

Impact of Globalization on Growth and Employment Opportunity in India

Abstract

India is not only a second largest populous country in the World but also having higher rate of population growth. It is necessary to accelerate both the rate of growth of the economy and employment. In the era of globalization, India has witnessed extremely high growth rates of GDP, but employment has failed to keep pace, as evidenced by the decline in employment elasticity of output. In this regard, there is a need to study the relation between growth and employment elasticity. This paper deals with introduction of globalization in India and its impact on employment opportunity and employment elasticity in agriculture, industrial along with services sectors. For the purpose of critical analysis, this paper is discussed into seven sections-

I-Introduction,
 II-Importance of Agricultural Sector,
 III-Structural Changes,
 IV-Employment generation and the internal market,
 V-Employment Opportunities,
 VI-Need for Changes and concluded lastly in section
 VII-Conclusion

Keywords: Globalization, Diversification, Socio-Economic Implications, Structural Transformation, Productivity Differential, Rural-Urban Migration, Pro-Poor Growth, Jobless Growth and Institutional Change

Introduction

Globalisation means gradual integration of economies through free movement of goods, services and capital. The first era of globalisation during the nineteenth century was the rapid growth of international trade between the European imperial powers, the European colonies, and the United States. The process of globalisation accelerated after World War II, subsequent to the formation of Bretton Woods institutions and the regeneration of Western Europe through the Marshall Plan. The process of integration has been greatly facilitated because of declining transport costs and the advent of Information and Communication Technologies (ICTs). Simultaneously, gross trade, foreign direct investment (FDI), capital flows and technology transfers have risen significantly. Globalisation and closer integration of economies have had significant impacts on the economies of both developed and developing countries. It is in this context that many scholars have tried to study the impact of globalisation on growth and employment, poverty and inequality. An important consequence of this is that it has brought into focus the central issue of growth and development— namely to what extent is the process of industrial revolution and diversification of labour force into non-agricultural sectors in developing countries like India and China been accelerated or hampered by the new wave of liberalisation of trade and increased FDI? Most of the analysis of the impact of globalisation is undertaken by using the traditional theoretical framework. Since in many cases the results arrived at from empirical findings do not match the theoretical conjecture, scholars have questioned the veracity of long held theoretical propositions.

The negative side of globalization, personal, regional and occupational distribution of income in China, i.e., distribution in most of its dimensions, seems to have deteriorated (Gustafsson and Li Shi, 2002; Riskin, Zhao Renwai, Li Shi, 2001). While relative poverty has almost certainly increased in China, and most probably in India, what this means for absolute poverty remains statistically contested. Finally, high growth in GDP has not meant a correspondingly high growth in employment either in India or in China (Ghosh, 2005). High growth of output, coupled with low growth in employment over time, must raise questions about the economic and political sustainability, even the desirability, of such a process of

Aloka Kumar Goyal

Associate Professor,
 Deptt.of Economics,
 DDU Gorakhpur University,
 Gorakhpur

growth. In particular, sluggish growth in decent employment opportunities contributes not only to income inequality, it also thwarts economic mobility for the poor majority and raises doubts in their mind about any positive link between high growth and expanding economic opportunities. A land afflicted with extensive poverty and nearly jobless growth may soon begin to resemble, for many of its less fortunate citizens, the hell once described by the Italian poet Dante. On the gate of its entrance is written boldly, "Abandon all hope, ye who enter here."

Aim of the Study

To analyse the trends of sectoral growth and economy as whole in global era. To identify the employment opportunity and elasticity in difference sectors. To observe the relation between growth and employment elasticity in India.

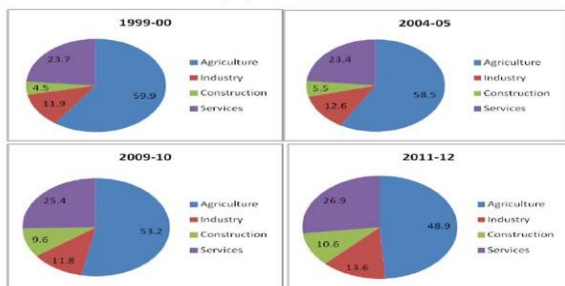
Importance of Agricultural Sector

According to census 2011, approx 69% population lives in rural India and rate of population growth is high as compared to urban area. While poor infrastructure, slow employment opportunity, high dependency on land for income are characteristics of rural area but distribution of land is very unequal. In India, rural areas are important socio-economic units.

There are 6 lakhs villages in India where rural economy has major socio-economic implications for overall economic development of India. Therefore, the real output producing sector, agriculture, provides life food and intermediate goods to other sectors. That is why in our planned economic development, we never underestimated primary sector and rural economy. As we know all across the industrialized countries, prior to rapid economic growth and structural transformation, agriculture accounted for the bulk of the economic output and of the labor force. Because productivity in the nonagricultural sector was higher than in the agricultural sector, the share of agriculture in total GDP fell short of its share in the labor force. As industrial growth took off, industry became even more productive, and the productivity differential with agriculture increased. With rapid economic growth the share of agricultural in GDP fell much faster than the share of agricultural labor, and the inter-sectoral differential in labor productivity widened. Farm incomes visibly fell behind incomes earned in the rest of the economy. "This lag in real earnings from agriculture is the fundamental cause of the deep political tensions generated by the structural transformation" (Timmer, 2009, p6, emphasis in original). The importance of agriculture sector for employment opportunity is shown in the following chart- 1.

Chart-1

Chart 1: Sectoral Share in Employment across various NSSO rounds



Structural Changes

The process of economic development increases the importance and contribution of secondary and tertiary sector in the economy. It also happened in Indian economy. But India is country of villages so we can never neglect our rural people and economy. With the 73rd amendment (1993) of constitution, Panchayati system got strength and a new atmosphere of local participation was developed. Therefore, rural transformation is needed for economic development in India. During the structural transformation, labor is pulled out of agriculture, at a speed that depends on the labor intensity of industry and services. A turning point is reached when the share of labor in agriculture starts to decline faster than its share in output, and the productivity differential between the sectors starts to diminish. With compared to international experience the structural transformation in India has relatively slow and atypical, mainly on account of a low share of manufacturing in the economy and of its disappointing growth and employment performance. While the agricultural sector has declined as a share of GDP, and manufacturing has not grown significantly, the slack has been taken up by the remaining industrial sectors and services. Absorption of labor in the urban economy has been slow, and rural-urban migration has been far less than could have been expected in a rapidly growing economy. Therefore the difference between the share of agriculture in the economy, and its share in the labor force has widened significantly. Despite of accelerating economic growth, the structural transformation of the rural economy has been slow, with a widening labor productivity differential between the nonagricultural sectors and agriculture.

Employment Generation and the Internal Market

It is not always recognized that in a large sized economy like India, which has a relatively small foreign trade sector, the disadvantage of slower growth in domestic market size easily outweighs quantitatively even a relatively rapid expansion of the export market. With expenditure on domestic consumption and investment goods as the determinants of the internal market from the expenditure side of national income, the quantitative importance or the statistical weight of consumption expenditure far outweighs that of the external market in India, roughly defined as export minus import. For instance, on a rough estimate, per cent decrease in total consumption expenditure in India might require a 12-fold increase in exports to compensate for the fall in demand (other things held constant) for maintaining the same level of aggregate demand. The message from such arithmetic is unambiguous. In the case of India, it would be unwise to depend exclusively on the expansion of exports for maintaining adequate aggregate demand, and great caution should be exercised in stimulating export at the cost of domestic consumption demand. Employment and pro-poor growth would begin to be complementary once we begin to focus on expanding the size of the domestic market. Globalization and emphasis on the external market predispose us to look upon increases in labour productivity as a mere cost-cutting measure. The cost reduction is important for corporations to increase

their market share and their profit margin. The same logic applies if economic policy makers focus only on the external market for increasing our share of the global market, but not if the emphasis is on the internal market. However, once we recognize the importance of the domestic market, this corporate logic of management for increasing labour productivity no longer applies. It is easy to see the inherent fallacy of composition in this corporate view of management.

Suppose all corporations in the economy downsize their labour force by half and the total employment drops to half. If wage remains the same, labour cost also reduces by half because each person produces double the amount, but gets the same wage as before. With employment reduced by half, the total wage bill of the economy also reduces to half. Table-1 show the changes in employment and unemployment situation in India during global era.

Table-1
Comparison of Employed Persons and Unemployment Rate (UPSS)

Indicator/Year	1999-2000	2004-05	2009-10	2011-12
Employment (millions)	396.76	457.46	460.18	472.9
Unemployment rate (per cent)	2.2	2.3	2.0	2.2

A comparison of the 68th round survey results vis-a-vis previous rounds reveals certain interesting facts. There has been consistent increase in absolute employment across various sectors from 396.8 million in 1999-00 to 460 million in 2009-10 to 472.9 million in 2011-12. Not with standing an absolute increase in employment, the unemployment rate which was rising till 2004-05 fell in 2009-10 but has again risen slightly in 2011-12 to 2.2 per cent raising apprehensions of jobless growth.

Employment Opportunities

Labor absorption in the urban economy, and especially in the manufacturing sector, has been low; formal sector jobs are few and declining as a share of employment; and labor contracts are increasingly informal. As a consequence, and combined with rapid population growth, the labor force in the rural areas is still growing fast. Agricultural growth has not responded to the accelerating income growth, and agricultural employment is growing slowly. It is the rural non-farm sector that has emerged as the major

source of rural and economy-wide employment growth with rural non-farm self employment and incomes growing especially fast. As most of these macro employment trends are likely to continue, we can envision an agricultural sector in which household and farm sizes will continue to decline. Households will strive for income growth via technical change, increased irrigation, and continued diversification towards high valued agricultural commodities and towards the non-farm sector. With employment opportunities in the non-farm sector considerably better for young men than for young women, the current trend to feminization of agriculture will continue. Within these constraints, a positive vision for agriculture and rural development can nevertheless be achieved if government policy is supportive of the ways in which households will try to increase their incomes. Rapid policy and institutional change will be required to overcome poor performance of many government programs.

Table-2
Employment Elasticity: CAGR Approach

Year	Employment Growth (CAGR)	GDP Growth (CAGR)	Employment Elasticity
1972-73 to 1977-78	2.6	4.6	0.57
1977-78 to 1983	2.1	3.9	0.54
1983 to 1988-87	1.7	4.0	0.42
1988-87 to 1993-94	2.4	5.6	0.43
1993-94 to 1999-2000	1.0	6.8	0.15
1999-2000 to 2004-05	2.8	5.7	0.50
2004-05 to 2009-10	0.1	8.7	0.01
2009-10 to 2011-12	1.4	7.4	0.18
1999-00 to 2011-12	1.5	7.3	0.20
1993-94 to 2011-12	1.1	6.0	0.18

The compound annual growth rate (CAGR) approach is the most widely used approach in India to estimate employment elasticities (Gol, 2012; Papola *et al* (2012),

Official estimates on employment elasticity were provided by the Planning Commission in the Twelfth Five Year Plan document for the time period 1999-2000 to 2009-10. In this paper, the employment elasticities have been computed by further extending the employment data series up to 2011-12. Also back data on employment based on all the old NSSO surveys have also been used to get the employment

elasticity since 1972-73. The employment elasticity numbers based on the CAGR approach during 1972-73 to 2011-12 are reported in Table -2. As can be seen, there has been a continuous decline in employment elasticity from the 1970s to 1980s to 1990s. During the 2000s till date (i.e., 1999-2000 to 2011-12), employment elasticity was about 0.20 (a shade higher than that of 0.19 per cent as estimated by Planning Commission till 2009-10). Employment elasticity was high (about 0.5 per cent) for the first half of 2000s. It declined significantly during the second half of 2000s. Not with standing an improvement during 2009-10 to 2011-12, it has remained lower

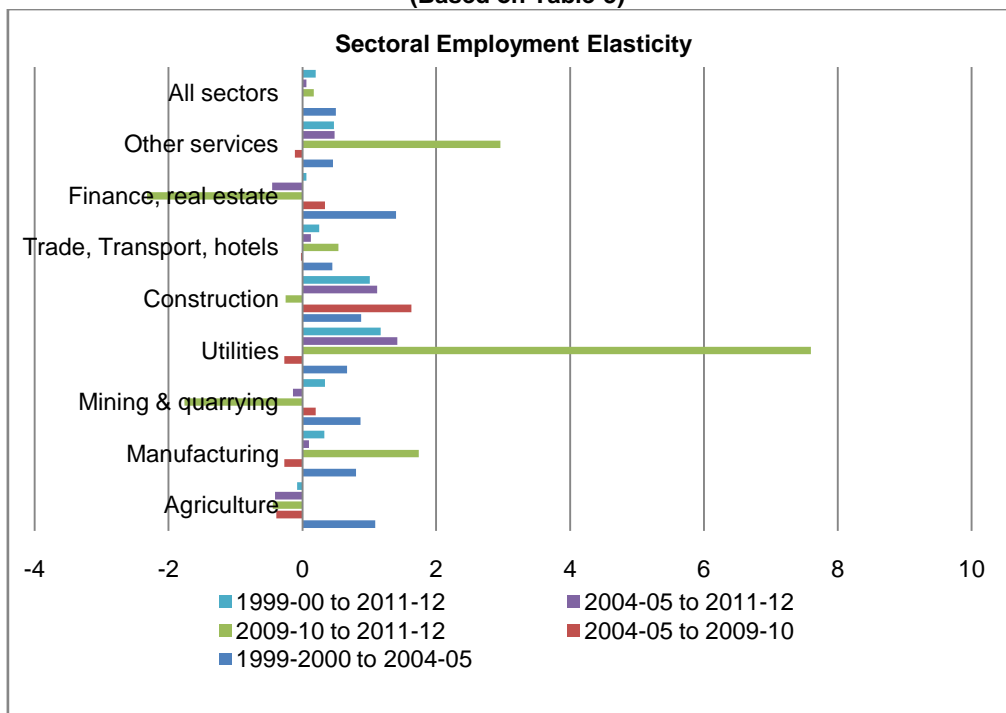
than that of the first half of 2000s. For the post reform period as a whole (1993-94 to 2011-12), employment

elasticity was placed at 0.18.

Table-3
Sectoral Employment Elasticity – CAGR Approach

Sector	1999-2000 to 2004-05	2004-05 to 2009-10	2009-10 to 2011-12	2004-05 to 2011-12	1999-00 to 2011-12
Agriculture	1.09	-0.39	-0.44	-0.41	-0.08
Manufacturing	0.80	-0.27	1.74	0.10	0.33
Mining & Quarrying	0.87	0.20	-1.76	-0.14	0.34
Utilities	0.67	-0.27	7.60	1.42	1.17
Construction	0.88	1.63	-0.25	1.12	1.01
Trade, Transport, Hotels	0.45	-0.02	0.54	0.13	0.25
Finance, Real estate	1.40	0.34	-2.32	-0.45	0.06
Other Services	0.46	-0.11	2.96	0.48	0.47
All Sectors	0.50	0.01	0.17	0.06	0.20

Chart-2
(Based on Table-3)



Sector-wise, employment elasticity is in the negative zone for agriculture sector indicating the movement of people out of agriculture to other sectors in search for productive and gainful employment. Since 2000, employment elasticity is the highest for utilities, followed by construction sector. The manufacturing sector that had witnessed negative employment elasticity in the second half of 2000s has seen a turnaround during the period 2009-10 to 2011-12 with the overall employment elasticity in manufacturing being at 0.33 for the period 1999-00 to 2011-12 as shown Table-3 and Chart-2.

Need for Changes

There are some issues as constraints for rural transformation, these are rural migration and change in land relationship, problems of unemployment and rural poverty, good governance, availabilities of agricultural inputs and rigid social structure. Similarly some challenges for rural development are- wage gap between agriculture and non agriculture sector, food security, institutional and

financial reforms, establishment for agro-base industries, minimization of market chain and uncertainty in agricultural out, better implementation of programmes/schemes, population control and productive work culture.

Conclusion

The paper examines the growth process that the Indian economy is going through, discusses its impact on employment opportunity and goes on to present an alternative growth model that is more socially inclusive. The impact of globalisation on growth and employment has thrown valuable insights for understanding the process of globalisation. Most of the current literature reviewed above inadvertently tries to attribute all the changes in economic variables to the impact of globalisation without taking into account the role played by indigenous factors. On the basis of above discussion, it is quite clear that most of the workforce is engaged in agriculture sector and it is playing a vital role in this regard. The rate of growth in different sector and country as whole has increased

but employment elasticity in different sector has decreased during the period of globalization. Employment elasticity in agriculture is negative. India is getting Jobless growth and this term is suitable to understand the impact of globalization on growth and employment.

References

1. Akyüz, Yilmaz (2006), "From Liberalisation to Investment and Jobs: Lost in Translation", Paper prepared for the International Labour Organization, Geneva, and Third World Network (twnet@po.jaring.my). — (2004), "Managing Financial Instability and Shocks in a Globalising World", Paper presented at a public lecture sponsored by Bank Negara and the University of Malaya, February 6, Kuala Lumpur.
2. Bhagwati, J. and Srinivasan, T.N. (2002), "Trade and Poverty in Poor Countries", American Economic Review, Papers and Proceedings, Vol. 92, No. 2.
3. Bardhan, P.K. (2007), "Poverty and Inequality in China and India: Elusive Links with Globalisation", Economic and Political Weekly, Vol. XLII, No. 38, September 22-26.
4. Bhalla, Sheila (2004), Rural Casual Labourers, Wages and Poverty, Chronic Poverty Research Centre, IIPA, New Delhi.
5. Chandrasekhar, C.P. and Ghosh, Jayati (2007), "Recent Employment Trends in India and China: An Unfortunate Convergence?", Paper presented in the International Seminar on the Labour Markets in China and India in the era of Globalization: Experiences and Emerging Perspectives, organized by the Institute for Human Development, Chinese Academy of Social Sciences and Indian Council of Social Science Research, March 29-30, New Delhi.
6. Dasgupta, Sukti, and Singh, Ajit (2007), "Manufacturing, Services and Premature Deindustrialization in Developing Countries: A Kaldorian Analysis", in Mavrotas, George and Shorrocks, Anthony (eds.), *Advancing Development: Core Themes in Global Economics*, Palgrave MacMillan in association with the United Nations University World Institute for Development Economics Research (WIDER), pp. 435-456.
7. Davis, Donald R. (1996), "Does European Unemployment Prop up American Wages?", NBER Working Papers 5620, National Bureau of Economic Research, Inc.
8. Dollar, D. and Kray, A. (2001), "Growth is Good for the Poor", Development Research Group, World Bank, Washington D.C., March (Mimeo).
9. National Sample Survey 55th, 61th, 64th, 66th and 68th Round
10. India Policy Forum 2010-11, edited by Suman Bery, Barry Bosworth, Arvind Panagariya
11. Timmer D. The Intertextual Israelite Jonah Face à l'Empire: The PostColonial Significance of the Book's Context and Purported NeoAssyrian Context, *Journal of Hebrew Scriptures*, Vol. 9, Art. 9, 2009, p6 [14] Grayson, A.K. Assyrian royal
12. Gustafsson, B. and Li Shi (2002) 'Income Inequality within Counties in Rural China, 1998 and 1995', *Journal of Development Economics*, 69 (1), October.