

# **Wage Inequality and Trade Liberalization in MPs: Evidence for Morocco**

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## **BACKGROUND:**

Improving the analysis on the impact of trade reforms on developing and emerging countries is currently on top of the international research agenda. Within this context the relevance of a better understanding of the ongoing process of trade liberalization between the EU members and the Mediterranean Partners (MPs), under the framework of the Barcelona Process, deserves a specific mention. After ten year from the launching of this Process, aiming at “building a regional entity through economic, political and social advance”, the implementation of Euro-Mediterranean Free Trade Area (FTA), the economic and commercial bulk of the Barcelona Process, still ask for further considerations.

The relevance of assessing the impact of the Euro-Mediterranean trade liberalization process is closely linked to the ambitious goals of both partners. Referring only to the economic dimension, the implementation of the Euro-Mediterranean FTA is for MPs above all a tool to favour employment amongst an active population growing fast<sup>1</sup>. In addition, the implementation of the EU-Med FTA can be considered as an instrument to support Southern Mediterranean countries in dealing with other very important challenges such as the need to shift from public sector dominated to private-sector driven economy; to build a new development model able to move from a closed and passive international role to a more open and active one; to overcome a international specialization model volatile and dominated by oil or by a low degree of diversification to more stable and diversified one (Nabli, 2005).

From the other side, the EU members aim mainly at developing new markets in which it would be far more successful than in other regions. Elsewhere, the EU saw its' demographic structure becoming dangerously biased towards an older population, which will force it to necessarily develop a replacement population through immigrants whose level of qualification will matter (Femise 2005). The demographic and educational trends in MPs and Europe suggest strong complementarities between the MED countries and Europe. The strategic role of the economic integration launched by the Barcelona Process has been stressed also within the framework of the European Neighbourhood Policy (ENP) that recognizes the relevance of the Euro-Mediterranean Association Agreements as crucial pillars to realize the broader ENP objectives. Strengthening the Euro-Mediterranean integration is a critical instrument especially for Southern European countries that historically, geographically, and economically have been characterized by closer relationships with the MPs.

This being considered, many efforts have been made, so far, in order to assess the impact of Euro-Mediterranean FTA. The analysis have been carried out by applying partial or general equilibrium models focused whether on the effects of the foreseen manufacturing trade liberalization or on the possible effects of agricultural trade liberalization. Efforts in assessing the impact of trade liberalization in services are also been made as well as cross-country exercises based on gravity model. Despite the uncontroversial progresses made on this topic, the existence of the abovementioned need in the analysis claims for further efforts in the assessment of the socio-economic impacts of trade liberalization on MPs.

## **Content of the empirical investigation**

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<sup>1</sup> Recent researches under the Femise Network evaluated a need for 35 million new jobs to be created in the MPs, between 2000 and 2015, in order to maintain unemployment at current levels (Femise, 2005).

The proposed paper gives a contribution to the analysis of the effects of trade liberalization on MPs' economic systems by analyzing the specific case of the effects of trade reforms implemented in Morocco during the '90s. The purpose of the study is not only to answer to the specific need of identifying winner and losers of trade reforms in the specific case of Morocco, but also to offer a contribution to the assessment of the future effects of FTA on MPs. Morocco is, with Tunisia, the most advanced country in the implementation of the Euro-Mediterranean Agreement. It is also a country with little natural resources and a big and increasing labour force. The occurrence of these specific characteristics made this country a very interesting observation point for the analysis of the effects of trade reforms, and in particular of the Euro-Mediterranean FTAs. A number of lessons may emerge from the analysis of Morocco's experience helpful for gauging how the Euro-Mediterranean FTA might affect other MPs.

The focus of the paper is, more specifically on the impact of trade liberalization on wage inequality. Using two household surveys conducted by the Moroccan Direction of Statistics in 1990/91 and 1998/99, the study verifies the magnitude of wage inequality in Morocco and its relationship to a set of trade liberalization measures. After an analysis of the characteristics and evolution of wage inequality in Morocco between 1990/1991 and 1998/1999, showing a progress towards a more equal distribution of wages both for male and female workers with regular wage, separate augmented Mincerian wage equations have been estimated for these two sub-sample using a set of human capital measures and a variety of worker, industry and regional characteristics after correcting for potential selection bias. This paper finds that the returns to education and experience are significantly different for these two types of workers consistent with previous empirical evidence. There is also some evidence of significant changes in the returns to education for regular workers over time. The reduction of the gap between graduate and primary education and the decline in wage inequality could possibly be a consequence of trade liberalisation and other reforms pursued during the 1990s.

In order to verify this relationship a specific analysis of the effects of trade liberalization on *wage premia* has been carried out. With this aim, following the literature on this topic (Krueger e Summers, 1988; Golberg e Pavcnik, 2004) the inter-industry wage premia are extracted from the wage regression model, expressed as deviation from an employment-weighted mean and regressed on trade variable in order to asses the role of trade in determining these premia and, above all the, the abovementioned changes in wage inequality.