Thesis summary: "Essays on economic geography and migration"

Adolfo Cristobal-Campoamar

October 27, 2007

The thesis consists of three chapters. The first one ("International Convergence and Local Divergence") and the third one ("Trade and Migration: a U-shaped Transition in Eastern Europe") are economic-geography models that study the relation between international trade openness and the location of productive factors, with the subsequent implications for welfare and convergence. The second chapter ("Skill-Upgrading and the Saving of Immigrants") develops a dynamic model of saving and human-capital accumulation with two types of skills in order to explain how unskilled migration may increase the amount of funds devoted to financing higher education among natives.

"International Convergence and Local Divergence" presents an East-West endogenous-growth model that reproduces recent stylized facts applicable to the trade liberalization processes of many developing countries: convergence with the rest of the world, higher internal divergence, increasing spatial concentration of economic activity and higher growth rates. We claim that the ongoing reduction of manufacturing trade costs may induce a net inflow of global demand towards the industrialized cores of developing countries. This will induce a reallocation of labor from traditional to modern sectors in those countries. In turn, such a sectoral shift may enlarge the catch-up (imitation) potential of developing countries and raise global growth rates, due to Grossman and Helpman's complementarity between imitative and innovative activities. Although advanced economies may become relatively worse-off, the effect on growth rates may allow them to gain in absolute terms.

The first chapter could address analytically many issues at the same time (it has a geographical dimension, a time dimension and a migratory decision), but at the cost of making the results highly dependent on some particular assumptions. For example, - as in Grossman and Helpman (1991)'s model - firms can not move from one location to the other, unless western patents are successfully copied by eastern researchers. On the other hand, the model yields an international convergence pattern only when international trade costs are initially low enough. But such a condition may not
always take place in the real world, specially during the trade liberalization processes of transition economies. I decided to relax these assumptions as much as possible, and to focus on the historical experience of a particular set of countries: the transition economies from Eastern Europe in the 1990s. That was the topic addressed by the third chapter of the thesis: "Trade and Migration: a U-shaped Transition in Eastern Europe".

That paper proposes a 2-country 3-region economic geography model that can account for the most salient stylized facts experienced by Eastern European transition economies during the 1990s. Trade liberalization and factor mobility are the only driving forces, in contrast to the existing literature, which has favored technological explanations. The model correctly predicts that in the first half of the decade trade liberalization led to divergence in GDP per capita, both between the West and the East and within the East. Consistent with the data, in the second half of the decade internal labor mobility within the East reversed this process, and convergence became the dominant force. The model furthermore shows that the same U-shaped pattern applies to relative industrialization of West and East, although within the East the Hinterland continued to lose industry throughout the decade.

The main insight of this chapter with respect to the literature is that - even in the context of asymmetric countries (the West is a larger country than the East) - we do not need either technological catchup or East-West migration to obtain a final stage of East-West convergence. Internal migration within the East is enough to achieve that goal. As soon as migration is allowed, population moves from Hinterland to Border. This generates a stronger home market effect in the East. As a result, the Border attracts more activity, and income per capita in the East starts to catch up with that of the West.

Finally, the second chapter - "Skill Upgrading and the Saving of Immigrants" - studies how immigrants, due to their higher training costs and their lower propensity to attend college, may become net lenders, thus reducing interest rates for young borrowing natives, increasing welfare and the skill composition in the host economy.