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Impact of Globalization on Labor Market in the Unorganized Sector

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Abstract:

Globalization has become one of the most significant forces shaping economies worldwide, and India is also. Since the economic liberalization of the early 1990s, globalization has brought major changes in India's labor market. In this chapter it explores the impact of globalization on India's labor market with a particular focus on employment trends, wages and income inequality. This paper tries to find out the positive and negative aspects of globalization on India's labor market. Secondary data is used to analyze the impact of globalization on labor market. The objective of this paper is to analyze the impact of globalization on labor market in the unorganized sector

Keywords: Globalization, unorganized sector, Labour

INTRODUCTION

India has skilled sizeable economic transformation in the past few decades due to globalization. The LPG (Liberalization, Privatization and Globalization) model started in 1991, India opened its economy to foreign trade, investment and foreign direct investment incorporated into the global value and modernized its industrial sector and service sectors both. The labor market has undergone important changes in employment patterns, wages, and sectoral composition. Although, some sectors have thrived, others have witnessed stagnation or even contraction, creating new challenges for workers, especially in rural areas and unorganized sectors in India.

Concept of Globalization

Globalization refers to the process of increased interconnectedness among national economies through trade, investment, technology, and cultural exchange. In the Indian context, globalization was primarily spurred by economic liberalization, including:

- **Reduction of trade barriers:** Lower tariffs and non-tariff barriers to facilitate international trade.
- **Attraction of foreign direct investment (FDI):** Opening up of sectors such as telecommunications, retail, and aviation to foreign investment.
- **Technological advancements:** Innovations in information technology (IT), which positioned India as a global player in outsourcing and services.

Concept of unorganized sector

The unorganized sector is a significant set of economic activities which plays a vital role on a country's development. The size and structure of unorganized sector can fluctuate in several stages of development. The term "informal sector" is today extensively used in writings on both developing and developed countries. It is invoked to refer to street vendors in Bogota, shoe-shine workers in Calcutta, specialized knitwear makers in Modena and producers of fashion garments in New York City (Swaminathan, 1991). Unorganized sector has important contribution to employment generation. In general, those who are unable to find job in the formal sector or are limited by the formal sector get absorbed in the informal sector. In fact, the informal sector plays a role of reserve army of labor (Gibson and Kelley, 1991)

Historical Concept of India's Labor Market

Before the economic reforms of the 1990s, India's labor market was mostly casual, with limited industrialization and heavy dependence on agriculture. Indian economy was dominated by the public sector and labor laws were more unbending, contribution limited flexibility for businesses to expand or reorganize. Post-liberalization, India's economy shifted toward a market-oriented model, which encouraged private enterprise, increased exports, and attracted foreign capital. These changes brought new opportunities and challenges to the labor market, resulting in new employment patterns, wage disparities, and migration trends.

Impact of Globalization on India's Labor Market

Employment Generation and Sectoral Shifts

One of the primary effects of globalization in India's labor market has been the growth in employment in certain sectors, especially services. The information technology (IT) and business process outsourcing (BPO) sectors have become key drivers of employment. According to the National Association of Software and Service Companies (NASSCOM), India's IT-BPO industry employed over 4.5 million people by 2020.

Data from the Ministry of Labor and Employment (2018) indicates:

- The services sector accounted for over 56% of India's total GDP, and in 2020, approximately 30% of the labor force was employed in services.
- The agriculture sector, once the dominant employer, has seen a sharp decline in employment. From 60% of the workforce in 1991, agriculture's share of total employment dropped to 42% by 2018.
- The manufacturing sector has grown moderately, contributing around 18% of GDP and employing 24% of the labor force.

While sectors like IT, telecommunications, and financial services have grown substantially, agriculture, textiles, and traditional manufacturing have faced challenges, such as mechanization and global competition, leading to fewer job opportunities in rural and unskilled sectors.

Wage Dynamics and Income Inequality

Globalization has had a mixed impact on wages in India. The most visible change has been the growth in wages in high-skill sectors, especially in urban centers.

- Average wages in the IT and service sectors have risen substantially. According to the Indian Ministry of Labor (2017), average wages in the IT sector were about INR 5.5 lakh annually in 2016, significantly higher than the national average wage of INR 1.8 lakh per year.
- However, wage disparity has increased, with high-skilled workers in urban centers benefiting from globalization, while low-skilled workers, especially in agriculture and manufacturing, continue to face stagnant wages.

The NSSO (National Sample Survey Office) 2011-12 reported that the average wage gap between skilled workers and unskilled workers had increased by over 40% in the last decade. This growing inequality is a direct consequence of globalization, where knowledge-intensive sectors pay significantly higher than labor-intensive industries.

Informal Sector and Precarious Employment

Despite the growth in formal sector jobs, the informal sector continues to dominate India's labor market. According to the International Labour Organization (ILO), approximately 90% of India's workforce remains employed in informal jobs. These workers face job insecurity, lower wages, and lack of social protections.

In urban areas, the gig economy, driven by platforms such as Uber, Ola, and Swiggy, has grown rapidly. However, workers in these platforms often lack benefits such as healthcare, retirement funds, or paid leave. For instance, the Indian Labour Bureau (2020) reported that gig economy

workers earn approximately INR 12,000-15,000 per month, with no guaranteed job security or benefits.

Technological Advancements and Labor Automation

Globalization has also led to rapid technological advancements, resulting in automation in sectors like manufacturing, agriculture, and logistics. While automation has increased efficiency, it has also displaced workers in several industries.

- In manufacturing, the Automobile sector has seen a rise in automation, reducing demand for manual labor. A study by the Indian Institute of Management (IIM) suggests that for every robot installed in Indian factories, 1.6 jobs are lost.
- The rise of digital technologies has led to the creation of tech-based jobs, but there are concerns that the transition to a digital economy could result in job displacement for low-skilled workers, especially those in traditional sectors.

Migration and Labor Mobility

Globalization has also increased both internal and external migration. Rural-to-urban migration has intensified, with workers moving to cities for better job opportunities. The Census of India 2011 revealed that 40% of India's population lived in urban areas, a significant increase from the previous decades.

Additionally, international migration has been crucial to India's labor market. As of 2020, there were over 17 million Indians working abroad, primarily in the Middle East and the United States. Remittances from these workers amounted to \$83 billion in 2020, contributing significantly to the Indian economy.

However, migrant workers often face exploitation, poor working conditions, and lack of legal protection, especially those working in low-wage sectors abroad.

Positive and Negative Impacts of Globalization

Positive Impacts

Job Creation in High-Skill Sectors: Information technology, finance, and services have provided millions of well-paying jobs.

Higher Productivity: Sectors like IT and services have experienced significant growth, increasing national productivity.

Rural Migration: Migration to urban areas has provided new economic opportunities for rural workers.

Negative Impacts

Widening Wage Inequality: High-skilled workers benefit disproportionately, while low-skilled workers in agriculture and traditional industries face stagnation.

Job Insecurity in the Informal Sector: A large portion of the workforce remains in informal, low-wage jobs with little social protection.

Automation and Job Displacement: Technological advancements have led to job displacement in certain sectors, particularly manufacturing and agriculture.

Policy Recommendations

Skill Development Programs: To equip workers with the necessary skills for the modern economy, especially in technology, manufacturing, and services.

Strengthening Social Safety Nets: Expanding social protection for workers in the informal sector and gig economy.

Promoting Rural Employment: Fostering growth in rural areas through agricultural reforms, rural industries, and promoting rural-urban linkages.

Labor Market Reforms: Updating labor laws to protect informal sector workers, ensure fair wages, and improve working conditions.

Conclusion

Globalization has reshaped India's labor market, creating new opportunities in some sectors while exacerbating inequalities in others. The challenges of job insecurity, wage inequality, and automation need to be addressed through comprehensive policies that promote inclusive growth. With appropriate interventions, India can harness the full potential of globalization while ensuring that all workers benefit from its opportunities.

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