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PRESS RELEASE

Comparative advantage, multi-product firms and trade liberalisation: An empirical test *by Catherine Fuss and Linke Zhu*

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This paper examines the impact of the expansion of international trade flows with low-wage countries on the performance of Belgian firms in the manufacturing sector over the period from 1997 to 2007. Products from these countries put up stiff competition for industries that make wider use of less-skilled labour. More specifically, the paper analyses the extent to which the effects differ between industries whether the firms are producing in one or more branches of activity. Economic theory predicts that trade liberalisation tends to reinforce comparative advantage, in other words, boost production in sectors where firms have a comparative advantage and reduce it in the others. However, when a firm produces in both comparative-advantage and comparative-disadvantage industries, the reallocation effect of trade liberalisation is mitigated. The empirical analysis underlines the importance of multi-product firms in the Belgian manufacturing sector. The findings confirm that, subsequent to the growth of international trade with low-wage countries, the effects of employment and production reallocation from less-skilled-labour-intensive sectors towards more highly skilled-labour-intensive sectors are smaller where a greater number of firms produce across different sectors. Moreover, the industries that have more multi-product firms tend to see a smaller increase in average skill intensity of their workforce and in their productivity.