Rising Import Competition in Canada and its Employment Effect by Skill Group and Gender: Evidence from the 'China Shock'

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The Centre for the Study of Living Standards today released two reports prepared for Global Affairs Canada entitled "*Rising Import Competition in Canada and its Employment Effect by Skill Group: Evidence from the China Shock*" and "*Rising Import Competition in Canada and its Employment Effect by Gender: Evidence from the China Shock*".

Previous CSLS research report, "*The Effect of Import Competition on Employment in Canada: Evidence from the China Shock*", found that the direct effect of rising Chinese import competition in Canadian manufacturing amounted to a net loss of just over 100 thousand manufacturing jobs over the 2001-2011 period, 21 per cent of the actual observed decline in manufacturing employment.

However, it is important to study how the loss was distributed among workers in manufacturing. By constructing occupation- and gender-specific trade exposure measures, we estimate the employment effect of import shocks by skill group and by gender. For skill groups, we classify occupations in the National Occupation Classification according to their skill level (high, mid, and low) and skill type (management, professional, technical/paraprofessional, other services, and production), respectively.

The key findings of the two reports are highlighted below:

During the period in which Chinese import penetration rose substantially (*i.e.* 2001-2011), the total trade-induced job loss in manufacturing was largely driven by low-skilled occupations. A trade-induced job loss for low-skilled occupations amounted to 90 thousand, 27 per cent of the total decline in low-skilled employment in manufacturing (334 thousand).

The trade-induced job loss for low-skilled occupations was equally distributed between males and females despite a much smaller female share in the total low-skilled employment in manufacturing. In relative terms, females had a larger job loss than males did: the loss accounted for 32 per cent of the total decline in low-skilled jobs of women and 21 per cent of the total decline in low-skilled jobs of men.

When analyzed by skill type, the following groups had significant trade-induced job losses during the 2001-2011 period:

- Occupations in other services – a loss of 58 thousand (87 per cent of the total decline in other services employment).

- Occupations in technical/paraprofessional - a loss of 20 thousand (60 per cent of the total decline in technical/paraprofessional employment)

- Occupations in production – a loss of 52 thousand (17 per cent of the total decline in production employment)

The trade induced job loss for other services and technical/paraprofessional was driven by females as we found no statistical evidence that males in these occupations were affected by rising Chinese import penetration.

The trade-induced job loss for production occupations was equally distributed between males and females, again, despite a smaller female share in the total production employment in manufacturing. In relative terms, Chinese import penetration can explain 29 per cent of the total decline in jobs of females in production and 17 per cent of the total decline in jobs of males in production.

A greater job loss for females can be partly explained by the fact that females experienced a larger increase in trade exposure to China as they had high employment shares in sectors with relatively large annual increases in import penetration ratio over the 2001-2011 (*e.g.* Textile Product Mill, Clothing Manufacturing, Leather and Allied Product Manufacturing).

The key message of our reports is that the distributional effect of trade is evident in both skill and gender dimensions as the relative importance of Chinese import penetration in explaining the observed decline in employment varies greatly across skill groups and genders. One important implication from the results by skill level is that trade with China did not lead to "employment polarization" in Canada: a U-shaped employment growth in skill level where mid-skilled experiencing a relatively slower employment growth than low- and high-skilled.

By exploiting variations in local employment rates and local trade exposure across 122 CMAs/CAs in Canada, we also assess the net effect of labour reallocation and demand effects operating within localities. We find that the labour reallocation is important in offsetting the negative direct effects but the degree of reallocation within local labour markets varies across skills. The labour reallocation to unaffected sectors was less successful for low-skilled occupations when analyzed by skill level and for production occupations when analyzed by skill type. For production occupations, we found that the labour reallocation of female workers was fully inhibited by negative local demand effects.

The two reports focus on the cost side of the trade with China with emphasis on the employment effect. Policymakers should also pay attention to potential benefits from trade as much as we do to distribution concerns of trade. We would like to emphasize that costs should be set against benefits in a balanced and principled manner so that one can assess the full picture on trade.

The report is posted at http://www.csls.ca/reports/csls2018-02.pdf and at http://www.csls.ca/reports/csls2018-03.pdf

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