The University of Nottingham

GEP Leverhulme Centre for Research on Globalisation and Economic Policy

Newsletter

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The Bottom Billion

In November 2007, **Professor Paul Collier** gave a *Leverhulme Globalisation Lecture* on why the poorest countries, where a billion people now live, are trapped and failing, and what could be done about it. Based on his new book *The Bottom Billion* (Oxford University Press), Paul writes the following article outlining some of the key policy issues which need to be addressed.

The *Bottom Billion* is a serious book but an easy read. I tried to make it an easy read because I realised that the policies of the G8 Governments towards development were increasingly being set by politicians trying to please their own voters. Inadvertently, the same process that has succeeded in getting development onto the political agenda, which has been the lobbying of rock stars and NGOs, risked trivializing its policy content. It is time for academics to set aside our tendency to write only for each other, and to reach out to our fellow citizens, communicating our expertise.

While the style of the book is light, the content is entirely about economic research, essentially pulling together my recent research with a number of colleagues. This pulling together is also increasingly rare in academic behaviour. Our work is now overwhelmingly presented in article-sized nuggets with few serious outlets for more sustained analysis. Does the book have any ideas beyond those familiar to any academic develpment economist? Well, here's Professor Brad de Long's assessment, fresh from his blog page: '*The Bottom Billion* is a very exciting and important book. It is rare to read something on economic development that is true, non-trivial, and potentially useful.' So what does it actually say? It took me 75,000 words to say it in the book, and you are now going to read a 1-75 version: don't imagine this is a substitute! But here goes.

The core thesis is that a large group of smallish countries totalling about a billion people have sheered off from the rest of mankind. As the world becomes more socially integrated this giant pool of poverty will be both unacceptable and explosive. It is the world's biggest economic problem and we need to do something about it. To know what to do we need to start with a diagnosis. While the common fate of the bottom billion has been stagnation and poverty there has been no single cause.

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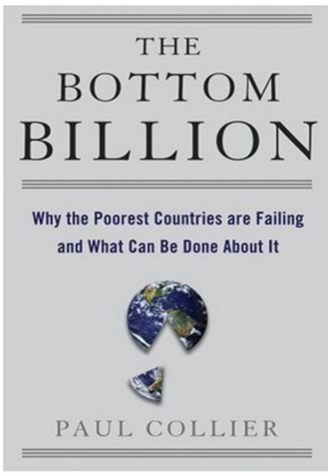

Paul Collier's book, The Bottom Billion, *is available from Oxford University Press.*

continued from Page 1 "The Bottom Billion"

I propose four distinct traps that between them account for the problem, each requiring a distinct remedy. I also argue that globalization, though it has been benign for the majority of the developing world, is not working for the bottom billion and is not likely to do so. On the contrary, it is liable to make them increasingly marginalized.

So what *are* the key policy issues? One is that Africa has failed to develop jobs in export manufactures, the strategy that has been transforming Asia. Bangladesh has generated nearly three million jobs by exporting garments. If Kenya could do the same, it would be transformed. But Asia's success has made it harder for Africa to get started. We can help by granting Africa better access to our markets. At present most of the G8 countries impose tariffs on imports of garments from Africa. There is one exception: America. This is embarrassing for Europe since we pretend that America doesn't 'care' about Africa. But the US allows Kenya to export shirts duty-free into its market. Europe doesn't. Even the few African countries that are allowed duty-free access into Europe get blocked by absurd technical requirements: Lesotho sells thousands of shirts to America, but they don't satisfy the regulations of the European Union. As a result, over the last five years Africa's garments exports to Europe have declined while increasing sevenfold to the US. The G8 could easily adopt a common set of rules for these African exports that would generate jobs across the region. I proposed this to the G8, but they spent their time posturing over aid commitments.

"The core thesis is that a large group of smallish countries totalling about a billion people have sheered off from the rest of mankind … It is the world's biggest economic problem and we need to do something about it."

A second policy issue is that many of the countries of the bottom billion are now in the throes of revenue booms from oil and other minerals that dwarf any conceivable aid flows. The last time this happened was thirty years ago and it proved a disaster. The money corrupted the local politics so badly that not only was it wasted, it impoverished, sometimes even leading to civil war. Can the governments of developed countries do anything to reduce the risks of repetition? Well, where do corrupt politicians put their money? They certainly don't leave it in their own banks, it comes to our banks. And what do our banks do? Basically, they keep quiet about it. Is this a necessary consequence of banking secrecy laws? No it isn't. If the money is suspected of having terrorist associations then, very sensibly, we now require the banks to blow the whistle on it. But if it is stolen from the ordinary citizens of the bottom billion, well, that's just too bad. It cost the reforming government of Nigeria huge legal fees to track down some of the previous president's millions in a Swiss bank, and even when they won their court battle the Swiss Minister of Justice blocked sending the money back. There is much more that we can do to support the struggle of reformers within the bottom billion to use the present resource bonanza well, but cleaning up our banks would help.

Quite possibly the most effective 'aid' Britain has ever provided was the troops that have secured peace in Sierra Leone. Britain currently guarantees the peace there through an 'over-the-horizon' commitment: if there is trouble, British troops will fly in. It has not been necessary: the commitment alone is sufficient. Civil wars have been devastating to Africa: the one in Sierra Leone delivered the coup de grace to an economy that had already been wrecked by revenues from diamonds. Across the region there are now several post-conflict situations that need this sort of commitment. To date, nearly half of all post-conflict countries revert to war within a decade: we should surely be able to make a difference here. Unfortunately, along came the war in Iraq and closed down serious discussion of Africa's security needs. The western powers are afraid that sending troops abroad will be unpopular, and the governments of the bottom billion fear that western involvement would license pre-emptive invasions.

(Left to right) Professors Chris Milner, Paul Collier and David Greenaway

Trade in shirts, the governance of resource bonanzas, and security commitments do no not play as well on the streets of Europe as doubling aid. I should stress that I do not see them as alternatives to aid but as complements. Think how America responded to the need to rebuild Europe after 1945. It recognized that the problem was serious and addressed it through the full range of possible policies. Yes, there was a big aid programme, Marshall Aid. But this was complemented by a complete reversal of US trade policy, from protectionism to integration, through the founding of the GATT. It was also complemented by a reversal of US security strategy: from isolation to mutual guarantees enshrined in NATO and over one hundred thousand troops in Europe for four decades. Finally, there was a dilution of the principle of absolute national sovereignty, with the creation of new structures for mutual support of good governance, enshrined in the founding of the OECD and the EEC. That's what happened when America got serious. The challenge posed by the divergence of the bottom billion is evidently more difficult than that of rebuilding Europe. It will take that same full panoply of policies, although obviously the content of each policy will be different.

Paul Collier is Professor of Economics and Director, Centre for the Study of African Economies at Oxford University.

Dani Rodrik

Saving Globalisation?

Are globalisation's cheerleaders who push for continued market opening around the area actually posing a serious threat to globalisation itself? In the following summary of his *The World Economy Annual Lecture*, Professor Dani Rodrik explains why this could be the case and what could be done to save globalisation.

Who poses the greatest threat to globalisation today? The anarchists and protestors on the streets every time the International Monetary Fund or the World Trade Organization hold a meeting? Or globalisation's cheerleaders who push for continued market opening around the world while denying that the troubles surrounding globalisation are rooted in the policies they advocate?

There is much to be said against the latter for presenting the greater menace at present, for anti-globalisers are marginalised and have little power to affect much. But the cheerleaders in Washington, London and the elite universities of North America and Europe shape the intellectual climate of the day. Their views and opinions mold the policy debate and set the parameters for what policy makers regard as desirable. And if they get their way, these cheerleaders are more likely to put today's globalisation at risk than the protestors they loudly condemn for their ignorance of sound economics.

"The soft underbelly of globalisation is the imbalance between the national scope of governments and the global nature of markets."

That is because the greatest obstacle to sustaining a healthy, globalized world economy today is not the insufficient openness of the world economy. World markets are in fact freer from government interference than they have ever been. Import restrictions in the form of tariff and non-tariff barriers are lower than ever. Capital flows in huge magnitudes wherever the returns are perceived to be higher. And despite obvious barriers, legal and illegal immigration is approaching levels not seen since the 19th century—an era when workers could move from country to country without even needing a passport.

Consequently, no country's growth prospects are significantly constrained today by the lack of openness of the international economy. Even if Doha fails, poor countries will have enough access to rich country markets to achieve what countries like China, Vietnam, and India have been able to do. Closed markets may have been a fundamental problem during the 1950s and 1960s—in the early days of the current wave of globalization; it is hard to believe that they still are.

The greatest risk to globalization is elsewhere. It lies in the prospect that national governments' room for maneuver will shrink to such levels that they will be unable to deliver the policies that their electorates want and need in order to buy in to the global economy.

The soft underbelly of globalization is the imbalance between the national scope of governments and the global nature of markets.

A healthy global economic system necessitates a necessarily delicate compromise between these two. Go too much in one direction, and you have protectionism and autarky. Go too much in the other direction, and you have an unstable world economy with little social and political support from those it is supposed to help.

If there is one lesson from the collapse of the 19th century version of globalization, it is that we cannot leave national governments powerless to respond to their electorates. The genius of the Bretton Woods system, which lasted for about three decades after the end of World War II, was that it achieved just such a compromise. Some of the most egregious restrictions on trade flows were removed, while allowing governments the freedom to run their own independent macroeconomic policies and to erect their own versions of the welfare state. Developing countries, for their part, were left free to pursue their own growth strategies with limited external restraint. And the world economy prospered like never before.

But wait, you may say. What about China and India, whose economies have taken off only in the last quarter century or so, following the collapse of the Bretton Woods system? Are they not proof that poor nations need the current variant of globalization instead of the Bretton Woods variant?

Actually, no. What is striking about China, India, and a few other Asian countries that have done well recently, is that they have played the globalization game by the Bretton Woods rulebook rather than the current rulebook. These countries did not significantly liberalize their import regimes until well after their economies had taken off, and they continue to restrict short-term capital inflows. They have used industrial policies—many of them banned by the World Trade Organization—strategically to restructure their economies and to enable them to better take advantage of world markets.

"It is time then to consider a new bargain for the global economy. When rich and poor nations come together to negotiate the rules of the game, they should stop thinking in terms of exchanging market access…They should consider instead exchanging policy space."

So rich and poor nations alike need some breathing space in the global economy, but they need it for different reasons. Rich countries need it so they can revive the social compacts that underpinned the success of the Bretton Woods regime. They need the flexibility to interfere in trade when trade conflicts with

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deeply held values and norms at home—as for example with child labour or health and safety concerns—or severely weakens the bargaining power of workers vis-à-vis employees. Poor nations need the room to engage in exchange rate and industrial policies that will diversify and restructure their economies, without which their ability to benefit from globalization is severely circumscribed.

It is time then to consider a new bargain for the global economy. When rich and poor nations come together to negotiate the rules of the game, they should stop thinking in terms of exchanging market access:"I will allow you to protect your national social compact, if you allow me to engage in development strategies that conflict with WTO and IMF rules of good behavior." The challenge is to design procedures that enable the use of policy space for socially desirable purposes, while limiting it for beggar-thy-neighbor purposes.

Risky? Yes. There is always the chance that such an approach would slide into protectionism, pure and simple. But the alternative is, if anything, more risky. Historians teach us that globalization rests on delicate social and political pillars. The first order of business today is to strengthen these pillars, rather than to push market opening further.

Dani Rodrik is Professor of International Political Economy at the John F. Kennedy School of Government, Harvard University

GEP Research Seminars in 2008

7th January	Tom Ivlevs, GEP, University of Nottingham
14th January	Adrian Wood, University of Oxford
21st January	Ralf Wilke, University of Nottingham
28th January	Marius Brülhart, University of Lausanne
4th February	Stephen Redding, London School of Economics
11th February	Gino Garcia, Universitat Pompeu Fabra
18th February	Joe Francois, Johannes Kepler University, Linz
25th February	Peter Egger, University of Munich
3rd March	Dennis Novy, University of Warwick
21st April	Gianmarco Ottaviano, Bologna
12th May	Catia Montagna, University of Dundee
19th May	Peter Neary, University of Oxford

David Smith

The Dragon and the Elephant: China, India and the New World Order

How would the rise of China and India change the existing world order? As part of the *Leverhulme Globalisation Lecture Series*, David Smith considers the real impact of these two economic powers on the world.

China and India provoke fear and uncertainty in almost equal measure. Nobody can say precisely how these two countries will develop, and how the rest of the world will respond. Let me narrow it down a little, by focusing on some important ways in which China and India will change the world.

Even without making overblown claims about what might happen it is possible to lodge a big claim about what has already happened. Already China and India are having a bigger impact on the world economy than Britain did when it emerged as the first industrial nation in the 18th and 19th centuries, or even than America did in the final decades of the 19th century and the early 20th century. That may seem hard to credit. Britain's industrial revolution was profound in its impact. So was the period 1870-1914, the so-called 'second industrial revolution' in the United States. Big though China and India are, it is hard to say that they are qualitatively as important as those earlier developments.

But China and India's claim to fame is quantitative, not qualitative. China started in 1978 with less than three per per cent of the world economy but then grew at a 9-10 per cent rate for three decades, three times as fast as the global average. Britain and America during their golden ages typically only grew at twice the rate of the global economy. Add India and something special is indeed happening. We have never before had two big and highly-populous economies – each with a population of well over a billion – growing like this for a sustained period.

Richard Freeman of Harvard University's 'One Big Fact' suggests that the collapse of communism, India's turn from autarky and China's shift to market capitalism has doubled the size of the global workforce and the world economy from 3.3 billion to 6.5 billion people.

The reality of life for most Chinese, however, is not urban living, or gleaming new factories owned by multinationals. For the majority, 750 million, it is the often grinding poverty of rural life. Even in 2030, according to the Chinese government's own estimates, 600 million people will still live in the country. They are not a world-beating competitive labour force, though some will provide the 'factory fodder' for China's industrial expansion. In India more than 70 per cent of the population lives in the countryside. The world has become obsessed with an IT and outsourcing sector that employs barely 0.1 per cent of the population.

Already China and India are having a bigger impact on the world economy than Britain did when it emerged as the first industrial nation in the 18th and 19th centuries…

Both remain relatively poor countries. On the measure used by the World Bank, China's GNI (gross national income) per capita is just \$1,740, while India's is much lower, at a mere \$720. India's *average* income is less than two dollars a day. To put China and India's positions in perspective, they ranked 128th and 159th respectively in the World

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Bank's league table for per capita GNI.

Even if everything goes pretty much right for China and India, and they grow to being the first and third largest economies in the world (with America second) by the middle of the century, their citizens will be a long way from being rich. China in 2050 will enjoy average living standards only slightly lower than the UK in 2005, and only about two-thirds of current American levels.

Large populations consume resources. Combine large populations with rapid rates of economic growth and China and India's claim on global resources will grow. China now outconsumes the United States in four of the five basic food and industrial commodities; grain, meat, steel, coal and oil, oil being the only exception China is the world's second biggest oil consumer, having overtaken Japan, and has America in its sights. India is the fifth largest energy user.

China and India frighten us with their size, their teeming masses of people. But history tells us that the world is remarkably good at absorbing new arrivals on the global economic scene and benefiting from their presence.

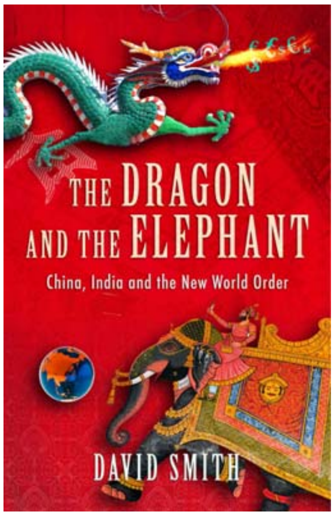
What happens next? Between 1990 and 2005, China's oil consumption rose by between 7 and 8 per cent a year, while India's increased by 5.5 per cent annually. On the face of it, the rise of China and India is bad for the planet. Their growth will produce lots of carbon emissions. Roughly speaking, every one per cent of economic growth in China and India requires an increase of one per cent or more in energy use, compared with half or a third of that in America.

There is, however, another side to the story. While China and India have not been solely responsible for the rise in global energy prices, they have clearly contributed to it. High energy prices mean a greater emphasis on efficiency, and are more effective in this respect than global warming warnings.

It is possible, indeed, to combine growing energy demand in China and India with a drop in global carbon emissions. Price Waterhouse Coopers did this is in a set of simulations, which assumed greener growth in the West and a drop in its share of emissions. That was the background to the recent Bali cllimate change conference. We are not there yet, but things are beginning to change.

The economic success of China and India is the product of an open global economy. The present era of globalisation is often regarded as irreversible but it is not. Protectionism is already chipping away at it. Fear of China and India is widespread. They will undercut us. Pay in the West can never go low enough to make up for the competitive disadvantage that the existing industrial countries face. Can this be right? China could have been a reluctant globaliser. Instead Beijing has embraced the global economy enthusiastically and, in doing so, has established a template for others. Indian politicians used to believe that a closed economy was the way forward. China showed India the way and is showing other countries the way.

China and India have provided global growth, are offering significant market opportunities and, crucially, have allowed Western economies to expand at a faster rate than would otherwise have been the case. China and India frighten us with their size, their teeming masses of people. But history tells us that the world is remarkably good at absorbing new arrivals on the global economic scene and benefiting from their presence. China and India, in this respect, really are no different.



David Smith is Economics Editor at The Sunday Times. *His book,* The Dragon and the Elephant: China, India and the New World Order*, is available from Profile Books Ltd.*

GEP is now recruiting for two new posts:

Early Career Development Fellowships

The successful candidates will join a team of 25 researchers (including six other full-time Postdoctoral Research Fellows). Candidates should have a good first degree and a PhD (or be in the final stages of a PhD) in Economics and be independent researchers. Their research interests should align with the research areas covered by the GEP Research Centre. These posts are available from March 2008 or as soon as possible thereafter and will be offered on a fixed-term contract for a period of two years.

For further details, contact sue.berry@nottingham.ac.uk

The World Economy Annual Lecture

Professor Elhanan Helpman

Harvard University

19th June 2008

Nottingham Lectures in International Economics

Professor Rob Feenstra

University of California, Davis

14th, 15th and 16th April 2008

For further details, contact sue.berry@nottingham.ac.uk

GEP Forthcoming Conferences

GEP Conference on 'Offshoring'

19th-21st June 2008, University of Nottingham

Speakers include:

• Marty Amiti	New York Federal Reserve Bank
• Pol Antràs	Harvard University
• Giorgio Barba Navaretti	University of Milan
• Claudia Buch	Tübingen University
• Karolina Eckholm	Stockholm University
• Peter Egger	University of Munich
• Joseph Francois/Julia Wörz	Vienna Institute for International Economic Studies
• Ingo Geishecker	Göttingen University
• Elhanan Helpman	Harvard University
• Catherine Morrison Paul	University of California Davis
• Eiichi Tomiura	Yokohama National University
• Alex Hijzen/Richard Upward/ Peter Wright	GEP, University of Nottingham
• Holger Görg/David Greenaway/ Richard Kneller	GEP, University of Nottingham

Conference Organisers:

Holger Görg, David Greenaway and Richard Kneller

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

Factor Content of Trade and Factor Rewards in the US

Agelos Delis

Does increasing international trade contribute to the declining relative wage of unskilled workers in the US? In this article **Agelos Delis** reveals the answer, based on his recent GEP research paper "A Dual Definition for the Factor Content of Trade and its Effect on Factor Rewards in US Manufacturing Sector" (co-authored with Theofanis Mamuneas).

The possible relationship between international trade and wage inequality in developed countries has been a very important and regularly debated topic for both academics and politicians in the last decade. Unskilled workers in many developed countries, in particular the US, have seen a significant decline in their relative wages, while at the same time international trade has increased considerably. Some have argued that the increase of international trade is likely to explain this decline of relative wages. Trade economists have approached this question using the Heckscher-Ohlin model from two different angles. The first is based on the traditional Stolper-Samuelson theorem, where changes in product prices cause changes in factor rewards (Baldwin and Cain, 1997 and Leamer, 1998); the second is based on the Factor Content of Trade (FCT, a measure of how much of a particular factor is embodied in the net exports of all goods) theorem of Vanek (1968), where changes in the volume of net exports are transformed (via an input-output matrix) into changes in relative factor rewards (Borjas et al., 1992 and Katz and Murphy, 1992).

It appears that technological change and not international trade is the most important determinant for the decline in relative factor rewards for unskilled workers in the US from 1967 to 1991.

The FCT approach has been heavily criticized on the ground that it lacks a solid theoretical foundation and especially that FCT is not related with factor prices. Yet, by introducing the concept of the Equivalent Autarkic Equilibrium (EAE), Deardorff and Staiger (1988) provide the theoretical foundation and show under which assumptions the FCT and relative wages are related (see also, Deardorff, 2000; and Krugman, 2000).

In this paper we follow the FCT approach and use the notion of the Equivalent Autarky Equilibrium in order to obtain the dual definition of the Factor Content of Trade and to relate changes in FCT to changes in factor rewards. In addition, we allow for a more general technology (jointness in output quantities) which implies that changes in endowments affect factor rewards and that there is no Factor Price Equalisation. So what is an Equivalent Autarky Equilibrium and how do we define the FCT using duality? First, the EAE is a hypothetical equilibrium, where production equals consumption, at the same product prices and at the same utility level as in the trading equilibrium. This can be achieved by changing the initial endowment of the economy so that it is able to produce what it desires to consume, having no incentive to trade with other countries. Second, the dual definition of the FCT is simply the difference of endowments between the Trade Equilibrium and the EAE.

The empirical part of the paper considers three aggregate goods: an exportable, an

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importable and a non-tradable, and three inputs: capital, skilled labour and unskilled labour for the US manufacturing sector. We use data from Dale's Jorgerson database, the NBER collection of Mare-Winship Data and the Centre for International Data at the University of California Davis. In contrast to all previous FCT studies which rely on the use of input-output matrices to calculate the FCT (see Borjas et al., 1992 and Katz and Murphy, 1992), we calculate the FCT by directly estimating the endowments required to achieve the EAE. This is accomplished by estimating a revenue function and by making use of the dual definition of the FCT.

In Figure 1 we plot the FCT in billions of 1970 USD for all three factors. We observe that FCT of capital, f_K, was positive and generally increasing throughout our sample period. The FCT of both skilled, f_S, and unskilled, f_U, labour was negative and declining until 1986 and then increased till 1991, with the FCT of skilled labour having a relatively smaller magnitude. Hence, there was no Leontief Paradox in the US for the period 1965-1991 in our framework and the US economy was exporting the services of capital and importing the services of both types of labour.

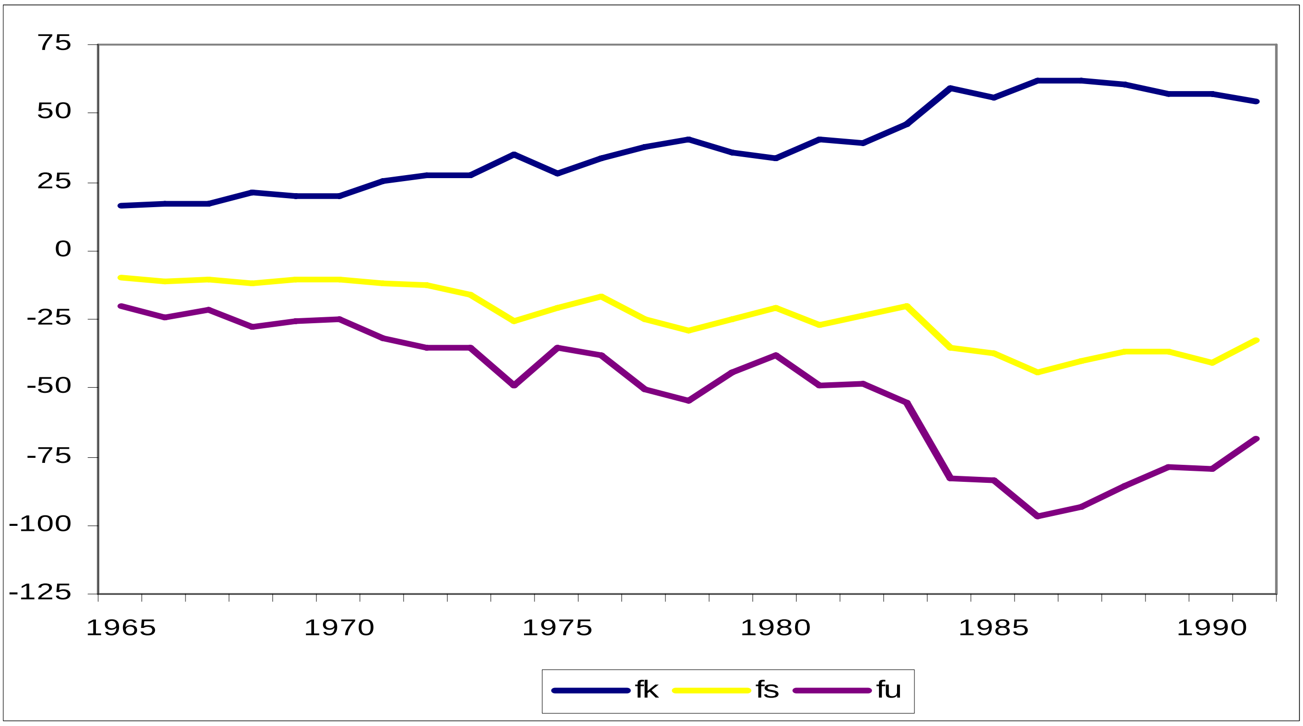
We then proceed into a decomposition of the growth rates of factor rewards in the Trade Equilibrium for the period 1967-1991 into two steps. First we obtain an expression that relates the difference of the factor rewards between a Trade Equilibrium and an EAE to the FCT. Then by using the information that in EAE product prices are not exogenous but depend on endowments and technological change, we are able to decompose the growth rate of factor rewards in the Trade Equilibrium into the growth rate of FCT, the growth rate of endowments and technological change.

In particular, there are two components of the FCT Effect; one arising from the more general technology that we use, the other a conventional FCT Effect coming from changes in product prices. Similarly, the Technology Effect has two parts; an exogenous technological change effect and an endogenous one, due to the fact that product prices are endogenous in EAE.

We find that the growth rate of the reward for both types of labour increased from the overall FCT Effect, while the reward to capital had losses. Bearing in mind that capital is the only factor that had experienced positive and high magnitudes of FCT, it strikes as confusing the result that the FCT Effect had a negative impact on the growth of capital's reward. But this seems to be the result of the more general technology that we used, since the FCT effect from prices for capital is positive and has the highest magnitude. The endowment effect was positive for the growth of the wages of unskilled workers and negative for the wages of skilled workers and the reward to capital. This in accordance with two facts; firstly that capital and skilled labour endowments increased over time, while the quantity of unskilled labour fell, and secondly, that factor rewards depend on endowments. Lastly, technological change had a positive effect in all factor rewards with capital experiencing the highest gains and unskilled labour the lowest. Finally, from the above discussion it appears that technological change and not international trade is the most important determinant for the decline in relative factor rewards for unskilled workers in the US from 1967 to 1991.

Agelos Delis is a GEP Research Fellow at the University of Nottingham.

Figure 1. The Factor Content of Trade for all three factors in US 1967-1991



Further Readings

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Leverhulme Globalisation Lectures

Martin Wolf
Associate Editor and Chief Economics Commentator,
The Financial Times

on 'Why the Subprime Crisis is a Turning Point for the World Economy'

12th March 2008, 5pm

Hamid Mughal,

Executive Vice President,
Rolls-Royce plc

23rd April 2008, 5pm

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

Seventh Annual GEP Postgraduate Conference

10th - 11th April, 2008 at the University of Nottingham

This Conference provides a forum for the dissemination of student research relating to issues of Globalisation and Economic Policy from both theoretical and empirical perspectives. These areas include Foreign Direct Investment, Trade, Productivity, Economics of the MNEs, Migration and Labour Market Adjustment.

Keynote speaker:

Professor Chris Milner, Professor of International Economics, University of Nottingham.

Professor Chris Milner

Objectives:

The objective of the Conference is to bring together a number of PhD students to discuss their own research ideas with established researchers in a relaxed and open atmosphere. The Conference is open to graduate students engaged in the preparation of a doctoral dissertation or approaching this stage. Speakers will be selected on the basis of submitted abstracts.

Best paper prize:

The Organising Committee will award a prize for the best paper presented at the Conference.

Conference Convenors:

Dr Tom Ivlevs

Dr Liza Jabbour

Daniel Bernhofen

Giovanni Facchini

Conference Report on Globalisation and Migration

In October 2007, GEP hosted a one day Conference on Globalisation and Migration. In this Conference Report, the conveners **Professor Daniel Bernhofen** (GEP, University of Nottingham) and **Professor Giovanni Facchini** (University of Essex) outline the themes of the papers presented, along with their main findings.

On 19th October 2007, GEP's Theory and Methods Programme organised a conference on Globalisation and Migration. The aim of the conference was to bring together scholars from the UK, Europe and North America who study migration from different sub-disciplines of economics: international trade, labour economics, economic history and macroeconomics. The 7 speakers were Wilhelm Kohler (University of Tübingen, Giorgio Barba Navaretti (University of Milan), Giovanni Facchini (University of Essex), Timothy Hatton (University of Essex), Sharun Makund (Tufts University and University of Warwick), Marta Aloi (University of Nottingham and GEP) and Artjoms Ivlevs (University of Nottingham and GEP).

The paper discussants were GEP's Richard Upward, Holger Görg, Peter Wright, Daniel Bernhofen and Udo Kreickermeier, as well as Mark Roberts (University of Nottingham) and Alex Hijzen (OECD).

The Conference was launched by Wilhelm Kohler's paper *'Absorbing German Immigration: Wages and Employment'* (co-authored with Gabriel Felbermayr and Wido Geis) which investigates the labour market effects of immigration into Germany. The authors first incorporate unemployment into Borjas' labour market approach, and then use this model to estimate the effects of immigration on the wages and employment levels of native Germans and pre-existing immigrants. While immigration hurts pre-existing immigrants, the effects on native Germans are very moderate.

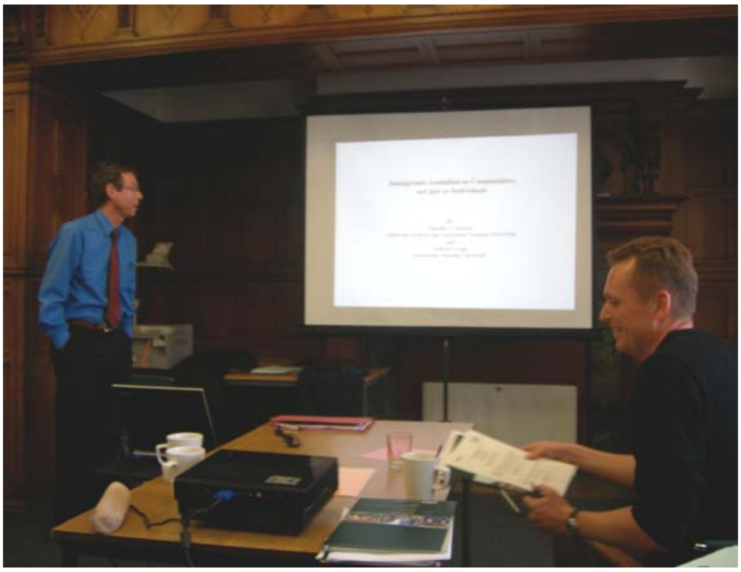
Giorgio Barba Navaretti presented a paper on *'Offshoring and Immigrant Employment: Firm-level Theory and Evidence'* (co-authored with Giuseppe Bertola and Alessandro Sembenelli) which studies the behaviour of a large sample of Italian firms where information is available on both immigrant employment and production offshoring. The empirical evidence suggests that offshoring, especially of intermediate production stages, is more prevalent for larger firms and decreases the shares of unskilled employment in domestic production facilities, as well as that of immigrant workers.

Giovanni Facchini's paper (co-authored with Anna Maria Mayda and Prachi Mishra) *'Do Interest Groups Affect Immigration?'* investigates how lobbying shapes US immigration policy. Their analysis employs a new dataset that allows them to identify the purpose for which lobbying activities are carried out. They find that sectors in which pro-immigration business groups are more engaged face more open migration policies. On the other hand, sectors in which labour unions are more active are characterized by more restrictive migration policies.

Timothy Hatton adds a historical perspective

Continued next page

to the debate on migration; his paper '*Immigrants Assimilate as Communities, Not Just As Individuals*' (co-authored with Andrew Leigh) investigates whether the legacy of past immigration in the US matters for economic outcomes of current US immigrants. Using a data set that combines historical immigration stock variables, dating back to the 1860s, with US census data from the last two decades, he finds that past immigration stocks are significant in explaining wage differentials between natives and new immigrants.



Tim Hatton (left) *and discussant Richard Upward* (right)

Sharun Mukand investigates the welfare effects of migration from a political economy perspective. In his paper '*Workers Without Borders?*' (co-authored with Sanja Jain) Sharun develops a theoretical framework that examines the effects of migration programs on the welfare of the host country and the foreign workers. An interesting finding of his model is that any policy measure which improves the bargaining power of foreign workers increases not only the welfare of the foreign workers, but also the welfare of the host country.

Marta Aloi studies migration and labour market institutions from a macroeconomic perspective. Her paper '*National Labour Markets, International Factor Mobility and Macroeconomic Stability*' (co-authored with Teresa Lloyd-Braga) investigates the conditions under which free labour movement might improve welfare by mitigating macro instability induced by the free movement of capital. She finds that differences in countries' average firm size and labour market institutions play a key role in determining whether free migration leads to welfare gains in the form of reduced unemployment and increased world output.

Tom Ivlevs uses survey data on attitudes towards immigrants to identify the determinants of local preferences for immigrants. His paper '*Ageing, Births and Attitudes Towards Immigration: Evidence from Two Transition Economies*' studies two countries that are characterized by stark differences in their regions' birth rates: Latvia and Ukraine. He finds that sentiments towards immigrants are more favourable among the elderly and in regions with low birth rates. Tom interprets his results as evidence for the hypothesis that natives view the influx of immigrants as a possible solution to their pension problem.

Participants at GEP's Globalisation and Migration Conference

Overall, the day was characterised by stimulating presentations and insightful audience discussions. The Conference has made clear that the study of migration has migrated through quite a number of different sub-fields of economics.

Visitors to GEP in 2008

January 2008

Professor Marius Brülhart, University of Lausanne

February 2008

Professor Joseph Francois, Johannes Kepler Universität, Linz

Dr Nao Ijiri, Nihon University

Professor Tomohiko Inui, Nihon University

Dr Subramaniam Pillay, University of Nottingham, Malaysia

March 2008

Peter Egger, University of Munich

Professor Pascalis Raimondos-Møller, Copenhagen Business School

Martin Wolf, Associate Editor, *The Financial Times*

April 2008

Professor Rob Feenstra, University of California at Davis

Hamid Mughal, Executive Vice-President, Rolls Royce plc

Professor Gianmarco Ottaviano, University of Bologna

May 2008

Professor James Anderson, Boston College
Professor Michael Funke, Hamburg University
John Martin, Director for Employment, Labour and Social Affairs, OECD
Professor Steven Matusz, Michigan State University
Professor James Rauch, University of California
Professor Mark Roberts, Penn State University
Professor Fredrik Sjöholm, Research Institute of Industrial Economics, Stockholm

GEP February Workshop

GEP will host a Workshop at Nottingham for the **International Study Group on Exports and Productivity**, led by Joachim Wagner (University of Lüneburg), on 27th and 28th February 2008.

Over the last five years, one area of intense research activity within economics has been in establishing the relationship between exports and productivity. This Workshop draws on the experience of researchers from across Europe and beyond in a project to establish the appropriate methodology to answer this question, and to present frontier research. This is the second year in which the Workshop is to be hosted by Nottingham, and the event presents a good opportunity to plan the future research agenda.

Participants include:

Flora Bellone	University of Nice - Sophia Antipolis
Davide Castellani	University of Perugia
Joze Damijan	University of Ljubljana
Jose Farinas	University Complutense, Madrid
Stefanie Haller	Economic and Social Research Institute, Dublin
Crt Kostevc	University of Ljubljana
Hans Lööf	Royal Institute of Technology, Stockholm
Ricardo Lopez	Indiana University
Juan Manez	University of Valencia
Ana Martin	University Complutense, Madrid
Lionel Nesta	University of Nice - Sophia Antipolis
Mauro Pisu	National Bank of Belgium
Saso Polanec	University of Ljubljana
Maria Rochina	University of Valencia
Juan Sanchis	University of Valencia
Chiara Tommasi	University of Milan
Joachim Wagner	Lüneburg University
Frederic Warzynski	Universidad Carlos III de Madrid

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

New GEP Research Papers
www.gep.org.uk/research_papers

2007/45 **Switgard Feuerstein**

Registration Taxes on Cars Inducing International Price Discrimination: An Optimal Tariff Approach

Summary: Registration taxes on cars induce low pre-tax prices and therefore explain international price discrimination within the EU. The paper theoretically analyses the effects of the European Commission's policy of facilitating arbitrage and reducing price differences on prices, quantities, welfare and the optimal tax rate.

2007/44 **Sourafel Girma, Yundan Gong and Holger Görg**

Foreign Direct Investment, Access to Finance, and Innovation Activity in Chinese Enterprises

Summary: Our econometric analysis shows that access to finance is an important issue for firms' innovation activity, and their ability to benefit from inward FDI. This, however, is mainly the case for private and collectively owned firms, less so for state-owned firms which are the beneficiaries from the current financial system.

2007/43 **Holger Görg and Aoife Hanley**

International Services Outsourcing and Innovation: An Empirical Investigation

Summary: Consistent with theory, we observe a positive relationship between international outsourcing of services and innovative activity (measured as R&D) at the plant level, but only for plants operating in the manufacturing sector. We do not find any such effect for plants in services industries.

2007/42 **Ingo Geishecker, Holger Görg and Jakob Roland Munch**

Do Labour Market Institutions Matter? Micro-level Wage Effects of International Outsourcing in Three European Countries

Summary: We use individual level data sets for the UK, Denmark and Germany, and construct comparable measures of outsourcing at the industry level, distinguishing outsourcing to Central and Eastern Europe from other countries. Estimating the same specification for the three countries to provide comparable results shows that there are some interesting differences in the effect of international outsourcing on wages across countries.

2007/41 **The International Study Group on Exports and Productivity**

Exports and Productivity - Comparable Evidence for 14 Countries

Summary: We use comparable micro level panel data for 14 countries and similar empirical models to investigate the relationship between exports and productivity. Our results show that exporters are more productive than non-exporters; there is strong evidence in favour of self-selection but nearly no evidence in favour of the learning-by-exporting hypothesis. We find that countries that are more open and have more effective government report higher productivity premia.

2007/40 **Jun Du and Sourafel Girma**

Red Capitalists: Political Connections and The Growth and Survival of Start-Up Companies in China

Summary: This paper analyses the role of political connections in the post-entry performance of private start-up companies in China. It shows that political affiliation enhances firms' survival and growth prospects, even if politically neutral firms enjoy faster productivity improvements.

2007/39 **Jun Du and Sourafel Girma**

Does The Source of Finance Matter for Firm Growth? Evidence from China

Summary: The paper examines the relationship between financial structure and firm growth in China, and shows that the relative importance of the different financing sources depends on firm ownership and growth channel.

New GEP Research Papers (continued)
www.gep.org.uk/research_papers

2007/38 Richard Upward and Peter Wright

Snakes or Ladders? Skill Upgrading and Occupational Mobility in the US and the UK During the 1990s

Summary: The process of skill upgrading may offer the opportunity for low-skilled workers to move up the 'skill ladder'. We use comparable individual-level panel data from the US and the UK to relate the probability of individual occupational movement to the extent of skill upgrading at the industry level.

2007/37 Alex Hijzen, Mauro Pisu, Richard Upward and Peter Wright

Employment, Job Turnover and the Trade in Producer Services: Firm-Level Evidence

Summary: The paper examines the relationship between financial structure and firm growth in China, and shows that the relative importance of the different financing sources depends on firm ownership and growth channel.

2007/36 Martyn Andrews, Lutz Bellmann, Thorsten Schank and Richard Upward

Foreign-Owned Plants and Job Security

Summary: Using linked employer employee data from Germany, we examine whether foreign-owned establishments are more likely to exit production, and whether workers in foreign-owned establishments face higher separation rates, net of establishment exit. We find that foreign-owned establishments do have higher exit rates and higher separation rates, but the effect is quantitatively small.

2007/35 Roger Bandick and Patrik Karpaty

Foreign Acquisition and Employment Effects in Swedish Manufacturing

Summary: This paper investigates the employment effects of foreign acquisitions in acquired firms in Swedish manufacturing during the 1990s. The results suggest that foreign acquisitions have led to increased employment and skill intensities in acquired non-MNEs but not in acquired Swedish MNEs.

2007/34 Rod Falvey, David Greenaway and Joana Silva

Trade Liberalisation and Human Capital Adjustment

Summary: This paper highlights the way in which workers of different age and ability are affected by trade liberalisation. The younger and more able unskilled-workers are most likely to upgrade. But not all upgraders are better off as a result of the liberalisation. The older and less able upgraders are likely to lose.

2007/33 Maria Garcia-Vega and Alessandra Guariglia

Volatility, Financial Constraints, and Trade

Summary: This paper develops a dynamic monopolistic competition model with heterogeneous firms to study the links between firms' earnings volatility, the degree of financial constraints that they face, their survival probabilities, and their export market participation decisions.

2007/32 Kailei Wei, Shujie Yao and Aying Liu

Foreign Direct Investment and Regional Inequality in China

Summary: Using the largest panel dataset for the Chinese regions over 1979-2003 and employing an augmented Cobb-Douglas production function, this paper shows that FDI has been an important factor of economic growth in China. It also suggests that it is the uneven distribution of FDI instead of FDI itself that has caused regional growth differences.

GEP Researchers

Internal Research Fellows

Professor David Greenaway (Director), Dr Marta Aloi, Professor Daniel Bernhofen, Dr Spiros Bougheas, Professor Richard Cornes, Dr Agelos Delis, Dr Bouwe Dijkstra, Professor Rod Falvey, Dr Switgard Feuerstein, Professor Sourafel Girma, Dr Holger Görg, Dr Yundan Gong, Dr Alessandra Guariglia, Dr Tom Ivlevs, Dr Liza Jabbour, Dr Richard Kneller, Dr Udo Kreickemeier, Professor Chris Milner, Dr Arijit Mukherjee, Professor Doug Nelson, Professor Lina Song, Dr Richard Upward, Dr Peter Wright, Professor Shujie Yao, Dr Zhihong Yu, Xufei (Florence) Zhang

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Policy Associates

Mary Amiti (New York Federal Reserve Bank), Kym Anderson (The World Bank), Bob Anderton (European Central Bank), Heather Booth di Giovanni (Department for Business Enterprise and Regulatory Reform (BERR)), Tony Clayton (Office for National Statistics), Cletus Coughlin (Federal Reserve Bank of St Louis), Adriaan Dierx (European Commission), Peter Dodd (DTI), Zdenek Drabek (World Trade Organisation), Andrew Gurney (HM Treasury), Tim Harcourt (Australian Trade Commission), Bernard Hoekman (The World Bank), Sébastien Jean (OECD), Nannan Lundin (Organisation for Economic Co-operation and Development), John Martin (Organisation for Economic Co-operation and Development), Ken Warwick (Department for Business Enterprise and Regulatory Reform (BERR))

Leverhulme Centre
for Research on Globalisation and Economic Policy

The Globalisation and Economic Policy Centre

GEP – the Globalisation and Economic Policy Centre – is the major centre in Europe studying the impacts of globalisation and economic policy, and one of the biggest of its kind in the world. The Centre has an impressive international reputation; its academics have advised the Treasury, the OECD, the World Bank and WTO.

GEP was established in the School of Economics at the University of Nottingham in 2001. Its research and dissemination activities are structured around four Research Programmes, linked by the common theme of globalisation:

1. Theory and Methods
2. Globalisation and Labour Markets
3. Globalisation, Productivity and Technology
4. China and the World Economy

GEP 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. For more information visit: www.gep.org.uk

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