

Trade as Engine of Creative Destruction

*The Mexican experience with Chinese competition**

PRELIMINARY AND INCOMPLETE - PLEASE DO NOT CITE WITHOUT PERMISSION

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Abstract

This paper exploits the surge in Chinese exports from 1994 to 2004 as a natural experiment to evaluate the effects of an exogenous shock from competition on Mexican producers. The effect of this competition operates a selection at both firm and product-level as its effects are highly heterogenous both on the intensive and extensive margins. Sales of smaller plants and more marginal products are compressed and are more likely to exit, while larger plants and products exhibit an opposite effect. Similar results hold both on the domestic market as well as for competition facing Mexican exporters on a third market (i.e. the United States).

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