# Employability and transition to labour market in emerging economies: An Indian perspective on Higher education

Gopalakrishnan, Ambili

Christ Nagar College of Education, Chavarapuram, Thiruvallom P.O, Thiruvananthapuram, Kerala, India -695027.

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# Employability and transition to labour market in emerging economies: An Indian perspective on Higher education

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***Name of Author(s)***

Ambili Gopalakrishnan

***Contact Details***

Ambili Gopalakrishnan
Christ Nagar College of Education (*affiliated to the* University of Kerala),
Chavarapuram, Thiruvallom P.O, Thiruvananthapuram, Kerala,
Thiruvananthapuram -695027,
India.
E-mail: ambili.sree@gmail.com

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***Abstract***

## Employability and transition to labour market in emerging economies: An Indian perspective on Higher education

Young people account for one fifth of the world's population and according to the population projections of Planning Commission of India, they contribute to 22.8% of the Indian population. Majority of these young people constitute student population acquiring higher education who may contribute to future workforce of the country. These young people, across the globe, especially in developing countries where the population density and growth is also highest, face unprecedented challenges in their capacity to access public resources and family resources, stemmed from waves of cultural and economic globalisation. Educational qualification levels of the people in the age group 15 to 29 are also expected to improve significantly in the next decade. Growing enrolments in higher education and rising rates of return on it, in not only advanced countries but also many developing countries tend to make a case for expanding higher education to reach larger number of people across the world and India is not an exception. Hence the paper seeks to study the higher education development in India and analyses employability of higher education sector in India and its transition to labour market. The study shows that India with enormous population of 1.21 billion people and an expanding economy, is in urgent demand for qualified work force. Finding reliable solutions for developing the higher education system to facilitate sustainable economic growth is the call, which will require persistent policy, polity and political motivation in the right direction from the stakeholders which lacks at the moment in the country.

*Presentation*

# Employability and transition to labour market in emerging economies: An Indian perspective on Higher education

## Introduction

Young people account for one fifth of the world's population and according to the population projections of Planning Commission of India, they contribute to 22.8% of the Indian population as on 1st March 2000. Also, currently about 230 million Indians are adolescents in the age group of 10 to 19 years. Majority of these young people constitute student population acquiring higher education who may contribute to future workforce of the country. According to the projection of the United Nations Population Division, about 1.1 billion young people between ages 15-24 constitute 18 % of world's population (Lam, 2007) and this trend is ever increasing in developing countries like India. Population of youth (age group of 15 to 29 years) in India is expected to increase steadily to approximately 350 million by 2022 (World Bank, 2006). Educational qualification levels of the people in the age group 15 to 29 are also expected to improve significantly in the next decade. These young people, across the globe, especially in developing countries where the population density and growth is also highest, face unprecedented challenges in their capacity to access public resources and family resources, stemmed from waves of cultural and economic globalisation. Most critical issues for youth development are poverty, health practices, gender biases, education, employment, social responsibilities and good citizenship, juvenile delinquency etc. (World Youth Report, 2003).

It is universally accepted that education and knowledge act as crucial elements in economic development of any nation. This implies that there should be a change in the nature of work, shifting away from occupations that cater industrial production to occupations associated with knowledge and information. This transition has both accelerated and rationalised the skills prerequisite in any economy. It is now increasingly understood that the employments of the future would necessarily require superior higher education qualifications. Growing enrolments in higher education and rising rates of return on it, in not only advanced countries but also many developing countries tend to make a case for expanding higher education to reach larger number of people across the world (World Bank, 2000) and India is not an exception. Hence the paper seeks to study the higher education development in India and analyses employability of higher education sector in India and its transition to labour market.

## Evolution of higher education in India

Historically, the development of India's educational system is several centuries old and has a vast tradition. During the Gupta dynasty (320 to 550 CE) urban institutes of higher learning such as Taxila and Nalanda were established where grammar, medicine, philosophy, logic, metaphysics, arts and crafts etc. were taught (Prabhu, 2006) and these institutes were even attended by students from China and Central Asia (Blackwell, 2004).

The education system under the rule of Mughal (1526–1803) adopted an inclusive approach with the monarch favouring additional courses: medicine, agriculture, geography, and even from texts from other languages and religions (Kumar, 2003).

The British rule during the 19th century did not take adequate measures to help develop science and technology in India and instead focused more on arts and humanities (Kumar, 1984). However, new policies in 1835 gave rise to the use of English as a medium of education of western science and the British education became solidified into colonial India as missionary schools were established during the 1920s (Blackwell, 2004). Later, growing awareness for the need of technical education in India gave rise to establishment of institutions such as the Indian Institute of Science, established by philanthropist Jamshetji Tata in 1909 (Sen, 1989). In 1930s India had a total of only 10 institutions offering engineering

courses and with the advent of the Second World War in 1939 the "War Technicians Training Scheme" under Ernest Bevin was initiated, thereby laying the foundation of modern technical education in India (Sen, 1989). Later, planned development of scientific education under Ardeshir Dalal was initiated in 1944 (Sen, 1989).

Shortly after gaining independence in 1947, achieving 'education for all' became a priority for the government. The 86th Amendment of the Indian constitution makes education a fundamental right for all children aged 6-14 years. The National Policy of Education, 1986 envisioned that free and compulsory education should be provided for all children up to 14 years of age before the commencement of 21st century. Further to this many schools were established across the country in public sector and private sector. The general education and literacy among the Indian population started to increase slowly. According to the 2011 census, the total literacy rate in India is 74.04%. The literacy rate for women is only 65.46%. The gap between rural and urban literacy rate is also very important in India. This is evident by the fact that only 59.4% of the population in rural areas are literate, compared to 80% of the urban population, which is 3% of the total population according to the 2001 census. Among the states, Kerala has the highest literacy rate of 93.91% and Bihar, the lowest at 63.82%.

As a result of spurge in literacy and expansion of school education in subsequent years more and more young people aspired to gain higher education after completing secondary and senior secondary school education. To develop the system of higher education, the government established the University Grants Commission in 1953. The main function of UGC has been to regulate the level and distribution of higher education in India. Government of India made a commitment that by 2000, 6% of the Gross Domestic Product (GDP) will be spent on education, out of which half would be spent on the Primary education. In later years, there was a marked progress in expanding higher education if we take into account the increase in higher education institutes in India.

The higher education system in India comprises more than 17,000 colleges functioning under the 20 central universities, 219 state universities, and 110 autonomous universities. As of 2011, there are 16 Indian Institutes of Technology (IITs), 12 Indian Institutes of Management (IIMs), 1 Indian Institute of Science (IISc) and 7 Indian Institutes of Science Education and Research (IISER) and 1 National Institute of Science Education and Research (NISER). Besides, there are several medical colleges imparting medical education in the country, the important one being All India Institute of Medical Sciences (AIIMS). This number will soon swell by the creation of 30 more central universities.

## Labour market and employability of Indian students

More than 25% of world's workers are Indians (Kishore, 2009) and NASSCOM-McKinsey report (2005) predicted that the Indian industry would face its biggest challenge ever: a talent shortage of 3.1 million knowledge workers, across Industry by 2010. This was further supported by the fact that currently, only 25% of fresh engineers and a mere 10% of fresh graduates are actually employable. The educational and skill profile of existing workforce in India is very poor and is primarily responsible for its low productivity. Though enrolments in academic institutions are high in numbers; more than 90% in primary classes, around 60 % in upper primary classes, more than 30 % in higher secondary and above 10 % in higher education, the percentage of people having marketable skills is woefully low (Agarwal, 2007). As per National Sample Survey on employment and unemployment (1993-94), only 10.1% of male workers and 6.3% of female workers possessed specific marketable skills and the percentages were marginally higher in urban areas.

The levels of vocational skills of labour force in India compare poorly with other countries. Only 5% of the Indian labour force in the age group 20-24 had vocational training compared to 96% in Korea and varying between 60-80 % in industrial countries (Agarwal, 2007). This suggests to the fact that education system in India is extremely focussed towards general academic education with little or no vocational orientation. Among the Indian graduates, a large majority (41.2%) are working in the community and personal services sector. This includes government, defence, education and health services. More than 30% of the main workers in this sector have graduate degree or above. In the manufacturing sector, only about 10%

of workers are graduates and above. This is not surprising since 16.9 million (out of 41.6 million) workers in manufacturing are in the household industries and large proportion of jobs in manufacturing in India do not require higher education qualifications (Agarwal, 2007).

During the 1990s, there has been a shift from low productivity sectors earlier to middle productivity sectors such as financial and business services category. During this period, nearly half of the workers in financial services sector that includes insurance, real estates and business services and also scientific and research services were graduates or above. After 2000, there appears to have been a surge in employment in IT and IT enabled services sector. As per NSSO 56th round and the Annual Survey of Industries, while in the year 2000-01 the gross value added by the organised sector is 75.24%, it employed only 13.85% of the workforce. Of the total number of job seekers at the end of 2004, 72.3% were educated. This suggests that over the years job seekers are becoming more educated. At the same time, the majority of job seekers are inexperienced, freshmen and do not possess skills to qualify them into any category of occupation. In overall terms India has a huge problem of unemployment and underemployment. The number of unemployed persons in India steadily increased from around 7.78 million in 1983 to 10.6 million in 2000 placing the unemployment rate at around 2.8%. There is also evidence to suggest that persons with technical qualifications have the highest unemployment rate suggesting a mismatch between the labour market requirement and the training provided (Agarwal, 2007). Therefore, it is not surprising that the unemployment rate of graduates at 17.2% is significantly higher than the overall rate of unemployment in the country. Nearly 40% of the graduates are not productively employed. Of the total unemployed population of 44.5 million, unemployed graduates are 4.8 million (Census of India, 2001). Ghose (2004) pointed out the fact that the young people with some education would not want to engage in low-productivity, low-income work in the informal sector. They want non-manual work, preferably in the organised sector. The very fact that they have some education also means that their families have some capacity to support them. Visaria (1998) noted that many of the unemployed have rather poor qualifications in terms of their performance at the examinations and have little aptitude or the capacity for the type of work they aspire for. Many of the unemployed are also perceived as unemployable by the industry.

## Outlook on demand and supply

According to Indian Council for Research on International Economic Relations (ICRIER), in 1950 India had 2,63,000 students enrolled in 750 colleges, which were affiliated with 30 universities. By 2005, the numbers had grown dramatically: 11 million students in 17,000 colleges affiliated with 230 universities. Another 10 million students were enrolled in 6,500 vocational institutions. Despite this phenomenal growth, India would have to nearly quadruple existing college seats and more than quadruple the number of professors to achieve the 20% Gross Enrolment Rate (GER) by 2014, cited in the Venture Intelligence report, 2010.

Another measure of India's demand for higher learning is the number of Indian students studying abroad. The total cost of this endeavour is US$ 3.9 billion and as of November 2009, more than 100, 000 Indian students are studying in United States which is far greater than any other foreign country (Dukkipati, 2010).

The rate of unemployment among youth is quite larger than the overall national unemployment rate, which is actually a common trend for most of the nations in the world, developed and developing countries alike. The alarming trend for India, however, is the higher unemployment rate among high-educated youth and young people in urban areas.

The lower youth unemployment in rural areas can be explained in terms of the largest labour share in agriculture (59.2%) as compared to industry (17.2%) or services (23.8%). Probably, the same reason can be cited for explaining the incidence of the lowest unemployment rate among young people without any formal education or with bare minimum elementary education. Keeping pace with the demand of globalised economy with shifting focus on knowledge-workers and skilled manpower driven employment

structure, India's youth needs to be empowered with such a value-based education, which inculcates those necessary 'employment skills.'

## Lessons to be learned

On review of the occupational structure in India, education and skill profile of the workforce, labour market trends and problems of graduate unemployment, it is clear that India faces formidable employment challenges. The country has to provide jobs for the 8 million new workers expected to enter labour force annually over the next decade and increase the earnings of currently more than 100 million workers who live in poverty.

In addition, gender, caste, regional disparities have also to be addressed. A majority of the unemployed youth consists of persons with no prior work experience. They are new entrants into the workforce. The high rates of youth unemployment have probably contributed to the rise in the proportion of youth aspiring to go for higher education. A large proportion of higher education does not provide employability skills and those that provide are of poor quality.

An employment potential study by Confederation of Indian Industries (CII) for 36 sectors prospects that an additional 2.5 million jobs would be created in the automotive sector, while the financial sector could employ another 1.1 million people. The construction industry could employ 9.9 million more people, whereas the defence equipment sector sees the possibility of generating only 160,000 jobs. Employment potential in banking & financial services sector is 1.1 million jobs. Other important sectors where high employment is possible are oil & gas (2.3 million), gems & jewellery (3.16 million), healthcare (6.1 million), horticulture (2.6 million), khadi (1.9 million), media & entertainment (1.0 million), retail (9 million).

Integration of labour markets globally accompanied with technological changes offer an opportunity to India. The demographic differentials provide a distinct advantage to India due to the young profile of its workforce. Report of a High Level Strategic Group in 2003 says that by 2020 India could possibly generate (direct or indirect) job opportunities for 10-24 million people by providing an increasing array of services to advanced countries that currently face skill shortages and additional 10-48 million jobs could be created by servicing overseas consumers of services such as medical, tourism and education (AIMA, 2003). The emerging global occupational structure offers an opportunity for India to provide workforce for the knowledge economy beyond the national borders.

Further, India also has opportunity by sending its people for work abroad. For a country like India with large population and huge capacity to generate skilled professionals at home and by education abroad, out-migration of professionals is now seen as an opportunity and not a threat (Bhagwati, 2004). It is seen that advanced countries have a big appetite for skilled professionals. In a globalised economy, countries compete for markets by creating and attracting technically skilled talent. A large part of such flow is through education abroad. Host countries perceive workers who studied in their countries to assimilate into their new societies quickly. Freeman (2005) sees that a country like India with large population and sizeable number of scientists and engineers could threaten North's monopoly in the hi-tech sectors by producing innovative products and services, which he terms as *human resource leapfrogging* that countries like India could possibly create.

In totality, outlook for job opportunities for Indians looks good. India can become a magnet economy attracting high skilled and high waged investment capital from the MNCs, and offer high value added services to the rest of the world. This would require India to adopt an outward looking approach to reach out to the global markets and focus on sectors where it has resource advantage. This transformation also reflects the emerging global occupational structure on the basis of a more efficient division of labour across nations. Technological changes, particularly rapid growth of new information and communication technologies is responsible for this.

India has witnessed accelerated growth in the services sector over the last few years. Within the services sector, other business services [which include Information Technology (IT) / Information Technology Enabled Services (ITES)] have seen phenomenal growth in recent years with a significant proportion of the same coming from exports and outsourcing. According to the World Bank (2004), India exhibits a strong revealed comparative advantage (RCA) in services, particularly software services as compared to goods. The country has leveraged its rich pool of human capital with quality educational institutions and large English speaking population. India is globally positioned in IT-ITES sector with a cumulative average growth rate (CAGR) of 35.3% over the financial years 2000-05 amounting to US$ 17.9 billion in 2004-05.

India is now an international services hub and it commenced with IT-enabled services, both voice and data, and expanded to all knowledge sectors, such as pharmaceuticals, biotechnology, and engineering design. This sector directly employs 1.35 million people and 80% of them are engineers and other graduates. This number is likely to go up to 2.5 million in the next five years. Though the growth of IT / ITES sector would have a limited impact of the overall employment scenario in India, its share in graduate employment is significant. In addition, it has many multiplier effects on the Indian economy. It has created indirect employment opportunities for 1.15 million people in transport, catering, construction, security and housekeeping services. Large disposable income of a relatively young section of society has fuelled consumer demand. There has been a surge in demand for cars, two-wheelers, real estate, hotel and airline travel. Adding more than US$ 0.22 billion in direct tax revenue, the sector is contributing to rapid growth in consumer demand, hotel accommodation and air-traffic demand, and the demand for real estate both for offices and housing (NASSCOM, 2005).

Instead of providing employment, the current focus is on making people employable so that the existing demand supply mismatch can be rectified. Employability is often referred to as the acquisition of skills, which allows a person to remain employable. From the perspective of employers, 'employability' often seems to refer to 'work-readiness', that is, possession of the skills, knowledge, attitudes and commercial understanding that will enable new graduates to make productive contributions to organisational objectives soon after commencing employment. Though this may appear to be very restrictive, there are pressures on higher education institutions from its stakeholders to make more explicit efforts to develop the 'key', 'core', 'transferable' and/or 'generic' skills needed in many types of high-level employment. This is not unique to India, but seen in most parts of the world.

In the context of higher education, the broad concept of employability was suggested in the NCIHE Report, 1997, that identified a set of key skills which were 'relevant throughout life, not simply in employment'. Dearing defined these skills as communication, numeracy, IT and learning how to learn at a higher level and recommended that provision of such skills should become a central aim for higher education.

## Strategies to be adopted

In India, the traditional forms of academic governance are increasingly criticised not only because they are unwieldy but also because, in large and bureaucratic institutions, they are highly inefficient. Demand for accountability is growing and it will put academic institutions of the country into considerable difficulty in the times to come. At present, no general agreement exists concerning the appropriate level of governmental involvement in higher education. The challenge will be to ensure faculty control over governance in universities that are presently maintained in a complex and bureaucratic environment. While diversification of the new post-secondary institutions to meet diverse needs of the employment demand is by no means an entirely unprecedented phenomenon, it is a trend that has been of primary importance in developed countries and India must reshape its academic system towards this. Besides, reforms are needed in labour laws and active labour market policies to deliver better outcomes. It is estimated that 30% to 40% in formal manufacturing jobs are getting lost due to rigidity in labour market regulations. Hence, regulatory reforms are needed to accelerate job growth. Also adopting strategies such as aligning higher education and labour market by curricular reforms, value education, promoting entrepreneurship education, improving life skills and soft skills, increasing industry interface and building

partnership with foreign universities could improve the employability of Indian students and better transition to job market.

## Conclusion

India with enormous population of 1.21 billion people (Census, 2011) and an expanding economy, is in urgent demand for qualified work force. The challenge lies at aligning the education in line with the demand and needs of this growing economy. However, the country has an examination system in place of an efficient educational system at the higher education level. Though the current developments in higher education system of India focuses by large in producing work force employable in information and communication industries, there is a profound gap in the employability of higher education graduates in other sectors such as teaching, research and development and policy making. Also education being a large business in the country with enormous number of education providers at the higher education level, there lays the problem of delivering too many courses and programmes without properly assessing the market demand and employability. Quality assessment and control of such institutions often goes impaired for want of an efficient monitoring and evaluation process and the existing system being corrupt. Lack of policy, institutional and financial support for promoting higher education and employability of the passed outs is often lacking and found to confine the process of education for sustainable development in the country. Finding reliable solutions for developing the higher education system to facilitate sustainable economic growth is the call. However, it will require persistent policy, polity and political motivation in the right direction from the stakeholders which lacks at the moment in the country.

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