



Munich Personal RePEc Archive

Product Standards, Exports and Employment An Analytical Study

Acharyya, Rajat

Jadavpur University, Kolkata, India

2004

Online at <https://mpra.ub.uni-muenchen.de/30160/>
MPRA Paper No. 30160, posted 06 Dec 2012 13:49 UTC

Product Standards, Exports and Employment
An Analytical Study

Rajat Acharyya
Jadavpur University

For my wife, Joysri, and sons, Rajarshi and Ritwik

Preface

Through the process of globalization, trade dependence and interdependence of the developing countries have increased phenomenally than ever before. The characteristic of this late twentieth-century globalization process has been the new technological revolution that has led to a high rate of world exports of electronics and other high-technology products. This has marginalized most of the developing countries exporting largely the low quality and low value-addition manufacturing and primary products, barring a few exceptions like China, India and Mexico. The fruits of globalization have, therefore, been unevenly distributed so far across the developed and the developing countries. Moreover, whatever little growth in exports of medium technology products has been achieved by a few of them, is largely driven by outsourcing of low value-addition and lower-stage of activities by the foreign multinationals. Outsourcing of software services, rather than development of software packages, in India and assembly line for automobiles in Mexico are the two glaring examples. These activities may have boosted the total exports of these countries, but they have failed to generate any feedback effect on the rest of the economy in terms of skill formation, increase in overall productivity level and product diversification.

The possibility of achieving significant export growth by the developing countries has further been constrained by the quality regulations and environmental standards that are often in place on the imports by the advanced industrialized countries. These non-tariff barriers, the new face of protectionism in the twenty-first century, has forced the developing countries to alter their production structures and technology with far reaching implications for income distribution and employment opportunities.

These developments reveal a paradox of export-led growth and poverty reduction. To generate strong linkages and dynamic effects with rest of the economy, and to meet the challenges posed by the new set of regulations and standards, the developing countries must enhance their product quality and specialize in high value-addition activities. But this raises the demand for capital, both human and physical, and displaces unskilled labour in the process. As a consequence, not only income inequality may be on the rise, as has already been observed in many parts of the developing world, but increased unemployment among the large number of unskilled workers is also on the card. All these contribute to weaken the positive impact of export growth on poverty alleviation.

This book makes an analytical study of these issues. With the new technological revolution in the West and new set of non-tariff barriers forthcoming on the exports of the developing countries, the export-led development strategy has now quite a different set of requirements and implications than it had ever before. It now requires a good understanding of why developing countries are historically the producers of low-quality and dirty goods and the policy implications thereof. At the same time it is to be understood to what extent changes in the production structures brought about by the quality regulations and environmental standards displace unskilled workers who have almost no alternative employment opportunities. These are the tasks that have been set out in this book.

The basic issues addressed in the book have been drawn heavily from the theoretical work on export quality and income distribution that I started during my visit at the Department of Rochester, New York, as a Ford Foundation Fellow during 1997-98. My recent interest and

research in the environmental issues have also shaped much of what has been set out in the book. Some of the research outputs contained in the book have been taught and discussed in special lectures, seminars and informal meetings at the Cornell University (New York), Michigan State University (East Lansing) and the University of Rochester (New York) in America; the City University of Hong Kong, Hong Kong; Calcutta University (Calcutta), Indian Statistical Institute (Calcutta), Indira Gandhi Institute of Development Research (Mumbai), Jadavpur University (Calcutta), Jawaharlal Nehru University (Delhi), Rabindrabharati University (Calcutta) and SNDT Women's University (Mumbai) in India; and at the Kobe University in Japan.

My understanding of the issues in international trade, product quality and income distribution, and the general equilibrium and macroeconomic structures that lay the foundation of this book, have been greatly shaped and influenced over the last fifteen years by several teachers, friends, colleagues, scholars and, of course, by my students. With the possibility of missing out a few names, I cannot but remember my intellectual debt to Ajit Chowdhury, Ronald W. Jones, Arup Mallik, Sugata Marjit, Kalyan Sanyal and Mihir Rakshit among my teachers; Kaushik Basu, Eric Bond, Tarun Kabiraj, Henryk Kierzkowski, Bhaswar Moitra, Ajitava Raychaudhuri, Prabal Roy Chowdhury, Abhirup Sarkar, Anindya Sen, Arunava Sen, Kunal Sengupta and Soumen Sikdar among my friends and colleagues. I would also like to thank my students, particularly Swapnendu Bandyopadhyay and Anindita Sen, for cleaning up my ideas through participation in the class lectures and discussions.

March 2003

R. Acharyya

Contents

Preface

Chapter 1 Introduction

- 1.1 Why Low-quality Exports
- 1.2 Quality of Exports and Employment

Chapter 2 Dimensions of Quality Problem in Developing Countries

- 2.1 Low-Quality Phenomenon
- 2.2 High-Technology Exports
- 2.3 ISO-Series Certification
- 2.4 Dirty Exports and Environmental Standards
- 2.5 Conclusion

Chapter 3 Theories of Quality Choice

- 3.1 Introduction
- 3.2 Choice of Product Quality by Firms
- 3.3 Low-Quality Phenomenon in LDCs:
Application of the Benchmark Model
 - 3.3.1 Technology Asymmetry and
Role of Research & Development
 - 3.3.2 Income Disparity
- 3.4 Unobservable Quality, Information and
Reputation: Alternative Explanations
 - 3.4.1 Asymmetric Information and Product Quality
 - 3.4.2 Reputation, Contestability and
Information Externality
 - 3.4.3 Quality Standards and Product Labeling
- 3.5 Conclusion

Chapter 4 Income Distribution, Trade Policy and Export Quality

- 4.1 Introduction
- 4.2 Factor Proportions and Export Quality
- 4.3 Role of Trade and Income Redistribution Policy
- 4.4 Quality Regulation and Income Distribution
- 4.5 Capital Mobility and Market Diversification
- 4.6 Conclusion

Chapter 5 Wage Policy, Standards and the Labour Market

- 5.1 Minimum Wages, Standards and Employment
- 5.2 Selective wage Policy, Export Quality
And Wage Inequality
- 5.3 Demand Constraint and Employment
Effect of Quality Enhancement
- 5.4 Conclusion

Chapter 6 Skill Formation and Export Quality

- 6.1 Skill Formation Decision
- 6.2 Two-Way Causation
- 6.3 Conclusion

Chapter 7 Environmental Standards, Dirty Exports and Employment

- 7.1 Introduction
- 7.2 Selection of Environmental Quality: Autarky
 - 7.2.1 Suboptimality of Unregulated Competitive Choice
 - 7.2.2 Regulation and Optimality
- 7.3 North-South Trade
 - 7.3.1 Trade Liberalization and Southern
Exports of Dirty Goods
 - 7.3.2 Welfare Implications of Environmental Standards
- 7.4 Environmental Standards and Employment:
A Trade-Off ?

Chapter 8 Conclusion