Firm subsidies and export: Perspective of supply chains

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Author: Wenyin CHENG
Co-Authors: Bo MENG, David Tao Liang, Hongyong Zhang

This paper explores the role of industrial subsidies in shaping the export performance of Chinese firms by considering supply chains. By analyzing firm-level subsidy data and inter-provincial input-output tables that include firm ownership information, we distinguish between direct subsidies and indirect subsidies originating from upstream industries. Based on regression models with input-output relationships, the study yields several key insights: (1) Direct subsidies significantly boost both the export engagement and volume of Chinese firms, with a clear positive correlation to investments and R&D spending. (2) Interestingly, upstream subsidies, particularly those from first-tier industries, exert an even stronger influence on export outcomes than direct subsidies, playing a critical role in export expansion. (3) While both domestic firms and foreign-invested enterprises benefit from direct subsidies, the impact of upstream subsidies differs based on the ownership structure of the firm. (4) Both types of subsidies are linked to higher export prices and improved product quality, resulting in a reduced quality-adjusted price. These improvements in export growth and quality are driven by direct subsidies through increased investment and innovation, and by indirect subsidies via enhanced intermediate inputs. Overall, these findings underscore how government support not only fosters export growth but also facilitates quality enhancement, thus bolstering the global competitiveness of Chinese exports. This paper offers new insights into the complex relationship between subsidies and exports, contributing to the broader discourse on industrial policy and government support in the context of global value chains.