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**Economic Liberalisation
and Employment in South
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Abstract

The main objective of this paper is to examine the impact of economic liberalisation on employment and labour incomes in South Asia. Specifically, it examines the impact on employment growth (total, agriculture, industry), unemployment, real wages, wage inequalities between skilled and unskilled workers, women's employment and child labour. It also analyses whether labour rigidities have affected the employment growth in South Asian countries. The paper is divided into six sections. Analytical and theoretical issues on the subject of liberalisation and employment are presented in Section 2. The study proposes some hypotheses on these issues. They provide a backdrop for the empirical evidence presented in Section 3. We have used 'before' and 'after' approach in the empirical analysis. Some results based on CGE models for India are also presented. The conclusions from empirical evidence can be summarised as follows:

- GDP growth seems to be slightly higher after liberalisation except in Pakistan.
- The impact of external sector liberalisation may not be insignificant in South Asia as exports and imports rose faster than GDP in the region as compared to those for Sub-Saharan Africa and Latin America.
- The share of informal sector increased particularly for services in India.
- The rate of growth in private sector employment increased faster than in the public sector. The share of private sector in total capital formation in India increased significantly after liberalisation.
- There was jobless growth for 1980s in the manufacturing sector for South Asia. The manufacturing sector showed higher growth in the 1990s for India. Micro surveys show some concern regarding retrenchment of workers in manufacturing employment.
- Unemployment rates showed a mixed picture. It declined for India and Sri Lanka while it rose in Pakistan, Bangladesh and Nepal.
- Incidence of poverty by workers in India shows that it declined for all workers but the rate of decline was lower for casual workers.
- Real wage growth for agricultural labourers was lower after liberalisation.

- Inequalities in income and consumption increased in most of the countries in the post-liberalisation period. The results from CGE models also show that inequalities increased.
- Women's participation increased but it is not clear whether they are better off in terms of work load and income. Child labour declined at macro level. One may have to go beyond poverty in explaining the variations in child labour.

Section 4 analyses future scenario of employment and policies needed for raising productive employment and labour incomes. An agenda for research is presented in Section 5. More micro studies are needed to fully understand the impact of domestic and external liberalisation measures on employment and wages.

Kurzfassung

Das Hauptanliegen dieser Studie ist die Analyse der Auswirkungen ökonomischer Liberalisierung auf Beschäftigung und Arbeitseinkommen in Südasien. Speziell werden die Einflüsse auf den Beschäftigungszuwachs (insgesamt, in der Landwirtschaft und in der Industrie), die Arbeitslosigkeit, die Reallöhne, Lohn Differenzen zwischen ausgebildeten und ungelerten Arbeitern, Beschäftigung von Frauen und Kinderarbeit untersucht. Die Studie untersucht auch, ob Rigiditäten auf den Arbeitsmärkten die Beschäftigungsentwicklung in Süd-Asien beeinflusst haben. Die Studie ist in 6 Abschnitte unterteilt. Analytische und theoretische Aspekte von Liberalisierung und Beschäftigungsentwicklung werden in Abschnitt 2 vorgestellt. Die Studie schlägt dazu verschiedene Hypothesen vor. Diese bilden den Hintergrund für die empirischen Befunde, die in Abschnitt 3 präsentiert werden. In den empirischen Analyse werden Szenarien „mit und ohne“ Liberalisierung miteinander verglichen. Einige auf CGE-Modellen basierende Ergebnisse für Indien werden ebenfalls präsentiert. Die Schlußfolgerungen aus den empirischen Befunden können wie folgt zusammengefaßt werden:

- Der Anstieg des BIPs scheint nach der Liberalisierung, mit der Ausnahme Pakistans, leicht zu zunehmen.
- Der Einfluß der Liberalisierung des Außenhandels könnte in Südasien erheblich sein, da Ein- und Ausfuhren im Vergleich zu Sub-Sahara Afrika und Lateinamerika stärker anstiegen als das regionale BIP.
- Der Anteil des informellen Sektors stieg in Indien besonders im Dienstleistungsbereich.
- Die Wachstumsrate im privaten Beschäftigungssektors stieg stärker als die des öffentlichen Sektors. Der Anteil des privaten Sektors an der gesamten Kapitalbildung in Indien stieg nach der Liberalisierung deutlich.
- In der Verarbeitungsindustrie gab es in den 80er Jahren in Südasien einen Anstieg der Arbeitslosigkeit. Der verarbeitende Sektor Indiens zeigte in den 90ern ein höheres Wachstum. Mikro-ökonomische Studien zeigen, dass es Grund zur Besorgnis hinsichtlich der Streichung von Arbeitsplätzen in der Verarbeitungsindustrie gibt.
- Die Arbeitslosenraten zeigen ein gemischtes Bild: Sie sanken in Indien und Sri Lanka, während sie in Pakistan, Bangladesh und Nepal anstiegen.

- Die Häufigkeit von Armut von Arbeitnehmern in Indien nahm insgesamt ab, wobei der Rückgang bei Gelegenheitsarbeitern am geringsten ausfiel.
- Das Reallohnwachstum war für Landarbeiter nach der Liberalisierung geringer.
- Ungleichheiten in Einkommen und Konsum stiegen in den meisten Ländern in der Phase nach der Liberalisierung. Dies zeigen auch die Ergebnisse eines CGE Modells.
- Die Beschäftigung von Frauen nahm zu, wobei es nicht klar ist, ob sie in Hinblick auf Arbeitsbelastung und Einkommen wirklich besser gestellt sind. Die Kinderarbeit nahm auf der Makroebene ab. Man müßte über den Armutsbegriff hinausgehen, um die verschiedenen Implikationen für Kinderarbeit zu erklären.

Abschnitt 4 analysiert Szenarien von Beschäftigung und Politiken, die für einen produktiven Beschäftigungszuwachs und einen Anstieg von Arbeitnehmereinkommen notwendig wären. Eine Forschungsagenda wird in Abschnitt 5 entwickelt. Zusätzliche mikro-ökonomische Studien wären notwendig, um die Effekte von inneren und äußeren Liberalisierungsmaßnahmen auf Beschäftigung und Löhne voll zu erfassen.

1 Introduction

Expanding productive employment is central for sustained poverty reduction and food security in low income countries, as labour is the main asset for majority of the poor¹. It is also known that a high output elasticity of employment generally ensures that growth is egalitarian. However, inspite of its importance, the concern for employment in development thinking has been pushed aside particularly in the 1970s and to some extent in the 1980s. It is important to place the employment issue at the centre of the national and international agenda². There are new challenges for governments in recent years due to economic liberalisation policies adopted by many of the low income countries. Given the nature of the liberalisation measures, they are likely to have significant implications for employment and labour market, in addition to the impact on overall growth of an economy. How these liberalisation policies have affected the growth and structure of employment is an issue that has important implications for future policies³. The main objective of the present study is to examine the impact of economic liberalisation on employment in South Asia which contains the largest number of poor in the world. The region of South Asia comprises one-fifth of the world's population and nearly half the world's poor population. The liberalisation policies are likely to have significant impact on the employment and incomes of the poor of South Asia. The more specific objectives and justification for the present study are briefly elaborated below.

Analytical Issues: One of the objectives of the present study is to present analytical issues and theoretical developments on the subject of liberalisation and employment. There is also emerging literature on the phenomenon of widening wage-gap between the skilled and unskilled workers in developed countries (Jones and Engerman, 1996 and Davis, 1997). Wood (1997) examined this for Latin American countries and East Asia. Recently, these are extended to countries like those in South Asia by incorporating the large informal sector in the theories (See Acharya and Marjit, 1999). The liberalisation policies will have also have significant impact on the vulnerable groups like women and child labour. For example, several reform policies may have different opposite effects on child labour (more on this later). Therefore, this study also covers the analytical issues on the employment of women and child labour. The study proposes some hypotheses on the above issues.

Empirical Findings and Issues: Liberalisation and its impact on labour in South Asia has been a highly controversial topic, hotly contested by researchers, politicians, media and activists.

¹ For issues relating to employment, poverty and food security, see Dreze and Sen (1989), Streeten (1994) Radwan (1995) and von Braun (1995).

² See ILO (1995).

³ For a recent evaluations of the labour market and adjustment for 12 countries, see Horton, Kanbur and Majumdar (eds.), 1994.

The main objective of the study is to put together the empirical evidence on the impact of liberalisation on various aspects of employment such as growth of employment, rates of unemployment, structure of employment, women's employment, child labour, wage rates in general and, wage rate differences between skilled and unskilled employment. Another thing we propose to touch is the issue of the impact of labour rigidities in the labour market in South Asia.

Future Employment and Policies: What are the prospects for increase in demand in labour? What is the role of labour institutions in future? What is going to be the structure of employment? Will there be reduction in the inequalities between skilled and unskilled workers? What are the prospects for women? Will there be reduction in the rates of child labour and improvements in enrolment rates? Are the economies going to be service oriented? Which is going to be more diversified between work and employment? In other words, Will the multiple job holdings increase over time? What safety nets are needed during liberalisation period? These are some of the issues to be addressed regarding future of employment.

Agenda for Research: The last but not least objective of the present study is to provide a possible research agenda on the above issues. We take up two types of issues : (a) which relate to factual problems and behaviour (inequalities in wages between skilled and unskilled, women, child labour) and (b) policy related issues such as policies to increase demand for labour, and role of labour institutions.

The paper is organised as follows. Analytical issues and theoretical developments are discussed in section 2. Empirical findings and other related issues are analysed in section 3. This section also presents the characteristics of the labour market in South Asia. Section 4 looks at the future scenario of employment while section 5 presents the research agenda on factual problems and policy related issues. The last section provides some concluding observations.

2 Analytical Issues

Before going to the analytical and theoretical issues, it is useful to look at the characteristics of labour market. The following characteristics are typical of South Asia and many other low income countries.

- Domination of informal sector: Low income countries are characterised by dualism in labour market: formal and informal sectors. There are measurable technological differences between the two sectors. The Majority of the workers are in unorganised sector (or informal sector). In India, for example, 90 per cent of the workers are in unorganised sector and they do not get any social security benefits. In terms of numbers, agricultural workers dominate the total work force.
- There is virtual absence of unemployment insurance and other elements of a social wage⁴.
- The problem of 'of working poor': The general unemployment rates in these countries are low because the poor are too poor to be unemployed. Though most people are employed, a large proportion of the employed earns extremely low income from work. This is reflected in the high incidence of poverty. In India unemployment rate is 5 per cent but poverty is more than 30 per cent. In other words, much of the employment is not adequately productive or remunerative⁵. Open unemployment rates tend to be higher among the educated population.
- Insecurity of income is a characteristic feature of many types of employment. The best illustration is provided by the case of casual labourer. For a casual labourer, the daily wage rate tends to be institutionally given but the number of days of employment in a year is uncertain; consequently, the level of earning also remain uncertain (Ghosh, 1999).
- In many countries, self employment and part-time employment have major shares in total employment.

⁴ See Rao (1994). More on labour market characteristics, see Ghosh (1999).

⁵ Stiglitz (1998) says "in the context of developing countries, minimizing underemployment is just as important as minimizing unemployment. If an Indonesian loses his or her well-paying factory job, they can always return to their village and help out on the family farm. The extra output from their effort, however, may be minimal, making their "job" virtually equivalent to unemployment.

- Labour market is not non-discriminating; access to employment as also income from employment tends to depend on the social background of the labour market participant particularly in the informal sector. Quite apart from the fact that educational and skill levels of labour market participants are largely determined by their social background, an additional variety of discrimination also exists: even where the educational and skill levels are similar, gender, kinship, caste, tribe etc. remain important determinant of access to employment and the level of remuneration (Ghosh, 1999).
- There exists some forms of employment which are socially unacceptable. Two commonly cited examples are those of bonded labour and child labour. It does not mean that there is no child labour in developed countries. The problem is more serious in less developed countries.
- South Asia has the highest gender bias in education and other human development indicators in the world. This will have implications for the labour market.
- Migration: Rural-urban and rural-rural migration is used as a risk coping mechanism in low income countries. This can be due to both pull and push factors. Seasonal migration rates are higher than the long duration migration rates.

2.1 Analytical Issues on the Impact of Liberalisation on Employment and Labour Incomes

First, let us define what do we mean by economic liberalisation. It includes both stabilisation and structural adjustment . We consider liberalisation of both domestic and external sectors. It involves measures such as expenditure compression, freeing the various sectors of the economy from restrictions relating to capacity, size and pricing policy, reforms in trade, exchange rates, fiscal, monetary and labour market policies, relaxing controls on foreign investment, opening up the economy to competition from abroad.

Thus, in order to assess the impact of liberalisation on employment one has to look at the issues in a general equilibrium framework as the changes in other markets also have impact on labour market. The relationship between liberalisation and employment can be in two ways: (a) whether existing labour market conditions strengthen liberalisation and (b) what is the impact of liberalisation on employment and labour market. In this paper, we are interested in looking at the latter issues.

The impact of liberalisation on employment and labour income depends on the type of measures and level of disaggregation. These are discussed below.

Stabilisation and Structural Adjustment: The liberalisation measures have two components: stabilisation and structural adjustment. Stabilization involve measures relating to controlling the fiscal and balance of payments, external payments deficits and maintaining a low rate of inflation. The structural adjustment aims at improving efficiency and productivity and integrating the economy with world trade and capital movements⁶. The impact on employment depends on whether we are considering stabilization or structural adjustment policies.

External vs. Internal Liberalisation: The impact of external liberalisation policies like trade reforms, exchange rate policies depend on factors like the dependence of the economy on foreign trade, financial sector liberalisation on external account etc. If a country's dependence on foreign trade is limited, internal liberalisation is much more important in influencing growth of output, employment and wages.

Macro vs. Micro Effects: The impact of liberalisation on employment and labour incomes also depend on whether one is looking at macro level or micro level. Due to high informal sectors one may not find increase in unemployment rates at macro level. On the other hand, micro level experiences could be different from those of macro level.

2.1.1 Impact on Employment

There is a wide difference of opinion about the impact of structural reforms on employment conditions and labour market. The optimists including the policy makers envisage the East Asian type experience. It is contended that the structural adjustment would remove the 'rigidities', and factor price distortions in the economy, and that it would change the industry-mix and factor-mix in favour of labour (Bhagwati and Srinivasan, 1993; Joshi and Little, 1997). It would increase the demand for labour coming from the shift to labour intensive products and techniques based on comparative advantage. Because of the new policy, the extent of protection and its distorting effects would be reduced considerably. Consequently, the demand for unskilled labour would increase. Women would find entry easier in production process jobs in manufacturing. According to this model, the negative effects, if any, would be due to domestic recession and associated depressive effects on output and employment caused by short run stabilisation measures. These negative effects would be more than offset by the structural adjustment measures which would, through a thorough restructuring of the economy, impart both efficiency and dynamism to the growth process, and this, in turn, would lead to an eradication of the problems of unemployment/ underdevelopment and absolute poverty.

⁶ As mentioned by Griffin (1996), structural adjustment policies have three major purposes. First, they are designed to effect a substantial change in the composition of output, primarily through a radical alteration in the structure of relative prices. Second, structural adjustment is intended to integrate the countries more closely into the global economy. Third, structural adjustment is intended to raise the rate of investment and improve the allocation of investment thereby increasing the rate of growth of output, incomes and employment. For some issues on liberalization and employment, see D'Souza (1998, 1998a).

Those who oppose this optimistic scenario cite the examples of the African and Latin American countries where the structural adjustment and search for flexibility in the labour market have both lowered the employment growth as well as brought about deterioration in conditions of employment (see Ghosh, 1995)⁷. Unemployment would grow not only in response to the new entrants to the labour force in the face of a decline in employment opportunities, but also as an outcome of liberal exit policy and privatisation. This is not all. The efforts towards labour flexibility and acute international competition and consequent increasing emphasis on the reduction of costs - mainly labour costs - in order to retain both domestic and international markets would see the erosion of many institutions for labour welfare.

It may be noted that liberalisation generates losses and gains. The losses may be concentrated among particular group of workers or geographical areas and more noticeable while gains are more widely diffused and less visible.⁸ The supporters of liberalisation argue that the gainers or the state particularly in the short to medium run can compensate the losers. There can be two anxieties about liberalisation for the losers⁹. The potential compensation may not be implemented in practice. The benefits suggested by the proponents of globalisation may not materialise, as future is uncertain. Also, one has to keep in mind that initial conditions matter and the impact on employment can vary from one country to another.

Our hypothesis here is that stabilisation measures are likely to have adverse effect on employment growth and the impact of structural adjustment on employment depends on several factors. There are factors that may work towards creating a positive impact on employment. A liberalised economy should create incentives for a rapid growth of exports; and to the extent a country's exports contain products with high labour content, employment can expand. The adjustment should lead to higher growth. However if the pattern of growth is capital intensive, there may not be improvements in employment. With large informal sectors, our hypothesis is that the overall growth of employment may not get affected as the formal sector workers may move to informal sectors. In other words, we may not find increases in open unemployment rates but the quality of employment may be poor¹⁰.

2.1.2 Impact on the Growth of Real Wages of Workers

Here we discuss about the issues on the impact of liberalisation on the growth of real wages of workers particularly in the informal sector, which has large unskilled workers. Most adjustment involves a fall in the aggregate demand for labour as a result of macroeconomic

⁷ World Bank, however, says that African countries have not implemented reform programmes properly.

⁸ See Lee (1996).

⁹ Lee (1996) examines four sources of anxiety about the effects of globalization: (a) the fear of industrial countries regarding falling wages of unskilled workers; (b) a similar fear in developing countries that liberalization will lead to job losses and rising wage inequality; (c) anxiety that globalization leads to a race to the bottom with respect to wages and labour standards and ; (d) a loss of national policy autonomy and governments becoming impotent.

¹⁰ See Agenor and Aizeman (1999) for theoretical justification for this type of hypothesis.

decline. In their study on macroeconomic effects using general equilibrium model, Agenor and Aizenman (1999) show that a permanent reduction in government spending on non-traded goods leads in the long run to a depreciation of the real exchange rate, a fall in wages for unskilled labour, an increase in output of traded goods. During adverse macro economic shocks, skilled and unskilled workers who are retrenched from the formal sector may seek employment in the informal sector putting downward pressures on wages there. The rise in real wages in countries with large informal sectors mainly depends on the impact of liberalisation on food prices. The economic liberalisation along with structural adjustment has meant that input subsidies are lower, and output (food) prices closer to international prices, which are typically higher than domestic prices.

The favourable terms of trade for agriculture due to liberalisation is supposed to attract private investment into agriculture, thereby leading to growth in output and demand for rural labour. In a simple neo-classical framework, since agriculture is more labour intensive, a rise in the relative price of its output (i.e., food) leads to an increase in real wages and investment into agriculture. How does liberalisation of food prices translate into increases in real wages and incomes? Those with a marketable surplus stand to gain. However, it may be noted that the benefits on farmers depend on the crop grown. For example, in the Indian context, rice farmers may gain with liberalisation while oilseed farmers may lose because of liberalisation. Self sufficient farmers might not be affected by the food price increases, although their shadow costs may go up¹¹. The landless labourers gain only if real wages increase. But typically wages rise only with a lag of say two or three years. It may also happen that real wages never increase.¹²

Thus, the growth of real wages for workers depends on the rise in foodgrain prices and also on general inflation rate.

2.1.3 Impact on the Wage Inequalities between Skilled and Unskilled Workers

An interesting debate has emerged in the literature on the inequalities in the wages between skilled and unskilled workers due to liberalisation. Earlier studies showed that as countries become more open to trade, inequality falls in relatively poor countries with abundant unskilled labour while it rises in their richer trade partners supporting the Heckscher-Ohlin theorem (see Krueger 1978 and 1983 and Wood, 1994)¹³. The stylised facts also confirm these observations (Wood, 1994 and Williamson, 1996).

¹¹ The input costs to self sufficient farmers would increase when subsidies on inputs such as fertilizer, power and water are removed as part of the economic reforms.

¹² Ravallion's (1990) study on Bangladesh showed that the dynamics of wage formation in Bangladesh suggest that an increase in the price of rice is very unlikely to be passed on in the agricultural wage rate, even in the long run.

¹³ Conventional wisdom is that globalization will lead to inequalities between core and periphery and core will gain at the expense of periphery. Now core is saying that the periphery will gain at the expense of core. (Krugman and Venables (1995).

Recent studies have gone beyond Heckscher-Ohlin models in explaining rising inequalities. Most of the work relates to industrialised countries like USA and U.K. Both labour economists and trade economists participated in the debates. As summarised by Jones and Engerman (1996), two factors viz., technology related and trade related were identified for the rising inequalities¹⁴. There is another debate that focuses on free versus controlled migration in explaining the wage rates (Bhagwati, 1991; Bojras and Freeman, 1993). It may be noted that all the three factors namely trade, technology and migration may matter for the increase in inequalities with important country-specific variations (World Bank, 1995).

Stopler-Samuelson theorem is the corner stone of the trade-related argument. According to this view, increased unskilled labour intensive imports from countries like Mexico and China led to fall in the domestic price of the import competing goods in US depressing the unskilled wage and raising skilled wage (see Wood, 1994). On the other hand, some others have argued that the widening wage gap is more due to skill based technological progress (Berman, Bound and Grilliches, 1994). In a recent study, Wood (1998) argues that for the period prior to 1979 it was technology in the form of skill based technological change, while in the period since 1979 it has primarily been globalisation or more particularly trade with the south. According to Ahmad (1999), protection and subsidies have played in inducing skill augmenting technological developments in import-affected sectors and, hence, in reducing the demand for unskilled labour. This study shows that trade policy has a role but the influence of technological changes appears to be much more critical. However, it is sometimes difficult to distinguish between the two because increased openness to trade itself accelerates the influence of new technologies.

There are very few studies on developing countries examining the issues of liberalisation and wage inequality. Some studies have shown that income and wage inequality has increased in developing countries like Mexico and some other countries in Latin America (see Feenstra and Hansen, 1994, Wood, 1997). In a recent study, Beyer et al (1999) study empirically the link between trade liberalisation and wage inequality in Chile. Within the context of the Hecksher-Ohlin-Samuelson (HOS) model, they use cointegration techniques to estimate the long run relationship between the skill premium in Chile and product prices, openness and factor endowments. They find that the fall in the relative price of labour intensive goods helps explaining the increase in wage inequality in Chile during the last two decades. Openness, measured as the volume of trade over GDP, widens the wage gap between skilled and unskilled labour. Harrison and Hanson (1999) show that large changes in tariffs and quotas had only small impact on employment for Mexico and Morocco.

There seems to be some problems with the trade argument for raising inequality in both developed and developing countries as shown below.

¹⁴ Also see Davis (1998).

- The evidence does not support the predictions of the Stolper-Samuelson theorem. Contrary to the predictions of the theorem, the price of labour-intensive manufactured goods has risen relative to that of skill-intensive ones in the United States¹⁵.
- Again contrary to the predictions of the theorem, changes in the ratio of unskilled to skilled workers have been uniform across manufacturing industries.
- Moreover, as shown by Lawrence and Slaughter (1993), the share of manufacturing employment to total employment was only 21 per cent in the US, and, of this, employment in labour intensive manufacturing was at most a quarter. Thus, overall effect of trade in reducing labour-intensive jobs could not have been significant (see Sachs and Schatz, 1994).
- The trade argument should also imply narrowing of wage gap in low-income countries. As mentioned above, studies for Mexico and Chile show that wage inequality has increased.

Thus the trade argument looks less convincing. In other words, the standard trade models are not able to explain fully the wage gaps both in developed and low-income countries. It has been argued recently that 'instead of a straight jacket application of the standard Samuelson models with the Stolper-Samuelson theorem as its core', one needs to focus on the widely observed informal or unorganised sectors in the low-income countries. Acharya and Marjit (1999) develop such a model incorporating the informal sector¹⁶. They show that the role of informal non-traded sector is important in explaining the widening wage gap.

In their model, Acharya and Marjit (1999) examine the implications of trade liberalisation in three parts: (a) tariff reduction; (b) an increase in the world price of agricultural exports and; (c) an increase in the world price of manufacturing exports. The conclusions of their model are given in Table 2.1.

¹⁵ For a discussion on this, see Lee (1996).

¹⁶ Also see Marjit et al (1998) for an analysis of the possible impact of trade and fragmentation on the skilled-unskilled wage gap in a small developing economy. In particular, they illustrate the possibility of a decline in the relative wage of the unskilled labour following an improvement in the terms of trade.

Table 2.1: Impact of trade liberalisation on wage gap using Formal and informal non-traded goods

	Using Formal Non-traded goods	Using Informal Non-traded goods
(a) Tariff reduction	widens wage gap	more widening of wage
(b) Increase in the World price of agricultural exports	reduces wage gap	widens wage gap
(c) Increase in the world price of Manufacturing exports	reduces wage gap	widens wage gap

Source: Summarised by the present author based on the analysis by Acharya and Marjit (1999).

2 1.4 Changes in the Composition of Employment

In developed countries, it has been noticed that the share of unskilled workers has declined in the total employment. Similar reasons (trade or technology related) which were given for the widening wage inequality could be used for the declining share of unskilled workers. This could be due to either (a) fall in the demand for labour for unskilled workers due to increasing imports from low wage countries or increase in the demand for skilled workers due to technological progress. For example, it has been shown that the introduction of computers in some plants in Britain is associated with increase in the share of white collar workers at the expense of unskilled, manual workers (Kramarz, 1998)¹⁷. In a recent study, Agenor and Aizenman (1999) examined the implications of fiscal and labour market policies on output, wages and unemployment in a general equilibrium model of a small open developing economy with a large informal sector, a heterogeneous workforce, and segmented labour markets. If there are macroeconomic shocks like stabilisation programmes, there will be large shifts in the composition of employment from formal to the informal sector with little effect on the aggregate unemployment rate.

Our hypothesis on the impact of liberalisation on wage inequality is that it would increase inequalities in the short run because demand for skilled workers would increase with higher wages. Further, the wages of unskilled workers may not increase much particularly in the short to medium run. Regarding the changes in the overall structure of employment, we may not expect increase in the share of skilled workers with large informal sectors as the growth of unskilled workers could be higher. Decline in the share of unskilled workers may be noticed at the plant level. However, it is difficult to predict about the impact of modern technologies like information and communications technologies (ICTs) on the employment and wages of unskilled workers. On balance, it is possible that the unskilled workers can benefit from modern technologies if scale effect is large.

¹⁷ For a review of studies on information and communication technologies and employment, see Bedi (1999).

2.1.5 Impact on Women and Child Labour

Women: The impact on women in periods of liberalisation deserves special attention because of the increased demands they face in periods of crisis. One has to keep in mind in analysing the issues here that South Asia has some of the greatest gender disparities in the world. The women's employment can increase or decrease during the period of structural adjustment depending on several factors. One issue on women is whether liberalisation is leading to 'feminisation' of workforce. The effects are likely to depend on the sectoral distribution of female workers and on the effect on participation rates (Collier, 1994). Suppose, if women are concentrated in food sector and if it is tradable, the output may increase. If food is non-tradable, output may decline and employment may decline. There is a possibility that female workers having a more tenuous attachment to the labour force, are more likely to lose jobs during periods of labour shedding (Horton et al, 1994). A process of defeminisation can occur from adoption of techniques that require more 'skilled' labour or greater mechanisation. On the other hand, trade reforms may lead to expansion of export-oriented sector and since export-oriented industries in developing countries tend to be feminised, the demand for women's employment may increase (Cagatay and Ozler, 1995). Also, with the advent of liberalisation, under global competition, employers could be favouring women workers since women receive lower wages, leading to a substitution of men for women (Standing, 1989). We may have an 'added work effect' in the sense of secondary workers seeking employment because of drop in primary workers' wages and employment during liberalisation period. Women are typically called upon to help sustain household incomes when the wages of male heads of household fall. In other words, women are pushed into the labour market. The World Development Report of the World Bank (1995) says that the relative position of women has often deteriorated during structural adjustment because women who are often employed in low-wage informal sectors are more vulnerable than men.

Our hypothesis on women is that so much gender disparities in South Asia, women will be pushed towards labour market when there are shocks in the economy. Of course, there will be opportunities for educated or skilled women workers.

Impact on Child Labour:

As open trade has become more acceptable and desirable in developing countries, a number of protectionist pressures have emerged in industrial countries. One of the causes for these pressures is high and increasing unemployment in most of Europe and stagnant real wages of unskilled workers in the United States (Mohan, 1996). Some people have argued that these developments are the result of increasing competition from low wage countries. Due to these developments, there is increasing pressure from developed countries for the imposition of minimum international labour standards in developing countries. Thus, with increasing globalisation, efforts to co-ordinate international labour standards have become more prominent. The supporters of these standards argue that a set of minimal labour standards is necessary to promote fair competition and to facilitate efficient operation of the labour market. The opponents

argue that it is counterproductive interference with the workings of free markets, representing either disguised protectionism or misplaced compassion¹⁸. Prohibition of forced labour, elimination of exploitative child labour are part of the core areas of labour standards. Interesting literature has emerged on theoretical and analytical issues of child labour partly due to the international debates. Basu (1998) provides an excellent summary of theoretical and analytical issues on child labour. His study reviews early theoretical ideas, bargaining models and models with multiple equilibria. Basu and Van (1998) demonstrate that there can be multiple equilibria in the labour market such that one equilibrium has child labour with low wages while the other has higher wages but no child labour. The liberalisation can also lead to multiple equilibria in the case of child labour.

Another issue that came up in the child labour literature is the issue of imperfections in credit markets. Parsons and Goldin (1989), Jacoby and Skofias (1997) deal with the issue of investment in education and the availability of efficient capital markets. Grote et al (1998) also emphasise the role of credit market imperfections and the high costs of education. Baland and Robinson (1998) present a new argument about why child labour exists and they show that child labour can be Pareto inefficient even in a model where parents are fully altruistic towards their children because there can be a commitment problem between parents and children. If parents run out of resources to educate the child, they have to borrow against child's future income. However, a commitment problem arises because when children are adults, their parents can not control them and children cannot credibly commit to transfer part of their (higher) income to the parents to compensate them.

Wages for skilled workers would increase with liberalisation. Grote et.al (1998) indicate that increase in skilled wages would reduce child labour because the demand for education increases. On the other hand, demand for education can decline (and increase in child labour) if the unemployment increases for educated due to liberalisation.

Returning to labour standards and child labour, the literature tilts towards direct measures like school improvements, credit, increase in adult wages instead of partial ban on child labour produced goods.

The impact of liberalisation on demand for child labour could be broadly similar to those for women. For example, 'the added work effect' due to macro shocks can increase child labour. The stabilisation policies reduce the aggregate demand for goods and services and reduce demand for labour. Labour supply shifts from formal to informal sector and the wage rates of adults and children are likely to fall. There may be a substitution effect of adults replacing child labour Hemmer et. al., 1999). Also the shadow price of education may decline with decline in the wage rates for children and the demand for education may increase. Due to these effects, child labour can decline. On the other hand, due to income effect (increase in unemployment and

¹⁸ See Krueger (1996) for issues on international labour standards and trade.

poverty) child labour may increase (see Hemmer et. al., 1997). In the case of trade reforms, the intensification of international trade is likely to increase the demand for labour particularly in the formal and informal export sectors.

2.1.6 Liberalisation, Labour Market Policies and Institutions

Another debate about liberalisation and employment is about the kind of regulatory and institutional framework needed for employment creation, security of workers and working conditions of work. Governments intervene in the labour market in several ways. There is a growing debate over whether such interventions are really in workers' best interests. Some people argue for government intervention to protect workers, through regulations on minimum wages, restrictions on hiring and firing etc. Others argue against such interventions, because it discourages job creation and helps only a privileged section of workers, while hurting or neglecting the most vulnerable sections (World Bank, 1995). Birdsall (1994) provides three propositions or testable hypotheses to provoke thinking and help shape new research questions. She calls them as her prejudices about public policy and labour market institutions in developing countries. These are given below.

“Prejudice 1: In the medium run (five years or more) labour market institutions are largely irrelevant to the welfare of the working class. What matters is nonlabour policies; what matters is the pattern of growth”. (p.439)

“Prejudice 2: Labour market policies and institutions are a perverse vehicle for progressive social policy, especially in developing countries and most especially in developing countries (like most in Latin America) with unequal distributions of income, political power, and privilege”(p.440)

“Prejudice 3: A laissez-faire, let-the-market work approach is not good public policy”(p.441).

According to her some government intervention is necessary to have healthy labour institutions, ensuring a competitive market etc. The aim of labour market reforms is to remove rigidities in order to improve structural adjustment process. First, employment security may create obstacles to labour reallocation and thus put a constraint on liberalisation. Secondly, a variety of institutional factors create rigidities in wages, which make labour reallocation process slow and difficult¹⁹. In our study, we shall examine empirically whether countries in South Asia moved towards labour market flexibility and whether it created any social costs.

Minimum Wages: One of the most controversial labour market policy the governments face is whether or not to set minimum wages. The argument against minimum wage legislation is

¹⁹ See Islam (1996).

that they make things worse for poor workers by raising production costs in the formal sector and reduce employment. The organised workers are then forced to seek jobs in the unregulated informal sector pushing the wages of the working poor lower. Of course, from the point of poverty alleviation appropriate minimum wages can help increasing the incomes of the poor. However, there can be a trade off between higher minimum wages and employment²⁰.

Labour Market Institutions: Will the labour market institutions matter less as globalisation increases? One of the propositions or prejudices mentioned above by Birdsall (1994) is that labour market institutions are largely irrelevant to the welfare of working class in the medium run. However, as Diwan and Walton (1997) say “institutions are crucial determinants of the consequences of market-driven change for workers... The issue is institutional reform, not institutional destruction”. For example, one of the issues is the role of trade unions in labour market in the era of globalisation. One hypothesis that can be tested is whether institutions like trade unions have adversely affected the growth of employment by perpetuating the labour market rigidities in South Asian countries.

²⁰ See Basu et al (1998), Agenor and Aizeman (1999).

3 Empirical Evidence

This section presents empirical evidence on the impact of economic liberalisation on employment and labour income. Before going to the evidence, a few words about South Asia are in order.

Most of the South Asian countries not only have a common history and culture but also share many similarities in economic field. Although these countries have good institutional and administrative structures, they are weak in the provision of physical and human capital.

Agriculture plays a pivotal role in the economies of the South Asian countries. Although its share in GDP has come down to nearly 25% in some countries, agriculture is a dominant sector in terms of employment in all the five countries .

The population in these countries varies from 18.5 million in Sri Lanka to 960.9 million in India whereas the per capita GNP varies from \$210 in Nepal to \$800 in Sri Lanka (Table 3.1). For the past decade, South Asia has been the second fastest growing region in the world, after East Asia, with an annual average growth of 5.3 per cent. It remains, however, one of the poorest regions: the 40 per cent of the population living below the international poverty line of \$1 a day comprise about 40 per cent of the world's poor. Poverty is both cause and consequence of the low level of human development in most of the region (with the exception of Sri Lanka and some of the southern states in India) reflected in the world's lowest adult literacy (48 per cent), one-third of the world's maternal deaths, and 60 per cent rate of child malnutrition. As shown in Table 3.1, the rank in terms of human development index are quite low (except in Sri Lanka) in South Asian countries. In general, the countries of the region have, high rate of growth of population, high concentration of the poor households, their per capita income is low²¹, and, progress in social sector development has been slow.

²¹ The per capita GDP of South Asia as a whole is lower than that of Sub-Saharan Africa

Table 3.1: Population, per capita GNP and human development index rank of the selected South Asian countries

Country	Population 1997 (million)	Labour Force 1997 (million)	GNP per Capita 1997 (in US\$)	Human Development Index Rank 1999*
Bangladesh	123.6	62.2	360	150
India	960.9	419.6	390	132
Nepal	22.6	24.6	210	144
Pakistan	137.2	52.8	490	138
Sri Lanka	18.5	7.8	800	91
South Asia	1289.0	563	390	--

* figures in descending order for 174 countries

Source: World Development Report, 1999, Human Development Report, 1999.

3.1 Economic Liberalisation in South Asia

Until recently, South Asia was characterised by a prolonged period of economic autarchy. Licensing, regulation, high tariffs, large-scale public investments were some of the policies followed in the 1960s and 1970s. Over the past decade or so, the countries of South Asia have embarked on economic reforms consisting of stabilisation and structural adjustment policies. The region is a late starter in economic liberalisation with most countries commencing in the 1980s but without a full commitment until the 1990s. Among the five major South Asian countries, the process of policy reforms began the earliest in Sri Lanka in the late 1970s. The process in Sri Lanka, however, has been slow in the 1980s partly due to ethnic conflicts and political instability. The second phase of reforms started during 1988-93. Although some countries like Nepal and Bangladesh started reforms in the mid-80s, the liberalisation programmes started in a big way only in the early 1990s. In Pakistan also, the reforms gained momentum in the mid and late 1980s. By the early 1990s all these countries had initiated wide-ranging liberalisation programmes²². In India, the major reforms have started only in 1991 (see Table 3.2). We will not go into the details of all the liberalisation measures taken in South Asia (see Table 3.3. for details). The reduction in tariff rates in India gives an example of the drastic changes that took place in South Asia in the 1990s. A major reform of trade policy has been effected since 1991 in India. The import licensing system has been dismantled. All non-tariff barriers have been phased out from all tradable except consumer goods. The peak tariff rates have been brought down to

²² By 1990s all these countries in South Asia had democratic form of governments.

maximum 50 per cent from upped 355 per cent. Capital goods imports attract nearly zero tariffs. In all the South Asian countries convertibility in current account has been introduced. Some components of liberalisation programmes have progressed more rapidly in some countries than others²³. However, the basic composition of the adjustment programmes in different South Asian countries has been quite similar to each other (see Table 3.3) and similar to adjustment programmes introduced elsewhere in Asia, Africa and Latin America during 1970s and 1980s. As late comers in adjustment programmes, the South Asian countries have the advantage of hindsight.

Incomplete liberalisation: Although major reforms were undertaken in South Asia in the last one decade, the region can be termed as a case of incomplete liberalisation partly due to interest groups and political instability. Sri Lanka by mid-1990s has been one of the most open and market oriented economy among developing countries. But, in rest of South Asia, many liberalisation programmes have yet to be undertaken in both external and internal sectors. For example, in the case of external sector, tariffs are still high and there are many quantitative restrictions on exports and imports. In the domestic sector, reforms have been slow in public sector, financial sector, capital markets and small scale sector. Institutional reforms are also slow. As shown in the Table 3.3, the labour market reforms have been very slow in South Asia. Reforms aimed directly at the labour regime have been neither fully articulated nor always carried out.

²³ For a review of economic liberalization in South Asia see Shand (1999).

Table 3.2: Introduction and progress of economic liberalisation in South Asia

Bangladesh	India	Nepal	Pakistan	Sri Lanka
Under Extended Fund Facility (EFF) the reforms started in 1980 at the sectoral level.	Some partial domestic reforms were introduced in the mid-1980s particularly in industrial sector.	A series of macroeconomic policy changes and economic reforms started in the mid-1980s under Enhanced Structural Adjustment Facility (ESAF) of the World Bank/IMF.	Adjustment in Pakistan commenced in 1980 with the approval of US \$ 50 million World Bank structural adjustment loan.	In 1977, Sri Lanka made its transition from an inward-looking system to a more liberalised, open and outward-oriented policy regime.
Three year loan during 1986-87 was given under structural adjustment facility (SAF).	Major reforms started only in July, 1991.	The process of globalisation and economic liberalisation was, however, initiated by the first elected government after 1991.	During 1980-1985 some measures were undertaken regarding agricultural, industry and trade policies.	The reforms were introduced successfully during 1977-82.
The country followed structural adjustment guidelines strictly in 1989/90.			There was a gap in the reform process during mid-1980s.	From 1982-83 to 1989, the adjustment process came to a halt due to political difficulties and ethnic war.
More open and market based economy measures started in early 1990s			Again, the reforms started intensively during 1988-89 to 1993-94.	The second wave of reforms started during 1989-94.

Sources: Ahmad (1999) for Bangladesh; Economic Survey, 1992-93, for India; Guru-Gharana, K.K. (1996) for Nepal; McGillivray and White (1999) for Pakistan; Lakshman (1996) for Sri Lanka.

3.2 Methodology for Assessment of the Impact of Liberalisation

Researchers use different methodologies for evaluating the impact of economic liberalisation on variables like growth, poverty and employment. There are generally two approaches that are followed. The first method is the use of model-based (e.g. computable

general equilibrium) counterfactual simulations that attempt to contrast actual outcomes under alternative adjustment scenarios. In order to determine the effects of the liberalisation, it is necessary to identify what would have happened without the intervention. In this context, these models would be useful. The second one that is more popular is 'before' and 'after' approach. We will be using this approach in the present study. It may be noted that the terms 'before' and 'after' are not strictly correct because liberalisation are still continuing.

The problem with 'before' and 'after' approach is that it is difficult to disentangle the effects of long term strategies and autonomous factors from the effects of short and medium term liberalisation policies. The schematic presentation of different factors effecting employment and labour incomes (modified version from Mundle and Tulasidhar, 1998) is given in fig.3.1. Liberalisation strategies relating labour market, fiscal, monetary, trade policies have impact on employment and labour incomes. The governments also have long term strategies relating to these policies. Similarly, autonomous factors like external developments, droughts and floods, demographic factors etc. may affect the outcomes independent of the policies.

These limitations have to be kept in mind while interpreting the numbers based on 'before' and 'after' approach²⁴.

It would be useful to look at the impact of various types of liberalisation programmes on employment. For example, one can distinguish impacts between external liberalisation and internal liberalisation. It is difficult to see the impact of each programme on employment in before and after approach. But in the case of the role of external liberalisation, one can look at the changes in exports and imports after liberalisation. If the exports and imports growth is significant, one can say that external liberalisation can have impact on employment and labour incomes depending on the labour intensity of the external sector. If the trade share is low and growth of exports and imports are low, external liberalisation may not have much impact on employment. In other words, much of the impact on employment would be due to domestic liberalisation policies.

Data Base: Empirical evidence is presented for the major countries of South Asia. We concentrated on India for some of the detailed evidence. The data sources for the study are national government reports, World Bank and ILO publications and some micro survey data. It may be noted that the life span of economic liberalisation for countries like India has been too short to be able to draw firm conclusions about the impact of economic liberalisation. Also there is a time lag in publishing the data in many developing countries²⁵. This has to be kept in mind while interpreting the empirical evidence in our study.

²⁴ World Bank (1993) on East Asian Miracle says "Thus, in attempting to distinguish interventions that contributed to growth from those that were either growth-neutral or harmful to growth, we cannot offer a rigorous counterfactual scenario. Instead, we have to be content with what Keynes called an "essay in persuasion" based on analytical and empirical judgements (quoted in Thorbecke, 1999).

²⁵ For example, the latest readily available national sample survey data on employment and unemployment for India relates to the year 1993-94.

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Table 3.3: Economic Liberalisation policies in Major South Asian countries

I. Macroeconomic and Sector Reforms	Bangladesh	India	Nepal	Pakistan	Sri Lanka
A. Fiscal Reforms and Public Resource Management	VAT introduced in July 1991 Personal income tax rate reduced in 1993/1994	Personal income taxation, maximum marginal rate reduced to 30% Excise duties being simplified.	VAT being introduced in phased manner Octrol to be abolished. Introduced a system of 3-year rolling plan	Coverage of general sales tax expanded Provinces initiating measures to implement agriculture income tax	VAT introduced in 1994 Defense levy of 3% introduced in 1992 Introduced 5-year rolling plan in the 1980s
B. Financial Sector	Significant deregulation of interest rates Securities Exchange Commission established in 1993 Loan provisioning system introduced Several new private and foreign banks allowed NCBs partially recapitalised.	Gradual deregulation of interest rates and reduction of directed credit to priority sectors. Private sector banks being allowed to expand and new private banks are being established Liberalised Insurance sector	Open market operations have been introduced Four new private banks established Several new nonbank financial institutions (such as leasing and finance companies) established	Open market operations have been introduced Of the five state-owned banks, two have been privatised and two others earmarked for privatisation	Several financial institutions privatised Since 1991, foreign banks allowed to establish branches outside Colombo. Securities Council strengthened Credit Information Bureau established

Economic Liberalisation and Employment in South Asia

Table 3.3 (continued): Economic Liberalisation policies in Major South Asian countries – Part II

I. Macroeconomic and Sector Reforms	Bangladesh	India	Nepal	Pakistan	Sri Lanka
C. Trade	<p>System of export incentives deepened</p> <p>Tax exemption on import of capital machinery for 100% export-oriented industries</p> <p>Quantitative restrictions on imports liberalised considerably</p> <p>Level and structure of tariff rates improved</p>	<p>Import licensing system for a wide range of industrial inputs and capital goods scrapped (Feb/Mar 1992).</p> <p>Quantitative restrictions on imports of non-consumer goods have been lifted</p> <p>Tariffs reduced in stages: maximum rate reduced from 400% in 1990/1991 to 65% in 1994 to 50% in 1995, and to 40% in 1997-98</p>	<p>System of export incentives strengthened through concessional tariff treatment of imported inputs and freight subsidy</p> <p>Import licensing system abolished for most raw materials and imported input</p> <p>Tariffs reduced in stages: presently range is from 5-100% and 8 sub-rates.</p>	<p>System of export incentives strengthened through concessional tariff treatment of imported inputs and freight subsidy</p> <p>Import licensing system liberalised by reducing negative list</p> <p>Tariffs reduced in stages: from 225% in 1988 to 70% in 1994</p>	<p>Import licensing system liberalised: Export taxes eliminated</p> <p>Foreign exchange surrender system lifted in March 1993</p> <p>Import surcharge abolished in 1991</p> <p>Since 1991 import tariffs regrouped into a new fourband structure and rates reduced progressively since 1997</p>

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Table 3.3 (continued): Economic Liberalisation policies in Major South Asian countries – Part III

I. Macroeconomic and Sector Reforms	Bangladesh	India	Nepal	Pakistan	Sri Lanka
D. Exchange Rate	<p>Dual exchange rate system abolished in 1992</p> <p>The taka is freely convertible for current account transactions</p>	<p>Exchange rate of the rupee is basically market-determined</p> <p>Rupee is freely convertible for current account transactions</p>	<p>Exchange rate of the rupee is basically market-determined</p> <p>Rupee is freely convertible for current account transactions</p>	<p>Exchange rate of the rupee is basically market-determined</p> <p>Rupee is freely convertible for current account transactions (since July 1994)</p>	<p>Exchange rate of the rupee is basically market-determined</p> <p>Rupee is freely convertible for current account transactions</p>
E. Agriculture Sector and Land Issues	<p>Significant deregulation of inputs have occurred</p> <p>Subsidies have been eliminated</p> <p>Some actions taken in land reforms during the mid-80s</p>	<p>Slow: Massive subsidies for water, electricity and fertiliser remain</p>	<p>Distribution of agricultural inputs liberalised</p>	<p>Slow: Awami Tractor Scheme introduced</p> <p>Farm development package introduced to encourage crop diversification</p>	<p>Privatised management of tea plantations</p>

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Table 3.3 (continued): Economic Liberalisation policies in Major South Asian countries – Part IV

I. Macroeconomic and Sector Reforms	Bangladesh	India	Nepal	Pakistan	Sri Lanka
F . Industrial Policy and Public Enterprise & Infrastructure	<p>Industrial licensing system abolished</p> <p>Significantly liberalised foreign investment regulations</p> <p>Incentive scheme upgraded</p> <p>Institutional reforms including restructuring and privatisation have been slow</p>	<p>Industrial licenses abolished for all except 14 industries</p> <p>Restrictions on expansion of large business houses abolished</p> <p>Significantly liberalised foreign investment regulations</p> <p>Five-year tax holiday for foreign investment in power generation, port, airlines and telecom</p> <p>Liberalisation in the power and telecommunications sector</p> <p>A new policy announced in 1991, but institutional reforms including restructuring and privatisation of public enterprises has been slow.</p>	<p>Industrial licenses abolished for all except those in defense, health, and environment</p> <p>Significantly liberalised foreign investment regulations: 100% ownership permitted in medium and large-scale industries and “one window” established.</p> <p>Privatisation Act is in place and several industries including airline industry have been privatised; restructuring policies have been slow</p>	<p>Board of Investment established to reduce the multiplicity of institutions involved in investment decisions</p> <p>Significantly liberalised foreign investment for power generation</p> <p>New privatisation policy approved in February 1994; restructuring policies have been slow</p>	<p>New liberal guidelines for foreign investment announced in 1991</p> <p>Third investment promotion zone established in 1991</p> <p>Over 30 state-owned enterprises have been privatised</p>

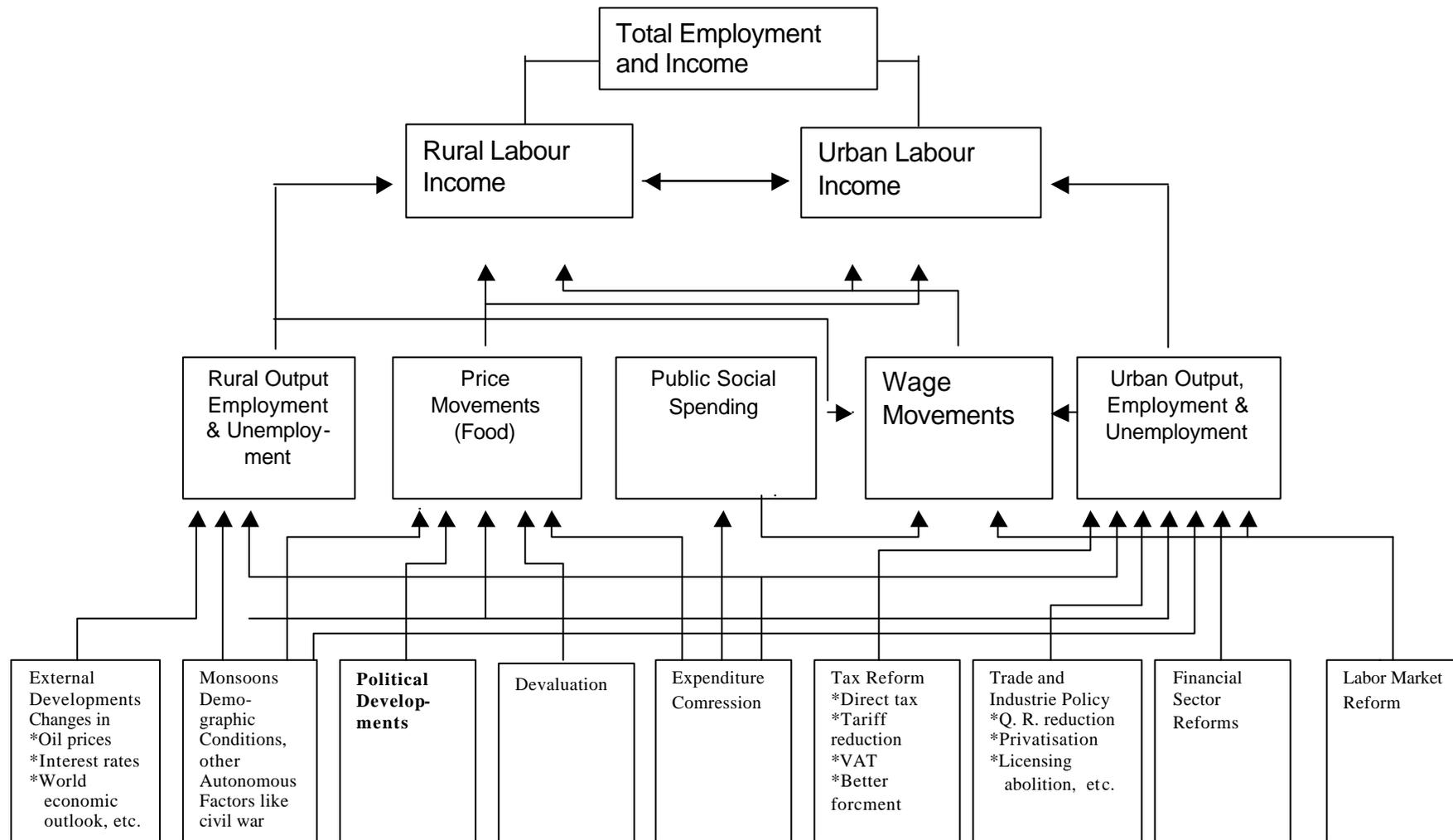
Economic Liberalisation and Employment in South Asia

Table 3.3 (continued): Economic Liberalisation policies in Major South Asian countries – Part V

I. Macroeconomic and Sector Reforms	Bangladesh	India	Nepal	Pakistan	Sri Lanka
G. Public Administration	Slow: Various studies and reports prepared but little action	Slow	Slow: Several thousand civil servants retrenched	Slow	Serious efforts being made to reduce size of bureaucracy
H. Labour Market	Slow	Slow: Industrial Disputes Act and Companies Act are being revised National Renewal Fund for training and redeploying workers established	Slow	Slow	Slow

Economic Liberalisation and Employment in South Asia

Figure 3.1: Determinants of Employment and Labour Income



Source: Modified version from Mundle and Tulsidhar, 1998.

3.3 Impact on Economic Growth

Has the liberalisation improved the growth performance in South Asia? The annual growth rates of GDP for South Asian countries are given in Table 3.3. The following conclusions can be drawn from the table.

- In the case of Bangladesh, liberalisation started in a significant way around 1989-90. The growth rates seemed to be higher in the country after liberation. Also Fig.3.2. shows the growth rate has been more stable than earlier.
- The data for India shows that except for 1991-92, the growth rate has been above 5 per cent. In other words, the growth after liberalisation showed higher trend as compared to 1980s if we ignore initial one or two years(Fig.3.2). The growth rates in late 1990s were affected by the East Asian crisis.
- In Nepal, although liberalisation started in mid-80s, significant reforms were undertaken only in the 1990s. The average growth rate seemed to be higher in the post-reform period with lot of fluctuations in both periods (Fig.3.3 and Table 3.4).
- Pakistan's liberalisation programmes started in the early 1980s. Reforms in a big way started only in the late 1980s. Pakistan recorded high growth rates in 1970s and 1980s. The growth rates since the late 1980s seem to be lower than earlier periods (Fig.3.3 and Table 3.4).
- Sri Lanka's second wave of reforms started in 1989. The growth rates since 1990 were higher than earlier periods (Fig.3.3 and Table 3.4).

The average annual growth rates presented in Table 3.5 show that the growth rates of GDP seem to be on higher side after liberalisation in South Asian countries except in Pakistan.

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Table 3.4: Annual growth rates of GDP: Countries in South Asia

Year	Bangladesh	India	Nepal	Pakistan	Sri Lanka
1981	3.40	6.09	8.34	5.42	5.55
1982	1.22	3.10	3.78	7.59	5.18
1983	4.90	8.18	-2.98	6.79	4.75
1984	5.42	3.84	9.68	3.97	5.05
1985	3.02	4.08	6.10	8.72	5.02
1986	4.33	4.28	4.70	6.34	4.27
1987	4.18	4.32	1.62	5.82	1.62
1988	2.89	10.65	6.98	6.43	2.78
1989	2.52	6.90	5.18	4.80	1.61
1990	6.63	5.36	4.47	4.61	6.20
1991	3.86	0.86	6.43	5.56	4.82
1992	4.23	5.28	4.57	7.71	4.38
1993	4.48	6.16	3.14	2.27	6.92
1994	4.21	7.76	7.72	4.45	8.84
1995	4.44	7.15	2.63	5.24	5.53
1996	5.36	7.50	5.28	4.59	3.76
1997	5.88	5.05	3.61	3.06	6.43

Source: Computed by the author based on ADB (1998).

Table 3.5: Average annual growth rates of GDP: Countries in South Asia

Countries	Growth Rates of GDP		Growth Rates of GDP	
	1976-86	1987-97	1980-90	1990-97
Bangladesh	5.0	4.8	4.3	4.7
India	4.4	5.7	5.8	6.0
Nepal	3.4	5.1	4.6	5.1
Pakistan	6.8	4.7	6.3	4.2
Sri Lanka	5.3	5.0	4.0	5.3

Source: World Bank's World Development Indicators, 1999.

Figure 3.2: GDP Growth Rates

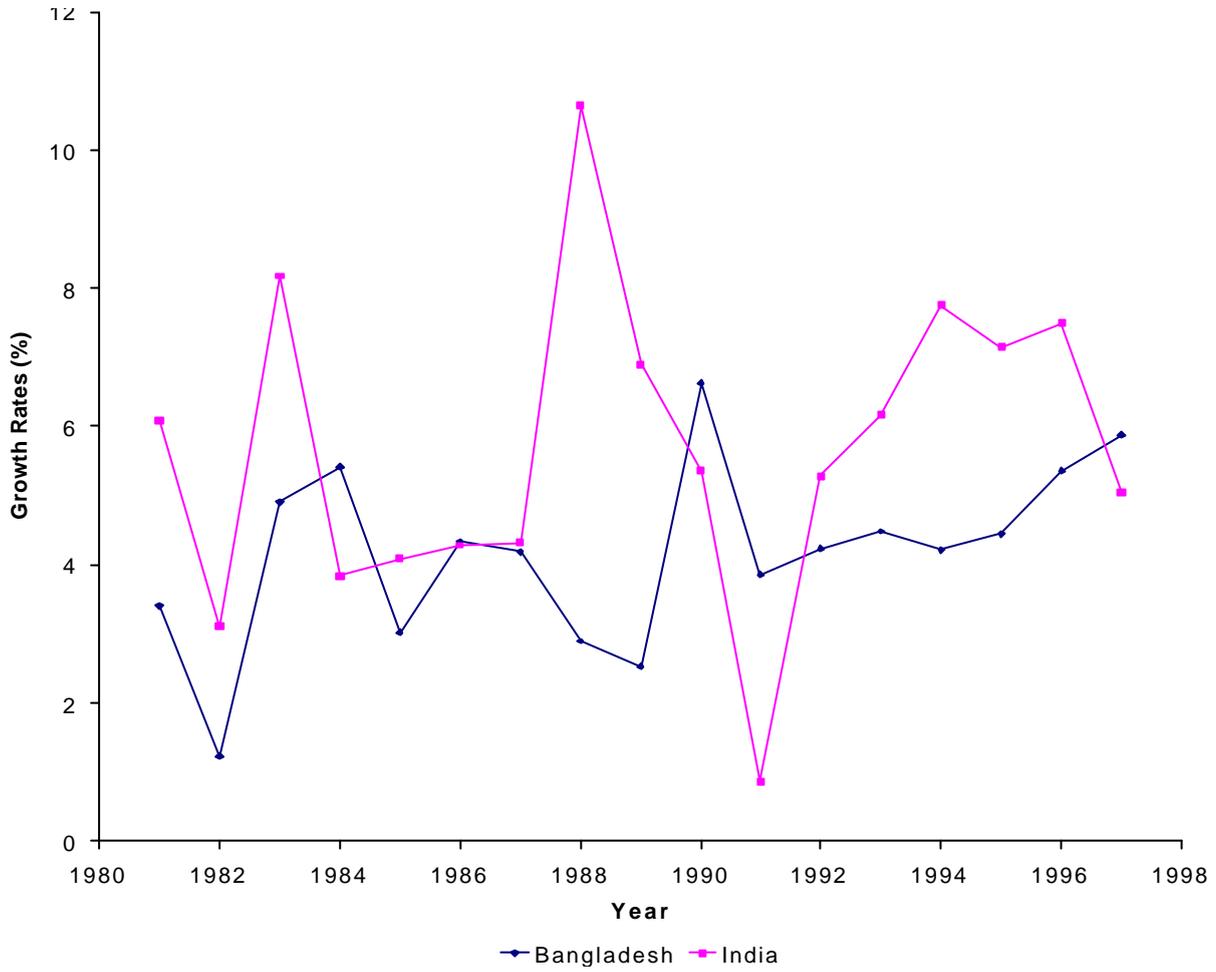
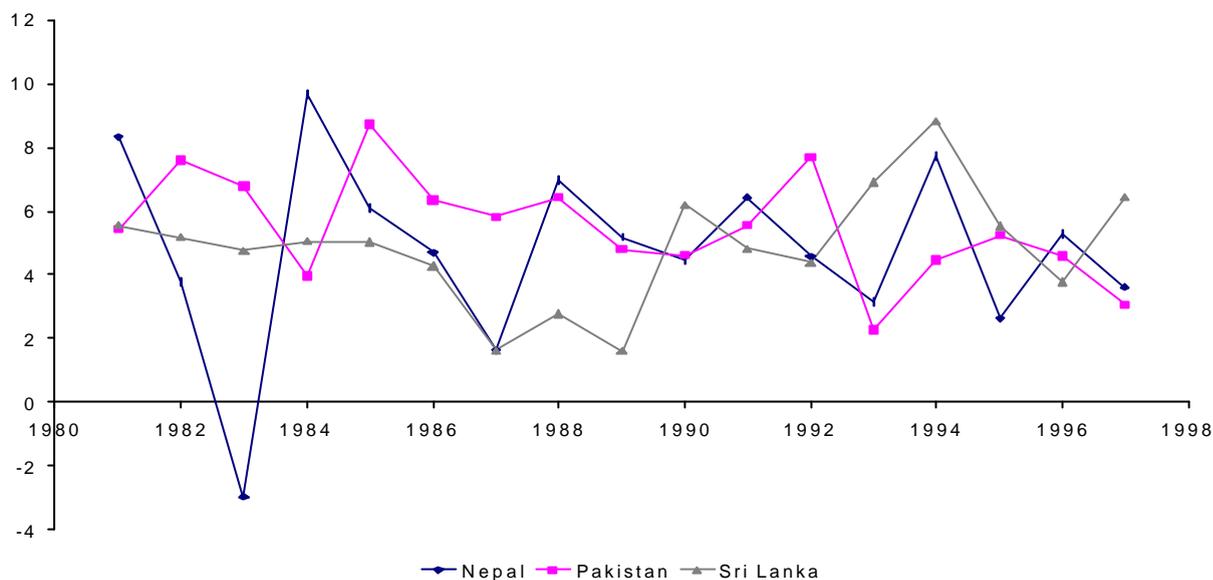


Figure 3.3: GDP growth



3.4 Impact on External Sector: Exports and Imports

The external liberalisation seems to have significant impact on the imports and exports of South Asian countries. As Table 3.6 shows that Index of exports (with 1985=100) increased to 286 in 1997. Similar expansion can be seen in Nepal, India and Sri Lanka. The expansion of imports have been lower than that for exports. In all the countries, however, the index of imports increased except in Pakistan.

Table 3.6: Index of exports and imports: 1997 (1985=100)

Countries	Index of Exports	Index of Imports
Bangladesh	286	164
India	171	119
Nepal	228	188
Pakistan	137	83
Sri Lanka	155	112

Source: Human Development Report, 1999

It may be noted that the base is low for trade (21 per cent of GDP) in South Asia as compared to Sub-Saharan Africa and Latin America (Table 3.7). However, the expansion of exports and imports seems to be higher in South Asia as compared to other regions. Trade as a

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percentage of GDP increased from 2.1 per cent in 1980 to 30 per cent in 1996 in South Asia while in Sub-Saharan Africa, the corresponding percentage declined.

Thus, external liberalisation and the trade impact on employment and labour income is not insignificant in South Asia.

Table 3.7: Exports and trade as per cent of GDP

Countries/Regions	Exports of Goods and Services As per cent of GDP		Trade as per cent of GDP	
	1980	1997	1980	1996
Bangladesh	6	16	24	38
India	7	12	17	27
Nepal	12	24	30	60
Pakistan	12	17	37	37
Sri Lanka	32	33	87	79
South Asia	8	13	21	30
Sub-Saharan Africa	30	28	59	56
Latin America	15	17	32	33
World	19	21	39	43

Source: World Development Report, 1998-99.

3.5 Impact on Economic Growth and Distribution: CGE models for India

It is well recognised that computable general equilibrium (CGE) models could help in considering the right type of counter-factual experiments in this context so that effects of specific policies (e.g. trade reform) could be isolated from those of others (e.g. fiscal policies or even exogenous factors). The effects of trade liberalisation on growth and distribution have been analysed through CGE models built for India by Panda and Quizon (1996) and Parikh et. al (1997)²⁶. A summary of the main results from these two studies is given below.

- In the short run, trade liberalisation adversely affects both growth and equity. In the medium and long run, it helps to accelerate growth by more efficient allocation of resources across sectors as per new relative prices and in the process help to reduce poverty. These counterfactual results are consistent with India's actual experiences.

²⁶ The two models mentioned above fall into the category of neoclassical tradition.

- The impact of increase in investment is much stronger than that of increases in allocative efficiency. This implies that investment goods liberalisation has a greater impact on growth, even agricultural growth, than agricultural liberalisation.
- The results show that non-agricultural trade liberalisation is even more important for agriculture than even agricultural trade liberalisation, both of which help accelerate growth.
- Manufacturing trade liberalisation benefits all the classes, rural as well as urban. Removal of industrial protection helps the rural classes due to two factors: (a) terms of trade movement in favour of agriculture and (b) receipt of non-agricultural income by rural households. Agricultural trade liberalisation benefits all rural classes. But, it hurts the urban poor because of food price rise without any income benefit to them. Within the rural sector, the rich gain proportionately more than the poor implying adverse distribution effects.
- Liberalisation of rice sector, on the other hand, increases rice exports and in turn rice prices, which hurts the welfare of all sections of the population except the rural rich. A tax on rice exports helps both growth and equity in India. This is because, given the thin world rice market, India becomes a major player in world rice trade and normal small country assumption does not hold.
- The welfare of the poor, when adversely affected, could be protected by proper safety net mechanisms, say in the form of additional public employment programmes for the poor. Thus, trade liberalisation coupled with proper safety net could lead to a Pareto optimal situation where all the income classes gain over the pre-liberalisation situation.

These results show that the urban poor could be worse off and the rural poor gain less than rural rich could. It is known that many of the urban and rural poor are self-employed and wage employed workers.

In one of the above models (Panda and Quizon, 1996), labour market is included but estimates are not given because their purpose was to examine different expenditure classes. Also this is short run model and capital is fixed. As a result, changes in the share of labour income are not estimated. One has to, however, keep in mind that CGE model conclusions depend on particular assumptions and the parameters of the models pre-date the liberalisation model.

3.6 Impact on Employment

As mentioned above, the consequence of economic liberalisation on employment is a hotly debated issue in South Asia. What is the empirical evidence on the overall growth of

employment? The data in Table 3.8. shows that the growth rate of employment has not declined for India in the 1990s while Sri Lanka showed very high growth in the 1990s. On the other hand, in Pakistan, the trend of decline in growth of employment continued even in the 1990s. The Table also shows that the growth rate of labour force for South Asia region is around 2 per cent in the last two decades.

Table 3.8: Growth of labour force and total employment

Countries	Growth Rates of Labour Force (in %)			Growth Rates of Total Employment (in %)		
	1975-80	1981-85	1986-93	1975-80	1981-85	1986-93
Bangladesh	2.19	2.79	2.99	--	--	--
India	1.73	2.02	1.92	2.36	1.77	2.37
Pakistan	2.97	3.24	2.66	3.32	2.07	1.93
Sri Lanka	2.72	1.64	1.51	1.65	-4.84	12.08
South Asia	1.91	2.18	2.05	--	--	--

Source: ILO (1996); Employment growth rates for India are taken from National Sample Survey data on employment and unemployment for the years 1977-78, 1983, 1987-88 and 1993-94.

3.6.1. Formal and Informal (Unorganised) Sectors

Most of workers in South Asia are in informal or unorganised sectors. The distinction between the formal and the informal sector workforce has important implications for the quality of employment. Table 3.9 gives data for India. Around 90 per cent of the workers are in informal sector. It is clear that both in the aggregates as well as in virtually all sectors, the share of the informal sector has either remained the same or has in fact increased.

The data for India shows that the employment growth for organised sector has declined over time. While the long-term growth of organised sector employment has been around 2 per cent per annum, it has declined from 2.42 per cent during 1978-83 to 1.36 per cent during 1983-87 and to 1.05 per cent during 1988-94. Employment growth in the unorganised sector during 1988-94 has not only been well above that during 1983-88, it has also been able to reverse the declining trend observed during the three quinquennia spanning the period 1973-78. Thus our hypothesis of shifting workers from formal to informal sector in the initial years of liberalisation seems to be correct empirically.

Table 3.9: Share of the informal (unorganised) segment in the workforce: India (percentage)

Sector	1972-73	1987-88	1993-94
Ag. allied activities	99.3	99.3	99.4
Mining quarrying	21.8	54.7	59.0
Manufacturing incl. Repair services	72.8	81.1	82.1
Electricity, gas and water	Nil	Nil	Nil
Construction	73.0	90.0	89.9
Trade, hotel & restaurants	73.2	80.2	89.6
Transport, storage & communication	36.5	62.8	71.1
Other services	61.1	58.0	66.1
<i>Total</i>	<i>90.5</i>	<i>90.1</i>	<i>91.1</i>

Source: Tendulkar and Sundaram (1995).

Table 3.10 presents the annual growth rates of employment in the organised public and private sector during 1991 to 1996 for India. It can be observed from the table that the private sector contributed predominantly to the increase in the organised sector employment in the reform period except in the year 1993²⁷. On the other hand there has been a deceleration in the growth of public sector employment. The growth rate of public sector employment during 1983 to 1987-88 was around 2.17 per cent while in the 1990s, it was less than one per cent.

Table 3.10: Growth rates of employment in organised sector (percentage): India

Year	Public Sector	Private Sector
1991	1.52	1.24
1992	0.80	2.21
1993	0.60	0.06
1994	0.62	1.01
1995	0.11	1.63
1996	-0.19	5.62
1997	0.67	2.04

Source: Planning Commission, Government of India.

²⁷ The share of private sector in total gross capital formation has increased from around 20 per cent in 1990-91 to 37.6 per cent in 1996-97. During the same time, the share of public sector declined from 38 to 27 per cent.

3.6.2. Agriculture

The share of employment in agriculture is very high in South Asian countries. Labour absorption in agriculture in South Asia was quite high in the 1960s and 1970s when the green revolution was at its peak. Since the late 1970s, the capacity of agriculture as labour absorber has declined. For example, the elasticity of employment in agriculture in India has declined from around 0.7 in the 1960s to around 0.3 in the early 1980s. Same trends can be seen in Pakistan and Bangladesh.

There has been significant increase in the share of non-agricultural employment in rural areas in South Asian countries since the 1970s. In India, the share of rural non-farm employment in total rural employment increased from 14 per cent in 1972-73 to 22 per cent in 1993-94. After liberalisation, the growth of rural non-farm employment has declined. According to Bhalla (1998) 'structural retrogression correctly describes the character of changes in the sectoral distribution of the rural workforce in India in the post 1991 era' (p.30). In other words, according to her, workers have shifted from non-agriculture to agriculture in rural areas in the post-reform period. Sen (1998) argues that the growth in non-agricultural employment during the 1980s was mainly due to public expenditure and the decline in public expenditure during reform period was responsible for the decline in the growth of rural non-farm employment. Our estimates show that there was no absolute decline but only the rate of growth declined for rural non-farm employment.

Turning to agriculture, the pre reform regime has been characterised as biased against agriculture, due to heavy protection to industrial goods, an over valued exchange rate and rigid controls on export, movement and price (through levies) of agricultural goods. Hence even though the structural adjustment that followed in the wake of economic reforms, concentrated on industrial delicensing and liberalising the foreign exchange regime, it did improve the terms of trade in favour of agriculture from 81% to almost 99% in terms of the 1970-71 levels.

This increasingly favourable terms of trade for agriculture is supposed to attract private investment into agriculture, thereby leading to growth in output and demand for rural labour. In a simple neo-classical framework, since agriculture is more labour intensive, a rise in the relative price of its output (i.e., food) leads to an increase in real wages and investment into agriculture. There is a strong evidence of growth in private sector investment in agriculture especially since the late 1980's²⁸. Whether this increase in private investment alone can lead to a sustained growth in agriculture remains to be seen. This is especially so in light of the complementarity between public and private investment, as manifested by the state of rural infrastructure, public

²⁸ However this private investment was rising even before the reforms were initiated. And more importantly, the growth rate of output is lower in the post reform period than the pre reform period. See V. N. Misra (1998) for details. Also the increase in private investment in recent years might be attributed only partly to liberalization and more to the growth in tubewell irrigation in the eastern region.

irrigation, roads and power. Thus even though the terms of trade are becoming favourable, and that the “prices are right”, unless the non-price factors also become favourable, it may be too early to see impact on growth.

The Indian evidence clearly shows that the growth of foodgrains production in the post-reform period has been lower than those for earlier periods despite successive good monsoons for the last ten years. It is true that the area under coarse cereals and pulses has been shifted to oilseeds. But, the yields of rice and wheat have been more or less stagnant.

The compound growth rate of the all crops index in the post-reform period (1991-92 to 1995-96) was 1.71 per cent per annum which is much lower than pre-reform period growth rates (Misra, 1998)²⁹. Thus despite improvements in the terms of trade for agriculture, the performance of agriculture has been poor in the post-reform period. It shows that non-price factors are more important for stepping up growth. This would have impact on employment and wages.

3.6.3. Industry and Manufacturing Sector

Most of the countries in South Asia have followed import-substitution industrialisation strategy till the mid.1980s. The liberalisation programmes aimed at removing protection to industrial sector and increase the manufacturing exports. The liberal economic environment is expected to lead higher growth in GDP and in employment.

The experience of developing countries in the 1980s given in Table 3.11 shows that growth rates of manufacturing GDP and manufacturing employment are correlated in the case of East Asia, Sub-Saharan Africa and Latin America. East Asia showed high growth in GDP manufacturing and employment while the latter two regions had low growth in both GDP manufacturing and employment. In the case of South Asia, however, we see a different trend i.e. higher GDP growth in manufacturing is accompanied by low employment growth. In other words, South Asia had a phenomenon of ‘Job less growth’ in manufacturing. As shown in Fig. 3.4, this phenomenon can be seen even if we take total GDP growth and manufacturing employment. In the 1990s, however, some countries showed higher growth in manufacturing employment as shown below.

²⁹ Also see Rao, C.H.H. (1998).

Table 3.11: Growth in GDP and manufacturing jobs (percentage): 1981-90

Regions	GDP Growth in Manufacturing	Growth in Manufacturing Jobs
East and South-East Asia	9.3	6.2
South Asia	7.0	1.0
Latin American & Caribbean	1.2	-0.1
Sub-Saharan Africa	0.8	-0.5

Source: Col.1 World Bank's World Development Indicators and Col.2 ILO (1995).

The manufacturing sector is dualistic in South Asia. Although formal sector's share in total manufacturing sector's output is 70 to 80 per cent, it generates only around 20 per cent of employment in the total. In other words, around 80 per cent of the employment is generated by the informal sector comprising small scale industries and others.

In spite of its lower share, the debate on liberalisation is generally concentrated on formal sector. The reason why the rate of growth of modern sector jobs is crucial is because these are 'good Jobs' in the context of a typical developing country. They represent regular employment with wages, which are often significantly higher than earnings from alternative employment in agriculture or the urban informal sector (ILO, 1995).

Growth of Employment in Manufacturing Sector in India: Table 3.12 provides employment growth in manufacturing sector. There has been a marked deceleration in employment growth for the aggregate-manufacturing sector over time. In the case of organised manufacturing, the growth rate declined significantly till 1988 but picked up during 1988-94. On the other hand, there has been a continuous decline for unorganised manufacturing and SSI (Small-scale industries) sector. The growth rate for these sectors during 1988-94 was lower than that for earlier periods. It may be noted that the growth of employment in small scale sector is still higher than organised manufacturing.

Table 3.12: Growth rates in manufacturing employment: India, 1973 to 1994

	1973-78	1978-83	1983-88	1988-94
Total manufacturing	5.83	3.23	3.00	1.34
Organised manufacturing	4.88	1.86	-0.45	2.31
Unorganised manufacturing	6.16	3.69	3.97	1.08
Small Scale Industrial Sector	7.99	7.90	6.26	4.51

Source: Goldar (1998).

Recent data for India shows that there has been a significant growth in employment in organised (formal) manufacturing sector (Table 3.13). The following conclusions can be drawn from the figure and Table 3.13³⁰.

- The growth rate declined from 1.4 per cent during 1973-80 to –0.6 during 1980-89.
- The negative growth rate in the 1980s is misleading as the figure shows there were only four years during 1983-84 and 1987-88 when employment fell in absolute figures. After negative growth in the mid-80s, employment showed a steady increase and the absolute levels are higher in the 1990s.
- The employment growth was quite high in the post-liberalisation period reaching around 4 per cent if we consider the period 1986-87 to 1995-96. The growth in 1995-96 was quite high and was associated with high industrial growth of 13 per cent in that year.
- Growth in employment was not affected by negative growth in output during 1992-94. The employment growth reflects the rise in fixed capital formation after the reforms.
- Contrary to much apprehensions, liberalisation programmes introduced in 1991 have not affected adversely if we look at the aggregate level.

³⁰ The discussion of employment growth in manufacturing sector is based on Nagaraj (1999) and personal communications with him.

Table 3.13: Growth rates of registered manufacturing sector: India, 1973-74 to 1995-96

Years	Growth Rate (percent)
1973-74 to 1979-80	1.4
1980-81 to 1988-89	-0.6
1973-74 to 1982-83	3.4
1986-87 to 1994-95	2.1
1986-87 to 1995-96	4.0

Source: Nagaraj (1994, 1999).

The aggregate picture probably hides the situation across industries and provinces. We need to examine the trends at a disaggregate micro level. A recent study by Howell and Kambhampati (1999) examines the impact of liberalisation on labour in cotton textile mills of Ahmedabad, Gujarat State of India³¹. The industry comprises composite mills (integrating spinning, weaving and finishing operations), powerlooms and handlooms. The composite mills use the most advanced technology with organised labour while powerlooms and handlooms have small scale nature. With their small scale of production, poorer wages and working conditions and lower tax payments, the powerlooms gave competition to composite mills. Because of competition, many composite mills in India were closed even before liberalisation. This phenomenon got accentuated after liberalisation. Between 1994 and 1996, 52 out of 63 composite mills in Ahmedabad were closed that is 82 per cent of all mills. The closure led to an 80% decline in the workforce, from around 125 thousands to 25 thousands. In those mills, which withstood competition, the demand for skilled workers increased.

According to their field survey of 50 mill workers who had been retrenched for over one year, 32 that are 64 per cent reported being economically active. Out of these 25 (50%) reported doing casual work, nine of these for no more than a few days a month and seven (14%) were self-employed. This shift from formal to informal sector led to decline in their wages and welfare. As shown in Table 3.14, average wages in powerlooms were much lower than those for composite mills.

³¹ The following discussion on cotton textiles is based on Howell and Kambhampati (1999).

Table 3.14: Average wages in mills and powerlooms (1996): Ahmedabad, Indian city

Wages	Composite Mills	Powerlooms
Mean daily wage (Rs.)	96.07	48.33
Mean daily wage (Rs.)	95.00	44.38
Range of daily wages	50-175	15-112.50

Source: Results from Field Survey in Ahmedabad, Howell and Kambhampati (1999).

Thus, micro level realities can be different from the picture at the aggregate level. A study for Gujarat state of India shows that the average annual compound growth rate of employment in the organised sector in Gujarat has fallen from 1.34 per cent in 1985-90 to 0.92 in 1990-94 (Iyengar, 1996).

3.7 Unemployment and Quality of Employment

What happened to the unemployment rates in South Asia after liberalisation? The data for the late 1980s and 1990s given in Table 3.15 shows that unemployment declined in India and Sri Lanka while it increased in Bangladesh, Nepal and Pakistan.

Table 3.15: Unemployment in South Asian countries (percentage)

Country	1987 ^a	1996 ^b
Bangladesh	1.2	2.5
India	3.4	2.3
Nepal	3.0	5.0
Pakistan	3.1	5.4
Sri Lanka	14.1	11.3

Source: ILO (1998) for India, Pakistan and Sri Lanka; National Human Development Report, 1998 for Nepal.

^aBangladesh (1989) India (1987-88), Nepal (1984-85), Sri Lanka (1991). ^bIndia (1993-94), Pakistan (1995).

It may be noted, however, unemployment rates are not very high in South Asian countries except in Sri Lanka. The problem is mainly underemployment and educated unemployment.

Another point to be noted is that although overall unemployment rates are low in South Asia, the educated unemployment is quite high. In India, although overall chronic unemployment rate is around 2 per cent, the educated unemployment is about 15 per cent. However, the educated unemployment has been declining over time and there was no sign of increase after liberalisation.

3.7.1. The Problem of "Working Poor" in India

In India, unemployment per se is not the main problem. Many people are working in unorganised sector, which is characterised by low earnings, poor working conditions and lack of social security protection. Our estimates given in Table 3.16 reveal that incidence of poverty is the highest for casual labour in both rural and urban areas. In 1993-94, around 50 per cent of the casual workers were below the poverty line with 49.4 per cent in rural areas and 57 per cent in urban areas. The incidence of poverty declined for all the categories of workers over the last decade (Table 3.16). However, the rate of decline in poverty ratios was the lowest for casual workers while it was highest for regular workers (see Fig.3.6 for urban areas). From these results, it can be interpreted that casualisation may be associated with immiserisation in the sense of low incomes.

Table 3.16: Incidence of poverty among Indian workers: 1983 to 1993-94 (percentage)

Worker Types	Rural			Urban		
	1983	1987-88	1993-94	1983	1987-88	1993-94
Self Employed	38.5	32.4	28.3	44.3	41.2	34.0
Regular Employed	32.7	26.5	17.5	26.9	24.5	18.3
Casual Labourers	59.3	52.0	49.4	62.9	63.9	57.0
Total Workers	44.8	38.4	35.2	40.8	38.4	32.0

Source: Estimated by the author based on National Sample Survey data.

Changes in the composition of Indian workforce: Major shift which is taking place in the structure of workforce, is an increase in the proportion of casual labour, relative to the self-employed and regular salaried wage workers. The most prominent feature of the Indian employment situation is that a large number of workers are either self employed or casual labourers. The regular salaried employees/wage labourers form only a small proportion of the total workforce, particularly in rural areas. Majority of the Indian workers is, however, self employed. But, the share of self employed workers has come down from 61.4 per cent in 1972-73 to 54.8 per cent in 1993-94. There has been a gradual increase in the proportion of casual labourers from 23.2 per cent to 32.0 per cent during the same period. The incremental workforce is getting absorbed largely as casual and self-employed in low productive sectors. This may not be a health trend for employment security.

Although unemployment has not increased significantly, there are some disturbing trends in the quality of employment such as slowing rate of growth in rural non-farm employment, the rising share of casualisation, especially sharp rise in the proportion of casual labour among the educated workforce, stagnant or declining share of organised or formal sector. Although some

of these trends were noticed in the pre-reform period, they got accentuated in the post-reform period.

3.7.2 Real Wages

Agriculture: The evidence on real wages for agricultural labourers in India shows that there was significant growth of real wages in the 1970s and 1980s. In the post-reform period it showed fluctuations as shown in Table 3.17. The growth rate of real wages in any case was less in the post-reform period as compared to those for 70s and 80s. One of the reasons for low growth in real wages could be the increase in food prices after liberalisation. The consumer price index for agricultural labourers increased by 50 per cent between 1991 and 1994. Part of the increase was due to increase in administered procurement prices by the government due to devaluation. But the rate of increase in procurement prices was higher than needed because of farm lobbies. One can not fully blame the reforms for increase in food prices. The Indian situation regarding agricultural wages seem to be more or less similar in other countries of South Asia.

Table 3.17: Annual percentage change in real wages for agricultural labourers in India in the post reform period

Year	Percentage Change over Previous Year
1991-92	-6.19
1992-93	5.21
1993-94	5.61
1994-95	-0.39
1995-96	0.72
1996-97	1.64

Source: Economic Survey: 1997-98.

Manufacturing: The available data shows that the real wages in manufacturing declined at the rate of -5.5 per cent for India and -5.7 per cent for Pakistan during 1989-93 (ILO, 1997). This could be due to low industrial growth, which in turn was due to stabilisation measures during this period. In Sri Lanka, the growth rate was -0.4 during 1990-96 period. It shows that real wages have not shown positive growth rates at least till the mid-90s. This is reflected in the decline in the share of wages in value added in manufacturing sector (Table 3.18).

Table 3.18: Share of wages in value added

Country	1975-80	1980-85	1985-92
India	48.2	49.0	45.2
Pakistan	23.5	19.6	19.9
Sri Lanka	29.5	23.8	17.2

Source: ILO, 1998.

3.8 Structure of Employment: Skilled and Unskilled Workers

The overall structure of employment shows that the share of formal sector where skilled workers are supposed to dominate has not grown after liberalisation. In the manufacturing sector, there seems to be a shift towards skilled workers in developing countries. As Table 3.19 shows the proportion of employment in 'high skilled' manufacturing industry has increased sharply in the fast growing East and Southeast Asian economies like Korea, Malaysia, Philippines, Singapore and Taiwan. The share of high skilled manufacturing has increased in India and Pakistan. But, in Bangladesh and to a lesser extent in Sri Lanka, there has been a shift away from 'high skilled' manufacturing industry. In these two countries, low skill sector like wearing apparel showed high rates of growth of employment during 1985-93 (Bangladesh 56.3 per cent, Sri Lanka 27.6 per cent).

Table 3.19: Employment in high skilled manufacturing industry as a percentage of total manufacturing employment

Country/Region	1980	1995 ^a
<u>South Asia</u>		
Bangladesh	15.6 ^b	9.6
India	30.0	34.6
Pakistan	22.4	23.2
Sri Lanka	10.1	9.8

^a Refers to 1995 or latest available in 1990s. ^b 1985

Note: The high skilled manufacturing sub-sectors are: Printing and publishing, industrial chemicals and other chemicals, fabricated metal products, machinery, non-electrical and electrical, transport equipment, professional and scientific equipment.

Source: World Employment Report 1998-99 (ILO, 1998).

Spread of information and communication technologies (ICTs) in several developing countries increased demand for skilled labour. India has achieved a dramatic expansion in the

export of software industry products. This success in developing comparative advantage appears to have been principally demand induced and not due to a recent change in factor endowment (ILO, 1998). The value of software exports increased from less than \$ 100 million in late 80s to more than \$1400 millions in 1997. The government support to this industry is also an important factor. However, as ILO report (1998) says 'it is doubtful if India's success in software exports would have been nearly as remarkable in the absence of economic reforms which removed the rigidities and controls that had stifled entrepreneurship in the past. Also, the initial abundance of highly skilled manpower would not have lasted long in the absence of a concerted effort to augment its supply.'(pp.128-129). There is also evidence of widespread within industry substitution of skilled labour for unskilled labour (ILO, 1998). However, industry-wise details are not readily available.

3.9 Wage Inequalities between Skilled and Unskilled Workers

Empirical studies in USA and a number of developing countries – especially those in Latin America – shows a trend of rising wage inequalities in the aftermath of liberalisation. The liberalisation appears to have disproportionately benefited skill workers in Latin American countries. The clearest evidence is provided in Chile, the most open economy in the region. There is also evidence of link between liberalisation and wage inequalities. Some evidence shows that wage differentials have increased in Indonesia and Malaysia. In Indonesia, wage gains have been highest for the group of workers holding diplomas and university degrees (6.2 per cent and 7.9 per cent) in contrast to a 3 per cent gain for those with secondary education over the period 1989-94 (ILO, 1998). Unfortunately, we do not have readily available estimates on wage inequalities for South Asian countries³². The trends in poverty and inequality give some idea on whether inequalities have increased after liberalisation.

Poverty Trends: India has reliable estimates on poverty based on quinquennial survey data from National Sample Surveys (NSS). For the 1980s and 1990s, they are available for the period 1983, 1987-88 and 1993-94. Four conclusions emerge from the assessment of India' poverty situation. These are as follows.

- Rural and urban poverty increased during the first two years of the reform period.
- The phenomenon of faster decline of poverty in the 1980s has been halted in the post-1991 period. If we compare 1987-88 and 1993-94, the rate of decline in poverty has been much slower as compared to that of the 1980s.

³² The wage differential between agricultural labourers and the organized workers in Central public worker undertakings has tended to widen in the post-reform period (ILO, 1996).

- There has been a decline in the absolute number of poor in the 1980s. In contrast, the post-1991 period showed an increase in the absolute number of poor even if we consider the quinquennial surveys.
- Urban poverty declined much faster than rural poverty in the post-reform period.

The evidence on Pakistan, Bangladesh and Sri Lanka shows that poverty has not increased in the post-reform period (UNDP, 1998). In Nepal, on the other hand, there was a significant increase in rural poverty from 43.2 per cent in 1985 to 47 per cent in 1996 while urban poverty declined from 19.2 per cent to 18.0 per cent during the same period (UNDP, 1998).

Inequality: Gini coefficients for consumption or income distribution shows that inequalities have increased in Bangladesh, Pakistan, and Nepal. For example, in the case of Bangladesh, inequality for rural areas increased from 25.5 per cent in 1991-92 to 28.8 per cent in 1995-96. Inequality for urban Bangladesh has increased from 31.9 per cent to 36.7 per cent in 1995-96.

For India, income distribution trends show that they have shown trends similar to those for poverty. The inequalities seem to have increased in the initial two years of the reform period and reached the pre-reform levels in 1993-94. However, if we compare 1990-91 levels, the rich gained in terms of consumption as compared to the poor in 1992 and 1993-94 (see Panda, 1999).

The evidence thus shows that inequality in income/consumption seems to have increased in South Asian countries after liberalisation. From this, one can say that wage inequalities between skilled and unskilled workers might have increased in South Asia in the post-reform period. We have some direct evidence from Bangladesh on real wages in different sectors. Table 3.20 shows that growth in real wages in agriculture and construction is lower than that of manufacturing sector.

Table 3.20: Trends in real wages by sector, 1983-1996, Bangladesh (1970 = 100)

Fiscal year	General	Agriculture	Manufacturing	Construction
1983	88	82	82	99
1984	90	70	95	99
1985	86	70	91	91
1986	95	80	102	100
1987	102	86	109	106
1988	106	89	108	117
1989	107	89	110	120
1990	110	94	115	113
1991	107	91	114	107
1992	107	93	113	104
1993	113	99	119	109
1994	114	101	121	106
1995	111	98	121	100
1996	114	97	123	105
Ratio 1996/1983	1.30	1.18	1.50	1.06

Source: World Bank (1999).

3.10 Impact on Women

Economies having groups suffering from disadvantages arising from a variety of structural constraints, the result of unfettered operation of market forces may not always be equitable. Women constitute one such group in countries of South Asia in general. The structural constraints they face include the social environment dominated by patriarchy, legal frameworks, which are not completely, gender neutral, and unequal access to education and skill training. However, the evidence shows that the impact of liberalisation has both positive and negative effects.

First issue is whether work participation rates have increased for women. We look at the Indian evidence here. Estimates of employment for India can be derived on three different bases, the usual status (US), current weekly status (CWS) and current daily status (CDs). The US and CWS estimates give person rates and CDs a time rate. In order to understand the employment changes in terms of person days, we look at the trends in work participation rates based on current daily status estimates (Table 3.21). The WPR trends based on daily status for all ages and for the age group 15-59 show that they have increased for both men and women in rural and urban areas (except for rural males in the age group 15-59). It suggests that the volume of work

or the number of person days has generally increased for all ages and also in the adult age group. This increasing phenomenon is more pronounced for females. This could be due to the rise in demand for short duration employment where females are preferred over males in both rural and urban areas.

Table 3.21: Work participation rates by different NSS rounds by current daily status: India

	Rural Males	Rural Females	Urban Males	Urban Females
All Ages				
1977-78	48.8	19.4	47.2	10.9
1983	48.2	19.8	47.3	10.6
1987-88	50.1	20.7	47.7	11.0
1993-94	50.4	22.0	49.8	12.0
Age Group 15-59				
1977-78	81.5	31.4	75.7	17.1
1983	80.2	31.6	75.2	16.5
1987-88	83.5	33.2	75.1	17.0
1993-94	80.9	34.3	76.0	18.1

Source: Compiled from Kundu (1997).

Indian employment data can be divided into principal and subsidiary employment. For women, the growth in subsidiary employment is higher than the principal employment. It partly reflects the 'added work effort' mentioned in Section 2. The labour force participation rates for women have increased in countries like Pakistan, Bangladesh and Sri Lanka. Thus, there seems to be some evidence for 'feminisation' phenomenon for workforce in South Asia after liberalisation. Using cross-country data pooled for 1985 and 1990, Cagatay and Ozler (1995) show that structural adjustment policies led to a feminisation of the labour force, through changes in income distribution as reflected in a reduction of a share of wages in manufacturing value added; and through shifts in the outward orientation of the economy as measured by the increase in the ratio of exports to GNP.

Flexibility in labour market after liberalisation has helped women in increasing their work participation rates. Increased flexibility maybe needed if South Asian economies are to engage women in their labour force fully and to compete better in international markets in the future. Bangladesh and Sri Lanka provide examples of increased employment of women following economic reforms and globalisation. In both the countries, large numbers of women found employment in export-oriented labour intensive industries, which registered high growth in the post-reform period (Reza, 1996; Lakshman, 1996). However, more paid work has not

reduced the unpaid work of females. If we add paid and unpaid work, females work 20 hours more than men per week in formal sector and eight hours more than men in informal sector (UNDP,1999). Also, as shown in Box 3.1. although females are getting more jobs, they are by and large employed in low-skill jobs, usually non-unionised and suffer from adverse working conditions like low wages and long working hours.

Box 3.1: Globalisation leads to the feminisation of labour— but the outcome is mixed

The Many empirical studies now allow analysis of how shifts in trade patterns affect employment. A study covering 165 countries from 1985 to 1990 concludes that greater trade openness increases women's share of paid employment. Further analysis of plant-level data from Colombia and from Turkey—both with rapid export growth— shows that firms producing for export employ more female workers, often in skilled functions. But increasing participation has not always meant less discrimination. Women constitute a large share of workers in informal subcontracting, often in the garment industry—at low wages and under poor conditions. Highly competitive international markets in garments also mean that the work is volatile—with contracts moving with small changes in costs or trade regulations. Globalisation has also been associated with home work, tele-work and part-time work. In the United Kingdom the share of workers with unconventional work arrangements rose from 17% in 1965 to 40% in 1991. In 1985 the shares of such work arrangements were up to 15% in Japan, 33% in the Republic of Korea and 50% in Mexico, Peru and Sri Lanka. And in Greece and Portugal women constitute 90% of the home workers. This is a mixed blessing. Informal work arrangements can accommodate women's care obligations in the family. But such jobs are often precarious and poorly paid.

Source: Özler 1999; Quoted in Human Development Report, 1999, UNDP.

3.11 Child Labour

As in other regions, the incidence of child labour has been declining over time. The numbers presented for the age group 10-14 in Table 3.22 shows that the incidence of child labour has declined from 23 per cent in 1980 to 16 per cent in 1997.

Table 3.22: Incidence of child labour: 10-14 age group (percentage)

Country/Region	1980	1997	Region	1980	1997
Bangladesh	35	29	Sub-Saharan Africa	35	30
India	21	13	Latin America&Carib	13	9
Nepal	56	44	East Asia & Pacific	27	10
Pakistan	23	17	Middle East & North Africa	14	5
Sri Lanka	4	2	Europe & Central Asia	3	4
South Asia	23	16	World	20	13

Source: World Bank's World Development Indicators, 1999.

From this trend, one should not conclude that liberalisation is responsible for the decline in child labour. It looks like the decline seems to be a long-term phenomena. Micro level studies are needed to examine whether child labour has increased due to liberalisation. There seems to be some increase in demand for child labour for export industries in South Asian countries.

We discuss here some issues relating to child labour. First, the definition of child labour seems to be a narrow one as it considers mainly full time workers. The data for India given in Table 3.23. indicates that children are divided into three categories: (a) child workers; (b) children going to school; (c) nowhere children (neither going to school nor working). The third category seems to be substantial in India particularly for girls even in the age group 10-14 years. The nowhere children can be potential full time child labourers in both age groups in future. In order to know the implications of liberalisation, it is also useful to know that where the children are concentrated. As one expects, most of the child labour is concentrated in agriculture in rural areas. In absolute sense also, agriculture accounts for most of the child labour in India.

Table 3.23: Rural and urban children and child labour in India: 1993-94

	Rural Boys		Rural Girls		Urban Boys		Urban Girls	
	5-9	10-14	5-9	10-14	5-9	10-14	5-9	10-14
Total Children	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(a) Child Workers	0.9	11.4	1.2	10.5	0.4	6.2	0.3	3.5
(b) Children at school	67.2	76.6	56.2	55.7	84.1	87.2	80.1	81.6
(c) Nowhere children	31.9	12.0	42.6	33.8	15.5	6.6	19.6	14.9
Total Child Workers	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	100.0	80.7	83.3	81.0	--	24.2	--	17.1
Non-agriculture	---	19.3	16.7	19.0	100.0	75.8	100.0	82.9

Source: Compiled from Chaudhri (1997).

Theoretically liberalisation in the medium run is expected to increase growth and reduce poverty which in turn is expected to reduce child labour. In other words, here we are assuming that growth and poverty are the major determinants of child labour in developing countries. A micro study by Swaminathan (1998) argues that economic growth alone is not sufficient to eradicate child labour. Her study examines features of child labour in an area of high economic growth in western India. Growth was associated with an increase in the number of child workers over the last 15 years. The analysis shows that children work at repetitive manual tasks that do not require long years of training or experience. The work is low paying, involving drudgery and hazardous. Work forecloses the option of school education for most children. According to this study 'when economic growth is accompanied by deregulation of the labour market, the labour market can make ruthless use of children' and 'the prevalence and absolute expansion of child labour in a period and region of relatively high growth of aggregate output indicates that the nature of economic growth is flawed, and that aggregate economic growth is not a sufficient condition for the reduction of child labour' (P.1526).

Earlier literature on child labour shows that poverty is the major determinant of child labour. Therefore, if liberalisation reduces poverty, the incidence of child labour will decline considerably. However, evidence across Indian states show that the correlation between poverty and child labour is very weak in rural areas. In urban areas, the correlation coefficient is high (Table 3.24). Even if we combine both rural and urban data, the correlation between child labour and poverty is weak. For example, Kerala State with relatively low per capita income could almost eliminate child labour. Therefore, one should go beyond poverty issue and look for other areas like quality of schooling and universal primary education etc.

Table 3.24: Correlation coefficient between child labour and poverty across Indian states.

Correlations	Rural	Urban
Pearson coefficient	0.079	0.405
Kendall-Tau	0.086	0.275
Spearman-Rho	0.179	0.381

Some time utilisation studies for the children suggest that most of the children who are not attending school are not doing much work either. Also the direction of causation does not necessarily run from child labour to non-attendance. This can be other way round in the sense that drop out children take up productive work of their own choice or through parental pressure as a ‘ default occupation’ (Dreze, 1997). A case study of Calcutta finds that two thirds of working children ‘working as they have nothing else to do as the schools are not very attractive and teaching conditions are poor. Thus, the schooling system is partly responsible for the persistence of child labour.

In a cross-country study, Ahmed examines the determinants of the incidence of child labour with the help of pairwise regressions. The estimates of the study are presented in Table 3.25. The results show that adult literacy, agriculture in GDP, school enrolment rates, GNP per capita and demographic factors are the most powerful determinants of child labour. The table also shows that poverty is the least powerful of the seven determinants empirically tested for their influence on the incidence of child labour³³.

If we assume that quality of schooling is one of the determinants of child labour, in the initial years of liberalisation one would expect a dampening effect on schooling because of cuts in education expenditure. But, in the medium run, education expenditures are likely to increase which can reduce child labour.

3.12 Labour Market Rigidities and Employment

Freeman (1993) reviews the evidence on the effectiveness of policy interventions in labour markets in developing countries. His conclusions show that it is not clear whether labour market interventions have positive or negative effects. There is a debate on India relating to organised manufacturing sector. World Bank (1989) says that in the 1980s, there was a significant trade off between the higher cost of labour and employment. The wage rate increased by 7.2 per cent per year in the first half of the 1980s. According to the World Bank, the employers responded by virtually stopping new hiring and retrenching existing workers to the extent possible. In other words, wage rigidities were responsible for the slow growth of

³³ With the help of a multiple regression, Ahmed (1999) also shows that countries with unequal income distribution and with high dependence on agriculture have high rates of child labour.

employment. Ahluwalia (1992) also views policy-induced rigidities in the labour market as the principal reason for the decline in employment.

Table 3.25: Cross-country variations in the incidence of child labour (dependent variable): ranking of determinants by their explanatory power

Independent	Type of Regression Model ^a	Coefficient	Explanatory Power (Adjusted R ²) (%)	Ranking
Adult Literacy	Linear	0.45	51	1
Female literacy	Linear	0.39	50	2
Share of Agriculture In GDP	Linear	0.65	47	3
School enrolment	Linear	0.38	38	4
GNP per capita	Log	0.77	37	5
Percentage of Children in Population	Log	4.81	33	6
Poverty	Linear	0.32	21	7

Note: a) The coefficients estimated in a log model are the elasticities

b) All the co-efficients are significant at the 1 per cent level of significance

Source: Ahmed (1999).

On the other hand, Nagaraj (1994) showed that labour market rigidities might not have been responsible for the slowdown in employment in the 1980s. The conclusions of his study are:

- While real earnings per worker had grown annually at 32 per cent during the decade since 1979-80, real wages per manday had grown only half as much (1.6 per cent per year) which implies that workers had worked more hours (and shifts) that boosted their earnings;
- a distinct decline in the power of organised labour, used as a proxy for the reported rigidities in the labour market;
- structural changes can be seen in employment in manufacturing industries in favour of unregistered sector within registered manufacturing towards smaller sized factories. These long term tendencies would have further undermined the power of the organised working class to induce flexible use of labour;

- there was no systematic relationship in the postulated relationship between earnings per worker, the capital-labour ratio and employment at a disaggregated level.

Ghose (1994) and ILO (1996) have shown that while the real wage growth was much faster than the product-wage growth in the 1970s, the reverse was the case in the 1980s. The reason seems to be that the terms of trade were shifting in favour of industry in the 1970s and in favour of agriculture in the 1980s. The important thing to note is that intersectoral terms of trade and hence macroeconomic factors play in determining labour costs in Indian industry rather than due to growing rigidities in labour market.

High employment growth inspite of rigidities in the 1990s: There were no significant changes in the labour market policies regarding rigidities. In spite of that, as discussed above, employment grew at the rate of 4 per cent during the period 1986-87/1995-96. It shows the argument of labour market rigidities was perhaps overdone. As Nagaraj (forthcoming) indicates (a) unit labour cost has steadily declined right through the 1980s and 1990s; (b) Wage-rental ratio does not increase in 1980s and 90s. Therefore, the argument that there is substantial capital labour substitution because of higher growth in wages (due to rigidities) may not be correct.

Minimum wages and Employment: As mentioned in Section 2, some theories suggest that the effect of minimum wages, when set above the opportunity cost of labour, is to reduce labour market flexibility and raise the cost of employment. The Indian experience shows that although it may be true of organised sector (accounting for 8 per cent of the total employed in the economy) to some extent, in the case of unorganised sector (accounting for more than 90 per cent of the workers), wage determination is almost left to market forces. Government sets different minimum wages for the organised and the unorganised sectors legitimised and institutionalised labour market dualism. The government sought to set a floor to the price of labour in the entire economy by statutorily fixing minimum wages for workers in the unorganised sectors. Subject to this floor, informal sector wages are largely determined by supply and demand factors. The statutory minimum wages have been largely ineffective in influencing wages in unorganised sectors. Irregular revisions, lack of proper indexation and weak enforcement rendered statutory minimum wages virtually irrelevant in practice (ILO, 1996). In the case of organised sector, the actual minimum wages are often higher than statutory minimum (Anant and Sundaram, 1998). In the organised industries, the wages are indexed to consumer prices. The indexation rule certainly ensures downward flexibility of real wages, but this is linked entirely to the inflationary process and not to changes in productivity and profitability of enterprises.

3.13 Summary of Conclusions on Empirical Evidence

Conclusions regarding empirical evidence of the study are summarised as follows.

- GDP growth seems to be slightly higher after liberalisation except in Pakistan

Economic Liberalisation and Employment in South Asia

- The impact of external sector liberalisation may not be insignificant in South Asia as exports and imports rose faster than GDP in the region as compared to those for Sub-Saharan Africa and Latin America.
- Growth of employment after liberalisation was higher in India and Sri Lanka while it was lower for Pakistan.
- The share of informal sector increased particularly for services in India.
- The rate of growth in private sector employment increased faster than public sector in the organised sector. The share of private sector in total capital formation in India increased significantly after liberalisation.
- There was jobless growth for 1980s in the manufacturing sector for South Asia. The manufacturing sector showed higher growth in the 1990s for India.
- Micro surveys show some concern regarding retrenchment of workers in manufacturing employment.
- Unemployment rates showed a mixed picture. It declined for India and Sri Lanka while it rose in Pakistan, Bangladesh and Nepal.
- Incidence of poverty by workers in India shows that it declined for all workers but the rate of decline was lower for casual workers.
- Real wage growth for agricultural labourers was lower after liberalisation.
- Inequalities in income and consumption increased in most of the countries in the post-liberalisation period. The results from CGE models also show that inequalities increased.
- Women's participation increased but it is not clear whether they are better off in terms of work load and income.
- Child labour declined at macro level. One may have to go beyond poverty in explaining the variations in child labour.

4 Future of Employment and Policy Implications

Here we examine the future scenario of employment and needed policies in future for increasing productive employment in South Asia in particular and developing countries in general.

4.1 Second Generation of Reforms

The economic reforms initiated in South Asia are still incomplete. Some of the sectors in which reforms are being progressively implemented are investment licensing, prices and distribution control, import and export control, exchange control and tax reforms particularly of indirect taxes. In the last Indian budget (1999-2000), second generation reforms are sought to be implemented covering the following sectors:

- Factor market reforms (capital market/Debt market, Financial sector (including Banking), Labour Laws –e.g. Contract labour, Land market)
- Public sector reforms (privatisation)
- Sectoral reforms including non-tradable sector reforms
- Competition policy
- Independent Monetary authority on the lines of Bundesbank
- Constitutional measure/parliamentary act to bring revenue deficit to nil e.g. by the end of the 9th Five year plan (2001/2)
- Small scale industries reservation in open economy
- Institutional Reforms: (administration, regulatory authorities in all relevant sub-sectors, legal system, laws)

The second-generation reforms will have impact on the employment. Either it will increase or reduce the growth of employment is difficult to predict.

4.2 Demand for Labour

The low unemployment rates in South Asia shows that people are getting some kind of employment, which is not productive. The issue is how to make them productive apart from creating more jobs. The approaches treating employment as a mere by-product of growth, or seeking solution of the unemployment problem in special employment programmes as such, are inadequate. Therefore, it is considered necessary that a relatively rapid growth of employment is built into the growth strategy itself. Of course, market forces alone can not be relied upon to provide gainful work for all due to distortions in the labour and other markets. Public intervention is necessary to ensure adequate opportunities and also enable the labour force to access these opportunities.

At the outset note that it is difficult to forecast the future demand for labour as it depends on many factors. Our analysis therefore is indicative rather than definitive.

4.2.1 Agriculture and Allied Activities

In terms of additional generation of employment agriculture is still the dominant labour absorber. In future also, agriculture plays an important role in generating employment in South Asia. With globalisation and as WTO members, South Asian countries have to liberalise their agriculture by removing quantitative restrictions on imports and exports. This will lead to cropping pattern changes towards new crops and towards commercialisation.

However, in the case of agriculture, the potential for indirect employment in the form of agro industries like food processing seems to be higher than direct employment. Allied activities like dairy sector has also high potential for employment. According to some estimates, there are about 30 to 40 per cent post-harvest losses in many agricultural commodities particularly fruit and vegetables in India. Agro processing in general and food processing in particular is going to be an important sector for value addition and have large potential for employment creation. This sector has large export potential, which can create large employment.

Higher investment in agriculture and rural infrastructure is a necessary condition for increasing agricultural growth. Government's role seems to be much more important for not only raising public investment but also for inducing private investment. One major issue regarding agriculture growth is whether trade reforms or mere withdrawal of the protectionist policy towards industry are sufficient to increase productivity in agriculture. We believe that without infrastructure development and institutional changes, the price instrument may not improve agricultural performance. Infrastructure includes irrigation, electricity, agricultural research, roads and communications and new technology. Thus, in order to have higher growth in agricultural productivity and employment, infrastructure and institutions play an important role.

4.2.2 Rural Non-farm Sector: Escape Route for Agricultural Workers

A large proportion of the population in South Asia live in rural areas and this population continues to grow at a substantial rate. Given limits to the cultivable land in South Asia, high growth rates of rural labour force will not be productively absorbed in the agricultural sector. There is a need to shift the workforce from agriculture to non-agriculture in order to increase labour income. Rural non-farm sector can be an escape route for agricultural workers in South Asia. There has been a significant increase in the share of rural non-farm sector since the early 1970s. A study on Bangladesh by Alauddin and Tisdell (1995) reveals that the employment generating effect of the Green Revolution is slowing down i.e. agriculture at the margin has become progressively less labour intensive in recent years. Changes in the occupational structure may reflect a relocation of surplus labour from the farm to nonfarm sector (where it is also largely surplus) rather than heralding a real turning point. It is true of Nepal's situation.

There will be employment opportunities in rural non-farm sector if we have higher agricultural growth and improvements in rural infrastructure and credit facilities. On the other hand, if rural non-agricultural activities are dependent on subsidies, reservations and public expenditure, we may not see much growth in the post-liberalisation period. It is known that these activities have to withstand competition because of globalisation. However, there is a need to have this escape route for agricultural workers if they want to have higher labour incomes.

4.2.3 Industrial Sector

In the short and medium run, the large scale manufacturing sector in South Asia may not absorb the workers from informal sectors much because of several reasons. Trade in manufacturers is limited in these countries. We can not expect much gain in employment through trade in the short and medium run because export sector is not developed. The reforms may lead to increase in the cost of labour and this would encourage capital intensive industrialisation. There are three reasons for likely rise in capital intensity (Goldar, 1998): (a) Increase in relative food price would increase the cost of labour in the form of higher wages; (b) reduction of tariffs in capital goods sector may lead to cost advantage in favour of capital; (c) Foreign competition and greater export drive may also encourage more capital intensity.

Physical infrastructure and human capital are weak in these countries (more on these later). Unless they are improved growth in manufacturing and export sector would be difficult. Therefore, the opportunities in industrial sector would be favourable or unfavourable depends on many factors.

Small Scale sector: This sector place an important role in generating employment in South Asia. For example, in India, with almost 40 per cent in the country's industrial output, 35 per cent of exports and 80 per cent of total industrial employment, the role of the small scale sector is unlikely to diminish in the near-term. However, the sector is undergoing significant

structural changes with greater ancillarisation and providing the services. Some activities in industrial sector are reserved for small scale sector. These reservations will be removed in future and small industries have to face competition with large industries and multinationals. Subsidies also will be reduced or eliminated over time. To keep pace with changes taking place in large industries and to step up exports, the small scale industries sector needs to continuously upgrade technology and has to be more competitive than earlier.

4.3 Likely Scenario of Future Employment

The future employment is likely to shift more towards the categories shown in Fig 4.1. These are elaborated below.

4.3.1 *Service Oriented*

In South Asia, the share of tertiary sector (mostly services) in total employment seems to be larger than that of the industrial sector. For example, in Pakistan, the share of service sector in total employment was 33 per cent while that of industrial sector is 21 per cent in 1997 (ILO, 1998). This is in contrast to the experience of developed countries where service sector followed after increase in the shares of industrial sector. The higher share of services in South Asia could be due to people going to low productive jobs in informal sector. In future also, service sector employment will grow much faster than that of industrial sector. The shift from agriculture and migrated workers will be absorbed more by the service sector rather than the manufacturing sector.

4.3.2 *More Casualisation and Self Employment*

With increase in labour market flexibility, casualisation of labour will increase further in South Asia. As noted above, casual workers report the highest incidence of poverty. Of course it depends on increase in their wages and how productively they are absorbed in the economy. Along with casualisation, self employment is also likely to increase particularly among the youth workers.

4.3.3 *Multiple Types of Work Rather than One Job*

The traditional type of sticking to one job in a month or year may change and move towards multiple types of work particularly in rural communities. People may work simultaneously in agriculture and non-farm activities. Similarly, they may work simultaneously as self employed and casual workers. For example, poor communities in South Asia work in diverse activities to cope up with risk of working in one activity.

4.3.4 Distinction between Formal and Informal Sector will be Reduced

Increase in labour flexibility after liberalisation led to increase in sub-contracting by formal manufacturing sectors in developing countries. It also led to greater use of contract, temporary and casual workers. Thus, the differences in formal and informal sectors are getting reduced. A study on India provides estimates of production subcontracting in Indian manufacturing industries as a source of flexibility (Ramaswamy, 1999). An index of subcontracting intensity is introduced and it is shown to have increased in aggregate manufacturing from about 9.46 in 1970 to 25.3 in 1993-94. It is shown that subcontracting practices are concentrated in labour intensive industries producing consumer non-durables. The study found a non-linear relationship between factory size and subcontracting intensity. Organisational diseconomies associated with large employment size seem to result in greater subcontracting. The study also shows that the share of casual workers in large factory employment rose from 4.6 per cent in 1980-81 to more than 12 per cent in 1993-94.

A study by Maloney (1998) contests the view that labour markets in low-income countries are dualistic. This study offers an alternative to traditional dualistic views of the relationship between the formal and informal labour markets. Because of formal sector problems, workers may find informal sector employment a desirable alternative. The study examines worker transitions among sectors using detailed panel data from Mexico and finds little evidence in favour of the dualistic view. In South Asia one may not find this type of situation. However, the distinction between formal and informal sectors will get reduced in future.

4.3.5 Increase in Problems Relating to Educated Labour Force

With increase in education levels, the problems of educated labour force will increase in South Asia. The share of educated among unemployed population has been increasing. The educated may not get the traditional kind of regular jobs and they have to go either for self-employment or casual work in both rural and urban areas.

4.4 Demand for Skilled Workers

Globalisation has brought the question of education and skills development to the centre-stage of the employment scenario. The scope for absorption of labour in manufacturing as well as services would depend on skills acquired and educational attainments. A part of the unemployment problem emanates from the mismatch between the skill requirements of employment opportunities and the skill base of the unemployed. The mismatch is likely to become more acute in the process of rapid structural changes in the economy. It is, therefore, necessary to orient the educational and training system towards improving its capability to supply the requisite skills in the medium and long term in both formal and informal sectors.

One of the causes of decline in international competitiveness of India's leather industry was due to lack of skilled and untrained manpower in both the organised and unorganised sectors. India's share in global exports of leather declined from 10 per cent in 1980 to 2.4 per cent in 1994. Less human capital development and lack of formal training are the major constraints for development of skilled labour in South Asia (see Box 4.1). Thus skill development and training should be the top priority of the South Asian countries in order to face competitiveness.

Box 4.1: Pakistan and India: Case of a 'low-skill/low-technical – competence' trap?

India and Pakistan have both made considerable progresses in moving towards industrialisation. Still in both countries a large proportion of the labour force is illiterate. The mean years of schooling of the population over 25 years in 1992 were 2.4 and 1.9 respectively. Less than 10 per cent of the new entrants to the labour force possess any formal training. A major part of the industry, with the exception of a few multinationals and a few large scale employers, depends upon informal channels to recruit and train its workforce. While the informal apprenticeship system (*ustaad – shagird**) has many elements which make it attractive in terms of cheap on-the-job training, the cost in terms of quality and productivity may be high.

The need for a trained and skilled workforce may not always be manifest or explicitly recorded in the job market as employers make do with sub-optimum skills or use sub-optimum processes. The very absence of sufficient skilled labour can result in market adjustments, which involve acceptance of less efficient methods and lower quality. Protection against international competition also effectively protects 'low technical competence'.

However, as both economies are exposed to greater international competition, and with increasing domestic competition, pressures to adapt to new technologies and new forms of work organisation, it becomes imperative to remove the negative influences on competitive strength that result from an inadequately trained workforce. Bridging the gap between formal and informal training may become exceedingly important in this respect.

*Teacher – student.

Source: A.R. Kemal: "Manufacturing skills training in Pakistan" (New Delhi, ILO/SAAT, 1998), draft; ILO/SAAT: "Vocational education and training for employment in India", draft, 1998; Government of Pakistan, Ministry of Labour, Manpower and Overseas Pakistanis: Report of the National Manpower Commission (Islamabad, 1989). This box was quoted in ILO (1998).

4.5 Women

The participation of women in the labour market will further increase with increase in the educational levels. They will get opportunities in productive jobs as well as 'marginal jobs' as men move to more productive activities. Women face both new challenges and persistent labour market barriers in the midst of ongoing global economic change. There are enormous gender

disparities in South Asia itself. Conclusions of a study on gender disparity in health and education for children in South Asia (Filmer et. al, 1998) are the following:

- South Asia has the highest gender disparities in the world if one looks at child mortality and school enrollment ratios. While child mortality in countries outside of South Asia has been nearly equal between the sexes, it is 30 to 50 per cent higher for female than male children in South Asia.
- Even within South Asia, and even within India or Pakistan, there are huge variations in gender disparity. On some indicators of gender disparity, an Indian state may be very near the best (e.g. Kerala) or very near the worst observed in the rest of the world.
- Gender disparity is not correlated with level of income in the countries or across provinces within South Asia.

The gender disparities can be seen in the programmes for skill development and training. Also there are many obstacles to skill acquisition by women in many activities (see Box 4.2). One finds unequal access to vocational training, work-place based training, new technology training, programmes for training of the unemployed. With globalisation, women get opportunities in high skilled activities like information and communication technologies where they are presently underrepresented.

Public action (government and civil society) is needed to reduce the gender disparities in education and training. The direct and indirect effects for the growth of output and employment are quite high for South Asian economies.

Box 4.2: Obstacles to skill acquisition by women in the construction industry in India

The construction in India is one of the major employers of women workers, particularly in small firms, many of them family work units. Most women building workers are carriers of head loads and assistants to male workers. They are paid lower wage rates than males doing similar work. They have no opportunity to acquire skills and become masons, bricklayers, plumbers, electricians, bar benders and carpenters. An unskilled female building worker described her situation as follows: “ I would like to learn tile work or plastering but there is no one who will teach me. I have to learn from men. The contractors will not let a tile fitter teach me and waste his time. The supervisor gets angry if I try to learn any skill. There are more skilled persons today than unskilled workers. If women begin to learn skills, these contractors will never get skilled workers. Even if I learned some skills, I would have to face competition with men. It is unlikely that they would allow me to get good work. I was eager to learn more but no one taught me. The skilled worker did not allow me to even lay a single tile or handle tools. He rebuked me and said that if women started doing skilled jobs men would have to be helpers. They are very firm and do not allow women to learn any skill. I tried this on two occasions and won't try any more. I could get kicked out of my job and no one will give me work again.”

Source: C.Nathan: 'Indian women workers in the formal (construction) and the informal sector (forest and tribal women)', paper for UNDAW, Expert Group meeting on Vocational Training and Lifelong Learning of Women (Turin, ILO International Training Centre, 1996). This was quoted in ILO (1998)

4.6 Child Labour

The demographic changes in terms of age structure shifting to older age groups is likely to reduce the number of child labourer. With globalisation and the demands from developed countries on international labour standards will put pressures on developing countries to reduce child labour. However, it is better to leave the problem of child labour to the respective governments rather than linking trade with child labour. Regarding international organisations, it is better to leave to ILO rather than discussing in WTO.

Eradication of child labour in future depends on improvements in quality of schooling, economic growth and poverty reduction. Immediately after liberalisation, education expenditures declined in many developing countries because of stabilisation programmes. However, now the expenditures seem to have gone up and more awareness about education because of the importance of human capital.

Programmes like education guarantee scheme in India, food for education in Bangladesh would be useful for improvements in schooling. The establishment of compulsory education for children is a necessary condition for the reduction and abolition of child labour. In a narrow sense the compulsory education is understood as a law making it compulsory for parents to send their own children to school and allowing for the punishment of parents who do not comply with it. In a

broad sense compulsory education may be interpreted as "(a) a compulsion on the state to provide adequate schooling facilities to all children, and (b) subject to that, an obligation of the parental community to send all children to school. Thus, understood compulsory education is a broad notion"(Dreze, 1997). The most important thing is that compulsory education would put much needed pressure on the state to expand schooling facilities. The argument against compulsory education is that it leads to official harassment to parents and poor families lose earnings from child labour. It may be noted that non-coercive means can be used for promoting compulsory education. The girl child is going to be particularly benefited from the establishment of compulsory education.

The 83rd constitutional amendment for India speaks of "the right to compulsory education". The compulsory education and right to education makes sense on two conditions: (a) adequate facilities being available at a convenient distance and (b) education being free. Introducing compulsory education before these conditions are met would be putting the cart before the horse (see Dreze, 1999)³⁴.

The globalisation can reduce or increase the education expenditures depending on how the countries are successful in mobilising resources through tax and non-tax sources and the priority given to education. The role of non-governmental organisations are important here. Part of the problem of child labour can be solved through improvements in school education in South Asia.

4.7 Labour Policies and Institutions

There will be pressures on South Asian countries to change labour policies more in favour of labour flexibility. Labour market reforms involve institutional innovation. As ILO (1996) mentions 'hasty attempts to reform the legal framework without creating institutions appropriate for a new regulatory regime will themselves generate social costs and are likely to create anarchic conditions in the labour market' (p.10). The experience in Latin America shows that changing labour markets through wage flexibility did not increase trade or foreign direct investment. The lesson is that making labour markets flexible by abandoning conditions that protect labour does not help in dealing with changing labour markets and capturing global opportunities (UNDP, 1999).

In terms of employment, informal sector is more important in developing countries. The structure and dynamics of this sector represent a challenge to traditional legal instruments and industrial relations institutions and methods, particularly collective bargaining (ILO, 1997). There are already some informal sector labour organisations. The case of SEWA in India is well known. It started as a women's wing of the Textile Labour Association and eventually became

³⁴ On basic education, see PROBE, 1998.

an independent union. There is a need to have more such type of informal sector organisations to enhance the income and working conditions of poor workers.

4.8 Impact and Lessons from South East Asian Crisis

The South Asian countries are not directly affected by the East Asian crisis. The growth prospects, however, have been affected adversely by the crisis indirectly in multiple dimensions (Kumar, 1998) : (a) shrinking markets for South Asian exports in affected countries; (b) increased competition for exports to other countries from South East Asian countries; (c) effects of slowing down of the world economy; (d) flow of external resources from other countries because of the indirect impact of the crisis on South Asia; (e) decline in FDI inflows from South East Asian countries. Due to these indirect effects, the projections for growth rate of GDP in South Asian countries have been scaled down from 6.8 and 7.0 per cent to 5.2 and 5.4 per cent in 1998 and 1999 respectively.

Lessons: First, developing countries have to be cautious on capital account convertibility. Second, there should be checks and balances on private sector activities with liberalisation of economy. Third and most important lesson is that there should be enough safety nets for the poor including workers and unemployed in a liberalised economy.

The dramatic reversal from economic growth to contraction has had such a major impact on employment in the South East Asian economies that, 18 months after the onset of the crisis, unemployment is still increasing (see Table 4.2.). “As a result, the *social crisis* is defined by the loss of employment, which includes increases in total unemployment, retrenchment, underemployment and the informal sector, and reversals in occupational trends, wage cuts and increasing poverty” (ILO, 1999). “In the absence of social protection in the region, economic and social hardships arising from the crisis have been borne directly by workers and their families themselves” (ILO, 1999).

Thus, one of the lessons from South East Asian crisis is that countries should have social protection measures to protect the poor from unemployment and decline in incomes. There are many safety net programmes in South Asia. The expenditures on safety nets declined initially due to stabilisation programmes. Later, the governments in South Asia gave lot of emphasis to public works programmes. India’s *Jawahar Rojgar Yojana* (JRY) generates nearly one billion person days while food for work programme in Bangladesh creates around 15 million person days.

India’s public works programme JRY ‘s contribution to poverty alleviation is not insignificant: According to some estimates, a JRY worker earned on an average 40 per cent of the poverty line threshold. Thus JRY seems to be contributing substantial income to the families working under the scheme (for further details see Mahendra Dev, 1999). The emphasis on public

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works in South Asia will continue in future. There are, however, no good safety net mechanisms for the semi skilled and skilled workers in the formal as well as in informal sector workers.

Table 4.2: The East Asian crisis: Changes in unemployment rates and levels, 1996-98

Countries	Unemployment Rates, per cent			New Unemployed, millions	
	1996	1998	Most Recent Estimates	1998	Most Recent Estimates
China	3.0	5.0 - 6.0		3.5	
Hong Kong	2.8	4.8		0.1	
Indonesia	4.1	9.0 - 12.0	15 - 20	4.8 - 7.6	12.0 - 15.0
Republic of Korea	2.6	7.6		1.2	
Malaysia	2.5	6.7		0.4	
Philippines	7.4	13.1		1.7	
Thailand	1.1	4.4	8	1.7	2.8
Total				13.4 - 16.2	20.6 - 24.7

Source: ILO estimates based on national sources.

5 Agenda for Research

In this paper, we tried to examine empirically the impact of economic liberalisation on various aspects of employment with reference to South Asia. There are, however, many issues that are yet to be explored at the empirical level. For research agenda, we take up two types of issues: (a) which relate to factual problems and behavioural such as the impact on overall employment, inequalities between skilled and unskilled, women, and child labour and (b) policy related issues such as policies to increase demand for labour, labour flexibility and role of labour institutions including labour laws.

There is a need for studies at both macro and micro level.

Macro level: The impact of economic liberalisation on various aspects of employment can be done at the macro level with the help of macro econometric modelling and general equilibrium models. One problem with the present computable general equilibrium models is that labour market is not explicitly considered in many studies. Incorporating labour market in CGE models and looking at the impact on employment and other aspects can be a research agenda.

Micro Level: Most of the effects of liberalisation on employment can be examined better at micro level. For example, one can examine whether employment in a firm has increased or declined after liberalisation. Similarly, the impact of trade liberalisation on women and child labour can be examined for a particular enterprise. Primary household surveys would be quite useful here. Descriptive as well as econometric techniques can be used to examine the impact on various aspects of employment.

It is also possible to integrate macro and micro levels in a single study.

Domestic vs. External Liberalisation: Another issue for research could be to distinguish between domestic liberalisation from external liberalisation while analysing the impact of liberalisation on employment, women and child labour. This would be quite useful for policy purposes.

5.1 Factual or Behavioural Issues

5.1.1 *Effects of Liberalisation on Employment and Labour Incomes*

As indicated above, at the macro level descriptive statistics and CGE modelling can be used to know about the impact of employment, labour income and other distributional concerns. More interesting agenda will be to look at the impact at micro level. The issues are: what is the impact on overall employment at micro level (e.g. a firm or a region)? Has there been retrenchment of labour? In other words, has there been increase in unemployment? Has it affected quality of employment? What is the impact on real wages of workers at firm/micro level? Has there been change in the relationships between real wages, productivity and employment?

There can be some indirect benefits for the working classes due to liberalisation. For example, sub-contracting and increase in training or other capacities can be considered as indirect benefits. Therefore, looking just only at the firm level employment, one may not get an idea about positive or negative indirect benefits.

5.1.2 *Skilled and Unskilled Workers*

There is a lot of scope for research on this topic. Theory itself is not well developed particularly for developing countries. At the empirical level it is not clear whether unskilled workers will benefit with large informal sectors. One apprehension connected to globalisation is that rapid spread of new technologies is destroying a significant number of jobs. However, technical change also creates new jobs and also there are indirect benefits from spread of new technologies like the Information and Communication Technology (ICT). The spread of ICT can lead to a situation where investment is high, labour productivity rises fast and output grows faster so that the net effect would be higher growth of employment. The research agenda would be to capture these scale economies and show whether technologies are having negative or positive effects on employment.

On the impact of liberalisation on skilled and unskilled workers, there are at least two issues for research: One issue is whether unskilled workers are benefiting in absolute sense in terms of employment and real wages. Second issue is whether skilled workers are benefiting (in terms of employment and wages) more than the unskilled workers. In other words, the issue is whether wage inequalities between skilled and unskilled are increasing. There are empirical studies for developed countries, East Asia and Latin America. To our knowledge, there are no studies on South Asia and African countries. Another issue is whether one can distinguish between technology and trade in identifying the factors responsible for the inequalities between skilled and unskilled workers.

5.1.3 Women and Child Labour

Women: Gender disparities are high in developing countries particularly in South Asia. This issue clearly constitutes a crucial part of the research agenda. First is whether gender disparities in employment and wages are increasing with liberalisation. Secondly, are women getting productive jobs or marginal jobs? Or are they burdened by ‘added work effect’? Thirdly, there are many apprehensions³⁵ that liberalisation would affect the women adversely in many ways: (a) working conditions for women deteriorate; (b) more women than men may become unemployed; (c) wage differentials between male and female wages may grow; (d) women become poorer; (e) women’s education suffers and progress of girl’s education slows down. Research is needed to find out whether these apprehensions are correct.

Under liberalisation, the position of women vis-à-vis men changes, but the direction is not clear. We have seen above that women’s participation has increased in labour force with economic reforms. But, the activities are likely to be poorly paid. Some changes in technology could increase opportunities for women workers at the expense of the existing low skill jobs. Skill improvement and training are important for women to compete with men and to get more productive jobs. How to increase the skills and training for women workers and what type of institutions are needed for this purpose is an important research area.

Child labour: There are at least three areas where research will be useful in the case of child labour. One area is to have micro studies in different occupations to examine the impact of globalisation on child labour. Second area is on determinants of child labour. In the literature economic growth and reduction in poverty are considered as main determinants for reducing child labour. The researchers should examine the issue whether economic growth or poverty reduction alone can reduce child labour. Are there any other factors beyond growth and poverty?

The third area that is related to the second is the issue of education and schooling on child labour. It is useful to quote Amartya Sen’s recent lecture at ILO. Sen (1999) says, “ it is often claimed that the abolition of child labour will harm the interests of the children themselves, since they may end up starving because of lack of family income and also because of increased neglect. It is certainly right that the fact of family poverty must be considered in dealing with this issue. There is no escape from that. But it is not at all clear why it must be presumed that the abolition of child labour will lead only to a reduction of family income and further neglect of children, without any other economic or social or educational adjustment...The case for a broader and more inclusive economic analysis and ethical examination is very strong in all these cases”.

Therefore, one area for research would be the impact of educational adjustment on child labour. After liberalisation the importance of education has been stressed much more than earlier but the intentions are not put into action. To understand the demand for education and other related

³⁵ See Hirway (1996)

issues time utilisation studies of child population is an important area for research. From this research one comes to know about the daily activities of children. As shown above, in India, a large proportion of children are neither working full time nor attending school. Time utilisation studies can throw light on the activities of these children. One issue here is whether schemes like Bangladesh's Food-for-Education programme would be useful to attract these children. Ravallion and Wodon (1999) studied the issue whether child labour displaces schooling in Bangladesh. This type of studies can be undertaken to examine the poverty trap argument.

5.2 Policy Related Issues

5.2.1 Demand for Labour

What are the policies needed for increase in demand for labour? This is an important issue to be addressed by researchers. For example, whether agriculture benefits by liberalising trade and price policies. Or do we need to improve non-price factors? What are the impacts of reduction in input and output subsidies in agriculture? In the case of industrial sector with dualism, what is the best strategy for the governments? In other words, should they concentrate more on formal or informal sectors? What is the impact of privatisation policies on employment?

What type of policies is needed for small scale enterprises that generate more employment? With liberalisation, the protection in terms of subsidies and reservations will be reduced for small scale industries. What is the impact on employment if governments disprotect the small sector? Regarding private investment, What kind of policies is needed to increase private capital is an issue that is debated in developing countries.

5.2.2 Labour Market Interventions

The evidence available so far does not provide much systematic support whether labour market interventions have positive or negative effects on employment. What are the impact of flexible labour markets on employment and the income of labour? In the case of East and South East Asia the severity of the social impact was aggravated by the relative neglect of the development of institutions for social protection during the decades of the Asian economic miracle. What type of interventions is needed to protect the workers during such crisis that needs to be explored?

5.2.3 Labour Institutions

It will be interesting to look at the responses of labour institutions like trade unions in developing countries to changes due to liberalisation. As mentioned above, there has been changing patterns of employment towards casual labour and part time work. Public sector

employment has been declining due to privatisation. What are the strategies adopted by trade unions to the changing situation?

In the case of East and South East Asia, the relative underdevelopment of labour institutions ruled out any significant reliance on tripartite arrangements to moderate the extent of job losses. What types of labour institutions are needed for such a crisis? There are several models of labour market institutions. The US model of industrial relations is quite flexible. The issue is whether developing countries should move towards the US model without any social security systems. Or should they follow Japanese or Scandinavian models? These are some of the issues that need to be researched for suggesting appropriate institutions for developing countries.

5.3 Concluding Observations

The main objective of the paper is to examine the impact of economic liberalisation and employment. The analytical issues in Section 2 provide a background for the empirical evidence in Section 3. Future scenario of employment and policies are discussed in Section 3 while agenda for research is presented in Section 5. The evidence shows that the impact of economic liberalisation on employment and labour income has not been as bad as that for Sub-Saharan Africa or Latin American countries. On the other hand, it has not been as favourable as in some of the East Asian countries.

Some of the anxieties regarding increasing inequalities particularly between skilled and unskilled, reduction in growth of real wages due to liberalisation seem to be justified as shown by the empirical evidence. The evidence on changes in unemployment is mixed. Underemployment is quite high and seems to have increased in some countries. However, the prediction of severe adverse impact on employment growth particularly in the formal manufacturing sector by the critics of liberalisation proved to be wrong at least at the aggregate level. For example, the manufacturing sector in India showed high growth in the post-liberalisation period. On the other hand, the supporters of liberalisation were also proved wrong in the case of labour rigidities in South Asia. The evidence shows that employment growth picked up in spite of labour rigidities after liberalisation.

There is a need to undertake micro studies to know the impact of economic impact on employment, wages, women's employment and child labour. These studies should also throw light on the determinants of employment and labour incomes and policy measures needed for rectifying any adverse impacts due to liberalisation. The future scenario of employment shows that lot of efforts are needed for South Asian countries in order to have more productive employment and higher labour incomes. There is a need to have investment led growth strategy. Investment is needed by both public and private sectors to increase physical infrastructure and

human capital³⁶. More attention should be given to institutions, and governance. There is also need for having strategies reduce inequalities (e.g. land reforms) and increase labour intensity. Thus, the second generation of economic reforms, *inter alia*, should consider strategies that raise investment in physical and human capital, institutions and governance and reduction in inequalities.

³⁶ Lopez (1999) examines the question of asset balance and sustained economic growth. According to the study, poor countries can sustain positive rate of growth when the investment is made in human capital and natural capital at a rate generally lower than the rate of physical capital accumulation.

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