

MASTER'S THESIS

Efficiency externalities of foreign direct investment in China's industrial sector

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Efficiency Externalities of Foreign Direct Investment in China's
Industrial Sector

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

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ABSTRACT

This thesis examines whether foreign direct investment (FDI) makes any contribution to technical efficiency of China's industrial economy. Special attention is given to how the absorptive capacity and technology gap affects the channels that FDI impacts on the domestic economy. The investigation will be conducted on two levels, namely, the domestic industrial economy as a whole and the electronics and telecommunication equipment industry. This is done using provincial panel data covering the period 2003-2007. The impacts of FDI are analysed applying a two-stage analysis (Data Envelopment Analysis and regression). The results for the Chinese domestic industrial economy as a whole show that R&D activities do not play any role in facilitating efficiency spillovers of FDI. In contrast, imported technology generates the most significant positive impact on the technical efficiency. Furthermore, evidences also show that high technological gaps tend to favour positive effects of foreign presence. For the electronics and telecommunication equipment industry, it is found that provinces with large absorptive capacity, measured by R&D expenditure, gain more benefits from foreign presence.

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