

Chihiro Inaba, Kobe University, The effects of globalization on job choice and unemployment under labor search friction

Abstract

Trade liberalization increases the import of foreign goods and makes local markets more competitive. To survive the severe competition, local firms must improve the quality of production factor, and employ more highly skilled workers than unskilled workers. An increase in the demand for skilled workers encourages workers to pursue higher education. However, the recent employment of highly educated workers is stagnant globally. Although trade liberalization enhances the demand for skilled workers, it may not contribute to increasing their employment.

I analyze how trade liberalization affects the local employment of skilled workers, occupational choice, and wage inequality. Firms can always produce low-quality goods by using only unskilled labor. If a firm succeeds in employing an appropriately skilled worker, it can improve the quality of the goods it produces. However, due to search friction, matches are not always successful. If firms and workers fail to match appropriately, the unmatched skilled workers remain unemployed and the unmatched firms continue to produce low-quality goods. With this knowledge, workers choose their occupations: and either remain to be unskilled or learn skills. Trade liberalization raises the skilled wage rate and the successful probability of matching, which encourages unskilled workers to learn skill but increase the number of the skilled workers after trade liberalization. Therefore, the unemployment rate of skilled workers may increase after globalization.