Privatisation, corruption, and globalisation in an R&D-based growth model: The effect of imitation by SOEs in China*

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Abstract

Using an agglomeration model with innovation, we investigate how trade liberalisation influence privatisation and growth rate. We consider imitation activity by State Owned Enterprises (SOEs), which obtain subsidiary with corruption in return for excessive employment. We find growth-enhancing effect of privatisation via trade liberalisation. Taxable firms decrease via firms' relocation from South to North by trade liberalisation. Southern government privatises SOEs to balance fiscal budget. This privatisation leads to decrease imitation by SOEs and reallocate labourers from manufacturing sector to R&D sector. Trade liberalisation results enhancing growth rate. These findings may explain rapidly growing Chinese economy via explosion of patent.

Keywords: FDI; agglomeration; public firms; corruption; privatisation.

JEL Classications: D73; F16; J45; L33; O30.

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