

## A global opportunity for the Indian workforce

The integration of developing economies such as China and India into the global economy in the last few decades has helped lift millions out of poverty. The introduction of their labour forces into the global economy increased growth and income in these economies which also resulted in a decline in global inequality. The World Bank's latest "Global Economic Prospects" report shows that the second wave of change in the global labour market will play out over the next two decades, with developing economies contributing to all of the addition in the global skilled labour force, as the number of skilled workers in advanced economies is expected to decline. The rising level of skill and education in developing economies will also lift potential global growth and continue to reduce global inequality.

The global skilled workforce is likely to increase from 1.66 billion workers in 2011 to 2.16 billion by 2040. Skilled workers have been defined as those having at least nine years of education. Since improvement in the level of education and skill tends to increase income, rising income in the developing world will lead to a reduction in inequality. The global Gini coefficient is estimated to decline from 65.8 in 2012 to 62.6 by 2030. However, income from other sources may still increase inequality. The way things progress in India, to a large extent, will determine how fast income convergence happens and the level of global inequality declines. The World Bank in this context notes: "...fast-growing EMDEs (emerging market and developing economies) with a large number of poor, such as India, which accounts for 28 percent of the world's poor in 2013, will continue to contribute to the reduction of global inequality."

While India benefited by integrating with the global economy, the next wave of gains will depend on how well it adjusts to the changing economic and technological environment. India will need to make adjustments to be able to take advantage of a potential change in the composition of the global labour force. Policymakers will need to work on different levels to be able to create a competitive labour force and make India benefit from the emerging global situation.

First, India urgently needs to focus on education and skill development. A lot has been written on this subject in the past. The "Annual State of Education Report" periodically shows the depressing state of education in Indian schools. The World Bank also highlighted the problem in its "World Development Report" last year. Despite several initiatives by the government, outcomes in the area of skill development have also not been as desired. One way of improving outcomes could be better use of technology in education, [as economist Karthik Muralidharan and others have shown](#). India needs rapid improvement from primary to tertiary education to be able to compete in the global market. The changing technological landscape also means that the workforce should be in a position to make quick adjustments.

Second, the World Bank in its analysis assumes that additional workers will get employed. This will be a big challenge for India. It has not been able to create enough employment opportunities for people moving out of agriculture. The basic reason for this is India has not capitalized on labour-intensive manufacturing.

Recent research shows that India's competitive advantage in some of the labour-intensive sectors has actually declined in recent years. The legal and regulatory requirements in markets like land and labour make it difficult for firms to grow and take advantage of economies of scale. To be able to absorb its rising workforce, India needs to remove impediments in the manufacturing sector. If prospects for manufacturing don't improve soon, even better outcomes in education would be of limited use.

Third, even though inequality at the global level declined in recent decades, it has gone up in

advanced economies as the national income share of wages came down. This has resulted in a political backlash. Therefore, the lingering risk of protectionism is unlikely to dissipate in a hurry. India will need to protect its interest in such an environment and look for opportunities to increase trade at both bilateral and multilateral forums. Also, adequate attention should be paid to currency management in the world of volatile capital flows. Exports are an important driver of growth and job creation. It will be difficult to grow at a faster pace without the backing of strong exports.

Even though India is likely to regain its position as the fastest growing large economy in the world this year, the rate of growth will still be much lower than what China attained in its high growth years. A skilled labour force along with a focus on manufacturing and exports will help India grow at a faster rate in the medium to long run. An increasing number of skilled workers not only raises the potential growth but also reduces inequality within the country by reducing the skill premium.

*Will India be able to take advantage of changes in the global workforce? Tell us at [views@livemint.com](mailto:views@livemint.com)*

END

Downloaded from [crackIAS.com](http://crackIAS.com)

© **Zuccess App** by [crackIAS.com](http://crackIAS.com)

crackIAS.com