

# Peru's "China Shock": Surprising Turns and the Women Left Behind

ECON 3100

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# What is the “China Shock?”

- China’s entry into the WTO in 2001 led to an influx of cheap Chinese imports into global markets
- This caused global manufacturing shifts, especially in countries like Peru, where domestic industries such as apparel faced intense competition (Dizikes, 2021).
- Peru’s government had to reduce import tariffs for Chinese companies (Bown & Quispe, 2022).
- Tariffs on Chinese imports could not be higher than those applied to companies from other WTO member countries
- Peruvian apparel firms faced a “China Shock,” with many losing domestic sales and shutting down (Morales, 2021).

70%

of clothing in the  
Peruvian market was of  
Chinese origin in 2010  
(Bown & Quispe, 2022).



# Shift to Export Markets

- Peruvian firms tried to stop the domination of Chinese imports several times in the 2000's
  - In 2003, they were able to impose a 200 day temporary safeguard
  - Peru's government decided to remove the temporary safeguard due to firms pivoting to export markets in the U.S.
- Peruvian firms leveraged local resources like Pima cotton to produce premium goods for export to the U.S. market (Quispe, 2022).
- The shift focused on high-income segments in the U.S., where demand for quality goods outweighed price sensitivity
- SMEs struggled to match the scale and resources needed for exporting, highlighting the uneven benefits of this shift





# Problems in Peru

- Domestic manufacturers struggled to compete with cheaper imports, leading to closures and layoffs
- Women, who dominated labor-intensive sectors like apparel and textiles, faced persistent unemployment
- Male workers transitioned to industries like mining, where women were underrepresented
- Informal labor increased as displaced workers sought alternative incomes
- Smaller firms were particularly vulnerable due to limited resources to pivot exports (“Why Did the China Shock Hurt so Much?”, 2019).



# Gender Inequality

- While both male and female low-educated workers experienced short-term employment declines, the effects on women were more persistent
- Women were more likely to transition to non-tradable sectors or exit the workforce entirely, whereas men generally adjusted by finding opportunities within expanding tradable industries (Mansour, Quispe & Velasquez, 2022).
- Women's employment losses were primarily in informal sectors, without corresponding increases in formal employment opportunities (Mansour et al., 2023).
- In contrast, low-educated men benefited from a gradual shift into formal sector roles





# Economic & Social Impacts

## Economic Impacts

- Manufacturing sectors contracted, and firms reliant on domestic sales closed
- Larger firms pivoted to exporting faced higher costs and resource constraints (Quispe, 2022).



## Social Impacts

- Persistent unemployment and poverty in heavily affected communities
- Greater reliance on informal work by women, lacking protections and stability (Mansour, Quispe & Velasquez, 2022).

**Consumer standpoint:** Cheaper Chinese goods increased the affordability but at the cost of domestic livelihoods

# Positive Adjustments

## 1. Firm Innovations

- Some Peruvian apparel firms adopted quality upgrading strategies, exporting high-end Pima cotton products
- Export revenues helped larger firms survive despite domestic market losses

## 2. Consumer Gains

- The influx of inexpensive goods improved purchasing power, particularly for low-income households (Lincicome & Anand, 2023).

## 3. Macroeconomic Benefits

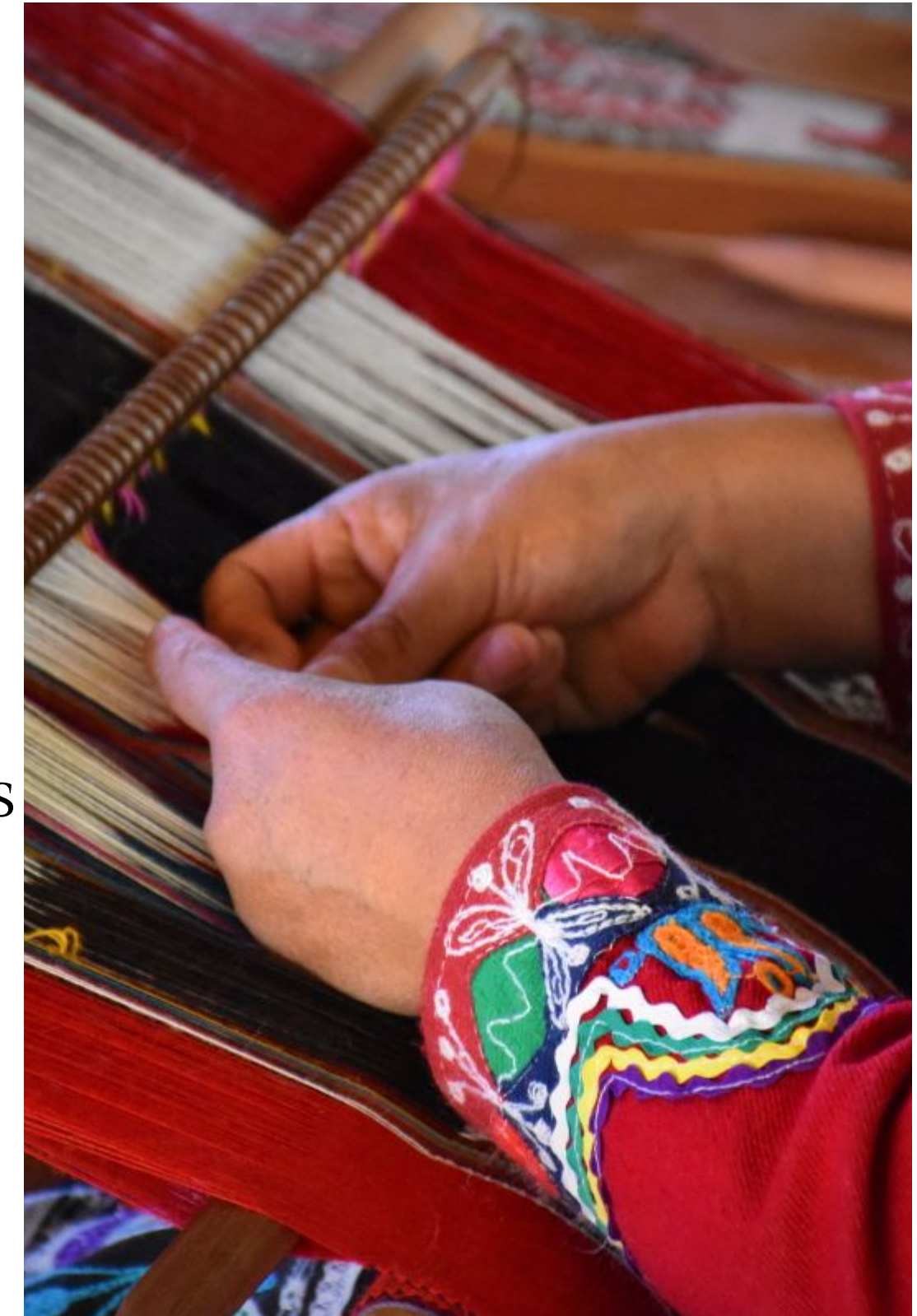
- Peru diversified trade by increasing mineral exports to China, boosting overall GDP





# Proposed Solutions: Policy Recommendations

- **Skills Training & Education Programs**
  - Targeted initiatives for women to transition into higher-paying and expanding sectors (IT, financial services, etc.)
  - **Beneficiaries:** Affected workers, particularly women
  - **Losers:** Firms relying on low-cost, unskilled labor
- **Support for Quality Upgrading**
  - Policies to help SMEs access quality inputs like Pima cotton
  - **Beneficiaries:** SMEs aiming to compete internationally
  - **Losers:** Domestic firms unable to compete in global markets
- **Gender-Sensitive Policies**
  - Subsidized child care, parental leave formal job incentives to address barriers women face
  - **Beneficiaries:** Female workers
  - **Losers:** Employers facing higher costs





# “Pros” of the China Shock on Peru

## 1. Cheaper Goods for Consumers

- Cheaper imports reduced prices for Peruvian consumers

## 2. Boosted Export Opportunities

- Peru capitalized on China's demand for raw materials, particularly minerals like copper and gold (Bown & Quispe, 2022).
- Exporting Pima cotton & asparagus to the U.S. & other countries (Bown & Quispe, 2022).

## 3. Infrastructure Investments

- China's Belt and Road Initiative included significant investments in Peruvian infrastructure (Jinping, 2024).
- Projects such as road construction, port development, and logistics improvements enhanced Peru's connectivity and trade capacity

## 4. Diversification of Trade Partners

- Trade with China and U.S. reduced reliance on neighboring countries

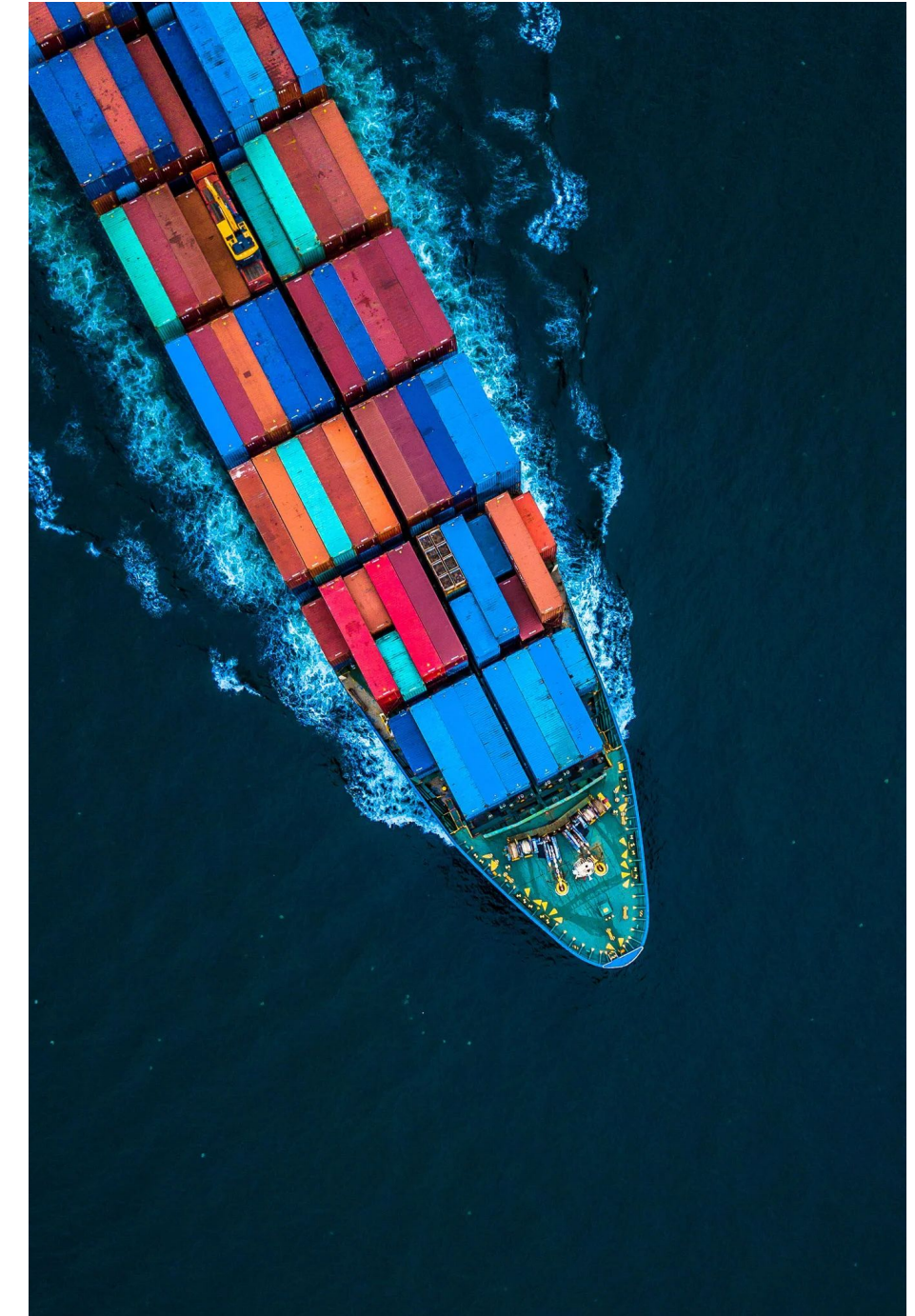
## 5. Economic Growth through Trade Surpluses

- China became Peru's largest trading partner, providing long-term economic stability



# Conclusions

- The “China Shock” effects on Peru were multifaceted, benefiting consumers but displaced workers, especially women
- The lack of safety nets and gender-sensitive policies exacerbated inequality and labor displacement, highlighting structural weaknesses
- Some firms adapted by exporting high-quality goods, leveraging Peru’s natural resources and China’s demand for raw materials



**Key Takeaway :** The “China Shock” underscores the need for balanced trade policies that address the unequal distribution of benefits while fostering long-term economic growth



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