

# FORMER FOREIGN AFFILIATES: CAST OUT AND OUTPERFORMED?

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## Abstract

The literature has documented a positive effect of foreign ownership on firm performance. But is this effect due to a one-time knowledge transfer or does it rely on continuous injections of knowledge? To shed light on this question we focus on divestments, that is, foreign affiliates that are sold to local owners. To examine the effect of the ownership change we combine a difference-in-differences approach with propensity score matching. We use plant-level panel data from the Indonesian Census of Manufacturing covering the period 1990- 2009. We consider 157 cases of divestment, where a large set of plant characteristics is available two years before and three years after the ownership change and for which observationally similar control plants exist. The results indicate that divestment is associated with a drop in total factor productivity accompanied by a decline in output, markups as well as export and import intensity. The findings are consistent with the benefits of foreign ownership being driven by continuous supply of headquarter services from the foreign parent. (JEL: F21, F23)

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*The editor in charge of this paper was M. Daniele Paserman.*

Acknowledgments: The authors wish to thank Marina Bellani, Michael Devereux, Octavio Escobar, Cristina Jude, Helen Miller, Bruno Merlevede, Daniele Paserman, Veronica Purice, Nadine Riedel, Joel Rodrigue, Claudia Steinwender and four anonymous referees as well as seminar participants at Erasmus University Rotterdam, De Nederlandsche Bank, ESG Management School, European Bank for Reconstruction and Development, University of Oxford, University of Nottingham, Vrije Universiteit Amsterdam, University of Sussex, Bilkent University, ETPF IFS 2014 workshop, AEA Meetings 2015 in Boston, CESifo Global Economy Workshop 2015, Empirical Investigations in International Trade Conference 2014 in Eugene, Ljubljana Empirical Trade Conference 2014 in Izola, Workshop on Trade and Innovation 2014 in Ferrara, Workshop on Applied International Trade and Trade Facilitation in Ankara, 2015 Comparative Analysis of Enterprise Data Conference in Istanbul, and Workshop on Regions, Firms and FDI in Ghent for their helpful comments and suggestions. They are also grateful to the European Tax Policy Forum for financial support. Beata Javorcik wishes to thank the University of Oslo for support and the Central European University for hospitality. The views expressed are those of the authors and do not necessarily reflect official positions of De Nederlandsche Bank. Javorcik is a Research Fellow at CEPR and both are Research Network Fellows at CESifo.

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