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**The Effect of International Trade on Wages:  
A Case Study of China**

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A thesis submitted in partial fulfillment of requirements for  
the degree of Master of Social Sciences in Economics at the University of Macau

**March 2012**

# **ABSTRACT**

Since the reform and opening-up policy was adopted in 1978, the performance of the Chinese economy has been remarkable. But the development across the eastern region, the central region, and the western region has shown imbalanced. Each region has its unique economic growth rate, international trade situation and an uneven wage level. Among all regions, the eastern region is the first one to be opened to international investors and enjoys the fastest development due to its excellent geographic location, while the western and central regions rank behind. The specific regional characteristics make China a good research object, since an interesting comparison can be made among different regions according to unique features of each region.

This study investigates the main factors that may have impacts on the Chinese wages such as international trade, FDI, employment, educational attainment of workers and industry structure. Panel data of provinces and cities collected from 1988 to 2008 is employed in this thesis. Among all effecting factors, the international trade is emphasized and it is found that this trade factor has a significant effect on the real wage rate of all three regions. In the eastern and the western region, the export effect is larger than the import effect on wages, but the situation is just the opposite in the central region. FDI does not show obvious effects on wages from results of the national model and all the regional models. Besides, the regional employment and educational level are also found to have positive effects on the wage. Furthermore, the employment has the largest impact on the wage in the eastern region, and education has the dominant effect on central and western regional wages. The outdated industrial structure affects wages negatively, and drags down the wage of the central region the most. Based on the estimation results, some suggestions are provided in the last chapter.

# DECLARATION

I declare that: this dissertation submitted in partial fulfillment of requirements for the degree of master of Social Science at the University of Macau. All of them represent my own work, except where due acknowledgement is made, and that it has not been previously included in a thesis, dissertation or report submitted to this University or to any other institution for a degree, diploma or other qualification.

Signature \_\_\_\_\_

Date \_\_\_\_\_



# **ACKNOWLEDGEMENT**

During the process of writing this thesis, many people have provided helps, advices and encourage supporting me complete this dissertation.

First of all, many thanks should be given to my supervisor Prof. Chang, Hsiao-Chuan. It is my pleasure under her guidance. She is not only a good teacher in my study, who offers many insightful comments and suggestions to the thesis, but also a great teacher in my life, who will continue to influence my life in the future. I will cherish the friendship between us forever.

I'm also grateful to the committee chairperson Prof. Kwan Fung, and the examiner Prof. Zheng Mingli, who have read this thesis patiently and given me many valuable suggestions on the thesis writing.

My appreciation also goes to all my instructors Pro. Sun Guangzhen, Prof. Patrick Ho, Prof. Gary Wong, Pro. Liu ChunWah, and Prof. Chen Yu. They have laid a solid knowledge foundation for me to finish my research. In addition, I wish to sincerely thank again the entire faculty member and my dear classmates who give me help in the study and daily life.

Last, without the support of my dear Mom, uncle, cousins, I would not be able to continue the study and finish my thesis.

Thanks to all my loved ones.

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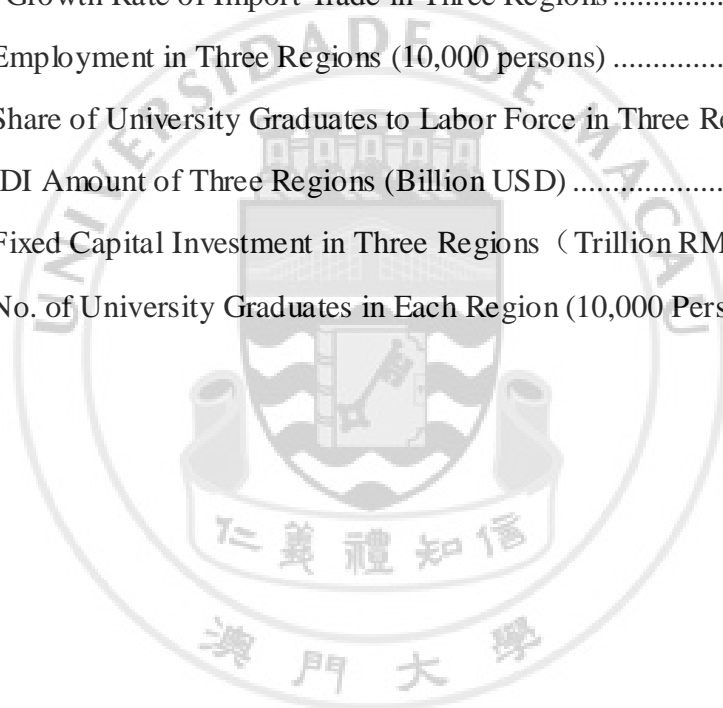
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# LIST OF NOTATIONS

The following is a list of notations used throughout this research.

Name	Stands for
GDP	Gross domestic product
CRS	Constant return to scale
FIR	Factor intensity reversals
df	Degree of freedom
Wage	Explained variable, average annual money wage
Exp	Export trade volume (USD)
Imp	Import trade volume (USD)
FDI	Foreign direct investment (USD)
Emp	Total no. of employed persons
Edu	Education = $\frac{\text{Number of undergraduate}}{\text{Available labor force}}$
Instr	Industry structure = $\frac{\text{employment of second industry}}{\text{employment of tertiary industry}}$