

# Discussion on 'The global production line position of Chinese firms'

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# Contributions of the paper

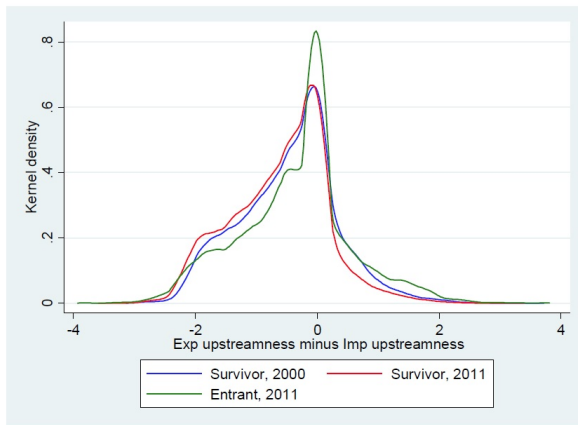
- ① The first study which measures firms' production line position in China. An important research question given China's deep engagement with the global value added chains (GVCs).
- ② Some very interesting results
  - The production line position of Chinese exports has remained downstream, whereas Chinese imports have become more and more upstream over time. Chinese firms are able to conduct more stages of the manufacturing process in the GVCs, consistent with the evidence of rising domestic value added in Chinese exports (Kee and Tang, 2016).
  - Some interesting correlation between firms' production line position and various firm-specific features (trade volume, trade regime, ownership, productivity, size etc).

# Comment #1

- The method developed by Fally (2012) and Antràs *et al.* (2012) is to measure the relative production line position of various industries.
- Potential measurement errors may occur when applying the same methodology to the firm level.
  - Industry  $i$ :  $n_1, n_2, \dots, n$  types of products
  - Industry  $j$ :  $m_1, m_2, \dots, m$  types of products
  - $U_i > U_j$ : on average the  $n$  types of products in industry  $i$  are more upstream than the  $m$  types of products in industry  $j$
  - Since firms do NOT export or import all types of products in each industry, it may not be appropriate to apply this industry-level measure to the firm level.

# Comment #1

**Figure 5**  
**Firm-Level Upstreamness: Comparing Survivor vs Entrant Firms**



**Figure:** Kernel density plot of 'export upstreamness minus import upstreamness' of Chinese firms

- Other potential measurement errors

- ① Firms can buy imported intermediate goods from domestic intermediaries. Such indirect imports cannot be identified from the Customs data.
- ② When measuring  $U_X - U_M$ , only firms doing both exporting and importing are considered. Thus pure importers or pure exporters have been ignored.
- ③ Only 2007 Input-Output Table is used. But during 1992-2011, there are other versions at 1992, 1997 and 2002, which should be used to capture the time-varying features of production network. Perhaps use the more disaggregated US Input-Output Table as a robustness check?
- ④ When examining the time trends in firms' life cycle, year dummies have been used. But for each year, some firms just enter the markets, whereas others have operated for many years. Perhaps using a firm entry dummy is more appropriate?

# More comments on future research

- Compare China's export upstreamness and import upstreamness with other countries in order to further shed light on China's relative position in the GVCs?
- Do some country-specific factors such as rule of law, financial development etc help to explain Chinese firms' production line position?
- Competitiveness of manufacturing exports depends closely on the competitiveness of the service sectors serving it. So some research on service liberalization on Chinese manufacturing firms' production line position might be interesting?