The Rise of China and Labor Market Adjustments in Latin America

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Discussion by
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Views expressed here do not represent those of Bank Negara Malaysia.
Motivation

- China has become a major exporter of manufactured goods and importer of raw materials
- Study systematically traces how China’s changing role in global trade is affecting Latin American economies
The Analysis

1. Quantify size of China trade shocks
   - Export “vulnerability” and import “opportunity” indices that capture export and import demand from China independent from domestic conditions in LACs

2. Simulate macro and sectoral impacts from China trade shocks
   - A neoclassical small-open economy model of labor mobility
   - Impact on employment, wages and movements between formal and informal markets

Contributions

- Macro analysis, but also substantial attention on sectoral effects
- Authors make use of a rich dataset in empirical analysis
  - Detailed product level information to compute trade shocks from China
  - Individual labour force surveys to estimate labour mobility costs
  - Input-output tables to calibrate parameters in neoclassical model for simulations
Main findings (1)

Net Effect of China on LAC’s Mining Exports

Percentage Change in Mining Net Exports

- Brazil
- Chile
- Honduras
- Peru
- Cuba
- Jamaica
- Guyana
- Colombia
- LAC
- Bolivia
- Grenada
- Uruguay
- Belize
- Haiti
- Dominican Republic
- Paraguay
- Argentina
- Venezuela
- Dominican Republic
- Mexico
- Guatemala
- Ecuador
- Suriname
- St. Lucia
- Nicaragua
- Panama
- Costa Rica
- St. Kitts and Nevis
- El Salvador
Main findings (2)

Net Effect of China on LAC’s Agriculture Exports
Main findings (3)

Net Effect of China on LAC’s Manufacturing Exports
Main findings (4)

- Negative export shock for manufactured goods and positive export shock for agriculture and mining products
Main findings (5)

• Negative export shock for manufactured goods and positive export shock for agriculture and mining products

  ➢ Lower employment & wages in manufacturing; Higher in mining & agriculture sectors
  ➢ Aggregate effects: Neutral in Brazil and Argentina, negative in Mexico

Formal Employment

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<th>Mexico</th>
<th>Brazil</th>
<th>Argentina</th>
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</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>3%</td>
<td>14%</td>
<td>15%</td>
</tr>
<tr>
<td>Mining</td>
<td>1%</td>
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<tr>
<td>Manufacturing</td>
<td>4%</td>
<td>-3%</td>
<td>-1%</td>
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Informal Employment

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</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>3%</td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td>Mining</td>
<td>6%</td>
<td>14%</td>
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</tr>
<tr>
<td>Manufacturing</td>
<td>1%</td>
<td>-3%</td>
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</tbody>
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Some comments

1. Trade shocks rely on assumption that products are unrelated to each other.
   ✓ In a GVC production structure, is this realistic?
   ✓ If products are related, would the trade shocks be under- or over-estimated?

2. Natural advantage in downstream activities for economies with natural resources.
   ✓ Does this emerge in resource-based manufacturing sector in LACs? Why and why not?
   ✓ E.g. Malaysia with rubber; Malaysia and Indonesia with CPO

3. Latin America versus Asia economies in adjusting to development of China’s manufacturing sector
   ✓ Initial conditions matter; Many Asian economies benefitted from being able to develop their manufacturing sectors before China opened.
   ✓ With experience and existing base, Asian economies adapted, albeit with a diverse national strategies.
Case study: Malaysia’s electrical and electronics sector (1)

- GVCs have created competitors specialised at points of the supply chain

  ➢ In relation to Malaysia, the regional E&E landscape is becoming more diverse

**E&E Export Similarity Index***

* Takes a scale of 0-100, with an increasing number denoting a more similar export structure, which in turn implies greater risks of competition. Index is computed using net export values to account for complementaries in the production supply chains

Source: UNCTAD, “A Measure of Export Similarity’ and Its Possible Uses (Finger & Kreinin, 1979), “East Asia and Southeast Asia: Similarity in Trade Structures” (Loke, 2009) and staff estimates
Case study: Malaysia’s electrical and electronics sector (2)

- Undergoing a process of restructuring
  - Occurred through market forces but also aided by public policy

**Before**

- **Mainly PC-centric**

**Now**

- Exposed to more markets

### Semiconductors
- Automotive
- Safety & Efficiency Controls, Infotainment
- Internet of Things
- Sensors for Consumer and Industrial Products
- Cloud Computing
- Enterprise Servers
- Consumer Elec.
- Game Consoles
- PC & Parts
- Printer Cartridge

### PC & Parts (Non-semiconductors)
- Electrical Products
- Industrial Machineries

### New alternative end-markets
- Solar PV
- LED
- Medical Devices
- Aerospace

*New alternative end-markets*
Thank You