



ELSEVIER

European Journal of Operational Research 100 (1997) 16–26

EUROPEAN  
JOURNAL  
OF OPERATIONAL  
RESEARCH

Theory and Methodology

## Evaluating foreign investment environment in China: A systematic approach

Shengliang Deng<sup>a,\*</sup>, Yuan Li<sup>b</sup>, Jinxian Chen<sup>b</sup><sup>a</sup> College of Commerce, University of Saskatchewan, Saskatoon, Sask., Canada S7N 0W0<sup>b</sup> Faculty of Management, Xi'an Jiaotong University, China

Received March 1995; revised December 1995

### Abstract

To successfully develop a region's or country's economy, policy-makers have to utilize foreign investments. To attract the right foreign investors, the host has to understand not only the investors, but more importantly its own investment environment. This article presents a practical method for evaluating investment environment from the viewpoint of a host region or country. A real Chinese case was analysed by applying this method. The evaluation method is recommended not only to China, but also to those countries having investment environments similar to China's. © 1997 Elsevier Science B.V.

*Keywords:* Investment analysis; Environment; Developing countries

### 1. Introduction

Foreign investment in China has increased substantially, from almost nothing prior the economic reform of 1978 to more than 206 000 registered foreign investment ventures by the end of 1994. In 1994 alone, China settled more than 40 000 foreign investment contracts inside China and actually used more than US\$45.8 billion foreign investment (People's Daily, March 2, 1995). However, foreign investment has been somewhat uneven in China, especially since 1989 foreign investment in China has been significantly affected by the deteriorating in-

vestment environment, both political and economic (Cheng, 1990; Potter, 1995).

The Chinese government is acutely aware that China needs foreign investments to build her four modernisations (industry, agriculture, defence, and science and technology). The effects of foreign investment on its economic development have been substantial, as such projects have come to account for nearly half of all capital investment in China (Potter, 1995). In 1991 China reiterated her open-door policy to the west (Li, 1991). However, concrete measures have yet to be taken to implement this open-door policy. The focal point of these measures should be how to improve the investment environment of various regions in order to attract more foreign investors (Silk, 1989; China Business Review, 1992). To help China develop a positive investment climate, this article presents a practical method for China to evaluate her investment envi-

\* Corresponding author.

ronment and to assess the effects of her own policy measures on the investment environment.

## 2. Essential requirements of the evaluation method

Research on the evaluation of investment environments has a substantial history and some workable evaluation models have been established in the literature. The notable ones include the method of evaluating investment climate (Stobaugh, 1969), the analysis of multiple investment factors (Mun, 1987), the ten index evaluation method (Guo, 1987), and the model of evaluating investment attraction (Simoes, 1988). Other relevant methodological, conceptual and empirical works include Wicks (1980), Shih (1985), Sethi (1986), Loth (1986), Burton and Inoue (1987), Akaah and Yaprak (1988), Naya and Ramstetter (1988), and Amador and Starbird (1989).

These methods, which are certainly helpful in aiding investors to identify feasible investment regions, do little to help a host country or region evaluate and improve its own investment environment. They do not show a host country or region how to evaluate its investment environment and select accordingly a foreign investment to maximize local advantages, nor how to improve its political and economic policies regarding foreign investment.

The current paper is different from the previous research in that it provides a method to examine the investment climate from a host region's or country's point of view. In developing a method to help China develop a favourable investment climate, we focus on helping her evaluate her investment environment in order to 1) identify and select the favourable type of foreign investment according to the local advantage, 2) improve the investment environment accordingly to attract the identified foreign investments, and 3) improve the country's investment policies to positively affect the investment climate. Hence, in working out the method of evaluating the investment environment, the following essential requirements must be met.

- (i) *Match the host region's characteristics with the types of investment.* Investment environment is always associated with specific regional characters. In China, there are five Special Economic

Zones, numerous open coastal cities, three large economic open regions and two Semi-autonomous Centres (i.e. Tianjin and Shanghai), which have the ability to absorb foreign investment. Since resources and investment environments in different regions are not identical, the types of foreign investment that each region absorbs are certainly different. Under these circumstances, it is imperative for us to base the comprehensive evaluation of the investment environment on the types of investment selected by the host. Only in this way can the conclusions drawn from the evaluation affect practical circumstances.

- (ii) *Evaluate policy measures systematically.* Investment environment is a concept which incorporates many levels. Accordingly, policy measures taken to improve the investment environment should also possess multiple levels. In practical evaluation, having only directive policy suggestions would not meet the demands of improving the investment environment decision. The evaluation outcome should be connected with concrete policy measures. Hence, the evaluating method should be necessarily systematic, and it can be used to evaluate both investment environment factors and policy measures, and further to identify the relationships between them.
- (iii) *Coordinate the expectations of both foreign investors and the hosts.* Foreign investors and host countries have frequently different investment expectations. The main aim of an investor is to gain profit or market share, with higher investment profitability and lower investment risk as its main expectations. The expectation of a host is to absorb capital and technology needed for economic construction in order to facilitate economic development of the country (or the region). Because of these differences in expectations, there are bound to be conflicts between investors and hosts. The potential for conflicts must be considered when designing an evaluation method. Such method should benefit both the host in selecting the best types of foreign investment and improving the investment environment accordingly, and also foreign investors in effectively evaluating the invest-

ment environment of the region or country where they intend to enter.

### 3. The systematic method of evaluating investment environment

#### 3.1. Factors affecting investment environment

In order to thoroughly describe the method of evaluating an investment environment, it is necessary to discuss the factors affecting investment environment.

Investment environment is a collection of a region's various conditions to absorb foreign investments. It is a dynamic and multi-factor system. It not only includes natural resources, geographical conditions, infrastructure and other 'hard' environmental or physical attributes of a region, but also includes political and economic systems, industrial structure, cultural traditions, legal system and other 'soft' environmental or non-physical attributes of the region (Lin, 1986; Mun, 1987; Aboue-Enin, 1994; Shin, 1994). Fig. 1<sup>1</sup> outlines the basic relations among the factors of investment environment.

In Fig. 1 the relationship among factors is shown by multi-level conditions. The vertical condition reflects relatively independent relations among factors, while the horizontal condition reflects the level relation of the factors in the system. How many levels in the system and how many component factors in each level are decided according to the local situation.

#### 3.2. The evaluation and selection of investment types

Because of the difference in economic development among the regions in China, the types of foreign investment absorbed by different regions illustrate differences. For instance, the industries in the Shenzhen Special Economic Zone (SEZ) mainly produce high technology/precision products and its objective in absorbing foreign investment is naturally

to develop new technology and products with the aim of exporting the products to gain foreign exchange. In contrast, Hainan province is known in the region for its natural resources, and it mainly absorbs foreign investment which can be used to efficiently exploit natural resources in the island. The more developed cities (such as Shanghai, Tianjin, etc.) mainly absorb foreign investment which can be used to innovate technology, promote exports, develop international tourism and financial business in order to become modern international cities. Therefore, when evaluating investment environment of a region, we must first identify the preferred type of foreign investment absorption.

The factors concerned with different investment types are not all the same. It is very difficult to compare all factors related with all kinds of investment types due to the problem of the index equality. Therefore, the key problem of evaluating different investment types is the lack of direct compatible conditions among different investment types. If a set of standard evaluation criteria can be identified from those incomparable investment types and used to transform different investment factors into a standard index, then we can select the best investment type through the comparison of different types of investment.

The issue of selecting the investment type can be considered from two angles. Firstly, the type is selected from the view of the host. Fig. 2 shows the effects of absorbing foreign investment from the view of the host. As shown in Fig. 2, whatever types of investment, the combination point can be found in some level. Then, to a host, the factors relating to all types of investment can be identified in this system. It is because of the differences of the representative form, active degree and interactive effect among these factors in each type of investment, different types of investment cannot be compared directly. Thus, when all factors relating to each type of investment are transformed into several basic aspects, the base for evaluating and selecting the types of investment can be obtained.

Secondly, the host can select the type of investment according to a foreign investor's motive. In this case, the factors considered in evaluating investment environment are from Fig. 1. Whatever viewpoints, investors' or hosts', are used to evaluate the types of

<sup>1</sup>The factors in Figs. 1 and 2 are based on a literature review and personal interviews with investment experts. These factors can be expanded or reduced for different country or regional environments.

investment, the general claim is that those investment environment factors should be the base to draw up the evaluating criteria, define the degree of every criteria's effect on different types of investment, and

then finally evaluate and select the type of investment.

Now, we can describe how to evaluate types of investment from the view of a host.

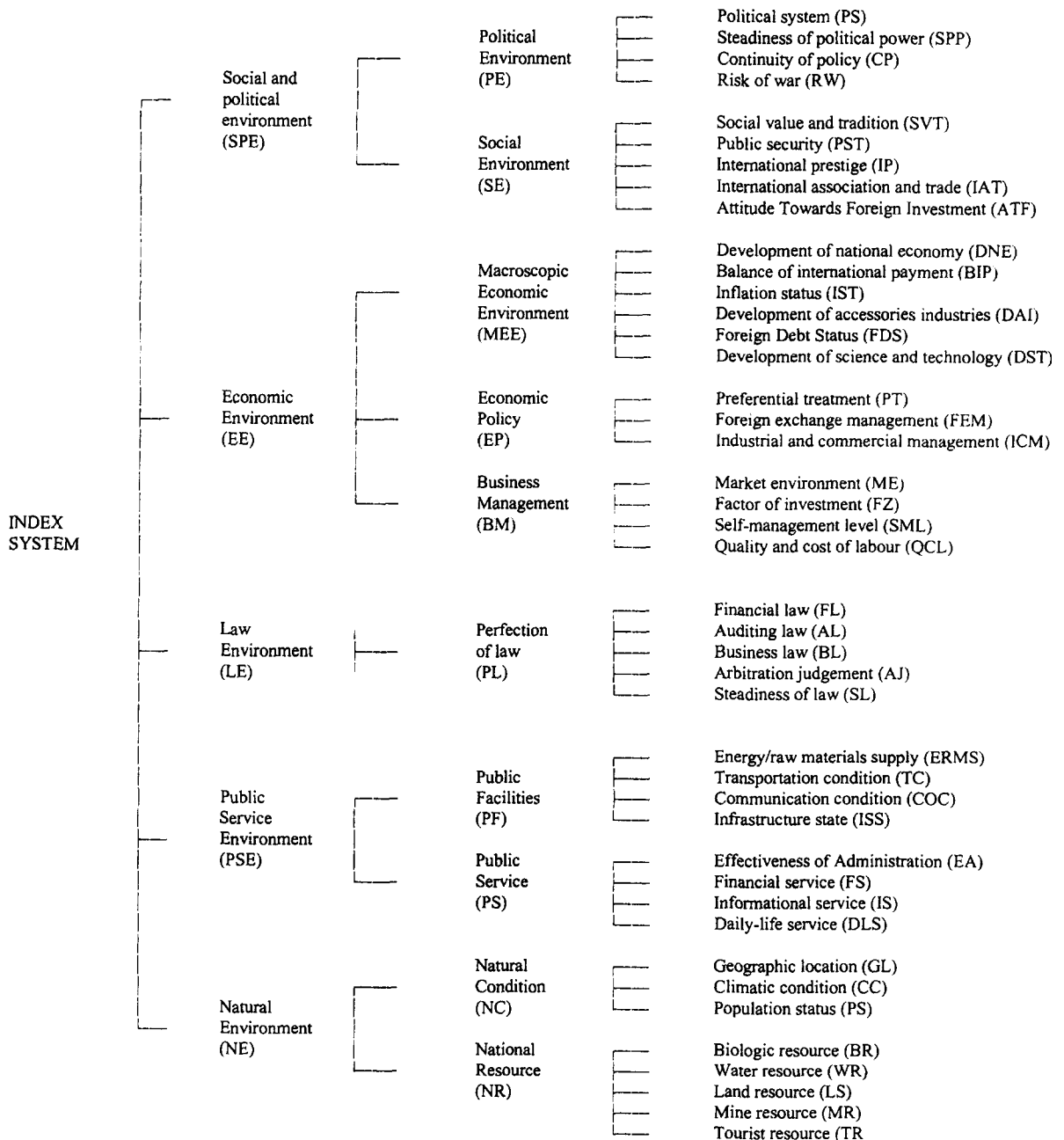


Fig. 1. Investment environment system.

Table 1  
Criteria index matrix for type  $J$  investment; entries are the importance degree  $b_{ijk}$

Criteria <sup>a</sup>	Factor 1	Factor 2	...	Factor $m$
PS	$b_{1i1}$	$b_{1i2}$	...	$b_{1im}$
ED	$b_{2i1}$	$b_{2i2}$	...	$b_{2im}$
TA	$b_{3i1}$	$b_{3i2}$	...	$b_{3im}$
MI	$b_{4i1}$	$b_{4i2}$	...	$b_{4im}$
RE	$b_{5i1}$	$b_{5i2}$	...	$b_{5im}$
SSI	$b_{6i1}$	$b_{6i2}$	...	$b_{6im}$

<sup>a</sup> See Fig. 2 for criteria.

3.3. Establishing the criteria-index matrix

Table 1 shows the general criteria-index matrix. In this table, the uppermost factors in Fig. 2 are defined in the column as the adjusting criteria, and

the headings row shows the main factor indexes related to the special types of investment. The parameter  $b_{ijk}$  is the transformation parameter which expresses that the factor  $k$  of the investing type  $j$  is combined with the criterion  $i$ . Actually, it reflects the importance degree of the factor  $k$  affecting criterion  $i$ .

According to Table 1, the value  $x_{ij}$  that the type  $j$  investment contributes to the criterion  $i$  can be obtained by means of Eq. (1). That is:

$$x_{ij} = \sum_{k=1}^m b_{ijk} x_{ijk}, k = 1, 2, \dots, m, \quad (1)$$

$i, j = 1, 2, \dots, n.$

In Eq. (1),  $x_{ijk}$  is the value of factor  $k$  in type  $j$  of investment contributing to the criterion  $i$ ;  $n$  is the number of types of investment;  $m$  is the number of the factor indexes concerned with the investment

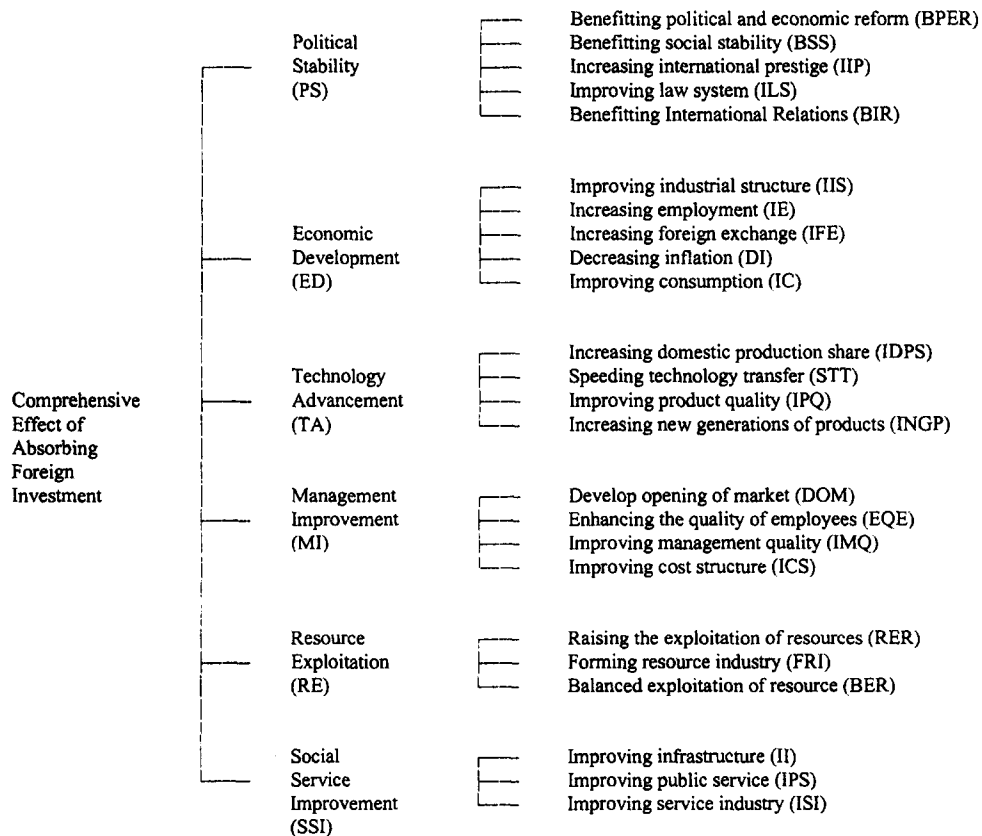


Fig. 2. Effect of absorbing foreign investment.

Table 2  
Criteria project matrix; entries are the importance degrees  $a_{ij}$

Criteria <sup>a</sup>	Project 1	Project 2	...	Project $n$
PS	$a_{11}$	$a_{12}$	...	$a_{1n}$
ED	$a_{21}$	$a_{22}$	...	$a_{2n}$
TA	$a_{31}$	$a_{32}$	...	$a_{3n}$
MI	$a_{41}$	$a_{42}$	...	$a_{4n}$
RE	$a_{51}$	$a_{52}$	...	$a_{5n}$
SSI	$a_{61}$	$a_{62}$	...	$a_{6n}$

<sup>a</sup> See Fig. 2 for criteria.

type  $j$ .  $b_{ijk}$  and  $x_{ijk}$  are generally obtained through experts' estimations.<sup>2</sup>

### 3.4. Establishing the criteria-project matrix

The common form of the criteria-project matrix is shown in Table 2. The criteria column of the table is the same as that of Table 1. The headings row of Table 2 shows the types of investment. Parameter  $a_{ij}$  in Table 2 expresses the importance degree of investment type  $j$  affecting the criterion  $i$ , which can be obtained through experts' estimations.

By means of Table 2 and Eq. (2), we can obtain  $A_j$  ( $j = 1, 2, \dots, n$ ), which expresses the ultimate effect of different investments.

$$A_j = \sum_{i=1}^6 a_{ij} x_{ij}, i = 1, 2, \dots, 6, j = 1, 2, \dots, n. \quad (2)$$

### 3.5. Determining the ranking order of investment types

$A_j$  ( $j = 1, 2, \dots, n$ ) are ranked in a descending order. The best one is selected according to the needs of the region.

It is useful to select the best investment type from the viewpoints of the investor and the host respectively and compare the two evaluation results. In this way, the evaluator can better understand the type, source and scale of the required investment.

<sup>2</sup> Experts used in this study are defined as those who have substantial experience in foreign direct investment. They are foreign investment policy makers, CEOs of foreign joint ventures and foreign fully owned ventures.

### 3.6. Evaluating the key factors of the investment

Once the type of investment is determined, a region should embark on improving the investment environment to attract potential investors. An important step is to identify and improve the key factors affecting the investment. To this end, a 'region-factor' matrix method was proposed, from the viewpoint of investors, to evaluate investment environment according to different investment motives (Mun, 1987). Obviously, this method is not only suitable for the investors, but also helpful to a host. However, since it is the host country or region that decides the types of investment to absorb, a proper method should be designed from the viewpoint of the host. After a host country or region has determined the types of investment to absorb, its main concern is which factors can be improved to attract foreign investors. To discover those key factors, the evaluation method should embrace an investor's assessment of the region and, at the same time, comprehensively address the investment environment factors, their importance, attractiveness, current situation and degree of usefulness in the region. Eq. (3) is a general formula to evaluate key factors.

$$E_i = \frac{I_i H_i}{\sum_{i=1}^{n'} I_i H_i} (P_i - C_i), \quad i = 1, 2, \dots, n'. \quad (3)$$

In the above equation,  $E_i$  is the distance between factor  $i$  and its best state,  $I_i$  is the importance degree of the factor  $i$ ,  $H_i$  is the degree of factor  $i$ 's attractiveness to the investment,  $P_i$  is the ideal state value of the factor  $i$ ,  $C_i$  is the actual state value of the factor  $i$ , and  $n'$  is the number of key environment factors. The parameters  $I_i$ ,  $H_i$ ,  $P_i$  and  $C_i$  are given by the experts' estimations.

Obviously, the larger the value  $E_i$ , the greater the comprehensive influence of factor  $i$  on investment environment. Thus we can rank  $E_i$  from large to small factors and then improve these factors accordingly.

In fact, each parameter in Eq. (3) has important practical implications. First, the importance degree of the factors reflects the degree of emphasis placed by investors on the factors affecting investment; second, the degree of attractiveness to an investment reflects the advantages of certain factors in the re-

gion; third, actual state reflects the degree of investor’s satisfaction with the actual state of the factors. In conclusion, these parameters, combined with the ideal state value, can comprehensively and correctly reflect the impact by each factor on the investment environment.

3.7. The evaluation of policy measures for improving investment environment

It is the kernel of evaluating investment environment that relative improvement measures are discovered and good policies are drawn from the key factors in affecting investment. Therefore it is necessary to examine the relationships among the key factors and the policy measures, which can be done by means of Table 3.

In Table 3, the column shows the policy measure relating to the key factors; the row indicates the key factors needed to be improved; the  $F_{ij}$  in other columns express the degree of impact on the key factors by policy measures, which is given by experts’ estimations.

From the data in Table 3 and by means of Eq. (4), we can obtain the degree of comprehensive impact by certain policy measures on the key factors of the investment environment.

$$G_i = \sum_{j=1}^z e_j F_{ij}, \quad i = 1, 2, \dots, w,$$

$$e_j = \frac{E_j}{\sum_{j=1}^z E_j}, \quad j = 1, 2, \dots, z. \quad (4)$$

Here,  $G_i$  is the degree of comprehensive impact by the policy measure  $i$  on all key factors,  $w$  is the number of policy measures, and  $z$  is the number of key environment factors influenced by policy measures.

From the equation, we find that the value of  $G_i$  is affected not only by  $F_{ij}$ , the relationship between the policy measures and the key factors, but also by  $e_j$ , the degree of impact by the key factors on the investment environment. Thus far, we have finished the work of transforming the evaluation of investment environment factors into the evaluation of improvement measures of policies. The effect of different policies and related measures on the investment

Table 3  
Degree of impact on key factors by policy measures

	Key factor 1	Key factor 2	factor Z	Key
Policy measure 1	$F_{11}$	$F_{12}$	...	$F_{1Z}$
Policy measure 2	$F_{21}$	$F_{22}$	...	$F_{2Z}$
⋮	⋮	⋮	⋮	⋮
Policy measure W	$F_{W1}$	$F_{W2}$	...	$F_{WZ}$

environment are now systemically and statistically assessed. According to the value of  $G_i$  ( $i = 1, 2, \dots, W$ ), we can suitably adjust and improve the policy and related measures.

4. Case analysis<sup>3</sup>

In applying the above evaluation method, we have evaluated the investment direction, investment environment and the key factors of the Economic and Technology Development Zone (ETDZ) in Zhuhai (city Z).

4.1. On the evaluation and selection of investment direction

Eight important industries have been determined to absorb foreign investment in city Z. Here, we only take the textile and electronic industries as examples to explain the application of the evaluation method. The investigated data are shown in Table 4. Here, the ‘Political Stability’ criterion is not evaluated because both the textile and electronic industries are equally influenced by the criterion.

By means of Eq. (1) and Table 4, the contribution values  $x_{ij}$  of two industries are obtained and shown in column 3 and column 4 in Table 5. Then, the final effect  $A_j$  of two industries are gained from Eq. (2).

From the sum  $A_j$ , the score of absorbing foreign investment is higher for the textile industry than that of electronic industry. Thus the textile industry has priority.

<sup>3</sup> The methodology used for measurements in this case study was the Delphi technique.

Table 4  
 $b_{ijk}$   $x_{ijk}$  for textile (T) and electronic (E) industries

Criteria	Index <sup>a</sup>																		
	IIS		IE		IFE		DI		IC		IDPR		STT		IPQ		INGG		
	W	S	W	S	W	S	W	S	W	S	W	S	W	S	W	S	W	S	
ED	T	0.31	4.32	0.13	3.87	0.24	4.54	0.17	2.95	0.15	0.13								
	E	0.33	3.14	0.09	3.31	0.26	4.01	0.19	4.16	3.04	3.72								
TA	T											0.06	3.56	0.29	4.8	0.30	3.91	0.35	4.24
	E											0.21	4.11	0.18	3.2	0.28	3.76	0.33	3.24
MI	T	0.42	4.73	0.11	3.62	0.34	4.16	0.13	4.21										
	E	0.32	3.81	0.18	4.42	0.33	3.86	0.17	3.93										
RE	T									0.35	4.41	0.44	4.63	0.21	3.2				
	E									0.23	3.24	0.17	3.16	0.60	3.8				
SSI	T															0.26	4.05	0.29	4.11
	E															0.49	3.77	0.36	4.15

<sup>a</sup> See Fig. 2 for index system and criteria.  
 5 means extremely strong and 0 means extremely weak.  
 W means weight and S means score.

4.2. The evaluation of investment environment factors

Through investigation, we concluded that the investment motive of foreign investors in city Z is its low cost. So we evaluated the factors of this type of investment motive. Table 6 illustrates the data and results.

Taking  $E_0 = 0.17$ <sup>4</sup> as the minimum standard for selection, six key factors are identified:

*Key factor 1: The supply of energy and raw material (SERM).* The energy and raw material in city Z is in seriously short supply. The Chinese-foreign joint ventures, foreign-foreign joint ventures and enterprises with solely foreign capital must find the raw material by themselves. But the domestic supply of raw material is very low and the price is very

high, so the enterprises cannot obtain enough raw material.

*Key factor 2: The quality and cost of labour (QCL).* The most attractive factor of city Z was its low cost labour force. But as the cost of living is soaring, the demand for higher wages is seriously eroding this attractive factor.

*Key factor 3: Office procedures and administration efficiency (OPAE).* Through investigation, we found that the areas which foreign investors feel to be most unsatisfactory are lower administrative efficiency and more complicated office procedures. One general company investigated in ETDZ of city Z has no clear responsibility and decision-making power. In reaching a decision, the company dogmatically copied the experience of other cities and did not take the city's particular circumstances into consideration. Thus, the decision made was hypothetical and unsystematic.

*Key factor 4: Infrastructure (ISS).* Since the initial thoughts of building ETDZ were not systematic and the ETDZ was not looked upon as an integral

<sup>4</sup> The 0.17 value is selected based on the value of approximately 30% of all the environment factors in the study.



Table 5  
The final Effect  $A_j$  of the two industries

Criteria	Project					
	Textile $a_{ij}$ (a)	Electronics $a_{ij}$ (2)	Textile $X_{ij}$ (3)	Electronics $X_{ij}$ (4)	Textile $A_i$ (5)	Electronics $A_i$ (6)
ED	0.26	0.27	3.89	3.65	1.01	0.99
TA	0.19	0.28	4.28	3.57	0.81	1.00
MI	0.23	0.21	4.35	3.96	1.00	0.83
RE	0.20	0.11	4.26	3.57	0.85	0.39
SSI	0.12	0.13	4.3	3.84	0.52	0.50
Total	1.00	1.00	21.08	18.59	4.19	3.71

part of the city’s systematic structure, emphasis was only laid on attracting foreign investment. Commercial network, service industry and other supporting facilities to an industrial zone were neglected. Moreover, since the ETDZ is far from the city, transportation and communication facilities are not convenient.

*Key factor 5: Law and regulation (LR).* Lack of law and regulations in ETDZ often drove foreign investors into a dilemma. Meanwhile, in ETDZ, the sense of law is weak, the existing laws are not fully implemented, and effective arbitration in ETDZ is lacking.

*Key factor 6: Finance and banking situation (FBS).* The markets for financial services and raw material supply in ETDZ are not set up. There are few representative sales offices overseas to sell the company’s export goods, so the goods have to be sold to foreign businessmen at the lowest price in international markets and potential profits are lost.

4.3. The policy measures for improving the investment environment

According to the above problems, we draw up the following measures for improvement:

Table 6  
Evaluation of investment environment factors for low cost type investment

No.	Factor <sup>a</sup>	$I_i$	$H_i$	$C_i$	$E_i$
1	PS,PST,CP,RW	4.6	3.1	3.3	0.16
2	SPP	4.7	2.9	3.0	0.119
3	NR(BR,WR,LS,MR,TR)	3.7	3.6	3.1	0.110
4	FS	4.9	2.0	1.0	0.171
5	NC(GL,CC,PS)	3.9	3.4	3.3	0.098
6	ME,FZ	3.9	3.4	3.3	0.098
7	IP,FDS	4.6	3.3	2.9	0.139
8	ISS,TC,COC	4.2	3.2	2.0	0.176
9	DST,DNE,IST,D,AI	1.5	2.9	2.7	0.044
10	ICM	4.1	1.0	1.0	0.071
11	ERMS	5.0	3.2	1.0	0.279
12	QCL	5.0	4.2	2.0	0.274
13	SML	4.0	3.1	2.9	0.113
14	PT	5.0	4.0	3.9	0.096
15	PL(FL,AL,BL,AJ,SL)	4.9	2.0	1.0	0.171
16	EA	3.9	2.7	1.0	0.184
17	SVT	1.0	2.7	2.7	0.032
18	IS	4.4	2.0	1.0	0.153
19	DLS	2.5	2.0	1.0	0.087
20	IAT,ATF,BIP,FEM	3.1	2.8	2.7	0.087

<sup>a</sup> See Fig. 1. Here  $P_i = 5$  (best state value),  $i = 1, \dots, n$ .

*Measure 1:* The laws and regulations should be perfected further, relevant policy measures should be drawn up, and the work procedure and responsibility of the administrative office in ETDZ should be clearly defined.

*Measure 2:* Building ETDZ should be regarded as an integral part of the city's economic plan, and the procedures of feasibility analyses should be perfected. In addition, harbours and airports should be improved and infrastructure should be built quickly.

*Measure 3:* The number of local government organizations deciding the approval procedures for foreign investment should be reduced. Moreover, approval time of the project should be shortened and the personnel system reformed.

*Measure 4:* The regulations for selecting foreign investment projects should be finalized and the feasibility analyses should be made as well. It is necessary to establish various kinds of markets rapidly and to exploit overseas markets.

*Measure 5:* A system of training employees should be established and implemented.

An evaluation of the relationship between the five measures and six key factors was made; it is represented in Table 7.

According to the result, the ability rank of the five measures affecting the six key factors from large to small is: Measure 2 – Measure 1 – Measure 4 – Measure 3 – Measure 5.

According to the value of  $G_i$  ( $i = 1, 2, \dots, 5$ ), the values of  $G_1, G_2, G_3,$  and  $G_4$  are approximate, which show that these four measures should be applied coordinately in practice. It is impossible to improve the investment environment in ETDZ by implementing only one of the four measures.

Table 7  
Correlation<sup>a</sup> between policy measures and key factors

Policy measure No.	Key factors						Degree of policy effects $G_i$
	1	2	3	4	5	6	
1	1	1	5	1	7	3	2.63
2	3	1	1	7	3	3	2.83
3	0	3	7	1	3	0	2.23
4	7	0	0	0	3	5	2.65
5	0	5	1	0	0	0	1.24

<sup>a</sup> 7 means extremely strong and 0 means extremely weak.

## 5. Conclusions

China is a developing country lacking capital, infrastructure and proper economic structure. To improve her economic development, China needs foreign investments, which can bring in needed capital, technology and management know-how. A good government policy in turn will make China properly utilize these foreign investments to build the economy. This article presents a practical method for evaluating the foreign investment environment and its relevant policies in China from the host country's point of view. A real case was used to illustrate the application of the method. This method is not only recommended to China, but also to many other developing countries which have similar investment environments as China.

## References

- Akaah, I.P., and Yaprak, A. (1988), "Identifying target segments for foreign direct investment attraction: An application of conjoint methodology", *International Marketing Review* 5/3, 18–37.
- Aboue-Enin, M.A. (1994), "An empirical study of factors influencing the success of Egypt–United States of America joint-ventures engaging in business in Egypt", Unpublished DBA Dissertation, United States International University.
- Amador, R.E., and Starbird, S.A. (1989), "The evaluation of international agribusiness investment locations using multidimensional scaling", *Agribusiness* 5/2, 139–151.
- China Business Review* (1992), "The Council's Investment Initiative", Vol. 19/5, 6–10.
- Burton, F., and Inoue, H. (1987), "A country risk model of foreign asset expropriation in developing countries", *Applied Economics* 19/8, 1009–1048.
- Chen, E. (1990), "Why foreign investors see China as a gamble", *Far Eastern Economic Review* 18, 40.
- Guo, W. (1987), "Comprehensive evaluation system of investment environment of a city", in: Development Research Centre of Chinese State Department (ed.), *Investment Environment of China*, Business Publishing House, Hong Kong, 5–10.
- Li, P. (1991), "The 8th five-year Economic Plan", *Beijing Review* 34/1, 31–33.
- Lin, J.H. (1986), "Foreign investment in China: A study and analysis of the factors influencing American firms' attitudes and motivation", Unpublished Ph.D Thesis, The George Washington University.
- Loth, R.B. (1986), "How to evaluate country risk", *Credit and Financial Management* 88/6, 27–37.
- Mun, K. (1987), "Evaluation method of investment environment", in: Development Research Centre of Chinese State Department

- ment (ed.), *Investment Environment of China*, Business Publishing House, Hong Kong, 68–71.
- Naya, S., and Ramstetter, E. (1988), "Policy interactions and direct foreign investment in East and Southeast Asia", *Journal of World Trade* 22/2, 57–71.
- People's Daily (1995), "The statistical report on economic activities in 1994", March 2, 2.
- Potter, P.B. (1995), "Foreign investment law in the People's Republic of China: Dilemmas of state control", *The China Quarterly* 14, 155–185.
- Sethi, S., and Luther, K. (1986), "Political risk analysis and direct foreign investment: Some problems of definition and measurement", *California Management Review* 28/2, 57–68.
- Simoes, V.C. (1988), "Portugal and FDI attraction: A multi-criteria approach", *Management International Review* 28/4, 42–62.
- Shih, C. (1985), "A methodology to develop country risk for foreign investment", Unpublished Ph.D. dissertation, The University of Texas at Arlington.
- Shin, S.H. (1994), "The factors affecting United States direct investment in South Korea", Unpublished Ph.D. Thesis, Saint Louis University.
- Silk, M.A. (1989), "Recent efforts in China's drive to promote investment through the protection of intellectual property right", *Syracuse Journal of International Law & Commerce* 15/2, 215–230.
- Stobaugh, R. (1969), "How to analyse foreign investment climate", *Harvard Business Review* 9, 100–108.
- Wicks, M.M. (1980), "A comparative analysis of foreign direct investment evaluation practice of US MNC's", Unpublished Ph.D. dissertation, The Pennsylvania State University.