



Trade Liberalization, Poverty, Income Inequality in India

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Abstract

This paper is a study on the impact of India's trade liberalization as part of its economic reforms and structural adjustment programs initiated during the 1990s on poverty and income inequality. Major reforms :

1. Trade liberalization
2. Financial liberalization
3. Privatization
4. Tax reforms
5. Inflation control measures
6. Foreign investment
7. Agriculture development

Poverty

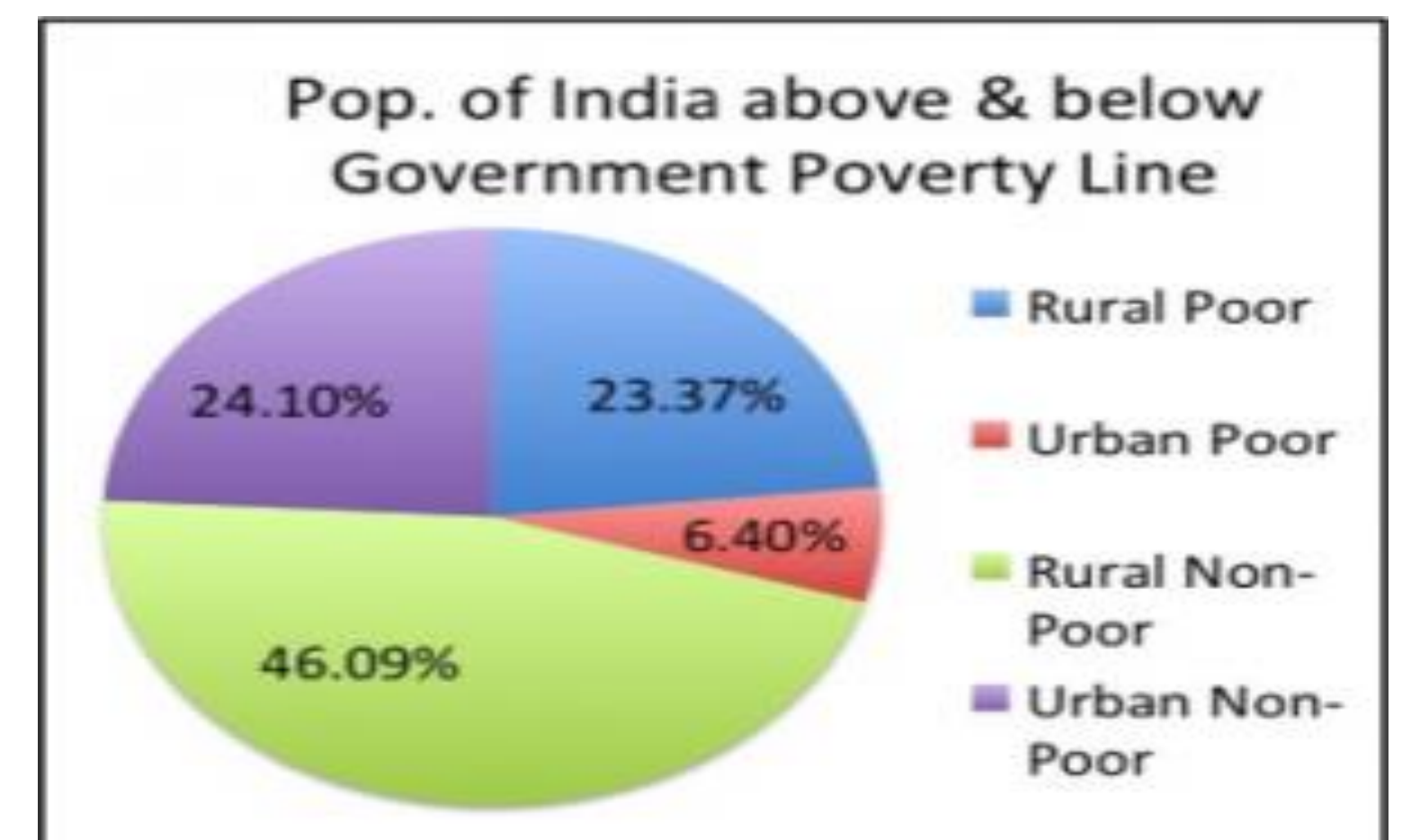
During the reform period most Indian states experienced high average growth rates in real unskilled informal wage and real unskilled agricultural wage. This may explain the fall in poverty rates. Declining urban poverty and increasing income inequality were associated with growth in manufacturing exports and imports. Among manufacturing exports, during the 1990s, there was a phenomenal growth in exports of skill-intensive high-technology goods. This change in the skill composition of Indian manufacturing export basket offers a plausible explanation of the rise in income inequality during the 1990s. Three unskilled labor-intensive manufacturing goods, clothing, textiles, and leather still account for around 40% of manufacturing exports. Expectedly, their growth had a favorable impact on urban poverty through increase in the unskilled money wage. Growth in aggregate output both in per capita net state domestic product and gross domestic product appears to be another source of lower urban poverty and higher income inequality. Exports found to be causing GDP growth means that the growth impact of trade may be an important factor underlying the observed changes in poverty and inequality. Growth in exports of high-technology goods seems to be one major source of such trade growth nexus.

Need of Economic Reforms:

1. Increase in fiscal deficit
2. Increase in adverse Balance of Payments
3. Fall in foreign exchange reserve
4. Rise in price
5. Poor performance of Public Sector
6. Gulf crisis

Goals of Economic Reforms:

1. Higher rate of growth
2. Reduction in people living below poverty lane
3. Promotion of equity
4. Reduction in regional disparity
5. Enlargement of employment leading to full employment.



The above pie chart present the percentage of people who lives below poverty lane in India.

Causes of poverty and inequality:

1. Poor quality and unemployment
2. Low level of education and skills
3. Size and type of family
4. Disability or ill health
5. Living in a remote community

References

www.eapn.eu