*. Cambridge: CUP.

45, Wei, Yingqi, Xiaming Liu, David Parker, and Kirit Vaidya (1999), “The Regional Distribution of Foreign Direct Investment in China”, *Regional Studies* 33, no.9: 857-67.

46, Weinstein, Arnold, K (1977), “Foreign Investments by Service Firms: The Case of the Multinational Advertising Agency”, *Journal of International Business Studies*, 8 (Spring-Summer), 83-91.

47, Yu, Chwo-Ming & Kiyohiko Ito (1988), “Oligopolistic Reaction and Foreign Direct Investment: The Case of the U.S. Tire and Textile Industries”, *Journal of International Business Studies*, 19 (Fall), 449-60.