newsletter

Leverhulme Centre for Research on Globalisation and Economic Policy

Issue 20 Winter 2007

IN THIS ISSUE

Leverhulme Centre for Research on Globalisation and Economic Policy

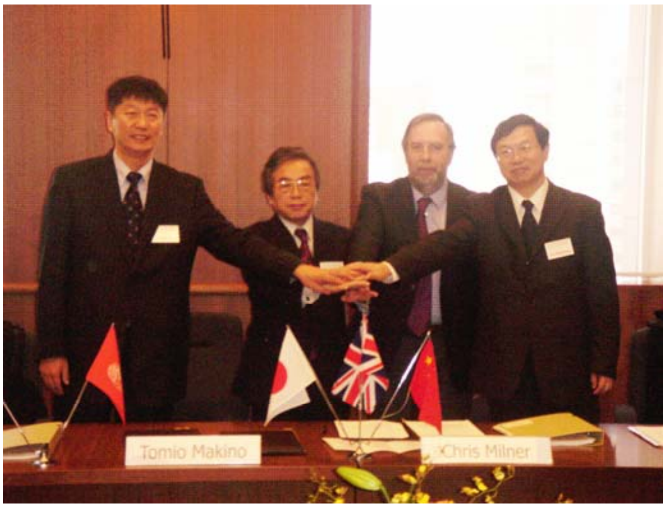
GEP's New Collaboration in Japan

by Chris Milner

China and World Economy GEP Programme Coordinator

A new research centre was formally opened in the College of Economics at Nihon University in Tokyo in December 2006. The Centre for China and Asian Studies, under the direction of Professor Mitsuo Honda, aims to undertake research on the impact of increased globalisation and integration in Asia on industrial and firm-level productivity and performance in the region's economies. Given GEP's ongoing research programme on Globalisation, Productivity and Technology (GPT) and its recently launched new programme on China and the World Economy (CWE), GEP and the new Centre at Nihon University had been in discussion for a number of months before the launch in December about establishing a formal link and developing joint research projects. Professor Honda and some of his colleagues (Professor Kurosawa, Professor Inui and Associate Professor Ijiri) visited Nottingham earlier in 2006. The formal establishment of the link was finalised at the new research centre's opening ceremony in December, in Tokyo, along with the signing of a formal agreement between the College of Economics at Nihon and the Nottingham School of Economics to establish staff and student exchanges.

In addition to the signing ceremony, at the official opening, attended from GEP by Chris Milner and Richard Kneller, a series of memorial lectures



Collaboration in Asia: Professor Sungil Nam, Professor Tomio Makino, Professor Chris Milner, Professor Xu-Heng Zang at the Signing Ceremony.

GEP's New Collaboration in Japan, continued

were given to mark the occasion. One of those was given by Chris Milner on "Intra-Industry Trade: Issues, Progress and Challenges". The other lectures were given by Professor Xu-Heng Zang of Shandong University (China) and Professor Sungil Nam of Sogang University (Korea), who were leading teams from their respective institutions that were also attending the official opening of the new centre and also setting up formal research collaborations with the Centre.

The new Centre has good links with other researchers in Japan and the region, access to firm-level data and resources to support an ambitious research agenda.

GEP is confident that it can contribute to a successful collaboration, and it wishes the of new Centre every success for the future.

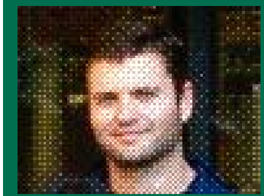
The official opening of the Centre for China and Asian Studies, College of Economics, Nihon University.

Thank you and best wishes to…

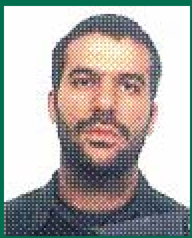
Mauro Pisu

Joana Silva

Mauro Pisu who has been an Internal Research Fellow at GEP for five years and the Editor of this *Newsletter* since the autumn of 2005. Having taken a new position as Research Economist at the Central Bank of Belgium, he now continues his collaboration with GEP as External Research Fellow. GEP would like to express its gratitude to Mauro for his invaluable contribution to the *GEP Newsletter*.



Paulo Bastos



Agelos Delis

GEP is equally delighted to welcome Joana Silva as the new *Newsletter* Editor. Joana joins GEP in 2007, on completion of a PhD at Nottingham, and on the award of a two year ESRC Research Fellowship. She joins Paulo Bastos and Agelos Delis as new GEP Research Fellows, Paulo and Agelos having recently completed PhDs at Nottingham and Leicester respectively.

We are delighted also to report the success of other GEP Research Fellows whose fixed-term contracts came to an end in 2006. In addition to Mauro Pisu joining the National Bank of Belgium, Alexander Hijzen took a position as Research Economist at OECD, Sara Maioli has secured a Lectureship at Newcastle University, Baboo Nowbusting at the University of Mauritius and Sarut Wittayarungruangsri has returned to Thailand as an Economist at the Fiscal Policy Research Institute.

We wish them all well in their new positions.

Sara Maioli

Alexander Hijzen

Sarut Wittayarungruangsri

Baboo Nowbusting

The Nottingham Lectures in International Economics

Professor Jim Markusen

University of Colorado at Boulder

on "Multinational Firms"

"Interacting Factor Endowments and Trade Costs"

20th February, 4pm, Room A39

"Teaching the Locals New Tricks: The Effects of Foreign Firms and Foreign Experts on Domestic Wages and Productivity"

21st February, 4pm, Room A40

"Offshoring and Outsourcing of Business Services: Lessons From the Modern Theory of the Multinational Enterprise"

22nd February, 5pm, Room A40

at Sir Clive Granger Building, University of Nottingham

For further information contact sue.berry@nottingham.ac.uk

Leverhulme Globalisation Lecture 2007

Martin Wolf

Associate Editor and Chief Economics Commentator,

The Financial Times

on "The Rise of the Asian Giants: India and China Compared"

15th March, University of Nottingham

The World Economy Annual Lecture 2007

Professor Dani Rodrik

Professor of International Political Economy,

Harvard University

1st November 2007, University of Nottingham.

For further information contact sue.berry@nottingham.ac.uk

Conference Report: The Impact of International Competition on Firms and Workers

International competition affects both firms' profits and the workers' share of these profits. Fears that the process implies increasing job insecurity and downward pressure on wages are widespread. Research on this area has both theoretical and empirical components, and clear policy relevance. The Leverhulme Centre for Research on Globalisation and Economic Policy (GEP) hosted a Workshop on "The Impact of International Competition on Firms and Workers" on 9th November, 2006. In this article ***Peter Wright*** *and* ***Richard Upward*** *summarise the papers presented and their main findings. Peter is Associate Professor and Reader, and Richard is Associate Professor at the University of Nottingham.*


Richard Upward


Peter Wright

The workshop began with presentations by Ingo Geishecker (Freie Universität Berlin) and Alex Hijzen (OECD). Both authors were examining the impact of outsourcing on job security. Ingo's paper used data from the German Socioeconomic Panel matched to industry level data on imports of intermediate inputs, which for the purposes of this study are treated as a measure of outsourcing. The German economy provides an interesting test bed for this purpose because it has experienced a rapid growth in outsourcing, while at the same time having quite inflexible labour markets. Ingo's results suggest that increased outsourcing increases the unemployment risk of workers in the industry concerned. However, there is no discernible difference in the impact across skill groups.

Alex made use of a linked employer-employee dataset for the UK based on administrative records from the New Earnings Survey (NES) and the Annual Respondents Database (ARD). This dataset allowed him to construct individual job spells and to determine whether worker transitions reflect job-to-job movements or out-of-employment transitions. This dataset was complemented with data on trade in services from the Inquiry into International Trade in Services (ITIS). ITIS is a unique dataset in number of ways. First, ITIS systematically collects information on the imports and exports of services at the firm-level. Second, ITIS contains information on the type of services transacted as well as their value. Alex finds that whilst jobs may have become less secure in recent years, there is no evidence that service offshoring has contributed to this trend. Indeed he finds that, in contrast to popular belief, service offshoring tends to enhance job stability.

Sara Maioli (Newcastle University) looked at whether increased exposure to trade has intensified competition in the UK product and labour markets. She found that imports from developed countries have caused significant declines in both firm mark-ups and workers' bargaining power.

Peter Egger (University of Munich) examined how the propensity of firms to export was affected by new product and new process innovations. To do so, he made use of a particularly rich dataset, the Ifo Innovation Survey, which covers more than 1,000 firms in Germany per year. Peter used matching techniques for multiple binary treatments to account for self-selection of firms into either type of innovation. Overall, his results point to the importance of product innovation relative to process innovation. Indeed, there is no evidence that process innovation fosters a firm's propensity to export beyond product innovation. This can be viewed as evidence of the importance of the extensive margin in product space for a firm's entry into export markets.

The Impact of International Competition on Firms and Workers, continued.

Udo Kreickemeier (University of Nottingham) presented a theoretical model that incorporated workers' fair wage preferences into a general equilibrium framework with monopolistic competition between heterogeneous firms. The equilibrium of such a model is characterised by rent sharing at the firm level, with more productive firms having higher profits and paying higher wages. Furthermore, there is involuntary unemployment. Within such a framework, trade liberalisation leads to the selection of the best firms into export status and exit of the least productive producers. Udo illustrated how this can lead to distributional conflicts, which have so far not been accounted for in the literature: a simultaneous increase of average profits and involuntary unemployment as well as a surge in within-group wage inequality.

Participants at the Workshop

Steve Matusz (Michigan State University) developed a theoretical paper in which increased openness lead to the outsourcing of high-tech jobs abroad. In contrast to popular wisdom, he showed that low skill workers may become better off after globalisation if high skill workers start accepting low-tech jobs. The reason for this is that the switch in the behaviour of high-skill workers brings about general equilibrium responses from the firm side of the labour market with the outside options for low-skill workers improving significantly.

Francis Kramarz (CREST-INSEE) presented work that examined how the wages and employment of manufacturing workers are affected by trade competition and the outsourcing strategies of their employing firm. To do so he made use of a unique French data set that matches firm-level information on imports, value-added, employment with individual data. Because the dataset also contained information on union negotiations, he was also able to assess the role of unions in this process. He found evidence that trade competition affected the size of quasi-rents, particularly in large firms. Since workers received a share of these quasi-rents in their remuneration, their wages declined as a consequence. He also found that, although strong unions were able to defend wages to some extent by continuing to capture a large share of the declining quasi-rent, the presence of strong unions induced firms to increase their outsourcing activities, which had a deleterious impact on both wages and employment.

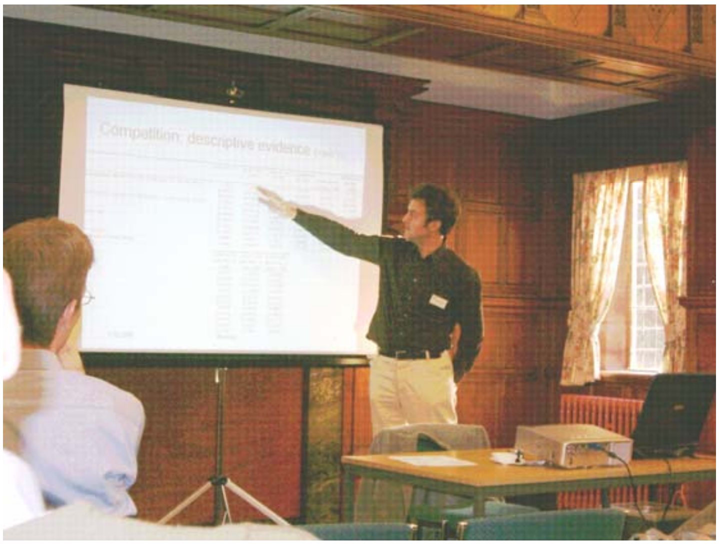
Pedro Martins (Queen Mary) presented evidence on the effect of foreign-owned firms on the wages paid to workers in Brazil. Although there are many papers which compare the wages of workers in domestic and foreign-owned firms, most suffer from the problem that one is not necessarily comparing like with like. Workers in foreign-owned firms may earn higher wages because foreign firms are high-wage firms for reasons other than their ownership; or because the workers in foreign firms are "better" than those in domestic firms. Pedro used linked employer-employee data to examine how wages change when workers move between domestic and foreign-owned firms. Overall, his results suggest that foreign-firms in Brazil do indeed pay higher wages to similar workers.

How Unions’ Resistance to Outsourcing Might Affect Employment and Wages: *France in the Mid-eighties*

*In the face of increased international competition, unions’ resistance might affect the competitiveness of firms, and therefore their ability to pay and employ workers, and induce firms to increase their outsourcing and replace workers with imports. In this article, **Francis Kramarz** looks at these effects and their driving mechanisms. Francis is the Head of the Research Department at CREST-INSEE and an Associate Professor at Ecole Polytechnic. He presented this paper at the Workshop on “The Impact of International Competition on Firms and Workers” at Nottingham.*

Francis Kramarz

The media have expressed the popular feeling that global competition from low-wage countries has induced a race to the bottom: low-skilled manufacturing jobs should be compensated less or else disappear from OECD countries. The issue is well summarised by Richard Freeman: “Put crudely, to what extent has, or will, the pay of low-skilled Americans or French or Germans be set in Beijing, Delhi or Djakarta rather than in New-York, Paris or Frankfurt?” (Freeman, 1995, pp. 16).



Francis Kramarz during his presentation at the Workshop

For years, many French firms have enjoyed the protection of various regulations, subsidies, tariffs, and entry restrictions. In addition, because of collective agreements (first signed by large firms and then extended in the 1970s by the Ministry of Labour to virtually every firm and every worker in the manufacturing sector), firms faced unions with strong power and minimum wages were high. Small firms, which typically depend on lower labour costs, were in a difficult position to compete against larger companies. Entry and growth of potential competitors was reduced. In addition, the first years of the Mitterrand presidency witnessed a thorough nationalisation process of large private companies. All these facts generated rents in many industries, most particularly manufacturing. These rents were directly reflected into wages, particularly in the large firms.

However, in the ensuing years, market reforms were introduced (see Bertrand, Schoar and Thesmar, forthcoming for the financial side of the reforms in the mid-eighties) and foreign competitors entered the French scene. Simultaneously, new markets opened. In response, some of those large French firms increased their imports of intermediates and launched outsourcing strategies. And, indeed, competition became fiercer. The early “equilibrium” started to unravel. More precisely, in the so-called White Paper from the Commission, the Single Market Program was announced in 1985. The SMP was launched in 1988 with the stated goal of achieving a single internal market for goods in 1992. This program included lowering of tariffs and trade barriers within the EC. As already explained in Hoeller and Louppe (1994), the goal took more time to be reached than initially thought. However, the period under study is one of the great changes in trade. European firms could both import and export more easily, at least within the EC. And numbers show that, indeed, trade increased dramatically.

How Unions' Resistance to Outsourcing Might Affect Employment and Wages, continued.

In fact, at the beginning of our period of analysis, in 1986, *large* French manufacturing firms often imported. Furthermore, between 1986 and 1992, our sample period, they strongly increased their imports (on all this, see in particular, Biscourp and Kramarz, forthcoming). Their rents were strongly affected by import competition. These firms also lost employment but, unions in these large firms strongly resisted any change in strategy. This resistance was facilitated by the Lois Auroux, voted in in 1981 just after François Mitterrand's presidential election. These laws enhanced workers' bargaining power at the level of the firm, most particularly in the largest firms. This resistance potentially magnified the effects of high labour costs, inducing manufacturing firms to increase their outsourcing and replace workers with imports in the face of increased competition.

Hence, increased competitors' imports or increased firm's sourcing strategies had the potential to affect the bargaining process because they were likely to change the firm's ability to pay the workers - the size of the quasi-rent - as well as the firm's and the workers' threat points. What happened to wages and employment in these different firms and under these different bargaining regimes? How did unions react?

"This [unions'] resistance potentially magnified the effects of high labour costs, inducing manufacturing firms to increase outsourcing and replace workers with imports in the face of increased competition "

To answer these questions, I first set up a bargaining model in which firms are able to import goods in advance in order to manipulate employment and wages outcomes. I show the conditions under which imports are increasing in unions' bargaining power, and the resulting impact on employment and wages. Then, I implement the set of equations derived from this bargaining model using matched employer-employee data. Information on a worker's wage and characteristics is matched with the characteristics of the worker's employing firm in particular, its imports, value-added, capital stock, and employment. The resulting data set has 120,000 worker- firm observations for the years 1986-1992. The use of such unique data sources linking the firm and the worker, and linking imports to individual firms is one of the contributions of this paper.

I then explore empirically how wages and employment of manufacturing workers are directly affected by the sourcing strategies of their employing firm, by the sourcing strategies of the firm's direct competitors, and by the sourcing strategies of those wholesale and retail trade firms that import finished goods similar to those produced by the workers' employing firm. The identification of various mechanisms by which trade competition affect wages is another contribution of this paper.

On the employment side, Biscourp and Kramarz (forthcoming) shows using the same firm-level data that outsourcing, in particular to low-wage countries, affected employment of unskilled production workers in large firms. Results presented in the next section complement these findings: whereas employment losses in large firms mostly came from firms' outsourcing rather than trade competition (i.e. imports from competitors), the reverse held for smaller firms. On the wage side, the results also contained in this article show that, in a context where a fraction of manufacturing firms were protected from competition and their workers enjoyed sizeable rents (see Abowd, Kramarz, Lengermann, and Roux, 2005), wages declined when product market competition and competitive pressures increased. This negative effect came from a decrease in the firm's ability to pay (the quasi-rent) and a deterioration of the workers' threat point in the bargaining process because many of the firms competitors imported. However, the results also show that the origin of imports has no strong direct impact on wages: competition from low-wage countries only shows up in employment effects within large firms (for this, see Biscourp and Kramarz, forthcoming). The estimates also indicate that workers received in average 20% of the quasi-rent.

To delve further into the mechanisms at work, I then examine the relationship between unions' behaviour, increased trade competition and firms imports. Therefore, I match the

How Unions' Resistance to Outsourcing Might Affect Employment and Wages, continued.

original observations with the 1992 survey on salary structure (ESS) that provides information on the bargaining activity at a representative sample of establishments and firms. The sample is reduced to roughly 40,000 worker-firm observations for which I know the bargaining regime; in particular I know if workers and firms negotiated over both employment and wages. For those firms, my results show that workers captured half of the quasi-rent. But they also suggest that these firms have used outsourcing in order to decrease their employment because of increased labour costs and strong unions. Showing the potential role of unions in firms' decisions when faced with increased competition and increased sourcing opportunities is the final contribution of this paper. Results show that firms that agreed or were forced to negotiate on employment with their unions at the end of the sample period had higher growth in labour costs per person, lower employment growth, and a higher growth in the quasi-rent per person over the sample period (in contrast with those firms that negotiated only on wages, the reference group). On the trade side, these firms increased strikingly more their imports of finished goods than firms that negotiated only on wages (the opposite holds for imports of intermediates). They also faced tougher competition. Hence, firms were potentially willing or forced - there is no way to identify one from the other- to negotiate changes with unions or personnel delegates in their attempts to further reduce employment in this increasingly competitive environment.

Further readings:

Abowd, J., Kramarz, F., Lengermann, D. and S. Roux (2005). "Persistent Inter-Industry Wage Differences: Rent Sharing and Opportunity Costs," *Crest Working Paper*.

Bertrand, M., Schoar, A., and D. Thesmar (forthcoming), "Banking Deregulation and Industry Structure: Evidence from the 1985 Banking Act," *Journal of Finance*.

Biscourp, P. and F. Kramarz (forthcoming),. "Employment, Skill-Structure, and International Trade: Firm-Level Evidence for France," *Journal of International Economics*.

Freeman, R. (1995). "Are your Wages Set in Beijing?," *Journal of Economic Perspectives*, 9, 15-32.

Hoeller, P., and M.O. Louppe (1994). "The EC's Internal Market: Implementation, Economic Consequences, Unfinished Business," *OECD working paper 194*.

Wood, A. (1995). "How Trade Hurt Unskilled Workers," *Journal of Economic Perspectives*, 9, 57-80.

GEP Forthcoming Conferences

6th GEP Postgraduate Conference

26th – 27th March 2007, University of Nottingham

27 participants from 18 universities throughout Europe

Keynote Speaker: Professor Daniel Bernhofen

Convenors:

Paulo Bastos and Zhihong Yu.

GEP Forthcoming Conferences

International Comparison of Firm Exports and Productivity

28th and 29th March 2007, University of Nottingham

The question of the direction of causality between exports and productivity at the micro level has generated much research activity but few robust conclusions. One explanation put forward is the different econometric methodologies applied to this question. This project seeks to further our understanding of this issue by applying a common methodology to data for over 20 countries. This Workshop brings together the project researchers from all over Europe, South and North America. Selected papers from the project and from the Workshop in Nottingham will be published in a special issue of the *Review of World Economics.*

Convenor:

Joachim Wagner *(University of Lüneberg)*

GEP co-sponsors Chinese Economics Association (UK), 18th Annual Conference

Integrating China into the World Economy

16th and 17th April 2007, University of Nottingham

Speakers include:

Charles Goodhart *(London School of Economics)*, David Greenaway *(University of Nottingham)*, John Knight *(University of Oxford)*, Peter Nolan *(University of Cambridge)*, John Weiss *(University of Bradford)*, Wing Thye Wood *(University of California)*, Jun Zhang *(Fudan University)*

For further information contact sue.berry@nottingham.ac.uk

GEP Forthcoming Conferences

GEP and Fudan University joint Conference 2007

China-EU Trade Relations

19th and 20th May 2007 at the University of Fudan

Speakers include:

Holger Görg (GEP, University of Nottingham), Tomohiko Inui (Nihon University, Tokyo), Rhys Jenkins (University of East Anglia), Chris Milner (GEP, University of Nottingham), Richard Pomfret (University of Adelaide), Sarut Wittayarungruangsri (Fiscal Policy Research Institute), Professor Shujie Yao (University of Nottingham).

GEP Convenor: Chris Milner

GEP and Murphy Institute Conference on

New Political Economy of Globalisation

20th and 21st April 2007, New Orleans

Speakers:

Carl Davidson (Michigan State), Bouwe Dijkstra (GEP, Nottingham), Barry Eichengreen (Berkeley), Wilfred Ethier (Pennsylvania), Ben Ferrett (GEP, Nottingham), Kishore Gawande (Texas A&M), Kevin Grier (Oklahoma), Michael Hiscox (Harvard), Helen Milner (Princeton), Oliver Morrissey (Nottingham), Doug Nelson (Tulane and GEP), Jeffrey Stacey (Tulane), Costas Syropoulos (Drexel), David Wildasin (Kentucky), Rorden Wilkinson (Manchester)

Convenor:

Douglas Nelson (*Tulane University and GEP, University of Nottingham*)

GEP Forthcoming Conferences

New Directions in International Trade Theory

8th and 9th June 2007, University of Nottingham

Participants include:
Jim Anderson *(Boston College)*, Daniel Bernhofen *(GEP, Nottingham)*,
Rod Falvey *(GEP, Nottingham)*, Ronald Jones *(Rochester)*, Carsten Kowalcyk *(Tufts)*,
Udo Kreickemeier *(GEP, Nottingham)*, Peter Neary *(Oxford)*, Ray Riezman *(Iowa)*,
John Whalley *(Western Ontario)*.

Convenors: Daniel Bernhofen and Ray Riezman

CESifo/GEP Workshop

CESifo (Munich) and GEP are organising a joint Workshop on

The Economics of Aggregate Shocks in Heterogeneous Firm Models

18th and 19th July, 2007

To be held in Venice as part of the CESifo Summer Institute 2007

Call for papers: http://www.cesifo.de/venice

Convenors: Peter Egger (CESifo, Munich) and David Greenaway (GEP, Nottingham)

GEP Annual 6th Form Conference

26th June, 2007, University of Nottingham

Speakers :

David Greenaway, Richard Kneller, Tim Lloyd, Chris Milner and Wyn Morgan.

Foreign Ownership and Wages in Brazil:

Evidence from Firm Acquisitions and Job Movers

*In this article **Pedro Martins** and **Luiz A. Esteves** report on some recent results they obtained when analysing whether foreign firms pay higher wages than domestic firms in a large developing country: Brazil. Overall their results suggest that, when firms change from domestic to foreign, workers' wages decrease less than when their ownership changes in the opposite direction. Furthermore, when workers move from foreign to domestic firms they lose pay but typically become better paid when compared with their colleagues. Pedro is an Associate Professor in Economics at Queen Mary, University of London, and Luiz is Assistant Professor at the Universidade Federal do Paraná, Brazil. Pedro presented this paper at the Workshop on 'The Impact of International Competition on Firms and Workers' at Nottingham.*

Pedro Martins

How much do developing countries benefit from foreign investment?

This is a question with important implications in terms of how globalisation is perceived, both in developed and developing countries. In fact, the popular assessment of the international benefits of globalisation still seems to be influenced by the view that multinationals operate "sweatshops" in low-wage countries. Consequently, according to those perceptions, multinationals may tend to have a detrimental impact on the quality of life in developing countries and therefore they should, at least, be subject to heavy regulation.

"Foreign firms in Brazil tend to be high-wage firms when compared to their domestic counterparts."

This paper contributes to this debate about the merits of globalisation by presenting evidence about one dimension of the labour-market impacts of foreign firms, namely if they pay different wages than domestic firms. We conduct our empirical analysis studying the case of a large developing country, Brazil, which has so far received relatively little attention in the literature. Moreover, given the richness of the data that we use, a detailed matched employer-employee panel data, we are also able to make a methodological contribution to the literature, based on dealing with the crucial "unobserved heterogeneity" problem that workers in foreign and domestic firms may be different in dimensions not quantified in the data.

In particular, we take a two-pronged approach to that problem: first, we examine the change in wages of the *same* workers as their firms switch between domestic and foreign ownership; second, we examine the change in wages of the *same* workers as those workers move between domestic and foreign firms. This is one of the first papers that adopts this complementary approach and probably the first one that examines foreign-firm wage differentials in a developing country using matched employer-employee panel data.

Earlier studies, using firm-level cross-section data, typically find that foreign firms pay higher wages. This is a result that generally also receives support from more recent studies that exploit firm acquisitions, although only when domestic firms are acquired by foreign investors, again using firm-level data. However, the latest wave of research in this area, which extends the previous work on acquisitions by using worker-level data, generally finds very small wage differences. However, up until now, this latest approach has only been considered when studying developed countries.

The main data set used in this paper is RAIS (Annual Social Information Report), an annual census of all firms and all their employees in Brazil. These data include detailed information about each employee (wages, hours worked, education, age, tenure, gender, etc) of each firm (industry, region, size, establishment type, etc) in each year, including unique identifiers for each employee and each firm. For reasons related to the richness of the data and our limited computa-

Foreign Ownership and Wages in Brazil, continued.

tional capacity, we consider in our analysis a period of only four years, 1996 to 1999, which is however a period characterised by a large number of mergers and acquisitions in Brazil.

We also use two other data sources: one is PIA (Yearly Industrial Research), which covers all manufacturing sector firms with at least 30 employees and a random sample of smaller firms and provides information about productivity and profits. The other data are CCBB (Foreign Capitals Census) which has detailed information about the foreign ownership structure of firms based in Brazil. Finally, we use additional information in order to identify foreign firms in that were acquired by domestic investors and vice-versa between 1996 and 1999.

The preliminary evidence in our paper contrasts with the results from developed economies, as we find that foreign firms in Brazil tend to be high-wage firms when compared to their domestic counterparts. Although workers tend to lose pay from changes in firm type, such losses are typically higher when moving from a foreign to a domestic firm than when moving in the opposite direction. Moreover, while workers that move tend to earn less in absolute terms after they move, they typically become better paid when compared to their new colleagues – and this is particularly true if they move from foreign to domestic firms. Finally, the cases of mobility involving switching firms are generally found to strengthen the results of mobility involving acquisitions – a finding that may help explain the insignificant worker-level results from developed countries, which tend to leave out worker mobility.

An additional dimension of the debate about the labour-market implications of (foreign) multinationals concerns the large levels of labour market informality that are present in most developing countries. In the case of Brazil, some estimates indicate that about 50% of the total labour market is made up of informal workers. While it may not be clear if similar workers tend to be paid higher wages in the formal labour market than in the informal labour market, all evidence suggests that working conditions are much better in the former than in the latter. To the extent that there are no foreign firms participating in the informal labour market, then our evidence of higher wages paid by foreign firms should even be interpreted as an underestimate of the true impact of foreign multinationals upon wages.

Further readings:

Martins, P. and Esteves, L. (2006). "Is There Rent Sharing in Developing Countries? Matched Panel Evidence from Brazil,", *IZA Discussion Paper* 2317.

Marins, P. (2004). "Do Foreign Firms *Really* Pay Higher Wages? Evidence from Different Estimators, " *IZA Discussion Paper 1388.*

Welcome to…

Vitor Trindade as External Fellow

Daniel Bernhofen and Vitor Trindade

Vitor Trindade is Associate Professor of Economics at University of Missouri-Columbia. He works mainly on informal barriers to trade, impact of trade on industrialization and productivity, and the role of demand in the structure of trade. His recent publications include 'The Big Push, Industrialization, and International Trade: the Role of Exports' (*Journal of Development Economics, 2005*), 'Inequality and Trade' (with D. Mitra, in *Canadian Journal of Economics, 2005),* 'Information, International Substitutability, and Globalization' (with J. Rauch, in *American Economic Review, 2003*). We are delighted to welcome Vitor as an External Fellow and look forward to his involvement with GEP.

International Outsourcing and Individual Employment Security

*In this article **Ingo Geishecker** looks at the role of outsourcing in explaining the increase in the risk of losing employment, and whether different skill groups are differently affected. He finds that increased outsourcing increases job insecurity but this effect on low, medium and high skilled workers does not differ considerably. Ingo is Researcher at Freie Universität Berlin. He presented this paper at the Workshop on "The Impact of International Competition on Firms and Workers" at Nottingham.*

Ingo Geishecker

International outsourcing and its alleged negative labour market effects is causing growing public concern. In the public debate, the predominant view appears to be that international outsourcing severely threatens domestic employment security particularly for low-skilled workers, a view supported largely by anecdotal evidence. However, despite the strong public interest, very few empirical studies have analysed the relationship between international outsourcing and employment security.

On the basis of data from the German Socio Economic Panel (GSOEP) one can calculate how employment security of manufacturing employees has developed over recent years in Germany. While over all individuals in 1991 the unconditional risk of leaving employment was 0.79%, it increased by about 100% to 1.59% in 2000. Furthermore, it becomes apparent that the risk of leaving employment grew for all skill-groups, with particularly steep increases for medium and high-skilled workers.

Geishecker (2006a) empirically assesses what role international outsourcing plays in explaining these developments. The analysis is carried out at the micro-level, combining monthly spell data from the GSOEP and industry-level outsourcing measures. By utilising micro-level data, problems such as aggregation and potential endogeneity bias, as well as crude skill approximations that regularly hamper industry level displacement studies, can be reduced considerably. The author estimates various specifications of a cloglog hazard rate model with non-parametric duration dependence controlling for unobserved heterogeneity and allowing for repeated spells per individual. In all specifications international outsourcing is found to increase significantly the individual risk of leaving employment. Cumulated over the sample period from 1991 to 2000 increased outsourcing accounts for a 13 percent increase in the monthly risk of leaving employment. Most interestingly the effect of outsourcing does not significantly differ between skill-groups. Thus, low, medium and high-skilled workers are uniformly affected by international outsourcing which poses a contrast to earlier industry-level studies that found outsourcing to lower the relative demand for low-skilled workers.

At first sight this stark discrepancy between industry-level findings on relative employment effects of international outsourcing and the micro-level results is puzzling. However, while industry-level studies are concerned with partial equilibrium net effects, here the focus is on the dynamics of the adjustment process in response to international outsourcing. In the literature it is well established that the probability of finding reemployment is increasing with the level of educational attainment (e.g. Farber, 1997).

This suggests that the skill-biased effects of outsourcing that have been found for Germany in aggregated industry-level studies are indirect and related to the lower probability of low-skilled workers re-entering employment. However, to what extent this lower re-entering probability is directly determined by international outsourcing remains an open question for future research. Ideally, a future study would employ a much larger micro-level data set, such as the social insurance sample provided by the Institut für Arbeitsmarkt und Berufsforschung (IAB) to analyse out-off employment and out-off unemployment transitions simultaneously.

Further readings:

Farber, Henry S. (1997). "The Changing Face of Job Loss in the United States 1981-1995," *Brookings Papers on Economic Activity Microeconomics*, 1997, pp. 55-128.

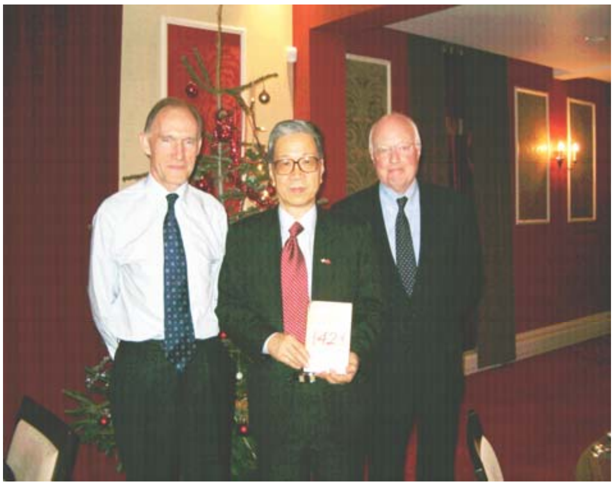
Geishecker, Ingo, (2006a). "The Impact of International Outsourcing on Individual Employment Security: A Micro-Level Analysis," mimeo, Freie Universität Berlin 2006.

Geishecker, Ingo (2006b). "Does Outsourcing to Central and Eastern Europe really threaten manual workers' jobs in Germany?," *The World Economy*, 2006, *29* (5), 559-583.

Autumn 2006 GEP's events in review

Professor Carl Davidson, Michigan State University.

In November, Carl Davidson presented the annual *Nottingham Lectures in International Economics*. The Lectures where devoted to the theme 'Trade and Unemployment'. In his first Lecture, Carl modified the standard Heckscher-Ohlin-Samuelson model by assuming that it may take time for unemployed workers to find appropriate jobs and firms to fill vacancies. This allowed him to analyse the drivers and effects of trade in economies with unemployment. Moreover, he showed that this development is crucial as these economies do behave very differently from economies with full employment. In his second Lecture Carl offered a summary of the main new insights that trade models with labour market turnover bring. Carl closed this series of lectures exposing how it is possible to extend the 'new trade theory' to account for unemployment and putting forward a number of questions that is important to tackle next.



(right to left) **Gavin Menzies, Professor Fujia Yang (the University of Nottingham's Chancellor) and Professor David Greenaway.**

We were delighted to welcome Gavin Menzies to Nottingham in December to present a *Leverhulme Globalisation Lecture*. Gavin is author of the bestselling book *1421: The Year China Discovered the World*. The book is based on the discovery of Chinese maps dating back to the 15th century which provide evidence that the Chinese Emperor, Zhu Di, built a fleet which set sail from China and discovered the world long before European explorers such as Christopher Columbus, Vasco da Gama and James Cook.

Gavin came to speak on 'Chinese World Maps: China and Globalisation 600 Years Ago'.

We were very pleased that the University's Chancellor, Professor Fujia Yang, was able to join us for this Lecture along with a large audience from across the University and the local community.

Will Hutton, The Work Foundation.

We were equally pleased when Will Hutton, Chief Executive of The Work Foundation, came to talk on 'The Writing on the Wall: Will it be China's Century?'. This was a stimulating and provocative analysis of the sustainability of China's growth miracle. Sustainability, he concluded, depends crucially on changes in governance and accountability.

Visitors to GEP in 2007

September 2006	October 2006	November 2006
Professor Koen Schoors *Ghent University*	Professor Carl Davidson *Michigan State University* Professor Vitor Trindade *University of Missouri-Columbia* Professor Ian Wooton *University of Strathclvde*	Will Hutton *The Work Foundation* Professor Steve Matusz *Michigan State University* Dr Catia Montagna *University of Dundee* Professor Horst Raff *University of Kiel*
December 2006	**February 2007**	**March 2007**
Gavin Menzies	Professor Wilhelm Kohler *Eberhard Karls University Tubingen* Professor Jim Markusen *University of Colorado at Boulde*	Professor Martin Wolf *The Financial Times*
April 2006	**May 2007**	**November 2007**
Professor Ron Davies *University of Oregon* Professor Peter Debaere *University of Texas*	Professor Jørgen Ulff-Moller Nielson *Aarhus Business School* Dr Niven Winchester *University of Otago*	Professor Dani Rodrik *Harvard University*

New GEP Research Papers

http://www.gep.org.uk/research_papers

2007/02	Daniel M. Bernhofen	On the Magic Behind David Ricardo's Four Mystical Numbers
2007/01	Alex Hijzen, Richard Upward and Peter Wright	Job Creation, Job Destruction and the Role of Small Firms: Firm-Level Evidence for the UK
2006/50	Marta Aloi and Teresa Lloyd-Braga	National Labour Markets, International Factor Mobility and Macroeconomic Instability
2006/49	Holger Gorg, Michael Henry, Eric Strobl and Frank Walsh	Multinational Companies, Backward Linkages and Labour Demand Elasticities
2006/48	Richard Kneller and Mauro Pisu	The Role of Experience in Export Market Entry: Evidence for UK Firms
2006/47	Shantanu Banerjee and Arijit Mukherjee	Joint Venture Instability Under Entry
2006/46	Simon Appleton, Lina Song and Qingjie Xia	Growing out of Poverty: Trends and Patterns of Urban Poverty in China 1988-2002
2006/45	Lina Song and Simon Appleton	Inequality and Instability: an Empirical Investigation into Social Discontent in Urban China.
2006/44	Holger Gorg, Michael Henry and Eric Strobl	Grant Support and Exporting Activity
2006/43	Sourafel Girma, Yundan Gorg, Holger Gorg and Zhihong Yu	Can production subsidies foster export activity? Evidence from Chinese Firm Level Data
2006/42	Ben Ferrett and Ian Wooton	Tax Competition and the International Distribution of Firm Ownership: An Invariance Result
2006/41	Zhihong Yu	The Fear of Competitive Pressure of Globalization and Outsourcing
2006/40	Daniel Mirza and Thierry Verdier	International Trade, Security and Transnational Terrorism: Theory and Empirics
2006/39	Daniel Mirza and Thierry Verdier	Are Lives a Substitute to livelihoods? Terrorism, Security and US Bilateral Imports
2006/38	Bouwe Dijkstra, Anuj Mathew and Arijit Mukherjee	Environmental Regulation: An Incentive for FDI
2006/37	Chung Kwok Lei and Shujie Yao	On Income Convergence among China, Hong Kong and Macau
2006/36	Alessandra Guariglia and Sandra Poncet	Could Financial Distortions Be No Impediment to Economic Growth After All? Evidence from China
2006/35	Alessandra Guariglia, Arijit Mukherjee and Kullapat Suetrong	Technological Asymmetries and the Strategic Plant Location: The Case of Export-Platform foreign Direct Investment
2006/34	Sarah Bridges and Alessandra Guariglia	Financial Constrains, Global Engagement, an Firm Survival in the UK: Evidence From Micro Data
2006/33	Shujie Yao and Kailei Wei	Economic Growth in the Presence of FDI: The Perspective of Newly Industrialising Economies

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Internal Research Fellows

Professor David Greenaway (Director), Dr Marta Aloi, Paulo Bastos, Professor Daniel Bernhofen, Dr Spiros Bougheas, Professor Richard Cornes, Agelos Delis, Dr Bouwe Dijkstra, Professor Rod Falvey, Dr Ben Ferrett, Dr Switgard Feuerstein, Dr Holger Görg, Dr Alessandra Guariglia, Dr Alex Hijzen, Dr Richard Kneller, Dr Udo Kreickemeier, Professor Chris Milner, Dr Pedro Moncarz, Dr Arijit Mukherjee, Professor Doug Nelson, Joana Silva, Professor Lina Song, Dr Richard Upward, Dr Peter Wright, Professor Shujie Yao, Dr Zhihong Yu.

External Research Fellows

Professor Bruce Blonigen (University of Oregon), Professor John Brown (Clark University), Professor Marius Brülhart (University of Lausanne), Professor Paul Collier (University of Oxford), Professor Carl Davidson (Michigan State University), Professor Alan Deardorff (University of Michigan), Dr Hartmut Egger (University of Zurich), Professor Peter Egger (University of Munich), Dr Robert Elliott (University of Birmingham), Professor Simon Evenett (University of St Gallen), Dr Joakim Gullstrand (Lund University), Professor Jonathan Haskel (Queen Mary, University of London), Professor Wilhelm Kohler (Eberhard Karls University), Dr Maurice Kugler (University of Southampton), Professor Steve Matusz (Michigan State University), Dr Daniel Mirza (University of Rennes), Dr Catia Montagna (University of Dundee), Professor Pascalis Raimondos-Møller (University of Copenhagen), Professor Ray Riezman (University of Iowa), Dr Frederik Sjøholm (Stockholm School of Economics), Professor Constantinos Syropoulos (Florida International University), Professor Mathew Tharakan (University of Antwerp), Professor Vitor Trindade (University of Missouri, Columbia), Professor Jim Tybout (Penn State University), Professor Rod Tyers (Australian National University), Professor Hylke Vandenbussche (Catholic University of Leuven), Professor Ian Wooton (University of Strathclyde), Dr Zhihao Yu (Carleton University)

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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 three programme grants to the value of over £4.5m 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.

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Leverhulme Centre

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