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Title	Outward FDI and domestic input distortions: Evidence from Chinese firms
Author(s)	Cheng Chen[(a)], Wei Tian[(b)] and Miaojie Yu[(c)(d)]

Affiliation

(*a*) School of Economics and Finance, University of Hong Kong

(*b*) School of International Trade and Economics, University of International Business and Economics, Beijing, China

(*c*) Economic Research (CCER), National School of Development, Peking University, Beijing 100871, China

(*d*) Hitotsubashi Institute for Advanced Study, Hitotsubashi University, 2-1, Naka, Kunitachi, Tokyo 186 - 8601, Japan

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Abstract

This paper studies how discriminations against private enterprises (i.e., non-state-owned enterprises or non-SOEs) in the domestic market affect firms' investment and production strategies abroad. We first document three puzzling empirical findings using data on Chinese multinational corporations (MNCs). First, private MNCs are *less* productive than state-owned MNCs. Second, SOEs are *less* likely to undertake FDI. Third, relative size of state-owned MNCs (compared with non-exporting or non-multinational firms) is *larger* than that of private MNCs. A theoretical model is built to rationalize these facts. The key economic force is that distortions in the domestic input market incentivize private firms to invest and produce abroad, which results in less tougher self-selection into FDI for those firms (i.e., selection reversal). Compared with state-owned MNCs, private MNCs allocate output disproportionately more in the foreign market, and their size increases disproportionately when they become MNCs. All such theoretical predictions are supported by the data on Chinese MNCs.

Keywords Outward FDI, Multinational Firms, Institutional Distortion, State-owned Enterprises

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