

## MASTER'S THESIS

### FDI, forms of trade and economic growth in China

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**FDI, Forms of Trade and Economic Growth in China**

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**A thesis submitted in partial fulfillment of the requirements**

**for the degree of**

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## **ABSTRACT**

Foreign direct investment and external trade are widely recognized as two major engines to the remarkable economic growth of China in the reform years. In this thesis, we will examine the complex relations among FDI, external trade and economic growth in the country. Two-stage hypotheses for the reform era are proposed while cointegration techniques and VAR econometric approaches are used to investigate the interrelationship of FDI and external trade. The results are contrary to the conventional predictions of western theories.

Processing trade is considered to explain the special features of China's special process external economic openness. Both theoretical and empirical models are used to illustrate the role of FDI in processing trade and the role of the government in restructuring such forms of trade. We found that processing and assembly trade (PA) still has a role in the whole country's development but its importance has declined in the Eastern region.

Unbalanced development of the Chinese economy is found to be partly due to the uneven distribution of FDI and processing trade. We then discuss the locational choice of foreign investors. We also consider the differences in locational choice to different sources of FDI. Finally, we investigate the macroeconomic consequences of FDI and external trade. Our empirical results are generally in line with those in the literature.

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