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Labor market impacts of China shock vs AI shock

China shock · 2001–2010 Why national unemployment stayed low		AI shock · 2022–? Why national unemployment may stay low	
Displacement force · Manufacturing jobs offshored to China		**Displacement force · Cognitive & white-collar tasks automated by AI**	
Import competition destroyed manufacturing jobs Cheap Chinese imports flooded the US market, which led to plant closures and job losses in manufacturing across the US.	↑ unemployment	**AI automation reduces need for knowledge workers** AI deployed to cut headcount reduces labor share in firms. Entry-level jobs at risk.	↑ unemployment
Displaced workers got stuck in struggling communities Affected workers didn't bounce back and many never returned to stable employment.	↑ unemployment	**AI wipes out middle-skill jobs** AI replaces middle-skill cognitive work in tech, legal, accounting, consulting, and finance.	↑ unemployment
Many displaced workers found jobs in services Studies show that 40% of manufacturing job losses because of the China shock were absorbed within firms as they expanded into services, R&D, and wholesale.	↓ unemployment	**Jevons paradox: Lower input cost creates more demand** Business formation is accelerating. Half of post-1980 employment growth came from job titles that didn't exist in 1980.	↓ unemployment
Cheaper inputs helped other US businesses grow Cheaper Chinese inputs helped US manufacturers, retailers, and suppliers grow and hire.	↓ unemployment	**AI makes the economy bigger, creating new jobs** Productivity gains consistently create more jobs than they destroy.	↓ unemployment
Export gains offset some of the manufacturing losses As China grew wealthier, demand for US exports rose partly making up for jobs lost to import competition.	↓ unemployment	**Gradual AI adoption limits disruption** Because AI is adopted slowly across firms, yearly job losses stay manageable rather than hitting all at once.	↓ unemployment
Hidden unemployment While the China shock was going on another force was also in effect: Workers left the labor force entirely via disability claims or by stopping their job search, masking true joblessness.	↓ unemployment	**Winners & losers** AI raises productivity for workers who oversee it,but reduces demand for those it replaces.	↕ mixed

Sources: Bloom, Handley, Kurmann & Luck (NBER 2024); Wang, Wei, Yu & Zhu (NBER 2018); Feenstra, Ma & Xu (J. Int'l Econ. 2019); Amiti, Dai, Feenstra & Romalis (NBER 2017); Autor, Dorn & Hanson (Brookings 2021, AER 2013); Autor & Duggan (QJE 2003); Acemoglu, Autor, Dorn, Hanson & Price (J. Labor Econ. 2016); Acemoglu (NBER WP 32487, 2024); Acemoglu & Restrepo (JEP 2019); Autor, Levy & Murnane (QJE 2003); Autor (AEA P&P 2019); IMF SDN 2024/001 & 2026/001; Cazzaniga et al. (ECB 2026); BIS WP 1179; EIB WP 2026/02; OECD Employment Outlook 2023; UK Inst. for Global Change 2024, Apollo Chief Economist