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**ECONOMIC LIBERALISATION AND INFORMAL SECTOR IN INDIA - AN
EMPIRICAL STUDY**

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ABSTRACT

Trade Liberalisation is wider concept which means the reduction or removal of duties and surcharges i.e tariffs and quotas , licensing rules, subsidies and other requirements i.e. non- tariff barriers in order to facilitate free flow of good and services. It had seen grown during the period of 1980 to 1990 in many developed countries. The theory of trade liberalisation is part of the International Monetary Fund (IMF) mainly to developing countries, as a recipe for economic progress, or to move the economy to a competitive level.

INTRODUCTION

Due to Trade liberalization it leads to loss of rents that accrues to firms, which is often the consequence of many liberalisation policies due to foreign competition . Firms try to maintain their profits level by engaging cheaper labour, cutting workers' benefits, subcontracting with other establishments and hire part-time workers who are predominantly working in the informal sector.

Therefore , Trade reforms leads to reallocation from formal to informal sector . According to International Labour Organisation (2002), Informal employment relates to employment without secure contracts, workers benefits, or social protection. It comprises two basic components: self-employment in informal enterprise, and paid employment in informal jobs. The wider concept of the “informal sector” is defined in terms of the characteristics of the enterprise (small, unregistered); it includes the self-employed in formal enterprises and paid employees in informal enterprises. Empirical and Theoretical evidence lend credence (though not strong) to the view that trade liberalisation affects male and female workers in the labour market differently due to differences in the composition of male and female in the formal and informal sector ; solely because they are not homogenous groups. This effect differs from one country to another, partly, on the basis of the structural characteristics of the economy, such as level of infrastructural development, level of government expenditure , nature of a country's trading partners, etc

Men and women in the informal economy are effected by trade liberlisation, and also deduces from the existing empirical and theoretical evidence whether trade liberalisation leads to increase in

the segregation of women into the informal sector of the labour market. However, the impact of trade liberalisation on workers generally, including associated patterns of social exclusion or inclusion, also depends on the type of work they are involved in (e.g. wage work or own-account production) as well as their age, literacy/education and ethnicity (Carr and Chen, 2004). Therefore, if trade agreements are to meet their stated objectives, issues of gender inequality must be addressed. The informal economy in Sub-Saharan Africa, for instance, is the largest employer of labour and the predominant labour force are women. It is partly due to the low level of skills of women relative to their male counterparts. The United Nations Development Fund for Women (UNIFEM), inter alia, are of the view that trade liberalisation has diminished the livelihoods of large sections of women, in less developed countries. Female employment in low-income countries is concentrated in small and medium scale industries, often in the informal sector, which are particularly vulnerable to the import and export competitions from trade liberalisation.

However, many export industries have favoured the hiring of women, which results in employment-oriented manufacturing production tended to become feminized. Markovic (2009) reports the size of the informal employment makes up 72% of non-agricultural employment in Sub-Saharan Africa. In most developing countries, women workers are relatively unskilled and overrepresented in the informal sector. If trade liberalisation perchance negatively affects unskilled, informal, or agricultural workers, then vast majority of women in the labour market would be in precarious situation. Countries that have pursued capital-intensive growth or what some observers called “jobless growth” and “high-tech” growth. Many frustrated job seekers without the requisite skills to adapt find employment or create their work in the informal sector. This is having the strongest influence on the

expansion of informal economy. In order to increase global competitiveness, more investors are moving to countries with low labour costs or shifting to informal employment arrangements. Therefore, this put low-skilled under increased pressure and weakens their bargaining power. The unfortunate scenario is that a higher percentage of women than men worldwide work in the informal economy. This is because women worldwide are under-represented in higher income employment statuses in them informal economy, (employer and self-employed) and over-represented in the lower income statuses (casual wage worker and industrial outworker). Also, workers in the formal sector may laid-off due to intensified competition and may then move to the informal sector. This could come from the lowering of product prices due to intensified import competition increases the chance that firms will need to fire formal workers in response to demand fluctuations . The differential effects of trade liberalisation across gender may depend on economic structure and trade composition. We would expect trade liberalisation to increase women's access to employment absolutely and relative to men, if we have exporting sector dominated by women. This has been observed in countries whose shift to an export orientation led to an expansion of labour intensive manufacturing.

They also noticed that since women are, due to social customs and other reasons restricted to fewer jobs than men, this decrease in opportunities reinforced the tendency of female wages to be lower than male ones. The idea of whether or not trade liberalisation reduces gender inequality was further buttressed by neoclassical theory based on Becker (1959), who put forward a theory to support the hypothesis. Trade liberalisation reduces the incentive for firms to discriminate against women or different sexes generally by making it costly through a fall in industry rents, therefore, it leads to

gender equality or lower gender wage gaps in the labour market. International competition eliminates excess profits that give firms the resources to pay different wages to men and women with the same or similar observable skills. Employers who prejudice against certain types of workers based on non-productivity characteristics are said to have a “taste for discrimination”, which may raise costs for the firms.

In non-competitive markets, firms will have the excess profits that may be used to “purchase discrimination”, i.e. pay men more than women simply because they prefer men. As a result of the fall in excess profits due to openness, an increasing proportion of women’s work in manufacturing or related industries may be shifted into the informal sector through subcontracting where wages are significantly lower than for jobs in the formal sector. This raises the demand for labour in the informal sector and consequently the wages.

Trade liberalisation, informal sector employment and wages

Existing literature are categorised into two groups. The first group discusses trade openness effects on informal versus formal employment, while the second group focuses on the effect of trade openness on wages in the formal and informal sector. On average firms were unaffected by the tariff reductions and the elimination of quotas but few exporters and other firms affected by the reforms reduced employment in response to trade opening. In contrast, firms with some public ownership increased employment, mostly by hiring low-paid temporary workers. Increased regional trade integration through North American Free Trade Area (NAFTA) leads to outsourcing in order to reduce labour costs (Maloney, 1998). This brings about decline in the contribution of formal salaried worker and an

increase in the share of contract workers and the informal salary workers. Similar effects are documented for Egypt, following the economic reform and structural adjustment programme initiated in 1991 (Wahba and Moktar, 2000). According to this study, the proportion of non-agricultural workers engaged in informal jobs increased by 5–6 percentage points during the 1990s. The share of informal wage workers among non-agricultural workers increased, while the share of employers and self-employed workers declined. These authors also found that, among workers aged 41 to 64, more workers moved from the public sector to informal jobs than the other way round, supporting the hypothesis that reforms have contributed to pushing workers from public into informal employment.

In an effort to improve on the existing literature in terms of methodology, Goldberg and use two-stage estimation approach to investigate econometrically, the relation between trade openness and informal employment using Brazil and Colombia's experiences during the 1990s. For Brazil, the result do not show any relationship between trade policy and incidence of informal employment, and this remains unchanged with the inclusion of additional control variables, and across different estimated specifications. In the Colombia's study, they find some weak evidence, that in the early years of the sample, prior to labour reform, trade liberalisation contributed to an increase in informal employment in those sectors where tariff cuts were largest. However, the effects are small. Periods after the labour reforms, they find no link between trade liberalisation and informality. This shows that the nature of labour market regulations is significant in shaping or influencing

the outcomes in the labour market (trade policy effects are to an extent dependent on labour markets institutions). His results on the proportion of unregistered workers in Brazil are similar to those of Goldberg and Pavcnik (2003), which did not find any significant statistical effect of trade reforms on informal employment in Brazil. The different skill level in the industries between formal and informal workers plays an important role with trade liberalization in influencing the wage outcome. On the other hand, Aleman-Castilla (2006) considers that the skill level in the informal sector is typically lower than in the formal sector, this leads to an increase in industry wage differentials and widened the formal-informal wage gap. This result is in line with the finding of an increase in the skill premium in the literature on the distributional effects of trade reforms. Their emphasis is on employment conditions of the working poor, in particular, women, rather than only on informal wages or the size of informal employment. Carr and Chen (2002) discuss how the impact of globalisation on informal workers and producers will differ depending on their location, the sector in which they are working and whether they are informal entrepreneurs, self-employed or informal employees. The authors argue that globalisation tends to lead to shifts from secure to insecure forms of employment and to more precarious forms of self-employment.

Trade Liberalisation policies

Trade liberalisation may impact differently on the employment and wages of various social groups, skilled and unskilled workers, as well as women and men in different occupations and countries.

The following studies analyse country-specific evidence separately, for developed and for developing countries

Trade Effects - Developed Economies

Building on the work of Becker (1957), Black and Brainerd (2004) report that U.S. industries which were subject to more increased competition through international trade experiences greater reduction in wage gap. This comes from the reduction in the rents that firms enjoyed, hence, their ability to discriminate between male and female worker diminishes, though inequality among skilled and unskilled workers might persist. When rich economies trade with poor ones, rich economies observe a reduction in the formal employment of women. The authors argue that in developed countries, when international trade expands female intensive sectors (and contracts male intensive sectors), male workers move to the female intensive sectors, “driving female workers out” of formal employment. On the other hand, when trade expands male intensive sectors, the opposite is not observed.

Trade Effects - Developing Economies

Becker's theory (1957) on increased competition reducing discrimination against women might not hold in the absence strict enforcement of labour laws that prohibit discrimination against women. They find negative effects of trade liberalization on women's relative wages and employment, of which they assign the negative effects to lack of enforcement of laws which prohibit discrimination leaving women with less bargaining power and relatively low wage compared to men. Yasmin (2009) also finds a negative effect of trade on the relative wages of women in

Pakistan. However, her findings are not statistically robust. For some of the studies on Latin America, report on the average that women benefit, with increase in skill premium having a significant role. This makes the results some how unreliable. Ederington et al. (2009) and Terra et al (2007) find that trade

liberalisation increases employment of women relative to men in blue-collar occupations for Colombia and Uruguay respectively, but reduces the gender wage gap for the latter. The authors attribute these changes to increased product market competition and reductions in employer discrimination. In another related study in Mexico, Aguayo-Tellez et al (2010) use household and plant level data from 1989 to 2004 find that trade liberalisation policy increases the relative demand for female workers within industries and skilled groups. The authors observe that shifts in the industry composition, consistent with trade-based explanations, also account for an important part of the reduction on gender wage inequality in Mexico. Comparing across industries, trade is positively related to the growth of female-intensive industries such as clothing, and the decline of male-intensive industries such as agriculture.

CONCLUSION

Despite the benefits of trade liberalisation in terms of efficiency gain, it is difficult to claim that trade liberalisation policy have benefited women; the broad effect of trade liberalisation on the economic status of women and men in low and medium income countries is ambiguous, even though few studies have argued that free trade potentially reduces workplace gender discrimination. The major reason for the variation is related to the fact men and women do not have the same productivity-related characteristics. It is difficult to claim that trade liberalization has benefitted men and women equally, based on the evidence, we have both positive and negative effect from the various studies. For developed regions, the evidence is mixed, and the explanation of such mixed results seems to be related to whether they trade with developed or developing countries. For developing regions, the evidence suggests that Latin American women, on average have benefitted from trade Liberalization while African women have been hurt. Poor, unskilled and old women have

always been left behind. In addition, evidence suggests that as developing economies mature, the process of trade-related feminization of employment declines or even reverses as consequence of technical development

Sub-Saharan Africa having the largest informal sector in the world, it is necessary to find out what are the trade liberalization implications or effects on the male and female workers, and the sector as a whole. It will add to the existing literature and clarify some grey areas in this field of study. If gender differences in the labour market are solely the result of discrimination, and women are excluded, for example, from some occupations and crowded in others, then by virtue of the distorted relative labour supply across occupations, pay would be higher in male-dominated occupations and lower in female-dominated occupations than it would be under nondiscriminatory conditions. Another effect of segregation would be welfare loss (reduction in total output) arising from the misallocation of the labour force: in plain terms, competent female workers are excluded from the productive activities they can do which are then undertaken by less able compared to women, men (Tzannatos, 1995). Future research should consider gendered effects of trade liberalisation on the informal sector, with emphasis on the prevailing nature of labour market regulations, either within the same country or across countries.

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