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Changing Wage Structure in Export Sectors under
Rising Competition

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Abstract

In this paper, we aim to develop a model within a conflicting-claims framework to explain possible implications of changing conditions of competition on the wage patterns particularly in the labor-intensive export sectors. As it can be observed in the Turkish economy, starting with 1990s, there has been major changes in states' policies accomodating the export sectors consistent with international commitments. Throughout this process, several subsidy mechanisms were either weakened or dismantled. At the same time, as many developing economies turned out to be the exporters of similar manufacturing products with the switch to export-led growth strategies, we observe that the structure of the demand for such products has become more elastic. This latter puts forward the fact that many of developing economies fell victim to the fallacy of composition problem in their expectations about export-led growth. Considering the elastic export demand that puts a major constraint on the prices of export goods, the model we present shows how the change in the profit rate triggered by a one time change in export subsidy rates results in different real wage patterns over time.