ABSTRACT.

This article aims at briefly surveying the evidence of outsourcing, considering its impact on the labour market in advanced economies. On the base of the process definition, a tentative assessment of the overall impact of trade with low wage economies is proposed and after that the article addresses two policy-related issues: through which channels does trade with low wage countries (according to a broad definition of outsourcing) impact the labour market? And what are ultimately the patterns of international specialisation after outsourcing has taken place?

The three conclusions are that outsourcing is the clue to understand the observed changes in labour demand; that product upgrading, and reshaping of production processes on an extended European basis, has preserved European competitiveness; and that top range varieties produced at low cost thanks to outsourcing have been key to such competitiveness.

KEY WORDS: Offshoring, outsourcing, relocalization, labour market, European Union.


INTRODUCTION.

There is growing concern in Europe regarding outsourcing, and the related fears will certainly be reinforced by the ongoing industrial turmoil driven by the recession. Accordingly, industrial outsourcing is a key issue for policy makers and it should not come as a surprise to have European governments heavily subsidising industry in 2009 to avoid profound restructuring.

Outsourcing of activities is often perceived by the civil society as the outcome of unfair competition at the international level, with emerging competitors offering more attractive social, environmental, or even attractive tax conditions for firms seeking low cost locations.

This is not only a European concern. In 1990 the Japanese industry had 15 millions employees in Japan and 1.2 millions abroad. A decade later, industrial employment in Japan had lost 2 millions jobs, while 1.6 additional jobs had been created in foreign affiliates of Japanese firms. Even if the two figures – employment at home and abroad in multinationals – cannot directly be compared, it is difficult to convince policy makers that there is no issue here. Similar figures could be provided for the US economy.

The specific phenomenon of outsourcing takes place in a more general framework where emerging exporters are the main contributors to international trade growth. Since these countries are characterised by very different factor endowments and income per capita, what is expected is specialisation, inter-industry trade and the associated adjustment costs. This come back of specialisation as an engine of growth of world trade is accordingly contrasting with the observed two-way trade in industrial products among developed economies, a pattern of the last three decades that had been exacerbated in Europe.

What are the main drivers of the observed evolution? The first driver is international specialisation: the comparative advantage of high income countries is moving from industry to services. This is what could be coined as the Nike model, where firms in the manufacturing sector survive or prosper by focusing their activity on services (conception, branding, distribution,…). More generally, the breakdown of the value added chain is a core strategy of multinational firms: this leads to a profound reshaping of their locations at the world level. In certain industries, where transport costs for intermediate goods, components, parts are expensive, a regional factory is emerging, as exemplified by the division of labour in the car industry: this could be coined as the Cayenne model, referring to the successful strategy of Porsche. In other industries, what is key is hi-tech innovation and branding: the right competitive mix is then the association of top research and development with low cost assembly lines: this is the IPod model. All in all, the new industrial models promote jobs associated with innovation and organisation ... at the expense of blue collar and bottom white collar workers (Maurin, Thesmar & Thoenig, 2003)

Ultimately, will the emerging new international division of labour lead to a situation where manufacturing industry collapses in countries such as Spain or France?
Considering the very pessimistic perception of the civil society, as regularly reflected in polls, there would be no way of keeping industrial jobs in Europe. On the contrary, economists are less alarming: costs indeed matter, but there are also other determinants of location, such as the quality of infrastructures and institutions, the market access, the availability of skilled labour etc. Incidentally, the competitiveness of European firms actually increases with outsourcing and one may expect that outsourcing is a means of keeping activity at home. And when it comes to the impact of outsourcing on the labour market, there is good evidence that unemployment is firstly due to domestic policies (as exemplified by the comparison of the UK and Germany in the late 90s), while outsourcing accounts for a negligible share of the turnover on the labour market. This broad consensus among economists has emerged in a rather chaotic way, with recurrent controversies and a shift of the perception from the benign neglect to a quite precise assessment of the actual impact of outsourcing on the observed changes in inequalities between white and blue collar workers. No need to recall here the debates between Krugman and Lawrence (1994) and Leamer (1998), or between Samuelson (2004) and Bhagwati et al. (2004).

This talk aims at briefly surveying the evidence of outsourcing, considering its impact on the labour market in advanced economies. A definition of the phenomenon is tentatively provided in the second section. A tentative assessment of the overall impact of trade with low wage economies is proposed in section 3. This talk then addresses two policy-related issues in sections 4 and 5: through which channels does trade with low wage countries (according to a broad definition of outsourcing) impact the labour market? What are ultimately the patterns of international specialisation after outsourcing has taken place?

Our three conclusions are (1) that outsourcing is the clue to understand the observed changes in labour demand; (2) that product upgrading, and reshaping of production processes on an extended European basis, has preserved European competitiveness; and (3) that top range varieties produced at low cost thanks to outsourcing have been key to such competitiveness.

1. DEFINITION AND STATISTICAL SOURCES.

Providing a definition of international (or “offshore”) outsourcing precise enough to derive a statistical measurement is uneasy. One commonly starts by considering two different issues: (1) “make” or “buy” (2) “at home” or “abroad”. This leads to four different cases, corresponding to an integrated process (make at home), traditional sub-contracting (buy at home), offshoring (make abroad), and finally to outsourcing (buy abroad). Indeed, such taxonomy hardly addresses the complex reality of outsourcing: for instance, when a plant is shifted abroad in a low cost country, this offshoring is also an outsourcing.

Accordingly, one should consider two alternative definitions. Firstly, and strictly speaking, the relocation of a factory abroad (first close factory at home, then open abroad), leading to import its output or to displace previous domestic exports is an outsourcing. Less strictly speaking, any decision to locate part of the production process...
abroad, in low wage countries is an outsourcing. Even more loosely, importing from low wage countries is a convenient statistical upper cap of outsourcing.

However, none of these definitions can answer the following questions: when the Spanish car producer SEAT, a German affiliate, purchases screws in China instead of Spain is it outsourcing? When Spanish subsidiary of the French wholesaler Carrefour purchases shirts in Vietnam instead of Spain is it outsourcing? When SEAT loses market shares to the benefit of the Logan assembled by Renault (also a Spanish producer) in its Romanian affiliate is it outsourcing or simply competition?

Accordingly, one must be rather pragmatic when choosing a definition and measuring the phenomenon. And indeed, available data hardly addresses outsourcing. Input-Output tables can be used to measure imported intermediate consumption or imported intra-consumption. But the level of detail of this tables is low (at most 100 industries), and the assumption made to compute the shares we are interested in are questionable. Lastly, these tables are hardly updated on a regular basis. Alternatively, detailed trade data, using a detailed classification, can be combined with the BEC (Broad Economic Categories classification of the UN). But here there is no means of assessing the indirect use of intermediate inputs, contrary to the Input Output tables. Ideally, individual firm data would be the best source of information: but there is restricted access and this data cannot be compared form one country to another. Surveys can also be used, but here again, these are limited to a certain number of countries, and are not performed systematically over time. In the future, FATS (Foreign Affiliate Trade Statistics) will hopefully provide additional evidence, but their collection has started only recently.

Figure 1: Share of intermediate goods in manufactured imports

Source: Comext, Fontagné and Gaulier (2008), p.35
Using input-output tables there has been repeated and converging evidence from early works (Fontagné, 1991), to more recent ones (Hummels et al. 2001). On the contrary, detailed trade statistics provide a more contrasted picture. Even if the share of intermediate goods in world trade tends to increase, there is no systematic evidence of such pattern at the importing country level. For instance, within the EU, the situation observed in Germany is actually a peculiar one. We can observe in Figure 1 the sharp contrast between Germany and the UK in terms of the share of intermediate inputs in total manufactured imports. The contrast is also striking with Spain or France: clearly, German producers have been increasingly relying on outsourcing of parts and components to boost their competitiveness, while Spain or France have less relied on this strategy, in particular the two (high cost) latter countries have remain quite integrated in industrial terms over the period considered. In Figure, 2, we can easily check that the share of low wage countries in intermediate imports is much larger in Germany (and Italy), even it increases everywhere.

Figure 2: Share of low-wage countries in intermediate imports

Source: Comext, Fontagné and Gaulier (2008), p.35

2. IMPACT OF TRADE WITH LOW WAGE COUNTRIES ON THE LABOUR MARKET.

Before measuring what may have been the impact of outsourcing on the labour market, it is worth clarifying how do trade, employment and productivity interact in an open economy setting. Actually, productivity and trade have to be considered jointly. Changes in manufacturing employment can be decomposed in changes due to productivity, changes due to net trade, and changes due to domestic demand. And changes in net
trade can be decomposed in net trade with high income countries and respectively with low wage countries.

Since productivity gains are larger in industry than in services, the relative decline in the price of manufactured goods should boost the demand for these goods, at least partially compensating the low income elasticity of demand for manufactured products. But this relative decline may be reinforced by the increasing share of trade with low wage economies. In total, the percentage share in manufacturing employment is the weighted average of three components: (1) the difference between the changes in demand and productivity; (2) the difference between the changes in export and minus productivity; (3) the difference between the changes in imports and productivity. Thus, if the value added due to exports increases at a slower pace than productivity, it may well be the case that exports contribute negatively to manufacturing employment. On the contrary, if the share of imports in production increases less rapidly than productivity, we may observe a positive contribution of imports to domestic manufacturing employment. And since productivity increases very fast in import competing sectors, for a given level of imports the number of displaced jobs should go down over time. However created and displaced jobs are different and such simple accounting is indeed hiding such differentiated impacts across categories of workers.

Based on this simple accounting framework, Baily and Lawrence (2005) propose an accounting exercise relying on the US Input Output table. The question is what was the role of trade in the massive US manufacturing job loss after 2000?

**Figure 3: Path of US manufacturing employment (1992-2005), thousand of workers, seasonally adjusted.**

Baily and Lawrence estimate separately the impact of imports and exports on the decline of manufacturing employment over 2000-2003. They use a simple input-output method authorising to compute the direct and indirect labour content based on the
apparent productivity of labour in industries. Based on such methodology, they find that 89% of the 2.9 million jobs manufacturing employment fall over the period was the result of weak domestic demand with strong productivity growth. Only 11 % was due to trade. As for trade, the induced loss of jobs was the result of export weakness. Export weakness was due to an over-evaluated dollar. They conclude that trade displaced a lot of manufacturing jobs but accounted for very little job loss over 2000-03.

However, three assumptions must be made to perform such calculation: (1) balanced trade within industries (Intra-Industry Trade) does not impact the labour market; (2) displaced and actual production have similar production functions; and (3) productivity is not driven by trade. These assumptions are highly questionable.

Firstly, trade within industries might impact employment through two channels: a vertical differentiation channel, where imported and exported products correspond to different production functions and skilled/unskilled bundles; a competitive channel, where imports lead to a rationalisation of production and thus will change the nature of competition on the labour market, detrimental to employees and labour unions.

Secondly, displaced and actual production might rely on very different production functions, as a result of a selection process: surviving firms may well be different from the ones having disappeared, while maintained production units may be very different from the ones relocated abroad within the same firms. Hence considering the production function of the survivors will lead to an underestimation of the impact of trade on employment.

Lastly, productivity gains can hardly be considered as exogenous: the reason why productivity gains are large in import competing sectors is the combination of defensive innovation and firm or products selection effects.

What would be the impact of relaxing such assumptions is difficult to assess. Intra-Industry Trade is not really an issue when trade between advanced and developed economies is at stake. The second assumption is on the contrary key to any assessment of the trade impact on the labour market, as stressed by Wood (1994). Lastly, the empirical magnitude of defensive innovation cannot be assessed. Still, not all trade of economies such as the US takes place with developing economies and if the total impact of trade is limited, the impact of trade with developing economies might be tiny; and only part of it is due to outsourcing.

One solution adopted in the literature in order to relax the assumption on identical production functions of observed and displaced production is to adopt an econometric approach based on a simple two sectors theoretical model. Then, there is no need of resorting to Input Output tables. A related advantage of this strategy is that it authorises to identify the specific impact of trade with low wage locations. At the end, what one gets is an upper evaluation of the impact of outsourcing-related imports on employment since not all imports from low wage countries are associated with outsourcing.

This is the approach adopted by Rowthorn & Ramaswami (1998) and Boulhol & Fontagné (2006). We follow the latter paper. There are two sectors in the economy,
industry and services. The production functions rely on labour only and integrate a total factor productivity term, which coincides with labour productivity in this simplified case. TFP is supposed to be growing at a different and exogenous rate in industry and in services. Relative labour productivity and relative prices simply derive from these assumptions under perfect competition. On the demand side, utility is supposed to be CES between industrial goods and services. Therefore, relative demand at constant income simply verify a log-linear relationship with relative prices, subject to the elasticity of substitution, while relative employment is determined by relative productivity and the elasticity of substitution. The latter elasticity accordingly plays a key role in the deindustrialisation. With elasticity lower than unity, as confirmed by the data, the substitution between industrial goods and services will not be large enough to compensate the decrease in the relative price resulting from higher productivity gains in the industry. Consequently, the share of industry in the labour force is driven towards zero by relative productivity gains. Still, income is not constant, and this counterbalances at least partially the mechanical effect identified here. However, the income elasticity of goods and services follows an extended Engel’s law according to which, the relative consumption (in volume terms) of manufactured products necessarily decrease from a certain level of development. In other words, at constant relative prices, the relative demand for industrial goods will follow a hump shape based on the level of development. To take this into account, Boulhol & Fontagné introduce real GDP per capita and income per capita in the relative demand equation. At constant prices, the relative value-added of industry in volume terms increases until a certain level of per capita income, before diminishing subsequently.

Then the questions are: how did net trade impact such outcomes? Did outsourcing and more generally trade with low wage economies have a specific impact? Can we give a rough figure of jobs displaced by trade with low wage economies? Such approach provides an upper cap regarding the effects of net trade with low wage economies, after controlling for productivity and shifts in domestic preferences. The econometric specification relies on a dynamic panel for 16 OECD countries over 1970-2002 using yearly data. It explains the share of manufacturing in total employment using as determinants income per capita and squared income per capita, net trade balance and imports from low wage economies (including new EU member states), investment and an exogenous TFP term. It is estimated in first differences using GMM. Based on these estimates Boulhol & Fontagné compute the changes in the manufacturing employment share induced by the changes in explanatory variables, as well as the total contribution of trade with low wage economies. The contribution of trade with these economies explains on average 19.8% of the observed decline in the manufacturing employment share. The magnitude of such an effect varies largely from one country to another, but Spain is just in the average (19.5%).

3. OUTSOURCING, WAGES AND TRADE IN INPUTS.

To better understand what are the specific channels through which outsourcing is actually impacting the labour market, let’s start with a puzzle. Consider the classical 2x2x2 international trade framework, with North and South being the two countries and skilled and unskilled the two primary factors. Other classical assumptions hold. In the
North, trade with South reduces the price of (imported) non-qualified labour intensive goods; hence real wages of blue collar workers should decrease, and reciprocally for white collar workers intensively used in exports.

Since factors are substitutable, exporting a.w.a. import-competing industries should substitute unskilled for skilled workers. This is the well-known “Stolper-Samuelson” theorem. The problem is that this theoretical result is at odds with facts. While increasing inequalities are indeed observed, factor substitution goes the other way round: there is substitution of skilled for unskilled workers. In total, since relative wages and relative employment of skilled workers increase, one is facing a shift of the relative demand curve and not a move along this curve. How to explain this has been the source of debates during a decade.

Two alternative channels may be envisaged. Firstly, a composition effect might play. The output of the skill-intensive sectors has risen, relative to those of unskilled ones. Alternatively, one may observe an increase in the relative demand for skilled labour within the manufacturing industries, and this second channel actually played a key role.

Thus, how to justify such increase in the relative demand for skilled labour within the manufacturing industries? There are four candidate explanations. Firstly, the literature of the early 90s put emphasis on the existence of a biased exogenous technical progress (Lawrence and Slaughter, 1993 - Krugman and Lawrence, 1994). On the contrary, the literature of the early 2000s was very much in favour of a biased endogenous technical progress (Thoenig and Verdier, 2002 – Neary, 2002). The third and contemporary strand of literature favouring selection effects may also be mobilised: only the most productive firms or products survive and these are the more skill intensive ones (Melitz, 2003 - Eaton, Kortum & Kramarz, 2005 – Bernard, Redding and Schott, 2006). We will focus in the following on the fourth explanation, pointing to the role of trade in intermediate inputs in the rising wage inequalities between skill and unskilled labour (Feenstra and Hanson, 1996 - Anderton and Brenton, 1999 - Strauss-Kahn, 2003 – Hijzen et al., 2003).

The basic intuition is simple. In a classical setting with three factors (capital and the two categories of labour) and two intermediate goods combining in a final good at zero assembly cost, the possibility to import one intermediate good firstly authorises to increase domestic GDP. The seminal result of Casas (1973) according to which there is a gain to trade in intermediate goods. What is new and has been demonstrated by Feenstra and Hanson is different: with globalisation and the possibility to rely on increasingly “different” (in terms of comparative advantage) trading partners, there is a drop in the price of the imported intermediate good. Hence, outsourcing (meaning here importing intermediate goods formerly domestically produced), will shift domestic production in the North towards the skill intensive production segment. And once again, final output increases: this is the specific gain to outsourcing. Then, using the Jones’ algebra, it is easy to check that the change in the price of the final good is a weighted average of the change in the price of the two intermediate goods. Since the price of the imported inputs decrease, this means that outsourcing turns into a relative increase in the price of the final good vis-a-vis the imported inputs.
Using this relationship between outsourcing and relative prices to measure the impact of the latter on the changes in the cost shares of skilled labour, Feenstra and Hanson proxy the skilled wage by the “non-production wage” and use a translog cost function. The first derivatives with respect to factor prices give the cost shares. So the last step is to choose proxies for the prices of inputs: the price of capital equipment and the share of outsourcing in intermediate consumption. As for the latter, they rely on an Input-Output table to compute the share of imported inputs in intermediate consumption, restricting the origin of imports to low wage locations, and possibly restricting to diagonal of the Input-Output table. Depending on the measure of capital, outsourcing has or not a larger contribution than investment (technical progress) in the rise of inequalities. But more interestingly, the magnitude of the contribution of outsourcing to the 1979-1990 change in the non-production wage share in US manufacturing ranges between 15% and 24%. This result has been reproduced for the UK and for France with results broadly in line with such estimates.

From a policy perspective, the ultimate impact of outsourcing in a general equilibrium framework where different activities may have different propensity to outsource has been tentatively addressed by Grossman and Rossi-Hansberg (2006). As a result of outsourcing, they argue that trade in goods has been replaced by trade in tasks. Firms offshore tasks relying more on routine or unskilled jobs. Offshored tasks are less costly and the possibility to reduce their cost can be viewed as an unskilled-labour augmenting technical progress. Here, globalisation is pictured as a reduction in costs to outsourcing offering new opportunities to offshore tasks. This increases productivity in sectors that outsource part of their unskilled activities. The wage bill is accordingly reduced in proportion of the quantity of unskilled labour employed in the different industries, to the benefit of the less skill intensive activities. This boosts the demand for the products of the latter and hence for employment of blue collar workers. By the same token, this puts an upward pressure on the unskilled wage possibly compensating the expected negative impact of outsourcing. How much this productivity effect actually “compensates” remains an open empirical question, still unclear to the best of our knowledge.

To conclude, we have seen that while the direct impact of trade with low wage economies on the labour market is limited in terms of jobs, the impact of outsourcing unskilled activities on inequalities is not negligible. Beyond outsourcing, the question raised by the competition with low wage economies is whether the breakdown of the value added chain will leave any manufacturing activity located in the North. What we called the “Nike model” above might well become the standard organisation of activities in the industrial sector. Accordingly, manufacturing companies in the North would become essentially service providers, designing, marketing and distributing products manufactured in low wage economies. After at least one decade of outsourcing, it is worth considering the changes in the international division of labour at the most detailed level in order to assess the emergence or not of such scheme. This is done in the next section.
4. HIGH AND LOW WAGES LOCATIONS DO NOT COMPETE HEAD ON.

The emergence of low wage new competitors has deeply affected world trade patterns since the mid 90s. To shed light on this, we will proceed with a detailed analysis using BACI, a new database developed by the CEPII and authorising to tackle specialisation at the most detailed level for all countries and products. We decided to exclude intra-EU trade and we use the HS6 classification of goods comprising some 5,000 different categories of products. We consider the 1995-2005 period.

First of all, the evidence of large swings in the international division of labour is provided by the computation of world trade margins. Observed changes in the value of exports by product, exporter and destination market are the result of entries and exits and we can define the intensive margin of trade as the change in the value of trade flows that are present continuously over the decade. On the contrary, the extensive margin of trade can be defined as the net change in the number of trade flows or in the value of newly created trade flows.

Based on this definition, Cheptea et al. (2008) find that the observed USD 4,117 bn increase in world trade (excluding intra-EU 25 trade) can be decomposed into three terms. Firstly, the 4,093,818 individual trade flows existing in 1995 have increased their value by USD 3,361 bn. Secondly, during the same period, 30.6% of the individual trade flows have disappeared. Thirdly, 3,892,662 new trade flows appeared meaning that these entries correspond to 95.1% of the number of initial trade flows. In total, only 42.2% of trade flows recorded in 2005 were present in 1995.

Notwithstanding this rapid turnover, the shaping of the international division of labour has kept room for high income economies, in particular EU member states. The bottom line here is that international specialisation is taking place within products, across varieties, rather than across products. This is outcome is now well documented in the literature. Schott (2004) shows that US imports exhibit a large variance in unit values (values divided by quantities) within product categories, and that US bundles of imported goods, at the bilateral level, are at odds with the prediction of the multicone factor proportion model where different countries should specialise in different bundle of goods. Hummels and Klenow (2005) show that large countries do export higher quality goods, a pattern that is confirmed by Fontagné et al. (2008): advanced economies specialise in top range varieties, and low wage economies in the low range of the same industries. According to Fontagné et al., on average, Japanese unit values are 1.43 times higher than for Brazil, 1.80 times higher than for India, 2.89 times higher than for China, for the same products, shipped to the same markets, within the same year (2004). Similarly, US export unit values are 1.55 times higher than for India and 2.44 times higher than for China.

Also, a glance at the data proves that the share of up-market varieties in US imports from each exporter is a positive function of the development level of the exporter.

Against this background, it is worth noticing that the EU is on average mostly specialised in the upper segment of the market. Also, EU world market shares are highly resilient in...
the upper segment of the market, contrasting with Japan or the US (Table 1). Lastly, we also observe that EU 25 records better performances than EU15 and this may be interpreted as the benefit of intra-EU outsourcing or more broadly intra-EU manufacturing relocation (Table 2).

Table 1- Change in the 10 largest world market shares of EU Member States (p.p. change, 1995-2004)

<table>
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<tbody>
<tr>
<td>EU25</td>
<td>15.3</td>
<td>-2.27</td>
<td>30.0</td>
<td>0.40</td>
</tr>
<tr>
<td>USA</td>
<td>12.1</td>
<td>-4.42</td>
<td>14.4</td>
<td>-3.47</td>
</tr>
<tr>
<td>Japan</td>
<td>7.2</td>
<td>-2.55</td>
<td>14.1</td>
<td>-4.45</td>
</tr>
<tr>
<td>ASEAN</td>
<td>8.7</td>
<td>-1.16</td>
<td>8.7</td>
<td>1.43</td>
</tr>
<tr>
<td>Korea</td>
<td>4.8</td>
<td>0.20</td>
<td>4.4</td>
<td>0.47</td>
</tr>
<tr>
<td>China</td>
<td>19.5</td>
<td>10.56</td>
<td>4.1</td>
<td>2.42</td>
</tr>
<tr>
<td>India</td>
<td>2.2</td>
<td>0.82</td>
<td>0.8</td>
<td>0.36</td>
</tr>
<tr>
<td>Russia</td>
<td>1.5</td>
<td>0.45</td>
<td>0.8</td>
<td>0.47</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.0</td>
<td>0.32</td>
<td>0.8</td>
<td>0.01</td>
</tr>
</tbody>
</table>

Source: Cheptea et al. (2008).

Table 2- 1995-2005 change in world market shares: EU and selected competitors

<table>
<thead>
<tr>
<th>Country</th>
<th>Market share, in value (USD)</th>
<th>p.p. change in market share in value</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU 25</td>
<td>19.5</td>
<td>-1.3</td>
</tr>
<tr>
<td>EU 15</td>
<td>18.4</td>
<td>-1.8</td>
</tr>
<tr>
<td>USA</td>
<td>13.0</td>
<td>-4.4</td>
</tr>
<tr>
<td>Japan</td>
<td>9.5</td>
<td>-4.1</td>
</tr>
<tr>
<td>China</td>
<td>14.1</td>
<td>8.4</td>
</tr>
<tr>
<td>Korea</td>
<td>4.3</td>
<td>0.7</td>
</tr>
<tr>
<td>India</td>
<td>1.5</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: Cheptea et al. (2008).
These results suggest that high and low income countries are, contrary to the common perception, not competing head on within industries. In particular Europe has so far managed to reshape its manufacturing sector by combining up-market products and lower cost locations. Would such pattern be resilient, it would be an original model as compared to the US or Japan.

5. CONCLUSION.

Contrasting with the fears raised by outsourcing, trade has on the whole had a limited impact on domestic employment in the North, as shown by input-output and econometric analyses of labour content. The same conclusion must be raised for outsourcing. Still, the new patterns of the international division of labour have had a clear-cut impact on the labour market. The splitting up of the value added chain and the associated outsourcing have had an impact similar to a biased technical progress. They have increased the relative demand for skilled labour.

Such outcome of outsourcing strategies is however only part of a more general shift of the international division of labour making it possible to countries at very different level of development to increasingly trade on a mutually profitable basis. This shift leads advanced economies to upgrade their exports, a strategy that has been particularly successful in Europe. All in all, the impact on the labour market of such move to quality might however be important: it is associated with a profound reshaping of activities, portfolio of products and organisation within firms, and this is potentially detrimental not only to less skilled workers, but also, within skill levels to the less adaptable ones.
REFERENCES.


Casas (1973)


