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Foreign Direct Investment and Domestic Child Labour

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A B S T R A C T

Empirical evidences suggest that use of child labour as domestic help has significantly increased in recent years although the overall incidence of child labour across the globe has satisfactorily declined. This should draw attention of the economists and policymakers because domestic child labour is considered as exploitative and in many cases hazardous. This paper purports to explain this apparently perplexing finding theoretically in terms of a three-sector general equilibrium model with a non-traded sector where only child labour is used to render services to the richer section of the society. The analysis shows how FDI-led economic growth increases the size of the services sector although it lower the overall incidence of child labour in the economy and improves the welfare of the poor families that supply child labour. Finally, a composite policy has been recommended that can deal with all the three issues favourably.

KEYWORDS Domestic Child Labour; foreign Direct Investment; General Equilibrium

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