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Liberalization, Informal Sector and Formal-Informal Sectors' Relationship: A Study of India

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Abstracts

India initiated the process to integrate its domestic economy with world economy from early 1990s due to severe balance of payments crisis, high fiscal deficit and high inflation rate. Since 1991 liberalization has exposed all industrial units including small home-based enterprises in the informal sector to the inherent risks of free market competition. Because of its wide coverage, impact of economic liberalization is very significant on entire economy, or on both formal/organized and informal/unorganized sectors. How liberalization affects both formal and informal sectors and what are the changing contributions of informal sector during pre and post liberalization periods in terms of income, employment and productivity are key researchable issues.

The aim of this paper is to measure the relationship between economic liberalization and informal/ unorganized sector in India; and explore opportunities for strengthen the economic relationship between formal/ organized and informal/ unorganized sectors in the post liberalization periods. Policy implications based on our analysis are also highlighted for the promotion and growth of the informal sector in India as well as in other developing countries.

The impact of trade liberalization will be captured by three measures of trade openness: (a) exports of goods and services as percent of GDP; (b) imports of goods and services as

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percent of GDP; and (c) combined exports plus imports of goods and services as percent of GDP (often termed as ‘degree of openness to trade’). Net inflows of foreign direct investment (FDI) as percent of GDP and government final consumption expenditure (GFCE) as percent of GDP will be other independent variables. This impact analysis will use the proper regression method and data from 1970-71 to 2005-06 at the national level. National Accounts Statistics and Handbook of Statistics will be main data sources for this objective.