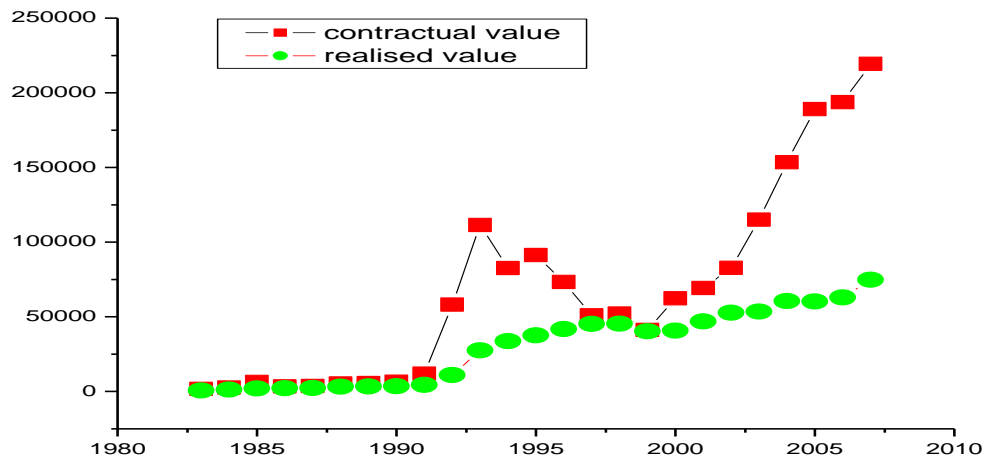


Figure 1

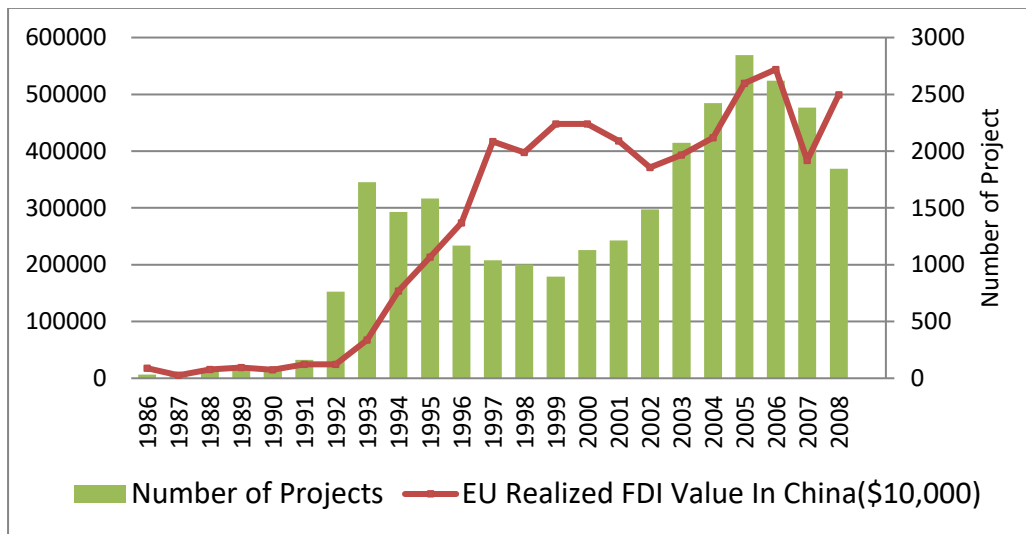
FDI in China 1983-2008 (Unit: US\$10, 000).



Source: Compiled by the author according to FDI Statistics from MOFCOM (Ministry of Commerce People’s Republic of China), which was previously known as MOFTEC (Ministry of Foreign Trade and Economic Cooperation in China).

Figure 2

EU realized FDI and the number of projects in China, 1986-2008.



Source: MOFCOM.

Table 1: FDI-related institutional changes in China.

Phases	Reform policy	Relevant Legislation
1978-2000	China established bilateral ties between the EU and China regarding trade and investment relations which amounted to €4 billion in 1988. China's first law permitting and governing the establishment and operations of foreign economic entities in China.	The Equity Joint Venture (EJV) Law (July 1979).
	Allowed wholly foreign-owned enterprises in addition to equity joint ventures (EJVs). Provisions for the encouragement of foreign investments (also known as the article 22). Contractual joint ventures allowed in addition to wholly foreign-owned enterprises & EJVs. Abolished a provision that the chairman of the board of joint venture should be appointed by Chinese investors.	Wholly Foreign-Owned Enterprises Law (April 1986). Law on Provision of the State Council on the Encouragement of FDI (October 1986). The Contractual Joint Venture law issued in 1988. Equity Joint Venture Law Amendment, 1990.
	Protection against nationalisation. Reclassification of companies into limited liability company and the company limited by shares. Foreign joint ventures and wholly foreign-owned enterprises are classified as limited liability companies (1994). Additional incentives for export, import substitution and high-tech project.	1 st Company Law, 1994. Catalogue of Encouraged Hi-Tech Products, 2003.
	National economic development policy. Opening up retail & wholesale sectors, accounting and information consultancy, banking and decentralized.	Deng Xiaoping's Southern Journey, 1992.
	Guidance on sectors in which FDI suit China's economic and social development plan. Protection of lawful rights and interests of foreign investors.	Provisions on guiding FDI and the Catalogue for the guidance of Foreign Investment Industries, 1995.
	Opening up of the banking sector. Private enterprises acknowledged.	Constitutional amendment, 1999. The contractual joint venture law amended in October 2000 to comply with WTO commitment before WTO entry.
2001 WTO Entry & onwards	Trade and investment liberalisation: Opening up service and other sectors to international trade. FDI classified into 'encouraged', 'permitted', 'restricted' and 'prohibited' categories. China progressively lowered its tariffs from 42.9 per cent in 1992 to 15.3 per cent in 2002. Implemented the General Agreement on Trade-Related Aspects of Intellectual Property Rights. Foreign firm foreign exchange restrictions on payments and remittances abolished. Equal access to domestic and overseas suppliers. Removal of mandatory export requirement. Business plan filing abolished.	Amended the Catalogue for the Guidance of Foreign Investment Industries, March 2002 and November 2004. WTO Requirements.

Government focus on macroeconomic matters rather than the operations of individual enterprises.

Simplified company establishment requirements and expand the rights of shareholders.

The Company Law amendment, October 2005.

Encouragement of FDI in Hi-Tech industries to accelerate the pace of introducing advanced technology from abroad and quality level of FDI.

Catalogue of Encouraged Hi-Tech Products (2003, amended in 2006).

Expansion/revision of the list of 'encouraged' FDI.

Catalogue for the Guidance of Foreign Investment Industries (amended in 2007).

Liberalised regulatory process and foreign exchange control and exchange rate allowed to move up and down by 5 per cent margins. Changed foreign exchange regime to a 'buy-to-use' policy in place of 'earn-to-use' policy in early 1990s.

State Council Directives, 2006.

Notes: Source: Compilation by authors based on various reports on FDI in China.

Table 2: Measurement of Variables

Variable name	Definition	Sign	Theoretical Justification	Data source
FDI 1 (Dep. Var)	Natural logarithm of foreign capital invested by sample firms			NBS
FDI 2 (Dep. Var)	Foreign capital over total capital invested by sample firms			NBS
Main Variables				
Rule of law	Rule of law in China; according to our construction, using World Bank Database on Governance (WBGD). Scores range from -2.5 to 2.5 (with 2.5 being least corrupt, that is sound political institutions, a strong court system).	-	Institutional factor	WBDG
Institutional reforms	WTO dummy, which takes a value of 1 for the 2002-2008 period (greater reforms); 0, for the 1998-2001 period; proxy for political liberalisation	+	Institutional factor	WTOSD
Corruption	Corruption index in China; according to our construction using ICRG database provided by Political Risk Services.. Scores range from 1 to 6 (with 6 being least corrupt).	-	Institutional factor	ICRG
R&D Intensity	1. Intangible assets to total assets (Wei & Liu, 2006); 2. R&D expenditure scaled by Sales		Ownership-specific	NBS
Control Variables				
Technology	Natural logarithm of intangible assets	+	Ownership advantage	NBS
Profitability	Operating profits over total assets	+	Ownership advantage	NBS
Firm size	Natural logarithm of total assets	+	Ownership advantage	NBS
Wages	Natural logarithm of real wages	+	Efficiency seeking	NBS
Tangible assets	Fixed assets to number of employees		Ownership advantage	NBS
Personal owned shares	Personal capital over total capital	+	Transaction Cost	NBS
Firm age	Natural logarithm of years since establishment in China	+	Location advantages	NBS
Openness	Exports plus imports over GDP in China (i.e., economic openness of host country)	+	Host country Location factor	WBDI
Market size (GDP)	Natural logarithm of gross domestic product of China	+	Host country Location factor	WBDI
Export intensity	Export sales over total sales	+	Market seeking	NBS
Innovation	Natural logarithm of output involving new product innovation	+	Ownership advantage	NBS
Advertising	Advertising expenditures to sales	+	Market seeking	NBS
Leverage	Total liabilities over total assets	-	Location factor	NBS
Exchange rate	Exchange rate between Euro and Chinese Yuan	-/+	Location factor	WTOSD

Notes. All monetary values are in constant (2008) China RMB Prices. NBS is National Bureau of Statistics of China. ICRG is international country risk guide, the political Risk Service (PRS) group. WTOSD is World Trade Organization Statistics Division. WBDI is World Bank Development Indicator. WBGD is World Bank Database on Governance

Table 3: Descriptive statistics and correlation matrix.

	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
1. FDI 1	10.225	3.027																		
2. FDI 2	0.759	0.289	0.59**																	
3. Rule of law	-0.409	0.046	-0.13**	-0.14**																
4. Corruption	1.655	0.441	-0.08**	-0.05*	-0.20**															
5. Tangible assets	10.597	2.02	0.46**	-0.02	-0.06**	0.02														
6. Wage	8.809	1.555	0.35**	-0.05*	-0.12**	0.03	0.66**													
7. Technology	4.877	4.498	0.16**	-0.08**	0.22**	0.27**	0.34**	0.18**												
8. Profitability	0.064	0.179	-0.10**	-0.03	-0.06**	-0.04*	-0.09**	0.06**	-0.11**											
9. Firm size	12.072	1.618	0.44**	-0.06**	-0.07**	0.01	0.84**	0.79**	0.27**	0.02										
10. Market size	28.251	0.369	0.03	0.11**	-0.66**	0.17**	0.06**	0.19**	-0.24**	0.11**	0.11**									
11. Openness	0.585	0.127	-0.03	0.07**	-0.64**	0.31**	0.04*	0.17**	-0.15**	0.11**	0.09**	0.94**								
12. Personal share	0.006	0.055	-0.11**	-0.13**	-0.03	0.03	-0.04*	-0.05*	0.01	0.01	-0.05*	0.03	0.04*							
13. R&D	0.031	0.055	0.05*	-0.02	0.15**	0.12**	0.04*	-0.10**	0.58**	-0.20**	-0.04*	-0.17**	-0.13**	0.05**						
14. Firm age	2.571	0.439	0.07**	-0.09**	0.08**	-0.11**	0.09**	0.26**	-0.01	0.05*	0.17**	-0.14**	-0.17**	-0.11**	-0.10**					
15. Export intensity	0.167	0.275	0.13**	0.20**	-0.14**	-0.04*	0.12**	0.11**	-0.04*	0.02	0.08**	0.07**	0.03	0.02	-0.07**	-0.04*				
16. Innovation	1.855	4.379	0.11**	-0.17	-0.05*	-0.06**	0.17**	0.25**	0.06**	0.02	0.25**	-0.03	-0.06**	0.02	-0.02	0.11**	0.03			
17. Advertising	1.228	2.656	0.05*	0.00	-0.17**	0.23**	0.16**	0.29**	0.08**	0.01	0.21**	0.37**	0.39**	-0.03	0.03	0.07**	-0.07**	0.05*		
18. Leverage	0.512	0.261	0.01	0.05*	-0.01	0.04*	0.11**	0.16**	0.02	-0.40**	0.19**	0.02	0.02	-0.04*	-0.04*	-0.06**	0.03	0.03	0.06**	
19. Exchange rate	9.624	1.216	-0.11**	-0.03	-0.37**	0.26**	0.03	0.14**	-0.25**	0.07**	0.07**	0.67**	0.74**	0.03	-0.17**	-0.11**	-0.07**	-0.10**	0.30**	0.03

Notes: The asterisk * (**) indicates correlation is significant at the 0.05 (0.01) level (two-tailed, Pearson). See Table 2 for the definition of the variables.

Table 4: Regression results for the FDI determinants.

	OLS	RE	FE
Rule of law	-14.4308 (1.4638)***	-14.3276 (1.3902)***	-14.0578 (1.4852)***
Institutional reforms	1.2303 (0.3029)***	1.2294 (0.2857)***	1.3842 (0.2989)***
Corruption	0.0702 (0.1747)	0.1231 (0.1678)	0.2096 (0.1821)
R&D	5.3992 (2.3865)**	4.9874 (2.5640)**	4.0115 (2.0040)**
R&D ²	-15.5231 (6.1831)**	-14.3463 (6.5798)**	-7.4045 (9.0071)
Institutional reforms*R&D	2.3301 (1.3061)*	2.6512 (1.2635)**	0.7268 (0.3516)**
Wage	0.0897 (0.0521)*	0.1125 (0.0560)**	0.1285 (0.0732)*
Technology	-0.0046 (0.0187)	-0.0165 (0.0196)	-0.0389 (0.0238)*
Profitability	-2.1186 (0.2957)***	-1.9465 (0.3204)***	-1.1246 (0.4344)***
Firm size	0.7859 (0.1293)***	0.7256 (0.1379)***	1.1512 (0.2417)***
Firm size ²	-0.0114 (0.0054)**	-0.0084 (0.0060)	-0.0446 (0.0137)***
Market size	2.4382 (0.4728)***	2.2989 (0.4502)***	2.9817 (0.6167)***
Openness	-11.728 (1.9124)***	-11.4973 (1.8182)***	-10.3721 (1.9452)***
Tangible assets	0.2574 (0.0457)***	0.2233 (0.0515)***	0.0817 (0.0782)
Personal owned shares	-5.4425 (0.8475)***	-5.7005 (0.8725)***	-7.4734 (1.1436)***
Firm age	-0.1673 (0.1164)	-0.1890 (0.1358)	-2.2262 (1.0112)**
Export intensity	0.4668 (0.1768)***	0.5030 (0.2007)**	0.4821 (0.3193)
Innovation	-0.0123 (0.0115)	-0.0031 (0.0127)	0.0328 (0.0170)*
Advertising	0.0082 (0.0204)	0.0147 (0.0216)	0.0293 (0.0280)
Leverage	-1.3483 (0.2018)***	-1.3631 (0.2355)***	-0.9156 (0.3948)**
Exchange rate	-0.4483 (0.0702)***	-0.4721 (0.0669)***	-0.5483 (0.0717)***
Constant	-64.6145 (12.605)***	-60.1211 (12.0317)***	-72.8430 (15.4928)***
No. of firms/Observations	680 / 2932	680 / 2932	680 / 2932
Adjusted R ²	0.3086	0.3125	0.1590
F/Wald statistic (<i>p</i> -value)	63.28***(0.00)	1028.55***(0.00)	20.09***(0.00)
Breusch-Pagan (<i>p</i> -value)		75.20***(0.00)	
Hausman (<i>p</i> -value)			69.58***(0.00)

Notes: The dependent variable is *FDI I* in all models. *Firm size*² and *R&D*² are the squared terms of *Firm size* and *R&D*, respectively. *Institutional change* as WTO dummy is one for 2002-2008; zero, otherwise. The standard errors robust to heteroscedasticity, clustered by firm level, are reported in the parentheses. The Breusch-Pagan LM test compares the pooled OLS and random effects estimations; the significant *p*-value rejects the null hypothesis that there are no panel effects, hence favouring the random effects results. Hausman test compares fixed effects and random effects estimations; the significant *p*-value rejects the null hypothesis that the unobserved entity heterogeneity is uncorrelated with the regressors, hence favouring the fixed effect results. (*), (**) and (***) indicates that the coefficients are significant or the relevant null hypothesis is rejected at the 10, 5 and 1 percent level, respectively. See Table 2 for the definition of variables.

Table 5: Sub-sample analysis: impact of WTO accession.

	<i>1998-2001 (pre-WTO)</i>	<i>2002-2008 (post-WTO)</i>
Rule of law	3.3710 (8.5869)	-10.4199 (2.7380)***
Corruption	0.5420 (0.9932)	-2.1906 (0.6429)***
R&D	-2.1339 (15.6836)	28.5371 (11.4157)**
R&D ²	0.8807 (23.4911)	-11.7959 (10.5810)
Rule of law*R&D	-8.4585 (35.6203)	59.1673 (25.1716)**
Wage	0.1633 (0.0997)*	0.0653 (0.1152)
Technology	-0.0548 (0.066)	0.0022 (0.0319)
Profitability	-0.7643 (0.7930)	-0.7031 (0.5906)
Firm size	1.8718 (0.4077)***	1.3049 (0.3458)***
Firm size ²	-0.0966 (0.0255)***	-0.0477 (0.0195)**
Market size	3.8359 (6.7593)	0.2404 (0.8565)
Openness	0.0000 (0.0000)	13.0453 (5.3323)**
Tangible assets	-0.0052 (0.2562)	-0.0222 (0.0905)
Personal owned shares	-17.3764 (2.0899)***	-5.6937 (1.3921)***
Firm age	-2.5314 (5.0006)	-1.8167 (1.2357)
Export intensity	-0.0269 (0.7668)	-0.0936 (0.4062)
Innovation	0.0063 (0.0333)	0.0439 (0.0223)**
Advertising	0.0000 (0.0000)	0.0081 (0.0320)
Leverage	0.1355 (0.8434)	-0.6536 (0.5332)
Exchange rate	0.0000 (0.0000)	-1.0094 (0.1033)***
Constant	-98.4697 (175.6559)	0.2300 (21.8239)
No. of firms/Observations	309 / 786	606 / 2146
Adjusted R ²	0.2159	0.2014
F statistic (<i>p-value</i>)	7.45***(0.00)	19.16***(0.00)

Notes: The dependent variable is *FDI I* in both models. The standard errors robust to heteroscedasticity, clustered by firm level, are reported in the parentheses. (*), (**) and (***) indicates that the coefficients are significant or the relevant null is rejected at the 10, 5 and 1 percent level, respectively. See Table 2 for the definition of variables.

Table 6: Dynamic analysis of FDI determinants using the GMM method.

	Difference-GMM		System-GMM	
	(1): <i>FDI 1</i>	(2): <i>FDI 2</i>	(3): <i>FDI 1</i>	(4): <i>FDI 2</i>
Lagged FDI	0.0191 (0.0069)***	0.0067 (0.0118)	0.0141 (0.0051)***	0.0946 (0.0101)***
Rule of law	-5.8714 (0.8591)***	-0.5516 (0.0689)***	-7.1058 (0.7078)***	-0.6266 (0.0592)***
Institutional change	1.0493 (0.1057)***	0.0785 (0.0075)***	1.1427 (0.0797)***	0.0887 (0.0065)***
Corruption	-0.2193 (0.0740)***	-0.0238 (0.0071)***	-0.1443 (0.0418)***	-0.0214 (0.0046)***
R&D	10.3721 (2.9516)***	0.8225 (0.2169)***	20.1093 (1.7526)***	0.0700 (0.1665)
R&D ²	-28.0694 (9.6199)***	-1.8468 (0.7006)***	-47.2352 (5.5201)***	0.5514 (0.5285)
Institutional reforms*R&D	3.2037 (1.1112)***	0.2230 (0.0749)***	2.5003 (0.6037)***	0.2339 (0.0521)***
Wage	0.3449 (0.0540)***	0.0386 (0.0064)***	0.1848 (0.0293)***	0.0172 (0.0049)***
Technology	-0.0466 (0.0113)***	-0.0039 (0.0010)***	-0.0798 (0.0090)***	-0.0017 (0.0010)*
Profitability	-2.5620 (0.4170)***	-0.1359 (0.0395)***	-3.1498 (0.1833)***	-0.2250 (0.0221)***
Firm size	0.7556 (0.2646)***	-0.0406 (0.0279)	0.3422 (0.1591)**	0.2959 (0.0344)***
Firm size ²	-0.0365 (0.0144)***	-0.0001 (0.0016)	-0.0009 (0.0071)	-0.0153 (0.0015)***
Market size	2.0868 (0.3399)***	0.0742 (0.0323)**	0.7109 (0.1319)***	0.1094 (0.0124)***
Openness	-0.9462 (0.8930)	-0.0287 (0.0762)	-2.5474 (0.5348)***	-0.0685 (0.0497)
Tangible assets	0.0184 (0.0884)	0.0204 (0.0083)**	0.3628 (0.0326)***	0.0194 (0.0043)***
Personal owned shares	-5.1929 (2.1541)**	-0.4261 (0.1275)***	-6.8176 (1.5515)***	-0.8039 (0.0850)***
Firm age	-4.2310 (1.0196)***	-0.0934 (0.0525)*	-0.0457 (0.0870)	-0.0260 (0.0139)*
Export intensity	1.8683 (0.3283)***	0.1338 (0.0270)***	0.5582 (0.1113)***	0.1402 (0.0162)***
Innovation	0.0162 (0.0172)	-0.0019 (0.0015)	-0.0087 (0.0072)	-0.0044 (0.0010)***
Advertising	-0.0231 (0.0216)	-0.0003 (0.0017)	-0.0146 (0.0108)	0.0030 (0.0013)**
Leverage	-1.2845 (0.2817)***	-0.0271 (0.0326)	-0.3152 (0.1611)**	0.0364 (0.0237)
Exchange rate	-0.4184 (0.0522)***	-0.0379 (0.0042)***	-0.4740 (0.0446)***	-0.0475 (0.0040)***
Constant	n/a	n/a	-16.3099 (3.9058)***	-3.7788 (0.4025)***
No. of firms / Observations	490 / 1538	490 / 1538	680 / 2235	680 / 2235
Wald (<i>p-value</i>)	734.83***(0.00)	486.57***(0.00)	4107.27***(0.00)	1717.98***(0.00)
AR (1) (<i>p-value</i>)	-7.36***(0.00)	-6.39***(0.00)	-7.22***(0.00)	-6.60***(0.00)
AR (2) (<i>p-value</i>)	-0.31 (0.76)	-1.05 (0.29)	1.09 (0.28)	1.64 (0.11)
Hansen J (<i>p-value</i>)	142.42 (0.20)	139.18 (0.26)	206.66 (0.13)	188.45 (0.41)
Difference-in-Hansen (<i>p-value</i>)	n/a	n/a	67.96 (0.14)	65.24 (0.19)
Number of instruments: (<i>t-2 to t-4</i>)	151	151	208	208

Notes: The dependent variable is *FDI 1* in models 1 and 3; it is *FDI 2* in models 2 and 4. The standard errors robust to heteroscedasticity are reported in the parentheses. Wald statistic tests the joint significance of estimated coefficients; asymptotically distributed as $\chi^2(df)$ under the null of no relationship. AR(1) and AR(2) are the first and second order autocorrelation of residuals, respectively; which are asymptotically distributed as $N(0,1)$ under the null of no serial correlation. Hansen J is the test of over identifying restrictions, asymptotically distributed as $\chi^2(df)$ under the null of instruments' validity. We tested for the endogeneity of firm-specific factors using the "Difference-in-Hansen" statistic, for which the null hypothesis states that the lagged differenced instruments used for the equations in levels are exogenous in the system-GMM setting. The results show that the endogenous factors are *lagged FDI* (by default), *R&D*, *Wage*, *Profitability*, *Export intensity*, *Innovation* and *Leverage* whereas the exogenous factors are *Firm age*, *Firm size*, *Advertising*, *Personal owned shares*, *Tangible assets* and *Technology*. We do not employ yearly dummies as variables or instruments because of their correlation with the country-level factors. For a firm to be included in the GMM regressions they should have at least 3 consecutive years' data. This leaves us a sample with 2,235 (1,538) observations out of 2,932 for the system-GMM (difference-GMM) method, respectively; noting that we lose further observations for the latter due to the absence of level equations. (*), (**) and (***) indicates that the coefficients are significant or the relevant null is rejected at the 10, 5 and 1 percent level, respectively. See Table 2 for the definition of variables. The constant term is transformed out by difference-GMM as this method eliminates it by first-differencing.

Table 7: Cross validation tests for the fixed effects results.

	<i>First sub-sample</i>	<i>Second sub-sample</i>
Rule of law	-8.2815 (2.1129)***	-18.7234 (1.9017)***
Institutional reforms	0.6558 (0.3268)**	1.6213 (0.3588)***
R&D	7.8357 (3.8449)**	3.2508 (1.5707)**
R&D ²	-35.8138 (19.1291)*	-13.4779 (7.8470)*
Institutional reforms*R&D	1.7219 (0.6950)**	1.5040 (0.7479)**
Wage	0.1226 (0.0905)	0.1861 (0.1114)*
Technology	0.0077 (0.0370)	-0.0337 (0.0293)
Profitability	-1.2086 (0.5129)**	-1.6563 (0.7982)**
Firm size	1.3017 (0.2925)***	1.1227 (0.4194)***
Firm size ²	-0.0562 (0.0180)***	-0.0241 (0.0141)*
Market size	1.2603 (1.0007)	3.6556 (0.7543)***
Openness	-4.0194 (2.0044)**	-11.4909 (2.0732)***
Personal owned shares	-10.5605 (1.4561)***	-2.4551 (1.4388)*
Firm age	-1.5252 (0.8706)*	-3.4458 (1.2515)***
Innovation	-0.0090 (0.0251)	0.0759 (0.0225)***
Leverage	-0.9545 (0.5306)*	-0.8915 (0.5873)
Exchange rate	-0.2740 (0.0932)***	-0.8595 (0.0925)***
Constant	-28.1453 (24.9626)	-89.3086 (18.9963)***
No. of firms/Observations	382 / 1466	298 / 1466
Adjusted R ²	0.1112	0.2584
F statistic (<i>p</i> -value)	7.85***(0.00)	23.57***(0.00)
Spearman's rho	0.3114***	0.3697***
Independence t-test (<i>p</i> -value)	0.0000	0.0000

Notes: The dependent variable is *FDI I* in both models. The standard errors robust to heteroscedasticity, clustered by firm level, are reported in the parentheses. (*), (**) and (***) indicates that the coefficients are significant or the relevant null is rejected at the 10, 5 and 1 percent level, respectively. See Table 2 for the definition of variables.

For cross-validations, the main sample was randomly split equally in terms of number of observations into two groups. The model was run separately for each sub-sample. The regression coefficients for the first group were employed to predict the *FDI* values for the second group and a correlation test was run for the pairs. We repeated the procedure for the second sub-sample, noting that the non-core insignificant variables from the full sample were not included in this analysis. The null hypothesis for the Independence test states that the predicted values of *FDI* for the second (first) sub-sample based on the regression coefficients for the first (second) sub-sample are independent from the actual *FDI* values for the first (second) sub-sample. The *p*-values above reject the null hypothesis; Spearman correlation coefficients are significant at the 1% level; there is consistency regarding the statistical significance and signs of coefficient estimates across the sub-samples, implying that our main results are cross validated and the predictive ability of the models is satisfactory.

Table 8: Cross validation tests for the system-GMM results.

	FDI 1		FDI 2	
	First sub-sample	Second sub-sample	First sub-sample	Second sub-sample
Lagged FDI	0.0712 (0.0025)***	0.0185 (0.0021)***	0.3039 (0.0063)***	0.0797 (0.0034)***
Rule of law	-4.1167 (0.2683)***	-16.7529 (0.5000)***	-0.2119 (0.0288)***	-1.0925 (0.0172)***
Institutional reforms	1.0121 (0.0546)***	1.5046 (0.0510)***	0.0822 (0.0054)***	0.1234 (0.0023)***
Corruption	-0.1314 (0.0234)***	-0.3718 (0.0174)***	-0.0273 (0.0028)***	-0.0373 (0.0022)***
R&D	9.1041 (1.0831)***	19.5413 (0.7930)***	-0.0578 (0.1379)	0.8028 (0.1014)***
R&D ²	-21.6539 (3.1631)***	-54.7969 (2.842)***	0.6314 (0.4386)	-1.3968 (0.2817)***
Institutional reform*R&D	4.5334 (0.4939)***	1.9675 (0.3129)***	0.8002 (0.0660)***	0.1348 (0.0579)**
Wage	-0.0063 (0.0129)	0.0486 (0.0165)***	0.0006 (0.0021)	0.0365 (0.0016)***
Technology	-0.0076 (0.0036)**	-0.0964 (0.0048)***	-0.0026 (0.0005)***	-0.0054 (0.0004)***
Profitability	-2.4865 (0.1137)***	-1.3963 (0.0773)***	-0.2348 (0.0113)***	-0.1257 (0.0139)***
Firm size	0.4798 (0.0400)***	0.9701 (0.1471)***	0.1400 (0.0079)***	0.1737 (0.0208)***
Firm size ²	-0.0042 (0.0022)*	-0.0310 (0.0052)***	-0.0071 (0.0004)***	-0.0105 (0.0008)***
Market size	1.1084 (0.0701)***	1.8831 (0.0694)**	0.0815 (0.0078)***	0.1387 (0.0054)***
Openness	-3.9054 (0.2949)***	-5.1634 (0.2108)***	-	-
Tangible assets	0.2334 (0.0117)***	0.6416 (0.0108)***	0.0052 (0.0025)**	0.0329 (0.0025)***
Personal owned shares	-8.7741 (1.2630)***	-2.4186 (0.6546)***	-0.7915 (0.0493)***	-0.5723 (0.1018)***
Firm age	-	-	-0.0275 (0.0116)**	-0.0592 (0.0102)***
Export intensity	0.3561 (0.0660)***	0.3447 (0.0378)***	0.1107 (0.0113)***	0.1378 (0.0103)***
Innovation	-	-	-0.0037 (0.0005)***	-0.0065 (0.0004)***
Advertising	-	-	0.0012 (0.0007)*	0.0052 (0.0009)***
Leverage	-0.4635 (0.0763)***	-0.1547 (0.0492)***	-	-
Exchange rate	-0.0896 (0.0159)***	-1.0519 (0.0286)***	-0.0206 (0.0015)***	-0.0909 (0.0018)***
Constant	-28.1581 (1.8416)***	-50.4871 (1.7381)***	-2.2885 (0.2194)***	-3.8966 (0.1897)***
Firms / Observations	382/ 1160	289 / 1075	382/ 1160	289 / 1075
Wald (<i>p-value</i>)	10456.43*** (0.00)	273091.24*** (0.00)	20973.87*** (0.00)	467102.19*** (0.00)
AR (1) (<i>p-value</i>)	-4.26*** (0.00)	-6.12*** (0.00)	-4.62*** (0.00)	-5.11*** (0.00)
AR (2) (<i>p-value</i>)	-1.25 (0.17)	-1.13 (0.26)	0.28 (0.75)	0.17 (0.86)
Hansen J (<i>p-value</i>)	166.13 (0.29)	162.94 (0.34)	149.68 (0.63)	161.18 (0.35)
Difference-in-Hansen (<i>p-value</i>)	61.95 (0.11)	59.17 (0.14)	45.09 (0.59)	38.88 (0.82)
Number of instruments: (<i>t-2 to t-4</i>)	177	176	177	176
Spearman's rho	0.7977***	0.6524***	0.0837***	0.0608**
Independence t-test (<i>p-value</i>)	0.0000	0.0000	0.0000	0.0463

Notes: The dependent variable is *FDI 1* or *FDI 2*. The standard errors robust to heteroscedasticity are reported in the parentheses. Wald statistic tests the joint significance of estimated coefficients; asymptotically distributed as $\chi^2(df)$ under the null of no relationship. AR(1) and AR(2) are the first and second order autocorrelation of residuals, respectively; which are asymptotically distributed as $N(0,1)$ under the null of no serial correlation. Hansen J is the test of over identifying restrictions, asymptotically distributed as $\chi^2(df)$ under the null of instruments' validity. The 'Difference-in-Hansen' test's null hypothesis states that the lagged differenced instruments used for the equations in levels are exogenous. (*), (**), and (***) indicates that the coefficients are significant or the relevant null is rejected at the 10, 5 and 1 percent level, respectively. See Table 2 for the definition of variables. See also Table 6 and Table 7 for notes related to cross-validation and GMM instruments. The *p-values* above reject the null hypothesis; Spearman correlation coefficients are significant at the 1% level; there is consistency regarding the statistical significance and signs of coefficient estimates across the sub-samples, implying that our main results are cross validated and the predictive ability of the models is satisfactory.

