

Heterogeneous Impacts of Investing China on Domestic Market Outcomes: Empirical Evidence from Taiwanese Plant Level Data*

Mitsuo Inada,[†] Yung-Hsing Guo[‡]

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Abstract

The domestic market consequences of firms' investing abroad have attracted attentions both of economists and policymakers. This paper investigates the impact of FDI towards China on plants' productivity and employment, using Taiwanese representative manufacturing plant-level data and exploiting an FDI regulation change in China in 2002 as a significant variation. Our difference-in-differences estimates reveal a heterogeneity in the response of Taiwanese plants to this change in the regulation: plants in deregulated industries which newly invested in China after 2000 experienced a increase in their productivity, employment and operating sales while plants in those industries which had already invested in China at 2000 decreased both employment and operating sales. We do not find any differential trends between plants in deregulated industries and those in other industries before the regulation change. We also found that the regulation change resulted in increased capital inflows and net sales generated by Taiwanese subsidiaries in China. Overall, we do not find a statistical evidence on the hollowing out effects of FDI on domestic market outcomes in deregulated industries.

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Keywords: Foreign direct investment; Domestic market outcomes; Heterogeneous impacts; Regulation change

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[†]Division of Natural Resource Economics, Graduate School of Agriculture, Kyoto University, and Research Fellow of Japan Society for the Promotion of Science, Email: inada.mitsuo.84z@st.kyoto-u.ac.jp

[‡]Department of International Business, National Taichung University of Science and Technology, Email: kaku@nutc.edu.tw