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newsletter

Leverhulme Centre for Research on Globalisation and Economic Policy

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Leverhulme Centre
for Research on Globalisation and Economic Policy

Editorial

NEW LOOK GEP NEWSLETTER

By Richard Kneller

Welcome to the new look *GEP Newsletter*. It is two years since the first *GEP Newsletter* was published. During this time the number of researchers working under the GEP banner has increased significantly and the expansion of the Leverhulme programme last year has added several new areas of research. There are currently 20 *Internal Fellows*, 20 *External Fellows* and, in a recent addition, 14 *Policy Associates* working in GEP's three themes of *Globalisation of Labour Markets*; the *Internationalisation of Economic Policy*; and *Globalisation, Productivity and Technology*. The new look to the *Newsletter* reflects those changes. The aim of this revamp has been to retain many of the strengths of the old *Newsletter*, such as the strong informational content, but to add greater depth to the information about the research currently being carried out in the Centre. Therefore in addition to the usual documentation of forthcoming GEP conferences, lectures, working papers *etc.* we have added summaries of particular working papers and research topics as well as a summary of one of the three GEP research themes. In an exciting addition we will also be adding to each issue the personal view of a respected economist working in either the policy, journalism or research fields on the theme of Globalisation as part of the *Leverhulme Globalisation Lecture Series*. In this issue we have a summary of the highly successful first lecture from that series by Martin Wolf of the *Financial Times* on the theme of 'Globalisation and World Poverty'.

The other change has been in the editor. Richard Upward has now (been) retired from the position of editor and replaced by Richard Kneller. We hope you enjoy the changes.

IS GLOBALISATION CAUSING WORLD POVERTY?

By Martin Wolf

The American trade unionist, Jay Mazur, reflects contemporary conventional wisdom when he says "globalisation has dramatically increased inequality between and within nations". In fact, the reverse has been the case. The only sense in which one can say that globalisation causes inequality is that those who fail to exploit its opportunities have consistently fallen behind those who do.

Today's world is remarkably unequal. The rich countries, with a sixth of the world population, generate 55 per cent of total world real income. Low-income countries with 41 per cent of the world's population generate only 11 per cent of world real income. On average, those in the top sixth – about 900m people – have real incomes 14 times higher than in the poorest 41 per cent. The

IS GLOBALISATION CAUSING WORLD POVERTY? CONTD…..

world's richest country – the US – has real incomes 75 times higher than Sierra Leone – the world's poorest. 1.2bn people live on less than a dollar a day at purchasing power parity. Extreme poverty is now concentrated in sub-Saharan Africa and south Asia.

This extraordinarily unequal world is the product of two centuries of divergent economic growth – or, more precisely, of divergent increases in productivity. Over 180 years real gross domestic product per head rose 31 times in Japan and 15 times in western Europe, but only 3 times in Africa and 5 times in Asia. So the world is better off everywhere, but the improvements have not been evenly shared. This is not surprising. Opportunities for extraordinary changes can never be exploited evenly, either within countries or among them. The most consistently successful economy has been the US. Japan caught up dramatically in the 1950s-1970s. China and India have done well in the last two decades. But Africa has fallen far behind.

Because of differences in economic growth, world income distribution among households became ever more unequal. This increase in inequality was particularly sharp in the 19th century and peaked in 1970. It has fallen since then, as east Asia (particularly China) and India started to grow more quickly than before. The number of people in absolute poverty peaked at 1.4bn in 1980, but fell to about 1.2bn by 1998. The proportion of the world's population living on less than a dollar a day (the subsistence minimum) has fallen from close to 90 per cent in 1850 to 50 per cent in the middle of the last century, 30 per cent in 1980 and 20 per cent today.

In the 1980s and 1990s, global inequality among households did not rise; it fell. This is because fast growth in a number of very big poor countries has offset rising inequality within many (though not all) countries. In rich countries, household inequality fell between 1960 and 1980 and then rose. The pattern in developing countries is similar. But at the global level, the main source of inequality is differences in average incomes among countries, weighted by population, which have fallen. The number of people living on less than a dollar a day rose between 1987 and 1993, but then fell sharply by 1998. The proportion of the world's population in absolute poverty has also fallen, from 24 per cent in 1990 to 20 per cent in 1998. The biggest decline in absolute poverty was in fast-growing east Asia, as one would expect.

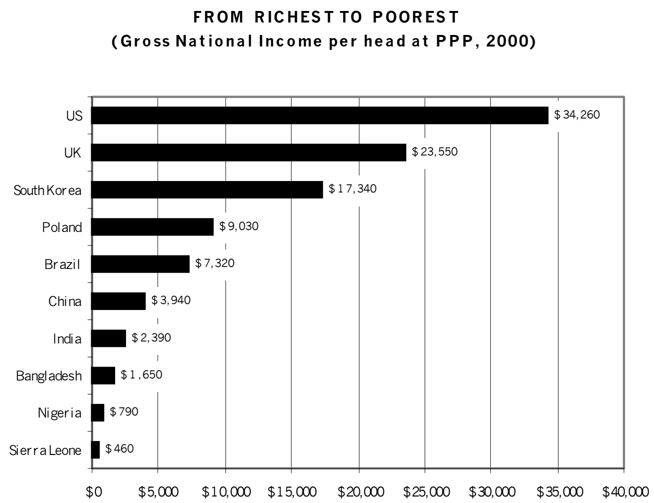
Martin Wolf

How are these changes linked to interna-

"The only sense in which one can say that globalisation causes inequality is that those who fail to exploit its opportunities have consistently fallen behind those who do."

IS GLOBALISATION CAUSING WORLD POVERTY? CONTD…..

Income inequality among countries is stark



Sierra Leone's real income per head today is roughly where the world's was in 1500. It is at the subsistence minimum and ravaged by civil war. The US is the most productive country today.

tional economic integration? The answer is that growth performance has diverged sharply between globalising and non-globalising developing countries in the 1980s and 1990s. The former, according to a study by the World Bank, contain 2.9bn people in 24 countries. The latter contain 1.1bn people in 49 countries. The former group saw their average real incomes per head jump from $1,488 in 1980 to $2,485 in 1997. The latter saw their real incomes hardly rise, from $1,947 to $2,133. Globalising countries liberalised trade more and had large rises in ratios of trade to GDP. They also grew far faster than non-globalisers and than the rich countries. The poor shared the benefits of this growth. This was true in countries as diverse as China, India, Vietnam and Uganda. Rising trade also did not increase inequality.

Global integration helps growth and lowers poverty. Because of the acceleration of growth in a number of very large poor countries, global inequality fell in the last two or three decades. It did not rise, as so many critics of globalisation argue. But many developing countries have failed, for many reasons, to exploit the opportunities for rapid growth, partly because of their policy mistakes and partly because of deeper-seated obstacles to development. The challenge now is to accelerate growth everywhere.

"many developing countries have failed….. to exploit the opportunities for rapid growth, partly because of their policy mistakes and partly because of deeper-seated obstacles to development."

This is a summary of the first Leverhulme Globalisation Lecture. Martin Wolf is the Chief Economics Commentator for the *Financial Times and* a special professor in the School of Economics, University of Nottingham. A copy of the slides from this lecture can be found on the Leverhulme Centre website.

Leverhulme Centre
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DOES EXPORTING IMPROVE BUSINESS PERFORMANCE?

By Richard Kneller

Exports figure prominently in the minds of policymakers. This would appear to reflect the instincts of many policymakers that exports are wealth creating, whereas imports are not. This preoccupation has resulted in extensive export promotion activity of one form or another, ranging from trade promotion activities, through to export subsidies to state trading monopolies. There is probably not a single government anywhere in the world that does not engage in export promotion of one form or another.

The evidence on which this policy intervention is based is, however, thin. Until recently, little was known about the characteristics of firms that export. Yet this is central to the design of effective policy.

For instance, should support be targeted at encouraging firms to enter exports markets, or at firms already in those markets, or should firms be encouraged to set up subsidiaries overseas and become multinationals rather than engage in arm-slength trade?

Economic theory generates three testable propositions regarding the behaviour of export firms. Firstly, firms that start exporting are more productive than those that do not. Entry costs associated with, for example, market research, product modification, compliance and so on mean that profit maximising firms will only enter export markets if their expected profits exceed the fixed costs of entry.

Secondly, firms that stop exporting are less productive than those that continue. Firms that become less productive will tend to leave export markets, though not necessarily in the period that productivity dips, since they will be faced with the prospect of paying again the entry fee should they choose to export again in the future.

Finally, the sunk costs/entry models also offer a framework for gaining insight into a third dimension of firm behaviour, namely learning. There are plausible reasons for thinking that, having entered export markets, firms become more productive. The central idea behind this is a combination of learning from buyers, competition with other firms and generally gaining greater exposure to best practice results in cost improvements. As a consequence, exporters that were more efficient to start with become even more efficient by virtue of their presence in export markets.

Until now no evidence has existed for UK export firms. Using firm level data over the period 1988 to 1999 we find UK export firms appear very similar in their behaviour to export firms in other countries. Around 96% of firms who export in one period do so again in the next period, whereas 94% of firms who did not export continue not to do so. It is also the case that export firms are on average larger, more productive and pay higher wages than non-export firms.

We also address the question of whether exporting causes firms to become more productive. The difficulty in determining whether firms benefit from exporting is the lack of a counterfactual. What would have happened to these firms *had they remained non-exporters*. A statistical methodology capable of overcoming this problem is the matching technique. This technique generates the counterfactual by comparing firms that start to export with firms that had similar characteristics to these firms but that did not start to export. From such a comparison we find that in the period prior to entry into export markets productivity growth is similar in both types of firms. However, in the periods following entry, productivity growth is faster for firms that started to export compared to firms that did not. Exporting would appear to improve the business performance of the firm. In this sense the evidence for UK firms is very different from that for other countries.

> "For the first time we have significant evidence to show that exporting, rather than any other factor, brings about improvements in business performance and productivity."
>
> **Baroness Symons, Minister for International Trade and Investment**

"***Does exporting lead to better performance? A microeconometric analysis of matched firms***" **S. Girma, D. Greenaway & R. Kneller, GEP Working Paper No. 2002/09 (2002)**

Conference on

Adjusting to Globalisation

University of Nottingham

28th to 29th June, 2002

Conference sponsored by the **Leverhulme Centre for Research on Globalisation and Economic Policy** and the **Murphy Institute of Political Economy** at Tulane University

Conference Topics

Theoretical Perspectives on Adjustment

Trade and Labour Market Adjustment

International Factor Movements and Adjustment

Policy Issues

Speakers Include

Carl Davidson (Michigan State University), Alan Duncan (GEP, University of Nottingham), Peter Egger (Innsbruck University), Sourafel Girma (GEP, University of Nottingham), Amy Jocelyn Glass (Texas A&M University), Holger Görg (GEP, University of Nottingham), David Greenaway (GEP, University of Nottingham), Jonathan Haskel (Queen Mary, University of London), Lori Kletzer (University of California, Santa Cruz), Wilhelm Kohler (University of Linz), Sajal Lahiri (University of Essex), Steve Matusz (Michigan State University), Doug Nelson (Tulane University), Michael Pfaffermayr (Innsbruck University), Matt Slaughter (Dartmouth College), Richard Upward (GEP, University of Nottingham), Peter Wright (GEP, University of Nottingham)

REGIONAL ASSISTANCE OR NATIONAL PRODUCTIVITY PERFORMANCE; ONE BUT NOT BOTH

By Sourafel Girma

Between 1991 and 1995 around half a billion pounds was paid in grants by the UK government under the Regional Selective Assistance (RSA) scheme to internationally-owned companies. The cost per net job created amounted to around £17,500. The main justification given for offering such incentives to foreign firms is the positive impact they can have on poorer regions of the UK. The potential benefits include direct effects such as increased employment, and indirect effects, mainly improvements in domestic firm performance through proximity to foreign firms. Given the substantial amount of taxpayers money devoted to attracting FDI, it is important to subject some of the assumptions behind RSA to rigorous empirical investigation.

> *"Given the substantial amount of taxpayers' money devoted to attracting FDI, it is important to subject some of the assumptions behind RSA to rigorous empirical investigation."*

Using a variety of statistical methodologies and data sources, we find that one of the chief assumptions behind granting RSA for foreign firms in the UK is justified: productivity spillovers to domestic firms have geographical dimensions, in the sense that they are more pronounced in the region in which the FDI takes place. For example, in a study of the electronics sector, we found that a 10% increase in Japanese regional FDI leads productivity to improve in domestic firms by up to 2.5%. In another study we show that a 10% percent increase in sectoral FDI at the level of the region boosts the productivity growth of exporting domestic firms by 2.74 percentage points. In all of our studies, we were also able to confirm that productivity growth of domestic firms is more responsive to regional FDI compared to FDI taking place outside their region, pointing to the importance of localisation of spillovers.

The second assumption that we investigate is: does a domestic firm need to possess a minimum level of technological capacity to benefit from the foreign firms' stock of knowledge? The answer from economic theory is ambiguous. Some analysts predict that greater technological or absorptive capacity increases spillovers from FDI; others postulate that the rate of externality from FDI is maximised when the technology gap between domestic and foreign firms is greatest. In the UK we find support for the former: domestic plants in non-assisted (or more developed) regions have greater ability to learn from foreign firms. These firms typically enjoy a higher level of investment intensity and proportion of skilled workers in the total workforce compared with their assisted areas counterparts. Interestingly we find that, due to the relatively low level of absorptive capacity of the average firms in assisted regions, these regions have to attract twice as much FDI as non-assisted regions to experience the same degree of productivity spillovers.

This leads to a policy dilemma. As stated by H M Treasury in the pre-Budget 2000 report "*The economy's productivity performance is the key to long-term growth and sustained increases in living standards. The Government's aim is that productivity in the UK will rise faster than in our major competitor countries over the next decade… Through establishing Regional Development Agencies , the Government has enabled regions to take a lead in developing productivity and delivering national and regional policies.*" But one implication of our findings is that regional policy aimed at attracting FDI to underdeveloped regions may be misguided from a *national perspective*. If, in the absence of incentives, multinational firms were still to choose a location in the UK, but not in a less-developed region, then positive spillovers to domestic plants could be doubled, raising the social return to the country. This highlights a policy dilemma: policy-makers' attempting to maximise regional welfare may reduce the possible benefits to the economy as a whole by influencing the location decisions of MNE affiliates. There appears to be a trade off between maximising spillovers on the one hand – which would imply no regional 'distortions' in location – and the objectives of Regional Development Agencies.

This is a summary of research carried out by Sourafel Girma along with Katherine Wakelin and Holger Gorg on the theme of FDI. Copies of specific research can be found on the Leverhulme Centre website.

Visitors to GEP 2002

January	February	March
	Professor Pascalis Raimondos-Møller *University of Copenhagen*	Professor Eric Bond *Penn State University*
April	**May**	**June**
Sam Laird *UNCTAD*	Professor Carl Davidson & Professor Steven Matusz *Michigan State University*	Dr. Teresa Lloyd-Braga *Catholic University of Lisbon* Professor Doug Nelson *Tulane University* Robert Palacios *The World Bank*
July	**August**	**September**
	Professor Peter Dawkins *University of Melbourne*	
October	**November**	**December**
Professor Arvind Panagariya *University of Maryland*	Professor Bruce Blonigen *University of Oregon*	Professor Alan Deardorff *University of Michigan*

GEP Initiates Policy Forum

Since its inception, user engagement has been a priority for GEP: frequent interaction with the policy-making community enriches the appraisal and dissemination of our research activities and helps to shape our research agenda. To deepen our links with the policy-making community, the Centre has established a network of **Policy Associates** who are individuals with senior positions in Government Departments, Multilateral Agencies and Policy Units. Among other things, our Policy Associates contribute to GEP Conferences and Workshops, provide 'Policy Features' for the *GEP Newsletter*; are speakers at our *Leverhulme Globalisation Lectures* and advisers on our outreach strategy.

The current network of **Policy Associates** comprises:

Bob Anderton, *European Central Bank*

Heather Booth di Giovanni, *Department of Trade and Industry*

Tony Clayton, *Office for National Statistics*

Paul Collier, *The World Bank*

Cletus Couglin, *Federal Reserve Bank of St Louis*

Zdenek Drabek, *World Trade Organisation*

Tim Harcourt, *Australian Trade Commission*

Richard Hemming, *International Monetary Fund*

Bernard Hoekman, *The World Bank*

Sam Laird, *United Nations Conference on Trade and Development*

John Martin, *Organisation for Economic Co-operation and Development*

Christopher Moir, *Department of Trade and Industry*

Robert Palacios, *The World Bank*

Joseph Smolik, *United Nations Economic Commission for Europe*

Leverhulme Globalisation Lectures

Does the WTO do Anything for Development?

Sam Laird

United Nations Conference on Trade and Development

Monday, 22nd April, 2002, 5:00pm

A48 Economics and Geography Building

University of Nottingham

The House of Lords Enquiry Into Globalisation

Lord Peston

Thursday, 7th November, 2002, 5:00pm

RESEARCH UPDATE

Globalisation and Labour Markets

GEP's research and dissemination activities are structured around three Research Programmes, linked by the common theme of globalisation. These are Globalisation and Labour Markets (GLM); the Internationalisation of Economic Policy (IEP); and Globalisation, Productivity and Technology (GPT). In each addition of the *GEP Newsletter* an update will be given of the research carried out to date in one of these three themes. Each *Newsletter* will include an overview of research activities in one of the Programmes. This issues feature the work carried out in GLM.

The research currently undertaken within the Globalisation and Labour Market Programme can be broken down into seven main areas:

Labour mobility;

Globalisation, unions and labour markets;

International comparisons of education and training;

The international market for executive labour;

Wage rigidity and wage setting;

Matched Employer-Employee data;

The international movement of labour;

Labour mobility

Greenaway, Upward, Wright and Babouchkina are continuing their analysis of comparative sectoral adjustment across OECD countries. Five specific objectives have been identified.

A) *To describe the macroeconomic restructuring of employment in the five countries*. The major research questions within this theme include: What are the major similarities and differences in the evolution of these economies? Does the process of labour mobility exhibit common features? How has structural change been facilitated by flows of labour in each country? Greenaway, Upward and Wright (2000, 2001) and Haynes, Upward and Wright (2000) present some preliminary results, particularly with regard to the comparative flexibility of the US and UK. However, work is ongoing and will be extended to other countries for which data has been collected, in particular Spain and Germany.

B) To model the determinants of sectoral and occupational mobility. The major research questions within this theme include: What factors determine whether individuals move between sectors and occupations in different countries and at different times? What is the role of skill upgrading and changing home ownership patterns for example? Greenaway, Upward and Wright (1999, 2000, 2001) and Upward and Wright (2002) have examined the impact of individual characteristics on sectoral mobility. A particular focus has been on the impact of education/training and the housing market. Future work will extend the comparisons to other OECD countries, including the US and Germany.

C) *To analyse the impact of mobility on unemployment levels, incidence and duration*. Major research questions here include: Can this explain any of the variation in unemployment rates between European countries? To what extent are the 'costs' of sectoral and occupational mobility reflected in longer spells of unemployment? In this area the authors have completed a comparison of the US and UK labour markets in terms of whether individuals who move sector experience longer unemployment durations (Haynes, Upward and Wright (2000)). Work is continuing to extend this research to Germany (Haile, PhD research).

D) *To analyse the relationship between labour mobility and wages*. The major research questions within this theme include: To what extent do wage differentials encourage movement between declining and expanding sectors and occupations? To what extent do individuals gain or lose from moving between sectors and occupations? Does this help to explain the observed trends in income inequality in Europe and the US? Haynes, Upward and Wright (2001) have completed an analysis using the New Earnings Survey for the UK which investigates the wage changes associated with industry and occupational changes, based on the returns to tenure literature. Work is continuing to extend this research to Germany (Haile, PhD research).

E) *To examine the propagation of external shocks to the macroeconomy via sectoral and occupational mobility*. Questions here include:What are the links between macroeconomic shocks and restructuring? How do changes in the pattern and intensity of international trade affect sectoral mobility? Is there evidence that intra-industry trade is less costly in terms of adjustment since changing jobs within sector involves less retraining?

Greenaway, Haynes and Milner (2001) have examined the propagation of external macro shocks to sectoral employment. They estimated the relative incidence of changes in workers' employment status with regard to sector, firm, occupation and region. They then relate the incidence of within-employment adjustment in any of these dimensions to a range of labour market characteristics and to indicators of trade exposure. The findings of the research are not consistent with the notion either that there is a systematic relationship between the type of trade expansion (inter- or intra-industry) and the type of employment adjustment (within or between industry adjustment) or that there is less labour market adjustment associated with intra- than inter-industry trade. Evidence for the 'smooth adjustment hypothesis' is therefore limited. The obvious direction in which this research could be extended is by including out of employment adjustment. This would be a broader concept of adjustment and would seek to capture movements into unemployment as well as into other non-employment states such as early retirement.

Lindley and Elliott (2002) raise many of the same issues but focus on individual rather than industry responses. Using data from the *Quarterly Labour Force Survey* between 1995 and 2000 they explore the nature of adjustment within the manufacturing sector and examine the consequences of 'within' and 'between' industry adjustment on individual wages and the transition into and out of unemployment. Skill specificity, mobility costs and higher ex-ante returns are shown to significantly affect 'within' and 'between' industry adjustment in different ways. Industry skill specificity is thought to be an important determinant of earnings since there are wage losses to 'between' industry movers and wage gains to 'within' industry movers. In addition intra-industry trade contributes to 'within' industry mobility although there is little evidence that openness to trade makes any significant contribution to the displacement of workers. Future work will focus on comparative European research, with the prospect of using the European Union Household Panel Survey (EHPS).

Globalisation, unions and labour markets

Aloi and Lloyd-Braga (2001) examine the implications of increased integration within a simple overlapping generations model, in which the two countries differ in their labour market structure. In one economy there is perfect competition in the labour market, while in the other employment and wages are determined through efficient bargaining between unions and firms. Their parameterisation is such that in autarkic equilibrium the unionised country exhibits indeterminacy while the other has a stable determinate steady state. However if free trade and free capital movements exist, then indeterminacy is likely to appear in the world market. This indeterminacy may disappear if international labour movements are allowed. In particular, if workers are mobile and face repatriation costs, it is possible to reach economic stability in the world market.

Future work will seek to develop this model further by analysing the impact of globalisation on the equilibrium properties of *local* economies characterised by different labour market institutions. In particular, the aim is to develop a dynamic two-country model of trade in which one country has unemployment and real wage rigidity, while the other has flexible wages and full employment.

International comparisons of education and training

Bougheas and Georgellis (2001) together with **Adnett** (2002) are developing a simple labour turnover model of general training which may help to explain the different levels of vocational training across countries, such as the UK and Germany. In their model, apprentices are equipped with general skills on completion of training and they then accumulate firm-specific skills by continuing working for their training firm. Job turnover is associated with a loss of accumulated firm-specific skills which are not fully transferable to their new employers. The model may be used to predict the post-apprenticeship wage profiles of workers who stay with the apprenticeship firm and those that move to new jobs, the former being steeper.

Preliminary work to examine the turnover patterns and to estimate wage profiles has begun using the German Socio-Economic Panel (GSOEP). Evidence relating to German apprentices supports the predictions of the model. It is intended to further develop these models in the future.

Babouchkina (PhD research) is also examining the issue of who gets trained. Using the GSOEP and BHPS she is seeking to explain the higher levels of formal vocational training in Germany compared with the United Kingdom.

Upward and Wright (2002) are also using the GSOEP and BHPS to compare the British and German labour markets. They are however, concerned with the impact that education and training have on the ability of the economies to adjust to demand shocks.

The international market for executive labour

Girma, Thompson & Wright (2002) are examining the evidence for a growing international integration in the executive labour market. The analysis starts from the position that the multinational enterprise [MNE] is likely to be a primary vehicle for any internationalisation of the executive labour market. A preliminary empirical exploration of the impact of the nature and extent of the firm's multinational activities on the compensation of its CEO is therefore in the process of being conducted.

Preliminary results offer support for the hypothesis that CEO pay is positively related to the extent to which the firm's activities are located outside its domestic environment. This result is most obviously explicable, in human capital terms, as evidence of the existence of a pay premium for executives possessing the skills to manage MNEs. This may also indicate that an international market in CEO labour is emerging, initially among multinationals. Further research will examine the processes of international integration in this most high profile labour market. Here the quality of data is an issue and future work will seek to extend and deepen the existing dataset.

Wage rigidity and wage setting

Upward and Muller (in preparation) are examining whether UK wages are more or less rigid than elsewhere. They are also seeking to answer the question of whether it is easier to adjust real wages to exogenous changes in the environment (such as international competition) as inflation increases.

Ragoobur (PhD research) is examining the relationship between the openness of the economy and other institutional determinants of wages. Do labour market rents such as union wage differentials reduce with increases in international competition?

Gorg, Hijzen and Hine (2001) have been examining the effect of fragmentation (outsourcing) on the demand for skilled labour, wages and productivity in UK manufacturing industries. The initial results indicate that technical change and import penetration matter for wage inequality (although the effect of the latter depends crucially on the estimation method) while the role of outsourcing cannot be clearly determined. Further work is in progress.

Matched Employer-Employee data

Andrews, Schank & Upward (in preparation) are using a panel of 8,000 German plants, linked to detailed information on their employees, to examine the effect of firm ownership on wages. The fact that the data contains information on both plants and employees allows them to control for both plant-level and worker-level unobserved heterogeneity, based on the recent techniques of Abowd, Kramarz and Margolis (1999). This will enable them to shed light on the questions of why foreign-owned firms pay higher wages, and whether spillovers from foreign ownership occur because of individual human capital acquisition.

The international movement of labour

Lindley (2001) examines the English language fluency of ethnic minorities in the United Kingdom and its subsequent influence on earnings. She estimates how much of the male and female ethnic earnings gap is the result of an advantage in the English language and whether there is an earnings penalty to non-whites, over and above this. Lack of fluency is shown to have a highly significant impact on the earnings of ethnic minorities in Britain, although the language penalty is much greater for women than it is for men. Work is ongoing.

Lindley (in preparation) is analysing differences between the labour market performance of refugee and economic immigrants. Using micro data from the *QLFS* and immigration and asylum statistics from the Home Office and the United Nations High Commission for Refugees, the earnings and employment propensities of refugee immigrants are compared to non-refugees. It is shown that refugee immigrants earn less on average (8.35 percent for non-whites) than non-refugees. There are earnings premiums to all non-refugees, relative to those who arrived before 1950. Furthermore, earnings premiums are falling for earlier non-refugee immigration cohorts, with those who arrived more recently displaying the highest earnings premiums. In contrast, refugee immigrants demonstrate no significant earnings assimilation pattern. Finally, non-white refugees suffer higher unemployment propensities than non-white non-refugees, whereas white immigrants (refugees and non-refugees) exhibit no such penalties. Work is ongoing.

Summary by Peter Wright

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Continued overleaf

The World Economy Annual Lecture

Professor Alan Deardorff

University of Michigan

Thursday 5th December 2002

Details to be confirmed in the next *Newsletter*

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GEP SPECIAL SESSION AT THE ROYAL ECONOMIC SOCIETY ANNUAL CONFERENCE 25TH MARCH 2002

By Holger Görg

For the third time in four years GEP held a special session at the Royal Economic Society Annual Conference, held at the University of Warwick. The session chaired by Sourafel Girma (GEP) was titled 'Foreign Direct Investment and the Productivity Gap in the UK' and brought together researchers from three research groups in the UK, all using disaggregated plant level data and state-of-the-art research tools to analyse the effects of foreign direct investment (FDI) on the productivity of domestic UK firms. Three papers given within the session were: foreign ownership and technological convergence at the micro level, presented by Rachel Griffith (IFS); spillovers from foreign ownership in the United Kingdom: estimates for UK manufacturing using the ARD, presented by Katherine Robinson (University of Portsmouth); and FDI spillovers and the role of absorptive capacity: evidence for the UK using quantile regression presented by Holger Görg (GEP). Looking at the issue of productivity spillovers from multinationals to domestic firms from different angles, all papers conclude that there is no “catch all” benefit from FDI on all domestic firms, but that certain groups of firms may benefit, while others may not. In particular, the researchers stress the importance of a “technology gap” between domestic firms and the leading firms in the industry and of domestic firms’ “absorptive capacity”, i.e. their ability to learn from multinationals. Furthermore, the location of domestic firms and multinationals is found to matter for spillovers, with domestic firms in the proximity of multinationals being more likely to benefit. Some sectors also seem to be more prone to have firms that benefit from FDI than others. These views were endorse by the discussant, Christopher Moir (DTI) who stressed the policy relevance of the research presented in the session.

New GEP Appointments

Professor Douglas Nelson of Tulane University has been appointed as a part-time Professor in the Leverhulme Centre for Globalisation and Economic Policy (GEP) from 1st October 2002. His current research interests are primarily focussed on the political economy of trade policy, the empirical link between globalisation and wages, and trade and trade policy under increasing returns to scale. He will spend three months each year in Nottingham.

Daniel Mirza joined as a Research Fellow in February 2002. He completed his Doctorate at the University of Paris 1 Panthéon Sorbonne in November 2001 on ‘Trade, Market Structure and Labour Markets’. His research interests include cross country and cross-industry comparisons of the existing channels of adjustment between trade, commodity markets and labour markets in OECD as well as developing countries.

Xiaoying Li joined the Centre in February 2002 as a Research Associate. She obtained a BS in Mathematics from Nankai University and an MA in International Economics from Fudan University, both in China. Before coming to Nottingham, she was in Aston Business School, where she was at the final stage of her PhD on Foreign Direct Investment and Economic Growth. Her research interests include international economics, economic growth and applied econometrics.

Mr Ben Ferrett, currently a PhD student at Warwick University will take up a Research Fellowship position in GEP in October 2002. He works on the determinants of cross-border investment and its location.

New GEP Research Papers

http://www.nottingham.ac.uk/economics/leverhulme/research_papers/

2002/5	N. Gemmell and R. Kneller	*Technology Transfer and External Shocks: Developing Country Growth from 1960 to 1990*
2002/4	N. Driffield and S. Girma	*Regional Foreign Direct Investment and Wage Spillovers: Plant level Evidence from the U.K. Electronics Industry*
2002/3	L. D. Qiu and Z. Yu	*Multilateral Environmental Agreements and Environmental Technology Transfer*
2002/2	S. Girma, S. Thompson and P. Wright	*Merger Activity and Executive Pay*
2002/1	C. Milner	*Protection by Tariff Barriers and International Transport Costs Compared*
2001/38	R.J.R. Elliott and J. Lindley	*Intra-Sectoral Labour Mobility and Adjustment Costs*
2001/37	H. Görg and D. Greenaway	*Foreign Direct Investment and Intra-Industry Spillovers: A Review of the Literature*
2001/36	D. Nelson and Y. Xu	*Normative Migration Theory: A Social Choice Theoretic Approach*
2001/35	N. Adnett, S. Bougheas and Y. Georgellis	*On the Trade-off Between Work-related Training and Labor Mobility: The Role of Firing and Exit Costs*
2001/34	F. Hubert and N. Pain	*Fiscal Incentives, European Integration and the Location of Foreign Direct*
2001/33	H. Görg, A. Hijzen and R.C. Hine	*International Fragmentation and Relative Wages in the UK*
2001/32	O. Morrissey and D. Nelson	*The Role of the WTO in the Transfer of Policy Knowledge on Trade and Competition*
2001/31	N. Gaston and D. Nelson	*Integration, FDI and Labour Markets: Microeconomic Perspectives*
2001/30	R. Falvey and M. Nathananan	*Tariffs, Quotas and Mergers*
2001/29	D. Greenaway and D. Nelson	*Globalisation and Labour Markets: Literature Review and Synthesis*
2001/28	N. Gaston and D. Nelson	*The Employment and Wage Effects of Immigration: Trade and Labour Economics Perspectives*
2001/27	S. Barrios, H. Görg and E. Strobl	*Explaining Firms' Export Behaviour: The Role of R&D and Spillovers*
2001/26	M. Aloi and T. Lloyd-Braga	*Unions, International Factor Mobility and Indeterminacy*
2001/25	F. Barry, H. Görg and E. Strobl	*Foreign Direct Investment, Agglomerations and Demonstration Effects: An Empirical Investigation*
2001/24	C. Davidson and S. Matusz	*On Adjustment Costs*
2001/23	A. Caplan, R. Cornes and E. Silva	*How Effective and Efficient Can the Kyoto Protocol Be in Controlling Global Carbon Dioxide Emissions?*

2001/22	H. Görg and K. Wakelin	*The Impact of Exchange Rate Variability on US Direct Investment*
2001/21	D. Paton, D. Siegel and L. Vaughan Williams	*A Policy Response to the E-Commerce Revolution: The Case of Betting Taxation*
2001/20	S. Girma	*The Process of European Integration and the Determinants of Entry by non-EU Multinationals in UK Manufacturing*
2001/19	A. Link, D. Paton and D. Siegel	*An Econometric Analysis of Trends in Research Joint Venture Activity*
2001/18	S. Girma and H. Görg	*Blessing or Curse? Domestic Plants' Survival and Employment Prospects After Foreign Acquisition*
2001/17	Z. Yu	*Entrepreneurship and Intra-Industry Trade*
2001/16	S. Bougheas, H. Görg and E. Strobl	*Is R&D Financially Restrained? Theory and Evidence from Irish Manufacturing*
2001/15	J. Lindley	*The English Language Fluency and Earnings of Ethnic Minorities in Britain*
2001/14	R. Falvey	*Tariffs and Mergers in an Integrated Market*

GEP RESEARCHERS

Internal Research Fellows

Professor David Greenaway, Dr Marta Aloi, Dr Spiros Bougheas, Professor Richard Cornes Professor Richard Disney, Dr Bouwe Dijikstra, Professor Alan Duncan, Professor Rod Falvey, Dr Sourafel Girma, Dr Holger Görg, Mr Bob Hine, Dr Richard Kneller, Dr Joanne Lindley, Professor Chris Milner, Dr Daniel Mirza, Mr Geoff Reed, Professor Don Siegel, Dr Richard Upward, Dr Peter Wright, Dr Zhihao Yu

External Research Fellows

Dr Mary Amiti (University of Melbourne), Professor Kym Anderson (University of Adelaide), Professor Bruce Bloningen (University of Oregon), Dr Marius Brülhart (University of Lausanne), Professor Carl Davidson (Michigan State University), Dr Karolina Ekholm (Stockholm School of Economics), Dr Simon Evenett (World Trade Institute), Professor Jonathan Haskel (Queen Mary and Westfield College), Dr Sébastien Jean (CEPII, Paris), Professor Peter Lloyd (University of Melbourne), Professor Steve Matusz (Michigan State University), Dr Catia Montagna (University of Dundee), Professor Doug Nelson (Tulane University), Professor Pascalis Raimondos-Møller (University of Copenhagen), Professor Matthew Slaughter (Dartmouth College), Professor Constantinos Syropoulos (Florida International University), Professor Mathew Tharakan (University of Antwerp), Dr Rod Tyers (Australian National University), Professor Steve Thompson (University of Leicester), Dr Hylke Vandenbussche (Catholic University of Leuven)

Policy Associates

Bob Anderton (European Central Bank), Heather Booth di Giovanni (Department of Trade and Industry), Tony Clayton (Office for national Statistics), Paul Collier (The World Bank), Cletus Couglin (Federal Reserve Bank of St Louis), Zdenek Drabek (World Trade Organisation), Tim Harcourt (Australian Trade Commission), Richard Hemming (International Monetary Fund), Bernard Hoekman (The World Bank), Sam Laird (United Nations Conference on Trade and Development), John Martin (Organisation for Economic Co-operation and Development), Christopher Moir (Department of Trade and Industry), Robert Palacios, (The World Bank), Joseph Smolik (United Nations Economic Commission for Europe)

Leverhulme Centre

for Research on Globalisation and Economic Policy

The Leverhulme Centre for Research on Globalisation and Economic Policy was established in the School of Economics in 2001. It subsumes the research programmes and activities of the former *Centre for Research on Globalisation and Labour Markets*. The Centre's funding derives from two programme grants to the value of over £3m awarded by the Leverhulme Trust. Researchers in GEP have also received funding from the ESRC, European Union and British Academy. The Centre is under the Directorship of Professor David Greenaway.

GEP's research and dissemination activities are structured around three Research Programmes, linked by the common theme of globalisation:

1. Globalisation and Labour Markets (GLM)
2. The Internationalisation of Economic Policy (IEP)
3. Globalisation, Productivity and Technology (GPT)

The Centre supports both basic scientific and policy-focused research. Its core staff comprises a group of Research Fellows based at Nottingham, a network of External Fellows from a number of Universities in Western Europe, North America and Australia and a Forum of Policy Associates based in the policy-making community. GEP publishes its own Research Paper Series, sponsors regular workshop programmes and conferences and supports a range of other outreach activities. Full information and a range of resources can be accessed on the Centre’s website.

Leverhulme Centre
for Research on Globalisation and Economic Policy

More Information

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There is also a website containing more information and a complete set of downloadable research papers:

www.nottingham.ac.uk/economics/leverhulme