

**SKILLED LABOUR-SPECIFICITY AND THE PURE THEORY OF
INTERNATIONAL TRADE: An Application to the Indian
Information Technology Sector**

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The Heckscher-Ohlin Theory of International Trade and its derivative, the Factor Price-Equalization Theorem, predict a convergence of returns- in the long run - to capital and labour across trading partners when trade is liberalized. Thus, developing countries, which tend to export labour-intensive goods, should experience the benefits of a rise in – relatively unskilled labour - wages when they undertake trade reforms. However, this does not seem to have occurred in practice, at least for a number of developing and emerging market nations. In this paper, a model is set up to explain this deviation from the results of the pure theory of international trade, drawing upon the developments in the Indian information technology sector, specifically its distinctive labour input requirements. Accumulation of human capital takes time, and the model incorporates this aspect so that there is sectoral labour-specificity in the longer-run, even as capital relocates between sectors. The effect is then to drive the wages of different types of labour, that of skilled professionals and unskilled labour further apart, with unskilled workers experiencing a fall in real wages. The convergence in labour returns across trading partners does not take place in such a model which reflects reality in the ‘Indian Silicon Valley’ and the wider Indian labour market.

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