

## Review

# Impact of liberalization on employment in India

R. K. Shastri<sup>1\*</sup>, Ravindra Tripathi<sup>1</sup> and Anushree Singh<sup>2</sup>

<sup>1</sup>Department of Humanities and Social Sciences, Motilal Nehru National Institute of Technology,  
Allahabad, India.

<sup>2</sup>Motilal Nehru National Institute of Technology, Allahabad, India.

Accepted 19 April, 2010

**Trade liberalization refers to the removal of government incentives and restrictions from trade between nations. Rapidly increasing flows of goods and services across national borders have been the most visible aspect of the increasing integration of the global economy in recent decades. There is a vast body of literature which shows that trade is good for economic growth which in turn is also good for poverty reduction. The economic theory suggests that trade liberalization may raise labour productivity in the developing economies but it also has differential impact on their wages and employment. Higher trade has mostly been associated with higher employment but lower wages. In this context the impact of trade liberalization on employment is of particular significance. The present study has examined the changes in the employment scenario of India following the pursuance of the trade liberalization strategy and the possible effects of further trade liberalization.**

**Key words:** Liberalization, globalization, wages, economy, employment, unemployment, recession.

## INTRODUCTION

### Liberalization in India

The economic boom that is being experienced in India is largely attributed to the globalization and liberalization of the Indian economy. The era prior to the 1990s was quite averse to the concept of an open market policy. The Indian markets were predominantly closed in nature. The government of India, however, ruled and regulated Indian markets but with the globalization and liberalization of the Indian economy, the whole market scenario changed in no time. The reforms progressed furthest in the areas of opening up to foreign investment, reforming capital markets, deregulating domestic business, and reforming the trade regime. Liberalization has done away with the License Raj (investment, industrial and import licensing) and ended many public monopolies, allowing automatic approval of foreign direct investment in many sectors. Government's goals were reducing the fiscal deficit, privatizing the public sector, and increasing investment in

infrastructure (Sonia, 2002). Trade reforms and changes in the regulation of foreign direct investment were introduced to open India to foreign trade while stabilizing external loans.

### Criticism

Critics of trade liberalization have blamed it for a host of ills such as rising unemployment and wage inequality in the advanced countries, increased exploitation of workers in developing countries and a "race to the bottom" with respect to employment conditions and labour standards, the de-industrialization and marginalization of low-income countries, increasing poverty, global inequality, and degradation of the environment. These views have spread in spite of the fact that the benefits of free trade, in terms of improved allocation of resources and consequent gains in productive efficiency and economic growth, are a basic tenet of mainstream economic

\*Corresponding author. E-mail: [rajeshkumarshastri@gmail.com](mailto:rajeshkumarshastri@gmail.com).

**Table 1.** Growth of employment by sectors (Percentage).

S/No.	Sectors	Annual growth rate	
		1983 -1994	1994 - 2004
1.	Agriculture	1.51	-0.34
2.	Mining and Quarrying	4.16	-2.85
3.	Manufacturing	2.14	2.05
4.	Electricity, GAS and WS	4.50	-0.88
5.	Construction	5.32	7.09
6.	Trade	3.57	5.04
7.	Transport/Storage/Communication	3.24	6.04
8.	Financial services	7.18	6.20
9.	Community and social services	2.90	0.55
	Average employment	2.04	0.98

Source: GOI, Planning Commission (2004), Report of task force on employment opportunities ([www.wto.org](http://www.wto.org)).

analysis.

## PRE- AND POST- LIBERALIZATION IMPACT ON EMPLOYMENT

### Present scenario of employment

Economic reforms may have given a boost to industrial productivity and brought in foreign investment in capital intensive areas. This has not created jobs and was not unexpected. According to a report by the Washington-based Institute of Policy Studies (IPS), the combined sales of the world's top 200 MNCs are now greater than the combined gross domestic product (GDP) of all the world's nine largest national economies. Yet, the total direct employment generated by these multinationals is a mere 18.8 millions -one-hundredth of one per cent of the global workforce (Table 1).

India's labour force is growing at a rate of 2.5% annually, but employment is growing at only 2.3%. Thus, the country is faced with the challenge of not only absorbing new entrants to the job market (estimated at seven million people every year), but also clearing the backlog (Eddy 2005).

Sixty percent of India's workforce is self-employed, many of whom remain very poor. Nearly 30% are casual workers (that is they work only when they are able to get jobs and remain unpaid for the rest of the days they have no job). Only about 10% are regular employees, of which two-fifths are employed by the public sector (Prachi and Utsav, 2008).

More than 90% of the labour force is employed in the "unorganised sector", that is sectors which do not provide social security and other benefits of employment as in the "organised sector". In the rural areas, agricultural workers form the bulk of the unorganised sector. In urban India, contract and sub-contract as well as migratory

agricultural labourers make up most of the unorganised labour force.

The ninth plan projects a decline in the population growth rate to 1.59% per annum by the end of the ninth plan, from over 2% in the last three decades. However, it expects the growth rate of the labour force to reach a peak level of 2.54% per annum over this period; the highest it has ever been and is ever likely to attain. This is because of the change in age structure, with the highest growth occurring in the 15 - 19 years age group in the ninth plan period.

The addition to the labour force during the plan period is estimated to be 53 millions on the "usual status" concept. The acceleration in the economy's growth rate to 7% per annum, with special emphasis on the agriculture sector, is expected to help in creating 54 million work opportunities over the period. This would lead to a reduction in the open unemployment rate from 1.9% in 1996 - 1997 to 1.47% in the plan's terminal year, that is, by about a million persons - from 7.5 to 6.63 million. In other words, if the economy maintains an annual growth of 7%, it would be just sufficient to absorb the new additions to the labour force. If the economy could grow at around 8% per annum during the plan period, the incidence of open unemployment could be brought down by two million persons, thus attaining near full employment by the end of the plan period, according to the plan.

However, there appears to be some confusion about the figure of open unemployment. The unemployment figure given in the executive summary of the ninth plan, gives the figure of open unemployment at 7.5 million while the annual report of the Labour Ministry, for 1995 - 1996, puts the figure for 1995 at 18.7 million. An internal government paper prepared in 1997 put the unemployment figure at the beginning of the eighth plan at 17 millions and at 18.7 million at the end of 1994 - 1995. Perhaps the Planning Commission referred to the

current figure while the Labour Ministry's figure referred to the accumulated unemployment backlog.

### **Recession: Affecting employment growth**

A recession is characterized by rising unemployment, increase in government borrowing, decrease of share and stock prices, and falling investment. All of these characteristics have effects on people as they have a general understanding of the recessions' negative effects. But how an ordinary consumer gets affected by an employment recession, in particular is not really clear. The Center for Economic and Policy Research states that the looming recession will raise unemployment by about two to three percent depending on the severity of the recession. On the other hand, unemployment data does not represent the educated workforce. For them, the truth is there are more available jobs than there are candidates and the unemployment rise affects mainly the low-skilled workers. At most, this is the unemployment impact of the perceived recession for that year. Companies differ to a certain degree on their outlook regarding the hiring of additional workers or streamlining their workforce. There are companies who think their concern is on the difficulty of looking for skilled workers who would help boost their efficiency. Others implement a freeze on hiring. There are even companies who have laid off some of their workers. These realities are also seen even during normal times but presently, these moves are made with extra caution and rigid analysis.

According to the latest government study, five lakh people were rendered jobless between October to December 2008 due to the recession. The findings are part of a first of its kind survey conducted by the Labour Bureau of ministry of Labour and Employment as part of a study on the effect of economic slowdown on employment in India.

A sample size of 2,581 units covering 20 centres across 11 states was used for the survey. Eight major sectors like textile and garment industry, metals and metal products, Information Technology (IT) and business process outsourcing (BPO), automobiles, gems and jewellery, transportation, construction and mining industries were also included in the survey.

The total employment in all these sectors had come down from 16.2 million in September 2008 to 15.7 million by December 2008.

Exporting units had observed a higher decline in employment with gems and jewellery sector shedding 8.43% of its work force. This is followed by metals and textile sector which laid off 2.6 and 1.29% of their work force, respectively.

Among the domestic sector units, gems and jewellery sector again witnessed the maximum decline in employment with 11.9% of their work force losing their jobs. This was followed by automobiles and transport

sectors that shed 4.79 and 4.03% of their work force. The study also found out that the overall decline in contract workers was observed to be 3.88% during the period in comparison to only 0.63% decline for direct employees.

Contradicting popular belief that the IT and BPO sector during the same period had embarked on retrenchment, the sector had in fact increased its employment marginally by 0.33%.

All eight industrial sectors had experienced an average decline in earnings by 3.45% from October to December 2008. Overall capacity utilization had reduced by 1.32% per month during the period, with automobile sector witnessing a monthly decline of 7.05%.

### **CONCLUDING REMARKS**

To partake in the benefits from the liberalization of world trade essential supports are required from the national economic and social policies and institutions. Organized sector employment suffered a severe collapse in the early years of the adjustment process but has since recovered to a pace similar to that of the pre-reform era. There are large number of barriers which affect the economy and employment of any nation. As during recent days, recession is playing a major role in decreasing the growth rate of employment opportunities which is the one facet of liberalization.

A particular challenge is that of equipping poor producers and workers in the rural and urban informal sectors with the means to share the benefits of trade liberalization.

Priorities should be given to improving education and skills of the workers in informal sector. Since low levels of education and skills among labour force are the major problem to industrial development and employment growth.

Policies and programmes should also be developed for unorganized sectors particularly those who are associated with export markets. Finally, all possible efforts should be made to minimize the total social cost of trade liberalization.

### **REFERENCES**

- Sonia B (2002). "The Impact of Economic Liberalization on Employment and Wages in India" *University of Bristol, UK* Paper submitted to the International Policy Group, International Labour Office, Geneva.
- Eddy L (2005). "Trade Liberalization and Employment"
- Prachi M, Utsav K (2008). "Trade Liberalization and Wage Inequality: Evidence from India" [www.msme.gov.in](http://www.msme.gov.in)
- [www.wto.org](http://www.wto.org)