**Trade Liberalization, Intermediate Inputs and the Demand for Managers: Evidence from India**

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**Abstract**

Recent studies indicate that globalization plays a central role in understanding how a firm is organized; to this point, however, empirical evidence for this focused strictly on developed economies, while nevertheless recognizing the potential importance of this to developing ones. Adopting the case of India, this paper presents a first attempt to examine this link in a developing economy, focusing on one key aspect of it: the effect of changes in tariffs on the demand for managers relative to non-managers. Using detailed firm-level data across Indian manufacturing sectors spanning over two decades, and exploiting the exogenous nature of India's Eight-Plan trade reform, we investigate the potential causal link between the two, and the underlying mechanism. We find that a decrease in input tariffs increases the relative demand for managers, primarily due to incentive-based pay structures and firms' vertical expansion. Specifically, a 10% drop in input tariffs induces, on average, a 1-2.3% increase in the compensation share of managers. These patterns are observed uniformly across the firms' size distribution, and are most acute in domestic, private, firms that use the imported inputs to produce and export final goods.

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