FOREIGN OWNERSHIP, PRODUCTIVITY, AND ECONOMIC CRISIS

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Abstract
This paper evaluates the productivity benefit from the present of foreign ownership in manufacturing firms. The productivity benefit is analysed for the period before crisis (1988-1996) and the period crisis onwards (1997-2000). Using the methodology of stochastic production frontier, the results show that foreign ownership generates positive productivity benefit to local manufacturing firms, both during the before crisis period and during the crisis onwards period. An interesting result emerges when comparing the two periods. Although positive spillover benefits exist in both periods, the coefficient of FDI Spillovers is larger during the period of crisis onwards, suggesting that the productivity benefit increase after economic crisis. These findings support an argument by Takii (2007) that economic crisis has positive impact on the productivity spillovers of FDI.

Keywords: Foreign ownership, productivity benefits, manufacturing, economic crisis.

JEL Classification: F21, F23

1. Introduction
It has been long argued in the literature that foreign ownership will generate positive benefits to local firms. The benefits can either direct, which take the forms of new capital and new fund for financing saving-investment gap, or indirect, in the forms of new knowledge that increase productivity of local firms. Although the direct benefits has widely believe been valuable for host economies, the preferential policies toward foreign direct investment (FDI) rest in the common argument that FDI generates externalities in the forms of new knowledge, including modern technology, advanced managerial expertise, and scale-efficiency knowledge (Blomstrom, 1986; Blomstrom and Kokko, 1998; Liu, 2008). These externalities are mainly due to foreign subsidiaries being unable to internalize the new transferred knowledge from their
parent companies, and this transferred knowledge spills over to domestic firms, raising productivity.

A large number of empirical studies have been conducted to evaluate the productivity benefits of foreign investment. Caves (1974), Globerman (1979), Driffield (2001), and Girma and Gorg (2007) show that positive productivity benefits exist in developed countries, such as Australia and UK. Blomstrom (1986), Kokko (1996), Javorcik (2004), and Kugler (2006) demonstrate that positive productivity benefits exist in developing countries, such as Mexico, Lithuania, and Colombia. In Indonesia, Blomstrom and Sjoholm (1999), Sjoholm (1999a, 1999b), Taki (2005), and Blalock and Gertler (2008) do the similar tests and conclude positive productivity spillovers in manufacturing firms. All these studies examine the productivity spillovers for a specific country at a specific time period. What less visible is these studies, particularly those on Indonesia, do not take into account economic shocks in examining the productivity spillover. This present study extends the literature by including economic crisis into the analysis of productivity spillovers.

The rest of this paper proceeded as follows: (1) a brief literature review is presented, (2) it is followed by the model, (3) the dataset is discussed, (4) the empirical results is presented, and (5) concluding remarks are given the last section.

2. Literature Review
The literature on the spillover effects of foreign ownership on local firm productivity can be trace back to the seminal dissertation of Hymer (1960). Based on this dissertation, theoretical literature extends the analysis of productivity benefits through various channels of spillover effects. Findlay (1978) demonstrates that foreign investments play an important role in motivating domestic firms to increase their productivities through technological improvements. Das (1987) presents a model showing that a foreign presence in an economy generates spillover effects for domestic firms through increases in efficiency. Kaufmann (1997) and Fosfuri et al. (2001) introduce models of productivity spillovers through labour mobility. Rodriguez-Clare (1996) points out that productivity benefits from foreign investment can be transferred through suppliers or industrial linkages.

Empirical literature grows following the theoretical literature. The pioneering papers in this field are Caves (1974), Globerman (1979), and Blomstrom and Persson (1983). Following these three papers, the empirical studies then develop in the various directions with various methodology and dataset. However, the results of the empirical studies are diverse, whereas some studies demonstrate positive productivity spillovers and some others show no spillovers or even negative spillovers. Todo and Miyamoto (2006) and Suyanto et al. (2009) are two empirical studies that support the positive productivity spillovers, while Aitken and Harrison (1999) and Djankov and Hoekman (2000) find negative spillover effects of FDI. The mix evidence reflects that an empirical study that uses a new methodology and takes into account some specific mediating factor, such as economic shock, is expected to contribute in the literature.

Empirical studies on productivity benefits in Indonesia manufacturing firms have been conducted by some researchers. Blomstrom and Sjoholm (1999), Sjoholm (1999a; 1999b), Taki (2005), Blalock and Gertler (2008), and Suyanto et al. (2009) are among them. Blomstrom and Sjoholm (1999) and Sjoholm (1999a; 1999b) utilize cross-sectional data and OLS regression to estimate the productivity benefits. Taki (2005) and Blalock and Gertler (2008) apply panel data and OLS regression. Only Suyanto et al. (2009) and Suyanto and Salim (2010) that applies a stochastic frontier method to examine the productivity benefits. The chief advantage of the stochastic frontier method if compared to the classical regression is that the former take into account the disturbance variable, which is separated into two components (inefficiency term and stochastic term). A more detailed discussion on the stochastic frontier method is presented in the second part of the following section.