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Speeding Up the Product Cycle: The Role of Host Country Reforms

by Liugang Sheng, Dennis Tao Yang
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Abstract:

We study the effects of policy reforms in the South on the decisions of intrafirm and arm's length production transfers by Northern firms. We show theoretically that relaxing ownership controls and improving contract enforcement can induce multinational companies to expand product varieties to host developing countries, and that a combination of the two reforms has an amplifying effect on product transfers. Consistent with these implications, we find that ownership liberalization and judicial quality played an important role in raising the extensive margin of processing exports in China for the period of 1997-2007. Our findings imply that institutional reforms in developing countries can effectively speed up the product cycle.

Text: See [Discussion Paper No. 6054](#)

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