

Essays on Export Quality, Employment and Wage Inequality: Role of Trade, Fiscal and Monetary Policies

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Abstract

Evidences emerging from a large set of studies over the last two decades reveal that with the global rise in per capita incomes, buyers prefer to spend more on high quality products, even if they are high priced, rather than purchase the lower quality cheaper variants of such goods. This changing world demand pattern often constrains growth of exports of the developing countries to the upper-middle income and rich countries, in particular, and consequently jeopardizes their export-led growth prospects, because they typically produce and exports low-quality goods. Both the low-quality phenomenon in the developing countries, and importance of higher-quality goods for better export performances are well documented in recent empirical studies. These evidences suggest that export-promotion policies in the developing countries must target at improving quality of export goods to make their export baskets more aligned with the nature and structure of goods imported by the upper-middle income and rich countries. This is the focal point of analysis in this dissertation. More precisely, in this dissertation I explore whether and how trade, fiscal and monetary policies provide the domestic producers incentive to upgrade quality of the goods they produce and exports, and thereby promote exports at the extensive margin.

Further, I study the implications of such export-quality variations for the wage inequality among skilled and unskilled workers, or for the aggregate employment of unskilled workers. This issue assumes relevance because if quality-upgrading export-promotion policies distributes labour incomes in favour of the skilled workers and/or causes large scale displacements of unskilled workers, then potential conflicts and political risks there from may make it difficult for governments in the developing to pursue such policies to

promote growth. Reversal of reforms in many democratic Latin American countries in the past is a point in case.

Both these broad issues are addressed theoretically in terms of a competitive general equilibrium framework of a small open economy.