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Volume Title: Trade and Employment in Developing Countries, 3: Synthesis and Conclusions

Volume Author/Editor: Anne O. Krueger

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-45495-9

Volume URL: <http://www.nber.org/books/krue83-1>

Publication Date: 1983

Chapter Title: Front matter, Trade and Employment in Developing Countries (3 Synthesis and Conclusions)

Chapter Author: Anne O. Krueger

Chapter URL: <http://www.nber.org/chapters/c8760>

Chapter pages in book: (p. -12 - 0)

Trade and Employment in Developing Countries

3 Synthesis and Conclusions

Anne O. Krueger



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Trade and Employment in Developing Countries

3 Synthesis and Conclusions



- Trade and Employment in Developing Countries**
- 1 Individual Studies**
 - 2 Factor Supply and Substitution**
 - 3 Synthesis and Conclusions**

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Anne O. Krueger



The University of Chicago Press

Chicago and London

The University of Chicago Press, Chicago 60637
The University of Chicago Press, Ltd., London
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All rights reserved. Published 1983
Paperback edition 1988
Printed in the United States of America
97 96 95 94 93 92 91 90 89 88 6 5 4 3 2

Library of Congress Cataloging in Publication Data
Main entry under title:

Trade and employment in developing countries.

“[Results] from the research project sponsored by the National Bureau of Economic Research on alternate trade strategies and employment.”

Includes bibliographies and indexes.

CONTENTS: v. 1. Individual studies.—v. 2.

Factor supply and substitution.

1. Underdeveloped areas—Foreign trade and employment—Addresses, essays, lectures. 2. Underdeveloped areas—Commerce—Addresses, essays, lectures. I. Krueger, Anne O. II. National Bureau of Economic Research.

HD5852.T7 331.12'09172'4 80-15826
ISBN 0-226-45494-0 (v. 3) AACRI
ISBN 0-226-45495-9 (v. 3, pbk.)

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(Resolution adopted October 25, 1926, as revised through September 30, 1974)

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Preface

This is the third and final volume emanating from the National Bureau of Economic Research project on alternative trade strategies and employment. It is designed to bring together the theory underlying the trade strategies–employment relationship and the empirical evidence emanating from the project.

The entire project has been devoted to an analysis of the extent to which employment and income distribution are affected by the choice of trade strategies and by the interaction of trade policies with domestic policies and market distortions. The trade strategies in question are, of course, import substitution and export promotion as alternative means of encouraging the growth of domestic industry. While earlier studies, including the NBER project on foreign trade regimes and economic development (see Bhagwati 1978 and Krueger 1978 for details), provided considerable evidence that the economic growth performance of developing countries pursuing export-oriented trade strategies was substantially superior to that of countries under import substitution, little attention was given to the relationship between the choice of trade strategy and conditions in the domestic labor market before this project.

Trade theory, especially the Heckscher-Ohlin-Samuelson (HOS) model, predicts that poor countries will generally have a comparative advantage in the production of relatively labor-intensive commodities. In light of this, failure to have investigated the possible links between different rates of growth of employment and real wages with alternative trade strategies constituted a significant hiatus in our understanding of the trade strategies–growth relationship.

A first stage in the research project on alternative trade strategies and employment consisted of providing an analytical framework within which the links between trade strategies and employment could be identified.

This was done in Krueger (1977) and is partly reproduced here as chap. 4. A next step was to secure a group of researchers willing to undertake investigation of the empirical dimensions of the relationship. Many of the project participants undertook empirical and analytical studies of individual country experiences. Those studies were presented for ten countries in the first volume in this series (Krueger et al. 1981), which also contains a chapter describing the common concepts and methodology employed in all the country studies.

It was clear from the outset that the country studies would provide a great deal of insight into the trade strategies–employment relation, but that there were some interesting questions where comparative analysis, or focus upon a single aspect of the relationship, would yield fruitful results. In addition to the country studies, research was undertaken on these questions as an integral part of the project. The second volume (Krueger 1982) presented the results of those endeavors.

This volume contains an analysis of the trade strategies–employment relationship, especially in the context of factor markets in developing countries. The first four chapters are devoted to underlying theory: of factor, and especially labor, markets; of alternative trade strategies; and of the expected links between trade strategies, growth, and employment. The next two chapters analyze the findings from the project with regard to the observed labor utilization in exportable and import-competing industries. Thereafter, the ways factor market imperfections have affected those coefficients are analyzed in chapters 7 and 8. A final chapter summarizes some main conclusions.

A project of this size and scope is not possible without the contributions of many people. My greatest debt is to Hal B. Lary, whose careful and thoughtful comments on the manuscript, as well as throughout the entire project, were invaluable. All project participants read and commented on treatment of their own countries and topics in earlier drafts of the manuscript. In addition to kindly commenting upon treatment of Argentina, Julio Nogues read the entire manuscript and made many careful suggestions. T. Paul Schultz was especially helpful in commenting on chapter 2. Constantine Michalopoulos and Keith Jay of the United States Agency for International Development provided valuable comments and suggestions throughout the project. Delma Burns not only typed and retyped the manuscript, but also caught numerous inconsistencies and grammatical slips. To all these individuals I express my thanks.

The entire project was financed by the National Bureau for Economic Research, which in turn received funding for the project from the Agency for International Development.