

programme, the then Finance Minister of the Government of India (GoI) highlighted that the post-Independence trade policy in India, mired in a system of administrative controls and licenses, had been largely responsible for a bewildering number and variety of lists, appendices, and licenses. Consequently, the system led to wasteful delays, inefficiencies, and rampant corruption and rent seeking by the bureaucratic coterie. Exercise of discretion and intervention by the authorities responsible for the distribution of licenses or quotas stifled enterprise and spawned arbitrariness. The government, therefore, decided to embark on trade policy reforms, embodied in the EXIM (export–import) policies, to address the tasks of phasing out various impediments to trade. GoI aimed to provide an environment conducive to increased exports and linked up all imports (other than essential commodities like petroleum and related products, fertilizers, and edible oil for which the protection would continue) to exports by enlarging and liberalizing the replenishment license system (Marjit and Raychaudhary 1997 is a relevant reference in this context).

At the same time, the government realized that improvement of India's Balance of Payment (BOP) situation could be achieved not so much by import restrictions as through promotion of exports. The more recent policy measures as part of the continuing liberalization process have, therefore, laid further emphasis on strengthening the impulses of industrial and export growth. Since the unorganized sector or the informal sector in the country consists mostly of units that are also unregistered, there was obviously no direct trade or reform policy aimed at such production and service facilities. It is also quite common that though the minimum wage law has been instituted in places, it suffers from non-compliance. Workers in the informal sector continue to earn less than the minimum wage. Thus, the plausible ways in which informal sector units and workers could gain from an increase in exports or a contraction in imports include: First, registered exporters may sub-contract the informal sector for the production of various intermediate commodities or semi-finished items, and if they grow due to favourable trade policies, the informal sector would grow in turn. Such a linkage is discussed in this volume. The other possible channel is through mobility of capital and labour between the dwindling formal import-competing sector and informal units. As the import-competing sector contracts due to import liberalization, capital and labour often relocate to informal units (theoretical possibilities and some exploratory evidence along this line is available in Marjit 2003 and Marjit and Kar 2007). Studies show that if capital is fully mobile between the formal

and informal sectors, retrenchment of workers from the contracting import-competing industries and their relocation to the informal sector could improve real wages of all informal workers. While it is difficult to identify the exact path through which capital relocates to the informal sector, Marjit and Kar (2007) show that in the post-reform period high growth of real fixed assets and gross value added in the informal sector coincides with declining production and real capital stock in the formal sector. Undoubtedly, some part of the capital is relocated in other formal industries, including export sectors. However, a large portion is relocated to the informal sector along with the retrenched labour leading to an increase in activity both in Non-Directory Manufacturing Enterprises (NDMEs) and Own Account Enterprises (OAEs) within the unorganized sector. Cities in India that hosted state-owned large-scale manufacturing enterprises from the planning period show such tendencies, where the newly developed informal sector units cater as ancillary industries to the formal sector. It is argued that at the all-India level this is one of the factors that led to real wage improvements for informal workers in the post-reform period.

Thus, both export promotion policies and import liberalization policies may have indirectly led to the growth in the informal sector with a consequent impact on the poverty levels of the workers. We highlight a few policies that are most likely to have been beneficial for producers belonging to the informal sector in general, including those in the agricultural sector. The GoI announced modifications in the EXIM Policy 1997–2002 on 31 March 1997. These included Export Promotion Schemes (EPCG) and Duty Exemption Scheme (DES) to be extended to agricultural exporters.

Primacy was given to the promotion of agricultural exports and for this purpose agro-economic zones were formed. The policy laid special emphasis on market access initiatives to underpin industry in R&D, market research, specific market and product studies, and retail market infrastructure in select countries. In the EXIM policy for the five-year period 2002–7 as declared on 31 March 2002, emphasis was given to pushing India's exports aggressively by undertaking several measures aimed at augmenting exports of farm goods, the small-scale sectors, textiles, gems and jewellery, and electronic hardware. Apart from these, the policy aimed to reduce transaction costs for trade through a number of measures to bring about procedural simplifications. In addition, the EXIM policy removed Quantitative Restrictions (QR) on exports, except for a few sensitive items. On 1 April 2003, the then commerce minister Mr Arun Jaitley announced the EXIM policy for 2003–4

where he unveiled a package of incentives to boost exports of services and farm products.

In agriculture, the ministry promised a host of incentives to those in the corporate sector willing to invest in 45 agriculture export zones, including development of infrastructure, agriculture extension, processing, packing, storage, and research and development facilities.

In gems and jewellery, the policy allowed exporters dealing in sale and purchase of diamonds and diamond-studded jewellery to open dollar accounts. The policy also allowed import of precious metals like gold, silver, and platinum equivalent to the value of jewellery exported. The policy has avoided offering direct subsidies to encourage exports, as that would go against WTO regulations. However, it has used the method of duty free imports as an incentive for exporters. The new EXIM policy was selective in picking up services and farm products as the major engines of export promotion.

On the import side, it is expected that the following policy reforms have changed the characteristics of informal production and services significantly: On the one hand, survival strategies in the face of competition led to large sub-contracting from the formal to the informal sector and, on the other, the informal service sector expanded to cater to growing consumer requirements. These included a large variety of occupations starting from small automotive servicing units to suppliers of food and related consumer non-durables to a more affluent consumer base.

The list of items imported under the Open General License (OGL) were expanded to facilitate easy access to import of items that are not available within the country. The number of capital goods items permitted under OGL was increased from 1,261 to 1,343. This has been the major thrust of liberalization.

Further, 894 items were added to the free list of imports and an additional 414 items were put on the Special Import License (SIL) route.

Import restrictions on the remaining 715 items were removed among which mutton, butter, fresh grapes, black and green tea, coffee, basmati rice, wine, beer, whisky, woven cotton fabrics, synthetic staple fibre, leather footwear with plastic and synthetic soles, and motorcycles are important. Imports of second-hand or used vehicles, meat and poultry products, primary agricultural products, and textile articles were allowed. Import of farm products, such as wheat, rice, maize, other coarse cereals, copra and coconut, petrol, diesel, aviation turbine fuel, and urea has been permitted only through designated state trading agencies.

This provides a snapshot of the trade policies that may have contributed the most to the growing informalization in the country. It must also be noted that the other important influence might have been reforms in the labour market. Although labour market reforms in India are yet to be institutionally recognized, hiring and other employment practices over the last decade have increasingly bypassed much intervention by labour unions. Waning memberships and a consequent decline in the controlling power of labour unions have increased contractual services in most industries, including the education sector, and may be treated as another form of an informal arrangement within the formal sector.

#### NOTES

1. Also see Fields (2005), Gupta (1993, 1997), Ranis (2004), and Ranis and Stewart (1999). Initial attempts at modelling the informal sector are available in Rauch (1991).

2. For evidence on other countries, see Goldberg and Pavcnik (2003), for example. Also, for a set of recent contributions see Chaudhuri and Mukhopadhyay (2009). Very recently, Beladi et al. (2010) have discussed the general equilibrium effect of technological progress in segmented labour markets.

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