

Effects of Globalization on Job Choice and Unemployment under Labor Search Friction

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Abstract

Trade liberalization fosters the penetration of foreign firms into the local markets and makes local markets more competitive. To survive the severer competition, local firms must improve the qualities of goods and employ highly skilled workers more. An increase in the demand for skilled workers encourages workers to pursue higher education. Despite that the world economy has witnessed the trend of freer international transactions in decades, the recent trend of the employment of highly educated workers seems stagnant in many countries, in particular, in developed countries. Although trade liberalization enhances the demand for skilled workers, it does not necessarily contribute to an improvement of their employment.

I analyze how trade liberalization affects the local employment of both skilled and unskilled workers, occupational choices by workers, and the wage inequality between skilled and unskilled workers. When a firm enters the market, it has to employ one unit of skilled labor to develop its own variety of the differentiated good in advance of actual production. The abilities of skilled workers are heterogeneous so that the productivities of firms become heterogeneous *ex post*. The unskilled workers, whose abilities are homogenous, are used for the production of the good. Due to search friction, matches between firms and workers (either skilled or unskilled) are not always successful. Knowing all this, workers make their occupational choices: either to remain to be unskilled workers or to get educated to be skilled workers. Trade liberalization affects the wage rates of unskilled and skilled workers and the probability of successful matching, which may encourage unskilled workers to learn skill but increase the number of the skilled workers after trade liberalization. Therefore, the unemployment rate of the skilled workers may increase after globalization.