The Analysis of China’s Lower Manufacture Value Added Ratio with High Foreign Intermediate Goods

Topic: Vertical specialization and outsourcing 1
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The valued added ratio of China's manufacture sector remains lower during these decades, which means China is in a lower position in the industry chain. Using China’s non-competitive input-output tables, we find that there is a negative correlation between the valued added ratio and the foreign intermediate goods share. This paper builds a two-country model to explain this fact with intermediate goods taken into consideration, while home country participates in the international trade as price takers. The main conclusions have been drawn as follows: first, the cost difference makes vertical specialization possible, the industry with higher cost will transfer to the lower cost country; second, the single industry's value added ratio depends on the price of intermediate goods, final good and technology, while the whole manufacture value added ratio is decided by the single industry's value added ratio and final good share; third, international trade doesn't change the single industry's value added ratio but increases the low value added ratio industries' final good share. The proceeding numerical simulation shows that the fact is also influenced by the international trade extent, substitution elasticity of primary input and intermediate input, and the primary input parameter. This paper believes that the lower valued added ratio roots in the relative cheaper costs and vertical specialization worsens it through fixed prices.