Report of the Study group

on

GLOBALISATION AND ITS IMPACT

Second National Commission on Labour

February 2002

CONTENTS

EXECUTIVE SUMMARY

This Study Group was appointed by the Second National Commission on Labour to study the impact of globalisation on labour. The study group approached the subject with the premise that India has the potential to become a major economic power in the world commensurate with its size and physical and human resources. The study group has noted that globalisation is not just an economic phenomenon but is driven by powerful political interests and has tremendous social and cultural consequences. Globalisation however provides opportunities through the process of integration with the world economy which can only be fully harnessed if appropriate strategies are adopted fore fronting the national interest and those of labour in particular. The form in which globalisation is occurring while having had benefits for the few seems to have bypassed the majority. The study group thus does not unreservedly endorse the current processes of liberalisation driven by globalisation and is of the concerted view that significant macroeconomic reorientation is warranted in order to make globalisation work for the people.

Globalisation means many things to many people. In a broad sense globalisation refers to expansion of economic transactions and organisation of economic activities across the national boundaries. This is, however, not a totally new phenomenon. However, what is new is the marked acceleration in the processes of economic integration accompanied by widespread social disintegration. It is important to put in place strategies to ensure that economic integration does not result in social disintegration.

It is difficult to isolate the specific impact of globalisation from that of other processes occurring at the same time. Macroeconomic performance of the Indian economy in the 1990s in terms of indicators like the rate of growth of economy, foreign direct investment, imports and exports, balance of payments has been fairly impressive. There is also indication that high economic growth has had an impact in lowering levels of poverty. However, these positive macroeconomic trends seem to have also been accompanied by stagnation of employment growth, and deterioration in employment condition as indicated by increased instability and casualisation of employment. Regional, sectoral and social inequalities have been exacerbated by liberalisation processes.

India has tremendous opportunities to overcome the challenges posed by globalisation processes. The overall competitiveness of the economy and productivity levels – not just labour but all factors of production – needs to be substantially raised to reap the benefits of globalisation. Its performance on economic and social front is not commensurate with its potential. There is an urgent need to review and reorient macroeconomic policies, to undertake institutional reform and contemplate significant improvements in governance.

In order to harness the benefits from globalisation what is critical is striking a balance between high economic growth and increased employment; and between enterprise efficiency and employee empowerment. The strategies required to achieve this must be based on:

- Clearly defined employment policy which synergies the efforts and competencies of all the social partners *viz* state, trade unions and employers.
- Proactive employment relations framework that is sensitive to the concern of both employers and labour to ensure decent labour standards along with increased competitiveness of enterprises.
- Increased competitiveness through skill development, product innovation and investment in research and development.
- Developed social and physical infrastructure through active participation of the social partners.
- Reduction of industrial sickness to unlock resources through adequate legislative and administrative rationalisation.
- Harnessing the potential of international labour migration from India through skill matching and legislative support both nationally and internationally.
- Judicious approach to privatisation and ensuring public sector presence in key sectors.
- Establishment of transparent and accountable governance system in the state and corporate structures.
- Development of mechanisms, institutions and agencies for coordination of processes and continuous monitoring of the impact of globalisation on labour and employment situation.

CHAPTER - 1

INTRODUCTION

1.1. The Second National Commission on Labour constituted a study group on "Globalisation and its Impact" with the following members.

Shri. Keshavbhai J Thakkar, Vice-President, BMS (Chairman)
Shri. Ramachandra Khuntia, M P & National Vice-President, INTUC
Dr. C. S. Venkata Ratnam, Professor, International Management Institute,
Shri. Aditya Narayan, Managing Director, ICI India Ltd.,
Dr. S K Sasikumar, Fellow, V V Giri National Labour Institute, Noida
Subsequently, the Committee co-opted the following two members:

Dr. S. S. Mehta, Centre for Environmental Planning and Technology
Ms. Vandana Shiva, Director, Research Foundation for Science, Technology and Ecology, New Delhi

1.2. The Study Group addressed itself mainly to the following aspects of the terms of reference of the Second National Commission on Labour:

(a) "... the emerging economic environment involving rapid technological changes, requiring response in terms of change in methods, trade and services, globalisation of economy, liberalization of trade and industry and emphasis on international competitiveness and the need for bringing the existing laws in tune with the future labour market needs."

(b) "... the minimum level of labour protection and welfare measures and basic institutional framework for ensuring the same, in the manner which is conducive to a flexible labour market and adjustments necessary for furthering technological change and economic growth."

1.3. The study group approached the subject with the premise that India has the potential to become a major economic power in the world commensurate with its size and resources. This requires integrating itself with the world economy. However, the study group does not endorse globalisation the way it is occurring in India. Nothing in this report should be considered an unreserved endorsement of government policies of liberalisation, privatisation and globalisation. Indeed it finds that there are problems with the sequence, pace and content of the macroeconomic policies which call for significant reorientation.

1.4. The study group met on 11 occasions, nine times at New Delhi and once each at Bangalore, and Mumbai as following:

28.09.2000
02.11.2000
03.01.2001
01.05.2001
30.06.2001 (Roundtable at Delhi)
13.08.2001
19.10.2001 (Consultation at Bangalore)
22.10.2001 (Consultation at Mumbai)
22 & 23.11.2001 (Consultation at Delhi)
29.01.2002
02.02.2002

1.5. The study group wishes to place on record its appreciation to the following individuals/organizations (mentioned in alphabetical order) for their cooperation and support:

Bharatiya Shram Shodh Mandal (particularly Mr. Vidyanand Acharya and Sh. V. R. Raman)

Federation of Karnataka Chamber of Commerce & Industry (particularly Dr. C. Manohar, Secretary and Ms. Lillu Aswathiah, Dy. Secretary)

International Labour Organisation (particularly, Mrs. Mary Johnson, Director, ILO, Delhi)

International Management Institute (particularly, Dr N K Sengupta, Director General)

Karnataka Government (particularly, Mr. E. Venkatiah, I.A.S., Mr. S. Narsimiha, Addl. Labour Comissioner, Mr. Jagannathan, Jt. Labour Commissioner and Mr. Gurdas M. Bhat, Dy. Labour Commissioner)

Maharashtra Government (particularly, Mr. M. S. Ambole, Dy. Labour Commissioner and Mr. Buwa, Asst. Labour Commissioner);

Second National Labour Commission (particularly, Mr. T C. Girotra, Director, Mr. Piyush Sharma, Joint Director, Mr. D. P. Singh, Dy. Director and Mrs. Shammi Sahni, Investigator); and,

World Trade Centre (particularly, Mr. J. P. Ghate, General Manager)

Keshavbhai J. Thakkar, *Chairperson*

R. C. Khuntia, *Member*

C. S. Venkata Ratnam, *Member*

Aditya Narayan, *Member*

S. K. Sasikumar, *Member*

S.S. Mehta, *Member*

Vandana Shiva, *Member*

New Delhi 13th February 2002

CHAPTER - 2

CONCEPT OF GLOBALISATION

2.1. Globalisation is the most important phenomenon of our time. Each element of it – from the alleged Americanisation of world culture to the supposed end of the nation-state to the triumph of the global companies - is itself at the heart of a huge, complex and emotive debate (Micklethwait and Wooldridge, 2000). Yet people tend to shy away from seeing the subject in its entirety. Economists agonize over capital movements but ignore social and cultural disruptions that globalisation brings.

2.2. Globalisation is not new. Today's globalisation is, however, different. It is about free, not fair trade. It puts economics first and people last, raising concerns about perverse nature of competition, and paying lip sympathy to Kofi Annan's 'global Compact' and Juan Somavia's concept of 'Decent work'. The real wealth of a nation is its people and the purpose of development is to create enabling environment for people to enjoy a long, healthy and creative lives. This simple and power full truth is too often forgotten in the pursuit of material and financial wealth. In the process sustainable development remains a pipe dream leading to the apprehension that successive generations are leaving to their next generations a much poorer world than what they inherited (Reich, 1995). Globalisation is still waiting for social legitimacy (ILO, 1999) because it is perceived to be responsible for a variety of insecurities, including job, income, health, environment and cultural degradation. The protagonists of Globalisation have given a new programme, Safety Net. In India EPFS, which was a leading social security, is not being updated. Hence majority of work force are out of that benefit also. Similarly Bonus is not being overlooked for both eligibility and entitlement putting a big number of workforces out of Bonus benefit.

2.3. The WTO agreement thus far is largely about integration and unfettered movement of capital and products, product markets, which are in abundance in the developed countries, not so much the technology or free movement of labour which are the prime needs of the developing countries. The TRIAD countries – North America, European Union and Japan – account for one-fifth of the population, but bulk (up to four-fifths) of the trade and investment flows. The developing countries, which account for four-fifth of the population, have less than one-fifth share in world's capital and trade! Free trade remains the thrust, but fair trade remains a myth.

2.4. The perspectives cut across diverse disciplines; social, economic, cultural, political and above all historical, to name a few. It is often difficult to differentiate the reality from the rhetoric. Chase-Dunn (1989), Dicken (1992), Dunning (1993) and Kennedy

(1993) focus on the fundamental shift(s) in international economy. Land and Hines (1993) point to the disastrous consequences of global free market economy that treats the developed and developing countries alike. Featherstone (1990), Robertson (1992) and Sklair (1991) provide sociological viewpoint.

2.5. Ohmae (1990) and Camilleri and Falk (1992) review the developments concerning national sovereignty in a borderless world. While Rosenau and Czampiel (1992) offer suggestions on alternative forms of governance beyond the nation state, Ostrom (1990) lists the pre-conditions to regulate the use of common resources, and cautions about the difficulties in governing the 'global commons'. Hirst and Thompson (1996) question the notion of globalisation and address the issues relating to the development of governance mechanisms at the level of international economy that neither undermine national governance nor hinder the creation of national strategies for international control.

2.6. The increasing vulnerability of national economies to external forces, whose virulent impact on financial and other crises has been a cause for concern, are often linked to globalisation and met with stringent resistance in Seattle, Prague and Quebec in recent years. Globalisation has come to be treated as synonymous with the growing instability, inequity and uncertainty in many parts of the world, including both developed and developing countries. The persistent failure to resolve these in an orderly manner will be most damaging to growth in the developing countries (UNCTAD, 2000). That the burden of adjusting the imbalance is falling more or less exclusively on monetary policies is another cause for anguish. Globalisation is understood in this backdrop.

2.7. If foreign trade and capital flows signify globalisation, the world we live in now has seen more globalisation between 1870-1914 (Hirst and Thompson, 1996) than what we experienced in 1990s and what we are experiencing in the early 21st century. The difference, however, is that, while in the 19th century both capital and labour were mobile, in the 21st century it is largely capital which is more mobile.

2.8. In its essence, it gives consumers world over access to products and services at the best possible price and quality and provides freedom to manufacture and source products and services from the most efficient location in the world. Given the emerging state of science and technology, it gives mankind the chance to deploy the benefits of inventions and innovations for a much higher level of existence for all, the rich and the poor, and that too, at a pace faster than ever seen before on earth.

2.9 However, Nobel laureate Shri. Joseph Stiglitz has exposed the present Globalisation. He said " Needy State Nations are subjected to (1) Privatisation (2) Free flow of Capital (3) Market based Price and (4) Free trade before, extending financial loans from World Bank. US economy is collapsing fast, entire world economic order is heading towards total bankruptcy, world needs a complete review of economic order in terms of continental cooperation with preserving sovereignty of state nations."

2.10. Even if its roots are commercial, globalisation is already provoking profound social, political and cultural questions. The position of the role of the Nation States is clearly changed as commerce treats the entire world as one big free market. Nation States, while generally staying out of the business of this commercial process, are expected to regulate free markets, ensure competition and patent protection, and promote consumer interest whilst discharging their principal task of governance and promoting the welfare of its people. Clearly, a variety of world bodies, like the UN agencies and WTO will be required to provide a framework for the Nation States to sensibly manage the process of globalisation to uplift the standards of living for all mankind.

2.11. The globalisation process has not to do only with economic efficiency; it has to do with freedom as well. Globalisation offers the chance to fulfil the goals that classical liberal philosophers first identified centuries ago and that still underpin Western democracy. As is well known, democracy aims at creating a good society through the provision of rights and responsibilities for its citizens through a proper balance between individual freedom and human equality on the one hand and efficiency and community welfare on the other. Given the current balance of power in favour of such a political framework to secure the fundamental dignity of man, globalisation carries with it the strong undercurrent of promoting human rights and individual liberties. Globalisation increases people's freedom to shape their identities, independent of their ancestors brings down barriers and it helps hand the power to choose to the individual.

2.12. Technology, capital markets and management are the three principal drivers of the current globalisation; whilst each one of them is powerful in its own right, what has given them apparent invincibility in recent years is the fact that they all fit together so neatly. The computer, the telephone and the television stand out in leading globalisation: in 1999, Cisco stated 'The Internet is promoting globalisation at an incredible pace. But instead of happening over 100 years like the Industrial Revolution, it will happen over seven years.'

2.13. Globalisation, misunderstood as it is, carries the following five myths: that it is leading to a triumph of big companies, that it is ushering in an age of global products that it has ended traditional business cycle, that it is a zero sum game in which some people have to lose so that others can win, that it means that geography does not matter. Competition and free markets ensure companies, big or small, survive as long as they provide society with value: the rise and fall of corporations as witnessed in the US clearly demonstrates these facts. In fact, it is now well established that the life cycles of most companies is shorter than the working life of average people and this has led to the emergence of the concept of employability of the individual being more important as there is no cradle-to-grave employment. Appropriate social security measures are necessary to let globalisation deliver its benefits.

2.14. It is important to recognise that managing globalisation to reap its benefits requires the Nation States to accept that it entails a huge change. First of all, the mind set has to be one of accepting that it cannot be wished away and recognising that its winds and benefits are so powerful that to escape it by shutting one's windows is hardly an option. Secondly, the Nation State needs to prepare and organise itself to manage the process in a manner, which actively reaches its benefits to its people with adequate control to minimize its negative fallout. In the developing world, the idea that the main winners from globalisation are consumers is startlingly clear. Notwithstanding the fact that 20 million workers in public enterprises lost their jobs as a result of public sector restructuring in China, the market reforms of the 1980s brought the biggest and most rapid eradication of poverty the world has ever seen.

2.15. And now to the five key threats and opportunities of globalisation, with specific reference to India: First, the threats:

(i) Globalisation is a brutal process, which unleashes the full force of a free market economy. For India, which is far from a free market economy, it will require massive changes to systematically develop such an economy and though the journey has already begun, it is a long road ahead. Going by China's experience, they are where they are today with a 15 year head start over India and they had the advantage of a political process which permitted a well controlled process of developing an economic environment which could take advantage of globalisation. In a free market, only the efficient survive. And, most of India's wealth generators - be it agriculture, industry or services - are significantly inefficient compared to global competition. Thus, the real threat is in the period of transition and unless well managed, the risk of adversely affecting the nation's well-being exists. The impact of such fallout on labour is self-evident. Perhaps the most significant change will be for the government to get out of commerce in general: this will mean privatisation and effectively the end of the public sector enterprises. As the government reorganises for its new role, it will need to down size significantly. Such a change has not been easy anywhere and requires outstanding leadership and management to minimize the adverse impact.

(ii) Globalisation progresses through legally binding understandings and arrangements between nation states/global agencies like the WTO that encourage a negotiation process and work on one country one vote system. However, in practice, the North countries have been perceived to have a disproportionate advantage because of their sheer financial muscle, ownership of technology, access to science and general level of development. At times, it is heard that multinational companies have been able to influence the stand of the developed countries. In the recent past, several human rights issues have been brought into commercial negotiations at the WTO.

For India, the ramifications are significant. It requires a thorough understanding of the processes involved and a long-term organisation, which has the full expertise, for getting the best deal for the country. From what is visible, India will require considerable up gradation of this aspect. These agreements will be in the nature of treaties, not mere commercial agreements, as they will determine the well being of the nation and must have an approval process which is transparent and consistent with our constitutional obligations.

(iii) Globalisation will impact the social, cultural and political aspects of the nation states. Driven by technology and the powerful North countries, its basic nature entails the promotion of Western democratic functioning using competitive capitalism as its cornerstone. The impact of Western media on the erstwhile USSR, China, Asian countries, Latin America in terms of culture is all too visible now.

For India, this threat is significant, more so on the social and cultural dimensions. Given the free access of media and the Internet, the spread of Western culture is already visible and clearly this is bound to impact on our values in the fullness of time. However, the impact will be huge on the social front. As the forces of free markets take grip on India, efficiency will assume higher priority for everyone. The nature of employment is likely to go the Western way of hire and fire; lifetime employment will become history. And given our large population and its already high level of unemployment, the issue of gainful work for all will assume centre stage in our society. Clearly, a well conceived framework for dealing with this issue, including the provision of social security is a must. Fortunately, given our state of democracy, globalisation might actually be a process, which will strengthen it further, and this aspect might not be so much a threat as an opportunity. However, the significant impact is on the changed role of the nation state and given our federal structure, the pressures on the state government as much as on the center to successfully manage the variety of changes will be enormous. Some would like to see the process of globalisation as a threat to the sovereign status of India, given the history of the East India Company, but this would really be living in the past; it must be recognized that in the current age, ownership of land is not necessarily a means to ownership of wealth.

(iv) Globalisation is known to promote inequality even as it raises the standard of living for the poor. Even within the developed countries, it has increased the gap between the rich and the poor even though the poor are no longer that poor. For India, this has serious repercussions. Already, the regional differences are stark with the rich getting richer at a pace well ahead of the poor coming out of poverty. With the likely increased pace of globalisation, this situation will only become worse before it becomes better.

(v) Globalisation is not a short term one off event; it is a process, which will require consistent long-term management for any nation. For India, this implies the creation of a nodal agency, which will need to co-ordinate the management of globalisation on an on going basis. Presently, these efforts are managed in separate ministries, who are not in a position to take a holistic view of the various dimensions involved and there is evidence of a clash of views in some cases. It is clear that this process will require management over a long period of time, maybe a decade or two; certainly, over periods of time longer than the average life span of elected governments. Fortunately for India, there is the Planning Commission, which is an institution for providing this continuity, and, with appropriate modifications, could well be such an agency, which builds expertise and continuity for a long journey ahead and is relatively free from the political changes inevitable in our democratic way of life.

2.16. And, now to the opportunities. We will need to assume that the process will be well managed:

(i) Globalisation brings benefits of modern science and technology to all at a pace faster than ever before. There is little doubt that there are huge benefits for all mankind to reap from the inventions and innovations which are already visible and those to come. Be it agriculture, industry or services, all areas obtained leverage from these benefits. While the West is clearly in the post Industrial era and at an early stage of the digital age, most of the people in the world have yet to see all the benefits of even the Industrial era; globalisation, if only it had a free run, is capable of reaching these benefits literally everywhere almost simultaneously. For India, this is one phenomenon, which holds the promise of eradicating poverty and improving the well-being of its people like never before. Fortunately, India has a reasonably developed track record and capability to absorb modern technology and deploy it to larger benefit and therefore, needs to harness these benefits for its people ahead of competing nations.

(ii) Globalisation promotes Democracy with freedom and dignity of the human being. *It relies on justice and a legal framework as a means of progressing to its primary purpose*. For India, this gives the potential to realize its dreams enshrined in the constitution and therefore holds a good fit to its institutions and the people in general. India already has a well-established legal framework and if globalisation were to assist in providing a fair, just and transparent means of implementing them uniformly for all, it would go a long way in creating a powerful India in due course. Western standards of Governance and sustainability come along with globalisation and India will have to conform to them to reap the benefits: this will require the elimination of corruption and graft, a measure which will be enormously beneficial to the average Indian, specially the poor.

(iii) Globalisation integrates the world into a global society by shrinking space and time; its benefits are best obtained by being in it- not outside. For India, the opportunity is enormous. Given its sizeable population of the well educated and English speaking people, India has more to gain by being part of the developed world than by getting even further isolated by resisting globalisation. It gets the chance of providing a large share of the world's labour in times ahead where the developed world is likely to be short on working population.

(iv) Globalisation promotes efficiency and cuts down waste as it brings higher prosperity to every individual. The benefits of the savings are to the direct advantage of the consumer in terms of lower prices and higher quality for any item on which he exercises his choice. And, the consumer really has the final choice; it is no longer a supplier's market.

(v) Globalisation promotes free enterprise and offers every individual equal opportunity to flourish with the backing of his capability, skills and knowledge. Knowledge becomes not just power but destiny. It promotes meritocracy without discriminating between race, colour, gender or country of origin. Whilst allowing the individual the freedom to choose his religion, lifestyle and place of residence, it treats human beings as the same, belonging to a global community as it were. For India, this offers considerable advantages though not without the challenges involved in reaching a stage where its people are able to lift themselves above their historical legacies. Clearly, such a movement assumes that everyone is not just literate but educated and it will be a generation or two, before such an existence becomes real for everyone in India. Nevertheless, this is the aspiration enshrined in the Constitution for all the people and if globalisation becomes the means of achieving, it should be encouraged.

2.17. Clearly, the phenomenon of globalisation is real, multidimensional and long term. The discussions on the subject are vitiated, regardless of the role and influence of the process of globalisation which itself is not new by any standard and stretch of imagination, by the growing inequality and unemployment resulting in political, social and economic unrest within and across countries and continents. Also, increasingly there is concern about environmental degradation and cultural homogenisation.

2.18. If you take over that terrible, monstrous and compelling thing, that giant, asuric creation, European Industrialism-unfortunately we are forced by circumstances to do it – whether we take it in its form or in its principle, we may under more favourable conditions develop by it our wealth and economic resources, but assuredly we shall get to its social disorders and moral plagues and cruel problems. I do not see how we shall avoid becoming the slaves of the economic aim in life and loosing the spiritual principle of our culture.

2.19. A fully participatory political and economic democracy governed by Dharma, the Cosmic Law, ensuring complete autonomy at all levels and in all spheres and assuring right livelihood to every individual through appropriate technology this world be the ideal polity that can usher in the era of Integral man: the era of freedom, harmony, purity, knowledge, power delight and immortality, absolute and inalienable,

2.20. Whilst suggestions for dealing with it for India require a holistic view, it is well beyond the remit of this group. Nevertheless, assuming that India will manage to deal with this process in a comprehensive manner, the group has confined itself into dealing with those aspects, which have a direct bearing on labour policy. As long as development drives and adjustments measures are directed at maximizing equitable human welfare both development and adjustment are welcome. Not otherwise, this means that the success of adjustment policies should be measured more importantly by the reduction in poverty, unemployment, income and gender inequity and other human development indicators.

CHAPTER - 3

IMPACT OF GLOBALISATION

3. 1. INTRODUCTION

3.1.1. It is both difficult and incorrect to attribute both positive and negative outcomes that we currently witness in our product and labour markets as being the consequences of globalisation. Globalisation is not the cause of all the ills of an economy, much less that of India. Some of the emerging trends that we currently witness are an extension of the pre-liberalization era. Possibly liberalisation and globalisation have accelerated the events in a particular direction. Any change has consequences. Non-change has its consequences too. The question to be asked therefore is, whether the consequences are more with or without change. There is an old saying that 'a stitch in time saves nine'. Going by this dictum, it can be said that in the long run the consequences are going to be more drastic if we do not adapt to changes in time, than when we do. The consequences of insularity that guided our economic thinking in the 1970s when the east and south-east Asian economies were opening were too glaring. India missed an opportunity then. Should India miss it yet again now?

3.1.2. The policies followed in India from Independence to the mid-1980s aimed at development and a faster growth rate, but emphasized regulation rather than development. To protect the domestic industry from foreign competition and promote self-reliance, import substitution was encouraged as a state policy. But import substitution and export promotion were not viewed as two sides of the same coin. Instead, the plethora of controls led to the erection of barriers of entry and exit, to pygmies being treated as giants and monopolies denying economies of scale to Indian enterprises, to tariff and other restrictions on imports and exports, distortions in pricing of inputs and outputs, and to a sheltered market and protective regime based on political patronage. The end result was the creation of pre-emptive capacities to minimise or avert competition, gross underutilisation of capacities, profiteering by trading in licenses and quotas (for state-controlled raw material, etc.) and to collusion rather than competition. Thus, too much government in business and industry and vice versa eventually proved detrimental and counter productive to the conduct of state affairs as also to industry and commerce, workers and unions and consumers and the community.

3.1.3. India did not open up its economy when other countries in Asia did in the wake of the oil price shocks of 1973 and 1978. Then few countries pursued export oriented industrialisation strategy. Today, in the name of globalisation, almost every country is seeking or made to seek the same strategy. What worked in the past will not work in the future. Also, when every country wants to do the same thing, there will surely be a few winners and many losers. The debt and exchange crisis led India to pursue stabilisation and adjustment measures at the behest of International Financial Institutions (IFIs).

3.1.4. The process of liberalisation, privatisation and globalisation began in India in 1991 (some say, in the 1980s itself) more as a reaction to a problem that erupted rather suddenly. The end of the cold war between the USSR and the USA, the disintegration of the former USSR and the Gulf war precipitated a crisis in India largely due to soaring oil prices, which pushed up the import bill and depleted foreign exchange reserves. The government finances too were in a bad shape. Rising debt and worsening foreign exchange crises forced the government to pledge its gold and go in for stabilisation and structural adjustment borrowing from the IMF and the World Bank. It was realised at this stage itself that both stabilisation and structural adjustment would have huge social/human costs. More so, because a substantial proportion of India's population is illiterate, underemployed (or in disguised employment) and poor.

3.1.5. Therefore, India adopted a gradual, step-by-step approach to globalisation with a view to avert a major economic crisis. This has become possible until now because of the following reasons: (a) it retained its controls on capital outflows, (b) it did not go in for full convertibility, (c) foreign exchange remittances by migrant workers of Indian origin and investments by NRIs has contributed to the accumulation of a sizeable exchange reserve base, and, (d) it moved cautiously, and on a case-by-case basis, so far, in matters concerning disinvestments, etc. This has helped India avert the contagion affect of Asian countries and limited the adverse impact of globalisation.

3.1.6. The policies of the international financial institutions (IFIs) have been generally criticised by most as being responsible for exacerbating the existing economic and social problems. Their policies would not have mattered much if the country learnt to live within its means. IFIs policies affected urban India directly. Rural India has an indirect and secondary impact. Some sectors were affected badly and others not. The key criticism against IFIs came from Jalan (1996): (a*) the policies are imposed without recognising the diversity of country's circumstances;* (b) the one-size fits all approach could cause more harm than good; (c) the social costs of adjustment and reform could cross the limits of tolerance; and, (d) the 'success' stories are few as evident from the need for repetitive IMF assistance in most countries.

Opportunities and Threats of Globalisation

3.1.7 **Opportunities.** The biggest opportunity that globalisation affords to India, a country of the size of a continent with about 1/6th of world's population is to unlock its potential and develop itself into an economic power house with the lifetime of the generation born after path-breaking changes were ushered in the country over a decade ago. A special survey of the Economist (June 2, 2001) lists the achievements of the first generation reforms in India and the constraints in introducing second-generation reforms in the wake of the exacerbation of the differences between the rich and the poor. A second survey by the Economist (September 2001) overviews the dilemmas of globalisation that need to be overcome in any case by each country having regard to its own circumstances and priorities. If we are pessimistic and look at the darker side of globalisation, we see things going wrong and do nothing to take advantage of the changes in the global economy. If we are optimistic we develop a 'can do' spirit and try to take advantage of the opportunities. For the sake of argument, the study group accepts the argument that during the past decade the benefits did not trickle down and the rich became richer and the poor became poorer. It also accepts the arguments, if we are not cautious in determining our own sequence and pace of reforms, we cannot avert or limit the negative consequences overtaking the positive ones. Trickle down did not occur. Rising tide does not lift all. Yet, for the well being of our growing population rapid and consistent growth of about 10 per cent is the best answer to meet the emerging socio-economic challenges, including particularly, the twin, allied problems of poverty and unemployment. We need to globalise to give ourselves choice and quality in terms of better education and skills for all, better goods and services in an ecologically sustainable manner and at affordable prices. Unlike the globalisation of other countries in Asia or elsewhere, in India globalisation should be led by domestic growth led exports, not export led growth. Such growth has to be employment generating. For this we need to have dual policies for easing labour market rigidities on the one hand, and tapping newer, diversified opportunities for economic development in select sectors as identified by the Montek Singh Ahluwalia Committee (2001) and as outlined by us, briefly, in the next chapter.

3.1.8 **Threats**. Globalisation offers several opportunities. Globalisation is also creating new threats to human security in rich countries and poor (HDR, 1999).

The threats of globalisation are:

(i) Violent fluctuation leading to financial crisis and consequent economic insecurity.

(ii) High incidence of bankruptcies.

(iii) Job and Income insecurity.

(iv) Health insecurity.

(v) Cultural insecurity.

(vi) Personal insecurity.

(vii) Environment insecurity.

(viii) Political and community insecurity.

Therefore HDR, 1999 called for globalisation with a human face.

3.1.9 **Governance and Framework of Human Development in India.** The focus of Constitution of India is human development. Approach to Human Development and the framework of its governance is enshrined in the Constitution of India in its Preamble, Fundamental Rights, Directive Principles of State Policy and the Fundamental Duties - a comprehensive package for Human development to deal with all the threats arising from globalisation. According to the Constitution of India focus of all development must be - of people, for people and by people. India needs to implement macro - economic stabilisation, liberalisation, privatisation and globalisation in our constitutional framework to give it a human face.

3.2 RECENT TRENDS AND IMPACT

3.2.10 Globalisation signifies five things: movement of capital, goods, technology and people and incidence of foreign debt. First we consider at global level. We consider recent trends in regard to each of the four in so far as India is concerned. The impact on labour is considered with regard to eight aspects: industrial competitiveness, sickness, employment, inflation, poverty, unionisation, collective bargaining and industrial relations.

3.2.11 **Global Scenario.** Momentous changes have taken place in the economic arena, over the last eight years. Globalisation has brought in its wake, new methods of restructuring and reordering businesses and Foreign Direct Investment has been the driving force of the entire process. The rapid growth in the global FDI inflows and outflows in 90s are highlighted below:

- In 1990, the stock of FDI was barely $ 1 trillion but by 1999, this had reached over $4 trillion.
- In 1999, for which the latest data is available, FDI flows set a new record with inflows reaching $865 billion and outflows $800 billion.
- Increases in FDI flows in fact exceeded the growth in the nominal value of world GDP and international trade.
- The origin as well as destination stocks and flows remained concentrated in the TRIAD: USA, Japan and Europe.
- The developed countries dominate the global picture. In 1999, FDI inflows and outflows of developed countries reached new heights of $636 billion and $731 billion, respectively. Inward FDI flows in developing countries also increased from $178 billion in 1997 to $207 billion in 1999.
- China, with $40 billion inflow, was the largest developing country- recipient, owing mostly to its large and growing domestic market and macro economic reforms as well as to measures to promote investment in provinces other than those in the coastal areas.
- India, the other major country in the South Asia region is still, incidentally, way behind with an inflow of barely around $2.2 billion in 1999.

3.2.12 **Pointers of FDI:** In the present economy, which is characterized by globalisation technological advances and competition, FDI by TNCs is a crucial element linking many nations and building a globally integrated production system. Indeed the largest TNCs – which control a voluminous share of global assets and global FDI stock, exercise tremendous impact on 'home' as well as host countries output, technology levels, exports and even employment. Transnational Corporation (TNCs) - the firms that engage in international production – now comprise over 690,000 foreign affiliates established by some 63,000 parent companies, many of which also have non-equity relationships with a large number of independent firms. The world's top 100 (non-financial) TNCs (with General Electric in first place) based almost exclusively in developed countries were the principal drivers of international production. The $2 trillion in assets of their foreign affiliates accounted for about one-eighth of the total assets of all foreign affiliates worldwide in 1998. The foreign affiliates of the top 100 TNCs employed over 6 million persons and their foreign sales were of the order of $2 trillion. These were mainly concentrated in electronics and electrical equipment, automobile, petroleum, chemicals and pharmaceuticals.

3.2.13 The phenomena of cross border merger and acquisition has been a predominant influence on the TNC strategies of expansion and hence on the explosive growth of FDI during 1985-89, as well as after 1995. In fact, the dramatic growth of FDI in 1999 was fuelled to a large extent by a boom in cross border mergers, and acquisitions (M&As). FDI outflows reached $800 billion in 1999, an increase of 16% over the previous year. And indications are that FDI flows in 2000 may well surpass the one trillion-dollar mark. Quite contrary to the popular perception prevailing till the 1970's governments everywhere in recent years have been looking increasingly at the MNC's not as predators, but as sources of investment, technology and even jobs. Evidence proves that even China has been no exception to this rule.

3.2.14 Liberalisation is also facilitating FDI growth. In 1999, 171 regulatory changes relating to FDI were made by 75 countries (83% of them in the direction of creating a more favourable environment for FDI.) In developing countries, these changes included the opening of industries previously closed to FDI, the streamlining or abolition of approval procedures, the provision of incentives and the establishment of specialised liberalisation schemes. In the global context it is the trans-national corporations that are driving international production. Driven by mergers and Acquisitions, FDI flows to developed countries have registered an impressive increase. Developing countries, on the other hand, present a diverse picture. In South Asia, China continues to attract FDI of about $40 billion while the Asian Elephant/ India, despite her potential, continues to lag behind with an FDI of only $2.2. billion.

RECENT TRENDS IN GLOBALISATION OF INDIAN ECONOMY

Foreign Investment

3.2.15 India removed restrictions on Foreign Direct Investments in 1991. However, the Indian share in the world FDI inflows is merely 0.765% compared to China's 11%. During 1998, FDI inflows to India declined from $3577 million to $2635 million. During 1999 it declined further to $2168 million. During the same period the Indian share in the world share decline from 0.765% to 0.387% and 0.259% (World Investment Report, 2000). In other words, India's share in FDI has touched an all time low. FDI also plays an insignificant role in the Indian capital formation and investment. For example, FDI inflows as a percentage as fixed capital formation for India during 1998 was a mere 2.9% compared China's 13%. In the last 3 years, the decline in FDI has also been accompanied by a decline in domestic saving and investment rates.

3.2.16 Foreign investment into India had increased from US, $133 in 1991-92 to US $6,008 in 1996-97 (Table 4.1). It declined to US $5,025 million in 1997-98 and further to US $880 in 1998-99. Much of the investment was portfolio investment, which can move quickly. The second biggest source of foreign investment approvals came from special investment approvals/Foreign Investment Promotion Board. This means that lobbying with government would still help than investments being decided merely on the basis of their merit automatically.

3.2.17 Although foreign direct investment (FDI) increased by 18.6 per cent form US $2,696 million in 1996-97 to US $3,197 million in 1997-98, portfolio investment declined from US $3,312 million in 1996-97 to US $1,828 million in 1997-98 (Table 4.1).

3.2.18 There was a sharp decline in approvals in 1998 and average actual inflows were only 21.7 per cent (Tables 4.2 and 4.3). Major reasons for this include questions about policy consistency, red tape, weak infrastructure and unreasonable projections. Energy and Telecom accounted for bulk of FDI plans during 1991-92.

3.2.19 In the pre liberalisation period, the United States, the United Kingdom, Germany, Japan, Switzerland and France constituted the major country sources of foreign investment flow. In the post liberalisation period USA continues to dominate. However, in the recent times, Mauritius has also emerged as the dominant source of inflows. This may be owing to the double taxation treaty that exists between India and Mauritius, which favours the routing of FDI through this country.

3.2.20 **Sectoral Distribution.** The sectoral distribution of foreign investment approved between 1991 and 1999 is shown in Table 4.4. The analysis of top ten beneficiaries of FDI inflows indicate its concentration in a few sectors; power, chemicals, basic metals, services (particularly telecom), and transportation.

3.2.21 Evidently, the relative importance of manufacturing sector has declined with the opening up of infrastructure and service sectors to foreign direct investment under the liberalisation policy.

3.2.22 Amongst the major investing countries, USA has evinced keen interest in fuels, processing and telecommunication, while Mauritius has evinced keen desire to invest in fuels and the telecom sector.

3.2.23 **Regional Distribution.** Maharashtra is the most dominant Industrial State in the Country. What distinguish the State from the others are the availability of highly skilled and technically qualified labour force, relatively efficient financial and physical infrastructure as well as the existence of an efficient and a business friendly administration. It is therefore, not surprising to find that the State leads the pack on the FDI front (Table 4.5).

3.2.24 **Future Prospects.** According to a report by a global consultancy firm Mckinsey, India has the potential to attract foreign direct investment $100 billion over the next 5 years. At present it actually pulls in about $2.5 billion a year compared to China, which attracts 20 times the FDI India does. According to Mckinsey, India has already lost $4-5 billion of potential FDI owing to series of high profile exits.

3.2.25 In overall numerical terms there has been a quantum jump in the number of approvals of FDIs but then there are disturbing features too. According to an RBI study (Foreign Collaboration under Liberalisation Policy, 1996), "the best response to liberalisation so far has been largely from Foreign Institutional Investors (FIIs) in terms of portfolio investment especially, in subscribing to Global Depository Receipts (GDRs) floated by Indian corporate houses abroad and also with large investments in Indian stock market. The response of TNCs in terms of FDI inflows has been, on the other hand, rather cautious, although the annual inflows of foreign equity investment under liberalisation look impressive relative to the position in the earlier periods of restrictive policy regime."

3.2.26 Moreover, India's record in attracting FDI through liberalisation policy is relatively poor when a comparison is made with the quantum of FDI inflows into China. There is also a view that both in terms of absolute value and growth rate FDI flow position in India is far below what probably is required. There are also concerns about the considerable difference between FDI approval values and actual inflows, and the gap between the estimated need and the actual flow of FDI.

Foreign Trade

3.2.27. India's average share in world exports was 1.64 percent during the period 1954—55. The share of Indian exports in world exports has also been stagnating around 0.6% (Table 3.6). By 2000-01, it has declined to 0.62 percent. In products like chemicals, machinery, tele-communication, and computer equipments where the world market is growing the India share is 0.2%. In traditional, and low technology items the Indian share is more than 5%.

3.2.28 The average annual growth rate of imports between 1992-93 and 1999-2000 was 13.4%, which was higher than the average annual growth rate of 8.5% between 1980-81 and 1991-92. Provisional import data from Directorate General of Commercial Intelligence and Statistics (DGCI&S) for 2000-2001 indicates that the imports grew by merely 0.27% despite a 62.29% surge in oil imports. This, however, does not imply the impact of decelerating imports is felt uniformly by all the industries. Certain industries/units engaged in the manufacture of dry cells, toys, shoes, and certain consumer durables are finding it difficult to face the onslaught of foreign competition.

3.2.29 While imports from specific countries like China, for instance, have increased, India's exports to these countries have risen faster. Exports in 2000-2001 exhibited a sharp turn around with the growth rate of US dollar value of 20%. These figures exclude software exports. This growth has been achieved despite slow down in the U.S. and the Japanese economies, which are important trading partners of India. The long-term trend in exports shows that the annual average growth between 1992-93 and 1999-2000 was 10% compared with 7.6% between 1980-81 and 1991-92.

3.2.30 India was predominantly an agricultural economy till independence in 1947. Even after independence, the emphasis in five-year plan was on agriculture. With the second five-year plan agriculture was ignored. Since the mid –1980s, in the name of globalisation, pressure has been brought on Bharat to whittle down its sovereignty in agriculture bilaterally through the negotiatory medium and multilaterally through the GATT replaced by WTO now, World bank, IMF and particularly by multinational corporations. Apprehensions have been expressed that the removal of Quantitative Restrictions (QRs) have resulted in a surge and dumping of imports into the country, specially from China, Nepal and certain East Asian countries, adversely affecting the domestic industry. QRs on 488 tariff lines were lifted during 1996-97. Subsequently QRs were removed on 132, 391 and 894 tariff lines during the next three years. Another 714 and 715 items have been removed from QRs in April 2000 and April 2001 respectively. The agriculture sector has been globalised after removal of the Quantitative Restrictions on imports. Our productivity levels in major agriculture commodities have been comparatively low. By globalising agriculture we are distorting the constitutional provisions and it will also result into large scale unemployment of agriculture labour and untold miseries for the farmers of India.

3.2.31 Given the diversity and complexity of our country's economy, in certain specific sectors competition from imported commodities, etc., may have adversely affected domestic producers and even contributed to significant job losses in certain occupations and regions.

3.2.32 Overall, however, the employment effects of FDI and trade liberalization has been marginal, at best. To the extent new FDI is into acquiring existing businesses through mergers and acquisitions and investing in modernization, the net employment effect may be negative, at least in the short run. Unfortunately, we do not have any database to monitor employment effects of FDI or, for that matter, even international trade.

Balance of Payment

3.2.33 The trends in exports and imports shows the deficit on the trade account of the balance of payments widened to US $17.10 billion in 1999-2000 from US $13.75 billion in 1998-99 (Economic Survey, Table 6.2. p.102). India's share in world exports is merely 0.6 per cent, even though India is the fourth largest economy in the world as per Purchasing Power Parity.

3.2.34 Opening of the economy and efforts to integrate with the rest of the world have resulted in a higher increase in imports than exports and exacerbated the balance of trade. The removal of quantitative restrictions on import of 715 commodities from April 2001 in addition to the 714 commodities that were freed from quantitative restrictions in 2000 will accelerate the growth in negative balance of trade. Foreign exchange reserves of India amounted to US $35.06 billion at the end of March 2001, showing an increase of US $5.54 billion during 1999-2000. But this is largely due to remittances by NRIs.

Foreign Debt

3.2.35 Though the absolute magnitude of India's external debt has increased from US $53.80 million in 1991 to US $198.44 million in 2000, the ratio of external debt to SDP has declined from a high of 38.7 percent in 1992 to 21.9 per cent in 2000 (Table 6.12 p 125 Economic Survey, 2000-01). India's indebtedness position has improved over the years. In absolute level of debt, it ranked as the third largest debtor country after Brazil and Mexico in 1991. India ranked the tenth largest indebted country in 1998 (Table 6.14 p. 127 Economic Survey 2000-01).

Technology

3.2.36 Technological lag of Indian industry is astounding. It continues to be a drag on Indian industry. If we take two sectors, pharmaceuticals and information technology we find conflicting evidence. Some domestic pharma companies – Reddy Labs and Ranbaxy, for instance – have made significant strides. They have not only become multinationals, but have also started selling molecules and are receiving royalties from multinational companies in Western Europe and North America. Several of them have successfully established manufacturing bases abroad, obtained licenses and ultimately acquired the confidence of overseas customers and governmental authorities. In contrast, with technology being available off the shelf, in electronics and information technology there is no improvement in R&D.

Mobility of Labour

3.2.37 World over labour migration occurred on a much larger scale in the 19^{th} century and early 20^{th} century than in the past 50 years. In the past globalisation resulted in job losses in some countries and job creation in others. Therefore, labour could migrate to where the jobs are. The globalisation we witnessed towards the end of the 20^{th} century and the beginning of the 21^{st} century has resulted in persistent job losses and raising unemployment levels in most parts of the world. Also, new technologies rendered jobs in several sectors less labour intensive and probably more environmentally friendly. Therefore, instead of industrial relocation, what we see is industrial restructuring through business processing reengineering, etc. The cumulative effect of all these developments has been reduced migration.

3.2.38 The migration of workers across international boundaries is one of the most striking aspects of the globalisation of the world economy, with a major impact on well over 100 countries. It is currently estimated that at least 130 million people live outside their countries of origin. This large-scale migration from one country to another, either permanently or for short duration, is essentially the manifestation of the urge to search for better working conditions and the need for an improved social and economic life. Political factors have also influenced people to leave their ancestral homes and seek refuge in other countries.

3.2.39 Increased internationalisation of production, trade and finance is expected to exert additional pressure in the countries of origin and destination for larger flow of skilled or unskilled labour in the immediate decades to follow. In addition, the revival of economic growth in most of the Middle-East states – the centre stage for contract labour migration in the last two decades – seems to have wide ranging implications on future international migration flows, particularly for labour exporting countries in South and South East Asia.

3.2.40 In such a context, it is imperative that attempts are made, especially in a leading labour exporting country like India, to examine the implications of the contemporary migration flows so as to evolve a more purposeful migration policy framework aimed at the maximisation and socialisation of benefits from migration in the wider context of economic development.

3.2.41 Since Independence, two distinct types of labour migration have been taking place from India. The first is charactesized by a movement of persons with technical skills and professional expertise to the industrialised countries like the United States, Britain and Canada, which began to proliferate in the early 1950s. The second type of migration pertains to the flow of labour to the oil exporting countries of the Middle East, which acquired substantial dimensions after the dramatic oil price increases of 1973-74 and 1979. The nature of this recent wave of migration is strikingly different, as an overwhelming proportion of these migrants are in the category of unskilled workers and semi-skilled workers skilled in manual or clerical occupations.

Migration to the Industrialised Countries

3.2.42 At the outset, it is important to highlight the basic characteristics of the labour flows from India to the industrialised countries in the period since Independence:

- Such outflows are made up almost entirely of permanent migration in so far as the proportion of emigrants, who return to India, after a finite period, is almost negligible.
- A large proportion of these migrants are persons with professional expertise, technical qualifications or other skills.
- For an overwhelming proportion of these migrants, the destinations are United States, Canada, and the United Kingdom.

3.2.43 Although these labour flows have continued unabated for long, it is surprising that there is no information, let alone a primary source of data, on these migration flows from India. Whatever analysis has been carried out till date on the composition of these flows is thus based upon immigration statistics of the countries of destination.

3.2.44 Available evidence indicates that the United States is the major recipient of Indian migrants. In terms of numbers, nearly 30,000 Indians on an average has been migrating to the United States during 1986-1995 (Table 4.7). The significance of these flows become more illustrative when we examine India's share in total immigration to the United States during 1951-1996. It shows that Indian immigration in the United States which constituted less than one per cent of total immigration from all countries during 1950s and 1960s, registered a rapid increase during the 1970s, reaching a peak of 3.8 per cent that tapered off in the 1980s till 1991 but went on the upswing in 1992 at 3.8 per cent again and further touching almost 5 per cent in 1996.

3.2.45 The presence of a substantial and growing number of educated Indian nationals in the West, mainly the U.S. makes brain drain an issue of significance for public policy in the Indian context once again.

Migration to the Middle East

3.2.46 The oil price increases of 1973-74 and 1979 saw an enormous growth in the demand for foreign labour in the oil exporting States of the Arab Gulf. The scale of labour movements into the Gulf was intimately linked to the escalation in oil revenues and the unprecedented rate of investment in the domestic industry and infrastructure of the oil states which this increased revenue permitted. A small indigenous labour force ensured that the accelerated economic growth inevitably generated a demand for labour far beyond the capacity of the local labour market. This sudden spurt in demand for labour was met by drawing labour from labour surplus economies like India. The period between 1974 and1982 witnessed large outflow of Indian labour to the Middle East Labour Markets.

3.2.47 The oil glut in the early 1980s resulted in a reduction of development expenditure in most Middle East States which had an adverse impact on the demand for labour, thereby slowing down the flow of migrant labour into the region. Besides, most of the construction activities, which were taken up in the Middle East in the 1970s, and which employed large number of migrant workers had been completed by the 1980s resulting in large-scale displacement of the guest workers. This labour market situation forced the migrant labour to lapse back to their native countries in large numbers. Viewing this trend, apprehensions were expressed in many quarters as to whether Indian labour migration to the Middle East would be sustained in a significant manner in the next couple of decades. These apprehensions were further aggravated by the events relating to the Gulf crisis of 1990 which forced nearly 1,60,000 Indians to return home from the war-zones in distressed conditions.

3.2.48 Contrary to such threats of declining out-migration, available evidence indicate that labour migration from India to the Middle East has picked up substantial momentum since the initial hiatus in the early years of the present decade. The revival of economic growth in most Middle East States and the large-scale reconstruction of the war-torn areas seem to have considerably boosted the migrant labour requirements in the Middle East. The trends in annual labour outflow from India to the Middle East in the 90s are depicted in Table 3.8.

3.2.49 It is also important to note that there has been a clear shift in the pattern of labour demand in the Middle East - a shift away from several categories of unskilled and semi-skilled labour and towards service, operations, and maintenance workers requiring higher skills - thus generating new opportunities for labour exporting countries.

3.2.50 Apart from acting as a 'safety valve' for the massive unemployment problems at home, migration to the Middle East would continue to be an important source of foreign exchange for a country like India, which faces severe balance of payments problems, at least for a couple of decades more.

Industrial Sickness

3.2.51 Closure of industrial units and bankruptcies are a normal feature in the developed economies all over the world. The incidence of closures tends to be high in economies characterised by fierce competition and in industries with a high degree of obsolescence. Developed economies with their well-established social security systems, easily take care of workers displaced by such closures. So even when labour is displaced, the social safety net ensures that basic needs are taken care of. Developing economies with their limited investible resources and relatively limited alternative employment opportunities, however, cannot, easily afford their productive assets and labour force turning non-operational. The resultant loss of jobs, production and revenue are not easily absorbed and, depending upon the number of persons involved, may lead to serious consequences. Industrial sickness and resultant consequences have therefore to be handled carefully to see that its adverse impacts are least on workers and society. With the globalisation in India incidence of sickness, bankruptcies and closure of industrial units is likely to increase.

3.2.52. As of March 1999, Industrial sickness is widespread, afflicting 3,09,013 units in almost all industry groups spread all over the states and the union territories in India. This excludes 1.26 lakh non-existent and non-traceable SSI units with an outstanding bank credit of Rs. 240 crore (GoI 1996-97). These 3.09 lakh sick units might be employing about 70-80 lakh persons (Mehta 1992). The losses of 117 out of 240 central government undertakings, most of them terminally sick, are estimated to be Rs. 5,287 crore in 1993-94, employing 7-8 lakh persons. Forty-nine public sector units under the department of heavy industry, government of India, employing 2.03 lakh persons incurred an aggregate loss of Rs. 1,111.59 crore during 1994-95 compared to an aggregate of Rs. 239.6 crore in 1990-91. Out of these 49 public sector enterprises 34 are loss making. Two hundred twenty-eight public sector enterprises, government of India, employing 20.5 lakh persons includes 57 chronically sick units, which are registered with the Board of Industrial and Financial Reconstruction (BIFR). The losses of the departmental commercial undertakings of the 25 states and 7 union territories are Rs. 1,780 crore in 1995-96. In addition, the losses of the state electricity boards and states' road transport corporations are over Rs. 5,000 crore. About 875 state level public enterprises incurred a loss of Rs. 863 crore in 1991-92 (Sankar et al 1994). According to Comptroller and Auditor General Report there are around 500 enterprises owned and operated by the state governments, which have a cumulative loss of over Rs. 2,000 crore, against a paid up capital of Rs. 2,300 crore (Bajaj Committee 1992).

3.2.53 The aggregate scene of industrial sickness in public and private sector in India amounts to a magnitude of around 3 lakh units (a very large number of them terminally sick) with a total loss of about Rs.31,000 crore and employing about 7-8 million people. Thus the industrial sickness in India is of massive proportion, which is eating into the vitals of the economy and has made India a high cost low productivity economy, making it non-competitive in the world market.

3.2.54 The major issue that emerges is how the industrial units, which are sick or closed or under liquidation, need to be dealt within India, particularly the displaced workers and locked assets of these units. This issue assumes added importance because of likely increase in the number of such units due to globalisation. Since the resources of the country are limited and therefore these resources cannot be given up for good they need to be recycled for productive activities, without delay.

3.2.55 **Government and Entrepreneurs' Response.**The government responded to the growing industrial sickness through- (i) Nationalisation (ii) Modernisation (iii)

Merger and (iv) Rehabilitation;

Nationalisation: When the management of an industrial undertaking is being detrimental to the industry's concern and public interest the central government nationalises that unit for a specific period of time. The National Textile Corporation was established in 1974 to take over the management and rehabilitation of sick textile units. The management of about 125 private textile mills was taken over between 1974 and 1979. Similarly, government has taken over 46 private sick units including several textile mills. Government of Gujarat floated Gujarat State Textile Corporation and took over 12 sick textile units. Unfortunately, most of these nationalised private units are running into losses and continue to remain sick. Many of them have been scrapped and are under liquidation.

Modernisation: After the identification of lack of technological up gradation as an important cause of poor performance resulting in industrial sickness, efforts were made during 1970s and 1980s to provide funds for modernisation. In response to the need for modernization in cotton and jute textile industries, textile modernisation fund and jute modernisation fund were set up in 1976, with very little success.

Mergers: In 1977, concessions were made under Section 72 A of the Income Tax Act to allow companies taking over a sick unit to carry forward and set off cumulative losses and unabsorbed depreciation against therein own tax liabilities in certain circumstances. To qualify for the merger, the take over must be in the public interest. Each case was subject to the approval of a committee. The usefulness of the merger provisions continues to be limited by stringent, cumbersome and time-consuming approval procedures, which generally take more than three years.

Rehabilitation: The central features of India's treatment of the industrial sickness is firm-specific rehabilitation packages under the auspices of Sick Industrial Companies Act, 1985. The development of the firm-specific rehabilitation package is much time consuming and it takes about 12-18 months, which a sick unit can hardly afford.

3.2.56. When a unit becomes sick and unviable the first response of the entrepreneur is the non-payment of the statutory dues. The reported BIFR cases invariably show the non-payment of the statutory dues like Provident Fund arrears, ESI dues, workers' dues and dues of the banks and financial institutions, sales tax, excise duty arrears, workers' dues towards gratuity and wages, etc (GoI 1991). The second response of the entrepreneur is to lay off and/or retrench workers and/or close the units by non-payment of the electricity dues which would lead to disconnection of power supply and subsequent discontinuation the functioning of the unit (GoI 1991). The third response is to seek a liberal rehabilitation package through BIFR under Sick Industrial Companies Act, 1985. Lastly, the entrepreneur might like to wind up the unit if the rehabilitation package fails.

IMPACT

3.2.57 **Growth of the Economy.** During the protectionist regime in the 60's and the 70's the average annual compound growth rate of the Indian Economy did not exceed 3.5%. The Growth of the Indian economy has accelerated since then. The average annual growth rate of real gross domestic product rose to 5.8% p.a. during 1981-91 and further to 6.4% p.a. between 1992-02 (Table 3.9). Thus India has the distinction of being one of the fastest growing economies in the world.

3.2.58 During the 1980's, Indian economy witnessed an average annual compound growth rate of 5.24 percent per annum. All the three sectors of the economy i.e. primary, secondary and tertiary sectors, recorded absolute growth during this period. Most importantly most states had higher than the trend growth rate of 3.5 per cent per annum [Ahuliwalia, 2000 and Mehta 2000]. Rajasthan, (6.6% p.a.), Haryana (6.43% p.a.), Maharashtra (6.02% p.a.), and A.P. [5.65% p.a.) achieved higher growth than the national average. Several other states had more than 5 per cent per annum growth during the 1980's.

3.2.59 During the 1990's Indian economy grew at an average annual compound growth rate 6.01 per cent per annum. In 1980's and 1990's the commodity sectors of agriculture and industry grew at same rate, but the tertiary sector – particularly trade and transport — had higher growth in 1990's compared to 1980's.

3.2.60. Bihar, U.P. and Orissa, low income and poor states grew relatively slowly in post liberalisation period. Bihar the poorest state in India experienced a decline in per capital income. Even Rajasthan with a high-sustained growth during 80's and 90's showed a marginal decline in per capita income in post liberalization period. The slow growing poor states constitute about 80% of India's population. The education and health status of low-income states is also poor compared to high-income states. The poorer states have relatively high poverty tends, low per capital income, low growth in per capital income, low literacy rates, high infant mortality rates, poor agricultural growth, less than 55% of children aged 6-10 are attending schools, poor financial health, large rural urban differentials, large male female differentials and poor social and physical infrastructure.

3.2.61. The inter state inequality has increased during eighties and nineties. This is reflected in the estimated inter-state gini-coefficient, which increased from 0.16 in 1986-87 to 0.23 in 1997-98 and fitting a time trend to the series shows a statistically significant positive slope (Ahuliwalia, 2000). However intra-regional inequalities are low in the poor states but high in the developed states like Maharashtra & Gujarat (Mehta, 2000).

3.2.62. India has been among the fastest growing economies in the world over the last two decades and has achieved trend improvements in growth, literacy, mortality and poverty rates (IMF 2000). The development experience of the Indian economy has been different from that of the presently developed countries as the share of services sector in GDP surpassed that of the agricultural and the industrial sectors in a relatively short span of time. The economy has leaped from the stage of lower order of value addition generally associated with agriculture sector to the higher-level value addition for by the service sector (RBI, 1999). Services sector accounted for 52.3 percent of the GDP in 1999-2000. Agriculture and allied sector was 25.5 percent and industry 22.2 percent of the GDP during the year. The structural transformation of the Indian economy is sharp in terms of a significant increase in the share of services sector crossing 50 percent mark in second half of nineties from 40.9 percent in early eighties. Agriculture and allied sector is now down to 25.5 percent from 37.2 percent n early eighties. There is no significant change in the share of industry sector during early nineties. During the initial years of planning immediately after independence in 1947 agriculture and allied sector was 51.9 percent of GDP.

Trends in Employment and Unemployment

3.2.63. The comprehensive surveys of employment and unemployment by NSSO at quinquennial intervals since 1972-73 and the data available from other sources like the Annual Survey of Industries (ASI) and Employment Market Information (EMI) programme of the Ministry of Labour enable an analysis of the trends and structure of employment in 80's and 90's i.e. pre and post-reform periods.

3.2.64. To analyse the employment and unemployment situation in India, we have considered the 43rd, 50th and 55th NSS Round corresponding to 1987-88, 1993-94 and 1999-2000. The population projections for these years have been taken from the report of the Technical Group on Population Projections by Registrar General, Government of India for the respective years as on 1st March. The labour force was estimated on the basis of labour force participation rate (LFPR). The labour force includes both the employed and the unemployed. For measuring the labour force participation the usual status (both principal and subsidiary status taken together) concept has been used. It includes persons who had worked for some time with some regularity and also those who had either sought work or who are available for work for some time. The labour force projected on this basis is estimated to be 402.41 million in 1999-2000, 381.93 million in 1993-94 and 332.2 million in 1987-88 (Table 3.10).

3.2.65. Our analysis based on principal status is only with respect to employment. On this basis the rate of growth in employment in the economy has slowed down from 2.27% p.a. during 1987-88 to 1993-94 and to 1.55% p.a. during 1993-94 and 1999-2000. On the basis of usual status and subsidiary status taken together the rate of growth in employment works to only 0.82% p.a. (Sundaram, 2001).

3.2.66. The rate of growth of labour force during 1993-94 and 1999-2000, taking into consideration the backlog of the unemployed as on 1993-94 of 50.63 million, is 3.3% p.a. This is more than double the rate of growth in employment during the period. The number of jobs that needs to be created during 1993-94 and 1999-2000 works out to be 71.14 million whereas the actual number of jobs created during this period was only 31.35 million. Hence the backlog of the unemployed as on 1999-2000 is 39.39 million. In spite of the decline in the rate of growth of employment, the backlog of unemployment has declined from 50.63 million in 1993-94 to 39.39 million in 1999-2000. Incidentally, the number of persons registered on employment exchanges in the country at the end of 1999-2000 is about the same as the backlog of unemployment as per our estimates based on NSS data.

3.2.67. The absolute magnitude of the unemployed increased during 1987-88 and 1993-94 by almost 4.5 times but in the 1990s it declined by over 10 million. The rate of unemployment as a percentage of labour force was as high as 13.25% in 1993-94 but it declined to 9.79% in 1999-2000. Still it is quite high. Sundaram (2001) and the Government estimate the rate of unemployment taking both principal and subsidiary status together and therefore come out with much depressed figures of less than 3%.

3.2.68. If the category of employment in different NSS rounds is examined, we find that in 1980s casualisation has increased and the proportion of salaried employees and self employed has declined. However, in 1990s the proportion of casual labour has marginally increased but the proportion of salaried employed has increased by one percentage point. The salaried jobs in Indian economy have increased by 7.84 million in 1990s, all of it in the unorganised sector. Until this time, the only trend was increase in casual employment and declining proportion of self employed and salaried employment.

3.2.69. Overall employment is estimated to have grown at around 1.01 percent per annum in 90s compared to 1.55 percent per annum in 80s. There has been a deceleration in the rate of growth of employment by residence, sex and most sectors except in manufacturing trade, transport finances and both in organised and unorganised sectors in 90s. Deceleration in the rate of employment growth has been more in the organized sector. The concern over jobless growth is mounting. There is stagnation or reduction in employment in several industries in the organised sector. The number of unemployed in 1999 was more than the number employed in the organised sector. In 1998 there was 38 million job seekers registered in the employment exchanges as against 31 million employed in the organised sector. In any case only about 8% of the work force is protected, while over 19% is unorganised, unprotected and vulnerable. Hence jobless growth is not sustainable in the country where large number of unemployed is in queue for employment.

3.2.70. **The Occupational Structure.** Differential rates of employment growth in the different sectors and of different kinds have led to certain changes in the structure of employment over time. Important among these are changes in terms of proportions of different sectors of economic activity, self and wage employment and organized and unorganized sectors.

3.2.71. The proportion of employed in agriculture has declined from 61.68% in 1980s to 58% in 1990s (Table 3.11). If subsidiary workers are also included the absolute number of agricultural workers have declined from 239 million in 1993-94 to 236 million in 1999-2000 (Sundaram, 2001). This relative shift from agricultural sector has been matched by a corresponding increase in employment in each of the other sectors. A shift from agricultural to non-agricultural occupation has taken place in even within rural areas. In percentage points, the shift was 4 percentage points in 80s as well as in 90s. Share of manufacturing has almost remained constant. It is the service sector, as a group that recorded most gains in its share in the workforce-with half of this being accounted for by Trade, Hotels and Restaurants sector. The Transport Storage and Communications and the Community, Social and Personal services sectors each gained 2 percentage points in their respective shares in the workforce in 80s & 90s.

3.2.72. Another major shift which is taking place in the structure of the workforce, is an increase in the proportion of casual labour, relative to the self-employed and regular salaried wage earners. The proportion of casual wage labour was 29.9% in 1987-88, which increased to 32.6% in 1999-2000, with a steady decline in self-employed from 56.3% in 1987-88 to 52.51 percent in 1999-2000. However, the proportion of salaried regular employment increased from 13.7 % in 1987-88 to 14.89 % in 1999-2000.

3.2.73. Unorganized sector accounted for about 93% of the employment throughout 70s and 80s, it increased to 92.9 % in 1999-2000. There have been significant increases in the proportion of the unorganized employment in most sectors of economic activity. The unorganized sector is characterized by no job security, no income security and no occupational safety, which is contrary to the mandate of the Constitution of India, which promises job security, income security and social security.

3.2.74. In terms of absolute number of workers there is a modest decline of 0.9 million in the agriculture and allied activities (Table 3.11b). Crop production has recorded a reduction in the size of its work force of 1.5 million in the aggregate. This is offset by an increase of about 1.92 million workers engaged in providing agricultural support services in the aggregate.

3.2.75. There is an addition of about 5.08 million to the workforce of manufacturing and repair services between 1994 and 2000. The employment in textiles and textile products increased by just 1.48 lakh-largely in the rural areas. In urban areas, employment in this sector declined by about 93,000 & female workers employment declined by about 1.45 lakh between 1994-2000.

3.2.76. In the Community, Social and Personal services sector there was a reduction in the size and share of the workforce in 1990s. The manufacturing sector recorded a minor rise in its share in the aggregate workforce from 10.98% to 11.26% in the 1990s. The Construction and trade, hotels and restaurants sectors have increased their respective shares in workforce. In the aggregate the biggest gainer in the share of workforce has been the trade, hotels and restaurants sector from 7.8% in 1987-88 to 10.94% in 1999-2000. This sector is now the third largest in terms of workforce, next only to agriculture and manufacturing sectors. The size of the workforce in this sector has grown from 22.58 million in 1987-88 to 39.70 million in 1999-2000 at an annual compound growth rate of 4.8% p.a.

3.2.77. During the 1990s the number of subsidiary workers has declined from 43.12 million in 1993-94 to 30.17 million in 1999-2000. Of this 30.17 million subsidiary status workers, 86.7% are female workers and of that 82% are self employed and the remaining are casual labour.

3.2.78. Since the labour force participation rate has declined during 1990s, particularly in the age group 5-14 and 15-24, it is an indication of increased enrolment. This also indicates decline in the number of child labourers.

3.2.79. With GDP growing at average annual compound growth rate at 5.98% p.a. and employment growing at the rate of 1.55% p.a., the employment elasticity works out to be 0.26, which implies that during this period a one per cent increase in GDP, implies 0.26% growth in employment. The estimated labour force in 2011 based on labour force participation rate of 1999-2000 is likely to be 472 million. Taking into consideration the backlog of unemployed of 39.39 million at the end of 1999-2000, India needs to create 109 million jobs during 1999-2000 to 2011 at the rate of 2.41% p.a. For this the required rate of growth of GDP at the present level of employment elasticity is 9.27% p.a. This is one and half times of the present rate. This should not be difficult to achieve in view of the already existing capacity created in the economy, which is under-utilised.

3.2.80. The employment elasticity varies across sectors. Construction, trade and transport continue to be the highest labour intensive sectors while manufacturing is progressively tending to be capital intensive. It is possible to achieve near full employment with lesser rate of economic growth projected earlier, by reprioritisation of public and private investments into sectors with very high labour intensity. Like some Asian countries – Malaysia and Singapore for instance – if we have a programme for housing for all we will not only be giving a boost to construction industry which in turns boosts 100 other industries, but also be securing one of the three basic needs, namely shelter.

Trends in Wages and Productivity.

3.2.81. There is evidence to indicate that both real wages and productivity of labour has registered an increase during the 90's. This growth is in all the segments of the work force, even for casual workers.

3.2.82. According to the estimates made by Sundaram based on the 50th and 55th rounds of NSSO, the average daily earnings of adult casual labourers in the rural areas increased by 3.59% p.a. for males and 3.19% for females between 1993-94 and 1999-2000. The average real wage earnings per day received by adult casual wage labourers in urban areas increased by 2.94% for males and 3.91% for females during the same period.

3.2.83. Along with the growth of real wages, there appears to have been an overall growth of productivity of workers. According to Sundaram's estimates, the labour productivity increased in Indian economy, in all the sectors and the aggregate level, at the rate of 6% p.a. In agriculture and allied sectors it increased a little over by 3.3% p.a. in real terms. In manufacturing, trade, hotels and restaurants and community, social and personal services the average labour productivity measured by gross valued added per worker increased at annual compound rate of 6.1, 2.8 and 10.1% respectively. In the construction and transport, storage communication sectors the gross valued added per worker virtually stagnated.

3.2.84. In spite of this impressive increase in the labour productivity in the Indian economy in 90's, India's labour productivity is lowest amongst 47 countries covered by World Competitive Year Book 2000.

Inflation

3.2.85. As seen from Table 3.12, in recent years the rate of inflation has declined, though it is still higher by the standards of several industrialised nations.

Poverty

3.2.86. The consumer expenditure data of 55th round on a 30 day recall basis yields a poverty ratio of 29.09% in rural areas, 23.62% in urban areas and 26.10% for the country as a whole in 1999-2000. The corresponding percentages from the 7 days recall period are 24.02% in the rural areas, 21.59% in urban areas and 23.33% for the country as a whole. The poverty estimates for the years 1973-74, 1977-78, 1983, 1987-88, 1993-94 and 1999-2000 indicate a definite decline in poverty ratios. The estimates of poverty of 1999-2000 is not strictly comparable with the earlier estimates of poverty on account of difference in methodology for collecting data, but the decline of more than 10% points in the poverty ratio gives some reason to believe that the general living standard of the workers have improved with the rest of population.

3.2.87. The above trends are further corroborated by the Market Information Survey Of Households (MISH) of the National Council of Applied Economic Research (NCAER). An independent estimate of poverty, made by Deepak Lal, Rakesh Mohan and Natarajan on the basis of MISH, indicates a more rapid reduction in poverty ratio compared to the official estimates made by the Planning Commission.

3.2.88. According to these estimates, the poverty ratio at the all India level declined from 38.86% in 1987-88 to 16.52% in 1997-98. It is claimed that the estimates of decline in poverty ratio made on the basis of MISH are more compatible with available data on growth of consumption of consumer durables such as TV, tape recorder, electric fans, bi-cycle, two-wheeler as well as non-durable items, such as textiles, edible oils, footwear, etc.

Growth in Inequality

3.2.89. In spite of these macro improvements, at a more disaggregate level, there is an uneven impact of growth on different sections of the population reflecting income inequalities.

3.2.90. The employment elasticity of output has declined over time, which reflects the capital-intensive nature of the growth process. This decline is more pronounced in secondary and tertiary sectors. According to the study made by Nagarajan, the rural (nominal) per capita income as a proportion of urban per capita income has also declined (National Accounts Statistics, 1999, Statement S-5, Net Domestic Product in Rural and Urban Areas, 1970-71, 1980-81 and 1993-94, Page 184-185). A similar comparison of nominal per capita income in the organised and unorganised sectors shows that the per capita net domestic product (NDP) in the unorganised sector as a proportion of NDP in the organised sector has also gone down (National Accounts Statistics, 1999, Statement 76.1, 1993-94, 1994-95, 1995-96 and 1996-97, Page 166-168). Income distribution across states shows that the inequality measured by the coefficient of variation in per capita state domestic product has nearly doubled in 1970-71. The disparity in per capita income between the top three and bottom states has also widened sharply since mid 80's. The distribution of value added between wages and profits in the private corporate sector also shows growing disparities in distribution between workers and entrepreneurs. Hence there is some evidence from the above studies to show that growth has favored urban India, organised sector, richer states and property owners as against the rural India, unorganised sector, poorer states and the wage earners. The period of growth during 80's and 90's has also been the period of growing inequalities. Domestic investments is concentrated largely in developed states of the country – mainly Maharashtra, Gujarat, Punjab, Haryana, compared to poor states like Bihar, Orissa, Madhya Pradesh and U.P. A similar trend is also seen in the concentration of Foreign Direct Investment (FDI).

Industrial Relations

3.2.91. **Trade unions.** The data on trade unions is outdated and unreliable. It is based on reported information. Non-reporting by states and within states is endemic. There is reason to believe that the union density has not grown. In traditional strongholds where large-scale workforce reductions are taking place, the union memberships are also falling. The membership of Textile Labour Association must have fell by 75% since mid-1980s. With one voluntary separation scheme, the union membership in banking industry in India must have fallen by about 8%. Similarly, besides jute and textiles, coal, steel and ports also witnessed drastic declines in workforce and as a result the union membership also declined. There is some momentum towards organising the unorganised, both by trade unions as well as others. But there is no authentic information on the degree or extent of success.

3.2.92. **Collective Bargaining.** Globalisation is affecting collective bargaining. Earlier in public sector, the emphasis was on greater parity across sectors and reducing the gap between the lowest and the highest paid employees. Now it is widening. Over 100 out of about 240 public sector companies did not have pay revision since 1992. There is also a trend towards decentralisation of collective bargaining in key sectors, which will reduce the power of unions, but make pay more aligned to enterprise performance. Government policies on wage controls also do not seem to have the desired effect. Extension of the period of collective agreements in central public sector resulted in workers of Navaratna companies getting double the raise they were getting when the duration of the agreement was for a period of 4 to 5 years. The average cost to the company of a worker per month in a Navaratna company at Rs.29,000 is equivalent to the annual salary of a temporary worker with similar skills working in the same company and in the same location. Over the years, the gap between workers at the same skill level is widening based on tenure, i.e., whether one is full time or temporary, casual and contingent worker.

3.2.93. **Industrial Conflict and Union Management Relations.** As seen from Tables 3.13 to 3.15 the incidence of industrial conflict is on the decline. However, one disturbing aspect is that while strike activity is waning lockouts are on the increase. Most long drawn strikes in private sector did not bear results from workers' point of view. Even resistance to privatisation from trade union is not deterring the government any longer. If privatisation process is stalled it is mostly due to bad experiences with earlier privatisations on a smaller scale (electricity, road and air transport for instance), inability to get the tenants vacated from the premises (in the case of Great Eastern Hotel) or resistance from within the government itself. There are instances of labour-management cooperation in the context of business problems. Unions are finding it difficult to defend their members' interests in declining companies. The collaboration between unions and management has in several cases saved companies from the brink of liquidation and arrive at agreements, which provided for a trade off between wages and jobs, among other things.

CONCLUSION

3.3.94. Overall, the changes ushered in during the decade of 1990s had a positive impact on economic growth. Their impact on distribution aspects remains an area of concern.

3.3.95. Unemployment and poverty have been increasing even before the economic reforms were contemplated. During the 1990s unemployment did not increase but a greater proportion of labour force seems to be engaged in casual unorganised jobs. If the negative trends in social consequences have accelerated it could be attributed to globalisation.

3.3.96. The critics of globalisation insist globalisation is bad and must be shunned. The fact, however, in our opinion, is that India needs WTO more than the WTO needing India. India missed the opportunity that several Asian countries have availed, in the wake of the oil price shocks in 1970s. Can India afford to miss the opportunity once again? Look at China. It has opened up its economy much before India did. It is attracting more foreign investment, building up giant enterprises, which provide it economies of scale, and is reporting consistently higher rates of growth. We are cautious about what happened in Mexico, East Asia and more currently what is happening in Argentina. Getting more share of foreign direct investment some how or other should not be the motive. If that is the criteria Argentina has attracted more foreign direct investment per capita than China and still the country today is in a mess. There are dangers in comparisons, particularly when we look at manifest problems without fuller understanding of underlying causes.

Table 3.1 : Foreign Investment Flows by Different Categories

(US $ million)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	April-Dec 1997-99	April-Dec 1998-99
A. Direct Investment	**129**	**315**	**586**	**1314**	**2133**	**2696**	**3197**	**2511**	**1562**
a. RBI automatic route		42	89	171	169	135	202	186	131
b. SIA/FIPB route	66	222	280	701	1249	1922	2754	2119	1380
c. NRI (40% &100%)	63	51	217	442	715	639	241	206	51
B. Portfolio Investment	**4**	**244**	**3567**	**3824**	**2748**	**3312**	**1828**	**1742**	**-682**
a. FIIs #	-	1	1665	1503	2009	1926	979	973	-752
b. Euro equities @	-	240	1520	2082	683	1366	645	612	15
c. Offshore funds & others	4	3	382	239	56	20	204	157	55
Total (A+B)	**133**	**559**	**4153**	**5138**	**4881**	**6008**	**5025**	**4253**	**880**

Source : RBI.

- Provisional; # Represent fresh inflow/outflow of funds by FIIs.; @ Figures represent GDR amounts raised abroad by the Indian Corporates.

Table 3.2 : Foreign Direct Investment: Actual Flows vs. Approvals

	1991	1992	1993	1994	1995	1996	1997	1998*	Total (1991-99)
Approvals									
Rs. Crore	739	5256	11189	13590	37489	39453	57149	25103	189968
US$ million	325	1781	3559	4332	11245	11142	15752	6132	54268
Actual Inflows									
Rs. Crore	351	675	1786	3009	6720	8451	12085	8433	41490
US$ million	155	233	574	958	2100	2383	3330	2073	11806
Actual Inflows as % of Approvals (In US$ terms)	47.7	13.1	16.1	22.1	18.7	21.4	21.1	33.8	21.7

Source : RBI.

* Upto September 1998. Figures are provisional.

Note : The approval and actual inflows figures include NRI direct investments approved by RBI.

Table 3.3 : FOREIGN DIRECT INVESTMENT: POST REFORM
(August 1991 to July 2000)

Item	Value/Number
1. Foreign Collaborations (No.)	17702
- Financial collaborations (No.)	11256
2. FDI approved (Rs. Mn.)	2257575
- US$Mn.	63404
3. FDI inflow (Rs.Mn.)	5,15,670
- US$Mn.	15354

Table 3.4 : FOREIGN DIRECT INVESTMENT APPROVED: BY INDUSTRY

(Rs.Mn.)

Industry	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Food & Agro Products	571	4133	11198	7198	10889	37321	34077	6482	2928	3106
Sugar			535			133	9341	0.0	0.0	0.0
Fermentation Industries		50	1475	235	6120	833	2537	5	22	35
Food Processing	541	4022	9079	6846	2831	33848	19914	6325	1414	2719
Veg. Oil & Vanaspati	30	61	109	117	121	40	1453	9	483	0.0
Horticulture					264	379	509	77	284	196
Agriculture					587	283	279	61	657	155
Floriculture					967	1805	45	5	67	1
Textiles	186	1393	1192	9742	3123	4154	5953	2325	3228	2301
Paper	44	202	1153	2587	557	10627	6847	1071	6858	1635
Chemicals (excl.fertilizers)	1463	4212	3499	14823	11597	28619	28272	19817	8116	2370
Drugs & Pharmaceuticals	8	302	209	1630	1858	1182	1829	911	798	6699
Soap, Cosmetics & Toiletries		187	5	250	389	261	1665	0.0	0.0	0.0
Fertilizers	10		17	10		2421	12	0.0	0.0	0.0
Dyestuffs		01	136	16	104	45	29	736	45	0.0
Photo, films & Papers		79	107	20	43	3	1963	0.0	83	69
Plastic & Rubber Products	11	24	541	324	273	3432	493	5478	1237	13

Other Non-Metallic Products	255	265	1053	6313	3664	6535	6501	3761	11745	3276
Cement & Gypsum Products	120	68	252	3355	183	1562	591	896	6811	3002
Ceramics	127	194	301	2100	1054	1946	1246	936	681	179
Glass	8	3	500	858	2427	3028	4663	1929	4253	94
Basic Metals	22	589	12465	23814	4078	23164	25167	22198	14002	17801
Non-electrical Machinery	614	1356	1964	10208	8444	6807	8339	5592	6785	1536
Industrial Machinery	557	707	868	6581	5951	1627	2212	1081	2694	0.0
Agricultural Machinery		55		1558	1	564		2163	7	180
Industrial Instruments	21	148	17	8	420	425	118	9	49	20
Machine Tools	20	67	130	189	215	741	1280	144	972	21
Earth Moving Machinery	1	6	6	1117				4	18	207
Boilers & Steam Generators	7	1	539	35	384	134	66	14	286	0.0
Prime Movers (excl. Generators)				23	152	359	129	250	4	0.0
Misc. Mechanical & Engg	8	372	404	697	1037	2957	3833	1927	2753	1108
Electronics & Electrical Machinery	1074	4721	6634	5767	14588	32843	24920	17459	26363	80620
Electrical Equipment	1014	3718	6459	5613	10894	31222	21961	14275	25469	78805

Office & Household Equipment		638	93	87	2094	1575	2523	2808	853	929
Medical & Surgical Appliances	43	36	82	64	1481	29	319	365	38	845
Scientific Instruments	17	329		3	118	18	118	11	3	40
Misc. Industries	666	890	1355	6560	1388	5732	3710	3552	8051	11056
Leather & Leather Goods	31	273	170	252	646	291	591	488	266	244
Other Misc. Industries	635	617	1183	6308	679	5415	2702	2676	7785	10636
Transportation	201	1454	3063	11944	13085	28790	37901	15629	62237	8804
Power & Fuel	23	15041	28225	23451	50287	59206	264326	137238	56735	38916
Service Sector	194	4027	15692	17215	196986	110173	97109	65885	74661	109810
Telecomm.	136	1191	470	196	178227	44862	711325	31001	39018	87158
Hotel & Tourism		1988	3530	4382	9064	4491	6646	4805	7845	3076
Trading		54	226	345	571	1282	2859	6851	2383	5564
Consultancy Services	58	122	103	174	1335	5415	3513	6362	2536	921
Other Services		672	11363	12118	7789	54122	12766	16865	22879	13091
TOTAL	5341	38876	88598	141872	320717	361468	548913	308135	283863	291558

Source: CMIE Monthly Review of Indian Economy Various issues.

Table 3.5: FOREIGN DIRECT INVESTMENT APPROVED: BY STATE
(August 1991 to July 2000)

Industry	No. of Approvals Total	Technical	Financial	Amt. of FDI Approved Rs. Million	US$ Million
Maharashtra	2827	954	1873	338402.66	9296.42
Karnataka	1361	387	974	169361.74	4552.86
Tamil Nadu	1628	481	1147	168357.72	4584.23
Orissa	130	49	81	76867.43	2301.88
Gujarat	891	456	435	110586.45	3101.47
Andhra Pradesh	777	206	571	94080.35	2573.34
Uttar Pradesh	682	262	420	40098.99	1136.46
West Bengal	499	180	319	82136.50	2404.97
Delhi	1228	140	1088	316477.98	9090.26
Assam	17	13	4	14.95	0.48
Bihar	113	66	47	8516.74	215.19
Haryana	684	266	418	29838	828.93
J&K	5	3	2	84.10	2.42
Kerala	182	54	128	8207.76	230.21
Madhya Pradesh	247	98	149	97521.91	2671.20
Punjab	166	53	113	19389.49	573.19
Rajasthan	286	96	190	24961.96	706.40
States not indicated	5513	2479	3034	653056.64	18634.59

Source: Directorate of Industries, Govt. of Maharashtra.

Table 3.6
EXPORTS, IMPORTS, TRADE BALANCE AND AVERAGE ANNUAL COMPOUND GROWTH RATE FROM 1980-81 to 1990-91 to 1999-2000 and 1980-91 to 1999-2000

US $ millions

Year	EXPORTS	IMPORTS	TRADE BALANCE
1980-81	8486	15869	-7383
1981-82	8704	15174	-6470
1982-83	9107	14787	-5679
1983-84	9449	15311	-5861
1984-85	9878	14412	-4534
1985-86	8904	16067	-7162
1986-87	9745	15727	-5982
1987-88	12089	17156	-5067
1988-89	13970	19497	-5526
1989-90	16612	21219	-4607
1990-91	18143	24075	-5932
1991-92	17865	19411	-1546
1992-93	18537	21882	-3345
1993-94	22238	23306	-1068
1994-95	26330	28654	-2324
1995-96	31797	36678	-4881
1996-97	33470	39133	-5663
1997-98	35006	41484	-6478
1998-99	33218	42389	-9171
1999-2000	37599	47212	-9613

Average Annual Compound Growth Rate Growth rate for the periods below	**Exports**	**Imports**	**Balance**
1980-81 to 1990-91	7.41	4.15	-2.32
1990-91 to 1999-2000	9.39	10	15.7
1980-81 to 1999-2000	8.95	6.42	1.09

Note: Average annual compound growth rate in bracket (AACGR) have been estimated by fitting log linear trends to export, imports and trade balance.

Source: Economic Survey 2000-2001, G.O.I.

Table 3.7 India's Share in Total Immigration to the US: 1951-1996

Immigration	1951-60	1961-70	1971-80	1981-90	1991	1992	1993	1994	1995	1996
From India	2,120	31,214	172,080	261,841	45,064	36,755	40,121	34,921	34,748	44,859
From All countries	2,515,000	3,322,000	4,493,000	7,338,000	1,827,167	973,977	904,292	804,416	720,461	915,900
India's share (%)	(0.1)	(0.9)	(3.8)	(3.6)	(2.5)	(3.8)	(4.4)	(4.3)	(4.8)	(4.9)

Source: Khadria, 1999

Table 3.8. Annual Labour Outflows from India to the Middle East: 1990-99	
Year	Number of Persons
1990	143565
1991	197889
1992	416784
1993	438338
1994	425385
1995	415334
1996	414214
1997	416424
1998	355164
1999(up to Oct, 1999	199552

Source: Ministry of Labour, Government of India.

Table 3.9: Trend of Growth Rate of the Economy

Year	Growth Rate of Real GDP (Per cent)
1980-81	7.2
1981-82	6.1
1982-83	3.1
1983-84	8.2
1984-85	3.8
1985-86	4.1
1986-87	4.3
1987-88	4.3
1988-89	10.6
1989-90	6.9
1990-91	5.4
Average (1981-91)	5.8
1991-92	0.8
1992-93	5.3
1993-94	6.2
1994-95	7.0
1995-96	7.3
1996-97	7.5
1997-98	5.0
1998-99	6.8
1999-2K	6.4
Average (1992-2k)	6.4

Source: Economic Survey 2000-2001 Appendix (Statistical Tables) S.10.

Table 3.10: Population, Workforce and Labour Force by Rural – Urban Residence and Gender in India, 1993-94 and 1999-2000 on Usual Status Basis

(in Millions)

Segment	Population		Workforce		Labour Force	
	1993-94	1999-2000	1993-94	1999-2000	1993-94	1999-2000
Rural males	339.360	367.51	183.59	191.84	190.38	198.46
Rural females	317.950	344.11	70.85	79.49	105.24	103.92
Rural persons	657.310	711.62	254.17	271.33	295.62	302.38
Urban males	125.200	147.89	64.60	75.87	67.85	80.16
Urban females	112.590	135.10	12.50	15.81	18.46	19.87
Urban persons	237.790	283.06	77.10	91.68	86.31	100.03
Males	464.560	514.50	248.19	267.71	258.23	278.62
Females	430.540	479.28	83.35	95.30	123.70	123.79
Persons	895.100	994.67	331.27	363.02	381.90	402.41

Source: 1993-94 Visaria (1998)

1999-2000 estimates of population as on 1st March, 2000, *Population Projections for India and States, 1996-2016,* Registrar General of India, New Delhi.

Workforce figures computed by applying (segment-specific) work worker-population ratios given in the NSSO (2000) on usual status basis.

Labour Force has been estimated on the basis of Labour Force Participation Rate (LFPR) for 1993-94 and 1999-2000 – Table 5.2 NSS Report No. 458: Employment and Unemployment Situation in India, 1999-2000.

Note : Number of Subsidiary workers in 45th round, 1987-88 was estimated to be 33.2 million, 43.12 million in 1993-94 and 30.17 million in 1999-2000.

Table 3.10a: Distribution of workers by Employment Status

(per cent)

Year	Males			Females		
	Self Employed	Regular Salaried	Casual	Self Employed	Regular Salaried	Casual
RURAL						
1977-78	62.2	10.8	27.0	56.3	3.7	40.0
1983	59.5	10.6	29.9	54.1	3.7	42.2
1987-88	57.5	10.4	32.1	54.9	4.9	40.2
1993-94	56.9	8.5	34.6	51.3	3.4	45.3
1999-2k	54.4	9.0	36.6	50.0	3.9	46.1
URBAN						
1977-78	39.9	47.2	12.9	42.2	30.8	27.0
1983	40.2	44.5	15.3	37.3	31.8	30.9
1987-88	41.0	44.4	14.6	39.3	34.2	26.5
1993-94	41.1	42.7	16.2	36.4	35.5	28.1
1999-2k	41.2	41.9	16.9	38.4	38.5	23.1

Source: Reforms and Labour Market in India - Paper presented by Sudha Deshpande and Lalit Deshpande at the National Seminar on Economic Reforms and Employment in the Indian Economy, March 22-23, 2001. Institute of Applied Manpower Research.

Table 3.10b: Distribution of Workers by Sectors

(Per cent)

Year	Primary	Secondary	Territory
1997-78	71.1	12.6	16.3
1983	68.6	13.8	17.6
1987-88	65.0	15.9	19.1
1993-94	64.7	14.8	20.5
1999-2k	53.8	18.4	27.8

Source: Reforms and Labour Market in India - Paper presented by Sudha Deshpande and Lalit Deshpande at the National Seminar on Economic Reforms and Employment in the Indian Economy, March 22-23, 2001. Institute of Applied Manpower Research.

Table 3.11 : Per 1000 distribution of usually employed by category of employment in different NSS rounds

(in millions)

NSS round	Principal status		
	Self-employed	Regular employee	Causal labour
(1)	(2)	(3)	(4)
		rural males	
55th (1999-00)	104.36 (544)	17.26 (90)	70.21 (366)
50th (1993-94)	104.10 (567)	15.97 (87)	63.52 (346)
43rd (1987-88)	88.49 (578)	16.01 (104)	49.40 (321)
		rural females	
55th (1999-00)	51.96 (500)	3.1 (39)	36.64 (461)
50th (1993-94)	36.35 (513)	2.41 (34)	32.10 (453)
43rd (1987-88)	38.48 (549)	3.43 (49)	28.18 (402)
		urban males	
55th (1999-00)	31.26 (412)	31.79 (419)	12.82 (169)
50th (1993-94)	26.55 (411)	27.58 (427)	10.47 (162)
43rd (1987-88)	22.26 (410)	24.11 (444)	7.93 (146)
		urban females	
55th (1999-00)	6.07 (384)	6.09 (385)	3.65 (231)
50th (1993-94)	4.65 (372)	4.44 (355)	3.41 (273)
43rd (1987-88)	4.44 (393)	3.86 (342)	2.99 (265)
		rural males	
55th (1999-00)	135.62	49.05	83.03
50th (1993-94)	130.65	43.55	73.99
43rd (1987-88)	110.65	40.12	57.33
		rural females	
55th (1999-00)	45.82	9.19	40.29
50th (1993-94)	41.0	6.85	35.51
43rd (1987-88)	42.92	7.29	31.17
	Total		
55th (1999-00)	181.44 (49.98)	58.24 (16.04)	123.32 (33.97)
50th (1993-94)	171.65 (51.78)	50.4 (15.2)	109.5 (33.02)
43rd (1987-88)	153.67 (53.07)	47.41 (16.37)	88.5 (30.56)

Source : NSS Report No.458 : Employment and Unemployment Situation in India, 1999-2000. National Sample Survey Organization, Ministry of Statistics and Programme Implementation, Government of India, May 2001.

Table : 3.11a: Distribution of usually employed persons by broad industry division

All-India

(in millions)

Broad Industry division	Round	Rural Male	Rural Female	Urban Male	Urban Female	Total
Agriculture	55	136.59	66.85	4.93	2.31	210.68 (58.04%)
	50	135.31	60.01	5.62	2.41	203.35 (61.68%)
	43	113.73	57.83	4.62	2.46	178.64 (61.68%)
Mining & Quarrying	55	1.15	0.32	0.68	0.6	2.21 (0.61%)
	50	1.28	0.35	0.84	0.9	2.56 (0.77%)
	43	1.08	0.35	0.71	0.1	2.24 (0.77%)
Manufacturing	55	14.0	6.12	7.07	3.67	40.86 (11.26%)
	50	12.85	5.32	15.25	2.95	36.37 (10.98%)
	43	11.70	5.26	14.12	3.04	34.12 (11.78%)
Electricity, Water, etc.	55	0.38	-	0.61	0.03	1.02 (0.28%)
	50	0.55	-	0.78	0.04	1.37 (0.41%)
	43	0.46	-	0.65	0.03	1.14 (0.39%)
Construction	55	8.63	0.95	6.68	0.87	17.13 (4.72%)
	50	6.06	0.78	4.52	0.61	11.97 (3.61%)
	43	4.16	2.24	3.15	0.49	10.04 (3.47%)
Trade, Hotel & Restaurant	55	30.05	1.83	22.22	2.59	39.70 (10.94%)
	50	10.10	1.56	14.15	1.34	27.15 (8.19%)
	43	8.0	1.68	11.67	1.23	22.58 (7.80%)
Transport, Storage & Communications	55	6.13	0.08	7.89	0.32	14.42 (3.97%)
	50	4.04	0.07	6.33	0.19	10.63 (3.20%)
	43	3.23	0.07	5.32	0.14	8.75 (3.02%)
Services	55	11.70	3.42	15.86	5.98	36.96 (10.18%)
	50	13.03	2.83	17.05	4.85	37.76 (11.40%)
	43	9.85	2.59	13.04	3.80	29.98 (10.35%)

Source : NSS Report No.458 : Employment and Unemployment Situation in India, 1999-2000. National Sample Survey Organization, Ministry of Statistics and Programme Implementation, Government of India, May, 2001.

Table 3.11b. Table: Absolute Magnitude of Workers in 1993-94 and 1999-2000 (in millions)

Sectors	1993-94	1999-00	Absolute increase/ decreased
1. Agricultural & Allied	238.68	237.79	(-)0.90
2. Mining & Quarrying	2.68	2.66	(-)0.41
3. Manufacturing	43.22	48.30	(+)5.08
4. Electricity, Gas & Water supply	1.39	1.05	(-)0.35
5. Construction	12.13	17.62	(+) 5.5
6. Trade, Hotels & Restaurants	28.46	37.13	(+)8.67
7. Transport, Storage & Communication	10.76	14.76	(+) 4.0
8. Financial Services	3.65	4.92	(+) 1.27
9. Others Services	32.87	33.20	(+) 0.34
Total	**373.83**	**397.02**	**(+)23.19**

Source : Sundaram K, Employment & Poverty in 1990s, Economic & Political Weekly August 11,2001

Table 3.12 : All India Consumer Price Index Numbers

	Industrial Workers		Urban Non-manual employees (Base: 1984-85 = 100) General Index	Agricultural labourers (Base: 1986-87 = 100) General Index
	Food Index	General		
Average of Months				
1986-87	141*	137*	115**	572 $
1987-88	154*	149*	126**	629 $
1988-89	169*	163*	136	708 $
1989-90	177	173	145	746 $
1990-91	199	193	161	803 $
1991-92	230	219	183	958 $
1992-93	254	240	202	1076 $
1993-94	272	258	216	1114 $
1994-95	197	279	232	1204 $
1995-96	337	313	259	234
1996-97	369	342	283	256
1997-98	388	366	302	267
1998-99	431	414	340	296
1999-2000	446	428	352	208

* The new series of CPI for industrial workers with 1982 base has been introduced w.e.f. October, 1988. The earlier series on base 1960=100 has been simultaneously discontinued. The conversion factor from the new to the old series is 4.93 in regard to the General Index, and 4.98 in regard to the Food Index.

** The new series of CPI for urban non-manual employees with 1984-85 base was introduced w.e.f November, 1987. The earlier series on base 1960=100 has been simultaneously discontinued. The conversion factor from the new to the old series is 5.32.

$ Old base 1960-61 = 100

Source:
1. Labour Bureau, Simla for consumer price indices for industrial workers and agricultural labourers.
2. C.S.O for consumer price indices for urban non-manual employees.

Table 3.13: NUMBER OF STRIKES AND LOCKOUTS DURING 1991-2000

Year	Central Sphere	State Sphere	Public Sector	Private Sector	Strike	Lockout	Total
1991	517	1293	653	1157	1278	532	1810
1992	514	1200	617	1097	1011	703	1714
1993	272	1121	369	1034	914	479	1393
1994	249	952	316	885	808	393	1201
1995	285	781	343	723	732	334	1066
1996	316	850	381	785	763	403	1166
1997	384	921	448	857	793	512	1305
1998	231	866	283	814	665	432	1097
1999(P)	129	798	165	762	540	387	927
2000(P)	83	573	91	565	350	306	656

Table 3.14: WORKERS INVOLVED IN STRIKES AND LOCKOUTS (IN THOUSANDS) DURING 1991-2000

Year	Central Sphere	State Sphere	Public Sector	Private Sector	Strike	Lockout	Total
1991	601	741	788	554	872	470	1342
1992	498	754	566	686	767	485	1252
1993	513	441	565	389	672	282	954
1994	490	356	523	323	626	220	846
1995	700	289	725	264	683	307	990
1996	478	461	606	333	609	331	939
1997	624	358	618	363	637	334	981
1998	955	334	901	388	801	488	1289
1999(P)	549	761	553	758	1099	212	1311
2000(P)	464	226	466	223	385	305	690

Table 3.15: MANDAYS LOST DUE TO STRIKES AND LOCKOUTS (IN MILLION) DURING 1991-2000

Year	Central Sphere	State Sphere	Public Sector	Private Sector	Strike	Lockout	Total
1991	2.75	23.68	4.14	22.28	12.43	14	26.43
1992	0.77	30.49	1.92	29.33	15.13	16.13	31.26
1993	1.2	19.1	2.29	18.01	5.61	14.69	20.3
1994	0.59	20.4	1.32	19.67	6.65	14.33	20.98
1995	3.86	12.43	4.79	11.5	5.72	10.57	16.29
1996	1.2	19.09	3.15	17.13	7.82	12.47	20.28
1997	1.41	15.56	2.18	14.79	6.3	10.68	16.97
1998	7.25	14.81	7.58	14.49	9.35	12.71	22.06
1999(P)	0.87	25.91	1.18	25.61	10.62	16.16	26.79
2000(P)	1.95	14.76	2.34	14.38	3.37	13.35	16.72

Source: Labour Bureau, Shimla, Annual Report 2000-2001, Ministry of Labour, GOI.
P: Provisional; Central Sphere and State Sphere include Public Sector Undertakings.

CHAPTER - 4

EMERGING ENVIRONMENT

4.1. COMPETITION IN GLOBAL ECONOMY

4.1.1. 'Competitiveness has become to economics what gravity is to physics. Like gravity, it is a force that one cannot escape'. (Garelli, 1997) Though competitiveness of firms is critical, firms do not operate in a vacuum.

4.1.2. A review of world development since the 1970s to date reveals that the prices of primary agricultural produce items have tended to decline over a period of time. UNCTAD (1999) observed that even the prices of manufactured items from developing countries started behaving similarly in the 1990s. As shown in Figure 4.1, over the past few decades, primary agricultural produce exporting countries (for example, Sub-Saharan Africa) did not grow either economically or socially. Centrally planned economies (Central Asia and Eastern Europe) grew socially, but not economically. Import substitution industrialising economies grew economically (remember Raj Krishna's comment about secular Hindu rate of growth in India), but not socially. Export oriented industrialisation countries grew economically first and then socially. This was true till 1989. In the 1990s, when most countries began to open their economies, there will be few winners in export markets and many losers.

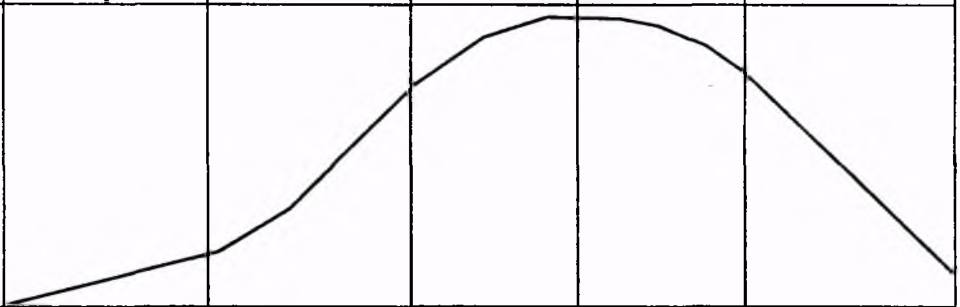
Figure 4.1.1: Industrialisation Strategy its Economic and Social outcomes

Social development		
High	Centrally planned economies	Export orienteo industrialisation
Low	Primary agricultural Produce export economies	Import substitution industralization
	High	Economic development

***Source** : G Standing in G. Standing and V. Tokman (1991)*

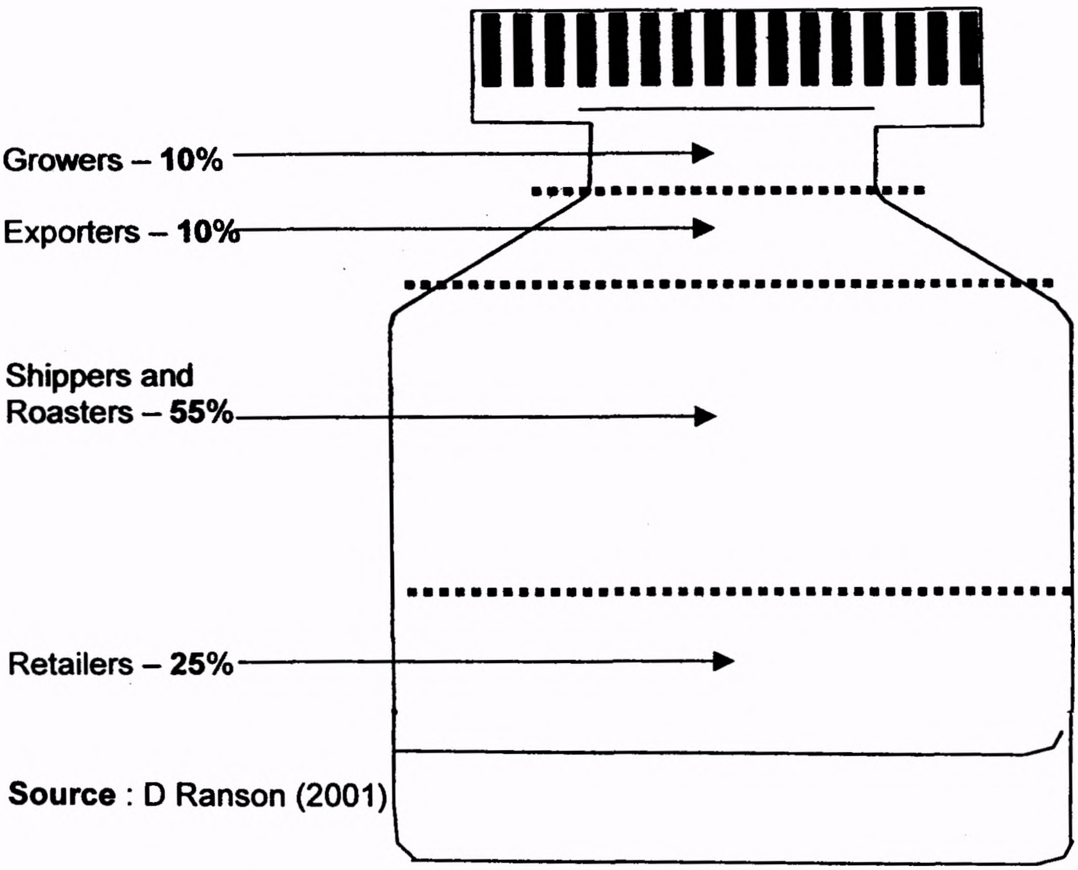
4.1.3. The key factor behind the above trend lies in the need to shift from being a raw material export country to a manufacturing economy in the first stage of development. But even that is not enough. Fig. 4.2 depicts a model whereby manufacturing countries enter manufacturing at the fag end of the product life cycle. At this stage usually the input costs continue to rise, but output prices fall and there will be a tremendous squeeze on profit margins. It is therefore, imperative for countries like India to move from mere production at the fag end of a product's life cycle to the value addition mode. Figure 4.3 shows the shares of different parties in the entire chain from production to final consumption of coffee. Similar trend can be discerned in garments where the manufacturer gets at most about 20 per cent of the final price the consumer pays. The balance 80 per cent is taken away by other activities such as advertisement, branding, marketing, distribution and retail trade. Whether it is agricultural products like tea, manufactured products like garments or service industry products as in software, unless India is able to build its brand which can compete internationally, both capital and labour will be at the losing end of the global economy. As of now, India does not have any truly global brand in any sector, not even herbal medicines, fashion ware (to compete with the likes of say, Piere Cardin) nor in software by even companies like Infosys (to compete with the likes of Microsoft). Without building brands, in international trade, as India's trade expands, we continue to have a situation where higher exports progressively bring in lesser foreign exchange per unit sold (thanks to a weak rupee against US dollar) and for a given level of imports, the foreign exchange outflow will be higher (against thanks to a weak rupee against US dollar, for instance). If we build and market international brands or move up the value chain in manufacturing from screw driver technology to R & D in electronics (as Singapore did in late 1980s) the future can be bright and better for India. Unfortunately, however, after liberalization, there seems to be a relative decline in R & D effort in the electronics industry in India. The one industry which seems to be faring well and there is reason to hope that it would even do better in post-Doha period, is the pharma industry.

Figure 4.1.2: The Product life-cycle and its changing characteristics

	Initial development	Growth	Maturity	Decline	Obsolescence
Sales volume					
Demand conditions	Very few buyers	Growing number of buyers	Peak demand	Declining demand	Steep fall-off in demand
Technology	Short production runs & Rapid changing techniques	Introduction of mass production methods Some variation in techniques but less rapid change	Long production runs and stable technology Few innovation of importance		
Capital intensity	Low	High because of high rate of obsolescence		High because of large quantity of specialized equipment	
Industry structure	Entry is 'know-how' determined Numerous firms supply specialist services Few competitors	Growing number of competing firms Increasing vertical integration	Financial resources critical for entry Number of firms starts to decline	General stability at first, followed by exist of some firms	
Critical production factors	Scientific and engineering skills External economies (access to specialist firms)	Management, capital	Semi-skilled and unskilled labour, capital		

Source: Reproduced from Dickens (1997) who in turn adopted, in part, from Hirsch (1967, Table II (1))

Figure 4.1.3: The Coffee Jar
Proportion received of the final price of a jar of coffee



Source : D Ranson (2001)

4.2. FORCES OF COMPETITIVENESS AND THE ELASTICITY OF DEMAND FOR LABOUR

4.2.4. Michael Porter (1980) who studied competitiveness of industries and nations avers that there are five forces of competitiveness: entry/exit barriers, competitive rivalry, and power of substitutes, power of suppliers and power of buyers. When there is no competition, labour and management prospered at the cost of customers. When the Japanese and the Korean products entered the Television market, many of the domestic Television brands had suffered extinction. So did workers in those companies. When a substitute for jute was found, jute industry suffered. When the textile mills did not modernise or diversify, they suffered. While most other textile mills in Ahmedabad were either closed or are in the brink of liquidation, Arvind Mills in the same city continues to do well.

4.2.5. Alfred Marshall's four laws of elasticity of demand for labour merit consideration here: (1) Technological possibility of substituting other inputs; (2) Elasticity of demand for the product of labour; (3) Proportion of cost spent on labour; and, (d) Elasticity of supply of other inputs. The combined impact of the four determinants of labour demand make the demand for some categories of labour (such as airline pilots and others with rare skills) far less elastic than the demand for other categories of labour (such as unskilled workers in most industries). The latter category of workers suffer most due to structural changes. This is unavoidable to an extent in an economy with large pool of illiterate, trainable workforce, widespread poverty and pervasive unemployment/ underemployment. Laws and labour administration would be weak in protecting labour. Minimum wage laws would be ineffective.

4.2.6. There is evidence to suggest that legal restrictions to adjust workforce so as to provide higher job protection have had adverse effect on job creation itself. Even the critics of this argument would agree that this is a factor, if not the factor. In Malaysia, legislation recognizes recruitment, transfer, promotion, work assignment and work adjustment as the employer's rights. In India none of these are considered employers rights and are subject to collective bargaining and litigation. Yet, labour market in India is as flexible as in Malaysia. In a near full employment situation, before the recent crisis, employers in Malaysia were reluctant to freely use or abuse the rights given to them under the law for the fear that if they lose a qualified, trained and experienced worker, it would be difficult to get another..

4.2.7. In several cases it might be that we could have created five times more jobs with the amount we spent on protecting unproductive jobs. Given the unemployment situation, the efforts to protect the jobs of existing jobholders through retraining and redeployment would be at the cost of taking away the jobs from the new/fresh entrants into the market. Instead of creating credible systems of compensation and social security and other measures to mitigate/avert the adverse impact of macro economic job risks, artificial barriers are created at tremendous social and economic cost.

4.2.8. The principles of 'Decent work' (core labour standards, enterprise promotion, social protection, and social dialogue), concern pertaining to social dimensions of market economy (job creation, environmental preservation, corporate governance and equitable sharing of gains), the principles of productivity surge in successful Asian economies (net addition to jobs during the transitional phase itself, consultation with stakeholders and equitable sharing of gains), the imperatives of investments in social and physical infrastructure and the need for a holistic perspective on productivity dispelling the myths and changing the minds concerning productivity should be intertwined to become the key elements of any future strategy for improving labour productivity. Enterprise efficiency and employee empowerment should be the cornerstones of economic development with social equity. Together these should form the core of the new vision and the new direction for productivity in the new millennium.

4.2.9. Given the above scenario, India's purpose in pursuing structural adjustment reforms and integration of its economy with the global economy has been to accelerate growth, make its enterprises internationally competitive in the world markets and reduce, if not eliminate, poverty and unemployment.

4.3. INTERNATIONAL LABOUR STANDARDS

4.3.10. The Conventions adopted by the ILO constitute the international labour standards. Their purpose is to maintain certain basic minimum standards, worldwide. As a means of reconciling globalisation and social justice, efforts are being made to link international trade with a system of social clause so that developing countries do not enjoy the benefits of trade liberalisation on the basis of comparatively low labour costs. However, according to Heckscher-Ohlin model, 'countries will export goods that embody factors of production for which they are abundantly endowed, and import goods for which they have scarce factor endowment'.

4.3.11. In this context, there is a sound justification for international labour standards. Normatively, their desirability is not in doubt. The controversy, however, is about the means of their enforcement, particularly the arguments concerning the attempted linkage between certain core labour standards and international standards. Thus, the question is not whether international labour standards should be implemented; rather whether the countries and companies that continue to pursue competitive advantage through the violation of fundamental rights should be punished through some sort of linkage with trade. Employers in several developed countries and unions, governments and employers in several developing countries have been resisting any formal linkage between labour standards and trade. Annexures 1 and 2 present the list of labour standards ratified by India and the position of India vis a vis core labour standards as per 1998 ILO Fundamental Principles Declaration. Even though developing countries have been successful in preventing formal linkage between labour standards and trade, several voluntary initiatives by non-governmental agencies and others in the form of social labelling, consumer boycotts and SA 8000 audits are creating a situation where it will soon be, if it already is not, difficult to export without compliance for core labour standards in both the principal employer's production premises, but also the entire supply chain covering subcontractors and sub-subcontractors, etc. The government also has to review its policies towards export processing zones and special economic zones and see that there is no compromise in regard to the core labour standards.

4.3.12. Labour standards can serve a variety of purposes within the context of globalisation. The movement to improve labour standards stands mired in an unfortunate debate between rich and poor countries over how best to proceed. The view from the North is different from the view from the South and the respective position seems irreconcilable. Developed countries see a shift in jobs from the North to the South in certain sectors and strive to inhibit international competition based on low labour standards. Developing countries view this as a form of protectionism by developing countries. An international regime such as the one to link international trade with international labour standards can at be a limited supportive one fostering better labour standards around the globe. It cannot be expected to supplant the national regime.

4.3.13. Higher labour standards actually lead to enhanced competitive and economic development, while lower standards may negatively affect both (Verma and Gunderson, 2001). Higher labour standards do not necessarily threaten competitiveness; on the contrary, they may indeed contribute to the success and international competitiveness of the economy. Further, labour standards can be viewed as a public good and there is consumer demand for higher – or adequate – labour standards. The challenge is to dig deeper to examine how valid the objections to improving labour standards are and address them in a manner that will allow standards to be improved without hurting a country's competitive advantage. The challenge is also to respond to calls for better conditions for workers without losing control over the process.

4.3.14. The approaches to improving labour standard range from hard law – legislative thrust – and soft law – voluntary codes and campaigns. The current climate is not congenial for any trade-linked international regime of labour standards. There are limits to what can be achieved through trade linked labour standards. It is equally unlikely that the *status quo* would continue. It is appropriate to focus on process standards rather than substantive standards. Process standards allow the parties to work out rules by mutual agreement as the need arises and move in stages with flexibility to pursue higher standards gradually. Since the forward march of globalisation itself depends on obtaining better labour protection, the cost of pursuing process standards for working conditions may not be too high when measured against the alternatives.

4.3.15. As we have seen in the previous chapter, the impact of globalisation on the workers in the developing countries is not quite positive. Yet, the consequences of non-globalisation can be even more devastating. The need is to realign industrial and labour policies to avail opportunities of new investments and to protect those who are adversely affected. While governments need to be effective to achieve these objectives of equity and efficiency, they are fast loosing their power to govern. There is a need to shift some activities in policy-making and implementation from government to the institutions of capital and labour in areas such as job creation, skills training and workplace cooperation. There is also a need for a synthesis through a compromise between the neo-Fabian thesis that the state should do more and the neo-liberal antithesis that the state should do less. Accordingly, the state should reduce its role in certain areas of direct intervention while increasing its role in some other areas of building cooperative relationship between capital and labour. The vision is that of a state, which is not only concerned with the promotion of industry and protection of workers, but also a promoter and supporter of partnership between capital and labour for the benefit of all.

4.4 INDIA'S READINESS TO FACE COMPETITION

4.4.16. India was the second largest economic power, next only to China, in the entire Asia-Pacific region, at the time of its independence. The position continued till the end of the 1970s. Then Japan first and the other tigers and dragons in the region – be it in East or South-East Asia – have overtaken India. During the past two decades China had made such impressive strides that the gap between the two countries in terms of global competitiveness widened to an extent that it will not ordinarily be easy for India to match China. The policies of self-reliance became insular at a time when other countries in the region availed the opportunity of adjustment pressures in the OECD countries consequent upon oil price shocks, and opened up their economies. The ascendancy of the Asian NICs, which was characterised as Asian economic miracle corresponded with the period of the meltdown of the Indian economy.

4.4.17. India's share in both foreign direct investment and foreign trade are well below one per cent of the world's total. In this sense, India is a marginal player in the globalisation process. But India is reputed to have a middle class whose size is equal to that of the entire Europe. Foreign debt accounts for over a quarter of our gross domestic product (GDP) and a major portion of our import being petrol is non-discretionary. Thus the world needs access to India's vast and growing market and India needs the world not only because of huge debt and petrol imports, but also to satiate its need for investment and access to advanced technologies.

4.4.18. When one looks at Indian industry and takes stock of its performance in post-liberalisation period it becomes apparent that garments, gems and jewellery and software exports recorded steady increase in compound rates of growth of exports. These industries are dependent most on skilled labour and very little else. In contrast, the engineering industry did very badly largely because it depended rather heavily on inadequate, erratic, low quality, high cost inputs and infrastructure provided largely, thus far, by the public sector. A thorough analysis of the reasons for the relative success of some industries and relative failure of others makes the case for reinventing the government's role in social and economic development. As the Asian Development Bank (1998) remarked, South Asian countries, including India, continue to fare badly in terms of productivity and competitiveness because of the underdevelopment of social and physical infrastructure. The arguments for liberalisation and privatisation should be seen in this context. The government should release its energies from routine commercial activities and focus more on education, health, transport and telecommunications.

4.4.19. Even so, in terms of purchase power parity GDP, Indian economy with US $2.23 trillion in national income in purchasing power parity (PPP) is the fourth largest in the world in 1999 (Economic Times, 30 April 2001), next only to the USA, Japan and China. The size of the Chinese economy is nearly twice that of India and that of the USA sixteen times bigger in terms of PPP per person.

4.4.20. Despite two centuries of colonial rule, India's share in international trade was 1.5 per cent at the time it became independent. Notwithstanding about 55 years of political democracy and nearly 11 years of economic liberalisation, India's share in international trade shrunk, in relative terms, to 0.5 per cent, a third of the share it held in early 1950s.

4.4.21. In 1991, five Indian corporations figured in Fortune 500 companies, ranked by sales, in the world. India's rank was next only to Japan in Asia-Pacific region and no other developing country anywhere in the world had such distinction. India's position was 2 out of 10 NICs. By 2000, only one of these five – Indian Oil Corporation in the public sector – could retain its position. India ranked 20 out of 47 countries in the world.

4.4.22. The World Competitiveness Report (IMD, 2000) compares productivity in 47 countries based on the official data supplied by each of these countries. As seen from the above table, over all productivity in India is the lowest among the 47 countries, but productivity growth over the previous year was the fourth highest among the 47 countries. It means that opening up of the economy has boosted productivity growth. Yet, the country lags behind every other country included in the sample.

4.4.23. Labour productivity in India is the lowest. About 16 times lower than in U.S.A. Same is true with agricultural productivity in India. If India's rank is 44, it is because Hong Kong and Taiwan did not have much of agricultural sector. In industry (47) and services (45) too India's productivity has been very low. In the service sector, India's productivity has been a shade better than in China and Indonesia.

4.4.24. Successive volumes of World Competitiveness Report not only point out that India's competitiveness is low, but has steadily slided down by four points, i.e., from 38 to 43 out of 47 countries whose competitiveness in the world economy was the subject matter of the report.

4.4.25. The rate of growth in Indian economy - both during pre- and post- "reform" period - has neither been sustained or sufficient to reduce significantly the existing high levels of unemployment and poverty. The benefits of economic development in the post-independence era did not trickle down since it was only marginally higher than the rate at which our population grew. Trickle down cannot be expected to occur unless the rate of growth in the economy is four to five times the growth in population. There is thus a need to boost investment and growth to create jobs and reduce poverty and social and economic inequities.

4.4.26. A study by Deshpande (2001) showed that total employment through non-regular flexi-workers in 1300 sample firms in the factory sector of manufacturing increased at 2.84 per cent per annum between 1991 and 1998. Higher proportion of larger firms reported collective bargaining as the basis for wage fixation. 75 per cent firms were paying consolidated wage. Only 12 per cent of the firms reported separate payment of dearness allowance. 28 per cent of the firms had unions and 30 per cent had more than one union. Both unionized and non-unionized firms increased capital per worker. Holding other factors constant, firms with unions paid the unskilled and skilled workers about 17 per cent more than those without unions. Deshpande's study provides new insights into the effects of unions in influencing resource allocation. Generally unions raised the wages of the unskilled more than those of the skilled and thereby narrowed wage differentials based on skill. The differentials were narrower in Kerala and West Bengal, the two states ruled by Left Governments and also in Gujarat where the wages of the unskilled may have been pulled up by the growing demand for labour. Examining the role of state regulation, Deshpande concludes that, 'Holding all other factors constant, the advantage of the small firms appears to be marginal as far as total employment is concerned and disappears altogether in the case of manual employment. He observes that dualism in Indian labour market increased in the post-liberalization period. Though almost all labour laws apply to firms employing 100 or more workers, the study shows that proportionately larger than smaller firms have been able to reduce employment.

4.4.27. India needs to act swiftly, firmly and comprehensively to avoid further slide down and to maintain its rightful place and share in the world economy.

4.5 IMPLICATIONS

4.5.28. Globalisation essentially intensifies competition and by so doing encourages companies and governments to act in accordance with, rather than against, market forces. While globalisation has consequences for both labour and capital, in most cases, laws are usually changed in favour of employers and existing statutes favourable to unions have been unevenly enforced (less so in India, though). Globalisation leads to a squeeze on profit margins forcing managers to pay attention to both capital and labour productivity. Eventually as companies find labour costs increasing, they place emphasis on quality and innovation. Globalisation is an uneven process – some product markets are more strongly affected than others, depending on their location and special characteristics. With rapid changes in technology and market, the pressure to move up the manufacturing value chain is likely to vary within across industries based on diverse characteristics of both product and labour markets.

4.5.29. One of the major impacts of globaliasation has been drastic downsizing in employment in the formal sector. In view of the legal regime, in India it is not easy to retrench. Therefore, much of the workforce reductions are taking place in the form of the so-called 'voluntary retirement schemes' which are not always so voluntary. Employers are able to deal with redundant labour by paying three or more times the compensation that the law provides in the case of retrenchment in case workers are willing to leave voluntarily before reaching the age of superannuation. In case of textile mills, which have become sick, the compensation may be less than what is offered in other industries in the region. Still the workers are prepared to leave because in sick and bankrupt companies they neither see a future nor the prospect of even getting their salary and other normal dues. However, several studies point out that except in the case of a few highly skilled managerial employees, most of the workers have experienced significantly lower wages, poor working conditions, non-regular work without any basic social security, and non-monetary adjustment costs like children dropping out of schools. Most of them have spent their voluntary retirement compensation in repaying debts and also in the marriages of their children. There was little or no guidance, counselling or retraining for redeployment. In some cases, their past links with the villages and land has come in handy in coping with post retirement difficulties. Companies are now forced to pay more attention to the morale and motivation of survivors than retirees. There is inadequate attention to and understanding of the psychological trauma and social costs of workforce reductions.

4.5.30. The effects of globalizsation on poverty, employment and inequity in different parts of the world have been well documented to bear repetition. Annual reports of on human development from the UNDP, UNCTAD and even the World Bank provide a detailed perspective on the global trends. Deshpande's study (2001) shows that casual employment has increased and unions had limited impact, if any, on resource allocation. The significant impact they had was on reducing the gap in pay based on skill differentials. However, at the same skill level, the gap in pay between the permanent and the temporary workers has been growing.

4.5.31. On paper labour laws in India are fairly rigorous. In practice, however, there is significant dilution. One sees a major change in the attitude of politicians, bureaucracy and judiciary towards the claims of organised labour. The new human resource policies have resulted in a gradual shift from collectivism to individualism, centralisation to decentralisation in collective bargaining and representative participation to direct participation.

4.5.32. Stable industrial relations and sound human resource management play a critical supportive role in facilitating employment by helping create the ideal environment for business survival, expansion and growth as well as by attracting new investment. From government point of view this should cover all concerns arising from employment relations. Firstly, these include pre-employment and post-employment training, working conditions, workplace governance, post-employment aspects and social protection. The responsibility for bringing desired changes in industrial relations and human resource inputs, processes and outputs is as much dependent on government as on mutual respect and understanding of the other social partners. Secondly, the principles of entry to, retention, and exit from the job market are changing and will continue to change in an increasingly competitive and global environment. Competition and technology put premium on skills, and at the same time create pressures for greater flexibilisation of labour. These tend to diminish the efficiency and relevance of traditional policy instruments governing employment access, security of tenure, labour standards, compensation and wage-setting, collective bargaining, dispute settlement and social protection. Thirdly, the strongholds of many of trade unions are in the protected industries. Several countries in the region have pursued, for long, policies of development based on import-substitution, and then graduated, more recently, into the first phase of export-led industrialisation that is rooted in uncompetitive and unsustainable practices. With globalisation and liberalisation, there is a need to undertake continuing structural adjustments as well as industry restructuring for an extended period of time. These have far reaching impacts on the workers and trade unions in the traditional industries which, till recently, enjoyed protection. Managing the transition is not easy. They place great strain on limited government resources and create uncertainties in the minds of all social partners. These uncertainties are aggravated by the economic difficulties now being felt by the global economy. The appropriate support structures, particularly responsive and efficient educational and training institutions as well as social safety nets, should therefore be put in place to facilitate these adjustments. This is best accomplished through meaningful and substantive social partnerships. Fourthly, there is a wide gap between labour law in theory and in practice. Many countries endorse the need for consultation and communication and recognise the need for respecting core labour standards. In practice, however, workplace relations are antagonistic, adversarial and lack mutual trust and transparency as well as fairness and equity in mutual dealings.

4.5.33. There is a need to strengthen the partners, institutions and processes of social dialogue. In India a special tripartite committee was set up to discuss the problems arising out of structural adjustment reforms. In most countries, however, the problem is social dialogue is taking place not at the policy formulation stage, but at the time of implementation. . It is mainly in Singapore and to an extent in Japan that tripartism is integrated fully into labour policy. In many other countries – notably Philippines, Indonesia and India – there is no dearth of tripartite codes of practice. However, when it comes to implementation many of the codes remained on paper sans practice. The moral appeal of the propositions in several of these codes was so strong that none of the parties could oppose. But, in the absence of any sanctions for violations, conformance with the codes became a casualty. Another major challenge for most countries in the region is that given the low level of unionism and the skewed membership of employers organisations, tripartite partners usually lack representativity. The case for ending social exclusion and widening the social base of social dialogue – for instance, the youth, the unemployed, the informal sector, the non-governmental organisations and the academics – is strong, but it is equally strongly resisted by those who presently monopolise the social dialogue. Social dialogue continues to take place largely at the initiative of the government. At a time when the government role in governance is shrinking it is expected that tripartism might take a back seat. With 93 per cent unorganised labour, 95 per cent non-unionised workforce, 46 per cent illiteracy and widespread underemployment and poverty, the government in India still has a large, unfinished agenda. Its role has to expand in social sector, not diminish. But it has to play an enabling, than a mere regulatory role, with private-public partnerships for strengthening the social and physical infrastructure.

4.5.34 Garelli (The World Competitiveness Year book, 2001; 47-8) identifies three different models of society: (a) The south European Model which is characterised by little infrastructure, business regulations, and social protection, a parallel economy; and low labour costs. It favours inventiveness; (b) The North European model which is characterised by a strong emphasis on stability, social consensus and regulations. It favours a long term perspective; and, (c) The Anglo-Saxon model which is characterised by deregulation, privatisation, labour flexibility and a higher acceptance of risk. It fosters entrepreneurship. Garelli argues that 'Over the past ten years, a shift has occurred from the North European model to the Anglo-Saxon one. However, striking a balance between a hyper-competitive global business environment, close to the Anglo-xaxon model, and a more socially responsible environment, close to the North European model, is still a challenge.' India is also facing the kind of tension that exists between the above two models and has to find a third way.

The general tendency has been to look at the consequences of changes in recent years. We need also to consider the consequences of non-change. As Talcot Parson says human beings in every civilisation and at all times pursue both pattern maintenance and adaptation to change simultaneously. We cannot pursue one and leave the other. If the rate of change in the internal environment (national economy/ enterprises) is slower than the rate of change in the external environment, instead of catching up with the other countries, the country can and would lag behind. Of course, there can be questions about social choices in the quest for materialistic/ economic growth. The Asian crises pointed to the need for caution, moderation and middle path cannot be exaggerated.

Table 4.4.1: Productivity in India in a Comparative Perspective, 1999

Parameter	Highest among 47 countries	Lowest among 47 countries	India	Rank of India among 47 countries
Overall productivity GDP (PPP) per person employed in	67,354	4,849	4,849	47
Overall productivity GDP per person employed in US$	84,657	824	824	47
Overall productivity growth % change of real GDP per person employed	6.543	-6.912	5.886	4
Labour productivity (PPP) GDP (PPP) per employee per hour	38.14	2.15	2.15	47
Labour productivity GDP per employee per hour	47.37	0.37	0.37	47
Agricultural productivity Related GDP (PPP) per person employed in agriculture in	72,117	128	2,017	45
Agricultural productivity Related GDP per person employed in agriculture	49,084	138	343	45
Productivity in Industry (PPP) Related GDP (PPP) per person employed in industry	80,258	8,038	8,038	47
Productivity in Industry Related GDP per person employed in industry	97,306	1,366	1,366	47
Productivity in services (PPP) Related GDP (PPP) per employed in services	87,272	6,026	10,010	45
Productivity in services Related GDP per person employed in service	101,641	1,695	1,701	46

Source: Compiled from IMD (2000; pp.458-463)

Annexure 4.1

ILO Conventions Ratified by the Government of India

Sl. No.	Number, Title and Year of adoption by the ILO	Date of Ratification by India
1	1. Hours of Work (Industry) Convention, 1919	14.07.1921
2*	2. Unemployment Convention, 1919	14.07.1921
3	4. Night Work (Women) Convention, 1919	14.07.1921
4	5. Minimum Age (Industry) Convention, 1919	09.09.1955
5	6. Night Work of Young Persons (Industry) Convention, 1919	14.07.1921
6	11. Right of Association (Agriculture) Convention, 1921	11.05.1923
7	14. Weekly Rest (Industry) Convention, 1921	11.05.1923
8	15. Minimum Age (Trimmers and Stokers) Convention, 1921	22.11.1922
9	16. Medical Examination of Young Persons (Sea) Convention, 1921	20.11.1922
10	18. Workmen's Compensation (Occupational Diseases) Convention, 1925	30.09.1927
11	19. Equality of Treatment (Accident Compensation) Convention, 1925	30.09.1927
12	21. Inspection of Emigrants Convention, 1926	14.01.1928
13	22. Seamen's Articles of Agreement Convention, 1926	31.10.1932
14	26. Minimum Wage-fixing Machinery Convention, 1928	10.01.1955
15	27. Marking of Weight (Packages Transported by Vessels) Convention, 1929	07.09.1931
16	29. Forced Labour Convention, 1930	20.11.1954
17	32. Protection Against Accidents (Dockers) Convention (Revised). 1934	13.01.1964
18@	41. Night Work (Women) Convention (Revised), 1934	25.03.1938
19	42. Workmen's Compensation (Occupational Diseases) Convention (Revised), 1934	13.01.1964
20	45. Underground Work (Women) Convention, 1935	25.03.1938
21	80. Final Articles Revision Convention, 1948	17.11.1947
22**	81. Labour Inspection Convention, 1947	07.04.1949
23	88. Employment Services Convention, 1948	24.06.1959
24	89. Night Work (Women) Convention Revised, 1948	27.02.1950
25	90. Night Work of Young Persons (Industry) Convention (Revised), 1948	27.02.1950
26	100. Equal Remuneration Convention, 1951	25.09.1958
27	107. Indigenous and Tribal Population Convention, 1957	29.09.1958
28	111. Discrimination (Employment & Occupation) Convention, 1958	03.06.1960

29#	116. Final Articles Revision Convention, 1961	21.06.1962
30#	118. Equality of Treatment (Social Security)	19.08.1964
31@@	123. Minimum Age (Underground Work) Convention, 1965	20.03.1975
32	115. Radiation Protection Convention, 1960	17.11.1975
33	141. Rural Workers' Organisation Convention, 1975	18.08.1977
34	144. Tripartite Consultation (International Labour Standards) Convention, 1976	27.02.1978
35	136. Benzene Convention, 1971	11.06.1991
36#	160. Labour Statistics Convention, 1985	01.04.1992
37	147. Merchant Shipping (Minimum Standards) Convention, 1976	26.09.1996
38	122. Employment Policy	1999

Source: Government of India (Ministry of Labour) (1998). *Annual Report 1997-98.* New Delhi. p. 179-80.

*Later denounced. The Convention requires, interalia, furnishing of statistics concerning unemployment every three months, which is considered not practicable.

@ Convention denounced as a result of ratification of Convention No.89.

** Excluding Part II.

@@ Branches (a) to (c), (e) and (g) covered.

Article 8 of Part II.

Annexure 4.2

COMPONENTS OF SOCIAL CLAUSE AND INDIAN LEGISLATION

Social clause aspect	Indian Constitution/legislation
Freedom of Association and Right to Collective Bargaining (Convention Nos. 87and 98 respectively).	Freedom of Association is guaranteed as a fundamental right in the Indian Constitution. The Trade Union Act, 1926 meets with part of the objectives of Convention Nos. 87 and 98. Both conventions have, however, not been ratified by the Government of India.
Forced Labour Convention, 1930 and Abolition of Forced Labour Convention, 1953 (Convention Nos.#29 and 105). These provide for progressive abolition of forced labour in all its forms. Convention No.182 concerning Immediate Action to End the Worst Forms of Child Labour.	Article 23 of the Constitution and the Bonded Labour System (Abolition) Act, 1976. India has ratified Convention No.#29, not 105. India is moving towards ratifying Convention Nos. 105 and 182.
Equal Remuneration Convention, 1951 (Convention No.100). Its purpose is to eliminate sex-based discrimination in remuneration and provide for equal remuneration, to both men and women, for work of equal value. The four underlying bases for determination of work of equal value are: skills, efforts, responsibility and working conditions.	The Constitution upholds the principle of equality between men and women. The Equal Remuneration Act, 1926 seeks to provide for equal remuneration to men and women.
Discrimination (Employment and Occupation) Convention, 1958 (Convention No.111). It covers any discrimination, exclusion or preference '....which has the effect of nullifying or impairing equality of treatment' and which can be the result of not only legislation but also of existing factual positions or practices.	The Constitution upholds equality, denounces discrimination and encourages preferential treatment to disadvantaged groups in society. Convention No.111 has been ratified.
Minimum Age Convention, 1973 (Convention No.138). It provides that minimum wage for employment should ordinarily be 15 and raised to 18 in dangerous occupations.	The Child Labour (Prohibition and Regulation) Act, 1986 bans employment of children below the age of 14. In several laws the minimum age is variously defined. Employment of children in certain heavy and hazardous industries (Schedule A, part 3) is prohibited by law and the government is taking steps to enforce it strictly. Several court judgements under public interest litigation actively support the prohibition and regulation of child labour.

CHAPTER - 5

CONCLUSIONS AND RECOMMENDATIONS

India is the Mother of world civilisation. It was India who proclaimed-

अयं निजः परोवेति गणणा लघु चेतसाम्
उदार चरिताणां तु वसुधैव कुटुम्बकम् ।

(This is mine, that is thine, are manifestation of meanmindedness, for broadminded, the world is a family.)

Globalisation for India is not a taboo. But the present Globalisation amounts to be a similarity of a story of "**Tiger and Lamb**". Where Hungry Tiger addresses a Lamb behind the fence, "Be broad minded remove the fence. "

The Lamb sheds the tears up on that the tiger tells,

"Oh! Lamb why are you worried about your safety? I assure you complete safety in my stomach."

5.1. THE BASIC PREMISE –

"SAMARTH" AND "SAMPANNA" BHARAT AND BHARATIYA

5.1.1. The Study Group's analysis of the emerging processes of globalisation and the conclusions and recommendations that emanate from it are based on a vision to build a future where India will be a major force in global economy, with decent living standards and working conditions for all its people in a competitive environment. It is imperative to promote equity enhancing efficiency, which is enshrined in the preamble, fundamental rights and duties and the directive principles of the Constitution of India

5.1.2. India must and can grow at over 10 per cent per annum over the next decade in order to mitigate the problem of unemployment. With 10 per cent growth it should be possible for the per capita income to grow double or more in 10 years. It is beyond the remit of this study group to detail a strategy or approach to make such consistently high growth possible. Going by the evidence in the past few decades, there is no guarantee that growth will ease unemployment, but it is certain that without such a consistently high rate of economic growth it is difficult to address the problems of unemployment, poverty, inequity and social exclusion. These four ills must specifically be targeted while delivering improvements in all sectors *viz.*, agriculture, industry and services.

5.1.3. Of course, there can be questions about social choices in the quest for high economic growth. Thus the need for caution, moderation and middle path cannot be exaggerated. It is reinforced by the recent turmoil in East and South East Asian countries whose miracle is now labelled as a mirage. However, some of them are already on the road to recovery, due largely to good governance and sound investments in social and physical infrastructure, which the flight of capital could not take away.

5.1.4. All developmental efforts must recognise the importance of people over markets and profits. Human well-being is the end, economic growth is the means. The UNDP called for globalisation with a human face. Global integration and interdependence are desirable, if they have something for everyone.

5.1.5. The gap between rich and poor and the extremes between countries should be narrowed. We need policies for :

- eradicating poverty
- job-creating growth
- investment in employees skills
- promoting human rights, labour rights and sustainable development (to pursue Kofi Annan's Global Compact)
- redistribution and for the universal provision of social services
- reducing the threats of financial volatility and consequent human costs
- strengthening governance at all levels

5.1.6. If social disintegration is the price of economic integration, the obvious choice has to be a resounding 'NO' to globalisation. The key challenge is to see that they work for people every where. The UNDP (1999; 2) calls for globalisation with:

- *Ethics* – less violation of human rights, not more
- *Equity* – less disparity within and between countries, not more
- *Inclusion* – less marginalisation of people and countries, not more
- *Human security* – less instability of societies and less vulnerability of people, not more
- *Sustainability* – less environmental destruction, not more
- *Development* – less poverty and deprivation, not more.

5.1.7. With the above premise as the guidepost, we propose an approach and a strategy for building the future and formulating recommendations thereof, it has considered only such measures prime interest of the nation is secured and promoted. India should take regardless that of the rationale for and the desirability and, the irreversibility or otherwise of globalisation. The study group also feels that the directive principles of state policy enshrined in the Constitution would continue to be relevant regardless of whether the country chooses to embrace or shrug globalisation. The study group also has considered the need for India to take urgent and drastic steps to step up its competitiveness with sustained and sustainable growth. It is firmly of the view that there can be no efficiency without equity, but there is no equity without efficiency. Hence it is imperative to promote equity enhancing efficiency.

Before we proceed to draw the major conclusions and suggest recommendations it is worthwhile to remember and internalise the sentiments of the great sons of Bharat Mata.

दरिद्र देवो भव

"Daridra Devobhava"

Swami Vivekanand

"Before evolving any policy the first thing to be considered is that, how it will affect the poorest of the poor"

Mahatma Gandhi

"Material wealth is to be acquired so that we can serve god in the form of society in the best possible manner, and out of all that wealth, only the minimum should be used for our self-sake, the denial of which will hamper our capacity for services. To claim or to make us a personal use of more than that is verily the act of theft against the society."

M.S.Golwalkar

CONCLUSIONS

5.2.8. During the 20th century, widespread poverty and unemployment resulted in significant interventions by the state in all major countries, regardless of their ideological differences and models of economic policies. These interventions while resulting in widening and deepening of protection for labour were increasingly seen as leading to economic stagnation.

5.2.9 During the past two decades, there is significant tendency worldwide for withdrawal of state from many areas of economic life coinciding with lowering of national barriers to international capital and financial flows .At the beginning of the 21st century the world is once again at cross roads and there is a search for balancing the concerns of competitiveness of enterprises with maintaining the rights of labour for decent working and living standards.

5.2.10. These concerns emanate from some of the most important trends of globalisation processes directly affecting labour in our country analysed in detail in the earlier chapters. In so far as major trends in Employment and Employment relations are concerned the following are the major conclusions:

- Employment growth has slackened in the last decade coinciding with high rates of growth of the national economy.
- Employment in primary sector, the largest employer of labour force in the country is declining, while the manufacturing sector employment has recorded only marginal growth. The major growth area of employment is in the service sector.
- Casualisation of the labour force has increased *vis a vis* self employment and regular and salaried wage employment.
- Proportion of organised sector in total employment has declined steadily.
- Declining employment elasticities imply declining employment absorption capacities.

All the above labour market trends indicate increasingly insecure and unstable nature of employment growth, which has major implications for income inequality and regional disparities. Globalisation in the present form holds little promise for ensuring decent working and living conditions for the majority. These pessimistic conclusions however need to be tempered by the fact that there is a trend towards rise in real wages and productivity along with significant decline in poverty levels.

In the area of Employment relations, some important trends noticeable are as follows

- There is decline of union density across the board in all sectors
- The decline of organised employment coupled with increasing voluntary separation is significantly reducing the space for Trade Union activities in the organised sector
- Increased emphasis on technology and productivity based bargaining has emerged along with tendency towards decentralised collective bargaining
- Declining incidence of industrial conflicts over the last two decades is accompanied by increased lockout to strike ratio,

5.2.11. In the emerging global economic environment the following are the main conclusions concerning the performance of Indian economy

- Although the process of economic liberalisation has provided increased opportunity for trade and investment inadequate competitiveness in Indian economy has deterred the capacity of Indian industries to harness the opportunities presented by globalisation.
- Constant increase of productivity has become the cornerstone for increasing overall competetiveness. Here again productivity levels in the economy are much less than the desired levels.
- Liberalisation and globalisation has accelerated technology flows across national borders. However the key issue here is the ability to adapt new technology and engage in continuous product and process innovation. The present industrial structure is still not conducive to adoption of new technology at a fast rate.
- There are lot of resources locked in sick and unviable industrial enterprises. While having a deleterious impact on those who are employed in these enterprises it also deters in the overall employment generation. The current legal and bureaucratic institutional processes obstruct rather than aid in the unlocking of these national resources.
- It is important to recognise that the above problems are not exclusively due to the processes of globalisation. These processes may have accentuated or exacerbated several of the socio-economic and labour problems, which persisted for a long time. There is a need for restructuring the economy and enterprises for more efficient utilisation of national resources. Processes of globalisation have only made this an urgent and imperative need.

5.2.12. The emerging trends in labour market and employment relations on the one hand and the urgent need for restructuring necessitated by the changing global business environment on the other hand warrants that appropriate strategies be adopted to make globalisation work for the people of India. What is clear however is that this cannot be achieved by blindly pursuing the present agenda of globalisation. Simultaneously it is also evident that greater preparedness is required by all the social partners both to confront the ills of globalisation and to harness the process for national benefit. The recommendations made by the study group reflect this need for balance.

RECOMMENDATIONS

5.3.13 Employment

5.3.13. An important aspect of globalisation has been its adverse impact in the field of employment. Provision of gainful and decent employment to the mass of Indian people remains the strongest bulwark against the insecurities and instabilities generated by the present form of globalisation. In creating such employment growth, all the social partners have a role to play. What is crucial is that there should be synergy between the competencies and roles played by each of the partners.

5.3.14. The role of the state in directly creating employment is no longer a viable option. State role is now to be reoriented from being a generator to facilitator of employment growth. State can effectively promote employment growth while following a high economic growth strategy

- By clearly enunciating a national employment policy as a strategic response to the globalisation process.
- By formulating appropriate employment planning at the sector/ decentralised level on the basis of an effective labour market information system.
- By prioritising physical and social infrastructure development both to jump start employment growth and to enhance employability of the population.
- By giving priority in hearing and considering positively the trade union views.
- By identifying employment potential of different sectors where the country has comparative advantage. Available evidence shows that the areas where such growth potential are present are:

- Service sector including information technology enabled services
- Forestry and logging
- Energy from biomass
- Renewable sources of energy
- Watershed management
- Animal husbandry & Horticulture
- Value added products and services i.e. Gems & Jewelleries, Special Chemicals Fragrance.

Apart from identifying the growth sectors it is also crucial to ensure that there is prospect for continuous up gradation of the sector and the employment thus created to move up the value chain.

- By facilitating upgradation of skills and restructuring the educational system to enhance employability.
- By providing positive incentive structures and appropriate infrastructural support to ensure that informal sector generates quality employment.
- By protecting through provisions in international agreements (WTO) agricultural sector and small industries from international competition in order to protect livelihood of persons in occupations potentially affected.
- By identifying successful non–state employment generation models based on community participation, cooperatives, self help groups etc and facilitating their replication

5.3.15. As for employers and employers' organisations their role in mitigating the adverse impact of globalisation is of prime importance. To enhance competitiveness of individual enterprises without sacrificing the broader social objective of employment growth would require that they adopt appropriate business models based not on cost cutting and labour market flexibility typically associated with low wages and casual employment but one based on investment in skill training, low labour turnover and employment security.

- The challenge of globalisation can be squarely faced by focussing on productivity enhancement strategies through intensive skill redevelopment along with a focus on total factor productivity.
- Employers must take labour as an asset rather than as a liability in order to enhance productivity. This can be done through programmes of employee empowerment through incentives for participation in productivity enhancing innovations.

- Taking into account the limited expansion in organised employment, corporate sector still have a tremendous role to play in taking up social responsibility for generating gainful employment especially in depressed and backward areas. These could be done by special ancillarisation programmes and also by participating in regional or local area development plans. This will imply corporate participation in development of physical and social infrastructure, which will have multiplier effects including employment generation.

5.3.16. As for Workers organisations, the challenge posed by globalisation makes it imperative on the Trade Unions to pursue simultaneously the objective of bettering employment conditions of mass of Indian workers along with the national objective of employment growth. This requires that the workers organisations have to buck the dominant trend in thinking that makes employment growth possible only by lowering of standards of labour. In order to achieve these two goals Trade Unions can play an important role

- By Actively contributing to the national, sectoral and local employment planning process.
- By becoming active partners in change and providing concrete and viable alternatives to the current process of labour shedding strategies for enterprise growth.
- Trade unions have a major role to play in promoting and encouraging responsible wage determination which increase investment, productivity and welfare and which helps insiders to keep their jobs and outsiders to gain access to them
- Trade Unions should be in the forefront in identifying skill development needs of the employees in consonance with the goal of productivity enhancement.
- Trade unions can take a lead role in organising workers in the informal sector for economic activities; in creating labour cooperatives and other self help groups etc.

5.4 Employment Relations

5.4.17. The study group is of the opinion that the present form of globalisation apart from having an adverse impact on employment growth has also led to deterioration of employment conditions for bulk of the Indian workers in the form of increased insecurity and casualisation of employment. But it must also be recognized that this is not the only model of globalisation at hand. Building enterprise competitiveness on the basis of efficient utilisation of resources, productivity enhancement, investment in skill-development, retraining, and more intensive and wider application of information technology can have a very positive impact on employment conditions.

5.4.18. Enterprise efficiency and employee empowerment are not necessarily antagonistic objectives. In fact the goal of any national strategy to face up to the challenges of globalisation must be based on these twin strategy. The strategy of building enterprise competitiveness solely on the basis of lowering of wages and deregulated labour standards will only lead to the "race to the bottom " syndrome. Apart from being shortsighted at the national level this strategy will be harmful in the medium term even at the enterprise level; as both jobs and enterprises will migrate to countries with lower standards of employment. Enterprises that build their competitiveness on lowered labour standards will have no incentive to invest in innovation leading to inefficient utilisation of scarce capital resources. The latter is clearly a regressive, zero sum development strategy that cannot be sustained. This goes against the basic tenets of the 1998 ILO Declaration on Fundamental Principles and the very notion of decent work and 'global compact'. The principles of 'Decent work' (core labour standards, enterprise promotion, social protection, and social dialogue), draw attention to the social dimensions of market economy (job creation, environmental preservation, corporate governance and equitable sharing of gains),

5.4.19. For a balanced employment relations policy it is imperative that the concerns of both the management and labour be taken into account and suitable changes made in the existing regulating framework to derive maximum benefits from processes of globalisation

5.4.20. From workers' perspective a viable employment policy must emphasize.

- the observance of a minimal number of core/basic labour standards in all sectors of the economy
- free trade unions and collective bargaining rights
- workforce institutions capable of internalising the enforcement of labour standards/government regulations and effecting changes at micro level smoothly
- investment in education and training
- bringing the entire labour force under the purview rationalised but effective – regulatory/administrative framework

- proactive labour market policies that provide for building skills/ competencies reducing/eliminating the existing mismatch between acquired and required skills, facilitating information and counselling facilities for employment; and,
- a culture of non-interference by one party in the affairs of the other.
- Inculcation of the spirit of internal democracy in the functioning of Trade Unions. Central Board of Workers Education can provide a lead role in this task

5.4.21. From employers' perspective, a viable employment relations policy must have
- a clear enunciation of the rights and responsibilities of employers and workers/ unions
- Incentives be provided to enterprises for compliance and maintenance of labour standards
- unambiguous and easily understandable legal and institutional framework
- predictable arrangements concerning union recognition, collective bargaining, skills development, flexibility and workforce adjustment
- well-defined, clear-cut and time-bound procedures for grievance redressal, and
- Incentive for bilateral negotiation and dispute resolution rather than for compulsory adjudication
- administrative judicial system that be trusted for its transparency, integrity, experience, efficiency and accountability.

5.4.22. For the creation of this viable employment relation framework it is necessary to rationalise the labour laws and enforcement machinery of the state. These are only some indicative suggestions taking into account the concerns of labour and management in the emerging global scenario. These recommendations are made with the full awareness that a separate study group is entrusted with the task of going specifically into the issues relating to labour law. With these caveats it is recommended that

- Labour Legislation should be framed with the clear principle that labour is an asset and not a liability
- Law should aim at facilitating sound labour management relations rather than mere dispute resolution
- The framework of the employment relations policy be expanded to cover all sectors, organised or otherwise, of the economy. This is essential to further the concept of work for all and to manage the fallout of globalisation, which affects all sectors.

- Predictable arrangements be made for union recognition rights and specification of rights of recognised unions vis-à-vis unrecognised, but registered unions
- Provision for continuity of existing employment conditions even if there is a change in ownership of firms
- Streamlined legal framework of employment relations must be made enforceable through transparent and accountable enforcement machinery
- Evolve appropriate legal instruments to ensure social security provision for the entire workforce

5.5 International Labour Mobility

5.5.22. Another pertinent issue thrown up by the processes of globalisation relates to the movement of labour across national boundaries. This is mainly due to the fact that though globalisation has facilitated liberalised movement of capital, commodities and technology, the movement of labour still remains largely restricted.

5.5.23. India being a major labour exporting country, it is crucial that policies are put in place to enhance labour mobility and protect the rights of migrant workers. Given that there is a potential for increased labour export and also to reap the benefits of the same mainly through increased remittances, the basic thrust of the policy should be to tap the emerging demand for migrant labour at all skill levels.

5.5.24. Tapping the opportunities at the top end of the job spectrum involves:

- Identification of the exact nature of skill requirements
- Ensuring available matching supply of skills
- Formulating ways to ensure that the outflow of labour and talent works to the advantage of India.

5.5.25. Exploiting the opportunities of the bottom end of the job spectrum involves

- Understanding the nature of demand and ensuring a matching supply.
- Arguing for liberalisation of immigration laws as the existing stringent regulatory frameworks results in increased undocumented and illegal migration.
- Responding adequately to the impacts of liberalisation of immigration controls on the domestic labour market.
- Developing a labour market information system focusing on the analysis of the emerging skill profile.
- Monitoring the changes in the regulatory frameworks to achieve increased mobility of skills.

- Evolving links between external skill and labour mobility with the supply and demand of skills within the domestic economy.

5.6. Competitiveness

5.6.26. Competitiveness cannot be merely based on comparative advantage of cheap labour or labour intensification through cost cutting. Prices of primary agricultural products and manufactured goods from developing countries have been falling over a period of time. India has to therefore shift its emphasis to value addition, total factor productivity and innovation. This means emphasis on capital and managerial productivity, skills training, retraining and continuous training, attitudinal transformation and investment in R & D.

5.6.27. Increasingly there is a tendency among employers to take production to places where they can achieve best quality at the lowest price and sell in markets that fetch them the highest price.. Ultimately, the aim is to create a society where both quality and standard of life are safeguarded to the fullest extent possible. This definitely requires efficient utilisation of both natural and physical resources. India needs to invest heavily in building state of art physical (energy, air, road, rail, sea and inland transport, telecommunications and banking) and social infrastructure (education and health). There is overwhelming evidence that these shortcomings are holding back the country in realising its vast untapped potential.

5.6.28. It is necessary for enterprises to focus on value addition and total factor productivity, rather than merely the productivity of labour. Over the past few decades the prices of primary agricultural products and in recent years that of manufactured goods from developing countries have tended to fall. If this trend persists it will put pressure on both jobs and incomes of workers and market volumes and profit margins of employers.

5.6.29. To be partner in global competitiveness there is an imperative need for enterprises to move from manufacturing to post-manufacturing activities (such as brand building, marketing and distribution). They also need to invest in R & D to achieve substantial results than mere incremental growth in productivity and profits. The recent successes of some of the Indian pharmaceutical companies (Reddy Labs and Ranbaxy, for instance) should serve as role models for other businesses.

5.6.30. Improvements in productivity will contribute to better utilisation of resources and release fresh resources for further growth and potential for employment generation. In the process, however, job changes will take place and government, employers and workers must work together to prepare and retrain workforce for these changes.

5.6.31. In introducing measures to increase productivity, management and labour must cooperate in discussing, studying and implementing such measures.

5.7 Industrial Sickness

5.7.32. The existing framework that deals with the various problems that arise from industrial sickness needs review. It is essential to simplify the relevant acts and procedures. At present some provisions of Industrial Disputes Act, 1947, Sick Industrial Companies Act, 1985 and Companies Act, 1956 operate independently without any coordination and contributing to delay in the decision-making. The three acts must facilitate the objective of each other. They should be consolidated into one single bankruptcy law.

5.7.33. To unlock the resources locked in sick, potentially unviable units what is needed is better, simple, single-window, fast track procedures for addressing all issues dealing with bankruptcies/closures. We should parallelly have in place policies and infrastructure to unleash the entrepreneurial talent. If we have a situation where new enterprises are borne in the place of every unit closed, over all there is momentum in the growth of the economy

5.7.34. The delays in dealing with the problem of industrial sickness can be reduced by (i) making cut off dates on SICA mandatory; (ii) converting BIFR into liquidation court with decision-making powers; (iii) abolishing AAIFR.

5.7.35. To provide for future failures of the industrial units which might fail to pay statutory dues to the workers it is necessary to have a scheme of insurance for guarantee of payments of wages and other dues to the employees of the closed units. This fund should be created in every state where all the four *de facto* partners of the healthy units will contribute towards it. This fund will be purely utilised for payment of the statutory dues of the workers in case of failure of an industrial unit so that workers do not have to wait for completion of the liquidation process and realisation from the sale of a unit.

5.7.36. Though Urban Land Ceiling Act 1976 has been in principle abolished, several states are yet to act. Also, a very large number of cases since 1976 have effectively blocked the proper use and reuse of land. This type of situation needs to be dealt with in order to promote creation of economic value for employees and employer alike specially in an environment where closures are inevitable.

5.7.37. The essence of the approach suggested above is recycling of the resources of the sick, closed and units under liquidation, at a fast pace. It can be summed up in three words ENTRY, EXIT AND RE-ENTRY. A comprehensive positive exit policy means the restructuring the existing ventures, which have failed or have become unviable. The restructuring of the existing ventures could mean the exit of the present management which has failed and its replacement by a new one, the restructuring of the existing assets, product mix, equity base and lastly, the manpower. However, none of these other connotations of the exits has been spelt out in details in a proper framework. In a labour surplus economy like India reduction of workforce should be the last option not the first one.

5.8. Privatisation

5.8.38. Globalisation has highlighted the need for reviewing the role of public and private sector through out the world. The main issue here is performance, not ownership. However, for strategic reasons and national interest, it is appropriate that there is a strong public sector in some key sectors of the economy. Given the mixed experience with nationalisation in the past and privatisation in recent times (in other developing countries), it is advisable to let public sector in these key areas be exposed to competition on level playing field from private sector rather than privatise the existing public sector which are in Schedule A and B of the 1956 Industrial Policy Resolution. Public sector presence can be reduced in other non-priority, non-strategic sectors/areas.

5.8.39. Public sector involvement should increase in augmenting infrastructure (physical and social) even as efforts are made to increase private sector participation in these areas.

5.8.40. Sick and unviable units need to be closed. However, where sickness is induced by shortcomings in public policy, there is need to amend public policy than let enterprises perish.

5.8.41. There should be a mechanism to track and blacklist (for purposes for further loans/ equity issues) entrepreneurs who flourish by making units founded/acquired them perish.

5.9 Governance

5.9.42. Governance is an issue in development. The proverbial red tape is responsible for locking up immense productive resources and hampering initiative, enterprise and economy and blocking employment and livelihood opportunities. The resulting time and cost overruns have a debilitating effect on our people, economy and society. We need a responsive, responsible and accountable civil service. It should also be small enough to be agile and flexible. Civil service reforms are long over due and brook no further delay. The current initiatives in the direction of citizen's charter, etc. should result in palpable action and concrete, positive, outcomes. In fighting corruption, no citizen should be spared and the justice system should be based on clear (warning) signals, immediate, deterrent action, consistency, impartiality and malleability.

5.9.43. Reduction in red tape and elimination of corruption, nepotism and graft are fundamental to building a good democratic society which offers its citizens fundamental rights along with duties. Meritocracy must be promoted while giving equal opportunity to all. The ideas of electoral reforms to eliminate corruption and judicial reforms to facilitate speedy justice are eminently suitable for the emerging environment.

5.9.44. Deploying modern technology in a meaningful manner could improve the functioning of the country's governance. If the entire functioning of the government, judiciary and legislative operations were to be computerised, it would transform the country. Apart from bringing in transparency and instant control, it would create new job opportunities even as the bureaucracy is down sized and create a globally competitive infrastructure for the future.

5.9.45. Good governance of corporate and statutes and systems is equally vital. The recent bankruptcy of Enron Corporation in the U.S. is a clear signal for strengthening of Corporate Governance principles based on transparency, accountability, national interests and maintenance of core labour standards.

5.10 Coordination and Monitoring

5.10.46. The specific empowerment of a nodal agency to co-ordinate the process of globalisation to the best advantage of the country will ensure a holistic and professional management of all its aspects. It is suggested that such a nodal agency, in the nature of the Planning Commission, function irrespective of the changing political hues in the democratically elected government to ensure a sustained long term perspective in its discharge of responsibilities. This nodal agency should also be charged with negotiating the best deal for India from agencies like the WTO and at a pace, which matches the internal plans.

5.10.47. It is essential to run suitable training programmes for the opinion makers, the leaders from all walks of life including elected members, bureaucrats, trade union leaders etc., to provide them the wherewithal to spread awareness and implement the changes required. All this will require a well co-ordinated plan, which is well executed by the government.

5.10.48. Apart from the generating awareness about the consequences, opportunities and challenges of globalisation among the population it is necessary to create a permanent institutional mechanism to monitor the impact of globalisation on the rapidly changing labour scenario in the country. Some of the key issues which requires monitoring on a regular basis *inter alia* are

- Impact of globalisation on specific sectors which are exposed to the threats of job loss
- Globalisation and its impact on levels of insecurities such as in the sphere of employment, health, environment, culture.
- Emerging skill requirements and availability
- International demands for Indian labour in specific sectors
- Adoption and spread of labour standards determined by national interest in the globalising sectors

5.10.49. This monitoring is an important task for evolving appropriate national strategies for protecting the interests of labour and industry in a globalising world. As the task involved is enormous there is a need to create a synergy of competencies available with specialised labour research institutions like the V.V. Giri National Labour Institute, Gandhi Labour Institute, Governmental agencies like Labour Bureau, Workers education centers like Central Board of Workers Education and Trade Unions and Employers Associations.

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