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Draft Paper

**Restructuring Development during Global Financial Crisis: Lessons from
India**

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Abstract

The impact of the global crisis on developing countries has been more widespread than what one would expect based on the level of globalization of these economies. The genesis of the impact can be traced to the external developments and to the internal weaknesses of the development model. This paper presents the results of a quick survey of six affected sectors in India to understand the impacts on small producers and informal workers. The paper also presents a broad outline of an alternative model that could reduce the vulnerability of the economy and minimize the impacts of such crisis in the future.

**Presented at the UNRISD conference on the
“Social and Political Dimensions of the Global Crisis: Implications for Developing
Countries”
12 – 13 November 2009 – Geneva**

Introduction

The world continues to reel under the impact of the global financial crisis notwithstanding the recent reports of 'green shoots' being visible signaling recovery. The crisis triggered by the collapse of the financial institutions in the US and Europe has had an adverse impact on the developing countries. The initial thinking that developing countries are "decoupled" from the global crisis is no more accepted as valid, as it is now clear that multiple channels have transformed the crisis to developing countries. In fact, the impact has been much more wide-spread than what one would expect based on the extent of globalization of these economies. With the crisis in food and fuel prices, accompanying the financial crisis, the developing countries are now subjected more to the volatility of the global market and to the vulnerability emanating from it.

The impacts of the global crisis on a developing country have depended on the nature and extent of globalization of the economy on the one hand and the weaknesses of the development policy framework or development model of the country on the other hand. The former determined the strength of the channels through which the global crisis impacts on the economy, while the latter influenced the vulnerability of the population to the global crisis. In fact, the financial crisis has sharply highlighted structural weaknesses in many countries revealing the shortcomings of the development paradigm being followed.

Globalization of the Indian Economy:

The fact that the global financial crisis is of a large magnitude is evident from the WTO prediction that world trade is set to decline by 9%, the largest such decline in the past 60 years. What is amazing about the crisis is that though it has been brewing since mid 2007, its quick transformation from a sub-prime crisis to housing mortgage crisis in the USA, and into a banking crisis which in turn was transformed into an economic crisis which is now affecting social indicators. The rapid spread of the contagion across nations and sectors is a true reflection of the interconnectedness of the global economy today.

The major channels through which the global crisis seems to be transmitted to the Indian economy are (1) crash in exports, (2) crisis in the financial sector, (3) changes in the exchange rate and (4) decline in the demand for Indian services in the global market, where the services are either located in India (for example, tourism, ITC etc.) or performed by Indians abroad (IT sector, nursing, construction work etc.).

The nine percent decline in the world trade, the biggest since the World War Two, led to collapse in the exports of major exporting industries like textiles & garments, leather and leather products, engineering goods, gems & jewelry, food & non food crops, chemical & dyes, jute & jute products etc. The exports from India had increased rapidly since the introduction of economic reforms in 1991. The total value of the exports increased almost 20 times between 1990-91 and 2007-08, from US \$ 32,558 millions to US \$ 6,40,172 millions. The export GDP ratio increased from 5.72 percent in 1990-91 to 13.58 percent in 2007-08. Despite the capital account still not being opened up, the sum of gross capital inflows and outflows exhibited a sharp rise from 12

percent of GDP in 1990-91 to around 64 percent in 2007-08. In other words, the Indian economy had globalized rapidly since 1990-91, resulting in the rapid growth of the economy, with the growth getting increasingly dependent on the globalization of the economy.

The crash in the world trade, however, led to a crash in the Indian exports in most export-oriented sectors. This led to a crash in the employment and wages of the workers in these sectors on the one hand and affected adversely the industrial growth as well as the overall growth of the GDP on the other hand. The Indian exports crashed during 2008-09. The exports showed a decline of 14 percent during the second quarter of 2008-09, and it was more than 50 percent in the case of gems & jewelry, textiles & garments and leather. The rate of growth of exports declined from 23.5 percent in June 2008 to 10.4 percent in September 2008. The exports have continuously declined since then till today (TOI 2009, CMIE Monthly Reports of 2009). The overall decline has been more than 14 percent between June 2008 to June 2009 (CMIE 2009).

The crash in the financial sector in the USA was transmitted to India through capital outflows from India, mainly of portfolio investment. It has been estimated that the capital outflow from the developing countries in Asia was about US \$ 10 trillion by the end of 2008, the Indian share being highly significant (Ajay Chhibber 2009). This capital outflow comes to about one third of the total GDP in this region! In the case of India, the outflow of FIIs since August 2008 was estimated at US\$ 14 billion. Indian equity markets plunged by more than 50 percent in 2008, and have remained volatile since then. These developments led to severe liquidity crunch in the economy, with the small and informal sector suffering the most.

The pressure on the exchange rate, coming from the capital outflow, declining reserves of foreign exchange, decline in export earnings etc. reduced the value of the Indian rupee. The value of the Indian rupee which was around Rs. 39.00 a US \$ before the crisis, became Rs. 50.54 a US \$ in 2008-09. This devaluation of the Indian rupee raised the cost of raw materials and intermediary goods imported from outside, raising the cost of production in the concerned industries. Though the prices of export goods declined in the global market, there was an overall decline in the demand in the global market.

In addition, the decline in the demand for tradable services like tourism, IT services etc. led to further decline in the growth rates of GDP and employment in the economy.

ILO has described the impact of the crisis as “a global catastrophe” (ILO 2009). It has estimated the loss of job of 39 million persons in the world during the crisis that could go up to 59 million in the worst situation. This is in addition to 90 million new entrants in the labour market. As per the quarterly studies by the Labour Bureau (Ministry of Labour, Government of India), the Indian economy lost about half a million jobs during October-November 2008. Another one lakh jobs were lost during January 2009. Though a slight improvement was observed in February – March 2009, its sustainability may be doubted (Labour Bureau 2009, Economic Survey 2009).

FAO has estimated that the number of the hungry has risen from 915 million in 2008 to 1.2 billion in 2009 in the world, an increase of about 11 percent (FAO 2009). The World Bank has also estimated an unforeseen increase in the number of the poor, with about 60 million people pushed into poverty by 2009 and 100 million pushed into poverty by 2010 only in Asia. (World

Bank 2009). In the case of India NCEUS has indicated that a large number of workers would be pushed into poverty in 2008-09 and 2009-10 due to (1) loss of employment in export industries, (2) declining access of small enterprises to credit, (3) the declining prices of goods (for example cotton, oilseeds, consumption goods) leading to the entry of cheap imports affecting the livelihood of the concerned producers including farmers adversely, (4) declining employment status of workers even within the informal sector (NCEUS 2009).

In addition, the other channels of the transmission of the crisis to India are the decline in public revenue, (caused by decline in exports revenue decline in FDI and ODA, and overall decline in the economy), decline in remittances, return migration of workers to their native villages etc. It is observed that all these channels have ultimately impacted adversely in the growth rate of the economy (the growth rate declined by 4 percent between August 2008 and March 2009), decline in the expenditure on health and education (Gangopadhyay 2009), increase in unemployment (Labour Bureau 2009) and likely increase in the number of the poor in the country (NCEUS 2009).

The main channels of transmission to India have been through the financial, trade and exchange rate routes. The rapid rate of globalization of the Indian economy is reflected in the doubling of its merchandise exports from 21.2 percent in 1997-98 to 38.9 percent in 2008-09. Trade in goods and services also doubled to 47 percent during this period. The current account as measured by the same of current receipts and payments increased from 19 percent of GDP in 1990-91 to about 53 percent of GDP in 2007-08. Despite the capital account still not being opened up, the sum of gross capital inflows and outflows exhibited a sharp rise from 12 percent of GDP in 1990-91 to around 64 percent in 2007-08.. The ratio of total external transactions (gross current flows and gross capital flows) rose rapidly from 46.8 percent in 1997-98 to 117.4 percent in 2007-08.

India's dependence on the OECD countries which have been badly hit by the financial crisis has declined over the last decade. The share of these countries in total merchandise exports from India exhibited a downward trend from 53 percent in 2000 to 39 percent in 2007 (Chibber and Palnivel, 2009). While among the developed countries exports to the U.S constitute the largest share, they amount to only 3 percent of GDP in India as compared to other emerging Asian countries where the ratio ranges between 12 to 33 percent.¹ The lower dependence on exports to the OECD is an important factor in determining the intensity of impact of the global crisis on India²

With respect to the financial channel, the asset and currency markets have been affected while the banking sector has emerged relatively unscathed due to the existence of a strong regulatory framework. Indian equity markets plunged by more than 50 percent in 2008 and have remained

¹ For example, exports to the US account for about one-third of GDP in Malaysia and Singapore. This ratio is also high for Vietnam (19%), Thailand (15%), Taiwan-China (16%), Philippines (12%) and China (12%). (Chibber and Palnivel 2009, Pg 4)

² The exports of goods and services as a percentage of GDP was 21 percent in India for 2005. 70 percent of India's merchandise exports are of manufactured goods. Within this 70 percent, high technology exports constituted 4.9% of manufactured exports. For China exports constituted 37 percent of their GDP. China's manufactured exports are 92% and of which 30.6% is of high value exports. For Thailand and Vietnam, exports as a proportion of GDP were much higher at 87 percent and 70 percentage respectively. (UNDP, 2007/08)

volatile since then. Indian rupee weakened noticeably from Rs. 39.89 to a dollar to Rs. 50.54 per U.S Dollar in 2008-09. The rupee recovered thereafter to a level of Rs. 47-49. The outflow of FIIs since August 2008 has been estimated to be around U.S \$ 14.1 billion.

Structural conditions within India

This paper discusses how the global crisis, through different channels - external as well as internal, has impacted on the Indian economy, and particularly on small producers and informal workers. Quite a few studies have been done recently on the impact of the global crisis on developing economies. However most studies have focused on macro level impacts of the crisis, and there are hardly any studies that examine the specific impacts of the crisis on informal workers and on small producers. Based on the recent Indian study, which focuses on small producers and informal workers in six major sectors located in five major states in India, the paper brings out the details of the impact of the crisis on the most vulnerable groups of producers and workers in the economy.

The paper then goes on to discuss the implications of the study for the purpose of mitigating the adverse impacts and minimizing such impacts in the future. It presents a broad outline of an alternative model, a development model for developing countries in general and for India in particular.

Some of the salient features of India's economy that have a bearing on the way in which the financial crisis manifests itself on the people are briefly summarized below.

Despite the over 9 percent growth in GDP for the past decade, a corresponding rise in employment was not experienced. The employment growth in the organized sector decelerated from 1.2 percent between 1983 and 1993-94 to -0.38 percent between 1993-94 and 2004-05. The employment in the organized sector remained stagnant at 35 million and whatever increase that was experienced was in the unorganized sector.³ An important characteristic of the Indian labour market is that 92 percent of the workforce is in the informal sector. Informal contracts for workers within the organized sector are widely prevalent. In the year 2005-06, it is estimated that 46 percent of the 54.45 million workers in the organized sector were employed on informal contracts. Much of the labour force has low levels of education. Even amongst the employed, there is the growing trend of the 'working poor'. The number of 'working poor' is estimated at 105 million in 2005. The percentage of poor in 2004-05 among the employed was at 22.76 percent while among the unemployed the corresponding figure was 16.34 percent (Papola, 2008).

The high growth regime has benefited the higher and middle income groups much more than the poor. The rate of growth of consumption expenditure between 1999-00 and 2004-05 for the high income group was 4.3 percent, middle income group 6.2 percent and for the extremely poor and poor, it was less than 1 percent (NCEUS 2007). Estimates by the NCEUS indicate that the proportion of population that is poor and vulnerable (defined as those with an income of less than 2 \$ U.S a day in PPP terms) was 836 million constituting 76.7 percent of the population in 2004-05.

³ In the Indian context, the terms informal and unorganized are used interchangeably.

Another significant factor is that the gini co-efficient of consumption expenditure was relatively low at 0.34 percent in 2004-05. The gini co-efficient of operational land holdings was 0.51 (Banerjee and Piketty), note that based on income tax returns that the rise in per capital household expenditure of the top 10 percent of the population between 1981-82 and 1999-00 was 242 percent and for the top 1 percent was as high as 767 percent. The benefits of growth have not been shared equally. The middle and the higher income groups have benefited greater than those in the lower income groups.

The high proportion of population below the poverty line, the phenomenon of a majority of the labour force in the unorganized sector with fluctuating incomes, the growth process depending more on the contribution of capital, growth spurred more by the contribution of capital rather than labour has resulted in relatively small increases in income for the majority of the poor. This in turn limits the size of the domestic market. Attempts to improve the scale of operations and generate higher sales volumes have led to exploration of external markets. The relative emphasis on exports even as there is a large untapped domestic market has resulted in focusing on exports at the lower end of the value chain.

Limited social security coverage is reflected in the fact that 14 percent of all workers are covered by any social security scheme implemented by the Central or State government or NGOs and are protected against sickness, maternity, injury, disability, death and old age (Papola, 2008, Employment Challenges and Strategies in India, ILO)

Despite continuous efforts in the health and education sector, India still lags behind many other developed and developing countries. India's rank on the Human Development Index at 134 is much lower than that of other Asian countries including Bhutan⁴. 45 percent of children in India are undernourished. The IMR in India is 56 per thousand live births while the corresponding figure for China was 25 in 2005. In the same period, the Under 5 Mortality Rate for India was 74 per thousand while China's U5MR was 27. In terms of maternal health, Indian Maternal Mortality Rate at 450 per thousand is 10 times that of China's. Malnutrition as measured by underweight children below 3 years constituted 45.9 percent as per NFHS survey 2005-06. It remained virtually stagnant in 1998-99 at 47 percent. While the economy experienced high growth rates from 1998-99 to 2005-06, there was only a marginal decrease of 1 percent in malnutrition.



Adult literacy rate for India was at 66 percent in 2007 whereas most of our Asian neighbours like Sri Lanka, Malaysia and Thailand all have much higher literacy rates at above 90 percent. The attention given to social sectors has been low till recently. Despite the large backlog of deprivation in the country, public expenditure on social sectors has been relatively low. In 2007, Public expenditure as percentage of GDP on health was merely 0.9% of GDP while that on education was 3.8% of the GDP. The large national flagship programmes for employment (National Rural Employment Programme) education (Sarva Shiksha Abhiyan) and health (National Rural Health Mission) that have been formulated by the Central government and being implemented with the support of State governments seeks to redress this situation of low fiscal

⁴ Bhutan is ranked 132 with a HDI value of 0.619

priority. While these programmes will have an impact in the next few years, they may not enable the country to reach many of the Millennium Development Goals by 2015 (Table1).

Progress towards achieving Millennium Development Goals in India

MDG Goal	Indicator	Year	Value	Year	Value	MDG target	
1	Percentage of population below poverty line (Planning Commission)	1993-1994	36.0	2004-2005	27.5	18.0	
1	Percentage of under-nourished children (< 3 years) (NFHS 1 and 3) (Based on NCHS reference population)	1992-1993	51.5	2005-2006	45.9	25.8	
2	Literacy rate of 15-24 years (Census 1991 and NSSO 2004-2005)	1991	64.3	2004-2005	82.0	100.0	
3	Ratio of girls to boys in primary education (Selected Education Statistics)	1990-1991	0.71	2004-2005	0.88	1.0	
3	Ratio of girls to boys in secondary education (Selected Education Statistics)	1990-1991	0.50	2004-2005	0.71	1.0	
4	U5MR (per 1000 live births) (SOWC 2008)	1990	117	2007	72	39	
4	IMR (per 1000 live births) (SRS 2007)	1990	80	2007	55	27	
5	MMR (per 100,000 live births) (NFHS 1 and SRS 2001-2003)	1992-1993	424	2001-2003	301	108	
6	Men age 15- 49 years who have comprehensive correct knowledge of HIV/AIDS (National BSS 2006)	2001	19.0	2006	34.1	Halt and reverse	
6	Women age 15-49 years who have comprehensive correct knowledge of HIV/AIDS (National BSS 2006)	2001	16.2	2006	23.8	Halt and reverse	
7	Households with access to improved drinking water source (%) rural (Census 1991 and NFHS 3)	1991	55.5	2005-2006	84.5	77.8	
7	Households with access to improved drinking water source (%) urban (Census and NFHS 3)	1991	81.4	2001	95.0	90.7	

7	Households using toilet facilities (%) rural (Census and NFHS 3)	1991	9.5	2005-2006	26.0	54.8	
7	Households using toilet facilities (%) urban (Census and NFHS 3)	1991	47.0	2005-2006	83.2	73.5	



Off track



On track

In-depth Study in India

The picture revealed by the macro data, however, does not tell the full story. It does not reveal the ground realities of the impact on small producers and informal workers who are predominant in the Indian economy. Informal workers at present constitute 92 percent of the total workforce in the country. Of these, 58 million non-agricultural informal enterprises in the country that contribute 31 percent of the exports from the country (NCEUS 2008). Any decline in exports is bound to affect the producers and workers in these labour intensive sectors. Given the informal nature of their work (i.e. temporary, scattered, sporadic, short term work), they are not likely to be captured in the quick surveys of the Labour Bureau. In short, the macro picture hides more and reveals less of the impact of the global crisis on the economy.

The UNDP office in India therefore supported a quick survey (April 2009 to June 2009) in the major affected sectors in selected states in India to get a better understanding of the impact of the global crisis on the Indian economy with a focus on small producers and informal workers.⁵ The sectors selected are gems and jewelry, engineering, auto parts, agriculture, textiles (Chikan craft) and home based garments. The specific objectives of the study are to examine the impact of the crisis on the workers and small producers working in these sectors, to draw inferences for interventions to address the adverse impacts on the workers and the sectors in the short and medium terms and recommend social security options to help the workers. The study has also made recommendations for reorganizing labour and small units in the selected sectors, and raised questions about the validity of the neo-liberal policies for promoting inclusive growth.

The Six Sectors: *Gems and jewelry industry* is about cutting and polishing of diamonds. Today India is responsible for about 80 percent of diamond cutting and polishing in the world, with raw diamonds mostly imported from outside and polished diamonds exported outside India. About 80-85 percent of the production in the industry is exported and the rest is consumed at home (CMIE 2008). In the year 2007-08, i.e. the year before the crisis, exports of gems & jewelry constituted 12.36 percent of the total commodity exports from the country. This industry is organized in a value-chain, which covers exploration and mining, sorting, cutting and polishing,

⁵ This study has been undertaken by a team of researchers located at different organizations: Centre for Development Alternatives (Prof Indira Hirway), Gujarat Institute of Development Research (Prof Amita Shah), Entrepreneurship Development Institute, India (Dr. Santosh Kumar and Dr Jignasu Yagnik) and Self Employed Women's Association (SEWA Teams in UP, MP and Gujarat). Prof Indira Hirway has coordinated the study.

jewelry manufacturing and retail. Diamond cutting & polishing, which is labour intensive and distributed among developing countries, contribute only around 8 percent of the value added. As a major country involved in this task, India is integrated at the lowest end of the value chain, i.e. it is at the receiving end in the value chain. There are about 7000 – 8000 diamond cutting and polishing units in the country, and they employ about 8-10 lakh workers (RBI 2009, Government of Gujarat 2009 and SDA 2009). The crash in the US markets reduced the demand for diamonds by half, and the traders in the US, EU etc. reduced it further as a precaution. As a result, this sector has been severely affected by the global crisis. The crisis has also affected the sector through the financial sector and the exchange rate.

Engineering Industry, which produces a variety of intermediate goods and capital goods, has significant backward linkages with a number of vital sectors in the economy. Such as power; infrastructure including real estate development, steel, cement, petrochemicals, oil & gas, refineries, fertilizers, mining, railways, automobiles, textiles, etc. This industry, which has shown a rapid growth in the post reforms period, exports a variety of goods that constitute 26 percent of the manufacturing exports from India (2008-09) [CMIE, 2009]. The engineering sector is highly fragmented at the lower end and is dominated by smaller players, which use medium to low-end technology, and manufacture low-value added products. According to the available estimates there were nearly 1.75 lakh units employing about 8.4 lakh workers in the machinery and equipment industry. Of these about 95 per cent of the units and 58 per cent of the workers were in the unorganized (non-factory) sector. This sector, which was already facing several problems like unstable input prices, power shortage, infrastructure gaps etc, coupled with increased imports and appreciation of the Rupee, faced another jolt due to the financial crisis and the dip in its exports, the decline in foreign investment and the associated devaluation of the Rupee against strengthening of the US dollar. The industry has suffered double squeeze, which refers to the decline in the demand in the global market and the subsequent decline in the domestic demand (GoI, 2009; p.203).

The Indian auto-component industry has done remarkably well in the recent years, with an excellent 18 percent growth during 2001-02 to 2006-07. Its export also grew at CAGR 23.56 per cent during 2001-02 to 2006-07, with the share of the export in total production increased from 12.93 per cent in 2001-02 to 18.48 per cent in 2006-07 accounting for the exports worth Rs. 2.22 billion (US\$ 0.06 billion) in 2006-07. In spite of the commendable growth of this industry, however, the working conditions, income levels and social security of its workers, particularly in tiny and small firms have not improved as expected. There are 400 large firms in the organized sector in this industry, and about 10,000 firms operating in the unorganized sector manufacturing low tech auto parts and components. The entire supply chain of auto companies is bearing the brunt of the economic meltdown. From the top large companies to small-scale units, all are facing a huge fall in demand by 20 to 30 percent, and a stiff liquidity crunch, with the re-scheduled export orders and inventory piling up, the sector has clocked a single-digit growth and registered a fall in earnings for the first time in decade. Against 20 percent growth in turn over and 24 percent growth in exports during 2007-2008, the industry has shown 6 percent and 5.5 percent growth respectively in 2008-09.

Home based Garment Industry: The textile and garment (T & G) industry, which is one of the important industries in the global economy as well as in the Indian economy, earns 20 percent of

the total export earnings of India and employs about 38 m. persons directly. The garment industry, a relatively new industry had the modest beginning in the 1970s. It has grown into a gigantic industry spread all over the country. This industry got a big push after the expiry of the quotas in 2005, and produces about 8000 million pieces with the market value of US \$ 28 b (2006-7). The garment industry is largely informal, with 92 percent of its employment in the unorganized sector. Sub-contracting and out-sourcing of production is a common practice in the industry. The home-based production is predominant in this industry, with about half the workers engaged in home-based production. Women workers are predominant in the garment industry but they are employed in lower productivity tasks like basic stitching of children's and women's garments. The export demand for Indian garments started falling in the second half of 2008, which ended up in a crash in the last part of 2008 and in 2009.

Chikan Craft: Handicrafts are unique expressions of the culture, tradition and heritage of a country and the handicrafts industry is one of the important productive sectors of the economy. Chikan craft an important handicraft, is a fine art in which embroidery is done with white untwisted yarn on a fine cloth, which may be viol, silk, cambric, georgette, terry cotton, etc. This is mainly a home-based industrial activity, which is largely performed by women artisans and workers. Though the exports of Chikan craft, like other handicraft export products, experienced a declining trend during the post decade and a half, one observes a sudden and huge fall in the exports after the global financial crisis. The exports have fallen by over 41.60 percent during the past year, according to the figures released by Export Promotion Council of Handicraft. The export of embroidered and crocheted goods sector that was Rs. 5145.16 Crores in 2007-08, declined to Rs. 2936.98 Crores in 2008-09, implying a huge decline of 42.92 percent. Considering the fact that a majority of Chikan craft workers are informal workers working at home earning very low wages, without any social protection, this huge crisis has hit the workers very badly.

Agriculture: Indian agriculture on the whole is not really a globalized sector. However some pockets, which grow exportable crops and export a significant part of these crops, are integrated with the global markets and are vulnerable to global fluctuations. Looking to the fact that the country intends to move towards increasing integration of agriculture with the global economy, it is important to examine what happens to agriculture and its workers when the global markets collapse. Volatility of prices of agricultural products in the global market is a major problem of exporting farmers under liberalization policies, as these farmers are now exposed to the international fluctuations in prices. The sector study covers four export crops, namely, cotton, castor, cumin and sesame, the global prices of which zoomed upwards in 2007 and in the first half of 2008 but dropped dramatically since the second half of 2008. For instance, the global prices of castor dropped by 30 percent and that of cotton by 23 percent during this period. The exports of cotton crashed from 85 lakh bales in 2007-08 to 22.86 lakh bales during August 2008 and June 2009. Similarly the exports of castor seeds declined from 3,35,000 MT in 2008 to a mere 60,000 MT during the first 7 months of 2009 and further down later on. The drop in international prices by nearly 40 percent from the April-June 2008 has also resulted in cheaper imports, which again lead to fall in prices of products in domestic markets. For instance, import of sesame seeds during November 2008 and January 2009 brought down the local prices of sesame seeds.

The six sectors broadly represent the range of the affected sectors in the economy: Gems & Jewelry is a highly integrated sector with the global market, depending almost totally on imports for raw materials and exports for sale; garments & textiles industries export significant part of their output, but also have a huge domestic market; auto-parts and engineering industries also export significant portion of their output and have a well-developed domestic market; while agriculture is the least globalized sector with only some regions exporting selected agricultural produce. The sectors also vary in organization of production, with Chikan craft and garments being significantly home-based, agriculture carried out on family farms with participation of family members; while auto-parts, engineering and diamond cutting & polishing carry out production outside homes in small factories. Again, home based garments and Chikan craft employ large number of women; agriculture has significant participation by women; while in the rest three sectors women constitute less than 5 percent of the workforce. The common features, however, are that the sectors have grown fast in the recent years thanks to the growing export markets, small producers or informal units are predominant in these sectors and their workers are predominantly informal.

All sector-studies have followed a common approach, consisting of analysis of the available literature and secondary data to understand the impact of the global crisis on the selected sector; selection of a centre or two for an in-depth empirical study to understand the nature of impact of the crisis at a local level; sample survey of selected 100-150 workers and small producers, selected purposively on the basis of the typologies of workers and location of workers; and case studies to understand the nature of the impact at the household level.

Key Findings of the Study

Profile of workers: The workers in these sectors are, on the whole, young workers, with their average age varying from 30-36 years. The level of literacy of the workers is quite low with the share of illiterate workers varying from 60 percent in agriculture to less than 20 percent in engineering. Most workers are school drop outs and have taken on the job training in their specific sectors. Almost all workers, with a few exceptions, are non-permanent workers i.e. are regular workers, contract workers. They do not receive any social security benefits.

Impact of Crisis on Employment, Wages and Incomes: The impact on the crisis on work is felt in three ways: workers have lost job and are unemployed, workers get much less work than before in the same sector, and workers have shifted to other work, which is usually of lower productivity and is less remunerative, such as petty services (domestic service, helper to driver or to mason, office peon etc), petty trade (vegetable selling, street vending etc), home based work (manufacturing incense sticks, spices, other eatables etc). There are some workers however who have not experienced any change. The highest unemployment is experienced in Gems & Jewelry, where 30 percent workers have been rendered unemployed due to the crisis. The rate around 5 in home-based Garments, Chikan craft and Agriculture, where a large number of workers have remained in the sectors but with much less work. 44 percent workers in Engineering, 37 percent workers in Auto-parts and 14 percent workers in Garments have not experienced any change in their work after the crisis.

Significant number of skilled workers of the selected sectors have moved to unskilled work. The percentage of such workers is 32 in Gems & Jewelry, 8 in Auto-parts, 8 in Engineering and 38 in Chikan craft. On an average, 11 percent skilled workers have shifted to unskilled work, implying waste of their skills acquired over the years. Similarly, there is deterioration in the employment status, even of these informal workers, from “regular” to “casual” or “temporary” status, implying less regularity of work and increased employment insecurity² This deterioration from “regular” to casual status is significant in all the sectors, except in Agriculture and Chikan craft where the work is home-based or is on family farms. This decline in the employment status covers 25-27 percent workers in Garments and Engineering to 61 percent in Gems & Jewelry, to 70 percent in Auto-parts.

The average monthly income of 80 percent workers has declined drastically. On an average ranging from 97 percent in Diamonds to 55 percent in Engineering. The monthly income has declined by 47 percent in Gems & Jewelry, 41 percent in Auto-parts and 10 percent in Engineering. The highest decline is observed in Home-based Garments (67 percent), and the lowest in Agriculture (17 percent) which is not much globalized. Even in Chikan craft, where the monthly income was a mere Rs.978, the income has declined by 36 percent, reaching to Rs.621 per month! It is clear that the workers have experienced a huge loss of income, around 37 percent on an average. The daily earnings/wages have declined in all the sectors under the crisis, the decline being the highest in Gems & Jewelry(62 percent) followed by Auto parts (28 percent), engineering (22 percent) and Chikan craft (12 percent).

Help Received from Different Agencies: One would expect that agencies like Government (Central and State Government), employers, industry associations & chambers of commerce, trade unions or civil society organizations would come out to help these workers to provide support in consumption needs, to assist in retraining or getting alternative employment or work in the labour market. The study showed that assistance was given mainly for consumption support, though it was far from adequate. The government helped 16 percent of workers in Gems & Jewelry industry by Distributing food grains and other essential food items or cash. Less than 6 percent workers have received government assistance in Auto-parts also. Apart from this small and inadequate assistance to these two sectors, almost no help is provided to any other sector. Employers and Industry Associates have also extended some marginal help in Gems & Jewelry and in Auto-parts industries. And finally friends and relatives have helped, again mainly in Gems & Jewelry, and in Auto-parts. As regards helping workers in employment, except for Auto-parts not much help has been given to workers in any other sectors.

In short, on an average, more than 60 percent of workers, have remained without any help whatsoever. They have been forced to fend for themselves. Considering the fact the assistance provided is far from adequate in most cases, one can say that most workers had to manage on their own without much support from outside.

² “Regular workers” are not “permanent workers” and therefore are not entitled to social security and other benefits (for example, casual and earned leave, medical leave etc), but they have oral (and some times written) contract with the employer and they get employment on a regular basis. They also get benefits like weekly holiday, casual leave and monthly salary.

Decline in Remittances: A large number of workers in many of the export-based industries in urban centers send remittances to their families in villages. These remittances are good support to those left at home as well as to the local economy in these villages. Before the crisis, about 40 percent of workers sent money back home.

After the crisis, however, the number declined by more than half in the case of Gems & Jewelry and by a little less than half in Engineering and Auto-parts. Remittances also have declined for home-based Garments. The average amount of remittances declined by more than 75 percent, which implies services set back to the local economies receiving remittances on a large scale.

Dissaving and Pawning & Sale of Assets : The affected workers in all the sectors used their savings as well as pawned and sold some of their assets to meet the crisis. The relatively rich sectors, i.e. Gems and Jewelry, Auto-parts and Engineering, depended more on dissaving as compared to the workers in the other sectors. More than 50 percent of workers in Gems & Jewelry and 55 percent of workers in Auto-parts used up their savings to meet the crisis. Similarly, pawning & sale of assets also were used more by the workers in Gems & Jewelry, Engineering and Auto-parts industries and Agriculture, with 10 to 30 percent of households undertaking these. Even the poor households in Chikan craft and Garments pawned & sold their assets to make the two ends meet.

Borrowing from Different Sources: Borrowing was the next step for survival as the dissaving and sale of assets could not go far enough. One observes a big jump after the crisis in the percentage of the households incurring debt for meeting consumption needs. The percentage increased from 21 to 61 for Gems & Jewelry, 23 to 86 percent in Auto-parts, 1.5 to 47 percent in Engineering, 3 to 36 for Garments, from 32 to 38 in agriculture and from 3 to 17 for Chikan craft. The most important reason for borrowing was consumption for survival, followed by health / sickness. The importance of social functions as a reason for borrowing declined considerably after the crisis. The average amount of debt per household in the six sectors varied from Rs 41,110 in Gems & Jewelry to about Rs 10,000 in Chikan craft and Garments. The burden of the debt has been too high on these households when the incomes have fallen and uncertainty has increased.

Reduction in Consumption Expenditure: The main coping strategy of workers

The main strategy of survival of most households, however, was to reduce consumption, mainly on food and other consumption goods, and on education and health. It is interesting to note that almost all households – those who have experienced a decline in income as well as those who have not experienced a decline – have reduced their consumption expenditure due to the overall uncertainty looming large over the sectors.

Food Consumption: The most common ways of cutting down food consumption have been (1) stopping or reducing eating out, (2) stopping or reducing consumption of quality food (expensive) like milk, fruits, vegetables, and eggs, meat, chicken etc, and (3) skipping a meal or two per day. About 88 percent of households in Gems & Jewelry have reduced their food consumption, about 50 percent by reducing eating out (i.e. the cash poor households now eat cheap food at home that excludes milk, fruits, vegetables as well as eggs, meat etc) and 39 percent by reducing consumption of quality food at home. The percentages of the households

reducing food consumption are 27.20 for Auto-parts, 27.5 for Engineering, 48.50 for Garments, 47.00 for Agriculture and 45.00 for Chikan craft. The percentage of households reporting skipping a meal in a day (usually the morning breakfast) ranges from 19 percent in Auto-parts to 10 in Chikan craft and to 6.5 in Garments. This reduction in food consumption including consumption of quality food items, is bound to have an adverse impact on the nutritional and health status of workers – though for want of the data on the extent of the reduction in the consumption of quality food it is not possible to give any concrete estimates of the impact. It is clear however that a significant number of the households, particularly in Garments and Chikan craft have fallen far below the minimum levels, implying a *further* shift into absolute poverty for these workers.

Expenditure on Education and Health: Reduction in the expenditure on education and health has been another major strategy of the workers. On an average, half the households have reduced their expenditure on education by (1) withdrawing children from school, (2) shifting children to cheaper (government/municipal schools),(3) not paying fees,(4) reducing expenditure on books, uniform, educational material etc.The percentages of the households which have reduced their expenditure on education are 87 in Gems & Jewelry, 56 percent in Auto-parts, 67 percent in Chikan craft, 30 percent in Agriculture and 20 percent, the lowest in Engineering industry. Almost 20 percent households in Gems & Jewelry have withdrawn their children from schools. The corresponding percentages vary from 18 percent to 3 percent in Garments, where not all children as it is go to school.

Households have reduced their health expenditure by going to doctor/hospitals only in the case of emergency and by using home-based care and medicines as far as possible. The percentages of the households reducing their health expenditure in this manner are 71 in Auto-parts, 69 in Chikan craft, 67 in Gems & Jewelry and 44 percent in Engineering. The most common method is to shift to cheaper facilities and to work on home-based care and medicines.

Women as Shock Absorbers in Crisis: Women’s contribution has been significant in helping the families in crisis. They have contributed as producers (as own account workers or self employed), as wages earners (including piece rated and home-based workers) and as home makers.

Increased Work in the Labour market: To start with, many women, who were outside the labour market, have entered the labour market as part time or full time workers to take up whatever work was available. On an average, 17 percent of the households have sent non-working women for part time work and sent them for full-time work and another 17 percent households have full time work, bringing the total to 34 percent, about one third of the total households. In addition, about 5 percent households have reported more work than before for women. The highest percentage of the households reporting non-working women joining labour market is Gems & Jewelry, which is the worst sufferers of the crisis. More than half of the households have reported women taking up full time work while 17 percent households have reported women joining part-time work. The work women have taken up is usually home based work like making incense sticks, embroidery, spices etc; services like domestic service; construction work, mainly as helpers to masons and other manual labour etc. The self employed women in garments, incense stick making, other home-based work operate at a low level of technology and investments. These self employed women do not have enough opportunity to expand into healthy

small scale ventures. Though these problems were there before the crisis, these have multiplied after the crisis. The major problems that they face are poor access to credit, which has almost dried up after the crisis; low level of infrastructure support, which has declined further as the government is worried more about the infrastructure of large units than about small and micro enterprises; poor access to markets, specially after the crisis and (4) far from adequate support in technical up-gradation, skill training etc.

Increased Unpaid Work: There is also evidence that shows that women's unpaid work has increased after the crisis. On an average, more than one fourth of the households have reported an increase in the unpaid work of women. The unpaid work has increased because (1) the cash poor households have brought many market oriented activities within the purview of domestic work, (2) paid medical services have turned into unpaid services, (3) un/under employed men at home need more work / caring from women and (4) women have increased their free collection of goods- fodder, vegetables, leaves, fruits etc particularly in rural areas, in the case of return migrants. This percentage of households reporting increased unpaid work of women is 53 for Agriculture, 49 for Chikan craft, followed by 46 percent in Garments, 25 percent in Gems& Jewelry, 28 percent in Auto-parts and 15 percent in Engineering.

Increased Tension, Conflict and Domestic Violence: The sudden drop in income and employment, no reliable help coming from any source and uncertainty about the future have caused a lot of tension in these households leading to conflicts and violence (cases of suicides of some depressed and frustrated workers who have been reported).

On an average, about 40 percent households have reported increased mental and physical illness caused by the crisis, 43 percent households have reported increased domestic conflicts and violence and 28 percent households have reported increase in smoking and drinking caused by the increased tension and frustration. Women are the worst sufferers as they are frequently subjected to violence and have to bear the burden of the loss of income through smoking and drinking by men.

Return Migration to Villages: Since many urban workers in export-oriented industries have migrated from villages, and in a few cases from small towns, a major coping strategy of the affected workers has been to go back to their villages and to their families. Though some of them would like to go back to cities when the situation improves, not all of them are willing to do so. The main reasons for going back to villages are (1) the village life is cheaper in terms house rent, cost of energy/fuel, food etc, (2) they can leave with their families-parents, relatives etc, which is economical and (3) frequently they have some land which they can fall back on. It has been observed that return migration has taken place in Gems & Jewelry, Auto parts, Engineering and to an extent in Garment industry. An in depth study of return migrants from Gems & Jewelry throws useful light on the status of the workers and the village economies: since the migrant workers have been forced to come back to the villages, to escape from which they had migrated to the city, there is a sense of disappointment and frustration among these workers. Given the limited scope for skilled work in the villages, many of them have taken up manual work in agriculture, construction etc activities, where employment is low and scattered and wages are also much lower. The workers therefore have experienced a huge decline in terms of employment, wages and income – much more than what has been experienced by the workers

who have remained in the city. Many of these workers have incurred huge debt to meet the minimum consumption needs; and pushed non-workers--women, children and the old- to enter the labour market to take up low skilled, low productivity work with very low level of earnings. These households have also reduced their consumption on food, health and education, moving into absolute poverty in some cases.

Whenever the number of returned migrant workers is large in a village, which is likely to be the case many times, the migrants have created an adverse impact on in the village economies. Firstly, the decline or stopping of remittances have resulted in closing down of small shops, paan gallas, tea shops etc in the villages. And secondly, the pressure of the sudden increase in the supply of workers has depressed the prevalent wage rates. In the case of the Gems & Jewelry study, the prevalent wage rates have declined by 25 to 40 percent, affecting the incomes of the native of the villages adversely.

Once again, women are the worst sufferers of the crisis, as they are pressurized more (more than in urban areas) to contribute to household incomes. It is observed that they take up whatever activities are available, including unpaid drudgery, to support their household. As the Gems & Jewelry study has shown , these women earn as low as Rs.25 per day in the activities like making incense sticks, masonry work(helper) etc.

Small Producers and Micro Enterprises: Non-viability of small and micro enterprises is, as it is, a major problem in the economy, and the crisis has revealed that their position becomes worse in crisis. The sector studies have drawn attention to the fact that small producers and micro enterprises constitute the most suffering group of producers from the crisis. The major reasons for this are: (1) their survival frequently depends on job work, and the moment it stops, they have no option but to close down, (2) they have limited access to credit for survival, (3) they usually deal with low quality products, the demand for which has declined much more than the demand for high quality – value added products, and (4) since they do not import raw materials directly or export finished products directly, the burden of crisis is frequently passed on to them by big traders and exporters. Small enterprises are as it is a relatively neglected group of producers in the national policies. The crisis has highlighted these problems and drawn attention to the urgency of addressing them.

1. *Access to Credit:* Though small and micro enterprises contribute more than 30 percent of the national exports and provide large scale employment, their share in institutional credit is only 2 percent (for the units with less than investment of Rs 5.00 lakhs) and 4.3 percent (including the units with investment of less than Rs 25.00 lakhs) (NCEUS 2008). In spite of the efforts made by the government, the access of these units to credit has remained extremely poor. The liquidity crunch under the present crisis has made the situation much worse, as financial institutions are most unwilling to lend to the affected sectors in general and to small enterprises in particular. In the case of Gems & Jewelry sector for example, even after the recommendations made by the RBI Taskforce to lend to this sector and particularly to small units, the access of the units to credit has remained miserably poor! The same is the case with Auto-parts and Engineering, where the demand for credit by small producers is far from met. In the case of home based producers also the demand for credit to maintain the business in the crisis has not been

entertained by financial institutions. There is an urgent need to improve this situation by creating a special fund for these units at the all India level to take care of their credit needs.

2. High and fluctuating prices of raw materials: Another major problem of these enterprises is that the prices of the raw materials and intermediary good are highly unstable. As a result, the access of small enterprises to these goods is not assured. The enterprises therefore find it difficult to remain in the business. The depreciation of the Rupee during the crisis has raised the prices of imported raw materials and intermediary goods, making it more difficult for these units to manage. The rising power cost as well as rising prices of other inputs has added to the crisis in the case of (home based) Garments and Chikan work, most units depend on middlemen for raw materials and other inputs. It is observed that in the crisis situation, the middlemen pass on the risk on producers by raising the prices of inputs and by reducing the rate of payments.

3. Low Technology and Low Productivity: In spite of the decline in the global demand for our exports, there is still some demand for high value added quality products in the global market. However, this demand cannot be entertained by small enterprises due to their low technology and low scale of operation. It is clear that if these units have to survive and prosper, they will have to be helped in taking a quantum jump in technology and productivity.

4. Poor Access to Infrastructure and Absence of Level Playing Field: It is a common observation that small and micro enterprises do not get the kind of infrastructural support that is given to medium and large enterprises. This is particularly true with respect to land, water, power, credit, markets and technology. All the sector studies have observed that there is a need to strengthen this support to small enterprises to make them viable. There is an urgent need to pay attention to these critical needs of the small sector.

5. Absence of Adequate Database: Most of the small enterprises are unregistered units, with the result that we have no accurate information on their number, as there is no reliable record of these informal workers. This inadequate information became a major constraint during the crisis because it was difficult to reach small units on the one hand and identify workers on the other hand. It also became difficult to design schemes and to allot adequate funds to help them. It is highly desirable to take this opportunity to strengthen the database of these sectors – and the informal sector in general.

This calls for issuance of Identity Cards to all informal workers in the economy. The recommendation of the NCEUS in this context needs to be enforced on an urgent basis. As regards registration of units under the Factories Act or under any other appropriate act needs to be expedited. The case of Gems & Jewelry industry is very important here. Though all units in this industry fall into the purview of the Factories Act, less than 10 percent units are registered because the units do not see any advantage in getting registered and in fact consider the registration as a major disadvantage (since they have to pay social security to workers. This problem is relevant to all the sectors. Clearly, there is a need to sort out this problem for the entire sector level.

To Sum Up: This study of the six export oriented sectors under the crisis has drawn attention to the plight of the workers and producers under the volatile global market. The study has shown

that the highly competitive as well as uncertain global market can cause huge suffering to poorly protected workers as well as poorly supported small producers in the informal economy.

The global crisis has impacted on all dimensions of the workers' employment: the direct loss of employment has been up to 30 percent; the wage rate in the industry has declined almost by half and the monthly income of the workers has declined by almost 47 percent. Even within the informal employment, which denies social security to workers, there is a decline in the employment status for a large number of workers from "regular" employment to casual and temporary employment, implying increased insecurity in work; and a number of skilled workers are forced to shift to unskilled work.

In the absence of any significant institutional support coming from the government, industry associations, employers or NGOs, majority workers are left to fend for themselves. After trying the limited scope of dis-saving, mortgaging & selling of assets and borrowing, they have no alternative but to reduce their own consumption expenditure. The crisis has deprived them of their savings and increased their debt incurred to meet the urgent consumption needs.

Reduction in food consumption, a strategy adopted by more than 80 percent of workers has clearly reduced nutritional levels of these workers. This implies increased poverty of these workers. Reduction in educational expenditure, including withdrawal of children from school is indeed a matter of grave concern! Depletion of human capabilities in the households of half-educated and school drop-out informal workers is a huge loss to the economy. It has implications for the future generation of these workers.

The conditions of home based garment workers and the Chikan craft workers are the worst, as their low incomes have further declined under the crisis. In the absence of any possibility of dissavings or even incurring debts, these workers have cut down their expenditure on food, implying their immiserization into poverty. Their low health and low educational achievements have gone down further during the crisis. That is, the crisis has impacted adversely also on the prospects of their further generations.

The conditions of the return migrants are much worse! Thrown back to the same place, which they left to escape poverty and unemployment a few years ago, is both depressing and frustrating to them. In the absence of adequate employment opportunities, most of them have taken up manual work on farms or in non-farm activities. To face a drastic reduction in wages and incomes, the households of the workers have pressurized non-workers (women, children and the old) into the labour market to take up work with very low productivity and wages. These households have also experienced severe depletion in food and nutrition, education and health. The return of migrant workers has also depressed the local economy due to the drop in the remittances on the one hand and downward pressure on the wages on the other hand. The return of migrant workers on a large scale has resulted in pockets of poverty in their native places.

Small producers, who have always lacked adequate support in technology and skills, credit, infrastructure etc are facing severe liquidity crunch as well as decline in business. Their problems, which did not receive enough attention of policy workers, have now come to the open.

In short, the impact of the global crisis appears to be quite wide-spread. Its direct impact is felt by a wide range of sectors, ranging from the diamond industry, which is highly integrated with the global market to export-intensive industries like textiles and garment industries to relatively less integrated industries like the auto-parts industry and engineering industry. The least globalized agricultural sector also is impacted adversely in selected globalized pockets. The coping strategies, such as (a) reduction in household expenditure, (b) incurring debts, (c) withdrawal of children from school, (d) women and children entering into the labour market and (d) migration back to the native place, have made the plight of the present generation as well as future generation of the affected workers worse.

The crisis has thrown open a number of weak points of our policies related to trade liberalization as well as the growth process. One can say that the crisis has highlighted the need to make radical changes in our development model.

Learning Lessons from the Indian Experience

An important implication of the study is that in spite of the high rate of growth of the economy, the government of India has neither been able to ensure a minimum package of social security to its workforce; nor has it been able to ensure basic health services and elementary education to all; and nor it has created an institutional set up to provide support to workers in the event of loss of job or work. It is important therefore to provide the following three basic securities to the workforce:

Right to Basic Support: *1. Universal Social Protection to Workers:* The experience of the crisis has shown that the workers, who contribute to exports and to the rapid growth of the economy, have been thrown into the volatile global market without any safety nets or social protection. In the absence of any protection, they have adopted coping strategies which have intensified their misery. There is an urgent need therefore to design and institutionalize a package of universal social security consisting of some minimum critical social protection to all the workers in the economy. Such a package should include (1) unemployment insurance and assistance, (2) health insurance, (3) old age pension, (4) maternity benefits, and (5) compensation against injury, disability or death. The Social Security Bill of the NCEUS designed in May 2006 is very relevant here. A National Fund for social security should also be created for this purpose. Appropriate legal, financial, institutional and administrative steps should be taken to institutionalize this minimum package of social protection to all workers in the economy.

2. Ensuring Employment Services to Workers: The study has shown that when skilled workers lose their jobs they do not get any support to find new suitable work and are frequently forced to take up unskilled petty work (where their skills are wasted) or remain unemployed. There is a need to institutionalize the assistance and support to workers in the competitive market to facilitate their movement from one (skilled) job to another (skilled) job. This requires well organized employment services which includes (1) labour market information service, (2) counseling of workers on what kind of work is suitable for them and how to get it, (3) providing training and re-training to workers, if necessary, by linking them with suitable training institutes

and (4) help in moving to new jobs. There is thus a need to up-scale the employment exchanges to set up employment services. The government can consider private –public partnership in this area.

3. Ensuring Food, Health and Education for All: The adverse impact of the crisis on the workers / small producers could have been avoided if critical gaps in social goods – health, education, skills were ensured. The study has shown that the large number of programmes and schemes that promote education and health of people / workers are not able to help during a period of crises³. For example, there are no institutionalized facilities to ensure that no child is withdrawn from school and / or roped into the labour market till he / she completes 7th (or 10th) standard; or there is no provision that ensures basic health to all. Human development is a basic requirement and a primary obligation of the government. There is a need to fill in the gaps by changing norms when required, building infrastructure, allocating adequate funds and putting in place the required institutions. In other words, there is a need to accept a rights-based approach for basic health and elementary education.⁴

Addressing Problems of Small Producers / Micro Enterprises: Non-viability of small and micro enterprises is, as it is, a major problem in the economy, and the crisis has revealed that their position becomes worse in crisis. The study has shown that small producers, the self employed or own account workers are the worst hit group of producers. This is largely because they have poor access to advance technology, credit, markets, raw material and to infrastructural facilities on the one hand and the low staying power on the other hand. Under the crisis, they suffer from declining markets as well as high and fluctuating input prices. They are almost pushed out from the credit market because of the liquidity crisis on the one hand and the crisis in their sector on the other hand. Looking to the fact that financial institutions are not going to give credit to them, there is an urgent need to create a special fund for them at the all India level.

1. Making small/macro enterprises viable: The crisis has underscored the urgent need for providing support to make them viable in the economy. Instead of addressing the sectoral problems through bail-out packages, special packages should be designed for small producers to strengthen them. This is an opportunity to undertake this task on a priority basis:

- In order to ensure their access to credit, we recommend including them in priority sector lending; reducing the rate of interest on their credit; relaxing the process of debt recovery for them; providing export credit; strengthening micro credit to help them to run their business, and soft loans to tide over crisis as well as to remain in business. We reiterate the importance of the creation of a special fund for them (NAFUS) as recommended by the NCEUS.
- Ensuring price regulation for raw materials and finished goods, as well as providing subsidy in electricity charges.

³ The experiences have revealed that though SSA (Sarva Shiksha Abhiyan), NRHM (National Rural Health Mission), ICDS (Integrated Child Development Scheme) PDS (Public Distribution System) etc exist, they are limited in scope and in funds. There are several gaps in public health and education, with the result that they fail to help people during a crisis.

⁴ The recent Right to Elementary Education Act is an important step in this direction.

- Infrastructural support, particularly regular supply of electricity, facilities for storage and warehousing.
- Technological support to upgrade technology to be competitive in the market.

Making them viable and enable them to grow will have huge advantages in terms of poverty reduction and generation of productive employment on the one hand and expansion of the effective demand to boost economic growth on the other.

2. *Skill Training and Skill Up-gradation:* Skill training / retraining of workers is important during a crisis for several reasons: Firstly, the poor hit badly by the crisis in low-skilled activities cannot be helped adequately without their skill up-gradation. Secondly, skill training / retraining is important even for skilled workers to enable them to move upward in the value chain or to acquire new skills when the demand for old skills decline. There is therefore a need to design skill training programmes keeping in mind these points.

In this context, it is extremely important to note that good foundation of education, say up to 10th standard, is a must for skill acquisition, as it enables students to acquire new skills without much problem. In fact, on the job skill training of school drop-outs, which is predominant in our economy, is never a good way of acquiring skills. The best way to impart skills is through technical institutions after sound basic general education. This prepares workers to shift from one skill to another easily. Universalization of education up to 10th standard is once again very important.

Bail out Packages for Women: The study has shown that women are the worst sufferers of the crisis, as producers / own account workers / employers; as wage earners at home or outside home as wage earners at home or outside home; and as home makers women have taken on them a disproportionate burden of the crisis. There is a clear male bread-winner bias on the part of the employers (women are the first ones to lose jobs) as well as the government (which does not address women's employment specifically). And though women provide "safety net" or become "shock absorbers" by taking on them the burden of paid and unpaid work, there are no policies that address their concerns. There is a need to address all the three aspects of women's problems in a focused manner and effectively.

As producers / employers women should get an access to credit, technology, infrastructure facilities and markets. A special "stimulus package" should be designed for them keeping in mind the specific needs of women producers / own account workers.

In this context, we recommend (1) separate employment targets, including skill training targets, for women so that their employment is not sacrificed under the male bread-winner bias, (2) The government should focus on construction of social infrastructure to reduce women's (increased) burden of unpaid work,(3) Social services should be expanded to take care of health, education and well-being of children and adults so that women's domestic work is reduced on the one hand and proper care is ensured on the other hand and (4) Women's increased work also calls for universal child care facilities to release women from the burden of work, and more importantly for ensuring healthy early childhood development of children.

Large Scale Public Works Programmes with Employment Guarantee: In order to address the high level of un/under employment of the affected workers, undertaking public works programmes, with an employment guarantee if possible, could be a very important strategy: Such a programme (a) can work as a safety act by providing work at the minimum wages to the affected workers, (b) it will work against depression in the local market wage rate, (c) it will build productive assets in the economy, and (d) it will raise the aggregate effective demand in the economy. In short, such a programme can work as a shock absorber and a safety net; can contribute to social infrastructure and human development; and can boost the economy by raising the effective demand in the economy.

Restructuring Development Model

Need to Take a Fresh look at Globalization

The study has serious implications for the growth path that the country has chosen. The first question that arises in this context is about the gains of globalizing at the lowest end of the value chain, where the work is labour intensive, the value added is small, the employment gain is positive but the quality of employment is very poor, and the control or the decision making power is in the hands of Global Production Networks located in developed countries. This is the case of most export intensive industries in India like textiles, garments, leather and leather products, engineering, auto-parts, chemicals, gems & jewelry etc. The recent crisis has however revealed some additional limitations of this pattern of globalization: (1) a crisis in the developed world (i.e. USA, EU, Japan), impacts on the developing economies severely even when developing economies manage their economies “well”. This is because the crisis enters the developing economies through multiple channels and in multiple ways; (2) the highly competitive markets in the developed world are also undependable during a crisis, as the developed countries adopt protectionist policies to protect their own economies. As Stiglitz has observed in the context of the recent crisis, developing countries are denied an access to the markets in the developed world through systematic protectionist policies (Stiglitz 2009); and (3) the neo-liberal policies fail to develop the domestic market in spite of its large potential. In other words, the growth under the given model of globalization does not really help either in terms of gains in employment (because the quality of employment is miserable) or in terms of stability of employment and incomes of workers. The growth under the given model becomes unsustainable.

This raises a fundamental question about the validity of the strategy of depending on exports as the main driver of economic growth and promoting industrialization through producing goods for the global market. By treating exports as a goal in itself, rather than means to increase employment and well being of workers and a means to reduce poverty and promote human development, the real developmental goals are kept outside the purview of the globalization related policies including the trade policy. In order to integrate developmental goals with the growth process it is necessary to ensure well-being of workers through universal social protection on the one hand and universal access to human development on the other hand.

Towards an Alternative Model

One alternative is to move up in the global value chain and acquire a place in the global production networks (GPN) to acquire some stability – a protection against the volatility of demand in the global market. For example, in the case of the diamond industry one can recommend manufacturing of jewelry to acquire a larger and more stable place in the global market. Similarly, by integrating vertically and by creating global brands, the textile and garment industries can stabilize their position in the global market. However, experiences have shown that this task is formidable, as it involves changing the global structure of production in favour of developing countries! This option therefore is not a doable option.

As seen above, the plight of workers of export industries emanates from the non-integration of the national labour policy with the national trade policy and industrial policy. While the trade and industrial policies are designed together to take maximum advantage of new global opportunities, the labour policy is nowhere in the picture. That is, when the industry and the trade ministries work together to promote economic growth, labour standards are ignored under the fear that complying these standards may raise the cost of production and thereby affect adversely the access of these industries to the global markets. A rise in exports and in GDP is seen as the end in itself rather than as a means to increase well-being of people.

Under these circumstances, the building blocks of an alternative model can be listed as follows: The alternative model is based on two premises: (1) Markets operate efficiently within the given structure of an economy. If the structure is unequal and exploitative, markets will not only not correct these, but enhance the inequalities by favouring those who are in an advantageous position. That is, the market fundamentalist notion that markets are self correcting, allocate resources efficiently and serve public interest well is not correct. (2) In order to make markets work well for all the sections of population, the state has to intervene. The state has certain basic duties towards its citizens, or to put it differently, the citizens have certain basic rights that need to be protected by the state. These basic rights include right to social protection, right to basic needs or basic capabilities in the areas of health and education, and right to life including right to productive employment.

Keeping these two basic premises in mind, the alternative model will be based on the recognition of the following rights:

Protecting the Basic Rights of Citizens: The state is expected to ensure basic rights of people: right to food and right basic needs to the destitute; right to social protection to all workers; and right to basic health and education to all. The last two can be contributory in the sense that these can be made available at affordable prices. These rights will ensure that the poor and the marginalized are able to live in a decent manner and are able to participate in the mainstream economic activities, and contribute to its development thereby.

Recognizing and incorporating Unpaid Work in Mainstream Policy Making: Since unequal sharing of unpaid work is at the root of gender inequalities in an economy, there is a need to recognize it by making it visible, and incorporating it in policy making by reducing it (by transferring it into public domain); by redistributing it equally between men and women; and by improving its productivity (by reducing its drudgery). This right will reduce the disproportionate

burden of work on women. It will also enable women to access the available opportunities in the market and to participate in the mainstream economy productively.

Recognizing Right to Employment through a well designed Employment Guarantee Scheme has to be an important component of the alternative strategy as it ensures right to basic income to all those who can work. This right will serve multiple purposes: It will be a safety net for workers, who lose their job under crisis or otherwise. Secondly, it will ensure an increase in aggregate effective demand in the economy. Thirdly, it will produce productive assets in the economy to promote economic growth. And lastly, the demand driven component of the right will empower those who are marginalized in the process of economic development.

In the case of developing countries, this right will (1) generate basic infrastructure that is lacking in these economies, (2) ensure regeneration of natural resources to strengthen the livelihood of the majority of the workforce and (3) reduce unpaid work of women that is usually drudgery (for example, fetching water, collecting fuel wood) and transfer the burden of this work (for example, care) into public domain.

Recognizing Rights of Small Producers/Micro Enterprises is the fourth important right of the poor and the marginalized to ensure board-based economic growth. Small producers, who are the backbone of the economy, particularly in developing countries hold the key to broad based labour intensive growth. Under the neo-liberal policy framework these producers are denied a level playing field, as the focus is on producing for global markets which require big players. Though some enterprises grow independently or grow under the various schemes of the government, they do not receive the kind of access to credit, technology, markets, infrastructure etc. that large producers are able to access. These groups of producers are therefore a neglected lot (NCEUS 2009) and happen to be the worst sufferers of the crisis. They need support in multiple areas, as discussed above to enjoy access to viability and to partnership in growth.

Recognition of the above four points in policy making will have several positive impact on the development process in the economy:

To start with, it will promote domestic markets by enhancing purchasing power of the masses. It will improve aggregate demand within the economy to give a big push to the economy. This in turn will ensure relative stability of growth as growth will be located within the domestic economy. It will also ensure poverty reduction and facilitate achievements in human development.

Secondly, recognition of the four points will integrate developmental goals into the trade policy. This is because instead of treating trade as the goal in itself, it will treat trade as a means of enhancing well-being of people. The question is not whether to depend on global markets or on domestic markets, but it is how much to depend on global markets and how much on domestic markets, given the goals of development. Each country will work out its trade policy depending on its needs and its potential.

Thirdly, the four points will determine the industrial development path of the economy to a significant extent. Industries will produce more for local markets and less for global markets, as

the local markets will demand a large number of goods. Since the local market will demand wage goods and goods for local consumption, the industries will be relatively labour intensive. Instead of rushing for highly capital intensive frontier technology in the global market, industrialists will serve the local markets, generating more employment in the process. In other words, the industrial model will shift towards labour intensive sectors, such as textiles, food processing, small engineering etc.

And lastly, the recognition of the four points will promote board based labour intensive growth in general. Improved management of natural resources will promote agricultural growth as well as growth of the allied sectors like fishery, animal husbandry, dairy, forestry etc. In the subsequent records this will promote labour intensive agro-processing and agri-based industries. Promotion of basic infrastructure like connecting roads, water supply, sanitation and public hygiene will attract private investments in villages, leading to the diversification of village economies.

In short, taking care of the basic rights and needs of the marginalized groups will help the economy change its development path towards labour intensity, sustainability and equality.

Social and Political Feasibility of a New Development Paradigm:

The adoption of the neo-liberal policies in India can be traced to several factors: The immediate reason was the severe financial crisis experienced by the country in 1991 that forced the government to borrow money from the IMF at the conditions laid down by the WB-IMF supported “Washington Consensus”. The other and perhaps the long term reasons were the commitment of the decision makers to the neo-liberal orthodoxy. It was believed by the policy makers that privatization, liberalization and globalization will promote economic growth, which will trickle down, and reduce poverty and promote human development.

The experience with the neo-liberal paradigm resulted in a disillusionment. After the global crisis, it became even clearer that the paradigm could not deliver the goods. The experience of the reforms clearly indicated that in spite of economic growth, the rate of poverty reduction declined and the achievement rate of human development decelerated. The impact of the global crisis also has raised some basic questions about the utility of globalization and the adequacy of the markets to help the large unorganized sector and the marginalized in the economy.

Unfortunately however Indian policy makers do not seem to have learnt any lessons from the crisis. This is revealed by the following:

- The improvement in the growth rate, after the decline during the peak crisis period, is seen as an achievement. The projection for the growth rate at 6.5 percent this year (2008-09) and 8.00+ percent next year is seen as an indication of revival and achievement. The government seems to be keen to go back to the high growth path without worrying about its composition and impacts.
- The trade policy announced recently (August 2009) for the 2009-2014 period aims at “arresting declining trend of exports” and targets at “doubling India’s share of exports by 2020” (Economic Times 2009). The target is to achieve 25 percent growth of exports every year.

- The government wants to promotion of labour intensive sectors of exports by providing incentives and subsidies, without any reference to the quality of employment.
- The government has liberalized the FDI norms for promoting industrial growth including growth of micro and small scale sector.
- No major changes in the labour policy have taken place in the recent months – in spite of the experiences of the global crisis. No step has been taken to ensure a full package of social protection to all workers or to regulate conditions of work for informal workers.

Has India missed the opportunity restructuring development? The answer seems to be in positive. There are no signs of any recasting the growth agenda for the country.

The only hopes have been a few developments which occurred under the pressure of the left parties when they were a part of the coalition government: (1) National Rural Employment Guarantee Programme, (2) Right to Information Act and (3) the Social Security Act for unorganized Workers (though this is diluted, it is there in some shape). After the UPA government came into power without the left parties, the political pressure to help the marginalized has declined. Though the movements like the Right to Food Campaign, the Supreme Court’s intervention on food security and the intellectual lobbies are there these are still very weak to make any impact on the macroeconomic policies. These are too small to contribute towards restructuring of the development model in the country.

We believe that it is most unfortunate that India seems to have missed the opportunity of restructuring its development model after the global crisis. India has refused to recognize the high vulnerability of the workers in the face of highly volatile and uncertain global market. It has failed to recognize the weaknesses of the economy, including its non-inclusiveness, and its impact on the poor. It has refused to learn the lessons from the global crisis.

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