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01. December 2010

Online at <http://mpra.ub.uni-muenchen.de/27913/>
MPRA Paper No. 27913, posted 06. January 2011 / 03:13

**Knowledge sourcing and firm performance in an
industrializing economy:
The case of Taiwan (1992-2003)***

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*For financial support, the first author acknowledges the National Science Council, Taiwan.

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Abstract

We examine the impact of R&D and technology imports on firm performance in Taiwan's manufacturing industry in a policy context of industrial upgrading. To do so, we estimate a Translog production function on two panels (covering 1992-1995 and 1997-2003), using stochastic frontier models. We find that the effects of both knowledge inputs become significant in a larger number of industries in the second panel. These results suggest that the policies encouraging innovation implemented from 1991 onwards paid off in the second half of the 1990s, with innovation driving firm sales. In traditional industries, the effect of innovation can be interpreted as an effort to catch up with the global technology frontier. In the electronics and high-technology industries, it rather testifies of the emergence of a new domain of specialization for Taiwan – which was largely enabled by the aforementioned innovation policies.

Keywords: Manufacturing Industries, Newly Industrialized Countries, Technology Imports - Stochastic Frontier Estimation.

JEL classification : L25, L60, O33

Since the beginning of the 1990s, Taiwan has been increasingly challenged by international competition, especially from other emerging Asian economies. A steep rise in labour costs and the adoption of a managed floating exchange rate both contributed to make Taiwanese exports less competitive. As a reaction to these difficulties, Taiwan accelerated its industrial upgrading, a process which was supported by a bundle of specific public policies. These policies were designed to make Taiwan a knowledge-based economy, by encouraging R&D and by facilitating the importation of technology. The present research estimates how in-house R&D and technology imports impacted firm performance in the policy context of the 1990s and early 2000s in Taiwan.

The paper is organized as follows: the first section states the objective of the research, with an emphasis on the science and industrial policies context. The second section presents the data, and the third section details the econometric analysis. Results are presented and commented in a fourth section. Conclusions are given in a final section.

1. Objective of the research

Evaluating the impact of technology imports on industrial upgrading remains an important issue, especially in countries that are in a catching-up or industrializing phase. Several authors have assumed that, in such countries, licensing agreements with foreign firms may be at least as important a source of knowledge as internal R&D. Studies which examined this assumption in the case of the Japanese economy in the 1960s and 1970s (e.g., Caves and Uekusa 1976; Odagiri, 1983) did not find significant statistical evidence to support it. Subsequent studies, however, such as the one conducted for India by Basant and Fikkert (1996), suggest that technology imports may have a positive effect on productivity growth.

The present research examines this question in Taiwan in the 1990s. By all accounts, the history of innovation in Taiwan is not very long: innovation expenditures (including R&D and technology imports) really took up in the mid-1980s, and grew steadily to this day, with

technology imports gradually taking more importance (NSC, 2002). This evolution can be directly related to Taiwan's industrial and innovation policy, the cornerstone of which has been, since January 1st, 1991, the Statute for Upgrading Industry, hereafter SUI (Hou and Gee, 1993; Luo, 2001).

1.1. Taiwan's innovation policy in the 1990s: the SUI

Indeed, it is widely acknowledged that the bulk of Taiwan's manufacturing industry consists in small and medium enterprises (SMEs), which are particularly flexible and able to adapt quickly to changing market conditions (Hobday, 1995; Aw, 2002; Guerrieri and Pietrobelli, 2006). However, these SMEs would probably not have been able to invest so much in innovation without the help of specific public policies actively promoting industrial and technological upgrading (Tsai and Wang, 2005; Guerrieri and Pietrobelli, 2006).

These policies have been formalized within the aforementioned SUI, which consists in a number of incentive measures aimed at encouraging investment and technology transfers in emerging and/or strategic industries (i.e. industries that are expected to benefit economic development in a substantial way). A first set of measures involve taxation policy and direct public spending, including: (1) tax incentives to develop investment in R&D and process innovation; (2) preferential loans (arranged through the Executive Yuan Development Funds, in conjunction with banks) for the upgrading of SMEs and the promotion of industrial R&D; (3) specialized programs providing support for technical upgrading, new product development, and R&D; (4) public institutes and centres providing extensive support to the private sector in developing new technology.

A second set of measures is oriented towards education, with the objective of upgrading the stock of human capital. These measures take the form of: (1) on-the-job training provided by various academic organizations, in order to give workers the skills to succeed in emerging industrial sectors; (2) doubling to six years the maximum period of stay

in Taiwan of skilled mainland Chinese technicians; (3) increasing the employment of mainland technical personnel at innovative R&D centres; (4) enabling wider civilian employment among armed forces R&D personnel; (5) establishing institutes to foster talent in high-tech industries (e.g., semiconductors).

The third and final set of measures was specifically implemented to encourage technology transfers and to accelerate the flow and commercialization of innovative knowledge. The most important was perhaps the creation of science-based industrial parks (or “science parks”), to facilitate the development of high-tech industries such as electronics. The objective was to have places in Taiwan where R&D-intensive firms and universities could mutually benefit from each other’s presence, creating a virtuous circle of knowledge production and economic growth (Lee and Yang, 2000; Guerrieri and Pietrobelli 2006). In that prospect, the science parks, built on land provided by the government and universities, were designed to provide an attractive environment for scientists and researchers (Tsai and Wang, 2005; Guerrieri and Pietrobelli, 2006). Another important measure, in the same vein, was the establishment of a platform for technical exchange between domestic and foreign businesses on the one hand, and academic organizations on the other (the Taiwan Technology Marketplace or TWTM).

The SUI was first designed to be effective until 31st December, 1999. After 2000, due to the continued need for structural transformation and for the promotion of international competitiveness, a New SUI was implemented, with an effective period of 10 years, from January 1st, 2000, to 31st December, 2009.

1.2. Knowledge sourcing and productivity in the context of the SUI

Our research question becomes particularly relevant in the context of the SUI for two reasons: first, because this set of public policies was designed to help Taiwanese firms catch up with the global technology frontier. Second, because these policies consisted both in

spurring firm's R&D and in helping them acquiring foreign technologies needed for their development. This is indeed the ideal context to study the respective impact of R&D and technology imports on firm performance.

In our empirical analysis, we consider R&D expenditures on the one hand, and disembodied technology imports on the other. 'Disembodied' refers here to technologies that are protected by intellectual property rights, but can be purchased by a firm and used in its production process. These include patented technologies, licensed technologies and other royalties-inducing technologies. Taking into account additional sources of knowledge, such as technology embodied in products purchased on the international market, would have been very interesting. Unfortunately, the available data did not allow us to do so.

Our analysis, which relies on the estimation of a production function, will not only examine the respective impact of the two aforementioned sources of knowledge on firm performance, but also address the question of whether they are complements or substitutes. Although economic theory generally assumes that inputs are substitutes, some studies (e.g., Blumenthal, 1979; Cassiman and Veugelers, 2006) have found empirical evidence of complementarities between external and internal sources of knowledge. Cohen and Levinthal (1989, 1990) provide a theoretical explanation for these results. Firms that import technology must have some R&D capacity, in order to (i) identify and select relevant technologies, and (ii) effectively integrate these technologies in their production process. In Taiwan, the primary purpose of R&D in the 1990s may have been to effectively absorb foreign knowledge, building up a knowledge base that can then be used to foster internal R&D. This leaves scope for complementarities between both sources of knowledge. However, depending on the evolution of the industry structure, we may also observe substitutability. This can be the case if the observation period coincides with the moment when firms are gradually abandoning adaptive R&D in favour of technology imports.

2. The MOEA Panel data

Our paper uses census data gathered by the Statistical Bureau of Taiwan's Ministry of Economic Affairs (MOEA). The Statistical Bureau of the MOEA conducts a yearly census survey, and collects data on every plant in operation that holds a registered certificate in the manufacturing sector. In Taiwan, most manufacturing firms are single business units: in our data, on average, 90% of the manufacturing firms are actually single-plant producers. Therefore, distinguishing between plant and firm may not be as relevant in Taiwan as it is in industrialized countries, and we will refer to the MOEA data as ‘firm-level data’ hereafter.¹

Given what was said about innovation policy in Taiwan in the previous section, it makes sense, for our purpose, to focus on the 1990s, after the implementation of the IUS. Our data consists in two different panels. The first panel covers the 1992-1995 period (the MOEA census survey was not conducted in 1991), and the second panel covers the 1997-2003 period, with a gap in 2001 (year in which the survey was not conducted).

It was impossible to match both panels, due to a break in 1996: no survey was conducted that year, and the Statistical Bureau took that as an opportunity to completely reform their classification system. Not only did the industry codes change, but the electronic industry (which plays a key role in the Taiwanese economy and had rapidly grown in the early 1990s) was split up into three different industries. Moreover, after 1996, some firms were recoded as belonging to a different industry than the one they belonged to before this date. For all of these reasons, we have to analyze both panels separately. This is anyway not a bad thing, as it will give us insights on the evolution of the Taiwanese manufacturing industry across two periods of time.

TABLE 1 ABOUT HERE

¹ Moreover, we can include a “multi-plant” control variable in our estimations whenever it is relevant to do so.

Table 1 gives a breakdown of both panels by 2-digit industry. Although the names of all industries but one remain the same from one panel to the next, the contents of these industries may have changed, as some firms may have been re-categorized in other industries. Moreover, industry (31) ‘Electrical and Electronic Machinery’ in Panel 1 (1992-1995) has been split, in Panel 2 (1997-2003), into three new industries: (26) ‘Audio and Video Products’, (27) ‘Electronic Parts and Components’, and (28) ‘Electric Machinery and Parts’. Both panels are described in more details in what follows.

2.1. The 1992-1995 panel

Over 1992-1995, we observe a panel of 27,754 Taiwanese manufacturing firms, distributed across twenty-one 2-digit industries. This panel (hereafter Panel 1) provides information on firms’ sales (deflated by a wholesale price index), total value of fixed assets in operation at the end of the year, total expenditures on raw materials (deflated by an intermediate input-output price index), and wages (deflated by a consumer price index). These variables will be used as proxies for firm output, and capital, materials, and labour inputs respectively².

Additional information includes firms’ yearly R&D expenditures, as well as the value of imported disembodied technologies (as defined in Section 1). Finally, the data includes three additional firm-specific characteristics: firm age, an indicator of whether a firm exports technologies, and an indicator of whether a firm is a single- or multi-plants producer. Table 2.a gives summary statistics, by industry, for all the aforementioned variables.

TABLE 2.a ABOUT HERE

Coming from a census, our panel is very large, and it would not really make sense to estimate a unique econometric model on the whole panel, as the heterogeneity across industries is too important. It is more reasonable and relevant, in this case, to conduct a by-

² More information about the data and the construction of variables is available upon request from the authors.

industry analysis. Industry (23) ‘Petroleum and Coal Products’ included only 13 firms, and was regrouped with industry (22) ‘Chemical Products’ for the purpose of our empirical analysis. Our estimations were therefore performed, *in fine*, over twenty 2-digit industries rather than on the original twenty-one.

2.2. The 1997-2003 panel

The second panel covers the years 1997-2003 (with a gap corresponding to year 2001) and concerns 27908 Taiwanese manufacturing firms, distributed across twenty-three 2-digit industries. This panel (hereafter Panel 2) provides the same information on firms’ inputs and output as Panel 1. In addition, Panel 2 gives information on firms’ total expenditures on energy (deflated by an appropriate energy price index), which were not available prior to 1996. Panel 2 also contains (just like Panel 1) information on yearly R&D expenditures and on the value of imported technologies, as well as firms’ characteristics (age, technology exports, and multi-plant / single-plant). Table 2.b gives summary statistics, at the 2-digit industry level, for all of these variables.

TABLE 2.b ABOUT HERE

We used Panel 2 to conduct the same by-industry analysis as we conducted with Panel 1. Again, we observed that industry (19) ‘Petroleum and Coal Products’ was too small to be studied on its own, and had to be merged with industry (18) ‘Chemical Products’ for the purpose of our empirical analysis. In Panel 2, our estimations were therefore performed over twenty-two 2-digit industries rather than on the initial twenty-three.

3. Econometric analysis

3.1. Econometric model

Our analysis derives from a production function approach, linking firm output Q to input vector X (with X_1 = capital, X_2 = labour, X_3 = energy and X_4 = materials) and knowledge

K , assuming that knowledge and inputs have distinct effects. As in Basant and Fikkert (1996), we assume an exponential link between output and knowledge. For firm i operating at time t in a given 2-digit industry, we write:

$$(1) \quad Q_{it} = F(X_{it}).\exp(K_{it})\exp(\varepsilon_{it}),$$

where F is an unspecified functional form and ε_{it} a random error term.

In order to estimate Equation (1), we need to specify F , and to specify how knowledge K relates to innovation expenditures. Since we want to keep F as general as possible, we assume a translog specification, usually considered as a reasonable second-order approximation of an arbitrary production function (see for instance Berndt and Christensen, 1973; Chan and Mountain, 1983; Beason and Weinstein, 1996). We may then rewrite (1) as:

$$(2) \quad \ln Q_{it} = \beta_0 + \sum_j \beta_j \ln X_{jit} + \frac{1}{2} [\sum_j \sum_k \beta_{jk} (\ln X_{jit})(\ln X_{kit})] + K_{it} + \varepsilon_{it}$$

3.2. Measurement of the stocks of R&D capital and technology imports.

As in Basant and Fikkert (1996), we assume that the stock of knowledge has a Generalized Leontief functional form of the type:

$$(3) \quad K_{it} = \alpha_0.(KO_{it})^{1/2} + \alpha_1.(KP_{it})^{1/2} + \alpha_2.(KO_{it} \times KP_{it})^{1/2}$$

where KO represents a firm's own knowledge (i.e., its stock of R&D capital) and KP a firm's purchased knowledge (i.e., its stock of imported technology). As stated in Basant and Fikkert (1996), the specification of Equation (3) allows KO and KP to be complements or substitutes to one another. It also avoids the problem of taking the logarithm of the knowledge inputs, which are frequently equal to zero.

The stocks of R&D capital and technology imports are measured using the perpetual inventory method (Griliches, 1979; Hall and Mairesse, 1995); i.e., if δ denote the depreciation rate of knowledge, we have:

$$(4.a) \quad KO_t = (1 - \delta)KO_{t-1} + RD_{t-1}, \quad \text{where } RD \text{ is the value of R\&D expenditures}$$

$$(4.b) \quad KP_t = (1 - \delta)KP_{t-1} + TI_{t-1}, \quad \text{where } TI \text{ is the value of technology imports}$$

This method normally requires the use of a long history of R&D (technology imports), so that knowledge stocks may be computed pre-sample. However, no such historical series are available at the firm level in our case, for, as was stated in Section 1, the history of innovation in Taiwan prior to 1991 is way too short. Therefore, initial values KO_1 and KP_1 had to be calculated on the basis of our panels, taking the first year of each panel as year 1. For this calculation, we used Hall and Mairesse's (1995) Equation (5), p. 270, which states:

$$(5.a) \quad KO_1 = RD_1 / (g + \delta)$$

$$(5.b) \quad KP_1 = TI_1 / (g + \delta)$$

where g denotes the growth rate of R&D and Technology Imports expenditures.

Following Basant and Fikkert (1996), we assume that both g and δ are the same for TI and RD . As usual, it is very difficult to assign a value to those parameters. The most frequently used assumptions in the literature are a depreciation rate of 15% and a growth rate of 5%. After conducting a sensitivity analysis (taking, for instance, values of 20% to 25% for the depreciation rate and of 10% for the growth rate), we have decided to follow this set of assumption in our econometric modelling.

3.3. Estimation procedure

The econometric model to be estimated in each 2-digit industry is finally written as:

$$(6) \quad q_{it} = \beta_0 + \sum_j \beta_j x_{jit} + \frac{1}{2} [\sum_j \sum_k \beta_{jk} (x_{jit})(x_{kit})] + \alpha_0 ko_{it} + \alpha_1 kp_{it} + \alpha_2 ko_{it} \times kp_{it} + \varepsilon_{it},$$

where q and x_j denote the natural logarithms of Q and X_j respectively, and where ko and kp denote the square roots of KO and KP respectively. We estimated Equation (6) using a Stochastic Frontier Estimation (SFE) approach (Kumbhakar and Lovell, 2000). SFE provides an econometric framework which explicitly models technical inefficiencies (arising from unobserved factors such as managerial abilities) in the production process. We feel that this approach is particularly well suited to the case of Taiwan in the period we study. As explained

in Section 1, this period corresponds to a context of technological upgrading, in which many firms are likely to operate at a distance from their production frontier.

We estimated two alternative specifications of a stochastic frontier model. The first one is derived from the single-equation model proposed by Battese and Coelli (1992). We decompose ε_{it} , the error term from Equation (6), into three components: a time effect λ_t , a one-sided error term u_{it} , which represents technical inefficiencies, and a symmetric (noise) error term v_{it} . This yields the following model:

$$(7) \quad q_{it} = \beta_0 + \sum_j \beta_j \cdot x_{jit} + \frac{1}{2} [\sum_j \sum_k \beta_{jk} (x_{jit})(x_{kit})] + \alpha_0 \cdot ko_{it} + \alpha_1 \cdot kp_{it} + \alpha_2 \cdot ko_{it} \times kp_{it} + \lambda_t + v_{it} - u_{it}$$

where v_{it} is assumed to be i.i.d. $N(0, \sigma_v^2)$ and independently distributed of u_{it} . The technical inefficiency effect u_{it} is written as

$$(8) \quad u_{it} = u_i \cdot \exp(-\eta(t-T))$$

where u_i is an i.i.d. non-negative random term, the distribution of which is the truncation at zero of the normal distribution $N(\mu, \sigma_u^2)$, η is a parameter to be estimated, and T is the total number of time periods in the panel.

The second specification is derived from the two-equation stochastic frontier model proposed by Battese and Coelli (1995). In this specification, ε_{it} is decomposed as above, but we now assume the technical inefficiency effect u_{it} to be a function of a set of explanatory variables z_{it} and a vector of parameters δ (to be estimated). We can then rewrite Equation (6) into a stochastic frontier model *à la* Battese and Coelli (1995):

$$(9.a) \quad q_{it} = \beta_0 + \sum_j \beta_j \cdot x_{jit} + \frac{1}{2} [\sum_j \sum_k \beta_{jk} (x_{jit})(x_{kit})] + \alpha_0 \cdot ko_{it} + \alpha_1 \cdot kp_{it} + \alpha_2 \cdot ko_{it} \times kp_{it} + \lambda_t + v_{it} - u_{it}$$

$$(9.b) \quad u_{it} = \delta z_{it} + \omega_{it},$$

where the ω_{it} random variable is defined by the truncation of $N(0, \sigma_u^2)$, so that $\omega_{it} \geq -\delta z_{it}$. This is consistent with specifying the distribution of u_{it} as the truncation at zero of the normal distribution $N(\delta z_{it}, \sigma_u^2)$.

Both specifications were estimated using the Frontier 4.1 program (Coelli, 1996). This allowed us, among other things, to estimate Equations (9.a) and (9.b) simultaneously by Maximum Likelihood (ML), as in Battese and Coelli (1995). In both specifications, the likelihood function is expressed in terms of the variance parameters, with $\sigma^2 = \sigma_v^2 + \sigma_u^2$ and $\gamma = \sigma_u^2 / \sigma^2$. In the first specification, where u_{it} is not defined in terms of observed variables, two additional ancillary parameters, μ and η , defined in Equation (8), have to be estimated.

3.4. Specification of the technical inefficiency equation

The main advantage of our second SFE specification (*à la* Battese and Coelli, 1995) is that the technical inefficiency term, u_{it} , is explicitly modelled as a function of observed firm characteristics, denoted by z_{it} in Equation (9.b). This allows researchers to identify potential firm-level determinants of technical efficiency, and to explain inter-firms differences in efficiency. Our z_{it} vector includes the following variables: firm age at the beginning of the period, a dummy variable indicating whether a firm exports technology, a dummy variable indicating whether a firm is a single- or multi-plant producer, and a set of 4-digit industry dummy variables. We explain and justify this choice in the following paragraphs.

A theoretical justification for including firm age in the efficiency equation can be found in the model of firm selection proposed by Jovanovic (1982). In this model, efficient firms survive, whereas inefficient ones decline and close down. Firms discover their efficiency as they operate in an industry. Since this process of discovery takes time, more efficient firms are older than less efficient ones. Thus, Jovanovic (1982)'s model postulates a positive relationship between firm age and efficiency. This theoretical prediction has found little empirical support, however.

For instance, Lundvall and Battese (1982) investigate the determinants of technical efficiency by applying SFE to a panel of 235 Kenyan manufacturing firms. They do not find any systematic relationship between age and efficiency in their sample. They claim, however,

that this conclusion does not completely invalidate Jovanovic (1982)'s model. It may simply indicate that the positive effect expected from firms' selection is counterbalanced by negative effects not accounted for in the theoretical model (e.g., the depreciation of the capital stock). Lundvall and Battese (2000)'s conclusion has been comforted by subsequent studies (e.g., Söderbom and Teal, 2002; Niringiye *et al.*, 2010). In the light of the above discussion, including age in the technical efficiency equation is relevant, if only to check whether our findings are in accordance with the empirical literature.

We included the "technology exports" dummy variable in the inefficiency equation because: (1) this variable qualifies a firm as an exporter of goods or services (even though of a specific nature) and (2) it may indicate that a firm's knowledge-generating ability is above average (since the firm is not only able to generate knowledge, but also to export it)³. The link between exports and efficiency (broadly defined) is empirically well documented, and has some theoretical foundations. The international economics literature (Bernard and Wagner, 1997; Clerides *et al.*, 1998; Bernard and Jensen, 1999; Bleaney and Wakelin, 2002) has found a positive association between exports and efficiency in both developed and developing economies, and has provided a theoretical rationale for it⁴. By contrast, we lack both empirical evidence and theoretical guidelines as to why a higher knowledge-generating ability should increase or reduce inefficiency.

In Taiwan, Chen and Tang (1987), using a sample of electronics firms, have found that export-oriented firms are 6% to 11% closer to the production frontier than other firms. Since the electronics industry is the foremost high-technology industry in Taiwan, export-oriented firms in this industry are likely to export not only goods, but also technology. Based on these

³ Unfortunately, the MOEA data did not provide us with a more general measure of exports, which we could have contrasted with our indicator of technology exports.

⁴ For instance, Clerides *et al.* (1998) explain the positive association between exporting and efficiency by a self-selection of more efficient firms into the export market, while Roberts and Tybout (1997) develop a similar argument in terms of sunk costs of exporting, which less efficient firms cannot afford to pay.

reasoning and empirical evidence, we may expect technology exports to be associated with a higher technical efficiency, at least in some high-technology industries. This is far from certain, however, as Aw and Batra (1998) provide contradictory evidence. Using SFE on a cross-sectional sample of Taiwanese manufacturing firms, they find that, among high-technology firms, technical efficiency does not significantly differ between exporters and non-exporters. By contrast, among low-technology firms, exporters are significantly closer to the production frontier than non-exporters. In any case, these contradictory empirical findings suggest that it is important to include technology exports in the efficiency equation.

Although the literature offers little theoretical guidance, we include a “multi-plant” indicator because subsidiaries may have to follow “best practices” imposed by or transferred from their parent company. This may make them more efficient than single-plant producers. For instance, a subsidiary using a “just-in-time” mode of production may be more efficient than a firm using older, more traditional modes of production. Empirical evidence regarding the impact of the organizational structure of a firm on its technical efficiency is scarce. Existing investigations focus mostly on the impact of being part of a foreign group, and provide mixed evidence. In the U.S. banking sector, Chang *et al.* (1998) find that foreign-owned multinational banks are significantly less efficient than their US-owned counterparts. By contrast, applying a SFE approach to a cross-sectional sample of Nepalese manufacturing firms, Oczkowski and Sharma (2005) find no effect of foreign participation on technical efficiency. Similarly, Söderbom and Teal (2002) find no effect of foreign ownership on technical efficiency in their sample of African manufacturing firms.

Finally, we include 4-digit industry dummy variables to control for inter-industry differences in efficiency that may appear, at this more disaggregated level, within a 2-digit industry. Badunenko *et al.* (2008) find industry effects to be the main driver of productive efficiency in a large sample of German firms, while Söderbom and Teal (2002) find that

technical efficiency varies significantly across industries in their sample of African manufacturing firms.

4. Results and discussion

Table 3 presents our estimation results for both specifications of the stochastic frontier model (the single-equation model *à la* Battese and Coelli, 1992, and the two-equation model *à la* Battese and Coelli, 1995). To make comparisons and interpretations easier, we present the marginal effects of the Translog production function, computed at the sample mean (detailed tables of results are available upon requests from the authors). Note that, since the 2-digit industry codes have changed from one panel to the next (as explained in Section 2), we only refer to the 2-digit industries by their full names. This makes the various tables of results easier to read, and facilitates the comparison of Panel 1 and Panel 2.

TABLE 3 ABOUT HERE

A cursory look at Table 3 shows that the marginal effects of the main inputs (capital, labour, and materials in Panel 1; capital, labour, energy, and materials in Panel 2) are similar in both models, in terms of sign and significance. Reassuringly, these marginal effects are overall significant and positive, which is consistent with the theoretical framework of a production function. The magnitude of the effects is often quite close in both models as well. We also find evidence that the law of diminishing returns holds in both panels and with both specifications: as can be seen in Appendix 1, Table A, the second derivatives of the output with respect to the main inputs (computed at the sample mean) are overall significantly negative. This finding, which is consistent with the usual conceptions of microeconomic theory, brings additional support to the reliability of our estimation results.

Table 3 also reports, for both panels and both models, the estimates of the marginal effects of the knowledge inputs (i.e. the stocks of R&D capital and technology imports), which are the main focus of our analysis. As pointed out in Coelli (1996), the two stochastic

frontier specifications we have implemented are non-nested, and no set of restrictions can be defined to test one specification versus the other. Fortunately, in our application, both specifications yield extremely convergent results, and show significant effects of the knowledge inputs in the same 2-digit industries. Whenever ko and/or kp are significant, they have a positive effect on firm output⁵. In order to give the reader a more complete view of the effects of the knowledge inputs, we present the estimate of their interaction in Table 4. When significant, this term is negative, although very close to zero in absolute value. This suggests that the knowledge inputs are, to some extent, substitutes rather than complements.

TABLE 4 ABOUT HERE

Overall, we find that, in Panel 2, innovation impacts firm performance in a much larger number of industries than in Panel 1. Both models show that the marginal effects of ko and kp are significantly different from zero (and positive) in 17 industries out of 22 in Panel 2, whereas this is the case in only 9 industries out of 20 in Panel 1. Moreover, the interaction term is mainly significant in Panel 2. Taken together, these results suggest that the gradual implementation of the SUI in Taiwan really started to pay-off from the mid-1990s onwards. In what follows, we discuss these results in more details for two groups of industries: the textile and traditional industries on the one hand, and the electronics and high-tech industries on the other.

4.1. Textile and other traditional industries

We start our discussion with the textile industry ('Textile Mill Products'). In this industry, both models show a positive effect of the stock of R&D capital in the first panel (1992-1995), and positive effects of both R&D and technology imports in the second panel (1997-2003). These results make perfect sense when one considers the recent history of the

⁵ The only exception is 'Basic Metal Industries' in Panel 2, where Battese & Coelli (1995)'s specification shows that kp has a negative effect on firm output. This result suggests difficulties in catching up with the technology frontier in that industry (which has never played a leading role in Taiwan's economic development).

textile industry in Taiwan. In the 1980s, Taiwan was specialized in labour-intensive textile and clothing, but this position became increasingly contested by other East-Asian countries. To preserve their competitiveness, many firms operating in this industry outsourced their production towards mainland China and Thailand. Those remaining in Taiwan abandoned traditional textile in favour of high-technology man-made fibres and other knowledge-intensive textile (Guerrieri and Pietrobelli, 2006). Our results shed additional light on this recent history. They suggest that, in the early 1990s, Taiwanese textile firms conducted mostly adaptive R&D (in the sense of Cohen and Levinthal, 1989, 1990). After this early phase where only R&D mattered, these firms were able to reach for the global frontier by purchasing foreign patents and licences, while keeping a significant amount of in-house R&D. In this second phase, R&D needs not remain purely adaptive, but may be used to generate new knowledge. This interpretation is consistent with the fact that both ko and kp are significantly positive in 1997-2003, while their interaction effect (negative but very close to zero) hints at a mild substitutability.

Other traditional industries, such as ‘Non-Metallic Mineral Products’ and ‘Fabricated Metal Products’, may have followed a similar path of development. In these industries, R&D capital appears as the primary source of knowledge in the early 1990s, whereas we find consistently positive effects of both R&D and technology imports from the late 1990s onward. As before, their interaction is significantly negative but very close to zero, which suggests that the two types of knowledge inputs were mild substitutes in this second period.

In other traditional industries, such as ‘Wood and Bamboo Products’, a similar pattern of development may be occurring with a lag: the stock of R&D capital is the only significant knowledge input, and it is significant only from the late 1990s onward. Taiwan’s wood industry has actually experienced in the 1990s the same difficulties that the textile industry faced in the 1980s. Since its early days, Taiwan has been a major producer of quality

hardwoods, an abundant natural resource in the island. However, in the 1990s, the wood industry faced both the depletion of quality commercial timber, and an increased competition from neighbouring economies with large wooded areas and a cheaper labour force (such as Malaysia and Thailand). Again, Taiwanese firms answered these problems either by outsourcing the production, or by improving their production process through R&D (sometimes with the help of foreign experts).

On the contrary, in the ‘Plastic Products Manufacturing’ industry, the aforementioned pattern of development may have occurred earlier than in the textile industry. Indeed, both specifications of the model show a positive effect of R&D capital and technology imports in both periods, together with a (small) negative interaction effect in both periods as well. These results suggest that the transition from labour-intensive to knowledge-intensive products may have occurred in this industry from the early 1990s onwards.

4.2. Electronics and high-technology industries

To proceed with the discussion of our results, we now consider the electronics industry. The fact that there is a single 2-digit industry in Panel 1 (‘Electrical and Electronic Machinery’), versus three in Panel 2 (‘Audio and Video Products’, ‘Electronic Parts and Components’, and ‘Electric Machinery and Parts’) is in itself a testimony to the rapid growth of the electrical and electronic industries in Taiwan over the period of interest.

In the 1990s, Taiwan’s manufacturing industry actually experienced a rapid structural transformation in which the leadership shifted from labour-intensive industries such as textile to high-technology industries such as electronics. As Guerrieri and Pietrobelli (2006) explain, the development of the electronics industry in Taiwan relied on a flow of FDI which granted an immediate access to foreign technology. Taiwan’s innovation policy largely contributed to making access to foreign technology easier: as was said in Section 1, several measures in the

SUI were specifically designed to accelerate the inflow of both disembodied and embodied knowledge⁶.

Our findings are easy to reconcile with this type of development: in the early 1990s, we observe, in the ‘Electrical and Electronic machinery’, significantly positive effects of both R&D and technology imports. The splitting of this industry into three new industries after 1996 allows us to give a more detailed account of the development of electronics in Taiwan in the late 1990s. Over the 1997-2003 period, the effect of knowledge inputs is located in two industries: in the ‘Audio and Video Products’ industry, we observe a positive effect of the stock of R&D capital on firm output; in the ‘Electronic Parts and Components’ industry, both R&D and technology imports have a significantly positive effect. Overall, in the electronics and other high-technology industries, R&D appears to be the privileged knowledge source to increase firm performance in the late 1990s. The impact of technology imports is then either less significant, or not significant.

These results are consistent with the historical evidence of an economic growth primarily driven by the industry of electronic components⁷ over the 1990s. What the history of electronics in Taiwan relates is not merely the upgrading of a labour-intensive industry, but the emergence of a fully-fledged knowledge-intensive industry. Therefore, and contrary to what was observed in the textile and other traditional industries, R&D in the electronic industries is unlikely to be purely adaptive. It is rather a mean for these high-tech, knowledge-intensive industries to remain close to the global technology frontier. Anecdotal evidence illustrate this point: in the early 1990s, there was little or no emphasis on product differentiation in the electronic industries. This proved vital for the development of this sector,

⁶ As an illustration, Saxenian and Hsu (2001) relate how the strong ties between the Hsinchu science park in Taiwan and the Silicon Valley in the U.S. contributed to increase the bilateral flow of skills and know-how.

⁷ Hobday (1995) and Levy and Kuo (1991) explain that the output of Taiwan’s electronic industry in the 1990s consisted primarily in the production of small unbranded components by SMEs. These components were sold to large multinational firms and used for the production of their branded products (e.g., computers).

as it allowed small firms to be created with very low up-front investment. There was no need for advertising or reputation building through brand names (Aw, 2002; Hobday 1995; Levy and Kuo, 1991). However, things have changed from the late 1990s onwards. Building on their experience in the production of quality electronic components, Taiwanese brands (such as the Acer computer brand) have appeared on the international market.

4.3. Efficiency analysis

Before concluding, we give additional elements concerning the technical efficiency equation of the stochastic frontier model. First of all, we verify that the variance parameters σ^2 and γ , which are common to both specifications of the model (see Sub-Section 3.3) are well identified. Table 5 shows that, in Panel 1 and Panel 2, σ^2 and γ are significantly different from zero in all 2-digit industries and (almost all the time) with both specifications. According to these results, we can reject the hypothesis that the inefficiency effects are not stochastic. In the single-equation specification *à la* Battese and Coelli (1992), μ , the estimated mean value of the inefficiency effect, is always significantly different from zero. The η parameter, which identifies the time-variation of this inefficiency effect, is significantly different from zero in most industries⁸.

TABLE 5 ABOUT HERE

TABLE 6 ABOUT HERE

Table 6 gives the parameter estimates for the main determinants of the inefficiency equation from the Battese and Coelli (1995) model. These determinants are convergent across industries and across both panels. We first find that multi-plant firms are generally less inefficient (i.e. more efficient) than single-plant firms. As we mentioned in 3.4, this may be because multi-plant firms adopt “best practices” from their parent company. Firms that export technology also tend to be less inefficient (i.e. more efficient), although this trend is not as

prevalent as the previous one. In particular, the effect of technology exports is not significant in any of the electronics industries of either Panel 1 or Panel 2. If we refer to the literature mentioned in 3.4, this finding is consistent with those of Aw and Batra (1998) rather than with those of Chen and Tang (1987).

The effect of firm age is more frequently significant in our samples than it is generally found to be in the literature. Moreover, this effect is always positive when significant, which means that older firms are more inefficient (i.e. less efficient). If we follow the argument developed in Lundvall and Battese (2000), this may be because the positive effect associated with firms' survival (as theorized in Jovanovic 1982) is outweighed by negative effects caused, for instance, by the depreciation of the capital stock. Finally, we find that inefficiencies may also result from industry-specific factors, which is in accordance with the literature reviewed in 3.4. In several 2-digit industries, LR-tests show a significant global effect of 4-digit industry dummy variables in the inefficiency equation.

TABLE 7 ABOUT HERE

Table 7 displays the mean technical efficiency by 2-digit industry for both panels. Both specifications of the econometric model show an increase in the mean efficiency over time. In Panel 1, it is within the 0.45 to 0.75 range in most industries, whereas in Panel 2, it is rather within the 0.70 to 0.95 range. Interestingly, the estimated mean efficiency is not systematically higher in innovation-intensive industries. To understand this result, one must keep in mind that implementing an innovation can sometimes generate unforeseen inefficiencies, as the innovation process is costly and based on trial-and-error.

⁸ We tested for a restriction of this model to a model with a time-invariant inefficiency term (i.e. with η constrained to zero), but all LR-tests favoured the full Battese and Coelli (1992) specification.

5. Conclusion

We estimated the impact of R&D and technology imports on firm performance in Taiwan in the 1990s, in a policy context of industrial upgrading. To do so, we estimated a Translog production function on two panels of Taiwanese firms (1992-1995 and 1997-2003), using the Stochastic Frontier models proposed by Battese and Coelli (1992, 1995). We find that the effects of the knowledge inputs become significant in a larger number of industries in the second panel. These results suggest that the policies encouraging innovation, implemented from 1991 onwards, actually paid off in the second half of the 1990s. Innovation then became a key factor to boost firm sales. The impact of innovation can nevertheless be interpreted differently across industries.

In traditional industries like ‘Textile Mill Products’, ‘Non-Metallic Mineral Products’, and ‘Fabricated Metal Products’, it can be interpreted as an effort to catch up with the global technology frontier. Firms operating in these industries conducted mostly adaptive R&D in the early 1990s, in order to build up their knowledge absorption capacity. In the late 1990s, they relied on technology imports, while reorienting their R&D capacity toward the generation of new knowledge. This pattern seems to have occurred earlier in the ‘Plastic Products Manufacturing’ industry, and later in the ‘Wood and Bamboo Products’ industry.

In the electronics and associated high-tech industries, R&D appears as the preferred knowledge source to increase firm performance in the late 1990s. The impact of technology imports is less significant, or not at all. In these industries, therefore, R&D cannot be seen as purely adaptive. Its positive impact on firm performance rather testifies of the emergence of knowledge-intensive industries as a new domain of specialization for Taiwan – which was largely encouraged by the aforementioned innovation policies.

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Table 1: breakdown by 2-digit industries

2-digit industry name	Panel 1992-1995			Panel 1997-2003		
	2-digit code	Frequency	%	2-digit code	Frequency	%
Food Manufacturing	(11)	3161	11.4	(08)	1761	6.3
Textile Mill Products	(13)	1806	1.3	(10)	1093	3.9
Wearing Apparel and Accessories	(14)	366	0.8	(11)	657	2.4
Leather and Fur Products	(15)	227	3.0	(12)	331	1.2
Wood and Bamboo Products	(16)	839	3.6	(13)	568	2.0
Furniture and Fixtures	(17)	994	2.8	(14)	496	1.8
Pulp, Paper and Paper Products	(18)	789	2.8	(15)	706	2.5
Printing Processing	(19)	782	2.2	(16)	973	3.5
Basic Chemical Matter Manufacturing	(21)	616	4.2	(17)	386	1.4
Chemical Products	(22)	1172	0.1	(18)	880	3.2
Petroleum and Coal Products	(23)	13	1.2	(19)	52	0.2
Rubber Products Manufacturing	(24)	335	8.5	(20)	457	1.6
Plastic Products Manufacturing	(25)	2347	5.7	(21)	2955	10.6
Non-Metallic Mineral Products	(26)	1592	5.4	(22)	1084	3.9
Basic Metal Industries	(27)	1493	11.9	(23)	791	2.8
Fabricated Metal Products	(28)	3313	8.4	(24)	3959	14.2
Machinery and Equipment	(29)	2329	6.8	(25)	5651	20.3
Electrical and Electronic Machinery	(31)	1890	6.8	(26)*	415	1.5
				(27)*	672	2.4
				(28)*	1159	4.2
Transportation Industry	(32)	1893	2.1	(29)	1397	5.0
Precision Instruments	(33)	588	4.4	(30)	403	1.4
Miscellaneous Industrial Products	(39)	1209	1.3	(31)	1062	3.8
<i>Total of manufacturing industries</i>		<i>27754</i>	<i>100.0</i>		<i>27908</i>	<i>100.0</i>

* New industries created from former "Electrical and Electronic Machinery", now named: (26) "Audio and Video products", (27) "Electronic parts and components", and (28) "Electric Machinery and parts".

Table 2.a: summary statistics, panel 1 (1992-1995)

	(11)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(21)	(22)	(24)	(25)	(26)	(27)	(28)	(29)	(31)	(32)	(33)	(39)
	+(23)																			
Q	110 (516.9)	175.6 (732.3)	72.4 (141.1)	224.2 (469.2)	31.4 (96)	39.7 (100.4)	133.6 (453.2)	25.1 (86.3)	548.9 (2036.6)	119.8 (760.8)	92.5 (322.6)	71.8 (436.7)	105.6 (372.9)	216.4 (683.9)	48.7 (169.2)	54.5 (187.9)	404.6 (1846.9)	177.8 (1476.4)	62.9 (248.6)	44.5 (120.3)
C	68.7 (305.9)	151.8 (764.7)	23.9 (56.4)	80.4 (154.2)	18.8 (59.9)	21.6 (70.3)	132.7 (676.6)	22.7 (100.9)	499 (1931.4)	81.4 (903.8)	70.3 (310.8)	37.4 (283.1)	96.2 (487.4)	115.1 (551.8)	28 (126.6)	24.3 (97.0)	158.5 (981.1)	76.4 (472.1)	25.1 (76.6)	20.6 (66.6)
L	10.6 (43.8)	24.8 (87.2)	17.6 (36.5)	31.1 (72.0)	4.5 (11.6)	8.5 (25.6)	18.6 (62.3)	6.6 (34.7)	45.2 (164.8)	14.6 (49.5)	19.2 (66.8)	9.8 (42.5)	14.6 (36.0)	14.9 (36.8)	7.4 (20.1)	8.3 (22.4)	42.4 (153.7)	21 (108.4)	12.1 (39.3)	9.2 (23.6)
M	33 (186.0)	56.7 (300.5)	25.1 (64.7)	80.9 (219.2)	12.7 (46.9)	13.7 (40.2)	45.7 (201.4)	6.9 (29.0)	168.4 (807.5)	39.3 (409.0)	27.1 (124.6)	24.4 (190.2)	28 (106.9)	78.8 (323.8)	15.4 (69.7)	18.6 (82.2)	136 (939.1)	62.4 (703.2)	21.3 (125.7)	13.8 (47.9)
RD	0.3 (2.7)	0.9 (6.2)	0.3 (1.8)	2.2 (10.4)	0.0 (0.3)	0.2 (2.3)	0.5 (2.9)	0.1 (1.0)	4.0 (19.4)	2 (26.1)	1.2 (8.4)	0.4 (3.3)	0.4 (4.0)	0.4 (3.3)	0.3 (3.2)	0.5 (4.0)	8.5 (55.0)	2.7 (27.5)	0.8 (6.2)	0.4 (3.0)
TI	0.1 (1.2)	0.1 (2.1)	0.0 (0.2)	1.1 (7.4)	0.0 (0.3)	0.1 (1.6)	0.2 (2.9)	0.0 (0.8)	0.8 (10.6)	0.4 (5.8)	0.2 (1.6)	0.2 (1.9)	0.1 (1.7)	0.1 (2.6)	0.1 (1.2)	0.1 (1.2)	3.5 (53.1)	1.2 (19.4)	0.0 (0.5)	0.0 (0.4)
Age	13.4 (7.5)	12.6 (6.7)	11.3 (5.6)	12 (6.1)	15 (6.3)	11 (5.5)	11.2 (6.3)	11.5 (6.1)	12.1 (7.0)	12.4 (7.4)	12.4 (6.2)	11.5 (5.8)	12.8 (6.6)	10.9 (6.1)	10.4 (5.6)	11.5 (5.8)	9.9 (5.9)	11.5 (5.9)	9.8 (5.1)	11.5 (6.1)
ET	0.00 (0.03)	0.00 (0.02)	0.00 (0.04)	0.01 (0.1)	0.00 (0.02)	0.00 (0.02)	0.00 (0.03)	0.00 (0.03)	0.00 (0.06)	0.00 (0.04)	0.00 (0.06)	0.00 (0.03)	0.00 (0.04)	0.00 (0.02)	0.00 (0.03)	0.00 (0.04)	0.01 (0.09)	0.00 (0.04)	0.00 (0.04)	0.00 (0.04)
MP	0.1 (0.3)	0.2 (0.4)	0.1 (0.3)	0.2 (0.4)	0.1 (0.3)	0.1 (0.3)	0.2 (0.4)	0.1 (0.3)	0.3 (0.4)	0.2 (0.4)	0.2 (0.4)	0.1 (0.3)	0.2 (0.4)	0.2 (0.4)	0.1 (0.3)	0.1 (0.3)	0.2 (0.4)	0.1 (0.4)	0.1 (0.3)	0.1 (0.3)

Standard Errors in parentheses

Output variable: Q= firm sales. Input variables: C= Capital, L= Labour, M = Materials,
Innovation expenditures: RD = R&D expenditures, TI = Expenditures on Technology Imports.

Output, inputs and innovation expenditures are in thousands of constant New Taiwan Dollar.

Control variables: Age = firm age in 1992, ET = firm exports technology (dummy variable), MP = Multi-Plants firm (dummy variable).

Note that no firm exports technology in Industry (18) "Paper, Pulp and Paper Products" (ET = 0 in that industry).

Table 2.b: summary statistics, panel 2 (1997-2003)

	(8)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)
										+ (19)												
Q	145.5 (782.6)	212.3 (920.6)	89.5 (222.0)	164.4 (612.4)	32.2 (90.6)	52.0 (160.3)	122.6 (473.9)	33.4 (120.6)	952.8 (3152.7)	364.7 (4384.6)	88.1 (302.2)	49.6 (448.3)	112.2 (365.2)	392.7 (3297.8)	47.9 (175.4)	41.6 (188.7)	542.4 (2146.2)	593.8 (3344.8)	186.4 (912.4)	266.9 (2224.7)	77.2 (352.3)	62.7 (216.4)
C	104.2 (438.9)	215.1 (1197.8)	34.7 (220.6)	49.8 (153.9)	19.6 (140.3)	27.4 (110.3)	107.8 (549.3)	34.6 (200.6)	1014.5 (3811.8)	382.0 (5785.1)	65.8 (271.0)	34.0 (392.8)	136.8 (674.1)	489.8 (8838.1)	27.2 (132.5)	20.6 (85.0)	93.7 (293.9)	388.5 (2517.4)	95.1 (505.8)	107.6 (733.0)	27.2 (73.9)	27.2 (99.4)
L	32.1 (115.1)	61.2 (197.3)	46.3 (100.8)	46.9 (145.5)	14.5 (25.7)	24.0 (60.2)	31.8 (70.3)	18.5 (50.8)	90.7 (262.3)	36.7 (124.3)	37.8 (96.7)	19.0 (72.6)	35.7 (80.5)	46.9 (320.9)	19.0 (36.7)	16.3 (34.8)	80.6 (196.9)	128.9 (389.0)	46.6 (148.1)	51.6 (187.5)	35.0 (99.3)	25.2 (59.0)
E	82.1 (435.5)	115.8 (530.8)	43.6 (109.8)	106.7 (400.3)	19.6 (55.6)	27.7 (85.5)	73.4 (296.9)	16.7 (61.4)	582.5 (1914.7)	252.0 (3328.7)	41.6 (147.6)	28.4 (268.9)	57.2 (152.8)	242.6 (1690.4)	23.8 (94.4)	21.0 (91.1)	359.6 (1592.7)	325.1 (2443.8)	106.8 (518.5)	153.9 (1350.8)	42.8 (231.9)	33.3 (119.7)
M	2.4 (13.7)	9.1 (43.4)	0.6 (1.6)	1.4 (4.3)	0.5 (1.5)	0.5 (1.6)	4.2 (24.9)	0.5 (1.5)	33.7 (127.4)	4.0 (43.5)	1.9 (7.2)	1.5 (15.6)	5.1 (27.7)	12.9 (110.9)	0.9 (3.3)	0.4 (2.0)	1.7 (6.8)	9.0 (39.1)	2.2 (10.2)	1.9 (9.2)	0.9 (3.2)	0.9 (4.6)
RD	0.5 (6.3)	1.1 (10.5)	0.3 (3.3)	2.4 (24.8)	0.0 (0.2)	0.4 (3.4)	0.3 (2.8)	0.1 (2.4)	6.2 (27.2)	1.9 (9.7)	0.8 (5.0)	0.3 (6.1)	0.5 (4.7)	1.2 (25.0)	0.1 (1.4)	0.3 (4.6)	15.1 (71.9)	18.3 (147.1)	2.3 (20.7)	4.2 (60.5)	1.1 (8.8)	0.6 (4.6)
TI	0.1 (2.9)	0.1 (2.3)	0.1 (1.3)	0.0 (0.6)	0.0 (1.2)	0.0 (0.3)	0.2 (6.0)	0.0 (0.0)	1.9 (16.6)	0.3 (3.6)	0.2 (1.6)	0.1 (7.1)	0.1 (2.1)	0.5 (17.0)	0.0 (0.7)	0.0 (0.7)	1.8 (17.0)	9.1 (99.9)	0.6 (11.2)	2.9 (47.1)	0.0 (0.7)	0.1 (2.5)
Age	17.3 (8.9)	14.6 (8.6)	13.0 (7.6)	14.1 (7.9)	18.1 (7.6)	12.5 (7.2)	13.7 (7.4)	11.8 (7.8)	15.8 (8.6)	16.7 (8.5)	14.3 (7.7)	12.9 (7.1)	15.9 (8.5)	13.5 (7.7)	11.6 (6.9)	11.3 (6.9)	9.6 (6.7)	10.2 (6.7)	12.1 (7.3)	13.2 (7.5)	12.6 (6.9)	13.7 (7.9)
ET	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.1)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.1)	0.0 (0.1)	0.0 (0.1)	0.0 (0.0)	0.0 (0.0)	0.0 (0.1)	0.0 (0.0)	0.0 (0.0)	0.0 (0.1)	0.0 (0.1)	0.0 (0.1)	0.0 (0.1)	0.0 (0.1)	0.0 (0.0)
MP	0.1 (0.3)	0.1 (0.3)	0.1 (0.3)	0.1 (0.3)	0.0 (0.2)	0.1 (0.3)	0.1 (0.3)	0.1 (0.2)	0.2 (0.4)	0.1 (0.3)	0.1 (0.3)	0.1 (0.3)	0.1 (0.3)	0.1 (0.3)	0.1 (0.2)	0.1 (0.2)	0.1 (0.3)	0.1 (0.3)	0.1 (0.3)	0.1 (0.3)	0.1 (0.3)	0.1 (0.2)

Standard Errors in parentheses

Output variable: Q= firm sales. Input variables: C= Capital, L= Labour, M = Materials,
Innovation expenditures: R&D = R&D expenditures, TI = Expenditures on Technology Imports.

Output, inputs and innovation expenditures are in thousands of constant New Taiwan Dollar.

Control variables: Age = firm age in 1992, ET = firm exports technology (dummy variable), M-P = Multi-plants firm (dummy variable).

Note that no firm exports technology in Industry (18) "Paper, Pulp and Paper Products" (ET = 0 in that industry).

Table 3: Stochastic Frontier Estimates of the Marginal Effects of Inputs

2-digit industry	Marginal Effects	Panel 1 (1992-1995)				Panel 2 (1997-2003)			
		B & C (1992)		B & C (1995)		B & C (1992)		B & C (1995)	
Food Manufacturing	dq/dc	0.11	(0.01) ^b	0.06	(0.00) ^b	0.01	(0.00) ^b	0.01	(0.00) ^b
	dq/dl	0.62	(0.01) ^b	0.44	(0.01) ^b	0.26	(0.00) ^b	0.24	(0.00) ^b
	dq/de					0.10	(0.00) ^b	0.10	(0.00) ^b
	dq/dm	0.33	(0.01) ^b	0.49	(0.00) ^b	0.65	(0.00) ^b	0.68	(0.00) ^b
	dq/dko	0.04	(0.01) ^b	0.01	(0.01)	0.02	(0.00) ^b	0.02	(0.00) ^b
	dq/dkp	0.06	(0.03) ^a	0.02	(0.02)	0.01	(0.01) ^a	0.01	(0.00) ^b
Textile Mill Products	dq/dc	0.11	(0.01) ^b	0.06	(0.00) ^b	0.01	(0.00) ^b	0.01	(0.00) ^b
	dq/dl	0.62	(0.01) ^b	0.46	(0.01) ^b	0.32	(0.01) ^b	0.24	(0.01) ^b
	dq/de					0.14	(0.01) ^b	0.08	(0.00) ^b
	dq/dm	0.28	(0.01) ^b	0.48	(0.00) ^b	0.54	(0.01) ^b	0.68	(0.00) ^b
	dq/dko	0.02	(0.01) ^b	0.01	(0.00) ^b	0.01	(0.00) ^b	0.01	(0.00) ^b
	dq/dkp	0.01	(0.02)	0.01	(0.01)	0.06	(0.02) ^b	0.03	(0.01) ^a
Wearing Apparel and Accessories	dq/dc	0.04	(0.01) ^b	0.04	(0.01) ^b	0.01	(0.00) ^b	0.01	(0.00) ^b
	dq/dl	0.70	(0.02) ^b	0.51	(0.04) ^b	0.27	(0.01) ^b	0.26	(0.01) ^b
	dq/de					0.06	(0.00) ^b	0.05	(0.01) ^b
	dq/dm	0.25	(0.01) ^b	0.46	(0.01) ^b	0.69	(0.00) ^b	0.71	(0.01) ^b
	dq/dko	0.02	(0.01)	0.01	(0.01)	0.01	(0.01) ^b	0.01	(0.00) ^b
	dq/dkp	0.00	(0.09)	0.07	(0.05)	0.03	(0.01) ^a	0.04	(0.01) ^b
Leather and Fur Products	dq/dc	0.14	(0.02) ^b	0.03	(0.01) ^b	0.01	(0.00) ^a	0.01	(0.00) ^b
	dq/dl	0.54	(0.03) ^b	0.37	(0.02) ^b	0.21	(0.01) ^b	0.20	(0.01) ^b
	dq/de					0.05	(0.00) ^b	0.04	(0.00) ^b
	dq/dm	0.34	(0.02) ^b	0.59	(0.01) ^b	0.74	(0.01) ^b	0.75	(0.00) ^b
	dq/dko	0.01	(0.01)	0.00	(0.00)	0.00	(0.00)	0.00	(0.00)
	dq/dkp	-0.02	(0.04)	0.00	(0.02)	-0.68	(0.70)	-0.10	(0.68)
Wood and Bamboo Products	dq/dc	0.07	(0.01) ^b	0.04	(0.01) ^b	0.00	(0.00) ^b	0.00	(0.00) ^b
	dq/dl	0.65	(0.01) ^b	0.43	(0.01) ^b	0.22	(0.01) ^b	0.23	(0.01) ^b
	dq/de					0.06	(0.00) ^b	0.05	(0.00) ^b
	dq/dm	0.33	(0.01) ^b	0.52	(0.01) ^b	0.70	(0.00) ^b	0.71	(0.00) ^b
	dq/dko	-0.03	(0.06)	-0.02	(0.03)	0.03	(0.02) ^a	0.03	(0.01) ^b
	dq/dkp	0.10	(0.07)	0.00	(0.04)	0.03	(0.02)	0.03	(0.02)
Furniture and Fixtures	dq/dc	0.06	(0.01) ^b	0.03	(0.00) ^b	0.00	(0.00) ^b	0.01	(0.00) ^b
	dq/dl	0.72	(0.01) ^b	0.50	(0.01) ^b	0.22	(0.01) ^b	0.22	(0.01) ^b
	dq/de					0.05	(0.00) ^b	0.05	(0.03)
	dq/dm	0.25	(0.01) ^b	0.49	(0.01) ^b	0.73	(0.01) ^b	0.74	(0.01) ^b
	dq/dko	0.04	(0.01) ^b	0.02	(0.01) ^a	0.01	(0.01) ^a	0.01	(0.01)
	dq/dkp	-0.03	(0.04)	0.00	(0.03)	0.02	(0.02)	0.01	(0.05)
Pulp, Paper and Paper Products	dq/dc	0.13	(0.01) ^b	0.08	(0.01) ^b	0.01	(0.00) ^b	0.01	(0.00) ^b
	dq/dl	0.64	(0.01) ^b	0.42	(0.01) ^b	0.21	(0.01) ^b	0.21	(0.01) ^b
	dq/de					0.05	(0.00) ^b	0.05	(0.00) ^b
	dq/dm	0.28	(0.01) ^b	0.51	(0.01) ^b	0.72	(0.00) ^b	0.74	(0.00) ^b
	dq/dko	0.02	(0.01) ^a	0.00	(0.01)	0.02	(0.00) ^b	0.02	(0.00) ^b
	dq/dkp	0.03	(0.02)	0.01	(0.01)	0.02	(0.01) ^b	0.00	(0.00)
Printing Processing	dq/dc	0.07	(0.01) ^b	0.04	(0.01) ^b	0.01	(0.00) ^b	0.01	(0.00) ^b
	dq/dl	0.68	(0.01) ^b	0.54	(0.01) ^b	0.32	(0.01) ^b	0.31	(0.00) ^b
	dq/de					0.08	(0.00) ^b	0.08	(0.02) ^b
	dq/dm	0.24	(0.01) ^b	0.43	(0.01) ^b	0.61	(0.00) ^b	0.64	(0.00) ^b
	dq/dko	0.07	(0.02) ^b	0.02	(0.01) ^a	0.03	(0.01) ^b	0.02	(0.00) ^b
	dq/dkp	0.00	(0.03)	0.00	(0.01)	0.19	(0.14)	0.13	(0.12)

Table 3, continued: Stochastic Frontier Estimates of the Marginal Effects of Inputs

2-digit industry	Marginal Effects	Panel 1 (1992-1995)		Panel 2 (1997-2003)	
		B & C (1992)	B & C (1995)	B & C (1992)	B & C (1995)
Basic Chemical Matter Manufacturing	dq/dc	0.16 (0.01) ^b	0.15 (0.01) ^b	0.02 (0.00) ^b	0.01 (0.00) ^b
	dq/dl	0.55 (0.02) ^b	0.45 (0.02) ^b	0.17 (0.01) ^b	0.16 (0.01) ^b
	dq/de			0.08 (0.00) ^b	0.07 (0.00) ^b
	dq/dm	0.34 (0.01) ^b	0.43 (0.01) ^b	0.73 (0.01) ^b	0.77 (0.01) ^b
	dq/dko	0.02 (0.01) ^a	0.01 (0.00)	0.01 (0.00) ^b	0.01 (0.00) ^b
	dq/dkp	0.02 (0.01)	0.01 (0.01)	0.01 (0.00) ^b	0.01 (0.00) ^a
Chemical, Petroleum, and Coal Products	dq/dc	0.09 (0.01) ^b	0.05 (0.01) ^b	0.01 (0.00) ^b	0.01 (0.00) ^b
	dq/dl	0.65 (0.01) ^b	0.47 (0.01) ^b	0.22 (0.01) ^b	0.21 (0.00) ^b
	dq/de			0.06 (0.00) ^b	0.06 (0.00) ^b
	dq/dm	0.34 (0.01) ^b	0.51 (0.01) ^b	0.72 (0.00) ^b	0.75 (0.00) ^b
	dq/dko	0.00 (0.00)	0.00 (0.00)	0.02 (0.00) ^b	0.02 (0.00) ^b
	dq/dkp	0.05 (0.01) ^b	0.01 (0.01)	0.02 (0.01) ^b	0.02 (0.00) ^b
Rubber Products Manufacturing	dq/dc	0.07 (0.01) ^b	0.05 (0.01) ^b	0.01 (0.00) ^b	0.01 (0.00) ^b
	dq/dl	0.70 (0.02) ^b	0.49 (0.02) ^b	0.27 (0.01) ^b	0.25 (0.01) ^b
	dq/de			0.09 (0.00) ^b	0.08 (0.00) ^b
	dq/dm	0.23 (0.01) ^b	0.46 (0.01) ^b	0.65 (0.01) ^b	0.68 (0.00) ^b
	dq/dko	0.03 (0.01) ^a	0.01 (0.01)	0.01 (0.00) ^b	0.01 (0.00) ^b
	dq/dkp	0.07 (0.04)	0.03 (0.02)	0.05 (0.01) ^b	0.05 (0.01) ^b
Plastic Products Manufacturing	dq/dc	0.09 (0.01) ^b	0.06 (0.00) ^b	0.01 (0.00) ^b	0.01 (0.00) ^b
	dq/dl	0.68 (0.01) ^b	0.48 (0.01) ^b	0.23 (0.00) ^b	0.24 (0.00) ^b
	dq/de			0.09 (0.00) ^b	0.08 (0.00) ^b
	dq/dm	0.26 (0.01) ^b	0.47 (0.00) ^b	0.67 (0.00) ^b	0.69 (0.00) ^b
	dq/dko	0.03 (0.01) ^b	0.01 (0.01) ^a	0.02 (0.00) ^b	0.01 (0.00) ^b
	dq/dkp	0.08 (0.02) ^b	0.04 (0.01) ^b	0.01 (0.01) ^a	0.02 (0.01) ^b
Non-Metallic Mineral Products	dq/dc	0.14 (0.01) ^b	0.08 (0.01) ^b	0.01 (0.00) ^b	0.01 (0.00) ^b
	dq/dl	0.68 (0.01) ^b	0.51 (0.01) ^b	0.25 (0.00) ^b	0.26 (0.00) ^b
	dq/de			0.09 (0.00) ^b	0.08 (0.00) ^b
	dq/dm	0.26 (0.01) ^b	0.43 (0.01) ^b	0.67 (0.00) ^b	0.68 (0.00) ^b
	dq/dko	0.01 (0.01)	0.02 (0.01) ^b	0.02 (0.00) ^b	0.01 (0.00) ^b
	dq/dkp	0.00 (0.02)	0.01 (0.01)	0.03 (0.01) ^b	0.02 (0.00) ^b
Basic Metal Industries	dq/dc	0.15 (0.01) ^b	0.06 (0.01) ^b	0.01 (0.00) ^b	0.01 (0.00) ^b
	dq/dl	0.54 (0.01) ^b	0.42 (0.01) ^b	0.18 (0.01) ^b	0.18 (0.00) ^b
	dq/de			0.06 (0.00) ^b	0.06 (0.00) ^b
	dq/dm	0.40 (0.01) ^b	0.56 (0.03) ^b	0.76 (0.00) ^b	0.78 (0.00) ^b
	dq/dko	-0.02 (0.01)	0.00 (0.01)	0.01 (0.00) ^b	0.00 (0.00)
	dq/dkp	0.00 (0.03)	0.01 (0.02)	-0.02 (0.01)	-0.02 (0.01) ^a
Fabricated Metal Products	dq/dc	0.10 (0.00) ^b	0.06 (0.00) ^b	0.01 (0.00) ^b	0.01 (0.00) ^b
	dq/dl	0.66 (0.01) ^b	0.52 (0.00) ^b	0.25 (0.00) ^b	0.25 (0.00) ^b
	dq/de			0.06 (0.00) ^b	0.06 (0.00) ^b
	dq/dm	0.27 (0.00) ^b	0.44 (0.00) ^b	0.68 (0.00) ^b	0.70 (0.00) ^b
	dq/dko	0.03 (0.01) ^b	0.01 (0.00) ^b	0.01 (0.00) ^b	0.01 (0.00) ^b
	dq/dkp	0.05 (0.02) ^b	0.00 (0.01)	0.02 (0.01) ^b	0.02 (0.01) ^b
Machinery and Equipment	dq/dc	0.07 (0.01) ^b	0.04 (0.00) ^b	0.01 (0.00) ^b	0.01 (0.02)
	dq/dl	0.67 (0.01) ^b	0.48 (0.01) ^b	0.26 (0.00) ^b	0.26 (0.10) ^b
	dq/de			0.06 (0.00) ^b	0.06 (0.03)
	dq/dm	0.27 (0.01) ^b	0.48 (0.00) ^b	0.68 (0.00) ^b	0.69 (1.03)
	dq/dko	0.04 (0.01) ^b	0.02 (0.00) ^b	0.02 (0.00) ^b	0.01 (0.05)
	dq/dkp	0.04 (0.02) ^a	0.02 (0.01)	0.03 (0.01) ^b	0.02 (0.98)

Table 3, continued: Stochastic Frontier Estimates of the Marginal Effects of Inputs

2-digit industry		Marginal Effects	Panel 1 (1992-1995)				Panel 2 (1997-2003)			
			B & C (1992)		B & C (1995)		B & C (1992)		B & C (1995)	
<u>Panel 1, 1992-1995:</u>	<u>Panel2, 1997-2003:</u>									
Electrical and	Audio and Video	dq/dc	0.10	(0.01) ^b	0.07	(0.00) ^b	0.01	(0.00) ^b	0.01	(0.00) ^b
Electronic	Products	dq/dl	0.65	(0.01) ^b	0.44	(0.01) ^b	0.27	(0.01) ^b	0.25	(0.01) ^b
Machinery		dq/de					0.04	(0.01) ^b	0.04	(0.01) ^b
		dq/dm	0.29	(0.01) ^b	0.50	(0.00) ^b	0.67	(0.01) ^b	0.71	(0.01) ^b
		dq/dko	0.02	(0.00) ^b	0.01	(0.00) ^b	0.01	(0.00) ^b	0.01	(0.00) ^b
		dq/dkp	0.02	(0.00) ^b	0.01	(0.00) ^b	0.00	(0.01)	0.00	(0.01)
	Electronic parts and	dq/dc					0.02	(0.00) ^b	0.01	(0.00) ^b
	Components	dq/dl					0.26	(0.01) ^b	0.24	(0.01) ^b
		dq/de					0.10	(0.00) ^b	0.10	(0.00) ^b
		dq/dm					0.64	(0.01) ^b	0.67	(0.00) ^b
		dq/dko					0.01	(0.00) ^b	0.01	(0.00) ^b
		dq/dkp					0.00	(0.00)	0.00	(0.00) ^a
	Electric Machinery	dq/dc					0.00	(0.00) ^b	0.00	(0.00)
	and Parts	dq/dl					0.22	(0.00) ^b	0.23	(0.04) ^b
		dq/de					0.05	(0.00) ^b	0.05	(0.02) ^a
		dq/dm					0.73	(0.00) ^b	0.75	(0.03) ^b
		dq/dko					0.01	(0.00) ^b	0.01	(0.01)
		dq/dkp					0.00	(0.00)	0.00	(0.03)
Transportation Industry		dq/dc	0.10	(0.01) ^b	0.06	(0.00) ^b	0.01	(0.00) ^b	0.01	(0.00) ^b
		dq/dl	0.69	(0.01) ^b	0.47	(0.01) ^b	0.25	(0.00) ^b	0.25	(0.00) ^b
		dq/de					0.06	(0.00) ^b	0.06	(0.00) ^b
		dq/dm	0.27	(0.01) ^b	0.47	(0.00) ^b	0.69	(0.00) ^b	0.71	(0.00) ^b
		dq/dko	0.01	(0.00) ^b	0.01	(0.00) ^b	0.00	(0.00) ^b	0.00	(0.00) ^a
		dq/dkp	0.01	(0.01) ^a	0.00	(0.00)	0.01	(0.00) ^b	0.00	(0.00) ^a
Precision Instruments		dq/dc	0.08	(0.01) ^b	0.04	(0.05)	0.00	(0.00)	0.01	(0.00) ^b
		dq/dl	0.65	(0.02) ^b	0.50	(0.01) ^b	0.28	(0.01) ^b	0.27	(0.01) ^b
		dq/de					0.06	(0.00) ^b	0.06	(0.00) ^b
		dq/dm	0.27	(0.01) ^b	0.47	(0.05) ^b	0.68	(0.01) ^b	0.70	(0.00) ^b
		dq/dko	0.03	(0.01) ^b	0.01	(0.01)	0.02	(0.00) ^b	0.01	(0.00) ^b
		dq/dkp	0.04	(0.04)	0.03	(0.02)	0.06	(0.02) ^a	0.05	(0.01) ^b
Miscellaneous Industrial Products		dq/dc	0.05	(0.01) ^b	0.06	(0.01) ^b	0.01	(0.00) ^b	0.01	(0.00) ^b
		dq/dl	0.73	(0.01) ^b	0.57	(0.01) ^b	0.27	(0.00) ^b	0.26	(0.00) ^b
		dq/de					0.07	(0.00) ^b	0.08	(0.00) ^b
		dq/dm	0.22	(0.01) ^b	0.36	(0.01) ^b	0.66	(0.00) ^b	0.68	(0.00) ^b
		dq/dko	0.05	(0.01) ^b	0.02	(0.01) ^a	0.02	(0.00) ^b	0.01	(0.00) ^b
		dq/dkp	0.13	(0.05) ^a	0.06	(0.04)	0.02	(0.01) ^a	0.02	(0.01) ^b

B & C (1992): Battese & Coelli (1992)'s single-equation stochastic frontier model

B & C (1995): Battese & Coelli (1995)'s two-equation stochastic frontier model

Marginal effects computed at sample mean. Calculations of the standard errors are based on the Delta Method.

Standard errors in parentheses; *a*: Significant at the 5% level; *b*: significant at the 1% level.Notation: $q = \ln Q$, $c = \ln C$, $l = \ln L$, $e = \ln E$, $m = \ln M$, $ko = (KO)^{1/2}$, $kp = (KP)^{1/2}$

All models include a time effect (year dummies)

Goodness-of-fit for Battese & Coelli (1995)'s Stochastic Frontier Model:The null hypothesis $H_0: \beta=0$ was rejected by a LR-test at the 1% level in all industries in both panelsGoodness-of-fit for Battese & Coelli (1995)'s Stochastic Frontier Model:The null hypothesis $H_0: \beta-\delta=0$ was rejected by a LR-test at the 1% level in all industries and in both panels (β and δ are the vectors of coefficients of the production function and inefficiency equations respectively).

Table 4: Estimate of Interaction Term $dq/d(ko \times kp)$

2-digit industry	Panel 1 (1992-1995)				Panel 2 (1997-2003)			
	B & C (1992)		B & C (1995)		B & C (1992)		B & C (1995)	
Food Manufacturing	-0.01	(0.01)	-0.00	(0.00)	-0.00	(0.00)	-0.00	(0.00)
Textile Mill Products	-0.00	(0.00)	-0.00	(0.00)	-0.00	(0.00) ^b	-0.00	(0.00) ^a
Wearing Apparel and Accessories	0.07	(0.15)	0.10	(0.08)	-0.02	(0.01) ^a	-0.02	(0.01) ^b
Leather and Fur Products	0.00	(0.00)	0.00	(0.00)	-0.95	(1.06)	-0.04	(1.03)
Wood and Bamboo Products	0.01	(0.04)	0.02	(0.02)	0.02	(0.02)	0.02	(0.02)
Furniture and Fixtures	0.00	(0.00)	-0.00	(0.00)	-0.00	(0.00)	-0.01	(0.01)
Pulp, Paper and Paper Products	-0.01	(0.01)	-0.00	(0.00)	-0.00	(0.00)	-0.00	(0.00)
Printing Processing	0.01	(0.04)	0.01	(0.02)	—	—	—	—
Basic Chemical Matter Manufacturing	-0.00	(0.00)	-0.00	(0.00)	-0.00	(0.00) ^b	-0.00	(0.00) ^a
Chemical, Petroleum and Coal Products	-0.00	(0.00)	-0.00	(0.00)	-0.00	(0.00) ^b	-0.00	(0.00) ^b
Rubber Products Manufacturing	-0.00	(0.00)	-0.00	(0.00)	-0.00	(0.00) ^b	-0.00	(0.00) ^b
Plastic Products Manufacturing	-0.01	(0.00) ^b	-0.00	(0.00) ^b	-0.00	(0.00) ^a	-0.00	(0.00) ^b
Non-Metallic Mineral Products	-0.00	(0.00)	-0.00	(0.00)	-0.00	(0.00) ^b	-0.00	(0.00) ^b
Basic Metal Industries	0.00	(0.00)	0.00	(0.00)	-0.00	(0.00)	0.00	(0.00)
Fabricated Metal Products	-0.00	(0.00) ^a	-0.00	(0.00)	-0.00	(0.00) ^b	-0.00	(0.00) ^b
Machinery and equipment	-0.00	(0.00) ^a	-0.00	(0.00)	-0.00	(0.00) ^b	-0.00	(0.06)
Panel 1, 1992-1995:	Panel 2 1997-2003							
Electrical and Electronic Machinery	Audio and Video products		-0.00 (0.00) ^b		-0.00 (0.00) ^a		-0.00 (0.00)	
	Electronic parts and components		[shaded]		-0.00 (0.00) ^a		-0.00 (0.00) ^a	
	Electric Machinery and parts		[shaded]		-0.00 (0.00) ^b		-0.00 (0.00)	
Transportation Industry	-0.00	(0.00)	-0.00	(0.00)	-0.00	(0.00) ^b	-0.00	(0.00)
Precision Instruments	0.00	(0.00)	-0.00	(0.00)	-0.01	(0.00) ^b	-0.01	(0.00) ^b
Miscellaneous	-0.01	(0.01)	-0.01	(0.00)	-0.00	(0.00) ^a	-0.00	(0.00) ^b

B & C (1992): Battese & Coelli (1992)'s single-equation stochastic frontier model

B & C (1995): Battese & Coelli (1995)'s two-equation stochastic frontier model

Standard errors in parentheses

a: Significant at the 5% level; b: significant at the 1% level.

In Panel 2, in the 'Printing Processing' industry, there are not enough firms both doing R&D and importing technology to estimate an interaction term.

Table 5: Ancillary Parameters Estimates for both Stochastic Frontier Models

2-digit industry	Parameter	Panel 1 (1992-1995)				Panel 2 (1997-2003)			
		B & C (1992)		B & C (1995)		B & C (1992)		B & C (1995)	
Food Manufacturing	σ^2	0.55	(0.02) ^b	0.98	(0.01) ^b	0.26	(0.01) ^b	0.06	(0.00) ^b
	γ	0.29	(0.02) ^b	0.91	(0.00) ^b	0.82	(0.01) ^b	0.03	(0.00) ^b
	μ	0.80	(0.09) ^b	[shaded]	[shaded]	-0.93	(0.06) ^b	[shaded]	[shaded]
	η	-0.02	(0.01)	[shaded]	[shaded]	-0.06	(0.01) ^b	[shaded]	[shaded]
Textile Mill Products	σ^2	0.37	(0.01) ^b	0.55	(0.01) ^b	0.16	(0.01) ^b	0.52	(0.01) ^b
	γ	0.43	(0.02) ^b	0.87	(0.00) ^b	0.52	(0.03) ^b	0.94	(0.00) ^b
	μ	0.79	(0.05) ^b	[shaded]	[shaded]	0.58	(0.04) ^b	[shaded]	[shaded]
	η	-0.07	(0.01) ^b	[shaded]	[shaded]	-0.13	(0.01) ^b	[shaded]	[shaded]
Wearing Apparel and Accessories	σ^2	0.28	(0.02) ^b	0.45	(0.02) ^b	0.07	(0.00) ^b	0.06	(0.00) ^b
	γ	0.42	(0.04) ^b	0.88	(0.01) ^b	0.42	(0.02) ^b	0.3	(0.06) ^b
	μ	0.69	(0.09) ^b	[shaded]	[shaded]	0.33	(0.03) ^b	[shaded]	[shaded]
	η	0.01	(0.03)	[shaded]	[shaded]	-0.14	(0.02) ^b	[shaded]	[shaded]
Leather and Fur Products	σ^2	1.51	(0.24) ^b	0.8	(0.05) ^b	0.05	(0.00) ^b	0.06	(0.00) ^b
	γ	0.79	(0.03) ^b	0.96	(0.01) ^b	0.45	(0.04) ^b	0.55	(0.04) ^b
	μ	-2.19	(0.76) ^a	[shaded]	[shaded]	0.30	(0.12) ^b	[shaded]	[shaded]
	η	-0.09	(0.04) ^a	[shaded]	[shaded]	-0.21	(0.04) ^b	[shaded]	[shaded]

Table 5, continued: Ancillary Parameters Estimates for both Stochastic Frontier Models

2-digit industry	Parameter	Panel 1 (1992-1995)		Panel 2 (1997-2003)	
		<i>B & C (1992)</i>	<i>B & C (1995)</i>	<i>B & C (1992)</i>	<i>B & C (1995)</i>
Wood and Bamboo Products	σ^2	0.47 (0.03) ^b	0.87 (0.02) ^b	0.22 (0.03) ^b	0.23 (0.01) ^b
	γ	0.31 (0.03) ^b	0.94 (0.00) ^b	0.87 (0.02) ^b	0.89 (0.01) ^b
	μ	0.76 (0.05) ^b		-0.87 (0.15) ^b	
	η	-0.07 (0.03) ^a		-0.18 (0.02) ^b	
Furniture and Fixtures	σ^2	0.31 (0.01) ^b	0.55 (0.01) ^b	0.05 (0.00) ^b	0.04 (0.00) ^b
	γ	0.35 (0.03) ^b	0.92 (0.00) ^b	0.43 (0.02) ^b	0.00 (0.00)
	μ	0.66 (0.06) ^b		0.29 (0.03) ^b	
	η	-0.03 (0.02)		-0.15 (0.03) ^b	
Pulp, Paper and Paper Products	σ^2	0.85 (0.14) ^b	0.63 (0.02) ^b	0.05 (0.00) ^b	0.11 (0.00) ^b
	γ	0.75 (0.04) ^b	0.95 (0.00) ^b	0.59 (0.02) ^b	0.80 (0.01) ^b
	μ	-1.60 (0.50) ^b		0.33 (0.03) ^b	
	η	-0.02 (0.02)		-0.17 (0.01) ^b	
Printing Processing	σ^2	0.28 (0.01) ^b	0.56 (0.02)	0.07 (0.00) ^b	0.07 (0.00) ^b
	γ	0.32 (0.03) ^b	0.93 (0.01)	0.58 (0.02) ^b	0.48 (0.02) ^b
	μ	0.60 (0.07) ^b		0.41 (0.02) ^b	
	η	-0.02 (0.02)		-0.13 (0.01) ^b	
Basic Chemical Matter Manufacturing	σ^2	1.07 (0.08) ^b	3.85 (0.26) ^b	0.07 (0.00) ^b	0.04 (0.00) ^b
	γ	0.67 (0.03) ^b	0.96 (0.00) ^b	0.59 (0.02) ^b	0.26 (0.02) ^b
	μ	-1.69 (0.26) ^b		0.40 (0.03) ^b	
	η	0.11 (0.03) ^b		-0.18 (0.02) ^b	
Chemical, Petroleum and Coal Products	σ^2	0.78 (0.08) ^b	0.76 (0.02) ^b	0.05 (0.00) ^b	0.04 (0.00) ^b
	γ	0.59 (0.05) ^b	0.94 (0.00) ^b	0.38 (0.03) ^b	0.05 (0.00) ^b
	μ	-1.36 (0.32) ^b		0.28 (0.04) ^b	
	η	0.17 (0.02) ^b		-0.08 (0.02) ^b	
Rubber Products Manufacturing	σ^2	0.30 (0.02) ^b	0.60 (0.03) ^b	0.03 (0.00) ^b	0.03 (0.00) ^b
	γ	0.32 (0.05) ^b	0.94 (0.01) ^b	0.27 (0.04) ^b	0.06 (0.01) ^b
	μ	0.61 (0.13) ^b		0.18 (0.02) ^b	
	η	-0.07 (0.04)		0.02 (0.02)	
Plastic Products Manufacturing	σ^2	0.33 (0.01) ^b	0.65 (0.01) ^b	0.04 (0.00) ^b	0.03 (0.00) ^b
	γ	0.31 (0.02) ^b	0.92 (0.00) ^b	0.44 (0.01) ^b	0.01 (0.00)
	μ	0.64 (0.06) ^b		0.26 (0.01) ^b	
	η	-0.02 (0.01)		-0.07 (0.01) ^b	
Non-Metallic Mineral Products	σ^2	0.97 (0.09) ^b	0.71 (0.02) ^b	0.06 (0.00) ^b	0.14 (0.00) ^b
	γ	0.67 (0.03) ^b	0.89 (0.00) ^b	0.44 (0.02) ^b	0.77 (0.01) ^b
	μ	-1.62 (0.33) ^b		0.33 (0.02) ^b	
	η	0.04 (0.02) ^a		-0.14 (0.01) ^b	
Basic Metal Industries	σ^2	1.40 (0.08) ^b	1.05 (0.02) ^b	0.04 (0.00) ^b	0.03 (0.00) ^b
	γ	0.68 (0.02) ^b	0.93 (0.00) ^b	0.41 (0.03) ^b	0.02 (0.00) ^b
	μ	-1.95 (0.26) ^b		0.24 (0.02) ^b	
	η	0.06 (0.02) ^b		-0.04 (0.01) ^b	

Table 5, continued: Ancillary Parameters Estimates for both Stochastic Frontier Models

2-digit industry		Parameter	Panel 1 (1992-1995)				Panel 2 (1997-2003)			
			B & C (1992)		B & C (1995)		B & C (1992)		B & C (1995)	
Fabricated Metal Products		σ^2	0.32	(0.01) ^b	0.57	(0.01) ^b	0.06	(0.00) ^b	0.04	(0.00) ^b
		γ	0.34	(0.01) ^b	0.90	(0.00) ^b	0.54	(0.01) ^b	0.06	(0.01) ^b
		μ	0.66	(0.03) ^b			0.35	(0.01) ^b		
		η	-0.06	(0.01) ^b			-0.11	(0.01) ^b		
Machinery and Equipment		σ^2	0.34	(0.01) ^b	0.62	(0.01) ^b	0.04	(0.00) ^b	0.04	(0.01) ^b
		γ	0.32	(0.02) ^b	0.91	(0.00) ^b	0.37	(0.01) ^b	0.00	(0.43)
		μ	0.66	(0.04) ^b			1.80	(0.67) ^b		
		η	-0.05	(0.01) ^b			-0.03	(0.01) ^b		
<u>Panel 1, 1992-1995:</u>	<u>Panel 2 1997-2003</u>									
Electrical and Electronic Machinery	Audio and Video Products	σ^2	0.34	(0.01) ^b	0.60	(0.01) ^b	0.08	(0.00) ^b	0.07	(0.00) ^b
		γ	0.35	(0.02) ^b	0.90	(0.00) ^b	0.17	(0.04) ^b	0.14	(0.01) ^b
		μ	0.68	(0.05) ^b			0.22	(0.05) ^b		
		η	0.00	(0.01)			0.05	(0.05)		
	Electronic parts and Components	σ^2					0.08	(0.00) ^b	0.06	(0.00) ^b
		γ					0.50	(0.02) ^b	0.34	(0.04) ^b
		μ					0.40	(0.03) ^b		
		η					-0.14	(0.02) ^b		
	Electric Machinery and parts	σ^2					0.04	(0.00) ^b	0.03	(0.02) ^a
		γ					0.38	(0.02) ^b	0.01	(0.62)
		μ					0.23	(0.01) ^b		
		η					-0.03	(0.01) ^a		
Transportation Industry		σ^2	0.99	(0.10) ^b	0.72	(0.01) ^b	0.05	(0.00) ^b	0.13	(0.00) ^b
		γ	0.72	(0.03) ^b	0.95	(0.00) ^b	0.50	(0.02) ^b	0.77	(0.01) ^b
		μ	-1.69	(0.37) ^b			0.31	(0.02) ^b		
		η	0.03	(0.01) ^a			-0.11	(0.01) ^b		
Precision Instruments		σ^2	0.27	(0.02) ^b	0.49	(0.02) ^b	0.05	(0.00) ^b	0.04	(0.00) ^b
		γ	0.31	(0.04) ^b	0.91	(0.01) ^b	0.40	(0.03) ^b	0.07	(0.02) ^b
		μ	0.58	(0.09) ^b			0.28	(0.03) ^b		
		η	0.00	(0.03)			-0.07	(0.03) ^a		
Miscellaneous		σ^2	0.45	(0.02) ^b	0.60	(0.02) ^b	0.06	(0.00) ^b	0.11	(0.00) ^b
		γ	0.44	(0.02) ^b	0.82	(0.01) ^b	0.42	(0.02) ^b	0.68	(0.01) ^b
		μ	0.89	(0.06) ^b			0.32	(0.01) ^b		
		η	-0.04	(0.02) ^a			-0.07	(0.01) ^b		

B & C (1992): Battese & Coelli (1992)'s single-equation stochastic frontier model

B & C (1995): Battese & Coelli (1995)'s two-equation stochastic frontier model

a: Significant at the 5% level; b: significant at the 1% level

Standard errors in parentheses

Table 6: Inefficiency Equation Estimates – Battese & Coelli (1995)'s Stochastic Frontier Model

2-digit industry		Panel 1 (1992-1995)		Panel 2 (1997-2003)	
		Coeff.	S.E	Coeff.	S.E
Food Manufacturing	Constant	-7.67	(0.08) ^b	-0.19	(0.02) ^b
	Multi-plant	-0.02	(0.03)	-0.05	(0.01) ^b
	Exports tech.	0.08	(0.14)	0.03	(0.17)
	Age	0.00	(0.00)	0.00	(0.00) ^b
	4-digit ind.	0.048		0.000	
Textile Mill Products	Constant	-5.65	(0.07) ^b	-5.39	(0.19) ^b
	Multi-plant	-0.08	(0.03) ^a	0.00	(0.03)
	Exports tech.	0.05	(0.20)	0.07	(0.41)
	Age	0.00	(0.00)	0.01	(0.00) ^b
	4-digit ind.	0.000		0.000	
Wearing Apparel and Accessories	Constant	-2.17	(0.25) ^b	-0.62	(0.09) ^b
	Multi-plant	0.00	(0.08)	-0.01	(0.01)
	Exports tech.	-1.00	(0.50) ^a	0.19	(0.22)
	Age	0.00	(0.00)	0.00	(0.00)
	4-digit ind.	0.014		0.000	
Leather and Fur Products	Constant	-6.98	(0.28) ^b	-1.35	(0.36) ^b
	Multi-plant	-0.23	(0.12)	-0.08	(0.05)
	Exports tech.	-0.17	(0.14)	-0.04	(0.10)
	Age	0.00	(0.00)	0.00	(0.00)
	4-digit ind.	0.000		0.000	
Wood and Bamboo Products	Constant	-7.28	(0.13) ^b	-2.56	(0.15) ^b
	Multi-plant	0.09	(0.09)	0.00	(0.03)
	Exports tech.	-0.05	(1.00)	0.00	(1.00)
	Age	0.00	(0.00)	0.01	(0.00) ^b
	4-digit ind.	0.000		0.011	
Furniture and Fixtures	Constant	-5.83	(0.06) ^b	-0.02	(0.18)
	Multi-plant	0.01	(0.03)	0.06	(0.02) ^b
	Exports tech.	4.99	(1.00) ^b	0.06	(0.42)
	Age	0.00	(0.00)	0.00	(0.00) ^a
	4-digit ind.	0.000		0.057	
Pulp, Paper and Paper Products	Constant	-6.18	(0.14) ^b	-2.14	(0.05) ^b
	Multi-plant	-0.06	(0.06)	-0.09	(0.01) ^b
	Exports tech.	0.00	(1.00)	-0.16	(0.03) ^b
	Age	0.00	(0.00)	0.02	(0.00) ^b
	4-digit ind.	0.001		0.000	
Printing Processing	Constant	-5.78	(0.14) ^b	-0.86	(0.02) ^b
	Multi-plant	-0.17	(0.09)	-0.03	(0.03)
	Exports tech.	0.46	(0.99)	0.00	(1.00)
	Age	0.00	(0.00)	0.00	(0.00) ^b
	4-digit ind.	0.000		0.105	
Basic Chemical Matter Manufacturing	Constant	-14.27	(1.25) ^b	0.26	(0.03) ^b
	Multi-plant	0.48	(0.11) ^b	-0.01	(0.02)
	Exports tech.	-0.89	(0.58)	0.00	(0.01)
	Age	0.02	(0.01) ^b	0.00	(0.00)
	4-digit ind.	0.000		0.000	
Chemical Products	Constant	-3.27	(0.13) ^b	0.20	(0.02) ^b
	Multi-plant	-0.03	(0.02)	0.00	(0.00)
	Exports tech.	-0.31	(0.44)	0.12	(0.08)
	Age	0.00	(0.00)	0.00	(0.00)
	4-digit ind.	0.000		0.000	

Table 6, continued: Inefficiency Equation Estimates – Battese & Coelli (1995)'s Stochastic Frontier Model

2-digit industry		Panel 1 (1992-1995)		Panel 2 (1997-2003)		
		Coeff.	S.E	Coeff.	S.E	
Rubber Products Manufacturing	Constant	-6.12	(0.19) ^b	-0.06	(0.02) ^a	
	Multi-plant	-0.11	(0.10)	-0.04	(0.02) ^a	
	Exports tech.	-0.23	(0.16)	0.21	(0.06) ^b	
	Age	0.00	(0.01)	0.00	(0.00) ^b	
	4-digit ind.	0.000		0.000		
Plastic Products Manufacturing	Constant	-6.22	(0.10) ^b	0.02	(0.01)	
	Multi-plant	-0.07	(0.04)	-0.04	(0.01) ^b	
	Exports tech.	-0.06	(0.15)	-0.09	(0.04) ^a	
	Age	0.00	(0.00)	0.00	(0.00) ^b	
	4-digit ind.	0.000		0.000		
Non-Metallic Mineral Products	Constant	-5.43	(0.11) ^b	-1.37	(0.05) ^b	
	Multi-plant	-0.02	(0.02)	-0.01	(0.01)	
	Exports tech.	-0.29	(0.58)	0.44	(0.20) ^a	
	Age	0.01	(0.00)	0.00	(0.00)	
	4-digit ind.	0.000		0.000		
Basic Metal Industries	Constant	-7.79	(0.14) ^b	0.22	(0.02) ^b	
	Multi-plant	-0.31	(0.05) ^b	-0.04	(0.01) ^b	
	Exports tech.	-0.73	(0.97)	-0.08	(0.05)	
	Age	0.01	(0.00) ^b	0.00	(0.00) ^b	
	4-digit ind.	0.000		0.000		
Fabricated Metal Products	Constant	-5.68	(0.06) ^b	0.00	(0.01)	
	Multi-plant	-0.02	(0.02)	-0.06	(0.01) ^b	
	Exports tech.	0.22	(0.13)	-0.19	(0.01) ^b	
	Age	0.01	(0.00) ^b	0.00	(0.00) ^b	
	4-digit ind.	0.000		0.000		
Machinery and Equipment	Constant	-5.85	(0.07) ^b	-0.01	(0.80)	
	Multi-plant	0.00	(0.02)	-0.04	(0.76)	
	Exports tech.	0.03	(0.10)	0.00	(1.00)	
	Age	0.00	(0.00)	0.00	(0.03)	
	4-digit ind.	0.000		0.996		
<u>Panel 1, 1992-1995:</u>	<u>Panel 2 1997-2003</u>					
Electrical and Electronic Machinery	Audio and Video products	Constant	-5.81	(0.09) ^b	-0.19	(0.05) ^b
		Multiplant	-0.15	(0.04) ^b	0.01	(0.04)
		Exports tech.	-0.08	(0.06)	-0.04	(0.26)
		Age	0.00	(0.00) ^a	0.00	(0.01)
		4-digit industries	0.000		0.000	
Electronic parts and components	Constant			1.26	(0.16) ^b	
	Multiplant			0.02	(0.02)	
	Exports tech.			-0.03	(0.02)	
	Age			0.00	(0.00)	
	4-digit industries			0.000		
Electric Machinery and parts	Constant			0.05	(0.27)	
	Multiplant			-0.02	(0.77)	
	Exports tech.			-0.01	(1.00)	
	Age			0.00	(0.01)	
	4-digit industries			0.000		
Transportation Industry	Constant	-6.64	(0.08) ^b	-1.48	(0.10) ^b	
	Multi-plant	-0.02	(0.02)	-0.59	(0.02) ^b	
	Exports tech.	0.17	(0.12)	-0.20	(0.05) ^b	
	Age	0.00	(0.00)	0.02	(0.00) ^b	
	4-digit ind.	0.000		0.000		

Table 6, continued: Inefficiency Equation Estimates – Battese & Coelli (1995)'s Stochastic Frontier Model

2-digit industry		Panel 1 (1992-1995)		Panel 2 (1997-2003)	
		Coeff.	S.E	Coeff.	S.E
		Precision Instruments	Constant	-5.47	(0.13) ^b
	Multi-plant	-0.02	(0.04)	-0.04	(0.03)
	Exports tech.	-0.05	(0.11)	-0.09	(0.03) ^b
	Age	0.01	(0.00)	0.01	(0.00) ^b
	4-digit ind.	0.000		0.000	
Miscellaneous Industrial Products	Constant	-2.60	(0.30) ^b	-0.51	(0.04) ^b
	Multi-plant	0.05	(0.06)	-0.88	(0.04) ^b
	Exports tech.	-0.07	(0.50)	-1.45	(0.04) ^b
	Age	0.01	(0.00) ^b	0.01	(0.00) ^b
	4-digit ind.	0.000		0.738	

a: Significant at the 5% level; b: significant at the 1% level

For the sake of concision, we do not report parameter estimates for the 4-digit industry dummy variables. Instead, we show the p-value of a LR-test of global significance of the 4-digit industry dummies within a given 2-digit industry.

Table 7: Estimate of mean technical efficiency by industry

2-digit industry		Panel 1 (1992-1995)		Panel 2 (1997-2003)	
		B & C (1992)	B & C (1995)	B & C (1992)	B & C (1995)
		Food Manufacturing	0.48	0.46	0.87
Textile Mill Products	0.50	0.47	0.64	0.77	
Wearing Apparel and Accessories	0.51	0.49	0.79	0.88	
Leather and Fur Products	0.73	0.48	0.83	0.80	
Wood and Bamboo Products	0.52	0.48	0.90	0.92	
Furniture and Fixtures	0.54	0.48	0.81	0.98	
Pulp, Paper and Paper Products	0.77	0.51	0.80	0.94	
Printing Processing	0.57	0.48	0.74	0.68	
Basic Chemical Matter Manufacturing	0.73	0.67	0.76	0.79	
Chemical, Petroleum and Coal Products	0.75	0.44	0.79	0.93	
Rubber Products Manufacturing	0.58	0.56	0.82	0.95	
Plastic Products Manufacturing	0.55	0.47	0.80	0.96	
Non-Metallic Mineral Products	0.75	0.45	0.79	0.93	
Basic Metal Industries	0.71	0.48	0.80	0.87	
Fabricated Metal Products	0.55	0.47	0.76	0.94	
Machinery and Equipment	0.55	0.48	0.88	0.97	
<u>Panel 1, 1992-1995:</u>	<u>Panel 2 1997-2003</u>				
Electrical and Electronic Machinery	Audio and Video products	0.52	0.46	0.78	0.95
	Electronic parts and components			0.75	0.38
	Electric Machinery and parts			0.80	0.97
Transportation Industry		0.75	0.46	0.78	0.93
Precision Instruments		0.57	0.49	0.78	0.96
Miscellaneous Industrial Products		0.45	0.46	0.76	0.92

B & C (1992): Battese & Coelli (1992)'s single-equation stochastic frontier model

B & C (1995): Battese & Coelli (1995)'s two-equation stochastic frontier model

Appendix 1

Table A: Estimates of the second derivatives of output with respect to each input, by industry

2-digit industry	Input	Panel 1 (1992-1995)				Panel 2 (1997-2003)			
		<i>B & C (1992)</i>		<i>B & C (1995)</i>		<i>B & C (1992)</i>		<i>B & C (1995)</i>	
Food Manufacturing	d^2Q/dC^2	-9.4×10^{-08}	$(3.2 \times 10^{-08})^b$	-4.3×10^{-08}	(2.8×10^{-08})	-7.6×10^{-23}	$(7.1 \times 10^{-24})^b$	-7.7×10^{-23}	$(7.1 \times 10^{-24})^b$
	d^2Q/dL^2	-2.4×10^{-05}	$(1.3 \times 10^{-06})^b$	-1.5×10^{-05}	$(1.3 \times 10^{-06})^b$	-1.1×10^{-02}	$(5.5 \times 10^{-04})^b$	-1.1×10^{-02}	$(5.0 \times 10^{-04})^b$
	d^2Q/dE^2					-4.6×10^{-03}	$(2.6 \times 10^{-04})^b$	-4.0×10^{-03}	$(2.5 \times 10^{-04})^b$
	d^2Q/dM^2	-7.6×10^{-07}	$(3.6 \times 10^{-08})^b$	-1.1×10^{-06}	$(2.9 \times 10^{-08})^b$	-3.6×10^{-05}	$(2.8 \times 10^{-07})^b$	-3.9×10^{-05}	$(2.8 \times 10^{-07})^b$
Textile Mill Products	d^2Q/dC^2	-2.7×10^{-08}	$(1.0 \times 10^{-08})^b$	-1.4×10^{-08}	(9.6×10^{-09})	-9.7×10^{-19}	$(3.3 \times 10^{-20})^b$	-2.3×10^{-21}	$(3.1 \times 10^{-22})^b$
	d^2Q/dL^2	-1.1×10^{-05}	$(1.0 \times 10^{-06})^b$	-7.9×10^{-06}	$(1.1 \times 10^{-06})^b$	-7.6×10^{-02}	$(2.9 \times 10^{-03})^b$	-6.4×10^{-03}	$(5.2 \times 10^{-04})^b$
	d^2Q/dE^2					-7.4×10^{-02}	$(3.9 \times 10^{-03})^b$	-5.2×10^{-04}	$(4.3 \times 10^{-05})^b$
	d^2Q/dM^2	-4.2×10^{-07}	$(2.9 \times 10^{-08})^b$	-6.9×10^{-07}	$(2.2 \times 10^{-08})^b$	-4.0×10^{-04}	$(1.9 \times 10^{-05})^b$	-3.9×10^{-05}	$(2.4 \times 10^{-07})^b$
Wearing Apparel and Accessories	d^2Q/dC^2	-8.8×10^{-07}	(2.4×10^{-06})	-6.2×10^{-07}	(1.6×10^{-06})	-3.6×10^{-24}	$(1.8 \times 10^{-25})^b$	-1.5×10^{-26}	$(2.4 \times 10^{-27})^b$
	d^2Q/dL^2	-3.0×10^{-05}	$(6.8 \times 10^{-06})^b$	-1.9×10^{-05}	$(5.6 \times 10^{-06})^b$	-3.8×10^{-02}	$(2.4 \times 10^{-03})^b$	-1.1×10^{-02}	$(6.7 \times 10^{-04})^b$
	d^2Q/dE^2					-8.5	$(0.86)^b$	-1.1×10^{-01}	$(4.3 \times 10^{-02})^b$
	d^2Q/dM^2	-2.9×10^{-06}	$(4.4 \times 10^{-07})^b$	-5.2×10^{-06}	$(3.8 \times 10^{-07})^b$	-2.5×10^{-03}	$(1.4 \times 10^{-04})^b$	-3.5×10^{-04}	$(5.7 \times 10^{-06})^b$
Leather and Fur Products	d^2Q/dC^2	-7.9×10^{-07}	(1.1×10^{-06})	-2.9×10^{-07}	(7.0×10^{-07})	-1.2×10^{-20}	$(1.1 \times 10^{-21})^b$	-2.4×10^{-23}	$(9.7 \times 10^{-24})^a$
	d^2Q/dL^2	-1.6×10^{-05}	$(6.9 \times 10^{-06})^a$	-1.0×10^{-05}	(5.6×10^{-06})	-2.3×10^{-02}	$(3.9 \times 10^{-03})^b$	-4.6×10^{-03}	$(1.1 \times 10^{-03})^b$
	d^2Q/dE^2					-1.9	$(8.7 \times 10^{-01})^a$	-2.1×10^{-02}	$(4.5 \times 10^{-03})^b$
	d^2Q/dM^2	-1.1×10^{-06}	$(2.1 \times 10^{-07})^b$	-1.9×10^{-06}	$(1.7 \times 10^{-07})^b$	-4.1×10^{-04}	$(3.7 \times 10^{-05})^b$	-6.0×10^{-05}	$(6.6 \times 10^{-07})^b$
Wood and Bamboo Products	d^2Q/dC^2	-5.1×10^{-07}	(4.8×10^{-07})	-1.4×10^{-07}	(3.6×10^{-07})	-1.9×10^{-27}	$(6.7 \times 10^{-29})^b$	-2.1×10^{-30}	$(6.5 \times 10^{-31})^b$
	d^2Q/dL^2	-9.6×10^{-05}	$(9.0 \times 10^{-06})^b$	-5.7×10^{-05}	$(9.0 \times 10^{-06})^b$	-6.5×10^{-01}	$(9.9 \times 10^{-02})^b$	-2.7×10^{-02}	$(3.8 \times 10^{-03})^b$
	d^2Q/dE^2					9.3	$(1.6)^b$	-2.9×10^{-02}	$(5.4 \times 10^{-03})^b$
	d^2Q/dM^2	-3.0×10^{-06}	$(2.9 \times 10^{-07})^b$	-4.7×10^{-06}	$(2.0 \times 10^{-07})^b$	-6.7×10^{-03}	$(1.6 \times 10^{-04})^b$	-5.3×10^{-04}	$(5.3 \times 10^{-06})^b$
Furniture and Fixtures	d^2Q/dC^2	-2.8×10^{-07}	(3.3×10^{-07})	-8.9×10^{-08}	(2.5×10^{-07})	-1.3×10^{-23}	$(6.1 \times 10^{-25})^b$	-3.6×10^{-26}	$(1.3 \times 10^{-26})^b$
	d^2Q/dL^2	-3.0×10^{-05}	$(3.1 \times 10^{-06})^b$	-1.8×10^{-05}	$(3.1 \times 10^{-06})^b$	-5.8×10^{-02}	$(3.3 \times 10^{-03})^b$	-1.2×10^{-02}	$(1.6 \times 10^{-03})^b$
	d^2Q/dE^2					-4.3	$(5.5 \times 10^{-01})^b$	-6.5×10^{-02}	$(6.3 \times 10^{-02})^b$
	d^2Q/dM^2	-4.1×10^{-06}	$(4.2 \times 10^{-07})^b$	-7.8×10^{-06}	$(3.4 \times 10^{-07})^b$	-2.5×10^{-03}	$(1.3 \times 10^{-04})^b$	-3.8×10^{-04}	$(2.0 \times 10^{-05})^b$

Table A, continued: Estimates of the second derivatives of output with respect to each input, by industry

2-digit industry	Input	Panel 1 (1992-1995)				Panel 2 (1997-2003)			
		<i>B & C (1992)</i>		<i>B & C (1995)</i>		<i>B & C (1992)</i>		<i>B & C (1995)</i>	
Pulp, Paper and Paper Products	d^2Q/dC^2	-2.6×10^{-08}	(1.4×10^{-08})	-1.5×10^{-08}	(1.0×10^{-08})	-1.8×10^{-15}	$(4.3 \times 10^{-17})^b$	-3.5×10^{-18}	$(6.9 \times 10^{-19})^b$
	d^2Q/dL^2	-1.8×10^{-05}	$(2.1 \times 10^{-06})^b$	-1.1×10^{-05}	$(1.9 \times 10^{-06})^b$	-9.7×10^{-02}	$(4.3 \times 10^{-03})^b$	-9.8×10^{-03}	$(2.2 \times 10^{-03})^b$
	d^2Q/dE^2					-5.5×10^{-02}	$(5.3 \times 10^{-03})^b$	-6.0×10^{-04}	$(6.5 \times 10^{-05})^b$
	d^2Q/dM^2	-6.5×10^{-07}	$(6.9 \times 10^{-08})^b$	-1.2×10^{-06}	$(5.3 \times 10^{-08})^b$	-7.5×10^{-04}	$(2.1 \times 10^{-05})^b$	-7.7×10^{-05}	$(6.8 \times 10^{-07})^b$
Printing Processing	d^2Q/dC^2	-1.2×10^{-07}	(1.0×10^{-07})	-6.3×10^{-08}	(6.9×10^{-08})	-6.9×10^{-20}	$(1.7 \times 10^{-21})^b$	-3.4×10^{-22}	$(2.7 \times 10^{-23})^b$
	d^2Q/dL^2	-1.1×10^{-05}	$(1.1 \times 10^{-06})^b$	-8.0×10^{-06}	$(1.1 \times 10^{-06})^b$	-6.4×10^{-01}	$(1.6 \times 10^{-02})^b$	-2.0×10^{-02}	$(1.1 \times 10^{-03})^b$
	d^2Q/dE^2					7.9×10^{-01}	$(1.4 \times 10^{-01})^b$	-5.9×10^{-02}	$(2.8 \times 10^{-02})^a$
	d^2Q/dM^2	-4.9×10^{-06}	$(6.0 \times 10^{-07})^b$	-8.3×10^{-06}	$(5.7 \times 10^{-07})^b$	-3.1×10^{-03}	$(1.4 \times 10^{-04})^b$	-3.9×10^{-04}	$(4.8 \times 10^{-06})^b$
Basic Chemical Matter Manufacturing	d^2Q/dC^2	-1.5×10^{-08}	(9.9×10^{-09})	-1.1×10^{-08}	(1.1×10^{-08})	-2.5×10^{-14}	$(8.3 \times 10^{-16})^b$	-5.6×10^{-17}	$(1.1 \times 10^{-17})^b$
	d^2Q/dL^2	-7.8×10^{-06}	$(2.4 \times 10^{-06})^b$	-5.5×10^{-06}	$(2.5 \times 10^{-06})^a$	-5.1×10^{-02}	$(6.6 \times 10^{-03})^b$	-3.9×10^{-03}	(2.2×10^{-03})
	d^2Q/dE^2					-2.2×10^{-02}	$(1.9 \times 10^{-03})^b$	-1.5×10^{-04}	$(2.7 \times 10^{-05})^b$
	d^2Q/dM^2	-2.1×10^{-07}	$(2.4 \times 10^{-08})^b$	-2.6×10^{-07}	$(2.0 \times 10^{-08})^b$	-1.6×10^{-04}	$(6.1 \times 10^{-06})^b$	-1.4×10^{-05}	$(1.5 \times 10^{-07})^b$
Chemical, Petroleum, and Coal Products	d^2Q/dC^2	-1.1×10^{-08}	(6.5×10^{-09})	-5.7×10^{-09}	(5.1×10^{-09})	-3.0×10^{-21}	$(1.8 \times 10^{-22})^b$	-1.1×10^{-23}	$(1.5 \times 10^{-24})^b$
	d^2Q/dL^2	-2.2×10^{-05}	$(2.6 \times 10^{-06})^b$	-1.5×10^{-05}	$(2.7 \times 10^{-06})^b$	-1.0×10^{-01}	$(7.6 \times 10^{-03})^b$	-1.8×10^{-02}	$(2.2 \times 10^{-03})^b$
	d^2Q/dE^2					-4.9×10^{-02}	$(6.5 \times 10^{-03})^b$	-5.7×10^{-04}	$(7.4 \times 10^{-05})^b$
	d^2Q/dM^2	-1.8×10^{-07}	$(1.6 \times 10^{-08})^b$	-2.7×10^{-07}	$(1.2 \times 10^{-08})^b$	-1.2×10^{-05}	$(8.8 \times 10^{-07})^b$	-2.0×10^{-06}	$(1.7 \times 10^{-08})^b$
Rubber Products Manufacturing	d^2Q/dC^2	-1.6×10^{-08}	(9.7×10^{-08})	-1.4×10^{-08}	(7.0×10^{-08})	-3.3×10^{-16}	$(3.7 \times 10^{-17})^b$	-1.6×10^{-18}	$(3.4 \times 10^{-19})^b$
	d^2Q/dL^2	-9.4×10^{-06}	$(1.7 \times 10^{-06})^b$	-6.0×10^{-06}	$(1.7 \times 10^{-06})^b$	-1.6×10^{-02}	$(1.4 \times 10^{-03})^b$	-1.1×10^{-02}	$(9.5 \times 10^{-04})^b$
	d^2Q/dE^2					-2.5×10^{-01}	$(3.4 \times 10^{-02})^b$	-8.8×10^{-03}	$(8.0 \times 10^{-04})^b$
	d^2Q/dM^2	-9.8×10^{-07}	$(1.9 \times 10^{-07})^b$	-1.9×10^{-06}	$(1.5 \times 10^{-07})^b$	-9.1×10^{-04}	$(1.3 \times 10^{-04})^b$	-2.0×10^{-04}	$(3.7 \times 10^{-06})^b$
Plastic Products Manufacturing	d^2Q/dC^2	-5.2×10^{-08}	(2.8×10^{-08})	-2.9×10^{-08}	(1.9×10^{-08})	-1.3×10^{-16}	$(3.3 \times 10^{-18})^b$	-3.4×10^{-19}	$(3.4 \times 10^{-20})^b$
	d^2Q/dL^2	-1.9×10^{-05}	$(1.3 \times 10^{-06})^b$	-1.3×10^{-05}	$(1.4 \times 10^{-06})^b$	-3.4×10^{-02}	$(1.0 \times 10^{-03})^b$	-8.4×10^{-03}	$(3.8 \times 10^{-04})^b$
	d^2Q/dE^2					-4.5×10^{-02}	$(2.2 \times 10^{-03})^b$	-8.7×10^{-04}	$(3.2 \times 10^{-05})^b$
	d^2Q/dM^2	-3.8×10^{-07}	$(2.5 \times 10^{-08})^b$	-6.6×10^{-07}	$(2.1 \times 10^{-08})^b$	-2.7×10^{-04}	$(8.5 \times 10^{-06})^b$	-3.7×10^{-05}	$(1.8 \times 10^{-07})^b$
Non-Metallic Mineral Products	d^2Q/dC^2	-3.5×10^{-08}	(1.9×10^{-08})	-1.7×10^{-08}	(1.7×10^{-08})	-1.2×10^{-16}	$(3.8 \times 10^{-18})^b$	-4.7×10^{-19}	$(4.7 \times 10^{-20})^b$
	d^2Q/dL^2	-3.9×10^{-05}	$(3.9 \times 10^{-06})^b$	-2.9×10^{-05}	$(4.0 \times 10^{-06})^b$	-7.3×10^{-02}	$(3.5 \times 10^{-03})^b$	-1.7×10^{-02}	$(1.0 \times 10^{-03})^b$
	d^2Q/dE^2					-4.3×10^{-02}	$(2.9 \times 10^{-03})^b$	-6.3×10^{-04}	$(4.2 \times 10^{-05})^b$
	d^2Q/dM^2	-1.7×10^{-06}	$(1.4 \times 10^{-07})^b$	-2.8×10^{-06}	$(1.2 \times 10^{-07})^b$	-1.9×10^{-03}	$(7.3 \times 10^{-05})^b$	-2.3×10^{-04}	$(2.0 \times 10^{-06})^b$

Table A, continued: Estimates of the second derivatives of output with respect to each input, by industry

2-digit industry		Input	Panel 1 (1992-1995)				Panel 2 (1997-2003)			
			B & C (1992)		B & C (1995)		B & C (1992)		B & C (1995)	
Basic Metal Industries		d^2Q/dC^2	-7.5×10^{-08}	(3.9×10^{-08})	-4.2×10^{-08}	(2.4×10^{-08})	-2.7×10^{-21}	$(1.4 \times 10^{-22})^b$	-5.7×10^{-24}	$(1.1 \times 10^{-24})^b$
		d^2Q/dL^2	-5.6×10^{-05}	$(8.8 \times 10^{-06})^b$	-4.0×10^{-05}	$(8.3 \times 10^{-06})^b$	-1.2×10^{-02}	$(1.1 \times 10^{-03})^b$	-2.5×10^{-03}	$(3.6 \times 10^{-04})^b$
		d^2Q/dE^2					-7.4×10^{-03}	$(5.7 \times 10^{-04})^b$	-1.1×10^{-04}	$(9.5 \times 10^{-06})^b$
		d^2Q/dM^2	-5.9×10^{-07}	$(3.7 \times 10^{-08})^b$	-8.2×10^{-07}	$(6.9 \times 10^{-08})^b$	-5.5×10^{-05}	$(3.6 \times 10^{-06})^b$	-8.8×10^{-06}	$(5.7 \times 10^{-08})^b$
Fabricated Metal Products		d^2Q/dC^2	-2.2×10^{-07}	$(8.7 \times 10^{-08})^a$	-1.2×10^{-07}	(7.7×10^{-08})	-3.3×10^{-20}	$(5.2 \times 10^{-22})^b$	-1.1×10^{-22}	$(6.9 \times 10^{-24})^b$
		d^2Q/dL^2	-5.3×10^{-05}	$(3.1 \times 10^{-06})^b$	-4.0×10^{-05}	$(3.3 \times 10^{-06})^b$	-1.5×10^{-01}	$(4.2 \times 10^{-03})^b$	-2.7×10^{-02}	$(1.1 \times 10^{-03})^b$
		d^2Q/dE^2					-1.2	$(4.6 \times 10^{-02})^b$	-1.6×10^{-02}	$(7.1 \times 10^{-04})^b$
		d^2Q/dM^2	-1.9×10^{-06}	$(1.0 \times 10^{-07})^b$	-3.0×10^{-06}	$(8.1 \times 10^{-08})^b$	-2.5×10^{-03}	$(4.6 \times 10^{-05})^b$	-2.7×10^{-04}	$(1.1 \times 10^{-06})^b$
Machinery and Equipment		d^2Q/dC^2	-2.9×10^{-07}	(1.8×10^{-07})	-1.5×10^{-07}	(1.5×10^{-07})	-2.7×10^{-29}	$(1.7 \times 10^{-30})^b$	-3.5×10^{-29}	(1.1×10^{-28})
		d^2Q/dL^2	-4.9×10^{-05}	$(3.3 \times 10^{-06})^b$	-3.3×10^{-05}	$(3.5 \times 10^{-06})^b$	-2.6×10^{-02}	$(1.1 \times 10^{-03})^b$	-2.7×10^{-02}	(2.2×10^{-01})
		d^2Q/dE^2					-3.9×10^{-02}	$(1.5 \times 10^{-03})^b$	-4.2×10^{-02}	(6.0×10^{-02})
		d^2Q/dM^2	-1.6×10^{-06}	$(9.8 \times 10^{-08})^b$	-2.7×10^{-06}	$(8.3 \times 10^{-08})^b$	-2.4×10^{-04}	$(1.1 \times 10^{-06})^b$	-2.5×10^{-04}	(4.2×10^{-04})
<u>Panel 1, 1992-1995:</u>	<u>Panel 2 1997-2003</u>									
Electrical and Electronic Machinery	Audio and Video products	d^2Q/dC^2	-3.8×10^{-08}	$(1.4 \times 10^{-08})^b$	-2.3×10^{-08}	$(1.1 \times 10^{-08})^a$	-4.9×10^{-19}	$(8.6 \times 10^{-20})^b$	-4.3×10^{-21}	$(7.9 \times 10^{-22})^b$
		d^2Q/dL^2	-9.9×10^{-06}	$(7.7 \times 10^{-07})^b$	-6.0×10^{-06}	$(7.9 \times 10^{-07})^b$	-9.9×10^{-02}	$(1.0 \times 10^{-02})^b$	-9.9×10^{-03}	$(1.9 \times 10^{-03})^b$
		d^2Q/dE^2					-2.6	$(6.1 \times 10^{-01})^b$	-2.1×10^{-02}	$(9.6 \times 10^{-03})^a$
	Electronic Parts and Components	d^2Q/dM^2	-1.0×10^{-07}	$(6.6 \times 10^{-09})^b$	-1.7×10^{-07}	$(5.7 \times 10^{-09})^b$	-3.4×10^{-05}	$(8.9 \times 10^{-06})^b$	-1.1×10^{-05}	$(1.4 \times 10^{-07})^b$
		d^2Q/dC^2					-3.0×10^{-13}	$(1.1 \times 10^{-14})^b$	-1.0×10^{-15}	$(1.5 \times 10^{-16})^b$
		d^2Q/dL^2					-2.8×10^{-02}	$(2.3 \times 10^{-03})^b$	-5.0×10^{-03}	$(4.7 \times 10^{-04})^b$
		d^2Q/dE^2					-1.5×10^{-01}	$(1.3 \times 10^{-02})^b$	-2.5×10^{-03}	$(1.7 \times 10^{-04})^b$
	Electric Machinery and Parts	d^2Q/dM^2					-5.4×10^{-05}	$(2.3 \times 10^{-06})^b$	-5.0×10^{-06}	$(4.5 \times 10^{-08})^b$
		d^2Q/dC^2					-7.7×10^{-18}	$(3.1 \times 10^{-19})^b$	-1.8×10^{-20}	(1.5×10^{-20})
		d^2Q/dL^2					-3.0×10^{-02}	$(1.4 \times 10^{-03})^b$	-5.0×10^{-03}	(5.7×10^{-03})
	d^2Q/dE^2					-3.7×10^{-01}	$(2.1 \times 10^{-02})^b$	-5.7×10^{-03}	(6.6×10^{-03})	
	d^2Q/dM^2					-2.4×10^{-04}	$(1.1 \times 10^{-05})^b$	-3.9×10^{-05}	$(8.4 \times 10^{-06})^b$	

Table A, continued: Estimates of the second derivatives of output with respect to each input, by industry

2-digit industry	Input	Panel 1 (1992-1995)				Panel 2 (1997-2003)			
		B & C (1992)		B & C (1995)		B & C (1992)		B & C (1995)	
Transportation Industry	d^2Q/dC^2	-5.0×10^{-08}	(3.7×10^{-08})	-3.1×10^{-08}	(2.2×10^{-08})	-1.0×10^{-20}	$(3.1 \times 10^{-22})^b$	-3.1×10^{-23}	$(3.3 \times 10^{-24})^b$
	d^2Q/dL^2	-8.1×10^{-06}	$(6.8 \times 10^{-07})^b$	-5.3×10^{-06}	$(6.9 \times 10^{-07})^b$	-2.9×10^{-02}	$(1.5 \times 10^{-03})^b$	-9.5×10^{-03}	$(4.8 \times 10^{-04})^b$
	d^2Q/dE^2					-8.2×10^{-01}	$(6.0 \times 10^{-02})^b$	-1.3×10^{-02}	$(8.4 \times 10^{-04})^b$
	d^2Q/dM^2	-7.1×10^{-08}	$(5.2 \times 10^{-09})^b$	-1.2×10^{-07}	$(3.7 \times 10^{-09})^b$	-6.9×10^{-05}	$(2.4 \times 10^{-06})^b$	-8.4×10^{-06}	$(6.0 \times 10^{-08})^b$
Precision Instruments	d^2Q/dC^2	-7.0×10^{-07}	(6.3×10^{-07})	-3.1×10^{-07}	(6.4×10^{-07})	-2.6×10^{-15}	$(1.9 \times 10^{-16})^b$	-7.1×10^{-18}	$(1.5 \times 10^{-18})^b$
	d^2Q/dL^2	-1.9×10^{-05}	$(2.9 \times 10^{-06})^b$	-1.2×10^{-05}	$(2.5 \times 10^{-06})^b$	-2.5×10^{-01}	$(1.9 \times 10^{-02})^b$	-6.4×10^{-03}	$(8.6 \times 10^{-04})^b$
	d^2Q/dE^2					4.4×10^{-01}	$(1.7 \times 10^{-01})^a$	-2.9×10^{-02}	$(3.8 \times 10^{-03})^b$
	d^2Q/dM^2	-7.8×10^{-07}	$(1.0 \times 10^{-07})^b$	-1.3×10^{-06}	$(2.1 \times 10^{-07})^b$	-3.6×10^{-04}	$(4.3 \times 10^{-05})^b$	-7.4×10^{-05}	$(9.3 \times 10^{-07})^b$
Miscellaneous	d^2Q/dC^2	-4.3×10^{-07}	(4.2×10^{-07})	-4.2×10^{-07}	(3.6×10^{-07})	-1.7×10^{-19}	$(6.0 \times 10^{-21})^b$	-6.8×10^{-22}	$(9.2 \times 10^{-23})^b$
	d^2Q/dL^2	-3.8×10^{-05}	$(2.9 \times 10^{-06})^b$	-2.8×10^{-05}	$(3.3 \times 10^{-06})^b$	-8.2×10^{-02}	$(3.4 \times 10^{-03})^b$	-1.9×10^{-02}	$(1.3 \times 10^{-03})^b$
	d^2Q/dE^2					-7.6×10^{-01}	$(2.5 \times 10^{-02})^b$	-1.0×10^{-02}	$(6.4 \times 10^{-04})^b$
	d^2Q/dM^2	-2.9×10^{-06}	$(3.0 \times 10^{-07})^b$	-4.5×10^{-06}	$(3.0 \times 10^{-07})^b$	-1.5×10^{-03}	$(6.7 \times 10^{-05})^b$	-2.1×10^{-04}	$(1.7 \times 10^{-06})^b$

B & C (1992): Battese & Coelli (1992)'s single-equation stochastic frontier model

B & C (1995): Battese & Coelli (1995)'s two-equation stochastic frontier model

Standard errors in parentheses; *a*: Significant at the 5% level; *b*: significant at the 1% level.

Estimates computed at sample mean. Calculations of the standard errors are based on the Delta Method.