

Labor Costs, Tariffs, and China's Outward Investment in ASEAN

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Research Question

How do **home-country labor costs** (China) and **destination-country tariffs** jointly shift Chinese manufacturers' internationalization choices among (i) direct exporting from China, (ii) *re-export via ASEAN* (minimal processing subject to rules-of-origin and enforcement risk), and (iii) *greenfield FDI in ASEAN*? Do simultaneous increases in wages and tariffs generate a **super-additive switch** from exporting to ASEAN FDI?

Motivation

Since 2018, rising trade barriers and domestic wage growth have reconfigured "China+ASEAN" supply chains. Existing work typically studies either cost or tariff shocks in isolation; few papers embed **enforcement/anti-circumvention risk** in the re-export option or quantify the **interaction** between wages and tariffs for mode switching.

Conceptual Framework (Sketch)

We set up a Melitz–Helpman style model with heterogeneous productivity φ . Firms compare per-unit costs and fixed costs under three modes:

- **D (Direct Export)** from China to the US: wage w_{CN} , iceberg cost τ_{US} .
- **R (Re-export via ASEAN)**: assembly in ASEAN with ROO/anti-circumvention enforcement risk p (expected penalty or additional compliance cost).
- **I (ASEAN FDI)**: production in ASEAN with wage w_{AS} , fixed setup F_{FDI} .

We derive zero-profit cutoffs $\varphi_D, \varphi_R, \varphi_I$ and characterize boundaries where $D \rightarrow R$ or $D \rightarrow I$. Comparative statics show that increases in w_{CN} or τ_{US} each shrink the D region; when both rise, the I region expands **more than additively**.

Empirical Strategy (Plan)

(1) **Calibration & Counterfactuals.** Calibrate costs and fixed charges using firm/sector data to quantify boundary movements under wage/tariff changes.

(2) **Econometrics.** Estimate how wages, tariffs, and enforcement signals predict firms' mode choices.

- Outcomes: export share, re-export signals (ASEAN minimal transformation), new ASEAN subsidiaries/greenfield FDI.
- Key regressors: Chinese wages/minimum wage shocks; partner tariffs; enforcement proxies (ROO actions, anti-circumvention cases).
- Identification: difference-in-differences/event study; Bartik-style exposure; rich FE; placebo/perm tests; alternative measures.

Data (Planned)

Chinese manufacturing firm database + customs transactions; MOFCOM/SAFE OFDI by country/industry; ASEAN tariff schedules; enforcement/ROO cases; wages/minimum-wage policies. Auxiliary measures: input linkages, environmental intensity, credit constraints.

Contributions

(1) Identify a **labor-cost × tariff** super-additive effect on export→FDI switching; (2) Embed **enforcement risk** in the payoff of re-export and yield testable boundary shifts; (3) Provide firm-level evidence for "China+ASEAN" reconfiguration.

Timeline (12 Months)

Data & facts → calibration → baseline regressions → mechanisms/heterogeneity → robustness → draft.