

The Impact of Foreign Direct Investment on Public Governance and Corruption in China^{*}

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Abstract

The impact of foreign direct investment (FDI) on the performance of the Chinese government has recently drawn scholastic attention. Though the literature provides insightful observations on the potential influence that FDI has on the Chinese government, little empirical evidence has been provided. This article constructs a dynamic panel data set using province-level data for China from 2000 to 2009 to estimate the impact of FDI on governance performance and the level of corruption of provincial governments in China. The estimation strategy includes a dynamic panel data (DPD) model and a fixed effect (FE) model. The results suggest that foreign capital and investors improved governance performance and reduced corruption of provincial governments. Furthermore, FDI not originating from Hong Kong, Macao, and Taiwan had a greater impact on provincial governments, representing a greater shock to the Chinese governments. The findings are robust under both specifications.

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* This research was supported by the NSC (National Science Council, Taiwan), grant 101-2410-H-110-021.