Domestic Value Added in Chinese Exports: Firm-level Evidence

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Abstract

This paper uses customs transaction and firm-level production data to assess the domestic value added in Chinese exports, at the firm and industry levels. From 2000 to 2006, the domestic value added ratio (DVAR) in Chinese processing exports has risen from 35% to 49%, which raised the DVAR in the overall exports from 58% to 67%. The increase is due to a within-firm substitution of imported materials with domestic materials, instead of a changing composition of firms or industries. The within-firm material substitution is largely driven by increasing foreign direct investment that induces the domestic production of materials in the upstream sectors. Our results suggest that Chinese exporters have been expanding along the global supply chain beyond the final assembly stage.