

möglich, das ebenfalls 1984 im Rahmen der staatlichen Entwicklungshilfe initiiert wurde und wo Studenten aus China seit 1989/90 das größte Kontingent stellen.

Letztlich wären auf österreichischer Seite noch private Initiativen und Vereine zu erwähnen die sich der Förderung der bilateralen Beziehungen in ihren verschiedenen Dimensionen verschrieben haben. Hier sei vor allem die „Gesellschaft zur Förderung freundschaftlicher und kultureller Beziehungen zur VR China (ÖCGF) genannt, die 1973 aus dem 1971 gegründeten „Österreichischen China Forschungsinstitut“ (ÖCF) hervorging und neben kulturellen Veranstaltungen, Öffentlichkeitsarbeit, Reiseorganisationen für Delegationen und anderem auch ein einschlägiges Lehrprogramm umfasst. Spezielle Forschungsaufgaben werden in enger Kooperation mit dem 1978 gegründeten Institut für China und Südostasienforschung der Ludwig Boltzmann Gesellschaft durchgeführt. In jüngster Zeit gibt es mehrere Initiativen, an der Wirtschaftsuniversität Wien in Form privater Vereine, Informationen über den asiatischen Raum und daher auch über China, in Österreich zu verbessern: Austro-Süd-Ostasiatische Gesellschaft (ASOAG, gegr. 1995); interdisziplinäres Forschungsinstitut für Asienstudien (1997; in Gründung).

	in Mio. S	Exporte		in Mio. S	Importe	
		Anteile in %	Chin. anteile am Export in die Entwicklungsländer insges. in %		Anteile in %	Chin. anteile am Import aus den Entwicklungsländern insges. in %
1970	139,8	0,2	2,8	320,7	0,3	5,3
1975	514,0	0,4	3,5	231,6	0,1	1,6
1980	1114,2	0,5	4,3	427,0	0,1	1,2
1981	733,4	0,3	2,1	680,9	0,2	1,7
1982	951,5	0,4	2,5	498,8	0,2	1,4
1983	731,0	0,3	2,0	570,3	0,2	1,9
1984	1755,1	0,6	4,7	756,2	0,2	1,9
1985	3136,8	0,9	7,5	1090,9	0,3	2,6
1986	2856,7	0,8	9,5	907,4	0,2	3,1
1987	2064,8	0,6	8,1	1380,1	0,3	4,7
1988	2052,5	0,5	7,6	2000,5	0,4	6,2
1989	2219,0	0,5	7,5	2875,9	0,6	7,3
1990	2879,3	0,6	8,7	4051,6	0,7	9,3
1991	3330,8	0,7	9,4	5391,9	0,9	11,3
1992	2594,4	0,5	7,3	5967,9	1,0	13,0
1993	3667,8	0,8	9,9	7780,3	1,4	16,3
1994	3727,2	0,7	9,7	9681,3	1,5	18,5
1995	4513,5	0,8	10,9	8232,9	1,2	18,7

Der österreichische Außenhandel mit China 1970–1995

Quelle: Außenhandelsstatistik des Österreichischen Statistischen Zentralamtes, WIFO-Datenbank

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The Factors that Disadvantage Unskilled Workers in the North: Trade With the South or Technical Progress?

I. Background and Motivation

The changing pattern of the international division of labour is one of the most topical economic issues of our times. In particular, the shift of competitive advantage in labour intensive manufacturing production from the richer OECD countries (North) to the poorer developing countries (South) has attracted a good deal of attention from commentators in developed countries. These commentators include politicians, such as the American Presidential candidate Ross Perot, and the former President of the European Commission Jacques Delors; journalists; trade unionists; and even church groups. There is a general adversarial attitude which views growth and development in the third world as being injurious to the North (see Krugman, 1994 for example).¹ The end of the cold war has certainly hardened developed country attitudes towards developing countries. But the more recent concern is motivated by the decline in employment in the North's traditional manufacturing sector. This has been accompanied by either or both rising unemployment or a fall in the wages of the unskilled group of the North's manufacturing labour force, the blue collar worker.

This phenomenon of declining employment/wages of the less privileged group in the North's labour force is said to have sparked off major social unrest, as well as promoting increased inequality in income, wealth and opportunity. More often than not, protection from the insidious sources of the competition driving these processes is demanded. The culprit is usually identified to be the relatively poorer countries in the developing world or South; where it is stressed that low wages and generally exploitable conditions have led to the wholesale movement of certain manufacturing activities. These arguments are most succinctly stated in Bhagwati (1994).² Free trade with the South should be eschewed

* I am grateful to an editor and two anonymous referees of this journal for useful comments on earlier versions of this paper.

1 Krugman (1994) attempts to dispel the attitude that growth in the South is harmful for the North.

2 Bhagwati, a fervent free trader, enumerates the various assaults upon the doctrine of free trade, past and present in this paper. Interestingly, unlike in the deep cold war era (1950–80), when the nations in the South advocated protectionism for their own markets, it is in the North where protectionism or managed trade policies are in vogue. The generally weaker South (in terms of international relations) seems to have embraced the idea of free trade as being beneficial to them, or at least unavoidable, if they are to make progress in the ubiquitous market economy *modus operandi*, which characterizes the present world.

as it pauperises unskilled labour in the North, as well as being detrimental to human rights and the environment. Indeed, much of the South's exports to the North is already heavily subject to protectionist measures (see Page 1994). Also, Krugman (1994) cites the calls made in certain quarters for *all* trade to be regulated along the lines of the Multi-Fibre Agreement, which assigns strict quotas to the textile and apparel exports of developing nations to industrialised countries. Such protectionist calls, and the measures already in place are a very great threat to global sustainable development.

The purpose of this paper is to review some of the conceptual economic issues involved in the argument that North-South trade is inimical to the interests of unskilled production workers in the North, in terms of jobs and living standards. It will be demonstrated that it is not trade but other factors, *internal* to the North, which contribute to this process of loss of competitiveness. These include technological change and innovation of new products in the North, as well as the nature of labour markets in the North. Section II of the paper examines trade and technology related issues, section III looks at labour market related issues, section IV analyses the impact of globalisation and finally section V concludes.

It is worthwhile reiterating some stylised facts about wages and employment at this juncture. There has been a secular trend towards a decline in manufacturing employment, as a share of total employment, in most of the advanced industrialised OECD nations. More recently, there has been a tendency for *wages* to decline in the USA and *employment* to fall in the Western European segment of the North (OECD). In the USA and the UK there has been an increase in wage dispersion. In other words, the earnings differential between the skilled (defined as those with qualifications and uninterrupted work experience) and unskilled has widened. Thus, there is a tendency towards growing income inequality in the UK and in particular, the USA. Taken in isolation the USA has seen a decline in average real wages during the 1980s. Measured in terms of 1982 consumer prices, average real hourly earnings in the USA in 1992 were 13.1% below their 1973 level (Lawrence and Slaughter 1993). Many erstwhile production workers were forced into lower paying, low productivity, service sector jobs. In the Western European segment of the North, real wages of all workers have not declined, due, in great part, to the more generous compensation available to the unemployed (including the long-term unemployed). But that part of the North has also witnessed a decline in traditional manufacturing employment. However we examine it, the disadvantaged group (either in terms of employment or real earnings) are the *unskilled* segment of the workforce in the entire North. The skilled are often classified as non-production workers in empirical studies, and the unskilled are categorised as blue collar production workers. Perhaps the best definition of the unskilled would include all workers with only the most basic education and training, irrespective of whether they are in manufacturing or the service sector.

II. Trade or Technical Progress?

In the recent past the South has managed to increase its export share of manufactured goods in the North.

Category	European Union		North America		Total OECD	
	1980/81	1990/91	1980/81	1990/91	1980/81	1990/91
All Goods	7.57	4.24	5.11	5.29	6.59	4.59
Primary Goods	30.11	16.88	22.33	13.05	30.16	17.78
All Manufactures	2.74	2.69	2.31	4.32	2.36	3.10
Textiles & Fibres	4.95	4.84	2.08	3.80	3.22	3.98
Clothing, Footwear						
Travel Goods	14.24	19.56	14.35	29.70	13.45	22.42
Machinery & Other Manufactures	2.49	3.99	3.48	8.86	2.63	5.05

Table 1: Imports from Developing Countries as a Percentage of Apparent Consumption

Source: OECD (1995)

Table 1 shows the slump in primary goods exports of the South to the North during the 1980s. Manufactured goods exports have risen, but only modestly with the exception of clothing and footwear. Countries in South-East Asia, East Asia, China and India have been remarkably successful in manufactured good export promotion to the North in the past decade. Even Latin America has also made a recent recovery in exporting manufactures to the OECD. Developing countries, however, still only have a negligible market share of total manufactured goods consumed in developed nations.

Moving on to conceptual issues, broadly speaking there are two types of trade literature relevant to North-South interaction in this area. The first can be described as the technical diffusion process. The paradigms here rely on an imperfectly competitive market structure (monopolistic competition) leading to the production of an increased variety of goods.³ Krugman (1979) extended this idea to the North-South sphere. In his model the North innovates new products which the South eventually imitates. The rate of innovation in the North is exogenous (given from the outside). The number of the older goods produced in the South depends on the real wage differential between the two regions. Grossman and Helpman (1991) endogenised (determined from within the economic system) this process of innovation in the North and imitation in the South. Dollar (1986) constructed a North-South model with technical diffusion and two factors of production, where capital is internationally mobile. An increase in the

³ This literature may be seemingly related to the earlier product cycle literature initiated by Vernon (1966), but the building blocks of the analyses contained in the modern literature are radically different from Vernon.

South's labour supply and/or technical diffusion from the North eventually leads to a rise in its equilibrium capital stock, productive capacity and real wages in the South increase in comparison to the North. Related to this literature are the ideas of the endogenous growth theory, with its emphasis on human capital (skills) formation as being crucial to growth, see Romer (1990) for example. If the South manages to accumulate an impressively high stock of human capital, and this feature is combined with low relative wage costs, it gives that region added competitive advantage.

The model in Murshed (1996) allows for process innovation (R&D) in the North which reduces the demand for unskilled labour in production. It is the North which is the technological leader, and part of its R&D spills over to the South as common knowledge. There are both skilled and unskilled labour inputs in Northern production, and other labour market features are incorporated. The model explicitly analyses trade policy initiated by both the North and the South. The paper which is in the macro-structuralist genre (see for example Murshed, 1992) is fashioned to address the question at hand as it combines technological, trade and labour market issue into a single theoretical model. Its theoretical findings do not lend support to the view that it is North-South trade that disadvantages unskilled workers in the North, rather the reason for the plight of that group lies in technical progress and the nature of Northern labour markets.

The other relevant theory invokes the Heckscher-Ohlin-Samuelson paradigm of international trade, and the related Stolper-Samuelson theorem about relative factor payments (see Wood, 1994, for example).⁴ This is the approach which is most commonly utilised to establish the link between increased trade with the South and declining wages of the unskilled in the North. Consider the following process wherein there are two goods one skill intensive and the other unskilled labour intensive. The North is more abundantly endowed with skilled labour compared to the South; hence it exports skill intensive goods to the South, importing unskilled labour intensive goods. Both types of goods are, however, produced in the North. An increase in trade with the South will therefore raise that region's exports of unskilled labour intensive manufactured products. Employment in the unskilled manufacturing sector in the North will decline. In labour markets characterised by institutional rigidities, and in the presence of specific factors as well as inter-sectoral labour immobility of unskilled labour, unemployment could rise in the North. Alternatively, in flexible labour markets the relative wage of the unskilled would fall.⁵ The disadvantaging aspects of trade with the South will bear most heavily on the most unskilled segment of any contracting industry in the North.

According to the Stolper-Samuelson theorem, the real wage of unskilled manufacturing workers in the North relative to the skilled can only decline if and

4 Other studies that suggest that trade with the South lowered unskilled labour wages in the USA, include Murphy and Welch (1991).

5 Inflexible labour markets are common in the European part of the OECD, whereas labour markets in the USA tend to be more flexible.

only if the relative *price* of unskilled labour intensive manufactured goods decline. Thus, if there is empirical proof that the relative price of unskilled labour intensive manufactured imports declined relative to skilled labour intensive export prices (for the USA say); then and only then is there evidence of trade related disadvantaging of unskilled labour. The empirical evidence on the contribution of the Stolper-Samuelson process towards the lowering of the unskilled manufacturing relative wage in the USA is the subject of some controversy. Lawrence and Slaughter (1993) show that the relative price of unskilled labour intensive manufactured goods actually rose in the 1980s, compared to skill intensive manufactures such as computers, whose prices fell reflecting technical progress in those industries. This is disputed by Sachs and Shatz (1994); who use a different data set, excluding computers,⁶ finding that the contribution of trade towards the lowering of unskilled wages was *slight*.

A recent symposium on the issue of trade and labour markets was contained in the *Journal of Economic Perspectives* (Summer, 1995). In it, Richardson (1995) presented an integrated trade and labour market model. It concluded that trade could be a partial explanation for the falling wages of the unskilled, but other factors were equally important. Trade after all also contributes to economic growth and raises employment of all. Freeman (1995) was even more sceptical about the effect of trade on the process of falling unskilled labour employment and wages. He argued that given the fact that increased numbers of the unskilled are being employed in non-traded services, trade could have little effect on this process. Wood (1995) disputed the magnitude of the job displacement effect of trade.

Irrespective of the direction of change in the relative price of unskilled to skilled labour intensive manufactured goods, the causal nexus between trade with the South and the impoverishment of unskilled workers in the North can be dismissed if there is technical progress favouring the skilled. In other words, if technical progress is of the type that raises the productivity of the skilled group, it will increase their wages relative to the unskilled. Lawrence and Slaughter (1993) find considerable support for the view that labour augmenting technical progress did lower the relative real wage of the unskilled in the USA (defined as non-agricultural production workers). In fact, they find that technical change in manufacturing was *biased* towards skilled labour (non-production workers) and more concentrated in activities using more skilled labour (computers, for example). The effect of this bias is that technical progress benefits the skilled in terms of wages and employment, and could actually disadvantage the unskilled. Thus, according to these and other authors, the relative decline in the real compensation of unskilled manufacturing labour in the USA is explained mainly by biased technical progress raising the productivity of the skilled. One cannot rule out the possibility that biased technical progress in favour of the skilled is in itself induced by other developments. These include the increased worker power

6 This is, arguably, a rather serious omission.

of the 1960s, and the general development of real wage rigidity in Western Europe during this period. This point has received relatively little serious attention in the literature.

In summary, trade with the South cannot explain the fall in unskilled labour's relative wages, as the prices of manufactures intensively utilising this factor actually increased. Thus, if anything, by the Stolper-Samuelson theorem, the relative wages of the unskilled should have risen. Rather it is biased technical progress, favouring the skilled that is really to blame. The skilled-unskilled labour dichotomy should be more generally based on differences in endowments of education, training and job experience; with the unskilled group having relatively less of all these endowments.

III. Labour Market Issues

The second approach concerns itself with labour market imperfections in the North, see Layard et al. (1991). Real wage rigidity, common in Western Europe, could cause unskilled wages in the North to become too high. This may lead to the relocation of unskilled labour intensive manufactures to the South. Furthermore, it may induce labour saving technical progress of the type alluded to in the previous section. The social security system has a role to play in this. In the Western European segment of the North there is a strong tendency for the unemployment benefit system to preserve the living standards of the unwaged. A decline in unskilled labour demand leads to quantity rationing, increased unemployment. By contrast, in the USA the same decline in demand can lead to a fall in real wages or employment in less remunerative jobs in the service sector, due to the less extensive benefit structure there for the long term unemployed.

There are a number of factors in labour markets that could be inimical to the interests of unskilled workers, as discussed in Bhagwati and Dehejia (1994). The first is to do with the fact that the unskilled acquire little in terms of job related experience if they frequently have to change employment. This could prevent them from eventually becoming a part of the skilled segment of the labour force. The second issue is to do with uncertainty about future skilled/unskilled wage differentials. This uncertainty could actually deter investment in skill acquisition on the part of the unskilled.

Another contributory process at work might be the impact of greater globalisation, and increased trade, on the level of worker unionisation and the willingness of firms to recruit from a pool of unionised labour. It is well known that unionised labour (call them labour market insiders) earn more than non-unionised workers (outsiders). Globalisation and increased trade could reduce the proportion of insiders in the labour force, or even force them to be more realistic in their pay claims. Adamson and Partridge (1996) empirically demonstrate the indirect impact of trade on wages via the unionisation mechanism in the USA.

Increased international exposure might reduce the probability of firms hiring unionised workers, lowering union rents extracted by production workers. Thus, globalisation may constitute a threat, one which moderates wages in the unionised sector, lowers union membership, or reduces the number of workers in the labour aristocracy.

Productivity and wages in the service sector might help explain the puzzle of the falling relative wage of the unskilled in the USA. As Leamer (1995) points out, declining employment in manufacturing need not cause a fall in average real wages, if the workers released from manufacturing can be reabsorbed in a high paying/highly productive service sector. In the USA and the UK the recent expansion in the service sector has mainly been in low paid occupations. This points to a low productivity increase, in contrast to the experience of nations such as Germany, France and Japan. Since the employment share of services and non-traded goods has increased, implying that displaced unskilled workers and new unskilled entrants to the labour market work in low productivity/low wage service sector jobs, this partially explains the skilled (non-production)- unskilled (production) wage gap in manufacturing, at least in the USA.

IV. The Impact of Greater Globalisation

We are all conscious of the fact that the present day international economy is highly integrated, and that we all live in a global village, in every sense of the term. What we are less aware of is the fact that the world economy was equally interdependent, in terms of merchandise trade, before the first world war (in 1913). From 1914 until about 1950, however, international trade contracted, particularly during the protectionist and bilateralist phase of the inter-war period.⁷ Figures cited in Krugman (1995) indicate, for example, that the share of trade in the UK's GDP was 27.7% in 1913, declining to 13.1% in 1950 and recovering to 21.1% in 1987. The same figures, for a more inwardly oriented economy, the USA are 3.9%, 2.9% and 7.4% respectively. In the case of Germany they are, 19.9%, 9.8% and 23.3%. Thus the world economy, in terms of the value of trade, is recovering to its pre-first world war golden age. Also, much of the developments in communication and transportation that facilitate merchandise trade had already occurred by the end of the nineteenth century.

But there are important differences in the current spate of globalisation, compared to the qualitatively similar developments of the last century. The first is to do with the fact that there is a great deal of intra-industry trade now, compared to the pre-war inter-industry trade. Intra-industry trade means trade in different varieties of the same product. [Germany and Japan both export cars

⁷ By bilateralist, I mean special trading arrangements within economic blocs; such as the British Empire's Imperial Preference scheme, Japan's arrangements within the Co-Prosperty Sphere and Germany's special trading arrangements. The USA became increasingly inward looking.

to one another]. Inter-industry trade means trade in different products. [Britain exports machinery to India, in return India exports cotton].

Secondly, the pace of the modern day communications, and the fact that much of the value added of many goods consists mainly of R&D costs have made many industries globally "footloose". By this we mean that the production activities of most goods can travel great distances, and migrate from one country to another with relative ease. A further development is in the words of Krugman (1995), "the slicing up of the value chain". This means that different stages of the production of the same commodity may take place in different countries and parts of the world.⁸ For example, certain computer components may be produced in Malaysia, others in the Philippines, and the final good may be made in Japan. This means that different countries compete with one another in terms of cost and comparative advantage in producing an ever thinning slice of the value chain. Most importantly, is the phenomenon described by Bhagwati and Dehejia (1994) as "kaleidoscopic" comparative advantage. This implies that comparative advantage in the production of a good can shift rapidly between nations. During one year, the cost and comparative advantage in producing a certain good, or part of a good, may rest in one nation, in the next year it may shift elsewhere. All of these developments are harmful to unskilled workers; who may find themselves frequently changing jobs between different low paid occupations, or experience a decline in their real wage.

Another phenomenon, due to increased globalisation, are the increased long-term capital flows from North to South in the form of foreign direct investment. This can also raise the relative size of the South's capital stock, especially that part devoted to manufacturing unskilled labour intensive products. This process, when combined with the South's lower wage structure, can further disadvantage the unskilled in the North. This point was emphasised in Sachs and Shatz (1994). Given that the 1980s saw substantive negative net transfers to the South, in the form of the South's debt servicing to the Northern financial sector; and the fact that foreign direct investment from North to South has only recommenced substantially very recently, we may be sceptical of the actual empirical weight of this process. In fact, intra-OECD foreign direct investment grew rapidly in the 1980s at the expense of developing countries. In 1980 the developing country share of foreign direct investment was 22% of the total (OECD, 1995). This fell to 13% by the mid-1980s. In recent years there has been a recovery, the share of developing countries had risen to 37% in 1993; but the direction of this investment is to a select group of countries in the South, and also connected with the recession in the North.

Finally, another strand related to globalisation are the long-term consequences of the macroeconomic policies pursued with varying rigour in all the countries of the North in the 1980s. This point is often ignored in much of the discussion regarding the causes of the declining fortunes of unskilled workers in the North.

⁸ The technical term is the vertical disintegration of production in the spatial sense.

Contractionary monetary policy (all major OECD nations), expansionary fiscal policy (the budget deficits in the USA) and the effects of natural resource based revenues (UK's North Sea oil revenues); all features of the early to mid 1980s, can contribute to exchange rate over-valuation (see Dornbusch, 1986). If this feature is persistent, as was the case with the dollar and sterling in the 1980s, it might go a long way towards making many industries uncompetitive in domestic and world markets. It could encourage near permanent import penetration into the markets of many of these economies, contributing to domestic de-industrialisation. Some of these industries could relocate in more profitable and lower cost destinations, which could include nations in the South.

V. Concluding Observations

As such the proponents of the trade based explanation for the disadvantaging of the unskilled in the North, favoured by Wood (1994, 1995) and others, are putting forward an argument which can be described as inverse unequal exchange. The earlier paradigms of unequal exchange such as Emmanuel (1972) stressed the unequal nature of North-South interaction for workers in the South⁹. The present group are suggesting that North-South exchange is inimical to the interests of workers in the North. It is subject to the same critique as was Emmanuel's (1972) notion of the opposite type of unequal exchange. That is to say, North-South trade is more a symptom than the cause of disadvantaging tendencies. This argument is also stated by Deardorff in his comments on Sachs and Shatz (1994, p. 71), where he argues that international trade cannot be viewed as an independent *exogenous* process; but rather that trade *reflects* the effects of other processes in motion such as technical change. Also, greater globalisation is a reflection of changes, which include *inter alia* phenomena such as a higher degree of openness and trade liberalisation.

In summary, the main reason for the present predicament of the unskilled in the North is the biased technical progress that favours the skilled; as well as labour market institutions that perpetuate rigidities, together with a general dislike for corrective re-distributive policies within societies in the North.

The vast social problems engendered by the mass unemployment/low wages of the unskilled in the North does merit more than passing attention. The answers lie in labour markets and re-distributive policies. The solutions could be: (i) Promoting the acquisitions of skills in Northern labour markets. (ii) Encouraging flexibility of wages in West European labour markets. (iii) Providing more income support to the long term unemployed, particularly in the USA. (iv) Providing more publicly supported employment for the long-term unemployed, especially in Europe. In the final analysis, the political will and a collective social decision to meet the considerable costs of these measures has to be present. This will

⁹ North-South trade amounted to unequal exchange as profit rates were equalised across both regions, but not real wages, which remained lower in the South.

appears to have become weaker in many countries in the North, especially the English speaking nations, since the early 1980s. The alternative to costly measures to aid the underprivileged is a growing social acceptance of increased inequality and deprivation amongst a segment of the population, akin to the situation prevalent a century ago.

Finally, there is a danger that the discussion about the nature of North-South trade could descend into a cultural diatribe that attacks economic interaction with the South (Richardson 1995 alludes to this). This mentality, one that differentiates between trade with ourselves (intra-Northern trade) as being superior to trade with them (the South), for a variety of non-economic reasons, should be resisted.

Abstracts

Dieser Artikel analysiert kritisch die verschiedenen Ursachen, die für die Verschlechterung der Arbeitsbedingungen (im Sinne von Löhnen oder Arbeitsplätzen) im Segment der unqualifizierten Arbeitskräfte in den entwickelten Ländern (Norden) angeführt werden. Ein Argument, welches im politischen Bereich eine ziemlich hohe Glaubwürdigkeit erreicht hat, ist jenes, welches angibt, daß der internationale Handel mit dem Süden zur Verarmung der benachteiligten Arbeitskräfte im Norden führt. Ich argumentiere hier, daß es nicht der Handel mit dem Süden per se ist, der Verschlechterungen für die unqualifizierten Arbeitskräfte im Norden bringt, sondern daß dies vor allem mit dem Prozeß der technologischen Veränderung, den Imperfektionen auf den Arbeitsmärkten und der räumlichen Mobilität der Produktion zu tun hat.

This paper critically examines the various reasons put forward for the declining fortunes (in terms of wages or employment) of the unskilled labour segment of the labour force in developed countries (North). One argument, which has gained considerable credibility amongst policy makers, is that trade with the South will pauperise the less fortunate members of the Northern work force. I argue that it is not trade with the South, per se, which hurts unskilled labour in the North, but mainly the process of technical change, the nature of labour market imperfections and the spatially mobile nature of production.

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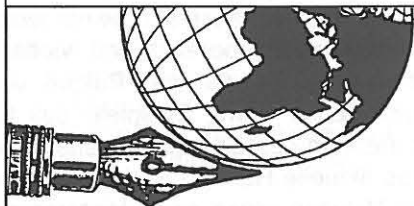
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