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Foreign direct investment and employment opportunities in India

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Abstract

This paper is an attempt to discuss the direct & indirect impact of FDI on the Indian trade in general & on Employment Opportunities in particular. At the outset of the concept of FDI & Employment Opportunities, it has taken a brief review of the present environment & circumstances in the Indian retail sector. On the basis of analytical survey & taking into consideration the existing structure of the Indian retail sector, an attempt has been made to anticipate what kind of employment opportunities will a merge & how far it will adversely effect on the existing employment. It is concluded with a view that, FDI in retail sector would certainly enable to optimize youth employment in India. However, the policy certainly needs a relock & should evaluate measures for further.

Keywords: employment opportunities, FDI

Introduction

“You won’t be disappointment for long,” so said Mr. Kamal Nath, Union Minister for Commerce, while replying to question asked by the exponents of FDI in retail sector in India. This was on January 19, 2005, Mumbai. It was an indication that the entry of FDI in retail sector in India was imminent.

The great Indian retail sector is changing day by day. The various global players are trying to enter into the highly opportunistic Indian retail sector. The global interest grew on release of a pres Note 3 in February, 2006, which permitted, although on a very selective basis, FDI up to 51% in single brand retail trade. Retailing is one of the few sectors where foreign direct investment is not fully permitted at present. But, the Indian Govt. is seriously thinking to allow it.

Through this paper the Indian retail industry is highly fragmented. According to AC Nielsen & ASK Technopak, India was the highest shop density in the world. It was estimated that there were 11 outlets for every 1000 people. Retailing is the single largest component of the service sector in terms of contribution to the gross domestic product. In economic activity in the sector Banking & Insurance. The total number of retail outlets increased by 42% i.e. 8.6 million in 1997 to 14 million in 2005. With the growing integration of the Indian economy with global markets, the domestic retail sector has undergone rapid transformation. According to a study conducted by Associated Chambers of Commerce & Industry of India. The size of the Indian retail sector is projected to be doubled by 2008, growing at around 36% every year till 2008. Thus, the overall size would be USD 300 Billion by 2008 from its present size of USD 150 billion. The size of the organized sector in retailing will witness at least three-fold growth to USD 3 billion by end of 2008 from the present USD 1 billion, says the study. According to the study, unorganized sector would continue to have it edge over organized the retailing till the time FDI is allowed in the sector.

According to a study by the Indian council for Research on International Economic Relations (ICRIER), retailing contributes to 11% of the GDP and employs 8% of the total national workforce. The share of the organized sector in retail trade is currently a mere 2% and is expected to reach 9-10% by 2010, indicating a huge opportunity for prospective new players. Global retailers have already been sourcing from India and their presence will enhance exports from as they leverage relationships with local suppliers. To reach its potential, the Indian retail sector requires significant capital, technology and best practices to bridge the existing productivity gap and achieve scale in operation, which are critical to the sector’s success. So while the government may have shown the way, only time will tell how promising it will be for retailers to setup shop in India.

Some facts retaining sector in India are mind-boggling. There are 12 million outlets as against 8 million is USA even through their economy is 13 times larger. According to KPMG survey, India has emerged as the top FDI destination offering a higher return on investment than emerging markets like Mexico, Brazil and even China.

The retails sector is second largest source of employment and the job market is hugely receptive to this, with more and more Business Schools focusing on the sector and large retailers setting up retailing academies. In addition to this it is the experts opinion that experience of the foreign players will certainly benefit India, through India is all together a different market. More importantly, the latest pool for retails sector is somewhat trained and industry ready. All they need is tweaking as per industry experts. Apart from graduates from business schools to handle management posts, the retails sector would offer excellent job opportunities to youths with 10+2 pass category that boasts of lot more talent than what the BPO needs, namely graduates.

The CSO’s employment numbers give a comprehensive picture of the importance of this form of livelihood in India. Organized retail trade employees roughly 0.6 million people & unorganized 40.5 million. The fact that about 4 % of the population is employed in the unorganized retails trade speaks volumes about how vital this business is to the socio- economic equilibrium in India. As associated concern is that FDI in retailing will facilitate the entry of retails giants who could monopolize the market. Even in many development countries big retails chains are getting more powerful, and as they flex muscles, manufactures are realizing the importance of dealing with them in a different manner, compared to the regular neighborhood kirana outlets.

In 2005, Wal- Mart had a turnover of $256 billion it recorded a net profit of $ 10 billion. It's 4806/- sectors employee's 1.5 million persons. The average size of a Wal-Mart outlets is 86000/- square feet and the average turnover about $ 54 million. The turnover per employee is $ 185000. By contrast, the Indian retailer had a turnover of Rs.1, 87,075/- ($4200/- Appr) and only 4 % of the 13 million retail outlets occupied space larger than 500 Squire Feet. The total turnover of the unorganized retail sector, which employs 40.5 million persons, of Rs.7, 38,000 crore. India has 35 towns each with a population of over 1 million. If Wal-Mart were to open, on an average, 1 store in each of these 35 cities and if each and if each achieved the average Wal-Mart performance per store, the turnover would amount to over Rs.8033/- crore and number of employs to only 10,195/-

The most important argument against modern retailing and supply chain integration is that it displaces labour in a labour-surplus society. Till such time that we are in a position to create jobs on a large scale in manufacturing and construction, it would make eminent sense to keep on hold any policy that results in the elimination of jobs in unorganized retails sector. The primary task of the Government is still providing livelihoods and not create so-called efficiencies of scale by creating redundancies. If we assume 40 million adults in the retails sector, it would translate into around 160 million adults in the retails sector, if would translate into around 160 million dependants. Opening the retailing to FDI means dislocating millions from their occupation and pushing vast number of families under the poverty line. The Western concept of efficiency is maximizing output while minimizing the number of workers involved.

Extrapolated to the rest of the country, it would mean displacing around 4,32,000 persons. In other words, every new Mal-Mart employee will render 40 retailers surplus. If FDI retailers with deep pockets were to take over 20% of the retail trade, this mean a turnover of Rupees 147000 crore. This represents an employment of about 43000 persons, displacing nearly eight million persons in the unorganized retail sector.

This will only increase social tensions in a developing country like India, where tens of millions are still seeking gainful employment. Companies such as Wal-Mart boast about how they give the consumer better value. Not surprisingly, Wal-Mart procured $ 20 billion worth of goods from China and just $ 1 billion worth of goods from India. This is simply because China is a better producer of manufactured goods and not because Wal-Mart has stores there.

Industry Professional and academics, debating the hot topic of "FDI" in retail sector in India at an interactive session organized by the Swadesh Research Institute (SRI), have expressed divergent views, with the broad agreement being only on abundant caution before opining up this sector to the Wal-Marts and Carrefour of the word :-

While Dr. Abhijit Sen, former co-chairman of the Nicco Group and now Honorary Council for Shri Lanka in Kolkata, said there was empirical proof that FDI in retail will not shrink employment opportunities, going by the US example, Prof. Dipankar De of ICFAI Business School, Kolkata, expressed doubts over the actual benefits that may accrue to the nation through FDI in retail. He cited a report of the UK Competition, which says thousands of retail jobs were lost on the entry of hypermarkets through FDI in retail in the UK. Quoting the recently released World Investments Report for 2004-05, he said there was a distinct slowdown in investments in retail trade in developed countries. Therefore, why the Wal-Marts and others are eager to come to India, where some domestic investment in retail trade was already beginning to happen?

In India, retail trade in the organized segment was only two percent, with a whopping 98% being in the unorganized sector, against china's 20% and 80%, respectively, according to Dr. D.R. Agrawal, Director, SRI. The size of India's highly unorganized and individually small retained trade is close to $ 200 billion, nearly 14% of our GDP, and employs 21 million, which was about 7% of our total labour force. This is said to be six times bigger than that in Thailand and 5 times larger than South Korea and Taiwan. China's retail trade is 8% of GDP and accounts for 6% of total employment. FDI in retail in India, which has been recommended (to the extent of 49%) by ICRIER, a New Delhi – based Policy Research Group, is under the consideration Union Government. The thing – tank has suggested that any opening up of FDI in retail should be gradual (3-5 year) to give the domestic industry enough time to adjust to the changes.

According to Dr. Sen, some 16% of total employment was in retail trade, which is dominated by the hypermarkets. And this has thrown up huge employment opportunities, he maintained, disputing the assumption that allowing FDI in retail in India will shrink employment. He however, agreed that such investments will no doubt generate a different kind of employment with varying skill sets.

Dr. Agrawal said though India has so far not made any formal commitment under WTO, nor has received any reciprocal market access by other countries, autonomous liberalization of FDI in retail sector was beyond our WTO obligations. He said the Government has already taken a stand against commitment in certain areas of services that include wholesale and retail trade in WTO and by allowing FDI in retail outside WTO framework, Government may weaken its bargaining position in future negotiations, where they promise less than what they have already allowed.

Foreign direct investment (FDI) doesn't have too many supporters in the Indian political class. Although it is favored by Prime Minister Manmohan Singh and his few proreforms colleagues in the cabinet like the finance minister, it is a safe bet that a majority of politicians in the congress and outside are uneasy about the concept. They seen to believe that it means inviting foreigners to come and exploit the country, as the East India Company once did. Even if the political parties do not seriously believe this, they apparently would still like to exploit the paranoia about foreigners to secure votes for them.

Among the most consistent opponents of FDI are the trade unions specially those affiliated to the Left such as the Centre of Indian Trade Unions (CITU), which is aligned to the CPI (M), and the All India Trade Union Congress (ALTUC), which is close the CPI. They regard FDI as an integral part of what they call neo-liberal economic policies, which according to them are heavily tilted in favour of the rich. They also regard it as an instrument of America's imperialism, which has the backing of the World Bank and the International Monetary Fund.

The loss of employment on this score is the main argument advanced by the Left against FDI in this sector. It is a matter of peasant surprise, therefore, that Dr. Sharad Joshi, who claims to represent Bharat against India, has spoken in favour of FDI in the retail business. Dr. Joshi who is the founder of the Maharashtra-based Shetkari Sanghathan and is a Rajya Sabha member, told a meeting of the parliamentary consultative committee of the Union commerce and industry ministry that fears of the family run small stores going out of business are unforced. Instead, he expects a huge increase in economic activity in the rural areas and a large-scale increase in employment opportunities. Because of his expertise in rural economy, his views will undoubtedly attract a great deal of attention and influence thinking in both official and unofficial circles. According to him, FDI in the retail sector will have a multiplier effect any generating jobs in construction, furnishing, hardware, food processing, packing, management, data processing, etc. because the supermarkets have a huge potential for aiding development. As he has said, "a nationwide retail network or, even better, number of competing networks will bring about an economic revolution and can delivered a body blow to the problem of poverty and unemployment." He also said that the supermarkets and the small stores can be complimentary to one another and not end up in a bitter competition. Both have their advantages. The small stores score over the supermarkets by offering fresher products and greater personal attention. The supermarkets can be some what impersonal in this regard. But they do allow the consumers to shop for everything less than one roof.

The opponents of the giant retailers forget that India is large enough for both the multinationals and the small family runs businesses. For instance, when McDonalds, Kentucky Fried Chicken and other such outlets came to India, their opponents in the Left parties and in the saffron Swadeshi Jagran Manch (SJM) argued that the Indian eateries as well as the small roadside vendors will become bankrupt because the foreign investors have deep pockets. But nothing of this kind happened. All businesses have thrived. The idli and dosa still remain the favorite meals of Indians along with the burgers. The aloo tikkis sold on the roadside still sell like hot cakes.

There is nothing to fear, therefore, from the advent of the giant retail stores. On the contrary, they will bring in an element of high professionalism in the production and sale of the commodities in daily use, and also highlight the need for improved infrastructural facilities linking the towns with the countryside. Evidently, storage and transport arrangements will receive a boost. All of this has considerable employment potential. Since any economic change entails disruption, some small retailers will undoubtedly suffer because of the competition. But the more enterprising among them should be able to overcome the challenge by offering a greater variety of goods and by establishing close personal contacts with the customers.

The conclude, it has to be remembered that a major reason for opposing FDI in the retail sector is political and not economic. The politicians seem to believe that by raising the fear of a foreign invasion they can appear more patriotic. They also apparently consider the thousands and thousands of small shopkeepers as constituting some kind of a nationwide vote bank for those who oppose FDI. The Left and the RSS-dominated Swadeshi Jagran Manch (SJM) also have ideological objections. The former look upon the supermarkets as typical of a capitalist society, were unbridled consumerism is the driving force of the economy. For the SJM, the attraction which the shining shopping malls have for young people will make them imitate the Western way of life at the expense of their Hindu cultural roots. The anti-Western views of the Left and the Right are supplemented by a third, largely nonpolitical group, which regards the fascination for liberalization and globalization as a betrayal of the Gandhian ethics of austerity exemplified in the simple life of the villagers, which is held up as a romantic ideal.

But despite such opposition there is gradually a realization that the new economy offers a better scope for development than the earlier licencepermit-control raj with its snail-placed Hindu rate of growth. Dr. Sharad Joshi's support for FDI in the retail sector is an example how the views on the subject are changing.

In conclusion FDI in retail sector would certainly enable to optimize youth employment India. For those fearing the effects of FDI in retail in India, the examples of Thailand and China should give comfort. Entry of foreign players in Thailand and China gave a big boost to retail and the exports in both countries got a shot in the arm. Notwithstanding the mounting pressure from left wing parties, the present Indian government has decided to allow FDI in retail outlets meant exclusively for single brands which mean that multinationals can incest upto 51% in joint ventures for marketing their premier brands.

However, the policy certainly needs a relook and should evaluate measures for further liberalization to invite FDI in this sector to optimize youth employment opportunities.

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