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Fair Wage Hypothesis, Foreign Capital Inflow and Skilled-Unskilled Wage Inequality in the Presence of Agricultural Dualism

Sarbajit Chaudhuri

The paper develops a four-sector general equilibrium model where the fair wage hypothesis and agricultural dualism prevail, for analyzing the consequence of an inflow of foreign capital on the skilled-unskilled wage inequality and the unemployment of skilled labour in a developing economy. The unskilled workers are fully employed although there is imperfection in the market for unskilled labour. On the contrary, skilled wages are fixed by firms by minimizing the unit cost of skilled labour, making their efficiency dependent on the relative income distribution and the unemployment rate.

The analysis finds that inflow of foreign capital worsens relative wage inequality but lowers the unemployment of skilled labour. It provides an alternative theoretical foundation to the empirical finding that inflows of foreign capital might have produced unfavourable effect on the wage inequality in the developing countries during the liberalized regime by increasing the relative demand for skilled labour.

Keywords: *Fair Wage Hypothesis; Agricultural Dualism; Skilled Labour; Unskilled Labour; Relative Wage Inequality; Foreign Capital; Unemployment.*

Introduction

The deteriorating skilled-unskilled wage inequality is a matter of deep concern in the developing nations where the process of liberalization has started or has been established, although as per the celebrated Stolper-Samuelson theorem it should have improved with economic liberalization. The theoretical literature explaining the deteriorating wage inequality in the developing countries includes works of Feenstra and Hanson (1996), Marjit and Acharya (2003), Yabuuchi and Chaudhuri (2007), Marjit, Beladi and Chakrabarti (2004), Chaudhuri and Mukhopadhyay (2009), Chaudhuri and Banerjee (2010) and Chaudhuri and Yabuuchi (2007). They have shown how trade liberalization, international migration of labour and inflows of foreign capital might produce unfavorable effects on the wage inequality in the South given the specific structural characteristics of the less developed countries, such as features of labour markets, structures of production, nature of capital mobility, etc.

As per empirical literature, growth in foreign direct investment which is positively correlated with the relative demand for skilled labour has been one of the prime factors[1] responsible for the growing incidence of wage inequality in the South. The paper of Feenstra and Hanson (1996) is based on the famous Dornbusch-Fischer-Samuelson continuum-of-

1 See Harrison and Hanson (1999), Hanson and Harrison (1999), Curie and Harrison (1997), and Beyer, Rojas and Vergara (1999) in this context.

Intra-Industry Trade in ASEAN-5: An Overall and Country-Specific Study

Ajit Kumar Jha and **Sanjoy Saha**

The formation of ASEAN Free Trade Area (AFTA) in 1992 was a significant step towards the regional economic integration in the South-East Asian region. The paper mainly shed lights on the most recent trading scenario among ASEAN-5 from 1993 to 2007. The main objective of the study is to see the trade patterns of ASEAN-5 estimating the overall as well as the country-specific intra-industry trade using Grubel-Lloyed index since the implementation of AFTA. It also analyses the impact of the Asian crisis on the overall trade pattern of the same. The study reveals that there has not been any major change in the trading pattern within ASEAN-5 since the implementation of AFTA. Total intra as well as extra-ASEAN trade remains more or less stable from 1995 to 2001; after that it has been increasing gradually. However, the overall trend in intra-industry trade among the ASEAN-5 reveals a marginal improvement. The country-specific intra-industry trade figures throw a little different and inclusive picture. Trade between Indonesia-Malaysia, Indonesia-Philippines, Malaysia-Philippines, Malaysia-Singapore, Malaysia-Thailand, Philippines-Thailand and Singapore-Thailand has decreased. However, trade between Indonesia-Singapore, Indonesia-Thailand and Singapore-Philippines has increased. The study also indicates that the Asian crisis has not had any significant impact on the intra-industry trading pattern among ASEAN-5.

Keywords: *AFTA, ASEAN-5, Asian Crisis, GDP Growth, Intra-Industry Trade.*

Introduction

Regional economic integration occurs when a group of nations reduce their tariff and non-tariff barriers to allow for the free flow of goods, services and factors of production including labour and capital. However, there has been no consensus among economists and politicians, on whether the regional trade agreements act as ‘building’ or ‘stumbling’ blocks (Bhagwati, 1991). The success story of European integration and some other regional initiatives prompted the smaller developing nations to form closer economic ties to combat the challenges of global economic forces as a single production unit. The Association of Southeast Asian Nations (ASEAN) came into being on 8 August 1967, when the foreign ministers of the five countries namely, Indonesia, Malaysia, Philippines, Singapore and Thailand signed the Bangkok declaration.

Trade Performance in CSG of ESCAP Member Nations and Some Regional Groups in the Region*

Somesh K Mathur

The study works out some trade indices like Export and Import Shares, Competitiveness Index, Revealed Comparative Advantage (RCA), Michelaye and Regional Orientation index for ESCAP member nations and some regional groups for trade of Climate Smart Goods (CSG) for years 2002 through 2008. The objective is to map the trade performance of the ESCAP region in trade of cleaner technologies.

Keywords: *Export and Import Shares, Competitiveness Index, ESCAP, CSG, Cleaner Technologies.*

Introduction

This paper deals with the mapping of trade performance of Climate Smart Goods (CSG) for ESCAP regional members and associate members including those for regional groups like ASEAN, SAARC and APTA for years 2002 through 2008[1].Trade performance is judged using some trade indices and indicators. Trade indices like Export and Import shares, Revealed Comparative Advantage index, Competitiveness index, Regional Orientation index and Michelaye index for trade of CSG and its sub-categories of the ESCAP member nations and other regional groups are calculated to form a policy opinion on countries competitiveness, trade patterns, changing comparative advantage over time and regional bias. CSG are defined as components, products and technologies which tend to have relatively less adverse impact on the environment. For example, it consists of articles of iron and steel and aluminum, machinery and mechanical appliances, electrical machinery equipment, ships, boats and floating structures, glass and glass ware articles, among others. One of the sub-categories of CSG clean coal technology aims to improve energy efficiency and reduce environmental impacts, including technologies of coal extraction, coal preparation and coal utilization. Wind technology, another sub-category of CGS, focuses on wind energy generation and is composed of three integral components: the gear box, coupling and wind turbine. Wind power and turbine production has experienced stupendous growth over

* The views contained in this contribution are solely those of the author and do not necessarily reflect those of the United Nations. The author likes to generously thank the staff at the TID for the excellent environment for work and Dr Mia Mikic in particular for guidance and helpful comments.

1 ESCAP has 62 members including associated members. The study considers 57 of them by excluding the non-regional members (UK, France, the Netherlands, the US and Timor Leste for non-availability of data) from 2002-08. Trade statistics uses World Integrated Trade Solution (WITS) database, wherein UN commodity trade data is culled out for estimating the various indices. For comparison purpose and saving space the study reflects figures for 2002 and 2008 mainly, but the trade indices and indicators have been worked out for all the countries (for which data was available) in the ESCAP region from 2002-08 and for some regional groups like APTA, SAARC and ASEAN. All countries of ASEAN, APTA and SAARC fall under ESCAP region. For comparison purpose the study has taken ESCAP as one region for our analysis.

India's External Debt under the New Economic Policy Regime

Raghavender Raju G and **Prasanth C**

External debt acts as a regulator of economic activities in an economy facing capital constraints. This highlights the importance of external debt in an economy on its path to development. Taking the case of India, this study analyses the trend and the changing composition of external debt under the New Policy Regime. This study goes into the determinants of the major components of India's external debt namely, external assistance, ECBs and NRI deposits. Standard Ordinary Least Squares estimation is used to identify the determinants of these debt-creating inflows through three equations. The Augmented Dickey Fuller stationarity test has been used to test the stationarity of variables under the study and recursive residual tests have been used in the study to test stability of the estimated parameters. The result of the first equation shows that the dependent variable, external assistance, has a positive relationship with the explanatory variables, which are essentially, the economic activities taking place in the country, which is measured by GDP, and trade deficit respectively. The result of second equation shows that the dependent variable inflow of ECBs is positively related to its explanatory variables, gross fixed capital formation and interest rate differential. The result of third equation shows the positive relationship between the dependent variable NRI deposits and the explanatory variables, which include the interest rate differential and the GDP of Oil and Petroleum Exporting Countries (OPEC).

Key Words: *External Debt, External Assistance, External Commercial Borrowings, NRI Deposits, Econometric Modeling.*

Introduction

Majority of the developing countries, on their path to development are net borrowers. These borrowings need not be domestic borrowings only, but could also be borrowings beyond the geographical boundaries of the country, which is referred to as external debt. External debt refers to the borrowings of an economy for various purposes from sources outside its geographical boundaries.

The definition of external debt can be traced to the policy group of the task force constituted in 1988, jointly by World Bank, IMF, OECD and BIS, which defines external debt as, "The amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non residents to repay the principal, with or without interest, or pay interest with or without principal."

External debt is of great importance to countries facing capital constraints as it enables the country to bridge the gap between its domestic savings and investment. Foreign

Determinants of India's Services Exports: A Static and Dynamic Analysis

PK Sudarsan and **Deepali Karmali**

The service exports of our country have been increasing at a rapid pace in recent years. The service exports of India as a percentage of world export of services is more than 2%. India is far ahead of Mexico, Turkey and Poland, other competitors in service exports. The present study made an attempt to understand the growth, structure and determinants of India's service exports. The study shows that rate of growth of service exports is much higher than that of rate of growth of exports in trade in goods, in recent years.

The study also reveals that there is a structural change in India's trade in services and the share of miscellaneous services, which includes software services, is on an increase over the years. The major conclusions of the study based on static and dynamic models are:(i) The factors determining the trade in services in India are (a) trade in goods and (b) value of service sector in GDP, (ii) Trade in services show dynamic relationship only with the value of service sector GDP, and, (iii) the value of service sector GDP has a substantial influence in determining trade in services in the long-run.

Keywords: *Service Exports, Trade in Goods, Static and Dynamic Models.*

Introduction

The post-reform period witnessed an annual rate of growth of exports around 10% and India's share in world exports increased from 0.5% in the first half of 1990s to almost 1.00% in 2006. Even so, exports have not exhibited the momentum required for them to act as an engine of growth. The total contribution by service exports has also been increasing at a rapid pace over the years. The majority of which is contributed by software services. If we look at the trend in current account of Balance of Payment for the last decade we see that trade in invisibles, the major component of that being trade in services, have always shown a surplus except in 1990-91 and in this way it has been partially able to tie over the deficits in current account of Balance of Payment arising due to deficit in trade balance.

The importance of service sector in the development of the economy is realized by Government of India and the government is making efforts to improve the provision of services. However, the investment requirement is enormous and is beyond the means available to the government. Therefore, India has liberalized its Foreign Direct Investment regime in services since the 1990's, foreign equity up to 51% is now automatically allowed in restaurants and hotels, support service for land and water transport, parts of refinancing and leasing, business services including software and health and medical services. Government

Global Recession and Indian BPO Industry


Laxmi R Kulshrestha and **Shaveta Sachdeva**

Business Process Outsourcing (BPO) is one of the fastest growing segments of the Information Technology Enabled Services (ITES) industry. Outsourcing to low-cost countries continues to gain momentum in the current business environment, not only for reasons of cost and quality, but also as a strategic business driver. India became familiar with 'Business Process Outsourcing' only in the early and mid 1990's, but now the industry is looking at various strategies and technologies to survive and thrive amid growing pressure of the US recession. The industry is divided on the effect of recession. The present study has been undertaken in the context of two main objectives: firstly, to analyze the impact of economic slowdown on the performance of BPO sector in India, and secondly, to anticipate the future prospects / potential of Indian BPO Industry. From the study it is revealed that besides the global meltdown India has been the most attracting outsourcing market as it demonstrated superiority, sustained cost advantage and fundamentally powered value proposition.

Keywords: *BPO, IDC, NASSCOM, ITES.*

Introduction

The idea of outsourcing has its roots in the 'competitive advantage' theory propagated by Adam Smith in his book 'The Wealth of Nations' which was published in the year 1776. Over the years, the meaning of the term 'outsourcing' has undergone a sea-change. What started off as the shifting of manufacturing goods to countries providing cheap labor during the Industrial Revolution, has taken on a new connotation in today's scenario. In a world where information technology has become the backbone of businesses worldwide, 'outsourcing' is the process through which one company hands over part of its work to another company, making it responsible for the design and implementation of certain business process under the requirements and specifications of the outsourcing company. Generally outsourcing can be defined as – "An organization entering into a contract with another organization to operate and manage one or more of its business processes."

Business Process outsourcing (BPO) is a broad term referring to outsourcing in all fields. A BPO differentiates itself by either putting in new technology or applying existing technology in a new way to improve a process. Business Process Outsourcing (BPO) is the delegation of one or more IT-intensive business processes to an external provider that in turn owns, administers and manages the selected process based on defined and measurable performance criteria. Business Process Outsourcing (BPO) is one of the fastest growing segments of the Information Technology Enabled Services (ITES) industry. Few of the

Global Financial Regulatory Authorities

G Ramesh Babu

Finance is the science of fund management. Finance area of management enhances the operational efficiency of the corporate sector. Financial discipline is most important for an individual, or to a nation and to a corporate entity. A strong discipline will emerge with the help of reforms. Reforms are not accidental, but they are incidental. Reforms are not by chance, but an obligation for rapid development. The reforms related to finance are known as financial reforms. Reforms are carried out by a regulator. Financial regulations are a form of regulation or supervision, which subjects financial institutions, to certain requirements, restrictions and guidelines, aiming to maintain the integrity of the financial system.

Keywords: *Fund Management, Operational Efficiency, Financial Regulation, Financial Institutions, Financial System.*

Introduction

The aims of regulation are usually to:

- Enforce applicable laws
- Prosecute cases of market misconduct, such as insider trading
- Provide license for financial services
- Protect clients, and investigate complaints
- Maintain confidence in the financial system

Financial regulation is followed all over the world. The following is a short list of regulatory authorities in various jurisdictions by various nations:

- Securities and Exchange Commission (SEC), USA
- Commodity Futures Trading Commission (CFTC)
- Federal Reserve System (Fed)
- Federal Deposit Insurance Corporation (FDIC)
- Office of the Comptroller of the Currency (OCC)
- National Credit Union (NCUA)
- Office of the Thrift Supervision (OTS)
- Financial Services Authority (FSA), UK
- Financial Services Agency (FSA), Japan
- Federal Financial Supervisory Authority (Bafin), Germany
- AFM, France