Trade Liberalization and Child Labor in Selected SAARC and ASEAN Countries

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DECLARATION

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I hereby declare that this research is the result of my own investigation, except where otherwise stated. Other sources are acknowledged by giving explicit references and a bibliography is appended. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

Signature  ------------------------

Date  ------------------------
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ABSTRACT

Child labor is a stubborn problem for South Asian Association for Regional Cooperation (SAARC) and Association of South East Asian Nations (ASEAN), which seems to be declining. In recent years, the trade openness has raised the response towards the problem of child labor in these adjacent regions, because of an additional influx of trade of differentiated products. Trade of differentiated products is a significant source of trade between developing countries and needed to be examined with regard to child labor. Existing studies tended to investigate the nexus between the trade and child labor in traditional trade theory setting and the results show mixed evidence across countries. Hence, it would be interesting for this research to embark upon the issue of new trade theory by demonstrating the trade effects of differentiated products on the child labor. Apart from that, it would be appealing to investigate the impact of free trade on the child labor in the major SAARC countries, namely, Bangladesh, India, Pakistan, Nepal, and Sri Lanka and selected ASEAN countries, namely, Cambodia, Indonesia, Philippine, and Thailand, which are known to have a relatively high number of child labor. Empirically, this research assesses the theoretical treatment of child labor and trade related effects by employing selection, scale and technique variables. The panel data method is employed to justify the spatial and temporal dimensions of the research. The estimation procedure of this dissertation consists of three main steps. In the first step, an exposure assessment of the simple model by capturing selection, scale and technique effects obtained for the child labor in closed economy case. In the second step, a variable of trade combined with selection, scale and technique effects variables to find the effect of a change in trade on child labor. Subsequently, the third step presents trade
interactions to check the trade-induced effects across the selected SAARC and ASEAN countries. The findings in this research confirm the importance of selection, scale and technique effects in the estimation of the full impact of international trade on child labor. Finally, this research proposes that the trade induced child labor effects can be worthwhile to address the underlying economies that gives a rise to offend child labor practices. The findings of this study recommends better policies to overcome the problem of child labor in the context of open economy and closed economy.

**Keywords:** Trade liberalization, Child labor, Differentiated products
Liberalisasi Perdagangan dan Buruh Kanak-kanak di Negara-negara SAARC dan ASEAN Terpilih

ABSTRAK

Buruh kanak-kanak ialah masalah yang sukar ditangani oleh Pertubuhan Kerjasama Serantau Asia Selatan (SAARC) dan pertubuhan Negara-negara Asia Tenggara (ASEAN), dengan kadar yang semakin menurun. Sejak kebelakangan ini, perdagangan bebas telah menimbulkan masalah buruh kanak-kanak di antara kawasan-kawasan yang berdekatan ekoran daripada peningkatan aktiviti perdagangan bagi produk-produk yang berbeza. Perdagangan produk yang berbeza adalah sumber penting dalam perdagangan antara negara-negara membangun; maka usaha pemeriksaan teliti terhadap penggunaan buruh kanak-kanak perlu dilakukan. Kajian terdahulu mengkaji hubungan antara buruh kanak-kanak dan perdagangan berdasarkan teori perdagangan tradisional telah menunjukkan hasil kajian yang bercampur buruh kanak-kanak. Oleh itu, kajian ini menyiasat isu yang berkait rapat dengan teori perdagangan baru, dengan menunjukkan kesan perdagangan produk-produk berbeza terhadap buruh kanak-kanak. Selain itu, kajian ini juga akan memberikan maklumat yang penting berkaitan dengan kesan perdagangan bebas terhadap buruh kanak-kanak di negara-negara SAARC utama iaitu, Bangladesh, India, Pakistan, Nepal dan Sri Lanka dan negara-negara ASEAN yang terpilih iaitu, Kemboja, Indonesia, Filipina dan Thailand, yang terkenal dengan mempunyai bilangan buruh kanak-kanak yang tinggi. Secara empirikal, kajian ini menyiasat

**Kata kunci:** Liberalisasi perdagangan, Buruh kanak-kanak, Produk-produk berbeza
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<td>Association of South East Asian Nations</td>
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<td>SAARC</td>
<td>South Asian Association for Regional Cooperation</td>
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<td>IPEC</td>
<td>International Program on the Elimination of Child Labor</td>
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<td>ILO</td>
<td>International Labor Organization</td>
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<td>UNICEF</td>
<td>United Nations Children's Fund</td>
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<td>UNCRC</td>
<td>United Nations Convention on the Rights of the Child</td>
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<td>UCW</td>
<td>Understanding Children's Work</td>
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<tr>
<td>UN ESCAP</td>
<td>The United Nations Economic and Social Commission for Asia and the Pacific</td>
</tr>
<tr>
<td>UN</td>
<td>The United Nations</td>
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<td>LDCs</td>
<td>Less Developed Nations</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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CHAPTER 1
INTRODUCTION

1.1 Chapter Overview

The chapter introduces the thesis. It provides the background of the study followed by the problem statement, general and specific study objectives. Further, it discusses the significance and scope of the study. Finally, it describes the outline of this thesis.

1.2 Introduction

The child labor is the use of children in industry or business that harms or keeps them away from school (ILO, 2015). A robustness check on trade and child labor literature shows that demand for child labor is associated with demand for trading goods. One possible reason for the link between trade and child labor apparent in Romer and Frankel (1999) study shows that there is a strong association between trade and income as documented by Edmonds and Pavcnik (2005). The growing literature on the modern aspects of international trade sheds the new light on the effects of trade of differentiated products, its market size and the international division of labor. Whereas, the issue of child labor along with the trade of differentiated products is noteworthy and need to be debated in the age of new trade and globalization. The emergence of monopolistic competitive firms in developing countries has created the demand
for educated and skilled workers in sufficient numbers to make it possible to create integrated production systems spanning more than one country. Economies that are taking part in international trade are expanding their potential beyond domestic borders to reach a global market. Trade liberalization is now becoming an important aspect of globalization, economic development and sustainability; nevertheless, the countries with accelerated growth in the labor intensive sector are viewed as contributing to the child labor violations (Chan, 2003).

The theoretical work on labor and trade is relatively rich as compare to child labor and trade (Estevez, 2010). The discussions on trade impacts on labor are segregated into different categories i.e., the effects of income deviations, effects of variation in the relative returns to labor suitability, interaction effects of factor endowments, and effects of labor policy. Generally, it is viewed that higher level of trade is associated with greater levels of income, and these are not necessarily homogeneously distributed, comfort from trade do not accrue to the rich alone (Collier and Dollar, 2002).

In the light of previous studies, this study discovers that research on child labor is rooted in one side of the story, namely the household's decision, which is related to the supply side of child labor, specifically based on income level of families. There are only a few studies such as Edmonds and Pavcnik (2005), Dinopolous and Zho (2007), Kis-Katos (2007) and Estevez (2011 and 2014) which examine the issue of child labor from the demand side. The mentioned studies assumed that children are employed in those sectors which are producing homogeneous
goods and trade of homogeneous products affects the demand of child labor in exporting countries.

While, this study is focusing on production and trade of differentiated products by utilizing selection effect, this effect demonstrates that how changes in a number of firms parameter affect the relative demand of child workers. Particularly, trade induced child labor selection effect will determine whether trade liberalization is a remedy or exacerbate for child workers. Akram and Mahmood (2012) argue that trade of differentiated products is not as prevalent in developing countries as in developed countries, yet it is an important source of trade between the countries. Edmonds and Pavcnik (2005) confirm that such type of trade indirectly affects the child labor through overall market impacts and it can be observed with regard to child labor. Firms that are engaged in trade of differentiated products in developing countries usually related to those industries where the presence of child labor cannot be rebutted.

In the light of traditional interpretation of trade and child labor literature, Estevez and Levy (2014) find out that impacts of trade on the demand of child labor vary across sectors and the demand of child labor is a function of child worker productivity. Previously, Kurokawa (2011) examines that highly skilled workers are complement with low skilled workers in production of symmetric intermediate varieties. The findings of this study validate that the trade has an impact on the demand of both skilled and unskilled labor, the same is true in case of trade and child labor (Estevez and Levy, 2014). The trade literature postulates that the trade and
child labor are interconnected and the increase in the demand of labor can affect the demand of child workers (Edmonds and Pavcnik, 2005).

Estevez (2010) finds out that firms usually use both unskilled and skilled labor in the production of differentiated goods. The complimentary effect increases the skill premium and changes the demand of unskilled labor directly and indirectly affects the demand of child labor. In a similar style, Estevez and Levy (2014) examine the effect of low and high skilled workers' wages, and choices made by firms to upgrade their techniques of production. Since, the advancement in the technique of production is biased toward skilled workers, and less chances of unskilled labor or child labor in the production of differentiated goods.

1.3 Research Background

The issue of child labor has caught a great attention in the modern economics throughout the history of the world due to globalization (Hafner-Burton, 2013). The 19th and 20th century period, see the worst scenarios on screen; the industrialized nations, especially the Western countries have experienced the worst form of child labor. The child labor issue is worthwhile to investigate the existing studies and at what level counterweight to entrench the child labor with the help of economic tools. As a result of sincere and continuing efforts, the world has now recognized the importance of human capital, innovation and knowledge to counter the child labor. The world increasingly realizes that child labor is a blot for the
economy and it has adverse effects on the sustainable development (Swinnerton and Rogers, 1999).

Trade embargoes such as trade sanctions, outright bans and boycotts are popular remedies for child labor reduction. However, such instrument may have some unintended consequences for the poor countries. The ramification of traditional scholarly perception is that these sensations make the poor countries more unproductive, the only cure of child labor is prosperity via economic tools i.e. trade liberalization (Jafarey and Lahiri, 2002). Bhagwati (2001) states that the complex problems of an economy cannot be solved by sanctions; global issues such as child labor can only be solved by globalization. A trade sanction is a tool of anti-globalization; as a matter of fact, anti-globalization sentiments are most prevalent in the rich countries and poor countries are affected by global elites policies. The sentiments are directly destroying the industries of poor countries (Wood, 1995) and making the poor countries a destitute place (Hameed and Nazir, 2009). As a result, the poor countries become an unsafe place for children (Emerson and Souza, 2011).

The determinants of child labor are strongly related to macroeconomic variables such as performance of an economy, structural changes, behavior variations, and decision-making of economies. The demand and the supply side of the economy, both independently affect the child labor at the macro level. Poverty and inappropriate education system explain the child labor supply side, while the existence of a low paying informal economy is amongst the one of the major causes of the demand side of child labor. The other macroeconomic factors of an
economy which determine the demand for child labor are the size of the informal economy, inflexible labor markets, instability of the firm’s structure, the failure of industries to scale up the production and lack capacity to adopt the modern manufacturing technologies (Basu et al., 2010; Edmonds, 2010; Basu and Zarghamee, 2009; Edmonds and Schady, 2009).

Traditional economist usually sees this issue solely through the lens of labor demand. The great Smith (1776) talks about the value of children in labor shortage societies, later Engels (1892) emphasizes on the working conditions of children during the initial stage of the industrial revolution. Marx (1867) also has a very serious concern about children, because the replacement of machines with muscular power is now allowing child labor formally. Marx points out that labor supply is not transparent, capitalist and parents are major exploiters because in 18th century families are unable to meet their basic needs (Edmonds, 2007).

Even in the current century, the situation of child labor is a global reality bites, especially in the developing countries. Children are treated as an adult labor, they engage in dangerous work and often has to work very long time in hazardous activities for a very low pay, their earnings are only 10 to 20 percent of adult male labor wages (Abebe and Bessel, 2011 and Webbink et al., 2012). Edmond and Pavcnik (2005), Kis-Katos (2007) and Estevez (2011) have examined the child labor by using global factors such as trade liberalization that affects the demand of child labor. These studies assume that child labor is common in those sectors which produce homogeneous goods for trade. In the latter study, Estevez and Levy (2014) examine the
child labor in intra industry trade setting, they assume that children are nearly as productive as their adult counter partners and wage of child labor reflect the productivity of child workers.

Labor force can be categorized into skilled and unskilled labor (Bharadwaj, 2014), male and female labor, adult and child labor (Azmat and Petrongolo, 2014). Adult labor and child labor are close substitutes (Basu and Van, 1998) and child labor are economical and can be employed in any field of work at cheapest price as compared to adult labor (Hindman, 2011), but this justification for hiring the child labor is not tolerable in civilized and developed countries because child labor is deprived of happiness and enjoyment of childhood life (Nieboer, 2011). An historical overview of these western nations tells us that the developed nations were also victimized the children at the initial stage of development. This holds true in sample of developing countries of Far-East Asia which have low child labor incidences (Lin, 2011).

A global picture of child labor shows that out of total child workers 45% are in Asia, 40% are in Africa and only 6% in Latin America (ILO, 2012 and UNICEF, 2014). This figure imply that the child labor is still a colossal problem in Asia and Africa. In this context, the number of economically active children is highly concentrated in the poorest nations of Africa and Asia. The most serious concern is that many of these working children have to work in unsafe and sometime hazardous environment (UNICEF, 2014).