

MASTER'S THESIS

Foreign investment in Guangdong: effects on economic growth and regional distribution determinants

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

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A thesis submitted in partial fulfillment of the requirements

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Master of Philosophy

Principal Supervisor: Dr. Bill W. S. HUNG

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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.

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