Skill-biased Imports, Human Capital Formation and the Allocation of Talents*

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Extended Abstract

Abstract

Have the trade liberalization and the resulting surge of capital goods imports affected human capital accumulation and migration? In this paper, I develop a trade model with endogenous educational choices and migration choices. I use this model to analyze the impact of capital goods imports embedded with skill-biased technical change on education attainment and migration pattern. In the empirical analysis, I explore the variations in regional capital goods imports in China and use a Bartik (1991) shift-share approach to construct the corresponding instrument. The findings show that regions with more capital goods imports have higher skill premium, and consequently local people in these regions have stronger incentive to receive higher education. For regions that are less exposed to import shocks, local people are more likely to migrate. Since receiving education and migration are both costly, people in inland areas are likely to migrate as unskilled workers.

JEL Classification: F14, F16, F66, I24, J24, O15, R23
Keywords: Capital goods imports, skill-biased technical change, education, migration

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1. Introduction

Economists have long been interested in studying how international trade affects labor market outcomes. Though there is a rapidly growing literature on how import competition has affected labor market in developed economies (e.g., Autor, Dorn and Hanson, 2013a, 2013b, and 2017; Bloom, Draca, and Van Reenen, 2016; Pierce and Schott, 2016) and in developing counties (e.g., Dix-Carneiro and Brian, 2017; Topalova, 2010), little is known about its consequences on the next generation. In this paper, I detect a new channel, namely capital goods imports, through which trade affects human capital formation and migration in developing countries.

Understanding the linkages among trade, human capital accumulation and migration is crucial, since globalization has been associated with economic development. Trade could widen the economic gap across countries via its impacts on educational attainment, as pointed out by Findlay and Kierzkowski (1983). Nevertheless, the literature on how export affects the skill acquisition in developing countries (e.g. Atkin, 2016; Li, 2016) has not been matched with an equivalent volume of work on the role of import.

China offers a particularly suitable setting to study this topic. One remarkable feature of China's trade liberalization is a surge of imports in capital goods. "Bring in advanced foreign technology" has been set as one of the main objectives of China "opening up" policy since early reform period. For its convenience and transparency, import capital equipment became a widely adopted practice in transferring technology. Since 1998, China's imports in capital goods increase rapidly with an average annual growth rate of 20%. In 2009, China's total capital goods imports was as much as 400 billion U.S. dollars. The imports of capital goods, embedded with skill-biased technology, increases the skill premium (Han, Liu and Zhang, 2012; Li, Li and Ma, 2017). As a result, the rising demand for skills encourages skill accumulation in coastal areas. At the same time, the fast wage growth in coastal areas has induced great labor reallocation from inland areas to coastal areas in China.

In the paper, I first extend a two-factor, multiple-sector and multiple-region Eaton and Kortum (2002) model by endogenizing skill accumulation and migration decision. Drawing on several rich data sets on China's labor market features and trade patterns, I then examine the impact of capital goods imports on skill accumulation and migration, by exploiting cross-region variation in capital goods imports stemming from initial differences in industrial specialization.

This paper is linked to several strands of literature. The first strand of literature examines the impact of export on educational choices (Atkin, 2016; Li, 2016). The second strand of literature studies the effects of capital goods import on labor markets outcomes (Burstein, Cravino, and Vogel, 2013; Fan, 2017; Li, Li and Ma, 2017; Raveh and Reshef, 2016). The third strand of literature studies the impact of import competition on the labor market in developing countries (Cheng and Potlogea, 2015; Dai, Huang and Zhang, 2018; Dix-Carneiro, 2014; Dix-Carneiro and Brian, 2017; Erten and Leight, 2017; Leight, 2016; Topalova, 2010; Zi, 2016) and developed countries (e.g., Autor, Dorn and Hanson, 2013a, 2013b, and 2017; Autor, Dorn, Hanson and Song, 2014; Acemoglu, Autor, Dorn, Hanson, and Price, 2016; Bloom, Draca, and Van Reenen, 2016; Pierce and Schott, 2016).

2. Empirical Approach

2.1 Measuring Trade Shocks

I measure the local-labor-market exposure to capital goods imports as the changes in capital goods imports per capita in a region:

$$\Delta x_{it} = \frac{X_{it} - X_{it}}{P_{it-1}} \qquad (1)$$

where X_{it} is capital goods imports by city *i* in year *t* (2010 in the analysis) and P_{it-1} is the residence-based population in city *i* in the initial year $t-1$ (2000 in the analysis). Table 1 presents the summary statistics. The average growth in capital goods imports per capita is 0.382, which is measured in units of 1,000 US dollars. The interquartile range is 0.002 to 0.133 implying substantial skewness in the measurement. I address the concern for skewness by presenting results with and without two outlier cities which have high level of capital goods imports growth, Shenzhen and Suzhou[1].

[INSERT Table 1]

The above definition makes clear that the variation in capital goods imports growth per capita across local labor markets arises from two sources: differential capital goods imports growth and differential population in initial year. Differences in population are the not primary source of variation. In a bivariate regression, the start-of-period population explains less than 2% of the variation in capital goods imports growth per capita. In the main specifications, I will control for the start-of-period population for

[1] Shenzhen lies to the north of Hong Kong, and it has been China's largest exporting cities for over two decades. Suzhou locates next to Shanghai, and it is one of economic center of Yangtze River delta. It has surpassed Shanghai to become the largest city in China in terms of industrial output in 2012.

each prefecture so as to focus on variation in exposure to capital goods imports.

A concern for the subsequent estimation is that capital goods imports may be correlated with other regional demand shocks, in which case the OLS estimates may overestimate the true effects. To identify the causal impacts of rising capital goods imports on skill acquisition and migration, I employ an instrumental-variable strategy by adopting the Bartik (1991) shift-share approach to account for the potential endogeneity.

$$\Delta x_{it}^{Bartik} = \left[\sum_{j} \frac{X_{ijt-1}}{X_{it-1}} \left(\frac{X_{jt}^{-i} - X_{jt-1}^{-i}}{X_{jt-1}^{-i}} \right) \right] \frac{X_{i0}}{P_{i0}} \qquad (2)$$

where X_{jt}^{-i} is national imports in capital goods j and year t by excluding the province where the city is located, X_{ijt-1} / X_{it-1} is the share of product j in city i's imports in initial period $t-1$(2000 in the analysis) which captures a region's reliance on certain type of capital equipment and X_{i0} is capital goods imports by city i in year 1997.

The approach, which takes the method in Autor, Dorn and Hanson (2013), predicts a region's capital goods imports growth by combining each region's initial industry structure with the national import growth for each type of capital equipment. Capital goods imports increase faster in regions that initially import more capital goods of certain types that experienced rapid growth at national level.

To give an initial view of the data, Figure 1 plots the Bartik variable in equation (2) against capital goods imports growth per capita in equation (1). In Figure 1, there is a strong correlation between the two variables. In Table 2, we see that the correlation remains strongly positive before and after the dummies of the outlier cities are included.

[INSERT Figure 1]

[INSERT Table 2]

The IV strategy isolates the external capital imports supply shock from other factors that may also be associated with growth of imported capital goods. The predicted import growth per capita is allocated to various regions based on their initial industry import structure, which is determined by initial industry structure.

2.2 Measuring Human Capital Accumulation

Educational attainment is defined based on the highest level of schooling that a person has ever attended according to the Chinese census data. This definition is different from the common definition where education attainment is the highest diploma that a person has completed.

2.3 Defining Immigrants and Emigrants

By using the rich dataset of population census data in 2000 and 2010, I am able to estimate each individual's residence place in 2000.

3. Data and Measurement

In this section, I document the human capital accumulation pattern in China and describe the key features of capital goods imports, as a potential cause of rising demand for skill. In addition, I also provide summary information on the data construction and measurement.

4.1 Human Capital Accumulation

Over the past years, China has experienced a period with fast rise of skill premium. Following the common practice, skilled labors are defined as workers holding college degree or above. As shown in Figure 1, the skill premium, or the wage gap between workers with college or above education and those with less education, has widened between 1998 and 2009. In 1998, skilled workers earned 23% more than unskilled workers. The wage gap has widened since 2001 and has risen to 44% in 2009.

In response to the rising skill premium is the fast accumulation of human capital. The share of skilled labor out of the total workforce has increased drastically in the recent years, from 23% in 1998 to 43% in 2009 as shown in Figure 2.

[INSERT Figure 2]

4.2 Capital Goods Imports in China

One remarkable feature of China's trade liberalization is a surge of imports in capital goods[2]. "Bring in advanced foreign technology" has been set as one of the main objectives of China "opening up" policy since early reform period. For its convenience and transparency, import capital equipment became a widely adopted practice in transferring technology. As shown in Figure 3, China's imports in capital goods

[2] I follow Burstein, et al. (2013) and define capital goods based on the International Standard Industrial Classification (ISIC-rev.3) and Broad Economic Classification (BEC). Specifically, capital goods include products that belong to the ISIC industry codes 29-33 and also belong to the BEC code 41-42 (capital goods and parts) and 521 (transportation equipment).

increase rapidly with an average annual growth rate of 20% since 1998.[3] In 2009, China's total capital goods imports was as much as 400 billion U.S. dollars.

[INSERT FIGURE 3]

Figure 4 compares China's imports of capital goods with other categories, namely intermediated input, raw material and consumption goods. As shown, capital goods and intermediate inputs are the major categories of imports. The import share of capital goods has risen from 39 percentage points in 1998 to 47 percentage points in 2006 and dropped back to 41 percentage points due to the global financial crisis.

[INSERT FIGURE 4]

The scale and intensity of capital goods imports in China is also exceptional compared with other countries. Figure 5 compares the import shares of capital goods between China, seven developed countries, four large developing countries, and the rest of world from 1998 to 2009. The seven developed countries include Canada, France, Germany, Japan, Italy, the United Kingdom, and the United States. Their import share of capital goods was 29 percent in 1998, which was 10 percentage points smaller compared with that of China. Since then, it has kept declining. In 2009, the import share of capital goods of the seven developed countries was only 22 percent, which was 22 percent smaller compared with that of China. The four large developing countries include Brazil, India, Mexico, and Russia. Their import share of capital goods was 32 percent in 1998 and it dropped to 29 percent in 2009.

[INSERT FIGURE 5]

There are substantial variations across regions in their imports of capital goods. Figure 6 (left panel) shows that most of the growth in capital goods imports occurred in coastal areas. The right panel continues to emphasize that coastal regions' share in capital goods imports also increased, while inland regions have experienced a decline in the share of imported capital goods relative to total import. The large disparity of

[3] China is also one of the major producers of capital goods. However, more than 50% of Chinese exports in capital goods are processing trade. For example, the computers industry, processing exports account for over 95% of total sectoral exports. Furthermore, exports from industrial countries appear to be higher quality than from developing countries such as China (Schott, 2007).

capital goods imports across local labor markets provides the identifying variations for the empirical analysis.

[INSERT FIGURE 6]

4.3 Data

As explained above, multiple datasets on population census, college entrance examination, college graduates, and international trade are employed in the analysis. The first dataset is the trade data provided by the General Administration of China Customs (GACC), which includes value and quantity of exports and imports by firm, product, and partner countries.

The second dataset is the population census in 2000 and 2010, which provides information on residence place, birthplace, hukou, migration status and education.

The third dataset is the national surveys for college graduates between 2010 and 2015, which offers detailed information on the student's background, performance in high school and college, and offers got before college graduation.

Employment and earnings of workers by education are from the Urban Household Surveys (UHS, 1998-2009), which has been conducted by the National Bureau of Statistics of China (NBSC) annually to calculate key statistics such as the CPI. To ensure representativeness, the NBSC adopts a probabilistic and stratified multistage sampling method when selecting households. The UHS provides a detailed record of demographic, employment, income, income tax and social security for household members. For my purpose, I focus on individuals who are between 16 and 60 and have labor earnings. I have access to data covering 18 provinces, which are representative in terms of geographic location and economic condition.[4]

Macro data are from several sources. Bilateral exchange rates are collected from the Penn World Table (PWT 7.0, 1997-2009). City-level GDP, city-level capital stock for industrial enterprises above designated size, provincial-level FDI, and consumer price index (CPI) are collected from China Statistical Yearbooks (1998-2009).

[4] More specifically, the dataset includes coastal provinces such as Beijing, Guangdong, Jiangsu, Liaoning, Shandong, Shanghai, and Zhejiang, and inland provinces such as Anhui, Chongqing, Gansu, Heilongjiang, Henan, Hubei, Jiangxi, Sichuan, Shaanxi, Shanxi, and Yunnan.

4. The Impacts of Capital Goods Imports on Human Capital Accumulation and Migration

Table 3 presents the initial estimates of the relationship between capital goods imports and educational attainment. The share of working-age people having attended college increased and the share of working-age people having attended high school decreased in cities with more capital goods imports growth. In Table 4, I further narrow down the sample to schooling-age kids and the results remained to be robust.

5. Ongoing Work

As for the ongoing work, I will first continue to investigate the causal impact of capital goods imports on educational attainment and migration. Besides, I will extend a two-factor, multiple-sector and multiple-region Eaton and Kortum (2002) model by endogenizing skill accumulation and migration decision.

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Figure 1: First Stage

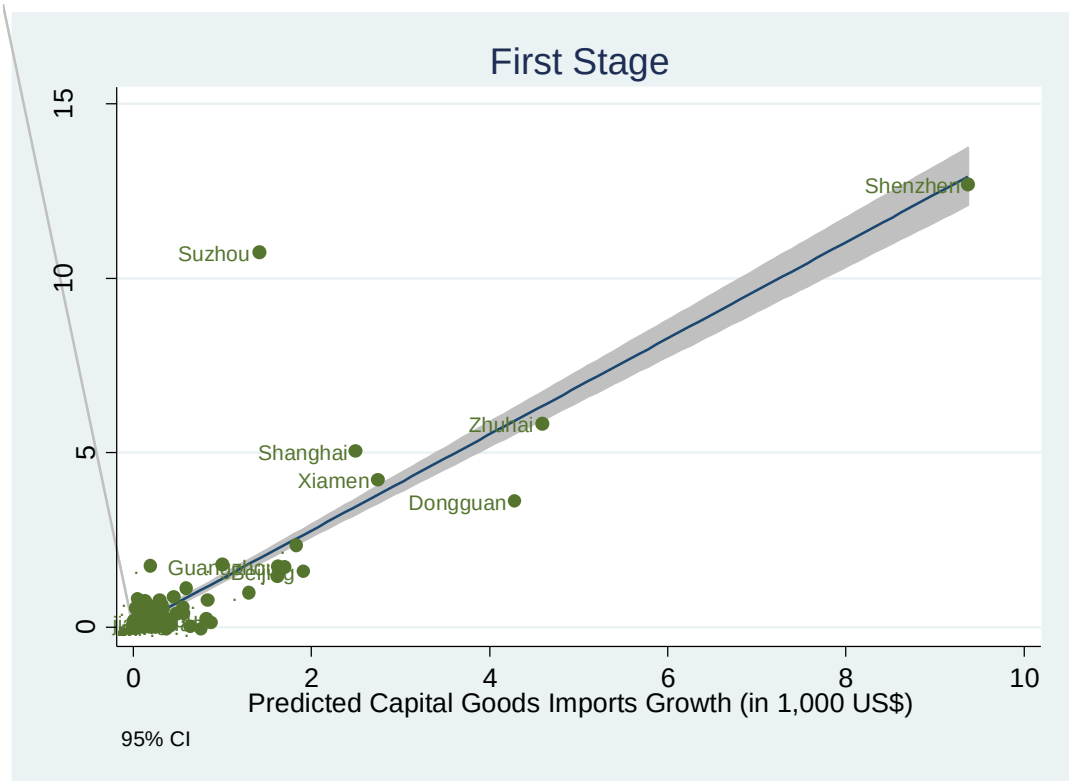
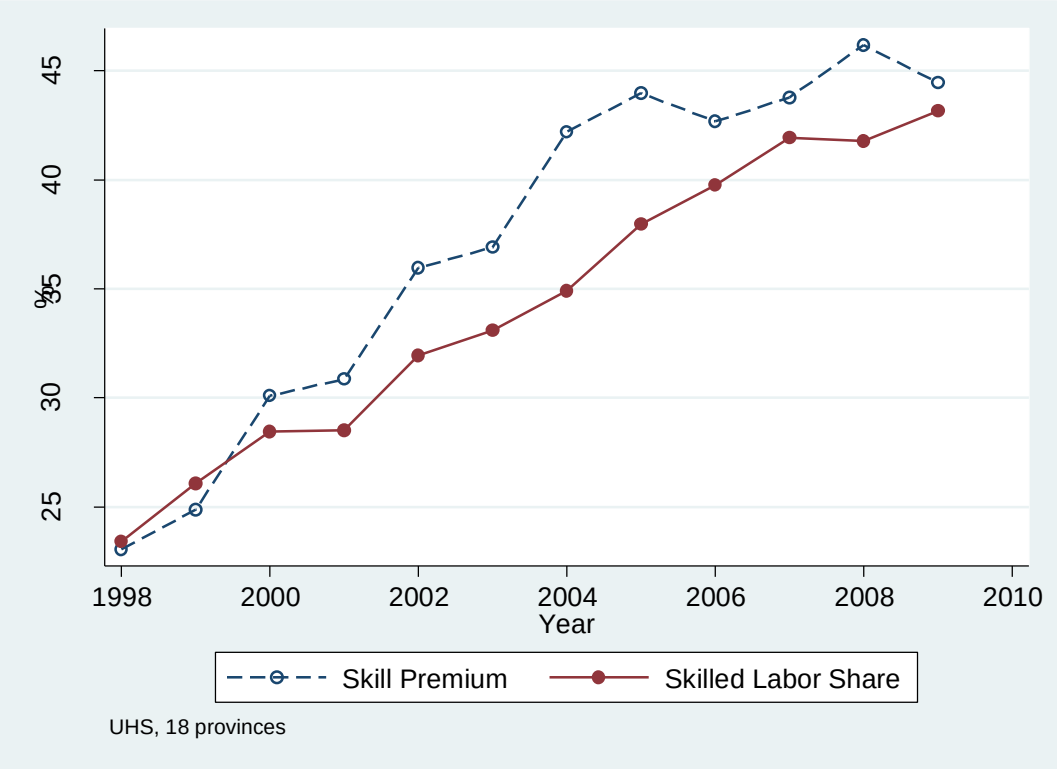


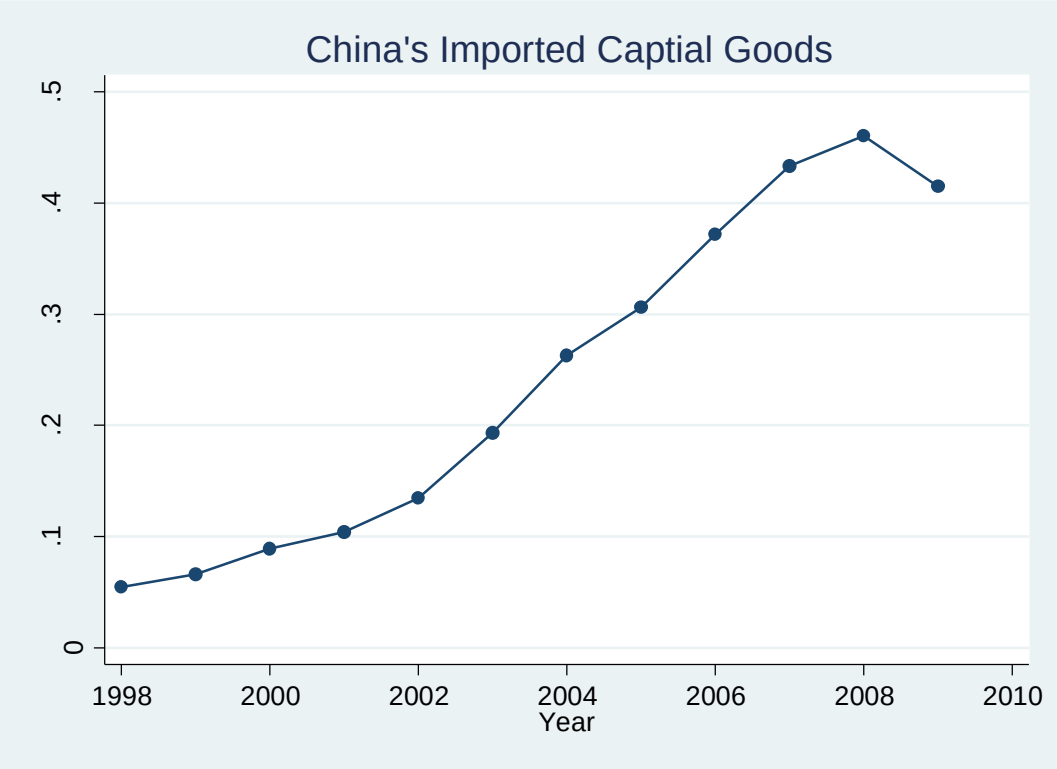
Figure 2: Skilled Labor Share and Skill Premium



Data: Urban Household Survey

Note: Skilled labor is defined as people (aged between 16 and 60) with college degree or above (15 years education or more). Skill labor share is defined as share of skilled workers among all employed workers in urban China. People who are not in the labor force or remain unemployed are not included. College premium is calculated based on Mincer-style OLS regression after I control for gender, working experience and its square term, firm ownership type, and industry dummies.

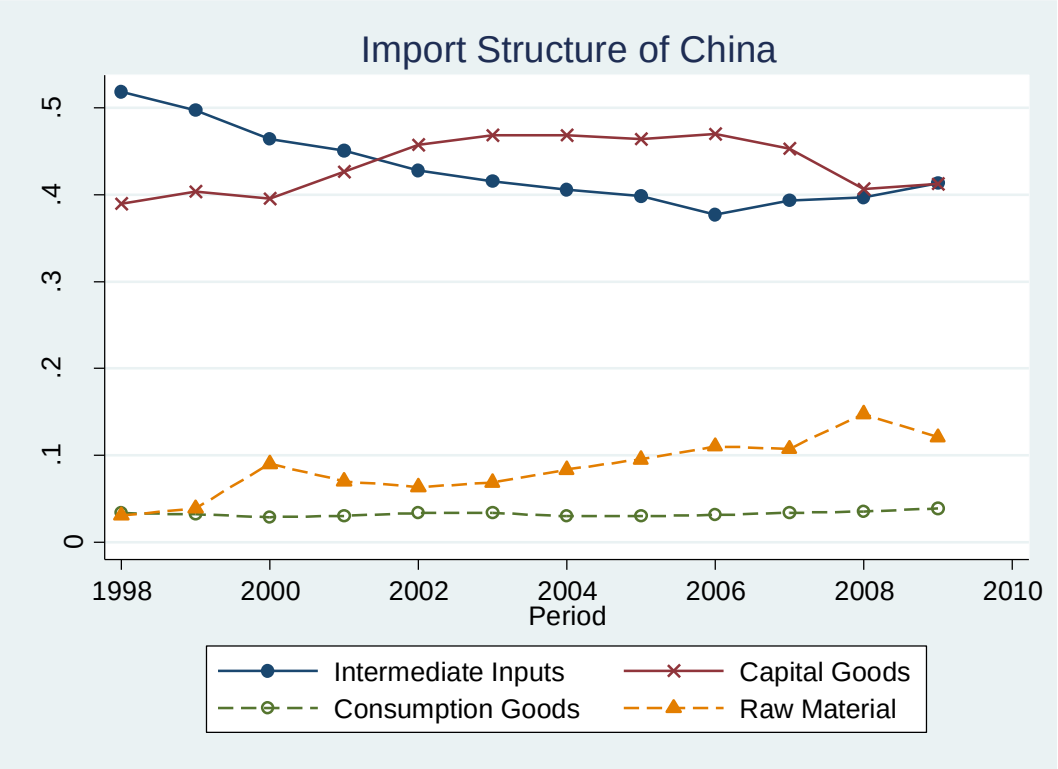
Figure 3: China's Import of Capital Goods



Source: UN Comtrade Database

Note: This figures show the pattern of Chinese total imported capital goods (unit: 1 trillion US$). I define capital goods to be the sum of ISIC Rev. 3 codes 29-33, excluding those that are not belong to Broad Economic Classification (BEC) industry 41 (capital goods) and BEC industry 42 (Parts and accessories of capital goods) and adding those that belong to BEC industry 521 (transportation equipment used for industry).

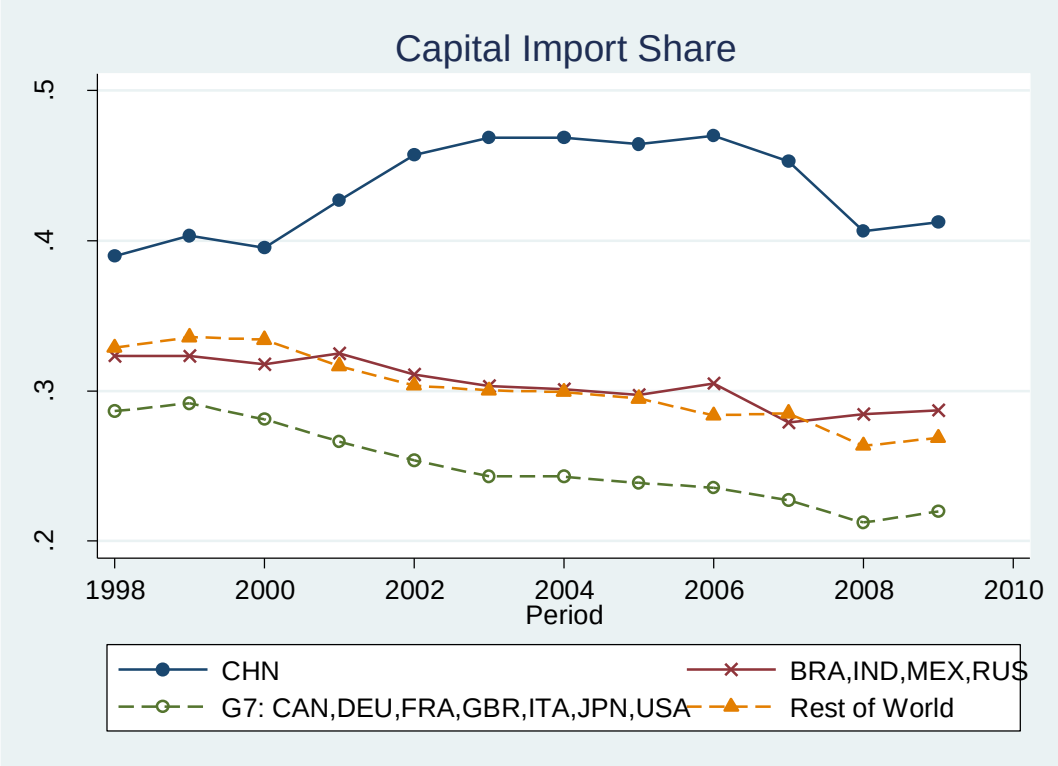
Figure 4: China's Imported Capital Goods as Share of Total Imports



Source: UN Comtrade Database

Note: Capital goods are defined as the sum of ISIC Rev. 3 codes 29-33, excluding those that are not belong to Broad Economic Classification (BEC) industry 41 (capital goods) and BEC industry 42 (Parts and accessories of capital goods) and adding those that belong to BEC industry 521 (transportation equipment used for industry).

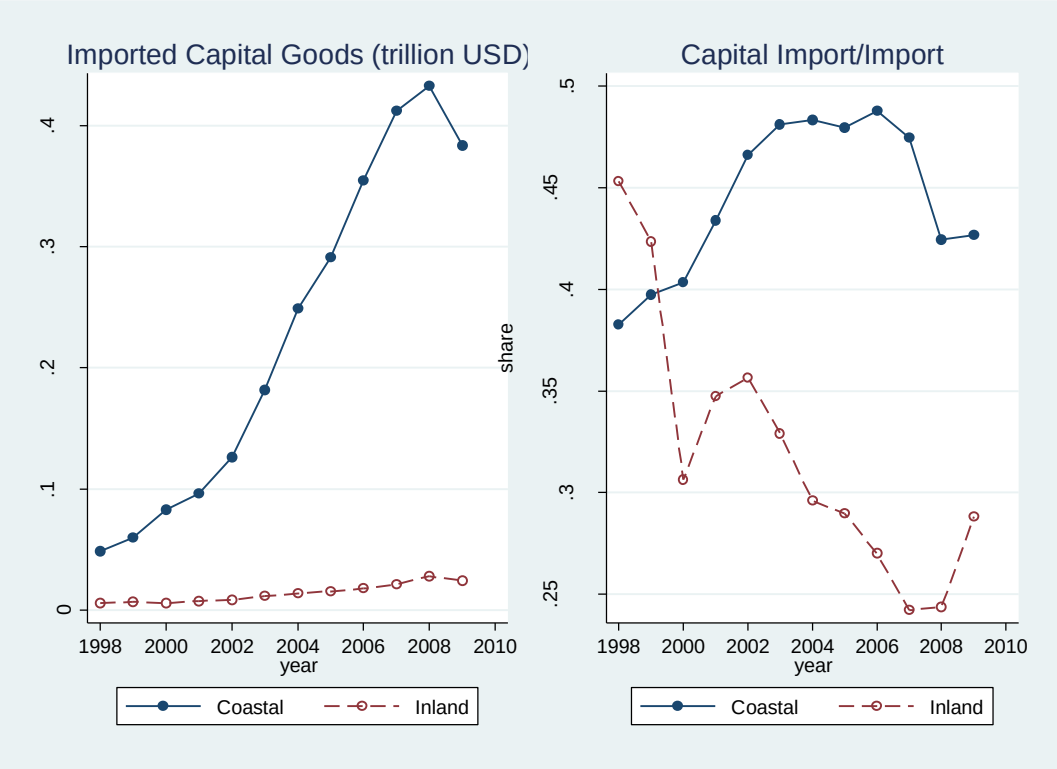
Figure 5: Cross Country Comparison of Imported Capital Goods as Share of Total Imports



Source: UN Comtrade Database

Note: Capital goods are defined as the sum of ISIC Rev. 3 codes 29-33, excluding those that are not belong to Broad Economic Classification (BEC) industry 41 (capital goods) and BEC industry 42 (Parts and accessories of capital goods) and adding those that belong to BEC industry 521 (transportation equipment used for industry). G-7 countries include Canada (CAN), France (FRA), Germany (DEU), Japan (JPN), Italy (ITA), the United Kingdom (GBR), and the United States (USA). The four developing countries include Brazil (BRA), India (IND), Mexico (MEX), and Russia (RUS).

Figure 6: Imported Capital Goods by Region



Source: China General Administration of Customs

Table 1 Summary Statistics

variable	mean	sd	min	p25	p75	max	N
Imported Capital Goods per Capita	0.382	1.425	-0.059	0.003	0.102	12.690	337
Predicted Imported Capital Goods per Capita	0.261	0.886	0.000	0.002	0.133	9.372	337

Note: Imported capital goods growth per capita and predicted imported capital goods growth are both measured in thousand U.S. dollars. The statistics are weighted by residence-based population in 2000.

Table 2 First Stage

Imported Capital Goods per Capita	(1)	(2)	(3)	(4)
Predicted Imported Capital Goods per Capita	1.240***	1.247***	1.438***	0.970***
	(0.130)	(0.128)	(0.216)	(0.191)
Population in 2000		-0.000	-0.000**	-0.000
		(0.000)	(0.000)	(0.000)
Dummy for Shenzhen				1.266***
				(0.433)
Dummy for Suzhou				2.940***
				(0.092)
Province Fixed Effects	N	N	Y	Y
R-squared	0.677	0.677	0.769	0.953

Note: N= 337. A dummy variable for cities with no export or import in 2000 is included in Column 3 and 4. All observations are weighted by city-level residence-based population in 2000. Robust standard errors in parentheses are clustered on province. *** p<0.01, ** p<0.05, * p<0.1

Table 3: Capital Goods Import Growth and Changes in Educational Attainment

	(1)	(2)	(3)	(4)	(5)
	Y=100*(y_2010-y_2000)				
	y=Share of working-age people (25-60) whose highest level of schooling ever attended is				
	College	Senior high	Junior high	Elementary	Illiterate
Panel A: IV					
ΔCapital Imports per capita	0.21**	-0.06***	-0.27	0.12*	-0.04
	(0.10)	(0.01)	(0.17)	(0.07)	(0.04)
ΔPredicted Export per capita	-0.01	0.01***	0.00	0.00	0.00
	(0.01)	(0.00)	(0.01)	(0.01)	(0.00)
Panel B: OLS					
ΔCapital Imports per capita	0.03**	-0.01	-0.13***	0.00	0.01
	(0.01)	(0.01)	(0.02)	(0.02)	(0.01)
Y in 2000*100	0.77***	-0.07**	-0.30***	-0.19***	-0.55***
	(0.06)	(0.03)	(0.06)	(0.04)	(0.07)
ΔPredicted Export per capita	0.00	0.00***	-0.00**	0.01***	-0.00**
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Panel C: IV					
ΔCapital Imports per capita	0.04**	-0.06***	-0.27*	0.03	0.01
	(0.02)	(0.02)	(0.16)	(0.03)	(0.01)
Y in 2000*100	0.75***	-0.01	-0.31***	-0.18***	-0.55***
	(0.05)	(0.04)	(0.06)	(0.04)	(0.06)
ΔPredicted Export per capita	0.00	0.01***	0.00	0.00*	-0.00**
	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)
N	336	336	336	336	336
y_p1	0.01	0.05	0.17	0.13	0.67
y_p50	0.04	0.13	0.41	0.41	0.96
y_mean	0.05	0.13	0.40	0.42	0.94
y_p99	0.20	0.27	0.57	0.76	0.99
Y_p1	0.01	-0.04	-0.10	-0.29	-0.00
Y_p50	0.04	0.01	0.10	-0.16	0.02
Y_mean	0.05	0.01	0.10	-0.16	0.03
Y_p99	0.19	0.10	0.23	-0.06	0.19

Note: Regressions are weighted by residence-based population in 2000. Dummies for two outliers (Shenzhen and Suzhou) are included. Province fixed effects are controlled. Standard errors clustered at province are shown in parentheses, *** p<0.01, ** p<0.05, * p<0

Table 4: Capital Goods Import Growth and Changes in Educational Attainment

	(1)	(2)	(3)	(4)	(5)	(6)
	Y=100*(y_2010-y_2000)					
	y=Share of people					
	aged 13-16 having attended junior high	aged 17-19 having attended senior high	aged 20-25 having attended college	aged 13-16 dropped from junior high	aged 17-19 dropped from senior high	aged 20-25 having attended college
Panel A: OLS						
ΔCapital Imports per capita	-0.07***	0.06	0.16***	-0.01***	-0.00**	-0.00
	(0.02)	(0.09)	(0.05)	(0.00)	(0.00)	(0.00)
Panel B: IV						
ΔCapital Imports per capita	-0.09***	0.11	0.19***	-0.01***	-0.00*	-0.00
	(0.03)	(0.13)	(0.04)	(0.00)	(0.00)	(0.00)
Panel C: IV						
ΔCapital Imports per capita	-0.22**	-0.25	0.19**	-0.01	-0.01***	0.00
	(0.09)	(0.19)	(0.08)	(0.01)	(0.00)	(0.00)
ΔPredicted Export per capita	0.01	0.04***	0.00	-0.00	0.00***	-0.00
	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)
N	337	337	337	337	337	337
y_p1	0.34	0.10	0.01	0.00	0.00	0.00
y_p50	0.80	0.35	0.06	0.00	0.00	0.00
y_mean	0.77	0.37	0.09	0.00	0.00	0.00
y_p99	0.97	0.73	0.33	0.00	0.00	0.00
Y_p1	-0.00	0.07	0.05	0.00	0.00	0.00
Y_p50	0.11	0.23	0.16	0.01	0.01	0.00
Y_mean	0.12	0.24	0.19	0.01	0.01	0.00
Y_p99	0.37	0.55	0.48	0.04	0.03	0.02

Note: Regressions are weighted by residence-based population in 2000. Dummies for two outliers (Shenzhen and Suzhou) are included. Province fixed effects are controlled. Standard errors clustered at province are shown in parentheses, *** p<0.01, ** p<0.05, * p<0