Is Heckscher-Ohlin Model Applicable to China?
Evidence of China’s Foreign Trade in the First World War

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Abstract

China has a huge stock of unskilled labor, but relatively scarce skilled labor. According to Heckscher-Ohlin model, China should specialize in producing and exporting unskilled-labor-intensive products. However, it remains difficult to test this prediction because of no data and no convincing identification strategy. This paper studies the changes of trade volumes and compositions before and after the WWI. WWI was completely exogenous to China, and is an ideal natural experiment to test the model prediction. The trade data come from the China Maritime Customs Trade Statistics Database that we construct. The study of changes in foreign trade during the WWI is a clean identification of factor endowment theory, and this helps to understand why the wage premium between skilled and unskilled workers declined substantially from around 1920. This study has broad implications on contemporary issues of trade and inequality.