

Globalisation and Its Impact on Labour in the Indian Economy

I am indeed thankful to the Maharashtra Institute of Labour Studies for the invitation to inaugurate the planning forum of the Institute. This institute has emerged as a centre for excellence in the academia and management circles of the country. On this important occasion, I feel honoured to be invited here to share some of my feelings on Indian labour in a globalised world.

At the outset, I am delighted to see that labour as a discipline has finally leapfrogged itself from the periphery to the centre-stage in a remarkable break from the past. Earlier, labour as a discipline used to be looked upon in the mainstream disciplines as a creature, which everybody wants to watch for its oddities and complexities, but very few want to adopt and nurture it as a beloved pet.

This transition, however, not surprising, given the fact that labour is the basic creative power, next only to Nature. It leaves its imprint on everything that man makes – from the simplest to the most complex. All technology is the creation of labour. So are the tools that labour himself uses. A shopfloor labour, a farm labour, a mason, a manager, a scientist or a computer designer – all are labours in their own worthy ways. Quite appropriately, labour has been honoured as Vishwakarma – Architect of the World – in the Indian tradition.

It is only the nature of labour and the context in which it operates to produce socially useful goods and services that changes from time to time. A society's needs are best fulfilled, and a nation's aspirations are best served by responding to such changes with periodic revisions in laws and regulations so that

labour's creative power may always remain unfettered. Of course, in doing so, the needs and interests of labour have to be adequately safeguarded. It is within these universal guiding principles that I would like to touch upon the issue of the day - "Globalisation and its Impact on Labour in the Indian Economy".

Globalisation

The process of globalisation and integration has accelerated its pace and transformed its character under a confluence of forces embracing trade, technology, tariffs and investment flows, enabling it to transcend the geographical and political barriers. In fact, globalisation over the last three decades or so, has been associated with greater intra-industry and intermediate goods trade, reflecting more intense global competition. It has also been characterised by increasing share of services in world output; increasing asymmetry in the international mobility of labour and capital; and unregulated mobility of international capital as opposed to domestic capital.

Consequently, the product cycles as also the cost and scale of production are constantly in a flux through R & D and innovation. This often leads to bandwagon effects and cyclical co-movement of countries cutting across developed and developing nations. Besides, globalisation has entailed with itself new ideas and values like human rights, labour standards, empowerment of woman labours and protection to children, which can no longer be wished away.

A Capsule on Indian Economy

(extempore)

Globalisation and the Indian Economy

As you are aware, the winds of globalisation have started blowing over the country strongly in the wake of the unprecedented balance of payments crisis of 1991 and leading to a host of structural reforms. Our participation in the globalisation process was reaffirmed with the establishment of the World Trade Organisation in 1995 with India as one of its founding members. Since then, the country has come a long way in opening up the economy to private and foreign participation, leaving behind the dreaded licence-raj regime of the past. Today only six items are subject to industrial licensing, of which only three are reserved for the public sector. Practically, there is now no quantitative restriction on the import of any industrial goods – consumer, capital or otherwise. Simultaneously, the customs duty structure has been scaled down considerably with the average import duty ruling at 35 per cent in 2001-02 as against 73 per cent in 1991-92. FDI is now permitted under the automatic route with the foreign ownership cap raised to 100 per cent for majority of the sectors. Since 1994, Rupee has been rendered convertible on the current account. While the capital account convertibility is virtually in place for the foreign nationals and non-residents, there has been progressive move towards its liberalisation for the domestic resident as well.

In sequel, there has been some evidence of the business cycles in advanced countries impacting India's industrial sector in the 1990s (Chitre, 2003).¹ However, the country has remained largely insulated vis-à-vis its peer competitors as demonstrated in successful prevention of the East Asian contagion, the present current account surplus even in the face of global slowdown and the significant build-up of international reserves. Today, India stands out as one of the ten fastest growing countries in the world with the GDP growth placed at 6.1 per cent in the post-reform period (1992-2002) as against 5.7 per cent in the 1980s. The country

¹ Chitre, V. (2003), 'Global Slowdown and the Indian Economy', *Economic and Political Weekly*, May 24.

has also made encouraging progress on many other fronts. For the first time in five decades, population growth has declined below two per cent in the 1990s. The percentage of population in poverty has continued its southward journey even though not as much as was targeted. Literacy rate has also improved to 65 per cent in 2001 from 52 per cent in 1991. Sectors such as software and IT-enabled services have emerged as the new sources of strength and confidence about the country's competitive potential in the world economy.

Globalisation and the Indian Labour

Employment Growth and Elasticity

The globalisation process turns out to have performed a double-edged sword for the Indian labour. In terms of 'current daily status' estimates brought out by the National Sample Survey Organisation, there has been a significant deceleration in labour force participation rate to 1.3 per cent per annum during 1993-2000 from 2.4 per cent during 1983-1994. Notwithstanding a higher GDP growth in the latter phase, employment growth declined to 1.1 per cent from 2.7 per cent in the backdrop of decline in employment elasticity to 0.16 from 0.52 over the same period. The sharp deceleration in employment growth has raised fears that economic growth in the 1990s has been a 'jobless' variety. Besides, there is evidence of increasing capital intensity almost in all sectors including small un-organised ones and services particularly in the latter half of the 1990s.

Unemployment Rate

The significant reduction in labour force participation rate during 1993-2000 has been mainly on account of lower workforce participation by women particularly in rural areas. In fact, the number of unemployed stood at nearly 27 million in 1999-2000 as compared to about 20 million in 1993-94, taking the unemployment rate to 7.3 per cent of labour force from 6.0 per cent.

In evaluating the state of unemployment, it is important to recognise that some degree of unemployment is normal in any labour market. Even full employment is conventionally defined not as zero unemployment but as that level of employment when unemployment falls to the irreducible minimum. However, such level of unemployment has not been defined so far in the Indian context. Nevertheless, a cross-country comparison indicates that India's current unemployment rate remains significantly lower than several countries like Australia, Philippines, Pakistan and Sri Lanka and is comparable to Indonesia. However, it remains higher than the rate for China and Bangladesh (ILO's *World Development Report 2000*). Nevertheless, one encouraging development has been the noticeable decline in educated unemployment rate across rural and urban sectors both among the technically educated as well as those having secondary education or above.

State-wise Unemployment and Maharashtra

State-wise, while the highest unemployment rate was observed in Kerala (21 per cent), the lowest unemployment rate was noticed in Himachal Pradesh (3 per cent) with hardly any change in ranking of the states between 1993-94 and 1999-2000. However, the coefficient of variation across states increased significantly in the 1990s. The unemployment rate for Maharashtra, which is albeit lower than the all India average, increased sharply to 7 per cent from 5 per cent during the period.

For Maharashtra, the key observations about unemployment situation are outlined below:

- The rural unemployment rate among the male youth (at 11.3 per cent) was marginally higher in Maharashtra than the all India average (of 11.1 per cent).
- For the female youth, the rural unemployment rate (at 9 per cent) turned out to be lower than the all-India average (11 per cent).

- On the whole, rural unemployment rate among the youth at 10.4 per cent stood lower in Maharashtra than the all India average of 11 per cent.
- On the other hand, urban unemployment rate among the youth (male, female, and the average) was found to be higher in Maharashtra than the all India average as also its own rural unemployment rate.

This underscores the need for proactive policies to generate employment in the urban sector and especially among the youth, educated and skilled, particularly when the organised activity, which dominates the urban sector is suffering from a near jobless growth.

Sectoral Employment

While the commodity producing sectors have uniformly indicated decline in employment elasticity during 1993-2000 over 1983-1994, certain services sectors, viz., 'transport, storage and communication' and 'financing, insurance, real estate and business services' have bucked the declining trend substantially. Moreover, annual employment growth in 'manufacturing', 'construction', 'trade, hotels and restaurants', 'transport, storage and communication' and 'financing, insurance, real estate and business services' turned out higher in the latter period. Although, the absolute level of employment in agriculture remained almost unchanged at 190 million, its share in overall employment declined in the latter period while those of industry and services indicated sustained improvement. This has been in keeping with the experience of the rest of the world.

Casualisation and Quality of Employment

Casualisation of labour, often feared in certain circles in the aftermath of globalisation, witnessed only one per cent increase in 1999-2000 over 1993-94 coupled with a marginal improvement in the regular salaried class. Real wages of casual labour also increased faster than in the past both among agricultural and industrial workers. Further, the employment share of the unorganised sector was

almost maintained in 1999-00. Furthermore, higher growth of rural non-farm sector vis-a-vis agriculture facilitated absorption of excess labour from agriculture in the rural non-farm sector. All these things taken together imply that there might not have been any deterioration in the quality of employment in the country.

Skilled Labour and Wage Inequalities

Yet another healthy trend witnessed in the post-reform period has been the shift in the composition of labour force in favour of the skilled labours, in general, and more significantly in the unorganised sector. The dramatic expansion in software exports has certainly contributed to this development. As a natural consequence, labour productivity indicated faster improvement both in organised and unorganised sectors. While the larger absorption of skilled labours in the unorganised sector vis-à-vis the organised sector might have brought down the wage gap across, the same might have widened within the organised sector itself with de-emphasis of wage parity and narrow gap between the lowest and the highest paid employees. For example, over 100 out of about 240 PSUs have reportedly not had any pay revision since 1992 (*National Commission on Labour*, 2002, art. 4.286)

Organised Employment

While the employment share of organised sector remained almost the same at around eight per cent in 1999-2000 as in 1993-94, its employment elasticity came down close to zero. In particular, public sector, which accounts for nearly 70 per cent of employment of the organised sector, underwent a drastic decline in employment elasticity primarily on account of pursuit of rightsizing in the context of hard budget constraint. On the other hand, private sector, which is closely intertwined with the developments in the rest of the world, demonstrated considerable dynamism in terms of improvement in growth and elasticity of employment even in the face of slowdown in output. This is contrary to the

popular pessimistic projections for the post-reform period but in line with the enhanced role of the private sector in a market economy.

International Mobility of Labour

The migration of labours across international boundaries is one of the most striking features of globalisation worldwide. Since Independence, migration from India has been characterised by movement of persons with technical skills and professional expertise to the industrialised countries, and flow of unskilled and semi-skilled workers to the oil exporting countries of the Middle East. During the 1990s, however, there has been a clear shift in the pattern of labour demand in the Middle East away from unskilled and semi-skilled categories towards service, operations and maintenance workers requiring high skills. Besides, there has been a runaway growth in exports of IT and software services from India - both on-site and business process outsourcing (BPO) in the 1990s. One direct benefit for the employees in the IT sector is in the form of Employee Stock Option Plan offered by the employers which has led to the growing attractiveness of the sector. All these have enhanced the employment opportunities for the Indian labour, particularly when the country boasts to have very large pool of English speaking people as well as the second largest pool of scientific and technical manpower in the world. In the process, sustained remittances from the Indian Diaspora, which is in fact the largest in the world, have imparted an element of stability in the country's balance of payments.

Woman Labour

Globalisation is found to have led to greater feminisation of the workforce both in the developed and developing world. The issue has assumed considerable importance in view of the acute gender disparity in the country. Here, however, the signals are not unequivocal with evidence of increased youth unemployment rate among rural females coupled with a reverse tendency among urban females in

1999-00 over 1993-94. Nevertheless, the coincident increase in youth unemployment rate among both rural and urban males points to a possible feminisation of the workforce at least in short duration urban informal activities. Increased flexibility in the labour market may be needed if the country is to engage women in the work force fully and compete better in international markets.

Child Labour

Child labour, though undesirable, persists primarily in rural and agricultural activities on account of socio-economic compulsions. One of the positive features of the recent employment growth has been the definite decline in the participation of children aged five to fourteen years in the workforce. One fall-out of the decline in child labour has been the substitution effect, which favours the employability of adult females. While the existing literature often identifies poverty as a major determinant of child labour, evidence across Indian states indicates that the correlation between poverty and child labour is very weak. Therefore, one should possibly go beyond the poverty issues and look at areas such as quality of schooling and spread of primary education.

Industrial Relation

The phase of globalisation has witnessed silent and significant metamorphosis of the labour-management relations despite the institutional inertia on the front of labour laws and regulations. The erstwhile centralised and tripartite industrial relation (IR) system has slowly given way to many local bipartite IR systems. Increasingly, consultation, co-operation and consensus are taking the place of coercion and confrontation. This is reflected in the reduced number of man days lost at 210 million during 1991-2000 as against 402 million during 1981-90. One of the striking features during this period is that more man days were lost in lock-outs on the initiatives of the management than strikes effected by the employees. The new industrial climate has also encouraged the employers to

right-size the workforce by way of closures, technological change and restructuring.

Thus, the process of globalisation has set in motion myriads of forces, which are operating at multiple channels to transform the landscape of labour in the country beyond recognition. Let me now turn to the emerging challenges for Indian labour in a globalised world and the appropriate agenda for action.

Emerging Challenges and the Agenda for Action

Globalisation has brought the issue of education and skills development to the centre of the employment scene. The scope for absorption of labour in manufacturing or services would depend on educational attainments and skills acquired. As of now, the skilled labour force accounts for hardly around six to eight per cent of the total, compared to more than 60 per cent in most of the developed and developing countries. It is, therefore, necessary to orient the educational and training system towards skill requirements in both formal and informal sectors.

The participation rate of women in the labour market is as low as 18 per cent in India as compared to 44 per cent in China. The participation rate needs to be raised with thrust on educational levels, enabling the women labour to reach up in the value chain. Besides, action by the government and civil society is required to contain the gender disparity.

With globalisation and demands from the developed world for adherence to the international labour standards, developing countries including India would be increasingly under pressure to reduce the incidence of child labour. Therefore, efforts should be directed towards poverty reduction and improvement in the

quality of schooling. Making education compulsory for children is a necessary condition for the reduction and abolition of child labour.

The nature and structure of the informal sector, which is the most dynamic and employment-intensive sector, presents a challenge to the traditional legal arrangements, industrial relations and collective bargaining. There is need for promoting informal sector labour organisations like SEWA for textile workers to improve the income and working conditions of the informal workers. The present policy bias in favour of the formal sector needs to be corrected by way of tax holiday, duty exemption and access to credit for the informal sector.

The trade unions as institutions for labours are placed in a soul-searching mode in the new environment. They need to come up with new types of services for their members and form new alliances. They should be ready to deal with increasingly heterogeneous labour force such as part timers and contract workers. They need to make a successful transition from currently fragmented and political party affiliated system with overdependence on delayed, legalistic and adjudicatory resolution of industrial disputes to healthy and strong trade union movement wherein dispute settlement would be based on collective bargaining and arbitration at the enterprise level.

India's labour laws have evolved in a manner, which has greatly reduced the flexibility available to employers to adjust the labour force in the light of changing economic circumstances. In a globalised world, persisting with labour laws that are much more rigid than those prevailing in other countries only makes us uncompetitive not only in exports market but also in domestic market itself. Appropriate changes in the laws are therefore necessary if we want to see rapid growth. For instance, the Industrial Disputes Act (Section 5B), which now mandates that companies with more than 300 workers should obtain State

Government approval to rationalise the workforce, has in practice made closures or retrenchment layoffs virtually impossible. To bypass it, the "mutually agreed" Voluntary Retirement Schemes have been increasingly resorted to some companies in recent times, although it works out to be more costly. The provision for State Government permission should therefore be suitably modified to provide flexibility in restructuring. Similarly, the Contract Labour Act, which presently allows contract labour only for activities of a temporary nature, should be amended to undertake contract labour for all activities.

Another issue that has to be addressed in parallel with efforts at labour market reforms is the need for a social safety net in the form of unemployment compensation or insurance in the event of retrenchment. Industrialised countries, and even some developing countries like China, are able to provide employers with greater flexibility to hire and fire labour precisely because labour retrenched in the process of restructuring has the benefit of unemployment insurance. In this context, it may be mentioned that as part of the initial reform measures in the early 1990s, a National Renewal Fund was set up for addressing labour retraining and retrenchment. However, the miniscule corpus of the Fund as well as its poor utilisation has not really served the purpose of putting in place a social security net for the working class. To reinvigorate the Fund, it may be necessary to earmark certain proportion of the disinvestments proceeds of both the central PSUs and state PSUs. In a move towards laying the foundations for social safety net, a new social security scheme has been recently launched by the Central Government for the informal sector. These efforts need to be strengthened.

The Chinese Example

Our search for an alternative social contract has not been much successful so far. As a consequence, the industrial relations are today in a fix and flux

without any credible and feasible mechanism of adjustment. However, the stakeholders must realise, their interests be better served in a fast growing economy than otherwise. The longer the time they take in sharing the burden of transition, the further they would be away from the path of rapid growth.

It is against this backdrop that the Chinese experience could perhaps be instructive for us. Flexibility on the labour front in terms of productivity-based payment and retrenchment started in China with the units in the Special Economic Zones (SEZs) and, in course of time, was extended to cover all new companies after the labour law reforms of the mid-1980s. Alongside, the social security system was strengthened by way of unemployment assistance up to three years after the loss of job. Besides, the restrictions on labour mobility imposed through residence permit system were eased towards developing an integrated labour market. Such favourable labour conditions no doubt contributed towards huge FDI inflow, which has finally transformed China as the global manufacturing hub.

It is heartening to note that Maharashtra has already taken a lead towards this direction by declaring units in SEZ as public utility service under the Industrial Disputes Act. Besides, development commissioner for SEZ has been vested with powers of labour commissioner to act as a nodal officer for industrial disputes in SEZ. This process now needs to be emulated on an all India plane before the final act.

Concluding Observations

Clearly, globalisation stands for challenges and opportunities. The onus is now on all of us to demonstrate the resolve to turn the challenges too, into opportunities for the progress and prosperity of the nation. I am confident that constructive debate and deliberations would help in removing the last of the hurdles in the way of India's gainful partnership with the rest of the world. Here I foresee the Institute with its finest talents and visions actively participating and

effectively contributing to the on-going deliberations on issues, which are so close to all of our hearts!