

Report on

“Labor standards and social conditions in Free Trade Zones: The case of the Manaus Free Trade Zone”

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The paper studies the impact of the introduction of free trade zones on labor standards and social conditions of the area and its surroundings. For this purpose, it considers the Brazilian Manaus Free Trade Zone (MFTZ) and analyzes models for explaining different proxies for labor standards (percentage of children not working, gender equality and ethnic equality) and social conditions (GINI index, non-poverty index, literacy rate, children with literate parents, children with adequate housing and living conditions and the interaction between the last two variables). The models include log-linear regression and stochastic frontier analysis, where residuals and technical efficiency ratios are considered, respectively, as performance measures with respect to the fitted model on a group of explanatory variables that controls for labor conditions, geographic and demographic issues.

Results show that MFTZ exhibits a higher performance than the results predicted by the OLS regression model for all labor standards and social conditions (except for literacy) and these results seem to be consistent with those of the typical efficiency analyses based on the stochastic frontier model, which predicts superior performance of MFTZ in most labor and social indicators. Nevertheless, the MFTZ does not seem to generate positive spillovers to the surrounding districts of Manaus.

The main contribution of the paper is the analysis of the case of MFTZ as a mechanism to improve labor and social conditions and thus contribute to the economic development and the reduction of social inequality in the area. The positive result on this research question seems to be a valuable contribution for the purpose of policy implementation. However, the extension of the same policies applied in the MFTZ to other similar areas are still to be tested. In this sense, the analysis of why spillover effects have not been generated beyond the MFTZ is still an open question for further research.

The paper does not present a clear methodological contribution, since the applied methods are standard. However, the use of OLS regression and the interpretation of its residuals in terms of measures of performance seems to be quite weak and should be considered as a benchmark or exploratory model. The stochastic frontier model is more standard for efficiency analysis and its results more reliable. However, the outcomes of both models seem to be mostly consistent.

In a nutshell, the paper provides a significant contribution from an empirical point of view and thus, the free trade policies implemented in Manaus district might be extended to other similar areas around the World to achieve social welfare. Consequently, and despite the econometric analysis can be improved, I consider that the paper deserves publication in *e-Journal Economics*.