‘COMPULSIONS’ OF GLOBALISATION AND ‘ADJUSTMENTS’ IN DOMESTIC LABOUR MARKETS: CHINA AND INDIA

Debdas Banerjee*

Labour market outcomes in the developing countries are nowadays often posited as the effect of globalisation. This paper examines the ‘compulsions’ of globalisation and the State’s benign responses to the otherwise destabilising factors. The ‘compulsions’ basically come from the new international division of labour, which has rendered low wage economies as India’s close competitors. Second, during the last 15 years, accumulated external reserves of the developing countries, as a whole, grew rapidly, having its impact felt on the domestic labour market. Third, depending on the ‘nature’ of the labour markets that the host countries could offer, while the currency rate remained stable, foreign investment has reshaped itself. Fourth, the huge agricultural productivity gaps between India (or, China) and the OECD, coupled with the open trade policy have greatly influenced the labour supply situation. This paper then examines the mechanism by which these countries negotiate with the ‘compulsions’.

I. INTRODUCTION

Labour market outcomes in the developing countries are nowadays often posited as the effect of globalisation. So, as argued, there is no alternative but to accept the outcomes. Since import-substitution is passé, domestic labour market institution has lost its capabilities to protect wage. And, since domestic manufacturing is pegged to export markets, production needs to be adjusted accordingly prompting flexible production organisation; hence, employment guarantee is passé. The labour market flexibility thus is a 'rational choice' in the context of emerging 'competitiveness of nations'; the latter of course is theoretically untenable. In fact, the new political economy has made the politico-ideological battlefield flat. 'Old' labour market institutions are perhaps the last-stage hurdles for the new political economy to win the battle between capital on one side and labour on the other. Thus, labour market institutions are encountering the so-called 'compulsions' of globalisation. The state and other interest groups have taken various measures to make 'adjustments' to the globalisation-induced compulsions following the Washington Consensus as if that is the modernity. While some others are putting up active resistance in various ways like changing the organisational structures of labour movement, etc., this paper is rather a modest attempt to examine the ‘compulsions’ of globalisation and the State's benign responses to the otherwise destabilising factors.

Globalisation has its impact felt in varying degrees on domestic manufacturing, agriculture, and on the foreign exchange reserves of the country. In manufacturing, there has emerged very distinctly the North–South trade segmentation, which is based on the product life cycle and the R&D intensity; low product life induces high R&D expenditure in a competitive market, or vice versa (for a detailed analysis, see Banerjee, 2005). The R&D performance in respective countries

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in the South determines the exact location of individual countries in the global value chains. For instance, depending on the relative R&D effort of individual countries in the manufacturing of computer hardware, the global supply chains of Dell or Hewlett-Packard are routed. Similarly, the apparel supply chains of Gap Limited originate greatly from the low-wage countries. These global supply chains ultimately dictate adjustments necessary to be made at the firm-level in the South. In the case of agriculture, the huge productivity gaps between the countries in the South and the North are increasingly flooding South's domestic food grain markets to the extent trade deregulation in the latter has permitted. This, in turn, has effected migration out of cultivation to the urban labour markets and thereby became instrumental to push down unskilled and semi-skilled wages, in particular, and labour standards, in general. We may call it meso level adjustments forced upon the domestic economy by globalisation. The third kind of 'compulsions' of course is a daunting macro-level issue that arises out of the huge accumulated foreign exchange (FE) reserves of the developing countries following the changing pattern of global trade. The FE reserves, to a large extent, have become the deciding factor of the nature of foreign capital inflows and, in turn, of GDP growth and, thus prompting the compromises to be made in employment growth. This is of course a new phenomenon integrating labour markets to international finance.

China and India are co-sharers of many of the consequences of globalisation. However, the mechanism of adjustments varies to the extent the nature of political instruments the respective governments hold in designing those mechanisms as well as the micro foundations of macroeconomics vary.

II. COMPULSIONS-I: FROM EXPORT-LED GROWTH

Since the early 1980s, the volume of world trade has increased by leaps and bounds, and the growing volume of the South-South trade has been gradually displacing the conventional South-North merchandise. Moreover, the South, East and South-East Asia dominate the intra-South trade. It is also important to recognise that within this part of the world, the directions of exports from various countries are converging in China ever since she emerged as the 'corridor' of the South-North trade.

On the whole, about 37 per cent of the aggregate commodity exports of developing Asia used to remain within developing Asia in 1990. This proportion has steadily increased to 53 per cent in 2003, relegating the status of the North in the South-North trade relationships. Moreover, in intra-South trade, Japan was the destination of 33 per cent of developing Asia's exports in 1990. However, in a matter of 13 years, i.e., by 2003, China has become the prime destination of developing Asia's exports with 20 per cent share of it, replacing Japan whose share by then had reduced to 18 per cent (UNCTAD, 2006).

The new international division of labour, on the one hand, has rendered low wage economies in South and South-East Asia as India's close competitors. Wage-cost increase without increase in capital productivity could take away jobs from India in, say, garments, to countries like Bangladesh, Vietnam, China or Philippines. Given her current R&D capacity, India's capital productivity growth is a distant possibility. The 'natural' victims are the working class; their average real wage by now has dipped below the international 'severe' poverty line of 'one-dollar-a-day' (Banerjee, 2005).

On the other hand, the massive growth in the US imports of merchandise from China, which meanwhile has reasonably enhanced the R&D capacity, led to the explosion of export-import business of China, especially since the early 1990s (Table 1). While the US commodity trade deficit with the OECD declined from 54 per cent of the US total to 45 per cent between 1996 and 2005, the same with China increased from 23 per cent to 26 per cent (Table 2). Excepting
Japan to some extent, none of the OECD countries is nearer to the US in terms of values of imports from China during the last 10-15 years. To note, low value-added labour-intensive commodities such as toys and games, furniture, apparel, footwear, plastics articles, leather and travel goods, and automobile parts, together constitutes about one-third of the US imports from China. In other words, China's exports constitute both labour-, and technology-intensive commodities in a manner which no country in the emerging South could match.

### Table 2

The U.S. Commodity Trade Deficit (billion dollars) with OECD and China, during 1996-2005

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### Table 3

The U.S. Trade with China ($ billion), 1995-2005

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Note: U.S. exports reported on FAS basis: imports on a general customs value, CIF basis. And, the figures within parentheses indicate R².


The OECD countries, with high labour standards, accounted for more than half of the US aggregate trade deficit until 2003. The US trade deficit in manufactured goods (code SITC-6) with OECD which was 63 per cent of the manufactured total in 1996 gradually declined to 42 per cent in 2005, despite there being faster increase in US imports of manufactured goods from OECD than her exports to OECD during 2003-05.

It was the phenomenal growth of the US-China trade largely through the supply chains of Wal-Mart and similar others that together have shifted the US trade balances somewhat away from the OECD countries. Wal-Mart imports from China alone valued USD18 billion in 2004. And, it alone accounted for about 1/10th of the US trade deficit with China in 2005. The trade-led growth thus has transformed China into the trade hub and, at the same time, the epicentre of external 'shocks' to other labour markets in the developing Asia.

Globalisation and in the course of trade expansion, most of the developing countries have accumulated huge surplus in their current account. Build-up of foreign currency assets is most noticeable in Asia, especially in India and China. During the last 15 years, accumulated external reserves of the developing countries, as a whole, grew more than 572 per cent. Most spectacular increase in foreign reserves is recorded in Asia and Africa than in South America or Other America. Country-wise, China's reserves grew more than 1468 per cent, while that of India's more than 660 per cent (Table 3).

The reserves in these countries and regions swelled as the volume of the US trade deficits increased. As the volume of trade grows, the necessity for increased reserves also grows. Every country would like to keep at least as much of reserves as would be required for her expected import bills for the coming couples of months-that's the adequacy norm of international liquidity though it is true that a country can hardly come into a situation where she can export nothing
In 1980, an average developing economy used to maintain external reserves equivalent to 4 months of imports. In 2004, that has increased to 9.3 months' import-bill equivalent. The equivalence was still greater in the faster growing import regions, namely, in East and South-East Asia, and unexpectedly, in Africa, which has been witnessing trade growth but at a low rate and in no way nearer to that of the former (Table 3).

Holding foreign exchange reserves that support longer months of imports than usual is most pronounced in China and India, though the volume of reserves hypothetically need not grow as fast as the volume of trade. To note, in India, the 'external liabilities to external reserves' ratio has a dramatic fall (RBI, 2006).

Apparently a crisis of confidence is brewing; confidence on dollar decreasing; yet everyone trying to prevent a global financial crisis. In fact, the dollar reserves of the poorer countries have been providing stability to the global finance market.

In the past, the main surplus countries receiving the dollars from the US deficits were the members of the European Economic Community (EEC) and Japan. The US continues to play the role of world banker, and the economic benefits accruing to the world banker in the form of seigniorage, or simply the profits from banking. The phenomenon of seigniorage is one of the main sources of a transfer of real resources from the poorer to the richest nation of the world.

The International Monetary Fund (IMF) set up at Bretton Woods just before the end of the Second World War, was essentially designed to deal with the problems that had haunted international economic relations during the 1930s: competitive devaluations, discrimination in foreign exchange dealings and tariffs, lack of convertibility and disorderly capital flows. However, IMF's provision of international reserves remained totally inadequate; it remained only a small part of the total international reserves. An 'in-built' mechanism meanwhile has developed out of the stupendous growth in global trade, and subsequently the role of IMF has 'shifted' to something else other than managing international economic relations.

Another critical dilemma of the developing economies is that the exchange rate appreciation

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Notes: (a) Reserve stock of the year divided by the average monthly imports of the current and following year, as calculated in the source. (b) In India, total reserve was $6.9 billion in 1980, and dropped to $1.5 billion in 1990.

Source: Based on UNCTAD 2005b.
is assumed to weaken the so-called 'competitiveness of nation' and be anti-exporter, especially as trade among relatively low-wage developing countries assumed importance in the South's trade basket, and as the exchange rate differentials among them are not wide enough to be utilised as instrument of trade growth. Either the entire major trading countries in the South, who have more-than-adequate reserves, simultaneously appreciate their respective currencies, or else, the central banks have to intervene in respective currency markets to purchase foreign currency to prevent revaluation, which means another round of rise in FE reserves in these countries.

The irony is that to facilitate foreign capital inflows into the developing economy, ceteris paribus, the exchange rate needs to appreciate. Failing to do that the developing countries instead attempt to insure increased return to foreign capital through labour market reforms (e.g., wage depression, lengthening working hours without compensation), by building required infrastructure with public revenue, and through other organisational and institutional reforms (e.g., bending the laws and Constitution of the land in favour of the foreign investors, adopting policies towards forming Special Economic Zones (SEZs) or 'special exploitation zone' where the investors would enjoy the benefits of lands at throw away prices, tax holidays for a long period of time, subsidised water and electricity, cheap labour who doesn't have basic rights, and so on). These render the exports produced inside the 'special economic zones' cheaper with steady currency rate, which almost create a sovereign colony within a country in the model of nineteenth century 'Shanghai Concessions' or extraterritoriality. Thus, the developing countries are beaten twice in the new international economic order.

In 1994, China's FE reserves were about USD14 billion. So, China at that time certainly did not need to devalue her currency to managing the balance of payments. However, China devalued the yuan by 40 per cent at one stroke in January 1994, and then pegged that devalued yuan to the US dollar. Thus, the Chinese effectively cut the price of the products they export by 40 per cent, a cut so deep that no other country in the region could compete with them in labour-intensive industries. Factory owners had to find ways to cut costs or go broke. Wage and workers' basic rights became prime targets. Failing to compete with the working conditions in China, factories closed in South Korea, Taiwan and Singapore. Next, the factories in Indonesia, the Philippines, and Thailand were lost to China, aggravating the Asian crisis of 1997-98.

We will later discuss the lesson that devaluation alone is not enough; this should be accompanied by flexible labour market. At this moment, the 'compulsions' of globalisation for the developing countries is that they are faced with a binary fission: either give preferential treatments to capital or to labour. One may contrast the situation with that existed in the 'golden age' of capital.

China-perhaps to strengthen her export-led strategy, opted for devaluation and pegging currencies to the US dollar. However, India of course has other options since her exports are increasingly directed towards countries in the South. Yet, India continues to purchase billions of dollars on currency mart in order to stabilise her currency rate.

Despite the chorus of 'Shining India', her export basket gradually resembled to that of still lower-income countries. Manufactures based on labour and natural resources as percentage of total non-oil Indian exports, which constituted 40 per cent in 1980 gradually increased to more than 60 per cent. Similar is the situation in a large part of IT and ITes products, which are tail-end jobs. Ghana, India, Morocco, and Turkey, among other developing economies, experienced the largest increase in the share of labour-, and resource-intensive manufactures, while countries like Taiwan and South Korea managed to pull down the importance of this product group along
with the drop in the share of primary commodities.

Appreciation of currency rate is likely to take away the competitive edge in exportable like
textiles and clothing (constituting more than 22 per cent of India’s aggregate exports), gem and
jewellery (about 24 per cent of manufactured exports). Jobs of the latter kinds might ‘fly’ to
Bangladesh, Vietnam, Cambodia or China as a result.

In brief, first, these nations (in Asia and Africa) are effectively financing the Iraq war. And,
the workers in these countries are ‘fodder to the cannons’. Second, China’s devaluation became
the epicentre of sending ‘shock waves’ across labour markets in this region and created turbulences.

1. Capital Inflows

Depending on the ‘nature’ of the labour markets that the host countries could offer, while the
currency rate remained stable, foreign investment has reshaped itself. The differential nature of
foreign capital inflows in the two countries speaks for differential nature of formation and
development of capitalist power block within the countries.

The power of capitalist ownership remains offshore so long as China depends heavily on
FDI (Table 4). This path is completely different from what countries like Japan and South Korea
have experienced. And, as we will see later, this power has enabled foreign capital to flout the
national labour laws in the host country so easily.

In India, on the other hand, the relative dominance of foreign capital in the ‘real’ sector is

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<th>Year</th>
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Notes: 1. This includes, beside FDI, foreign loans and contractual alliances.

2. Data on FDI have been revised since 2000-01 with expanded coverage to approach international
best practices. Data from 2000-01 onwards are not comparable with FDI data for earlier years.
(Negative sign indicates outflow).

Sources: For China, Y. Huang, ‘Is China Playing by the Rules?’, Congressional-Executive Commission on
exercised indirectly through the stock markets. In fact, given the changes made in the estimation of FDI, the relative volumes of annual inflows of portfolio capital between 2000 and 2005 seem to have been greater than before. Comparatively greater inflows of portfolio investments, or 'hot money', into India of course made the whole economy more vulnerable to the powers of international finance capital.

However, the labour market outcomes are different. In the case of FDI, the flouting of the country's labour laws could be more direct than the pressure exercised by capitals on the management of the firm through the stock markets. As the capital market appropriates more power over other institutions, corporations often try to send manipulative signals to that market; the lay-off is often part of the 'game' to improve their stocks' trading prices. They believe, or the market has led them to believe, that the investors' mood is: 'downsizing' is the ultimate in the profitability of a company.

The recognition of the current sentiment of the market is duly recorded in the observations of the chairman of the Task Force on Employment Opportunities (TFEO) constituted by the Planning Commission in 2001: 'India's labour laws have evolved in a manner which has greatly reduced the flexibility available to employers to adjust the labour force in the light of changing economic circumstances' (GoI 2001, Sec. 8.52: 171). The chairman goes on to recommend that 'changes in the laws are therefore necessary if we want to see rapid growth' (ibid). The TFEO recommended deletion of Chapter VB from the Industrial Disputes Act (ID Act) 1947 (prior permission for closing down a factory) and suitable amendment to the Contract Labour (Regulation and Abolition) Act to 'allow all peripheral activities to be freely outsourced from specialised firms' (GoI 2001, Sec. 8.54: 172). Indian parliamentary democracy has somehow developed a passion for liberty, but without its very essence of equality and equity!

III. COMPULSIONS-II: FROM AGRICULTURAL IMPORTS AND RURAL LABOUR MIGRATION

In China, given the 10 per cent GDP growth rate and the restricted rural-urban migration, industrial labour market conditions there apparently seem to be 'tight'. Therefore, hourly wage rate was expected to rise. But, that is not happening. Why?

Industrialisation in China proceeded at a faster pace than India during the last 20 years. In both India and China, industrial development or for that matter services sector grew at the expense of agriculture (Table 5). The share of agriculture in China's GDP declined from 33 per cent to 15 per cent in just 20 years between 1985 and 2004. In India, the trend is the same though difference with China is in the rate of decline. Labour did migrate from agriculture to the modern sectors in the urban.

Since the services sector could well be located in the rural as well as urban, and given the fact that most of the population in both the countries are rural, it may so happen that a bulk of the out-migration from agriculture simply was not towards cities, in other words, not rural--urban migration, rather sectoral change. The size of rural population however drastically declined

| Table 5 | Economic Transformation in China and India: Sectoral Share (%) in GDP, 1985 and 2004 |
|---------|-------------------------------------|-------------------------|-------------------------|-------------------------|
|         | Agriculture | Industry | Services | Agriculture | Industry | Services |
| China   | 33    | 15    | 47    | 51    | 20    | 34    |
| India   | 31    | 22    | 27    | 26    | 41    | 52    |

in China, unlike India, since the beginning of the 1990s (Table 6). The explanation would be either (a) push of high rural unemployment; (b) growing urbanisation has reshaped the boundaries of rural; (c) pull of a tight urban labour market; or, (d) a combination of these factors.

Table 6
Share (%) of Rural Population in Total, China and India, 1979 to 2004

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<tr>
<td>China</td>
<td>80</td>
<td>72</td>
<td>64</td>
<td>60</td>
</tr>
<tr>
<td>India</td>
<td>77</td>
<td>74</td>
<td>72</td>
<td>71</td>
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In fact, Economically Active Population (EAP) in agriculture itself declined in China between 1979 and 2004 (Table 7), in spite of the fact that more than 40.2 million hectares of arable land were added to during the period.

Table 7
Economically Active Population in Agriculture, Share (%) in Total, 1979 to 2004

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<tr>
<td>China</td>
<td>74</td>
<td>72</td>
<td>67</td>
<td>64</td>
</tr>
<tr>
<td>India</td>
<td>69</td>
<td>64</td>
<td>60</td>
<td>58</td>
</tr>
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The trend in EAP is certainly an outcome of international trade in agricultural commodities. China’s massive net imports (Table 8) of agricultural products have its impact felt in the form of massive labour surplus in Chinese agriculture; the displaced have little choice but to migrate to industrial cities and towns in China, or even to abroad in a more critical situation.

Tullao and Cortez (2003) show China among others like Bangladesh, Indonesia, Nepal, Philippines, Sri Lanka and Vietnam-as labour sending country. India incidentally is both labour sending and receiving country. Surplus countries are usually characterised by rapid population growth coupled with slow domestic economic growth. Therefore, the phenomenon of large-scale migration from countries like Bangladesh and Nepal is understood. The Chinese phenomenon, however, does challenge the conventional wisdom as her average annual population growth rate is 1 per cent (1990-2001), and achieving a GDP growth rate (10 per cent during 1990-2001) which no country in the developing world been experiencing.

It is thus hard to deny that the large-scale net import of agricultural products has negative impact on the rural labour market. Despite positive rate of growth of population (1 per cent in
China and 1.8 per cent in India) since 1990-91, when both the countries initiated trade deregulation in a big way, more than 804,000 EAP in Chinese agriculture have been displaced until 2004, while Indian agriculture continued to provide additional jobs for the growing population, no matter whether the rate has gone down or not (Table 9).

Table 9
Changes in Economically Active Population (EAP) in China and India, 1979 to 2004

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<tbody>
<tr>
<td>China</td>
<td>407728</td>
<td>491229</td>
<td>510815</td>
<td>510573</td>
<td>510011</td>
</tr>
<tr>
<td>Change (+/-)</td>
<td>83502</td>
<td>19586</td>
<td>-804</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>208341</td>
<td>229946</td>
<td>263524</td>
<td>273515</td>
<td>276687</td>
</tr>
<tr>
<td>Change (+/-)</td>
<td>21605</td>
<td>33578</td>
<td>13163</td>
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Adjustments in Labour Markets

The huge displaced population dependent on Chinese agriculture are forced to seek work elsewhere. By official count, it has 114 million migrant workers who have left rural areas, temporaily or for good, to work in cities, and government experts predict the number will rise to 300 million by 2020, and eventually to 500 million. Shanghai alone has 3 million migrant workers; by comparison, the entire Irish migration to America from 1820 to 1930 is thought to have involved perhaps 4.5 million people (Yardley, 2004). This large mass of 'mobile' population, not having the rights of 'residency', is easy to fleece by capitals, and puts downward pressure on the wages of 'residents' in the industrial towns and cities.

Using data from a survey conducted in five large Chinese cities (viz., Fuzhou, Shanghai, Shenyang, Wuhan, and Xian) that employed an internationally comparable definition of unemployment, Giles et al. (2005) find that the unemployment rate of urban permanent residents was 14 per cent in 2002. Comparing unemployment rate estimates across time and space based on data from the China Urban Labour Survey (CULS, 2001) and population census (2000), it is found that for China as a whole the unemployment rate of urban permanent residents increased from 6.1 to 11.1 per cent, and that of all urban residents, including temporary residents (i.e., migrants), increased from 4.0 to 7.3 per cent between January 1996 and September 2002 (ibid).

The fondness of urban capitals for those workers who do not have entitlements to welfare benefits and rights like those enjoyed by the urban populations is thus very apparent from the fact that unemployment among the temporary residents is lower than the permanent residents of the cities. In China, despite very high growth in manufacturing by any standard of the developing economies, aggregate manufacturing employment declined from 86.24 million in 1990 to 80.83 million in 2001. Manufacturing employment in urban units alone declined from 54.92 million in 1994 (data not available before the year) to 30.70 million in 2001. Data after 1997 do not include surplus laid-off manufacturing workers in total manufacturing employment. However, data for at least two years, i.e., 1995 and 1996, show the number of surplus laid-off workers as 2.13 and 3.23 million in each year respectively.

The Chinese government has to accommodate the city-bound migration of the huge numbers of displaced agricultural population as well as the displaced urban industrial workers in the development programme. In India, on the other hand, while city-bound migration of agricultural population is not so much endemic, she still shares the wage policy with China; both have inclination
to 'free' labour market institution commensurate to the export-led strategy. However, it is important to recognise that India as compared to China is under greater wage-pressure since when her trade had started moving away from the North and towards countries in the South, and labour-intensive commodities been assuming greater importance in India's aggregate exports. Yet, the outcomes in technologically superior China have been the construction of a particular kind of market economy that increasingly incorporates neoliberal elements with authoritarian centralised control. Elsewhere, as in Chile, South Korea, Taiwan and Singapore, the compatibility between authoritarian and the capitalist market had already been clearly established (Harvey, 2005).

The labour laws of either China or India de jure provide ample protection to regular wage, work hour, overtime wage, and social security. In the case of employment security, however, the Indian laws are more comprehensive, while the Chinese laws remain vague. In India, under the ID Act, 1947 Section 25F of Chapter VA, no workman employed in any industry who has been in continuous service for not less than one year under an employer shall be retrenched by that employer until:

(a) the workman has been given one month’s notice in writing indicating the reasons for retrenchment and the period of notice has expired, or the workman has been paid in lieu of such notice, wages for the period of the notice;
(b) the workman has been paid, at the time of retrenchment, compensation which shall be equivalent to 15 days average pay [for every completed year of continuous service] or any part thereof in excess of six months; and,
(c) notice in the prescribed manner is served on the appropriate government.

In industrial establishments, i.e., those come under the purview of Chapter VB of the ID Act 1947, and employing not less than 100 workers lay-off is prohibited u/s 25M. According to Section 25M (1), no workman (other than a badli workman or a casual workman) whose name is borne on the muster rolls of an industrial establishment to which this Chapter applies shall be laid-off by his employer except such lay-off is due to shortage of power or to natural calamity, and with the prior permission of the appropriate government.

Excepting those industrial establishments to which Chapter VB of the ID Act 1947 applies, the laid-off workers in an industrial establishment have the right for compensation u/s 25C. It says:

"Whenever a workman (other than a badli workman or a casual workman) whose name is borne on the muster rolls of an industrial establishment and who has completed not less than one year of continuous service under an employer is laid-off, whether continuously or intermittently, he shall be paid by the employer for all days during which he is so laid-off i.e.,... Which shall be equal to fifty per cent of the total of the basic wages and dearness allowance that would have been payable to him had he not been so laid-off”.

The Industrial Employment (Standing Orders) Act (1946) in India is an Act under which the employers in industrial establishments are to define with sufficient precision the conditions of employment under them and to make the said conditions known to workmen employed by them. The object of the Act is to have a uniform standing orders providing for matters enumerated in the schedule to the Act. The provisions of this Act apply to every industrial establishment wherein 100 or more workers are employed or were employed on any day of the preceding 12 months.

In China, on the other hand, under Chapter 3 of ‘Labour Law’, individual and firm-level ‘labour contracts and agreements reached between labourers and the employer to establish labour relationships and specify the rights, interests and obligations of each party’ (Article 16)
characterise the labour market institution.

The employment conditions in China have been further flexibilised by the ‘Regulations on the Labour Management of Foreign-Funded Enterprises’ (RLMFFEs). In this, it is mentioned:

‘The FFEs may decide by themselves the time, conditions and ways of the employment and the number of personnel they employ in line with relevant State laws and administrative regulations’ (Article 5).

In India there are protections against the employment of, and provisions for the abolition of contract labour in regular jobs/processes/operations. The Contract Labour (Regulation & Abolition) Act, 1970 applies to every establishment in which 10 or more workers are employed or were employed on any day of the preceding 12 months as contract labour and to every contractor who employs or employed on any day of the preceding 12 months, 10 or more workers.

Section 10 of the Contract Labour (R&A) Act, 1970 empowers the appropriate government to prohibit employment of contract labour through notifications if the following conditions are satisfied: (a) The process in which contract labourers were employed was incidental or necessary for the trade, business or industry; (b) It was perennial nature; (c) It was done ordinarily through regular workers in the establishment or similar establishments; and (d) It was sufficient to employ considerable number of whole time workers.

The Act does not provide for total prohibition of contract labour, but provides for abolition in appropriate cases under Section 10 by the appropriate government. If (a) employer--employee signing the contract may or may not be through some agency; and, (b) employees are appointed by contractor but their work is supervised by the employee of the establishment, then Section 10 applies. However, the Section does not apply if employees work under a contractor who is a middleman.

Apart from these regulatory measures there is also provision for abolition of contract labour system under this Act in any particular jobs/processes/ operations in any establishment by the state government being the Appropriate Government under certain circumstances on the advice of the State Contract Labour Advisory Board constituted under the provisions of the said Act.

On the whole, the provisions for contract labour in industrial sector are far more restrictive in India than it is in China. So far as closure, retrenchment, layoff, strikes and lockouts are concerned, (Indian) ID ACT (1947), Chapter VB has not given freehand to the employers. By contrast, in China, employers are free to take decisions; only intimation to the labour administrative department is needed.

In the case of regularisation of employment, in India, regular employment is mandatory if the appropriate authority prohibits contractual employment, unlike in China, where workers (under Article 20 of the Labour Act 1995) can ask for indefinite term contract after the completion of 10 years of continued working in the same employing unit. Given the 'volatility' in the Chinese labour market created by overseas investments, the job-security of the workers is as elusive as their getting a longer-term employment. This summarises the degree of flexibility in the Chinese labour market.

Global supply-chain based production-as part of the export-led strategy-is bound to create 'uncertainties' in job tenures. It does not matter whether a particular job needs longer tenure of work because it is skill-based and therefore allow the worker to accumulate specific skills; who then constitute the 'internal labour market'. Perhaps when adequate skilled workers, at the going wage rate, are available, the labour market could afford to be indifferent. If flexible labour market is the norm, multi-skilled workers simply 'float' from one job to the other. Industry might find the required workforce but labour standards become uncertain, and so is human development of the country.
However, by comparing labour laws in China and India, it is difficult to give a priori judgement as to the labour standards in these countries. One has to undertake case studies, otherwise the 'official' reports and statistics would be highly misleading. Let us briefly examine the means of violating People's Republic of China's (PRC) labour law with respect to:

(i) **Employment**

(a) The so-called 'illegal' migrant workers (i.e., without residency permits) form the principal labour market for the FFEs (foreign-funded enterprises). Article 5 of the 'Regulations on the Labour Management of FFEs' allows FFEs to recruit employees from other regions, not just from the employment services, which have confirmed by the labour department at the localities of the FFEs.

(b) Compared to the SEZs, the coastal economic open zones that are completely subject to the administration of the local government are more ready to grant even a greater flexibility to the investors.

(c) Size of the factory does not interfere, unlike in India, in practising 'piece-rate wage' system as the dominant mode.

(d) Seasonal employment has become the norm. (In India, while de jure there is no provision for seasonal employment in organised manufacturing, de facto in industries such as jute textiles and tea manufacturing the nature of employment appears to be 'seasonal'.)

(e) Under Article 11(1) of the Regulations on the Labour Management of FFEs, the latter firms could terminate the labour contracts in case the 'parties of the contract reach an agreement for the termination through consultations'. Normally, contracts are made with the labourers for a year only.

(ii) **Minimum wage**

(a) Piece-rate wage system is pervasive, and the rate is below the local legal minimum wage.

(b) Local minimum wage is set as 'per month'. Even if that monthly minimum wage was paid, longer working hours-than-stipulated mean lower per hour wage than the stipulated (hourly) minimum wage.

(iii) **Working hours and OT payments**

(a) Workers are not required to punch the machine clock as the factory management has special staff to punch the clock machines for the workers and prepare the falsified hour records.

(b) The Chinese Labour Law permits at most 3 OT hours per day and not more than 36 OT hours per month. The excessive OT hours is not shown in the time cards and the OT compensation for the exceeding OT hours is paid as production bonus instead of OT compensation on the salary cards. This is done to pass the social audits taken by the overseas buyers down the supply-chain in Europe or North America.

(iv) **Payment of pension and severance**

(a) The PRC Labour Law requires the management to cover their workforce with old age, industrial injury, maternity and medical insurance. Employment conditions of the migrant workers resemble that of seasonal workers. Thus, the workers are naturally deprived of the entitlements to pension and severance. The provision of social security as required by law also is often not met.
In India, despite comprehensive labour laws, flouting the laws by the employers have become common incident in the post-reforms period, be it wage fixation, working hours, employment of casual labourers, swindling employees' provident fund and post-retirement benefits, and medical benefits. However, chances of litigation are there so long as the labour laws not bent in favour of employers. Several attempts have been made to reform existing labour laws, but because of stiff resistance from the trade unions as well as various political parties and civil society organisations—as is expected in a representative democratic institution—there is not much progress evident in this direction of labour flexibilisation. The arguments in favour of labour law reforms rather remained weak so far as the economics of 'reforms' is concerned.

In order to bypass the mainstream politico-legal tangles, the Government of India has emulated the Chinese model of SEZ, and many of the provincial governments irrespective of their political 'colours' have shown enthusiasm in promoting SEZs despite the fact that without SEZ India is poised to achieve an 8.5-9 per cent growth rate. As soon as The Special Economic Zones Act, 2005 has come into force, the governments are flooded with applications from the domestic as well as MNCs for several thousands of acres of land (for each of the SEZs). The Chinese phenomenon of massive rural to urban migration would soon follow, unless there are counter measures to stop the trend.

Under Section 26 (of SEZ Act, 2005), every developer and entrepreneur shall be entitled to exemptions from any duty of customs on goods imported into and exported from the zones, from duty of excise, from service tax, from the securities transaction tax leviable, entitled to drawbacks, and so on. Like the Chinese Residency permit system, under Section 46 'every person, whether employed or residing or required to be present in a SEZ, shall be provided an identity card' thus restricting free mobility of labour within India. Under Section 51 of the SEZ Act (2005), the provisions of this Act shall have effect notwithstanding anything inconsistent therewith contained in any other law for the time being in force or in any instrument having effect by virtue of any law other than this Act.

Although it is not explicitly stated, the implication of the latter provision for the labour market is that the existing laws would not be applicable in the SEZ.

IV. CONCLUSION

The questions that naturally arise: (a) Are these kinds of 'adjustments' short-run in nature? (b) What India would gain out of the SEZs? (c) Who are likely to be the beneficiaries, and, at whose costs? (d) Will not the agenda of 'sustainable development' be jeopardised? The answers are essential in order to understand alternative mechanisms of adjustments to the compulsions of globalisation, which will be economically viable, politically feasible, and socially acceptable.

Notes
1. Admittedly, the results of trade dynamism analysis are sensitive to the period chosen. But reliable export data on Asia are perhaps not available for a longer period, especially as one includes China in the data set.
3. World's biggest company, measured by the size of its revenue, until Exxon Oil displaced it late last year.
4. That includes Target (discounters and mass merchandisers), Home Depot (home improvement centres), Costco and Sam's Club (warehouse clubs), Gap and the Limited (apparel speciality), Dell and Hewlett-Packard (computer hardware), Best Buy (other speciality).
6. The British in 1845 were the first to compel local Ching officials to mark off an area along the Whangpoo River
as the ‘British Concession’. In 1848, the US invaders seized a section of Shanghai as a residential district for Americans. In 1849, the French also staked off a district between the north side of the Shanghai County seat and the British Concession and made it the ‘French Concession’. Also in 1849, the Portuguese colonialists expelled the Chinese officials from Macao, refused to pay land rent and forcibly occupied this coastal port [The Opium War (Foreign Languages Press, Peking, 1976)].

7. China’s negligible dependence on imported ‘fuels’ (about 4 per cent, while it was 26 per cent of aggregate imports into India in 1994—95) was an advantage which no country in this region had.

8. The figures as quoted in UNCTAD, Trade and Development Report (2003), Table 5.8, have been revised in the light of the fact that although ‘gems and jewellery’ is the single-largest export item from India it has not been included in this group of manufactures. Instead it is included in “other manufactures” and classified under Group V (high technology intensity). If we exclude gems and jewellery from the latter group of manufactures, for obvious reasons, ‘high technology intensity’ exports from India would rather show declines during the period 1990—2000.


10. Among other studies, Ngai (2005)—developed from the author’s doctoral thesis—provides a vivid and persuasive first-hand account of day-to-day existence under the low wages, long hours, and toxic environment in the Shenzhen SEZ where foreign-owned factories are proliferating.

11. Until 2003, administrations regulations known as custody and repatriation authorised police to detain and return persons to their permanent residency location, but this system was subsequently abolished.

12. An estimated 150 to 200 million Chinese are living outside their officially-registered areas.


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