Export and Markups: Evidence from China

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Abstract

In China, a large and growing number of domestic (indigenous) firms and foreign-invested enterprises (FIEs) supply foreign markets. To face intense international competition, firms will adjust inputs, prices, and markups. In this paper, following De Loecker and Warzynski (2012), we recover firm-level markups by exploring a comprehensive data of Chinese manufacturing firms during 2000-2006. We investigate differences in markup across firms by export status and ownership. We provide evidence that exporters, on average, charge higher markups than non-exporters, and foreign ownership has a positive effect on the relationship between export and markups even controlling for productivity differences. Forthermore, by decomposing markup into a price and cost effect, we find that the price effect, rather than the cost effect, accounts for the markup premium of foreign exporters. Our findings suggest that the foreign exporters have strong pricing power over domestic exporters. Industrial policies that promote internal investment in R&D and intangible assets may be effective channels through which domestic firms catch up with foreign firms.

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