

ABSTRACT

This paper provides a detailed and comprehensive literature review on the topic trade and informality linkages mainly focused on developing countries and India and also discusses about existence and forms of informality in developed countries as well. It elaborately talks about various relevant studies and included lot of useful recent studies with new methodologies used in it which makes this paper an up-to-date literature survey in this topic. This paper investigates about (1) various definitions of informality across different studies and defined a new version of it as identifying it as a contradiction to formality; (2) development issues of informality and various measures to estimate informality and factors affecting it; (3) trade as an important determinant of informality; (4) theoretical frameworks explaining trade related informality; (5) empirical evidences on trade and informality linkages from till date studies are reviewed for developing countries, along with that additional inputs on India and developed countries. The conclusion we got from the discussed literatures explains heterogeneity in results of trade and informality relationship which is due to country specific factors like labor market regulations, government regulation and tax system, firm's choices and tax evasion decision making, economic development, composition of labor force, education and skills, capital flow across sectors, GVC position etc.