Trade and the Skill-bias - It’s not how much, but with whom, you trade

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Abstract

This paper explores the hypothesis that changes in trading patterns and partners of US industries have contributed to skill deepening through defensive, skill-biased innovation. It draws on Thoenig and Verdier's (2003) assertion that, since skill-intensive technologies are less likely to be imitated, increased exposure to international competition promotes skill-biased innovation, due to the rise in the intensity of imitation by foreign firms. Our main proposition is that the rate of growth of a trading partner is related to the intensity of imitation from firms operating in that country, implying that an increase in the rate of growth of an industry's representative trading partner should contribute to the rise in its skill-intensity. We find empirical evidence in support of this notion, showing that the rise in the average growth rate of the trading partners has contributed to about 20% of the skill-deepening within US industries. By contrast, we find evidence that measures of the volume of trade do not matter significantly for the rise in skill-intensity, in line with existing literature.

Keywords: Trade and Wages, Skill Bias, Defensive Innovation,
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