

# Abstract

This diploma thesis focuses on labor cost convergence. We interpret convergence within the framework of Samuelson's (1948) Factor Price Equalization Theorem, in which free trade equalizes factors' reward. Further, we consider the role of multinational enterprises as they serve as mediators of factor price convergence by transferring factor endowment and by affecting productivity and wages in the host country. Finally, we empirically test convergence hypothesis by applying unit root tests for a group of 21 industrialized countries for 1961-2006. We have found that labor costs convergence is surprisingly well supported by the data both for individual countries and for panel data. Similarly, we estimate that counties in Central and Eastern Europe have 10 (CR, Hun) to 15 years (SK, Pol) to move from low-wage, low cost based competitiveness to quality-based competitiveness.