

Abstract

This paper analyzes the effect of tariff reduction in intermediate inputs and final goods on the within-plant wage inequality in India – one of the most unskilled labor abundant countries. We find that tariff reduction in final goods increases the wage inequality, while reduction of intermediate inputs tariff does not effect on that, statistically. Those results suggest that Stolper-Samuelson effects work in India manufacturing in which unskilled labor-intensive industries are most protected prior to trade liberalization. Moreover, we consider about the demand for skilled workers in modern service sector – driving force of economic growth in India. The demand increases the wage inequality in manufacturing implying that skill-biased technological change may arise in modern service sector.