Foreign Investment in Guangdong: Effects on Economic Growth and Regional Distribution Determinants

LO Wai Lun

A thesis submitted in partial fulfillment of the requirements for the degree of Master of Philosophy

Principal Supervisor: Dr. Bill W. S. HUNG

Hong Kong Baptist University

June 2005
ABSTRACT

This thesis first reviews several phases of the inflow of the foreign direct investment (FDI) that has significantly advanced the economic growth of Guangdong, and describes threats to FDI attraction. Although it is commonly reported that investment from Hong Kong, Macau, and Taiwan is the dominant cause of Guangdong’s economic take-off, this situation could be changing.

Secondly, the thesis empirically examines the effects of foreign investment, especially from Hong Kong, Macau, and Taiwan, on Guangdong’s economic growth. There are two lines of argument. Firstly, Guangdong is becoming less dependent on investment from Hong Kong, Macau, and Taiwan as the prime engine for its economic growth. Secondly, the roles of foreign investment in the economic growth of the Pearl River Delta and the non-Delta region of Guangdong are changing. Econometric analyses indicate that investment from Hong Kong, Macau, and Taiwan will not make up the lion’s share of investment in Guangdong for long, and that it will be replaced by domestic investment and other foreign investment in the near future.

Thirdly, the thesis empirically examines the specific FDI determinants of Guangdong, and constructs a Foreign Investment Attractiveness Index (FIAI) to measure the region’s attractiveness over time. As long as the construction procedures are followed, this indicative index will be widely applicable to other regions. This study provides evidence that the importance of each FDI determinant is structurally different in the Pearl River Delta and non-Delta region. In addition, the patterns of the FIAI show a converging trend within the Delta which shows that the attractiveness of the Delta cities to FDI becomes homogeneous.

Finally, the thesis argues that although foreign investment has proven to be the main engine of economic growth in Guangdong, its diverging trend is a serious threat to persistent economic growth. In this thesis, I have suggested a number of policies for the local governments to reverse this trend. Several limitations of the thesis are stated to encourage further investigation.
TABLE OF CONTENTS

DECLARATION i

ABSTRACT ii

ACKNOWLEDGEMENTS iii

TABLE OF CONTENTS iv

LIST OF TABLES vi

LIST OF FIGURES ix

LIST OF ABBREVIATIONS x

CHAPTER 1 AN OVERVIEW OF FOREIGN INVESTMENT IN GUANGDONG 1

I. Different Stages of Attracting Foreign Direct Investment …… 1

II. Current Situation in Guangdong…………………………… 3
1.2.1 The Challenge from Other Provinces………………… 5
1.2.2 The Completion of the Move of Hong Kong’s Manufacturing Industries………………………… 6
1.2.3 The Influx of FDI from Other Countries……………… 7
1.2.4 The Key Issues ………………………………………… 8

CHAPTER 2 DECOMPOSING THE EFFECTS OF FOREIGN INVESTMENT ON GUANGDONG’S ECONOMIC GROWTH 11

I. Introduction and Literature Review………………………… 11
II. Model and Data……………………………………………. 12
III. Econometric Analysis and Empirical Findings……………… 18
IV. Summary and Conclusions………………………………… 25
CHAPTER 3 ESTIMATING REGIONAL DISTRIBUTION DETERMINANTS OF FDI

I. Introduction ........................................................................................................... 27
II. Literature Review and Conceptual Framework ............................................. 28
III. Data Descriptions and Methodology ............................................................ 33
IV. Econometric Analysis and Empirical Findings ........................................... 36
   3.4.1 The Regression Analysis ................................................................. 36
   3.4.2 The FIAI Analysis ........................................................................ 45
V. Summary and Conclusions .............................................................................. 49

CHAPTER 4 CONCLUSIONS AND POLICY IMPLICATIONS .............................. 52

I. Has the Divergence of FDI away from Guangdong Reduced the Role of FDI in the Economic Growth of Guangdong? ................................................................. 52
II. Has the Completion of Move of Hong Kong’s Manufacturing Industries and the Influx of FDI from Other Countries Diminished the Role of Investment from Hong Kong, Macau and Taiwan in Guangdong’s Economic Growth? ......................... 52
III. As FDI is So Significant to the Economic Growth of Guangdong, Why Do Foreign Investors Invest in Guangdong? ................................................................. 53
IV. Policy Implications: What Can Local Governments Do? ................. 54
V. The Limitations and Other Considerations of This Thesis ...... 56

REFERENCES ........................................................................................................ 59

APPENDIX I ............................................................................................................. 64

APPENDIX II .......................................................................................................... 68

CURRICULUM VITAE ............................................................................................ 92