

Productivity Heterogeneity and the Internationalization of Chinese Firms^{*}

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Abstract

A large number of firms in China have begun export and foreign direct investment (FDI) since 2000. The destinations are various, ranging from high-income to low-income countries. The purpose of this paper is to examine empirically whether the productivity of firms is a factor in their modes of internationalization, and whether different market attributes also affect firms' choices of internationalization. While the former has been tested by a number of studies on the firms in OECD countries, the latter has not been sufficiently considered in previous studies so far. By constructing our original data set from the micro-level data of Chinese firms, we conducted empirical studies to test both hypotheses. Our estimated results show that in China, (i) the productivity of internationalized firms is higher than that of non-internationalized firms; (ii) firms tend to move from export to FDI according to a rise in productivity; (iii) export and FDI are clearly ordered in internationalized firms with regard to high-income countries, while they are not as clearly ordered with regard to low-income countries since the productivity cutoff for internationalized firms in low-income countries is low, and (iv) a pecking order among firms is clearly observable wherein the higher the productivity of the firms, the larger the number of FDI destinations. These results show that market-specific attributes significantly affect the choice of internationalization among Chinese firms. Our results may also supplement the fundamental propositions of the HMY model.

Key words: Internationalization of firm, Productivity, Market attribute, Export, FDI,
Pecking order

JEL Classification: F1, F23, L6

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