

ABSTRACT

Trade Liberalization and Wage Differentials of Heterogeneous Firms: An Empirical Study of Chinese Firms

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Based on the theoretical model of Amiti and Davis (2011) we examine whether output and input tariff reductions following China's membership of the WTO affected the wages paid to workers in Chinese manufacturing firms and whether the effects of trade liberalization on workers' wages is dependent on the extent of the firms' global engagement. In contrast to the findings of Amiti and Davis (2011) for Indonesian firms our results indicate that a fall in output tariffs increases wages of non-exporting firms and decreases the wages of exporting firms. In addition, and consistent with Amiti and Davis (2011) we find that a fall in input tariffs causes a decline in the wages of non-importers and a rise in the wages of importing firms. The policy implications are discussed.

1. INTRODUCTION

Over the last three decades China has experienced spectacular growth in international trade. This performance can be attributed to the reforms that the country undertook through its “open-door” policy from 1978 and culminated with its entry into the World Trade Organization (WTO) at the end of 2001. Being currently the largest exporter of manufactures in the world, the example of China is of great interest for researchers. On the other hand, in China there exists a huge demand for merchandise goods second only to the U.S. (World Trade Organization, 2011), which has also drawn increasing attention globally from both policy makers and academia.

From such phenomenon, we could learn that in China’s market, the impact of international trade on economy is not only depended on the exporting final goods channel, but also the importing intermediates inputs channel. In many developing countries, increasing exposure to international trade and world market has been accompanied by various changes, for example, increasing productivity, quality upgrading, resources reallocations and rising wage inequality.

Having been investigated before, some research showed that there is a causal link between the increase in inequality and globalization. Such phenomena cover in many aspects, for example, reduction in trade protection or barriers, a rise in foreign direct investment (FDI) and a rising channel in recent years, called outsourcing. In our paper, we just narrow the range of globalization to trade liberalization and our main interest is its effect on wage differentials.

What is the channel through which trade liberalization could affect labor’s payment? Some recent contributions to the understanding of the effects of international trade upon labor markets have focused on two main facts. The first one is the role of firm heterogeneity, of which the concept is raised in the new-new trade theory. And the second is the role of importing intermediate, which attracts more attention now.

The current empirical studies based on China rarely discuss the link between a firm’s engagement in international trade and its wage and our paper seeks to fill this blind spot.

In Amiti-Davis (2011) theoretical model, it is the key point that the wage consequence of a particular tariff change depends on the mode of globalization of the firm at which a worker is employed. Following their theory, we organize an empirical study on China's international trade, which focus on the influence of tariffs (including final output tariffs and intermediate input tariffs) reduction in wage differentials. Specifically, this paper is the first that contrasts the roles of final output tariffs and intermediate input tariffs in terms of firm-level wages for the firms engaged in different modes of globalization.

The paper structure is organized as below. Section 1 presents the motivation of the research and gives an introduction to describe the general background of international trade, also the situation in China. Section 2 reviews both the theoretical and empirical literature related to our research topic. Section 3 simply explains the theoretical model introduced by Amiti and Davis (2011). In section 4 we introduce the data source for our empirical work and describe the data preparation for matching, cleaning and identification in detail. In section 5, we illustrate our measurement of tariffs in China and make a description of their trend and change. Section 6 introduces the heterogeneity of Chinese manufacturing firms. Section 7 and section 8 show our empirical estimation and results. Finally, section 9 concludes.