

Heterogeneous Impacts of Investing China on Domestic Market Outcomes: Empirical Evidence from Taiwanese Plant Level Data¹

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Abstract

The domestic market consequences of firms' investing abroad have attracted attentions both of economists and policymakers. In particular, accelerating the movement of domestic production to abroad raised public concern about hollowing out of domestic technologies and employment. This paper investigates the impact of FDI policies 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 checked our crucial assumption of whether the regulation change expanded Taiwanese firms' activity in China. We found that the regulation change resulted in increased capital inflows and net sales generated by new entrant subsidiaries in the Chinese market. Furthermore, we do not find a statistical evidence on the hollowing out effects on domestic market outcomes in deregulated industries.

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