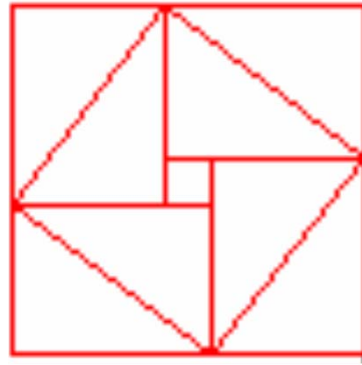


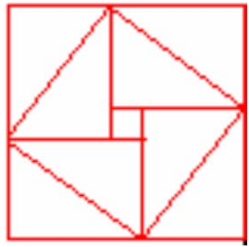


The Bias in Measuring Vertical Specialization

Zhu Kunfu

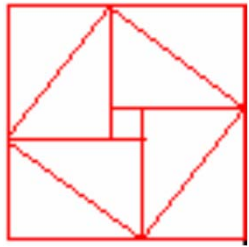
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Tang Zhipeng



Outline

- **Introduction**
- **Vertical specialization by input-output model**
- **A new model capturing processing trade**
- **Adapting the Methodology**
- **The results**
- **Conclusion**

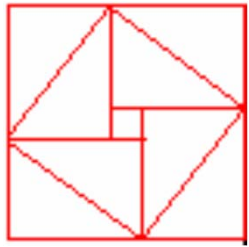


Introduction-1

- **China's trade situation, especially after China's entry to the WTO in 2001. For example, during 2001-2006:**
 - ❖ **Growth rate of gross value of import and export: 25-30%;
Average annual growth rate: 28.1%**
 - ❖ **Trade volume/GDP: increase from 38.7% in 1995 to 69.1% in 2006.**
- **Processing foreign trade**

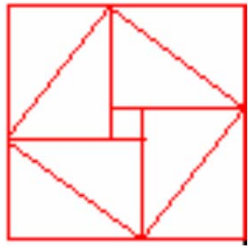
This index has been overestimated because of the special structure of China's foreign trade

88% of China's foreign trade is processing trade, which accounts for 55% of China's total exports in 2005, 2006.



Introduction-2

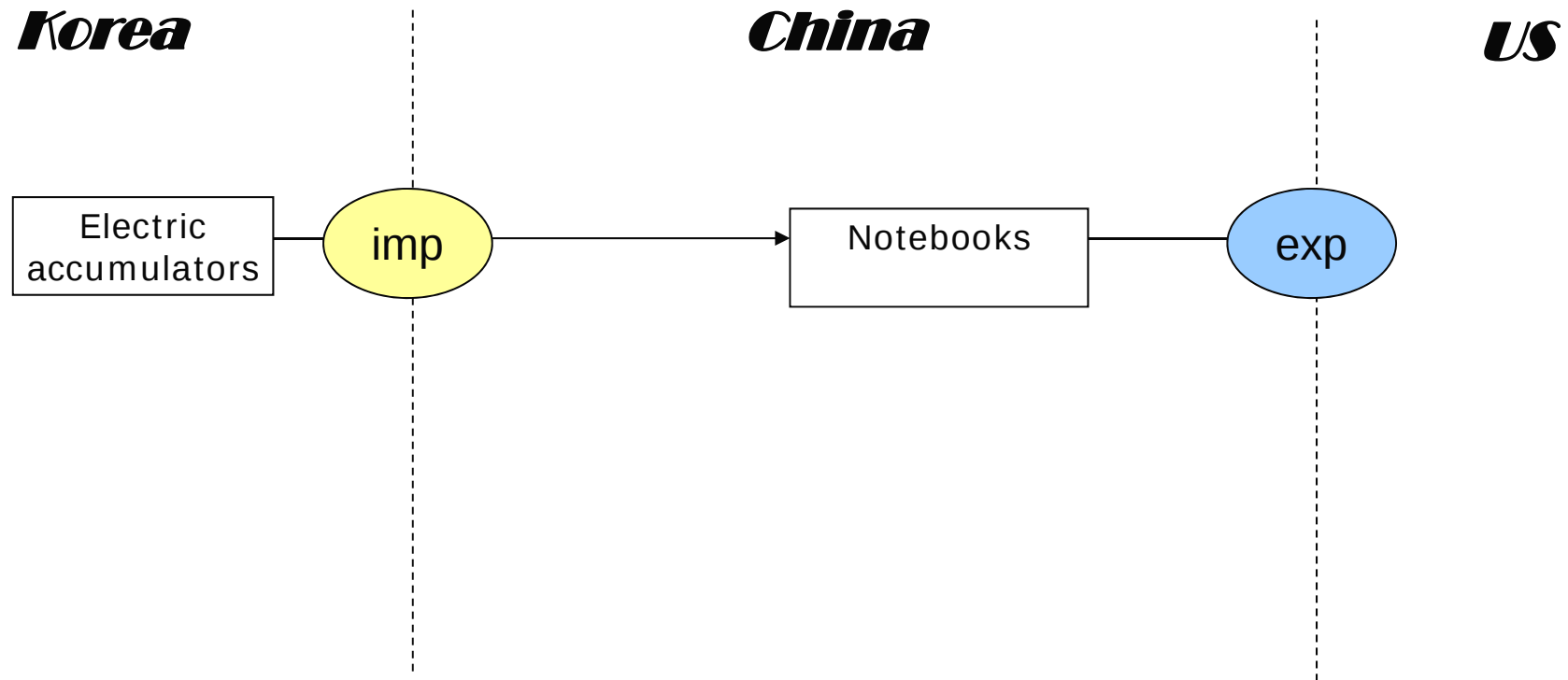
- **Processing trade, mainly by foreign-invested enterprises (FIEs), use imported raw material, spare and accessory parts to manufacturing products and then export**
- **Two types: PIM (processing with imported materials), PCM (processing with customer's materials)**
- **For PCM, China can only obtain a very low proportion of processing fee. 23% in 2007**
- **For PIM, the domestic content share is 44% in 2007**



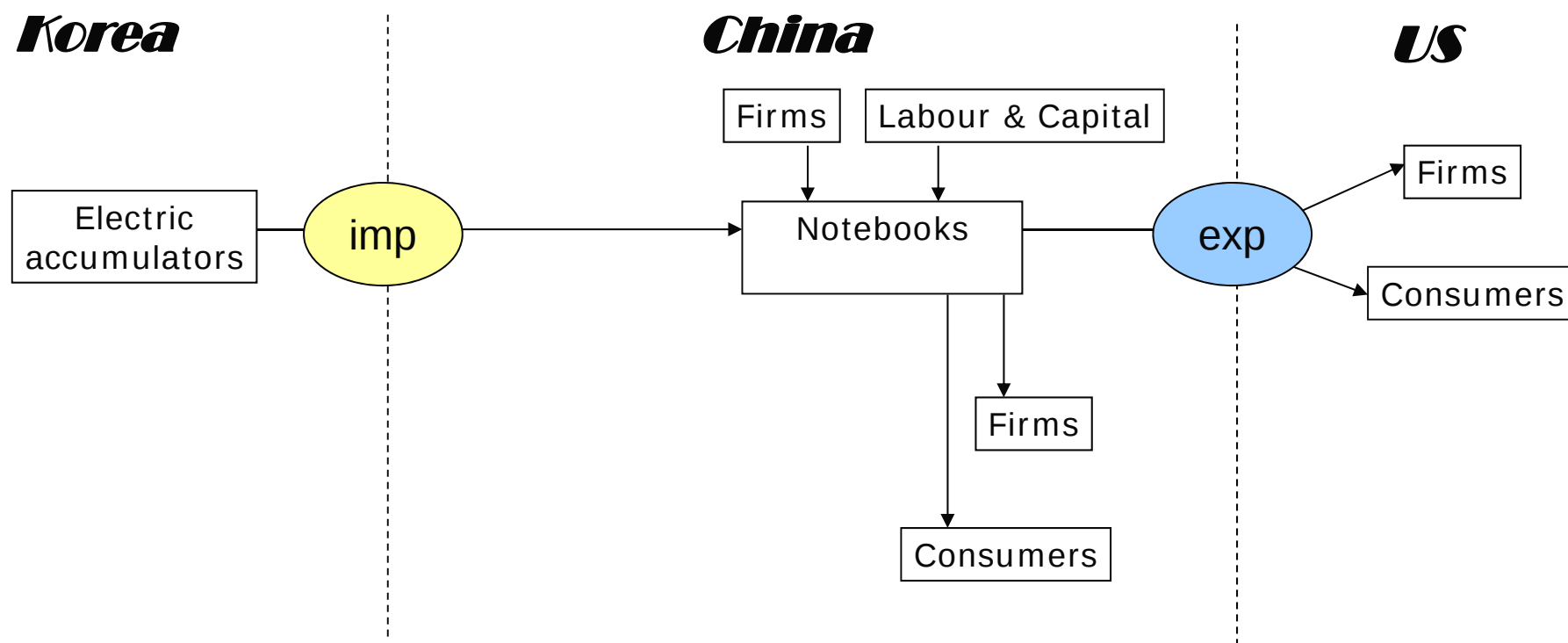
Introduction-3

- International fragmentation has great impact on China's foreign trade, it has a high import dependency.
- Trade Literature: much attention for trade in *intermediate* goods
- Vertical specialization or international fragmentation
 - ❖ Production processes are more and more interconnected across many countries
 - ❖ each country specializes in particular stages of a good's production sequence

Vertical specialization, an example



Vertical specialization, an example



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