

A STUDY ON OIL PRICES ON LABOUR MARKETS OF INDIA - A DESCRIPTIVE STUDY

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ABSTRACT

In the recent global market, the continuous change in the crude oil prices makes the worries in the Gulf countries since their income and economic condition are almost fully dependent on this crude oil. The plunging price of a barrel of oil has fallen more than 70 percent and sunk to its lowest level since 2004. This change in oil prices has led to decline in the GDP growth, less income, less profit, project cancellation, lay off, salary cuts and resulted in companies not granting any allowances and increments. This economic crisis made millions of Indian migrants to lose their jobs and make them to go back to their own nation. This means that most Indians affected by the economic troubles in the Gulf will either be stuck with what they have, or will have to return to India if they were to look for something else, a prospect that brings with it plenty of additional issues. This paper highlights the reasons and the impact of changing oil prices on the labour market of India and Gulf countries.

1. INTRODUCTION

During the 1990s, globalization speed up the cross-border movement of people, making India one of the largest labour-sending countries in the world. A UN study shows that India had the largest diaspora population across the globe with 15.6million living outside the country, in 2015. Today, a total of 15.6 million people born in India are living across all continents. The rate of migration to foreign countries has increased by half compared to 10 years ago. The top ten migrating destinations for Indians presently includes U.S., Saudi Arabia, Germany, Russia, UAE, UK, France, Canada, Spain and Australia. In this list, UAE, topped as most preferred aboard destination among Indians due to maximum job opportunities it offers. In the Gulf region, Indians are mostly working as construction employees, Drivers, Home maids, Mechanics, Nurses, etc. Also, many Indians are in the managerial cadre and their contribution has been immensely appreciated. Since the career opportunities and growth are high on the gulf nations, many Indians are living there with their family for many years.

2. CURRENT ECONOMIC CONDITION OF GULF COUNTRIES

The economy of the Gulf countries is collapsing due to the continuous fall in the crude oil prices in the global market. With oil prices having fallen by 50% in the last 12 months and Goldman Sachs recently warning that crude oil could further sink to a mere \$20 a barrel, Gulf countries face an uphill challenge to preserve their fiscal positions. The sharp decline in government revenues as a direct result of falling oil prices has both slowed economic growth across the region as well as chipped away at each nations' respective budget. The scale of the fiscal challenges does vary from country to country, however. This increases the urgency for them to cut spending and diversify revenues, according to the International Monetary Fund. The IMF forecast that the six-member Gulf Co-operation Council will see gross domestic product growth slow from 3.25 per cent this

year to 2.75 per cent next year. Gulf Countries' average fiscal deficits are expected to reach 13 per cent of GDP this year, with the region's largest economy, Saudi Arabia, facing a deficit of 21.6 per cent in 2015 and 19.4 per cent in 2016. All regional oil exporters, having lost \$360bn over the past year in export revenues, will have to deal with a cumulative fiscal deficit of more than \$1tn over the next five years. The IMF expects the oil price to average \$52 a barrel in 2015, down from \$110 a barrel in the first half of 2014, gradually increasing to \$63 a barrel by the end of the decade but there is Considerable uncertainty surrounds these figures to be around \$30 a barrel in 2016.

3. REASONS FOR FALLING OIL PRICES

The plunging price of a barrel of oil has fallen more than 70 percent and sunk to its lowest level since 2004. The price of the crude oil (barrel) is as shown in Figure

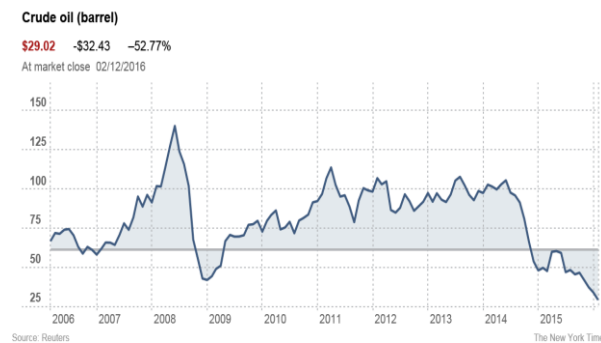


FIG NO 1

- United States domestic production has nearly doubled over the last several years, pushing out oil imports that need to find another home. Saudi, Nigerian and Algerian oil that once was sold in the United States is suddenly competing for Asian markets, and the producers are forced to drop prices. Canadian and Iraqi oil production and exports are rising year after year. Even the Russians, with all their economic problems, manage to keep pumping.
- The economies of Europe and developing countries are weak and vehicles are becoming more energy-efficient. So demand for fuel is lagging a bit.
- The release of ban on the oil production by the Iranian oil industry. So that the Iranian oil exports are coming back into the market.
- The continuing unwillingness of OPEC, a cartel of oil producers, to intervene to stabilize markets that are widely viewed as oversupplied.
- China's economic hiccups drive down the demand of the crude oil.
- In the U.S., gasoline consumption has actually grown by 3 percent from January through September of 2015, according to the U.S. Energy Information Administration. This leads to low consumption of crude oil.

IMPACT OF FALLING OIL PRICES

The gulf has once again become a region of economic uncertainty, after the steep fall in crude oil prices. Experts are of the view that the gulf may remain in a depressed state for a while. The various reasons of falling oil prices are making many effects on the gulf nations' economies. The drop in exploration investments leads to the fall in the production of crude oil. Earnings are down for companies that made record profits in recent years, leading them to decommission more than two-thirds of their rigs and sharply cut investment in exploration and production. Scores of companies have gone bankrupt and an estimated 250,000 oil workers have lost their jobs.

Wood MacKenzie, a consulting firm, identified 68 large oil and natural gas projects worldwide, with a combined value of \$380 billion, that have been put on hold around the world since prices started coming down, halting the production of 2.9 million barrels a day. Meanwhile, RBC Capital Markets has calculated projects capable of producing more than a half million barrels a day of oil were cancelled, delayed or shelved by OPEC countries alone last year, and this year promises more of the same.

The price of the crude oil (barrel) from 1950 to 2010 is as shown in Figure



Source: WWW.microtrends.com

FIG NO 2

GULF NATIONS INTERVENTIONS ON ECONOMIC REFORMS

- This falling oil prices has been affecting the income in all the sectors severely and put pressure on the policy makers of the Gulf nations.

IMPACT ON THE INDIAN MIGRANTS

The falling oil price and government policies have made the severe impact on the millions of Indians in the Gulf nations. The number of returning migrants touched 12.28 lakh this year, which is around 52% of the total emigrant population. People are losing their jobs, their wages are not being paid and cut down HRA allowances. Already many big companies have asked their senior level managers to travel economy class. There are no new projects while several projects have been cancelled across the region. The governments' reforms such as increase in taxes, reduction in subsidies and Increase in water, electricity and other utility charges make expensive cost of living to many Indian migrants in the gulf nations. Many Indians are finding tough to live with their monthly salary there since there is a cancellation of accommodation, high house rent, and high electricity bill and school fees. The heavy expenses, salary cut, no allowances and other governments' reforms make millions of Indians to return back to India.

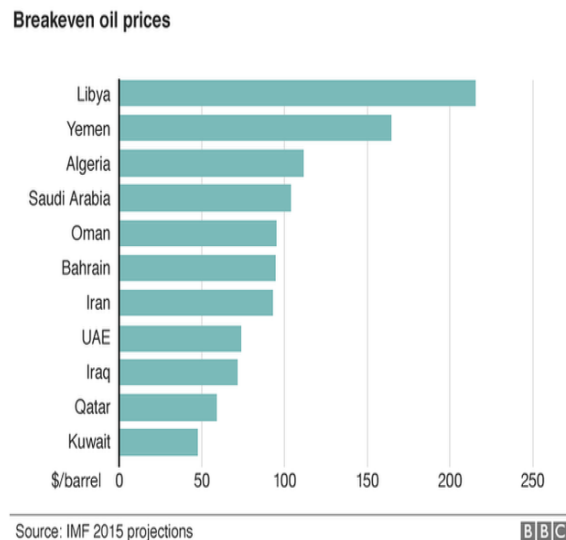
WHY THESE FALL IN CRUDE OIL PRICES NOT GOOD FOR INDIA?

- It is true that importers of crude oil like India will benefit from drop in oil price as the money that would have been spent to buy the crude oil can now be invested in infrastructure development and other projects for domestic growth.
- It has also helped in improving the CAD and is one of the prime reasons behind low inflation. However, there are also some unwanted side effects of this drastic fall in oil prices India's exports have shrunk because of a demand slowdown in the oil rich countries.
- India is the largest recipient of cross-border remittances. In 2014-15 India's net private remittances was more than twice the current account deficit. The six Gulf Cooperation Council (GCC) countries account for 60% of India's private remittances. Most of the migrants from India are employed in low-skilled jobs, like construction work, in these countries. As these oil rich nations face stress there will be decrease in investment and hence these workers may lose their jobs. This will result in the decrease in inflow of private remittances to India.
- As the oil price plummets consumption will increase which in turn will make the fight against climate change even tougher.
- Investments in renewable energy sources (still at innovation stage) could suffer due to cheaper oil.
- As oil producers continue to tighten their belt the global economy may face a slowdown.
- Geopolitical situation may aggravate in the Middle East as the oil producing countries fight for market.

FALLING OIL PRICES - HOW ARE COUNTRIES BEING AFFECTED?

Analysts say the drop has been driven by oversupply, coupled with a fall in demand because of a slowdown in economic growth in China and Europe. There are fears that the lifting of Western sanctions on Iran could worsen the existing problem, as the country prepares to pump more oil into the market. The effects of falling prices are being felt by economies around the world.

But oil producing nations that rely on exports have been particularly hard hit, with many now feeling the social and, in some cases, political impact. On Monday, the national currency dropped to new lows, with the exchange rate dipping to 79 doubles to the dollar and 86 rouble to the euro - something not seen since December 2014. Government departments have been ordered to cut spending by 10%, repeating a policy imposed in 2015, Reuters reported. Russian Prime Minister Dmitry Medvedev has warned that the country's 2016 budget may have to be revised as a result of the "unpredictable" oil prices. President Vladimir Putin's approval ratings remain sky high, at around 85%, but ordinary people are increasingly struggling with rising food prices. Analysts say keeping the lid on any discontent will be a top priority for the Kremlin as the economic woes look set to worsen.



Saudi Arabia's income from oil fell by 23% last year, highly significant in an economy where around 73% of total revenues come from the industry. The country announced a budget deficit nearing \$100bn (£68bn). After the lifting of sanctions on Iran, share prices in oil-rich Gulf States dropped sharply - with the Saudi Arabia Stock Exchange falling 5.4% on Sunday.

THE HIDDEN EFFECTS OF CHEAP OIL

That truth was on display in 1974, and it's on display again now. Over the course of just a few months in 1973-1974, the price of oil surged from \$3 to \$12 per barrel. The new price created new global economic powers: oil-producing countries primarily in the Middle East and North Africa. It also dealt a severe blow to the economies of the United States, Europe, Japan, and other oil importers. The oil shock altered power relations between the world's main geopolitical players and created new ones. Higher oil prices had many unexpected consequences—from breeding oil wars to fueling the international spread of Islamic fundamentalism thanks to funding from newly super-rich countries like Saudi Arabia. Today's drop in crude-oil prices, which began in the summer of 2014, may be as disruptive as the quadrupling of oil prices that created the oil shock of 1974.

Some of the effects of this decline in oil prices have been clear and immediate; picture happy Americans at gas stations and frantic government officials in oil-exporting countries forced to cut public budgets and consequently risk social and political turmoil.

4. CONCLUSION

The gulf region has survived recessions in 1986 and 2008. It may be a temporary phenomenon. Oil exporters will need to adjust their spending and revenue policies to secure fiscal sustainability. The Indian government must undertake a detailed study of the labour market dynamics in Gulf countries. This will help it formulate a better emigration policy that will train and prepare the kind of workforce that can compete internationally. Since migrant workers do not have the capacity to negotiate salaries and minimum safeguards for their working conditions in the destination countries, India must evolve a living wage formula for them through negotiations with the host countries. The government should establish a separate ministry to deal with overseas affairs, one major neglected area is empowerment of the potential expatriates through education and training about the relevant laws and political economy of the gulf countries. The government needs to

intervene and break the cycle of migration by helping migrant workers establish their own businesses at home. Both India and Gulf nations should find the immediate solutions to the affected migrants and their families.

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