

## Explainer: how international competition affects how much you earn

Written by The Conversation

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*Low wages growth has been a spectre hanging around the Australian economy for some time. In our series [What We Earn](#) we unpick the causes for this and why some workers might be feeling it more than others.*

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The slump in wage growth is not just an Australian phenomenon – wage growth in most advanced economies has been [lower than expected](#) in recent years. This is because globalisation has put us all in the same boat when it comes to [international competition](#)



Earnings per hour.

There are two ways that international competition can reduce wages - imported goods and migrant workers.

In Australia, import prices of both items purchased by households and goods used in manufacturing, purchased by businesses, have [fallen over the past two years](#). This means businesses in Australia are increasingly competing with imports. As a result these businesses are less able to afford wage increases and their workers are less likely to ask for them, in fear that they may lose their jobs.

Low import prices are usually due to the goods we import (think t-shirts from Bangladesh, hardware products from China). Our imports, particularly of manufactured goods, are coming increasingly from countries where labour is plentiful and cheap, according to [research](#).

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In fact about half of our manufactured imports come from low-wage countries, which is an increase from less than 10%, 40 years ago. This is important when we consider that [80%](#) of the value of Australia's imports comes from manufactured goods.

When we import cheap products we are effectively importing cheap labour. This effective boost to the supply of cheap labour drives down import prices and wages in Australia. A similar effect happens when businesses outsource products or services to another country.

Again this is a global phenomenon affecting all industrialised countries including [the US](#) and [Australia](#)

. The most common primary motivation for global outsourcing [cited](#)

by companies is cost cutting. Business functions that are [typically](#)

outsourced are manufacturing procurement and services such as information technology, legal, facilities management, finance and human resources.

International competition can also reduce wages through migration of labour to Australia, although here the empirical evidence is less clear. The effect of migration on wages depends whether it creates enough jobs to absorb the extra workers, but teasing this out is not straightforward.

Net overseas migration has increased as a share of the population from [47% in 2000](#) to 54% in 2015. And the skilled migrant share of permanent migrants has increased from

[55% in 2000](#)

to 68% in 2015. Not only are migrants increasing as a share of the population, but a higher share of them are skilled.

And their labour participation rates are high. In November 2016 the labour force participation rate for recent migrants and temporary residents combined [was at 70%](#), which is higher than the overall participation rate for Australia of 66%. The effect is to boost the overall Australian labour participation rate.

Importantly, recent migrants have higher skill levels [than others in the labour force](#) . Unless

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sufficient extra jobs are created to absorb these extra workers, wages could go down, and more so in skilled wages relative to unskilled wages.

However this effect on job creation is hard to pin down and so research shows the effect on wages could go either way.

One [US study](#) argues that the additional jobs created are not enough to absorb the extra workforce, creating slack in the labour market and a drop in wages. However, [a nother study](#) using Australian data shows an increase in wages with increased immigrant worker numbers but it's small and statistically insignificant. Another Australian [study](#) found no net impact at all.

The question turns mainly on the net effect of migration on the quantity and quality of nation's investment in things like buildings, equipment and the like that are used by businesses. If this is sufficiently strong, then the workforce will be more productive and wages will tend to rise, otherwise they will fall.

So while it's easy to calculate the extra workers from migration, it is much [harder](#) to calculate the effect they will have on business investment and therefore on wages.

Globalisation has increased international competition through imports of both goods and labour. Imports of goods have tend to depress wage growth in Australia. The effect of labour imports through migration on wage growth depends on whether the boost to the workforce dominates any boost to job creation and that's unclear in theory and evidence.

*Ross Guest has previously received funding from the ARC and is a member of the ARC College of Experts.*

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