Firms' fixed investment and global value chain position: Evidence from China's value-added tax reform

Qizhong YANG[†]

Faculty of Economics, Toyo University, Japan

Abstract

The increased fragmentation of production on the global value chains (GVCs) is a key trend in international trade. This study examines the causal effect of an investment in fixed assets on a firm's position in the GVCs. It employs a combined panel data of Chinese firms spanning 2000–2007, where identification relies on a quasi-experimental design via China's 2004 value-added tax reform to encourage fixed investment purchasing. Accordingly, investment in fixed assets decreases a firm's GVC upstreamness of exports and imports, with a larger impact on the former, inducing a wider production stage span for GVC firms. Further trade margin analysis demonstrates that fixed investment firms import high-quality inputs from more specific suppliers, followed by increasing exports. Notably, the findings explain the causal effect as the concentration of a firm's production operations, given specialized equipment from fixed investments, and channels through which investment affects a firm's positions.

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[†]Address: 5-28-20, Hakusan, Bunkyo-ku, Tokyo 112-8606, JAPAN.
E-mail: u759184c@alumni.osaka-u.ac.jp
Tel: +81-3-3945-8397
ORCID: 0000-0002-0690-7442