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

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

SUMMARY STATISTICS

<table>
<thead>
<tr>
<th>Variables</th>
<th>Number of obs</th>
<th>Mean</th>
<th>Std. Err.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>China-specific variables</strong></td>
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<td></td>
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<tr>
<td>Utilized FDI (log USD mn)</td>
<td>96</td>
<td>5.560</td>
<td>1.692</td>
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<tr>
<td>Contracted FDI (log USD mn)</td>
<td>72</td>
<td>6.532</td>
<td>1.827</td>
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<tr>
<td>Stock of FDI (log USD mn)</td>
<td>100</td>
<td>8.891</td>
<td>1.910</td>
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<tr>
<td>Number of contracts (log)</td>
<td>96</td>
<td>5.409</td>
<td>1.556</td>
</tr>
<tr>
<td>Utilized/contracted ratio (UC ratio)</td>
<td>72</td>
<td>0.435</td>
<td>0.212</td>
</tr>
<tr>
<td>Historical scale of investment (UAI)</td>
<td>100</td>
<td>1.243</td>
<td>0.097</td>
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<tr>
<td><strong>Source country-specific variables</strong></td>
<td></td>
<td></td>
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<tr>
<td>Uncertainty avoindace index (UAI)</td>
<td>24</td>
<td>59.75</td>
<td>23.744</td>
</tr>
<tr>
<td>Total FDI outflows (log USD mn)</td>
<td>117</td>
<td>9.461</td>
<td>1.707</td>
</tr>
</tbody>
</table>

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

REFERENCES


ACKNOWLEDGEMENTS

Rain thanks Abigail S. Hornstein and Emmanuel Kaparakis for their help with this research!