

Quantifying Skill and Ethnic Wage Inequality from Transpacific Partnership Agreement (TPPA): A Demand-side Analysis for Malaysia

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Trade liberalisation undoubtedly helps to enhance economic growth, increase efficiency and expose domestic markets to international competition. In fact, economic benefits from trade liberalisation are well documented in various international economic studies. While some empirical evidence to date has shown that trade liberalisation promotes economic growth, equally important is a growing body of research that addresses the effects of trade liberalisation on income inequality, especially for the case of developing countries. Focusing on the emergence of the international production fragmentation, our paper examines the wage inequality effects of trading with Transpacific Partnership Agreement (TPPA) countries on Malaysia. By combining national households micro-data and Eora database, it assesses the wage inequality effects of Malaysia's trade with BRICS and ASEAN countries, enabling us to make comparisons across a wide range of trade blocks. We consider a model where wage inequality can be assessed through demand from trade destinations and exporting industries, and where wages are differentiated by various skill categories and major ethnic groups. The results show that high wage inequality could have significantly occurred at different skill categories and across ethnic groups when trade with TPPA materialised. In particular, Chinese ethnics, who are commonly employed in high productive sectors, benefit the most compared with Malays and Indians. In contrast, exports to BRICS and ASEAN countries have minimal effects on wage inequality, suggesting that regional trade with comparable economic backgrounds could be more effective in reducing inequalities.