

European Integration and National Labor Markets - On the Factor Content of Intra-European Trade Flows

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In recent decades, the international division of labor expanded rapidly in course of globalization. Since 1980, world production grew about 270% in real terms. In contrast, world trade in goods and services more than quintupled in this period. In this context, highly-developed countries did increasingly specialize on (human-)capital-intensively manufactured goods and sourced labor-intensively manufactured products and particularly parts and components from low-wage countries. Hence, especially the opening up of Eastern Europe and the international integration of the Newly Industrializing East Asian Economies is considered as the main reason for increasing unemployment of the lower-qualified in high-wage countries, since international trade should favor the high-skilled in those countries. The present paper addresses this question by analyzing the factor content of total as well as of bilateral, intra-European trade flows of selected EU Member States, where the focus is on two input factors: 'high-skilled' workers on the one hand and 'lower-qualified' labor on the other. By analyzing bilateral trade flows, differences in factor inputs, production technologies and thus product differentiation are considered. Since (human-)capital-abundant countries should, according to the neoclassical Heckscher-Ohlin-model of trade, specialize on and export (human-)capital-intensively manufactured goods and, in reverse, import more labor-intensively manufactured products, exports of these countries should embody more high-skilled factor services than imports. Hence, factor content of trade allows inferring on countries' factor demand patterns resulting from international trade. Thereby, labor market adjustment effects induced by European Integration can be identified for single EU Member States. As the analyses show, the results do largely depend on whether product differentiation is allowed for or not. Whereas adjustment effects emanating from bilateral trade between the Western European countries seem to be quite low even in case of product differentiation, the opposite is the case for East-West trade.