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Does economic globalization affect the level and volatility of labor demand by skill? New insights from the Tunisian manufacturing industries

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ABSTRACT

The central aim of this paper is to assess the effects of economic globalization on the level and volatility of labor demand for different skill groups in Tunisia. Using a panel dataset covering six manufacturing industries between 1983 and 2009, three main findings are reported. First, exports and imports exert a positive impact only on the semi-skilled and skilled labor demand while foreign direct investment flows increase the demand for semi-skilled and unskilled workers. Second, the regional analysis suggests that exports to the European Union boost the demand for the semi-skilled and skilled labor. Imports from the rest of the world exert similar effects on the demand for these two categories of workers. It emerges also that imports from the European Union lead to a higher demand for skilled labor, which gives support to the validity of the skill-enhancing trade hypothesis in Tunisian industries. Finally, our findings suggest that both exports and imports rise the employment volatility associated with skilled workers. On the other hand, there is a weak evidence of increased employment volatility as a result of foreign direct investment flows.

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1. Introduction

There is currently an ongoing policy debate on the impact of economic openness on labor markets. This topic was traditionally analyzed in terms of the Heckscher–Ohlin model. Based on the relative factor endowments, the model predicts that the transition from autarky to trade openness induces an

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increase in unskilled labor demand in developing countries. Recently, [Feenstra and Hanson \(1997\)](#) argued that the outsourcing of activities from developed to developing countries exerts a positive effect on skilled labor demand in both countries. Despite the emergence of a substantial literature examining the impact of economic openness on labor demand, existing empirical studies show mixed results and are usually considered as inconclusive. It has been argued that a more comprehensive analysis of the effects of economic globalization on labor demand should take into consideration various factors such as the level of development of the partner (developed/developing), the skill structure (low/high), and the nature of imported goods (final/intermediate). Moreover, most studies focused essentially on developed countries, and at a lesser extent Latin American countries ([Were, 2011](#)). As reported by [Ghazali \(2009\)](#), there is a lack of empirical investigations studying the link between economic openness and labor market dynamics in North African economies.

The purpose of the present paper is to fill this gap by providing new empirical insights on the impact of economic globalization, i.e. international trade and foreign direct investment, on the level and volatility of manufacturing labor demand by skill in Tunisia. The first contribution of this paper is the decomposition of the overall manufacturing labor demand according to the skill level and the disaggregation of trade flows according to the area of origin/destination. It has been argued that trade flows with countries that have different levels of development do not affect similarly the demand for various categories of labor. To investigate this issue, measures of trade flows, namely exports and imports, with the European Union and with the rest of the world are considered in the empirical analysis. Since Tunisia is the first South Mediterranean country that concluded an association agreement with the European Union in 1995, it would be useful to econometrically investigate the impact of trade flows with these countries on the Tunisian labor market. This issue has not previously been studied, since the few earlier papers devoted to the Tunisian case did not disaggregate the overall trade flows by partner (or group of partners). The second contribution of this paper resides in the determination of the impact of economic globalization on the evolution of employment volatility for different skill groups. To the best of our knowledge, there is no prior empirical study investigating the impact of economic globalization on employment volatility in developing countries. One can advance that, by increasing the demand for labor, economic globalization may paradoxically raise the uncertainty and instability of the labor market. Therefore, the study of the impact of economic globalization on employment volatility allows making more rigorous conclusions before judging the outcomes of economic globalization on labor demand.

This paper is motivated by the increased debate on the Tunisian labor market among economists and policymakers and the possible implication of economic globalization on its dynamics. Tunisia offers a particularly interesting context to examine the effects of economic globalization on labor demand for at least two reasons. First, significant efforts have been made since the 1970s to integrate into the world economy. Tunisia is one of the first South Mediterranean countries that joined the World Trade Organization and signed the Euro-Mediterranean Association Agreement with the European Union in 1995. The second reason is the high unemployment rate in Tunisia. In fact, the unemployment rate among young people is considered to be one of the highest in the world (about 32% in 2010). This situation led to the onset of the events of January 14th, which complicated the situation by raising the number of unemployed people in the country by about 50%.

The rest of this paper is organized as follows: Section 2 briefly reviews the theoretical and empirical literature on the effects of international trade and foreign direct investment on both the structure and volatility of labor demand by skill. Section 3 examines recent trends of economic openness and labor demand in Tunisian manufacturing industries. The next section focuses on detailing the data, the econometric framework and the empirical methodology. Empirical results are presented in Section 5. In Section 6, we conclude the paper.

2. Reviewing the previous literature

2.1. Economic globalization and the demand for labor

For many decades, academic studies dealing with the labor market outcomes of international trade were based on the traditional trade theory, essentially developed by [Heckscher \(1919\)](#) and [Ohlin](#)

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