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International Trade and Within-sector Wage Inequality: the Case of South Korea

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This paper studies which factors contributed to the changes in wage inequality in Korean manufacturing over the last three decades. By adopting Akerman et al. (2013)'s decomposition method, we examine the relative importance of within-sector and between-sector wage variations in Korean manufacturing over the period of 1980-2012. Our analytic results confirm that within-sector wage variation explains the lion's share of overall wage inequality. Taking this finding into account, we estimate the impacts of international trade, skilled-biased technological change and labor market conditions on within-sector wage inequality in Korea. Our estimation results suggest that there was a structural change in determinants of wage inequality before and after the mid-1990s. The influence of international trade mainly through heightened import competition on wage dispersion became relatively more conspicuous over the last two decades.

JEL Classification: F14, F16, J33, O33

Keywords: Wage Inequality, International Trade, FDI, Technological Change,

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