The Domestic Segment of Global Supply Chains in China under State Capitalism

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Summary

The stellar economic growth of China in the last three decades is often attributed to its labor abundance, policies that promote trade and foreign direct investment, as well as privatization of state-owned enterprises (SOEs). Against this backdrop, SOEs continue to dominate the key upstream sectors. As such, in a world with ever-increasing global production fragmentation, the role of SOEs in shaping the structure of the Chinese economy and thus world trade may be larger than ever, in contrast to what aggregate statistics suggest.

This paper proposes methods to incorporate firm heterogeneity in the standard input-output table–based approach to portray the domestic segment of global value chains in China. Using Chinese firm census data for the manufacturing and service sectors, along with constrained optimization techniques, we split the conventional input-output table into sub-accounts, which permit an estimation of direct and indirect contribution to China's exports by different types of firms. The analysis shows that in China, SOEs and small and medium domestic private enterprises have much higher shares of indirect exports and value-added export ratios, compared to foreign-invested and large domestic private firms. From 2007 and 2010, our study finds that value-added export ratios in China rise for all firm types, with SOEs experiencing the largest increase. It also finds that SOEs are consistently more upstream while small and medium domestic private enterprises are consistently more downstream within industries. These findings suggest that SOEs still play an important role in shaping China's exports.