

2011-04-08

PRESS RELEASE

Wage structure effects of international trade: evidence from a small open economy

Philip Du Caju, François Rycx and Ilan Tojerow

NBB Working Paper No 214 - Research Series

This paper investigates the impact of international trade on wage premia in a small open economy, namely Belgium. More precisely, the objective is to examine the following questions: Do workers in export-intensive sectors earn higher wages than elsewhere? Do workers in import-intensive sectors earn lower wages? Does the country of origin of imports matter? Do wage differentials in import-intensive sectors vary in size when imports are principally sourced from low-income countries or middle- to high-income countries? To address these questions, we rely on detailed matched employer-employee data (SES-SBS) covering all years from 1999 to 2006. These data contain detailed information on firm characteristics and on individual workers. SES-SBS is merged with data on international trade (at the NACE three-digit level) drawn from the NBB International Trade dataset.

The paper is one of the few to: i) use detailed matched employer-employee data to compute industry wage premia and disaggregated industry-level panel data to examine the impact of changes in international trade on changes in wage differentials, ii) analyse the impact of imports according to the country of origin.

The findings are very stable across specifications and systematically show that high export exposure is correlated with higher industry wage differentials, while imports have a negative impact on them. Moreover, the results indicate that import penetration from low-income countries has a significant and negative impact on inter-industry wage differentials, while imports from high-income countries seem to have a more ambiguous impact on the wage structure. The findings thus suggest that trade with low-income and high-income countries may have different effects on inter-industry wage differentials.