

FDI in the Previously Ignored Hinterland Regions of China: Location Choice and Discussion

Abstract

In the past, the bulk of foreign direct investment (FDI) to China has gone to the south-eastern coastal belt, with only a small portion received by the hinterland. With the launch of the Great Western Development Strategy (GWDS) in 2000 and the Central China Rising Strategy in 2004, the choice of investment locations has expanded to include China's interior. Based on panel data covering 98 hinterland cities for the years 1999 to 2005, this study identifies location preference variables for choosing China's hinterland for FDI, and finds that well established factors such as natural resources and low labour costs are not important factors in the determination of FDI location within China's hinterland; Instead, policy incentives and industrial agglomeration are the most important factors. The findings of this study thus have policy implications for both host country authorities and MNEs.

Key Words: China's hinterland, foreign direct investment, location choice