

How did Mexican local labor markets respond to the rising import competition in their domestic markets?



Due to an increase in import competition from the early 2000s, Mexico experienced a loss in manufacturing employment of 1.8 percentage points accompanied by a decrease in wages in the short run.



These negative effects persisted but its size decreased in absolute value. Twenty after the shock, the negative effects have disappeared.



This fade out on the aggregate effects on employment happened through several adjustments in the labor market. Wage employees were substituted by contract workers, and formal workers substituted by informal workers.

CONTEXT

China's entry into the World Trade Organization (WTO) in 2001 has had a significant impact on the international market. The influx of foreign goods has brought benefits to consumers, such as greater variety and lower prices, but it can also create winners and losers in domestic markets. Mexico, which has a specialization in industries that China now dominates, is a particularly interesting case to consider as it has maintained an open economy compared to other Latin American countries, it had specialized in the production of many of the goods that China would later export, and may have therefore been especially affected by increased import competition.

PROJECT

This project examines how firms in Mexico have adjusted their employment levels in response to changes in import competition from China. Using Mexican Census data from 1998-2018 and the United Nations Comtrade Database, we define local labor markets by linking metropolitan municipalities and employment data to create "Commuting Zones (CZs)." The study then analyzes the impact of Chinese import penetration on these local labor markets by breaking down the data by different time periods (5, 10, 15, 20 years) and by different types of workers, contracts, and firms' legal status.

RESULTS

We found that manufacturing employment in Mexico experienced a significant decline, particularly in the northern regions of the country near the US border, which were more exposed to import competition from China. Results are summarized in [Figure 1](#). The changes in employment resulted in a larger vulnerable workforce, such as contract-based workers, production workers, and informal workers. Our study also showed that contract-based employment increased, while the number of wage-based employees declined. In the short and medium term, production workers were more negatively affected than non-production workers, with a decrease in employment of more than three times. The number of formal employments decreased over time, while the number of informal employments continuously increased. Additionally, wages decreased for only wage-based and informal workers, with a \$1,000-per-worker increase in a commuting zone's exposure to Chinese imports reducing annual wages by 0.04 log points and 0.016 log points respectively, indicating a shift towards contract-based and informal workers in the labor market.

The overall negative impact of a decrease in manufacturing employment was mainly due to job destruction from firms exiting the market. Additionally, it was found that the number of informal jobs created by newly entering firms was significant, with an increase of 0.12 percentage points per \$1,000/worker. However, the number of firms exiting the market was not compensated by those entering, particularly in small and medium-sized firms with less than 11 workers. Furthermore, the study found that firms in the lower quartile of productivity had a greater share of exiting firms throughout the twenty-year period. Lastly, the project provides an estimation of the number of workers in the manufacturing sector if import competition had not increased. Under this scenario, the total number of workers would have been 7.6 percent higher than what it was by 2018.

POLICY IMPLICATIONS

Increased exposure to international trade has a greater negative impact on less productive and smaller firms. This highlights the need for greater labor market flexibility in the face of global events. Developing countries should invest in active labor market policies to mitigate the effects of foreign competition. Vocational and skills training for micro-entrepreneurs and self-employed individuals may prevent long-term damage to the domestic labor market. Additionally, lifelong career development training can help vulnerable workers acquire new skills and adapt to declining demand in sectors or occupations affected by international trade. This will not only benefit the unemployed, but also improve job mobility and facilitate job transitions to different industry sectors.

Previous research has shown that providing business and management skills training, mentoring, or consulting to firm managers and entrepreneurs can improve firm performance. Many developing countries have many small, family-owned businesses, and providing training on efficient business operations can help these entrepreneurs not only grow their businesses, but also develop strategies to cope with external market shocks. While skills training is not the only solution, it has been shown to be effective in increasing wages and employment levels, which can help individuals build resilience.

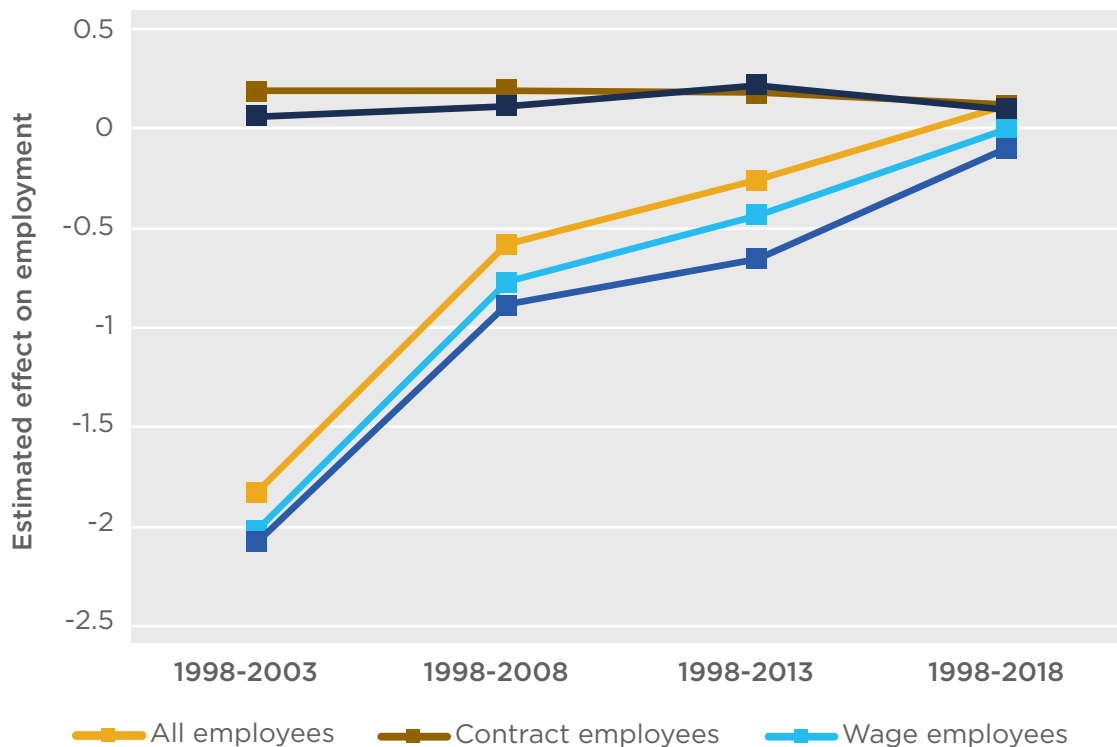
A graphic element consisting of a yellow key icon on a dark yellow background, followed by a light yellow banner with a dark yellow border. The banner contains the text 'Key Concept' in a small font, 'IMPORT COMPETITION SHOCK' in a large, bold font, and a descriptive sentence in a smaller font below it.

Key Concept

**IMPORT
COMPETITION SHOCK**

A sudden increase in competition from the increase of imports in a domestic market.

Figure 1. Effects of import competition on employment (by type of worker)



Source: Blyde, Busso, Park, and Romero (2023).



FULL STUDY

[Blyde, J., M. Busso, K. Park, and D. Romero. 2023. "Short- and Long-Run Labor Market Adjustment to Import Competition."](#)

DEPARTMENT OF RESEARCH AND CHIEF ECONOMIST

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