

# Trade in services: Impact on employment in India

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Received 6 November 2009; received in revised form 14 June 2010; accepted 26 July 2010

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## Abstract

India's services sector has been growing rapidly and so also the trade in services. This paper attempts to assess if trade is able to generate employment in the services sector. Based on the time series macro data the direct and indirect effects of exports and imports on employment after deciphering their effects included in the overall growth, are seen to be mostly negligible. This holds both in the case of formal and informal services. Also, as per the company-level data international trade is not found to be an important determinant of employment in the services sector. On the whole, trade in services sector may enhance growth but this pattern of growth is less likely to be inclusive. Finally, the paper brings out the policy implications.

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## 1. Perspective

In the present context of globalisation countries are pursuing vigorously a pro-growth approach. However, growth alone may not be sufficient to bring in any major improvement in economic and social well-being of the population, particularly of those who are located at the lower echelons of the socio-economic ladder. The basic pre-requisite for this is rapid growth in productive employment opportunities. From the historical experience of the present day developed nations it is evident that an important determinant of economic growth is industrialization. Several developing countries are, however, deviating from this path. The rapid expansion of the services sector is easy to rationalize in the context of the developed countries. But in the case of the developing countries the dominance of the services sector much before the sec-

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ondary sector's relative size could increase to a reasonably high level, does invite concerns. This is mainly because the high productivity services sector does not have adequate openings for productive absorption of the work force pushed out of the agriculture sector. Sub-sectors like transport, communication and banking are seen to contribute significantly to the overall economic growth. The role of information technology (IT) and business process outsourcing services (BPOS) in enhancing the overall economic growth has been evident in the Indian context (World Bank, 2004), which has prompted some researchers to view that the services sector can also be the engine of growth. However, most of these high income activities within the services sector are not conducive to absorbing the unskilled and semi-skilled work force though they tend to generate secondary effects or indirect employment effects in the economy (Joshi, 2009). Hence, the mismatch between the labour demand and labour supply is expected to become unmanageably large. A critical look at some of these issues would possibly help us understand the growth and well-being issues better.

In response to globalization countries have adopted growth-oriented strategies that include trade-openness, FDI-inflows and capital mobility including technology transfer. The argument, which is usually given in favour of technology transfer, is that the wheel that has already been adopted does not require to be rediscovered if countries seek to be cost efficient.<sup>1</sup> But an important question that arises in this context is whether growth that is maximized through these strategies is conducive to poverty reduction or does it merely benefits those who are located in the higher echelons, thus excluding a sizeable lot. On the other hand, strategies that aim at improving human capital formation and social infrastructure are believed to have a direct and greater effect on the overall well-being of nations by reducing poverty.

Economic growth is said to be a positive function of globalization, as the latter facilitates free mobilization of resources. Hence, low income and labour surplus countries by specializing in labour intensive exportable goods can accelerate growth, generate employment and reduce poverty. However, technological innovation can bring in a shift in the demand for skilled labour and hence, can reduce wages of the less skilled, implying a rise in wage inequality (Feenstra & Gordon, 1996). Though this concern has been primarily expressed in the context of the developed countries, the same logic can be extended to the developing countries as well if they import technology from the former. Research on various Latin American countries is indicative of a widening impact of trade on wage inequality, and more importantly this is spearheaded by the notion of skill-biased technological change induced through trade. On the whole, though freer trade or trade openness is believed to enhance economic growth, the opponents of globalization view it as socially malign on several dimensions including poverty (Bhagwati & Srinivasan, 2002). However, highlighting the findings of Dollar (2001), Bhagwati and Srinivasan (2002) point out that countries, which registered significant declines in poverty, are also the ones which integrated faster into the world economy in terms of trade and direct investment, and hence according to them it would not be correct to suggest that trade openness bypasses poverty. Rivera-Baitz and Xie (1992) also argued that knowledge diffusion and trade in ideas through a GATT-type patent system are needed for the whole world to grow faster, and thus argued for multilateral liberalization that comprises trade in goods and ideas both. United Nations Conference on Trade and Development (2007) urged that market opening has contributed to attracting foreign capital into the services sector, which has promoted the devel-

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