The US-China Trade War and the Relocation of Global Value Chains to Mexico

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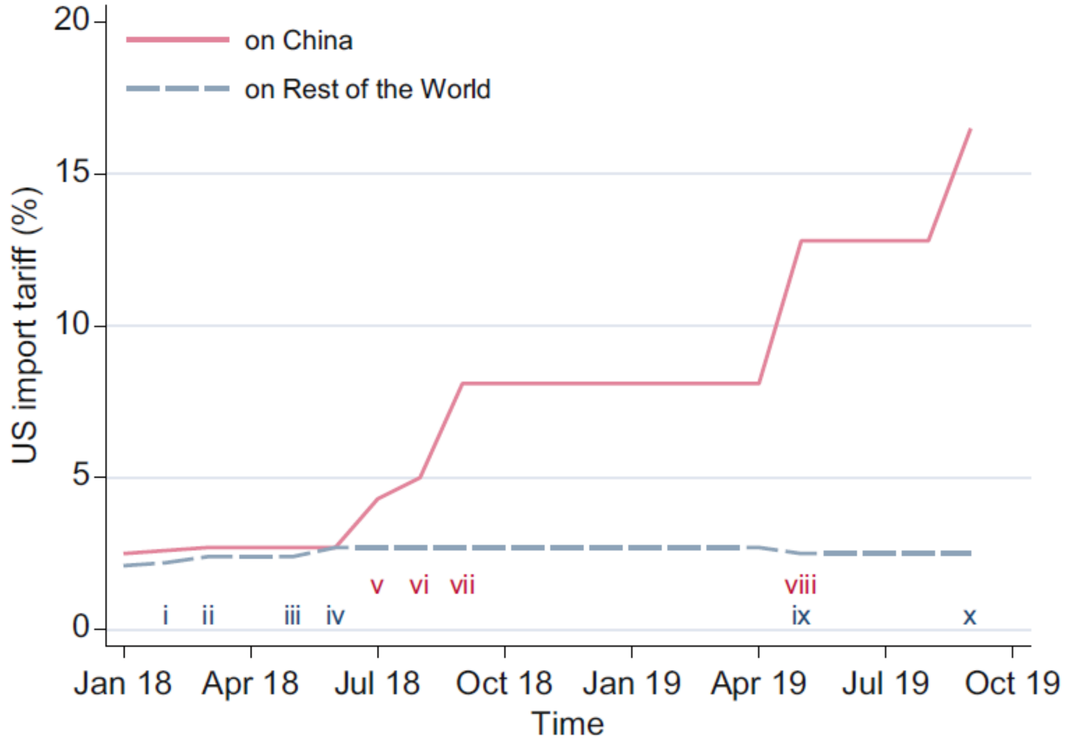
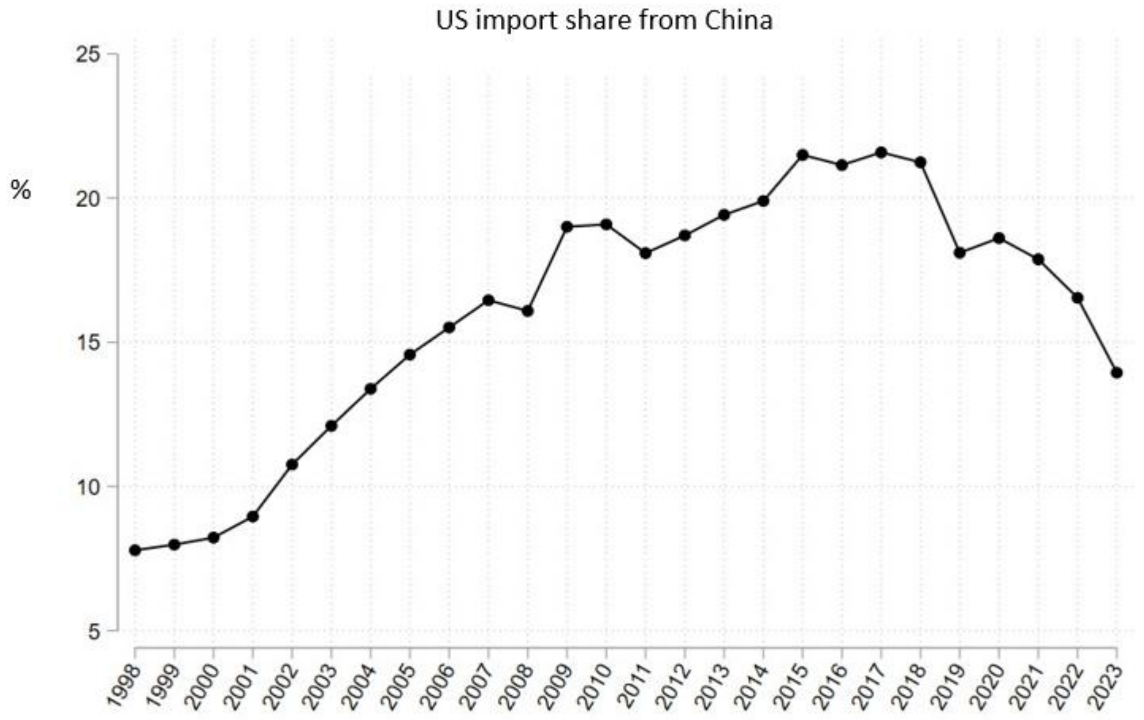
summary

- The unprecedented U.S.-China trade war has lasted for six full years.





- Which countries are filling the gap?

summary

- Existing research shows that:
  - US import prices largely unchanged, implying near-complete pass-through (Amiti et al 2019, Fajgelbaum et al. 2020)
  - Substantial reallocation of supply from China to other countries (Alfaro and Chor 2023, Fajgelbaum et al. 2023)
  - Detailed firm-level investigations for a specific country is still lacking
    - This paper fills the void.

summary

- This paper offers an empirical investigation on the impact of US-China trade war on Mexican exports.
  - Mexica surpassed China and became the largest source country of US in merchandise imports in 2023
- What types of firms are increasing their exports/imports?
  - Very detailed firm level data: Confidential firm-level trade data from Mexico (2015-2021)
  - Very rich results: exports, imports, heterogeneity (types of firms, industries)
  - Methodology: DD(Post x exposure）, and DDD (Post x exposure x GVC firm)
  - Highlight: results driven by export platform/GVC firms (IMMEX program)
    - GVC here refers specifically to firms that directly import and export and that rely on the IMMEX regulation
      - ***Why call them GVC firms?→ other firms may also rely on GVC (through arms-length trade)?***

Key Findings - Impact on Exports

- US tariffs on China increase the Mexican exports to the US
  - exports to the WLD also increase:
    - ***indicating "scale economy" or "increased input enhancing productivity"?***
  - Effects mainly driven by the IMMEX export platform/GVC firms.
  - Also increase net exports: ***indicating nearshoring or productivity improvement?***
- Mexican GVC firms expand their product portfolio, mainly on consumption goods
  - ***Types of varieties created & destructed within firm?***
- Industry Heterogeneity
  - Particularly pronounced in skill-intensive manufacturing industries (machinery or automotive, rather than textile or food)
    - ***Probably due to targeted goods, or due to GVC arrangement, or due to Mexico/China's comparative adv.?***

Key Findings - Impact on Sourcing

- US tariffs on China increase the Mexican imports from the US, China and other Asia
- The role of trade facilitation instruments
  - *Eighth Rule under PROSEC* allows reduced tariff rates on imported inputs
  - US tariffs on China significantly increase firms' likelihood of obtaining an *Eighth Rule permit*.
    - ***But not for imports from China (why?)***
- These results imply reorganization of GVCs towards Mexico
  - ***Any industry/firm heterogeneity that may hint on the reorganization dynamics?***

Suggestions

- Very informative: rich data, rich results, rich policy implications
- More exploration of the data
  - The extensive margin: firm entry & exit?
  - Any information on price? Production? Employment? [implications on tariff pass-through, quality, productivity, scale economy]
  - On the GVC: the input-output linkage (firm-level); effect of upstream/downstream tariffs (eg: US tariffs on Chinese automobiles affect Mexico leather producer)
  - Any information on FDI or ownership type? [are Chinese firms coming to Mexico?]

Suggestions

- Additional thoughts:
  - Tariff war escalated eventually (at least 6 rounds of Section 301), imposed on different types of goods. (staggered DID).
  - Any role of the ROO requirement by USMCA?
  - The COVID shock might be product- or firm-specific?
  - Any implication on productivity/employment/wages/allocation of resources/welfare?