Exploring the Influencing Factors of FDI in China’s Internal Regions: Evidence From Taiwan

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This study aims to explore the influencing factors of the location determinants of Taiwan’s foreign direct investments (FDIs) in China’s internal regions. This study proposes three models to examine the influencing factors of Taiwan’s FDIs in China by combining the location advantages of the host country, the economy and politics of the home country, and network relationship in bilateral and regional trade agreements: First, analyze the location distribution of Taiwan’s FDIs in China’s six regions; Second, analyze the location determinants of Taiwan’s main sectors’ (manufacturing and service) FDIs in China; Third, analyze the location determinants of Taiwan’s high-tech industries’ FDIs in China’s six regions. The estimated results show that bilateral trade agreement seems to have positive effects on Taiwan’s FDIs in China, while regional trade agreement seems to have negative effects. In Taiwan’s political form, the ruling party with characteristics of political defense against China seems to have negative effects on most of Taiwan’s industries (except manufacturing) and the overall FDIs in China. In terms of China’s relevant economic factors, the main determinants of Taiwan’s high-tech industries’ FDIs in the major regions of Eastern and South Central of China are infrastructure and high-level human capital resources. China’s GDP growth and increase in unit labor cost have negative effects on FDIs in most regions of China. This implies that the advantage of low wages in China Factory may gradually decline. This study provides some references and implications for future research and policy makers for the analysis of relevant influencing factors of FDI.

Keywords: foreign direct investment, location determinant, political party alternation, trade agreement

Introduction

In the past two decades, the importance of FDI in emerging economies has received increasing attention, especially in China. Since FDI as a strategic decision for MNEs to achieve competitive advantage and internationalization, previous related studies have put forward the theoretical basis, such as product life cycle theory (Vernon, 1966); internalization theory (Buckley & Casson, 1976); ownership-specific advantages (Hymer, 1976), country-specific advantages (Rugman, 1981), home-base advantages (Porter, 1990), and the eclectic paradigm (Dunning, 1977; 1980; 1988) also referred to as the OLI paradigm (ownership, location, and internalization advantage) to explain FDI determinants. However, the traditional internationalization model of MNEs in developed countries may not be fully applicable to MNEs in newly industrialized countries or developing countries, as well as the global network model of global value chains (GVCs) that has emerged in recent decades. In
the past few decades, under the trend of globalization, economic integration, the gradual liberalization and
deregulation of international trade and FDI, and the rapid development of technologies have not only reduced
transaction and operation costs, but also fundamentally changed the competition and operation mode of MNEs
in the globalized world economy (Kano, Tsang, & Yeung, 2020). The globalization is also characterized by the
fragmentation and recombination of GVCs in which establishments and groups of activities are “unbundled”
(Baldwin, 2011). This is the revolution of information and communication technologies (ICTs) and advanced
technologies that allow certain stages of production to be separated spatially, and the operation of economies of
scale and comparative advantages will make separation inevitable (Baldwin, 2011). The production
arrangements in global supply chains (GSCs) and the spread and linkage of value-added activities in GVCs are
increasing, which have led to the firms’ fine-slice production processes and disperse activities to fragment the
value chain tasks among multiple countries (Van Assche & Gangnes, 2019; Tian, Dietzenbacher, & Jong-A-Pin,
2019; Kano et al., 2020). The business or operation of developed countries’ FDI in developing countries that
involved in or arrange production or services has led to economic growth, structural changes, and increased
local competitiveness in developing countries. However, this interdependence is essential for developed countries or
leads firms to integrate their activities in developing economies into their global value chains to improve
operational efficiency, increase market opportunities, and stimulate innovation (Luo, Zhang, & Bu, 2019).

Scholars have found that in addition to economic factors, institutional constraints (Meyer, Estrin, Bhaumik,
& Peng, 2009), institutional voids (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017), and political pressures
(Li & Vaschilko, 2010) also affect the firm’s strategic choice in FDI (Meyer & Peng, 2016). Many studies have
emphasized the potential positive role of good institutional quality in economic development, especially as the
attraction of FDI inflows (Benassy-Quere, Coupet, & Mayer, 2007; Busse & Hefeker, 2007; Busse & Groizard,
2008; Buchanan, Le, & Rishi, 2012; Bailey, 2018). Some studies also emphasize that the home country
heterogeneity will affect the inward FDI (IFDI) (Zheng & Tan, 2011) or outward FDI (OFDI) (Buckley, Clegg,
Cross, Liu, Voss, & Zheng, 2007). Shi, Sun, Yan, and Zhu (2017) propose the concept of institutional fragility
on the firms’ FDI behavior form emerging economies, emphasizing that the internal friction and conflict
generated in the process of institutional development and the institutional fragility prompt firms to escape their
home country as a strategic response. Similarly, Witt and Lewin (2008), Choudhury and Khanna (2014), and
Stoian and Mohr (2016) also argue that firms may escape the weak home institutional environment through
OFDI. Some scholars put forward the view of institutional distance as the extent of similarity or difference
between the regulatory, cognitive, and normative institutions of two countries (Kostova, 1999; Kostova &
Zaheer, 1999; Xu & Shenkar, 2002). From a nonefficiency perspective of institutional theory (Xu & Shenkar,
2002), the institutional environment is regarded as the key determinants of firm structure and behavior
(Dimaggio & Powell, 1983; 1991; Scott, 1995). The study of the formation, reform, and change of the
institution aims to explore the occurrence of uncertainty through the more predictable behavior of actors,
because in a period of political turmoil, formal rules may undergo unexpected changes, making the institution
itself a source of uncertainty (Banalieva, 2014). This is a relatively high probability experience that occurs in
emerging economies, and it may also occur in developed countries. This is of particular concern to countries
undergoing institutional transformation (Peng, 2003). This reflects that political factors will affect economic
performance, especially policy making under the control of the ruling party. The alternation of political parties
presents the alternation of political power. After gaining power, different parties may have interrupted or
different practices from the policies and measures of the previous ruling party. However, economic
performance will in turn affect politics. Therefore, economic development will be a direct or indirect consequence of the leverage and balance between politics and economy.

Recently, researchers have increasingly explored emerging economies, especially emerging economies in transition, because of their institutional changes are more profound than those in developed countries (Peng, Wang, & Jiang, 2008) and have a significant impact on the evolution of their economic structure. The uncertainty of institutional factors (e.g., political factors, government policies, rules, norms, regulations, and contracts) will affect the firm’s interaction capabilities and related operation and transaction costs (Mudambi & Navarra, 2002), legitimacy of firms (Kostova & Zaheer, 1999), motives and location choice of FDI (Bevan, Estrin, & Meye, 2004; Mudambi & Navarra, 2002), mode of cross-border operations (Dunning & Lundan, 2008; Meyer et al., 2009; Xu & Meyer, 2013; Bailey, 2018) and interaction of network organizations or organizational coalition (Li & Vashchilko, 2010; Weber & Waeger, 2017; Waeger & Weber, 2019). These reflect how institutions integrate organizations with other organizations in society through authority, universalistic rules and contracts (Parsons, 1956). The interdependencies or conflicts in network (business or organization) can lead to liability of foreignness (Johanson & Vahlne, 1997; Zaheer, 1995), or liability of outsidership (Johanson & Vahlne, 2009), or alliances or organizational integration in government organizations (Dorusse, Gartzke, & Westerwinter, 2016), or trade network (Haim, 2016), or interaction relationships in social network (Wasserman & Faust, 1994), or integration of regional economies (Krapohl & Fink, 2013). To effectively utilize local opportunities, firms, industries, or organizations and their affiliates must be able to effectively embed in MNEs network internally and externally embed in local environment to promote the benefits of embeddedness to be spread or expanded (Meyer, Mudambi, & Narula, 2011). As the development of network organizations in trade and FDI also reflects the current trend of global regional integration and recombination of global value chains, the connections of institutions and network organizations are the key factors affecting economic development (Yaw & Wang, 2019). The state of the network of regional economic integration formed by the integration of regional economies shows that the extra-regional factors not only have decisive influence on the liberalization of open internal trade, but also on seeking the interaction of external organizations and improving the position in global competition (Yaw & Wang, 2018). In attracting IFDI, the relaxation of the host country’s regulatory environment and institutional restrictions, and the improved knowledge and skills of local labor have led to the growth trend of offshore outsourcing of high-level business activities. In the expansion of global business activities, firms have segmented their value chains from the outsourcing of peripheral and non-core activities to the outsourcing of high-level and important activities closer to their core, such as research and development and design. Some activities that were previously regarded as the core activities are being separated from the core and becoming more offshore. These phenomena are particularly significant in high-tech industries and are on the rise. Host country that accepts IFDIs and resources promotes its economic development but may also lead to subsequent changes in FDI patterns and investor decisions.

This study attempts to complement the research on the influencing factors of FDI by introducing the dynamics of the home country’s political characteristics and network relationship that may affect FDI in the host country. In considerations of different home country policies, the Taiwanese government may implement relevant policies to restrict FDI in China for political reasons and concerns about hollowing out favorable high-tech industries and the decline in employment and income. In addition to the ability of the firm’s own advantages, the home country’s industrial competition development goals, support and policy intervention will also determine a country’s FDI strategy and policy, which will result in a series of possible restrictions and influences on
the development of OFDI. As for the host government’s policy of attracting IFDI, it not only affects its economic development and resource allocation, but also affects the formation and structure of economy, human capital, and income inequality. Since China’s opening policy in 1979, the coastal areas have enjoyed the benefits of IFDI brought by open policies, but it has caused different degrees of economic development in China’s provinces. The geographical distribution of IFDI thus causing regional differences between coastal areas and inland of China, leading to different levels of development in the core and periphery regions. However, although the geographical distribution of IFDI in China has been very uneven, new trends in geographical considerations and location choices are emerging. Since the 2000s, China has become the largest destination for Taiwan’s exports and OFDI. In 2017, the proportion of exports to China exceeded 40% (Ministry of Finance, Taiwan, 2018), and the proportion of Taiwan’s FDIs to China was 44.42% (MOEAIC, Taiwan, 2018). The proportion of Taiwan’s main sectors’ (manufacturing, and services: wholesale and retail trade, information and communication, financial and insurance, and professional, scientific and technical services) approved investments in China are shown in Figure 1. The analysis of China’s location (internal region) is based on the Chinese official classification (National Bureau of Statistics (NBS), China, 2018). China’s territory is mainly divided into six regions (Eastern, South Central, Southwest, Northwest, Northern and Northeast) shown in Table 1. The statistics of Taiwan’s approved investments in China’s six regions are shown in Figure 2. The value and ratio of Taiwan’s major high-tech industries’ approved investments in China’s six regions are shown in Figure 3.

Taiwan’s complex relationship with China is characterized by political incompatibility but close economic cooperation. This study incorporated the political factors of political party alternations (PAs) in Taiwan’s presidential election into analysis. This study proposes three models for exploring Taiwan’s FDIs in China: First, analyze the location distribution of the long-term and total amount of Taiwan’s FDIs in China’s six regions. Second, analyze the location determinants of Taiwan’s sectors’ (manufacturing and service industries) long-term, total and unclassified region FDIs in China. Third, analyze the location determinants of Taiwan’s high-tech industries’ (electronic parts and components; and computers, electronic and optical products) FDIs in China’s six regions.

![Figure 1. Proportion of Taiwan’s main sectors’ approved investments in China, 1991-2017. Source: MOEAIC, Taiwan, 2018. Unit: USD billion.](image-url)
Table 1
Geographical Regions of China

| Regions      | Province/municipality/autonomous region/SAR¹ |
|--------------|----------------------------------------------|
| Eastern      | Shanghai (M), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong |
| South Central| Henan, Hubei, Hunan, Guangdong, Guangxi Zhuang (A), Hainan, Hong Kong (S), Macau (S) |
| Southwest    | Chongqing (M), Sichuan, Guizhou, Yunnan, Tibet (A) |
| Northwest    | Shaanxi, Gansu, Qinghai, Ningxia Hui (A), Xinjiang Uyghur (A) |
| Northern     | Beijing (M), Tianjin (M), Hebei, Shanxi, Inner Mongolia (A) |
| Northeast    | Liaoning, Jilin, Heilongjiang |
| Eastern      | Shanghai (M), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong |

Note. 1. SAR is the abbreviation of Special Administrative Region. 2. M denotes Municipality, A denotes Autonomous Region, S denotes Special Administrative Region. Source: National Bureau of Statistics of China, http://data.stats.gov.cn/, 2018.

Figure 2. Statistics of Taiwan’s approved investments in China’s six regions, 1991-2017. Source: MOEAIC, Taiwan, 2018. Unit: USD billion.

Figure 3. Value and ratio of Taiwan’s high-tech industries’ approved investments in China’s six regions, 2007-2017. Source: MOEAIC, Taiwan, 2018. Unit: USD 1,000.
Theoretical Framework and Model

Dunning’s “eclectic paradigm” or “OLI paradigm” (1977; 1980; 1988; 1993; 2000) proposes the interaction of three variables: the advantages of ownership (O), location (L) and internalization (I) to explain foreign expansion and FDI. The key issues in multinational business are the motive to engage in FDI and the determinant of FDI location. The prominent taxonomy of FDI motives is the four-group classification proposed by Dunning (1980; 1988; 1993): market seeking, efficiency seeking, resource seeking, and specific asset seeking. These motives are seeking market size or expansion, seeking different efficiency factors of factor endowment in different countries or regions, seeking specific resources that do not exist or exist in the home country but at a high cost, and seeking specific assets that increase or supplement advantages. The “seeking advantages” can also be interpreted as the necessity of economic factors in FDI, which is the economic rent seeking, i.e., markets factor (e.g., scale and potential of purchasing power), efficiency factor (e.g., factor endowments of labor and geographical location), resource factor (e.g., high level human resource and infrastructure), and specific asset factor (e.g., know-how, and industries linking specific asset resources). As for the noneconomic factors that may affect the FDI location choice, such as institutional changes, political dynamics, and the dynamic influence of the bilateral relationship between the home and the host countries and the more complex relationships between the home and the regional countries in the network organizations. Therefore, analyzing the influencing factors of FDI requires not only the study of host country factors, but also the investigation of home country political and policies dynamics, as well as cross-country and cross-time comparisons to better understand the impact of these factors on FDI location determinants. The research concept of FDI influencing factors is shown in Figure 4.

Figure 4. Research concept of FDI influencing factors.

This study has three analytical models. The first model applies the gravity model to analyze the influencing factors of market size of both the home and host country, network (bilateral and regional relationships), and the home country political dynamics—political party alternation (PA) on the location distribution of Taiwan’s total FDIs in China’s six regions. The second model applies the multiple regression approach to analyze the influencing factors of the host country’s economy, network, and political dynamics on the location determinants of Taiwan’s main sectors’ (Taiwan’s manufacturing and service industries) FDIs in
China. The third model applies the multiple regression approach to analyze the influencing factors of the host country’s economy, resource, and efficiency on the location determinants of Taiwan’s high-tech industries’ FDIs in China’s six regions. The research framework is shown in Figure 5.

This study attempts to explore the characteristics of country and industry and the specific factors of network and political dynamics that may affect the location distribution and determinants of FDI. The factor of politics (political dynamics—PAs) in this study interprets the alternation of the two political parties in Taiwan’s presidential election. The two alternate Taiwanese political parties: the Kuomintang (KMT), and the Democratic Progressive Party (DPP). This study defines the characteristics of political parties: the KMT, which represents the political characteristics of “openness”; the DPP, which represents the political characteristics of “defense”. The three alternations, PA1, PA2, and PA3 represent Taiwan’s political PA from the KMT to DPP (2000), the DPP to the KMT (2008), and the KMT to the DPP (2016). The empirical analysis of the Model 1 data source of FDI volume is in regions and countries, period of 1991-2017, the Model 2 data source of FDI volume is in industries and countries, period of 1991-2017, and the Model 3 data source of FDI volume is in regions, industries, and countries, period of 2007-2017. Data of FDI are collected from Investment Commission, Ministry of Economic Affairs (MOEAIC), Taiwan. The data of Gross Domestic Product (GDP) were based on purchasing-power-parity (PPP) and gathered from “World Economic Outlook Database, 2018”, International Monetary Foundation (IMF, 2018). The data of China were collected from National Bureau of Statistic of China, 2018.

The first model in this study applies the gravity model to analyze the influencing factors on FDI location
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In the past few decades, the gravity model has been widely used in international trade studies, and has demonstrated considerable empirical robustness and explanatory power in explaining trade flows (Kepaptsoglou, Karlaftis, & Tsamboulas, 2010). The theoretical rationalization of gravity model was developed by Anderson (1979). In 1980s, scholars began to use the gravity model to analyze and explain the determinants and geographical distribution of flows or agglomerations of FDI (Pantulu & Poon, 2003; MacDermott, 2007; Zwinkels & Beugelsdijk, 2010; Baek & Qian, 2011; Kahouli & Maktouf, 2015; Welfens & Baier, 2018; Anderson, Larch, & Yotov, 2019). The analytical models and variables are described as follows:

**Model 1.** The Model 1 analyzes the influencing factors of economic scale of both parties, political dynamics factors of home politics (PA1, PA2, and PA3), and the network (bilateral and regional trade agreements: ECFA, RCEP) on the location distribution of Taiwan’s FDIs in China’s six regions. InFDI denotes the total volume of Taiwan’s FDIs in China’s six regions; InGDPt denotes Taiwan’s GDP; InGDPc denotes the GDP of China’s six regions respectively; ECFA, RCEP are dummy variables which affect FDI flows; The dummy variables of noneconomic factors selected in this study have two trade agreements: (1) Cross-Straits Economic Cooperation Framework Agreement (ECFA), the major preferential trade agreement between Mainland China and Taiwan signed on June 29, 2010; (2) Regional Comprehensive Economic Partnership (RCEP), a proposed of FTA between ASEAN and six countries (China, Japan, South Korea, India, Australia, and New Zealand), which launched in 2015; PA1, PA2, and PA3 denote the Taiwan’s three PAs (party alternations) in presidential elections; and ε denotes the error terms. The empirical analysis applies gravity model with time-series data. The empirical gravity equation of Model 1 can be written as Equation (1) below:

\[ \ln(\text{FDI}_t) = \alpha_0 + \alpha_1 \ln(\text{GDP}_t) + \alpha_2 \ln(\text{GDP}_c) + \alpha_3 \text{ECFA} + \alpha_4 \text{RCEP} + \alpha_5 \text{PA}_1 + \alpha_6 \text{PA}_2 + \alpha_7 \text{PA}_3 + \varepsilon \]  

(1)

**Model 2.** The Model 2 analyzes the influencing factors of China’s economy, network (bilateral: ECFA, and regional: RCEP) and politics (Taiwan’s PAs) on Taiwan’s main sectors’ (manufacturing and service industries) FDIs in China. FDI denotes the volume of Taiwan’s main sectors’ FDIs in China; GDP_P denotes the GDP per capita of China; GDPG denotes the GDP growth of China; ULC denotes unit labor cost of China; OPEN denotes the degree of openness of China, and measured by the ratio of trade volume to GDP; ECFA, RCEP, and PA1, PA2, and PA3 are dummy variables, same as the above interpretations; and ε denotes the error terms. The method of empirical analysis follows the concepts proposed by Kang and Jiang (2012), and Nielsen, Asmussen, and Weatherall (2017). The empirical multiple regression of Model 2 can be written as Equation (2) below:

\[ \text{FDI}_t = \alpha_0 + \alpha_1 \text{GDP}_c + \alpha_2 \text{GDPG}_c + \alpha_3 \text{ULC}_c + \alpha_4 \text{OPEN}_c + \alpha_5 \text{ECFA} + \alpha_6 \text{RCEP} + \alpha_7 \text{PA}_1 + \alpha_8 \text{PA}_2 + \alpha_9 \text{PA}_3 + \varepsilon \]

(2)

**Model 3.** The Model 3 analyzes the influencing factors of China’s economy on Taiwan’s major high-tech industries in China’s six regions. FDI denotes the volume of Taiwan’s high-tech industries’ FDIs in China’s six regions; GDP denotes the GDP of China’s six regions respectively; DIST denotes the geographical distance between Taiwan and China’s six regions respectively; OPEN denotes the degree of openness of China’s six regions respectively; RESO denotes high-level human capital resource of China’s six regions respectively; IFRST denotes the indexes of infrastructure of China’s six regions respectively; ULC denotes unit labor cost of China’s six regions respectively; and ε denotes the error terms. The data sources of Taiwan’s FDIs in China are limited, and the complete data for each industry in each region were not available until 2007.
Therefore, the analysis period of the Model 3 is from 2007 to 2017. The method of empirical analysis follows the concepts proposed by Kang and Jiang (2012), and Nielsen et al. (2017). The empirical multiple regression of Model 3 can be written as Equation (3) below:

\[
FDI_h = \beta_0 + \beta_1 GDP_c + \beta_2 DIST_{tc} + \alpha_3 OPEN_c + \alpha_4 RESO_c + \alpha_5 IFRST_c + \alpha_6 ULC_c + \epsilon
\]  

(3)

**Results**

The results of empirical analysis of the gravity equation estimation of Model 1 are shown in Table 2, and the results of multiple regression estimations of Model 2 and Model 3 are shown in Table 3 and Table 4.

Table 2

**Gravity Model Estimation Results of Taiwan’s FDIs in China’s 6 Regions**

| Variables     | Northern | Northeast | Eastern | South Central | Southwest | Northwest |
|---------------|----------|-----------|---------|---------------|-----------|-----------|
| Constant      | 3.424*** | 1.078***  | 1.558***| 0.494**       | 2.094**   | 0.267**   |
| \( \ln GDP_P \) | 0.998**  | 0.037     | 1.034** | 1.227*        | 0.334     | 0.129     |
| \( \ln GDP_P \) | -2.218   | 0.376     | -0.516* | -1.369*       | 2.246*    | 1.328*    |
| ECFA          | 1.339     | 2.423     | 1.688*  | 1.797         | 0.603     | 0.137     |
| RCEP          | -2.227    | -0.638    | -1.956* | -1.325*       | 0.469     | 0.018     |
| \( PA_1 \)    | -0.925    | -0.137    | -1.039* | -2.158        | -0.359    | -0.107    |
| \( PA_2 \)    | 2.354*    | 1.316     | 3.664*  | 2.203*        | 0.324     | 0.775     |
| \( PA_3 \)    | -0.854    | -0.351    | -1.329  | -1.137        | -0.366    | -0.010    |
| Obs.          | 27        | 27        | 27      | 27            | 27        | 27        |
| \( adj. R^2 \) | 0.895     | 0.901     | 0.878   | 0.798         | 0.924     | 0.885     |
| \( F \)       | 55.491*** | 63.228*** | 23.204*** | 18.431***   | 66.393*** | 54.227*** |

**Note.** Value in parentheses represents T value. ***, **, and * significant at the 1%, 5%, and 10% levels, respectively.

Table 3

**Multiple Regression Estimation Results of Taiwan’s Main Sectors’ FDIs in China**

| Variables     | Manufacturing | Wholesale & retail trade | Information & communication | Financial & insurance | Professional scientific & technical services |
|---------------|---------------|--------------------------|----------------------------|-----------------------|-----------------------------------------------|
| Constant      | -87.777***    | -2.947                   | -2.227*                    | 7.679**               | -0.126                                        |
| \( \ln GDPPC \) | 0.245**       | 0.005                    | 0.005                      | 0.005                 | -0.028*                                       |
| \( \ln GDPC \) | 2.050         | (0.524)                  | (1.131)                    | -1.621                | (1.892)                                       |
| \( \ln ULCC \) | 3.365*        | 0.221                    | 0.039                      | 0.041                 | 0.014                                         |
| \( \ln OPENC \) | -0.008**      | -0.001                   | -0.001*                    | -0.001*               | 0.001                                         |
| \( \ln OPENC \) | -2.250        | -0.167                   | -1.578*                    | (2.241)               | (0.757)                                       |
| \( \ln PA1 \) | 0.413         | -0.014                   | 0.029                      | 0.053                 | 0.051**                                       |
| \( \ln ECFA \) | 31.519***     | 3.901***                 | 1.183*                     | 6.468***              | 0.883*                                        |
| \( \ln RCEP \) | 25.018        | 5.658***                 | 0.609                      | 6.390***              | 0.671                                         |
| \( PA1 \)     | (1.851)       | (3.754)                  | (1.992)                    | (2.647)               | (1.686)                                       |
| \( PA1 \)     | (1.818)       | 1.018                    | 0.462                      | -1.450                | -0.243                                        |

**Note.** Value in parentheses represents T value. ***, **, and * significant at the 1%, 5%, and 10% levels, respectively.
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(Table 3 to be continued)

| Variables | Northern | Northeast | Eastern | South Central | Southwest | Northwest |
|-----------|----------|-----------|---------|---------------|-----------|-----------|
| Constant  | 6.521*** | 5.447***  | 7.254***| 2.084**       | 4.168**   | 1.057**   |
| GDPc      | (-1.307) | (1.335)   | (-1.538)| (-1.324)      | (1.778)   | (1.569)   |
| DISTtc    | 2.025*   | -0.057    | 3.958***| 2.336         | 0.952     | -0.246    |
| OPENc     | 6.258    | 0.955     | 4.689   | 2.136         | 1.008     | 1.131     |
| RESOc     | 2.424*   | 0.218     | 2.313** | 1.349*        | 0.884     | 0.083     |
| IFRSTc    | 3.337    | 1.022     | 3.969*  | 1.854*        | 1.331     | 0.227     |
| ULCc      | (-0.816) | (0.921)   | (-1.962)| (-1.878)      | (3.187)   | (2.068)   |
| Obs.      | 11       | 11        | 11      | 11            | 11        | 11        |
| adj. $R^2$| 0.832    | 0.778     | 0.823   | 0.769         | 0.668     | 0.702     |
| $F$       | 22.628***| 16.358*** | 21.967***| 15.938***     | 9.852***  | 11.997*** |

Note. Value in parentheses represents T value. ***., **, and * significant at the 1%, 5%, and 10% levels, respectively.

Table 4

Multiple Regression Estimation Results of Taiwan’s High-Tech Industries FDIs in China’s 6 Regions

| Variables | Northern | Northeast | Eastern | South Central | Southwest | Northwest |
|-----------|----------|-----------|---------|---------------|-----------|-----------|
| Constant  | 6.521*** | 5.447***  | 7.254***| 2.084**       | 4.168**   | 1.057**   |
| GDPc      | (-1.307) | (1.335)   | (-1.538)| (-1.324)      | (1.778)   | (1.569)   |
| DISTtc    | 2.025*   | -0.057    | 3.958***| 2.336         | 0.952     | -0.246    |
| OPENc     | 6.258    | 0.955     | 4.689   | 2.136         | 1.008     | 1.131     |
| RESOc     | 2.424*   | 0.218     | 2.313** | 1.349*        | 0.884     | 0.083     |
| IFRSTc    | 3.337    | 1.022     | 3.969*  | 1.854*        | 1.331     | 0.227     |
| ULCc      | (-0.816) | (0.921)   | (-1.962)| (-1.878)      | (3.187)   | (2.068)   |
| Obs.      | 11       | 11        | 11      | 11            | 11        | 11        |
| adj. $R^2$| 0.832    | 0.778     | 0.823   | 0.769         | 0.668     | 0.702     |
| $F$       | 22.628***| 16.358*** | 21.967***| 15.938***     | 9.852***  | 11.997*** |

Note. Value in parentheses represents T value. ***., **, and * significant at the 1%, 5%, and 10% levels, respectively.

Conclusion

This study attempts to examine the determinants and distribution of FDIs by combining the influencing factors of the economy, politics (political party alternations in the presidential election) and industries’ characteristics of the home country, network relationships (ECFA, RCEP), and the host country related economic factors. This study proposes three models to explore the influencing factor of Taiwan’s FDIs in China’s internal regions: First, analyze the location distribution (China’s six regions) of the longer term (1991-2017), total amount of FDIs in China. Second, analyze the location determinants of Taiwan’s main sectors’ FDIs in China. Third, analyze the location determinants of Taiwan’s high-tech industries’ FDIs in China’s six regions. Estimation results indicate that bilateral trade agreement (ECFA) seems to have positive effects on Taiwan’s FDIs in China, while regional trade agreement (RCEP) seems to have negative effects. In Taiwan’s political form, the ruling parties (PA1 and PA3) with defensive political characteristics against China seem to have negative effects on most of Taiwan’s industries (except manufacturing) and the overall FDIs in China. In terms of China’s relevant economic factors, the main determinants of Taiwan’s high-tech industries’ FDIs in China’s major regions of Eastern and South Central are infrastructure and high-level human capital resources. China’s GDP growth and the increase in unit labor cost have negative effects on FDIs in most of China’s regions. This implies that the advantage of low wages in China Factory may gradually decline. Previous FDI studies paid less attention to the analysis of the political dynamics of the home country. This
study provides a new perspective on the different considerations between the home and the host countries to explore the FDI influencing factors, and provides references and implications for FDI decision making, government policy making and academic research.

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