

Discussion of “Trade-induced Urbanization and the Making of  
Modern Agriculture” by Yuan Tian, Junjie Xia, and Rudai  
Yang

Paula Bustos

CEMFI

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- The international economics literature suggests two potential explanations:
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  - Low internal market integration might constrain the process of labor and capital reallocation towards the most productive regions, sectors or firms.

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  - Low internal market integration might constrain the process of labor and capital reallocation towards the most productive regions, sectors or firms.
- However, **direct empirical evidence is scarce**

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- Forces that can drive reallocation of labor from agriculture to manufacturing?
  - ① PUSH of higher agricultural productivity
  - ② PULL of higher manufacturing productivity
- Hard to identify empirically as both forces can be at work at the same time
- Strategy: exploit exogenous variation in push or pull shocks across regions within a country
- Connect origin-destinations using road, migrant, financial networks.

# Structural transformation in open economies

## Recent empirical evidence

- **PUSH**: higher agricultural productivity
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- **PULL**: higher manufacturing profitability
  - United States-Vietnam Bilateral Trade Agreement
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  - China's accession to WTO
    - trade-induced urbanization and modernization of agriculture [Tian, Xia, Yang 2021](#)

# Summary Tian, Xia, Yang 2021

- Challenge: China implemented a set of market oriented reforms contemporaneously, hard to identify effect of export opportunities
  - Identification strategy uses tariff reductions in export markets at destination prefectures and migrant network

## **Main findings**

- Villages more exposed to other prefecture's manufacturing trade shocks experienced
  - larger increases in out-migration rates
  - higher land rental rates
  - larger growth in agricultural productivity
    - reallocation of land towards more productive farmers within a village
    - investment in agricultural machinery



# Comments

## Not many, loved the paper, a pleasure to read

- Estimates of effect of tariff reductions seem too large
  - Measure of exposure interacts tariffs with labor-cost share, both at industry-level
  - Labor-cost share correlated with China's comparative advantage (in labor-intensive industries)
    - Might capture effect of other market-oriented reforms which increased exports, not only tariff reductions
  - Suggestion: do not include labor share in exposure measure or control for an interaction of industry's labor-share and time-trends (weighted by industry's employment shares at destination)
- Some estimates have low statistical power
  - Spatial correlation between tariffs at origin and at destination
  - Across sector correlation between export and import tariffs (also inputs)
  - Suggestion: use tariffs at a finer level of aggregation to get independent variation (4d SIC instead of 2d)
- Migrant network might be correlated with expected productivity growth
  - Suggestion: use further lags of migration flows to construct it
- Pre-trends check is not very clear
  - Suggestion: replicate the analysis for the main results but lag outcomes 10 years