

Exporters, Multinationals and Residual Wage Inequality: Evidence and Theory*

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Abstract

This paper studies the implications for wage inequality of two distinct forms of globalisation, namely trade and foreign direct investment. I use German linked employer-employee data to (1) jointly estimate the exporter and the multinational wage premium and (2) to further distinguish between wage premia of multinational firms that are foreign owned (inward FDI) and domestically owned (outward FDI). My findings exhibit a clear hierarchy of firms' international activities with regard to wage premia and the average observed and unobserved workforce ability, where multinationals can be ranked highest. I propose a theoretical framework that accounts for this pattern in the data. The mechanism is based on a model with ex-ante homogeneous workers, heterogeneous firms and search and matching frictions within a two-country two-sector trade model with monopolistic competition. By including foreign direct investment by multinational firms, this paper provides novel insights into the interaction between firm specific factors and firms' international activities in determining wage inequality and in particular, the multinational wage premium.

JEL classification: F14, F16, J31

Keywords: wage inequality, trade, fdi, labour market frictions

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