

## Abstracts

### **“The Role of Informal Economies in the Global Supply Chain” (Job Market Paper with Claustre Bajona)**

One of the main sources of gains from trade in the traditional trade literature is the successful labour reallocation towards sectors in which a country has a comparative advantage. Developing countries are engaging more in international trade, and their share of world exports has grown significantly. However, many developing countries have frictions in their labour markets that impede labour mobility across industrial sectors. The existence of labour market rigidities is also the cause of another economic phenomenon which is common in developing countries: the informal economy, in which employee-employer relationships are not regulated. In this paper, we investigate the potential role of informal producers in determining comparative advantage in developing countries. We argue that informal producers are interlinked with formal producers in the production chain supplying intermediate goods to firms competing in the global market, and potentially providing a cost advantage. We develop a two-country model of trade with stages of production, labour market rigidities and segmented labour markets, in which informal and formal producers operate. We calibrate our model to the Turkish and the German economies in 2003 and perform numerical exercises to study the role of informal economies in the global supply chain. In our particular calibration exercise, we find that there is a strong link between informality and the trade pattern. On the one hand, informal producers can have a crucial role in determining the comparative advantage of a developing country with large informal economies. On the other hand, the size of the informal sector in a developing country not only depends on its own labour market structure but also the degree of the rigidity of its trading partners' labour market. Furthermore, we show that, in our calibrated model, trade restrictions result in a larger informal sector, since informal producers supply intermediate inputs to second stage producers precisely in the sectors that expand domestic production when trade is restricted.

### **“Informal Trade”**

In this paper, we explore the relationship between international trade and labour market rigidities in economies in which both informal and formal producers operate, and we investigate the effect of trade liberalization on the size of informal sector. Formal producers are subject to employment regulations that strain workers' mobility, whereas informal producers do not need to comply with employment regulations. We build a Ricardian model of trade with labour market frictions where informal producers directly engage in international trade by exporting their products, which are different from the goods produced by the formal sector, maybe because they are low quality, second-hand or counterfeit goods. Using this framework, we document that the size of the informal sector is affected not only by the country's own labour market structure, but also by its trading partners' labour market frictions. Moreover, we show that a decrease in trade costs causes an increase in the size of the informal sector in countries with relatively higher labour market rigidities, and a reduction of informality in their trading partners. In this regard, the country with high labour market rigidities becomes a net exporter of informal goods and a net importer of formal goods during trade liberalization. Another important contribution in this paper is that when two countries with different labour market frictions implement trade liberalizations, changes in labour market policy in a country with higher labour market frictions affect both its own labour market and welfare, as well as those of its trading partner.

## **“Informal Workers in Turkey’s Export-oriented Manufacturing Sectors”**

In this paper, we provide supporting evidence that informal producers participate in international trade as part of the global supply chain. Using the 2013 Turkish Household Labour Force Survey (THLFS), which was conducted by the Turkish Statistical Institute (TurkStat), we study the demographic and employment characteristics of informal workers operating in Turkish manufacturing industries that have an important contribution in foreign trade. We go a step further than the existing literature by examining employment-based characteristics such as employment status of informal workers, the type of manufacturing economic activities and the type of workplace in which informal workers are employed. We find that there is a significant proportion of female individuals with low education who engage in informal home production and who operate in the textile and clothing sectors, which have a large export component. Since Turkey is one of the leading exporters of textile and clothing products, our findings suggest that informal economies can potentially contribute to Turkey’s current comparative advantage in the textile and clothing sectors.