

Research Statement: Martin Tobal

The goals of my academic work are to tighten the relationship between theory and empirics and to investigate the policy implications of realistic setups. To this end, I build upon frameworks that guide prospective empirical work and add realism to canonical models.

My job market paper addresses the contemporary debate about the jobs and the income that will potentially be lost to service offshoring. Several authors argue that the tradability of labor tasks is relevant for determining the wage and employment consequences of offshoring. I build a two-sector task-based model that emphasizes tradability without neglecting the skill dimension of labor. I show that the wage and the employment responses to offshoring depend on two labor dimensions, tradability and skill intensity. These results are consistent with recent findings of a still young empirical literature. In terms of wages, service offshoring harms workers fulfilling more offshorable tasks, independent of their skill-level. However, skilled workers are more likely to benefit from offshoring than unskilled workers. Surprisingly, some workers benefit from service offshoring even if tasks of their type are offshored.

The paper provides the empirical work with a guide for further research. Later empirical work could investigate further whether employment and wage responses jointly depend on the two labor dimensions. My model is suitable for testing these predictions because it yields employment responses that decrease continuously with the offshoring costs of the tasks. Furthermore, the model yields cross-sectional predictions for countries with different trade costs and a different level of technological advantage (productivity).

My second paper introduces entry barriers and rents, a traditional concern in the fields of development economics and industrial organization, in a general equilibrium model of international trade. I build upon a home market effect model and show that entry barriers cause market sizes to become endogenous by creating rents. The endogeneity of market size magnifies the standard home-market effect. Moreover, if market size is endogenous, not every country benefits unambiguously from trade agreements. In particular, if rents are sufficiently large and country sizes are sufficiently unequal, a trade agreement will reduce welfare in the smaller country. Furthermore, because market size is endogenous, an increase in entry barriers increases the market size of the larger country. Welfare in this country may actually increase, which challenges the idea that lower entry barriers are unambiguously beneficial. Finally, the endogeneity of market size allows governments to use trade policy with the goals of shifting foreign rents to their countries and enlarging their home markets. Rent-shifting makes the incentives to set high tariffs stronger than in the standard model.

My third paper shows that the rent-shifting motivation may determine the industrial policy of developing countries. The use of trade protection as an industrial policy instrument has been traditionally thought of as creating beneficial industrial linkages. I show that these linkages increase domestic rents at the expense of foreign countries and therefore create a rent-shifting motivation. However, trade protection relocates production away from the comparative advantage sectors. I demonstrate that in countries with a relatively low comparative disadvantage, the rent-shifting motivation is stronger than the gains from specialization. Therefore, these developing countries will protect their research-intensive sectors. In deriving these results, the paper relates Antras' seminal work to the industrial development of East Asian countries.

In the future, I would like to test the cross-sectional predictions of my offshoring model. Furthermore, I would like to investigate how occupational wages have responded in counties like India and China and assess the implications for their development strategies. I also want to study how expectations on the offshoring costs reduction have affected ex-ante labor market outcomes and the role of public policy.