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CONTENTS

	ONTENTS					
Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.				
1.	IMPACT OF ORGANISED RETAIL ON UNORGANISED RETAIL IN INDIA	1				
	CMA JAYASHREE RAMANAN & DR. K.P.V.RAMANAKUMAR	1				
2.	AN ANALYSIS OF EMPLOYEE RETENTION PREVAILING IN MANUFACTURING INDUSTRY IN HOSUR, TAMIL NADU DR. B. N. SIVAKUMAR, DR. V. NAVANEETHAKUMAR & K. R. KUMAR					
3.	HRD PRACTICES IN BANKS: A STUDY WITH REFERENCE TO PUBLIC AND PRIVATE SECTOR BANKS DR. P. SUCHITRA	7				
4.	PRE-PURCHASE INFORMATION SEARCH BEHAVIOUR OF RURAL CONSUMERS TOWARDS PRE-OWNED CARS DR. M. UMA MAHESWARI & DR. M. JEZER JEBANESAN	13				
5.	LINKING EMOTIONAL INTELLIGENCE, SALES PERFORMANCE AND SALES SUCCESS OF RETAIL SALESPEOPLE: A REVIEW APPROACH DR. M. M. MUNSHI & SANJAY HANJI	19				
6.	REASONS AND EXPECTATIONS OF CUSTOMERS TOWARDS SHAMPOO BRANDS KHAWAJA MUBEENUR RAHMAN & DR. ROSHAN KAZI					
7.	TEAM FORMATION STRATEGIES BASED ON PERSONALITY TYPES AND COMMUNICATION STYLES TO IMPROVE TEAM EFFECTIVENESS DR. MARY CHERIAN & DR. KIRUPA PRIYADARSHINI M.	28				
8.	MICROFINANCE CRISIS IN ANDHRA PRADESH AND REGULATORY RESPONSE	32				
9.	K. LAKSHMI & DR. S. VASANTHA COST OPTIMIZATION THROUGH 'INTERNAL TALENT RETENTION STRATEGIES': AN ANALYTICAL STUDY DR. SONALI DHARMADHIKARI					
10.	TALENT MANAGEMENT: A NEW CORPORATE MANTRA K. USHA	42				
11.	RATIONALITY AND EMOTIONALITY IN CUSTOMERS' ADVERTISING AND BRAND ELEMENT RECOLLECTION: A STUDY ON LOYAL CUSTOMERS OF CERTAIN BRANDS VINOD URATH & N. R. NARAYANAN	45				
12.	INDUSTRIAL-CORPORATE SOCIAL RESPONSIBILITY KONDA SANTOSH KUMAR & GHANATHE RAMESH	49				
13.	BRING YOUR OWN DEVICE (BYOD): AN EMPIRICAL STUDY ACROSS INDUSTRIES RINKU MAHINDRU	54				
14.	FOREIGN BANKS IN INDIA: A LITERATURE REVIEW NEHA NAINWAL	58				
15 .	COST-BENEFIT ANALYSIS OF BUS TRANSPORT IN KUMBAKONAM REGION OF TAMIL NADU DR. C. KUMARAN	63				
16.	RELATIONSHIP BETWEEN INDIAN CAPITAL MARKET AND FOREIGN INSTITUTIONAL INVESTMENT DR. SUMAN DAHIYA GAINA	66				
17.	AN ANALYSIS OF EFFECTS OF ENVIRONMENTAL PERFORMANCE OF CONSUMER GOODS INDUSTRY AND THE FINANCIAL PERCEPTION OF THE INVESTORS: A COMPARISON OF INDIAN AND US FIRMS	71				
18.	AMOGH TALAN DESIRED CONTRIBUTION: IMPACT OF PENSION FUND MANAGERS PERFORMANCE ON RISK AND RETURN SATHISHA H K, SOWMYA G S & SUSHMA K	76				
19.	AGE WISE STUDY OF JOB SATISFACTION OF DELHI UNIVERSITY FACULTY NARANDER KUMAR NIGAM & SAUMYA JAIN	87				
20.	THE EFFECT OF OWNERSHIP STRUCTURE ON AUDIT QUALITY ROYA DARABI & NOTASH MOGHADAM	94				
21.	A REFLECTION ON THE NATURE OF CORPORATE GOVERNANCE IN INDIA SHWETA SATUA	100				
22.	THE PERCEPTION OF AGRICULTURAL STUDENTS AND SELF-EMPLOYMENT IN AGRIBUSINESS: A CASE STUDY OF STUDENTS OF UNIVERSITY FOR DEVELOPMENT STUDIES, GHANA HUDU ZAKARIA, HAMZA ADAM & AFISHATA MOHAMMED ABUJAJA	104				
23.	ISLAMIC BANKING AND IJARAH FINANCING IN PAKISTAN	109				
24.	KALSOOM AKHTAR, AIMAN CHISHTI, SAMRA KANWAL, NADIA ASLAM & SOBIA ASLAM ENVIRONMENTAL AUDIT: STEP TOWARDS SUSTAINABLE DEVELOPMENT DR. S. K. JHA	118				
25.	CHIT FUND- ROTATION OF MONEY	122				
26.	NAZIA ABBAS ABIDI CURRENCY DEVALUATION: A STORY FROM 1966 TO 2013	124				
27.	CHILD LABOUR AND TRADE LIBERALISATION	129				
28.	CORPORATE SOCIAL RESPONSIBILITY IN INDIAN BANKING SECTOR: A STUDY OF SONIPAT BRANCHES	134				
29.	KAVERI HANS & DR. MANISHA AN ASSESSMENT ON JOB SATISFACTION OF ACADEMIC EMPLOYEES: A SURVEY ON ETHIOPIAN PRIVATE INSTITUTIONS OF HIGHER LEARNING	138				
20	MULU ADERIE ALEMU	14-				
3 U.	REGULATIONS IN INDIAN CORPORATE DEBT MARKET ANSHIKA AGARWAL	145				
	REQUEST FOR FEEDBACK & DISCLAIMER	154				

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CHILD LABOUR AND TRADE LIBERALISATION

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ABSTRACT

In recent years the impact of globalization on the incidence of child labour has started to spark both public and academic debate, and has become an issue that invokes passion because it brings together people concerned about the exploitation of children on moral and ethical grounds and organized labour interested primarily in protecting jobs .Through this paper, it is argued that trade openness as depicted by stock of Foreign Development Investment (FDI) in the economy, and trade ratio, is negatively related to child labour. The more a developing country is integrated in the world economy, lesser are the chances of the incidence of child labour.

KEYWORDS

Trade Ratio, GDP, FDI Stock, Child Labour, Urbanization.

INTRODUCTION

he term "child labour" is often defined as work that deprives children of their childhood, their potential and their dignity, and that is harmful to physical and mental development. It refers to work that is mentally, physically, socially or morally dangerous and harmful to children; and interferes with their schooling by depriving them of the opportunity to attend school, obliging them to leave school prematurely; or requiring them to attempt to combine school attendance with excessively long and heavy work.

The employment of children is primarily in the non-traded goods and services sectors, such as domestic work, agriculture, fishing, and construction; these are generally considered informal sectors and are less likely to be subject to government regulation and scrutiny. The fact that the children are in the informal sectors also makes it more difficult to obtain reliable estimates of the prevalence of child labour. The sector in which children work, however, is of only limited significance, in that their employment has economy-wide general equilibrium effects on labour and product markets.

Child labour is not a recent phenomenon and certainly not one concerning India only. According to the International Labour Organization's official data, an estimated 218 million children were counted as child labourers as of 2004. Given the prevailing economic conditions, the overwhelming majority of these children are in developing countries in Asia, Africa and Latin America. Numerous children work in occupations and industries, which are plainly dangerous and hazardous.

Section 1 of this paper discusses previous work that gives an idea about the fundamental determinants of child labour, that is, what circumstances at the micro and macro level in an economy leads to the incidence of child labour. Section 2 analyses he possible mechanisms by which international trade would affect child labour. Section 3 of this paper provides a literature survey of previous empirical work that looks at the link between international trade and child labour at the cross-country level. In Section 4, describes the methodology of this study, and also provides with the key findings as obtained from the OLS estimation, by regressing the measure of child labour on the measures for trade, controlling for other determinants that might affect child labour. Section 5 concludes.

DETERMINANTS OF CHILD LABOUR

POVERTY: Child labour is a problem of stark poverty and altruistic parents are compelled to send their children to work for reasons of survival, and are not because of avaricious entrepreneurs seeking cheap labour and selfish parents who would prefer enjoying leisure while the children work (Basu and Van1998). Therefore, a family will send children to labour market only if family's income from non-child labour sources drops very low (Luxury Axiom). From the point of view of firm, adult and child labour are perfect substitutes (Substitution Axiom). As a consequence of these two axioms, the supply of labour is increasing in the wage below this critical level. Then, once the critical level is reached, parents begin withdrawing their children from the labour force. Consequently, the supply of labour begins to bend back. Once child labour has been reduced to zero, the supply of labour resumes its upward slope. As a consequence of this configuration, the demand for labour may intersect the supply of labour more than once. Hence, a potential multiplicity of equilibrium is established, that is, the case for a good equilibrium with high wages and no child labour, and a bad equilibrium with low wages and children's work. However, both this equilibrium is pareto efficient by fundamental theorem of welfare economics. Analyzing the dynamic consequences of child labour, Basu (1999) asserts that a developing country might get stuck in the "Child labour trap" and policy intervention requires a large effort to educate one generation so that economy rolls to the virtuous equilibrium.

CREDIT CONSTRAINTS: Ranjan(1999) argues that poverty alone is not responsible for the phenomenon of child labour. She considers credit constraints to be an important reason why altruistic parents send their children to work instead of sending them to school despite the high return on education. If the poor households could borrow sufficiently they would be willing to send their children to school instead of sending them to work in the presence of high returns on education. Parents with high income send their children to school, while parents with low income are forced to send their children to work, due to missing market for loans against future earnings. Dehejia and Gatti (2002) provides with empirical evidence that confirms existence of significant association between child labour and access to credit. Strong financial markets dampen the impact of income variability on child labour which would otherwise be sizeable.

If we assume selfish instead of altruistic parents, then children will be sent to work if the payoff to parents from such work is higher than the potentially larger, but uncertain and future return of sending the children into education in order to acquire better skills. Credit market constraints play again an important role here as investment in education is expensive, the cost of which is only recovered in the future (Neumayer and Soysa 2004). Child labour thus functions as a mechanism for consumption smoothing. But what might have started as temporary work can translate into more permanent employment if the children lose their right to attend school, lose interest in school, or lose even their capability to pursue education (Baland and Robinson 2000).

SCHOOLING COSTS AND QUALITY/AVAILABILITY OF EDUCATION: Schooling costs and conditions and the availability and quality of education options have an impact upon the demand for child labour in changing the opportunity costs of sending children to work rather than to school. However, school quality is virtually never measured directly. It is quite possibly the case that, when a family is poised to move children out of the workforce into school and fails to do so, the culprit is poor schools. Poor school quality is found to be weakly important in rural Ghana (Lavy, 1996) and very important for Africa generally (Bonnet, 1993). It should be noted, though, that even if poor school quality lowers the value of formal education, there is an abundance of empirical evidence across Latin America, Africa and Asia that the return to education is still quite high and more than offsets the foregone income of children in school (Brown, Deardorff and Stern 2002). Moreover, higher public spending on education, by lowering the cost of educations for the poor, should lower the incidence of child labour.

RURAL AREAS/AGRICULTURAL SECTOR: Child labour is overwhelmingly a rural and agricultural phenomenon (Christopher Udry 2003). Child labour is more prevalent in rural areas than urban areas as the educational system is likely to be of poorer quality and enforcement of school attendance regulations and child

labour bans is likely to be lax. Moreover, parents in urban areas tend to be more educated, which spurs an interest in the education of their children (Edmonds & Paycnik. 2002).

INTERVENTIONS AND BAN ON CHILD LABOUR: Basu (1999) points out that there are three possible kinds of interventions for curbing child labour. Firstly, Intranational interventions which are laws that country enacts against child labour within the national boundary and includes not only banning/not banning child labour, but also other instruments like literacy programmes and compulsory education, for instance. Secondly, Super-national interventions in which international organizations establish conventions and encourage and cajole nations to rectify them. Thirdly, Extra-national interventions in which legislations by developed countries to curb child labour are imposed on developing countries.

Government can intervene in market to create a variety of incentives like better and more schools, providing school meals and improving conditions in adult labour market that can help decrease the incidence of child labour. Grootaert and Kanbur (1995) points out that there's a possibility that social returns to education may exceed primary returns. Therefore, government intervention to direct children away from work and to classroom may be desirable.

Basu and Van (1998) emphasizes that, if there are two potential multiple equilibrium-good and bad, then a ban on child labour would deflect the equilibrium all the way to good equilibrium. This would make all working class households better off. However, Ranjan (1999) argues that banning child labour is welfare reducing for the poor household who intend to send their children to work. Policy of redistributing parental income through proportional tax and uniform lump sum subsidy would decrease child labour without reducing welfare of the poor. Other things being equal, the more successful a government is in re-distributing income through the tax system, or in directly subsidizing education, the lower the child labour rate associated with any given level of per-capita income (Cigno, Rosati and Guarcello 2002).

INTERNATIONAL TRADE AND CHILD LABOUR

Heckscher-Ohlin theory predicts that countries will specialize in the production of those traded goods that make more intensive use of the non-traded factor of which they have relative abundance. It also predicts that the benefits of trade will accrue to the comparatively more abundant factor; in other words, that the rental price of the comparatively more abundant factor will rise relative to that of the less abundant one. In traditional Ricardo and Hecksher Ohlin framework, developed countries are assumed to export capital-intensive products, and developing countries export labour-intensive goods. However, in recent decades, development process is viewed to be the process of accumulation of human capital, and comparative advantage of countries are determined by different skill endowments (Cigno, Rosati and Guarcello,2002; Shelburne 2001). Endowment effect of child labour is hence, an endowment increase of unskilled labour. Though skill endowments can be modified by education, education takes much longer to be acquired than the purchase of a new machine, or the construction of a plant, and workers are by-and-large more durable than physical capital.

Incidence of child labour has thus, an income effect (increase in income for households with potential children for work) and substitution effect (decrease in the adult wages of unskilled). With these two effects in place, skilled labour gains unambiguously from child labour and unskilled labour without children lose ambiguously. However, unskilled household with potential child workers would be affected ambiguously. This is because, though, both effects reduce the return to education, but the income of poorer families rises, thereby increasing their demand for educated children. In a small open economy, though, non-child labour factors do not gain from child labour making the likelihood of child labour lesser, child labour continues to lower wages. In the long run, trade liberalization might also lead to a sectorial shift toward higher skilled capital-intensive manufacturing and services and away from low skilled, labour-abundant production, thus making the employment of children less attractive (Basu and Van 1998). However, increased exports can increase demand for child labour if child labour is a unique factor of production (example, carpet industry).

Liberalization may also cause reduction in child labour because foreign investors might be less interested in exploiting cheap labour, including that of child labourers, than is presumed by the conventional wisdom. Market size and market growth, political stability, infrastructure and high labour skills are often as important, if not more important, than low wages (Neumayer and Soysa 2004). Linking trade with credit constraints, if it is believed that international trade reduces interest rate, then, as the country opens up, the opportunity cost of education also reduces, and hence, lowers the incidence of child labour (Ranjan 2001).

Therefore, policy initiative aiming to curb child labour and thereby, improve the welfare of poor households, should induce them to send their children to school by providing income support to compensate for the foregone earnings of children.

EMPIRICAL EVIDENCE OF CROSS COUNTRY ANALYSIS

Shelburne (2001) provides a study of 113 countries categorized as low, low middle and upper middle income by the World Bank, for the year 1995. He uses ILO's estimate of labour force participation rate for children 10 through 14 years of age (obtained from World Bank) as the dependent variable, which is a proxy for incidence of child labour. The World Bank's per capita income (formulated using their 'Atlas method'), the economic size of a nation (represented by its gross national product) and the openness of the economy (represented by the trade (imports .exports) to GNP ratio as calculated by the World Bank) were used as the explanatory variables. Also, he introduces a dummy variable for all the ex-communist nations of Eastern Europe and those nations which were previously a part of the Soviet Union. He concludes that all the variables he used are significant and has a negative impact on child labour. Thus these results show that the prevalence of child labour is greater as a country becomes poorer, smaller, and more closed to international trade. Likewise, richer, larger, and more open countries have a lower prevalence of child labour.

Edmonds and Pavcnik (2004) analysis on data from 1995 for the 113 countries and uses the same measure of child labour, that is, labour force participation rate for children 10-14 years of age. The explanatory variable is trade ratio (exports plus imports, divided by GDP), a third order polynomial of log of GDP (that explains three-fourth of the cross-country variation in child labour in 1995) and log of GDP per capita. Moreover, they address the endogeneity of openness by creating an instrumental variable, which is a measure of trade based on geography. Also robustness of the results is evaluated when the endogeneity of GDP is additionally considered. For instruments for income, lagged (15 year) income and lagged (15 year) investment is used. The idea is that lagged income and investment will be correlated with income today, but not child labour today given that there is little opportunity for children to have accumulated work experience. OLS estimates of the association between trade and child labour without controlling for income or the endogeneity of trade indicates a negative relation between the two, which is trade, reduces child labour. In two stage least squares results, where openness is instrumented with constructed trade based on geography, the coefficient of openness becomes more negative. Also, there is little evidence that conditional on income greater openness is associated with child labour. Through various robustness checks, it is established that the cross-country data do not reject the hypothesis that openness to international trade has no effect on child labour on average other than through trade's impact on income. Moreover, the data do not support the idea that heterogeneity across countries in their skill endowments, capital to labour ratios, or signing of anti-child labour agreements interacts with trade to affect child labour.

Dehejia and Gatti(2002), though tries to capture the role of income variability and access to credit across countries in the incidence of child labour, their regression includes a battery of additional controls that confirm that significance of credit is not simply attributable to omitted variable bias. When the explanatory variables of the main estimation are controlled for openness using export and import, the coefficients obtained are insignificant a positive.

Cigno, Rosati and Guarcello (2002) give a study of all developing countries for the relevant years available, namely 1980, 1990, 1995 and 1998. Apart from labour force participation rates for children 10-14 years, an additional dependent variable, that is, the primary school non-attendance rate is used. This is because, the former measure of child labour excludes children younger than 10 years, and therefore, arguably, the most worrisome part of the phenomenon in question is left out. The explanatory variables he uses are trade ratio (exports plus imports, divided by GDP), real per-capita income (measured as GDP in constant PPP units per head of population), health policy (share of public health expenditure in GDP), and skill composition (share of the workforce aged 25 or over which completed only primary education, and by that which attained secondary or higher education). Alternatively, he also uses a dummy variable for openness (dummy=1 if country is open according to Sach Warner definition of openness, otherwise zero) instead of trade ratio. Skill composition is used as an explanatory variable as it reflects the cumulated effects of past educational policies. The Fixed Effect OLS estimates of the effects of trade on the two measures of child labour indicate that if skill composition is not controlled for, trade raises the 10-14 labour participation rates, but has no significant effect on the primary school

nonattendance rate. If skill composition is controlled for, trade has no significant effect on either measure of child labour. If the dummy for openness is used instead, then even if skill composition is not controlled for, a negative relation is observed, that is openness reduces child labour. All the remaining explanatory variables have a negative relation with the incidence of child labour. Hence, he concludes that, trade increases the skill premium in countries with comparative abundance of educated workers and only countries with sufficiently educated workforce are able to integrate with the emerging global economy.

Neumayer and Soysa (2004) provide a cross sectional analysis of 117 developing countries for the year 1995. However questions the assumptions which validate the use of primary school nonattendance rate as a dependent variable. Nevertheless, in sensitivity analysis we will use both the primary and the secondary school nonattendance rate as further dependent variables, taken from World Bank (2001). He continues to use, labour force participation rate for children 10-14 years of age as the depended variable in the main estimation. The explanatory variables are trade ratio(trade as a percentage of GDP), measure of poverty (log of GDP per capita in purchasing power parity terms), measure of economy size (log of GDP), the urbanization rate, value added by agriculture as a percentage of GDP, regional dummies for sub-Saharan Africa, Northern Africa and the Middle East, Eastern Europe and Central Asia, East Asia and the Pacific, and Latin America and the Caribbean (in order to capture some crude cultural, historical and labour force skills differences) and ratio of FDI stock to GDP. Additionally, in further regressions, public health expenditure as a percentage of GDP, public education expenditures as a share of GDP, pupil to teacher ratio in primary and the share of primary school entrants that reach grade five are also included as explanatory variables. The results indicate that both trade openness and the stock of FDI per GDP are highly significant and negatively associated with the labour force participation rate of children. Higher per capita income levels and a higher urbanization rate are associated with lower child labour incidence as expected. The coefficient of the GDP share of agriculture is positive, but marginally insignificant. Eastern European and Central Asian countries have a lower labour force participation rate than South Asia, the reference category. The opposite is the case for sub-Saharan Africa, whereas the other regions do not exhibit a difference that is statistically significant. Hence the stud

PRESENT STUDY

METHODOLOGY

While most of the literature reviewed takes labour force participation rate for children aged 10 to 14 years of age, this paper takes percentage of economically active children in the age of 7-14 years (CHLAB), as the measure of child labour. Economically active children (Work Only), is defined here as children involved in economic activity for at least one hour in the reference week of the survey, and is not attending school. Data for 49 developing countries is available at the World Bank Indicators database (2006), for the year 2000, and we consider the same countries for our study, where complete data of all variables are available. This solves the problem of considering primary and secondary non-attendance rates as alternative dependent variable, because CHLAB now "a large and the arguably the most worrisome part of the phenomenon in question" is not left out, as in the previous studies. In theory, there is panel data on child labour which have been used in some of the studies, but due to infrequency of nationally representative household surveys in most low-income countries, the panel element of the data is not used in this study. Moreover, variation in child labour through time more likely reflects ILO adjustments rather than independent observations on child labour in a given country over time (Edmonds and Pavcnik 2004).

In the OLS estimation, two measures of openness are used. Firstly, is the trade ratio (TRADRAT) which is the sum of exports and imports as a percentage of GDP. Secondly, is the Stock of FDI (FDISTK) which is taken to be a measure of volume of trade in the economy. Since, poverty is cited to be one of the major determinants of child labour and a household generally force their children into labour because of necessity, Gross National Income per capita (GNIPC), computed by the Atlas Method, and is taken as an explanatory variable. Log of GNI is taken (LNGNI) as a measure of economy size and is also included as an independent variable. This is because, in a larger economy child labour reduces the welfare of non-child labour factors, and hence, lowers the likeliness of incidence of child labour, and also because, larger economies are likely to draw more closer attention and scrutiny from the ILO and the US State Department than smaller ones.

Since child labour is greater in rural areas and in agricultural sector, urban population as a percentage of total population (URBAN) and agriculture value added as a percentage of GDP (AGRGDP) are taken to be other explanatory variables as taken by Neumayer and Soysa (2004). Apart from these, regional dummies are taken, that is, dummies for Sub-Saharan Africa (D1), North Africa and Middle East (D2), East Europe and Central Asia (D3), East Asia and Pacific (D4) and South Asia (D6). Hence, Latin America and Caribbean region is the omitted category. The countries are categorized as per the classifications in the World Bank database.

Data for public spending on education and public health expenditure was not available for most of the countries in the analysis, and hence, these indicators were not used, so as to maintain the appropriate degrees of freedom in the regression. For the same problem of lack of availability of data, skill composition, taken as explanatory variables by Cigno, Rosati and Guarcello (2002) are not considered in this study. However, the regional dummies are expected to pick up some of the effects of the omitted skill composition. Also, since the dependent variable includes the children who might study in primary school, if not a child worker, pupil to teacher ratio in primary and the share of primary school entrants that reach grade five are not used as explanatory variables (as in Neumayer and Soysa, 2004).

Though, regional dummies and a range of explanatory variables are included, in order to solve the problem of omitted variables, we cannot, however, exclude the possibility that omitted variables might bias our estimations. If omitted variable bias is indeed present, then this calls for the use of Instrumental variables (IV). Fortunately, the consistency of the OLS estimation can be tested by Durbin-Wu-Hausman test, which in this case, does not reject the hypothesis that trade ratio and FDI stock regressors are exogenous variables. Therefore, we use OLS instead of IV estimation. Also, two countries- Madagascar and Turkey, are not included in the analysis since they are outliers.

Data for CHLAB, TRADRAT, GNIPC and LNGNI has been obtained from World Development Indicators (2006). Data for URBAN and AGRGDP on the other hand, was taken from Health, Nutrition and Population Database (HNP, World Bank) and that of FDISTK from UNCTAD(2003).

KEY FINDINGS

TABLE 1: REGRESSION RESULT										
	Sourc	e SS	df MS		Number o	f obs = 43				
	+				F(11	, 31) = 8.25				
	Model 17540.4322 11 1594.58475 Prob > F = 0.000									
	Total	23529	.0514 42 560.	215509	Root MS	E = 13.899				
CHLAB		Coef.	Std. Err. t	P> t	[9	5% Conf. Interv	/al]			
D1	- 1	18.59111	8.638519	2.15	0.039	.9727307	36.20948			
D2	- 1	58.35374	12.038410	4.85	0.000	33.8012300	82.90625			
D3	- 1	-14.44627	8.457802	-1.71	0.098	-31.6960700	2.803531			
D4	- 1	.2251145	10.43571 0	0.02	0.983	-21.0586600	21.508890			
D5	- 1	80.18972	18.25989 0	4.39	0.000	42.94843 00	117.431000			
TRADR	AT	1633175	.0810149	-2.02	0.053	3285484	.0019135			
URBAN		.3991002	.1758515	2.27	0.030	.0404486	.7577517			
FDISTK		001156	.0004744	-2.44	0.021	0021234	0001885			
GNIPC		.0018747	.0018221	1.03	0.312	0018416	.0055909			
AGRGD)P	.2898779	.2658049	1.09	0.284	2522348	.8319907			
LNGNI		4705401	.6333570	-0.74	0.463	-1.762280	.8212001			
_cons		15.54555	14.9001500	1.04	0.305	-14.84351	45.9346200			

The results of the OLS estimation are shown in Table1. Also, the results have been checked for hetersoscedasticity and multicollinearity. In this study, amongst the countries under consideration, percentage of economically active children who are only working in age 7-14 years is highest in Morocco, followed by India and Madagascar. On the other hand, Portugal, followed by Moldova and Uzbekistan has the lowest incidence of child labour.

Higher per capita income levels and higher share of agriculture value added in country's GDP is associated with lower incidence of child labour, as expected. However, both these variables are significant only at 30% level of significance, and hence, do not significantly affect child labour. Also, the economy's size as measured by log of GNP, is positively related to child labour, though insignificantly. This is similar to the result obtained by Neumayer and Soysa(2004). This result can be justified on the ground that, country such as India, has high national income, but at the same time, incidence of child labour is also high. Hence, in this case, population size and income inequality in the country also comes into play. It would have also been desirable, then, to control for differences in income distribution as a way of capturing the proportion of households subject to a binding liquidity constraint, but the information is not comparable across countries and dates of observation (Cigno, Rosati and Guarcello 2002).

However, a surprising result is that urbanization is positively and significantly related to child labour. This is opposed to most of the previous studies, where greater urbanization rate implied lesser child labour. However, migration from rural to urban sector is not a 1-step process, but takes place in two stages. Firstly, from rural traditional sector to urban informal sector, and then, from urban informal to urban formal sector. In the 2nd stage, in urban areas, migrants are employed in urban informal sector where unskilled labour is used. Since, child labour comes under this category of unskilled employment; hence, this result can be justified.

Greater trade ratio and greater stock of FDI in a country, is associated with lower levels of economically actively children who are working only in age group of 7-14 years. These regressors for openness and international trade, together account for approx. 16.5% variation in the incidence of child labour. This result is hence, consistent with the results obtained in the previous studies depicting the relation between international trade and child labour.

The coefficients of dummy variable for Sub-Saharan Africa (D1), North Africa and Middle East (D2), East Europe and Central Asia (D3) and South Asia (D5) are statistically significant. While Sub-Saharan Africa, North Africa and Middle East and South Asia have higher incidence of child labour than Latin America and the Caribbean (the reference category), East Europe and Central Asia have lower levels of labour force participation among children aged 7-14 years. This is consistent with the latest ILO global estimates on child labour which indicate that, in Africa progress towards the elimination of child labour is lagging behind other regions of the world, and child labour has declined substantially in Latin America and Caribbean in recent years. Though, this result cannot be compared with that obtained by Neumayer and Soysa(2004) since the reference category was different, however, here also it is verified that incidence of child labour is higher in South Asia than Latin America and Caribbean.

CONCLUSION

First of all, this study clearly shows that child labour is not a consequence of poverty alone. When controlled for national income, national income per capita, urbanization rate, agricultural value added and regional dummies, it is seen that trade openness and FDI stock in an economy is negatively related to child labour. Since trade openness lowers the benefits of child labour to the non-child labour factors of the society, the society in turn reduces incentive to allow child labour.

What is new in this study is that, urbanization causes greater incidence of child labour. This seems to be new phenomena, and is a result that is different from all the previous studies. As stated above, this can be because of rise of unskilled workers' employed in urban areas. Also, since it's tougher to maintain the adequate standard of living in urban areas than rural areas, parents are forced to send their children to work.

However, one of the shortcomings of the paper is the lack of coverage, because data on child labour was not available for many countries, and hence, the number of observations is limited. Besides, though, the problem that causality is in some sense impossible to establish in a crossnational analysis, endogeneity bias represents a distinct possibility. However, a fairly comprehensive set of explanatory variables, including regional dummies are included to reduce omitted variable bias. The Durbin– Wu–Hausman test results generally fail to reject the hypothesis of exogeneity of our trade and FDI variables. But comprehensive specification and favorable statistical test results can never fully exclude the possibility of spurious regression results due to omitted variables.

Also, from policy point of view, it should be noted that putting trade restriction on countries exporting goods that use child labour, in order to penalize them, isn't an effective way of curbing child labour. Instead, globalization and greater world integration is a mechanism that would eventually curb child labour.

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