



# Globalisation and Labour in South Asia

**EDITED BY  
D. NARASIMHA REDDY**

**PANOS**  
SOUTH ASIA

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**INSTITUTE FOR DEVELOPMENT ALTERNATIVES  
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# Contents

## GLOBALISATION AND LABOUR IN SOUTH ASIA

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# Globalisation, Labour and Employment in South Asia: An Overview

D. NARASIMHA REDDY AND J. JEYARANJAN

## I Introduction

### 1.1 Phases of Globalisation

IN THE long process of development of capitalism across the world, certain rapid phases of growth driven by surges in movement of goods, labour and capital, particularly across countries with reduced barriers, are identified as epochs of globalisation. The period between 1860 and 1914 has been widely recognised as one such epoch.

The present period, beginning with the early 1980s, is yet another epoch of globalisation characterised by a rapid expansion in global trade, foreign direct investment (FDI) and an increase in cross-border financial flows on an unprecedented scale. It is marked by a compression of time and space facilitated by breakthroughs in information and communication

technology. While trade liberalisation and the free movement of capital and finance constitute the external dimensions of the present phase of globalisation, structural adjustments programmes (SAPs) with increasing privatization, reduced state intervention and growing fiscal constraints mark its internal institutional character, which is largely driven by market forces with an emphasis on competitiveness. This package of measures has come to be popularly known as the Washington Consensus since these it was actively promoted by the US and the Washington-based multilateral agencies, the World Bank and the International Monetary Fund (IMF).

### 1.2 Flexible Labour Markets and Informalisation

GLOBALISATION, with its compulsion to compete, has brought about drastic changes in industrial organisation, with far-reaching consequences for the working class. The achievements of post-World War II industrial organisation in the form of Fordist mass production and social security under welfare states are rapidly being dismantled by decentred industrial organisation in the form of global production networks (GPNs) and flexible employment.

The organisational thrust of production and labour markets has now become flexibilisation. Flexibility of work and the labour market takes several forms (Standing 1999a; Deshpande et al. 2004; Munck 2002). It could be numerical flexibility, where the number of workers is adjusted to the employer's needs; externalisation, which means part of the work is sub-contracted; internal flexibility, where working hours are adjusted; and functional flexibility, which involves modifying workers' jobs; and wage flexibility. To this, one should add spatial or geographical flexibility, which means that a geographically concentrated and socially homogeneous industrial working class of semi-skilled factory labourers is being increasingly replaced by socially diverse and geographically dispersed labour forces. A defining characteristic of labour markets in the global era



is smaller workplaces, fewer rules in the workplace, weaker unions, and wages tied to business cycles (Munck 2002: 72-73). During the last two decades, through de-industrialisation and industrial reorganisation, there has been a dismantling of many of the forces and institutions of “traditional” (for instance, blue-collar and unionised) working-class forms of power.

Flexible United States-style labour markets are now promoted in the name of increasing employment. It is based, as Stiglitz (2002: 13) points out, on a dubious theory that holds interventions to enhance job security or payroll taxes to improve pension benefits will lead to inefficiency and an increase in unemployment. The highly deregulated US economy is characterised by stagnant or falling wages for a significant percentage of low-skilled workers. The high-skilled workers have supercharged work schedules to meet crucial deadlines at all costs and out-compete others. This may bring more profits and family earning, but at the cost of job security, more intensified family and work schedules, and increased individual stress and isolation. This model of flexible work, which has become the hallmark of globalisation, has profoundly altered the way workers live and relate to each other. It is dissolving the identity that workers have developed in relation to industrial institutions.

The job and everything organised around the job—the friends at work, the after work meeting places, the trade union, even group transport—lose their social function. They are becoming as “permanently temporary” as the work itself. (Carnoy 1999: 412)

Much of the temporary labour is supplied by women who enter the workforce because of the need to earn more to keep family incomes intact. And this has occurred at a time when there is more need for strong, cohesive families with time and energy to invest in the education and well-being of both adults and children during the difficult transition towards new forms of work and personal life. The new workplace

destabilises the child-centred nuclear family, degrading the very institution crucial to further economic development (Carnoy 1999). In the name of competition, the flexible US labour market model is making inroads all over the world, even threatening social Europe and secure Japan.

Commenting on the argument that flexibility leads to more efficiency and increased investment, Stiglitz observes that “the mantra of increased labour market flexibility was only a thinly disguised argument to roll back—under the guise of ‘economic efficiency’—gains that workers had achieved over years and years of bargaining and political activity” (2002: 13). He goes on to expose the dangers of treating labour like any other commodity or equating the labour market with other factor or product markets.

“Labour market flexibility” and “capital market liberalisation” may (thus) appear as asymmetric policies, freeing up the labour and capital markets, respectively, but they have very asymptotic consequences and both serve to enhance the welfare of capital at the expense of workers, so ingrained have these prescriptions become in the mantra of good policy that their distributional consequences have been almost totally ignored; and of course, if efficiency and distribution could be separated, as traditional theory argued they could be, the lapse might not have been so important. (2002: 14)

### 1.3 Competition and Labour

CLOSE on the heels of labour market flexibility is so-called competitiveness, which is nothing but another word for cutting labour costs.

The whole ideology of competitiveness serves to divide and rule workers, both domestically and internationally. Its real purpose is to facilitate acquiescence to the redistribution in income from wages to profits and to an economy, which is increasingly incapable of producing positions of material comfort (not to speak of

human fulfilment) for all but a shrinking minority. When taken to its logical conclusion, the competitiveness strategy leads to a reduction of workers' living standards to the lowest common denominator internationally. (Burkett, quoted in Bina et al. 1996)

In industrialised countries, globalisation has been an important factor in causing job losses as corporations “downsize” their employment in the face of cut-throat competition and, to a limited extent, due to rising imports from low-wage countries as well as a shift of production to these low-cost locations. Concomitant with this “race to the bottom,” are rising wage and income inequalities within and between countries (ILO 1996). There has also been a degradation of work into temporary, part-time and irregular employment with low wages. There has been growing casualisation of employment all over. The concept of a job for life is becoming a thing of the past, both in developed and developing countries.

An extensive process of what looks like classic proletarianisation is taking place in many countries of the so-called “developing” world; and in the advanced capitalist world, the decline in the size of the traditional industrial labour force is accompanied by the proletarianisation of many service and professional occupations and the spread of more unstable, casual and contingent employment. (Panitch 2001: 367)

In developing countries, globalisation has let loose a process of intensification of casualisation and informalisation, which is causing dislocation of communities by minimising employment opportunities in general, reducing employment in the organised sector and increasing the mass of “working poor”. Vulnerable employment consisting of own account workers and unpaid family workers constitute the largest proportion of the workforce in most developing countries. Privatisation of the public

sector, decentralised production through sub-contracting and home-based production, deregulation of labour markets, and the transfer of jobs from the formal to the informal sector have undermined the position of labour as a factor of production and labour as a class. The process of sub-contracting, with the exception of the early Japanese experience, has been highly exploitative, as in Southeast Asia. Due to fierce competition among small and informal supplying firms, large firms can choose their sub-contractors. The formal sector exploits existing sharp differentials in job security, wage levels and safety standards by sub-contracting to smaller and informal firms, thus avoiding the costs of social security and high wages. With the emergence of dual production structures, the major proportion of risks, hardships and uncertainties of small enterprises are in turn transferred to hapless workers in sweatshops (Thomas et al. 1994).

The forces shaping globalisation have resulted in increasing feminisation of employment in agriculture. Wherever there has been an increase of jobs for women in manufacturing, as in some Asian countries, it has been only in certain low-paid and low-skilled areas. Standing (1999b) shows that it is the spread of more flexible and informal employment that has accounted for much of the upward trend in the female share of the labour force. The decade spanning the late 1980s and 1990s was one of feminisation of flexible labour in industries where profit margins are protected by reducing labour costs, extending hours and decreasing the numbers of formal production workers. The greatest increase in the female share of manufacturing employment was in countries that adopted export-oriented, low-technology, high-labour industrialisation, especially by setting up export processing zones (EPZs) for textiles, garments, shoes and electronics, as in Southeast Asia. But these are also the locales of widespread sex-based segregation of jobs. The forces of free trade and technological change divide workers into a small highly-skilled and highly-paid group at one end and a large number of low-skilled and low-paid workers at the other. Organisational changes

in the form of sub-contracting and home-based production have further driven women into low-end jobs. Many of the Southeast Asian countries have not even ratified International Labour Organisation (ILO) Convention No. 100 on “equal pay for equal work” (Mehra and Gammage 1999).

“Home worker” is another category of degraded and vulnerable labour with a rapidly growing female share. Employers prefer employment contracts with home workers because costs can be minimised. These workers actually subsidise capitalist growth by providing infrastructure, tools and equipment and often work below minimum wages (Chen et al. 1999). Most of these informal labour markets, under the pressure of so-called competitiveness, are constructed on a gendered basis because the burdens of the reproductive economy (taking care of children, parents or others for no pay) are borne largely by women (Elson 1999).

The impact of globalisation on women’s paid labour is far more complex than generally assumed. While it may open up certain opportunities for “elite” women, it tends to drive many other women into destitution. The economic polarisation resulting from globalisation sets the dynamics for labour migration as well as its feminisation. (Cheng 1999)

By the early 21<sup>st</sup> century the workforce structure in particular and the world of work in general reflected the profound impact of the global reorganisation of production. The industrialised world, as could be seen in Organisation for Economic Co-operation and Development (OECD) countries, experienced considerable changes in the pattern of employment (ILO 2001: 15-17). Labour markets in the OECD nations tend to be increasingly segmented. Firms organise employment into core and peripheral components. Core employment includes stable employment. Peripherals, marked by high turnover, are on the increase. In developing countries, even in the 1980s, the informal sector was looked on in some quarters

positively as a vehicle for absorbing growing labour, possibly with relatively better wages, but by the late 1990s it was clear that informalisation was a critical component of globalisation with all its low-wage, high-insecurity implications. “Its main effect is to undermine organised labour and facilitate the development of disorganised capitalism” (Cheng 1999: 115).

## II

### 1.4 The Beginning of the Asian Age?

THE end of the 20th century also marked the beginning of the shift in global gross domestic product (GDP) in favour of Asia. The share of the largest industrial economies in the world (Group of Seven; G7) declined from 51% in 1950 to 46% in 1998 (World Bank 2009). There is an interesting, if not ironical, link between the beginning of the Washington Consensus in the 1980s and the rise of the share of Asia in global GDP. During the 1980s and 1990s, Southeast Asia and the Pacific doubled its share to about 1.8% and South Asia’s share of global GDP rose from 1.4% to 2.4%. The largest increase has occurred in Northeast Asia since the mid-1980s, essentially in China, where the share of global GDP rose from less than 1% to about 5.5% (World Bank 2009). These shifts are largely accounted for by the two emerging economies in Asia, China and India, which have witnessed very high growth rates in the past three decades.

Notwithstanding the grand vision of the future of Asia, some of its regions are home to extensive human distress and social, ethnic and regional disparities. South Asia, in particular, shares several of these disquieting features (Kabeer 2009).<sup>1</sup> It has the largest concentration of people below the poverty line in the world—about 400 million. Underlying high levels

<sup>1</sup> This section is based substantially on Kabeer 2009.

Country	GDP Growth Rate	HDI Rank	Share of Income of Poorest 20%	Share of Income of Richest 20%	Ratio of Richest 20% to Poorest 20%	Gini Co-efficient
INDIA	8.0	126	8.9	43.3	4.9	32.5
PAKISTAN	7.8	134	9.3	40.3	4.3	30.6
BANGLADESH	5.4	137	9	41.3	4.6	31.8
NEPAL	2.5	138	6	54.6	9.1	47.2

Source: Online HDI Statistical Database (from Kohler 2008) as in Kabeer 2009.

of poverty and different socio-economic circumstances are group-based or “horizontal inequalities” of various kinds. People from indigenous, dalit and minority religious groups tend to be much more than others among the chronically poor. In addition, extreme forms of gender discrimination prevail in the region. Nature’s fury also leaves many parts of South Asia vulnerable to major natural disasters such as floods and cyclones, especially the coastal and eastern parts of India and Bangladesh. Other regions are ecologically fragile, including low-lying *char* (silt islands in rivers) areas of Bangladesh, and the arid and semi-arid zones of India and Pakistan. Overall, most of the South Asian countries are at the bottom in terms of the Human Development Index and other inequalities (Table 1.1). Ironically, all these countries, except Nepal, have been experiencing fairly high levels of GDP growth.

Modifying a question raised by the Asian Development Bank (ADB 2005), we may ask—how can South Asia help its poor climb out of poverty? And give an answer contextualised to the region.

While there are many causes of poverty, ultimately the poor are poor because they earn too little from the work that they do (Fields 2004). Regardless of whether they are self-employed, helping on the family farm or enterprise, or working for wages, most of Asia’s workers derive thin incomes, and therefore sustain themselves and their families, by using their labour. (ADB 2005)

Thus the central problem in South Asia is not as much mere employment as the quality of it. The major challenge is to make work productive and decent, and earnings decent enough to enable people to live better.

## 1.5 Labour Force, Employment and Unemployment in South Asia

THIS overview is concerned with the South Asian situation in terms of the impact of globalisation on employment, earnings and social security. It discusses changes in labour forces, employment, unemployment, migration, wages and earnings, and social security across the four selected South Asian countries from a comparative perspective.

The world’s largest share of labour resides in Asia. In 2005, 1.7 billion workers or 57.3% of world’s labour force was in Asia. South Asia, with about 23% of world’s population, accounted for about 21% of the world labour force. Projections suggest that South Asia’s labour force is likely to increase by about 24% by 2015 and by 51% by 2030 (Table 1.2). The share of South Asia in the Asian labour force is likely to increase from 34.79% in 2005 to 42.34% in 2030. South Asia will be one of the regions in the world that witnesses a very fast growth in the size of its labour force.

Although the population growth rate is projected to decline in varying degrees in the years to come, all the four South Asian countries have a very high proportion of population in the young age group of 14 years or less



(Table 1.3). In Bangladesh and India, the young group constitutes 32% of the population and in Nepal and Pakistan, 37%. This is reflected in the higher dependency ratio of the young in all the countries. A high proportion of the young in the population poses a problem in the short run but may turn out to be an advantage in the long run. It is a problem in the sense that the higher the proportion of the young in the present population, the higher the investment needed in educating them and developing their skills if they are to become highly productive workers and the greater the challenge in creating jobs for them when they enter the labour force. It is an advantage, given

<b>TABLE 1.2 Labour Force Estimates / Projections for South Asia</b>			
Country/Region	Estimates / Projections (in Thousands)		
	2005	2015	2030
BANGLADESH	68,026	85,322	108,290
INDIA	460,174	550,809	654,272
NEPAL	11,211	14,642	19,582
PAKISTAN	57,795	75,444	101,620
SOUTH ASIA	607,963 (34.79%)	752,628 (37.77%)	920,030 (42.34%)
ASIA	1,747,630	1,992,499	2,173,076

Note: Figures in brackets are percentages to Asian total  
Source: ADB 2005

<b>TABLE 1.3 Population Growth Rate, Age Distribution and Dependency Ratio, 2008</b>										
Country/Region	Population (million)			Population Growth Rate		Age Group (%)			Dependency Rate**	
	1990	2008	2015	1990-08	2008-18*	0-14	15-64	65+	Young	Old
BANGLADESH	115.6	160.0	176.3	1.8	1.4	32	64	4	50	6
INDIA	849.5	1,140	1,246.9	1.6	1.3	32	63	5	50	8
NEPAL	19.1	28.8	32.5	2.3	1.7	37	59	4	63	7
PAKISTAN	108.0	166.1	193.5	2.4	2.2	37	59	4	63	7
SOUTH ASIA	1,128.7	1,545.1	1,706.5	1.7	1.4	33	63	5	52	7
WORLD	5,278.9	6,697.3	7,241.2	1.3	1.1	27	65	7	42	11

Note: \*Projected; \*\* Percentage of young (upto14) and old (65+) to working-age population  
Source: World Development Indicators 2010, World Bank.

the declining population growth rate, because as the young enter the labour force, the working-age population share increases—a demographic dividend.

In most developed countries, slow or negative population growth has meant the share of the young is low, making their future entry to the workforce low, while the ratio of old-age dependency is swelling, posing serious problems of labour shortage as well as excessive social security obligations. In contrast, the South Asian advantage of a high share of the young is likely to serve as a demographic dividend by turning into a high proportion in the working-age group. However, realising the dividend, as observed earlier, depends on providing productive employment with decent earnings for all those seeking work.

## Labour Force Participation Rate

LABOUR force participation rates are very uneven among the South Asian countries because of large differences in the female participation rate. In 2008, male labour force participation was fairly high in all the four countries, ranging from 76% in Nepal to 85% in Pakistan. For South Asia as a whole it was 82%, much higher than the 77% for the world as a whole. But the female labour force participation rate is very low at 21% in Pakistan and 33% in India. It is relatively higher at 59% in Bangladesh and 63% in Nepal (Table 1.4). The low rate of female labour force participation

in India and Pakistan pose a challenge to the extent the demographic advantage of a high proportion of the young can be turned into a dividend.

## Employment Structure

THOUGH there have been changes in the structure of employment, especially since the early 1990s, agriculture is still the main source of employment. And, unlike other Asian economies, services employ more workers than industry (Table 2). There are variations among these countries in male-female shifts in employment across sectors. By 2008, there had been a

TABLE 1.4		Labour Force Participation and Employment Structure in South Asia (%)														
Country / Region	% 15+ Older Labour Force Participation rate				Agriculture				Industry				Services			
	Male		Female		Male		Female		Male		Female		Male		Female	
	1990	2008	1990	2008	1990-92	2004-08	1990-92	2004-08	1990-92	2004-08	1990-92	2004-08	1990-92	2004-08	1990-92	2004-08
BANGLADESH	89	84	61	59	54	42	85	68	16	15	9	13	25	43	2	19
INDIA*	85	81	34	33	74	63	86	79	11	19	8	13	15	18	6	8
NEPAL	80	76	52	63	75	NA	91	NA	4	NA	1	NA	20	NA	8	NA
PAKISTAN	85	85	14	21	45	36	69	72	20	23	15	13	35	41	16	15
SOUTH ASIA	85	82	35	35												
WORLD	80	77	52	52												

Note: \*For India, the data refer to 1993-94 and 2000-10 respectively.

Source: World Development Indicators, 2010, World Bank; for India employment, Himanshu 2011.

substantial shift in the proportion of male employment in Pakistan in favour of services (41%) and industry (23%), reducing agriculture's share to 36%. A similar trend is seen in Bangladesh where male employment in agriculture declined to 42% and marginally in industry to 15%, while it increased to 43% in services. Though the available data is not very clear, employment for male and female workers continues to be predominantly in agriculture.

### Employment Status in South Asia

STATUS of employment is a rough and ready indicator of the overall state of the workforce in a country. On the status scale, casual labour, which is insecure and often low-wage, beck-and-call type of employment, is at the bottom. Regular wage or salaried employment normally goes with better wages, jobs and social security, and hence is at the top of the scale. It is the self-employed category that is very heterogeneous in composition and it could include anyone from the poorest street vendor to the richest professional. But, by and large, in South Asian countries, self-employment can also be seen as a refuge of the underemployed. In that sense, the performance of Bangladesh, which has reduced the share of self-employment both in rural and urban areas, is much better than those of the other countries. In Nepal the condition is actually worsening. Barring Bangladesh, in none of these countries has there been a substantial increase in regular employment, which would have been an indication of change for the better.

### Unemployment, Underemployment and Working Poor in South Asia

THE unemployment rate measured as a proportion of the total labour force does not appear to be high. This is simply because the poor cannot afford to be unemployed while waiting for full-time employment, and for subsistence, take up any work, any time it is available. Thus most of those in

the labour force are not usually unemployed, but they are underemployed. Many among the self-employed or casually employed are underemployed. Often, their employment is thin and their earnings are very low. Most of the underemployed end up as part of the working poor, who also include those fully employed, but in work that earns them much below the poverty line.

**TABLE 1.5** Employment Status of Rural and Urban Workers in Select South Asian Countries (%)

Country	Casual Labour		Self Employed		Regular	
	Rural	Urban	Rural	Urban	Rural	Urban
<b>INDIA</b>						
1993-94	33	18	60	42	7	41
1999-2000	33	18	57	41	8	41
2009-2010	38	17	54	41	8	43
<b>BANGLADESH</b>						
2000	38	22	47	35	14	43
2010	39	21	44	28	17	51
<b>NEPAL</b>						
1996	15	18	79	55	2	27
2004	13	12	83	61	4	26
<b>PAKISTAN</b>						
1999-2000	17	19	71	46	12	35
2008-2009	16	19	71	45	13	36

Source: World Bank 2011

Table 1.6 shows unemployment and underemployment rates as well as poverty ratios. Unemployment ranges from 1.8% in Nepal to 8.3% in Pakistan. Though the period of reference is uneven and data are somewhat dated, the inference is fairly clear. Lower unemployment does not mean a lower level of poverty. Nepal and Bangladesh with relatively low rates of unemployment have high rates of underemployment and higher levels of poverty.

It is unemployment among the youth that poses a significant problem in South Asia. Table 1.7 shows that the youth account for more than half of all unemployment. A high level of youth unemployment, particularly among the educated, also reflects a mismatch between types of skills and changing demand. Increases in adult literacy rates were slow between 1970 and 1990, but has picked up since then, especially in Nepal and Pakistan.

South Asian literacy rates remain absurdly low and are projected to

TABLE 1.7 Youth Unemployment (2000)		
Country	Youth Unemployment Rate (%)	Share of Youth Unemployment in Total Unemployment (%)
BANGLADESH	10.7	79.4
INDIA	14.8*	52.9
NEPAL	NA	NA
PAKISTAN	13.3	49.9

Note: Youth denotes those in the 15-24 age group, \* refers to 2004-05  
Source: World Bank 2004

remain so because of its unimpressive achievements in basic schooling: India, for example, only has 103.1 million out of 209.5 million children in (the) 5-14 age group in schools ... More than half of South Asia's adult labour force has an educational attainment at the primary level or below primary level ... There are large gender gaps in education, and female educational attainment remains very low. (World Bank 2004)

### Child Labour in South Asia

AVAILABLE estimates have it that about 211 million children around the world aged 5-14 were engaged in economic activity in 2000. Of this, the Asian region alone accounted for 127 million or 60% of the child labour in the world (ADB 2005). The definition of child labour varies and is highly controversial. The World Bank's World Development Indicators (WDI) provides a classification that includes children attending school as

TABLE 1.6 Unemployment, Underemployment and Poverty in South Asia						
Country	Unemployment		Underemployment as % of Labour Force	Poverty Ratio % of Poor		
	Rate % Labour	Number (million)		National Poverty	Below \$1-a	Below \$2-a
BANGLADESH	3.6	2.2	35.4	49.8 (2000)	36	88
INDIA	7.3	30	NA	26.1 (1999)	36	81
NEPAL	1.8	0.18	27.4	42.0 (1996)	39	81
PAKISTAN	8.3	3.6	21.9	32.6 (1999)	25	77

Source: Cols. 2, 3,5,6,7: ADB 2005, Col. 4: World Bank 2004.



<b>TABLE 1.8 Child Labourers in South Asia (2000)</b>		
<b>Country</b>	<b>Child Workers (Million)</b>	<b>As % of 5-14 Total Population</b>
BANGLADESH	5.05	14.4
INDIA	20 to 80	6.2 to 21
NEPAL	1.66	26.7
PAKISTAN	3.3	8.3

*Note: India estimates based on a range of definitions*

*Source: World Bank 2004*

well as working and children who are fully engaged in work. The range of estimates of child labour is likely to vary widely with the definition used.

Table 1.8 gives data on child labour in South Asia and the Indian data show the range of variation with a change in the definition. Even in the restricted sense of those fully engaged in work, which provides the lower end of the estimates, child labour remains a scourge. Considering that the future demand for labour will invariably be for those with better skills and knowledge, child labour indicates the magnitude of adults who will enter the labour force without any education and skill acquisition. Every present child worker is a potential unemployable adult, which will undoubtedly have adverse consequences for development.

## 1.6 Globalisation and Labour Markets

CONVENTIONAL development theory predicts that with increasing investment, economies will move progressively from economic activities being carried on in an informal way to more formally organised forms of production, and with it employment will also be formalised in terms of security of employment, better wages, regulated hours of work and working conditions, and social security. Globalisation, with an increasing inflow of capital to formal, organised economic activities, was expected to increase the share of the formal sectors in production and employment. These arguments were buttressed by neoclassical theories of trade and development. The well-known Heckscher-Ohlin theorem postulates that countries with an abundance of labour will specialise in the production of low-skill, labour-intensive products. The Stolper-Samuelson theorem predicts that if the price of low-skill, labour-intensive products increases as a result of trade opening up, the demand for low-skilled labour will increase, raising the low-skill wage relative to the high-skill wage, thus reducing the skill premium. Clearly, these predictions seem inconsistent with what is observed in developing countries.

Evidence from Asian and many other developing countries shows that rising globalisation during the 1980s and 1990s, which followed substantial trade liberalisation, coincided with an increasing switch to higher skills, pushing unskilled and low-skilled labourers into the low-paid informal sector. Further, GPNs increased subcontracting and the pressure on developing countries to reform labour market regulation and make labour markets more flexible resulted in growing informalisation of employment. All the South Asian countries, especially India, experienced a substantial increase in informalisation of employment. The SAP with its emphasis on fiscal constraints reduced public investment and with it, public employment. There were instances of shifts of workers from formal public employment to

informal private employment. And there has been growing informalisation of employment even in the organised private and public sectors.

Though there are wide differences in defining informal employment among South Asian countries, there is an increasing consensus towards the definition adopted in India by the National Commission for Enterprises in the Unorganised Sector (NCEUS), which makes a distinction between the informal economy and informal employment, and shows informal employment is no longer confined to the informal economy but extends to the formal economy as well. The defining feature of informal employment is an absence of social protection. The NCEUS defines all those unincorporated enterprises employing less than 10 workers as belonging to the informal sector, and informal or unorganised workers as consisting “of those working in unorganised enterprises or households, excluding regular workers with social security benefits, and the workers in the formal sector without any employment/social security benefits provided by the employer.” According to this definition, informal employment, cutting across urban-rural and formal-informal lines, accounted for 92.4% of total employment in India in 2004-05.

In Bangladesh, Nepal and Pakistan, the concept of informal employment is used in a narrow sense, confined to the non-agricultural sector. This may be partly due to the origin of informal sector studies in an urban context. In Bangladesh, informal employment covers own-account and unpaid family workers in the urban sector. In Nepal, the informal sector refers to unincorporated or unregistered economic units, which employ fewer than 10 paid employees. In Pakistan, the informal sector includes all unincorporated household enterprises owned and operated by own-account workers, irrespective of the size of the enterprise, or unincorporated household enterprises owned and operated by employers with fewer than 10 persons engaged in the non-agriculture sector (ADB 2005).

A widely accepted description of the informal economy is that it is characterised by less job security, low income, no access to a range of

social benefits, fewer possibilities to participate in informal education and training programmes, and an absence of the key ingredients of decent work opportunities (ILO and WTO 2009). One could also visualise the informal economy as comprising different segments—a lower-tier segment dominated by households engaged in survival activities with few links to the formal economy, as suggested by dualists; an upper-tier segment with micro-entrepreneurs who choose to avoid taxes and regulations, as suggested by legalists; and an intermediate segment with micro-firms and workers subordinated to larger firms, as structuralists point out and as seen in GPNs (ILO and WTO 2009). While there is growing recognition that dualism of the first type is being increasingly replaced by a continuum of interaction between the formal and the informal, all these forms of segmentation exist in developing countries. But, it is the third type of segmentation and informalisation that has been aggravated by globalisation.

As discussed earlier, the new phase of globalisation that began in the early 1980s was the design of the capitalist core to overcome the crisis of capital after the “golden age” that followed World War II. To find continued avenues of profit, barriers to trade and investment had to come down. The resulting Washington Consensus that came out with not only trade and capital account liberalisation but also the SAP with an emphasis on privatisation, fiscal austerity, withdrawal of the state, supply-side economics and an emphasis on competition and growth have had a pervasive effect on most economies. To become more competitive, developing countries have been advised to dismantle trade barriers, abolish state monopolies, privatise state-owned enterprises, deregulate industries, liberalise tax regimes and downsize employment in public administration services. These measures, known as “first-generation reforms,” began with debt-ridden Latin American and African countries as a part of the globalisation process in the early 1980s. An overenthusiastic embrace of these reforms in East and Southeast Asia resulted in the Asian crisis of 1997-98. The Asian crisis ended an era of high

rates of economic growth, and in several cases, had in an adverse impact on labour markets, including high rates of unemployment, which still persist.

South Asian countries, which lagged behind in the first-generation reforms, were cautious in opening their capital markets and, therefore, were substantially insulated from the Asian crisis. But by the 1990s, South Asia too had to fall in line with reforms. Even though some of the South Asian countries such as India have put their economies on a higher growth path, labour market outcomes have not improved systematically. Thus, in a number of countries where economic growth has been generally robust, problems with unemployment and underemployment continue. In countries such as India a group of highly skilled workers has emerged for whom labour market opportunities have improved dramatically, but the major outcome has been growing informality.

### **Labour Market Reforms**

AS ELSEWHERE, there has been resistance to labour market reforms in South Asian countries. But with competition between these countries and between provinces or states within these countries to attract FDI, there have been attempts to dilute regulatory practices, if not regulatory legislations. Nepal has been on the path of enabling contract workers and employers to negotiate outside formal collective bargaining, relaxing the provisions related to hiring and firing, and promoting export promotion zones with a less regulatory framework. India, in spite of having extensive legislative measures for labour regulation, has been increasingly lax in employment protection, resulting in unbridled growth of contract labour and informalisation of employment even in the organised sector. Similar tendencies are observed in Bangladesh and Pakistan as well.

### **Wages and Earnings**

DURING the 1990s, though the growth of employment was very low in all the South Asian countries, real wages and earnings showed a consistent increase in all of them, except Pakistan. Though it has not been established, the causes of Pakistan's real wage decline are attributed to high growth of the labour force, drought and the macroeconomic and debt crisis during the period. In India, real wages grew by a healthy 29% between 1993-94 and 1999-00, with urban wages growing faster than rural ones (World Bank 2004). The rising trend continued in the 2000-2005 period, though at a slower pace. In Nepal too, real agricultural wages increased in the 1990s, although these wages still remain at a very low level, leaving agricultural workers among the poorest. Notwithstanding a rise in the wages of those on the bottom rung of the workforce during the last two decades, there has been a substantial increase in income inequalities in all these countries, especially India. The gains of high growth in India, as we shall later see, are reflected more in the form of a disproportionately high growth in the share of profits and incomes of a small section of highly skilled and supervisory employees.

### **Social Security**

SOCIAL security or social protection—in the larger sense of encompassing not just workers but the population as a whole—embraces policies and programmes that, on the one hand, diminish workers' exposure to job-related risks and, on the other, enhance workers' capacity to protect themselves against loss of income. Loss of income may be due to layoffs or other factors, including ill health, disability and old age. Labour market policies and programmes can play a critical role in providing social protection to workers. Regulations on safe working conditions can minimise health and disability risks that workers face, especially in hazardous environments.

Regulations on severance pay provide protection against loss of income. Similarly, labour market programmes such as skill development can make job seekers more employable and well-run employment exchanges can secure them jobs faster. And social insurance such as pensions and health and disability insurance can address the needs of the larger population.

Social protection in most of the South Asian countries is associated with social security legislation, which is invariably linked to workers in the organised sector. Since the share of organised employment is very low, social security coverage is limited to a very small segment of workers. For instance, the coverage of formal pension schemes remains very partial, in most cases well below 10% of the working-age population (World Bank 2004). Despite low coverage of formal pension systems in South Asia, most countries face mounting fiscal pressure from their pension schemes, in particular civil service ones, which are funded from general revenues. Spending on pensions as a share of total public revenue ranges from 4% in Nepal to more than 12% in India. In India, Bangladesh and Nepal, the spending on civil service pensions doubled as a share of revenues in the 1990s. The trend was even more pronounced at the state and provincial levels in India and Pakistan. Even with less than 10% of the working-age population covered by pensions, there are already signs of serious fiscal constraints on sustaining them.

Almost all South Asian countries are on the path of “reforming”—read downsizing—pension systems even as a vast majority of the population such as the self-employed, agricultural workers and informal sector workers, who account for the bulk of workers, go without proper pensions. True, most of these countries have social pensions for specific groups such as the destitute, elderly, disabled and widows. In India, social pensions cover a fairly large number but the amounts are too meagre. For instance, Rs. 200 a month can hardly be of any livelihood succor, and even these small sums often do not reach the beneficiaries regularly.

Inadequate health insurance is another area of concern in South Asia where none of the countries have universal access to public health facilities. Health insurance coverage remains very limited in South Asian countries such as India, Pakistan and Bangladesh, confined largely to public-sector employees and, in some cases, those in the organised private sector. The dominant healthcare model in the region remains a combination of general revenue-financed public healthcare systems with high levels of private provision and out-of-pocket expenditure. India is supposed to have highest health insurance coverage in the region, but it does not exceed 10% of the population (World Bank 2004).

A major challenge that South Asian countries face is extending social security to the unorganised sector. In spite of some recent initiatives like the Unorganised Workers’ Social Security Act, 2008 in India, public expenditure on social protection in these countries has been very low, accounting for less than 2% of GDP. The problem of low funding is compounded by inefficient targeting. Social protection programmes cover only 23% of the population in Bangladesh, 17% in Nepal and 4% in Pakistan. Funding and targeting of social protection remain serious issues for effective social protection in South Asia.

## 1.7 Safety Nets: Public Works and Self-Employment Programmes

THE most important and active labour market programmes in South Asia are public works and self-employment programmes. South Asia has a long tradition of public works programmes (also referred to as “workfare”) that combine investment in rural physical infrastructure with employment creation. Public works in these countries derive their historical roots from famine relief works, which act as safety



nets during times of drought and famine (for example, the well-known Maharashtra Employment Guarantee Scheme; MEGS).

Perhaps, the largest programme in this category is the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), launched in India in 2006, as a statutory right to work. The well-established programmes include India's MEGS and Jawahar Rozgar Yojana (JRY; the precursor of the Sampoorna Grameen Rozgar Yojana) and Bangladesh's Food for Work Programme. Table 1.9 provides an overview of the most important public works programmes in the region, while Table 1.10 gives additional details on the scale of operations of a few select programmes. Public works programmes pay wages either in cash or grain, or both. These programmes have two major benefits—a transfer benefit to the poor, which is, in effect, the wage they get, net of any cost incurred, and a stabilisation benefit, the consumption smoothing they afford against temporary income shortfalls. Studies have shown the consumption smoothing effect to be most significant during times of crisis or shock. So, the role of these programmes as safety nets needs to be emphasised.

One of the largest employment programmes in the world based on public works could be the MGNREGS in India. Introduced in 2006, it is designed to provide enhanced livelihood security to households in rural areas. Adult members of these households who volunteer to do unskilled manual work are guaranteed 100 days of employment in every financial year at the statutory minimum wage. The MGNREG Act ensures the legal right to work and places an enforceable obligation on the state. However, a variety of design and implementation issues have hampered the success of public works programmes, including corruption, problems with the timely release of funds and deviation from minimum wages. Labour activists strongly oppose payment below the minimum wage on the ground that the government, as an employer, cannot violate its own laws (in this case, minimum wage laws). Since minimum wages often are above the

<b>TABLE 1.9 Overview of Public Work Programmes in South Asia</b>		
<b>Country/Programme/Year</b>	<b>Main Objective</b>	<b>Type of Payment</b>
Bangladesh: Food for Work	Employment generation for the poor mainly in the dry season. Development and maintenance of rural infrastructure	Food
Bangladesh: Food for Relief	Employment generation for the poor mainly in the rainy season (lighter labour requirements compared to Food for Work)	Food
India: Sampoorna Grameen Rozgar Yojana (SGRY)	Primary objective to provide wage employment in rural areas. Secondary objective is to build rural community infrastructure	Both food and cash (minimum 25% of wages to be paid in cash the rest maybe in grain)
India:Maharashtra Employment Guarantee Scheme	To provide guaranteed wage employment in rural areas of Maharashtra	Cash
Pakistan: Income Generating Project for Refugee Areas (1992)	Programme for Afghan Refugees	Cash
Pakistan: Kushal Project	Emploment and community infrastructure	
India: Mahatma Gandhi National Rural Employment Guarantee Act 2006	Legal right to work — 100 days of work per rural household	Cash – minimum wage
<b>Self-Employment</b>		
India: Swarnajayanti Gram Swarozgar Yojana (SGSY)	Group-based employment/ micro enterprise development through savings and credit groups	Self-employment programmes — inputs include credit, marketing support, training and technical support

<b>TABLE 1.10 Scale of Operations for Select Wage Employment Programmes</b>		
<b>Country/ Programme/ Year</b>	<b>Scale of operations (Million person days annual)</b>	<b>Total Cost (wage and non-wage) per Person Day of employment created in US\$</b>
Bangladesh, 1991: Food for Work	15	1.6
India, 1991-92: Cash For Work (Jawahar Rozgar Yojana)	850	1.3
India, 1991-92: Cash For Work (Maharashtra Employment Guarantee Scheme)	100 - 180	1.2
Pakistan, 1992: Cash For Work Income Generating Project for Refugee Areas	5-15	2.8
India: Mahatma Gandhi National Rural Emploment Guarantee Act (MGNREGA, 2006)		

market wage rate, at least during certain times of the year, the potential for self-selection by the poor into these programmes has not been achieved.

### **Self-Employment Programmes**

THE self-employed, a majority of whom are farmers, constitute the largest share of workers in South Asia. The non-farm self-employed constituted about 11% of India's workforce in 1993-94. They are largely low-level manual workers in the informal sector and the evidence points to self-employed persons being poor, operating on a small scale and

relying on household labour. Thus, it is inevitable that publicly funded self-employment programmes have largely targeted the rural poor. However, public self-employment programmes have had very limited success in South Asia. Unfortunately, there have been few evaluations of public programmes, apart from India's Integrated Rural Development Programme (IRDP). The IRDP came under criticism for poor targeting, linkages between credit and marketing, procurement of raw material, and implementation issues. Since 1996, the IRDP has been restructured and implemented as the Swarnajayanti Gram Swarozgar Yojana (SGSY). There are some non-governmental organisation-run (NGO) programmes that have been successful and some have been scaled up as well. These include the Bangladesh Rural Advancement Committee (BRAC) and the Grameen Bank in Bangladesh, and the Self Employed Women's Association (SEWA) and the Working Women's Forum in India, to cite the best-known examples. Evaluations of these programmes suggest they have successfully contributed to raising the incomes of the self-employed, many of them women.

## **1.8 South Asia and International Migration**

GLOBALISATION has accelerated international migration from South Asia to the rest of the world, especially the Middle East, Europe and North America. A major surge in international migration from South Asia for employment and better earnings preceded the present phase of globalisation and it was largely propelled by the oil boom in the Middle East. The process of globalisation and the growing demand for labour with education and better skills in developed countries, especially in North America and Europe, has brought about another wave. There are differences in the destinations and the composition of migrants from South Asia. Table 1.11 provides a picture of the pattern of migration from

INTERNATIONAL MIGRANTS BY AREA OF RESIDENCE, 2000 - 2002												
Country / Region	Continent of Residence (% of Total Migrant Stock)						Share of Continents' Migrants from Country (% of Total Migrant Stock) in the Continent)					
	Africa	Asia	Europe	Latin America + Caribbean	North America	Oceania	Africa	Asia	Europe	Latin America + Caribbean	North America	Oceania
INDIA	1.7	72.0	9.7	0.2	15.0	1.3	0.97	13.18	1.49	0.035	3.37	2.41
PAKISTAN	1.4	73.0	16.4	0.2	9.1	0.4	0.30	5.02	0.92	0.11	0.78	0.28
NEPAL	0.7	95.0	2.4	0.2	1.3	0.3	0.05	1.99	0.04	0.03	0.03	0.07
BANGLADESH	0.7	92.4	4.7	0.2	1.8	0.2	1.18	0.04	0.29	0.02	0.16	0.16
ASIA	1.7	54.7	24.5	0.5	16.4	2.2	6.83	72.37	27.34	5.62	26.57	26.68
WORLD	9.1	28.2	3.4	23.0	23.0	2.9	100	100	100	100	100	100

Source: UNDP 2009

the four South Asian countries across the world and helps us understand the underlying differences in the nature and direction of mobility.

Though Asia (read the Middle East) is still a major destination for migrants from India and Pakistan, more than one-fourth of them are in other regions. For Pakistan, Europe is the second major destination, hosting 16.4% of its migrants and North America is the third, with 9.1%. For India, North America is the second major destination, with 15% of its migrants, and Europe takes the third place, with 9.7%. For both Nepal and Bangladesh, the Middle East is still the major destination, though the latter has 4.7% of its migrants in Europe. Table 1.12 shows the educational

levels of the migrants. A majority of Indian migrants (51.2%) have tertiary education while those from Bangladesh and Pakistan have lower levels of education. However, taken as a whole, the educational quality of migrants from South Asia has, over the years, been improving, which is indicative of the changing demand and also, to an extent, changing destinations. Table 1.13 shows that during the last 25 years of rapid globalisation, there has been a substantial shift in the skill levels of migrants from South Asia as whole.

The growth of international migration with increasing skill endowments has been one of the major reasons for the phenomenal growth in remittances to South Asia. India, with US\$ 64 billion in 2011, is the highest remittance-

receiving country in the world, accounting for almost one-tenth of total global remittances (World Bank 2012)). Of the world's top 10 recipients of migrant remittances, three—India (US\$ 64 billion), Pakistan (US\$ 12 billion) and Bangladesh (US\$ 12 billion)—are in South Asia. Remittances account for 3% of India's GDP, outpacing official development assistance (ODA) and even FDI. The other South Asian countries also have very high levels of remittances. In Nepal, it accounts for 20% of GDP, in Bangladesh 9.5% and in Pakistan 4.2%. Interestingly, most of the remittances to these countries continue to be from Asia. For instance, other than the Middle East, Nepal receives substantial remittances from East Asia.

Thus, both from the point of view of employment opportunities (especially for skilled workers) and income and resource generation (for

Skill Level	1975	2000
Low Skill	60	25
Medium Skill	15	20
High Skill	25	55

Source: *World Development Report 2009, World Bank*

improved consumption and investment), migration plays a critical role in the globalised world. However, the biggest challenge posed by international migration is the insecurity and ill treatment faced by migrants, particularly unskilled workers. In this context, World Trade Organisation (WTO) negotiations on Mode 4 (labour mobility) of the General Agreement on Trade in Services (GATS) assume vital importance for South Asian and other developing countries. By way of interim relief, there have been initiatives by national governments to establish security funds for migrants. A great deal more needs to be done by all the South Asian countries in this regard.

## 1.9 Towards Understanding South Asian Challenges

THERE is general agreement that the overall results of the present phase of globalisation and the first-generation reforms that came along with it are rather disappointing, especially from the point of view of most workers and labour market outcomes (ADB 2005: 23). One redeeming feature as far as South Asia is concerned is that the reforms did not cause any serious crises as happened in Mexico in 1984 and Southeast Asia in 1997-98. Further, countries like India have moved to a higher growth path, but without much benefit to

Country Region	Stock of Migrants in OECD (in thousands)	Education Attainment Levels of International Migrants (% of all migrants)			Tertiary Migration Rate (%)
		<Upper	Upper Secondary to < Tertiary	Tertiary	
INDIA	1,952	25.5	19.5	51.2	3.5
PAKISTAN	669	43.6	21.4	30.3	9.8
NEPAL	24	21.3	33.0	39.2	3.0
BANGLADESH	286	46.2	22.3	27.2	3.2
ASIA	17,522	33.0	29.8	34.3	3.6
WORLD	75,716	41.0	32.7	23.5	3.7

Source: *UNDP 2009*



labour. On the contrary, there have been a number of developments that have had adverse effects on the working and living conditions of most workers.

This brief overview of employment and labour market developments in South Asia points to growing concern over challenges in several areas. There has been a growth in the labour force without proportionate growth in productive employment. Though there have been some shifts, much of the workforce still is dependent on low-income self-employment, especially in agriculture. The growth of non-farm employment has been tardy and more in the form of informal employment. Informalisation of employment has become a major feature of the post-reform employment situation. There has been laxity in labour regulation and flexibility in employment conditions has been on the rise. Child labour and unprotected female employment persists in all the South Asian economies. Though there has been a rise in real wages in all countries, except Pakistan, there has been hardly any improvement in social protection, except for a few safety nets. Though the demographic situation is favourable and the size of the youthful population as well as the number of young people in the working-age group is high, the quality of labour is poor with very low levels of education and skills. International migration is a limited option but labour quality and the restrictive global labour market situation are major constraints.

In the face of these growing challenges, the objective of this study is to examine the status of globalisation and labour at the country level and identify country-specific as well as regional issues that need to be addressed from the point of view of improving employment, working conditions and social protection. The country studies on India, Bangladesh, Nepal and Pakistan bring together post-reform experiences in employment and labour market conditions in each of them. Besides identifying specificities, an attempt is made to identify issues of common interest and explore appropriate policies and strategies that can bring about a turnaround in the overall labour market situation.

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# Globalisation, Labour and Employment in India

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## 1

### Introduction

#### 2.1 India in a Globalising World

THE beginnings of the present phase of globalisation and the economic reforms associated with it could be traced to the end of the “golden age of capital” (1945-1975) and the crisis in developed capitalist countries in the late 1970s. What began in the 1980s as stabilisation and structural adjustment programmes (SAPs) recommended by multilateral financial institutions (particularly the International Monetary Fund; IMF) to highly debt-ridden Latin American and African countries, became pervasive reforms on the lines of Washington Consensus. By the late 1980s, most developing countries, especially in Latin America, had been advised to carry out reforms that emphasised stabilisation, deregulation, liberalisation and privatisation.

The package of reforms that emerged included liberalising trade and conditions for inward foreign direct investment (FDI), privatising state-owned enterprises, deregulating industry, strengthening property rights regimes, tax reforms, liberalising prices (without subsidies) and interest rates, introducing a competitive exchange rate (through devaluation) and maintaining fiscal discipline (minimal state). The three key ideas underlying these so-called first-generation reforms were achieving the macroeconomic discipline of a balanced budget without any fiscal deficit; putting in place a market economy; and opening up to the world with regard to trade and capital flows (ADB 2005). In the 1980s, several developing countries, especially in Latin America, had stagnant economies deep in debt traps. For many of them, the 1980s was a “lost decade” and the IMF and World Bank pushed their package of reforms as conditionalities for structural adjustment loans.

For India, the 1980s turned out to be a turning point towards high growth and a better fiscal situation. There was no room for interventions by the IMF or World Bank and the reforms package had to wait. The time of these institutions came in 1991 when the Indian economy ran into a crisis of high fiscal deficit, very low foreign exchange reserves and high inflation. When India turned to the Fund-Bank for assistance, the prescription was a series of structural economic reforms. It included (i) devaluation in the name of correcting the overvalued rupee exchange rate; (ii) reduction of subsidies to restrict fiscal deficit; (iii) liberalisation of trade by eliminating non-tariff barriers on capital and intermediate goods and reduction of average duty on all goods to a level below 20%; (iv) decontrolling and delicensing of industry, and privatisation and disinvestment of the public sector in the name of promoting efficiency and competition; and (vi) stabilisation of prices through reduced fiscal deficit. Since 1991, the Indian economy has passed through a series of policy shifts making liberalisation and privatisation all pervasive, cutting across economic as well as social sectors.

## 2.2 Nature of Economic Growth

THE Indian economy turned away from three decades (1951-1980) of slow gross domestic product (GDP) growth of about 3.5% per annum—often referred to as the “Hindu growth rate”—to a higher growth path in the 1980s and the neoliberal reforms gave its performance a fillip, especially after the Eighth Five-Year Plan (1992-96) (Table 2.1). There was, however, a slowdown in the Ninth Plan period (1997-2001), but the economy accelerated during the Tenth Plan period (2002-06), recording an annual average growth rate of 7.7%. The Eleventh Plan period (2007-12) may fall short of its high target of 9% but it could still attain a growth rate of about 8%.

Besides growth performance, there are a number of indicators on which the Indian economy shows positive trends. The savings rate increased from 22.8% in 1990-91 to 37% in 2007-08 and gross domestic investment from 26% to 38% during the same period. Foreign exchange reserves increased substantially from US\$5.8 billion in 1990-91 to US\$279

Plan Period	Target	Realisation
Sixth Plan (1980 - 84)	5.2	5.5
Seventh Plan (1985 - 89)	5.0	5.6
Annual Plan (1990 - 91)	-	3.4
Eighth Plan (1992 - 96)	5.6	6.5
Ninth Plan (1997 - 2001)	6.5	5.5
Tenth Plan (2002 - 2006)	7.9	7.7
Eleventh Plan (2007 - 2012)	9.0	8*

Note: \* Estimated

Source: Planning Commission 2008, Vol.1

billion in 2009-10. Foreign trade has expanded rapidly and almost two-thirds of exports consist of services and manufactured goods. Inflows of FDI and more so financial institutional investments (FIIs) have increased substantially, though volatility in the latter has been a cause for concern.

What have these positive developments in the post-reform period in India meant to workers in general? Not much, even by official assessment.

A major weakness in the economy is that the growth is not perceived as being sufficiently inclusive for many groups, especially scheduled castes (SCs), scheduled tribes (STs), and minorities. Gender inequality also remains a pervasive problem and the structural changes taking place have an adverse effect on women. The lack of inclusiveness is borne out by data on several dimensions of performance. (Planning Commission 2008, Vol. I)

Table 2.2 shows the performance on poverty in the pre-reform (1983-93) and post-reform periods (1993-2010). Though GDP growth has accelerated during the post-reform period, the rate of decline in poverty in the first 10 years (1993-2004) has decelerated compared to the pre-reform period. The improvement in the last five years (2005-2010) has been fraught with controversies on the very estimates of poverty. Commenting earlier on poverty, the Planning Commission observed,

The incidence of poverty among certain marginalised groups, for example the STs, has hardly declined at all. Because population has also grown, the absolute number of poor people has declined only marginally from 320 million in 1993-94 to 302 million in 2004-05. This performance is all the more disappointing since the poverty line on which the estimate of the poor is based is the same as it was in 1973-74 when per capita incomes were much lower. (2008, Vol. I)

Year	Poverty in the Era of Globalisation in India					
	Below Poverty Line					
	Percentage of Persons			Number of Persons (in millions)		
	Rural	Urban	Combined	Rural	Urban	Combined
1983 - 84	45.7	40.8	44.5	252.0	70.9	322.9
1993 -94*	50.1	31.8	45.3	NA	NA	NA
2004 - 05*	41.8	25.7	37.2	325.8	81.4	407.2
2009 - 10*	33.8	20.9	29.8	278.2	76.5	354.7

Note: \* Revised estimates based on Tendulkar Committee recommendations  
Source: Planning Commission (2012)

Other indicators of deprivation in terms of health, literacy, education, life expectancy, sex ratio, and maternal and infant mortality rates also do show not much satisfactory achievement. Add to this the crisis in agriculture, growing regional disparities and near-stagnant human development indicators that are not commensurate with the high growth performance. The results in terms of employment, unemployment, social security and inequality also betray the exclusionary nature of growth in the post-reform period. What follows is a more detailed analysis of these issues.

### 2.3 Process of Integration of the Indian Economy

THERE have been growing linkages between the global trends observed in the previous chapter and what is now witnessed in India. Though the process began much earlier in some industrial centres, it widened and deepened in the late 1980s (Breman 2004). A succinct analysis of Indian employment trends



in the 1990s by Papola (2004) brings this out effectively. That employment in India is dominated by unorganised, low-wage, low-productivity and insecure jobs is well known, but there has been a further increase in the share of casual labour because of more pressure towards flexibility. Not only have people shifted from self-employment to casual labour, the share of casual and contract labour has been increasing, even in the organised sector. This is labour flexibility of an extreme kind at the behest of promoting integration of the Indian economy with the global economy. Whatever increase there has been in employment has been in unregulated work with no job or social security. Stagnation in organised sector employment has been accompanied by growing non-permanent, temporary, casual and contract employment. There has been a growing “decent work deficit” characterised by the absence of social security or protection for workers. What is needed is protection from the vagaries of flexibilisation and this can only be done by the state extending social protection to casual workers.

Though there was prolonged “creeping liberalisation” since the mid-1970s in the form of export promotion, deregulation and devaluation, it was not until 1991 that there was an open paradigm shift in favour of neoliberal reforms and growing integration of the Indian economy with the global one (Majumdar and Sarkar 2008). That year saw a sharp devaluation of the rupee, removal of quantitative restrictions on imports, reduction of import tariffs, unification of the exchange rate and current account transactions, along with shifts in industrial policy towards privatisation, delicensing, dereservation of areas of production marked for small industries, financial sector reforms and fiscal reforms such as reduced direct taxes. Over the years, there has been a drastic decline in customs duty rates. Peak tariff rates declined from 40% in 1999-00 to 20% in 2004-05 and to 10% after 2007-08. India’s share in global exports increased from 0.5% in 1990 to 0.7% in 2000 and to 1.2% in 2009.

<b>TABLE 2.3 Trends in Share of Foreign Trade in GDP and Flow of Foreign Investment</b>						
Year	Percentage of GDP			Foreign Investment in India (in \$ billions)		
	Exports	Imports	Total Trade	Direct Investment	Portfolio Investment	Total
1990-91	6.37	8.45	14.83	0.097	0.006	0.103
2000 - 01	10.70	12.13	22.83	4.03	2.76	6.79
2004 - 05	15.72	20.98	36.70	6.05	9.32	15.37
2009 - 10	14.40	23.12	37.52	37.18	32.38	69.56

Source: *Handbook of Statistics of the Indian Economy 2009-10*, Reserve Bank of India, Mumbai

Table 2.3 shows the increasing integration of the Indian economy with the global economy in terms of external trade and capital flows. The share of foreign trade in GDP increased from 14.83% in 1990-91 to 22.83% in 2000-01 and to 37.52% in 2009-10. The flow of foreign capital, both in the form of direct investment and portfolio investment, into the Indian economy surged in the last one decade from US\$6.79 billion to US\$69.56 billion. FDI, which was about 0.3% of GDP, increased to 3.0% by 2009-10. But it is a different matter that much of it has gone into capital-intensive sectors such as chemicals, engineering, transport equipment and fuel, and not much into labour-intensive sectors such as textiles.

## II

# Labour and Employment in the Time of Reforms in India

## 2.4 Labour Force, Employment and Work Participation in India

THE external integration of the Indian economy in the world economy through liberalisation of trade and capital flows has been facilitated through an internal SAP in the economy's institutional structure, shifting the central role of the state to the market and privatisation. The processes of globalisation and privatisation, with their emphasis on growth as the primary objective and employment generation as a trickle-down effect, have affected labour and employment conditions in India in several ways. The impact has varied across sectors and segments of the economy, depending on their direct or indirect linkages with the integration process. Here, we shall first examine the overall impact of globalisation and economic reforms on the nature of the Indian labour market in terms of the nature and growth of employment and unemployment, the changes in the structure and status of employment, the trends in wages, earnings and inequality, the decline in labour regulation and the weakening of protective institutions. This will be followed by an analysis of the direct impact of globalisation such as the reorganisation of production structures through global production networks (GPNs) in certain segments and the impact of the global economic crisis on employment in sectors overly dependent on exports.

With the second largest population in the world, India enjoys the advantage of having the largest proportion of the population in the working-age group, which gives it a good opportunity to reap a

demographic dividend. This suggests that the proportion of the working-age group will be larger than the dependent age group. Table 2.4 provides basic information on the population, labour force, workforce and rate of unemployment over a period of two decades. The first decade, 1983 to 1994-95, is the one that immediately preceded the economic reforms that opened up the economy, and the second decade, 1994-95 to 2004-05, is the one that followed the reforms. Though the SAP might not have had much effect on the growth of the population or workforce, it is likely to have implications for employment or unemployment in the long run.

	1983	1993-94	2004-05
Total Population	719.6	894.2	1,093
Population age group (15-59)	387	517.5	623
Male	196.4	264.9	322.8
Female	190.5	252.5	300.2
Labour Force (UPSS 15-59)	270.6	335.8	412.9
Male	181.8	228.8	280.4
Female	88.8	107	132.5
Workforce (UPSS 15-59)	265	328.5	402.1
Male	177.4	223.4	273.5
Female	87.7	105	128.6
Unemployment rate (% UPSS)	1.90	1.90	2.33
Unemployment rate (%UPSS)	8.4	6.0	8.3

Note: UPSS: usual principal and subsidiary status; CDS: current daily status (see Box 1)  
Source: Planning Commission (2008)

TABLE 2.5 LABOUR FORCE PARTICIPATION (UPSS)									
Year	RURAL			URBAN			TOTAL		
	Male	Female	Persons	Male	Female	Persons	Male	Female	Persons
1983	55.5	34.1	<b>45.1</b>	54.0	15.8	<b>36.1</b>	55.1	29.8	<b>42.9</b>
1993 -94	56.1	33.0	<b>44.9</b>	54.3	16.5	<b>36.3</b>	55.6	29.0	<b>42.3</b>
2004 -05	55.5	33.3	<b>44.6</b>	57.0	17.8	<b>38.2</b>	55.9	29.4	<b>43.0</b>
2009 -10	54.8	20.8	<b>38.2</b>	55.6	12.8	<b>35.2</b>	55.0	18.6	<b>37.4</b>

Source: NSS 38th, 50th, 61st and 66th rounds.

The labour force increased from 270.6 million in 1983 to an estimated 412.9 million in 2004-05. The rate of growth of the labour force has been in tune with the growth of population. The workforce increased from 265 million in 1983 to 402.1 million by 2004-05. The rate of unemployment by the usual principal and subsidiary status (UPSS) was relatively low at 1.9% up to 1993-94 but rose to 2.33% by 2004-05. It was low partly because the UPSS rate of unemployment does not capture underemployment, which is pervasive in the informal sector of the economy, and partly because the poor in India cannot afford unemployment and continue to engage in thin and sporadic work to earn a livelihood. The unemployment rate by the current daily status (CDS) does capture underemployment and it showed a decline from 8.4% in 1983 to 6% in 1993-94, only to increase to 8.3% by 2004-05.

One of the causes for concern is the relatively low female work participation rate in India, which has hovered around 29% during this period (Table 2.5). The urban female labour force

participation rate, in particular, has been very low, although there was a marginal increase from about 16% in 1983 to about 18% in 2004-05.

The rate of growth of employment in the primary sector has been on the decline and this has pushed down the rate of growth of rural employment. During the post-reform period, there has been a deceleration in the rate of growth of employment in both rural and urban areas (Table 2.6).

TABLE 2.6 Sector-wise growth of Employment (UPSS) (% per annum)		
Sector	Growth Rate	
	1983 - 1992-94	1993-94 - 2004-05
Primary	1.38	0.84
Secondary	2.84	4.06
Tertiary	3.81	3.40
Non-Agriculture	3.20	3.49
<b>Total</b>	<b>2.00</b>	<b>1.98</b>
Rural	1.77	1.46
Urban	3.26	3.09
<b>Total</b>	<b>2.08</b>	<b>1.84</b>

The other cause for concern is continued overcrowding of the workforce in the primary sector. Though the share of the primary sector in the total workforce declined from 69.03% in 1983 to 54% in 2009-10, it was still comparatively on a very high side (Table 2.7), considering that the share of agriculture in GDP drastically declined to less than 15% by 2009-10.

Table 2.8 shows the occupational structure and growth of employment during the pre-reform and post-reform periods. Structurally, employment

<b>TABLE 2.7</b>		<b>Sectoral Share of Employment (%)</b>			
Sector	1983	1993-94	2004-05	2009 -10	
Primary	69.03	64.38	59.07	53.90	
Secondary	13.21	14.89	17.57	20.90	
Tertiary	17.52	20.73	100	100	
Total	100	100	100	100	

Source: Calculated on the basis of data from NSS 38<sup>th</sup>, 50<sup>th</sup>, 61<sup>st</sup> and 66<sup>th</sup> rounds.

<b>TABLE 2.8</b>		<b>Occupational Distribution of UPSS Workers (%)</b>		
	1983	1993-94	2004-05	
Agriculture	68.5	60.4	57.0	
Mining & Quarrying	0.6	0.7	0.6	
Manufacturing	10.7	10.6	12.0	
Electricity, gas, water supply	0.3	0.4	0.3	
Construction	2.3	3.3	5.9	
Trade, hotels and restaurants	6.3	7.6	10.4	
Transport	2.5	2.8	4.1	
Financial Services	0.7	1.0	1.6	
Personal, business and community services	8.2	9.6	8.1	
Total	100	100	100	

Source: NSS 38<sup>th</sup>, 50<sup>th</sup> and 61<sup>st</sup> rounds (CDS)

in agriculture and allied activities has been on the decline. But agriculture's share of 52.06% of total employment is still much higher than that seen in other developing economies. The share of manufacturing remained stagnant during the pre-reform period but there was an increase in the growth rate of employment in the post-reform period from 1.79% to 3.0%. With that, employment in manufacturing increased from 10.6% to 12.90%. Still, the low share of manufacturing in employment as well as in output has serious implications for the sustainability of high economic growth. Construction has been one of the fastest growing sectors of the Indian economy. The share of the construction sector in total employment more than doubled from 2.3% in 1983 to 5.57% in 2004-05.

During the same period, the share of the service sector as a whole in total employment increased from 17.7% to 28.47% and almost all the increase took place in the post-reform period. Within the service sector, the fastest growth of employment was witnessed in financial services, real estate and business though these activities accounted for a relatively low 2% of total employment even in 2004-05. The share of trade, hotels and restaurants, which accounted for 6.3% of total employment in 1983, more than doubled to 12.62% by 2004-05. It has emerged as the second largest source of employment, on a par with manufacturing, and almost all the increase in this sector in employment has occurred during the post-reform period.

The structural shift in employment from agriculture to non-agricultural activities was long overdue. Unlike the conventional experience, in India, shifts in the share of employment from agriculture to non-agriculture have not much gone into manufacturing, but services, especially private investment-driven services. Most of these shifts in the share of employment have been in the post-reform period. The process of integration of the Indian economy with the global economy appears to have directly and indirectly caused more shifts towards services than the non-agricultural goods sector.



## 2.5 Status of Employment

THOUGH in terms of occupational distribution and sectoral shares one could discern certain changes in employment, the employment pattern in terms of status of employment has almost been stagnant. Table 2.9 shows status-wise distribution of employment between 1983 and 2004-05. Accounting for about 57% of total employment even in 2004-05, self-employment continues to be the dominant form of employment in India. Though self-employment by no means is a homogenous category, most of those in this category are own account workers. Much of self-employment is in agriculture, but non-agriculture self-employment is also substantial. There are no employer-employee relations in self-employment and in almost all instances there is hardly any social security.

In wage-salaried employment, casual labour accounts for a substantial proportion. The share of casual workers in total employment increased from 29% in 1983 to 32% in 1993-94 and declined to about 29% in 2004-05. The changes in the proportion of casual and self-employment suggest that there is a certain amount of shift from one to the other. Self-employment also includes a considerable level of underemployment and is often supply

Year	Self-Employment	Regular	Casual
1983	57.5	13.5	29.0
1993 - 94	54.7	13.2	32
2004 - 05	56.9	14.3	28.9
2009 - 10	51.0	15.6	33.5

Source: NSS 38th, 50th, 61st and 66th rounds

Percentage of Regular Employment to Total Employment			
Very Low: Less than 10%	Low: 10% to 15%	Medium: 15% to 20%	High: 20% and above
Bihar, Uttar Pradesh Chhattisgarh Jharkhand Orissa	Rajasthan, Madhya Pradesh Andhra Pradesh Assam Karnataka Uttaranchal Himachal Pradesh West Bengal	Jammu and Kashmir Gujarat Kerala	Punjab, Maharashtra Tamil Nadu Delhi

Source: NSS 61st round (2004-05)

driven in the sense that in the absence of remunerative work, workers engage in any activity that gives them some income even though it may be much below the normal wage. Improvement in the quality of employment is associated with the proportion of regular employment, which has been at a very low level in India. There was a marginal increase in the share of regular employment from 13.2% in 1993-94 to 14.3% in 2004-05.

There is a clear relationship between the proportion of regular employment and the level of development. This is revealed by the state-level data relating to the share of regular employment. Table 2.10 classifies the major states according to the proportion of regular employment (GOI 2010). Poorer states such as Bihar, Chhattisgarh, Jharkhand, Orissa and Uttar Pradesh have a high proportion of workers engaged in casual work and a very low proportion in regular employment. In contrast, more developed states

Educational Level	MALE		FEMALE		PERSONS	
	'04 - 05	'09 - 10	'04 - 05	'09 - 10	'04 - 05	'09 - 10
Non literate	28.54	23.4	61.81	52.9	39.61	31.7
Up to primary	12.31	10.4	8.84	7.8	11.16	10.2
Primary	15.63	9.8	10.53	9.3	13.94	9.7
Middle	18.32	19.2	9.14	11.0	15.27	16.9
Secondary	10.61	13.8	4.04	5.4	8.42	11.5
Higher Secondary	7.42	8.9	2.80	3.5	5.88	7.4
Graduate and	7.14	8.9	2.82	4.6	5.70	7.7
Total	100	100	100	100	100	100

Source: NSS 61st and 66th rounds.

such as Maharashtra, Tamil Nadu, Punjab and Delhi have a high proportion of regular employment. Many poorer states also have a high proportion of self-employed workers along with a high proportion of casual workers.

The process of globalisation has also brought about shifts in technology across sectors and employment opportunities are more linked to the education and skill levels of workers. Realising the potential demographic dividend depends much on the education levels of the labour force so that it can match the demand for skilled labour in both the goods and services sectors. Table 2.11 shows the educational attainment of the workforce in India in 2004-05. The picture that emerges is very sobering. About 40% of the workforce was illiterate and the proportion was as high as 62% in the case of female workers. Workers with secondary and higher education accounted for hardly one-fifth of the total and in the case of female workers, it was less than one-tenth. Unless there is a substantial increase in the educational and skill levels

of those entering employment in the next decade, prospects for not only the employability of labour, but also the sustainability of growth become bleak

The quality of employment is also reflected in the educational level of workers. Educational levels of the Indian workers are low, with an average of 4 years of education against the global average of 6.5 years. The gap is very large in the case of women in India, with an average of 1.9 years compared to 5.8 years for the world as a whole. For men, it is 4.6 years in India against a world average of 7.2 years. Table 2.12 shows the levels of education of workers by their status of employment in 2004-05. In the case of regular employment, the share of the educated increases with an increase in the level of education—from 4.33% in the case of illiterates and 8.86% of those with primary education to 25.08% of those with higher secondary education and 46.29% of those who are graduates or more. This is a clear indication that there are entry barriers to regular employment for those with no education or low levels of education.

In contrast, in the case of casual employment, the proportion of workers decreases with an increase in the level of education. But self-employment

Education Levels	Self-Employed	Regular	Casual
Illiterate	56.11	4.33	39.56
Primary	56.03	8.86	35.11
Middle	58.94	11.88	29.18
Secondary	60.34	15.75	23.91
Higher Secondary	62.33	25.08	12.59
Graduate and above	49.45	46.29	4.26

Source: Unit -level NSS data. Employment and Unemployment Survey, 2004-05

as a category defies any such simple symmetry between levels of education and share of employment. The self-employed category comprises a majority of workers at all levels of education, including those without education, making it difficult to characterise in general terms. However, one may speculate that it includes those waiting for better wage-salary employment and those who move episodically in and out of casual employment.

## Challenge of Employment

THE labour force in India did become relatively more educated in the 1990s. The average number of years of schooling of a prime-age worker went up from 3.2 years in 1987-88 to 4.5 years in 1999-2000. This increase was, in part, due to concerted efforts by the government to increase the reach of primary education and eradicate adult illiteracy. The number of workers with less than five years of education came down steeply from 80% of the total labour force in 1983 to 67% in 2004-05. The total number of graduates in the workforce also increased from 7.4 million to 23.4 million over the same period (Appendix 1). Most new entrants to the workforce since the 1990s have completed primary school. Overall, the increase in educational levels has also possibly contributed to better prospects and earnings for Indian labour migrating abroad.

The tertiary sector is the largest employer of graduates. In both rural and urban areas, the category of community, social and personal services employed by far the largest number of graduates, some 8.8 million in 1999-2000. However, these services being heavily dominated by the public sector, the government's fiscal difficulties in the 1990s led to a decline in the share of graduate employment—from 48% to 41.1% by 1999-2000. Manufacturing and trade, hotels and restaurants raised their share of graduate employment. Manufacturing was the second largest absorber in 1983 with 0.87 million graduates but was displaced from this

### BOX 1

### DEFINITIONS OF KEY LABOUR MARKET TERMS

**Labour Force:** This includes all people who spent the year preceding the employment survey either engaged in work or seeking/being available for employment. Given that the large majority of Indian workers are engaged in casual or self-employed jobs, the National Sample Survey (NSS) uses various definitions to classify the labour force, workers and the unemployed. These include the following.

**Principal Status Workers:** A worker's principal status is determined by the activity he/she has spent the most time doing in the reference period (the last 365 days). Usual principal status (UPS) workers are those who spent most of their time employed in their principal activity.

**Subsidiary Status Workers:** Any activity other than the principal status constitutes a worker's subsidiary status. Subsidiary status labourers/workers are those who did not have a principal activity in the preceding 365 days but spent at least some of their time employed in a subsidiary activity.

**Usual Principal and Subsidiary Status (UPSS):** Workers are classified as being employed in the usual principal status (UPS) if they spent a majority of their time in the preceding year engaged in gainful economic activity. Sometimes, subsidiary workers are included in this category to determine total employment on principal and subsidiary status, that is, usual principal and subsidiary status (UPSS). This category includes self-employed regular and casual workers.

**Current Weekly Activity Status (CWS):** The current weekly activity status of a person is the activity status obtained for a person during the reference period of seven days preceding the date of survey. A person is considered working (or employed) if he/she, while pursuing any economic activity, has worked for at least one hour on at least one day during the seven days preceding the date of survey.

**Current Daily Activity Status (CDS):** The current daily activity status for a person is determined on the basis of his/her activity status on each day of the reference week preceding the survey. A person is considered to be employed if he/she has been employed for four hours on any one day of the week preceding the survey. Employment (CDS), however, represents person days of employment, not persons employed.

**Unemployment:** The unemployed category includes people who sought work but did not find it during the major part of the previous year (UPS), or major or minor part of the year (UPSS), or in the week preceding the survey (CWS). Unemployment can also be defined in man-days, that is, the number of days (measured in half days) a person was not employed in the week preceding the survey. Unemployment (CDS) represents not persons unemployed but person days of unemployment.

**Regular Workers:** Workers who are on a regular wage/salary.

**Casual Workers:** Workers who do not have tenure of employment and mostly are daily-wage labourers.

**Self-employed Workers:** Those who are own account workers, or employers or unpaid family labourers. These are defined based on the responses by surveyed workers to the relevant NSS questions.

**Prime-age Workers:** Workers in the 15-59 age group.

**Employment Rate:** The ratio of workers to the population in the same age group. For the most part, employment rate refers to the employment rate of the prime-age group as defined by UPSS.

**Unemployment Rate:** The ratio of prime-age unemployed workers to the labour force (that is, prime-age employed and unemployed workers).

Source: NSS Manuals and World Bank (2010)

position by the trade, hotels and restaurants category, which employed 3.1 million graduate workers as of 1999-2000. The expansion was predominantly urban. More than 5 million graduates were also absorbed in 1999-2000 by three other segments—agriculture and allied industries (2.5 million); financial, insurance, real estate and business services (2.4 million); and transport, storage and communications (1.1 million).

Overall, the Indian labour force is largely unskilled compared to workers in other emerging countries. Almost 43% of it is illiterate and the average number of years of education for the population aged 25 and above is 3.6 (Barrow and Lee 2000). Only 17% of this adult population has had secondary education. This number is only half that of China. Education outcomes are even worse among females (Barrow and Lee 2000). A similar picture emerges when India's educational performance is benchmarked using the Knowledge Assessment Methodology (KAM). India comes out ahead of South Asian countries (except Sri Lanka) and the Africa region, but lags behind China, Mexico, South Africa and Russia.

These indicators point to the need for India to catch up, especially when the demand for skills is increasing with liberalisation and globalisation. Given that there are currently 200 million children in the elementary school-age group of six to 14 and 87 million in the 15 to 18 age group in secondary schools, there is an opportunity to expand secondary education in the medium term (Wu 2005; World Bank, 2010).

## 2.6 Informal Employment

IF THERE were to be a single dominant feature of employment in India, it is informal or unorganised employment. The NCEUS defines unorganised workers as “those working in the unorganised enterprises or households, excluding regular workers with social security benefits, and the workers

in the formal sector without any employment/social security benefits provided by the employer.” Table 2.13 shows the distribution of formal and informal workers across the organised and the unorganised sectors in 1999-2000 and 2004-05. By 1999-2000, the share of informal workers in the Indian economy was as high as 91.2% and it further increased to 92.4% by 2004-05. One of the major challenges posed by globalisation and economic reforms is the growing tendency towards flexible employment and informalisation. Contrary to notions that growth and development lead to an increasing share of regular formal employment, the process of globalisation has ushered in an era of informalisation. There has been a growing tendency towards informalisation of employment even in the organised sector. Table 2.13 shows that the share of informal workers in the organised sector increased from 37.8% in 1999-2000 to 46.6% in 2004-05. What is worse, the absolute number of formal workers in the organised sector decreased from 33.7 million to 33.4 million, substantially due to privatisation and the shrinking share of the public sector. The pervasiveness of informal employment in the Indian economy is brought out in Table 2.14.

Sector / Workers		Distribution of Formal and Informal Workers					
		Total Employment in Millions					
		Informal Workers		Formal Workers		Total	
		1999-00	2004-05	1999-00	2004-05	1999-00	2004-05
Unorganised Sector		341.3 (99.6)	393.5 (99.6)	1.4 (0.4)	1.4 (0.4)	342.6 (100)	394.9 (100)
Organised Sector		20.5 (37.8)	29.1 (46.6)	33.7 (62.2)	33.4 (53.4)	54.1 (100)	62.6 (100.0)
Total		361.7 (91.2)	422.6 (92.4)	35.0 (8.8)	34.9 (7.6)	398.8 (100)	457.5 (100.0)

Note: Figures in brackets are percentages

Source: NCEUS (2007)



**TABLE 2.14 Industry-wise Incidence of Informal Employment in India, 2004-05**

Industry	Informal Employment Share (%)
Agriculture and forestry	99.9
Fishing	98.7
Mining	64.4
Manufacturing	87.7
Electricity, gas, water supply	12.4
Construction	92.4
Wholesale and retail trade	98.3
Hotels and restaurants	96.7
Transport, storage and communication	82.2
Financial intermediation	32.4
Real estate, renting and business activities	81.4
Public administration and defence	2.6
Education	37.9
Health and social work	55.1
Community, social and personal services	92.5
Private households with employment	100.0
Extra territorial organisations and bodies	87.8
All	93.0

Source: NSS 61st round

## Informalisation

THE post-liberalisation period has witnessed an increasing tendency towards flexible employment. Even in the public sector, the share of informal employment increased from 29.5% in 1999-00 to 33.6% in 2004-05 and the overall share of informal jobs increased from 95% in 1999-00 to 95.5% in 2004-05. Table 2.15 shows trends in the growth of organised employment in the public and private sectors during the pre-reform and post-reform periods. The rate of growth of formal employment in the public sector turned negative (-0.70%) in the post-reform period compared to 1.53% in the pre-reform period. The rate of growth of private-sector organised employment increased marginally from 0.44% to 0.58%, but was too meagre to compensate for the loss of employment in the public sector. As a result, the overall rate of growth of formal employment, which was 1.20% in the pre-reform period, turned negative in the post-reform period, -0.31%. The process of informalisation has become entrenched and it is no longer confined to the organised private sector.

Sector	Growth in Organised Employment	
	1983 - 1994	1994 - 2005
Public Sector	1.53	-0.70
Private Sector	0.44	0.58
Total Organised	1.20	-0.31

Source: Planning Commission, 2008

## 2.7 Rise in Contract Labour

AS DISCUSSED earlier, in the post-reform period there was employer pressure on the central and state governments to relax the restrictive provisions of the Contract Labour (Regulation and Abolition) Act, 1970 and many states brought about changes that facilitated an increase in the share of contract labour in employment in the organised sector. The proportion of contract workers in the organised manufacturing sector increased from 13.24% in 1993-94 to 30% in 2006-07. But micro-level studies reveal a larger share than what the official data captures (Shyam Sundar 2010a). Contract workers accounted for a significant proportion of total workers in the organised manufacturing sector in states such as Andhra Pradesh (55.23%), Haryana (44.12%), Gujarat (34.28%), Rajasthan (33.51%), Uttar Pradesh (31.48%) and Maharashtra (31.27%) during 2004-05. Their share was lower in states such as Kerala, Tamil Nadu and West Bengal, though rising as in the former group of states (Shyam Sundar 2010a).

### III

## Wages, Earnings and Inequality in Pre- and Post-Reform Period

### 2.8 Disparities in Wages and Earnings

THE diversity in the status and quality of employment in India is reflected in the wide variation in wages and earnings of workers. Substantial wage differences are found across sectors, regions and educational levels and between rural and urban, and male and female workers. For the purpose of assessing the earnings of workers in the pre-reform and post-reform

periods, we shall confine ourselves to the daily wages of regular and casual workers in rural and urban areas. Table 2.16 shows that there has been an overall positive growth trend in the real earnings of regular and casual workers, both in urban and rural areas. However, the rate of growth of wages of regular workers was higher in the pre-reform period than in the post-reform period. In contrast, the rate of growth of wages of casual workers was higher in the post-reform period. There is a very high difference in the daily wage rate between regular and casual workers. In 1983, the wage level of regular workers was three times that of casual workers and the difference remained at that level even in 2004-05, with a regular wage rate of Rs. 92 and casual wage rate of Rs. 30. However, the rural-urban difference, especially in the case of regular workers, has been on the decline.

Sector	Trends in Wages per Day (15-59 age-group, at 1993 prices)				
	Wage per day (Rs)			Growth Rate	
	1983	1993-94	2004-05	1983 -1993-4	1993-94 - 2004-05
<b>1. REGULAR</b>					
Rural	40	57	78	3.4	2.9
Urban	59	77	101	2.6	2.5
All	51	69	92	2.9	2.7
<b>2. CASUAL</b>					
Rural	17	21	29	2.0	3.0
Urban	24	30	36	2.2	1.7
All	17	22	30	2.5	2.9

Source: Various NSS rounds

TABLE 2.17 Intra-Sectoral and Inter-Sectoral Real Wage Disparities in Urban Areas (15-59 Age Group)												
SECTOR	Regular Wage per Day (Rs)				Casual Wage per Day (Rs)				Ratio of regular to Casual Wages			
	1983	1993-94	2004-05	2009-10	1983	1993-94	2004-05	2009-10	1983	1993-94	2004-05	2009-10
PRIMARY	56	80	139	—	20	23	26	34	2.8	3.5	5.3	—
SECONDARY	57	70	82	112	26	33	40	47	2.2	2.1	2.1	2.7
TERTIARY	60	80	108	139	24	29	35	41	2.5	2.8	3.1	3.4
SECONDARY / PRIMARY	1.0	0.9	0.6	—	1.3	1.4	1.5	0.7				
TERTIARY / SECONDARY	1.1	1.1	1.3	1.2	0.9	0.9	0.9	0.9				

Note: Wages at 1993-94 constant prices

Table 2.17 shows that regular-casual differences vary across sectors. Interestingly, regular-casual wage differentials in the secondary sector remained at about 2.2 throughout the period. But regular-casual differences have been substantially high and growing wider in the primary and secondary sectors. The regular-casual wage differential in the primary sector increased from 2.8 in 1983 to 5.3 in 2004-05, and in the tertiary sector, from 2.5 to 3.4 by 2009-10. Regular-casual wage disparities have been on the rise throughout the period in the primary and tertiary sectors. In the secondary sector, the disparity has registered an increase only in recent years. In rural areas, there have been differences in the wages earned for regular and casual work, and for agricultural and non-agricultural work. Table 2.18 shows that regular wages in the non-agricultural sector

have been more than twice that for agricultural activities. But for 2004-05, the disparity continued to be high at 2.4 even in 2009-10. The difference in casual wages for agricultural and non-agricultural activities has been relatively low and the ratio of non-agricultural to agricultural casual wages remained at 1.5 and also showed a marginal decline to 1.4 in 2009-10. Overall, there has been persistence of wage inequalities, and the increase in disparities has been more in urban areas than in rural areas. Gender differences persist, but there has not been any increase.

Yet another domain of growing inequality in earnings is within the organised sector, between process workers, “blue-collar” workers, and clerical, supervisory and managerial staff, who may be called “white-collar” workers. The wage differential between these groups, which was about

TABLE 2.18	Wage Disparities among Regular and Casual Workers in Rural Agricultural and Non Agricultural Activities														
		1983	1993-94	2004-05	2009-10		1983	1993-94	2004-05	2009-10		1983	1993-94	2004-05	2009-10
AGRICULTURE		20	26	39	40		15	20	25	33		1.3	1.3	1.6	1.2
NON AGRICULTURE		48	62	82	97		23	29	38	47		2.1	2.1	2.2	2.1
NON AGRICULTURE- AGRICULTURE RATIO		2.4	2.4	2.1	2.4		1.5	1.5	1.5	1.4					

Note: Wages at 1993-94 constant prices

Source: Calculated from various rounds of NSS data

2 in the 1990s, increased to almost 4 by 2007-08, according to Annual Survey of Industries (ASI) data. Similarly, the difference between wage and non-wage incomes has been on the increase. In value-added industry, the share of profits, which was around 20% in the 1980s, increased to 30% in the 1990s and peaked at 60% by 2007-08. What emerges clearly is that there have been not only increases in wage differentials across sectors, areas and status of employment, but also growing income inequality between wages and non-wage earnings (for example, profits) in the post-reform period. The only silver lining is that there has been a rise in real wages, though with wide variations, across the board.

## IV

### Reforms in Labour Regulation in India

#### 2.9 Regulatory Framework

THE labour regulatory framework in India consists of a large number of statutes, laws and rules relating to conditions of work, wages and remuneration, social security and industrial relations and employment security. Since labour and employment are part of the Concurrent List<sup>1</sup> under the Indian Constitution, both the Union and state governments are

<sup>1</sup> The Indian Constitution divides legislative powers into three lists—the Union List, the State List and the Concurrent List. The Concurrent List consists of subjects on which both the Union and state governments are entitled to legislate. Labour and employment are part of the Concurrent List under Article 246 of the Constitution of India.



empowered to legislate on and regulate issues related to labour. However, in practice, most of the central legislations and rules relating to labour are adopted by the state governments. But the states often make their own modifications and also enact their own laws. Over the years, there have been a number of laws made by the Union and state governments, resulting in a multiplicity of labour laws and overlapping of provisions. The basic purpose of most of the regulatory legislation has been to provide protection to workers against possible exploitation by employers and they have to do with payment of wages, ensuring safe and healthy conditions in the workplace, making certain fair principles and procedures are followed to settle disputes, particularly with respect to dismissals, lay-offs and retrenchments, and providing social security against the risks of sickness, accident, maternity and old age (Papola et al. 2008). These provisions are considered necessary to ensure universally accepted, minimum humane conditions of work with legal backing because labour is often the “weaker” party when it comes to negotiating with employers. They also strengthen the bargaining power of labour by providing legal sanctity to trade unions and workers’ rights.

In spite of the multiplicity of legislative measures, there has been hardly any protection for the vast majority of informal workers who constitute more than 90% of the workforce in the country. Even in the case of workers in the organised sector, the coverage and enforcement of labour regulation has been considered inadequate. Table 2.19 shows that except in the case of wages and remuneration, the proportion of the total workforce covered by regulatory provisions is less than 6%.

The multiplicity and overlapping of labour laws attracted critical attention in the pre-reform period but the emphasis was more on ineffective implementation. But in the last two decades, especially after 1991, the existence of a multiplicity of labour laws is itself being interpreted as proof of “excessive” regulation of the labour market. This rather amazing shift of regarding the very existence of a number of labour laws as “excessive”

intervention needs to be analysed in the context of the SAP, which is the major institutional framework for economic reforms formally set out by the government since 1991. In terms of industrial investment, employment and growth, the SAP brought about a change in the relative roles of the state and markets, or, in popular terms, in the relative roles of the public and the private sectors. The pre-reform strategy of planned economic development assigned a central role to the public sector for mobilising investment, creating employment and stimulating growth. Under the SAP, which emphasises fiscal discipline, investment and growth lie in the domain of private sector. The role of the state is seen as that of facilitating private domestic as well as foreign investment by not only providing incentives, but also reducing or removing regulations. The latter are depicted as bureaucratic, generating rents and a hindrance to efficiency.

## 2.10 Reforms and Regulation

IN THE changed context of economic reforms, and the regime of liberalisation, the argument goes that labour laws in India cause labour market inflexibility that acts as an obstacle to adjusting the firm-level workforce to the requirements of labour cost efficiency, which is essential to face global competition.<sup>2</sup> Further, too many labour laws are said to cause too many disputes, excessive intervention and corruption. Because of these labour laws and rigidities in the labour market, it is argued, potential investors, especially foreign ones, shy away from India, resulting in low investment, lower employment opportunities and slower growth.

Against this neoliberal view that Indian labour markets are inflexible, several scholars have attempted to measure the rigidity or flexibility of its

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<sup>2</sup> This section draws from Papola et.al. 2008.

TABLE 2.4		Population, Labour Force and Employment (in millions)		
Name of Act	Workers Covered by Law by Definition (in lakhs)**	Share of Workers Covered by Regulations in Total Workforce	Hired Workers	
<b>Conditions of Work</b>				
1	Factories Act	120	3.0	6.6
2	Shops and Commercial Establishments Act	54	3.9	8.5
3	Weekly Holidays Act	100	3.9	8.5
<b>Wages and Remuneration</b>				
4	Minimum Wages Act	1511	38.1	83.3
5	Payment of Wages Act	416	10.5	22.9
6	Equal Remuneration Act	227	5.7	12.5
7	Payment of Bonus Act	208	5.2	11.4
<b>Social Security</b>				
8	Employees' State	86	2.2	4.8
9	Shops and Commercial Establishments Act	154	3.9	8.5
10	Weekly Holidays Act	100	3.9	8.5
<b>Industrial Relations and Employment Security</b>				
11	Industrial Disputes Act			
	a. All establishments	219	5.5	12.1
	b. Manufacturing establishments	86	2.2	4.7
	c. All establishments with 20+ workers	122	3.1	6.8
	d. Manufacturing (with 20+)**	55	1.4	3.0
12	Industrial Employment Standing Order Act	107	2.7	5.9

Notes:\*\*Estimates are for the year 1999-2000 using NSS unit-level data. Workers covered under a regulation by definition are identified based on geographic applicability, definition of worker, employer and enterprises under that regulation.

\*\*\*NSS does not provide data on enterprise sizes of 100 and more. The largest size class is 20 and more workers.

The NSS data do not permit the estimation of persons covered under the Contract Labour Act.

Source: Papola et al. 2008, Table 3.1, p. 43.

different sections. They argue that there has been increased flexibility since the mid-1980s despite no significant change in labour regulations. They have pointed out that employers in India have always responded to restrictive retrenchment laws in many innovative ways such as using more contract, temporary and casual labour, introducing voluntary retirement schemes, moving to states where labour is less organised (or unionised), expanding the leasing-in capacity of small firms and subcontracting, adopting new labour-saving technologies and increasing capital intensity, and resorting to corruption and bribery to avoid the legal consequences of retrenchment (Papola 1994; Ramaswamy 1984; Datta Chaudhuri 1994; Mathur 1991).

In the post-liberalisation period, when Indian industry was opened to global competition, though there have been no significant changes in the labour laws, there has been an overall decline in the bargaining power of workers. This has been due to a weakening of enforcement mechanisms, an increased use of contract labour, the changing nature of the workforce with increased casualisation and feminisation, a general weakening of trade unions, and judicial interventions that have been distinctly pro-employer (Bhattacharjea 2006).

Both the central and state governments have been more liberal in implementing labour regulation in recent years. They almost do not seem to be very keen on cultivating a “pro-labour” image that governments in the past seemed to be proud of. Though no significant changes have occurred in labour laws, changes in implementation to make labour regulation more “enterprise friendly” have taken place (Nagaraj 2004). Routine inspections by labour officials have been curtailed in many states (Reddy 2007; Shyam Sundar 2007; Sharma and Kalpana 2007). Relaxations of various kinds have been allowed, say, in the use of contract labour or in hours of work in export-oriented units and information technology (IT) establishments (Government of Gujarat 2006).

At the state level, governments competing with each other to lure

investments have resorted to making changes in the regulatory framework of central labour laws through amendments and executive orders. According to a study on Andhra Pradesh, “there have been state amendments to central Acts and certain executive orders modifying the implementation of legal regulatory measures with far-reaching implications for the protection of rights of labour relating to basic working conditions” (Reddy 2007). This study points out that the essence of the Contract Labour Act has been diluted and a whole range of activities that would not have been permitted to be contracted out are now allowed to do so. This has led to a sudden surge in the use of contract labour and Andhra Pradesh is one of the states where contract labour has a very high share in the organised sector.

.Notwithstanding these changes or may be because of the declining status of labour, the industrial relations situation appears to have improved in recent years. The number of industrial disputes, work stoppages, and workers involved and person-days lost in them have declined. A general weakening of the trade union movement in India in the years since the early 1980s has been widely reported (Ghose 1994; Nagaraj 1994, 2004; Datt 2000, 2003; Shyam Sundar 2004; Anant et al. 2006; Reddy 2007). These studies provide convincing evidence, both at the state level as well as the aggregate, of a steady decline in the total number of strikes, the number of workers involved and the number of person-days lost, and so on. In contrast to the declining strikes, there has been an increase in the number of employer-led lockouts and consequent loss of man-days.

There has been a gradual change in the stand of trade unions on the issue of reforms in the labour markets. Confrontation has yielded place to concurrence. Trade union resistance to labour flexibility has softened. The fear that competition driven by reforms could lead to ruthless downsizing and the hope that flexibility may increase job opportunities have made trade unions focus on protecting the monetary benefits of workers. The low level of unionisation is another weakness of labour.

According to a study on labour flexibility (Deshpande et al. 2004), only 25% of the firms surveyed were unionised. Further, it was found that there was an increase in capital intensity in both unionised and non-unionised enterprises and labour flexibility was evident in both situations.

Global competition and new economic activities have brought about changes in the composition of the workforce. Women are employed in increasing numbers in certain areas such as garments and electronics and there new areas of employment like information and communication technology. The increasing use of capital-intensive technologies and other organisational methods to reduce labour costs such as subcontracting have led to weakening the power of trade unions and the mechanisms of collective bargaining (Sodhi and Plowman 2002). It can be inferred that there has been considerable flexibility for employers in the post-liberalisation period—in setting wage norms, wages and employment—from a detailed analysis of the collective bargaining agreements arrived at in this period (Shyam Sundar 2006).

This discussion on the rigidity or inflexibility of labour markets is related to those that cater for the organised sector of the economy. Organised sector employment accounts for only about 6% of the total workforce in the country. Under such conditions, labour market rigidity due to labour regulations is not a very significant factor in India, since the vast majority of workforce, which is informal, is not covered by labour regulations.

The economic reforms as a part of the present phase of globalisation have in their wake brought about a profound change in the world of work. From the hope that development will ensure secure lifetime employment, labour markets have woken up to the rude reality that the present process of growth may increase employment, but that it is going to be flexible and insecure. This reality has led to an all-pervasive sense of uncertainty that has affected institutions such as trade unions and labour regulatory systems, including the judiciary, persuading them to compromise on the goal of ensuring decent and secure work.

The most important limitation of existing labour regulation is its inadequate coverage. Most laws apply only to relatively larger establishments employing more than a certain number of workers, usually 10. There is thus no regulation of conditions of work and no provision for social security of any kind for informal workers working in establishments employing less than 10 workers. And they constitute an overwhelming majority—92% of all workers and 84% of all wage earners. In the case of these workers, the degree of “flexibility” is so high that they are in no way protected from the vagaries of the market or any arbitrary actions their employers may take (Papola et al. 2008).

The important area of reforms needed in labour regulation relates to the provision of minimum conditions of work and social security to workers not covered by existing labour regulations. This does not necessarily mean replication of what now exists for the regulated sectors, either in terms of the levels of protection or implementation mechanisms. The report of the Second National Labour Commission (2002) recommended enactment of a law for unorganised sector workers. The government followed it up by drafting a bill. Some non-governmental organisations and individuals have also made proposals on the subject. Taking all these into consideration, the NCEUS has put forward comprehensive proposals for the social security and conditions of work of workers in the unorganised sector. The commission has submitted draft legislations on both these aspects to the government. These proposals need to be carefully considered and seen as a part of labour reforms in the direction of reducing dualism in the regulatory framework of the Indian labour market (Papola et al. 2008).

## V

# Globalisation and Impact on Unionisation

## 2.11 Unions and the Distortionist View

THE erosion of the status of the trade union movement in the context of globalisation can be seen to have taken place because of a combination of external pressures and internal problems. The external pressures derive from a perception that unions are “distortionist” institutions that need to be minimised to facilitate the globalisation process. The internal problems, to a large extent, have been created by the union movement itself and are a major threat to the survival of the labour movement. The first and major internal problem is overcentralisation and bureaucratisation, alongside the associated practices of power-seeking, opportunistic political alliances and rent-seeking. The second is the inability of unions to reach out to the small-scale sector, to women, to casual labour and other excluded “working poor.” This has been made worse by informalisation and technology-driven structural changes in employment, both to a large extent unleashed by globalisation.

Let us examine the depiction of unions as distortionist. There have been two broad views of labour institutions such as trade unions and state labour legislations. One view, promoted by the World Bank, may be called the “bank distortionist view” (BDV). The other, promoted by the International Labour Organisation, may be called the “ILO institutionalist view” (Freeman 1992). The BDV holds that minimum wages, job and social security and the presence of trade unions raise the cost of labour in the formal sector, reduce labour demand and otherwise distort the labour market, leading to unemployment and low wages in the informal sector. The outcome is an inefficient use of human resources and greater inequality between a few highly paid workers and many low-paid and unemployed workers. Economists who



believe that competitive wages will result in higher levels of employment know that the alleged benefits can be reaped if, and only if, employment expands in industries in which hitherto artificially high wages have kept employment at low levels. The existing evidence does not support the claim of alleged distribution of benefits (Rodrik 1997: 25). On the contrary, it is estimated that about one-fifth of the rise in US wage inequality has been due to a decline in unionisation (Freeman 1996, quoted in Rodrik 1997).

In contrast, the ILO institutionalist view suggests that minimum wages play an important role in protecting low-income groups, that unions promote sound industrial relations, and that social security ensures a measure of justice to the working class for the role it plays in the production process. From the end of World War I to recently, there was a growing consensus towards the view that strong labour institutions and state interventions are essential for building industrial systems based on the principles of equity and justice. Thus, the ILO was able to put in place a series of conventions, such as Convention 87 upholding the freedom of association, Convention 98 recognising the right to organise and bargain collectively, Convention 131 providing for minimum wages, and Convention 154 acknowledging comprehensive collective bargaining. These ILO conventions, the products of workers' struggles over the decades, have been ratified and implemented by a large number of member countries.

But in the present phase of globalisation, there has been an orchestrated dissemination of the BDV by the World Bank and the IMF—that trade unions distort wages, misallocate labour, waste resources through rent-seeking, impair adjustment to shocks, deter investment and thereby reduce growth (Freeman 1992). Though the evidence for these distortions is, at best, ambiguous, the depiction of unions, minimum-wage legislation and other interventions in favour of labour as obstacles to growth has become conventional wisdom, and a threat to the survival of the trade union movement and the success of protective labour legislation.

The ascendancy of the BDV is in part a consequence of the internal problems of unions, which have become increasingly evident over the last two decades. In most countries, unionisation covers only a small fraction of the labour force. In India, for instance, union organisation is confined to just 5% of all workers. Unions have not shown any inventiveness or taken any major initiatives to organise the large mass of unorganised, informal-sector workers. Meanwhile, globalisation, through the processes of informalisation and casualisation, is reducing the size of employment in the formal sector and expanding that in the unorganised and informal sectors. This is likely to worsen with privatisation of the public sector, the growing contracting-out of formal-sector jobs to the informal sector and the introduction of informal-sector labour practices into the formal sector. The prospects of employment growth in the organised sector are bleak, while informalisation is likely to further weaken labour organisation (Papola 1994).

For instance, the process of informalisation in India, which started with the shifting of looms from the formal-sector textile factories in Mumbai to informal small-scale weaving shops in Ahmedabad, has become more and more extensive (Mahadevia 1998). Regardless of the industry, new industrial towns are emerging as centres of flexible-casual labour arrangements (Vijay 1999). Electronics (Vanamala 2001) and pharmaceuticals in Hyderabad and surgical instruments in Ludhiana are only two of the well-documented instances of this growing phenomenon. New employer strategies that erode the bargaining power of unions include (i) transferring jobs from unionised to ununionised workers by “promoting” employees as officers and other supervisory staff; (ii) a growing recourse to sub-contracting work; (iii) the conversion of permanent jobs into contract and casual work; and (iv) the introduction of voluntary retirement schemes.

In India, the degree of unionisation, in terms of the proportion of union members to total workers, was very low even before the pre-reform period. For the aggregate workforce, including self-employed and casual

workers, the degree of unionisation has been about 2%. It is estimated at 5% for the non-agricultural workforce and at about 20% for those in organised sector employment. Micro-level data suggests that there has been a decline in unionisation, especially in sectors such as textiles and knitwear that are exposed to global competition and have linkages with GPNs.

## 2.12 Workers' Organisations in the Informal Economy

IN A country where informal workers constitute more than 90% of the workforce, the importance of organising them for a fair representation of their demands can hardly be exaggerated. But, at the same time, organising informal workers poses formidable challenges. The diversity of activities; the small size of units of work; at times, the lack of an identifiable employer; the large share of self-employment or home-based work; the casual nature of work; widespread illiteracy among workers; the lack of legal entitlements; and the absence of an agency to work with all come in the way of organising workers in the informal sector. However, with stagnation, or even decline, in the organised sector workforce and with much of the increase in employment being informal in nature, there has been growing concern and interest in organising them. In addition to national trade union organisations, there are union-cum-cooperative institutions such as the Self Employed Women's Association (SEWA), new informal sector unions such as the National Alliance of Street Vendors in India, workers' cooperatives, self-help groups (such as the Building and Woodworkers' International, Delhi) and so on, which are engaged in organising particular groups of unorganised workers (Ahn 2007).

### Mainstream Trade Unions and Unorganised Workers

THE mainstream trade unions have of late taken an increasing interest in

organising informal workers and addressing their concerns (Datt 2008; John 2007; Shyam Sundar 2006). The verified membership of Central Trade Union Organisations (CTUOs) increased from 12.27 million in 1989 to 24.88 million in 2002. This was mainly because of the increase in the membership of unorganised sector workers who constituted 39.4% of the total membership of CTUOs (Datt 2008; John 2007). The increase in memberships of agricultural and rural workers itself accounted for 30.7% per cent of the total verified membership (Table 2.20).

The mainstream trade unions have adopted five different strategies to organise and address the concerns of unorganised workers (Shyam Sundar 2010b). One, they have organised occupational groups among informal economy workers such as *hamals* (porters), hawkers, maid servants, bullock cart drivers, and so on at various places under their banner (see Ahn 2007 for a number of examples). Two, they have taken up the issues and demands of informal economy workers in their mass campaigns through rallies, strikes, petitions, and the like. Three, they have been demanding that the employment of contract and casual workers be regularised. Four, responding to the criticism that regular workers disregard the interests of contract and casual labourers, they have encouraged them to lend solidarity to the struggles of these informal workers. Five, they have attempted to build an all-encompassing organisation to wage combined struggles on the policy front. The National Platform for Mass Organisations (NPMO) was formed in the 1990s and comprises organisations of workers in both the organised and the unorganised sectors.

Specific strategies to organise unorganised workers have come to the fore, combining a variety of pragmatic practices and ideas. For instance, one of them is representing the interests of self-employed informal workers. The informal economy is vast and it is not possible to describe all the ongoing efforts at organisation here. However, an important initiative that serves as an example is highlighted below.

<b>TABLE 2.20 Details of Verified Union Membership of Central Trade Union Organisation in the Unorganised Sector, 2002</b>		
<b>Economic Activity</b>	<b>Membership (in thousands)</b>	<b>% of Total Membership</b>
Agriculture and rural sectors	7,645	30.7
Building and Construction	1,070	4.3
Brick Kilns	458	1.8
Personal Services	447	1.8
Self-Employed	177	0.7
Total unorganised sector (1 to 5)	9,796	39.4
Total (organised + unorganised of all CTUOs)	2,488	100

Source: Datt 2008, Table 3, p 995

### Self-Employed Women's Association

SEWA grew out of the women's wing of the Textile Labour Association (TLA), an Ahmedabad-based workers' organisation inspired by Mahatma Gandhi. It faced obstacles in getting itself registered as a trade union because its members were self-employed, and therefore not in a conventional employment relationship. Eventually, it won the battle and was registered as a trade union in 1972. But even after more than three decades of significant work, it did not gain legitimacy in the eyes of conventional trade unions. It had to seek judicial intervention to be counted as a central trade union organisation during the 2004 membership verification exercise because mainstream CTUOs protested against including it. Again, its move to seek affiliation to the International Confederation of Free Trade Unions (ICFTU, now International Trade Unions Congress, ITUC) was contested by some of the ICFTU-affiliated CTUOs in India. Nevertheless, SEWA is now counted as a CTUO and affiliated to the ICFTU. It is also affiliated

to organisations such as the International Union Federation (IFU), International Textile Garment and Leather Workers' Federation (ITGLWF) and International Federation of Chemical, Energy, Mine and General Workers' Union (IFCEMGWU). It played an important role in securing the ILO convention on home-based workers (Convention No. 177).

By 2009, SEWA had a membership of 1.25 million, mostly in Gujarat (0.63 million ) and Madhya Pradesh (0.05 million), but it has extended to several other states, including Bihar, Delhi, West Bengal, Rajasthan, Uttar Pradesh, Kerala and Uttarakhand (see [www.sewa.org](http://www.sewa.org)). Besides organising and assisting self-employed women in their economic activities and providing them with social protection, SEWA has extended its activities to home-based workers engaged in making incense sticks, shelling cotton pods and doing embroidery. It has also realised some of its objectives by forming cooperatives to buy raw materials and market goods collectively. Skills training, marketing assessments, health facilities and social security are some of the complementary services that SEWA helps to provide.

## VI

### Global Production Networks and Labour in India

#### 2.13 Changes in Industrial Organisation

GLOBALISATION has considerably affected labour markets and their functioning in India, as much as elsewhere. The opening up of economies and the emergence of a free-trade-like situation, in the classical view, is likely to make trade the engine of growth, leading to more efficient allocation of resources, faster growth and employment. Besides growth, the well-



known Heckscher-Ohlin model of free trade, as observed earlier, postulates that there will also be a reduction in inequalities. The logic is that when trade opens, each country exports commodities using more of what it has in abundance, the relative price of which is lower. Developed countries will specialise in capital-intensive products and export, while developing countries will specialise in labour-intensive products and export. The increased demand for labour, especially unskilled labour, is expected to increase wages and incomes in developing countries. But the experience of India and other developing countries shows that the effects of globalisation are anything but equalising wages and improving terms of employment.

Liberalisation of trade and capital movements has brought about a drastic reorganisation of production. This has changed the very nature of international trade, which is no longer merely trade in goods. From the Fordist notion of integrated mass production of goods under the roof of a factory, the making of a product is split into a number of segments and the production of each segment is spread across firms in different parts of the world. Apart from production of goods, even services, as in offshoring, are increasingly being vertically disintegrated across borders. Skill differences and wage differences for similar skills act as drivers of this process. This vertical disintegration of the making of a product across national boundaries is variously described as GPNs, global value chains (GVCs) or global commodity chains (GCC) (Bair 2009; Posthuma and Nathan 2010).

A growing informalisation of employment and flexible labour markets are the major consequences of the ongoing globalisation process in India. These changes are mediated through an increasing reorganisation of production processes under GPNs and through reforms in domestic policy regimes. GPNs affect the quality of employment, wages and working conditions through pressures on product quality, delivery time, changes in skill requirements, career paths, gender relations and new labour institutions such as NGOs and buyers' codes. Changes in domestic policy regimes

relate to the role of the state in labour regulation, public expenditure on the social sector, a reliance on private investment, policies such as promotion of special economic zones, and tendencies towards becoming "competition states" vying for more private investment across sectors.

## 2.14 GPNs, Employment and Wages

IN TERMS of organisation of production, one of the major outcomes of globalisation is decentred production locations with centralised coordination of production and marketing. Transnational or multinational corporations (TNCs or MNCs) have been key drivers of this process through direct investments and international outsourcing, as they coordinate worldwide networks of suppliers that produce parts, components, final goods and services for global markets. This coordinated organisation of production and marketing is characteristic of GPNs. The organisation of production is not only decentred, but also hierarchical in value addition. As a product moves from the lowest tier to MNCs, its value moves up, often not as much as a result of any further production process as by branding, which generates a kind of rent. GVCs are the other side of the same coin as GPNs.

At the turn of the century, GPNs were estimated to account for one-third of world trade (UNCTAD 1999). According to the ILO (2004), by the early 21<sup>st</sup> century, there were some 65,000 TNCs with 850,000 foreign affiliates behind these GPNs. The presence of GPNs is most pronounced in high-technology industries such as electronics and semiconductors, and in labour-intensive consumer goods such as textiles, garments and footwear, as also in service-sector activities such as software development, financial services and call centres. In high-technology industries, production of parts and components is in developing countries, but research and development (R&D) and other technologically sophisticated activities are in industrialised countries. In the case of labour-intensive products,



the TNCs design the product, specify the quality and then outsource its production to firms in developing countries with timely adjustment to consumer demand, minimal inventory cost and global “just-in-time” delivery schedules. And all this has happened along with the parallel development of multilateral rules to govern the key element—FDI.

With trade liberalisation and economic reforms since the early 1990s, India has witnessed the penetration of GPNs mostly in textiles, garments, footwear and leather products, automotive components, and information and communication technology (ICT). GPNs are expected to open up new opportunities in export markets and thereby lead to growth in the number and size of domestic firms, bring about an increase in new investments both by foreign and domestic firms, facilitate technology upgradation and improve productivity. In developing countries, such improvements are referred to as GPN-driven economic upgradation (Nathan and Posthuma 2010). Here, we are concerned specifically with the impact of GPNs on the quality of employment, wages and working conditions in certain industries in India.

The available evidence on GPNs in the leather industry (Damodaran 2010) shows that cost squeezing by global buyers and intense competition among exporting firms has driven profits down. The prices of lower-tier firms are fixed and not linked to increases in material cost. Thus, domestic market prices in the premium range are often higher than export prices. Reduced profitability has inhibited the ability of Indian firms to compete in the innovative and higher value-addition segments.

In the textile and garment sector, there has been rapid growth after economic reforms were launched and quotas were lifted with the abolition of the Multi-Fibre Arrangement (MFA). But the benefits have had a differential impact on firms and workers in the organised and the unorganised sectors (Hirway 2010). In the organised sector, there has been a deepening of capital intensity and upgrading of jobs, mostly in favour of skilled male workers. The unorganised sector has remained labour-intensive, with increasing

employment of female workers in low-skilled and more flexible work. Exports have deepened gender-based market segmentation and outsourcing from informal production units that depend on informal, low-paid and low-skilled workers, mostly women. There are strong gender divisions in job activities, modes of payment and mobility into higher skills (Unni and Scaria 2009). GPNs in textiles and the apparel industry have created substantial employment, but without much improvement in the quality of employment.

There has been a steep increase in the number and proportion of contract workers in regular employment in the garment sector (Ramaswamy 2009). In embroidery and embellishment of garments, child labour is involved in both domestic and export production. Child labourers are paid low wages, adults are not paid minimum wages and the conditions of work are very harsh (Mehta and Sherry 2009). Tewari’s (2010) findings show that economic and social (read labour and employment) upgrading is linked. In the organised sector, where there is diversification and year-round production, there is more stable and higher value-added production, employing regular and skilled labour, and better working conditions. These firms also experience less absenteeism and improved productivity, leading to better export performance and rising profitability. She observes that economic upgradation and better employment conditions are not entirely because of market forces or inter-firm relations. “Mediating institutions” such as the state, new labour organisations, trade unions, civil society organisations and even business associations shape and sustain better employment and working conditions.

Another industry in which GPNs have become entrenched in the post-reform period is automotive parts. There has been a clear shift in conditions of work and a growing dualism in this sector. Changes in the role of state-level industrial policies have shaped transformations in the industry (Suresh 2010). During the pre-reform period, public investment in infrastructure and institutions nurtured development of engineering industries and highly-skilled labour. This attracted both foreign and

domestic investment. Though there have been incentives such as land and new infrastructure in the post-reform period, there has also been weakening labour regulation, which has undermined labour conditions. Observing the situation in the Chennai region, which is one of the major locales of the automotive industry, Suresh (2010) points out that there is a clear segregation between organised and unorganised units. Investments and the diffusion of new production techniques and quality standards have benefited medium and large firms, where conditions of work have also improved. But sub-contracting parts of the production to smaller units has become widespread.

There was no upgrading of smaller units and many of these have had to close or become low-cost sub-contractors. There has been a rise in part-time contracts and trainees in these units. So, while low-wage informal work has increased, skilled workers have moved to other industries. A similar dualism has been observed in Punjab's auto clusters as well (Awasthi 2010). There are two sets of auto chains, one supplying to the domestic and export markets, and the other to the domestic replacement market, which is informal. While there is higher value-added production and better conditions of employment in the former, labour conditions have deteriorated in the latter. Since the industry has a high capacity to absorb skilled workers, there is the need for new approaches to provide training and skills to enable informal workers to move up the productivity and quality scale (Rani 2009).

The GPNs in information and communication technology appear to be on a better footing, with very little informality and sub-contracting, relatively high skills, high salaries and, of course, lower unionisation (Sarkar and Mehta 2010). But in lower-skilled segments such as IT-enabled services, call centres and business process outsourcing, wages are relatively low and the hours of work are long. India has a position in the GVC of software production as a provider of outsourced, low-end IT services. Providing these generic services across the globe and round the clock is relatively labour-intensive, low-cost, low-skilled and monotonous. It also involves tight

controls, reduced creativity, overdependence on overseas clients, uncertain orders, long, irregular hours and insecurity of work (Upadhyay 2010).

There were expectations that entering GVCs in agriculture and contract farming would result in an improvement of the condition of agricultural workers. But the experience with contract farming, though as yet limited, shows the emphasis has been on reducing costs, resulting in rising casualisation, small farmers turning into contract farmers and the feminisation of tasks, especially those that are seasonal and involve low wages and low skills.

Observations from across the globe suggest that use of labour contractors has been intensifying in a range of sectors engaged in GPNs (Barrientos et al. 2010). All levels of GVCs are affected and work tends to be precarious in their lower tiers, while casual and migrant labour is employed even in the higher tiers. Precarious work is endemic to GPNs (Barrientos et al. 2010). How can labour conditions in GPNs be improved? What are the public and private efforts to regulate labour conditions in GPNs? Public labour market institutions in developing countries, including India, are understaffed and under-resourced. There exists a gap between public and private regulation, between protection of formal and informal workers, and between regulation of exporting firms and firms selling in domestic markets (Posthuma 2010). Inadequate public regulation is a general trend. Some private-sector initiatives exist in "regulatory enclaves," but these groupings mostly benefit formal workers in first-tier firms.

The introduction of product standards and company codes of labour practice put pressure on suppliers to improve working conditions but the impact is varied (Barrientos et al. 2010). For instance, in the case of Indian garments, these standards and codes are most effective on visible areas of labour conditions such as health and safety but limited on payment of minimum wages, social sector production and pension benefits. They also have a very minor impact on working conditions, hours of work, regular employment, harsh treatment of workers and freedom of association.

They have been ineffective in improving the labour conditions and rights of a large section of informal workers (Barrientos et al. 2010). With considerable pressure, reduced margins and uncertainty in the market at the lower tiers, the question remains whether the top producers and procurers, who retain substantial margins—sometimes highly rental in character—cannot be regulated to share responsibility for improving the conditions of contract workers and informal suppliers at the lower tiers.

A large cross-country analysis of India and China, which focused on three industries—apparels, automotives and information technology—suggests the following lessons for India (Gereffi and Guler 2010). One, labour-intensive manufacturing will continue to be an important source of employment creation. India must move from low-wage and low-skilled labour in industries such as apparels and address urgent supply-side constraints such as low scale, lack of product diversification and poor infrastructure. Two, consolidated supply chains in the automotive industry have led to economic upgradation and improved job quality in assembly and first-tier companies, but this has been accompanied by poor wages and working conditions in lower-tier firms. Shifting India's auto industry to high-quality, value-added production will require more training in technical, design and management skills as well as more public-sector investment in infrastructure such as power and roads. Three, though information technology is a success story of sorts because of domestic entrepreneurial capabilities and private-sector training facilities, public-sector investment in engineering and science and technology educational institutions as well as software technology parks still has a key role to play.

## VII

### Impact of Global Financial Crisis on Employment in India

#### 2.15 Recent Global Crisis and Labour

THE recent global financial crisis has severely affected growth and employment in many countries across the globe. In spite of the growing integration of India's economy with the global one, the financial crisis did not have a pervasive effect on it. The direct adverse effect on employment was confined largely to industries such as textiles and garments, leather products, automotive parts, diamonds and jewellery and to a lesser extent information technology, which were excessively dependent on exports. But making an exact assessment of the impact on employment in these industries faces two types of difficulties. First, many units operating in these industries are in the unorganised category and there are limitations on obtaining relevant data. Second, even in the case of organised-sector units, a considerable amount of time passes by the time reports on their performance are available.

However, the Labour Bureau of the Union Ministry of Labour has conducted quarterly assessments of employment based on quick sample surveys to assess the impact of the global economic crisis on employment in India. The first quick survey was conducted in seven industries in January 2009, covering the quarterly period October-December 2008. It was further streamlined by deleting mining and adding handlooms and power-looms and leather products. Since then, six quarterly surveys covering eight industries have been conducted so far. The results are presented in Table 2.21. Though it is difficult to assess the magnitude of impact because there are no reliable aggregate data on the level of employment in each of

TABLE 2.21 TRENDS IN WAGES PER DAY (15-59 AGE-GROUP, AT 1993 PRICES)							
Industry / Group	Changes in Employment during						
	Mar 09 over Dec 08	June 09 over Mar 09	Sept 09 over June 09	Dec 09 over Sept 09	Mar10 over Dec 09	June 10 over Mar 10	June10 over June 09
Textiles, including apparels	2.08	-1.54	3.18	0.16	-1.19	-0.63	1.52
Leather	-0.33	0.07	-0.08	0.09	0.00	0.21	0.22
Metals	-0.29	-0.01	0.65	0.23	0.04	0.45	1.37
Automobiles	0.02	0.23	0.24	0.06	0.29	0.51	1.1
Gems and Jewellery	0.33	-0.20	0.58	0.07	0.24	0.04	0.93
Transport	-0.04	-0.01	0.0	-0.02	-0.02	-0.21	-0.25
IT/BPO	0.92	-0.34	0.26	5.7	1.29	1.29	8.54
Handloom / power loom	0.07	0.49	0.15	0.09	-0.05	-0.03	0.16
<b>Overall</b>	<b>2.76</b>	<b>-1.39</b>	<b>4.97</b>	<b>6.38</b>	<b>0.61</b>	<b>1.62</b>	<b>13.58</b>

these industries, the quarterly changes in the registered enterprises give us a broad indication. The six months between January and June 2009 appear to have been the worst period in terms of loss of employment with almost all industries, barring automobiles and handlooms and power-looms, suffering a net loss. Though there has been an overall revival of employment since

June 2009, unfavourable conditions seems to persist in the textiles and apparels, transport and handloom/power-loom sectors. The silver lining is that the IT/BPO sector has contributed substantially towards recovery and an increase in employment. However, based on this data, it is very difficult to assess the overall impact on labour in terms of employment, wages, working conditions, and so on. Therefore, there is a need for micro-level studies that appraise the impact of the financial crisis on workers.

A micro-level study of diamond cutting and polishing units in Surat (Hirway 2009) shows that the global financial crisis resulted in the retrenchment of about 45% of their workers and in the decline of wages of those who were retained. Beginning in November 2008, the losses suffered by the industry resulted in not only a decline in wages, but also deterioration in working facilities, extended hours of work and a shift in the status of employment from regular to casual. It had a snowballing effect in the form of reduced remittances, dis-savings, mortgages and sale of assets and increasing indebtedness. Further, the crisis forced several non-workers such as students belonging to workers' households to take up whatever casual work was available in an attempt to supplement or shore up falling household incomes.

## VIII

### Globalisation and Migration

#### 2.16 International Migration from India

MIGRATION is one of the means by which people seek employment beyond their place of residence. In most countries, including India, there has been a movement of people within and across the states, both for seasonal as well as permanent employment. Though globalisation and privatisation



directed the flow of capital towards more profitable locations and sunrise industries resulted in urban agglomerations where certain economic activities were concentrated, the existing data on the internal migration of workers do not provide us a clear picture of all emerging movements. However, international migration of workers has received considerable attention.

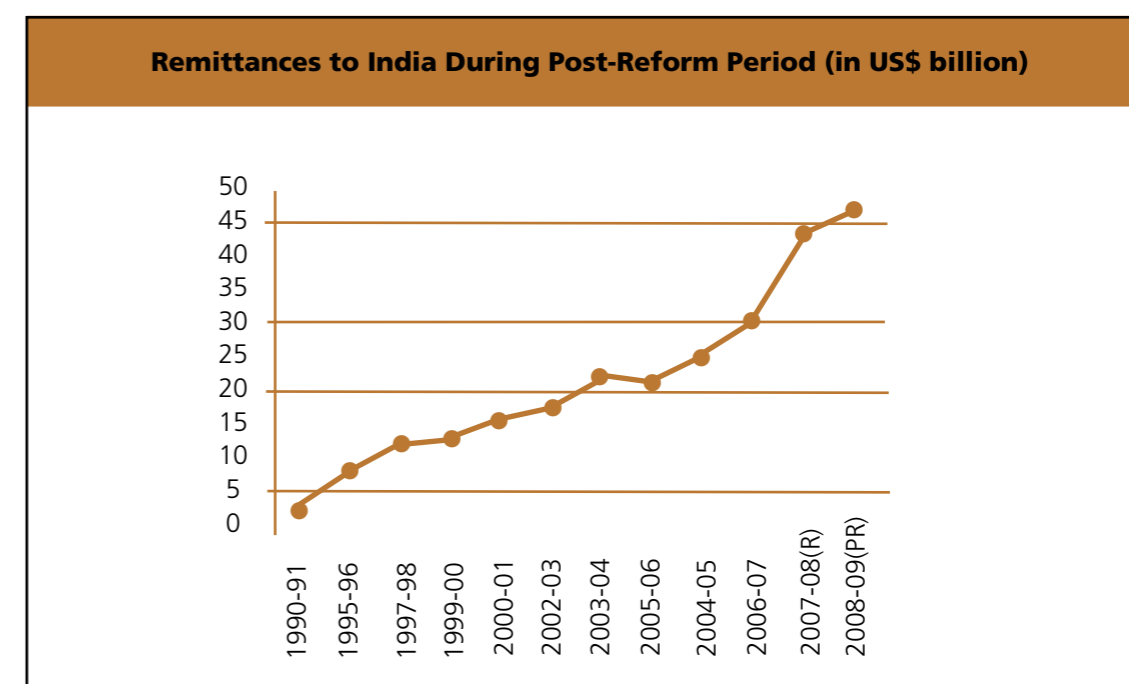
Though globalisation does not facilitate movement of labour as easily and in as high numbers as capital, there has been considerable international migration of Indian workers. By the late 1990s, migration from India was estimated to be about 0.12% of the country's total population (World Bank 2010). Though large-scale international migration began during the oil boom of the 1970s and 1980s with mostly semi-skilled and unskilled workers moving to Arabian Gulf countries, the character of migration has changed with globalisation. Since the 1990s, migrants have mainly been highly-skilled workers, particularly in IT, relocating on temporary work permits to Australia, Canada and the United States. Number-wise, Gulf countries still have the primary share (72%) of Indian migrants stock, but the US (15%) and Europe (9.7%) accounted for a substantial share in 2000-2002 (UNDP 2009). Of 1.95 million migrants from India to developed countries, the majority (51.2%) had tertiary education (graduation and above), 19.5% had upper-primary education and above but less than tertiary and 25.5% had less than upper-primary education.

## Remittances

THOUGH international migration of workers has several dimensions and its impact could be in terms of social and cultural factors as much as economic, attention is often focused on the economic contribution of international migration, measured in terms of remittances. In recent years, there has been a phenomenal increase in remittances received by India, which has assumed much more importance than official development assistance or even FDI. In 2007, the remittances received by India

Year	Amount US\$ billions)	Share in Current Receipts (%)	Private Transfers (% to GDP)
1990-91	2.1	8.0	0.7
1995-96	8.5	17.1	2.4
1999-00	12.3	18.3	2.7
2000-01	13.1	16.8	2.8
2001-02	15.8	19.4	3.3
2002-03	17.2	18.0	3.4
2003-04	22.2	18.5	3.7
2004-05	21.1	13.6	3.0
2005-06	25.0	12.8	3.1
2006-07(R)	30.8	12.7	3.4
2008-09(PR)	46.9	13.3	4.1

Source: Unit -level NSS data. *Employment and Unemployment Survey, 2004-05*



were \$30 per capita. This was 2,716% more than official development assistance, about 3.1% of the country's GDP and 1.5 times higher than FDI (UNDP 2009). According to World Bank estimates, India, with \$51.6 billion in remittances in 2008, continued to be the top remittance-receiving country in the world, with China (\$48.5 billion) the second. Table 2.22 shows the phenomenal increase in the official estimates of remittances received by India during the last two decades and its share under the current account of balance of payments and that of GDP.

The remarkable increase in workers' remittances can be traced to a few structural factors. First, in the 1990s, migration to Australia, Canada and the US increased significantly, particularly among IT workers on temporary work permits. Second, the swelling of migrants' ranks coincided with better incentives to send and invest money, the liberalisation of regulations and controls and more flexible exchange rates. The convenient remittance services provided by Indian and international banks have also shifted such remittance flows from informal channels to banking channels. Third, non-resident Indians (NRIs) have responded to several attractive deposit schemes and policy initiatives on this front. Apart from these structural factors, some current developments that have guided remittances flows include depreciation of the rupee, a hike in interest rate ceilings on NRI deposits since September 2008 and uncertainties in oil prices, which may have induced workers to remit their money to India as a hedging mechanism due to its relatively better growth prospects.

## IX

### Concluding Observations

#### 2.17 By Way of Summing Up

THE liberalisation and privatisation process of the 1990s brought about accelerated growth in India's GDP, but the growth of employment decelerated, inviting the description "jobless growth." The quality of employment also suffered, with an increasing tendency towards informalisation. The penetration of GPNs meant moving towards seeking sub-contracts that reduced labour costs, not upgrading employment conditions. The enclaves of employment in export-oriented units suffered heavy retrenchments in the wake of the global financial crisis.

The employment status of a majority of workers is characterised by a high degree of vulnerability. Most of the employment, even in 2009-10, was self-employment (51%) or casual (33%). Regular employment increased marginally from 14% in 2004-05 to 15.5% in 2009-10, and half of these workers are also without any social protection. There has been a continuous decline in employment in the public sector since the early 1990s. The rising trend in employment witnessed in the last decade has been entirely in the private sector, and almost all of it is informal employment. The rise in employment in the organised sector has almost entirely been in the form of a rising share of contract labour, barring a few supervisory positions.

A positive feature in the last two decades of disturbing labour conditions has been a rise in real wages. Between 1983 and 2009-10, the real wages of all categories of workers more than doubled, and the rise was much higher in the case of regular workers than informal ones. Yet, even in 2009-10, one-fourth of those employed were in

the category of the “working poor.” Wage and income inequalities have widened, and while the share of profits in the value added in the organised sector has increased phenomenally, the wage share has declined.

The status of the working class and labour institutions took a beating with the onslaught of globalisation. The structural shift towards privatisation of the economy and informalisation of employment has weakened organised labour and there has been erosion in the bargaining power and status of trade unions. With the winds of change blowing towards neoliberal reforms, there has also been a change in the attitude of the judiciary towards the working class. The judiciary, which had earlier been a bulwark of protection to labour, has delivered judgments that depict labour rights like the right to strike as obstacles to faster growth in what it has described as the changing context of a highly competitive world. The stance of the state has also shifted, from pro-labour to a competitive bidding for capital, even at the cost of labour protection.

As if to justify the view that labour regulation results in the “rigidity” of labour markets, several states have facilitated labour market flexibility by either modifying legislations such as the Industrial Disputes Act and Contract Labour Act or allowed “reforms by stealth” through lax implementation of regulatory provisions. The role of tripartite institutions has weakened and bipartite arrangements such as works committees have become almost defunct. Collective bargaining has been undermined in both the public and the private sectors, and much of what remains is increasingly becoming “enterprise bargaining,” instead of industry-wide bargaining. A radical amendment to the Constitution proposed in 1975, to insert Article 43A in the Directive Principles to enable the state to “take steps by suitable legislation or in any other way to secure the participation of workers in the management of undertakings, establishments or other organisations engaged in any industry”, and a Bill introduced in 1990 in the Rajya Sabha to provide statutory support for workers’ participation in management have never seen the light of the day due to the winds of labour reforms.

## Challenge of Employment

INDIA has a very favourable demographic structure with a high and growing proportion of its population in the working-age group, which means it has the potential to reap a demographic dividend in the next few decades to come. But this advantage may turn into a threat if the quality of labour supply and the generation of employment opportunities for the growing labour force do not improve substantially. Projections of the growth of the population in the working-age group range from 10 to 11 million per annum in the coming decade. About 8 to 9 million from this group are likely to enter the labour force every year. The record of the 1990s shows that annual employment generation was about 5.5 million. In the last decade, it might have increased to 6 to 7 million, and, of course, most of these jobs were informal in nature. The major challenge for the immediate future is not only increasing the pace of growth of productive employment, but also improving the quality of employment. Besides, almost one-fourth of workers are “working poor,” mostly in low productivity and low-paid jobs in agriculture and the urban informal sector, and these are also highly vulnerable employment activities like own account work and unpaid family labour. The need is to adopt a broad-based employment-intensive growth strategy, along with measures to improve the quality of labour supply. This has to be done by enhancing educational levels and also by furthering training towards skill development. Another important dimension of the quality of employment is the promotion of “decent work” by reducing employment insecurity, improving wages and working conditions, and ensuring social security.

There is also a need for addressing persistent regional, gender and social disparities in labour market outcomes. A huge gap exists between the available institutional capacity for skill development and the needs of the economy. It is generally recognised that India is doing too little covering just 100 skills while China had “4,000 short-duration modular courses which provide skills more closely tailored to employment needs”

(Planning Commission 2008). Skill deficiencies not only affect the quality of employment, but also the sustainability of high growth. A workforce poorly endowed with skills will be excluded from highly productive sectors and will land in low-quality jobs, resulting in lower incomes that do not create enough home demand to sustain high growth. It is with the challenge of India sustaining a higher pace of growth with better inclusiveness in mind that one should look at the future agenda of skill development.

Another major challenge that needs to be addressed is the social security of informal workers, a growing category. The institution of social security, as it evolved in India, was primarily associated with organised industry and formal employment. The expectation was that with growth and development, the share of formal employment would increase, and with it the proportion of workers covered by social security would increase. Ironically, the process of globalisation and changes in the nature of employment, which has moved increasingly towards informality, have turned the received wisdom upside down. So, the issue of social security for informal workers has become a primary concern. The initiatives of the NCEUS brought the issue into sharp focus and its recommendations resulted in the enactment of the Unorganised Workers' Social Security Act (UWSSA) in 2008. The Act, which came into force in 2009, could be seen as the first positive initiative towards ensuring minimum social security to informal workers, who include a large proportion of the self-employed as well.

The wide range of issues and challenges thrown up by the experience of labour and employment in India during the post-reform period could serve as a good guide towards analysing and understanding developments in the other three South Asian countries, Bangladesh, Pakistan and Nepal.

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Education Category	All Workers				Average Annual Additions		
	1983	1993-1994	1999-2000	2004-2005	I	II	III
Illiterate	149,093 (56.23)	156,812 (47.73)	154,448 (42.8)	146,745 (40.56)	740 (12.22)	-394 (-7.30)	-915 (30.24)
Literate upto Primary	63,137 (23.82)	78,800 (23.99)	82,060 (22.74)	95,346 (26.36)	1,492 (24.71)	543 (10.06)	1,504 (49.7)
Primary up to Middle	25,923 (9.78)	39,646 (12.07)	52,144 (14.45)	61,522 (17)	1,307 (21.64)	2,083 (38.59)	1,989 (65.71)
Middle up to Graduate	19,588 (7.39)	37,906 (11.54)	50,773 (14.07)	58,149 (16.07)	1,744 (28.88)	2,145 (39.74)	1,840 (60.81)
Graduate and above	7,369 (2.78)	15,307 (4.66)	21,435 (5.94)	23,410 (6.47)	756 (12.52)	1,021 (18.91)	737 (24.34)
<b>Total</b>	<b>165,060</b> <b>(100)</b>	<b>328,471</b> <b>(100)</b>	<b>360,860</b> <b>(100)</b>	<b>361,762</b> <b>(100)</b>	<b>6,039</b> <b>(100)</b>	<b>5,398</b> <b>(100)</b>	<b>3,026</b> <b>(100)</b>

Notes: Figures in parenthesis are percentages of totals;  
I: 1983 to 1993-94; II: 1993-94 to 1999-2000; III: 1993-94 to 2004.05

Source: Authors’ estimates



# Globalisation, Employment and Labour in Bangladesh

ZAID BAKHT AND NAZNEEN AHMED

## I Introduction

THE process of globalisation that began in the early 1980s has succeeded in increasing international resource and commodity flows quite substantially. Radical improvements in information and communication technologies, alongside policy reforms aimed at promoting the openness of economies and enhancing the roles of the market and the private sector, have contributed largely to this process. As would be expected, these changes have had far-reaching effects on the level and structure of production and this has had major implications for employment and labour markets in countries across the globe. A critical aspect of this impact has to do with the way in which globalisation has proceeded. One notices a marked unevenness in the movement of goods, capital and enterprises across

national boundaries. The advanced market economies, the East Asian economies and the emerging economies of Asia, particularly China, whether as sources or destinations, account for a disproportionate share of these flows. One also observes great asymmetry in the composition of exports between these countries on the one hand, and the least developed countries (LDCs) on the other. As for movement of people across borders, there remain obvious barriers to international labour mobility and little prospect that these will be removed anytime in the foreseeable future.

As an LDC suffering from a high density of population, resource scarcity, a narrow production and export base and widespread poverty, Bangladesh had limited success in availing itself of the opportunities opened up by the process of globalisation. Like other developing countries, Bangladesh has had its own share of experiences with policy reforms, which have been carried out intermittently over the last three decades. In this paper, we briefly review these reforms and assess the country's experience with globalisation, focusing in particular on employment and labour.

Section II provides a brief description of the major policy reforms carried out by Bangladesh in the last three decades. Section III looks at the effect structural adjustments in the economy have had on employment, while Section IV relates trade liberalisation with employment. A discussion on the internationalisation of labour markets and its implications for Bangladesh follow in Section V. It reviews international regulations on trade, labour and investment and points out their significance for employment in the country. Section VI concludes the study with observations on its findings.



## II

### Bangladesh's Experiences with Policy Reforms

UNDER the rubric of structural adjustment, Bangladesh has initiated wide-ranging policy reforms since the early 1980s. A major thrust was market deregulation, which meant a reduction in government controls on market entry, wages, prices and other related factors. Accompanying this was a move towards privatisation of public enterprises, aimed at giving the private sector a lead role in industrialisation. The second important element of these reforms was liberalisation of the trade regime.

#### Market Deregulation and Privatisation

AT ITS inception in 1971, Bangladesh adopted policies that would lead to public sector-led development, and nationalised not only several large industries, but also enterprises in the banking, insurance and export sectors. Following these measures, there emerged 10 public-sector corporations controlling 92% of the fixed assets of the manufacturing sector. In 1975, the strategy of public sector-led industrialisation was abandoned and steps were taken towards making more room for the private sector. Reform attempts in the initial years were slow but the pace of privatisation gathered momentum with the New Industrial Policy (NIP) of 1982. It was further reinforced by the Revised Industrial Policy (RIP) of 1986, devised in tune with the structural adjustment programme (SAP) of the World Bank and the International Monetary Fund (IMF). Similar trends were observed in different service sectors such as power and gas, mineral resources, transportation and communication, education and health services. Private sector participation

was allowed in service sectors such as banking and insurance in the first half of the 1980s and was extended to the telecommunications sector by the end of 1980s.

The industrial policies of the 1990s (introduced in 1991 and 1999) were an extension and refinement of the policies formulated in the 1980s. The Industrial Policy 2005 continued with the principle of private sector-led industrialisation. The current industrial policy (Industrial Policy 2009) also speaks about private sector-led economic development while upholding the government's role as a facilitator or creator of a favourable investment climate.

Public resources also began to be channelled towards private-sector development. The conduits for channelling public resources to the private sector were development finance institutions (DFIs). Restrictions on foreign direct investment (FDI) and the ceiling on private investment were relaxed. In the late 1980s, sanctioning requirements for investments financed through credit from private financial institutions were removed. As part of the structural adjustment programme (SAP), financial sector reforms were undertaken in 1989. The major reforms included replacing the fixed exchange rate policy with a flexible exchange rate policy and the subsidised refinancing facility with a more general rediscount facility as well as instituting a financial court to improve debt recovery (Bakht and Bhattacharya 1994).

The share of FDI was raised to 100% from the 51% earlier allowed and joint ventures were permitted in all but a few reserved sectors, mainly related to national security (such as defence, atomic power, printing of money and buying arms). The industrial policies of 1999 and 2005 have encouraged both domestic and foreign investments and largely eliminated discrimination between foreign and domestic private investors. The incentives now offered to foreign investors in Bangladesh include full ownership in most sectors, lower import duties on capital machinery and spare parts, tax holidays, duty-free imports of raw materials for 100% export-oriented industries, tax exemptions on foreign loans and capital gains of portfolio investors and free repatriation of profits. Moreover, the taka has been made fully convertible in the current account since 1994.

## Trade Liberalisation

TRADE liberalisation measures initiated by Bangladesh during the early 1980s marked a shift from the import-substitution industrialisation strategy of the 1970s to an export-led industrialisation strategy. The import-substitution strategy had involved extensive use of quantitative restrictions on imports along with high tariff and non-tariff barriers. This was complemented by the fixed exchange rate.

A notable change was the replacement of the import licensing system with imports against letters of credit (L/C) in 1984. Moreover, import policy orders (IPOs) before 1986 had contained a positive list of importable items. In 1986, policy changes introduced a negative list and a restricted list for numerous commodities; commodities not on either of these lists could be imported without any official authorisation. Over time, the number of commodities in the negative and restricted list dropped and in 1990, they were unified into a “consolidated” list (Ahmed 2001). Various export promotion measures include special credit facilities for export industries, providing working capital loans, an export credit guarantee scheme, back-to-back L/C facilities, reduction or elimination of import duty on imported raw materials and machinery, providing bonded warehouses, duty drawbacks, and the like.

The export and import policies of the 1990s aimed at easing imports and expanding exports for rapid private sector-led industrialisation. During this period, the tariff structure of the economy went through significant rationalisation and downward adjustment. The maximum import duty, which was 300% in 1993, gradually fell to 32.4% in 2003 and has been 25% since 2005. Tariff slabs have also been reduced, from 15 in 1993 to four since 2005. Between 1991-92 and 2008-09, the unweighted average tariff rate declined from a high 70% to a low 12.3% (Table 3.1).

Fiscal Year	Number of Tariff Bands	Maximum Rate (%)	Unweighted Average Rate (%)	Import Weighted Average Tariff Rate (%)
1991-92	18	350.0	70.0	24.1
1992-93	15	300.0	47.4	NA
1993-94	12	300.0	36.0	NA
1994-95	6	60.0	25.9	20.9
1995-96	7	50.0	22.3	17.0
1996-97	7	45.0	21.5	18.0
1997-98	7	42.5	20.7	16.0
1998-99	7	40.0	20.3	14.1
1999-2000	5	37.5	19.5	13.8
2000-01	5	37.5	18.6	15.1
2001-02	5	32.5	17.1	9.7
2002-03	5	30.0	16.5	12.5
2003-04	5	25.0	15.6	11.5
2004-05	4	25.0	13.5	9.6
2005-06	4	25.0	13.4	8.1
2006-07	4	25.0	12.2	7.0
2007-08	4	25.0	13.4	7.6
2008-09	4	25.0	12.3	6.9

Note: Fiscal year covers July-June period

Source: BEI (2005) and Bangladesh Economic Review (2004)

The reduction of tariffs on imported raw materials during the 1990s was complemented by deepening various other incentives and supports for export promotion such as subsidised interest rates on bank loans, cash subsidies, exemption from value-added and excise taxes, bonded warehouse facilities, duty-free import of machinery and inputs, export credit guarantee schemes, income-tax rebates for exporters, and so on. Special facilities were also given to industries in export processing zones (EPZs). EPZ entrepreneurs could import raw materials, supplies and capital goods free of duty, retain foreign exchange earnings, operate in a working environment where labour unions were allowed only on a limited scale and were exempt from paying income tax for 10 years after setting up an enterprise (Bakht 2001). Later, the EPZ Workers' Association and Industrial Relations Act, 2004 was introduced, which made it mandatory for every enterprise in EPZ to have an elected workers' association.

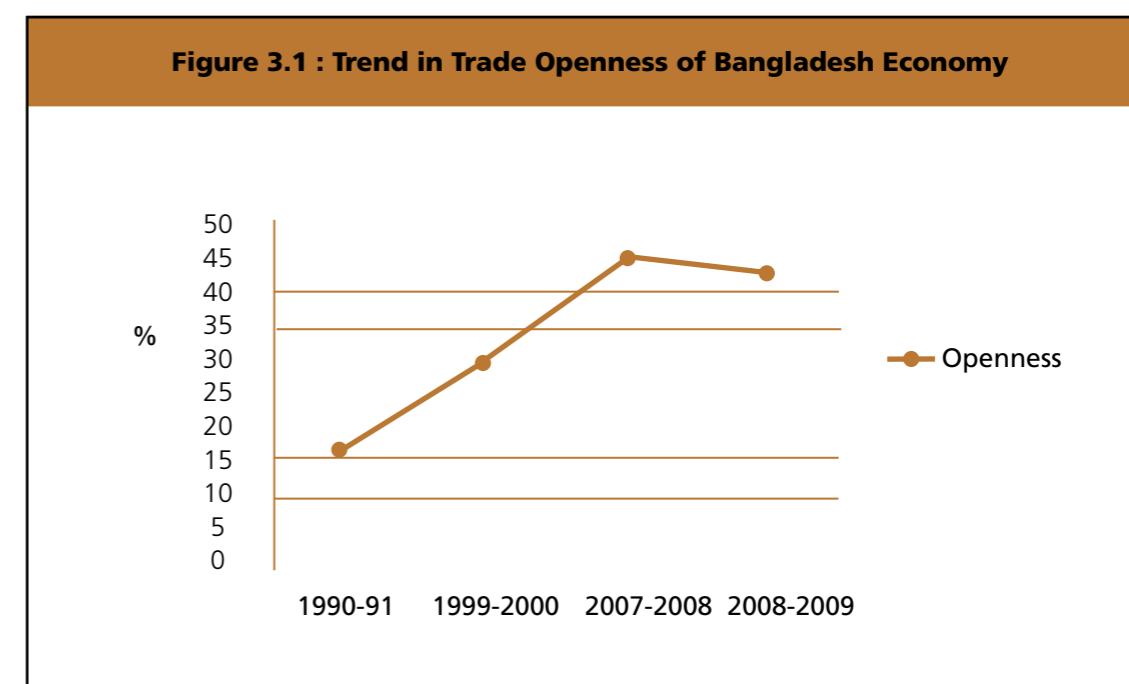
Trade liberalisation attempts in Bangladesh have been associated with reforms in its exchange rate policy. During the import substitution phase of industrialisation, Bangladesh maintained an overvalued fixed exchange rate system till 1980 to maintain equilibrium in balance of payments. This system was replaced by a “managed floating” system in 1980 when the local currency, taka, was pegged to a basket of currencies of the major trading partners. A comprehensive liberalisation of the foreign exchange control regime was initiated with convertibility of the taka in the current account in 1994. Finally, a free-floating exchange rate system was introduced in 2003.

As a consequence of various trade liberalisation measures, the Bangladesh economy has become more integrated into the world economy. From a mere 17% in trade openness<sup>1</sup> in 1990-91, the economy reached an openness level of 43% in 2008-09 (Figure 3.1). Both exports and

<sup>1</sup> Trade openness is measured here as sum of the absolute values of imports and exports expressed as percentages of the respective year's gross domestic product (GDP).

imports grew at two-digit rates during most of the early 1990s. Since 2003-04, export growth has been sustained at a double-digit level.

As a result of various policy changes and structural adjustment initiatives, the industrial structure have gone through significant changes and the overall business environment has been altered; major transformation has occurred in the financial sector; and the private sector has emerged as the driving force of the economy. International trade, regional and multilateral agreements and international labour regulations have also influenced business and workers' conditions in domestic enterprises.



### III

## Impact of Structural Adjustments on Employment

BEFORE examining the implications of various policy reforms on production organisation and employment, it may be worthwhile to take note of the effect they have had on macroeconomic characters of the economy. Following the recovery phase of the 1970s, the average growth of gross domestic product (GDP) during the 1980s hovered slightly below 4%. Until the early 1990s, the economy remained mostly agrarian with agriculture accounting for nearly 37% of GDP in 1989-90. The average yearly GDP growth jumped to 4.4% during the first half of the 1990s and, along with that, the economy began showing signs of a significant structural transformation. A turning point came in 1995-96 when agriculture and industry each contributed about a quarter of GDP. GDP growth accelerated in the following years and crossed 6% in 2003-04. On an average, GDP growth has remained 6% since then.

Year	Total GDP	Agriculture	Industry	Services
1980-81 to 1989-90	3.9	1.8	3.5	5.4
1990-91 to 1999-00	4.9	3.0	7.4	4.7
2000-01 to 2008-09	6.0	3.5	7.9	7.5

Source: Calculated on the basis of data from National Accounts Statistics (various Issues), Twenty Years of National Accounts of Bangladesh, 1993 and economic review (various issues); Base year is 1984-85 for data from 1972-73 to 1989-90, for others, the data base year is 1995-96.

Year	Agriculture	Industry	Services
1980-81	44.2	10.5	40.2
1990-91	28.4	20.4	48.3
2001-02	23.1	25.8	47.4
2008.09	19.8	28.6	51.5

If we look at sectoral growth, the agricultural, industrial (including manufacturing) and service sectors grew at annual average rates of 1.8%, 3.5% and 5.4% respectively in the 1980s. Against this, their respective growth rates in the 1990s were 3%, 7.4% and 4.7%. During the first half of the first decade of the new century, the average annual growth rate of agriculture remained stable, while that of industry and services increased to 7.8% and 5.8% respectively. Considering figures till 2008-09, we observe that the average annual growth rates of the industrial and service sectors were 7.9% and 7.5% respectively.

As a result of the sectoral growth pattern, there have been changes in the sectoral shares in GDP. The share of industry<sup>2</sup> in GDP steadily increased from 10.5% in 1980-81 to 28.6% in 2008-09, while that of agriculture in GDP declined from 44.2% to 19.8% during this period (Table 3.2). During the 1980s, the share of the service sector in GDP increased rapidly and during the 1990s and the following decade, this sector's share remained stable at around 50%. Thus, in terms of the composition of GDP, the structural transformation of Bangladesh's economy since the 1990s has been from agriculture to industry rather than to services.

<sup>2</sup> Broadly, industry includes mining and quarrying, manufacturing, electricity, gas and water and construction



TABLE 3.4		CHANGES IN CHARACTERISTICS OF LABOUR FORCE, 1995-96 to 2005-06				
Indicators		1995-06	1999-00	2002-03	2005-06	Yearly Growth Rate (%)
Economically Active population or labour force (millions)	Total	36.1	40.7	46.3	49.5	3.2
	Male	30.7	32.2	36	37.3	2.0
	Female	5.4	8.6	10.3	12.1	8.4
Total employment persons (millions)	Total	34.8	39	44.3	47.4	3.1
	Male	29.8	31.1	34.58	36.1	1.9
	Female	5	7.9	9.8	11.3	8.5
Unemployed population (millions)	Total	1.3	1.7	2	2.1	4.9
	Male	0.9	1.1	1.5	1.2	2.9
	Female	0.4	0.7	0.5	0.9	8.4
Labour forces Participation rate (%)	Total	52	54.9	57.3	58.5	–
	Male	87	84	87.4	86.8	–
	Female	15.8	23.9	26.1	29.2	–
Unemployment rate (%)	Total	3.5	4.3	4.3	4.3	–
	Male	2.8	3.4	4.2	3.4	–
	Female	7.8	7.8	4.9	7	–
Underemployment rate (%)	Total	NA	16.6	34.2	24.5	–
	Male	NA	7.4	23.1	10.9	–
	Female	NA	52.8	72.3	68.3	–
Unpaid family workers (millions)	Total	4.2	4.7	8.1	10.3	9.4
	Male	3.3	2	3.4	3.5	0.6
	Female	0.4	2.7	4.7	6.8	32.8

Source: LFS (various issues)

The employment situation in Bangladesh may be examined on the basis of Labour Force Survey (LFS) data. The latest available LFS data is for 2005-06, which indicates the employment situation shown in Table 3.4.<sup>3</sup>

Bangladesh experienced a moderate annual growth rate of its total labour force over the period 1995-96 to 2005-06. It increased from 36.1 million in 1995-96 to 49.5 million in 2005-06, recording an annual average growth rate of 3.2%. Despite various economic reforms in the 1990s, there has not been much improvement in the employment generation situation in Bangladesh. From 1995-96 to 2005-06, unemployment in Bangladesh increased by 4.9% a year. Thus employment growth was less than the annual rate of growth of the economically active population, which pushed up the unemployment rate. It may also be noticed from Table 3.5 that the share of informal employment had increased in 2005-06 compared to the situation in 1999-2000. This was true for both male and female employment.

As would be expected, agriculture still accounts for nearly half of the employed population in the country but its share has been declining (Table 3.6). It would be even smaller if employment hours instead of the number of employed persons were considered. LFS 2005-06

<sup>3</sup> LFS employment data from different years are not fully comparable as the definition of employed person has undergone several changes over the years. Before 1989, an employed person had to be 10 years old or more and was required to put in at least 15 hours of work during the reference week. Participation of household members in threshing, cleaning, care of livestock and poultry, food processing, parboiling, drying, and so on were considered as household work and not economic activity. In 1989, the requirement of a minimum 15 hours of work was reduced to 1 hour and the above-mentioned activities were included under economic activity but the age limit remained at 10 years. In 2002-03, the age limit was raised to 15 years and the inclusive definition of economic activity was given up but the minimum work requirement was retained at 1 hour. Fortunately, some of the LFS reports present tables on the sectoral classification of the employed population for both age limits and also for conventional as well as inclusive definition of economic activity. The present paper reports only those LFS employment data that are consistent with the definition used in 2005-06.

TABLE 3.5		FORMAL AND INFORMAL EMPLOYMENT		
Indicators		1999-2000	2002-03	2005-06
Total Employment persons (millions)	Total	39	44.3	47.4
	Male	31.1	34.58	36.1
	Female	7.9	9.8	11.3
Formal Sector	Total	9.6	9.2	10.2
	Male	8.4	7.3	8.6
	Female	1.2	2	1.6
Informal Sector	Total	29.3	35.1	37.2
	Male	22.7	27.2	27.5
	Female	6.6	7.9	9.7
Share of formal employment in total employment	Total	24.6	20.8	21.5
	Male	27.0	21.1	23.8
	Female	15.2	20.4	14.2
Share of informal employment in total employment	Total	75.1	79.2	78.5
	Male	73.0	78.7	76.2
	Female	83.5	80.6	85.8

Source: LFS 2005-06

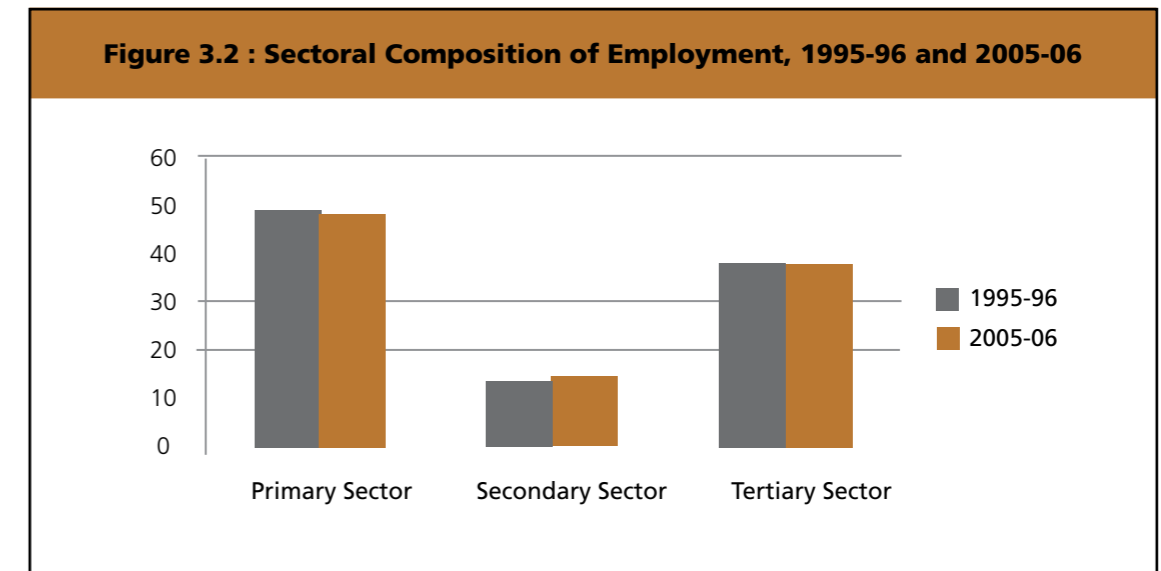
TABLE 3.6		Employment by Major Sectors – 1995-96 and 2005-06		
Sectors	Employment (millions)		Yearly rate of growth in employment (%)	
	1995-96	2005-06		
Agriculture, forestry and fisheries	17.0 (48.9)	22.8 (48.1)	3.0	
Mining and quarrying	0.0 (0.0)	0.1 (0.2)	–	
Manufacturing	3.5 (10.1)	5.2 (11.0)	4.0	
Electricity, gas and water	0.1 (0.3)	0.1 (0.2)	0.0	
Construction	1.0 (2.9)	1.5 (3.2)	4.1	
Trade, hotels and restaurants	6.0 (17.2)	7.8 (16.5)	2.7	
Transport, storage and communication	2.2 (6.3)	4.0 (8.4)	6.2	
Finance, business services and real estate	0.2 (0.6)	0.8 (1.7)	14.9	
Health, education, public administration and defence	0.3 (0.9)	2.6 (5.5)	24.1	
Community and personal services	4.8 (13.8)	2.6 (5.5)	Negative	
TOTAL	34.8 (100)	47.4 (100)	3.1	

Note: Figures in brackets show sectoral share in total employment  
Source: LFS

estimated underemployment in the overall economy to be nearly 25%. This is quite likely because the LFS requires a person to work only a minimum of one hour in the previous week to be included in the category of “employed.” Individuals with casual or part-time involvement in family enterprises would, therefore, be identified as “employed” although such employment is likely to entail a significant extent of underemployment. The incidence of such underemployment is expected to be higher in the agricultural sector than in non-agricultural sectors.

During the decade 1995-96 to 2005-06, employment grew at a fairly high annual rate in various service activities. These included (i) health, education, public administration and defence (24.1%); (ii) finance, business services and real estate (14.9%); and (iii) transport, storage and communication (6.2%). But there was a drastic decline in employment in community and personal services. Even in the case of secondary sector, the growth of employment in the manufacturing sector was 4.0% annually, which was higher than the rate of employment growth in the overall economy (3.1%). As a result, the share of manufacturing in total employed persons increased from 10.1% in 1995-96 to 11% in 2005-06. The rising trend in manufacturing employment is visible in all LFS since 1995-96. According to national income data, manufacturing value-added increased at an annual compound rate of 6.6% during 1995-96-2005-06. This would imply an employment elasticity of nearly 0.61 with regard to value addition in the manufacturing sector during this period, which suggests that recent manufacturing growth in Bangladesh has been significantly employment-intensive.

The structural picture (Figure 3.2) one sees gives an impression that the employment situation in Bangladesh is stagnant. But the structural picture is deceptive and misleading. Between 1995-96 and 2005-06, Bangladesh experienced the highest rate of growth in employment of all the economies in South Asia. Overall employment increased from 34.8 million to 47.4 million—an increase of 36%. Even primary sector employment increased by



34% from 17 million to 22.8 million. Because of the rise in employment in all the sectors, the structure of employment looks innocently stagnant. Such a dynamic increase in employment in Bangladesh could have been due to the substantial increase in female employment across all sectors (see Table 3.10).

Globalisation seems to have had a positive impact on real wages in the economy. As shown in Table 3.7, the increase in wage rates was very slow during 1970-1991 but became much faster after 1991, following policy reforms and greater openness of the economy. There was virtual

**TABLE 3.7** Index of Real Wage Rate of Workers (Base Year: 1969-70=100)

Year	General	Industry	Construction	Agriculture
1990 - 91	107	114	107	95
1995 -96	114	123	105	104
1999 - 00	121	137	116	103
2005 -06	149	183	123	124

Source: BBS

stagnation for two decades when the index of real wage rose gradually from 100 to 107 during 1970 to 1991. But from 1991, it rose to 149 by 2005-06. The rise in real wages has been the fastest in the industrial sector. Labour productivity in manufacturing has also increased over time. But the increase in wages in construction and agriculture has been very meagre—hardly 20% over a period of almost 25 years.

We pointed out earlier that the share of the informal sector in total employment increased during 1999-2003. As a result of this, a daily worker's income in the informal sector has reached a level that is quite comparable with a daily worker's income in the formal sector. Table 3.9 shows an interesting hiatus in the wages between those with an education level less than SSC and HSC and those with SSC and above in both the formal and informal sectors. Wage levels for the better educated are higher in the informal sector, while they are better for lower levels of education in the formal sector. This may be due to the fact that much of the modern industrial sector expansion in the post-reform period has been in the informal sector, but with more opportunities for the better educated. It should be noted, however, that a large part of the workers in the informal sector do not have regular employment and their work is mostly on the basis of daily demand. So,

Year	Manufacturing GDP (million taka at 1995-96 price)	Manufacturing Employment (millions)	Annual Labour Productivity (million taka)
1995 - 96	246,351	3.5	70,386
1999 - 00	303,680	3.7	82,076
2005 -06	468,197	5.2	90,038

Source: Based on data from Statistical Yearbook, Bureau of Statistics (different issues)

the average monthly income of workers in the informal sector may actually be significantly less than the monthly income of formal-sector workers.

The Wage Survey (2007) shows that most of the informal sector workers (29.5%) work 40 to 49 hours per week, while in the formal sector most of the workers (33.7%) work more than 60 hours per week. According to the survey, mean monthly wage earnings in the formal sector was Tk 3,766.7, compared to the mean daily wage in the informal sector of Tk 130.8, which means a monthly earning of Tk 2,877.6 (if the working days per month is taken as 22). Thus the formal-sector monthly earning was on an average about 38% higher than the average monthly earning in the informal sector.

On the gender aspect of employment, it may be noted that women lag substantially behind men with regard to participation in the labour force, though women's participation in direct economic activities has gradually

Level of Education	Formal Sector (in taka)		Informal Sector (in taka)	
	Male	Female	Male	Female
No education	102	66	119	78
Class 1 to 5	112	71	131	87
Class 6 to 10	127	79	147	113
SSC and HSC	147	105	169	170
Degree and above	194	140	198	171
Technical	198	145	125	103
Others	106		166	
TOTAL	130	93	137	91

Source: Wage Survey, 2007, BBS



increased during the last decade. The size of the female labour force more than doubled between 1995-96 and 2005-06, from 5.4 million to 12.1 million (Table 3.10). In spite of the increase in the labour force participation

rate of women over the last 10 years (from 15.8% in 1995-96 to 29.2% in 2005-06), it is a long way from the male labour force participation level of 87%. But if looked at in the South Asian context, it is much

Major Sectors	1999 - 2000			2002 - 03			2005 - 06		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Agriculture, forestry and fisheries	50.8	51.9	46.2	51.8	49.8	58.7	48.1	41.8	68.1
Mining and quarrying	0.4	0.3	1	0.2	0.2	0	0.1	0.1	0.1
Manufacturing	9.5	7.5	17.6	9.8	7.6	17.3	11	10.9	11.5
Electricity, gas and water	0.3	0.4	0.2	0.2	0.3	0.1	0.2	0.2	0
Construction	2.8	3.2	1.2	3.5	4.2	1	3.2	4.0	0.9
Trade, hotels and restaurants	15.8	18.1	6.3	15.1	18.6	2.5	16.5	20.4	4
Transport, storage and communication	6.3	7.8	0.6	6.8	8.7	0.3	8.4	10.4	0.6
Finance, business services and real estate	1	1.1	0.6	0.9	1.1	0.3	1.6	1.7	1.1
Health, education, public administration and defence	5.4	5.6	4.8	6	6.1	5.6	5.4	5.5	5.2
Community and personal services	7.5	4	21.4	5.8	3.3	14.4	5.6	4.6	8.6
TOTAL	100	100	100	100	100	100	100	100	100

Source: LFS, 2005-06

higher than female labour force participation in Pakistan and India. The unemployment rate among women (7%) is much higher than that among men (3.4%). Moreover, underemployment is very high among women. About 68% of women are underemployed compared to about 10% of men. Among the 10.3 million unpaid family workers, 6.8 million are women.

It is also evident from LFS data that in 2005-06, only 0.2% of the total employed women were in administrative or managerial positions compared to 0.6% of all employed males. It is also interesting to note that women are mostly involved in agricultural activities and that the share of this sector in women's employment is rising rapidly. Though rapid expansion of export sectors such as readymade garments is contributing to increased women's participation in the manufacturing sector (Ahmed and Peerlings 2009; Afsar 2001), the overall share of manufacturing in women's employment is declining while agriculture's share is increasing. The opposite is observed for male employment—the share of agriculture declined between 1999-2000 and 2005-06 while that of manufacturing increased. Thus there is an indication that women are increasingly replacing males who are withdrawing from agriculture, possibly for more remunerative jobs in manufacturing and other sectors (including migration). This trend may have added to the burden on women as they have to perform household chores besides engaging themselves in agricultural activities.

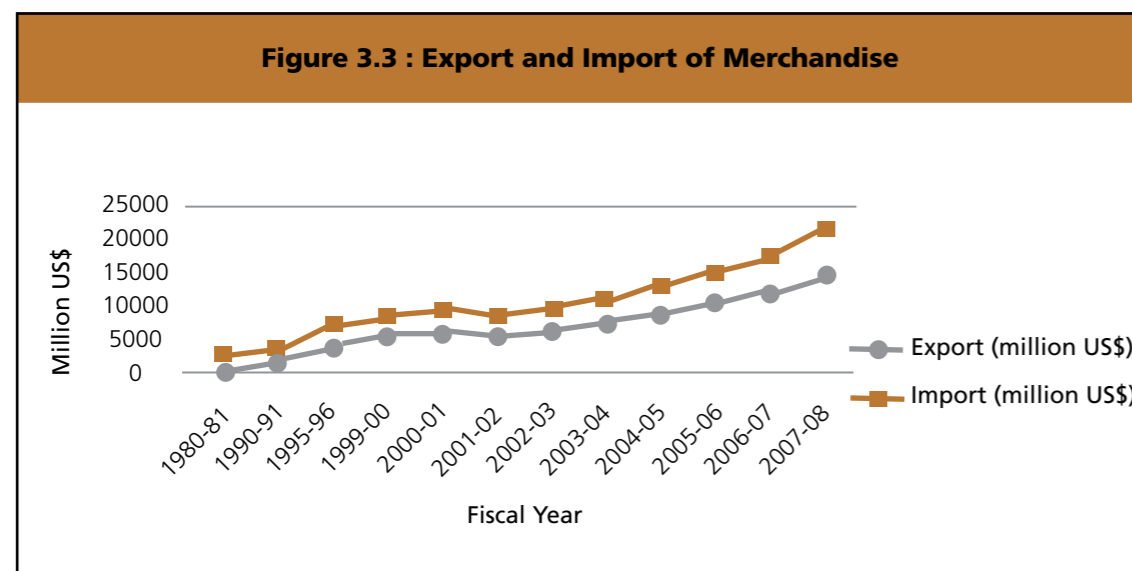
One also observes significant wage differentials between male and female workers. Thus, in the formal sector, the daily income of a female worker is only about 72% that of a male worker. The income differential appears to be higher in the informal sector and among workers with a low level of education.

## IV

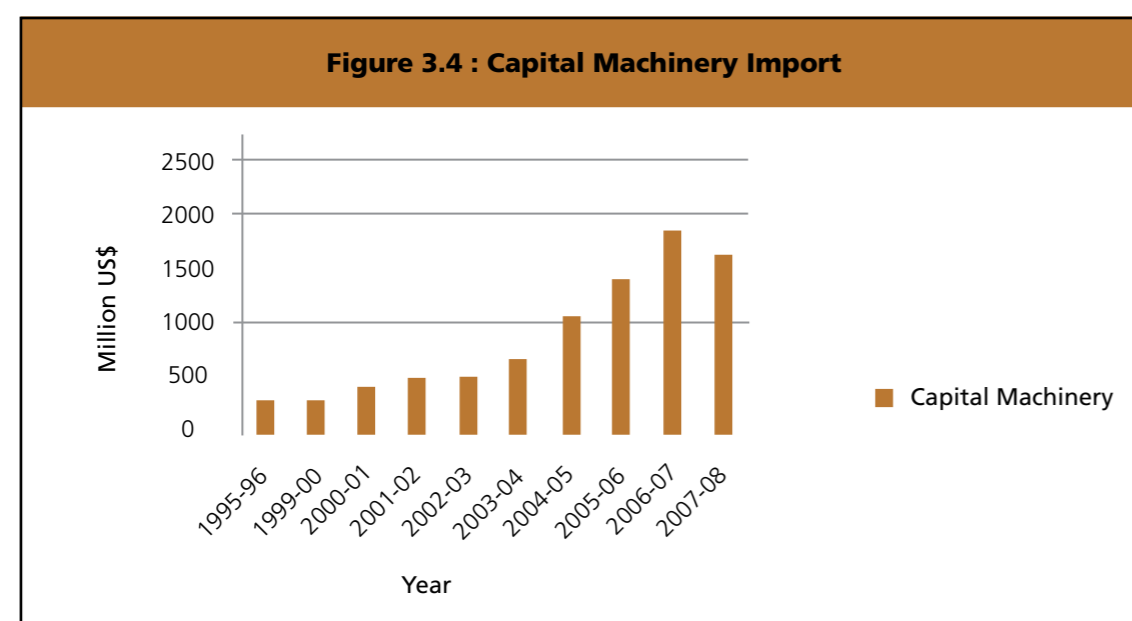
### Trade Liberalisation and Employment

BANGLADESH'S various trade liberalisation attempts and structural adjustment initiatives, as we have discussed, have led to significant changes in the composition of its exports. The jute-based export sector of Bangladesh has gradually shifted towards a manufacturing-based one. Raw and processed jute exports that were dominant in the early 1980s have been displaced by readymade garment (RMG) exports. While the RMG (woven and knitted) industry contributed only 0.4% to total export earnings in fiscal year 1980-81, it contributed 75.8% in 2007-08. It is evident from Table 3.11 that RMG export growth has acted as the main force behind the total export growth of Bangladesh. Exports under the category "other manufactured goods" are also showing a steady growth. This category includes light engineering, chemicals, agro-processing and electronics, but the share of these industries in total exports still remains negligible.

Rapid growth of woven and knit garments has led to direct employment for nearly 3 million people in the formal manufacturing sector, 70% of whom are females. Though there have been some concerns over RMG exports, growth in this sector has enabled many rural women to secure formal employment, which would otherwise have never happened. Almost 75% of these female apparel workers are migrants from rural areas and mainly come from the poorest households (Afsar 2001). The growth of this sector has its base in the Multi Fibre Arrangement (MFA), which governed the world trade in textiles and garments from 1974 to 2004. Though quotas were a trade barrier, the MFA quota helped many countries such as Bangladesh gain access to markets in developed countries (as traditional suppliers were restricted by quota limits), especially in North America. The rapid growth of



Source: Based on data in Economic Review (different issues)



Source: Based on data in Economic Review (different issues)

TABLE 3.11

**Merchandise exports from Bangladesh (US\$ million)**

Items	1980-81	1990-91	1999-2000	2005-06	2006-07	2007-08
Primary Goods	209 (29.4)	306 (17.8)	469 (8.2)	773 (7.3)	832 (6.83)	988 (7.0)
Raw Jute	119 (16.8)	104 (6.1)	72 (1.30)	148 (1.4)	147 (1.21)	165 (1.17)
Tea	41 (5.8)	43 (2.5)	18 (0.3)	12 (0.11)	7 (0.06)	15 (0.11)
Frozen Food	40 (5.6)	142 (8.3)	344 (6)	459 (4.4)	515 (4.23)	534 (3.78)
Other Primary Goods	9 (1.3)	17 (1.0)	35 (0.6)	154 (1.5)	163 (1.34)	808 (5.73)
Manufactured Goods	501 (70.6)	1,411 (82.2)	5,283 (91.8)	9,753 (92.6)	11,346 (93.17)	13,123 (93.0)
Jute Goods	367 (51.7)	290 (16.9)	266 (4.6)	361 (3.4)	321 (2.64)	318 (2.25)
Leather & Leather Goods	57 (8.0)	136 (7.9)	195 (3.4)	257 (2.4)	266 (2.18)	284 (2.01)
Woven Garments	3 (0.4)	736 (42.9)	3,083 (53.6)	4,084 (38.8)	4,658 (38.25)	5,167 (36.62)
Knitted Garments	0 (0.4)	131 (7.6)	1,270 (22.1)	3,817 (36.3)	4,554 (37.40)	5,167 (39.21)
Chemical Products	11 (1.5)	40 (2.3)	94 (1.6)	206 (2.0)	215 (1.77)	216 (1.53)
Other Manufactured Goods	63 (8.9)	78 (4.5)	375 (6.5)	1,028 (9.8)	1,332 (10.94)	1,605 (11.37)
Total Exports	710 (100)	1,717 (100)	5,752 (100)	10,527 (100)	12,178 (100)	14,111 (100)

Note: Figures in brackets show percentage share in yearly exports

exports, along with various trade liberalisation measures, has also stimulated imports, especially of industrial raw material and capital machinery.

One notable feature in the composition of imports is the rise in the import of capital machinery since the late 1990s. While import of capital machinery constituted 3.75% of total import value in 1999-2000, its share became 11% in 2006-07. The rapid rise in import of capital machinery is indicative of the manufacturing sector's growth and/or a structural change in manufacturing in terms of factor intensity.

The move towards privatisation of public enterprises coupled with trade policy reforms has led to significant changes in the industrial landscape in Bangladesh. Employment in many dominant industries in the public sector such as jute textiles, cotton textiles, and steel and engineering has declined (Table 3.12), either because of retrenchment or closures of privatised enterprises. At the same time, the public sector has recorded significant increases in employment in emerging export industries. As there has been little scope for skill upgradation, most of the retrenched workers have failed to get absorbed in expanding export industries and eventually moved into the informal sector.

While trade liberalisation has led to greater integration of the Bangladesh economy with the rest of the world, it has also increased competition. International competition has had two kinds of effects—the price effect and the compliance effect. The price effect puts pressure on exporting countries to lower prices to remain competitive in the market. The compliance effect comes from consumer groups and the notion of “ethical trade,” which induces exporters or an exporting country to comply with various labour standards. Complying with standards involves cost and this exerts an upward pressure on prices. Thus competitive prices and compliance requirements work in opposite ways. Export industries in Bangladesh face both these effects.

As a consequence of compliance pressure, the RMG industry is fully child labour-free, and factory environments have generally improved

Industry	1990-91	1999-2000
Jute textile	94.3	67.4
Cotton textiles	108.0	71.9
Readymade textiles	166.7	387.2
Fertiliser	103.9	107.0
Steel and Engineering	99.1	36.3
Leather and Leather products	118.7	188.2
Paper	102.4	75.2
Cement	96.5	115.6
Pharmaceutical products	72.5	67.4

Source: Based on data in *Economic Review* (different issues)

compared to what they were in the 1980s and 1990s. The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) has deployed monitors to regularly visit RMG factories to ensure compliance, but the number of such monitors is much less than what is actually required. Officially there is no bar on trade unionism in these enterprises, but there is rarely any such activity. Most garment enterprises have a welfare committee, which includes representatives of workers and entrepreneurs. Moreover, buyers maintain a persistent pressure on entrepreneurs to ensure that the basic rights of workers are not violated.

The EPZs in Bangladesh follow a unique model where a number of counsellors not only prepare monthly compliance reports on each factory, but also handle the various grievances of workers. Thus globalisation in



general has led to improvements in labour compliance in Bangladesh's export industries. However, there is ample scope for further improvement. Besides, the compliance situation in industries catering to the domestic market is yet to experience a spillover effect from export industries. The price pressure from competition in the global market has led to a more efficient use of resources and also in some cases informalisation of employment in some segments of the value chain. This is observed mainly in small enterprises exporting to the global market, which often subcontract part of their production to home-based enterprises.

Another dimension of trade liberalisation has been the creation of new jobs in various multinational or foreign firms investing in Bangladesh after the regulations relating to foreign investment were relaxed. For example, a majority of the shares in most of the cellular phone companies in Bangladesh are owned by foreign firms, but they have created new job opportunities for educated youths.

While globalisation has enabled Bangladesh to become trade dependent rather than aid dependent, it has increased the vulnerability of the economy to global shocks. The Bangladesh economy showed considerable resilience against vulnerabilities when the global financial crisis struck and not much of its effects were visible until the last quarter of 2008. The situation changed when the advanced economies entered a deeper recession by the end of 2008. There was a significant decline in export growth in the fiscal year 2009-10. From July 2009 to April 2010, total exports from Bangladesh experienced only a 0.97% growth compared to 12.78% in the same months the previous year. Though Bangladesh's exports have not experienced negative growth because of the global economic crisis, they have notably slowed down.

## Globalisation and Workers' Rights<sup>4</sup>

Globalisation affects workers' rights in two opposing ways. On the one hand, the pressure of global competition forces producers to cut product prices, which ultimately means lower real wages for workers, thereby affecting their welfare and often infringing on their rights. On the other hand, in the face of global competition, consumers in developed countries are now more sensitive to the issue of workers' rights and are unwilling to accept goods produced without adequately protecting them. This compels entrepreneurs to take measures to protect workers' rights, which sometimes translates into a higher cost of production.

- As in the case of other manufacturing industries, workers' rights in the apparel sector of Bangladesh are based on various national and international legislations. Bangladesh had ratified 33 ILO conventions until 2005. In addition, it has various labour laws protecting the rights of workers. Labour Law 2006 is the most important in this respect. While labour regulations in Bangladesh are quite extensive and take the gender dimension into account, their implementation seems to be weak. However, with globalisation, significant improvements have taken place with regard to workers' rights in the apparel sector of Bangladesh. There is virtually no child labour in the apparel sector and the following are some of the main features of workers' rights in it.
- There is no wage discrepancy between male and female workers with similar qualifications.
- Labour Law 2006 has included the provision of providing workers with appointment letters (they previously received only an identity card).

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<sup>4</sup> Based on Kabeer and Mahmud (2004), Chapter 5 of Ahmed (2006), Ahmed 2009a and Ahmed 2009b.

- Workers are more aware of their rights as buyers pressure enterprises to comply with labour regulations.
- However, the requirements of the conflicting codes of conduct upheld by different buyers sometimes make it difficult for enterprises to comply.
- Though globalisation has improved compliance in the apparel sector, freedom of association is still weak. Less than 5% of total apparel workers are unionised. However, the situation is improving. Some mode of collective bargaining exists in every enterprise and all workers are covered by them (for example, welfare associations at the enterprise level).

### Chittagong EDZ: The Capital of Globalisation

Where does Nike make its trainers? Or Wrangler its jeans? In the same place Raleigh make its bikes, Philip Morris makes its cigarettes, Korean companies make LED lights, and giant corporations like Walmart, Mothercare, Tesco and Reebok make practically everything from pharmaceuticals to fishing rods and baseball caps. The Chittagong export development zone (EDZ) in Bangladesh is the capital of globalisation, the plumb centre of global free trade, and the reason, it could be argued, that industrialised countries do not make much anymore.

Bangladesh is proud of its Chittagong zone, not just because its 137 factories export US\$1.6 billion worth of goods a year, and last year invested \$930 million, but because it claims to have the cheapest labour in the world and there is a desperate need for foreign currency and jobs. China's minimum wage in its EPZs is \$250 a month, Indonesia's \$135 and Pakistan's \$80. But corporate manufacturing goods in Chittagong need pay workers an average of only \$48 a month, said the zone manager. That's about \$1.50 a day.

Are these factories the new sweatshops, as some development groups say? People are paid more to work in the zone than in factories beyond the gates and, from what I could see in the two works I visited, the conditions—albeit perhaps not surprisingly—looked good. But the pay rates, which are set by the government and not by the companies, are terrible. An apprentice in a Chittagong EDZ factory need only be paid a meagre \$20-22 a month (less than \$1 a day), unskilled workers \$38 a month, semi-skilled \$45 and skilled workers up to \$60—all for a six-day 48-hour week. No unions or strikes are allowed, not many workers stay more than a few years, and it is understood that on average only a quarter of the workforce gets the minimum wage.

“We do not allow unions, only workers associations”, said the manager. “They can discuss matters with their companies. They are happy.”

Foreign businesses are treated royally. Bangladesh has a deep energy crisis, with demand massively outstripping supply, yet companies in the zone get cheap, reliable power, as well as generous 10-year tax holidays, freedom from red tape, duty-free imports, immunity from national laws, cheap labour and low rents. In Chittagong, companies pay just \$2.20 monthly to rent a square metre of space, and I was told that the annual rent paid to the Bangladesh government by all the factories on the giant site was just \$4m a year. So how much had Bangladesh invested in building the factories for the companies? No one could say.

Globally, there are now several thousand EDZs. But a wall plaque in the Chittagong zone says this one was set up by Robert McNamara, the head of the World Bank, in 1980 and was one of—if not the—first in the world. Born in the era of structural adjustment and maximum control of economies by the bank and the IMF, the zone could be seen as the spark that led to the blaze of globalisation and neoliberalism that has dominated global development for 30 years, accounting for the massive growth and wealth of corporations like Walmart, Tesco, Reebok, the IT sector, Philip Morris and thousands of other multinationals.

So what are these EDZs good for? Does Bangladesh benefit apart from the jobs? The World Bank says they “provide a country with foreign exchange earnings by promoting non-traditional exports, create jobs and generate income as well as helping technology transfer.” Their critics say they favour the export market rather than the domestic market, exploit poor countries, and allow relaxed environmental and safety standards. The organisation War on Want and local development groups argue that the wealth created has made little improvement to the lives of ordinary workers, despite the creation of millions of jobs”.

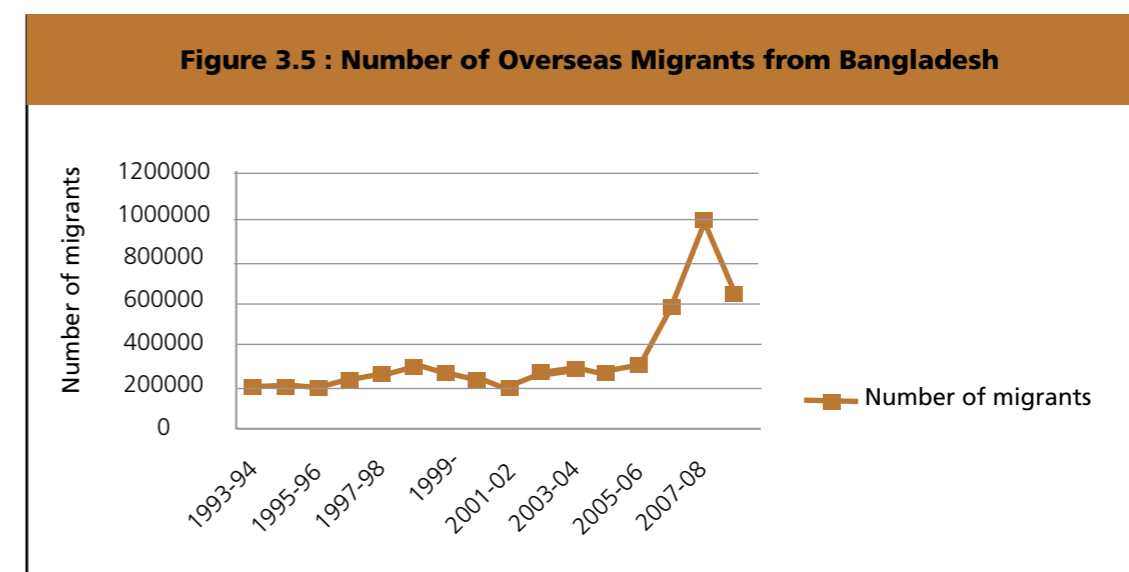
John Vidal travelled with the Bangladesh government, Poverty Matters Blog, *The Guardian*, 30 April, 2012.

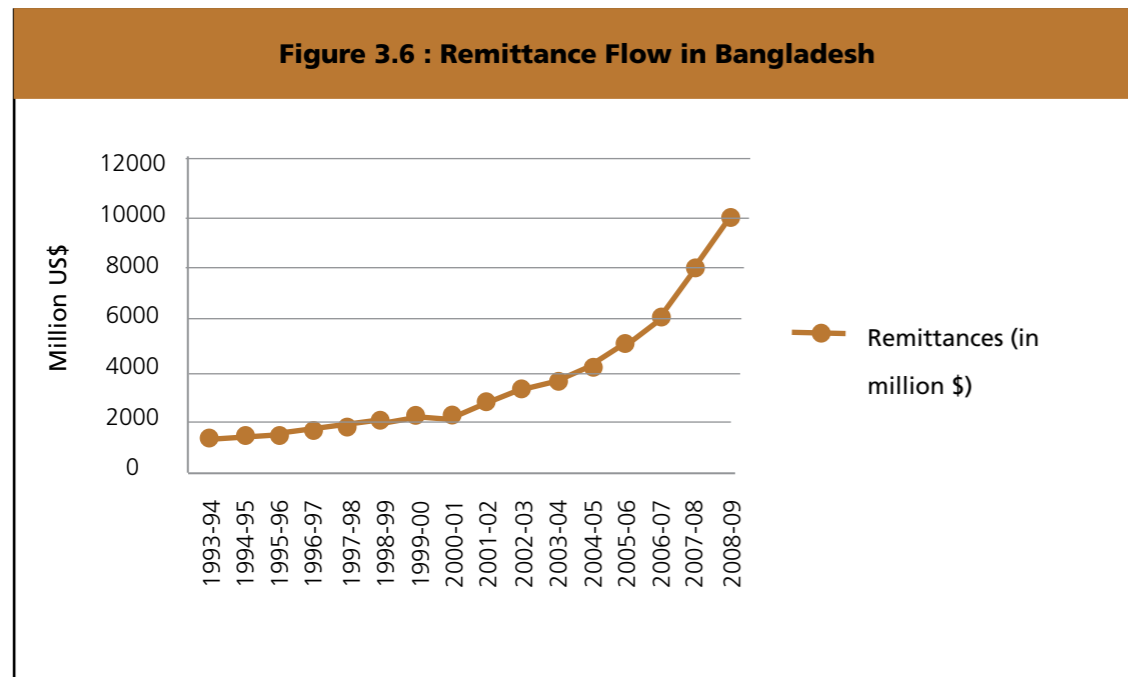
- Delays in paying wages are still a problem in many apparel enterprises.
- The compliance situation in enterprises in EPZs is better than in enterprises outside them.
- Long working hours are still a problem in many apparel enterprises, though Labour Law 2006 has prohibited night duty by female workers.

## V

### Internationalisation of Labour Markets and Implications for Bangladesh

LIKE many other countries, Bangladesh has a long history of international out-migration of labour. With the advent of globalisation, the pace of such out-migration has intensified. International migration now constitutes a critical source of employment for Bangladesh's labour force. During 2008-09, around 5.8 million workers were employed abroad and their

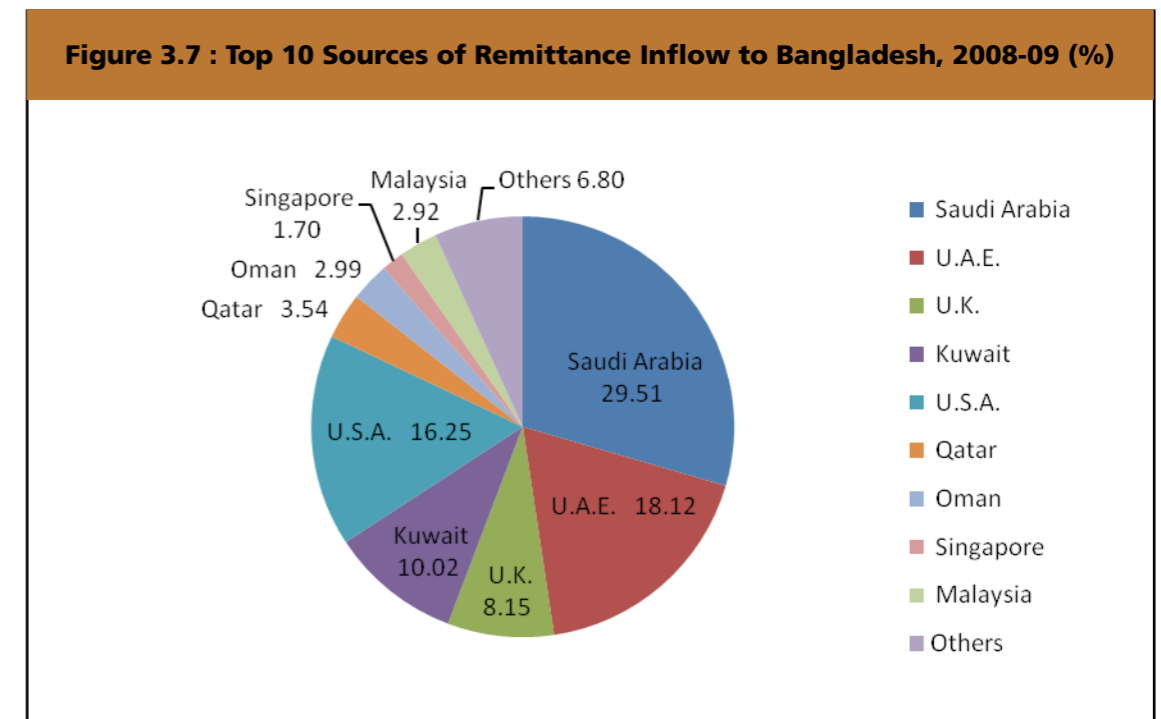




remittances added up to US\$ 9.7 billion, which was nearly 10% of GDP. In 1995, the remittance to GDP ratio was only 3%. Bangladesh is now among the top 10 remittance-receiving countries in the world.

The inflow of remittances has had a significant positive impact on the current account balance of Bangladesh. It has also raised the purchasing power of families of migrants, who mainly live in rural areas. This higher purchasing power has led to a higher demand for both tradable and non-tradable goods produced in the rural non-farm sector. A large majority of the migrants from Bangladesh are unskilled workers and only a small proportion of them have professional qualifications (Siddique 2004). The migrants are mostly men and female out-migration is almost negligible. However, a significant part of migration also takes place through informal channels and female out-migration is known to be higher in such cases. Migration through informal channels often results in workers being cheated and they sometimes even end up in foreign prisons.

Saudi Arabia, the U.A.E. and Kuwait are the main destinations of migrant workers from Bangladesh. These three countries account for 58% of the total remittances to Bangladesh. All together, 64% of the remittances to Bangladesh came from countries in the Middle East in 2008-09 (Figure 3.7). Bangladesh has not been successful in diversifying the market for its workers, particularly in more advanced economies. Part of the reason for this is the relatively low demand for unskilled workers in these countries and the inability of Bangladesh to make available an adequate number of skilled professionals. The strict entry barriers put in place by these countries on the flow of unemployed people from developing countries is also a major reason.



Source: Bangladesh Bank and BMET

In Bangladesh, migration is often considered a means towards easing consumption, diversifying income sources for meeting unforeseen family needs, and for financing investments. A study by the International

Items	Expenditure (in US\$)		Change (%)	Distribution	
	Before remittance	After remittance		Before remittance	After remittance
Food	558.6	627.3	12.3	58.71	54.23
Footwear / Apparel	59.1	75.4	27.6	6.21	6.52
House maintenance	11.6	12.1	4.5	1.22	1.05
Education	67.2	101.9	51.6	7.06	8.81
Medical expenses	23.3	48.5	108.2	2.45	4.2
Social expenses	36.4	50.8	39.7	3.82	4.39
Electricity	26.5	29.1	9.8	2.78	2.51
Water, gas and fuel	39.3	49.4	25.7	4.13	4.2
Transport	24.2	30.9	27.7	2.54	2.67
Occupation related	87.3	103.6	18.7	9.17	8.96
Cosmetics	16.4	24.0	46.9	1.72	2.08
Others	1.8	3.8	111.0	0.19	0.33
TOTAL	951.7	1,156.8	21.6	100	100

Note: Calculated at US\$1 = Tk 50.3

Source: IOM (2002)

Organisation for Migration (IOM) (2002) revealed that the remittances sent by migrant workers were used for consumption as well as productive investment (Table 3.13). The study made comparisons of the pattern of annual household expenditures before and after remittances. It showed that a major share of the remittances was used to meet recurrent consumptions. The lion's share of remittances was spent on food (54.23%). However, while the absolute amount of expenditure on food increased, the share of food in total expenditure declined by about 4.4% after remittances were received.

## VI

### Regulations on Trade, Labour and Investment and Implications for Employment

GLOBALISATION has made international regulations on trade, labour and investment very pertinent to participating nations. Trade liberalisation carried out under the auspices of the World Trade Organisation (WTO) has provided a significant stimulus to the process of globalisation. Bangladesh, like other member countries of the WTO, has been obliged to implement all the liberalisation commitments made under successive rounds of trade negotiations. As we have already seen, this had a significant impact on the structure of production and the composition of the country's exports. Rapid growth of labour-intensive exports such as readymade garments and shrimp have been largely facilitated by the trade liberalisation measures adopted by the government in pursuance of the WTO agreements.

There has also been visible improvement in the compliance level with regard to workers' rights as required under international regulations. As mentioned earlier, Bangladesh has ratified 33 conventions



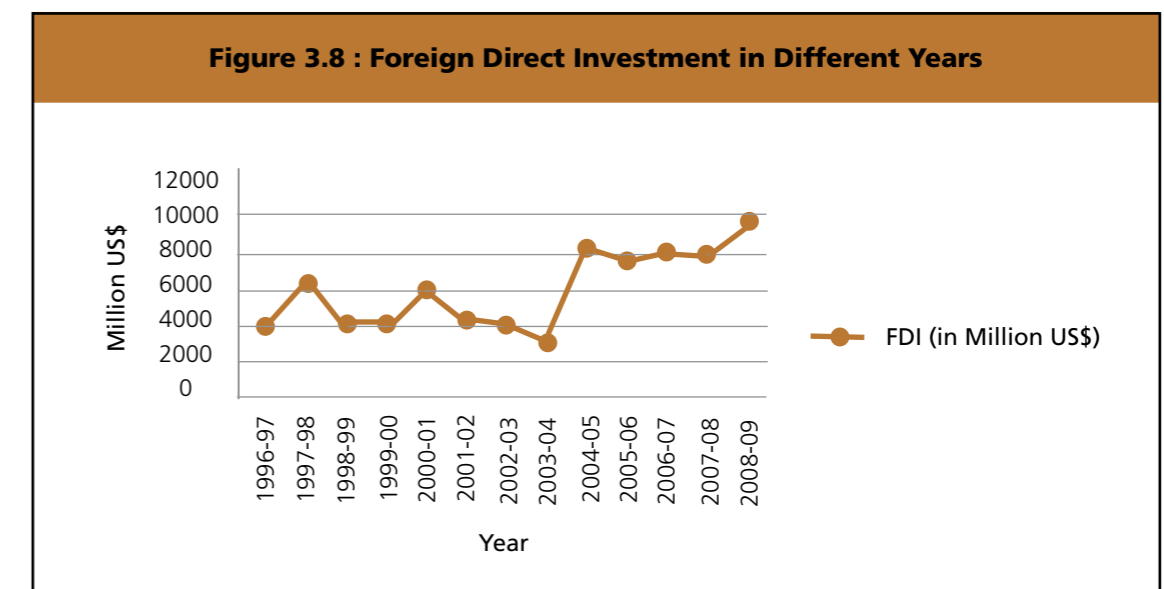
<b>TABLE 3.14 INVESTMENT SCENARIO (At constant 1995-96 prices)</b>				
<b>Fiscal Year</b>	<b>Total Investment (in billion taka)</b>	<b>Total Investment (as % of GDP)</b>	<b>Private Investment (as % of GDP)</b>	<b>Public Investment (as % of GDP)</b>
1990 - 91	235.25	16.9	10.27 (60.8)	6.63 (39.2)
1994 - 95	344.62	20.72	13.70 (66.1)	7.02 (33.9)
1999 - 2000	471.75	23.02	15.61 (67.25)	7.41 (32.75)
2000 - 01	498.14	23.09	15.84 (68.6)	7.25 (31.4)
2001 - 02	521.48	23.15	16.78 (72.50)	6.37 (27.50)
2002 - 03	555.05	23.41	17.21 (73.5)	6.20 (26.5)
2003 - 04	607.63	24.02	17.83 (73.23)	6.19 (26.77)
2004 - 05	654.88	24.53	18.32 (74.41)	6.21 (25.59)
2005 - 06	701.71	24.65	18.65 (74.39)	6.00 (25.61)
2006 - 07	737.71	24.33	18.73 (77.0)	5.60 (23.0)
2007 - 08	1,321.3	24.21	19.25 (79.51)	4.95 (20.45)
2008 - 09	1,486.9	24.2	19.55 (80.79)	4.63 (19.13)

Note: The numbers in brackets indicate the share of the public and private sectors in total investments. Only local investment is covered in this table.

Source: Bangladesh Economic Review (various issues).

of the ILO, including all the core ones. This, in addition to pressure from buyers, has brought about considerable improvements in conditions in labour-intensive export industries. However, the spillover effect of such improvements to industries oriented to the domestic market and in the informal sector has been rather limited.

Although negotiations to do with international regulations on investment and competition policy have been quite bumpy and remain somewhat inconclusive in the WTO, there has been a considerable relaxation of rules governing the international flow of capital all around the globe. Bangladesh carried out major policy reforms to bring about a parity between domestic and foreign investments. The fear that this would discourage domestic investment has not materialised in the case of Bangladesh. There has actually been a fairly rapid rise in domestic investment in the country after globalisation. As is evident from Table 3.14, investment as a percentage of GDP increased from 16.9% in 1991 and reached a peak of to 24.5% by 2005-06, which is still much lower than that witnessed in countries like India. The share of the private sector in total investment was 61% in 1991,



Source: Foreign Direct Investment in Bangladesh, Survey Report, 2009, Bangladesh Bank.

while that of public sector was 39%. Policy reforms carried out since the early 1980s for the promotion of the private sector led to an increase in the share of private investment in total investment to about 81% by 2008-09.

The quantum of FDI is generally expected to increase with globalisation. The inflow of FDI to Bangladesh's economy has increased since the early 1990s. FDI outside the EPZs was virtually nil during the 1980s. After the liberalisation measures of the early 1990s, particularly with the opening up of power, gas, telecommunications and infrastructure to foreign investment, there was an increase in FDI in the mid-1990s but the real surge was after 2004-05. In 2006-07, FDI was US\$366 million and it climbed to US\$960.6 million in 2008-09.

## VII

### Summary and Conclusions

SINCE the 1980s, Bangladesh has come a long way down the road of market deregulation, enhancing the role of the private sector and promoting greater openness of the economy. The government's regulatory control of the market has been reduced quite substantially. The private sector now plays the lead role in industrialisation with the government mainly facilitating a favourable investment climate. The country is now more closely integrated with the global economy, with external trade experiencing a significant increase, both in absolute terms as well as a proportion of GDP. As would be expected, these structural adjustments have brought about changes in the macroeconomic characters of the economy, which have implications for employment and labour.

Aggregate investment as a proportion of GDP registered a significant rise with the bulk of the investment coming from the private sector. This has enabled Bangladesh to move on to a moderately high growth trajectory. From an average yearly growth rate of around 4% during the 1980s, the country achieved more than 5% growth during the 1990s and has later succeeded in pushing it beyond 6%. The agrarian character of the economy has changed substantially with the industrial sector now accounting for nearly 30% of GDP. The composition of the industrial sector as well as of the export basket has registered major changes, an important one being that jute has been replaced by readymade garments. Internationalisation of the labour market has helped Bangladesh increase its export of manpower and achieve a robust growth in remittances from those working abroad. There have also been favourable changes in the compliance level of industries to protecting workers' right.

However, judged against the range of challenges facing the economy, these achievements appear to be rather limited. Despite achieving respectable rates of growth and some reduction in poverty, the absolute level of poverty in Bangladesh still remains very high with nearly 40% of the population living below the poverty line. If the Millennium Development Goal of reducing poverty by 50% is to be achieved by 2015, Bangladesh will need to raise its investment-GDP ratio significantly and achieve a GDP growth rate in excess of 7%. The rate of growth achieved so far has not been sufficient to draw the excess labor force in agriculture. Agriculture still accounts for nearly half of the employment in the country and the rate of underemployment is as high as 25%.

Despite changes in structure, both the industrial production base and export base have remained very narrow. Only a handful of large industries account for the bulk of industrial production while readymade garments alone provide more than 75% of export earnings. The market for both merchandise and manpower export has remained undiversified with destinations limited to

a handful of countries. Despite a respectable growth in exports, Bangladesh's balance of trade with most of its trading partners has remained negative. Like most other LDCs, Bangladesh has been at the receiving end of declining terms of trade. The current level of compliance with regulations protecting workers' rights also leaves much to be desired, especially in enterprises oriented to the domestic market and export companies outside EPZs.

To accelerate the rate of growth and improve the situation of employment and labour by taking greater advantage of the process of globalisation, the government will have to play a more pro-active role in improving the investment climate by developing vital physical infrastructure such as in energy supply, transport and telecommunications and investing massively in human development. The government will also have to review the regulatory measures that still act as barriers to faster growth. There is a need for substantial improvement in governance and support services to bring down the cost of doing business, which currently remains alarmingly high. Finally, there is also the need for stricter enforcement of labour laws to ensure greater and wider compliance so as to protect workers' rights.

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# Globalisation and Strategic Engagement Abroad and Labour Non-Markets at Home: Employment in Pakistan

MYSBAH BALAGAMWALA AND HARIS GAZDAR

## I

### Introduction

GLOBALISATION is an overarching phenomenon in academic as well as popular understandings of contemporary economy. Its proponents emphasise the importance of economic liberalisation, specifically the removal of any barriers protecting an economy from global exchange. Opening up a country's markets is supposed to bring about profound changes in the domestic economy in general and in labour and employment in particular. This paper attempts to understand the impact of globalisation on labour

and employment in Pakistan. It documents how trade liberalisation has been carried out in the country, taking into account the influence of external factors as well as domestic political cycles. A close look at employment data and actual labour arrangements suggests a paradox—while macroeconomic trends of a “globalised Pakistan” are by and large heavily dependent on external politics, domestic social institutions such as patriarchy and hierarchy continue to shape labour markets and employment opportunities.

The next section employs a political economy lens to summarise Pakistan's experience with trade liberalisation. Standard trade theory is reviewed in Section 3 alongside a discussion of its application in the Pakistani context. Section 4 examines recent empirical evidence to understand trends in the labour market. An analysis follows in Section 5, accompanied by a description of informal institutions that influence the functioning of the labour market in Pakistan. In Section 6, we argue that globalisation influenced the labour market even before specific trade reforms. Section 7 comprises concluding remarks.

## II

### Globalisation: Contextualising Pakistan's Experience

GLOBALISATION is the integration of a country in the global system. Trade liberalisation is one aspect of globalisation and international movements of capital, including foreign investment, portfolio flows and aid, is another (McMillan and Harrison 2010). In the last few decades, the move towards free markets and opening up of trade barriers has changed the system of production to a more globalised one. This has affected the international division of labour, which in



turn has had a fallout on domestic labour markets (Milberg 2004).

To understand Pakistan's experience with trade liberalisation, the situation has to be analysed within a political economy framework. Many developing countries, including Pakistan, followed protectionist policies in the 1950s and the 1960s to protect their infant industries from global competition. The first major reversal of the policy regime of the 1950s and 1960s occurred in 1972 when the rupee was devalued by 58% (Milberg 2004). Pakistan had just transitioned from military rule to civilian rule and had lost East Pakistan and the export revenue that it had contributed.

The devaluation was, however, not accompanied by other policies that have come to be associated with globalisation. It was a specific response to a particular crisis in the economic model that had been in place in the previous decade. Another response was to go in for large-scale nationalisation in the industrial and financial sectors, and investments through public sector enterprises (Gazdar 1999). The 1970s saw modest economic growth and relatively high rates of inflation (Haque 1999). The populist government which oversaw this period was blamed by its detractors for adopting anti-growth policies, but hailed by its supporters for equalising income distribution and economic opportunity (Gazdar 1999). In reality, besides domestic economic management, significant exogenous factors were at play—the most notable being the oil price shocks of 1973 and 1974 (SPDC 2006).

The elected government was overthrown in a military coup in 1977 and the incoming regime initially signalled its support for a liberal economic policy. A macroeconomic crisis forced the military regime to apply for structural adjustment lending from the International Monetary Fund (IMF), which led to limited privatisation, devaluation and loosening exchange-rate controls. By the early 1980s, however, Pakistan found itself at the centre of the Cold War when the US decided to confront the Soviet Union in Afghanistan. The military regime was the beneficiary of massive flows of aid and concessional lending, and lost interest in pushing through with its early promise of

pro-market reforms. In addition, the inflow of remittances from Pakistani migrants working in the oil-rich Arabian Gulf states, which had begun in the 1970s, now became a major factor in the national economy (Gazdar 1999).

By the end of the 1980s, the country was again facing a macroeconomic crisis. The war in Afghanistan also began to wind down as the direct military occupation of that country by the Soviet Union came to an end. The death of Pakistan's military dictator in a plane crash in August 1988 created conditions for a transition to civilian government. One of the pre-conditions for the negotiated transfer of office to elected representatives was their endorsement of an IMF structural adjustment programme (SAP). This programme can be seen as a turning point in the liberalisation of the Pakistani economy.

Trade barriers were removed, exports were promoted, privatisation was encouraged and keeping in line with neoliberal policies, the size of the government was reduced. In 1990, the incidence of import duties was about 40%, which rapidly declined over the decade, and in 2004, it was under 10%. In addition to trade liberalisation, capital accounts were also opened up and foreign direct investment (FDI) was encouraged (SPDC 2006).

In the decade of liberalisation (the 1990s), real gross domestic product (GDP) growth in Pakistan fluctuated and the underlying trend was downward. The period was marked by a steady isolation of Pakistan from the global system as its Western allies lost interest in the country's strategic position after the end of the Cold War. Pakistan's economy, which had become accustomed to generous foreign assistance, now had to deal with the consequences of past profligacy. Although the country was formally ruled by elected civilian governments, there was much behind-the-scenes interference in political matters by the powerful military. This interference, together with the inability of the main political parties to evolve a *modus vivendi*, contributed to political instability.

Meanwhile, trade liberalisation reforms led to a squeeze on fiscal revenues as import taxes were scaled down without compensatory increases

in domestic indirect taxes. In 1999, the military staged a coup once again, citing, among other things, poor economic performance as a reason. The military regime, which faced political isolation abroad, was forced to initiate stabilisation measures alongside further liberalisation, not only of trade but also of investment. There was a stress on freeing up the financial sector from regulation, as well as providing lucrative incentives to foreign investment.

However, the economy remained stagnant until after 2001, when growth rates began to rise to historically high levels, reaching 8.4% in 2005. The turning point in economic growth coincided with a significant inflow of military aid, development assistance and concessional lending. A debt rescheduling was negotiated in December 2001, which amounted to a windfall gain equivalent to 2% of GDP.<sup>1</sup> The renewal of foreign economic support was a direct consequence of the country's engagement with yet another strategic military alliance following the 11 September 2001 attack in New York. This period also saw a sharp increase in private financial flows into the country, largely attributed to capital returning from abroad because of the fear of greater international surveillance of "Muslim" and "Pakistani" funds.

Economic policy favoured the financial sector as the primary channel for using and assimilating these massive inflows. Various financial markets boomed and new domestic as well as international players entered the scene. There were derivative booms in property prices and investments as highly liquid investments chased after high returns. The policy regime became more open to international investment in various sectors. Public investment increased in this period for the first time since the early 1990s because the government was awash with funds. This growth period began to falter from around 2006 when the current account deficit began to increase. Manufacturing growth had peaked a year earlier. This period saw a decline in the tax-GDP ratio to below 10%.

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1 Based on authors' estimate.

An economic crisis occurred in 2007 and continued into late 2008. International price bubbles were partly to blame but the crisis exposed the vulnerability of Pakistan's economic model. The transition to an elected civilian government took place in 2008, while the war in the north of the country against Taliban insurgents escalated. The economic crisis led to yet another loan agreement aimed at stabilisation with the IMF in October 2008.

Summing up, Pakistan's experience of globalisation and economic liberalisation needs to be seen alongside the country's internal political changes and its engagement with strategic military partnerships abroad. The conventional view of economic liberalisation simply as a process of market integration and pro-market reforms needs to be replaced by a more nuanced picture of an economy where many reforms were initiated but left unfinished when there was a politically-induced improvement in external balances and internal resource availability. While all Pakistani governments since 1988, including bitter civilian rivals and their military detractors, have accepted the neoliberal logic of pro-market policies, their success in actually going through with many of the proposed reforms has been limited.

Despite international rhetoric about economic openness, Pakistan's experience, particularly in the 1990s, vividly illustrated the danger of national economies being cut off from the global system because of political differences with powerful industrial economies. Even now, one of the main constraints to Pakistan's greater engagement with the global economy is not domestic policy obstacles but the reluctance of international investors and trading partners to carry out transactions in a country that is seen as vulnerable to insecurity and conflict. Another constant in Pakistan's globalisation experience has been the impact of its strategic rivalry and insecurity vis-à-vis its largest neighbour, India. A conspicuous feature of Pakistan's increasing economic openness to the

world has been its relatively restricted interaction with India.<sup>2</sup> The country's Afghan border is the polar opposite in terms of openness and is often held responsible for undermining the relatively liberal trade regime that exists.<sup>3</sup>

Finally, it is not possible to properly appreciate the nature of Pakistan's process of economic liberalisation without reference to the importance of worker migration and foreign remittances. Since the late 1970s, the emigration of Pakistanis to labour markets in the Arabian Gulf and elsewhere has remained a significant factor in the country's domestic labour markets.

### III Theoretical Perspective

ACCORDING to the neoliberal orthodoxy, liberalisation should lead to higher growth rates. Employment is the critical link between economic growth and poverty reduction. This link is sometimes explicitly acknowledged, but at other times only implied. This paper takes the view that employment needs to be primarily seen from the standpoint of poverty reduction.

The standard neoliberal account of the domestic implications of trade liberalisation builds on the original insight in classical economic theory on an economy's comparative advantage. According to this view, trade liberalisation increases the real income of the abundant factor in the economy.<sup>4</sup> In labour-abundant countries such

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2 Between 1999 and 2004, India's share in Pakistan's trade was less than 2% and Pakistan's share in India's trade was less than 1% (Sayeed 2011).

3 Strong cross-border linkages exist between Pakistan and Afghanistan. Cities such as Quetta and Peshawar, their surrounding areas and the bordering regions of Afghanistan are virtually a single market (Collective for Social Science Research 2006).

4 The Heckscher-Ohlin model and the Stolper-Samuelson theorem represent widely accepted interpretations of the classical trade model among neoliberal economists

as Pakistan, an increase in trade should increase the demand for labour-intensive products, in which they have a comparative advantage. As a consequence, the demand for unskilled workers should increase, leading to a sectoral shift in the labour market towards unskilled labour.

Since free trade would be favourable to unskilled workers, the relative wage inequality between skilled and unskilled workers should fall, thereby reducing poverty. Proponents of free trade use these theories to argue that trade reform can lead to pro-poor growth (McMillan and Harrison 2010). Cross-country evidence and a review of economic literature shows that increased trade liberalisation results in the feminisation of manufacturing labour, especially in developing countries that produce more labour-intensive products. There is usually a concentration of female workers in sectors requiring unskilled labour (Ahmed and Bukhari 2007).

Some of the readings of trade theory have been criticised on the grounds that the assumptions underpinning the simple models are unrealistic and the linkages between openness, growth and poverty reduction are typically fraught with complexity. Studies using trade data for India and Poland, for example, show that labour market distortions such as the immobility of labour prevent the predictions of standard trade theory from coming true because they assume labour to be fully mobile. As a result, an increase in trade does not necessarily have a positive effect on poverty. On the contrary, trade reform could hurt unskilled labour that has been generally employed in sectors such as textiles, which were previously protected (McMillan and Harrison 2010). In Pakistan, a majority of the industries that had been protected experienced a decrease in the percentage share of employment after the removal of trade barriers.<sup>5</sup>

Cross-country studies have shown that trade liberalisation, specifically

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5 Based on a comparison of employment share in "potential IS industries" between FY86 and FY01. See SPDC (2006).

FDI-induced trade, increases income inequality rather than reducing it as standard trade theory predicts. FDI usually flows into “extractive, natural resources-based or capital-intensive industries or more recently into high skills-based services industries,” which usually increase returns to skilled workers, and not to unskilled labourers, therefore increasing relative income inequality.<sup>6</sup>

SPDC (2006) carries out simulations of Pakistan’s economy to assess the change trade liberalisation has had and will have in the future. Trade liberalisation does not hurt the poor as it enhances growth through an increase in investment and productivity. However, loss of revenue from import taxes decreases government revenue, leading to a fall in public expenditure, which affects the poor. This can be combated by introducing, in conjunction with trade reforms, other fiscal policies and “strengthening key domestic institutions” (SPDC 2006). Trade reform can thus only help reduce poverty or improve the lives of unskilled workers if it is carried out with complementary policies in place. These include social safety nets, policies removing barriers to labour mobility and policies improving access to credit and technical knowledge (McMillan and Harrison 2010).

## IV

### Workforce and Employment Trends

THE demographic structure of Pakistan is highly skewed towards lower age groups. In 2008-09, the 0-14 age group constituted about 41% of the population and the youth (15-24 years) constituted 21%. Such a high proportion of children and youth in the population is a challenge for the

<sup>6</sup> For a review, see SPDC (2006)

TABLE 4.1	Labour Force Participation Rates (%)		
	1999 - 2000	2005 - 2006	2007 - 2008
Both sexes	42.8	46.0	45.2
Male	70.4	72.0	69.5
Female	13.7	18.9	19.6

Source: Labour Force Survey, various.

TABLE 4.2	Distribution of Workforce by Type (%)		
	1999 - 2000	2005 - 2006	2007 - 2008
Employer	0.78	0.90	0.93
Self-Employed	42.23	34.90	34.16
Unpaid Family Helpers	21.41	26.9	28.94
Employees	35.58	37.3	35.97

Source: Labour Force Survey, various.

present but represents productive potential for the future. Here, data from Labour Force Surveys are used to assess the impact of globalisation on the labour market in Pakistan. Simple statistical evidence is used to determine trends in the labour market in the last decade to see if liberalisation of the economy has increased employment, caused shifts in sectoral employment and altered the gender imbalance. As the economy was significantly liberalised in the 1990s, labour data from 1999 to 2008 is analysed.

Less than half the working-age population in Pakistan is involved in the labour force (Table 4.1). These figures are somewhat biased as the Labour Force Survey counts anyone above the age of 10 years as being of “working



age.” Though taking male participation as the benchmark, it is still the case that a substantial portion of women are not in the workforce. The female labour force participation rate has increased somewhat in recent years but it still remains one of the lowest in the region. The distribution of the workforce by type shows that a large proportion of even those who are reported to be in the labour force cannot be counted as being in the labour market. Table 4.2 shows that “unpaid family helpers” constituted over a quarter of the total workforce and that this proportion has increased in recent years.

The male-female classification of workers by employment status (Table 4.3) confirms the importance of gender in the Pakistani workforce. Nearly two-thirds of female workers were unpaid family helpers and the proportion has increased since 1999-2000. A surprisingly high number of male workers (one-fifth) were also unpaid family helpers. Four-fifths of all unpaid family helpers were in agriculture. Even after accounting for gender and sector, unpaid family workers were more likely to be from rural and larger households (Shahnaz, Khalid and Akhtar 2008).

Underemployment, measured as the proportion of workers reporting that they worked less than 25 or 35 hours a week stood at 6.5% and 14%

TABLE 4.3	Distribution of Workforce by Status of Employment (%)			
	Male		Female	
	1999-2000	2007-08	1999-2000	2007-08
Employer	0.90	1.16	0.14	0.05
Self-Employed	46.40	39.63	16.64	12.83
Unpaid family helpers	16.73	19.68	50.14	64.98
Employees	35.98	39.52	33.14	22.14

Source: Labour Force Survey, various.

TABLE 4.4	Employment with Less than 35 Hours a Week (%)		
	1999 - 2000	2005 - 2006	2007 - 2008
All Workers	100	100	100
Employer	0.42	0.49	0.28
Self-Employed	30.3	22.7	21.5
Unpaid Family Helpers	40.9	53.0	57.8
Employees	28.3	23.8	20.5

Source: Labour Force Survey, various.

respectively in 2007-2008. In recent years the pattern of underemployment has been seen to be shifting towards unpaid family helpers. While 30% of the self-employed and 28% of the employees in 1999-2000 were working for less than 35 hours a week (Table 4.4), by 2007-2008, underemployment was overwhelmingly concentrated among unpaid family helpers. This might suggest some degree of specialisation among households and in the labour market as those who were in the labour market (as employees or own-account workers) were now working longer hours and workers outside the labour market were working less. The underemployment of workers with less than 35 hours of work a week is more widespread in the agricultural sector (23.9%), followed by services (13.1%) and manufacturing (11.3%). There are also occupations where workers are forced to overwork. Over-employment is pervasive in the mining, trade and transport sectors, where more than 60% of the workforce works more than 48 hours a week. Other sectors where a significant proportion (more than 30%) is over-employed include finance, manufacturing, services and agriculture (LMD GOP 2010).

Trends in labour force participation and unemployment rates indicate that the previous decade was marked by high unemployment rates, but that

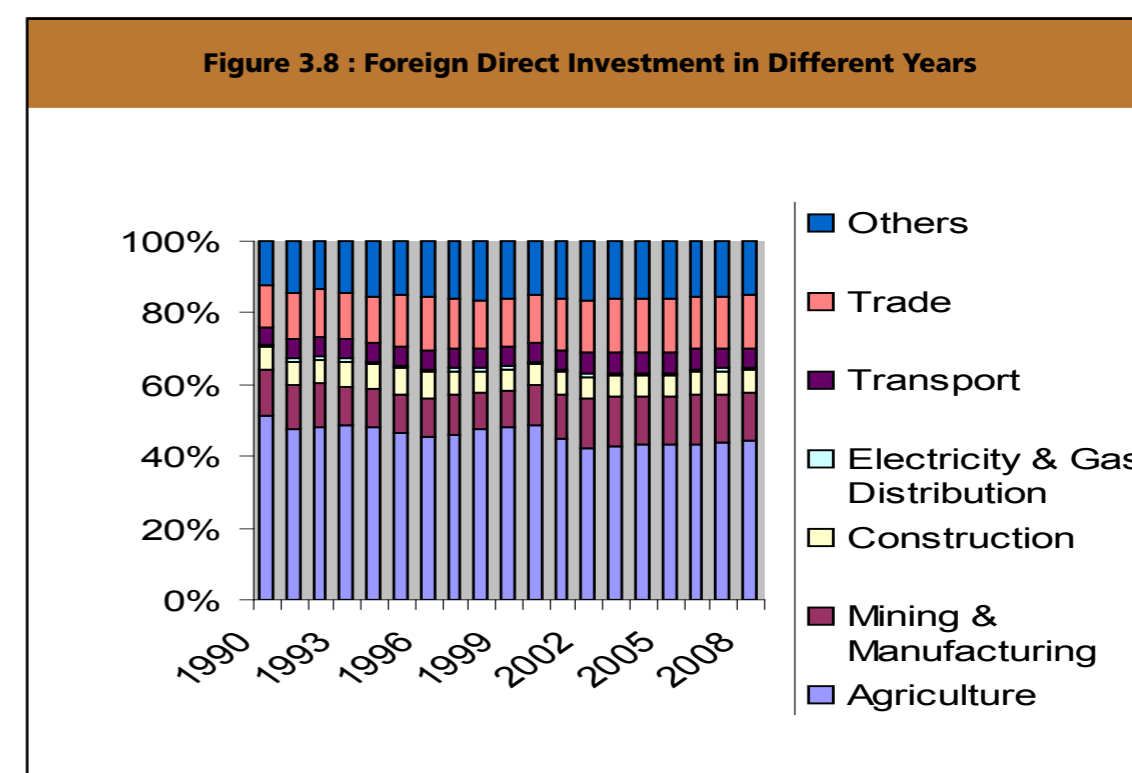
the end of the decade saw a decline in unemployment to the level of the 1990s, the period before the economic liberalisation. Whether and to what extent this downward trend has been sustained over the period of economic downturn from 2007-2008 onwards remains to be seen. The reduction in unemployment towards the end of the reference period was largely due to the increase in the unpaid family labour category (Anwar 2009).

In all South Asian countries, the structural shift in the declining share of agriculture in the national income has been more towards the service sector than industry, and Pakistan is no exception. But in the case of the employment structure, Pakistan has been able to experience an increase in favour of non-agricultural employment (Table 4.5). By 2009, the share of agriculture in overall employment declined to 43% and non-agricultural employment increased to 57%. The only other two South Asian countries with more employment in non-agricultural activities are Sri Lanka (69%) and the Maldives (83%).

The sectoral trends in employment (Figure 4.1) suggest that the contribution of agriculture declined from more than 50% in the early 1990s to just more than 40% towards the end of the last decade. Service sector activities were major contributors to this trend, followed by

Sector	GDP		Employment	
	1980	2008	2000	2009
Agriculture	30	20	47	43
Industry	25	27	19	21
Services	46	53	34	36

Source: Labour Force Survey, various.



Source: Labour Force Survey, various.

manufacturing. In the same period, agriculture's contribution to GDP declined from 26% to 21%. By the end of the last decade, crop farming contributed less than 10% of GDP compared to 15% in the early 1990s. This implies that agriculture remained a reserve of underemployment.

The last decade saw a mixed record in economic growth with a strong correlation between growth and external strategic and economic conditions. Growth was low in the early part of the decade, speeded up in the middle of it and declined towards the end. In terms of job creation, the overall experience was less than promising. The proportion of the workforce employed in formal sector jobs declined among both males and females (Table 4.6), a clear trend towards increasing informalisation.

To summarise trends, it can be seen that unemployment increased in the last decade, only declining in the last two years. However, a large part of this decline can be attributed to an increase in the number of

Sector		Male		Female	
		1999-2000	2007-08	1999-2000	2007-08
Agriculture		44.43	36.87	72.93	74.98
Non-Agriculture		55.56	63.12	27.14	25.07
Formal Non-Agriculture		19.01	17.15	9.29	6.86
Informal Non-Agriculture		36.55	45.97	17.79	18.22

Source: Labour Force Survey, various.

unpaid family workers. Moreover, data shows that the gender gap between male and female employment is still wide and that the proportion of women unpaid family workers increased, while the proportion of female employees decreased. Sectoral trends show that there was a decrease in workers in the agriculture sector and that liberalisation did not result in increasing employment in the manufacturing sector. The service sector, on the other hand, has seen an increase in employment. Last, there has been a shift in the workforce from the formal to the informal sector.

## V

### Analysing Trends

AS MENTIONED earlier, growth in Pakistan is sensitive to external changes. The economy responded to exogenous factors such as greater aid and capital inflows during the 2000s. Growth was led largely by the service sector, particularly the financial sector, and partly by public investment until around

2006-2007. As the employment data reviewed has shown, the link between growth and poverty reduction through employment was relatively weak.

There have been concerns in other countries as well about the weak effect economic growth has had on employment in the recent period (Gordon and Baily 1993; Bhattacharya and Sakthivel 2004). Many of the conditions that have been studied more rigorously in these countries appear to hold true in Pakistan. It has been found that unlike East Asia, the South Asia region has not succeeded in increasing the creation of high-quality jobs. The main causes of this have been poor infrastructure development and the unavailability of skilled labour in some of the countries, including Pakistan (Khan 2007).

The experience of these countries suggests a number of important lessons. In India, it was found that states with high levels of pro-worker regulation had not been able to create high-quality formal sector jobs, whereas states with pro-employer regulation had been more successful in expanding formal-sector employment (Ehrenpreis 2007). Mexico showed that an overwhelming focus on liberalisation without corresponding improvements in skills and incentives for formal job creation could lead to stagnation in employment (Ehrenpreis 2008). The International Labour Office (ILO) has found that it is important for countries to find the optimal mix between labour market flexibility and worker security, and that regulatory regimes that strike the correct balance are successful not only in employment generation, but also in economic growth and poverty reduction (Sharkh 2008; Vandenberg 2008).

Earlier cross-country evidence shows that as income increases, the size of informal markets decreases with workers moving from informal to formal labour markets. However, recent experience shows South Asian countries are huge outliers. Labour market distortions restrict the mobility of the labour force, preventing it from moving to formal markets from the informal sector and from rural to urban areas (Ghani 2010).

Industry	Male	Female	All
Manufacturing	17.0	57.1	21.3
Construction	15.3	1.7	13.8
Wholesale & Retail Trade	37.6	8.9	34.5
Transport, Storage and Communication	12.3	0.9	11.1
Community, social and personal services	16.1	31.2	17.7
Others, including Mining, Finance etc	1.7	0.2	1.6
Total	100	100	100

Source: Labour Force Survey 2005-06.

## 5.1 Expansion of Informal Sector

AS A result of adhering to the conditions laid out by the SAP, Pakistan underwent several macroeconomic changes. This included a reduction in subsidies on utilities, an increase in interest rates, a reduction in public expenditure on infrastructure and the introduction of an indirect tax in the form of a general sales tax. This increased the cost of manufacturing and became a “push factor” towards sub-contracting. Since wages in the formal sector were rigid, firms seeking to cut costs chose to cut down on jobs and move towards sub-contracting. Women make up a large part of the informal sector, which is largely unregulated (Balakrishnan and Sayeed 2002). According to Pakistani labour law, workers are those who work in an industry with more than 10 employees. So, home-based workers are usually not protected by labour laws (Khattak 2002). This explains the post-liberalisation trend of an increase in informal sector employment.

The informal sector, which refers to non-agricultural employment in

Pakistan, is present both in rural and urban areas and is expanding more rapidly in urban areas. Females constitute a big slice of this expansion. Wholesale and retail trade (35%) generated the most informal sector employment, followed by manufacturing (21%), community, social and personal services (18%), construction (14%) and transport (11%) (Table 4.7).

## 5.2 Impact of Liberalisation on Female Employment

According to the SPDC (2010), trade liberalisation has not delivered increased employment for both male and female workers, as it was assumed to do. The increase in the female work participation rate in the last two decades has been mostly due to an increase in women as unpaid family workers (SPDC 2010).

Data shows employment of women in urban areas increased in 1991 but steadily declined after that. However, available data can be misleading because employment of women may be under-reported. Other changes in the economy indicate that there might have been an increase in employment of women in the post-liberalisation period. There was an improvement in the female literacy rate in urban areas between 1981 and 1999. Increasing literacy should have enabled more women to join the labour force. Second, privatisation and deregulation decreased government employment in nationalised industries and government departments. Since a large number of male workers were laid off, women had to step in to support their families, particularly in agriculture. Third, poverty levels increased in the 1990s, which again indicates that more women had to take up employment (Balakrishnan and Sayeed 2002).

## 5.3 Social Institutions and Labour

WHILE Pakistan has liberalised its economy by encouraging free trade and the inflow of capital, the labour market is still influenced by local



institutions. The pre-modern practices of bonded labour and child labour still exist and informal institutions such as social networks play a big role in the labour market. Social norms regarding the role of women dictate the labour market and women remain under-represented in the workforce.

Social institutions and marginalisation influence the functioning of labour markets and contribute to the prevalence and perpetuation of various non-market labour arrangements. The clearest instance of this is observed in the case of gender and patriarchy. As seen earlier, the labour market is highly segmented in terms of gender. Societal institutions as well as economic constraints play an important role in the perpetuation of child labour. Extreme forms of exploitation often work across multiple dimensions of social marginalisation and manifest themselves in the shape of forced labour and bonded labour. These forms of exploitation, however, need to be viewed as part of a general continuum of labour arrangements in which personalised transactions and obligations remain important even in apparently “open” labour markets.<sup>7</sup>

### **Women workers**

Women’s access to the labour market—both formal and informal—is heavily regulated by families and communities. There continue to be strong social norms governing women’s access to public spaces and their ability to take up remunerative activities outside the family sphere is limited. While it is common for women in rural areas to work outside the home—for example, cotton farming depends on female labour—working outside the context of the family is still regarded as undesirable by many communities. So much so that taking up paid employment outside one’s family is often seen as a mark of lower social status. These norms are only

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<sup>7</sup> Informal social networks, for example, play an important part in access to most labour markets and also facilitate intra-country and overseas migration.

breached in urban areas and at the upper end of the labour market. In urban areas, there has been a growth in home-based work with rapidly diversifying economic opportunities and limited women’s mobility and autonomy. This work, which is often carried out by women and children, places workers at a great disadvantage in terms of pay, working conditions, bargaining power and contractual security (Azhar 2009).

It is a widely shared view that women’s access to formal paid work will have positive effects on their empowerment.<sup>8</sup> Direct access to sources of livelihood reduces dependence on male household members. Over time, the increasing presence of women in the public domain is likely to change the gendered division of space in rural and urban communities, making it easier for women to access not only economic resources but also political and social ones that are their citizenship-based entitlements. Even relatively low-paying public sector employment can have positive social repercussions in terms of women’s empowerment in many communities.<sup>9</sup>

Women’s participation in low-paid work is often a signal of a “double burden”—that of earning a living as well as providing care within the family. However, Pakistan’s recorded rate of female labour participation is so low and the correlation with the gendered division of space so close that the expansion in women’s autonomous economic opportunities is bound to be a move in the positive direction.

### **Child labour**

Child labour is complicated for many of the reasons that apply to women’s work. There are strong formal legal restrictions on sectors and activities considered to be harmful. At the same time, the law and policy provide

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<sup>7</sup> For a review, see Khan (2007).

<sup>8</sup> See Khan (2008) on the impact of female health workers on women’s empowerment in rural areas.

a great deal of leeway to existing social norms and practices. It is widely acknowledged that there are no reliable, up-to-date statistics on child labour in the country. Child labour is closely linked to the absence of good-quality and affordable schooling, and some estimates rely on the number of children of school-going age who are out of school as the starting point. Child labour is also often linked to social marginalisation and hierarchy because it is children belonging to marginalised groups who end being exposed to dangerous and harmful economic activities (Danish 2009; Khan 2009).

### **Bonded labour**

The persistence of bonded labour and other forms of forced labour is the starkest indication that the relevance of the labour market framework remains severely restricted in Pakistan. Bonded labour is defined in law as any form of employment where forced labour is procured against debt or on any other pretext. Legislation to abolish bonded labour has been useful in highlighting a once-neglected issue. Two decades since its enactment, however, the task of abolishing bonded labour remains to be achieved. There is still a dearth of reliable empirical evidence on the incidence of bonded labour and its regional and sectoral prevalence.

It is widely believed that some sectors and regions such as the brick kilns in Punjab and agricultural tenancy in Sindh have a high prevalence of bonded labour. Nationally representative household and labour force surveys have been of limited use in ascertaining the scale of the problem. Qualitative studies and smaller scale sample surveys have shown that bonded labour is not limited to these sectors and not all credit-labour contracts in them are necessarily coercive.<sup>10</sup>

Social marginalisation along the lines of group identity (caste, kinship, ethnicity or religion) is a common factor in bonded or forced

labour. Individuals and families who belong to traditionally marginalised groups—“low” castes, indigenous communities and religious and ethnic minorities—are particularly vulnerable. In many instances, a debt or *peshgi* relationship—credit-labour linkage—is significant. The dependence on employers for residential land also plays an important part. In general, there is a high degree of vulnerability to bonded or forced labour in situations where employers have recourse to strong collective action and workers are socially marginalised and politically disempowered.

### **Social networks**

The importance of social networks is the flip side of social marginalisation and labour vulnerability. Labour arrangements in Pakistan range from the highly coercive to contracts with a high degree of worker protection. Despite the existence of protective laws and legal mechanisms, there is a great deal of inequality between individuals in their ability to access existing laws and protections.

Social networks play a key role in facilitating employment opportunities, lowering the cost of migration and creating an understanding between workers and employers. A personal recommendation or *sifarish* on the part of someone with whom there is a prior social connection is quite often the only way in which jobs and workers get matched. The role of personal connection is important in the traditional *ustaad-shagird* systems of apprenticeship and vocational training (Janjua and Naveed 2009). Even in the case of overseas migration, personal and kinship relations dominate formal arrangements for labour matching.

While micro-level studies generally reveal the personalised nature of labour arrangements even in the urban sectors, there is relatively little statistical data or policy focus on this aspect of labour and employment. This implies that even though labour markets have a potentially emancipatory role, these markets will only slowly reverse existing social inequalities in the absence of promotional policies. Existing social

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10 See Danish (2009) and the ILO-supported sector studies cited.

norms and hierarchies mediate access to opportunities that open up as a result of public and private investment or in overseas labour markets.

On one hand, liberalisation of the economy aims to modify the economic structure to make it more globalised, but on the other hand, informal institutions and practices like child labour and bonded labour still exist in the labour market. As a result, the outcomes of trade theories like the Heckscher-Ohlin theory and the Stolper-Samuelson theorem, which assume labour markets to be well-functioning, cannot be translated into reality in the Pakistani context. Modern economic growth is meant to bring with it a structural change from the traditional to the modern sector. The existence of outdated practices in Pakistan is evidence that economic growth has not delivered this transition.

## VI

### Globalisation of Labour: Before Liberalisation

ONE aspect of globalisation is migration of labour. While it can be said that the flow of labour between countries is far from smooth, workers from Pakistan have moved to foreign countries in search for employment. In the 1970s, following the global oil shocks, countries in the Arabian Gulf became wealthier and embarked on a series of development projects, giving rise to a demand for both skilled and unskilled labourers (SDPC 2010). A substantial number of workers from Pakistan took up jobs in the Gulf, which had a favourable impact on foreign reserves in the 1980s. In 1982-83, workers' remittances equalled more than one-tenth of the GDP (Gazdar 1999). Migration of workers from the rural areas also had an effect on female employment in Pakistan because it increased the opportunities for women to take up work (SPDC 2010).

A substantial part of the country's labour force is still made up of Pakistani workers employed abroad. In 2008, for example, the flow of workers abroad was more than 400,000 (Ghayur 2009). This was around 28% of the total addition in the size of the domestic workforce between 2006-07 and 2007-08. In 2009, the flow of workers abroad was 600,000, which was a major factor in the increase in remittances.

A separate Overseas Pakistani Division has been established to facilitate the movement of overseas workers. Community welfare attaches (CWAs) have been deputed to embassies in major labour-importing countries to protect the rights of Pakistani workers. Boosting overseas employment may be helpful in reducing pressure on the job market. Pakistan's ministry of labour is making efforts to boost overseas employment. Memorandums of understanding (MoUs) and agreements have been signed with Kuwait, Malaysia, Korea, Qatar and the UAE, while similar arrangements with several other countries are in process. The export of manpower is undertaken by Overseas Employment Promoters in the private sector and the Overseas Employment Corporation in the public sector. More than US\$6 billion is projected to be earned in the next budget year. The increase in overseas migration is the result of bold steps taken by the government for the export of manpower. An MoU has been signed with Malaysia for the recruitment of Pakistani workers so as to open up new job opportunities for a large number of semi-skilled and unskilled workers and another in the field of manpower has been signed with South Korea. According to it, Pakistan will send workers to South Korea on a regular basis and the first batch left for Seoul on 22 April 2008. Similar MoUs in the field of manpower have also been signed between Pakistan and the UAE and Libya.

#### **Labour Market Information System and Analysis**

A project named labour market information system and analysis has been launched in the human resources development wing of the

labour and manpower division. The objective of this is to develop and consolidate the collection and use of labour market data in Pakistan. An analysis of the data collected will be made using internationally recognised key indicators for the labour market (KILMs). The system will yield regular statistics and information about employment, under-employment and unemployment at the national, local and regional levels.

### **Pakistan skilling programme**

The national vocational and technical education commission (NAVTEC) has been established with a view to overcoming lack of standardisation, skill gaps and the non-availability of proper curricula. The poor quality of instructional staff, inadequate accreditation and certification procedures and the problem of poor infrastructure will be addressed while encouraging the private sector to enhance technical education and vocational training capacity. The aim is to develop a linkage between technical education and vocational training. Being a regulatory body, the commission will be responsible for long-term planning in this particular field. It will also be responsible for setting standards for formulating the syllabus, accreditation, certification and trade testing, among other things. It now gives Rs. 2,000 a month to each trainee attending training courses. There are now 1,522 technical institutes with an enrolment of 314,188 providing technical skills to the labour force in the country. The larger plan is to produce one million skilled labourers a year.

### **Skill development councils**

To develop a skilled labour force on modern lines, the labour and manpower division has established five skill development councils (SDCs), one each in Islamabad, Karachi, Lahore, Peshawar and Quetta. The SDCs assess the training needs in their geographical area, prioritise them on the basis of market demand and facilitate training of workers through training providers in the public and private sector. These councils meet the diversified training needs of the industrial and commercial sectors and have so far trained 46,674 workers.

Using conservative assumptions about the length of stay abroad, it is estimated that the stock of Pakistani workers in non-Organisation for Economic Co-operation and Development (OECD) countries is around 1.6 million.<sup>11</sup> The total number of Pakistani residents in OECD countries was around 575,000 in 2000.<sup>12</sup> Even if one out of every three Pakistanis in the OECD countries were a worker (others being students or non-working family members) the total number of Pakistani workers abroad would be around 1.8 million. This works out to 3.5% of the total domestic workforce.

## **VII**

### **Conclusion**

PROponents of globalisation emphasise the importance of removing protective barriers and promoting greater external integration. They use trade theory arguments which declare that free trade reduces poverty in developing countries because trade increases the relative income of unskilled labour. Gender imbalances in the labour market are also corrected when more women gain employment because they make up the bulk of unskilled labour. This neoliberal argument, however, does not take into account a country's specific factors or circumstances that substantially influence the functioning of markets and affects economic performance.

In Pakistan, trade liberalisation and globalisation have not been driven by just economic policy imperatives. An understanding of Pakistan's political

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11 Annual Data on Labour Migration 1971-2006, Bureau of Emigration and Overseas Employment, Ministry of Labour, Manpower and Overseas Pakistanis.

12 Database on Migrants and Expatriates, based on OECD national census reports of 2000.



and economic history highlights the importance of strategic military engagement and its interplay with domestic policies. Pakistan has experienced bursts of growth in times when it has been of strategic importance to the Western powers. During the war following the Soviet attack on Afghanistan and again after the 11 September 2001 attacks, Pakistan's growth rate peaked. This was mainly a result of an increase in the inflow of funds in the form of military aid and concessionary lending, augmented by remittances coming from expatriates abroad. The importance of external dependency is brought out even more when macroeconomic indicators of periods with decreasing foreign assistance are analysed. Paradoxically, because of social, political and economic conditions in these times, foreign investment and trade decreased.

Likewise, conflict between India and Pakistan has resulted in minimal trade through the country's eastern border, preventing the notion of trade liberalisation from being fully realised. At the same time, and from well before the 1988 turning point, the Western border with Afghanistan has remained virtually unregulated for political and strategic reasons. Hence there was de facto liberalisation there even during the period of protectionism.

The influence strategic politics has on access to the global economy is further illustrated by the imposition of sanctions by key Western states or the international community. The end of the Cold War led to a revival of interest in globalisation, but also coincided with the widening use of economic sanctions to isolate many countries from the global economy. In the 1990s, Pakistan faced economic sanctions on the grounds that it was developing nuclear weapons. Economic sanctions of varying duration and severity affected a large number of countries in this period. The most conspicuous cases included Iraq (1990 to 2003), Iran, North Korea, Libya and Cuba. Pakistan's experience with globalisation has, at least partly, been coloured by sanctions. Being cut off from the global economy is, therefore, not necessarily a result of a country's own agency but can be the result of political differences with the world's leading powers.

According to neoliberal views, trade liberalisation is meant to result in economic growth, increased employment of abundant unskilled workers and better employment opportunities for women. A review of labour data from the previous decade (1999-2008) shows that there has not been substantial change in the male-female divide in the labour market—female participation in the labour force still remains abysmal. Much of the increase in female employment that has taken place is driven by an increase in women working as unpaid family helpers. While unpaid family members count as part of the labour force, they do not generate any earnings for themselves.

There has been a sectoral shift in employment patterns. The share of the workforce in agriculture has decreased but this has not translated into an increase in employment in manufacturing—the service sector has seen a boost in employment while the manufacturing sector has remained stagnant. Unskilled labourers are usually employed in manufacturing industries, which goes to show that the removal of trade barriers has not favoured the unskilled labour force in Pakistan as predicted by trade theory. Moreover, there has been increased informalisation of the workforce as a result of production being sub-contracted. Standard labour laws do not apply to the informal sector, its wages are not regulated and working conditions are often poor.

Almost two decades after Pakistan entered into agreements with the IMF to liberalise its economy, social norms continue to determine the functioning of labour markets. Women's access to employment is heavily influenced by patriarchal norms, which perpetuates the gender divide in the labour market. The practices of bonded labour and child labour still remain. Traditional hierarchical structures dictate access to employment as social networks in the form of personal contacts (or *sifraarish*) play an essential role in determining who secures employment. Slowly changing informal institutions, therefore, continue non-labour market arrangements in Pakistan.

To conclude, globalisation cannot be narrowed down to an introduction of standard economic reforms across countries because the shape it takes is

largely determined by social and political issues at home and abroad. For example, in Pakistan's case, the labour market had been exposed to global forces, long before the economy was liberalised, thorough immigration of workers to oil-rich Arabian Gulf countries. Further, neoliberal theories assume markets to be well-functioning and able to respond to change but do not take into account country-specific labour market arrangements influenced by local institutions. From Pakistan's experience it can be seen that despite global and domestic market integration, labour markets have not been created and non-market arrangements continue to persist.

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# Globalisation and Labour in Conflict-Engulfed Nepal

**BISHNU RAJ UPRETI, SAFAL GHIMIRE AND YAMUNA GHALE**

## 5.1 Introduction

PARALLEL to unfolding globalisation, the decade-long (1996-2006) armed conflict between the Communist Party of Nepal (Maoist) (CPN-M) and the government created great insecurity and instability in Nepal. However, the strong forces of globalisation saw the country being admitted to the World Trade Organisation (WTO) in the midst of the conflict. Today, there is hardly any aspect of life in Nepal that has not been touched by the winds of fast-blowing globalisation. Technological advances have been changing society, institutions and social relations. Labour and employment relations are also being continually affected by the globalisation process and this chapter is devoted to these developments.

While promoting industrial and employment growth, globalisation is expected to spur development and expand human resources. Its effects are only beginning to be felt in Nepal. Unlike the past, when Nepal’s global



integration began with the recruitment of Gorkha soldiers to the British army in India, the present-day benchmarks of globalisation are the guiding principles of the Washington Consensus. So, despite support from several interests, globalisation has been widely criticised in Nepal. During the armed conflict and later, the CPN (M)<sup>1</sup> was vehemently opposed to it (Upreti 2009, 2006). In this context, it is interesting to examine the positive and negative effects globalisation has had on employment and labour. This chapter analyses the effects of trade liberalisation on employment, the impact of the internationalisation of labour on employment and working conditions, and the effect of labour regulations on investment and employment in Nepal. It is largely a descriptive analysis based on secondary sources of data.

## 5.2 Context of Globalisation

GLOBALISATION began for America in 1492 and the process has still not ended. In India, the first wave of globalisation was driven by the first global corporation, the East India Company, and its direct impact also did not end till 1947 when the country won independence (Shiva 2005). Some scholars see globalisation as a precondition for development of a country, given that priority is accorded to competitiveness, an open market policy, economic liberalisation, deregulation and privatisation (Koirala and Sharma 2005). They argue that globalisation is universally compatible with economic development. Others are more critical and even hold that globalisation amounts to “re-colonisation” (GEFONT 2009; Shiva 2005). Whatever be these arguments, the phenomenon

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<sup>1</sup> In January 2009, the CPN (M) and the Unity Centre (another communist party) came together and the name of the CPN (M) was changed to the Unified Communist Party of Nepal (UCPN) (Maoist). However, CPN (M) is used throughout this chapter to avoid confusion.

of globalisation has several implications for employment and labour, including employer-employee relations, labour regulations, working conditions and investment, both in developed and developing economies.

Critics of globalisation argue that it is profit-oriented, not welfare-oriented, and its goal is surplus accumulation and reinvestment, not social development. Its supporters emphasise competition, a liberal and open economic system and the government’s role as a facilitator instead of a regulator. Yet, it has often been observed that globalisation provides benefits to only a limited number of people and that its methods are harsh (Ghimire 2007; GEFONT, 2009). Amartya Sen has remarked that economic globalisation is viewed with alarm by many individuals and communities, but that it can be made efficacious and rewarding if we take an adequately broad approach to the conditions that govern our lives and work (2000). So the process of globalisation is sometimes discussed in terms of the remedial measures it may require.

Liberalisation and globalisation are often discussed as two sides of the same coin. The term liberalism is best seen as a social and political theory of freedom that conceives of liberty largely in terms of non-interference. But if this is so, it would seem that freedom and equality must come into conflict (Kelly 2005: 61). GEFONT (2009) points out that the proponents of this type of globalisation fall into the following four categories.

- 1) International institutions such as the International Monetary Fund (IMF), the World Bank and the WTO,
- 2) Transnational corporations,
- 3) International non-governmental organisations (NGOs), and the
- 4) Electronic media and mass communication.

With regard to employment and labour, globalisation concerns factors such as trade, investment, technology, cross-border production systems, information flows and communication (Gunter and Hoeven 2004). The world



of employment is now becoming globalised and the power and resources of governments and multinational corporations (MNCs) are turning them into powerful actors. So, some studies view the current phase of globalisation as a re-colonisation (Shiva 2005) where a powerful nexus is forged between MNCs and governments. It is so described because it is corporate-led, not people-led.

The process of globalisation has led to increased homogenisation of policies and institutions across the world—trade and capital market liberalisation; the dismantling of the welfare state; international agreements on intellectual property rights; and the standardisation of policies and behaviours (Bhandari et al. 2005; Gunter and Hoeven 2004). The liberalisation of investment, the entrance of MNCs and their style of management and increased competition are assumed to have “abolished rent-seeking behaviour and bureaucratic bottlenecks” (Kuruvilla and Hiers 2000: 4). But the role of MNCs and international fiscal organisations is not always above reproach. As Bird (2005) points out, international fiscal institutions exert a great deal of influence over the design of economic policies in countries that turn to them for financial assistance. This takes the form of preconditions, prior actions and quantified performance criteria. They thus have a say on exchange rates, domestic credit creation, interest rates and fiscal imbalances. Investments made by MNCs often aim to tap cheap labour, natural resources and weak environmental laws. And along with direct capital investment, MNCs initiate mergers and acquisitions, financial and technical collaborations, management contracts and patent/trade mark agreements (GEFONT 2009).

However, the entry of MNCs to developing countries can also be seen as having many benefits. They promote and encourage the freer exchange of goods, ideas and knowledge, encouraging innovation and entrepreneurship. The other side of the coin is that this process can result in rather unbalanced outcomes between countries and within countries as well. There is no guarantee that the benefits of globalisation will be equal in all economies

around the globe. Developing countries that have only little or no voice at the decision-making level of the WTO are often at a disadvantage. The Marrakech Agreement of 1995 that established the WTO mentioned the need to respond to the vulnerability of developing countries created through market distortions and/or instability in the world market. It provided for measures to compensate for the negative impact globalisation may have on food import bills and also for enhancing production capacities through financial support from the World Bank and IMF (Bhandari et al. 2005).

### **Globalisation Context in Nepal**

DIFFERENT events in Nepal’s history speak of its increasing contact with the world, ranging from the early visits to England by its Rana prime ministers, the Benares-based student movement for democracy in Nepal and the recruitment of Gorkha soldiers to serve in the armies of Britain, Singapore and India. The present phase of globalisation could be seen as beginning with the more recent establishment of state-owned media, the coming of multiparty democracy and the accession to the WTO. The capital Kathmandu has always been an important point in the trade between India and Tibet and a place through which Nepalis have gained exposure to international cultures and lifestyles. Vaidya and Bajracharya (1996) have portrayed the role of India as a gateway of trade transmission to Nepal, right from the time of the East India Company and detailed the process through which globalisation has made inroads into the country.

Now, the emerging issues around Nepal’s WTO membership are still to be tackled rationally. The lack of attention paid to the concerns of least developed countries (LDCs) is frequently cited as a very grave matter. There are also issues to do with the participation and representation of LDCs at the level of decision-making in international forums. Along with this, proper prioritisation of the global development agenda and

**BOX 1****NEPAL IN THE WTO: TIMEINE**

- Applied under GATT on 16 May 1989
- Working party was established on 21-22 May 1989
- Submitted Memorandum of Foreign Trade Regime of Nepal on 26 February 1990
- Communicated its interest on 5 December 1995
- General Council decided to give continuity to the working group on 31 January 1996
- Memorandum of Foreign Trade Regime of Nepal submitted on 10 August 1998
- First formal meeting of working party held on 22 May 2000
- Schedules on goods and services submitted in July 2002
- Second formal meeting of working party held on 12 September 2002
- Protocol of Accession submitted on 15 August 2003
- Working party concluded Nepal's membership on 15 August 2003
- Fifth Ministerial Conference held in Cancun, Mexico (10-14 September 2003) approved the accession package of Nepal's membership
- Deposited instrument of ratification on 23 March 2004
- Became member on 23 April 2004

Source: Bhandari et al. (2005)

fair allocation of resources cannot be omitted (Bhandari et. al 2005).

Last but not the least, the access of Nepalis to productive sources such as land, water and forests and control over them is vital. The effects of trade liberalisation include an opening up to international markets and an increase in the choices of consumers. At the same time, a competitive market and the requirements of technical compliance may hinder trade opportunities, alongside dumping of international products and the displacement of local ones. Excessive dependence of farmers on life science companies may stand in the way of the use of local knowledge (Ghale 2009). The

control of private companies over productive resources, their preference of areas to invest in, the low priority accorded to improvement of staple food crops and the food supply system, and the high prices of products introduced by food companies are serious challenges (Bhandari et al. 2005).

The globalisation process in Nepal began with the re-introduction of democracy in 1990 and it slowed during the armed conflict that followed from 1996 to 2006 (Upreti 2009). The issues of labour rights and working conditions were major slogans of the CPN (M), mainly to attract the support of the labouring class. However, the last two decades have seen globalisation making its presence felt in the form of deregulation, liberalisation and privatisation (GEFONT 2009).

With globalisation, labour exports have intensified from emerging markets and developing countries. This is especially true of unskilled labour. Traditional trade theory predicts that the integration of these countries into the world economy will exert a downward pressure on the wages of workers in advanced economies (Jaumotte and Tytell 2007). The involvement of workers from emerging economies in the global workforce brings important benefits to advanced economies. It has helped companies broaden their export opportunities and operate more efficiently. On the other side, workers have benefited from an increase in wages.

Modern communication technologies have led to the ubiquitous influence of Western cultural values. The process of globalisation has gone in tandem with the almost unanimous pressure for multiparty democracy. The discipline of ecological globalisation increasingly deals with the issues of global warming and the loss of biodiversities. It all goes to show that globalisation is a very large phenomenon and cannot be seen solely through economic eyes and the principles of the Washington Consensus. Be that as it may, we here deal with issues primarily related to employment and the labour force.

The hope of leapfrogging economic success is almost always around when new governments in Nepal introduce different fiscal policies. But the

real situation is very poor, far from such possibilities. In per capita terms, Nepal's growth performance has been unsatisfactory and its per capita gross domestic product (GDP) remains low. A joint report by the Asian Development Bank (ADB), Department for International Development (DFID) and International Labour Organisation (ILO) in 2009 observed,

In 2007, the per capita GDP in 2000 prices was estimated at \$243 [for Nepal] compared with \$439 for Bangladesh, \$660 for Pakistan, \$686 for India, \$1,144 for Sri Lanka, \$1,277 for Bhutan, and \$3,668 for Maldives. In terms of per capita GDP, Nepal is now where Sri Lanka was in 1960, Pakistan was in 1970, and India and Bhutan were in 1980. This lacklustre performance has occurred despite some very important reforms during the 1990s and 2000s. (ADB et al. 2009: 1)

These figures show that Nepal's economy lags behind those of other South Asian countries. An absence of inclusive growth, armed conflict, political and civil unrest, poor governance, weak policy and institutional contexts, and inequality have been the factors mainly responsible for the poor performance of the economic sector (UNDP 2009).

In rural Nepal, the economy is still sustained by indigenous strategies and approaches. The barter system exists in some villages to this day. Further, polarised political ideologies and the instability of governments have led to unstable plans and policies. ADB et al. (2009: 3) cite the following critical constraints to private investment and growth in Nepal.

- Weak governance and slow recovery from civil war/conflict;
- Inadequate infrastructure, particularly related to electricity supply, irrigation and transport;
- Poor industrial relations and labour market rigidities; and
- Inability to address market failures leading to slow structural transformation.

Nepal does not have as long a history of economic liberalisation

as India. It has been practising, or more accurately, experimenting with different approaches to economic development. Paying rational attention to the economic sector is as important as depoliticising it. Nepali political practice seriously lacks this recognition. While some political decisions such as whether the development approach must be state-centered or market-oriented are inevitable, it is essential to have stable policies that are fully implemented. Amid the Asian economic powerhouses of China and India, Nepal is yet to craft an appropriate economic model for itself.

ADB et al. (2009: 3) point out some options to overcome present drawbacks and reach out for inclusive growth. They include strengthening governance, accelerating infrastructural growth and improving the power, transport and irrigation sectors. Alongside this, improving industrial relations and making labour markets more flexible, supporting expansion and diversification of the industrial base, and promoting economic and social inclusion through access to employment opportunities are very crucial. Better access to education, to productive assets such as land and credit and to safety nets, and creating a fiscal space through revenue mobilisation and improved allocative and operational efficiencies are part of the way forward.

### 5.3 Labour and Employment Statistics and Data Gaps

DESPITE some relief in the employment problems of the country because of the increasing access to labour markets abroad, the number of youth who do not have opportunities for employment is large. The labour and employment situation in Nepal is discussed here in the context of national and international changes. But before analysing the labour and employment situation in Nepal, it is useful to appraise the nature of employment statistics in the country.

The Central Bureau of Statistics (CBS) points to prevailing "ad-hocism" and identifies a number of data gaps in labour and employment

statistics. Nearly all existing surveys in the country can be described as ad hoc and the major data gaps identified by the CBS (2011) are,

- 1) Comprehensive data on the informal sector is not available;
- 2) Data is not available on a regular basis on education and training;
- 3) Existing concepts and definitions of unemployment, underemployment and disguised unemployment are ambiguous in the socio-economic context of Nepal;
- 4) Besides a lack of regular surveys, there is no proper administrative recording of the number of job seekers and job vacancies, which means a lack of meaningful data on the supply of and demand for labour;
- 5) Most of the labour and employment data are not in a gender-disaggregated form;
- 6) There is an absence of adequate facts and figures on skilled manpower and little information on skilled foreign workers in Nepal, which would have been an important indicator of skill deficiencies in the country; and
- 7) There are deficiencies in the data on social security.

As a result, there is a heavy reliance on Nepal Labour Force Surveys (NLFSs), which are not regular but reasonably comprehensive. So far two NLFSs have been conducted, the first in 1998-99 and the second in 2008. Defining employment, NLFS-I stated, “People are counted as currently employed if they did at least one hour work in the previous seven days” (CBS 1999). Citing an ILO definition, NLFS-II defined people as being currently employed “if they are engaged in any economic activity for at least one hour a week” (CBS 2009). Both these definitions are loose and count a large number of people as being employed but they are not specific to different situations.

## Structure and Growth of Economy

SOUTH Asia is one of the least developed regions of the world, just marginally ahead of sub-Saharan Africa, and Nepal is one of the least developed economies in South Asia. Despite the era of globalisation, unlike the other South Asian economies, Nepal has not experienced any acceleration in growth. Per capita income grew at an annual rate of 2.1% during 1981-1990, 2.2% during 1991-2000 and declined to 1.9% during 2001-2010 (World Bank 2011). Yet, in structural terms, Nepal’s economy has not been stagnant.

Table 5.1 shows the share of services in GDP increased while that of agriculture declined from 62% in 1980 to 34% in 2008. But the structural change in GDP is not reflected in changes in employment structure. During 1999-2008, employment in agriculture declined marginally from 77% to 73% and that in industry increased by one percentage point from 10% to 11%. Though the share of services almost doubled in GDP during 1980-2000, it registered only a small increase in employment between 1999 and 2008, from 13% to 16%.

Sector	Share of GDP		Share of Employment	
	1980	2008	1999	2008
Agriculture	62	34	77	73
Industry*	12	17	10	11
Manufacturing	4	7	6	7
Services	26	50	13	16

**Note:** \* Includes Manufacturing

**Source:** World Bank 2011



Employment Status	Rural (%)		Urban (%)	
	1996	2004	1996	2004
Casual Labour	19	13	18	12
Self-employed	79	83	55	61
Regular wage/Salaried	2	4	27	26
All	100	100	100	100

Source: World Bank 2011

Changes in the employment status of the workforce reflect economic dynamism or the lack of it. During 1996-2004, casual labour declined in both rural and urban areas while there was an increase in self-employment (Table 5.2). The regular workforce increased in rural areas and marginally declined in urban areas. Interpreting changes in self-employment is always problematic because this category could include very diverse categories of workers, right from the low-income working poor to super-rich independent professionals.

A comparison of NLFS-I and NLFS-II figures shows that the total number of currently employed persons increased from 9.4 million in 1998-99 to 11.7 million in 2008 (CBS 1999; CBS 2009).<sup>2</sup> But this was not remarkable progress for a decade, given that the definition of employment in the survey counted a broad level of respondents as being currently employed. NLFS-II showed that one-third of the currently employed people were engaged in work less than 40 hours a week, which meant a considerable number of people were substantially under-employed. NLFS-

<sup>2</sup> The data from NLFS-II are from its executive summary. As the detailed report was yet to be published, this summary was made available to the authors by Tirtha Chaulagain, Statistics Officer, Central Bureau of Statistics, on 12 August 2009.

II estimated a total of 2.5 million people aged 15 years and above were currently unemployed, which was an increase of 42% over the decade (CBS 2009). One of the reasons for the expansion of the CPN (M) armed conflict was said to be the participation of unemployed youth in it (Upreti 2009).

NLFS-II showed that the labour force participation rate (LFPR) had decreased in urban areas (73.3% in 1998-99 to 67.3% in 2008) while it remained stable in rural areas (87.7% in 1998-99 to 86.8% in 2008). The LFPR usually shows the percentage of working-age persons in an economy that are employed and the unemployed who are looking for a job. According to Morris (2006), the LFPR is decreasing throughout the world because more children and youth, the chunk of the working-age population, stay in educational institutions rather than join the workforce. He argues that this trend is more pronounced in East Asia, South-East Asia and South Asia. But even among those who participate in the labour force, most people work in informal activities that are often undervalued or uncounted.

Sex	Population Aged 10 Years and Above				
	Total	Usually Active		Not Usually Active	Not Economically Active
		Employed	Unemployed		
Male	8,330,597	5,212,339	419,384	339,327	2,359,547
Female	8,439,698	3,689,061	440,713	536,444	3,773,480
Both Sexes	16,770,295	8,901,400	860,097	875,771	6,133,027

Source: CBS (2007:42), Table 1.10

The situation in Nepal is not very satisfactory in terms of employment and labour relations. Apart from numerical data, one has only to consider some crucial aspects of the labour market in Nepal to see this. India, for example, has a standing in the international job market in the software sector (Kuruville and Hiers 2000) that is affected only in times of global crises. In contrast, almost all employment recruiting agencies in Nepal, popularly known as “manpower agencies” (Gurung 2004), send unskilled or semi-skilled labourers to the Gulf countries. NLFS-II shows Nepal receives the highest amount of remittances from Qatar (21.3%), followed by Malaysia (19.2%), Saudi Arabia (14.9%), India (13.4%), the UK (2.2%) and other countries (29%) (CBS 2009). Most of the Nepali workers in Gulf countries are the “last to be hired and the first to be fired” because they can be easily replaced by anyone else seeking blue-collar employment. Skilled human resource mobility from Nepal is still very limited.

The trade scenario is also not very encouraging. Earlier, when imports were high, exports were much less than expected. The situation slightly changed after the coming of multiparty democracy in the 1990s and Nepali products such as carpets, pashmina and readymade garments found takers in the international market. But while the process of globalisation has made everything marketable, the primary human element has become secondary or negligible. This process of commodification has affected all “indigenous socio-economic bases” (GEFONT 2009), prompting fear among some analysts. For, globalisation gives decision-making powers to major players in the market and economy, leaving a considerable number of poor people at the mercy of market.

### 5.3 Salient Features of Labour and Employment

BEFORE analysing the impact of globalisation on labour and employment and assessing the changes in the post-liberalisation era, it may be helpful to begin with certain salient features of labour and employment in Nepal.

First, the LFPR in Nepal is unusually high compared to other South Asian countries. It was as high as 85.8% in 1998-99 and declined marginally to 83.4% by 2008. Second, Nepal has the highest child (5-14 age group) LFPR in the region. It was as high as 41% in 1998-99 but fell to 34% by 2008. Third, Nepal has a very high proportion of households headed by females. It was 14% in 1998-99 and increased to 22% in 2008. Fourth, Nepal has, like the other South Asian countries, a very high level of informal employment. In 2008, 86% of non-agricultural workers and almost all workers in agriculture were in informal employment. Fifth, Nepal has the highest level of migration in the region. Nearly 44% of households have at least one migrant member, either abroad or within the country. Slightly more than 29% of households have at least one migrant abroad. About 30% of all households receive remittances and 83% of the remittances are from abroad.

#### Employment Situation

NEPAL has an agriculture-based economy but the contribution of the agricultural sector to the GDP has been less than 40% in recent years. It is clear that the agricultural sector will not be able to absorb the labour force that is growing by around 300,000 people every year (Gurung 2004). So the population factor cannot be discounted while discussing the development agenda.

The plans and policies of public sector enterprises have not resulted in any outstanding success and the same can be said of the private sector. With low permanency of jobs, inadequate old-age benefits and a poor social security network, the situation of workers in Nepal is not very promising. NLFS-II estimated that 2.1 million people aged 15 and above were employed in the non-agricultural informal sector in 2008 (70% of the total non-agricultural employment) compared to 1.6 million in 1998-99 (73% of the non-agricultural employment) (CBS 2009). As the informal sector does not come under the radar of

the state and does not directly comply with existing laws and rules, the growth of informal employment is a grave issue that has to be tackled.

Table 5.4 presents the industrial distribution of employment as reported by NLFS-I and II, the rate of growth of employment between 1998-99 and 2008, the rate of growth of different sectors between 2003-04 and 2008, and employment elasticity. Though the share of agriculture and allied activities declined marginally between 1998-99 and 2008, it is still the largest source of employment (74%). In spite of the growth of employment (1.67%) and employment elasticity (0.57%) being low, the largest number of additional jobs during the period was in agriculture and allied sectors. Interestingly, though the rate of growth of manufacturing was very low (1.50%), the annual rate of growth of employment in it was high (3.41%), resulting in a very high elasticity of employment (2.27%).

Other high-growth industries like mining had a very negligible share in employment and given the fragile geophysical nature of the country, it may not be a promising source of employment growth. Among services, education and health grew at high rates, both in terms of value addition and employment, and this holds the promise of further expansion. The overall annual growth rate of the economy between 2003-04 and 2008 was moderately high at 5.25% and the annual rate of growth of employment between 1998-99 and 2008 was 2.22%, not too low compared to many other post-liberalisation economies suffering jobless growth.

However, what ails Nepal's economy more than a lack of growth of employment is the poor quality of employment. The share of informal employment is very high and there has been growing informalisation of employment even as the country's economy is being integrated into the global economy.

TABLE 5.4

Structure and Growth of Employment in Nepal, 1998 - 99 to 2008

Industry	Employment (thousand)		Employment growth annual (average)	Economic growth rate 2003-04 - 2008 annual	Employment elasticity
Agriculture Forestry, Fishing	7,376 (78.0)	8,706 (73.9)	1.67	2.93	0.57
Mining & Quarrying	8	27	12.93	3.57	3.62
Manufacturing	553 (5.8)	773 (8.2)	3.41	1.50	2.27
Electricity, Gas and fetching wate	84	109	2.64	4.62	0.57
Construction	344	376	0.89	3.76	0.24
Wholesale & Retail Trade	408 (4.3)	692 (5.9)	5.43	2.57	2.11
Hotels & Restaurants	114	197	4.62	5.06	1.11
Transport, Storage	135	198	3.90	5.98	0.65
Financial Intermediation	19	32	5.35	13.88	0.39
Real Estate, Renting	32	71	8.30	5.83	1.42
Public Administration	70	109	4.53	2.99	1.51
Education	164 (1.7)	285 (2.4)	5.68	6.37	0.89
Healthcare & Social Work	34	77	8.52	8.36	1.02
Other Communication	57	99	5.68	-	
Private Household	58	33	-5.48	-	
Total / Average	9,456 (100)	11,779 (100)	2.22	5.25	

## Informalisation of Employment

THE informalisation of formal sector employment has expanded rapidly. While the extent of wage employment is increasing, there is a big question mark on whether the share of wages in total national income has increased or not. This is not a question that can be answered easily in the absence of relevant data. With gradual commercialisation of agriculture and expansion of the construction sector, both the rural and urban informal sectors have an increased role to play in employment (GEFONT 2009). At the same time, globalisation has provided corporate houses with better opportunities to join hands with MNCs in joint ventures. But with the growing informalisation of employment, it will have little effect on the quantum of national income being shared as wage incomes.

Sector	Male (thousands)	Female (thousands)	All (thousands)
Agriculture	3,429	5,275	8,705
Non Agriculture	2,090	984	3,074
a. Formal	711	221	932
b. Informal	1,379	763	2,142
i. Without regular paid employment	1,044	706	1,750
ii. With 1 to 9 regular paid employees	335	57	392
Total	5,519	6,259	11,779

Source: NLFS-II

Type of Employment	Number (thousands)	Percentage
Employees without formal social security benefits	1,054	39.7
Employers and others in the informal sector	106	4.0
Self-employed without employees	969	36.5
Contributing family workers	525	19.8
All non-agricultural informal employment	2,654	100.0

Source: NLFS-II

As mentioned earlier, NLFS-II estimated around 2.1 million people aged 15 and above were employed in the non-agricultural informal sector (70% of the total non-agricultural employment) compared to 1.6 million in 1998-99 (73% of the non-agricultural employment). Though the proportion of informal workers declined from 73% to 70%, their actual number increased by 29.3% during the period. And the increase in male informal workers was much more (31.1%) than the increase in female informal workers (26.1%). NLFS-II introduced an important differentiation within non-agricultural informal employment. Table 5.6 shows the distribution of informal employment among different categories.

Table 5.7 shows the industry-wise share of informal workers in Nepal. With 96.2% of the workforce being informal, Nepal is the country with the highest proportion of informal workers in the world. Almost all workers in agriculture and forestry are informal. Intriguingly, a similar situation exists in mining and quarrying and trade. Equally puzzling is that about 22% of workers in public administration and security are informal. Health and educational services also have a very high proportion of informal employment.



TABLE 5.7 Industry-wise Informal Employment of Persons Aged 15 and Above in Nepal, 2008 (%)	
Total	96.2
Agriculture and Forestry	99.7
Fishing	97.8
Sub-total excluding Agriculture and Fishing	86.4
Mining and quarrying	99.7
Manufacturing and quarrying	93.2
Electricity, Gas and Water	91.2
Construction	96.0
Wholesale and Retail Trade	98.9
Hotels and Restaurants	96.7
Transport, Storage and Communication	83.8
Financial Intermediation	47.9
Real Estate and Renting	94.4
Public Administration and Security	21.9
Education	51.6
Health and Social Work	51.3

Source: NLFS-II

Table 5.8 shows the occupation-wise incidence of poverty in Nepal. The concentration of workers is high in agriculture and rural areas and poverty is also very high in these segments. The occupational hierarchy of the incidence of poverty shows the lowest level of 1% in urban regular wage salaried employment and the highest level of 50% among agricultural casual

TABLE 5.8 Occupation-wise Distribution of Workers in Households below the Poverty Line in Nepal, 2003-04 (%)	
Occupation	Percentage of Workers in Households Below Poverty Line
Agriculture CL	50
Rural non-farm CL	43
Agricultural SE	31
Rural non-farm SE	17
Urban CL	16
Rural non-farm RWS	10
Urban SE	9
Urban RWS	1

Note: CL= Casual labour, SE=self-employed, RWS=regular wage or salaried worker

Source: World Bank 2011.

labour. Overall, the incidence of poverty among urban occupations is much lower than among rural occupations. Among regular workers in rural areas and among all urban occupations the incidence of poverty is relatively low. But the share of urban employment is less than one-fifth of total employment.

As elsewhere in South Asia, income inequality is a serious issue in Nepal. Bollé (2008) states that despite economic growth that has generated millions of jobs since the early 1990s, income inequalities have continued to widen in most regions of the world. This wide gap is expected to further increase because of the ongoing global financial crisis. So much of the cost of the economic and financial crisis will be borne by hundreds of millions of people who have benefited little from recent growth.

In a country like Nepal, disparities are set to increase. Poverty among those who work in the domestic labour market is already widespread and the

worst affected are the unskilled, whether in agriculture or non-agriculture. Regular wage or paid employment has a minor share of Nepal's labour market. The earnings of the self-employed (with considerable underemployment) are much lower than the average wage earnings (Campbell 2011). Regional imbalances in employment opportunities and the adoption of global economic standards are also causing problems for low-income economies. Besides, there are the issues of job flexibility and employment security.

Öjermark (2009: 33) has pointed out the need for “flexicurity,” a hybrid of the words “flexibility” and “security.” In the labour market, it has three main components—(a) flexibility in hiring and firing, (b) a social welfare system that provides income security and healthcare; and (c) an active employment policy.

### **Child Labour**

THE incidence of child labour in Nepal is menacingly high, to the point of crippling the skill capabilities of the future workforce of the country. As observed earlier, though the proportion of children aged five to 14 in the labour force declined from about 41% in 1998-99 to 34% in 2008, it is still as high as 37% in rural areas and 14% in urban areas. The largest proportion of child labour is in agriculture. Other areas where a large number of children work include brick making, mining, stone breaking, construction, rag-picking and carpet making, all of which also involve hazardous conditions.

The worst form of child labour in Nepal is bonded labour. The two kinds of child bonded labourers include *kawaiyas*, who are born into a family legacy of bonded labour, and child labourers who are from large, landless families. Nepali children are also vulnerable to being trafficked. The government's National Master Plan on Child Labour, 2004-2014 calls for eliminating all forms of child labour by 2014. Providing compulsory education and effectively enforcing regulations against child labour are the remedies suggested in it.

## **5.5 Situation of Labour and Trade Unions**

WITH the reintroduction of democracy in the 1990s and the reorientation towards multiparty democracy in the first decade of 21st century, issues to do with labour have been vibrant on Nepal's agenda. The Trade Union Act of Nepal, 1992 defines a trade union as an enterprise-level organisation registered for the protection and promotion of the occupational rights of workers (GoN 1992a). A study of the Nepal Labour Academy says,

The traditional concept of the trade union is associated with formal industries and workers. Modern industries started in Nepal after the Company Act 1936, when the first industry (Morang Jute Mill) was established. Trade unions were established in the formal sector during the movement against the Rana Regime.<sup>3</sup> In the judicial context, the Factory and Factory Workers Act had worked as the most significant labour law from 1959 to 1992. (Koirala and Sharma 2004: 38)

Trade union movements have struggled to promote better living and working conditions for labourers and their activism has had to do with higher wages, better benefits, shorter working hours and stronger safety precautions in the workplace (Fukuda-Parr and Kumar 2003). Apart from this, trade unions have also had a much broader social and political impact. In many countries, they have been influential in the development of welfare states and people-friendly markets. However, trade unions in South Asia in general and Nepal in particular are highly politicised, with vested political interests using them in matters beyond the welfare of labourers.

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<sup>3</sup> Ranas ruled Nepal from 1846 to 1950. Some hopeful reforms were made during this period. Different Rana prime ministers visited Britain and copied some development initiatives from there. A joint movement by political parties and King Tribhuvan succeeded in toppling the 104-year-long autocratic regime.

Workers in Nepal face hurdles such as a lack of experience, a mismatch between their skills and the demands of the labour markets and inadequate information and advice. Nepali graduates tend to queue up for white-collar jobs while others face business barriers because of a lack of access to resources and credit facilities. They also experience discrimination on the basis of age, sex, ethnicity, race, culture, health and family status. Staying united to win a cause means cultivating a political affiliation. The youth in Nepal is thus underutilised, politicised and abused by vested interests (Upreti 2009).

Policy interventions have both favourable and unfavourable effects on labour movements and trade union activities. In Nepal, the formulation of new laws, the ratification of ILO conventions, the restructuring of the labour administration and the increasing influence of political decisions on issue to do with labour has given trade unions a prominent role in policy matters. This has seen issues such as sectoral minimum wages and a national minimum wage come to the fore, also because the present mechanism for the enforcement of minimum wages is unsatisfactory (GEFONT 2009). The armed conflict and political polarisation among trade unions has created further complications in employer-employee relations.

Article 20 of the Nepal Labour Act, 1992 has the provision for a minimum remuneration fixation committee, giving the government the authority to fix minimum wage, dearness allowances and facilities for workers (GoN 1992b). Apart from this, other issues to do with the benefit of workers have not been aptly addressed so far. So, time and again, labour issues like “exploitative working hours, unhealthy workplaces, occupational diseases, negligence in safety measures, harassment in workplaces, including sexual harassment, nominal paid leave facilities, lack of child care centres and lack of incentives” (GEFONT 2009) become subjects of heated political debate. The recent disputes between owners and workers of Manakamana Cable Car Pvt Ltd<sup>4</sup> and Himal Media<sup>5</sup> were examples of this. On 28 November 2008, *Nepali Times* reported,

Biratnagar Jute Mill has been closed since 24 November. Hulas Steel Company employees are on strike from this week. Asia Distillery shut down this week. Manakamana Cable Car has been closed down for two weeks and is losing Rs. 1 million a day. Even in remote Mugu, the Gamgadh hydro-project has been closed for two months. The list goes on.

A main source of conflict between owners and workers is rewards and punishment, which are often linked to political interests. Article 8 of the Nepal Labour Act lays down a code of conduct for workers as well as the types of punishments for not adhering to it. It also takes into account situations when misconduct is on the part of proprietors or managers (GoN 1992b). The Labour Act, 1992 has sound legal provisions for tripartite consultative mechanisms such as a central labour advisory committee and labour management committees. They can be strong means of dispute resolution if put into practice.

Sen (2000b) argues that governmental response to the suffering of the people often depends on the pressure that is put on it and that this is where the exercise of political rights (voting, criticising, protesting and so on) makes a real difference. This is a part of the “instrumental” role of democracy and political freedoms. So, the healthy participation of trade unions in the concerns of workers and society as a whole has to be most visible in the aftermath of globalisation.

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4 Manakamana Darshan Pvt. Ltd., a cable car operating company in Kurintar, was shut down for more than three weeks citing threats by Maoist-affiliated labourers who wanted an increase in salaries. The management said that conceding the demands made by the trade union affiliated to the CPN (M) were not within the company's capacity.

5 In December 2008, 12 employees of Himal Media, including the editor, the publisher and chief executive officer, were injured in an attack by pro-Maoist workers at the organisation's office in Lalitpur. Before this, agitated labourers vandalised an office vehicle, set fire to copies of *Himal Khabarpatrika* and threatened staff. The trade union close to the CPN (M) also manhandled several journalists.

So far, the influence of MNCs in employment and labour in Nepal is not all that much because there are only a few of them. But with WTO membership and more MNCs coming in, there will be a floodgate of demands that rules, regulations and policies follow global standards. This will have a fallout on benefit sharing and equity. As Ghale puts it, The challenge in front of developing countries, specifically least developed countries (LDCs) like Nepal, is highly determined by the political processes, public private partnership mechanisms and informed bargaining capacity. The globalisation process at the moment is under the high influence of developed countries and multinational companies (MNCs), which are not always conducive for LDCs. (2009: 183)

## 5.6 Effects of Globalisation

### Effects on Organisation of Production

THE global trend of commercialisation has made everything marketable and everyone production-centered. The traditional skills and knowledge of people are under attack from large industries. A study by Upreti and Adhikari (2006) demonstrates that the increased use of factory-made products such as umbrellas, hats and plastic baskets has displaced traditional products such as bamboo hats, baskets and mats made by indigenous communities. Self-employed villagers with native skills are being replaced by industrial technologies, making their subsistence difficult.

Traditional employment systems like Mela-Parma (a labour exchange system to carry out paddy planting) have now become commercialised, even in rural areas. As Nepal does not have a homogenous setting for economic influences, globalisation seems to have had different effects in different areas. One has to seriously think about what its effect will be on communities

that are even now not very aware of the concepts of commerce and profit enhancement. People in such communities do not know anything more than their survival economy based on non-monetary transactions. They do not have to pay for the water they consume from local streams, the food they harvest from nearby forests and the milk and related products they share with other families free of cost. Such communities are very different from those seen in Kathmandu and other cities. What will be the upheaval created in them by the shift in policy towards globalisation when companies begin treating their common resources as commodities?

### Trade Liberalisation, Employment and Underdeveloped Markets

LIBERALISATION of trade minimises state intervention in the income-sharing process. Though the government can try to facilitate equitable development through exercising the options of tax and subsidies, liberalisation may or may not promote employment, depending on where investments are made and where profit is accumulated.

Market institutions and forces are yet to emerge in an effective way in Nepal. With a high rate of poverty and illiteracy, trade liberalisation now seems to be benefiting those who have the ability to corner the benefits. There is a serious problem alongside the increasing number of people in the workforce who are “overeducated” to do certain jobs but at the same time “underqualified” to work for MNCs (ILO 1999: 8). The GEFONT study on liberalisation in Nepal states that the economy performed satisfactorily for a few years following the euphoria brought about by economic liberalisation. Yet, hasty liberalisation and untimely measures resulted in industrial slowdown, low economic growth rate and worsening income distribution (2009).

There is a lack of data on employment and workers that take into account the effects of increasing globalisation and the activities of MNCs.



**BOX 2****III Effects of Liberalisation and Globalisation in Nepal**

- Poverty escalation rather than reduction
- Gap between rich and poor further widened (lowest 20% consumes 8% and highest 20% consumes 45% of the national income; in Kathmandu, the highest 20% consumes 90%)
- Inflationary pressure on prices
- Foreign dominance in decision-making
- Failure of the privatisation programme
- Urban-centered development
- Insufficient investment in the social sector
- Further marginalisation of backward communities, women, children, the elderly and disabled people

Source: GEFONT (2009)

There is need for long-term strategies rather than short-term solutions. Domestic big business houses are mainly associated with MNCs in the guise of joint ventures and they openly support market liberalisation, trade liberalisation and financial liberalisation. A mechanism to cope with them, which also protects the national interest and enhances the livelihoods of people, should be carefully crafted. Since the early 1990s, Nepal has been promoting privatisation as a part of the structural adjustment programme (SAP). Similar programmes produced tensions in developing economies such as Rwanda, Sierra Leone and Liberia (Weeks and Cramer 1999, cited in Upreti et al, 2009). Nepal is facing a similar situation.

The United Nations has taken some initiatives to mitigate the unwanted effects of multinational activities. The UN Global Compact

is an initiative that asks companies to embrace and support, within their sphere of influence, a set of 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption. It is the largest global corporate citizenship network and involves UN agencies, companies, governments, organisations of employers and workers, non-governmental organisations (NGOs) and academic institutions (Öjemark 2009: 34)

Industrial relations in Nepal are very far away from what they are supposed to be in modern economies. Even if there is a possibility that the feudal mentality in the business sector will gradually decay, the country's big business houses have evolved from family businesses and it is unrealistic to expect immediate changes. The sickness in domestic industries and labour welfare are hotly discussed subjects these days. Though the Nepal Labour Act, 1992 (GoN 1992b) provides for the establishment of a welfare fund, it remains to be seen how it will be implemented.

### **Internationalisation of Labour**

INTERNATIONALISATION of labour not only means the easy inflow and outflow of labourers, but also the internationalisation of domestic laws. This means that domestic policies, laws and regulations should correspond with global ones. The basic characteristics of globalisation such as improved technologies in transportation and telecommunications, the movement of people and capital, the diffusion of knowledge, and the presence of MNCs have to be duly accepted. Internationalisation of labour expands the scope of work but migrant labourers from Nepal to the Gulf countries have faced numerous practical and legal difficulties, including low pay and unfair treatment.

Nepal's industrial and service sectors are still in a rudimentary state. And competition from cheap goods and commodities produced by technologically advanced neighbouring countries like China and India

means that manufacturing industries have seen little growth in recent years (Gurung 2004). The liberalisation of trade opens up avenues for competition not only in the international market but also in internal markets. This will give rise to the challenge of minimising its adverse effects on the working class by implementing measures to fix working hours, establish national and sectoral minimum wages, prevent forced labour and ensure non-discrimination (GEFONT 2009). A hurdle that prevails in Nepal is sour relations between management and labour. If collaborative relations are promoted between them, it will benefit both. This could be developed by creating labour-management councils.

### BOX 3

#### WORKFORCE IN THE INFORMAL ECONOMY

- Farm and farm-related: Self-employed, very small landholders, landless farm workers, tillers, cattle herders, ploughmen, daily wage workers, exchange labour under the parma tradition and non-registered economic activities to do with livestock, poultry, kitchen-gardening, dairy, fisheries, sericulture and apiculture.
- Trading: Street vendors, hawkers of various products and very small traders.
- Craft-workers: Working with clay, metal, bamboo, wood and others.
- Construction: Daily-wage building workers, wood workers, road workers, quarry workers and brick-kiln workers.
- Transport: Porters, cleaners, loaders, rickshaw pullers, auto mechanics and helpers.
- Micro enterprises: Workers in family-based enterprises engaged in various types of production and services.
- Other services: Barbers, cobblers, tailors, blacksmiths and traditional entertainers.

Source: Koirala and Sharma 2004:3

However, the performance of such councils depends on other factors as well and periodic evaluations will be necessary (Kuruvilla et al. 2000: 3).

### Informal and Indigenous Industries

THE informal economy denotes economic activities that are often under-counted in the gross national income (GNI) or GDP. According to Koirala and Sharma (2004), the informal economy of Nepal has three dimensions— (a) informal establishments or micro enterprises; (b) informal activities to do with both production and services; and (c) workers in informal employment. The term “informal” is defined in ways ranging from the simple to complex. It is also sometimes used as a synonym for “illegal” because the accounts of many informal enterprises are not maintained transparently. However, the informal economy should not be confused with the criminal economy, which deals in illegal goods and services (Koirala and Sharma 2004).

As mentioned earlier, in Nepal, the process from formal to informal has been faster since the advent of globalisation. So, the informal economy and workers in it deserve to be paid due attention. The informal economy does not only comprise contract labourers in towns and cities, but also indigenous and local craftsmen and women in rural areas.

## 5.7 Outward Orientation of Employment: Migration and Remittances

### Migration

OF ALL the countries in South Asia, Nepal has the highest incidence of migration. NLFS-I and II have captured the phenomenon reasonably well by taking migrant persons to be “absentees” from their households.

As already mentioned, according to NLFS-II, nearly 44% of households have at least one absentee, either living abroad or in the country. These absentees constituted 15% of the population of Nepal in 2008.

Rural to urban migration is quite common because urban areas provide more opportunities (pull factor). The 10 years of armed conflict and violence in the Terai region also pushed migration (push factor). People migrated from rural areas to cities, urban areas and other countries because of these push and pull factors. The statistics of the Department of Labour and Employment Promotion show that 232,628 Nepalis obtained official permission to go abroad for employment in 2007 compared to 178,072 in 2008 and 55,025 in 2000. Gurung (2008) argues that political upheavals have been a major cause behind youths seeking foreign employment. It is pointed out that the hope of economic revival was dashed when political instability continued even after the signing of the comprehensive peace accord in 2006. In addition, construction booms in East Asia and the Arabian Gulf have led to the demand for more unskilled and semi-skilled workers. The expansion of telecommunication networks, the internet and mobile phones have meant that information regarding foreign employment is more readily available.

The Gulf countries hosted 166,776 Nepali migrant workers in 2007 while East Asian countries had 65,076 (NIDS 2008). In the Gulf region, the largest concentration of Nepali workers was in Qatar—83,699 in 2007 (NIDS 2008). And this is the country from which Nepal receives the highest percentage of remittances, 21.3% (CBS 2009).

## Remittances

REMITTANCES are increasingly becoming an important source of income in Nepal. About 30% of all households receive remittances from abroad or from within the country. The proportion of rural households receiving remittances is higher (31%) than urban ones

(25%) but the average amounts received by the latter are higher.

Though various figures are available on how much money Nepali workers send home, the real amount is elusive. Remittances are one of the largest sources of external financing to developing countries and also the

<b>TABLE 5.9 Summary Data of Remittances in Nepal, 2008</b>			
	<b>Total</b>	<b>From abroad</b>	<b>From within Nepal</b>
Percentage of households receiving remittances	30	23	
Average remittance in last 12 months			
by receiving households (Rs)	65,755	80,462	28,976
overall households (Rs)	19,721	16,355 (83%)	3,366 (17%)
Per capita remittance amount for all Nepal (nominal Rs)	4,042	3,352	
Remittances received for all Nepal (Rs billion)*	9,516	78.92	
<b>Impact of remittances on GDP (Rs billion)</b>			
GDP by expenditure approach (2007-08)	815,66		
GDP per capita with remittances from abroad	736,74	(90.3% of total GDP)	
<b>Impact of remittances on PCI (Rs)</b>			
GDP per capita	36,644.20		
GDP per capita with remittances from abroad	31,292.10	(90% of total PCI)	
Remittances per capita from abroad	3,352	(10% of total PCI)	

*Note:* \*Calculated by multiplying per capita remittances by population (23,544,000).  
*Source:* CBS (2009), Labour Force Survey 2008, Tables 4.4, 17.0 as in Campbell.

least volatile source of foreign exchange (NIDS 2008). The Nepal Rastra Bank (NRB) compiles data on remittances received through different commercial banks. In 2007, US\$ 1.51 billion was received as remittances through formal banking channels (NIDS 2008). The contribution of remittances to GDP was 11.5% in 2000-01 and it surged to 16.8% in 2005-06, surpassing the contribution of exports in foreign exchange earnings in the last five years. The share of remittances in total foreign exchange earnings increased from 36.6% in 2003-04 to 46.7% in 2005-06, while the share of exports dropped to 29.4% in 2005-06 from 34.5% in 2003-04. But these figures do not include remittances received from India.

Since the India-Nepal border is open, the movement of people as well as money and commodities between the two countries is not monitored. Besides, most transfers from India are carried out on an informal basis. Seddon, Gurung and Adhikari (2001) estimated the number of Nepali workers in India to be between 500,000 and 100,000 and an NRB survey put annual remittances from India at Rs. 1,429.24 crore. However, this is far less than what some other organisations had claimed.

An important finding of the NRB survey was that approximately 59% of the Nepalis now working in India have been there for more than 10 years. This shows that they were there even before the conflict escalated in Nepal. So, there seems to be little correlation between the conflict in Nepal and the migration of Nepalis to Indian cities in search of better livelihoods.

## Labour Supply

FOR around 200 years, Nepali men have been leaving their homes to seek employment abroad. Even before their recruitment to the British army in India, poor Nepalis fled excessive taxation, corvee labour and exploitation by state agencies (Gurung 2004). The inflow and outflow of remittances and people should not be discounted while discussing labour

in the context of developing economies. In the economy, feudal norms and traditional values can still be seen in the business and entrepreneurial sector. They have serious implications for the rights and privileges of the working class as well as for the opening up of employment opportunities.

The UN projects “a 40% rise in the world’s working-age population by 2050” and it says, “Trade openness will continue to grow, especially in services. Indeed, tentative projections suggest that the effective global labour supply could more than double again by 2050” (Jaumotte and Tytell 2007: 26). On the surface, it seems that employment opportunities are set to multiply. In reality, this is not so because the operations of MNCs are capital intensive. If a comparison is made between MNCs and Nepali industries, MNCs create one employment per Rs. 500,000 while industries in Nepal create one employment per Rs. 90,000. Further, cottage and small-scale industries create one employment per Rs. 10,000 (GEFONT 2009).

The Nepal Labour Act, 1992 prevents the heavy inflow of migrant workers from outside the country while it envisages enhancing the capacity of those in the country. But being a WTO member, Nepal may have to revise such provisions, making them compatible with other WTO economies. So the existing situation could be altered in the near future. It is important to formulate plans and policies to meet the challenge of further globalisation of the labour market, both in the skilled and unskilled sectors.

Nepal’s Foreign Employment Act, 2007 has provisions for bilateral contracts with other countries that will allow Nepali workers to go abroad for work (GoN 2007a). But thousands of Nepali workers now fall into traps set by unscrupulous agents and plain criminals while seeking employment abroad. The 12 Nepali hostages slain by an extremist group in Iraq in 2004 was a tragedy on one extreme of the foreign employment spectrum.<sup>6</sup> Nepal’s

<sup>6</sup> Twelve Nepali workers were murdered by an insurgent group linked to the Al Qaeda on 31 Aug 2004. News of the killings was posted on a website run by the Islamist Army of Ansar Al Sunna, an Iraqi insurgent group.



**BOX 4****LABOUR-RELATED ACTS AND RULES**

- Labour Act, 1992
- Trade Union Act, 1992
- Foreign Employment Act, 1986
- Children's Act, 1992
- Local Self-Governance Act, 1999
- Defection Act, 1997
- Labour Court Rules, 1996
- Labour Rules, 1993
- Bonus Act, 1974
- Bonus Rules, 1982
- Essential Services Act, 1957

Source: Compiled from various sources

foreign employment regulations (GoN 2007b) has provisions to make the activities of employment recruiting agencies and workers seeking jobs overseas more systematic and it would do well to implement them effectively.

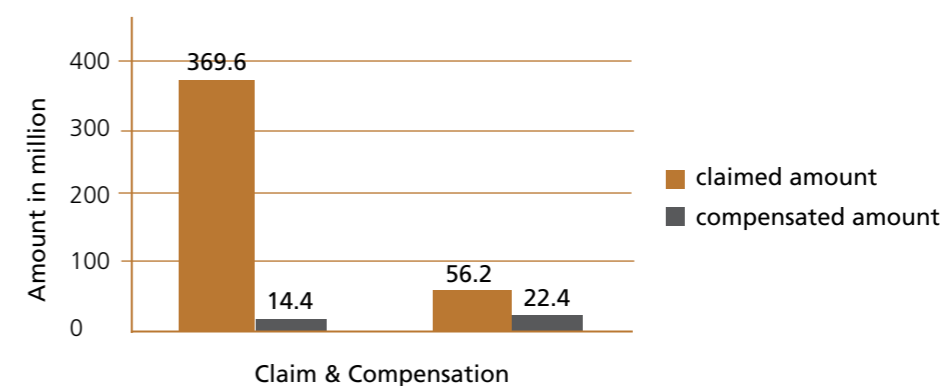
Labour relations are very difficult to analyse in informal segments of the economy. From what is known, the general scenario in the informal sector is that it is highly exploitative of labour, both in terms of working hours and wages. Employment security is usually non-existent (Koirala and Sharma 2004: 3). So, given the trend of globalisation, formalisation of labour becomes important. If not, further informalisation could create very serious difficulties in the lives of the working masses, which will have repercussions on the national economy.

There are no reliable figures on either the number of people seeking official permission for employment abroad or the people actually leaving the

country for foreign jobs. This may be partly because many people seek foreign jobs through friends or relatives, preferring to avoid bureaucratic delays. An interesting case is that of Nepali women. The Foreign Employment Act, 2007 enjoins the use of the national airport to curb illegal departures. But the data reveals there were only 316 females among the 232,682 migrant workers who left for foreign shores in 2007. This was in contrast to 2006 when there were 627 females among the 178,072 Nepali migrant workers using the national airport (NIDS 2008). An explanation could be that Nepali women use Indian airports (no visa is needed to go to India from Nepal) to go abroad illegally, avoiding administrative hurdles. But such practices deprive workers of legal status in the host countries and their families may face problems in receiving compensation in the case of accident or even death. This shows that globalisation has had an impact on Nepal in more than one way.

Casualties among migrant Nepali workers are another issue. The number of deaths among migrant Nepali workers increased from 425 in 2005 to 550 in 2006 and to 750 in 2007 (NIDS 2008). Higher numbers of deaths were reported from the countries hosting larger numbers of Nepali workers. When the working environment changes to a foreign one, Nepali workers face different problems in adjusting to it. As a result, some suffer from health problems, accidents in workplaces and traffic accidents

**Claim & Compensation in Fraudulent Cases, 2007**



Source: Adapted from NIDS (2008)

due to poor knowledge of local traffic rules and regulations. There were 419 personal complaints and 278 organisational ones on the sufferings of migrants in 2007. The personal claims claimed a total of Rs. 369.6 million in compensation and the organisational ones Rs. 56.2 million. The compensation paid for the former was Rs. 14.4 million and Rs. 22.4 million for the latter (NIDS 2008). The figure below illustrates this.

Even though reports on work conditions abroad are not very encouraging, the demand for passports continues unabated.

## Global Relations

NEPAL has signed various protocols, memorandums of understanding (MoUs), and agreements with different countries and it was the first signatory of ILO Convention No. 169 in South Asia. Nepal has an 11-point MoU with the United Arab Emirates (UAE) that spells out the requirements for job seekers and recruiting agencies. This has a provision for reviewing the status of Nepali workers every six months. A protocol with Qatar has a 17-point labour agreement on remuneration and facilities for Nepali workers there. Three agreements with South Korea deal with hiring Nepalis to work there under the employment permit system (EPS),<sup>7</sup> technical guidelines for pre-departure processes and the recruitment of aspiring Nepali migrant workers. An agreement with Malaysia is reportedly under way (NIDS 2008) on legal protection for migrant Nepali workers.

Kuwait has banned recruiting Nepali workers citing the absence of a Nepali diplomatic mission in the country to deal with labour problems. The same was the case with Israel but it is now a lucrative destination for Nepali female workers because of better safety and pay. Japan has begun to accept industrial trainees from Nepal in coordination with the Federation of Nepalese

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<sup>7</sup> Details on Nepal-Korea agreements can be found at <http://www.epsnepal.gov.np/>.

Chamber of Commerce and Industry (FNCCI) and the Nepal government. Nepal has prohibited its citizens from working in conflict-ridden Iraq but there are 10,000 migrant Nepali workers in Afghanistan (NIDS 2008). New Australian laws that came into force in September 2007 require Nepali migrant workers to have a higher English language standard than before. Nepalis also work in the hospitality industry in Tibet and Hong Kong.

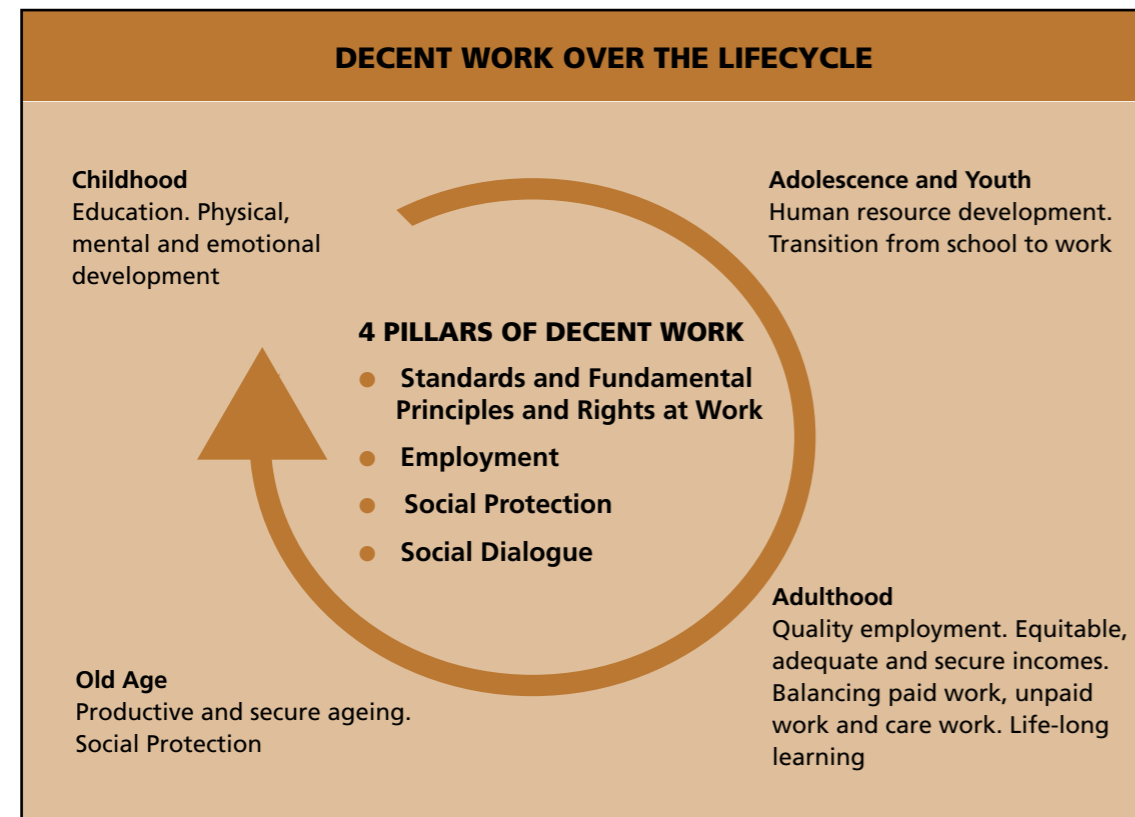
## Human Capital Formation

THERE is now the urgent need that Nepal move towards upgrading the skills of its workforce. The labour force is growing at a rate of nearly 2.4% per annum and the current output growth cannot create job opportunities for more than half the additional workers (GEFONT 2009). The problem of youth unemployment, which is related to political instability and civil unrest, also has to be tackled. Hence, the focus should be creating employment-intensive growth. Well-designed apprenticeship programmes and the promotion of micro-enterprises and self-help groups can also be useful in creating job opportunities for the youth (ILO 1999: ii).

## Foreign Capital and Economic Development

GOVERNMENTS in developing countries tend to protect workers in enterprises with foreign investment and reforms in employment regulations occur faster and in a more far-reaching fashion in foreign-invested sectors than in state sectors (Chiu and Frenkel 2000). Prajapati (2009) sees globalisation and foreign investment leading to an increasing use of electronic media, which will have an effect on democratic values and practice, public discussion and political consensus. Such results seem to favour foreign investment for economic development but the reality in developing economies is that they have underdeveloped private sectors and inefficient

public sectors. So what is required is co-ordination between the market and government instead of the situation being the market versus the government.



Source: ILO 2006, *Realising Decent Work in Asia: 14th Asian Regional Meeting, Busan, Republic of Korea*; ILO (2008:7)

The economically globalising world, with all its opportunities as well as problems, calls for a globalised understanding of the priority of decent work and of its manifold demands on economic, political and social arrangements (Sen 2000a). Koirala and Sharma (2004) hold that the creation of decent jobs and upgrading of conditions and opportunities for those in the informal economy must be the key objective of economies like Nepal. Alongside this, there is the urgent need for skill and technological upgradation.

### Employment Fund

THERE are international agencies aiding skill formation in Nepal by providing training in electrical wiring, brick moulding, agarbathi rolling, plumbing, tailoring, scaffolding, embroidery, hair cutting and beauty treatments. An Employment Fund was established in 2008 with the assistance of the Swiss Development Corporation (SDC) and DFID (UK). It aims to provide training that will fetch income from employment in Nepal, India and other overseas countries. In 2009, 14,468 people successfully completed training against a target of 13,300 participants (Helvetas 2010).

## 5.8 Employment and Labour Policies in the Globalisation Era

POLICIES are the most needed tools to devise an economy that works according to the needs of the state. Yet, it is debatable whether all policies have a positive or negative correlation with economic development. Some of the major plans and policies to do with employment and labour relations in Nepal are discussed in the following paragraphs.

### Interim Constitution

THE interim constitution recognises employment as a fundamental right of Nepali citizens (GoN 2007c). But it is silent on how this will be translated into practice. In their manifestoes for the Constituent Assembly election in 2008, the Nepali Congress and the Communist Party of Nepal (United Marxist-Leninist) mentioned promoting foreign employment to help Nepalis find jobs in the international market whereas the Communist Party of Nepal mentioned discouraging foreign employment by creating jobs within the country (see NC 2007; CPN-UML 2007; CPN-Maoist 2007).

## Tenth Five-Year Plan

THE Tenth Five-Year Plan (2002-2007) was remarkable from the point of view of labour and employment. Its achievements have been listed by Niroula (2009: 237) as follows.

- Gaining membership of the International Organisation for Migration (IOM);
- Bringing the New Labour and Employment Policy into effect;
- Providing training for professional and skill development;
- Gathering and disseminating information from 10 different labour offices; and
- Implementing interim operational guidelines in the department of labour and interim operational guidelines on foreign employment.

In a section under labour management and employment promotion, it also highlighted the need to increase the employability of human resources, especially that of minorities and disadvantaged people.

## Programmes and Policies of 2008

THE policies and programmes of the government of Nepal for 2008-09 were based on the concept of just economic growth so as to ensure the fruits of development would reach the poor, the neglected and the lower classes. Programmes for eliminating poverty, increasing employment opportunities and minimising inequality were to be undertaken. Infrastructure was to be developed in backward regions with a focus on creating employment opportunities. Special attention was to be paid to promoting skill development and employment.

Emphasis was also placed on micro credit and small entrepreneurship programmes to strengthen the domestic employment situation.

These programmes and policies announced by President Ram Baran Yadav were also aimed at reducing the number of youth seeking employment abroad. However, the government was not able to attract enough investments in the industrial sector because the processes of globalisation and liberalisation were still being hotly debated. It aimed to adopt measures to make foreign employment dignified, less costly and safe until opportunities for full employment was available in the country, while expressing concern whether enough jobs could be created to absorb the unemployed youth.

## Budget Speech 2009-10

THE budget speech for 2009-10 emphasised job security and an investment-friendly labour policy. A self-employment scheme was introduced to encourage unemployed youths to take part in commercial agriculture, agro-industries and the service sector. It had a provision to provide bank loans up to Rs. 200,000 without collateral. Free vocational and technical training courses were being run at the time for youths and the speech allocated Rs. 355 million to this.

A campaign entitled “Learn Skill and Be Employed” to increase employment opportunities and the productivity of labourers was announced. Besides, the government aimed to provide vocational and skill-oriented training to 36,000 people based on the demands of the local, national and international labour markets. This was to enhance their professional skills and capabilities. There was also a plan to establish and operate industrial polytechnics in collaboration with the private sector. A primary objective of the budget was creating employment by encouraging investments by the cooperative, private and public sectors to further the aim of inclusive development. Increasing investments for employment-oriented inclusive development was the major priority in the labour management sector.



The budget was very popular because of its optimistic slogans. It aimed to encourage cooperative farming to increase agricultural productivity with the slogan “Cooperatives in Villages and Cities, Employment at Every Household.” The opportunity for “Green Employment” was to be promoted in rural areas by implementing a forest entrepreneurship programme based on community-owned forest resources. Along with these, the existing employment information centres (EICs) were to be strengthened. This was to be done to collect information on the unemployed, recommend people for employment on the basis of the skills acquired by them, to interact with employers, and to be able to provide information electronically.

### **Foreign Employment Act**

THE Foreign Employment Act, 2007 was designed to promote foreign employment as a dignified profession and to protect and promote the rights and interests of workers migrating abroad. It was also meant to ensure that foreign employment recruiting agencies could function smoothly (GoN 2007a). But a controversial provision in it mandated the involvement of the government in foreign employment recruitment to provide “systematic, competitive, and transparent” services to employment seekers. Analysts pointed out that this would encourage political interference and increase corruption in the bureaucracy. It was also criticised for going against the idea of liberalisation (NIDS 2008).

A law suit was filed against the act on the grounds that it was “discriminatory” against women because it stipulated that the prospective women migrant workers must seek permission to work overseas from the local authority concerned and the government. The positive features of the act included a provision making it obligatory for migrant workers to use the national airport, the fixing of a minimum wage rate for Nepali workers in foreign employment, the establishment of a Foreign Employment Welfare

Fund for skill development and humanitarian assistance, and provisions to monitor the working of employment recruiting agencies. However, the government did not have any share in the Welfare Fund and there was no representation for migrant workers on its board. There was also no effective provision for punitive action against those who violated the act and it did not address the problem of how court decisions would be implemented (NIDS 2008). The act has provisions to set up care centres for children and provide financial assistance to injured migrant workers. But it remains to be seen how these provisions will be implemented.

The United Nations Development Assistance Framework (UNDAF) focuses on interventions to enhance the capacity of policymakers and stakeholders to develop, implement, and monitor policies and programmes for the protection of migrant workers, refugees and home-based workers. In the wake of growing informalisation, labour reforms in Nepal have been primarily targeted at sectors such as farming, daily wage workers, construction and roadside trade.

### **Interim Plan 2007-2010**

INDUSTRIAL peace, better labour administration, and dialogue, coordination and collaboration to promote professional security and health were listed among the seven strategies of the interim plan 2007-2010. In addition, it tried to address the issue of educated and unemployed youths and to create an investment-friendly environment. Micro-financing for entrepreneurship development and collaboration with trade unions were among the highlighted policies. Simplifying and strengthening the remittance system was on the cards in addition to identifying new destinations for foreign employment.

All these plans and policies are likely to be affected when more MNCs begin operating in Nepal. The Labour Regulations of 1994 has a provision permitting the employment of non-Nepali

citizens for a maximum of two years at a time (GoN 1994). But it is likely that such provisions will have to be further loosened.

### **Immediate Priorities**

AN IMMEDIATE priority has to be promoting and designing micro-insurance schemes and community-based financing schemes for vulnerable groups of workers in the informal economy, according to Sharma (2004). The country's registration system for workers is not very efficient and labour courts have yet to be established to settle disputes according to the various legal provisions (see GoN 1992a; GoN 1992b; GoN 2007). Efforts at creating labour markets and improving employment relations have to be accompanied by an emphasis on skill formation in general and vocational education in particular (Chiu and Frenkel 2000).

Nepal has to urgently focus on producing skilled personnel who will be able to compete in the international labour market. As it is, there is no effective protection for Nepalis employed overseas. In addition, Nepali women migrant workers are trafficked to India and countries in the Gulf, a practice that has to cease. Alongside increasing informalisation, there is a lack of up-to-date legal and institutional provisions and practices to deal with issues concerning labour and employment. Article 61 and 62 of the Nepal Labour Act, 1992 has provisions to set up a Central Labour Advisory Board and Labour Relation Committee (GoN 1992b). If implemented the right way, these bodies could greatly help in settling issues affecting both employers and employees. But given the ideological bent of most workers and labour unions in Nepal, the government has to ensure that there is no backlash when new policies are announced. To do this, it has thoroughly study the situation on the ground before deciding what its course of action will be.

## **5.9 Concluding Remarks**

THERE should be no confusion or conflict over short-term needs and long-term goals. The need to acquire competencies like work ethics, confidence and communication skills, which affect employability, are to be taken seriously. The main challenge is deciding how to go about being capital friendly or market friendly. Future strategies of employment and their orientation should be based on this. Disseminating positive experiences, considering the good of all parties as well as the economic well-being of the nation, implementing new labour market policies and reforming the education system are essential aspects in globalisation. Strengthening the human resource capability of the country and devising appropriate mechanisms for partnership and coordination will help in developing an informed negotiating capacity, all of which will promote overall development.

Strengthening institutions in the country is equally important. Developing a data and knowledge bank with the expertise in ministries, a consultation mechanism involving academics, stakeholders and experts, and broad alliances at the international level are key requirements. A willingness to enforce the existing legal provisions, together with initiating participatory processes in developing new laws and policies, is also a must. Some major recommendations include instituting appropriate complaint-handling procedures, ensuring the accountability of employers, providing compensation to aggrieved workers, amending discriminatory laws, enacting new laws for the informal sector and taking serious note of the misconduct of managers and employers (Malla 2004).

The global experience shows that steps to reduce tax have helped workers take home a larger proportion of their gross pay and ensure that unemployment benefits do not deter them from seeking employment. These have also helped a number of countries adjust to the pressures

of globalisation. Nepal's labour market is characterised by a growth in labour supply much more than demand, causing unemployment and underemployment. So, it is necessary to prepare coherent and systematic interventions to address employment vulnerabilities and benefit workers.

The policies and programmes of the government and the private sector have to be pressured to become people-oriented and worker-friendly. Immediate attention should also be paid to the informalisation of workers, on improving the functioning of labour markets, on ensuring livelihoods and basic security, on mitigating the effects of the recently ended conflict and on preserving the ethnic, geographic and skill-based diversity of the people.

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# Labour and Employment Challenges of South Asia

D. NARASIMHA REDDY AND J. JEYARANJAN

## 6.1 Shift to Reforms and Globalisation

SOUTH Asia's incorporation into the present phase of globalisation was no chance occurrence. It was a systematic process with all the detailed policy shifts that would fit into a textbook on the Washington Consensus. There have been marginal differences in the timing and tenor of the process across countries in the region, largely because of local political conditions and economic performance. Inspired by the International Monetary Fund (IMF), Bangladesh shifted towards an industrial policy incorporating privatisation and liberalisation and increasing the share of participation of foreign direct investment (FDI) by the mid-1980s. Close on its heels followed trade liberalisation with a drastic cut in tariffs, coinciding with the birth of the World Trade Organisation (WTO) in the late 1990s. Tax incentives and export promotions zones (EPZs) set up on concessional terms were in place by 1999-2000. Exchange rates were also flexible by the time.

Pakistan saw an IMF-inspired structural adjustment programme (SAP) unfolding in 1988. Trade liberalisation, privatisation, and measures to instill fiscal discipline and downsize the government were in place by the early 1990s. Nepal, with its relatively long history of openness and agrarian economy, did not experience external pressures to make specific policy shifts, although by the mid-1990s, civil society was engaged in a debate on the consequences of the WTO on the country's agricultural sector. In India, there were policy changes from the early 1980s onwards to liberalise trade and open up state industrial monopolies to private investment, but the real break with a comprehensively regulated economy came in 1991, the year that marked a clear shift towards drastic liberalisation and privatisation of the economy.

## 6.2 Income Levels and Growth Performance

INDIA	2,993
BANGLADESH	1,286
NEPAL	1,049
PAKISTAN	2,369

Source: World Bank (2011)

Though all these four South Asian countries are low-income economies, there are wide differences in per capita income among them. What is important to note is that when it comes to employment, there does not appear to be any correlation between it and the level of per capita income. A case in point is Bangladesh (more about which later), which is the third lowest in terms of per capita income. But in terms of labour and employment, its situation appears to be better than that of the other countries.

Following economic reforms, Bangladesh's annual growth rate accelerated to 6% during the decade between 1995-96 and 2005-06. India's growth, which improved substantially to about 5.5% per annum even during the 1980s, the decade preceding reforms, picked up pace in the mid-1990s. In spite of reforms, Pakistan suffered a low growth rate in the 1990s. It improved for about five years between 2001 and 2005, but decelerated soon after. One of the emphatic conclusions that emerge from the Pakistan study in this volume is that functioning of labour market is in a rudimentary stage. Wage and employment conditions are dominated by oligarchies rather than market forces or regulatory systems. Nepal, which went through political turmoil, experienced poor growth. It is India's growth in the post-reform period that has become a sustained success story. Barring the early 1990s, the post-reform period has seen much higher growth than the decades before it.

### Global Crisis and South Asia

Though several challenges persist on the labour and employment front, South Asia continues to present a brave face on the growth front. The economies of South Asia largely held up well during the global financial crisis and the region resumed rapid economic growth in 2010. Though affected to some degree, they largely held up because they were less reliant on exports than the highly export-dependent regions of East and South-East Asia. Economic growth in the region as a whole declined from 9.1% in 2007 to 5.9% in 2008 and to 5.5% in 2009 (ILO 2011). Overall, the region's economy grew more than 8%, during five years (2006-2010), led by India.<sup>1</sup> In Pakistan, however, 4.7 million workers were directly affected by severe floods and political instability, which together caused a decline in the growth rate to 4.8% in 2010 and 2.6% in 2011. In Nepal,

<sup>1</sup> India accounts for 81% of South Asia's gross domestic product (GDP) and around 74% of the region's labour force.

growth was estimated at 3% in 2010 and 3.5% in 2011, mainly due to reduced remittances and foreign trade, both stemming from the global crisis and domestic political factors. Interestingly, South Asia and East Asia are the only regions that experienced a substantial increase in labour productivity during the recent crisis and in the years that have followed.

### 6.3 Challenges of Labour and Employment

IN SPITE of fairly high levels of economic growth in South Asia, as the analyses in the earlier chapters show, a number of challenges have surfaced in the labour and employment situation in these countries, which need to be addressed. Based on the studies here, we draw attention to the issues common to the countries in the region.

TABLE 6.2 Employment Structure across South Asia (%)			
Country	Agriculture	Industry	Services
India (2008)	53 (18)	20 (29)	26 (54)
Bangladesh (2005)	47 (19)	15 (29)	38 (53)
Nepal (2008)	73 (34)	11 (17)	16 (50)
Pakistan (2009)	43 (20)	21 (27)	36 (53)

Note: Figures in brackets represent percentage share in GDP

Source: World Bank 2011

The employment structure in both Bangladesh and Pakistan has witnessed a substantial shift away from agriculture to non-agricultural activities, especially the service sector. Interestingly, India, Bangladesh and Pakistan have a more or less similar gross domestic product (GDP) structure, but India's employment structure differs. Though the quality of employment in the service sector is not clear, it is a positive trend in the case of India and Nepal, where most of the employment is still in the agriculture sector. The situation in Nepal is precarious with industrial and service sector activities employing hardly one-fourth of workforce though their share in the national income is almost two-thirds.

In all these countries, employment growth has not kept pace with economic growth, except in Bangladesh where employment in the manufacturing sector increased at an annual rate of 4% between 1995-96 and 2005-06. Service sector employment also grew faster after 2001. But the increase in employment appears to be entirely of the informal kind. Structurally, agriculture still accounts for almost 50% of the total employment in Bangladesh. Unlike India and Pakistan, female work participation in Bangladesh and Nepal has been fairly high. During the reform phase, however, there have been interesting inter-sectoral shifts in the share of female labour. In Bangladesh, between 2000 and 2006, the share of female employment in agriculture increased from 46% to 68%, while its share in community or personal services declined from 21% to 9% and in manufacturing from 18% to 12%. These trends suggest that though the female work participation is high in Bangladesh, it is increasingly of the informal type. Leading export industries such as readymade garments (RMG) and leather products were the major gainers in employment growth in manufacturing in Bangladesh but there has been a decline in production and employment in these sectors with the global recession.

The post-reform period has seen a consistent increase in real wages in India and Bangladesh. While Nepal did not experience

much of a change in real wages, Pakistan witnessed a rise in real wages between 2001 and 2005 but did not sustain it in the following years.

### Unemployment, Crowding in Primary Sector and Low Productivity

Large parts of the South Asian economies suffer from extensive under-utilisation of labour. There is pervasive underemployment in some of these countries as shown in Table 6.3. A large majority of the labour force is employed in agriculture, where low productivity has led to unacceptably high rates of poverty. Though the available data are a bit dated, the overall productivity levels are low, but productivity in agriculture is even lower (Table 6.4). Within South Asia, productivity levels were relatively high across all sectors in Pakistan, while India ranked second except in industry, a sector in which Bangladesh recorded higher productivity than India. But one redeeming feature is that between 1991 and 2011, the Asian region as a whole has seen a substantial increase in labour productivity. This was largely driven by productivity growth in East Asia, where output per worker stood at 20% of the level in developed economies in 2011, against only 6% in 2011 (ILO 2012). In the case of South Asia it increased

<b>TABLE 6.3</b>		<b>Time-Based Underemployment*</b>
<b>Country</b>	<b>As a Share of Labour Force (%)</b>	
BANGLADESH	35.4	
NEPAL	27.4	
PAKISTAN	21.9	

**Note:** \* Such estimates not available for India

**Source:** ADB (2005)

Country	Agriculture	Industry	Services
India (1999)	432	1,602	2,039
Bangladesh (2000)	361	2,167	1,843
Pakistan (1998)	1,001	2,322	2,826
Nepal (2000)	270	1,061	1,292

Source: ADB (2005)

from 6% of the level in developed economies in 1991 to 11% in 2011. However, South Asia lags much behind East Asia and other regions. An average worker in South Asia produces only 54% of what an average worker in East Asia does and less than one-third of an average worker's output in Latin America and the Caribbean. This has much to do with the large concentration of workers (53.5%) in agriculture (ILO 2011).

### Transition and Informalisation

While a transition from agriculture to industry and services holds the key to improving the quality of employment and labour, non-agricultural work in South Asia presents some alarming features. A very large proportion of non-agricultural workers continue to be employed in the informal sector. Recent trends reveal either stagnation in formal employment or even an increase in the share of workers engaged in the informal sector (ADB 2005). The earlier analyses amply bring out the growing share of informal employment in all the South Asian countries, which stands at more than 90% now.

### Vulnerable Employment

“Vulnerable employment” is defined as the sum of own-account workers and unpaid family workers (ILO 2010). Such an indicator is supposed to provide valuable insights into the overall quality of employment. A high share of workers in vulnerable employment indicates widespread informal work arrangements, whereby workers typically lack adequate social protection and social dialogue mechanisms. Vulnerable employment is also often characterised by low pay and difficult working conditions in which workers' fundamental rights may be undermined. South Asia had the highest share of vulnerable employment at 78.5% of total employment in 2009 and it decreased marginally to 77.7% in 2011 (ILO 2012). But the problem is that a substantial part of the increase in employment continues to be the vulnerable type. Since 2007, the highest increase in vulnerable workers, 8.5 million, was also recorded in South Asia (ILO 2011). Agriculture is the main locale of vulnerable employment and in South Asia 51% of vulnerable employment is in agriculture.

Country	Youth Dependency Ratio		Old Age Dependency Ratio		Total Dependency Ratio	
	1980	2010	1980	2010	1980	2010
Bangladesh	88	49	7	7	95	56
India	69	47	6	8	75	55
Nepal	78	61	6	7	84	68
Pakistan	87	59	7	7	94	66

Source: CBS (2007:42), Table 1.10



## Economic Dependency

The process of globalisation has ushered in pervasive privatisation, even in the education and health sectors, and this is likely add to the privations of low and middle-income households in South Asia. While the demographic characteristics of the region's countries show the potential for demographic dividends in the future, realising this depends on the education and skill levels imparted to the youth. The available data on dependency ratios for the four of the South Asian countries for the period 1980-2010 show declining but still very high levels of overall dependency (Table 6.5). Bangladesh and India witnessed a substantial decline in youth dependency but overall dependency is still high in India and Nepal. In Bangladesh, it has declined substantially, but is still at a high level. With a low proportion of old people and the increasing tendency towards privatisation in health and education, high youth dependency and the dependency of the elderly will create a very heavy social and economic burden for the vast majority of the working population. Unless quality education is ensured as a public good, the realisation of the demographic dividend will be seriously threatened.

## Working Poor

There is high incidence of “working poverty” in most of the countries in South Asia (Table 6.6). The region accounts for only 21% of global employment but for nearly 45% of the world's working poor, surviving at an extreme of US\$ 1.25 a day (ILO 2011). The range of 57% in Pakistan to 80% in Bangladesh in the US\$ 2 level shows the real vulnerability of a vast majority of workers. With hardly any employment security or social security, they are in a state of transient poverty. Informal and vulnerable employment are clear indicators of the pervasive insecurity of workers in South Asia.

TABLE 6.6		Working Poverty Rates at US\$ 1.25 and US\$ 2 Levels in S. Asian Countries	
Country	Year	US\$ 1.25 Working Poor	US\$ 2 Working Poor
		% of Total Employment	
Bangladesh	2005	50.1	80.1
India	2005	39.2	74.5
Nepal	2003	50.4	74.1
Pakistan	2004	19.3	56.5

Source: ILO (2011)

## Gender-based Inequalities

Gender-based inequities in the labour market remain a primary concern throughout South Asia. Labour force participation among women stood at less than 40% in 2009—a gap of around 43 percentage points relative to men. This is one of the largest compared to other regions. A much larger share of women (71.21%) works in the agricultural sector relative to men (45.5%). As this sector, as mentioned earlier, has the lowest average level of labour productivity, it shows that women who do manage to work are engaged disproportionately in low-productivity employment (ILO 2011).

## Social Protection

Insecure employment without any social security is yet another characteristic in South Asia. It is true that the rest of the world also has very wide regional variation in social security. Only one-third of countries globally (inhabited by 28% of the global population) have comprehensive social

protection systems covering all branches of social security as defined in the Social Security (Minimum Standards) Convention, 1952 (No. 102) (ILO 2011a). And most of these countries are either in North America or Europe. In South Asia, social security is only for formal workers, and formal workers constitute only a small fraction of the total workforce.

There is very poor funding for social protection in South Asia, in spite of high levels of poverty and informal employment. The estimates vary, but in Bangladesh, Nepal and Pakistan, the expenditure on social protection as a share of GDP is less than 2% (ADB 2005). The problem of low funding is compounded by even worse targeting. For instance, social protection programmes in Indonesia and Mongolia cater for 73% and 50% respectively of their target population. In contrast, social protection programmes in Bangladesh cater for only 23% of the target population, in Nepal for only 17%, and in Pakistan for only 4% (ADB 2005). To add to this, another vexatious problem that workers have been facing in the last two years (2010 and 2011) is inflation, particularly in the prices of food and basic commodities.

## 6.4 Policy Challenges

SOUTH Asian economies have a long history of extensive underemployment in primary producing activities, underdeveloped labour markets characterised by gender and social segmentation and discrimination, a high incidence of child labour, persistence of bonded and forced labour in agriculture and a number of industries like brick kilns and quarries, and a vast majority of the workforce without social security. Even as overcoming these problems and ensuring decent, regular and secure employment remains a largely unfinished agenda, their incorporation into the globalisation process has brought in its wake the additional challenges of slow growth of employment, increasing informalisation, declining demand for unskilled workers, limited opportunities to improve the skill levels of the workforce, and employment in unregulated and unprotected conditions.

<b>TABLE 6.7 Vulnerable Employment and Working Poor in East and South Asia</b>				
<b>Indicators</b>	<b>2000</b>	<b>2007</b>	<b>2010</b>	<b>2011*</b>
<b>1. Vulnerable Employment (millions)</b>				
A. East Asia	431.5	442.5	407.4	402.9
B. South Asia	414.3	480.9	480.5	486.5
<b>2. Working Poor** (% share in local employment)</b>				
A. East Asia	29.9	10.9	8.1	7.8
B. South Asia	46.7	37.8	36.8	35.9

Note: \*Preliminary \*\*Poverty line of US\$ 1.25 a day  
Source: ILO 2012

Before concluding this chapter, it would be interesting to look at some positive changes on the labour front in recent years in another part of Asia, East Asia, with a view to raising questions for further analysis. Here we contrast the performance of East Asia, which is essentially China, with that of South Asia in terms of two indicators—vulnerable employment and working poor—during the past 10 years. Table 6.7 shows the reduction in these two indicators in East Asia and South Asia. East Asia's high growth in the past decade, especially since 2007, has been accompanied by a reduction of vulnerable employment by a whopping 40 million and the share of working poor has fallen from about 30% in 2000 to about 8% in 2011. In contrast, in spite of relatively high growth during the same period, in South Asia vulnerable employment increased from 414.3 million to 486.5 million and the reduction in the share of working poor in total employment was only about 10 percentage points, from 46.7% to 35.9%. It would be interesting to probe what factors contributed to this

vast difference in performance. True, institutional and socio-economic factors vary substantially not only between East Asia and South Asia but also within South Asia. But identifying the causes for the difference may offer valuable insights that would help design appropriate interventions to improve the condition of labour and employment in South Asia.

The major policy challenges facing South Asian countries may be summed up as (i) evolving macroeconomic strategies that will make generation of productive employment an integral policy goal so that productivity gains will be transferred not merely in favour of incentives for investment but also income gains for the working masses, which will bolster aggregate demand and sustain higher growth; (ii) adequate resource mobilisation and allocation for basic social protection in the form of universal healthcare, education and skill development, alongside social security for all workers; and (iii) adequate regulatory measures to ensure decent working and living conditions.

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