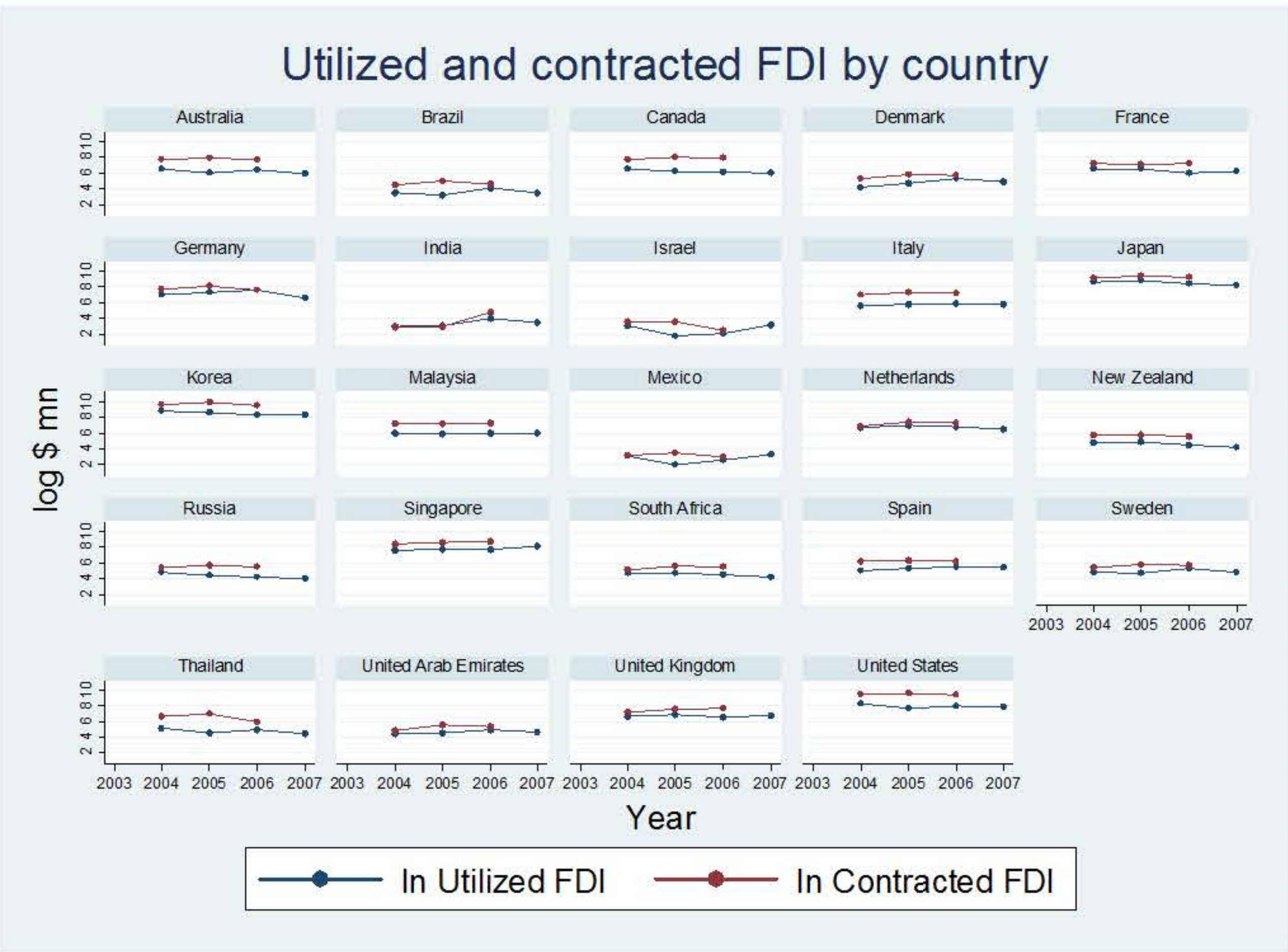


Home country tolerance for ambiguity and pledged vs. actual FDI flows in China

Professor Abigail S. Hornstein, Rain Tianyu Xie'14, Wesleyan University Economics Department , QAC Summer Research 2012

INTRODUCTION

- China is now the #2 recipient of foreign direct investment (FDI) inflows worldwide, behind only the U.S. (UNCTAD, 2011)
- Two measures of FDI in Chinese economic statistics:
 - contracted (or pledged) FDI and utilized FDI
 - Contracted FDI is an ex ante measure
 - Utilized FDI is an ex post measure
- Panel data on 24 countries is used to examine whether cultural tolerance for ambiguity has symmetric effects on contracted vs. utilized FDI flows or the ratio of the two series
- In a semi-globalized world (Ghemawat, 2003) national borders and cultures remain important factors in both individual corporate planning and national growth



DATA

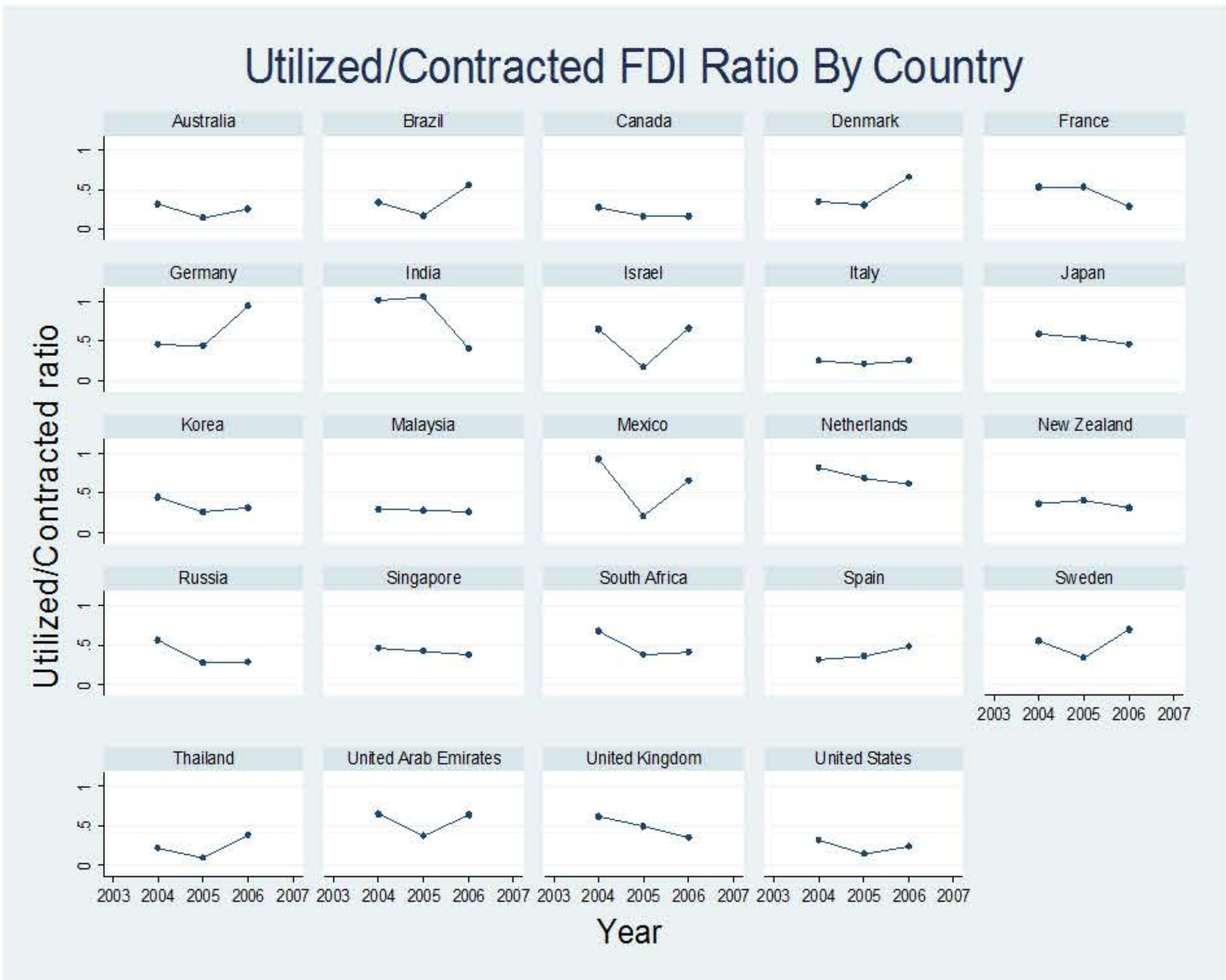
- 24 countries with annual FDI inflows of at least \$10 bn or annual bilateral trade flows of at least \$100 mn
- China-specific data are collected from various Ministry of Commerce annual yearbooks
- International FDI data are sourced from UNCTAD
- The uncertainty avoidance index (UAI) is obtained from Hofstede (2010), and measures the degree to which members of a society are uncomfortable with uncertainty
- Most data are for 2004-2007, with some independent variables also available for 2003

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SUMMARY STATISTICS

Variables	Number of obs	Mean	Std. Err.
China-specific variables			
Utilized FDI (log USD mn)	96	5.560	1.692
Contracted FDI (log USD mn)	72	6.532	1.827
Stock of FDI (log USD mn)	100	8.891	1.910
Number of contracts (log)	96	5.409	1.556
Utilized/contracted ratio (UC ratio)	72	0.435	0.212
Historical scale of investment (utilized FDI/count)	100	1.243	0.097
Source country-specific variables			
Uncertainty avoidance index (UAI) (0-120 scale)	24	59.75	23.744
Total FDI outflows (log USD mn)	117	9.461	1.707



ANALYSIS

Table 1: OLS estimation of the utilized/contracted FDI ratio

	(1)	(2)	(3)	(4)
Stock FDI (value)	-0.0643**	-0.0878***		
Stock FDI (count)			-0.119***	
Historical scale of investment				1.212***
UAI	-0.00136	-0.0279***	-0.0313***	-0.0132**
Exports	0.0837	-0.0318	-0.0277	-0.061
UAI*Exports		0.00276**	0.00314**	0.00145
Constant	0.346	1.683***	1.717***	-0.459
Year Fixed Effects	Yes	Yes	Yes	Yes
R ²	0.153	0.240	0.392	0.299
Adjusted R ²	0.071	0.149	0.319	0.214
Observations	57	57	57	57

* denotes significance at the 10% level; **, 5%; and ***, 1%.

Table 2: Simultaneous equations estimation of contracted and utilized FDI flows

	(1)	(2)	(3)	(4)
Dependent variable: Contracted FDI (value)				
Stock FDI (value)	1.006***	1.030***		
Stock FDI (count)			1.038***	
Historical scale of investment				-6.274***
UAI	0.009***	0.036	0.018	-0.145***
Exports	-0.164*	-0.047	0.034	0.361
UAI*Exports		-0.003	-0.002	0.014**
Constant	0	-2.547**	-1.173	12.16***
Year Fixed Effects	Yes	Yes	Yes	Yes
R ²	0.941	0.942	0.955	0.684
Dependent variable: Utilized FDI (value)				
Stock FDI (value)	0.915***	0.884***		
Stock FDI (count)			0.807***	
Historical scale of investment				-3.523**
UAI	0.007***	-0.028	-0.057**	-0.185***
Exports	-0.057	-0.212**	-0.112	0.153
UAI*Exports		0.004**	0.006**	0.018***
Constant	0	-0.477	0	0
Year Fixed Effects	Yes	Yes	Yes	Yes
R ²	0.962	0.964	0.922	0.708
Observations	57	57	57	57

DISCUSSION

- Cultural tolerance of ambiguity leads to a wider gap between utilized and contracted FDI flows, and decreases the ratio of the two series
- The impact of ambiguity is mitigated by the level of bilateral trade flows, suggesting that a cultural preference for ambiguity may be tempered by familiarity
- These effects are robust to controlling for the source country's overall patterns of FDI
- Within China, intra-provincial variation in institutional quality has asymmetric effects on utilized and contracted FDI with the ratio highest in provinces with stronger institutions (Hornstein, 2011) and this study builds on this result by showing that source country cultural characteristics also affect the FDI flows, both contracted and utilized
- Chinese policy planners could use these results to refine techniques for forecasting how announced FDI may translate into actual investments
- This study contributes to the international business, economics, and corporate strategies literatures

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