FDI and Firm Productivity: The Role of Financial Constraints

Discussion on Wang, Wang, and Wei (2014)

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In Perspective

- Cost and bene t analysis of FDI to local economy
 - Bene ts: Enhanced productivity for FDI rms, Improved nancial condition for FDI rms, Spillover e ect to other local rms
 - Costs: Stolen market share by FDI rms from local rms, More severe nancial constraints for local rms due to borrowing of the FDI rms
- Mixed evidence on the net e ect (Aitken and Harrison (1999))
- However, it is usually argued that FDI increases target rm productivity.
- This paper argues that when local rms face more severe nancial constraints, it is possible that FDI rms do not even have higher productivity! The opposite might be true!



Main Findings of the Paper

- The target rm's productivity elasticity of FDI has a downward time trend in China
- The target rm's productivity elasticity of FDI is smaller (even be negative) among more nancially constrained rms
 - When local rms face severe nancial constraints, FDI rms can be less productive than local rms.
- The FDI shares tend to be higher among more nancially constrained industry



Overall Comment

- This paper asks a very important economic question, which is also extremely relevant for Chinese policy makers.
 - if the main bene t of FDI comes from relaxed nancial constraints for the target rm, domestic policy change can achieve the same goal without much of the negative e ect from the FDI
- I try to o er a couple of alternative explanations of their empirical results, and sometimes propose tests to distinguish those stories
- I will bug on some execution details, and try to re ne some tests



Comment: Fixed E ect

Table 2. Crossorational Proposics Possitrof Var. 2000.

FDI share	0.168	0.0121	13.86	0.14	0.19
Employment	-0.054	0.0027	-20.34	-0.06	-0.05
Age	-0.185	0.0038	-48.84	-0.19	-0.18
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Note:

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	Tabbe 3: Pandr Negression Nesiltis									
erval		Coefficient	std. err.	_t-value_	95% Cor	nf.—Int				
358	FDI share	0.0218	0.0071	3.06	0.0078	0.0				
992	Employment	-0.1030	0.0020	-52.79	-0.1068	-0.0				
040	Age	0.0990	0.0025	39.21	0.0941	0.10				
A 9901	Everet esti-	<u> </u>		1	<u> </u>	91				
.3,150	# of Observations	912	,343	# 0	f Groups	3				

Comment: Endogeneity

- There seems to be large xed e ect, suggesting endogeneity.
 - Maybe FDI are gravitated towards rms with high productivity, i.e., endogeneity
 - Is it possible that this endogeneity problem could become less severe over time, leading to a time trend
- How to x this?
 - Focus on changes in productivity, or at least use it as a robustness check
 - Changes in productivity seems relevant since we want to see how FDI improves the productivity of the target rm
- Due to a spillover e ect or just learning, the productivity gap between rms might be smaller in more recent years
- This could results in a decreasing time trend on the productivity elasticity of FDI shares, even for changes in productivity

Comment: Time to Build E ect?

This could be consistent with the notion that FDI improves productivity. Notice that the negative e ect among new rms are decreasing, not increasing. Another reason to focus on **changes in productivity**.

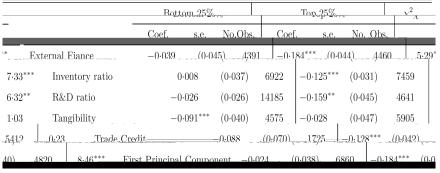
Table 5: Résults for New Entrants and Incumbents

	New Entrants (Age=0)						Incumbents (Age>0)						
terval	Year	Coefficient	std. err.	t-value	95% C	onf. Interval		Coeffic	eient	std. err.	t-value	95% Co	onf. Int
83	2000	-0.274	0.123	-2.220	-0.516	-0.032	1	0.15	9	0.012	13.040	0.135	0.1
25	2001	-0.101	0.072	-1.410	-0.241	0.040		0.20	13	0.011	18.390	0.182	0.2
05	2002	-0.215	0.088	-2.440	-0.389	-0.042		0.18	4	0.011	17.330	0.164	0.2
64	2003_	0.129	0.062	2.080_	_0.250_	0.007_		0.14	4	J.,Q.Q10	14_630_	L0.125.	01
	<u>n 198</u>	2004	U U33	$\overline{0000}$	ጥ ຮວບ	0.111	_4	1.046		0.111	0.008	13 150	Γ^{00}
	0.008	2005	0.070	0.047	1,510	0.190	0	091		0.077	0.009	0.260	0.001
	0.129	2006	-0.003	0.045	-0.070	-0.092	0	.086		0.114	0.008	14.740	0.099
	0.083	2007	-0.041	0.044	-0.930	-0.126	0	.045		0.069	0.007	9.540	0.055

Comment: Time to Build E ect? (Cont'd)

More nancially constrained rms have more room for improvement, or the productivity spread is larger among these industries? Need to check

Table 6: The Elasticity of Productivity w.r.t.FDI share for new firms



Comment: Miscellaneous

- Repeat analysis in Table 6 for all rms, rather than new entrants only, for robustness checks.
 - We just care about the di erence across more constrained and less constrained rms
- How about analyzing the productivity of the foreign investing rm, or the productivity gap?
- The measure of productivity is not perfect
- Why focus on productivity only? How about pro tability?
- Take negative on trade credit and asset tangibility, so the tables are easier to read.
- Also Fit a time trend instead of focusing on the absolute value of the coe cient of FDI on nancial constraints.



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- Very important economic question
- Extremely relevant question for Chinese policy makers today
- In sum, it is a great paper!

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Revise and Resubmit!!