# The G20, the Seoul Development Consensus and India: A Report

Y. K. Alagh, Dev Nathan, A.N. Sharma, Preet Rustagi and Sudha Shrotria
September 2012

The authors gratefully acknowledge the financial support of the International Labour Office through the ILO–Korea Partnership Program. The authors are solely responsible for the contents of this report and for any remaining errors and omissions. The report does not necessarily reflect the official views of the G20 members and the ILO

## Contents

# 1. Introduction

This report looks at some actions taken and proposed by the Government of India (GoI) in line with the Proposed Actions in the G20 Seoul Development Consensus (SDC) of November 2010. Although these actions are in line with the SDC Proposed Actions, it should not be presumed that they have been undertaken as a result of the proposed actions at Seoul. Some of them were in place before SDC, some others were under discussion before SDC, even if they were implemented post-November 2010, and some were caused by factors other than SDC.

The report is divided into three sections. After this introduction, Section 2 looks at the processes through which G20 declarations, such as the SDC get translated into government actions. Section 3 deals broadly with the current economic situation in India and attempts to deal with it. Section 4 deals with the overall employment concerns in Indian policy and the current situation. Section 5 deals with some details of the economic and policy measures to deal with the economic situation, looking at them from the angle of the SDC. Section 6 briefly concludes the discussion.

# 2. Translating G20 Commitments into Action

A key area of investigation in this multi-country study is the manner in which commitments made by leaders at G20 commitments, particularly the set of commitments known as the Seoul Development Consensus is translated into action. To set out this process we start with the manner in which such commitments are communicated through the government system. We then go on to the matter of the legal implications of such commitments. This is followed by discussing some concerns about the nature of India's commitments in the G20 and the legitimacy of the G20 forum itself.

### 2.1 The Administrative and Communication Processes

There is the structure of the Government of India to liaise and interact with the G20. In addition there is the structure of the federal system as far as employment and skill development are concerned. Finally there are the interaction systems with civil society, trade unions, industry bodies and non-governmental organizations (NGOs).

In addition to the Prime Minister (PM), the Cabinet and the Principal Secretary to the Prime Minister in the Prime Minister's Office (PMO), the interacting agencies at the operating level are:

1. The Sherpa to the Prime Minister: Mr. Montek Singh Ahluwalia, Deputy Chairman of the Planning Commission.
2. The Department of Economic Affairs (DEA), Ministry of Finance (MOF). In particular a) The Chief Economic Adviser, DEA, MOF and b) Joint Secretary, DEA, MOF. The present incumbents are Dr. Kaushik Basu (now replaced by Dr. Raghuram Rajan, former Chief Economist of the International Monetary Fund), and Dr. Alok Sheel, IAS.

3. Joint Secretary Dr. Sheel is also the Up (meaning Deputy) Sherpa; He has support staff including a Consultant for interaction with line ministries.
4. Joint Secretary in the Ministry of Labor and Employment looking after the International Labour Organization (ILO) and international contacts. This office also interacts with trade unions and state governments on these issues. There are regular channels of communication to and fro, both at the time of formulation of views and for follow up to decisions.

India has a Planning Commission, which is somewhat unusual in its structure as compared to similar bodies in other democratic countries. Its approval is required to include expenditures in the annual development budgets of the Ministries of the Government of India and also of the State Governments. At that time the available data on performance, for example on Employment and Skill Development Schemes, is discussed. The Planning Commission has an Employment and Manpower Division that conducts these discussions. There are detailed contacts with the Labour Ministry in Delhi and the departments of each State Government.

Communication between the different wings of the Government, the Sherpa, the Ministry of Finance, the Ministry of Labour and Employment and the State Governments and interlocutors are reasonably smooth and quick.

### 2.2 International Commitments and Indian Laws

Any international declaration or agreement must get the approval of the Ministry of External Affairs, which is supposed to safeguard the national interest. The draft would go from the Up-Sherpa in the DEA to the Sherpa (Deputy Chairman of the Planning Commission) and then to the PMO. The Principal Secretary to the Prime Minister in the PMO will check the draft with MEA before forwarding it to the PM.

The PM does not have to take the declaration to the Cabinet. Such a step is needed only when the government wants to take action on the matter. At that stage Cabinet approval is needed to translate the declaration into action. Sometimes declarations just sit on the files and are not translated into national action. But when the government does decide on the matter, then it can cite the international commitment in the declaration and the need to fulfill that commitment as the reason for taking action. For instance, nothing was done for many years on the 1972 Stockholm Declaration on the environment. Further, environment did not figure in any of the three lists of distribution of legislative powers (central, state and concurrent subjects). When in 1986, after the Bhopal Gas Disaster, the then Government decided to enact legislation on the environment, it invoked Article 353 of the Constitution of India, under which Parliament can enact a law to fulfill international commitments made by India.

In the Indian legal system any international commitment does not itself require legislative approval. But the commitment does not become law until a corresponding law has been passed. The declaration may just sit in a file and not become law.

In the G20 system there is a system of reporting progress in the regular meetings of, for instance, the Business and Employment pillars. As a result the relevant Indian ministry is forced to prepare a report. This report would be prepared within the existing organizational structure, with the nodal person in the concerned ministry being given responsibility. From that person the draft would go to the Secretary and the Minister concerned before being placed internationally.

If the declaration requires action by the corporate sector or trade unions, then they would be brought into the picture and asked to undertake the required action. But if government action were required then consultation with business and labour would be sought only when major policy matters were involved. For instance, for the National Manufacturing Policy (NMP) there have been consultations with both business associations and central trade unions. Besides, the draft of the NMP was on the web site for comments from any interested persons.

### 2.3 Overloading?

There is a concern expressed by some officials that the G20 agenda may be over-loaded and too detailed. There is also a concern that space for negotiations is being taken away from the specialized agencies, such as the ILO. The ILO has a standard tripartite structure in its negotiating process. But in the L20, representation of labour and business is carried out in an ad hoc manner, without representation from each member's labour and business groups. This it is felt can lead to lobbies being created within L20 to press for certain policies, e.g. linking labour standards with trade issues, or bringing in matters like promoting an investment climate. Of course, such pressures could be created even without the L20 type of structure.

The G20 and its companion bodies, L20, B20 and TM20, are negotiating bodies of the highest order. In the last instance, it is at the level of political representatives, as the G20 bodies are, that negotiations take place. Whether with WTO negotiations or with climate related COP, it is the major governments that come together to take decisions. The G20 gives a structure to these decision-making processes, and, importantly, gives scope for decisions to be made not on a piece-meal or sectoral basis (on trade, climate change and so, each considered separately by itself) but on the basis of considerations of the whole global economy (see Kirton 2004; Alagh 2005; Jokela 2011).

At the same time, once major decisions are made there clearly is a role for specific committees, such as the L20, B20 and so on, to work out the details of implementation. This would require that such committees meet not just in preparation for G20 summits, but also have post-summit meetings to work out implementation modalities of summit decisions. Thus, while there is a role for G20 Summit documents to be less cluttered, the summits are important as negotiating bodies for decisions on matters affecting the international economy.

### 2.4 Legitimacy

One key action that destroyed the legitimacy of the Bretton Woods' organizations and the G8 was the insistence on fiscal tightening during the Asian financial crisis of the late 1990s. The G20, on the other hand, has been able to push a policy of stimulus to revive growth. It has a 'Framework' group, chaired by GoI's Chief Economic Adviser. Interestingly the World Bank, IMF, along with the Organisation for Economic Co-operation and Development (OECD) and the ILO, are all represented in this meeting. This G20 Framework Group could potentially play a vital role in framing policies that contribute to an inclusive re-balancing of the world economy. Of course, there are limits to what the G20 can do, since countries are likely to follow recommendations only when they are politically acceptable within their own national frameworks and consistent with national policy stands.

The Framework group has brought employment into the ambit of discussion on the process of global rebalancing. But it is necessary to give specific meaning to employment, if it is not to remain a vacuous insertion. The employment issue is not the same in all economies. Earlier, we pointed to the specific nature of the employment issue in a country like India, with a large informal sector. Those in the labour force remain working, which, however, may be both intermittent and of low productivity. For India the employment issue is one of generating better quality employment in the formal sector.

In the developed countries too the employment issue is not the same everywhere. There would be countries, possibly even just sectors, which are competitive in the world economy. In such cases the need is for fiscal or other stimulus to prop up demand. On the other hand, there are sectors, even countries, which are basically non-competitive in the world economy. Here, there is a need for structural changes in order to increase employment. In order to come to grips with the employment issue in global recovery and growth, the G20 would need to carry out an analysis of the different issues that are all included within the broad term 'employment'.

## 3. Seoul Development Consensus and Employment

### 3.1 Overall Trade and Exchange Rate Concerns

The contemporary context of the study of the Proposed Actions in the G20 SDC is can India in the present crisis join China and other Asian and BRIC countries to grow fast and strengthen world growth? This is called Rebalancing. In this larger context, from the Indian perspective, three objectives are worth noting. The first is the need for stability for the medium term reform process. A reform process with the objective of widening incentives for growth by establishing the rules and institutions for creating communication, marketing and systems for stable financial incentives, cannot proceed in volatile economies. The second is improving global and national architecture for deepening of financial markets for inclusive growth. The third is the links of these two with trade and exchange policies.

Discussions with senior Indian policy makers suggest the Indian concern is whether the G20 is building a macro-financial-trade policy framework to coordinate efforts to address development issues with more comprehensive policies for rebalancing in a fast changing context. Financial trade policy literature generally works in a comparative static framework. In most discussions in the policy literature this is implicit. Development issues tend to be conceptually underplayed in this context even if they gain urgency in crisis situations. This is largely true of the rebalancing literature, which with some exceptions in the recent phase concentrates on exchange rate developments and implications and issues emerging there from. Given the volatility of these trends there is considerable zigzag in such debates.

Development issues, on the other hand have substantial trade and financial policy interrelations and this is particularly true of rebalancing needs. The requirements of a medium term tariff policy and also financial innovation are critical here. Cross-country studies by the Food and Agriculture Organization (FAO) in Asia have shown that static trade policy prescriptions in meltdown periods can have negative impacts on diversification, spread of agricultural growth, employment and poverty outcomes of (see Son, Beresford, Que, Dieu and Trang 2006; see also Alagh FAO 2006). Agriculture trade has relevance in regional trade arrangements in Asia with countries having very different agro climatic endowments and therefore possibilities for specialization and consequently trade. These developments require a stable medium term trade policy rule based regime and currency arrangements, which could lay the foundations for rebalancing and development.

The second requirement is for financial architecture that could increase financial deepening for inclusive growth at the international level. Reform needs to be protected from the wild swings of global financial markets, which began to be particularly evident from the late 1990s Asian financial crisis. Some of these requirements were stated at different times by one of the present authors (see Alagh's Keynote Address at Seoul meeting of the Asian Development Bank [ADB] in October 2010, which were highlighted in the G20 Gyeongju Statement, October 24/25, 2010). These matters were taken up in the Delhi G20 meeting of Trade and Economic Ministers in March 2012. The principles for prevention and solution of sovereign financial crises were adopted.

Medium-term stability is also linked to exchange rate policies. India has not had a mercantilist exchange rate policy. Large current account deficits, substantially due to higher imports of petroleum, gold and machinery, have pushed down the rupee exchange rate. But India has not tried to get out of large balance of payments' deficits by taking the route of currency devaluation to increase exports. Rather, the Government has formulated a new manufacturing policy through which it hopes to build a much-needed competitive manufacturing base. We will return to this point later on, since the growth of manufacturing is crucial to improving the employment situation in India.

### 3.2 Employment

In the present global situation, with growth rates declining even in the fast growing economies like China and India, acting on the Seoul Development Consensus becomes urgent. India has been insisting in the G20, that the concern with growth should be connected with the need to increase good quality employment. The Project Team's discussions with policy making at the highest level show that this is of great concern to India.

India chairs the Framework Development Group. This group monitors the SDC Framework Goals. India follows this with great interest particularly the goals of CAD and the Macro Framework of the SDC. But employment was not on the radar in a meaningful sense. This has now been remedied. India proposes to follow through this exciting development in the Framework Development Group it chairs. The macro frameworks accepted at the Seoul meetings in 2010 could provide a quantitative coordinating mechanism for this.

With a large informal sector absorbing a substantial part of India's workforce, the unemployment concept of a developing economy has limited meaning in measuring participation in productive activity. Rather, under-employment and low-productivity employment are essential concepts. This is quite unlike the situation in developed economies where the bulk of economic activity (other than that within the domestic sphere) is carried on in the formal sector. The informal sector in developing economies has a small and growing high productivity sector but also low productivity low wage components. Within India itself unemployment is lower in the poorer states, such as Bihar or Uttar Pradesh, where it is about 3 percent than in the better-off states, such as Kerala, where it is about 5 percent. What is important in India is to shift workers from intermittent and low-productive jobs in the informal sector to regular and more productive jobs. Indian interlocutors in the SDC follow up would emphasize Employment as a category in the Framework Discussions and the relationship with productivity and wage rates.

### 3.3 India's Development Policies

Did the SDC make a difference to India's development policies? Take the question of employment. The concern at G20 has been the erosion of employment in the industrialized countries (such as the high unemployment for instance in Spain and high chronic unemployment of the United States); whilst the livelihood concerns of the developing countries have been very different, which public policies alone cannot address. This is a serious concern and India will follow it up in The Framework Development Group, wherein ILO has also joined for the last two rounds, apart from the IMF, World Bank and OECD's participation.

The Comprehensive Economic Partnership Arrangement (CEPA) initiatives are well taken. Indian manufacturers seem keen to build value chains across South Asia. This is more prominent in the case of textiles and garments, where both Bangladesh and Sri Lanka are part of such efforts. Of course, in the case of Sri Lanka, there is also a Sri Lankan company that is reaching out to extend its manufacturing facilities into India.

After the SDC (November 2010) GoI has taken measures to increase construction spending to improve infrastructure. This is very much in line with the SDC approach.

This was carried out through most of 2012 as a way of speeding up growth, which has slipped below 6 percent per annum over 2012. GoI has also taken measures to increase the duty-free, quota-free access of its neighbours. These are both surely policies that were being developed over some time, but their implementation has been speeded up post-SDC.

In terms of an older India-Sri Lanka Free Trade Agreement, Sri Lanka has had such duty-free, quota-free access for some time now; while in the case of Nepal such access is a decades' old story. In 2011, at the time of the PM's visit to Dhaka, it was announced that India would provide Bangladesh duty-free and quota-free access to the Indian market.

India's important social floor policies also date back to much before November 2010. One important measure, the Rural Employment Guarantee (MGNREGA) came into play in supporting the household incomes of those laid-off after the 2008 crisis broke. The implementation of the health insurance scheme for some of the rural poor was also initiated before November 2010. But these measures, as with the food security measure still under discussion are well in line with the SDC mandate to develop nationally determined social floors.

### 3.4 Employment Data and Situation

India has Employment Exchange Statistics but its employment data is very rich in terms of the needs of a developing economy. Given that the Indian workforce is substantially informal (more than 77 to 93 percent, by different estimates), with only a minuscule proportion in formal employment, employment exchange statistics encompass a limited segment of the workforce. Employment Statistics in India provide a diverse and wide range of information, which allow for myriad calculations and measures towards capturing different aspects of employment and the different concepts of unemployment. This gains significance in the context of Indian labour markets, wherein a bulk of the workers are self-employed and not working within an employer-employee relationship in the conventional sense; and underemployment or disguised employment is more of a concern rather than unemployment.

Employment is measured in terms of three statuses – Daily (Person Day Utilization of Labour Time), Weekly (end of the week employment status) and Usual Status. The last corresponds to worker concepts in the usual sense. It is the view of the GoI and other experts that while employment as a concern can be discussed and is important, it cannot be placed in the framework of OECD concepts. Particularly the matter of unemployment cannot be compared between India and OECD economies. In India a large part of employment is in the informal sector and, as a result, there is little overt unemployment. Thus, the unemployment figures cannot be compared between India and the OECD economies.

One of the most remarkable things brought out by the 66th round survey on employment (2009/10) conducted by the National Sample Survey Office (NSSO) is that the number of young people in education, and therefore out of the workforce, has increased dramatically causing a drop in the labour participation rate.[1] The total number of young working-age (15-24) people who continued in educational institutions doubled from about 30 million in 2004-05 to over 60 million in 2009-10.

The policy discussion therefore takes place in different contexts. The Planning Commission states that the survey also shows that between 2004/05 and 2009/10, the overall labour force expanded by only 11.7 million, because of the much larger retention of youth in education, and also because of lower labour force participation among working-age women. However, over the same period, 18 million job opportunities were created on a current daily status basis. Thus, in absolute terms, unemployment came down by 6.3 million; and the unemployment rate, which had increased from 6.06 percent in 1993-94 to 7.31 percent in 1999-2000 and further to 8.28 percent in 2004-05, came down to 6.60 percent in 2009-10. Note that concepts like Current Daily Status are not used in any other G20 country

And again: The lower growth in the labour force is not expected to continue in the future and one can assume that much larger numbers of educated youth will be joining the labour force in increasing numbers during the Twelfth Plan and in the years beyond. The clear implication of this is that the pace of higher quality job/livelihood creation must be greatly accelerated. Part of this must come from a significant boost to the manufacturing sector of the economy, such that it grows at a rate that is faster than most other parts of the economy. However, this may not be enough, in part because not all categories of manufacturing are labour intensive. Although GDP from manufacturing increased at 9.5% per annum between 2004-05 and 2009-10 along with some increase in employment in the organized manufacturing sector, the NSSO survey suggests that overall employment in manufacturing actually declined during this period. The implied shakeout of labour from the unorganized manufacturing sector needs to be studied in detail and steps taken so that the obvious potential of the micro, small and medium enterprises sector as a source of jobs/livelihoods is realized fully.

The 66th round NSSO Survey of Employment shows that the vast majority of new jobs created between 2004-05 and 2009-10 were in casual employment, mainly in construction. While such jobs are often more attractive for rural labour than casual work in agriculture, there is a potential for an accelerated pace of creation of more durable rural non-farm jobs/livelihood opportunities. Such job opportunities could come from faster expansion in agro-processing, well-organized supply chains and the increased demand for technical personnel for inputs into various aspects of farming that is undergoing steady modernization, and also the maintenance of equipment and other elements of rural infrastructure. The service sector too has to continue to be a place for creation of quality jobs/livelihood opportunities, in both rural and urban areas.

[1] In the age group of 5–14 years, 89.3 per cent of children were in school in 2009-10, up from 82.4 per cent in 2004-05. Further this increase was higher for girls, rising from 79.6 per cent in 2004□05 to 87.7 per cent in 2009□10. In the 15–19 years age group, 59.5 per cent of young people were in the educational system in 2009-10 as compared to 46.2 per cent in 2004-05. Once again, the increase was more for girls, from 40.3 to 54.6 per cent. In the next higher age group of 20–24 years, 22.5 per cent of boys and 12.8 per cent of girls were still in the educational system in 2009□10 against only 14.9 and 7.6 per cent respectively in 2004-05.

Indian employment data are comprehensive on their own terms and are transparently available. They, however, are not comparable with other country data. But other data relating to skills, labour standards, and adherence to ILO commitments are all available and are used and reflected in the report.

### 3.5 An Immediate Policy Concern: Raising the Rate of Investment

Improving employment or shifting workers from low-productivity to higher-productivity sectors and from poor quality to better quality jobs depends very much on investment, and that on investment in labour-intensive sectors. Investment as a whole, and that in manufacturing, has fallen very substantially in the last two years or so. Gross Domestic Capital Formation (GDFCF) as a proportion of gross domestic product (GDP) has fallen from 37.0 percent in 2007-08 to 32.7 percent in 20011-12 (Economic Advisory Committee to the Prime Minister [EAC] 2012: 13). This drop of 4.3 percentage points, with the current incremental Capital Output Ratio (ICOR) of 4.1, amounts to a loss in potential growth of 1 percent of GDP. Newspaper reports show investment in manufacturing has continued to fall in the last few months. The Chairperson of the Confederation of Indian Industry (CII) even stated that this has reached zero at present (Adi Godrej, reported in *The Hindu*, September 7, 2012).

The fall in investment is a clear sign of a loss of business confidence. There are a number of factors for this. One, is the overall poor business scenario in the global economy, with the continued recession any conditions in the High Income Countries (HICs), and the slow-down in the BRICS. But, there are many important domestic factors that have had an impact on business confidence in the country. The changes in policy (for instance, auction of G2 telecom spectrum many years after companies have been using them on the basis of the earlier allocations), uncertainty about the coalmine allotments, proposed retrospective amendments to tax laws, exposés of various corruption matters with charges of crony capitalism, failure to carry out reforms in foreign direct investment (FDI) that had been initiated have clearly had an impact on business confidence in the country. On top of this, with shrinking savings, the high fiscal deficit additionally ‘crowds out’ private investment (EAC 2012: 14). In the main, however, as the Economic Advisory Committee (2012: 17) points out, ‘Policy predictability is the bedrock of economic stability’. The continued stalling of Parliament functioning by the main opposition party certainly further worsens the policy scenario. At present, the key to improving the employment situation is policy decisions that would improve business confidence.

By September 2012, the GoI had taken key decisions to reduce the fiscal deficit by raising the price of diesel and to liberalize FDI in multi-brand retail. These are important policy decisions that are expected to increase business confidence. While stock markets have responded well to these moves, it remains to be seen whether the crucial factor of private investment increases substantially.

### 3.6 Medium-Term Policy for Employment

A key area in which there is a convergence of views is that an increase in the share of manufacturing is a central requirement for the creation of good quality employment or to make growth inclusive. At present the major share of job creation is in low-quality service jobs, while the good quality jobs as, for instance, in the IT and ITES sectors, do not amount to more than a few million. The share of manufacturing has stagnated at around 15-16 percent of GDP since the 1980s, even while the share of manufacturing in comparable economies of East and South-east Asia is 25 to 34 percent (GOI, 2011).

The National Manufacturing Policy sought to give a much needed push to the creation of jobs for the 220 million young people who will require jobs in the period up to 2025. It is hoped that with the NMP in place some 100 million additional jobs in manufacturing would be created by 2025. The shortcomings of the present scenario were identified as being inadequate physical infrastructure, complex regulatory frameworks and inadequate availability of skilled manpower. Within the 'complex regulatory framework' is included the labour regulatory framework, particularly Sec. 31 of the Industrial Disputes Act. This section requires all units employing more than 100 workers to seek government permission to close the unit or otherwise retrench workers.

This regulatory requirement is likely to be a factor in the strange phenomenon of the 'missing middle' in Indian manufacturing (see Mazumdar and Sarkar 2012). The size structure of manufacturing in India is that units are either very small, less than 100 workers in order to escape the regulatory gaze, or very large with more than 2,000 or so workers. Very small units escape the regulatory framework, while very large units are able to make up for the extra costs.

In addition to the regulatory framework making retrenchment of labour difficult, there are complex laws, which make the acquisition of land for large industrial projects difficult. Of course, robust but often misguided civil society opposition to many industrial and mining ventures only makes land acquisition even more difficult. The central problem of acquiring land is that those whose lands are acquired for mining and related purposes in the central Indian mining belt, are not the persons who get the jobs created in the process, or even other jobs of a reasonable quality (see Nathan 2012 for an analysis of the problem and a proposal on how to handle this problem). This again comes back to the importance of labour-intensive manufacturing in absorbing low-skilled displaced persons. Such labour-intensive manufacturing is an area where India has failed to make its mark in the world economy.

The NMP proposes to set up a variant of special economic zones, this time called National Investment and Manufacturing Zones (NIMZ) to provide both the improved infrastructure and the changed regulatory framework to help promote industry. There is, however, no particular stress on the area of labour-intensive manufacturing industry, which is where the breakthrough is needed to create the tens of millions of jobs required.

But a novel suggestion in the NMP is related to 'removing rigidity in the labour market while ensuring protection of workers' rights' (GoI 2011: 1.14 and 3.1). This is to ensure payment of workers' compensation through an insurance mechanism. As a result, the burden of workers' compensation will not be put on the company's assets. The present manner of meeting the needs of workers' compensation provides a perverse incentive to units to turn 'sick' rather than close down, since in the case of 'sick units' the payment of compensation to workers losing jobs can be avoided.

The proposed change in the manner of financing workers' compensation for job loss may work to promote labour-intensive manufacturing, But the problems of managing land acquisition have yet to be cleared.

### 3.7 Is There A Policy Consensus?

The NMP was broadly welcomed by industry representatives, though their various bodies, CII, Federation of Indian Chambers of Commerce and Industry or Assocham. Besides statements from their office-bearers, at meetings, for instance of the World Economic Forum (2011), they welcomed the new policy to promote manufacturing.

The main opposition party too is generally in favour of promoting manufacturing growth. But the exigencies of competitive electoral politics have led it to oppose the functioning of Parliament, which results in a substantial roadblock in any policy change.

The major central trade unions, whether of the left (CITU) or right (BMS), have opposed the NMP on the ground that it dilutes the protection of workers' rights. CITU instead called for prioritizing 'less capital intensive investments in reviving sick engineering units – major, medium and SMEs' (*The Hindu*, http://www.thehindu.com/business/industry/article2577119.ece). BMS opposed the move to introduce three-shift working for women.

While supporting the stand in favour of not diluting union rights in the SEZs or NIMZs, two points of the opposition need to be noted. One is that of opposition to closing down of units. The other is that of women working night shifts.

To take the first point, the idea that firms and other enterprises do not last forever, and that this is central to the process of economic development in a capitalist economy, is something that does not have widespread social recognition in India. As a result once units are formed and jobs created, it is expected that the jobs are not only for a life-time, but also even possibly to be passed on. The idea that particular jobs may be lost but the well-being of the workers' families needs to be protected is not very strong. The reason for this could well be that the only available social security is, in fact, the reasonably good job. Were a well-functioning social security system in place, it could reduce demand for continuance of units that cannot compete in the market.

The other point of opposing night-work by women is a continuation of a very paternalistic manner of seemingly providing security to women. Women's travel to work in night shifts certainly poses security problems. This was highlighted in the *Delhi Human Development Report* (2009). Rather than confront and deal with problems of women's security in public spaces (and within the home and workplace as well) there is an attempted retreat into paternalistic practices of prohibiting night work by women.

With the growth of the BPO industry in major cities and of export-oriented units working overtime during peak seasons, the hold of paternalistic views is clearly much weaker. For instance, in and around Chennai, women joined leather factory owners in demanding that they be allowed to work on the night shift (Damodaran, 2010). But such a change of attitudes is not reflected in the official views of the major trade unions. The idea of opposing the closing down of firms is, however, still quite widespread. The slow rate of creation of good jobs only reinforces this opposition.

## 4. Measures in Detail

### 4.1 Infrastructure

The SDC points to the important role of infrastructure in promoting growth and employment. Even with a move to more mechanized forms of construction, the employment elasticity of construction is higher than for, say, manufacturing (other than in labour-intensive tasks, such as assembly). Infrastructure's development effects in reducing transport costs and improving time-to-market enhance this direct employment effect. For the vast rural areas of India, improved road connection is, in fact, a key requirement for reducing poverty. India's urbanization is also taking place in small census towns (Census 2011) where its labor force is shifting on account of growth and related agricultural demands. GoI's recent policy has an explicit focus on improving infrastructure, particularly roads.

GoI's policy of increasing infrastructure has two components. One is of upgrading the major network of national highways and railways and the other is improving rural connectivity. Both are crucial aspects of the SDC's approach emphasizing the role of infrastructure as a development intervention. They have immediate employment effects and improve medium- to long-term growth prospects.

The focus given to construction and infrastructure improvement is a clear post-SDC, post-November 2011, policy statement. It has been given primary importance in improving the medium-term growth prospects of the Indian economy. It is difficult to say whether this policy is influenced by the SDC, but it is both in line with the SDC and post-SDC.

### 4.2 Skills Enhancement

An important factor in constraining quality employment is the poor skill base of the Indian work force. This also simultaneously forces many sectors to compete on price rather than on quality. In line with the SDC recommendation, GoI has a policy on national skills' enhancement. There is a National Skills Mission with the former CEO of TCS as the Chairperson. It has been given the task of working out interventions required to build a skilled labour force of 500 million persons by 2022. The Skills Mission was initiated in mid-2010.

The skills enhancement programme gains extra significance because of the growing youth population. The discussions on the Demographic Dividend in India show that without skills the additions to the labour force can be a bane. With adequate skills they can be a boon, boosting India's development prospects over the medium to long term (Alagh 2008).

This programme of skills enhancement too was taken up in the post-SDC period. It, however, was under discussion from before November 2010. But it came into implementation post-November 2010.

### 4.3 Trade Policy Issues: India's Market Access Concerns

But along with a skilled work force, which is a supply side matter, there is also a need for demand side developments in order to provide the newly-skilled persons with employment. This then leads to the question of access to markets, both of India to developed country markets and also of low-income countries (LICs) to the Indian market.

As India entered the G20 meetings after the 'perfect storm', its concerns were to stabilize. India was in 09/10 one of the two global economies growing at seven percent plus and at an eight percent rate in 10/11. Given the global economy it knows that the process is fragile. At the peak of the storm, the collapse of two large exports markets, with textile made ups or garments, and gems and jewel, cost the economy a million jobs. In addition vertical integration by acquisitions was in some difficulty. For example the diamentaries had acquired retail distribution channels in Europe and the US and there were initial debt servicing charges.

While there has not been an increase in developed country tariffs, there have been actions by them that have limited emerging countries' access to their markets. For instance, the American Reconstruction Act requires that all equipment used in schemes under the Act be procured from the US. As a result Indian exporters have lost potential and actual markets. This includes, for instance, metal manhole covers, an item in which India had a virtual monopoly in supplying the US market. Again, the Canadian government has added a domestic content clause to its support of solar power systems. It should be noted that India too is not immune from such protectionist actions. It too has included a domestic supply clause in the telecom sector, in this case for security reasons.

The major matter of market access for Indian firms, however, relates to the provision of services. In this area, visa restrictions in the United States and United Kingdom have been tightened. The global delivery model of services, pioneered by Indian companies, combines onshore and offshore nodes. Visa restrictions, however, affect the ability to combine the two. This affects not only employment of Indian personnel in the US nodes, but also that of complementary employment in India itself. The current slow-down in rates of growth of Indian companies could in part be due to this factor, making outsourcing of services more difficult. In addition to visa restrictions, there are also the frequent exhortations to stop the off-shoring of service jobs to India. The European Union has not yet accepted that Indian offshore centres are 'data secure', which seriously hampers the growth of India-based BPO centres.

While India has not been a target of anti-dumping actions, China has. It is easy to get popular support for supposed dumping by China. At the same time, China too has a highly protected domestic market. The protection is not by tariffs, which have been made difficult by World Trade Organization regulations, but by non-tariff barriers of various sorts, including very lengthy procedures for registering drugs.

This is election year in the US and one can expect there to be protectionist noises during the campaign. But with the anemic US job recovery, the protectionist rhetoric has become much stronger in the campaign, with both parties vying to show that they are in favour of protecting or recreating American jobs at all costs. This only adds to the uncertainty in the markets, and acts as a damper on investments in India too. It is not accidental that India's Finance Minister said at Gyongju that attempts at coordinating current account deficits are important and competitive devaluations must be avoided.

This is an important concern. While most countries are mildly protectionist in the stimulus period to protect domestic jobs and output, it is clearly in India's interest that the rich countries and others to whom it exports do not follow trade distortionary policies. In India, economists interested in agriculture have argued for mild tariffs on agricultural imports to protect agricultural incomes and for incentives for domestic production but the government's concerns on food inflation in the country's roaring economy do not permit such nuanced policies.

### 4.4 LICs, Market Access and CEPA

If the G20 is to establish itself as a legitimate steering committee for the world economy, it must be able to demonstrate that it undertakes actions not just in the interests of its own members, but in the larger interests of non-members too, particularly those from the low-income countries or LICs. Unfortunately the G20 has not so far taken up the issue of duty free, quota free trade access for LICs. While there have been noises about increasing market access to LICs, they do not, however, specify any concrete action in that direction. The outstanding Doha Round issues, e.g. of international trade that is not backed by domestic subsidies and many others, of developing and emerging economy exports have not been resolved. But, while noting failure on these issues, it is necessary to go forward to see what clear actions can be taken to spread the benefits of globalization to the LICs.

The SDC is confined to talking about generally increasing access, without mentioning any specific method. India has taken steps to increase 'duty free, quota free' access to its own markets to LICs in the South Asian Association for Regional Cooperation. Between India and Pakistan there is an improvement in trading relations. India has opened up for investment by Pakistan. Pakistan, in turn, has agreed to shift from its earlier positive list (items that alone can be exported) to the usual negative list (items barring which all else can be exported).

With the more developed countries of Asia, comprehensive trade and investment agreements have been entered into with Korea and Singapore. The concept of concentric circles of influence and prosperity is transformed today in India's proactive stance by

Prime Minister Manmohan Singh in CEPA now also at advanced stages of negotiation with Japan and Malaysia. Trade, investment and freer flows of resources are the center of these agreements but so is technological cooperation. Also out of the nine strategic partnerships India has, six are in Asia (Vietnam, Indonesia, Japan, South Korea, Australia and China).

On food exports, the G20 decision has been carried forward in the Trade Ministers' (TM20) meeting in April 2012. Food exports that are meant for humanitarian purposes and are purchased by the United Nations World Food Programme (WFP) will not be subject to any restrictions. The US wanted church- or faith-based organizations to be included in the list of those whose purchases cannot be restricted. But that was not agreed to in the TM20 and the provision of no restrictions remains confined to the WFP.

### 4.5 Labour Standards

There is a feeling among Indian participants in the L20 and TM20 that attempts are being made in the G20 to connect trade issues with labour standards. The now well-known stand of developing economies, including the emerging economies, has been to oppose such linking of trade with labour standards. Attempts to bring in such linking in G20 forums seem to have been opposed.

At the same time, action has been taken nationally in India on improving some labour standards. One key area of labour standards is that of production with child labour. Indian law has a very anti-child rights clause exempting children working with their families from all child labour restrictions. Many civil society organizations, the National Commission for the Protection of Child Rights, and researchers have pointed to the need to end this exemption. Amendments to this clause have been announced and are likely to be legislated soon, or when Parliament is allowed to function.

After the earlier episodes related to carpets, garments now attract the most attention with regard to the prevalence of child labour in its production. But a problem with regard to private buyers' standards is that there is a multiplicity of such standards. This means that there is not a general standard that manufacturers can adhere to, and this makes the whole mechanism very expensive. The para-statal Apparel Export Promotion Council (AEPC) has now come up with a common standard, called DISHA, which is a combination of Indian legal requirements and ILO conventions. The DISHA standards have been formulated for garment manufacture and a process is underway to implement them. This is a manner of attempting to improve labour standards on a national basis, even though any attempt to link such labour standards with trade continues to be opposed.

### 4.6 Social Protection

The pre-Los Cabos L20 meeting agreed that social floors should be nationally determined. Obviously, among other things, the level of per capita GDP does restrict the extent to which a social floor can be afforded by a country. Without defining what is meant by the national social floor, the GoI has taken a number of steps, or is contemplating them, to raise the social floor.

A major step taken in the first half of this decade was the National Rural Employment Guarantee (MGNREGA), which assured 100 days' employment to a rural household. This has had a double effect. On the one hand, it has forced a rise in wages, as the wage at which rural-urban migration will take place has gone up.

On the other hand, a social floor is not only a safety net measure; it can also be an automatic, anti-recessionary stabilizer. Its value in this regard was seen during the 2008-09 downturn. When employment in certain export sectors fell, the unemployed could return to their rural origins and secure MGNREGA employment there. Consequently, unemployment due to a collapse of the market, for instance in construction, did not lead to destitution of the concerned workers.[2] Employment in production for export and domestic markets, is what leads to growth and not the other way around.

Subsequently there have also been moves to introduce some form of health insurance. The provision of food and prescription medicines for the poor are also under consideration. The Government of India has a political commitment to a Food Security Act, which is in an advanced stage of formulation.

But it should be noted that the attempts to raise the social floor, in conjunction with other subsidies (fuel and fertilizer) that are already in place, have put the Indian fiscal situation under strain. The overall fiscal deficit (of both the central and state government combined) has fallen from the stimulus level of 9.4 percent in 2009-10 to 7.9 percent in 2010-11 (Economic Survey, 2011-12, p. 17). But this is still somewhat higher than the comfortable level of about 5 percent of GDP. With relatively inefficient supply chains, it is possible that these social floor measures have to be counter posed against likely inflationary pressures.

While there is an increase in the volume of employment provided by the Rural Employment Guarantee, the Planning Commission points out that some supplementary measures are needed to make the employment more productive. First, the technical capacity at the local level has to be significantly enhanced. This is in regard to planning, design and quality of works, as well as of their maintenance. Planning for MGNREGA on a mini-watershed and aquifer basis would improve outcomes. To strengthen the demand-driven character of the scheme and guarantee legal entitlements it is important to record applications for work. There is a clear case for establishing a pool of local "barefoot" engineers/technical assistants who could be trained through an appropriate mechanism, enabling them to fulfill the need for technical and managerial capacity in MGNREGA, as well as in other rural infrastructure projects.

Second, it is important that the selection of works reflects the needs, aspirations and priorities of the local people, without which the community will not necessarily have a sense of ownership of the project. The latter is a vital component of the concept of rural

[2] See Dev Nathan and Govind Kelkar, 2012, for the different experiences of India in 2008-09 and Thailand in the late 90s, in this regard. In India, MGNREGA provided an automatic rural, government-financed stabilization mechanism, while Thailand continued to rely on the 'rural family rice bowl'.

infrastructure creation. The training of a pool of local youth in technical skills must also incorporate their ability to act as social mobilizers and ensure the involvement of local village government representatives at every level of the process. They would be guided in this process by a dedicated team of technical professionals to be created at each cluster of around 30 villages that broadly correspond to the boundaries of a mini-watershed and aquifer. The states of Madhya Pradesh and Maharashtra have already initiated work in this direction.

Delays in wage payments have emerged as the most frequently heard complaint under MGNREGA.

### 4.7 Financial Inclusion

Financial inclusion of the poor is a difficult proposition in India. At present, there are two competing approaches. One is that of commercial micro-finance, organized by specialized micro-finance institutions. The other is that of state-sponsored, sometimes World Bank–funded Self-Help Groups for savings and lending, which has a substantial element of subsidy in its approach. There have been difficulties in reconciling conflicts between the two approaches. The Reserve Bank of India and GoI have been trying to formulate a comprehensive micro-finance regulation.

## 5. Conclusions: Key Issues

In this concluding section we deal with some key issues that arise. Some of these key issues came up in different ways in various discussions. But we have not confined ourselves to just such matters that came up in these discussions.

It is important to note that while there is substantial congruence between SDC Actions and India's development policies, it is not clear that one can attribute the latter to the former. It might also be the other way around, with India's own development policies getting recognition in the SDC. Indian policies have done quite well in dealing with the immediate post-crisis problems. But, more recently over 2011-12, growth has faltered in India (as also other emerging economies) and it has not been easy to fashion policy to pull out of the slow-down of growth.

At the same time, it needs to be seen that the necessity of reporting actions taken to relevant fora of the G20 creates its own positive pressures. For instance, there has been criticism over a long time with regard to the retrograde provisions about child labour in the home situation that go against ILO norms that India has ratified. But it is only now that this is resulting in government action in this area. There is no doubt that the necessity of international reporting adds to the pressures to act in such an area.

At a broader level, the necessity of undertaking a new set of reforms to move forward the stalled growth process in India exists not only for national but also international reasons. In fact, it is difficult to disentangle the national and international dimensions of such issues. When the Government of India is seen as back-tracking on a commitment to allow majority FDI in multi-brand retail, this affects not only foreign investment but also domestic investment. Similarly, misguided moves to bring in retrospective tax changes, would affect not only domestic but also foreign capital. The factors of business confidence and a predicable policy environment are required for any type of investment.

More and more, the factors of confidence or loss of confidence cross national boundaries. In fact, the post-Lehmann Brothers collapse had little, virtually no, direct impact on the Indian financial system. But the lack of confidence, the uncertainty regarding the immediate economic future, spread across the globe. At present too, the uncertainty with regard to the Eurozone has a negative effect on business confidence around the world.

The manner in which this key factor of business confidence has become a globally-affected phenomenon points to the importance of increasing macro-economic coordination within the G20. Rather than looking at just direct connections between G20 declarations and domestic policies, it is also necessary to look at the manner in which business confidence has become a global matter. Business confidence is directly related to investment. The recent slow-down in India is related to a slowing down of investment, which might in some measure, be related to the overall low global business confidence.

At the same time, investment too has become global, particularly for large Indian companies or actual and potential Indian multinational corporations. Any specific uncertainty with regard to the Indian market, as, for instance, the result of regulatory uncertainty in India, could well result in foreign investment by these Indian companies. Thus, the Indian government and policy makers need to pay attention to where India stands as an investment decision not just for foreign companies but for large Indian companies too. These developments only connect both business confidence and investment decisions across the globe, making coordination of policies across the G20 more important than before.

## References

Alagh, Y.K. (2005), ‘On Sherpas and Coolies: The L20 and Non-Brahminical Futures’, in J. English, R. Thakur and A.F. Cooper, eds., *Reforming From the Top: A Leader’s 20 Summit*, pp. 169-186 (Tokyo: United Nations University Press).

Alagh, Y.K. (2008), ‘Demographic Dividend: Possibilities and Realities’, in Iskandar Simorangkir, ed., *Seminar on Global Imbalances and Their Impacts on Emerging Economies*, pp. 310-316, International Monetary Fund, Asian Development Bank, Bank Indonesia, Denpasaar, Bali.

Damodaran, Sumangala (2010), ‘Upgradation or Flexible Casualization: Exploring the Dynamics of Global Value Chain Incorporation in the Indian Leather Industry,’ in Anne Posthuma and Dev Nathan, eds., *Labour in Global Production Networks in India* (New Delhi: Oxford University Press).

Economic Advisory Committee to the Prime Minister (2012), *Current Economic Situation, 2012-13* (New Delhi: Government of India).

G20 (2010)*, Highlights of the G20 FMs and CBGs meeting in Gyeongju,* South Korea, October 22-23, 2010.

Government of India, Ministry of Commerce and Industry (2011), *Press Note No. 2 on National Manufacturing Policy,* 4-11-11.

Jokela, Juha (2011), *G20: A Pathway to Effective Multilateralism,* Chaillot Papers, European Union Institute of Security Studies, April.

Kirton, John (2004), 'Toward Multilateral Reform: The G20's Contribution', paper prepared for a conference on "The Ideas-Institutional Nexus: The Case of the G20," Centre on International Governance Innovation, United Nations University, FLACSO and the University of Waterloo, Buenos Aires, May 19-21.

Nathan, Dev and Govind Kelkar (2012), 'A Political Economy of Crisis Response: Reflections on India and Thailand', in Peter Utting, Shahra Razavi and Rebecca Varghese Buchholz, eds., *The Global Crisis and Transformative Social Change* (London and New York: UNRISD and Palgrave Macmillan).

Mazumdar, Dipak and Sandip Sarkar (2012), *Manufacturing in Asia* (London: Routledge).

Reserve Bank of India (2005), *G20 Case Study: An Indian Case Study; Globalization; The Role of Institution Building in the Financial Sector* (Mumbai: RBI Publications).

Reserve Bank of India (2007), *The Growing Importance of Emerging Economies in the Globalised World and Its Implications for the International Financial Architecture*, L.K. Jha Memorial Lecture, November.

Son, Dang Kim, B. Beresford, Nguyen Ngoc Que, Pham Quang Dieu and Truong Thi Thu Trang (2006), 'Policy Reform and the Transformation of Vietnamese Agriculture, in *Rapid Growth of Selected Asian Economies: Lessons and Implications for Agriculture and Food Security*, Volume 3, Republic of Korea, Thailand and Vietnam (Bangkok: Food and Agriculture Organization).

World Economic Forum (2011), 'India's New Manufacturing Policy Vital to Create Jobs and Maintain Growth', News release, Mumbai, November 13. http://www.weforum.org/news/India's-new-manufacturing-policy-vital-create-jobs-and-maintain-growth.