

Overview¹

India's economy has returned to high rates of growth, according to the latest figures. In 2015-16 the GDP growth rate reached 7.6 per cent, up from 5.6 per cent in 2012-13. The challenge continues to be to ensure that economic growth translates into better labour market conditions.

The vast majority of workers in India are in informal jobs. Although there has been a shift out of agriculture, construction has absorbed more workers than other sectors in recent years. What is more concerning is that, most of the new jobs being created in the formal sector are actually informal because the workers do not have access to employment benefits or social security. In addition, notable disparities in the labour force participation rates of men and women persist.

Table I: Key economic and labour market indicators

	2012-13	2013-14	2014-15	2015-16
Macro				
Real GDP (% change y-o-y) ⁱ	5.6 ^a	6.6 ^a	7.2 ^a	7.6 ^a
Investment (% of GDP)	36.3	34.2	34.1	32.4
Labour market				
	2004-05	2009-10	2011-12	2013-14
Employment (million) ^{ii, b, c}	457.9	459.0	472.9	n.a.
Unemployment (million) ^c	11.3	9.8	10.8	n.a.
Labour force participation rate (%) ^d	63.7	57.1	55.9	55.6
Male	84.0	80.6	79.8	75.7
Female	42.7	32.6	31.2	31.1
Unemployment rate (%) ^d	2.3	2.0	2.1	3.4
Male	2.1	1.9	2.1	2.9
Female	2.6	2.3	2.3	4.9
Share of employment in manufacturing (%) ^d	11.6	11.0	12.5	10.7
Male	12.0	11.1	12.2	10.7
Female	11.0	10.8	13.2	10.6
Share of regular wage and salaried workers (%) ^d	14.4	15.7	17.9	15.4
Male	17.3	17.8	19.9	16.5
Female	8.4	10.2	12.8	12.1
Working poverty rate (%) ⁱⁱⁱ				
<US\$1.90 per day	35.3	28.4	17.9	n.a.
>=US\$1.90 & <US\$3.10 per day	36.5	37.5	35.0	n.a.
Average real daily wage index (2004-05=100) ^e				
Rural	100.0	111.7	122.8	n.a.
Urban	100.0	129.4	n.a.	n.a.

Note: a) at 2011-12 prices; b) all ages; c) usual status; d) estimates for persons aged 15 years and above; e) average real daily wage index for regular wage employees aged 15-59 years.

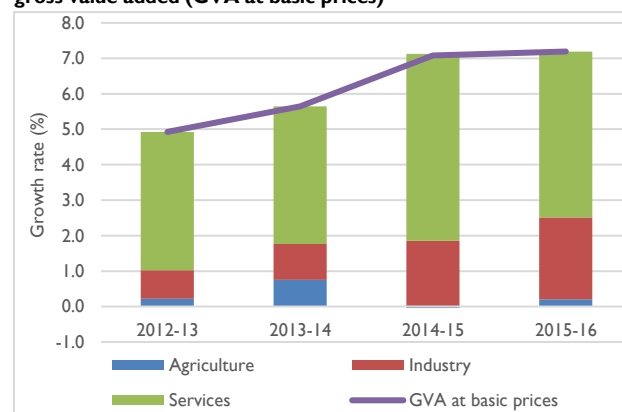
Source: i) Ministry of Finance Monthly Economic Report, April 2016; ii) National Sample Survey, Employment and Unemployment Schedule, 61st, 66th and 68th rounds, and Labour Bureau's 2013-14 annual employment-unemployment data; iii) ILO: *Key Indicators of the Labour Market*, 9th Edition (Geneva, 2015).

Recent economic trends: Growth recovers and inflation stabilizes

Having begun to slow in 2011, India's GDP growth rate touched a low of 5.6 per cent in 2012-13 (fiscal year). However, recent years have seen a strong recovery; GDP growth reached 7.6 per cent in 2015-16, up from 6.6 per cent in 2013-14.² The growth rate in per capita income has also increased, from 5.8 per cent in 2014-15 to 6.2 per cent in 2015-16.

Figures on real gross value added (GVA) reveal that the return of these higher growth rates has been spurred by strong industrial growth (Figure 1). In 2015-16, growth in agriculture and related activities was estimated at just 1.2 per cent, while growth in the industrial and services sectors reached 7.4 and 8.9 per cent respectively. In line with the aims of the Government of India's "Make in India" initiative, manufacturing has grown rapidly, at 9.3 per cent in 2015-16.

Figure 1: GDP in terms of the contribution of different sectors to gross value added (GVA at basic prices)



Source: Central Statistics Office, MOSPI, Government of India; author's calculations.

Looking at expenditure, economic expansion in India continues to be driven by private consumption, which accounted for 78.9 per cent of growth in 2015-16, compared to just 8.0 per cent for investment and 6.7 per cent for public consumption. Due to the poor global trade environment, net exports contributed just 2.2 per cent.

Inflation, based on the consumer price index (CPI), has fallen from 5.9 per cent (2014-15) to an average of 4.9 per

cent in (2015-16). This reflects a mix of global trends and macroeconomic stabilization in India.

Employment growth picked up pace from 2009-10 to 2011-12, but gender gaps remain

The National Sample Survey (NSS) (68th Round) showed that employment grew strongly from 2009-10 to 2011-12 in comparison to the previous period.³ The total workforce (based on the usual status definition; see box 1) in the country increased from 459 million in 2009-10 to 472.9 million in 2011-12. In comparison, the increase in employment from 2004-05 to 2009-10 was just 1.1 million (Table 1).

Taking a longer-term perspective, employment has grown faster for men and in urban areas. In this regard, male employment grew by 1.9 per cent per annum from 1999-2000 to 2011-12, while female employment increased by just 0.3 per cent on an annual basis.⁴ Over this period, urban areas accounted for 57.2 per cent of the growth in employment, though only 31 per cent of the population live in urban areas (as per the 2011 Population Census).

Looking at gender, the labour force participation rate of women is low and a sizable gender gap persists. Moreover, when women work they tend to end up in marginal jobs. One of the most intense debates in recent years has centred on the declining labour force participation rate of women in India, which dropped from 42.7 per cent in 2004-05 to 31.2 in 2011-12. The latest data from the Labour Bureau indicates a similar participation rate of women in 2013-14 (31.1 per cent).

Weak structural transformation of the labour market

Changes in employment status are linked to the process of structural transformation, as resources (capital and workers) are moved from low to high-productivity sectors. Although this has been a characteristic feature of the development processes of other parts of East and South-East Asia, in India (and South Asia in general) the shift from agriculture to manufacturing has not yet taken place to the same extent.

In India, a large proportion of workforce is still dependent on the agricultural sector (48.9 per cent employment share in 2011-12).⁵ At the same time, its share in gross value added has fallen rapidly, from 18.4 per cent in 2011-12 to 15.4 per cent in 2015-16.

The Indian economy is dominated by the services sector, which accounted for 53.4 per cent of GVA in 2015-16. In terms of employment, the share of the services sector in urban areas was 58.7 per cent (2011-12), compared to just 16.1 per cent in rural regions. When urban areas are

excluded from these figures, the agricultural sector still accounts for 62.7 per cent of India's employment, although this share has fallen significantly, from 77.6 per cent in 1993-94 (Figure 2).

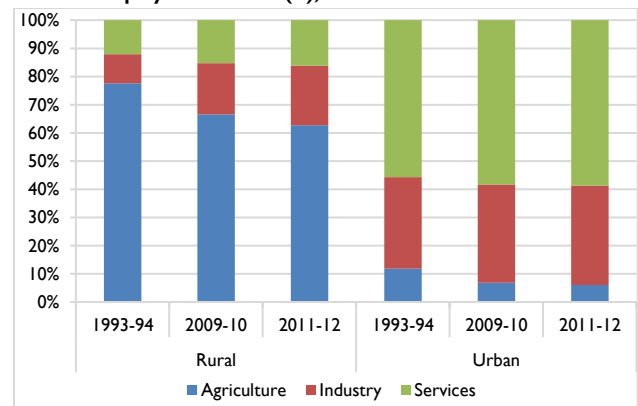
Box 1: Definitions used in India's National Sample Survey and Annual Surveys of the Labour Bureau

Three reference periods are used in the National Sample Survey (NSS) Employment and Unemployment Schedule: (i) one year; (ii) one week; and (iii) each day of the reference week. This yields three different measures of the activity of an individual: (i) usual activity status (US); (ii) current weekly status (CWS); and (iii) current daily status (CDS). In addition, the usual status is further distinguished between persons who are: (a) engaged in the activity for a relatively significant period of the 365 days preceding the date of survey; or (b) remaining persons who were engaged in that activity for at least 30 days during the 365 reference day period. These are referred to as usual principal status and usual subsidiary status, respectively. Finally, the usual principal and subsidiary status (UPSS) consists of both categories of persons - (a) and (b). The analysis in this note primarily focuses on the usual principal and subsidiary status (UPSS) definition, which is the most relevant for a country like India.

Source: Ministry of Statistics and Programme Implementation, Government of India.

The share of industry (which consists of both manufacturing and construction), stood at 31.3 per cent of GDP in 2015-16. This has remained more or less stagnant, since 2013-14, due to the manufacturing component, which remains at around 17.3 per cent of GVA in 2013-14 and 2015-16. In terms of employment, manufacturing has not been a major long-term driver of job creation in India. After fluctuating around 11 per cent for some time, it increased quite strongly to 12.6 per cent in 2011-12 before declining to 10.7 per cent in 2013-14 (Table 1).⁶

Figure 2: Different aspects of structural transformation and sectoral employment shares (%), 1993-94 – 2011-12



Source: National Sample Survey, various rounds.

Non-farm sector and rural diversification

The process of structural transformation in India has been different from that in East and South-East Asia. For both output and employment, there has been a greater role for

the services and construction sectors in the transition from of agriculture. Overall, the non-farm sector has played a key role in the process of rural diversification in India.

Between 1999-00 and 2011-12, there has been a considerable increase in rural non-farm employment (12 per cent, as per the usual principal status definition). The greatest rise was in the states of Jammu and Kashmir (33 per cent), Goa (21 per cent) and Punjab (20 per cent). Overall, the proportion of households, whose principal source of income depends on agriculture, declined from 63 per cent in 2002-03 to 58 per cent in 2012-13.⁷

The biggest increase in non-agricultural employment has been in the construction sector, where the share of employment in rural areas has increased from 14.4 per cent (1999-00) to 30.1 per cent (2011-12). This has been accompanied by a change in employment status, with a rise in casual wage employment and a decline in self-employment.

Informality persists and the quality of employment remains the main challenge

The majority of workers in India are in informal employment. Behind this there are two underlying, but diverging, trends. Firstly, the share of workers in the unorganized sector fell from 86.3 per cent in 2004-05 to 82.2 per cent in 2011-12.⁸

At the same time the share of informal workers in the organized sector (i.e. workers without access to social security) increased significantly because of a greater use of contract and other forms of casual labour. In 2011-12, 79 per cent of non-agricultural wage workers had no written contract and only 23.8 per cent were eligible for social security benefits.

Because of these countervailing trends, the overall proportion of informal workers in total employment (e.g. unorganized sector workers plus informal workers in the organized sector) has remained relatively stable, at around 92 per cent. Within the overall category of informal workers, the largest group is own-account workers (32.2 per cent), followed by informal employees in the informal sector (30.0 per cent) and contributing family workers (17.9 per cent) (Table 2).

A more positive trend is the increasing share of regular wage and salaried workers in the Indian labour market, who now account for 17.9 per cent of total employment. Interestingly, in urban areas, the gender gap for this indicator has narrowed considerably.

By 2011-12, the share of urban women workers in regular employment increased to 42.9 per cent (albeit still representing only 11.7 million working women), compared

to 28.5 per cent in 1993-94. For urban men there was no such change, with the share of those in regular employment moving from 42 per cent to 43.4 per cent.

Table 2: Where are India's informal workers? Distribution of workers by production unit and employment status, 2011-12 (%)

Employment status	Informality	Production units			Total Employment
		Formal sector enterprises	Informal sector enterprises	Households	
Own-account workers	Informal		32.3	n.a.	32.3
	Formal	0.5			0.5
Employers	Informal		1.3		1.3
	Formal	0.1			0.1
Contributing family workers	Informal	0.1	17.9		18.0
Employees	Informal	9.6	30.0	0.8	40.4
	Formal	7.0	0.4	0.01	7.4
Members of producers' cooperatives	Informal		n.a.		n.a.
	Formal				n.a.

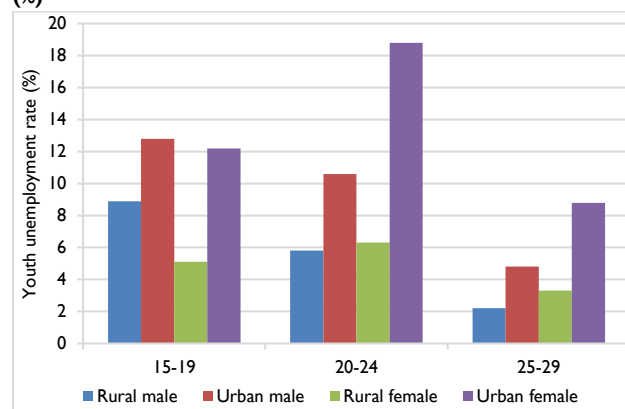
Note: Covers employed persons of all ages. Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit. Cells shaded in light grey refer to formal jobs. Unshaded cells represent various types of informal workers.

Source: Calculated from NSSO's Employment-Unemployment Survey, 2011-12, based on the International Conference of Labour Statisticians (ICLS) 2003 framework.

Youth unemployment is high in urban areas

India has the world's largest youth population, with 354.4 million people aged between 15 and 29, representing a population share of 27 per cent (compared to 314.1 million and a share of 22.8 per cent in China). In order to reap the demographic dividend this offers, the education and skills of youth are vital so that they can maximise their productive contribution.

Figure 3: Youth unemployment rate in India, ages 15-29, 2011-12 (%)



Note: Usual principal and subsidiary status (UPSS) definition.

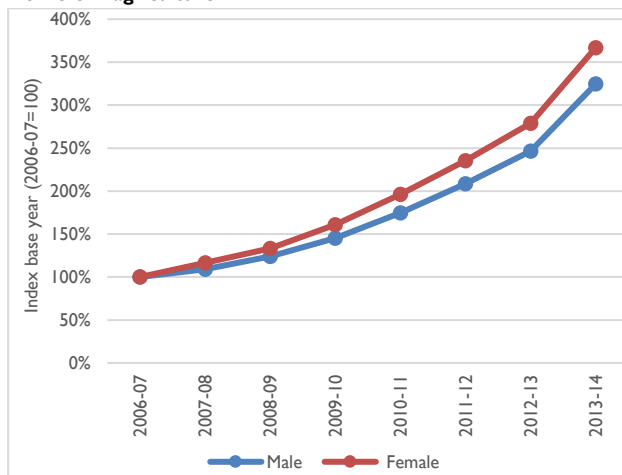
Source: National Sample Survey, 68th Round, 2011-12.

Despite an increase in general education levels, the youth unemployment situation continues to be a major challenge. As in other countries, youth are far more vulnerable to being unemployed in India, particularly in urban areas. In 2011-12, the youth unemployment rate reached a maximum of 18.8 per cent for urban women aged 20-24 and 12.8 per cent for young urban men aged 15-19 (Figure 3). By comparison, the unemployment rate for rural youth peaked at 6.3 per cent for young women aged 20-24 and 8.9 per cent for young men aged 15-19.

Trends in rural wages

Though measuring wages is inherently difficult in a country where the majority of workers are self-employed and in agriculture, most trends show that rural agricultural wage growth has been robust.⁹ Figures from five agricultural operations – ploughing, sowing, weeding, transplanting and harvesting – show the rapid growth in rural agricultural wages during the 2000s (Figure 4). This was especially so during the period from 2004-05 to 2011-12.

Figure 4: Trends in average daily wage rates of male and female workers in agriculture



Source: Labour Bureau, Wage rates in rural India, various years.

There have been a number of drivers of this rural wage growth: 1) tightening of the labour market caused by rapid growth in the urban construction sector and the withdrawal of women from the labour market; 2) inflation and a rise in minimum support prices; and 3) the Mahatma Gandhi National Rural Employment Guarantee Scheme (though this has been debated).

Stronger growth should improve labour market outcomes but uncertainty remains

The transformation of the Indian labour market continues, albeit slowly, with a rise in regular work (mostly in urban areas) and a fall in the share of workers in agriculture. However, the construction sector has been the main creator of jobs, while most of the new jobs in the organized sector are informal and do not provide access to employment benefits and social security.

The fundamentals to sustain high rates of growth in the longer term are in place in India: favourable demographics, high savings and investment rates, and increased resources for infrastructure and skills development. The challenge is to ensure that these drivers of growth are associated with the creation of more decent jobs that are accessible to youth, women and social groups across the country, particularly in rural areas.

For further information please contact

ILO Decent Work Team for South Asia and Country Office for India
New Delhi, India
Tel: +91 11 4750 9200
Email: delhi@ilo.org
Web: www.ilo.org/newdelhi

¹ This update has been prepared by Sher Verick and Ruchika Chaudhary of the ILO Decent Work Team for South Asia and Country Office for India.

² Source: Ministry of Finance Monthly Economic Report, April 2016, http://mof.gov.in/stats_data/monthly_economic_report/2016/indapril16.pdf

³ This reflects the most recent data available from the NSS.

⁴ Employment growth figures are based on compounded annual growth rates.

⁵ During 2004-05 to 2011-12, the number of workers in the primary sector fell by around 33 million.

⁶ After manufacturing employment declined from 2004-05 to 2009-10, it rose substantially by almost 9 million from 2009-10 to 2011-12.

⁷ NSSO: All India Debt and Investment Survey, 2002-03 and 2012-13.

⁸ In the Indian context, the National Commission for Enterprises in Unorganised Sector (NCEUS) defines unorganized/informal sector as consisting of "all unincorporated private enterprises owned by individuals or households engaged in the sale and production of

goods and services operated on a proprietary or partnership basis with less than ten workers". Whereas informal workers cover a broader category: "consist of those working in the unorganised sector or households, excluding regular workers with social security benefit provided by the employers, and the workers in the formal sector without any employment and social security benefits provided by the employers". See: NCEUS: *Definitional and statistical issues relating to informal economy* (New Delhi, 2008), chapter 2.

⁹ Based on NSSO's Employment-Unemployment data.