

Where to Find Positive Productivity Spillovers from FDI in China: Disaggregated Analysis

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Summary

China has been the world leader among developing countries in attracting FDI over the past decade, during which period the Chinese economy has boomed. But to what extent have these FDI flows brought technologies, production techniques, and other management practices that have spilled over to indigenous Chinese firms either in the same industry (horizontal externalities) or in upstream or downstream industries (vertical externalities)?

The research on technological spillovers from FDI shows weak and inconclusive results due to variation in the sample and the methodology, in addition to the fact that, as we find out from this paper, spillover effects are heterogeneous across industries, ownership types and sources.

In this paper, therefore, we try to reconcile some of these results by making use of the best available data, state of the art methodology, and disaggregated analysis that allows us to see where exactly spillover effects from FDI on TFP, if any, can be found.

Using panel data from Chinese Industrial Surveys of Medium-sized and Large Firms for 2000-06, we show that while there is evidence of positive technological spillovers from FDI, such spillovers are very unevenly distributed. For some industries, there are positive spillovers from FDI presence in the same industry and province, but for others spillovers are negative. There are positive spillovers from FDI presence in upstream and downstream industries, but such spillovers mostly occur in private firms. There are more spillovers from foreign capital that comes from outside the greater China area.