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## **IMPACT OF GLOBALIZATION OF EMPLOYMENT IN FORMAL AND INFORMAL SECTORS IN INDIA**


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**Abstract:** This paper attempts to reveal the impact of globalization on employment in formal and informal sectors of the Indian economy. There has been resistance to policies endorsing globalization from trade unionists and industrialists seeking protection from competition. In contrast, others feel that globalization in its current form is inevitable, and the economy needs to mould itself for impending changes. The formal sector has been affected by changes in labour laws, while workers in the informal sector feel threatened by impermanence and the unstable nature of employment that is associated with globalization. Registration of all employees, however short their period of employment, can act as a means to document the contribution of the labour force in ephemeral employment.

**Keywords:** globalization, formal sector, informal sector, political will, trade unions

The phenomenon of globalization impinges upon many areas of life and is, therefore, definable in several ways. In the world of work, its significance has traditionally been seen in the development of large corporations whose interests and power transcend national boundaries and whose ends are served by technological changes that have immeasurably improved communications and fostered the rapid movement of capital. Such developments have enormous implications for businesses, workers and their representatives, governments, and other bodies seeking to influence and control them.

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**EMPLOYER RESPONSES TO GLOBALISATION**

### **Protectionism and Attacks on Labour Rights**

Most responses to globalization by employers in the formal and informal sectors have ranged from outright rejection to qualified acceptance, with only a small number of the best-managed and most competitive companies showing a readiness to confront their challenges.

The first category of employers- i.e. those who reject globalization and want India to leave the WTO- believes in protecting its members' perceived interests by opposing any dilution of labour laws.

The second category, which accepts globalization provisionally, has put forward two significant demands. The first is protection from competition from imports as well as foreign takeovers. At first sight, this may seem no different from the first category of industrialists, but there is a big difference. Garment manufacturers, for example, are heavily dependent on exports and oppose protectionist measures by other countries against their products. Yet, at the same time, they urge the government to impose protectionist duties on garments produced in other Third World countries. As Rahul Mehta, former president of the Indian Clothing Manufacturers Association (ICMA), said, "India's commitment to WTO relates only to countries like America and Europe, not countries like Sri Lanka and Bangladesh". In other words, trade barriers to Indian products must come down in Europe and America, even while India puts up trade barriers to imports from less industrialized developing countries.

As we saw earlier, the other central plank of this second category of employers has been the demand for deregulation of the labour market, without which, they claim, they cannot withstand the increased competition resulting from trade liberalization. The only strategy they see for surviving competition from cheaper and better quality imports- apart from imposing duties on them - is to cut labour costs. This means that they fiercely oppose any link to labour between world trade and labour rights, which would raise average standards in India.

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The government rejected the demand to come out of the WTO because it needed to be more practical to remain isolated from the rest of the world. However, it has been highly sympathetic to the second category of employers, i.e. those who wish to use any opportunities offered by liberalization and WTO membership even while staving off competitive threats to their products and companies or strengthening workers' rights. Thus

the government has, on various occasions, agreed to block imports, undertaken to oppose any linkage between trade and worker's rights, and expressed its determination to push through changes which dilute labour laws.

### **Cheap Labour Strategy**

Is there still time to comment on the success of attempting to compete in the world market based on cheap labour? It is still very early to tell. But a look at the experience of the textile and garment industries- prime examples of this strategy - provides some indication of the answer to this question. During the first half of the 1990s, exports from this sector expanded rapidly, and there were expectations that this trend would continue. Cases in the WTO against the European Union and the United States of America were won, and it appeared that increasingly free access to these markets would allow exports to continue expanding.

However, this trend was reversed in the latter part of the decade. Not only did exports decline as a result of stiff competition from cheaper and better quality products from other Third World countries, but even the domestic market began to be invaded by these more competitive products, some of them from countries like Taiwan and South Korea with considerably higher labour standards than India. It began to be evident that even in labour-

intensive industries; cheap labour could not ensure a secure market position. Some commentators had already proposed a more far-sighted alternative strategy involving technological upgrading to increase productivity and produce higher-quality products with a well-paid, educated and skilled workforce.

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Even from the standpoint of attracting foreign investments, cheap labour may not be much of an asset. A recent survey of over 1000 top international companies showed that the two major attractions of India were (1) the potentially huge size of the Indian market and (2) the availability of an educated, skilled, English-speaking labour force at the top end of the labour market, with job security competitive wages. In other words, wages high by Indian standards though competitive in the international market were seen as one of the two key attractions. In terms of market size, China's was seen as much more significant - some companies estimated it to be ten times larger -making China a more attractive destination. The negative features were topped by bureaucracy; alleged labour market rigidities due to the ID Act should have been mentioned.

The consumer market in China is so much larger than prices of consumer goods are much lower, i.e. a mass market for consumer goods has been developed. In India, by contrast, most consumer goods apart from the bare necessities of life are beyond the reach of over 90 per cent of the labour force and their families, so the market is just a fraction of the size it could be. So far from cutting into the domestic market, cheap imports could create new markets for domestic producers who are efficient enough to bring down prices while maintaining quality.

A moment's thought tells us that the strategy of accumulating capital (i.e. wealth) while forcibly keeping most of the labour force at rock-bottom levels of subsistence cannot be a democratic one: only an authoritarian exercise of power can enforce such extreme disparities in wealth. Secondly, as a development strategy, a policy which depends on keeping the vast majority of the population in poverty needs to be revised. And thirdly, restriction of the market resulting from low wage levels would make India less attractive as an investment destination not only for foreign investors but even for the more competitive Indian industrialists, who would be tempted to invest in countries with a larger consumer market. In the long term, this strategy cannot succeed in developing the Indian economy. Moreover, government policy ruled by the greed of short-sighted industrialists will only ensure that the country remains backward.

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## **RESPONSES FROM FORMAL SECTOR WORKERS**

When the demand for an 'exit policy' began to be articulated shortly after the liberalization of 1991, trade unions fought back vigorously and defeated any plans for change.

However, when employers began using strategies like Voluntary Retirement Schemes instead, unions needed to be more successful in fighting them. Some associations could stem the tide of job losses using an imaginative campaign demonstrating the miserable fate of most workers who had earlier taken VRS. Still, on the whole, job losses and closures continued unabated. Therefore, a vital element of this employer strategy was transferring production to informal workers.

### **Struggle against Dilution of Labour Legislation**

The labour law changes proposed in 2000-2001 brought unions together again. In Maharashtra, a Joint Action Committee (JAC) consisting of various left-leaning and socialist unions, the Trade Union Solidarity Committee (TUSC-a coordination of independent unions unaffiliated to political parties) and others undertook a series of actions -rallies, demonstrations, local meetings, etc. These culminated in the Maharashtra Band (general Strike) of 25 April 2001.

The success of this strike, and the unprecedented unity which ensured this success, were achieved slowly. They involved the JAC approaching and negotiating with unions affiliated with different political parties, which had sometimes been engaged in bitter conflict with some of its constituents. It is likely that this unity would never have materialized if not for the feeling of extreme insecurity among members of all unions and the pressure they consequently exerted on their leadership. There were three main demands, apart from various subsidiary ones, and these, too, contributed to building unity:

(1) The Maharashtra Assembly must pass a decision to the President reversing the earlier decision to change the labour laws.

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2) The Maharashtra government must also oppose the changes in labour legislation proposed by the Central government.

(3) The rights of contract workers must be recognized in the Maharashtra Recognition of Trade Unions and Prevention of Unfair Labour Practices (MRTU & PULP) Act.

Undoubtedly, the trade union movement continues to wield considerable power and would probably succeed in stalling any legislative changes that erode the rights of formal sector workers. However, this would still leave them vulnerable to the transfer of employment to the informal sector. While union support for the rights of contract workers is a significant positive step, enormous problems for other categories of informal workers still need to be solved.

International union action to upload minimum labour rights could help workers in the informal sector. Still, the national union federations have categorically rejected not merely trade sanctions against nations violating minimum rights but any link between trade and workers' rights. The TUSC includes trade union leaders who adopt mainstream positions but encompasses a much more comprehensive range of opinions on globalization, including willingness to consider a workers' rights clause in WTO agreements as a possible tool and even insistence that trade must be linked to workers' rights. Still, the linkage and enforcement mechanism modalities have to be discussed between trade unions in developed and developing countries.

## **WORKERS IN THE INFORMAL SECTOR**

The universal and most urgent complaint of informal workers is the instability of employment, and women garment workers who were consulted about their grievances were no exception. Most had no formal employment status and could be dismissed for any reason, including asking for a rise in their below-minimum wages. For home workers, this problem was compounded by the casual and irregular nature of their work. With one exception, every attempt to unionize had failed, ending in the dismissal of the entire unit. And the exception proved the rule because it was in a registered factory.

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The impossibility of collectively organising and bargaining meant that other urgent demands concerning wages and benefits, working conditions, health and safety, paid leave and holidays could never be raised. And job instability meant that even the limited social security benefits available to formal sector workers were only available to some.

The unprotected conditions of these informal sector workers expose the total inadequacy of the job security protection that formal sector unions are fighting for. That employers in its with 100 workers or more should have to give prior notice of dismissals or closure and that workers should have a chance to put forward their views about the proposals is a simple matter of democracy; indeed, democratic norms would require more

rather than less information and consultation rights for workers.

Perhaps instead of state governments, which political considerations can sway, it would be better if an expert regulatory body capable of ascertaining the exact causes of unprofitable or failure were to scrutinize the proposals and put forward alternatives if necessary, for example, if a company is failing due to managerial incompetence or wrongdoing, it could recommend takeover by another management or a workers' cooperative. What is unacceptable about this state of affairs is that (a) workers who do not fall within this small category comprising less than seven per cent of the labour force, do not even have the minimal job security to protect them from dismissal for attempting to form or join a union, thus making their right to organize null and void, and (b) that social security -the right to a livelihood -is also restricted to those who have a formal sector job.

Some attempts to extend social security to the informal sector have been made, although agricultural employers predictably refuse to contribute. But the problem of ensuring that informal sector workers cannot be dismissed for organizing has yet to be addressed, neither at the national nor international level. The problem is precisely their informal status: if someone is never registered as a worker in the first



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place, they have no basis for complaining of dismissal for trade union activities. For example, garment workers in Bombay and beedi workers in Hyderabad had some suggestions to remedy this situation: identity cards, appointment letters, attendance cards, etc.

These amount to a limited degree of formalization of their employment. This is precisely what needs to be done: registration for all employers and their employees, no matter how temporary the employment relationship is claimed. There are provisions for such registration under the Maharashtra Mathadi, Hamal and Other Manual Workers Act, 1969, and the Beedi and Cigar Workers (Condition of Employment) Act, 1966, specifies that the principal employer rather than the contractor will be considered to be the employer, demonstrating the legal possibilities of undertaking some such formalization. The advent of computers makes registration a practical proposition too. All that is required is political will. Women garment workers were interested in attempts to impose codes of conduct on retailers in Western Europe and North America. There needed to be more discussion of a workers' rights clause in trade agreements. Still, in both cases, there was openness to the possibility of using these interventions to help their struggles, even while the more experienced women activists pointed out defects of the proposals in their present form.

The problem of monitoring and verifying the implementation of codes of conduct has arisen elsewhere. It is even more acute in the Indian context with its predominance of informal employment with long, shifting subcontracting chains. Even Rugmark, one of the best-organized initiatives with a limited objective, faced this problem. Nonetheless, workers felt that consumer pressure on retail companies to ensure respect for minimum labour rights by their suppliers could be used as a pressure point by workers with few other alternatives.



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