



# The Takeaway

Policy Briefs from the Mosbacher Institute for Trade, Economics, and Public Policy

## How US Imports from China Affect Mexican Labor Markets

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*China's growth over the past decades has profoundly influenced global trade. Rising Chinese exports to the United States have been associated with lower wages and employment among the lower-skilled labor force in the United States. Conversely, Chinese commodity imports from South America also corresponded with a period of growth and falling inequality throughout Latin America. Caught in the middle was Mexico.*

Several recent prominent studies document how US imports from China adversely affect US workers.<sup>1</sup> These studies suggest that Chinese imports are associated with lower wages and employment. What has been less appreciated, however, is that US imports from China also adversely affect Mexican workers. This finding is important because it indicates that the United States and Mexico face common challenges that, through cooperation, they could successfully face together.



### WHAT'S THE TAKEAWAY?

**China and Mexico compete in the US market.**

**The adverse effects of Chinese imports on US workers spill over to Mexico, suggesting that US and Mexican workers are complements rather than substitutes.**

**An integrated North American supply chain could endure trade shocks and perform well as competition from other regions, especially East Asia, increases.**

Mexico imports relatively little from China, so the effects of direct import competition were less than in the United States. Instead, Mexico suffered from competition with China in the US market. In this *Takeaway*, we examine how increased competition in an export destination—specifically the United States—impacts Mexican labor.

### CHINA AND MEXICO COMPETE

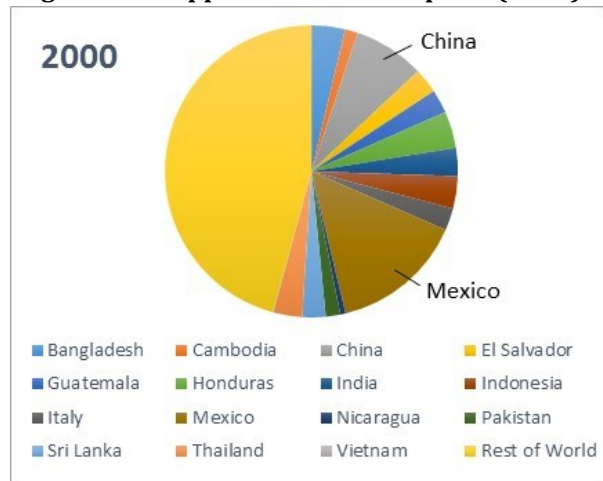
Consider the apparel and textile industries. Apparel is particularly important for several reasons. As a labor-intensive industry, apparel has been considered a “sensitive industry” in developed countries for the last fifty years. In addition, the apparel industry acts as a gateway for women to enter the formal labor force. As such, apparel employment can have important effects on economic development.

Mexican apparel expanded in the early years after NAFTA. By 2000, Mexico became the largest single supplier of apparel to the US market (see Figure 1). The United States imported more apparel from Mexico than from China, Cambodia, Bangladesh, or other countries who have become known as apparel exporters. Mexico’s assembly plants along the US-Mexican border, known as maquiladoras, captured much of this production, and brought many women into the labor force.

Around 2000, however, the global apparel market began to change. In particular, the Multi-Fibre Arrangement (MFA), a system of quotas that regulated US and EU imports from developing countries, ended in 2004. Following the end of the MFA, Chinese imports of apparel to the United States increased in quantity and in market share, and US apparel prices dropped sharply.<sup>2</sup> At the same time,

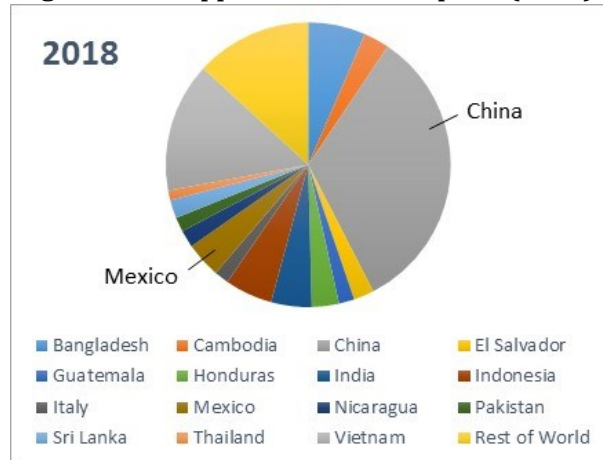
Mexican imports to the United States plunged. Figure 2 shows the composition of US apparel imports in 2018. By 2018, Mexico’s US apparel imports were less than half of what they were in 2000, and China’s share had increased to about 33%. As former Mexican Ambassador to China Jorge Guajardo said, “Mexico and

**Figure 1: US Apparel & Textile Imports (2000)**



Source: Authors’ elaboration based on data from the International Trade Administration’s Office of Textiles and Apparel (OTEXA). In 2000, Mexico was the leading exporter of textiles and apparel to the United States with 15% market share. China comprised only 8% of total imports.

**Figure 2: U.S. Apparel & Textile Imports (2018)**



Source: Authors’ elaboration using data from the International Trade Administration’s OTEXA. By 2018, China had become the primary exporter of textiles and apparel to the United States with 33% market share. Mexico’s diminished considerably, falling to 4% market share.

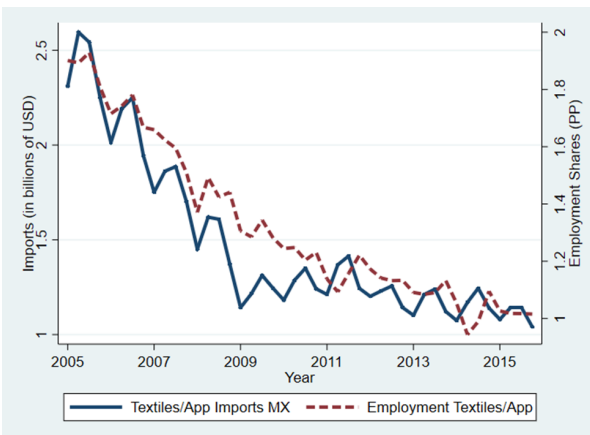
China compete. When Mexico wins, China loses. When China wins, Mexico loses.”<sup>3</sup>

### MEASURING THE EFFECT

Economic theory suggests that falling demand for Mexican apparel in the US market would ripple through the Mexican labor market. To evaluate this hypothesis, Robertson et al. (2019) estimate the effect of Mexico’s competition with China in the US market. The analysis takes advantage of the fact that apparel production is unevenly distributed throughout Mexico. Areas that focused on apparel production are more susceptible to competition with China. Rising US imports from China, and falling imports from Mexico, are used to estimate changes in both employment and wages in Mexico.

The analysis reveals several interesting results. The first is that there is a strong relationship between rising imports from China and falling imports from Mexico on wages. Figure 3 shows the very close relationship between US imports of Mexican apparel and employment. These results closely mirror

**Figure 3: US Imports of Mexican Clothing and Mexican Apparel & Textiles Employment Share**



Source: Robertson, Halliday, Vasireddy (2019) using data from the US Census Bureau and ENOE (from INEGI)

those found in the studies of the relationship between Chinese imports and US wages and employment cited earlier.

All margins of the Mexican apparel industry are impacted by increased competition with China in the United States. The similar effects throughout the distribution suggest that many kinds of workers—not just low-skill or high-wage workers—are affected.

When demand for apparel falls due to falling exports, workers have to find work elsewhere. The analysis also estimates changes in employment associated with falling apparel exports. Employment in other sectors, especially food and leather, increases as workers shift into industries that have similar jobs to those lost in apparel. If shifting industries is costly, and several recent studies suggest that shifting industries is very costly for workers,<sup>4</sup> then these kinds of shifts are an unappreciated additional cost to workers from competition with China in the US market.

One reason why Mexican and US workers are similarly affected is that the US and Mexican production workers are probably complements, rather than substitutes. Mexican labor markets are deeply integrated with US labor markets—even to the point that it is more accurate to think of North America as a single labor market rather than as three separate labor markets.<sup>5</sup> Furthermore, in several sectors, as American production-worker wages rise, the demand for *both* US and Mexican employment decreases, showing that Mexican workers are complements to American workers. The complementarity arises because of global value chains. Mexico and the United States exchange parts that become part of finished goods. In some cases, the US value of

exports from Mexico may be higher than 70%. Given that US and Mexican workers have common experiences following US imports from China, the recent tariffs imposed on China by the United States have created some optimism within Mexico. Many hope that the rising tariffs may contribute to shifting investment out of China towards Mexico. The proximity of Mexico's northern border region to the American market presents some strong economic advantages, including reduced shipping costs and times, a cheaper minimum wage in Mexico than China, and cost-effective manufacturing with favorable tax benefits for those who primarily export to the United States.

With the complementary nature of labor and proximity benefits, policy makers must act to enhance the North American supply chain. First, policy makers need to recognize that North American economic integration makes North America stronger. It is therefore important to support trade agreements, like NAFTA, that facilitate integration. Second, it is important to articulate a vision of an integrated North American supply chain that can en-

sure trade shocks and perform well as competition from other regions, especially East Asia, increases.

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#### Notes:

<sup>1</sup> Autor, D.H., Dorn, D., & Hanson, G.H. (2013). The China syndrome: Local labor market effects of import competition in the United States. *American Economic Review*, 103( 6), 2121-68. Pierce, Justin R., and Peter K. Schott. 2016. "The Surprisingly Swift Decline of US Manufacturing Employment." *American Economic Review*, 106 (7): 1632-62.

<sup>2</sup> Harrigan, J. & Barrows, G. (2009). Testing the theory of trade policy: Evidence from the abrupt end of the multifiber arrangement. *The Review of Economics and Statistics*, 91(2), 282-94.

<sup>3</sup> Quoted in Fox, M. (May 31, 2019). China won when Trump blindsided Mexico with tariffs, says former Mexican ambassador to China. *CNBC*. <https://www.cnn.com/2019/05/31/china-won-in-us-mexico-tariff-battle-ex-mexican-ambassador-to-china.html>.

<sup>4</sup> Artuç, E., Chaudhuri, S., & McLaren, J. (2010). Trade shocks and labor adjustment: A structural empirical approach. *American Economic Review*, 100(3), 1008-45.

<sup>5</sup> Robertson, R. (2000). Wage shocks and North American labor market integration. *American Economic Review*, 90(4), 742-64.

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