Developing Inland China: How Coastal FDI and Export Activity Matters

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Abstract

This paper investigates whether coastal FDI and export activity have regional spillovers into inland regions in China and how these spillovers depend on different types of FDI and export activity. Applying 2SLS fixed effect models to two provincial level datasets, one for 1993-2008 and the other for 2002-2007, I find that on average, coastal FDI has positive spillovers into inland regions while coastal export activity has negative spillovers into inland regions. Estimated inter-regional spillovers vary by location of activity. Eastern coastal FDI generates the largest positive spillovers into inland regions, possibly due to the type of firms concentrated there. Joint venture FDI has a negative impact on inland GDP while contract cooperative FDI has a positive impact on inland GDP. FDI from Hongkong, Macao and Taiwan has a large negative impact on inland GDP. Export activity by domestic firms in coastal provinces appears to have a positive impact on inland economies while foreign firms’ export activity does not.