Indian Economy · GS - III

How globalization has led to the reduction of employment in the formal sector of the Indian economy? Is increased informalization detrimental to the development of the country?

EXAM YEAR	PAPER	SUBJECT
2016	GS - III	Indian Economy

MARKS	WORD LIMIT
12.5	~200 words

Answer Hint

Globalisation; formal employment; outsourcing; automation; contractualisation; informal economy; job security; labour reforms

Model Answer

Introduction

Globalisation has integrated India with international markets, but its effects on formal employment have been uneven. Competition, technological change and flexible production have encouraged firms to reduce permanent employment and rely on contractual labour.

How Globalisation Has Reduced Formal Employment

- **Outsourcing and subcontracting:** Firms increasingly outsource activities to smaller enterprises employing informal workers.
- **Automation:** Technology reduces demand for certain routine jobs, particularly in manufacturing and services.
- **Cost competition:** Pressure to remain competitive encourages contractual hiring and labour-cost reduction.
- **Growth of informal enterprises:** Many small businesses operate outside formal regulatory and social-security systems.

- **Structural change:** Expansion of capital-intensive sectors has not always generated sufficient formal jobs for India's workforce.

Is Informalisation Detrimental?

Informalisation can provide livelihoods and flexibility, particularly where formal employment is scarce. However, excessive informalisation creates serious problems:

- Low and unstable earnings, weak bargaining power and limited social security.
- Poor working conditions and greater vulnerability to economic shocks.
- Reduced tax compliance and weaker labour protections.
- Lower productivity because workers and enterprises may lack training, finance and technology.

Way Forward

Promote labour-intensive manufacturing, support MSMEs, improve vocational skills, simplify formalisation procedures and extend portable social-security benefits to informal workers. Labour regulation should protect workers while encouraging productive enterprise.

Conclusion

Informal employment is not inherently harmful, but persistent, insecure and low-productivity informalisation constrains inclusive development. India needs more productive jobs with adequate protections.

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