

TRADE LIBERALISATION AND WAGES IN DEVELOPING COUNTRIES

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July 2002

JEL Classification: J3, J6, J31, F16, D33, O15

Keywords: trade liberalisation, technology, wages, employment, income distribution, developing countries, returns to education, Brazil.

Acknowledgments: We would like to thank the UK Economic and Social Research Council (grant number R000223184) and the Brazilian Research Council (CNPq) for financial support, and participants at the VI Brazilian Studies Association, Atlanta, [2002](#) Royal Economic Society Conference, Durham, 2001, Annual Conference of the European Association of Labour Economists, Jyväskylä, and XXIII Brazilian Econometric Meeting, Salvador, for comments and suggestions on [earlier](#) versions of this paper.

Supprimé : , 2001

Supprimé : early

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Abstract

This paper reviews theoretical and empirical studies of the effects of trade liberalisation on wages in developing countries, and presents new evidence for the case of the Brazilian economy which experienced a period of rapid trade liberalisation at the beginning of the 1990s. We find that after trade liberalisation wages, conditional on education and work experience, fell substantially in the traded sector, consistent with there being reduced rents as industries faced more competition. 'Conditional' wages also fell, though by less, in the non-traded sector, possibly reflecting spill-over effects. However, due to increasing education levels, there was little overall change in the average wage level for the whole economy. Averaged over the whole post-liberalisation period, the marginal returns to college education rose. Within the traded sector, the impact of increasing openness on wages was insignificant for those in the top two education groups, but negative for lower level education groups. These findings are consistent with the hypothesis that imported technology following trade liberalisation raises the demand for highly skilled labour.