

# Trade Liberalization and Wage Inequality: Evidence from Chile

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February 8, 2020

## Abstract

This study analyzes the impacts of further tariff reductions resulting from the proliferation of regional trade agreements on the wage inequality in Chile in the 2000s. For that purpose, we use data on effective tariff rates instead of uniform most-favored nation rates to measure trade liberalization. We combine panel data on industry characteristics including effective tariff rates with pooled individual cross-section data from national household surveys at the industry level. We find that trade liberalization, *ceteris paribus*, increases industry wage premiums, thus suggesting that liberalization-induced productivity improvements lead to higher wages. We also find that trade liberalization increases industry wage premiums for skilled workers but does not affect those for unskilled workers, thereby increasing the wage inequality between them. Moreover, the impact of effective tariffs on industry wage premiums for skilled workers is larger in large-sized firms. The results are robust to including input tariffs and other globalization-related industry characteristics such as the share of foreign technology license fees and foreign owned capital. The results are also robust to including industry productivity, which is likely to affect both effective tariffs and industry wage premiums, as well as controlling for the potential endogeneity of trade policy.

**Keywords:** regional trade agreements, effective tariffs, industry wage premiums, industry skill premiums, productivity

**JEL classification codes:** F16; F61; J31; O15; O54

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