Columbia Business School
AT THE VERY CENTER OF BUSINESS™ | Jerome A. Chazen Institute for Global Business

CHAZEN INSTITUTE RESEARCH BRIEF

The Effects of Trading with China: A Net Positive for U.S. Workers

KEY TAKEAWAYS

- ✓ The downstream channel effects of trade are positive and offset the negative impacts of direct competition and the indirect upstream channel.
- ✓ The total effect of trading with China is positive, accounting for a net job increase of 1.27 percent per year.
- ✓ 75 percent of workers actually experience an increase in real wages from trading with China.

At the center of the increasingly contentious debate over the costs and benefits of US-China trade relations is a general perception that trading with China costs millions of Americans their jobs. While several economists have shown that direct competition from China, particularly in the manufacturing sector, does, in fact, result in a decline in employment, few have explored the indirect effects that importing intermediate inputs from China (goods in a supply chain used to produce a final product) has had on non-manufacturing sectors.

In "Re-Examining the Effects of Trading with China on Local Labor Markets: A Supply Chain Perspective," **Shang-Jin Wei, Chazen Senior Scholar at Columbia Business School**; Zhi Wang, Senior Policy Fellow at Schar School of Policy and Government at George Mason University; Xinding Yu, Professor at the University of International Business and Economics (UIEB); and Kunfu Zhu, Professor at the University of International Business and Economics (UIEB), examine the direct and indirect effects of trading with China – and find that the net effect is not only positive for U.S. job growth, but also wage growth.

Research

This is the first study to consider both downstream and upstream effects of imports from China. The researchers use more precise information on how imported intermediate inputs from China are allocated across U.S. sectors.

First, Wei and his co-authors separate intermediate goods from final goods in computing downstream exposure to trade with China. Second, they use exporter-specific information to allocate imports from China to downstream sectors, such as the U.S. service sector. Including these two items helps to paint a fuller picture of the total effects of trading with China.

Results

The researchers find that the effect of direct competition reduces manufacturing sector employment. In addition, they show that an indirect upstream channel further exacerbates job losses in both manufacturing and non-manufacturing sectors. In other words, U.S. firms that do not compete directly with Chinese firms, but rather sell their outputs to other U.S. firms that are squeezed by Chinese imports, also experience job losses.

However, the job gains from the indirect downstream channel offset the combined negative effects from direct competition and the upstream channel. Downstream channel job growth includes positions in construction, hotels and restaurants, transport and storage, real estate, research and development, and education.

Accounting for all three channels of exposure to trading with China, the researchers reveal a net job increase of 1.27 percent per year, disrupting the popular narrative that trade with China results in job losses. Furthermore, the research shows that 75 percent of workers experience a real wage growth as a result of trading with China. While the effect is not equal across all workers (most college educated workers gain substantially while non-college educated workers experience a decline in real wages), every worker can be made better off if the total wage bill can be redistributed.

By the Numbers

Accounting for all three channels of exposure to trading with China, researchers reveal a net job increase of 1.27 percent per year, with 75 percent of workers experiencing a real wage growth (based on data from 2000-2007).

1.27%

Net job increase per year

75%

Real wage growth of workers

Download the full paper:
http://www.nber.org/papers/w24886

Learn more about the author:
https://www8.gsb.columbia.edu/cbs-directory/detail/sw2446

Follow Chazen Global Insights:
https://www8.gsb.columbia.edu/articles/chazen-global-insights