



Labor Markets in Regional Trade Agreements: What Have we Learnt?

Jaime de Melo

and

Julie Régolo

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Outline

- ❑ Globalization and Labor
- ❑ Organization of survey
- ❑ Labour-related provisions by type of RTA
- ❑ Landscape of ex-ante GE estimates
- ❑ Ex-ante GE estimates: NAFTA
- ❑ Ex-post: Mexico case study of NAFTA
- ❑ Productivity and employment effects of exchange of market access

Globalization and Labor

□ Globalization has secured 3 of 4 fundamental economic freedoms

- Movement of goods
- Movement of capital (2500 BITs)
- Movement of Services

→ Globalization has been largely to the benefit of owners of capital (under regimes that welcome FDI) while developing countries prevented from exporting their people. Direct route to higher wages has been blocked

□ Rapid liberalization of WTS since early 1980s joined by developing countries both unilaterally and preferentially

- (tariffs =3% for OECD, 5-15% range for developing)

□ With labor movement excluded from multilateral negotiations, paper is survey of role of labor-market-related measures in RTAs

Organization of Survey

RTA are deepening beyond exchange of market access (reminder: 13% of world trade benefits from preferential access that amounts to less than 2 percentage points !).

- Regulatory measures (harmonization, MRA)
- Labour movements, labour clauses, capital

Survey covers

1. Description of labor (and capital) measures in RTAs (both not covered in multilateral Trade negotiations (“WTO-X” measures))
2. Ex-ante predicted outcomes (labor markets in sample CGEs)
3. Ex-post: Detecting effects
 - NAFTA case-study (puzzles defying conventional wisdom)
 - Productivity and employment effects of exchange of market access via firm-level estimates(Mercosur, CUSFTA, NAFTA)
 - GE Household based estimates household estimates (Mexico, Mercosur(Porto (2006)), Mexico (Nicita (2009)). See paper tab.4

Labor-related Provisions by type of RTA (1)

- Depth of integration in RTAs (58 N-S, 21 (N-N & S-S))
 - WTO+ =14 measures with commitments at WTO)—tariffs-export taxes, TRIPs, TRIMs, TBT, SPS...
 - WTO-X =38 measures not regulated by WTO)—labor laws, movement of capital, environment
- Patterns of measures across 100 RTAs (N-N; N-S, S-S)
 - Illegal immigration in N-S RTAs but not deemed legally enforceable (LE)
 - Legal inflation greatest in N-S RTAs
 - Labor market regulations mostly LE and in N-N RTAs
- Distribution of provisions across N-N, N-S and S-S RTAs ([here](#))

Labor-market provisions in RTAs

	North/North (21) ^a			North/South (58) ^a			South/South (21) ^a		
	AC	LE	Legal inflation	AC	LE	Legal inflation	AC	LE	Legal inflation
Provisions ^{b,c}	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Labour market regulation	5 (0.24)	5	0%	18 (0.31)	14	22%	4 (0.19)	2	50%
Illegal immigration	2 (0.10)	1	50%	7 (0.12)	3	57%	0 (0)	0	0%
Social matters	2 (0.10)	2	0%	18 (0.31)	10	44%	4 (0.19)	1	75%
Visa and asylum	5 (0.24)	4	20%	17 (0.29)	14	18%	5 (0.24)	3	40%
Total	14 (0.17)	12	14%	60 (0.27)	41	32%	14 (0.17)	6	57%

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[\(Back\)](#)

Labor-related Provisions by type of RTA (2)

- ❑ Details of labor-related provisions in N-S and S-S RTAs
 - Four WTO-X provisions most prevalent in most RTAs (legally enforceable in parenthesis)
 - competition policy (47%)
 - movement of capital (37%)
 - IPR beyond WTO TRIPS (31%)

Labor and capital Provisions in S-S RTAs

RTA	Number of countries	Number of WTO+ and legal enforcement*	Number of WTO-X and legal enforcement*	Provisions on factor mobility ●Investment measures, ●Labor Market Regulation, ●Movement of Capital, ●Intellectual Property Rights	Labor Mobility measures
Column (1)	(2)	(3)	(4)	(5)	(6)
ASEAN	10	2 (2)	0	None	- Mutual Recognition Agreement - Mode 4 of GATS
COMESA	20	10 (7)	19 (4)	Investment measures ●Labor Market Regulations ●Movement of Capital	
ECOWAS	15	7 (5)	13 (3)	● Investment measures, ● Movement of Capital	- Harmonizing of passports. - Joint operations at borders for customs and migration officers
MERCOSUR	5	9 (9)	3 (3)	● Movement of Capital ● Intellectual Property Rights	- Agreement on Residency: Promote the right to work and to carry out any legal activity for the citizens of the Mercosur Community
NAFTA	3	14 (14)	8(7)	●Investment measures ●Labor Market Regulation ● Movement of Capital ●Intellectual Property Rights	- “Temporary Movement of Business Persons” - TN visa -Annex on professionals: mutual recognition and definition of mutually acceptable standards and criteria.
SACU	5	7 ⁴	4 (0)	None	
SADC	15	11 (10)	1 (0)	None	
EC (27)	27	9 ⁹	11(11)	●Investment measures ● Labor Market Regulation ●Movement of Capital ● Intellectual Property Rights	- Labor mobility is guaranteed

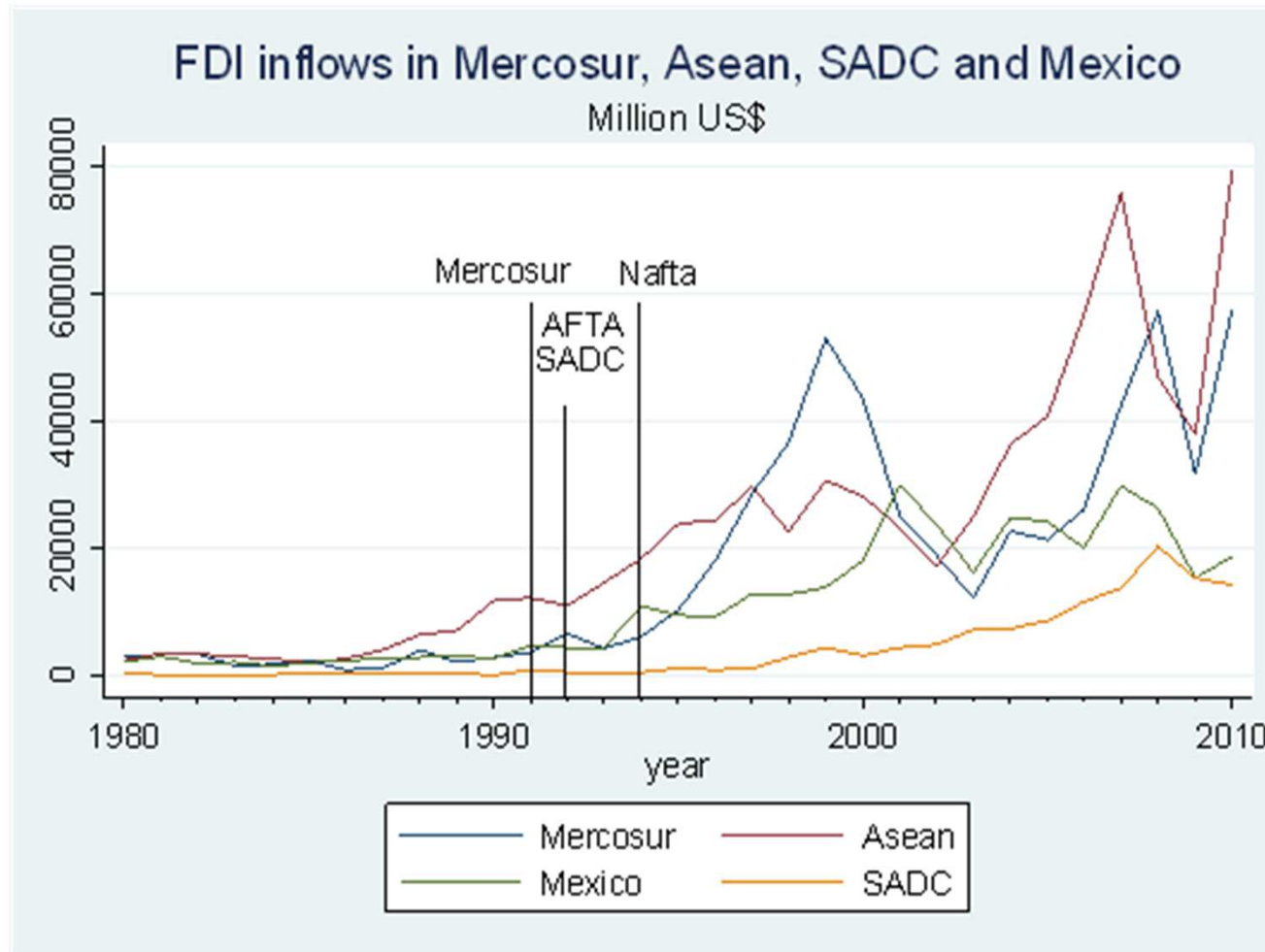
[\(Back\)](#)

Labor-related Provisions by type of RTA (3)

Inward Foreign Direct Investment (FDI)

- RTAs are now exchange of domestic reforms for foreign factories, i.e. to attract FDI
 - Measures to protect FDI via BITs
 - Difficult to isolate causal effects (Vezina (2014) on unilateral tariff cutting in Asian emerging economies to attract Japanese FDI)

FDI Flows in selected FTAs



[\(Back\)](#)

Landscape of ex-ante CGE estimates (1)

- Modelling assumptions (→labor market effects rarely reported)
 - No involuntary unemployment—i.e. no frictions,
 - Nested separable production functions by skill category
 - Product differentiation at national (or firm-level). Tariff pass-through <20%). Goods are substitutes by origin by construction (OK with data, e.g. Chang-Winters on Mercosur)
- No flexibility in labor demand structure to avoid calibrating too many parameters)

→ Small effects on wages. These are rarely reported

- ❑ but reallocation interesting --- a pity since one can discount benefits of liberalization by the time it gets to relocate (6-7 yrs?).
- ❑ Agricultural labor markets in Mexico-US under NAFTA (good for Iowa corn farmers; bad for Californian and Texan labor markets for fruits & vegetables).
- ❑ Dual labor markets/fixed wages (see summary estimates in tab. 2)

Ex-ante CGE estimates-NAFTA

- ❑ Well-executed CGEs are not black-boxes: good to contrast widely accepted model closures
- ❑ Deep-integration in RTAs go beyond tariff reductions that are not suitably captured in CGEs
- ❑ NAFTA: dozens of CGEs on the 'giant sucking sound' (how many to come on building the wall..?)
 - Net trade-creating for all 3 with a tight range of estimates (no surprise: same model structure, parameters, etc....). Mexico gains 2-5% of GDP negligible for US, small for Canada.
 - Non-tariffs barriers more important than tariffs. FDI (exogenous) is more more important than tariff elimination.
- ❑ ...but HS-6 estimates (Romalis (2007) and gravity-based estimates (carrère 2006) find trade diversion

Ex-post: Detecting effects: Mexico case study (1)

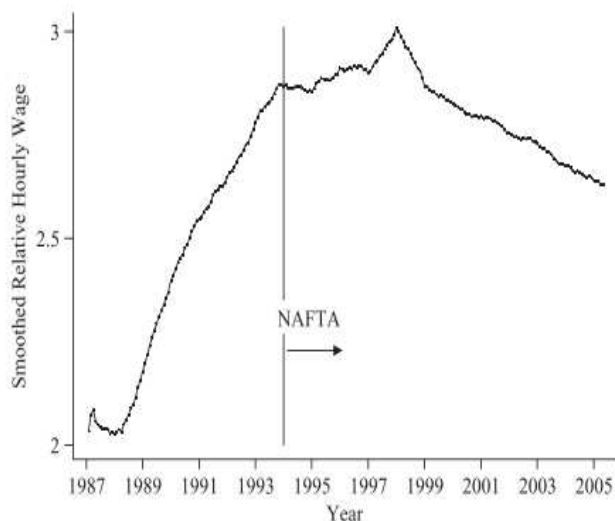
- Goldberg Pavnick (2007): Increase in skill-unskilled wage premium and inequality among developing countries following reduction in protection
 - Reallocation w/n sectors so no S-S effects (rigid labor markets, no spatial mobility)
 - Simultaneous removal of capital controls could lead to demand shift towards HL
 - Skill-biased technical change; reforms increase demand for managers
 - Many concurrent shocks during RTA ('deep integration')
 - Some were protecting labor-intensive sectors (e.g. Mexico)

→...strong modelling and identification needed to measure overall impact of trade liberalization under RTAs (most are beyond CGEs, some difficult to observe/guess ex-ante + confounding effects of NAFTA next)

Ex-post: Detecting effects: Mexico case study (2)

- ❑ NAFTA:1994 Mexican tariff: 12%→0%: US: 2% →0% +FDI (MFN,NT, +no trade-related performance requirements; freedom to buy Fx, to transfer funds). Only limited mobility of professionals.
- ❑ Confounding factors: Peso depreciation of 40% in 1995 + tightening of borders on illegal immigrants + supply of Skilled labor up sharply.
- ❑ If trade and FDI substitutes à la Mundell (1957) → $W \uparrow$, Mig \downarrow but border enforcement opposite effects. Robertson shows enforcement effect dominates so $W \downarrow$
- ❑ Fig 2(a) ([here](#)) : US & Mexican workers shift from substitutes (ante NAFTA) to complements under NAFTA with outsourcing as modelled by Feenstra and Hanson (1997)

Wages and Employment under NAFTA

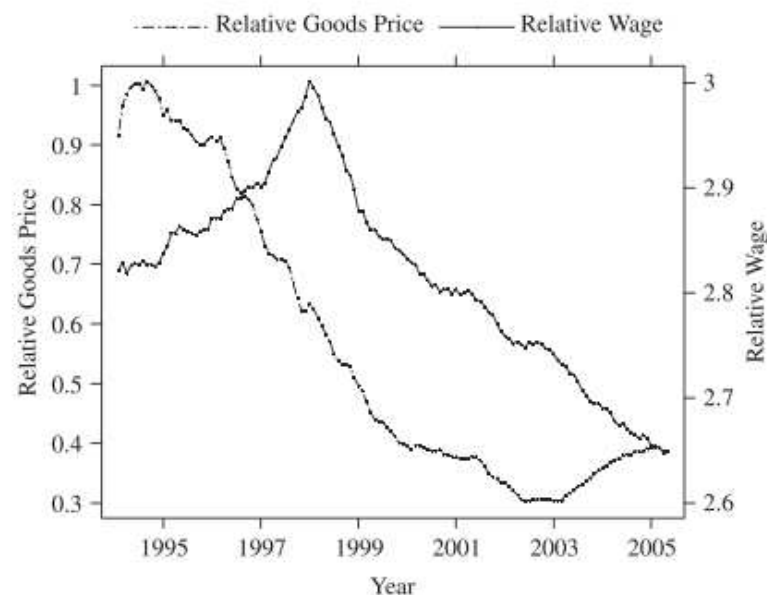


Relative wage Mexican manufacturing:

...from substitutes (ante NAFTA) to complements (NAFTA) with outsourcing

Relative price of skill intensive activities and relative wage of skilled fall.

But manufacturing is only 20% of skilled workers and college enrolment up sharply under NAFTA ... so attribution problem....



[\(back\)](#)

Productivity and employment effects of exchange of market access (1)

- All estimates from firm level data. Exploit differential change in tariffs to identify effects on the distribution of firms (employment and entry/exit to export markets) by sector
 - Tariff changes are exogenous for firms with substantial variation across sectors
 - Tariff changes are bilateral so firms better informed about opportunities
 - Firms in upper tail of distribution of tariffs really get hit....
 - CUSTA (Trefler (2004) and Lileeva and Trefler (2010)). Clean experiment: Change in employment and labor-productivity (after-before) with extensive controls and double difference:
 - (i) Large productivity gains;
 - (ii) (ii) small LR employment effects.
 - (iii) Access to US market led small and less-productive firms to enter market (higher productivity gains for initially low productivity firms).
- Replication for EAC (TZA, KYA, UGA)?

Firm-level Productivity Effects: CUSFTA and MERCOSUR

CUSTFA						
a) Employment and productivity effects Across 213 Industries ^a						
	Employment			Labor Productivity		
Canadian Tariffs (71 Most impacted)	-0.12			0.15		
US Tariff (71 Most Impacted Labor Productivity)	-0.03 (n.s.)			0.04		
Total FTA impact (Average over 213 industries)	-0.05			0.04		
b) Sources of Productivity Gains Within and Across Plants ^b						
Change in labor productivity (1988-1996) by group (bin) size (firms starting to export) ¹	Bin 1	Bin 2	Bin 3	Bin 4	Bin 5	Total
	19.6	26.4	26.7	14.6	7.1	15.3 (3.5%+0.5%) ²
Decomposition of Total (TOT) Change in labor productivity	TOT= [4.8%](within)+ [4.3%] (exit) +[4.1%] (expan.)= 13.2%					
MERCOSUR: Argentina ^c						
	Below median			Above Median		
Δ (Skilled/Unskilled) Labor share ^d	-8%			+6%		

[\(Back\)](#)

[\(back\)](#)

Productivity and employment effects of exchange of market access (2)

- ❑ MERCOSUR (Bustos (2011)). Heterogenous (high and low productivity) firms decide on technology upgrading to export with fixed costs. Bilateral trade liberalization leads to net gains in revenues (as not all foreign firms enter). Variable trade costs fall and firms in upper productivity quartiles invest in technology upgrading. Relative demand for skill increases in above-median firms (identification via differential reductions in Brazil's tariffs across firms) ([here](#))

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[\(Back\)](#)

[\(back\)](#)

Summary

- Little progress on labor markets integration in RTAs beyond temporary movement of skilled labor
- Increase in Skill wage premium in developing countries is difficult to identify because of confounding factors
- Illustration of NAFTA
 - Other policies (tightening on illegal immigration)
 - Increase in supply of skilled labor after NAFTA
 - Mexican and US shift from substitutes to complements as they cooperate in a production chain (maquilas) made possible by NAFTA
- CGEs preclude large effects by construction.
- Ex post econometric estimates find trade diversion while ALL ex-ante CGE estimates predict trade creation.