2008-03-17

PRESS RELEASE

Job creation, job destruction and firms' international trade involvement
by M. Pisu

NBB Working Paper No 130 - Research Series

Research on the impact of the globalisation process on employment has traditionally relied on data at industry or country level. Standard economic trade theories predict that trade liberalisation will cause job reallocation from import-competing to export-oriented sectors, according to their comparative advantage. Yet, the empirical literature has mainly failed to detect any such between-industry job reallocation process. Most of the reallocation appears to take place within industries, however narrowly they are defined, rather than between them. Many empirical studies have corroborated the fact that this is due to firm-level heterogeneity. Each sector of the economy is populated by firms with different productivity levels and growth rates. This mere fact creates a large job reallocation process within each sector, with some firms expanding and creating jobs while others contracting and destroying them. This will happen irrespective of the comparative advantage position of their sector.

Also, in the last ten years a large body of empirical evidence focusing on firm-level international activities has revealed that companies involved in international markets are different from purely domestic firms. Generally speaking, they are more productive, employ more workers and grow faster. These stylised facts have recently been incorporated into a new class of theoretical models based on heterogeneous firms rather than on the representative firm. These models link the process of intra-industry job reallocation to firm-level participation in international markets. Since starting to trade internationally is costly only some firms will able to do so. These companies will be able to expand and create jobs whereas the others will contract and destroy them as a result of foreign competition.

According to this new class of international trade models, exports, imports and FDI choices are responsible for all the job creation and destruction and the ensuing job reallocation taking place in the economy. Obviously, this is unlikely to be the case in reality since many other factors, which these models abstract from, may affect the process of contraction and expansion in individual firms.

The aim of this paper is to quantify the extent of intra-industry job reallocation caused by firm-level participation in international markets. The data set used covers all Belgian manufacturing firms from 1998 to 2004, and makes it possible to identify which firms are engaged in international markets and in what way, i.e. through exports, imports, and/or FDI. Firms entering or exiting international markets can also be identified from the data as well as their births and deaths.

The results suggest that, after controlling for size and industry-level characteristics, firms participating in international markets have higher employment growth rates on average than purely domestic companies. However, these differentials mask a great deal of heterogeneity. All types of firms involved in international markets in different ways seem to create and destroy jobs simultaneously. Thus, international trade and FDI do not always appear to be associated with either employment expansions or contractions, but with both. Entries into and exits from international markets seem to be clearly linked to job creation and destruction, respectively.

With regard to the reallocation effect, the findings suggest that, within well-defined industries, international market participation accounts for a minor share of the total job reallocation, ranging from around 6 to 30 percent. Moreover, the reallocation effect is stronger for large than for small companies. Among the latter, participation in international markets accounts for just 2 to 5 percent of the total reallocation.

These results are consistent with the predictions of international trade models based on heterogeneous firms concerning the reallocation of resources towards enterprises active in international markets. However, the findings also cast some doubt over the dramatic effects on job reallocation that the popular press often ascribes to international trade, at least for developed countries like Belgium, which have not gone through drastic phases of trade liberalisation recently.

Communication
National Bank of Belgium Ltd.
boulevard de Berlaimont 14
BE-1000 BRUSSELS
phone + 32 2 221 46 28
www.nbb.be
VAT BE 0203.201.340
RLP Brussels