

# **Factor Intensity, Product Switching, and Productivity: Evidence from Chinese Exporters**

**Yue Ma**

Lingnan University  
Hong Kong Institute for Monetary Research

and

**Heiwai Tang**

Tufts University  
Hong Kong Institute for Monetary Research

and

**Yifan Zhang**

Lingnan University

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## **Summary**

A growing body of research has documented the superior performance of exporters relative to non-exporters in a number of countries. Exporters are found to be larger, more capital-intensive, more technologically advanced, and pay higher wages. Using Chinese manufacturing firm data over the period of 1998-2007, we find that firms become more productive but less capital-intensive after exporting, compared to similar non-exporting firms. This difference in capital intensity between exporters and non-exporters is observed within the same industry and ownership type of firms.

To rationalize these findings that contrast with existing evidence for most countries, we develop a heterogeneous firm model that features multiple products with varying capital intensity. In the model, firms in a labor-abundant country specialize in their core competency by allocating more resources to produce labor-intensive products after exporting. Consistent with the model predictions, we find that initially more productive exporters experience a smaller decline in capital intensity after exporting. Those that experience a sharper decline in capital intensity after exporting have a bigger increase in measured total factor productivity. Using transaction-level data, we confirm that Chinese exporters add new products that are less capital-intensive than their existing product portfolios and drop those that are more capital-intensive over time.