Discussion of “Structural Adjustments and International Trade: Theory and Evidence from China”
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April 28, 2016
This paper is motivated by two observed changes in China’s manufacturing industries between 1999 and 2007:

- Production became more capital intensive
- Exports became more labour intensive
Theoretical Model

• The paper
  • uses a very nice model to account for these two changes
  • introduces firm heterogeneity into the model of Romalis (2004)
  • extends Bernard, Redding and Schott (2007) to a continuum of industries
  • generates analytical results on the impact of trade liberalization, capital deepening and technological change

• The model is structurally estimated and used to account for the observed changes in production and export patterns
Main Results

- Capital intensity of production increased due to capital deepening
  - larger cost reduction in capital intensive industries
  - relative increase in real demand for goods produced with capital intensive technologies
    - but no effect on value-added shares
- Exports became more labour intensive because of comparative advantage and trade liberalization
  - comparative advantage strengthened due to reduction in trade costs
  - it is further strengthened by relative faster TFP growth in labour intensive industries
Comments: Facts

- Capital intensity: the paper groups firms into industries by capital income shares and focus on reallocation across them
  - Berkowitz, Ma and Nishioka (2015) shows that most increases in capital income shares were within firms
    - Reallocation across across products within firms (Ma, Tang and Zhang, 2014)
    - CES production technology and reduction in capital costs

- Export intensity of labour intensive industries
  - Could this be driven by processing trade?
Cobb-Douglas preferences eliminates other sources of structural change identified in the literature

- Relative productivity growth across industries (Ngai and Pissarides, 2007)
- Capital deepening and differential capital intensity (Acemoglu and Gurrieri)

Cobb-Douglas also implies constant value-added shares
Comments: Quantitative analysis

- More could be done in the quantitative analysis
  - Estimating firm TFP that is consistent with the model specification
  - Allowing differential trade cost reductions across industries—can be estimated directly from trade data
  - Directly measuring $K/L$ rather than estimating it from the model
Conclusion

• Very nice paper and important question
• Would like to see
  • better documentation of facts
  • more general model that allow for standard forces of structural change
  • more complete quantitative analysis.
• Looking forward to seeing the final version of the paper