ABSTRACT
This paper investigates impacts of rising wage and the Yuan’s appreciation on the structure of China’s exports. It classifies China’s exports into three categories: ordinary exports (OE), and two distinctive groups of processing exports--pure assembly exports (PAE) and mixed assembly exports (MAE). The empirical analysis of the paper is based on panel data covering China’s bilateral PAE and MAE with more than 100 trading partners from 1993–2013. Estimates of fixed effect models show that, the wage increase and the Yuan’s appreciation reduced the intensity of assembly exports in China’s bilateral exports. Specifically, for a 1% increase of Chinese manufacturing wage, the share of PAE in China's bilateral exports is expected to fall 1.6 percentage point and that of MAE to decrease 1.1 percentage point; and a 1% nominal appreciation of the Yuan against the US dollar is expected to lower 2.4 and 2.1 percentage point of PAE and MAE respectively. The empirical results imply that rising wage and cumulative appreciation of the Yuan have eroded China’s comparative advantage in assembling products for international markets, thus resulting in substantial contraction of processing exports. The analysis provides a supply-side explanation of the fall of China’s export growth.

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