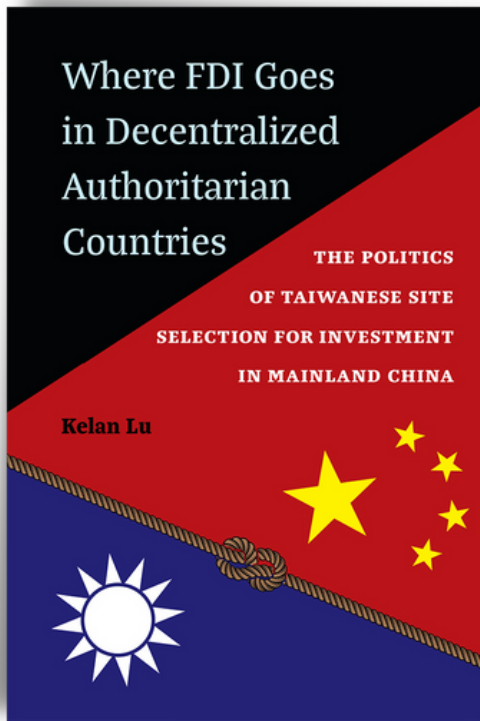




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# WHERE FDI GOES IN DECENTRALIZED AUTHORITARIAN COUNTRIES

## THE POLITICS OF TAIWANESE SITE SELECTION FOR INVESTMENT IN MAINLAND CHINA

Kelan Lu

Among all the decentralized authoritarianisms, China is distinctive not only because of its emergence as one of the world's largest foreign direct investment (FDI) recipient countries with one of the highest levels of fiscal decentralization, but also because of the combination of its fiscal decentralization and the cadre promotion system as incentive-institutions for attracting FDI inflows. China is also an important case to empirically investigate the impact of fiscal autonomy on adversarial investment because it has become the largest investment destination of its long-term adversary, Taiwan, with Taiwanese FDI being one of the largest FDI in mainland China. Given the special role played by local Chinese governments in attracting and hosting Taiwanese FDI, it is important to study the differences between Taiwanese FDI and other FDI in where FDI goes.

Given the uniqueness of the China case and the case of Taiwanese investment in mainland China, this book explores the following questions. What determines where FDI goes in authoritarian countries like China? Fiscal decentralization has been argued to be a driving force of skyrocketing FDI inflows in China due to its impact on local governments' incentives. However, is the impact of fiscal autonomy on FDI monolithic with the dynamically changing levels of FDI inflows at the lower administrative levels in China, especially with its special cadre management system? Does the impact of fiscal decentralization on FDI strengthen or weaken or stay the same when attracting FDI inflows from adversarial states? And what are the implications of such adversarial investment, especially as it diffuses from coastal cities to the interior regions—or from key cities to peripheral regions—of decentralized authoritarian countries targeted by this investment?

Kelan Lu is Associate Professor in the Department of Political Science at the University of South Carolina.

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