

How Digital Trade Restrictions Affect China's Employment: The Role of Regulatory Gaps with the EU

Topic: Trade and Global Value Chains Policies (3)

Author: Xiaolin Wang

Co-Authors: Cuihong YANG, Su Zhang

The increasing diversification of digital trade restrictions has widened the regulatory gap between China and most European Union members. Such regulatory divergence can significantly impact trade-related labor demand in China. Based on the OECD Digital Services Trade Restrictiveness Index (DSTRI) and Inter-Country Input-Output tables (ICIO), we quantify the net employment effects of increasing digital trade regulatory divergence between China and EU members from 2014 to 2020 through a combination of gravity models and input-output analysis. We find that more diverse regulations have reduced employment related to exports, with the most significant job losses occurring in services. Meanwhile, this divergence has increased employment by substituting previous imported goods and services, with the replacement of imported goods generating a more substantial employment effect. By comparing the impact of digital trade restrictions on export- and import-related employment, we find that the widening regulatory gap between China and EU members has led to an overall decline in net labor demand. Furthermore, we examine the specific regulation gap between China and the EU, observing that gaps in infrastructure and connectivity regulations have the most negative effect on trade-related labor demand in China. This paper highlights the importance of maintaining moderate openness in China's digital trade regulations and promoting infrastructure connectivity between China and the EU.