

The China shock and supply chains:
When rising imports raise exports *

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Abstract

This paper investigates the labor market effects of trade by taking global supply chains, the links between imported inputs and exports, into consideration. We use data from two major trading partners of China: Japan and the US. An analysis shows that imported inputs have export creation effects, and exports have positive effects on employment in the two countries. Additionally, these effects and the employment effects of imports interact differently in shaping the overall labor market effects of trade between Japan and the US. We find that, while imported inputs from China helped sustain manufacturing employment in Japan, the same type of imports had labor-saving effects in the US. This distinction led to different effects of trade on employment and productivity across the two countries.

Keywords: The China trade shock, imported inputs, labor productivity

JEL classification: F14, F16, F66

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