

**HOW TRADE ORIENTATION SHAPES INFORMALITY:
EVIDENCE FROM INDIAN INDUSTRIES**

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*A project report submitted
in partial fulfillment of the requirement for the award of the degree of*

**MASTER OF ARTS
IN
GENERAL ECONOMICS**



May 2025

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ABSTRACT

The Indian industrial labor market has witnessed deep structural shifts over the past few decades, highlighting the increasing prevalence of informal employment. Despite sustained GDP growth and structural transformation from agriculture to industry and services, informality continues to dominate employment in Indian manufacturing. This paper investigates how trade orientation captured through carefully constructed measures of import penetration and export intensity influences the incidence of informal employment across different industries. Trade variables are calculated using disaggregated industry level data sourced from official government databases ensuring comprehensive and robust empirical analysis.

The findings suggest that import penetration is found to have a negative and statistically significant impact on the share of informal workers, indicating that industries facing higher import competition are more likely to formalize employment structures. Conversely, export orientation shows a positive and significant association with informality, suggesting that export-driven industries tend to rely more on flexible, low cost labor arrangements, often characterized by informal contracts.

The paper also accounts for regional variation by incorporating state-level characteristics, particularly the presence of Special Economic Zones (SEZs). The analysis highlights that the effect of trade on informality is not uniform across regions. By analyzing these multidimensional relationships, the study contributes to the broader discourse on trade, labor quality, and inclusive industrial development.

Keywords: Import penetration, Export orientation, Special economic zones, Regional variation

JEL Classification: F14, F15, F16, F63, F66, I30, J16, J23, J24