Quantifying Trade's Impact: Decomposing Wage Inequality Dynamics in Post-Liberalization India

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Abstract: This paper employs recentered influence function (RIF) decomposition to analyze how trade-related factors—industry export exposure, education, and technology—contribute to wage inequality in India's manufacturing sector from 1999 to 2017. Using NSS and PLFS data linked with 4-digit NIC trade statistics, we find wage inequality declined significantly, with the Gini coefficient dropping from 0.46 in 2004 to 0.35 in 2017. Decomposition analysis show that earnings structure changes, driven by shifts in returns to trade exposure (7.3% contribution, 2011–2017) and education, primarily reduced inequality, outweighing composition effects. Technological factors (RTI) exerted mixed effects, increasing inequality at upper quantiles. These findings show trade's nuanced role in compressing wage disparities, offering policy insights for leveraging export growth equitably. This study advances prior work by quantifying distributional impacts across quantiles, emphasizing India's post-liberalization labor market dynamics.

Keywords: Trade, Wage Inequality, Decomposition, India

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