

Skill-Mismatch and Labour Market Rigidity in India's Textile and Clothing Industry

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Over the past few years, most developing countries, including India, have been experiencing three major developments, viz. globalisation, technological advancement and competition. In India, globalisation, which was largely a result of economic reforms that took place in the early 1990s, has raised concerns about its impact on both the factors of production, particularly labour. What is predominantly concerning is the weakening of bargaining power of labour vis-à-vis capital. Following the economic reforms of 1990s, it was expected that a greater openness to trade would increase the pace of job creation and employment conditions. Since India's comparative advantage has historically lied in unskilled labour intensive industries, it seemed likely that better technology as a result of greater openness would allow these industries to yield higher benefits and create gainful employment. Unfortunately, the country's manufacturing sector has failed to create jobs to employ its upcoming generation of young workers. This inability to create jobs for the growing population is largely attributable to the persistent skill gaps and mismatches existing in the labour market.

According to the National Policy on Skill Development and Entrepreneurship, 2015 estimates, before its inception, only 4.69% of the total workforce in India had undergone formal skill training as compared to 68% in UK, 75% in Germany, 52% in USA, 80% in Japan and an astonishing 96% in South Korea. Labour Bureau Report 2014 estimated the skilled workforce in India to be as low as 2 per cent, which was much lower than even other developing economies. As per a skill-gap study conducted by NSDC over 2010-2014, there was an additional net increment requirement of 109.73 million skilled manpower by 2022 in twenty four key sectors, whereas the Economic Survey 2014-15 had clearly stated that there is a need of 120 million skilled people in the non-farm sector for the period 2013-14 and the number has increased since then. While, a persistent skill mismatch has had an adverse impact on most industries, it is more pronounced in case of a labour intensive industry, like textiles, which is one of the largest sectors, not only in terms of size, but also in terms of providing employment. Being the second largest employer after agriculture, it provides direct employment to around 45 million people. India is also the world's second largest exporter of textile and clothing, after China. In order to meet the growing domestic and export demand, Indian textile industry currently requires around 10 million trained workers.

However, skills are difficult to acquire and are time consuming. For a firm, imparting skills to the existing workforce entails a cost and therefore it is difficult as well as costly to replace a trained worker. Thus, the issue of skill mismatch seems to create a rigidity in the labour market and therefore acts as a barrier to job creation. Against this background, the proposed study firstly examines the link between the number of vocational training institutes in major Indian states and the degree of labour market flexibility in those states. We update the well-known labour market flexibility index developed by Besley and Burgess (2004) by adding some recent state-level amendments to the Chapter VB of the Industrial Disputes Act. Over the last few years there has been a sharp rise in workers employed through contractors by Indian manufacturing firms and this is increasingly seen as a way to circumvent the rigid labour regulations prevailing in the country. Thus, as a next step, we attempt to assess the relationship between the general skill level of workers employed in India's textile and clothing industry and the employment of contract workers in the industry. A derived labour demand equation is estimated to gauge the impact of education level of workers and other factors on employment of contract workers in India's textile and clothing industry in the post-reform period from 1999-2000 to 2013-14. The sub national analysis shall be based on a pooled OLS estimation of a dynamic panel at NIC three-digit level. The paper ends with an assessment and an evaluation of the impact that the Skill India mission has had on India's workforce during the first two years of its inception and what could be the way forward.