

**What makes a place attractive to returnee entrepreneurs
in China?
—Behavior analysis on the locational choices—**

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(ICSEAD)

Working Paper Series Vol. 2012-11
October 2012

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What makes a place attractive to returnee entrepreneurs in China?

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Abstract: Returnee entrepreneurs have caught intensive attention from China's local governments due to their significant roles in regional economic development, but they distributed very unevenly in the country and the research on the influential factors of their uneven distribution has yet remained undeveloped. Taking the most notable returnee entrepreneurs as samples, this paper examines how returnee entrepreneurs choose to locate their firms by analyzing their locational choice behaviors within a utility maximization framework. A nested logit model is derived to empirically analyze the impact of place as well as personal characteristics on the probability of a place to be chosen. The results show that the locational choices of returnee entrepreneurs were largely affected by economic factors (such as market size and economic dynamics), high technology power, and social connections. The result that the effect of tolerance factor is not statistically significantly influential suggests that entrepreneurs may behave differently from other members of creative class and future scholars need to be more cautious to mix employers with employees when discussing creative class theory. From the analysis results of this paper, policy implications were drawn to guide the policymakers and practitioners to attract returnee entrepreneurs.

Key words: locational choice behavior, returnee entrepreneurs, nested logit model, China

1. Introduction

In contemporary urban economics, the significant role of knowledge and human creativity in promoting regional economic development and increasing employment and wealth has been commonly recognized. This role has been materialized depending largely on enterprises which transfer knowledge and creativity into economic productivity. Among all types of enterprises, high-tech enterprises are especially of public interest due to their roles in increasing productivity efficiency, creating high added value, and revitalizing the growth of traditional industries, which China needs very urgently in order to transform the old economic growth model. In the emerging economy like China, international returnees have made active contribution to facilitate China's transition from a world factory to a more creative country, by bringing back resources like human capital, leading technologies, business know-how and international networks, etc. Besides their prominent roles in the development of modern China's higher education industries, research institutes and multinational firms, increasing number of returnees are active in high-tech sectors as entrepreneurs (Dai, 2006). Where they choose to locate their firms has attracted intensive attention from the city governors, policy makers and scholars.

As to the explanation of the locational choice of entrepreneurs, a large body of literature has evolved around the perspective of firms, such as the famous theories of Marshall (agglomeration

economies), Weber (transportation costs), Von Thünen (land use model), Cristaller (central place theory) and Alonso (central business district). Later studies have developed around two main types of influential factors (Hayter, 1997). The first type is developed under a neoclassical framework and focused on regional characteristics such as agglomeration externalities and proximity to customers that minimize transportation and other costs and advance the firm's efficiency through knowledge spillovers (Figueiredo et al., 2002; Audretsch et al., 2005; Guimaraes et al., 2000). The second type includes institutional factors shaped by local governments such as taxes, regional wage levels or other factors that form the regional economic environment (Bartik, 1985; Carlton, 1983; Coughlin et al., 1991; Glaeser and Kerr, 2009). Until recently, studies from the perspective of entrepreneurs are relatively few. As latest progress in this field, individual entrepreneurs who are the main driver in the choice of firm location have attracted intensive research interests, and a behavioral framework which allows inclusion of the personal characteristics of entrepreneurs has been developed (Wright et al., 2008, Kolympiris and Kalaitzandonakes, 2012). This paper adopts the behavioral analysis framework and focuses on individual returnee entrepreneurs. By examining their locational choice behavior, this study demonstrates that the personal characteristics of entrepreneurs, along with place attributes, have impact on the final returned destination. Before this study, the observation that some places are attracting entrepreneurs with certain personal characteristics used to be an intuitive descriptions, which is now empirically proved.

This study offers a few contributions to the existing literature in the following ways. First, it reveals the situation of uneven distribution of returnee entrepreneurs in China and for the first time examines the reason for the uneven distribution. Prior studies about returnee entrepreneurs in China have emerged mainly discussing on firm performances and impacts (Wright, et al., 2008; Dai and Liu, 2009), but seldom looked at the locational choices of returnee entrepreneurs. The only exception is the work of Wright, et al. (2008), who have studied the returnee entrepreneurs' locational choices of types of science parks (university-affiliated or not), but it is only on a small spatial level within a city and does not help to explain the regional unbalanced distribution. This paper focuses on a wider spatial level and studies the returnee entrepreneurs' choices of places across city boundaries, which is on the provincial level in this study.

Second, the research about returnees sheds light on the study of talent distribution in China. The distribution of general talent (not necessarily the returnee) has been frequently studied, such as by Li and Florida (2006), Zhang and Fan (2006), Qian (2010) and so on. These studies have defects in the way that they did not factor out the impact of registered residence status (*hukou* in Chinese) system, which affects urban citizens' rights in various ways, such as social welfares, employment opportunities and child(ren)'s education and thus is thus affective to one's locational choice. By studying returnees, the restriction from *hukou* system can be much alleviated because cities (including the major ones) usually offered legal residence for them as preferential treatments. Thus this study provides valuable reference to compare with those results from study on talent restricted by *hukou* system.

Moreover, the general trend in the study of talent has shifted the focus to a specific group of people named creative class, which comprises people who are featured with inputting human creativity in their occupations. Creative class theory differs from traditional human capital theory in the way that the former measures skills on an occupational basis while the latter on an educational basis (Florida, 2002). According to Florida, the entrepreneurial creativity is of the four

types of creativities that compose the creative core, who are featured by favoring a tolerant, open and diversified environment (the other three types of creativity are scientific creativity, technological or innovative creativity, artistic or cultural creativity). By introducing the key factors – tolerance into the locational choice study, this paper serves as a valuable observation for the test of the locational preferences of creative class.

This study may also contribute to the ongoing policy dialogue on how to effectively attract returnee entrepreneurs. The significance of returnees in promoting high-tech entrepreneurship has been widely recognized by the local, regional and national governments. Various policies have been designed and implemented in order to create local environments conducive to returnee entrepreneurship (Hart, 2003; Wennekers and Thurik, 1999). By focusing on the best returnee entrepreneurs, the results of this paper help to make policies more effective.

The rest of the paper is organized in the following order. In section 2, the distribution pattern of returnee entrepreneurs is demonstrated. In section 3, literature about the influential factors of locational choice behavior is reviewed. In section 4, the nested logit model is adopted to model the locational choice process of returnee entrepreneurs using hand collected individual level data. Results are discussed in section 5, followed by brief conclusions in section 6.

2. The distribution pattern of returnee entrepreneurs in China

Despite the intensive attention on returnee entrepreneurs, there are no systematic statistics about their distribution, except the data based on 2003, which was released at the Exhibition of Chinese Returnees' Entrepreneurship Achievements held at Beijing in 2004. No updates are published since then, although the number of returnee entrepreneurs has grown very quickly and their distribution has changed greatly after 2003. To demonstrate the recent distribution pattern of returnee entrepreneurs, this study approximated the number of them in each province. Restricted by the data availability, the estimated dataset is based on year no later than 2008. However, it is when the boom of returnee entrepreneurs has got close to its peak and the number of start-up parks for returnee entrepreneurs has got into a stabilized period. Thus we believe that this dataset is adequate to catch the fiercest change during the five years before 2008 and can reveal the latest distribution pattern.

Limited by the serious shortage of necessary information, data in all provinces cannot be obtained from the identical source or estimation method. The officially released data were adopted primarily for provinces with available information. For other provinces without published data, the numbers of returnee entrepreneurs were estimated based on information in the nearest year. The results of the distribution pattern in each province are shown in Figure 1, and the details are listed in Table 1.

Table 1 presents the most recent estimation on Chinese returnee entrepreneurs' distribution since the officially published data in 2003. Although its accuracy still needs to be improved, the dataset portrays the general picture of the distribution of returnee entrepreneurs.

The new distribution pattern of returnee entrepreneurs reveals the following features:

- (1) Coastal provinces have more returnee entrepreneurs than inland provinces;
- (2) Beijing and Shanghai have numbers of returnee entrepreneurs that are overwhelmingly higher than other provinces, including other coastal provinces;

Table 1. Distribution pattern of general returnee and returnee entrepreneurs in China

	<i>Haigui</i> 2003	<i>Haigui</i> Entrepreneurs 2003	<i>Haigui</i> 2008	<i>Haigui</i> Entrepreneurs 2008	Share in 2008(%)
Beijing	40000	5000	80000	13443	34.2
Tianjin		345	10000	800	2.0
Hebei	1500	69	3075	142	0.4
Shanxi	3000	100	4000	200	0.5
InnerMongolia	1331	26	2729	201	0.5
Liaoning		380	24000	2863	7.3
Jilin		210	3439	565	1.4
Heilongjiang		146	6200	393	1.0
Shanghai	50000	4580	75000	7158	18.2
Jiangsu		976	36000	1800	4.6
Zhejiang	3000	589	9646	1595	4.1
Anhui	3000	206	4000	547	1.4
Fujian	4000	344	8200	1613	4.1
Jiangxi		31	508	135	0.3
Shandong	4000	448	9600	1115	2.8
Henan		95	1556	255	0.6
Hubei		330	5404	1100	2.8
Hunan	4000	157	8200	322	0.8
Guangdong	10000	866	24000	2079	5.3
Guangxi		120	1966	89	0.2
Hainan	300	14	387	35	0.1
Chongqing		40	3600	90	0.2
Sichuan	2600	231	5330	463	1.2
Guizhou			1100	unknown	-
Yunnan		64	1049	148	0.4
Tibet				unknown	-
Shaanxi		390	6387	2000	5.1
Gansu	1000	54	2050	77	0.2
Qinghai			200	unknown	-
Ningxia		11	176	34	0.1
Xinjiang	1800	20	3690	50	0.1

Source: Data in 2003 is from Exhibition of Chinese Returnees' Entrepreneurship Achievements held at Beijing in 2004. Data in 2008 is estimated from various data sources. Estimation processes of returnees and returnee entrepreneurs in 2008 can be found in Table 11 and Table 12, respectively, in the Appendix.

3. Literature review on the underlying factors of locational choice

behavior

3.1. Economic factors

In the behavioral analysis framework, people make decisions based on the utility maximization process. Among the various factors affecting an individual's utility, economic considerations, as emphasized in neo-classical theory, are recognized as the most dominant reason for choice of migration destination. Neo-classical theory views a migrant as a producer, whose migration decision is to maximize the return from labor. This can be traced back to Sjaastad (1962), who divided the costs and returns of migration into “money” and “non-money” factors. The money returns of migration are an increment in a migrant's real earnings stream—in other words, the return to one's human capital, usually measured in income. The notion of migration for higher income prevails in the research on voluntary migration. In the case of entrepreneurs, their income is related to the profitability of the firms. Therefore, the economic factors discussed here are those that affective to the performance of enterprises, such as market size, infrastructures, wage and land costs, as well as economic dynamics.

Observers have captured the attractiveness of the huge domestic market to returnee entrepreneurs (Wang, 2005). Thus, supposedly, they would look for a bigger local market. The market size is the GDP size adjusted according to the connections with other provinces. Extending the market accessibility index in the works of Harris (1954), an index of market size (Cheng, 2007) was developed in the following formula:

$$M_i = GDP_i + \sum_{j=1, j \neq i}^N \frac{GDP_j}{Dist_{ij}^2} - \sum_{j=1, j \neq i}^N \frac{GDP_i}{Dist_{ij}^2}$$

where M is the market size, and $Dist_{ij}$ is the railway distance between provincial capitals of province i and j .

Infrastructure is measured by transportation density, which equals the total length of highway (km) divided by the area (km²) of the province. Two kinds of costs are considered here: labor cost measured by the average wage level and land cost measured by the average housing price. Economic dynamics is defined as the average employment growth rate during the last 3 years. Here we propose:

H1. Returnee entrepreneurs tend to locate at places with larger market size (**H1a**), higher economic dynamics (**H1b**), ampler infrastructure (**H1c**) and lower cost (**H1d**).

3.2. Urban amenity

In addition to the identity of producer in the neo-classical theory, a migrant also has another identity, that is, as a consumer. This new identity affects a person's utility from choosing a location, through the revealing of the individual's preference of amenities. There are mainly two strands of literatures, focusing on natural and urban amenities separately. Natural amenities included temperate climate, dryness, and proximity to the coast, environmental beauty and so on (Ullman, 1954; Sjaastad, 1962; Glaeser et al., 1995; Glaeser et al., 2001). Artificial amenities in an urban setting have also been considered by researchers, which can be dated back to Tiebout (1957), who first implied a relationship of urban amenities with migration, arguing that people “vote with their feet” by choosing cities that provides better public goods. His followers find that talented migrants are increasingly attaching high values to amenities that lead to a more pleasant urban life, such as a variety of consumer services and goods, aesthetical and physical settings, good public

services, and speedy transportation to make the city accessible (Findlay and Rogerson, 1993; Glaeser, et al., 2001).

Among various urban amenities, the public-provided amenities, such as the availability of parks and recreational opportunities (museums, theatres, etc.), professional sports franchises, transportation networks, public education, and health care, are usually more of the attention of public policy makers, urban planners and city managers. The ongoing debates regarding the effect of publically provided urban amenities have not reached a solid conclusion. For example, studies in Germany have proved that publically provided goods, such as cultural offerings (Buettner and Janeba, 2009), health care and education (Fritsch, 2007) act as important attractions for talented people. Meanwhile, evidence also showed that, the provision of public facilities in health care, education, cultural and recreational amenities had only a minor, if any, impact on the presence of talent in seven European countries (Boschma and Fritsch, 2009).

The impacts of connections seem to differ across people and regions. More studies are necessary to reach a commonly applicable conclusion. Aimed at testing the effect of urban amenities on returnee entrepreneurs in the context of China, the following hypothesis is proposed in this study:

H2. Returnee entrepreneurs will locate at places with high level of urban amenities, such as cultural offerings (**H2a**), medical (**H2b**) and educational services (**H2c**).

3.3. Creative milieu

The latest debate on the place attractiveness to talent has shifted the focus to the creative milieu, especially in the studies on creative class – a group of talented people “who add economic value through their creativity” (Florida 2002, p. 68). Based on the rationale that resources not engaged in economic activity will not by themselves be a part of the growth process, this creative class theory highlights the importance of skills measured on an occupational basis, instead of those measured on educational basis traditionally emphasized in the human capital theory. Florida (2002) has brought new elements into the debate of place attractiveness. He argues that a city should be characterized with “3T” power - tolerance, technology and talent power - to attract the creative class. People with entrepreneurial creativity are among the core of this class and thus are supposed to be attracted to creative milieu.

Tolerance

This recognition of tolerance can be derived to the works of Jacobs (1961) who stressed the importance of a diversity of individuals. However, it is Florida who contributed to the economic development literature by introducing tolerance as a new answer to the question why some places are better able than others to generate, attract, and retain creative people. According to him, it is not (or not only) job opportunities or urban amenities that attract the creative class to a city (Florida and Gates, 2003). Competitive cities are those with “low barriers to entry” which are “known for diversity of thought and open-mindedness” (Florida, 2005, p.130), in his termination, the “tolerance”.

In empirical studies, tolerance of a place is represented by the diversity of specific type of residents, like *gay*, *foreigner*, or *bohemian* (people who are engaged in cultural and artistic occupation, such as musicians, writers, performing artists, photographers, designers, fashion models and so on). The rationale is that these people are sensitive to social exclusion and a place without tolerance to new ideas would appeal unfriendly, resulting in pushing them out. *Gay* index is stressed to be one of the best proxies for tolerance (Inglehart and Norris, 2003; Inglehart and

Weltel, 2005). But due to the lack of data availability, its adoption is only limited in empirical studies in the U.S. (Florida, 2002). Studies in European countries frequently adopted the foreigner/ethnic index (Hansen and Niedomysl, 2009; Fritsch, 2007) and bohemian index (Boschma and Fritsch, 2009; Hansen and Niedomysl, 2009) as instead.

In Chinese context, it is difficult to use the above measurements of tolerance. Considering China has long restricted internal migration, Florida et al. (2008) proposed a substitute index of population diversity, which measures the share of the population who are from other provinces of the country, i.e. without local registered residence (i.e. *hukou*).

Besides population diversity, this study proposes an index of openness length to represent tolerance in China. As is widely known, China used to be a closed nation, where trade with the international world had been stopped for about three decades. Consequently, business ideas and culture generated in China are relatively closed and backward. The opening up began in 1978 and the Development Zone used to be the only window to do business with foreign countries and enjoy preferential policies, such as tax exemption, low rent, and so on. By connecting to the outside world, Chinese businesspersons learn about international society, including the standardization of acts as well as diluting the role of social relationships. Thus in general, more contacts with foreign countries indicate a more open and tolerant atmosphere. Hence, this study uses a new indicator - the length of time since the first national development zone was established - to measure the openness of a place.

Hence, we propose:

H3. Returnee entrepreneurs will choose places with high tolerance (**H3a**) and openness (**H3b**) to locate their firms.

Technology power

Studies have demonstrated that technology is the main source of productivity growth early in the 1950s (Solow, 1956). This view of seeing exogenous technological progress as the engine of long-run growth was later imbedded in the model by Romer (1986, 1990), who was the first that formulated an explicit growth model with technical progress resulting from deliberate actions taken by private agents who respond to market incentives. Technology power (innovation) is the outcome of creativity, and in turn could be a good indication of an environment inductive to creative industry. High-tech entrepreneurs are supposed to be interested in cities with higher technology power.

As the second indicator for creative milieu, technology can be measured either from the input side (such as R&D expenditures) or from the output side (in the form of patents). Someone argues that the output side is usually more reliable for regional growth in the sense that high input does not necessarily lead to high output (Florida et al., 2008). However, for entrepreneurs, the investment in R&D is supposed to be more important than the output. Both of the two indices are tested in our model.

Besides, for entrepreneurs, the high-tech agglomeration is also supposed to be important for returnees' companies. An index of high-tech share is adopted to test the role of technology in the industrial structure.

Hence, we propose:

H3. Returnee entrepreneurs will choose places with high technology power to locate their firms, which indicates higher R&D investment (**H3c**), higher technological output (**H3d**), higher high-tech agglomeration (**H3e**).

Talent power

Talent power is considered as another feature of a competitive city. The role of talent in economic growth has been identified in many existing studies (Lucas, 1988; Mellander and Florida, 2006). Subsequent studies based on the work of Baumol (1968) have improved our understanding of the role of qualified talent pool in relation to technology, technological innovation and entrepreneurship (Lee, et al., 2004; Acs and Armington, 2006; Audretsch, et al., 2005). Entrepreneurs, especially the founder of high-tech companies, may be interested in the talent power of a place for the concern of available labor stock.

Hence, we propose:

H3. Returnee entrepreneurs will choose places with high talent power to locate their firms (H3f).

3.4. Social connections

As mentioned above, Sjaastad (1962) divided the costs and returns of migration into “money” and “non-money” factors. He specified non-money factors, among which there are “psychic costs.” Psychic costs represent the emotional costs of leaving one’s familiar surroundings. Sjaastad’s work contributed to the research on migration by offering the perspective that social relationships can affect one’s utility and further influence on one’s choice of location. This perspective is especially useful in interpreting the return migration from developed areas to less developed ones. For most people, adaption to being in an unfamiliar society costs extra energy, and getting close to familiar people could be an emotional comfort. Powdthave (2008) argued that people would settle for lower income¹ in the home country, even factoring out the consumption issue² because pecuniary losses will be compensated for by being close to relatives and friends. Dahl and Sorensen’s (2009) study found that entrepreneurial talent in Denmark placed much more emphasis on being close to family and friends than on regional characteristics that might influence the performance of their ventures when deciding where to locate their businesses.

Thus, we hypothesize:

H4. The returnee entrepreneurs tend to locate firms at where they have social connections.

Besides emotional needs, there is another possible interpretation for the effect of social connections on the migrant’s choice of destination. They can act as social capital resources and be beneficial for careers as suggested by Saxenian (2001), Benson-Rea and Rawlinson (2003). However, it is worth noting that whether a society with closer social networks would promote economic growth remains debatable. In the latest creative class theory proposed by Florida, the role of social capital was the opposite of making a city creative. He asserted that homogeneous communities that have strong ties among their members can have an adverse effect on growth, claiming that such environments often tend to suppress new ideas and creativity, and drive creative class out. Therefore, future potential cities are moving toward “places with looser networks and weaker ties” that “are more open to newcomers and thus promote novel combinations of resources and ideas” (Florida, 2004, p.31). In other words, a place with close social networks is the opposite of tolerant place. H4 should be the rejected when H3a and H3b is accepted, and vice versus.

¹ The income needs to be higher than a physiological minimum threshold (Reichlova, 2005).

² Consumption might be cheaper in the home country. The gap between purchasing power in the home and host countries might not be as huge as the income gap. However, consumption price differences are becoming smaller across countries. In a world under accelerating globalization and internationalization, consumer goods are spreading worldwide, with almost the same prices for cars, electronic appliances, daily commodities like clothes, shoes, and so on.

4. Methodology and Data

4.1. Methodology

In the discussion of “what makes a place attractive”, a popular research method has been to rate the attractiveness of a place according to various aspects of performance, such as business climate, quality of life and so on (Rogerson, 1999; Malecki, 2004; McCann, 2004). Such ratings have been questioned by academia because there is seldom agreement on the variables to be included or the relative weight for achieving a proper measure of attractiveness (Rogerson, 1999). The arbitrariness could easily lead to criticism that it facilitates policies with problematic priorities (McCann, 2004).

Instead of rating, the migration perspective is considered as a more convincing method to study place attractiveness (Niedomysl, 2010). Macro data of migration has been popular in analyses due to the easy availability, but it has also been criticized for neglecting the differences of individuals. Taste heterogeneities of individuals were overlooked and people were averaged out in the aggregated information. Thus micro data has been more preferred by recent researchers. The discrete choice method (DCM), dealing with micro data, has been frequently used in empirical studies recently. DCM method is derived from random utility theory, according to which an individual is capable of evaluating the utility associated with a set of alternatives and subsequently selecting the alternative that he or she perceives will yield maximum utility (Manski, 1977). To deal with a large alternative set, researchers have long been equipped with theoretical tools pioneered by McFadden’s (1973, 1976), but the restrictions on the small number of alternatives has not been loosened until the dramatic improvement of computing technology took place.

In this study of locational choices, the alternatives are places. The utility of an individual n that faces a choice set of J places can be represented by the following formula:

$$U_{nj} = V_{nj} + \varepsilon_{nj} = x_{nj}\beta + z_n\gamma + \varepsilon_{nj}; \quad j \in J, n \in N, \quad (1)$$

where U_{nj} is the utility that n th individual obtains by choosing j th alternative destination; V_{nj} is the observed utility (also called representative utility); x is a vector of destinations attributes; z is a vector of personal attributes; ε_{nj} is the stochastic utility, which remains unobserved; β is a vector of alternative-specific coefficients; γ is a vector of individual-specific coefficients; J is the total number of alternatives; and N is the total number of individuals.

The probability that individual n chooses destination j is the probability that the utility of destination j exceeds that of all other destinations.

$$\begin{aligned} P_{nj} &= P(U_{nj} > U_{nk}), \forall k \text{ where } j, k \in J \text{ and } k \neq j \\ &= P(V_{nj} + \varepsilon_{nj}) > P(V_{nk} + \varepsilon_{nk}), \forall k \neq j \\ &= P(\varepsilon_{nk} - \varepsilon_{nj}) < P(V_{nj} - V_{nk}), \forall k \neq j. \end{aligned} \quad (2)$$

This probability is a cumulative distribution. Using the density $f(\varepsilon_n)$, this cumulative probability can be written as

$$P_{nj} = \int_{\varepsilon} I(\varepsilon_{nk} - \varepsilon_{nj} < V_{nj} - V_{nk}, \forall k \neq j) f(\varepsilon_n) d\varepsilon_n, \quad (3)$$

where $I(*)$ is the indicative function equal to 1 when the expression in parenthesis is true and 0 otherwise. The probability is essentially a multidimensional integral over the density of the unobserved portion of utility $f(\varepsilon_n)$. Depending on how the density function $f(\varepsilon_n)$ is specified, different DCMs can be obtained. The assumption about the distribution of the unobserved utility decides which DCM a researcher should use.

The commonly used standard logit model is derived under the assumption that ε_n is independently and identically distributed with a type I extreme value distribution (also called Gumbel and type I extreme value distribution). This logit model has been widely used in the social sciences for its simplicity, but it has a strict restriction named IIA property. The independence placed on ε_{nj} requires that for any individual, the ratio of choice probabilities of any two alternatives is independent from the utility of any other alternative. This implies that the odds ratio between any two alternatives should not change by the inclusion or exclusion of any other alternative, as shown by the following formula:

$$\frac{P_{ni}}{P_{nm}} = \frac{e^{V_{ni}} / \sum_j e^{V_{nj}}}{e^{V_{nm}} / \sum_j e^{V_{nj}}} = \frac{e^{V_{ni}}}{e^{V_{nm}}} = e^{V_{ni} - V_{nm}}, \quad (4)$$

The odds ratio of choosing i and m is irrelevant to any other j for any $j \neq i$ or $j \neq m$. This property has been labeled the “independence from irrelevant alternatives (IIA)”.

IIA property can be tested with Hausman’s specification test. According to Hausman and McFadden (1984), if a subset of choice alternatives is irrelevant, it can be omitted from the sample without changing the remaining parameters systematically.

In the case of IIA property violated, to relax the IIA assumption, generalized extreme value (GEV) models have been invented such as the nested logit (NL), multinomial probit, and mixed logit models. GEV models assume that the error terms are distributed according to a generalized extreme value distribution. The most widely used member of the GEV family is the nested logit model. Daly (1978), McFadden (1978), and Williams (1977) separately proved that the nested logit model is consistent with utility maximization. Later, the nested logit model was widely used in the research on the choice of energy supplier (Train, 1986), transportation (Forinash and Koppelman, 1993), telephone service (Train et al., 1987), as well as residence (McFadden, 1978).

In NL analysis, the IIA assumption can be largely relaxed by grouping similar alternatives into nests. Suppose we have a decision tree on two levels, with M optional nests at the upper level and a total of J alternatives at the bottom level. The probability that alternative $j \in B_k$ was chosen is equal to the probability that nest B_k is chosen multiplied by the probability that alternative j is chosen given that an alternative in B_k is chosen:

$$P_{nj} = P_{nB_k} \times P_{nj|B_k}, \quad (5)$$

where $P_{nj|B_k}$ is the conditional probability of choosing j given that an alternative in nest B_k is chosen, and P_{nB_k} is the marginal probability of choosing nest B_k . According to Train (2007), the probability that decision maker n who wants to maximize his or her utility chooses the nest B_k in the first level and alternative j in the second level is

$$P_{nB_k j} = \frac{e^{z_n \gamma + \lambda_k I_{nk}}}{\sum_{l=1}^K e^{z_n \gamma + \lambda_l I_{nl}}} \times \frac{e^{x_{nj} \beta / \lambda_k}}{\sum_{j \in B_k} e^{x_{nj} \beta / \lambda_k}}, \quad (6)$$

where dissimilarity parameter $\lambda_k = \sqrt{1 - \rho_k}$ and ρ_k denote the correlation in nest k . I_{nk} is the inclusive value that links the two levels of the nested logit model by bringing information from the bottom level into the upper level. It is equal to $I_{nk} = \ln \sum_{j \in B_k} \exp(x_{nj} \beta / \lambda_k)$. Essentially, $\lambda_k I_{nk}$ captures the expected value of utility to individual n of the alternatives available in nest B_k .

The equation (6) can also be written as:

$$P_{nj} = \frac{e^{V_{nj} / \lambda_k (\sum_{j \in B_k} e^{V_{nj} / \lambda_k})^{\lambda_k - 1}}}{\sum_{l=1}^K (\sum_{j \in B_l} e^{V_{nj} / \lambda_l})} \quad (7)$$

Compared with a standard logit model, by using a NL model we obtain relaxation of the IIA assumption in two ways: (i) IIA over alternatives in each nest, and (ii) independence from irrelevant nests (IIN) over alternatives in different nests (Train, 2007). The results are estimated by maximum likelihood.

Although in NL, decision trees are often interpreted as implying that the highest-level decisions are made first, followed by decisions at lower levels, no such temporal ordering is necessarily implied (Henscher et al., 2005). Instead, NL models are appropriate because they have groups of alternatives that are similar to each other within the nest in unobserved ways; in other words, they are appropriate when there is a correlation for unobserved reasons between the alternatives in each nest but no correlation between alternatives in different nests.

4.2. Data sources

In this analysis, the data were generated from hand-collected information of individual returnee entrepreneurs. The sample entrepreneurs were drawn from various sources, including reward programs (both national and local), Returned Chinese Scholar Pioneer Yearbooks, other publications about returnees, websites of Start-up Parks for Returned Students, and so on. In other words, our samples are all returnee entrepreneurs who have caught intensive public attention. They are well known either for significant business success or for the high potential to change an industry significantly and promote local economic development. Therefore these samples represent the most successful or most potential of Chinese returnee entrepreneurs. By focusing on the best, this study offers highly valuable implications on talent attracting policies for local governments.

Based on information from the above resources, we first established a name list of returnee entrepreneurs, whose personal experience and individual attributes were then tracked by searching reports in newspapers, magazines, books and websites.

A returnee entrepreneur should meet the requirements of both returnee and entrepreneur. “Returnee (*haigui* in Chinese, i.e., 海归)” is the abbreviation of *haiwai guiguo liuxuesheng* (海外归国留学生 or student returnees from overseas). Later its definition expands to refer all the highly educated returnees who have at least a tertiary educational background and have been abroad for study, training, or work for at least one year.

Entrepreneurs are defined according to their position in a company. Specifically, only those in the position of CEO, general manager, chairperson of the board, and so on were considered as entrepreneurs under the rationale that only those people can make the final decision of where to locate the firm.

Starting up a company would with no doubt make the founder a qualified research object, but this is not a requirement. Those who took over an existing company are also recognized as entrepreneurs and are included in our dataset, because when he or she does so, it means he also accepts its location.

If an entrepreneur's business includes headquarters and branch companies, then his choice of destination choice was defined as where the headquarters are located.

If someone opened start-ups multiple times, his or her last choice was adopted. We assume that he or she had learned through trial and error, with regard to the location of the firm as well as many other factors. The last trial is assumed to be a mature decision after deep deliberation. If he or she had moved, the new place was taken into consideration. However, if he or she had just opened a branch company, the location would still be his prior choice.

A total of 798 samples were collected to establish the database. Returnee entrepreneurs have the following characteristics: mainly males in their 40s and early 50s with an average of 46.8; high degrees of education; an average of 10.3 years of experience abroad.

The alternative set includes 30 Chinese mainland provinces (Tibet is excluded from the alternative set for the lack of information about returnees). The number of samples in each province is proportional to the actual number of returnee samples estimated in section 2. It was assumed that when choosing one's return destination, each individual (sample) selected a location in one of 30 provinces. Values were assigned to the variables describing the sample's alternative sets (30 provinces) according to the year when the choice of destination was made. To illustrate, if a returnee was looking for a place to locate his company in 2000, then he chose from 30 provinces with variables in 2000. Since the period ranges from 1991 to 2008 for 18 years, the total number of available provinces amounts to 30×18 .

4.3. Variables and nested decision tree of alternative province

The variables include both place attributes of alternative provinces and personal attributions of the samples. Detailed descriptions for the former are listed in Table 2 and the latter in Table 3. Statistical summaries are shown in Table 4.

In this research, a normal logit model was first applied. However, the results of the Hausman-McFadden test showed that the IIA property does not hold for all 30 alternative provinces. Thus we need to use NL model instead. There are different ways to specify one's decision tree in a NL model. After grouping alternative provinces in different ways, decision tree in Figure 2 was decided because it can offer the most comprehensive information from the results among other decision trees that can pass the IIA test. It passed the initial LR-test for the IIA test, which means they perform better than the logit model before the nests were constructed. In this nested tree structure, nine nests are firstly defined, each of which involves one coastal province. The nest is named after the province it includes. Thus, nine coastal nests are primarily defined, which are Beijing, Shanghai, Liaoning, Tianjin, Shandong, Jiangsu, Zhejiang, Fujian and Guangdong. Then, inland provinces are divided into two nests. The first nest is named "inland_a" group which involves Anhui, Jilin, Shaanxi, Hubei and Sichuan, which are relatively popular in inland. The second nest is denoted as "inland_b" nest which involves all the rest nineteen provinces.

Table 2. Descriptions and sources of place variables

Categories	Variables	Description	Sources
Economic factors	Market size	the logarithm of national market size (million RMB)	<i>Statistical Yearbook of China</i> (NBS, various year)
	Infrastructure	provincial transportation density	
	Cost	the logarithm of provincial average housing price per square meter(RMB) plus average wage level(RMB)	
	Economic dynamics	average employment growth rate during the past 3 years	
Amenities	Medical services	the logarithm of the number of doctors per 10000 population	
	Education services	the logarithm of the number of teachers in Middle and Elementary Schools per 10000 population	
	Culture offerings	the number of art performance troupes per million population	
Creative milieu	Talent	the percentage of people with college or higher level education background within the population over 15 years old	
	(Tolerance) Population diversity	the percentage of residents without local <i>hukou</i> (registered residence status) among the total population	
	(Tolerance) Openness length	the time period from when the first national-level development zones up to 2009	CADZ(www.cadz.org.cn/en)
	(Technology) Innovation index	the number of patents per 10000 population	http://www.sipo.gov.cn/
	(Technology) R&D investment	the percentage of R&D investment in the industry output (%)	<i>China Statistical Yearbook on High Technology Industry</i> (NBS, various year)
	(Technology) High-tech index	the share of high tech industry output in the total industry output (100%)	
Social connections	Birthplace	=1, if the alternative province is one's birth place; =0 otherwise	hand collected
	Studied-place	=1, if the individual has ever studied (for tertiary education or higher) in the alternative province; =0 otherwise	
	Worked-place	=1, if the individual has ever worked in the alternative province; =0 otherwise	
Policy	Preferential policy	the number of <i>haigui</i> start-up parks in each province	<i>Returned Chinese Scholars Pioneer Yearbook</i> (CSCSE, various year)

Table 3. Description of personal variables

Variables	Description	Sources
Gender	1=male, 0=female	hand collected
Ln_age	the logarithm of one's age in year 2011	
Degree	one's highest degree. doctor degree =3, master degree=2, bachelor degree =1	
Ln_timeabroad	the logarithm of the number of years one has stayed abroad (plus 1)	
Life abroad	=1 if one has a life abroad (in the way that have a foreign nationality or Permanent Residence status, or have an occupation abroad)	
Exp_diploma	=1, if one has obtained a diploma from universities abroad	
Exp_enterprise	=1, if one has work experience in enterprises abroad	
Exp_research	=1, if one has work experience in research institutes or universities abroad	
Exp_startup	=1, if one has experience of starting up a company abroad	
If_NorthAmerica	= 1, if the individual has resided in countries of North America; =0 otherwise. The member countries mentioned in our case database include United States, Canada, Cuba.	
If_AsianOceania	= 1, if the individual has resided in countries of Asia; =0 otherwise. The member countries mentioned in our case database include Australia and New Zealand, Japan, Korea, Singapore, China Taiwan, China Hong Kong, China Macau, India, too, Indonesia, Cyprus, Philippines, Vietnam, and Malaysia.	
If_Europe	= 1, if the individual has resided in countries of Europe; =0 otherwise. The member countries mentioned in our case database include Netherlands, Greece, Finland, Norway, Scotland, Russia, Spain, Hungary, Austria, France, Britain, Germany, Belgium, Ireland, Switzerland, Italy, Denmark, Czech Republic, Scotland, Ukraine, Wales, as well as the name of the continent Europe.	

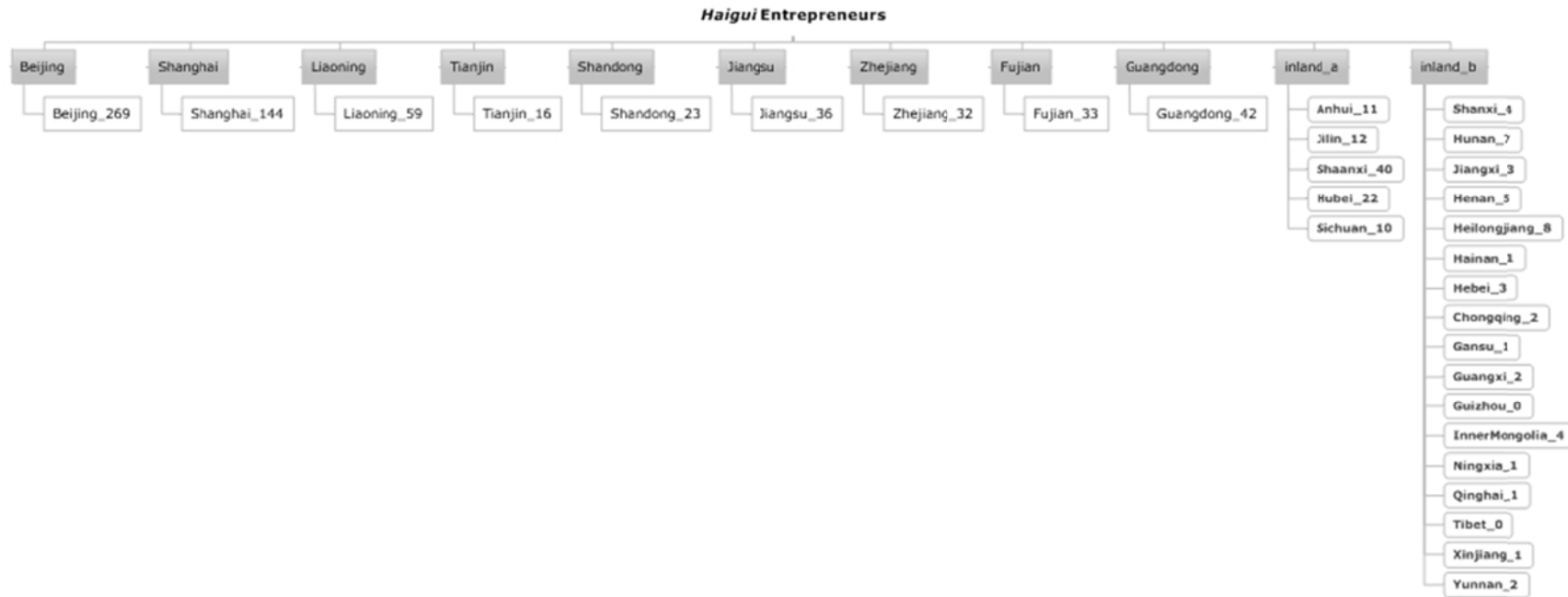
Table 4. Statistical summaries

Variable	Obs ⁽¹⁾	Mean	Std. Dev.	Min	Max	Cases ⁽²⁾
Market Size	24738	8.106	1.156	3.419	10.584	
Infrastructure	24738	0.483	0.383	0.016	2.513	
Cost	24738	9.670	0.572	7.637	11.244	
Economic dynamics	24738	1.015	0.021	0.940	1.129	
Medical services	24738	2.801	0.293	2.245	3.881	
Education services	24738	4.447	0.300	3.158	5.383	
Cultural offerings	24738	2.926	3.046	0.632	23.689	
Population diversity	24738	0.085	0.070	0.000	0.455	
Openness length	24738	18.323	4.941	8	25	
Talent	24738	0.068	0.050	0.001	0.326	
R&D investment	24738	0.103	0.134	0	0.980	
Innovation index	24738	1.320	2.196	0.004	18.172	
High-tech index	24738	0.092	0.082	0.004	0.379	
Preferential policy	24738	2.897	4.809	0	30	
Birth place	24738	0.021	0.145	0	1	
Studied-place	24738	0.032	0.177	0	1	
Worked-place	24738	0.015	0.122	0	1	
Gender	24738	0.935	0.247	0	1	
Ln_age	21452	3.834	0.153	3.296	4.357	692
Degree	24521	2.579	0.587	1	3	791
Ln_timeabroad	23064	2.274	0.589	0.693	4.025	744
lifeabroad	24738	0.252	0.434	0	1	798
exp_diploma	23901	0.785	0.411	0	1	771
exp_enterprise	24738	0.568	0.495	0	1	798
exp_startup	24738	0.188	0.391	0	1	798
exp_research	24738	0.310	0.462	0	1	798
If_NorthAmerica	24738	0.675	0.468	0	1	798
If_AsiaOceania	24738	0.209	0.407	0	1	798
If_Europe	24738	0.192	0.394	0	1	798

Note (1): The model takes each case's choice on each alternative as one observation. Since there are 30 provinces, there are 30 observations for each case. The total number of observations is the number of cases multiplied by 30.

Note (2): The numbers of cases are listed in the last column,. There are 798 cases; the variable with missing values will have less than 798 cases.

Figure 2. Specification of returnee entrepreneurs' decision tree



Note: The number behind each province shows the number of cases

5. Results and Discussion

5.1. Influence of the place variables

Economic factors

Economic factors are very decisive in the locational choices of returnee entrepreneurs. Economic dynamics, represented by the average increasing rate of employment opportunities, along with market size, were found strongly effective in locational choice behavior. These results prove that returnee entrepreneurs are attracted to return to China by the big market (H1a) and the dynamic economy (H1b).

The hypothesis with lower cost (H1d) is rejected by the evidence. Instead, the effects of costs were found positive (although not always significant), which means returnee entrepreneurs prefer areas with higher cost. This is because other economic conditions are so beneficial that they can compensate for the high cost. Moreover, the cost level is still quite low compared to that in developed countries. Therefore, the entrepreneurs do not need to circumvent high cost regions. Another reason is that high costs indicate a better entrepreneurial environment, including a high level of talent and high consumptive power of the market. However, these correlations are not direct enough to be revealed in the regression results.

Amenities

The results show that cultural offerings were unrelated or negatively related to locational choice and do not support H2a. One possible explanation is that returnee entrepreneurs are more focused on businesses and not interested in cultural enjoyments. That's in consistence with the evidence that they are highly concerned with the factors closely related to success, such as market sizes and economic dynamics. Therefore cultural activities may not be among their top priorities. Also, the other explanation might be that they are a highly mobile population and can enjoy cultural amenities at the international level. Looking at the details of the samples, in a very conservative estimate, more than 25% of returnee entrepreneurs still maintain a life abroad (permanent status or nationality in a foreign country, business abroad, family members living abroad etc.). They can access cultural resources in international society, so they appear indifferent to cultural offerings in Chinese provinces. A city or a province with poor cultural offerings would not dampen their enthusiasm to start their venture there.

As to public services like medical and educational services (H2b, H2c), they were found to be a positive influences on locational choice (although only sometimes significant). In fact, returnee entrepreneurs, especially those as good as our samples, enjoy amenities at the international level, which extends from cultural offerings to medical and educational services. The truth that more than a quarter of our samples commute across national borders would largely explain why the level of public services in China does not matter much. However, for the rest who have returned fully along with their family members to China, public services would still affect their locational choices.

Social connections (and tolerance)

Social connections were found to have strong positive effect on locational choice. The coefficients for the three types of connections are in the following order: birthplace > work place > study place. This suggests that social connections to a familiar place do attract returnee

entrepreneurs to locate there. The ties to one's birthplace are the most influential factors of the three types, with work place next and college city third.

It is worth noting that when the variables of social connections are included, our model cannot satisfy the IIA assumption. The results of other variables are obtained from a model without social connection variables. The explanation might be that places cannot be properly grouped by social connections. For example, provinces can be categorized into economically developed and undeveloped groups, but they cannot be divided into birthplace or non-birthplace groups for multiple individuals.

The reliance on social connections and the insignificant results of tolerance together forms the strongest results in this paper. It forms a new observation which does not align with Florida's creative class theory, because a society that relies on social networks is the opposite of a tolerant milieu. While creative class in Western society are attracted to tolerant, open, loose-connected places, our research subjects of returnee entrepreneurs does not behave in the same way. Reasons lie in the cultural differences between China and Western society. Compared with the Western world, Asian countries, including China, have much closer social relationships. Western countries have experienced the rise in popularity of artificial networking via the internet, such as Facebook, Twitter, and so on, which might be interpreted as replacing Asian's human connections and resulting in looser social connections. Also, in an emerging economy like China, from the nation to individual citizens, too much focus has been placed on economic growth. Individual idiosyncrasies are usually ignored or sacrificed, and tolerance is not of people's priority. Returnees should also have been affected by this cultural background. They may not have chosen returning to the home country if they do cherish tolerance.

Based on the individual choice behavior perspective, this study tries to fit tolerance into the framework of utility. There are two possible ways how tolerance can affect the utility of a decision maker: as psychological comfort of learning about edgy and cool stuff, or as catalyst which increases the probability to meet some random inspiring people. Neither of the above way affects returnee entrepreneurs, who put high priority on business success instead of learning about edgy things, and who get to know people helpful for their business through social networks instead of some random ways.

Therefore, we can conclude that people on the employer side of creative class are not attracted to creative milieu in China. Whether the employees would follow the same behavior pattern or not still remains left for further studies.

Preferential policies

This paper also tests the hypothesis that preferential policies attract returnee entrepreneurs to locate there. Astonishingly, results show that the answer is no. The coefficient of the index is negative although not significant. The variable describing preferential policies is represented by the number of start-up parks in a specific year. The non-significant results show that the mere construction of a park has little effect. There have been criticisms about government resources not being used effectively and that they are focused wrongly. Many start-up parks are no more than property management agencies. Government funds have been distributed evenly in same small amounts to eligible companies because there is not an effective method to screen the potential of business plans and companies (Wang, 2010).

5.2. Relationship between personal attributes and locational choice

Personal characteristics of the returnee entrepreneurs were also found to affect one's locational choices. By testing the effects of personal information, this study has empirically proved that different places tend to attract specific kinds of individuals. The way to observe impact of personal attributes requires comparing with a base, which was decided to be Shanghai in this analysis. All other provinces are compared with Shanghai. Here we draw two groups out to look at the detailed results.

Comparing Beijing, Guangdong and Shanghai

First we looked at the three most developed Chinese provinces: Beijing, Guangdong and Shanghai. The results were shown in Table 5 as follows.

Table 5. Comparison between Beijing, Guangdong and Shanghai

Personal Attributes	Comparison results
Degree	Guangdong>Shanghai>Beijing
Age	Beijing>> Shanghai>Guangdong
Time period being abroad	Shanghai>> Beijing, Shanghai>Guangdong
Having stayed in North America	Shanghai>Beijing, Shanghai>> Guangdong
Having stayed in Asia and Oceania	Guangdong>Shanghai>Beijing
Having stayed in Europe	Beijing>Shanghai>Guangdong
Experience of foreign diploma	Beijing>Shanghai>Guangdong
Experience in enterprises abroad	Shanghai>Beijing, Shanghai>> Guangdong
Experience in research institutes abroad	Beijing>Shanghai, Guangdong>Shanghai
Experience of starting up abroad	Beijing>Shanghai, Guangdong>Shanghai

Note: only the mark ">>" indicates a significant result. The mark ">" indicates a weak tendency, which is not statistically significant.

Beijing, Shanghai, and Guangdong are three of the most developed regions in China, where the connection with international world is quite strong and favored by returnee entrepreneurs. It is necessary to examine them more closely to understand why the numbers of returnee entrepreneurs differ among these three provinces.

The results show that Beijing appears to attract older returnees and those who stayed abroad for shorter periods. These two attributes may indicate more social capital in China. Table 6 shows that among the three provinces, returnee entrepreneurs with social connections in Beijing are more likely to return to Beijing. Higher proportions of people think that connections with Beijing as available resources. As the capital of China, Beijing has the advantage of political authority. People in Beijing can get closer to the country's policy makers and are more sensitive to the latest movements in their industries. Some are even invited to participate in setting standards for new industries. They can also obtain information more quickly if there is policy or financial support from the government. Being close to the political center has become a tacitly understood attraction among Beijing returnee entrepreneurs.

Table 6. The utilization of social connections with Beijing, Shanghai, and Guangdong

(unit: persons)

Province	Samples	birth place(bp)			worked place(wp)			studied place(sp)		
		bp	bp&rd ^[1]	(bp&rd)/bp%	wp	wp&rd	(wp&rd)/wp%	sp	sp&rd	(sp&rd)/sp%
Beijing	269	63	51	81.0	118	80	67.8	259	142	54.8
Shanghai	144	31	23	74.2	51	26	51.0	74	38	51.4
Guangdong	42	12	4	33.3	28	6	21.4	25	8	32.0

Note[1]: “rd”=the number of samples choosing the province in the first row as returned destination;

“bp”=the number of samples who was born in the province in the first row;

“wp”=the number of samples who had worked in the province in the first row

“sp”=the number of samples who had studied in universities in the province in the first row;

“bp&rd”= the number of samples who had the province in the first row as both birthplace and returned destination. “wp&rd” and “sp&rd” follows the same naming principle.

Table 6 shows that returnee entrepreneurs tend to use their social relationships in Beijing if they have the resources. This does not mean that Beijing is not attractive to people without connections there. Table 7 shows that of all Beijing returnee entrepreneurs, less than 20% were born there and less than 30% had worked there previously. However, over half had studied there. If we look at the rest who had no study experience in Beijing, only 13% have social connections (9.3% had worked in Beijing; 4.8% were born there; 1.1% were born there and also had worked there). Only about 35% of returnee in Beijing are newcomers to the city and have no connections in Beijing. These data show that most returnee entrepreneurs attracted to Beijing had studied there previously.

The share of people with social connections is lower in Shanghai and Guangdong (see Table 7). Comparatively, returnee entrepreneurs in these two provinces rely less on social relationships than those in Beijing.

Table 7. The share of returnee entrepreneurs with social connections (unit: persons)

Province	Samples	birth place(bp)		worked place(wp)		studied place(sp)	
		bp&rd ^[1]	(bp&rd)/samples %	wp&rd	(wp&rd)/samples %	sp&rd	(sp&rd)/samples %
Beijing	269	51	19.0	80	29.7	142	52.8
Shanghai	144	23	16.0	26	18.1	38	26.4
Guangdong	42	4	9.5	6	14.3	8	19.0

Note[1]: rd=the number of samples choosing the province in the first row as returned destination

Compared with Beijing, fewer Shanghai returnees have social connections there (see Table 7), although social ties in Shanghai are still largely valued (see Table 6). Regarding other personal information, Shanghai clearly attracts returnee returning from North America and those with work experience in enterprises abroad.

As China’s financial center where the biggest stock exchange board in mainland China located (the other one is in Shenzhen), Shanghai has extended its influence to the international financial

and business world. Thus, it has attracted many multinational companies to locate their headquarters there. These internationally active companies have hired many returnee employees. That is why, compared with Beijing, Shanghai has a similar number of general returnee but much fewer returnee entrepreneurs. However, these companies also cultivate a market economy environment which is quite similar to that in the Western world. Therefore, returnee entrepreneurs, especially those back from the US where the spirit of entrepreneurship is vigorous and active, find a similar environment in Shanghai, such as effective management, less reliance on kinsmanship, more reliance on ability, and a more active capital market (i.e., more venture capital).

Among the three provinces, Guangdong has the most open business environment and the lowest dependence on social connections. As the entrance to the more open economy Hong Kong, Guangdong was the first mainland province to be influenced by the capitalist market. Many economic system reforms were initiated and tested in Guangdong before expanding to other provinces. For example, Guangdong was the first province to practice market supply instead of planned supply. Thus, Guangdong has cultivated a vibrant market economy with the least government intervention. As a result of this pursuit of "small government" administration, Guangdong has not offer systematic and intensive support policies as do other provinces. Consequently, returnee entrepreneurs have not favored Guangdong. Furthermore, although the active market economy in Guangdong has bred a large number of private enterprises, many of them highly capable of imitating products in the market. In reality, some even do not hesitate to do so. The requirements of intellectual property protection are not stringent enough in Guangdong and thus prevent high-tech entrepreneurs from locating there. In addition, compared with Beijing and Shanghai, Guangdong has a weaker foundation of tertiary education. The universities are not as good and they are less numerous than in the other two cities. Thus, Guangdong may have sent fewer students abroad because former generations of students were restricted by going abroad at their own expense. At that time, only good universities have the networks and resources to send students abroad and there are less good universities in Guangdong, compared with Beijing and Shanghai. This fact has largely hampered the attraction of returnee entrepreneurs in Guangdong province heretofore.

The comparison between three most developed coastal provinces highlights Beijing's attractiveness as a political center and higher-education center, with which the social connections are extremely valuable. Other provinces can hardly compete with it. This implies that government favorable treatments including investment and information need to be distributed more fairly.

Comparing inland provinces and Shanghai

As demonstrated in the nested tree structure in Figure 2, inland provinces were divided into two nests, one is relatively popular (denoted by "inland_a") and the other is unpopular (denoted by "inland_b"). The results of comparing them with Shanghai were as follows.

The "inland_a" provinces were found unattractive to returnee entrepreneurs with higher degrees, longer experience abroad, working experience in foreign enterprises, and those returned from North America. The "inland_b" provinces were also found unattractive, especially to those who had resided in North America and those who had work experience abroad. There are not much significant results showing the kinds of returnee entrepreneurs that are more likely to go to inland provinces. These evidences suggest that inland provinces have little advantage over Shanghai.

The only significant result in favor of inland provinces is that entrepreneurs with higher degrees

are more likely to go to “inland_a” provinces than Shanghai. Inland provinces still place a high emphasis on high degrees, especially diplomas obtained abroad, while in Shanghai, ability is important. Hence, returnees with work experience in enterprises abroad find better career opportunities in Shanghai. Although degree works as an easy assessment of people’s ability, in the long term, inland local governments still need to screen potential entrepreneurs on the profitability of their business plans and managerial skills instead of on high educational qualifications.

Table 8. Comparison between inland provinces and Shanghai

Personal Attributes	Comparison results
Degree	“inland_a”>> Shanghai, “inland_b”>Shanghai
Age	Shanghai>”inland_a”, Shanghai>”inland_b”
Time period being abroad	Shanghai>> ”inland_a”, Shanghai>”inland_b”
Having stayed in North America	Shanghai>> ”inland_a”, Shanghai>> ”inland_b”
Having stayed in Asia and Oceania	“inland_a”>Shanghai>“inland_b”
Having stayed in Europe	“inland_a”>Shanghai>“inland_b”
Experience of foreign diploma	“inland_a”>Shanghai>“inland_b”
Experience in enterprises abroad	Shanghai>> ”inland_a”, Shanghai>> ”inland_b”
Experience in research institutes abroad	“inland_b”>Shanghai>“inland_a”
Experience of starting up abroad	Shanghai>“inland_a”, Shanghai>“inland_b”

Note: only the mark “>>” indicates a significant relationship. The mark “>” indicates a weak tendency, which is not statistically significant.

Table 9. Regression results

Place variables	Personal variables included																	
	Ln_age, Degree, Ln_timeabroad						If_NorthAmerica, If_AsiaOceania, If_Europe						exp_diploma, exp_enterprise, exp_startup, exp_research					
Population diversity	-	-					-	-					-	-				
Openness length	-						-(***)						-(***)					
Talent			+						+(**)						+(*)			
R&D investment				+(**)						+(***)						+(***)		
Innovation index				-						-(*)						-		
High-tech index					+(***)						+(**)						+(**)	
Preferential policy						-						-(**)						-(**)
Cost	+	+(*)	+	+(*)	+	+(**)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(**)	+(***)
Economic dynamics	+(**)	+(***)	+(**)	+	+(**)	+(***)	+(**)	+(***)	+(**)	+	+(***)	+(***)	+(**)	+(***)	+(**)	+	+(***)	+(***)
Market size	+(*)	+(*)	+	+(**)	+(**)	+(**)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)
Infrastructure	-	-	-	-	-	+	+(*)	+(*)	+	+	+	+	+	+	+	+	+	+
Cultural offerings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Medical services	+(*)	+	+	+(*)	+	+(*)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)	+(***)
Educational services	+	+	+	+(*)	+(***)	+	+	+(*)	+(**)	+(**)	+(*)	+	+	+	+(*)	+	+(*)	+
IIA assumption satisfied?								no	no	no	no	no		no	no	no	no	no

*** 0.01significance,**0.05significande,*0.1significance.

The collinearity is no larger than 0.7 and is considered acceptable.

Table 10-1. Collinearity diagnosis (1)

	Pop ~di vers ity	Ope nne ss~	Tal ent	R& D~t	Inn ovat ion	Hig h-te ch	Pref eren tial ~	Cos t	Eco ~dy nam ics	Mar ket size	Infr astr uctu re	Cult ural ~	Me dica l~	Edu cati on~	Birt hpla ce	Stu died ~	Wo rked~
Population Diversity	1.000																
Openness_length	0.244	1.000															
Talent	0.762	0.137	1.000														
R&D_investment	0.433	-0.053	0.402	1.000													
Innovation index	0.743	0.264	0.742	0.392	1.000												
High-tech index	0.659	0.186	0.529	0.707	0.572	1.000											
Preferential policy	0.551	0.334	0.537	0.310	0.670	0.447	1.000										
Cost	0.466	0.045	0.570	0.215	0.572	0.347	0.478	1.000									
Economic dynamics	0.384	-0.039	0.412	0.241	0.470	0.270	0.422	0.464	1.000								
Market size	0.364	0.647	0.309	0.252	0.447	0.221	0.549	0.434	0.165	1.000							
Infrastructure	0.500	0.398	0.547	0.263	0.699	0.420	0.583	0.563	0.335	0.606	1.000						
Cultural offerings	-0.131	-0.450	-0.121	-0.166	-0.085	0.028	-0.170	0.154	0.107	-0.505	-0.245	1.000					
Medical services	0.490	0.007	0.673	0.181	0.432	0.305	0.223	0.193	0.039	-0.042	0.164	0.142	1.000				
Education services	-0.134	-0.133	-0.083	-0.167	-0.210	-0.265	-0.209	-0.059	-0.090	-0.188	-0.045	0.069	-0.007	1.000			
Birthplace	0.065	0.038	0.058	0.057	0.054	0.061	0.080	0.013	0.016	0.075	0.050	-0.042	0.043	-0.036	1.000		
Studied-place	0.224	0.035	0.253	0.173	0.190	0.201	0.183	0.089	0.106	0.087	0.126	-0.047	0.196	-0.062	0.345	1.000	
Worked-place	0.175	0.038	0.187	0.133	0.159	0.160	0.120	0.072	0.089	0.064	0.107	-0.023	0.140	-0.043	0.254	0.376	1.000

Table 10-2. Collinearity diagnosis (2)

	Ln_age	Ln_time abroad	Degree	Life abroad	exp_dipl omoma	exp_entr eprise	exp_star tup	exp_rese arch	If_North America	If_Asia Oceania	If_Eur opo
Ln_age	1.000										
Ln_timeabroad	0.357	1.000									
Degree	0.290	0.306	1.000								
Life abroad	0.076	0.214	0.070	1.000							
exp_diplomoma	-0.040	0.335	0.191	0.005	1.000						
exp_entreprise	0.004	0.299	-0.034	0.004	0.068	1.000					
exp_startup	0.027	0.208	0.002	0.244	0.099	-0.070	1.000				
exp_research	0.181	0.152	0.359	0.058	-0.133	-0.321	-0.142	1.000			
If_NorthAmerica	0.051	0.256	0.052	0.146	0.014	0.143	0.128	0.066	1.000		
If_AsiaOceania	0.090	0.001	-0.037	-0.007	-0.046	-0.026	-0.058	-0.022	-0.454	1.000	
If_Europe	-0.064	-0.149	0.061	-0.069	0.035	-0.090	-0.082	-0.004	-0.484	-0.162	1.000

6. Conclusions

Returnee entrepreneurs have the following characteristics: mainly males in their 40s and early 50s with an average of 46.8; high degrees of education; an average of 10.3 years of experience abroad. Their distribution inside the country is extremely uneven. Similar to the distribution pattern of general returnee, returnee entrepreneurs are concentrated in coastal developed provinces. Beijing and Shanghai have the most returnee entrepreneurs and Beijing largely exceeds Shanghai.

The locational choices of returnee entrepreneurs are largely affected by economic factors related to the success of enterprises, such as market size and economic dynamics. They are also attracted to high technology power, to be specific, by R&D investment and high-tech industry agglomeration, rather than the technological output.

Social connections also have a strong effect to attract returnee entrepreneurs. Along with the evidence that tolerance indices measured of population diversity and length of open up are not influential to locational choice behavior, a tentative conclusion can be made that entrepreneurs does not pursue a creative milieu in China. This conclusion is important to guide the further studies on creative class, indicating the need to distinguish the employers from the employees of creative class. Whether other members of creative class react in the same way still needs further test.

Besides the above results to guide incentive policies, the results of personal attributes can also enlighten the policy makers. Inland provinces are not favored by most returnee entrepreneurs. The only obvious results are the tendency to attract returnees with high degrees or diplomas obtained overseas. This might suggest that inland provinces need to reduce the emphasis on higher degrees and shift the focus to actual profitability of business plans. This suggestion presents a challenge to the government's ability to identify potential entrepreneurs.

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Appendix

Table 11. Information source or estimation method of *haigui* in 2008 (by province)

Province	H_{2008}	Estimation method or source
Beijing	80000	From Returned Chinese Scholars Pioneer Yearbook (2009)
Tianjin	5650 ^{***}	$= H_{2008Shanghai} * (HE_{2003Tianjin} / HE_{2003Shanghai})$
Hebei	3075 ^{**}	$= H_{2003Hebei} * growth_rate_2008_to_2003$
Shanxi	4000	From Returned Chinese Scholars Pioneer Yearbook (2009)
Inner Mongolia	2729 ^{**}	$= H_{2003InnerMongolia} * growth_rate_2008_to_2003$
Liaoning	24000	From Returned Chinese Scholars Pioneer Yearbook (2009)
Jilin	3439 ^{***}	$= H_{2008Shanghai} * (HE_{2003Jilin} / HE_{2003Shanghai})$
Heilongjiang	2391 ^{***}	$= H_{2008Shanghai} * (HE_{2003Heilongjiang} / HE_{2003Shanghai})$
Shanghai	75000	From Returned Chinese Scholars Pioneer Yearbook (2009)
Jiangsu	33690 [*]	$= H_{2007Jiangsu} * growth_rate_2008_to_2007$
Zhejiang	9646 ^{***}	$= H_{2008Shanghai} * (HE_{2003Zhejiang} / HE_{2003Shanghai})$
Anhui	4000	From Returned Chinese Scholars Pioneer Yearbook (2009)
Fujian	8200 ^{**}	$= H_{2003Fujian} * growth_rate_2008_to_2003$
Jiangxi	508 ^{***}	$= H_{2008Shanghai} * (HE_{2003Jiangxi} / HE_{2003Shanghai})$
Shandong	8984 [*]	$= H_{2007Shandong} * growth_rate_2008_to_2007$
Henan	1556 ^{***}	$= H_{2008Shanghai} * (HE_{2003Henan} / HE_{2003Shanghai})$
Hubei	5404 ^{***}	$= H_{2008Shanghai} * (HE_{2003Hubei} / HE_{2003Shanghai})$
Hunan	8200 ^{**}	$= H_{2003Hunan} * growth_rate_2008_to_2003$
Guangdong	22460 [*]	$= H_{2007Guangdong} * growth_rate_2008_to_2007$
Guangxi	1966 ^{***}	$= H_{2008Shanghai} * (HE_{2003Guangxi} / HE_{2003Shanghai})$
Hainan	387	From Returned Chinese Scholars Pioneer Yearbook (2009)
Chongqing	3369	From Returned Chinese Scholars Pioneer Yearbook (2009)
Sichuan	5330 ^{**}	$= H_{2003Sichuan} * growth_rate_2008_to_2003$
Guizhou	200	From Returned Chinese Scholars Pioneer Yearbook (2009)
Yunnan	1049 ^{***}	$= H_{2008Shanghai} * (HE_{2003Yunnan} / HE_{2003Shanghai})$
Tibet	N/A	
Shaanxi	6387 ^{***}	$= H_{2008Shanghai} * (HE_{2003Shaanxi} / HE_{2003Shanghai})$
Gansu	2050 ^{**}	$= H_{2003Gansu} * growth_rate_2008_to_2003$
Qinghai	200	From Returned Chinese Scholars Pioneer Yearbook (2009)
Ningxia	176	From Returned Chinese Scholars Pioneer Yearbook (2009)
Xinjiang	3690 ^{**}	$= H_{2003Xinjiang} * growth_rate_2008_to_2003$

Source: 2003 data is from the Exhibition of Chinese Returnees' Entrepreneurship Achievements (held at Beijing in 2004, by the PDC, MOP, MOE); data for 2007, 2008 are from Returned Chinese Scholars Pioneer Yearbook (2008, 2009).

Note (1): [n] represents data officially published data in major cities of the province.

Note (2): The estimation is done based on the following principles. The number in the latest year is of higher priority to be chosen as estimation base. Specifically, data in 2008 were firstly adopted, if it's not available, then estimation from 2007 will be used; for provinces still lack of data, estimation are made

based on data in 2003.

- 1) The numbers with superscript * are estimated from the published data of 2007. It is already known that the growth rates of returnees in 2008 comparing to 2007 are as follows: Beijing = 1.103, Shanghai = 1.143, China (national wide) = 1.123. Then, the average 1.123 is used to calculate
- 2) The numbers with superscript ** are estimated from the published data of 2003. It is already known that the growth rates of returnees in 2008 comparing to 2003 are as follows: average of provinces (with data available in both year) = 1.75, China (national wide) = 2.35. The mean value 2.05 is set as the growth value for the estimation.

(Beside, the number of Sichuan province is actually data in Chengdu city.)

(It is worth noting that Zhejiang's returnee number is 6150 after the 2 step's calculation, and turns out to be too low (especially comparing to its neighboring province Jiangsu). Thus the third step's result is adopted for Zhejiang provinces.)

- 3) After step 1) and 2), there are some provinces lacking of data. The third step is to estimate the numbers for them according to their proportion to Beijing and Shanghai, using entrepreneur data in 2003. It is found out that these results are usually underestimated, comparing to provinces with data already known. So the relatively higher number (proportional to Shanghai's data) is adopted to complete the final dataset. The result numbers are noted with superscript ***.

Guizhou's data is calculated by none of the previous 3 ways. According to unofficial data source (<http://www.gyrc.com.cn/news/detail.asp?id=2675>), there are about 200 returnees in Guizhou and this number is adopted. Tibet's data is also missing after the aforementioned 3 steps were done. Since *haigui001* database does not include returnees who currently reside there either, it reflects the fact that Tibet is rarely chosen by the *haigui*. Thus, case database will not contain cases in Tibet and it is dropped from the alternative set.

Table 12. Information source or estimation method of returnee entrepreneurs in 2008

Province	HE_{2008}	Estimation method or source
Beijing	13443	From Returned Chinese Scholars Pioneer Yearbook (2009)
Tianjin	800	$= HE_{2003Tianjin} * H_{2008Tianjin} / H_{2003Tianjin}$
Hebei	142	$= HE_{2003Hebei} * H_{2008Hebei} / H_{2003Hebei}$
Shanxi	200	170 = H_{2007} in Taiyuan City; 233 = $HE_{2003Shanxi} * H_{2009Shanxi} / H_{2003Shanxi}$; 200 = $HC_{2009Shanxi} * (HE_{2003China} / HC_{2003China})$ < $HE_{2008Shanxi}$ is estimated to be 200 - the relatively smaller data estimated for year 2009.>
InnerMongolia	201	$= HE_{2007IM} + (HE_{2010IM} - HE_{2007IM}) / (2010 - 2007)$
Liaoning	2863	$= HC_{2008Liaoning} * (HE_{2003China} / HC_{2003China})$
Jilin	565	<proportional to Beijing> $= (HE_{2003Jilin} / HE_{2003Beijing}) * HE_{2008Beijing}$
Heilongjiang	393	<proportional to Beijing> $= (HE_{2003Heilongjiang} / HE_{2003Beijing}) * HE_{2008Beijing}$
Shanghai	7158	$= HC_{2008Shanghai} * (HE_{2003China} / HC_{2003China})$
Jiangsu	1800	From http://news.eastday.com/m/20080703/u1a3691486.html
Zhejiang	1595	$= HC_{2008Zhejiang} * (HE_{2003China} / HC_{2003China})$
Anhui	547	$= HC_{2008Anhui} * (HE_{2003China} / HC_{2003China})$ <Underestimated, because HC is limited to companies in science parks.>
Fujian	1613	$= HC_{2008Xiamen} * (HE_{2003China} / HC_{2003China})$ <Underestimated, because HC is limited to companies in Xiamen. >
Jiangxi	135	$= HE_{2007Jiangxi} * H_{2008China} / H_{2007China}$
Shandong	1115	1076 = $HE_{2008Shandong} * H_{2008China} / H_{2007China}$ 1115 = $HC_{2007Shandong} * (HE_{2003China} / HC_{2003China})$ < $HE_{2008Shandong}$ is estimated to be 1115. >
Henan	255	<proportional to Beijing> $= (HE_{2003Henan} / HE_{2003Beijing}) * HE_{2008Beijing}$
Hubei	1100	From http://www.hbstd.gov.cn/html/2011_5_19_15_19_47_857.htm
Hunan	322	$= HE_{2003Hunan} * H_{2008Hunan} / H_{2003Hunan}$
Guangdong	2079	$= HE_{2003Guangdong} * H_{2008Guangdong} / H_{2003Guangdong}$
Guangxi	89	89 = $HE_{2008Guilin} + HE_{2008Nanning}$ From Returned Chinese Scholars Pioneer Yearbook (2009) <Underestimated>
Hainan	35	From Returned Chinese Scholars Pioneer Yearbook (2009)
Chongqing	90	From http://www.qalex.com/a/2009/68919-1.htm
Sichuan	463	$= HE_{2003Sichuan} * H_{2008Sichuan} / H_{2003Sichuan}$
Guizhou	N/A	
Yunnan	148	$= HC_{2008Yunnan} * (HE_{2003China} / HC_{2003China})$
Tibet	N/A	
Shaanxi	2000	From Returned Chinese Scholars Pioneer Yearbook (2009) <Underestimated. The data only includes Xi'an.>
Gansu	77	77 = $HE_{2011Lanzhou}$ 111 = $HE_{2003Gansu} * H_{2008Gansu} / H_{2003Gansu}$. <77 is adopted.>
Qinghai	N/A	
Ningxia	34	From http://kfq.people.com.cn/GB/54918/55132/5803264.html <Underestimated. The data only includes HE in Ningxia until 2007.>
Xinjiang	50	From http://www.51ielts.com/c/2011-05-13/58602.html

Note: HE – the number of *haigui* entrepreneurs; H – the number of *haigui*; HC – the number of *haigui* companies. Subscript 2003 and 2008 is used to indicate the year. The other subscript of province names is used to indicate the place.