

[DOI: 10.20472/IAC.2017.33.024](https://doi.org/10.20472/IAC.2017.33.024)

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**EFFECTS OF CORPORATE SECTOR RESTRUCTURING ON  
PRODUCTIVITY GROWTH AND THE ROLE OF FOREIGN OWNED  
ENTERPRISES IN CHINA**

**Abstract:**

This study analyzes productivity enhancing effects of privatizations as well as corporate sector restructuring involving foreign owned enterprises (FOE) in China using firm level data from 1998 to 2007 period. First, we examine key characteristics of firm level total factor productivities (TFPs) using a non-parametric multi-factor productivity approach and, then we decompose TFP growth by ownership categories using the dynamic Olley-Pakes method, paying special attention to the role of FOEs in this area. Second, this study measures spillover effects of FOEs on TFP of overall industries and finds that the FOE sector not to have had the backward spillover effects, which operate through sourcing of intermediate parts from local firms. However, this result is reversed when we re-examine the relationship using a truncated FOE group, which consists of firms that have been converted into FOEs from being local Chinese firms through foreign direct investments. This suggests that the lack of knowledge of local supply chain networks by original FOEs might have contributed to the earlier finding of an absence of the backward spillover effect of FOEs on local firms. In addition, this study finds shuffling of firms between the two categories of FOEs of HMT and FDI to have had measurable TFP enhancing effects.

**Keywords:**

Total Factor Productivity, FDI, China, privatization

**JEL Classification:** F21, F23