

# Globalization and its Impact on Labour in the Indian Economy

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## I. Introduction:

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".

Indian economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as, *Liberalization, Privatization and Globalization* (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient.

With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy, and its effects over the last decade can hardly be overlooked. Besides, it also marks

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the advent of the real integration of the Indian economy into the global economy.<sup>2</sup>

This era of reforms has also ushered in a remarkable change in the Indian mindset, as it deviates from the traditional values held since Independence in 1947, such as self reliance and socialistic policies of economic development, which mainly due to the inward looking restrictive form of governance, resulted in the isolation, overall backwardness and inefficiency of the economy, amongst a host of other problems. This, despite the fact that India has always had the potential to be on the fast track to prosperity.

Now that India is in the process of restructuring her economy, with aspirations of elevating herself from her present desolate position in the world, the need to speed up her economic development is even more imperative. And having witnessed the positive role that Foreign Direct Investment (FDI) has played in the rapid economic growth of most of the Southeast Asian countries and most notably China, India has embarked on an ambitious plan to emulate the successes of her neighbors to the east and is trying to sell herself as a safe and profitable destination for FDI.

Globalization has many meanings depending on the context and on the person who is talking about. Though the precise definition of globalization is still unavailable a few definitions are worth viewing, Guy Brainbant: says that the process of globalization not only includes opening up of world trade, development of advanced means of communication, internationalization of financial markets, growing importance of MNCs, population migrations and more generally increased mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution. The term globalization refers to the integration of economies of the world through uninhibited trade and financial flows, as also through mutual exchange of technology and knowledge. Ideally, it also contains free inter-country movement of labour. In context to India, this implies opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India, removing constraints and obstacles to the entry of MNCs in India, allowing Indian companies to enter into foreign collaborations and also encouraging them to set up joint ventures abroad; carrying out massive import liberalization programs by switching over from

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<sup>2</sup> Globalisation Trend and Issues T.K.Velayudham,

quantitative restrictions to tariffs and import duties, therefore globalization has been identified with the policy reforms of 1991 in India.

## **II. 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.

## **III. 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<sup>3</sup>. 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

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<sup>3</sup> Repositioning India in the Globalised World Lecture: V.N.Rai.

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).<sup>1</sup>

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<sup>4</sup>. The country 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.

### *III. I. The Bright Side of Globalization*

The rate of growth of the *Gross Domestic Product* (GDP) of India has been on the increase from 5.6 per cent during 1980-90 to 7 per cent in the 1993-2001 period. *In the last four years, the annual growth rate of the GDP was impressive at 7.5 per cent (2003-04), 8.5 per cent (2004-05), 9 per cent (2005-06) and 9.2 per cent (2006-07). Prime Minister Dr. Manmohan Singh is confident of having a 10 per cent growth in the GDP in the Eleventh Five Year Plan period.*

*The foreign exchange reserves (as at the end of the financial year) were \$ 39 billion (2000-01), \$ 107 billion (2003-04), \$ 145 billion (2005-06) and \$ 180 billion (in February 2007). It is expected that India will cross the \$ 200 billion mark soon.*

*The cumulative FDI inflows from 1991 to September 2006 were Rs.1, 81,566 crores (US \$ 43.29 billion). The sectors attracting highest FDI inflows are electrical equipments including computer software and electronics (18 per cent), service sector (13 per cent), telecommunications*

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<sup>4</sup> Globalization of Indian economy by Era Sezhiyan

(10 per cent), transportation industry (9 per cent), etc. In the inflow of FDI, India has surpassed South Korea to become the fourth largest recipient.

***India controls at the present 45 per cent of the global outsourcing market with an estimated income of \$ 50 billion.***

***In respect of market capitalization (which takes into account the market value of a quoted company by multiplying its current share price by the number of shares in issue), India is in the fourth position with \$ 894 billion after the US (\$ 17,000 billion), Japan (\$ 4800 billion) and China (\$ 1000). India is expected to soon cross the trillion dollar mark.***

***As per the Forbes list for 2007, the number of billionaires of India has risen to 40 (from 36 last year) more than those of Japan (24), China (17), France (14) and Italy (14) this year. A press report was jubilant<sup>5</sup>: This is the richest year for India. The combined wealth of the Indian billionaires marked an increase of 60 per cent from \$ 106 billion in 2006 to \$ 170 billion in 2007. The 40 Indian billionaires have assets worth about Rs. 7.50 lakh crores whereas the cumulative investment in the 91 Public Sector Undertakings by the Central Government of India is Rs. 3.93 lakh crores only.***

### ***III. II. The Dark Side of Globalization***

On the other side of the medal, there is a long list of the worst of the times, the foremost casualty being the agriculture sector. ***Agriculture has been and still remains the backbone of the Indian economy.*** It plays a vital role not only in providing food and nutrition to the people, but also in the supply of raw material to industries and to export trade. ***In 1951, agriculture provided employment to 72 per cent of the population and contributed 59 per cent of the gross domestic product. However, by 2001 the population depending upon agriculture came to 58 per cent whereas the share of agriculture in the GDP went down drastically to 24 per cent and further to 22 per cent in 2006-07.*** This has resulted in a lowering the per capita income of the farmers and increasing the rural indebtedness.

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<sup>5</sup> Repositioning India in the Globalised World Lecture: V.N.Rai.

The agricultural growth of 3.2 per cent observed from 1980 to 1997 decelerated to two per cent subsequently. The Approach to the Eleventh Five Year Plan released in December 2006 stated that the growth rate of agricultural GDP including forestry and fishing is likely to be below two per cent in the Tenth Plan period.

The reasons for the deceleration of the growth of agriculture are given in the Economic Survey 2006-07: Low investment, imbalance in fertilizer use, low seeds replacement rate, a distorted incentive system and low post-harvest value addition continued to be a drag on the sectors performance. With more than half the population directly depending on this sector, low agricultural growth has serious implications for the inclusiveness of growth.

*The number of rural landless families increased from 35 per cent in 1987 to 45 per cent in 1999, further to 55 per cent in 2005. The farmers are destined to die of starvation or suicide. Replying to the Short Duration Discussion on Import of Wheat and Agrarian Distress on May 18, 2006, Agriculture Minister Sharad Pawar informed the Rajya Sabha that roughly 1, 00,000 farmers committed suicide during the period 1993-2003 mainly due to indebtedness.*

In his interview to The Indian Express on November 15, 2005, Mr. Sharad Pawar said: The farming community has been ignored in this country and especially so over the last eight to ten years. The total investment in the agriculture sector is going down. *In the last few years, the average budgetary provision from the Indian Government for irrigation is less than 0.35 per cent<sup>6</sup>.*

#### **IV. Globalisation and the Indian Labour:**

##### ***IV. 1. 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

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<sup>6</sup> Globalisation and Indias Business prospectives Lecture Ravi Kastia.

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.

#### ***IV. II. 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.

#### ***IV. III. State-wise Unemployment***

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.

#### ***IV. IV. 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<sup>7</sup>.

#### *IV. V. 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.

#### *IV. VI. 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).

#### *IV. VII. 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

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<sup>7</sup> Globalisation and Liberalisation Prospects of New World Order Dr.A.K.Ojha, Third Concept An International Journal of Ideas, Aug 2002.

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.

#### V. Globalisation and Indian Manufacturing:

The reforms involves putting an end to the license, reduction of high industrial tariffs, the privatization of aluminum, car manufacturing, telecoms and information technology companies, the liberalization of the exchange Mergers, takeovers, global alliances joint ventures and collaborations are taking place, almost every day. India's telecom sector is exploding and all the big handset makers are talking about setting up manufacturing facilities here so that they can cater to this strong domestic demand", says Shirish Sankhe, a partner at Mckinsey in India. This shows that even in a sector where imports were cheaper because of zero duties, "*Made in India*" is being preferred. Manufacturing capacities are being expanded the country is emerging as a global source. Globalisation has increased share in GDP. Indian has been witnessed of increasing GDP.

**Table 1: Indian GDP –Trend of Growth Rate**

Years	Growth Rate
1960-1980	3.5%
1980-1990	5.4%
1990-2000	4.4%
2000-2009	6.4%

### ***V.I. 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<sup>8</sup>.

### **VI. Labour Market Scenario:**

Marked by dualistic category, informal sector had always existed in the Indian economy. Development literature of the fifties and early sixties presumed that capitalist accumulation in the modern industrial sector would absorb the surplus labour from the traditional sector leading to economic growth. Until then, welfare measures were prescribed for informal labour waiting to be integrated into the formal economy. But unprecedented as it was, the sub-economy increased in size over time. Legalist approaches along with minimum wages etc. were suggested to erase the marginality of the 'unorganized' informal sector to enable welfare interventions. Yet then, the informal sector persisted.

With the present globalization in the 1990s, the process of informalisation of the labour force has exacerbated and taken a new turn. Global competition has forced large scale enterprises of the formal sector to out-source their production process to smaller informal firms where wage cost and cost associated with labour and environmental standards are substantially low. Further, large scale retrenchment of labour has taken place through VRS in

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<sup>8</sup> Deshpande, Lalit, K. Sharma, Alakh N, Karan, Anup, K and Sarkar Sandip (2004): *Liberalisation and Labour: Labour Flexibility in Indian Manufacturing*, New Delhi, Institute for Human Development.

pursuit of high productivity. With the aim of 'rightsizing' the firms, creation of new jobs has been outpaced by job-loss, and surplus labour from the formal sector is being thrown out into the informal. These two types of informalisation, out-sourcing and lay-off, are increasing the informal economy enormously, so much so, that today formal labour constitutes just 6 percent while informal sector, with its already high rate of growth has acquired the enormous size of 94 percent of the labour force. The dual structure that was distinct in terms of capital labour relationship is no longer easily discernable as two opposite hold-ups for labour, any longer. The labour force may be best described as a continuum of labour with different degrees of insecurity, wage structure and production relation with the exception of one category of highly skilled, highly paid professionals – the labour- aristocrats, if we may call them. Herein lies the problem of maintaining labour standards on the one hand and on the other, providing social security for the labour force, both precipitated by the process of globalization

### ***VI. I. 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.

### ***VI. II. 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.

### **VI. III. 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<sup>9</sup>. 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.

### **VII. Role of the State:**

In India, two counter claims are being made regarding the impact of globalization on labour. One is that globalization requires dilution of the labour standards, since rigid labour laws impede efficiency and profitability of the corporate sector. The argument is that any obstacle to competitiveness drives away capital to other attractive places in their perpetual *race to the bottom* and hinders foreign investment and growth in the country. The other claims that in pursuit of capital and growth, labour rights and livelihood of the people are under assault. From this viewpoint, the flexibilization of the labour market is a strategy to reduce the bargaining power of labour and explanation for loss of employment. The two counter arguments from the employer and the worker could create a dilemma for the state.

In the context of current debates related to rigidity of labour laws, it therefore, becomes extremely important to take sides and determine the direction of institutional interventions. On the one hand, the state has to respond to the various stakeholders such as the private domestic capital, multinational firms and international financial agencies and on the other, it has to consolidate its own political position and reinforce its welfare role by

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<sup>9</sup> Ghose, Ajit K. (2003): *Jobs and Incomes in a Globalising World*, Geneva, International Labour Office.

providing minimal social security measures to the common masses that constitute the electorate.

We find that in the prolonged situation of 'jobless growth' and current wake of the corporate lobby, the government has come up with certain recommendations to reform labour laws, first in 2001 in its Report on Task Force, by the Planning Commission of India and again in 2002 by the Second National Commission on Labour (SNCL). The task force points out the various problem areas in the labour legislation where immediate reforms are needed. It focuses on the three main Acts and their features and suggests changes. The three main acts that are the cause of contention are the Industrial Disputes Act (1947)<sup>10</sup>, the Contract Labour (Regulation and Abolition) Act (1970)<sup>11</sup> and the Trade Union Act (1926)<sup>12</sup>.

The meagre social security arrangement provided by the state in India is indeed dualistic in nature. Only a very small proportion of the workforce which is in a relatively privileged position has access to protection whereas the remaining majority remains unprotected. The main social security programmes include Workmen's Compensation Act, 1923 for accidents in the place of work, Employees' State Insurance Act, 1948 for health benefits, Maternity Benefit Act, 1961 for expectant women workers and retirement benefits like Payment of Gratuity Act, 1972 and Employees' Provident Fund Act, 1952. But in spite of a wide coverage the schemes lack appropriate planning and applicability depends on wage ceilings, number of employees in an establishment, type of establishment, etc. The huge unorganized sector, however, remains outside the reach of this arrangement. National Commission for Enterprises in the Unorganised Sector [(NCEUS) 2007] was

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<sup>10</sup> In 1976, a special chapter (Chapter V-B) was introduced in the Industrial Disputes Act which made compulsory prior approval of the government necessary in the case of lay offs, retrenchment and closure in industrial establishments. The inclusion of Chapter V-B and its consecutive amendments was construed as causing rigidity in the labour market.

<sup>11</sup>With respect to the Contract Labour Act, the Supreme Court ruling (1972) says that if the work done by a contract labour is essential to the main activity of an industry, then contract labour in that industry should be abolished. It was this ruling that that creates dispute. The workers claim, if contract labour is abolished they should be absorbed in the firm, while the employers think that this law affects flexibility in case of outsourcing or in hiring unskilled labour.

<sup>12</sup>The Trade Union Act introduced in 1926 legalized trade unions, but there is no nationwide law that recognizes trade union and also there is no compulsion for the employers to enter into a collective bargaining. So even though there is a right to form an association or form a trade union, it is not mandatory for an employer to recognize it.

set up with a view to grant official recognition to the overwhelming mass of informal labour and to propose recommendations accordingly.

#### **VIII. 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 6 to 8 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.

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<sup>13</sup>. 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.

### **IX. 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

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<sup>13</sup> Ghose, Ajit K. (2003): *Jobs and Incomes in a Globalising World*, Geneva, International Labour Office.

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.

### *IX. I. Victims of Globalization*

IN his *Making Globalization Work*, Nobel Laureate Stiglitz wrote: Trade liberalization opening up markets to the free flow of goods and services was supposed to lead to growth. The evidence is at best mixed. Part of the reason that international trade agreements have been so unsuccessful in promoting growth in poor countries is that they were often unbalanced. The advanced industrial countries were allowed to levy tariffs on goods produced by developing countries that were, on average, four times higher than those on goods produced by other advanced industrial countries.

In his foreword to *The Dynamics and Impact of Globalization* by Dr. M. V. Louis Anthuvan, Justice V. R. Krishna Iyer pointed out pithily: The New World Order is the product of what is now familiarly described as globalization, liberalization and privatization. The weaker sectors like the Asian and African countries are victims, whose economic welfare is slavery, at the disposal of the White world<sup>14</sup>. When World War II came to a close, commercial conquest and trade triumph became the major goal of the United States and the other giant trade powers. Indeed, these mighty countries and companies even made world hunger as Big Business. The poorer countries with natural resources have been made banana republics and cucumber vassals.

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<sup>14</sup> Nasscom (2001): *Nasscom Survey 2001*, New Delhi, National Association of Software and Service Companies at <http://www.nasscom.org/>.

The Human Development Report 2006 recorded: Globalization has given rise to a protracted debate over the precise direction of trends in global income distribution. What is sometimes lost sight of is the sheer depth of inequality and the associated potential for greater equity to accelerate poverty reduction. Measured in the 2000 purchasing power parity (PPP) terms, *the gap between the incomes of the poorest 20 per cent of the world's population* and the \$ 1 a day poverty line amounts to about \$ 300 billion. That figure appears large, but it *is less than two per cent of the income of the world's wealthiest 10 per cent.*

#### **X. Concluding Observations:**

Under the phenomenal growth of information technology which has shrunk space and time and reduced the cost of moving information, goods and capital across the globe, the globalization has brought unprecedented opportunities for human development for all, in developing as well as developed countries. Under the commercial marketing forces, globalization has been used more to promote economic growth to yield profits to some countries and to some groups within a country.

India should pay immediate attention to ensure rapid development in education, health, water and sanitation, labor and employment so that under time-bound programmes the targets are completed without delay. A strong foundation of human development of all people is essential for the social, political and economic development of the country.

Though at present India appears to be dominant in some fields of development as in IT-ITES, this prosperity may be challenged by other competing countries which are equipping themselves with better standards of higher education. As detailed earlier, *our progress in education has been slow and superficial, without depth and quality, to compete the international standards*<sup>15</sup>.

The government should take immediate steps to increase agricultural production and create additional employment opportunities in the rural parts, to reduce the growing inequality between urban and rural areas and to decentralize powers and resources to the panchayati raj institutions for implementing all works of rural development. Steps should be taken for early linking of the rivers, especially in the south-bound ones, for supply of the much-needed water for irrigation.

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<sup>15</sup> Planning Commission (2002): *Report of the Special Group on Targeting Ten Million Employment Opportunities*, New Delhi, Government of India.

*It should be remembered that without a sustainable and productive growth of the agricultural sector, the other types of development in any sphere will be unstable and illusory. Despite the concerted development in manufacturing and service sectors, despite the remarkable inflow and overflow of foreign reserves, agriculture is still the largest industry providing employment to about 60 per cent of the workforce in the country.*

Mere growth of the GDP and others at the macro level in billions does not solve the chronic poverty and backward level of living norms of the people at the micro level. The growth should be sustainable with human development and decent employment potential. The welfare of a country does not percolate from the top, but should be built upon development from the bottom.

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!