

Seminar on “Trade Policy, Inequality and Performance in Indian Manufacturing”

Abstract

The relationship between trade policy and economic performance is one of the oldest controversies in economic development. In the past few decades, most developing countries have abandoned import substitution policies that were followed extensively in the 1950s and 1960s for more outward oriented trade regimes. It is not clear, however, whether the trade reforms that these countries have undergone in recent years has led to clear benefits in terms of higher economic growth and better economic performance. An influential view has concluded that countries with a more open trade orientation have tended to grow faster through time. This view has been contested by others who have argued that there is little systematic evidence linking inward orientation and growth, and that the evidence linking outward orientation and growth has overstated the relationship between the two.

There has also been considerable debate on whether international trade can be a powerful positive force in the reduction of poverty and inequality in developing countries by creating jobs, especially for unskilled workers, and by reducing the inequality between workers of different skills and educational levels, and between different regions in the same country. There have been concerns that trade reforms can, on the contrary, lead to job destruction and higher wage inequality in developing countries and that greater openness can exacerbate the inequality between regions in a country. However, neither the theoretical nor the empirical literature has yielded an unambiguous conclusion on whether trade reforms have a positive impact on economic performance, and whether trade liberalisation increases employment and decreases wage inequality between skilled and unskilled workers, and reduces inequality in the distribution of manufacturing employment and production between regions.

In this presentation, we draw from my forthcoming book, *Trade Policy, Inequality and Performance in Indian Manufacturing*, Routledge Advances in South Asian Studies, forthcoming in early 2009. In this book, we examine the Indian experience with trade reforms in the 1980s and 1990s. We find that while trade reforms may have led to higher productivity growth and hence, economic growth, it has not brought about by significant increase in manufacturing employment and may have increased wage inequality. We argue that while the efficiency impacts of trade reforms may have been considerable, its equity impacts have been disappointing.

Brief Profile

Kunal Sen is Professor of Development Economics and Policy in the Institute of Development Policy and Management (IDPM), University of Manchester, UK. His main research areas are finance and international trade. His current research examines the determinants of contract labour use in Indian manufacturing, state business relations and economic performance in Africa and India and the political economy of Indian growth. Some of the current research is being carried out within the DFID-UK funded Improving Institutions for Pro-poor Growth (IPPG) Research Programme Consortium, based in the University of Manchester, of which he is the Joint Director. Past research has been to examine the interface between corporate finance and corporate governance, the impact of structural adjustment on investment and savings behaviour in developing countries, with particular reference to India; the determinants of rural poverty in India; the relationship between international trade and employment in developing countries; and the relationship between financial structure and international competitiveness. Professor Sen's recent books are *Trade Policy, Inequality and Performance in Indian Manufacturing*, London: Routledge 2008, *International Competitiveness, Investment and Finance: A Case-study of India* (with A.G. Kumar and R. Vaidya), London: Routledge 2003, and *Saving, Investment and Growth in India* (with P. Athukorala), Delhi: Oxford University Press, 2002. He has also published over 40 articles in journals including *Public Choice*, *Review of Income and Wealth*, *Journal of Development Economics*, *Journal of Development Studies*, and *World Development*. He has won the Sanjaya Lall Prize in 2006 and Dudley Seers Prize in 2003 for his publications.