

# DIALOGUE

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## Editorial

The search for the holy grail of economic development has long been one of the main aims of economists specialising in this area. Arthur Lewis put forward the theory of development as the gradual transformation of the traditional rural economy into a modern industrialised economy. Albert Hirschman defended the idea that successful development depends on the development of certain key sectors whose buoyancy should drive forward the entire economy. Paul Rosenstein-Rodan argued that economies needed to trigger a Big Push by developing all the sectors so that their activities become mutually self-sustaining. Today, few economists would venture to propose a one-size-fits-all development model. Yet the question still remains as to how to quickly turn a rural and highly informal economy into a modern economy with a substantial industrial sector. The success of the historically export-driven Asian countries compared with the African countries, which sought to develop import substitution industries following independence, suggests that the production of goods for export is a good bet to set the entire economy on the road to progress. At the same time, the success of industrial districts such as Tre Italia between northern and southern Italy with its fabric of competing, buoyant small and medium-sized exporting enterprises points to the creation of international competitive zones supported by favourable taxation in the hope that the business and expertise developed in these zones will end up feeding into the entire economy. This question is the subject of the article co-written by Marta Menéndez, Jean-Marc Siroën and Aude Sztulman in this issue of *Dialogue*.

This issue of our newsletter also reports on a number of important meetings held in the spring and summer of 2015. The group of researchers working on the European Nopoor programme headed up by the unit took part in two scientific meetings and held a summer school to present and discuss work on poverty and associated policies. In May, the University of Paris-Dauphine held the 13th International Workshop on Pensions, Insurance and Savings organised jointly by Dauphine Economics Laboratory (LEDa), the DIAL Joint Research Unit (UMR DIAL), the Paris School of Economics and Harvard University. And in July, the third international DIAL conference on development economics was held at the University of Paris-Dauphine on the theme of Barriers to Development. It was attended by over 160 researchers from the world over.

In the news, the change of management at French development research institute IRD has made some changes to the institute's organisational chart. This has proved a plus for our unit as Flore Gubert, currently Assistant Director of DIAL, has been appointed Director of IRD's Societies and Globalisation Department. Following on from the election of Mireille Razafindrakoto to the Chair of the Sectorial Scientific Commission for Human and Social Sciences, this appointment marks the institute's recognition of the scientific quality of DIAL's work.

Philippe De Vreyer



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## Are free trade zones a development model?

### Introduction<sup>1</sup>

The 1980s formed a launch pad for most developing countries to adopt open trade policies. They reduced their tariffs, joined the WTO and some of them negotiated free trade agreements. From 1990 to 2014, the share of developing and emerging countries in world goods and services exports rose from 13% to 28% (WDI, World Bank). UNCTAD statistics report that the percentage of foreign direct investment flows into developing countries and transition economies rose from 31% for the 1990-1994 period to 50% for the 2008-2012 period.

These performances are often put down to a catch-up effect following the scrapping of protectionist import substitution policies. Yet despite their new international outlook, the developing and emerging countries kept up higher tariffs than the developed countries, especially in the manufacturing sector. And import substitution industrialisation policies are far from incompatible with active pro-foreign investment policies, since high tariffs encourage foreign firms to produce within the country. Where these policies failed, not all their objectives were dropped, but their instruments were reviewed.

### Are free trade zones a development tool?

Against this backdrop, new free trade zones developed and mushroomed in developing and emerging countries from the 1980s on-

wards (Aggarwal, 2005 & 2012; Singa Boyenge, 2007; FIAS, 2008; Bost, 2010). These new free trade zones, or export processing zones (EPZs), were the instrument of a new development model designed to attract foreign investment to create jobs, build infrastructures, spread technology and bring in foreign currency. They were supposed to drive economic diversification, regional development and employment for the available manpower.



Manaus, world number one river port

Consequently, most of the exports from developing and emerging countries, including leading countries such as China and Mexico and smaller countries such as Mauritius and the Dominican Republic, come from free trade zones. The boom in free trade zones has gone a long way to driving up the “vertical” international division of labour by internationalising the fragmentation of production processes. Trade openness has given emerging countries the means to leverage their comparative advantage in low-skilled labour intensive tasks. The free trade zones host foreign multinationals that have relocated activities generally situated at the end of the production line. These firms import the inputs and components that are “processed” before being re-exported.

Free trade zones have therefore become specialised in assembly, mainly in apparel, electronics and mechanical engineering (Cattaneo et al., 2010).

This development explains the semantic shift from “free trade zone” to “export pro-

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<sup>1</sup> This article is a brief summary of a series of studies on free trade zones, focusing in particular on the Free Trade Zone of Manaus (FTZM). This research was funded by the French National Research Agency (ANR Les Suds II Programme) and the European CFRP 7 (Nopoor Programme). The University of São Paulo, the State of São Paulo and the French Ministry of Foreign Affairs also supported the initial project with funds for a visiting research position at the University of São Paulo’s NEREUS laboratory. The main contributors to these studies are Marta Castilho (UFRJ), Renato Freitas (SUFRAMA), Joaquim Guilhoto (USP), Marta Menéndez (PSL-Paris-Dauphine), João Saboia (UFRJ), Jean-Marc Siroën (PSL-Paris-Dauphine-DIAL), Aude Sztulman (PSL-Paris-Dauphine-DIAL), Mauro Thury (UFAM) and Ayçil Yücer (PSL-Paris-Dauphine-DIAL and University of Dokuz Eylül). Thanks also to the many students who contributed to the research and contributors to the seminars held in Manaus, Rio de Janeiro, Niteroi and Paris. For further details, see: [ftz.dauphine.fr](http://ftz.dauphine.fr).

cessing zone” (EPZ). This new division of labour has come with a production relocation movement clearly to the benefit of multinational subsidiaries, but also to the advantage of multinationals specialised in subcontracting, such as Foxconn, and local firms producing under licence. Outsourcing is one of the important new aspects of the complexification of the global value chain.

In the countries concerned, incentives are therefore offered to companies that import raw materials and components to be processed for export to the world market. The firms are granted a series of advantages, which may vary by country and zone status, but generally involve exemption from duty on the imported inputs and exports, tax relief (profits tax, local taxes, property tax and VAT), dispensation from certain regulations, and preferential provision of land, infrastructure (electricity, water, etc.) and public services. Certain measures, such as exemption from exchange controls and free repatriation of profits, directly encourage location by foreign firms. These advantages are generally limited to the re-exported goods with restrictions on domestic sales often in the form of a cap (e.g. 20% of output) and taxation of the imported components used in the goods sold on the domestic market. The zones are often established in autonomous enclaves such as the Chinese “special zones” and the Free Trade Zone of Manaus (see below). Yet they can also be found dotted about the country such as in the case of the Mexican maquiladoras, whereby each firm concerned could be deemed an EPZ in its own right (a *single factory EPZ* to take the FIAS definition, 2008).

Farole (2011, b) finds that public service and infrastructure access and the regulatory environment are more important to investors than tariff exemptions, tax relief or low labour costs (ranked in just eighth place). However, the sincerity of stakeholders’ answers to the questionnaires they filled in could be questioned.

Despite the EPZs’ contribution to the new “vertical” division of labour and developing and emerging country exports, studies of these zones are often restricted to case stud-

ies (e.g. Cling et al., 2009; Farole, T., Akinci G. eds., 2011; Aggarwal, 2012), even though they do sometimes take a comparative angle (Farole, 2011 b).

The main obstacle to more cross-cutting studies is the lack of databases on free trade zones worldwide. The study by Singa Boyenge (2007) for the ILO does not discuss the zone’s actual nature and focuses on employment. Free trade zones can actually cover a wide range of situations and take many different names. French-style urban empowerment zones, Chinese special economic zones, airport duty-free zones and port transit zones are all radically different on the ground. Yet it is the export processing zones (EPZs) that have posted the most spectacular growth since the 1980s and have extensively remodelled international trade and the structure of developing economies. In some cases, following the failure of early EPZs as in India (see Aggarwal, 2012), aspirations have turned to special economic zones (SEZs) such as they were developed in the 2000s based on the Chinese model. These autonomous administrative structures are designed to provide all the services and maximise the cluster effects. They include science and technology parks, petrochemical zones, logistics parks and airport-based zones (FIAS, 2008).

One of the aims of the French National Research Agency’s Free Trade Zone of Manaus Project (ANR-ZFM, 2010-2015) was to build a database on these free trade zones. Interns, doctoral candidates and post-doctoral fellows worked on building this database from existing documentation: published papers, books, reports (WTO, World Bank, US Department of Commerce, etc.). The database is now available in French online on the project’s dedicated website ([ftz.dauphine.fr/fr/donnees/](http://ftz.dauphine.fr/fr/donnees/)).

The data collected obviously cannot claim to be exhaustive since, even where zones can be identified, the information available varies hugely and is more often than not sketchy. Nevertheless, this work has identified nearly 1,100 zones of the enclave variety in 129 countries. This number may well be far from the figures put forward elsewhere, but these

other figures are generally based on a broader definition of EPZs. For example, Singa Boyenge (2007) counted 3,500 EPZs in 2006. Yet the 1,100 EPZs identified in the ANR-ZFM database cover delimited, confined enclaves only. Zones such as maquiladoras and single factory EPZs are not included, even if the countries concerned are identified in the database. The same holds for the European and American free trade zones, which are generally long-established, but with an uncertain status. The European single market does not, in principle, allow the creation of subsidised duty-free zones. Note, however, that the drawback system does exempt companies from tariffs on inputs incorporated into exports, but without any conditions as to the orientation of production or location, as with EPZs.

In this database, China is by far the country with the most free trade zones (236), way ahead of the Dominican Republic (57), Honduras (39), Malaysia (33), Namibia (31), India (29), Indonesia (23), Cambodia (22), Korea (22) and Turkey (21). It is quite clear from the database that virtually all the EPZs created in the last 30 years are in developing and emerging countries, often Asian countries, with a dominant model in the form of the Chinese model. The most accomplished example of this model is reportedly the Shenzhen Special Economic Zone, with its huge number of foreign multinationals producing industrial finished goods in sectors such as apparel, electronics and chemicals. Most smartphones and portable computers on the market are assembled in this zone by Taiwanese firm Foxconn, also established in many other EPZs around the world. Some of these zones are now long standing (e.g. Manaus was established in 1967 and Shenzhen in 1979), but they spread and boomed mainly in the 1990s and 2000s.

Not all EPZs have grown like Shenzhen, which remains an exemplary model. Some never got off the drawing board or failed to attract investors. There are a fair number of such cases in Africa (Farole, 2011 b), often due to failure to find political consensus, a precise, flexible legal status, a suitable location or experienced bureaucracy. Neverthe-

less, the case of Manaus shows that some design faults, such as an unlikely location, are not crippling (see below).



Manaus and its Amazon Theatre, vestige of a glorious past built by the rubber boom.

However, the proliferation of these zones does raise a certain number of questions. The advantages granted are discriminatory and conditional on varying criteria: geographic location near borders or ports, regional development, destination of production, etc. Free trade zones therefore create distortions. In the countries concerned, local firms not eligible for the same advantages often complain of unfair trading by foreign firms established in the free trade zones. With their tariff and tax advantages, EPZs can simply shift production and work to areas that have no other comparative advantages than the tax or tariff incentives granted by the state or local authorities. In terms of international trade law, the advantages granted certain exporting firms are tantamount to direct or indirect production subsidies most likely in breach of WTO rules (Creskoff & Walkenhorst, 2009).

Debate also surrounds the very nature of EPZs. Theoretically, distortions are greater where advantages are discriminatory. Enclave-style EPZs, such as the Chinese and Indian zones, are in principle greater sources of distortions than the maquiladoras-style EPZs, which are themselves greater sources of distortions than untargeted industrial policies. For example, the drawback system also practised by developed countries (including the European Union) appears to be an alternative that creates fewer distortions as it

exempts all industrial firms from customs duties on inputs imported for use in exported products. Yet these policies lose out on some of the externalities expected of EPZs, such as the cluster effect. They do not cover the range of objectives assigned to EPZs, such as regional development.

Despite these distortions, international organisations such as the WTO, UNCTAD (2013) and the World Bank have shown tolerance and understanding towards these policies on account of their supposed spillover effects, despite pointing out the many cases of failure. Some authors speak of a catalytic effect between free trade zones and the rest of the national economy due to a learning effect that improves the capacity of local firms to modernise their technology and export (Johansson & Nilsson, 1997; Wei, 1998; Din, 1994). EPZs may also be seen as political and social testing grounds to smooth future reforms. The idea here is that they protect the country from the shock waves of sudden Big Bang openness, which might destabilise the domestic economy. They form a sort of transitional phase between the old import substitution strategy (e.g. India and Brazil) and the final stage of immersion in Singapore-style openness. Wu (2009) considers that, “The combination of labour and capital in EPZs provides a chance for developing countries to absorb foreign direct investment (FDI) and be linked to the global economy with minimum impact on the domestic economy, as the goods produced in EPZs are exported” (see also Engman et al., 2007). A more recent body of literature posits that specialisation in the global value chain gives EPZs the opportunity to promote more sustainable development by giving them a window to make the most of their comparative advantages in low-skilled labour-intensive tasks (UNCTAD, 2013).

However, civil society and certain international organisations such as the OECD and especially the ILO (ILO, 2014) have raised concerns about labour practices and enforcement of workers’ rights in these zones, which are sometimes seen as “lawless” zones (Milberg & Amengual, 2008) or zones that

add to illicit trade and money laundering (ICC, 2013). They are accused of targeting a particular type of manpower from the most vulnerable population groups, such as young women and children who often come from the countryside and are more compliant so they put up with indecent working conditions (ILO definition): unreasonable working hours and unpaid overtime, job insecurity and accommodation conditions. The ILO and the international unions<sup>2</sup> are particularly concerned about restrictions on union rights, i.e. freedom of association. The NGOs point the finger at poor working conditions (“sweatshops”) causing a high rate of labour turnover and insecurity reportedly rife in certain zones: occupational injury, collapsing buildings and handling of dangerous products. In the early 2010s, criticism of Foxconn, especially in Shenzhen (called Foxconngate) following a wave of suicides and strikes, prompted the firm to review its working conditions and wages and prompted its contractors (Apple, Samsung, etc.) to pay closer attention to their sub-contractors’ labour policies. Yet from here, it would take a huge leap of faith to say that by concentrating industrial action, the EPZs drive forward progress with industrial relations in the country as a whole.

Nevertheless, it is not easy to come to any conclusions about the labour-related repercussions of the free trade zones. Any assessment is inevitably relative. What should be the basis of comparison with the labour practices of multinational firms in the EPZs? Should they be compared with international standards such as those defined by the ILO (core labour standards and decent work)? Or should they be compared with the practices of national firms outside the EPZs, or even with the practices of the multinationals’ countries of origin? And what about local sub-contractors, which are not necessarily established in these zones? Even when the EPZs do not provide for exceptions to labour legislation, what actually happens in practice? Foreign firms in the EPZs or contractors could at least be expected to make sure that decent working conditions are re-

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2 See <http://www.ituc-csi.org/export-processing-zones?lang=en>

spected and that the advantages granted to the free trade zones are dependent on labour-related progress.

Taking the abovementioned database on free trade zones in the world, Yücer and Siroën (2014) conduct a cross-cutting econometric study on what, in principle, is the prime objective of the countries that create EPZs: their contribution to international trade. The database identifies the countries with EPZs (including maquiladoras) by differentiating between “active” and “inactive” and the small number of domestic-market-oriented zones (as found in Brazil with the Manaus Zone), which are more like “import” processing zones than “export” processing zones.

EPZs create international trade upstream as importers of inputs and downstream as exporters of processed products (often the finished product). Not only is the aim of a country with EPZs to export more, but a country that produces inputs will export relatively more to a country with EPZs even if it does not have any free trade zones itself. EPZs hence contribute to growth in world trade upstream and downstream. So in the global value chain (GVC), EPZs have a multiplier effect on trade. Gravity models, usually used to quantify international trade determinants, are taken to factor in this double-edged effect. Yücer and Siroën (2014) show that countries with EPZs only raise their exports in interaction with high tariffs. The authors also demonstrate that the countries tend to export relatively more to countries with free trade zones themselves associated with high tariffs. These conclusions are robust to different sensitivity and robustness tests on the countries’ characteristics and the sample considered (special treatment of the United States and China). In other words, free trade zones maintain high protection in terms of baseline tariffs (“Most Favoured Nation” or MFN principle) by reducing, if not offsetting, the negative effects of this protection on the competitiveness of output. Yet this mitigating effect is, by definition, zero in the absence of tariffs and only becomes observable as of a certain tariff rate threshold estimated to be fairly low (at

around 4%). In fact, active EPZs are established in countries whose tariffs are way above this threshold. This makes EPZs appear to be a “second best” solution: the countries with EPZs trade less than they would with low or zero tariffs, but more than they would with the same tariff levels without EPZs. In other words, other things being equal, China would probably have traded even more if it had axed its tariffs rather than setting up EPZs!

### **Free Trade Zone of Manaus: Negative example or ideal model?**

The perception of the free trade zones as described above focuses on export-led growth strategies based largely on the Chinese and Mexican models. Yet the “100% export” strategy is not a given. Free trade zones can also target the national market without being penalised for it. They can then be called “import free trade zones” or, even better “import processing zones”. Such is the case with the Free Trade Zone of Manaus (FTZM), which exported just 2% of its industrial output in 2014.<sup>3</sup>

Manaus enjoyed its first economic boom from the late 19<sup>th</sup> century to the early 20<sup>th</sup> century thanks to the rubber industry, which then migrated to Asia prompting the region’s decline. The Free Trade Zone of Manaus originally set up in 1957 was merely a trading and warehousing district designed mainly to supply imported consumer goods to the region’s inhabitants. It was reformed in 1967 under the military dictatorship and shifted more to industrial production. One of the FTZM’s particularities is its highly unlikely location deep in the Amazon forest with no passable roads, but navigable rivers and an airport. The borders and potential markets, including the domestic market, are not easily reached. It takes seven to ten days to get from Manaus to São Paulo by river and road. So Manaus could hardly have been

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<sup>3</sup> The FTZM data are taken from different sources. The Free Trade Zone of Manaus Authority (SUFRAMA) collects a set of statistics on the Manaus Industrial District (PIM). The annual industrial survey (Pesquisa Industrial Anual, PIA) conducted by the Brazilian statistics institute (Instituto Brasileiro de Geografia e Estatística, IBGE) provides data on production and employment in the state of Amazonas. Censuses lastly provide a set of data on the municipalities, including Manaus.

chosen for its competitiveness and optimal location. It was chosen to promote economic growth and regional development, but also to go some way towards occupying a vast, underpopulated area (Brazilian Amazonia is six times the size of France) to assert Brazil's sovereignty over an uncontrollable area seen rightly or wrongly by the Brazilian government as geostrategic and disputed (as a "common" belonging to humanity, disputed by smugglers and guerrillas, by the leading Western powers, by the pharmaceutical laboratories, etc.). New objectives have gradually been put forward: rebalance between the Amazonian East, dominated by Belém, and the Amazonian West; contribution to poverty reduction in an underprivileged region; industrialisation as an alternative to deforestation, etc.

The FTZM hence benefits from tax and excise incentives (Box 1) justified in terms of offsetting the handicaps from which the Amazonian region reportedly suffers.<sup>4</sup> Administered by federal agency SUFRAMA (established in 1967), the FTZM is already announcing Chinese-style "special economic zone" policies. Despite reticence from other Brazilian states over the advantages granted the FTZM, the zone's longevity, stipulated in the Constitution, has been regularly extended, the last time in 2014 for ... 50 more years.

The FTZM is made up of three districts: commercial, agricultural and industrial. The Manaus industrial district (PIM) is quite definitely a processing zone. To qualify for the incentives, businesses have to commit to a "*Processo Produtivo Básico*" (PPB), which defines the minimal manufacturing steps required. Activities are therefore centred on the final stage of the production process using inputs that are now mainly imported. In 2014, inputs accounted for nearly half of the value of the output of the Manaus industrial district compared with 6.4% payroll (including social security contributions). The

proportion of imported inputs rose from 19% in 1988 to 63%.

#### Box 1 – Incentives and conditions

- Federal, Amazonas state and Manaus municipality tax incentives: import duty reduction or exemption, corporation tax break (*Imposto de Renda sobre Pessoa Jurídica - IRPJ*), exemption from tax on industrial products (*Imposto sobre produtos industriais - IPI*), value-added tax exemption or refund (*Imposto sobre a Circulação de Mercadorias e Serviços - ICMS*), reduction of or exemption from certain social security contributions, and property tax exemptions.
- Other advantages: preferential access to infrastructure (water, electricity and roads) and land at subsidised prices.
- Counterparts required from the firms (under the PPB programme - *Processo Produtivo Básico* -): commitment to production activities and business contribution to fund higher education, tourism, R&D and small business.

The Manaus industrial district's production concentrates on a small number of industrial sectors suited to component assembly whose finished products can be transported by air or river (consumer electronics and IT equipment, motorcycles, etc.). The sector's leading multinationals operate in the district (Nokia, Phillips, Foxconn, Sony, Yamaha, etc.).<sup>5</sup>

There may well be more to the FTZM's poor export performance than meets the eye. Output value calculations are misleading, because they include the value of inputs not produced in the zone. When the Manaus industrial district (PIM) exports a good to the State of São Paulo, this good may then be re-exported to the United States. Statistically speaking, São Paulo is the exporter and the contribution of Manaus to value-added is lost. Yücer, Guilhoto and Siroën (2014b) take data collected by the University of São Paulo Regional and Urban Economics Lab (NEREUS) and use the inter-state inverse input-output method to decompose the origin of each Brazilian state's value-added. Their calculations confirm the "processing zone" nature of the State of Amazonas and hence Manaus (approximately 80% of the

<sup>4</sup> "The Free Trade Zone of Manaus is a free trade zone where imports and exports qualify for special tax incentives designed to create an industrial, commercial and agricultural centre in Amazonia that will provide the conditions to promote economic development in view of local factors and the great distance from the zone to consumers of the FTZM's products." (Legislative Decree No. 288, 28 February 1967).

<sup>5</sup> France is represented with Essilor and BIC.

state's GDP). Amazonas is the Brazilian state with the lowest percentage of internal value-added in its exports at just 32% (31% comes from the other states and 26% from the rest of the world). Yet it is also one of the Brazilian states with the highest value-added "exported via the other states": approximately 70% for Amazonas as opposed to 10% for the neighbouring state of Pará specialised in commodity exports and 30% for São Paulo. This finding by the Yücer et al study (2014b) shows that, although the direct contribution of Manaus to Brazilian exports remains low, it is underestimated by the current statistics in that part of the value-added of the Manaus zone's output is incorporated into the output exported by other Brazilian states.

In the 2000s, FTZM output and employment soared while Brazil as a whole was hit by a relative decline in the industrial sector due to Dutch Disease caused by an increase in exported commodity prices, reserve accumulation and overvaluation of the Brazilian Real. Amazonas State's manufacturing output, concentrated mainly in the FTZM, rose by a multiple of 3.4 from 2000 to 2010 while the PIM's annual average growth in sales hit 13%.<sup>6</sup> Brazilian growth "driven" by commodity sales, associated with the government's development of social programmes, triggered a boom in demand for consumer goods produced in Manaus: mobile phones, wide-screen TVs, motorcycles, etc. The Real's overvaluation also reduced the cost of imported inputs even though it added to the zone's international competitiveness problem. Employment in the FTZM has kept in step with growth in output: tripling from the early 1990s to current day (around 120,000 jobs in the PIM). Brazilian census data report that the manufacturing sector accounted for 17% of employment in the municipality of Manaus in 2010, more than the Brazilian urban area average of 15.2%. The zone also withstood the 2008 crisis and economic slowdown well, even though the stagnation Brazil appears to be stuck in today could undermine

<sup>6</sup> In the 2000-2010 decade, the number of firms grew from 307 to 431 (annual average).

the FTZM's performances if it were to weigh on household consumer demand.



Houses on stilts along the banks of the Rio Negro.

The success of the FTZM's productive specialisation has come with a certain amount of success for labour standards. In a country with huge regional inequalities dominated by a distinct North-South divide, the Manaus municipality has achieved close to the average wage levels for the wealthiest southern states.<sup>7</sup> In 2010, hourly wages in the municipality of Manaus were higher than observed on average in Brazil's urban areas (10 and 9.1 Brazilian Reals respectively), having posted a 38% increase over the decade compared with less than 23% for urban Brazil. The shift to formal employment observed in Brazil in the 2000s was also at work in Manaus (increase in the share of formal jobs from 53% in 2000 to 61% in 2010 as opposed to 53% and 62% respectively for Brazil as a whole).<sup>8</sup> In addition, there are no dispensations from labour legislation, and it is hard to find exceptions in the FTZM.

Although the labour-related repercussions of the free trade zones are hotly debated, their effects on poverty and income distribution in general are rarely studied. Castilho, Menéndez and Sztulman (2015) take data from the last two censuses (2000 and 2010) to

<sup>7</sup> See contributions to the "Free Trade of Manaus. Success and Limits" seminar – <http://ftz.dauphine.fr/fr/evenements/conferences.html> - and Castilho, Menéndez & Sztulman (2015).

<sup>8</sup> The definition of a formal job in this article corresponds to wage-earning jobs on an employment contract ("assinada carteira de trabalho") in the public and private sectors and the military, civil servants, employers and own-account workers with social security coverage (see Castilho et al. 2015).

analyse the dynamics of poverty and income inequalities in the region. Note that the chosen period corresponds to a decade in which the FTZM's economic performances were

particularly good (see above). This same decade also saw substantial reductions in poverty and income inequalities in both the State of Amazonas and Brazil as a whole.

**Table 1 – Monetary and non-monetary poverty measures**

	Manaus		Amazonas ex. Manaus		Urban Brazil		Brazil	
	2000	2010	2000	2010	2000	2010	2000	2010
<b>Monetary poverty:</b>								
Poverty (threshold R\$140):								
Proportion of poor	32.0	18.1	74.4	53.9	24.3	13.0	30.9	17.6
Poverty gap	16.4	10.5	46.4	33.5	12.1	6.9	16.4	9.7
Extreme poverty (threshold R\$70):								
Proportion of poor	14.8	9.4	48.3	33.5	10.9	6.4	15.5	9.3
Poverty gap	9.3	7.6	29.6	23.0	6.3	4.5	9.0	6.3
<b>Non-monetary poverty (indicators selected):</b>								
Type of water supply:								
Municipal supply	76.2	75.2	41.7	49.3	89.4	91.3	76.3	81.1
Water well	13.4	24.0	16.5	19.9	7.6	7.7	16.6	15.0
Others (rainwater, etc.)	10.4	0.8	41.9	30.9	3.1	1.1	7.0	3.9
Access to electricity	99.0	99.6	65.4	84.4	99.1	99.8	93.7	98.6
Type of sanitation facility:								
Public	33.1	39.4	3.6	6.0	54.8	61.7	45.4	52.3
Septic tank	36.2	22.1	12.6	10.7	15.9	11.5	14.7	11.8
Other	26.6	37.5	61.9	71.7	26.6	26.2	31.2	32.8
No toilet	4.0	1.0	21.9	11.6	2.8	0.6	8.8	3.1
Number of goods owned in the following list: refrigerator, washing machine, telephone, computer, television and car								
One or less	8.8	2.9	59.5	37.8	11.5	3.9	19.3	7.2
Two to five	85.3	84.5	40.2	61.4	79.7	76.2	73.5	75.9
All	5.9	12.7	0.3	0.7	8.8	19.9	7.3	17.0
Sample size (millions)	1.33	1.59	1.22	1.56	122.5	148.4	151.5	176.9

Note: "Manaus" refers to the municipality of Manaus and "Amazonas excluding Manaus" to the state of Amazonas excluding the municipality of Manaus

Source: Castilho, Menéndez & Sztulman (2015), authors' calculations based on the 2000 and 2010 Brazilian censuses.

The two most recent censuses paint a general picture of monetary and non-monetary poverty trends in the 2000s (Table 1). The censuses are used to differentiate changes in the municipality of Manaus, where the FTZM is established, from changes in the rest of the State of Amazonas. Unlike the Brazilian household surveys with their state-level representativeness, the censuses can be used to study municipality-level trends. Table 1 also presents the averages observed for Brazil as a whole and the urban areas as framing data. The monetary poverty measurement indicators (proportion of poor and poverty gap<sup>9</sup>), calculated from the household monthly income data, show the downturn in

poverty in both Manaus and the rest of the state of Amazonas. However, the study of poverty levels points up a striking difference between the Manaus capital and the rest of the state. In 2010, when over half of the population in the rest of Amazonas still had a monthly income below the R\$140 threshold,<sup>10</sup> no more than 20% of the municipality of Manaus had such a low income level. Turning to living conditions, the disparities are again considerable between the Manaus capital and the rest of the state. Whereas over 75% of the population of Manaus had access to a municipal water supply in 2010, this was true of less than 50% of the popula-

<sup>9</sup> This second indicator covers the intensity of poverty, i.e. the distance from individual income to the poverty line.

<sup>10</sup> Brazil has no official poverty line, but the threshold of R\$140 per month is often used in practice (R\$70 for extreme poverty). These figures correspond to the thresholds used to qualify for welfare programmes such as *Bolsa Família*.

tion in the rest of the state. In terms of sanitation, over 80% of the population in the rest of the State of Amazonas had no access to either a public facility or a septic tank (compared with less than 40% in Manaus). The range of goods owned by households in the following list – refrigerator, washing machine, telephone, computer, television and car – again illustrates the gaps in living conditions in the state: 2.9% of the population in Manaus had none or one of these goods as opposed to 37.8% in the rest of the state.

Income inequalities narrowed in Amazonas State in the 2000s, as they did in the rest of the country. However, the improvement was less marked in the region than at national level. In 2010, the municipality of Manaus was posting a slightly more unequal income distribution than found in Brazil as a whole, which was not the case in 2000 (as reported by the Gini coefficient and the Theil index). Castilho, Menéndez and Sztulman (2015) use two decomposition methods to look more deeply into the link between the FTZM's economic buoyancy and poverty and income inequality trends in the region. The first method – a Shapley estimation (see Azevedo et al., 2013 a) of the Datt-Ravallion decomposition method (1992) – is designed to evaluate the respective weights of the contributions of growth and redistribution in the temporal variation of poverty. The second method (see Azevedo et al., 2013b; Barros et al., 2006) seeks to disentangle and measure the influence of different factors on the dynamics of poverty and income inequalities, i.e. demographic change, employment trends and variations in income from different sources (earned and unearned income). The findings show the dominant role played by income growth – rather than redistribution – in poverty reduction throughout the State of Amazonas. However, there are clear differences between the capital of Manaus and the rest of the state when it comes to the drivers of poverty and inequality reduction. Earned income played a major role in Manaus, whereas the determinants in

the rest of Amazonas State were changes in income other than earned income.<sup>11</sup>

These contrasting findings between the capital of Manaus and the rest of the state illustrate both the positive effects and limitations of the FTZM. Labour market buoyancy in the municipality of Manaus over the last decade is closely associated with the FTZM's economic success and its direct and indirect creation of relatively highly paid jobs. Employment rose and job quality improved with growth in the proportion of adult workers in the households, an upturn in hourly earned income and a downturn in the number of hours worked. The results of the micro-decompositions show that these trends made a significant contribution to the reduction in poverty and income inequalities in the state capital.

In the rest of the State of Amazonas, where poverty and income inequality levels remained high – and much more marked than in Manaus – in 2010, the lesser impact of changes in earned income could be due to the poor having problems finding work. In addition, although unearned income may well have made a major contribution to poverty reduction, its effect was weaker than observed for Brazil as a whole. This could be due in part to the problems that welfare programmes have reaching the poor living in remote areas of Amazonas State. Poverty could therefore be rolled back by encouraging training courses for the poor and improving the targeting of welfare policies in the region.

Note that, although the FTZM's spillover effects on the rest of the state of Amazonas may still appear minor, the social and environmental situation would probably have been worse had the zone not existed.

The Manaus region has been left relatively unscathed by deforestation. The State of Amazonas, which covers 31% of the Amazonian territory, was responsible for just 4% of the deforestation from 2007 to 2013 (source: INPE – Instituto Nacional de

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11 These other income sources include different types of income that cannot be identified by the census data: public transfers (pensions and other social security benefits and welfare programmes), capital income (rents, interest and dividends) and other private remittances.

Pesquisas Espaciais). This places Amazonas State bottom of the list of Amazonian states responsible for deforestation and plant harvesting. These positive environmental outcomes are often associated with the attractiveness and buoyancy of the FTZM, which has concentrated the population and economic activity in the state capital (Rivas et al., 2012). Ecological arguments aside, the creation of the FTZM is also seen as a successful regional development strategy that has contributed to the spatial decentralisation of Brazilian industrial activities (Saboia & Kubrusly, 2015).

Yet this success story should not be allowed to gloss over the model's limitations. Returns outside of Manaus and in the rest of the State of Amazonas still look small and the zone has failed to become competitive on the export market due to both its location making for high transport costs and specifically Brazilian factors such as the overvaluation of the Real. So the model has been made economically viable only by maintaining a relatively high level of protectionism whose economic and social cost needs to be deducted from the zone's gains. Applied tariffs (source: WTO) stand at 20% for motorcycles, 13% for telephones and from 7% to 16% (depending on the tariff line) for television sets. Nevertheless, unlike other "processing zones", the approximately 40% share of Brazilian inputs processed in the zone stands as evidence that the FTZM does have a certain knock-on effect on Brazilian production.

Other questions may be put as to the opportunity cost of the tax and customs exemptions. Yet these upstream subsidies are associated with downstream tax revenues due mainly to the particularly high net ICMS (the states' VAT) revenues made on the zone's output. In addition, the PPB programme requires counterparts from the businesses such as funding research and higher education. These pay-outs reportedly represent some 16% of the ICMS collected.<sup>12</sup>

Businesses established in other Brazilian regions complain of unfair trading. They accuse the privileges granted the FTZM's firms of diverting business from the Brazilian South and South-East to Manaus. Even though the federal government asserts that these subsidies are justified by the region's handicaps, it has extended some incentives to the entire country for sectors such as information technology. The European Union also took issue with these measures in a complaint to the WTO in December 2013 "concerning taxation and charges in the automotive sector, the electronics and technology industry, goods produced in Free Trade Zones, and tax advantages for exporters."<sup>13</sup>

The case of the FTZM shows that although "processing zones" have certain similarities, they are also based on specific national social and economic development strategies. The federal government's decision to prolong the advantages granted through to 2073 promises more good times ahead for the FTZM. Yet its economic success is uncertain considering the less propitious Brazilian environment today with its sluggish growth and strong social pressure.

Given the proliferation and range of different free trade zones in the world, the economic and social returns of this economic policy instrument need to be evaluated in terms of its stated objectives, which are not always purely to promote exports. Although the image of the free trade zones is sometimes tainted by the labour-related behaviour of certain firms, they can also contribute to economic and social development. The conditions for the success of these zones need to be further developed, but in a way suited to each country if not each region.

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<sup>12</sup> As reported by Mauro de Thury on [http://ftz.dauphine.fr/fileadmin/mediatheque/masters/ftz/Mauro\\_ZFMeffects\\_3.pdf](http://ftz.dauphine.fr/fileadmin/mediatheque/masters/ftz/Mauro_ZFMeffects_3.pdf)

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<sup>13</sup> Dispute DS472: [https://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds472\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds472_e.htm)

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## *Nopoor participated in the European Development Days, June 3-4, 2015, Brussels*

Having full support from the Directorate General for Research & Innovation from the European Commission, Nopoor participated for the first time in the European Development Days (EDD). EDD is the Europe’s leading forum on development and international cooperation. As EDD sees itself as an incubator of new ideas, our project contributed to the reflection on a poverty-free, sustainable and decent life for the poor. Hence, we presented a “lab brainstorming session” entitled “*Research for change: New knowledge for poverty eradication*”. A Nopoor stand was available to the audience during the two day conference.

The goal of the brainstorming session was to have an interaction between Nopoor researchers and stakeholders regarding the different ways in which research influences policy making and based on 5 key current topics related to poverty alleviation: decent work, international trade, inequality, empowerment and employment. Discussions at the roundtables showed the significance of research-based policy-making in the context of development. Comparing the parallel development of quality of employment in the European Union with the ILO’s Decent Work agenda, the former has advanced much further. Decent Work remains a very broadly defined concept, which is impossible to measure across countries. Nopoor research seeks to contribute to the understanding of the impacts of Free Trade Agreement (FTA) on Merchandises on West African countries (ECOWAS). FTA has very diverse effects on African countries, depending on their degree of openness. Concerning gender equality, Nopoor identifies drivers and institutions for empowering women. It also tries to understand why a policy fails to reduce poverty significantly among the ethnic minorities

that are in most need of support. Last, but not least, the topic on poverty alleviation explored the debate between targeted versus universal policies.

### **Annual Meeting of the Nopoor project**

Around 60 researchers from Africa, Latin America, South-East Asia and Europe met in Vietnam from June 10-12, 2015 for the Nopoor Project Annual Meeting hosted by the Vietnam Academy of Social Sciences. The two days of scientific workshops covered all the research topics related to international aid, impact of globalization, education and social protection, governance, future scenarios of poverty. A workshop involving all the researchers has been organized in order to discuss future of poverty per geographic area. The aim of the workshop was to identify potential future events which will have an impact on poverty in the next 20-30 years to come.

The third day gathered policymakers and stakeholders from Vietnam to discuss education and conditional cash transfer programs as a means to alleviate poverty. They had a keen interest in the Brazilian *Bolsa Familia* programme, presented in a keynote speech.

### **Nopoor Summer School 2015, Paris**

One of the main objectives of Nopoor is to provide training to young researchers in the different disciplines represented in the project (economics, statistics, sociology, law, political sciences, demography) and to strengthen technical expertise in statistics and surveys. In this context, a Summer School entitled *Measuring Poverty on a Multidisciplinary Basis* was held in Paris-Dauphine University, June 26-July 1, 2015. The aim of the training was to provide the stu-

dents with the opportunity to discuss their research work in seminars led by top academics in the field: Hai-Anh H. Dang, Dean Jolliffe, Mario Negre (Economists, The World Bank), Maia Green (Professor of Social Anthropology, University of Manchester), Suman Seth (Lecturer in Economics, OPHI, Oxford).

The public consisted of about twenty Master, doctoral and post-doctoral students. Finally, the closing day of the summer school took the form of a roundtable jointly organized with UNESCO, under the topic *Measuring poverty and beyond*. The interactive course focused on practical exercises and discussions among the participants (<http://www.nopoor.eu/events>).



Annual Meeting of the Nopoor project.

### ***13th International Workshop on Pensions, Insurance and Savings, University of Paris-Dauphine.***

The 13th edition of the International Workshop on Pensions, Insurance and Savings was held at the University of Paris-Dauphine on 28 and 29 May 2015. The workshop was organised jointly by the Dauphine Economics Laboratory (LE-Da), the DIAL Joint Research Unit (UMR DIAL), the Paris School of Economics and Harvard University. It was supported by the Groupama Chair on Individuals' Responses to Risks and Amundi.

The event's purpose is to contribute to societal debate on issues arising from demographic change, household savings behaviour, risk-related investment decisions and pensions fund

management in an environment of growing uncertainty.

The workshop received more than 160 submissions and selected 50 of them for discussion. Close on 150 researchers attended the conference. Ten sessions were held to present and discuss theoretical and applied papers using innovative methods in demographics, social security coverage, savings, insurance and investment. A large number of articles focused on the emerging and developing countries. The keynote address on *The Welfare Cost of Perceived Policy Uncertainty: Evidence from Social Security* was given by

Andrew Samwick, Director of the Nelson A. Rockefeller Center, Dartmouth College.

The three plenary sessions brought together academics, practitioners and policymakers to consider the challenges of pension systems in

developing countries, pension fund governance and long-term pension fund investment strategy.

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### *3<sup>rd</sup> DIAL conference on development economics Barriers to Development University of Paris-Dauphine, 2-3 July 2015*

The third international DIAL conference on development economics, focusing this year on Barriers to Development, was held at the University of Paris-Dauphine on 2 and 3 July 2015.

This conference continued the series of conferences held by the DIAL Joint Research Unit (IRD-University of Paris-Dauphine) that started with Shocks in Developing Countries in 2011 and Development and Institutions in 2013.

This third edition firmly roots DIAL in the field of development economics. The conference has become an established platform for scientific exchanges much appreciated by French-speaking and English-speaking development economists.

Three keynote speakers presented their work to three plenary sessions. Vijayendra Rao, Lead Economist in the Development Research Group of the World Bank, Philip Verwimp of the Solvay Brussels School of Economics and Management, and Marc Raffinot of the University of Paris-Dauphine, UMR DIAL.

Vijayendra Rao presented a review of participatory development programmes focusing on the limitations of actions to support the development projects launched by civil society. Marc Raffinot looked into recent contributions by development macroeconomics and microeconomics studies and their ability to identify the “spark” that prompts poor countries to board the development train. Last but not least, Philip Verwimp showed how political concerns can interfere with school system reforms based on the example of Burundi.

Despite the sweltering heat in Paris and the Dauphine campus in early July, the conference was a real success with over 160 attendees and a hundred studies presented from more than 270 submissions received. Some 30 of the papers presented were by Southern country authors,

with over 80 by European and American academics. More details are available in the programme still online at: <http://colloque-dial.dauphine.fr/fr/programme.html>

A wide range of innovative research was presented making theoretical and empirical contributions to international economics and development economics. This work adopted macroeconomic and microeconomic approaches to analyse and discuss questions associated with public institution dysfunctions, credit market access, insurance products and the role of new technologies. Many studies also focused on urban and rural households, their migratory behaviour and its impacts on the inequalities of opportunity weighing on the younger generations. Lastly, the conference discussed barriers to the economic vitality of formal businesses and the effects of tax and business reforms and political regime changes on economic growth. A selection of ten conference papers will be published in a special issue of the *Journal of Development Studies*.

The conference received funding from the French Agency for Development (AFD), the Ile-de-France region, the G-MonD Group on Globalisation and Development, the Paris School of Economics, French development research institute IRD, the University of Paris-Dauphine and the European Union via the Nopoor project. This institutional support paid, among other things, for a dozen Southern researchers’ travel and accommodation expenses. A gala dinner held at the foot of the Eiffel Tower on Thursday, 2 July 2015 gave participants the opportunity to discuss their work and strengthen ties between the research teams.

The DIAL conference on development economics is scheduled to be held on a different topic once every two years. Make a date now for Paris in June/July 2017

## *2015 list of working papers*

*(downloadable from [www.dial.ird.fr](http://www.dial.ird.fr))*

2015-01	Florent Bédécarrats, Isabelle Guérin, François Roubaud: <a href="#">The gold standard for randomized evaluations: from discussion of method to political economy</a> , 23 pages (également en français : <a href="#">L'Etalon-Or des évaluations randomisées: du discours de la méthode à l'économie politique</a> , 24 pages)
2015-02	Joachim Guilhoto, Jean-Marc Siroën, Ayçil Yücer: <a href="#">The gravity model, global value chain and the brazilian states</a> , 20 pages
2015-03	Isabelle Chort, Maëlys de la Rupelle: <a href="#">Determinants of Mexico-US outward and return migration flows: a state-level panel data analysis</a> , 36 pages
2015-04	Lisa Chauvet, Paul Collier, Andreas Fuster: <a href="#">Supervision and Project Performance: A Principal-Agent Approach</a> , 36 pages
2015-05	Anda David, Mohamed Ali Marouani: <a href="#">Migration and Employment Interactions in a Crisis Context: the case of Tunisia</a> , 33 pages
2015-06	Mohamed Ali Marouani, Rim Mouelhi: <a href="#">Contribution of Structural Change to Productivity Growth: Evidence from Tunisia</a> , 26 pages
2015-07	Estelle Koussoubé, Céline Nauges: <a href="#">Returns to fertilizer use: does it pay enough? Some new evidence from Sub-Saharan Africa</a> , 25 pages
2015-08	Isabelle Bensidoun, Danièle Trancart: <a href="#">The Gender Wage Gap in France: the Role of Non-Cognitive Characteristics</a> , 49 pages
2015-09	Isabelle Bensidoun, Aude Sztulman: <a href="#">Egypte 1998-2012: de l'emploi public protégé à l'emploi informel précaire, un marché du travail en déshérence</a> , 25 pages
2015-10	Estelle Koussoubé, Augustin Loada, Gustave Nébié, Marc Raffinot: <a href="#">Economie politique de la croissance au Burkina Faso: Institutions, gouvernance et développement</a> , 30 pages
2015-11	Anda David: <a href="#">Back to Square One - Socioeconomic Integration of Deported Migrants</a> , 29 pages
2015-12	Marie Boltz, Isabelle Chort: <a href="#">The Risk of Polygamy and Wives' Saving Behavior</a> , 50 pages
2015-13	Rafael Novella, Claire Zanuso: <a href="#">Reallocating Children's Time: Coping Strategies after the 2010 Haiti Earthquake</a> , 40 pages
2015-14	Marin Ferry: <a href="#">The Carrot and Stick Approach to Debt Relief: Overcoming Moral Hazard</a> , 48 pages
2015-15	Camille Saint-Macary, Claire Zanuso: <a href="#">Build back better? Long-lasting impact of the 2010 Earthquake in Haiti</a> , 37 pages
2015-17	Mathias Kuepié, Christophe J. Nordman : <a href="#">Where Does Education Pay Off in Sub-Saharan Africa? Evidence from Two Cities of the Republic of Congo</a>
2015-18	Marta Castilho, Marta Menéndez, Aude Sztulman: <a href="#">Poverty and Inequality Dynamics in Manaus: Legacy of a Free Trade Zone?</a>
2015-19	Christophe J. Nordman, Leopold R. Sarr, Smriti Sharma : <a href="#">Cognitive, Non-Cognitive Skills and Gender Wage Gaps: Evidence from Linked Employer-Employee Data in Bangladesh"</a>
2015-20	Virginie Comblon, Anne-Sophie Robilliard : <a href="#">Are female employment statistics more sensitive than male ones to questionnaire design? The case of Cameroon, Mali and Senegal.</a>
2015-21	Marine de Talancé : <a href="#">Better Teachers, Better Results? Evidence from rural Pakistan</a> , 86 pages
2015-22	Mireille Razafindrakoto, François Roubaud : <a href="#">Les modules Gouvernance, Paix et Sécurité dans un cadre harmonisé au niveau de l'Afrique (GPS-SHaSA) : développement d'une méthodologie d'enquête statistique innovante</a>
2015-23	Marlon Seror : <a href="#">Modeling and Measuring Information Asymmetry in the Context of Senegalese Migrants' Remittances</a>
2015-24	Marie Laberge, Mark Orkin, François Roubaud : <a href="#">Counting what counts: Africa's progress with harmonized official statistics on governance, peace and security</a>