

THE IMPACT OF TRADE ON CHILD LABOR: EVIDENCE FROM SELECTED SAARC AND ASEAN COUNTRIES

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ABSTRACT

Past studies have tended to investigate the relationship between trade and child labor under the traditional trade theories, while assuming that the trade in homogenous goods and the results show inconclusive evidence of a relationship. Hence, it would be interesting to investigate the trade effects of differentiated goods on child labor in the setting of the new trade theory. This study attempts to investigate the trade-induced child labor effects (selection, scale and technique effects) in selected Asian countries over the period from 1999 to 2013. The countries consist of the major South Asian Association for Regional Cooperation (SAARC) countries, namely: Bangladesh, India, Pakistan, Nepal, and Sri Lanka and selected ASEAN countries, namely: Cambodia, Indonesia, the Philippines, and Thailand, where child labor is most common. The results of this study confirm that the total impact of trade on child labor also needs to account for the selection effect, in addition to the scale and technique effects. The findings imply trade liberalization hampers the child labor market in the context of the trade in differentiated goods.

Keywords: child labor, trade-induced effects, trade openness, SAARC, ASEAN

JEL Classification: D1, J2, J4

INTRODUCTION

Lin (2011) found that labor is an integral part of production and is used as a vital factor of production. Due to this influential role, labor costs are considered to be the major element of the production procedure. Cost minimization is a natural wish for producers, but the optimum level of low costs can only be achieved either by using cost efficient technology or by employing low cost factors of production (Bleakley & Lin, 2012). In developing countries, the producer usually uses labor as a major factor of production (Casson, 2012) and tries to minimize the production costs (Eckel & Neary, 2010). In a simple economic model, capital and labor are used as a factor of production and there is always substitution between capital and labor to achieve the maximum level of output (Akabayashi & Psacharopoulos, 1999).

However, in developing countries, labor is valued more due to its cost effective factor of production, as compared to capital and its easy availability (Krugman, 1991). The available labor force can be categorized into skilled and unskilled labor (Bharadwaj, 2014), male and female, as well as adult and child labor (Azmat & Petrongolo, 2014).

Economies that are taking part in international trade are expanding their potential beyond their domestic borders to reach global markets. In this vein, trade liberalization is now becoming an important aspect of globalization, economic development and sustainability; nevertheless, countries with accelerated growth in their labor intensive sectors are viewed as contributing to the child labor violations (Chan, 2003). Child labor is the employment of children in any work that harms them or keeps them away