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Employment Intensity of Output: An Analysis of Non-Agriculture Sectors

Wholesale Trade Sector

Institute of Applied Manpower Research

Planning Commission, Government of India

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Executive Summary

Objectives of the Study

This report discusses the employment potentials of the Wholesale Trade sector. The employment elasticity of the trade sector of India for the last decade, categorized as jobless growth sector, has been computed as 0.18.

This study of the wholesale trade sector is based upon the secondary data from National Sample Survey Organization (NSSO), Central Statistical Organization (CSO), Ministries/Departments and several industry associations. In addition to these, various reports/documents pertaining to labour regulations, export-import policy, industrial policy, sectoral lending pattern of banks/financial institutions have also been examined. For identifying various issues pertaining to employment and output, interviews with the stakeholders (Government officials, representatives from associations/enterprises etc.) have been conducted at various locations. To supplement it, literature on many relevant issues relating to the sector has been reviewed.

Wholesale Trade covers seven sub-sectors of the trade namely, wholesale on a fee or contract basis; wholesale of agricultural raw materials and live animals; wholesale of food, beverages and tobacco; wholesale of textiles, clothing and footwear, wholesale of other household goods, wholesale of construction materials, hardware, plumbing and heating equipment and supplies; and wholesale of other intermediate products, waste and scrap.

In addition to the Wholesale Trade, the employment trend in the Repair sector has also been looked into.

The unorganized and organized segments of the Wholesale Trade and Repair sector have been discussed in terms of their employment contribution, growth rate etc. The growth trend and employment share have been compared for two parts of the decade. The employment scenario in the Wholesale Trade sector in different states has also been discussed in the report to know about the concentration of the sector.

Employment Pattern: Organised and Unorganised

Wholesale Trade provides employment to more than 5 million people in 2009-10 in the country. Of this, more than 4 million people are engaged in unorganized segment and less than 1 million people are engaged in organized segment of the sector. The share of unorganized sector in Wholesale Trade has declined from 87.9 per cent in 1999-2000 to 84.2 per cent in 2009-10 whereas that of organized sector has increased from 12.1 per cent to 15.2 per cent during the same period. There has been a rise in the share of wholesale trade segment in trade sector from 9.7 per cent in 1999-2000 to 12 per cent in 2009-10 with an increase of 1.7 million workers in the segment. In the second half of the decade, Wholesale Trade sector experienced a negative growth rate whereas in the first half it exhibited more than 8 per cent growth. In the first half of the decade, both the segments – organized as well as unorganized – exhibited more than 9 per cent growth rate. However, in the latter half of the decade, only the organized segment of the Wholesale Trade sector reflected a positive growth rate. Employment in the organized segment of the sector showed more than 6 per cent growth rate over the decade, whereas the unorganized segment employment reflected 4 per cent growth during the same period. One of the probable reasons for this positive growth trend in employment in the organized sector of the wholesale trade in the second half of the decade may be traced to the Foreign Direct Investment (FDI) Policy of the Government which allows 100 per cent FDI in the Wholesale Trade.

Employment in the Sub-sectors

Among the sub-sectors, wholesale of food, beverages and tobacco contributes to the highest share in total employment in the wholesale trade followed by agricultural raw materials and live animals. These two sub-sectors together contribute about 45 per cent of the total wholesale trade. Wholesale trade is concentrated in Delhi, West Bengal, Maharashtra, Gujarat and Karnataka, Rajasthan, Jammu & Kashmir, Punjab and Haryana

Findings

It is worth mentioning here that the share in employment of the unorganized segment of the Repair Sector in total employment of the sector has decreased from 90 per cent to 81 per cent during the period 1999-2000 to 2009-10. The contribution of the organized segment of the Repair sector has increased from 10 per cent to 19 per cent in total employment by the sector over the decade. There has been an absolute increase of 0.38 million workers in Repair sector over the decade. Out of this, an absolute increase of 0.12 million has been observed in the unorganized segment and the rest 0.26 million has been exhibited in the organized segment of the Repair Sector.

The Industry associations are of the view that this amalgamation of small companies has resulted in requirement of lesser manpower in trade. The Trade associations opine that big companies sell their products directly through their own distribution outlets and do not rely on wholesalers/commission agents. This, in turn, leads to reduction of job opportunities for commission agents. It has been emerged that import of finished products should be banned to counter-balance the adverse effect on employment in the sub-sector like Food, beverages and tobacco. At present, there is a system of multiple tax regime with many indirect taxes levied on the goods and services before reaching the final consumer. The tax structure is not uniform across the entire supply chain. The cascading effects lead to higher transaction costs for the consumers. Higher cost inputs transform to higher price of output leading to lesser competitiveness for the industry and less employment. There is differentiation in policies undertaken by the government so far as sub-sectors are concerned. Policies also differ from state to state. However, there has been some breakthrough in the trade policy of the government for encouraging employment.

The report concludes that FDI and other investment policies have differential impact on different sub-sectors of the Wholesale Trade. Secondly, due to technological advancement there has been a relative shift of demand from unskilled category to semi-skilled and skilled categories

Thirdly, to avoid stringent labour laws, contractual employment and outsourcing of jobs have increased instead of regular employment. However, inadequate employment data, especially with regard to informal and contractual activities, make it difficult to accurately assess the full contribution of the sector in total employment. The report discusses certain policy prescriptions which have wider implications on employment issues with respect to the sector.

1.1 Introduction

It is reasonable to assume that with economic growth employment should also be growing. One needs to examine the employment elasticity of output to know the impact of output growth on employment growth i.e. to know the relative contribution of a particular sector in output as well as employment. Employment elasticity with respect to output measures the percentage increase in employment due to a percentage increase in output.

The employment elasticity of trade sector has been computed as 0.35 during 2000-05 and declined to 0.01 during 2005-10 on the basis of NSSO and CSO data (Appendix 3, Table 1). The employment elasticity for the whole decade for the trade sector is 0.18.

1.2. Profile of Trade Sector

The share of service sector in India's GDP at factor cost has increased from 33.5 per cent in 1950-51 to 64.4 per cent in 2011-12 if construction is included (Economic Survey). Among the various sub-sectors, the share of trade, hotels and restaurants as a group is the largest contributor to GDP with a share of 16.9 per cent. The share of trade remained almost constant at 15.4 per cent during the period 2006-07 to 2010-11.

Table 1: Share of Trade in Services GDP at Factor Cost (current prices) (per cent)

Year	Share
2006-07	15.4
2007-08	15.4
2008-09	15.3
2009-10	15.1
2010-11	15.4

Source: Economic Survey (computed from Central Statistical survey data), various issues

The Trade sector is the largest employer among the services sector and third largest among the non-agricultural sectors after construction and total manufacturing. The sector accounts for 20.2 per cent of non agricultural employment and 37.4 per cent of services sector employment. Over the past decade, trade and repair sector witnessed an absolute increase in employment of 6.9 million workers, an increase in magnitude greater than manufacturing sector taken as a whole. The sector experienced an increase of 6.8 million workers in the first half of the decade (1999-2000 and 2004-5). In the second half (2004-5 and 2009-10), there was an absolute increase in its employment (0.2 million). The sector provides employment to 43.5 million people.

Table 2: Employment in Trade (millions)

Year	Employment (million)
2009-10	43.5
2004-05	43.4
1999-00	36.6

Source: NSSO, various rounds

Trade sector accounts for a share of 9.5 per cent in total employment and 15 per cent in country's GVA. The CAGR of employment of trade sector as a whole is 1.40 and that of GVA is 9.75 over the decade.

Table 3: The share of Trade in Total Employment, Non-agricultural Employment and Services Employment

Year	Total Employment	Non Agricultural Employment	Services Employment	GVA
2009-10	9.5	20.2	37.4	15
2004-05	9.5	21.8	38.4	14.6

Source: NSSO, various rounds

The CAGR of employment for organized and unorganized segments of Trade sector is depicted below:

Table 4: Growth Rate of Employment in Trade Sector by Organized and Unorganized Segments

Year	Total	Unorganized	Organized
1999-00 to 2004-05	3.4	3.8	-3.7
2004-05 to 2009-10	0.1	-0.4	9.0
1999-00 to 2009-10	1.7	1.7	2.5

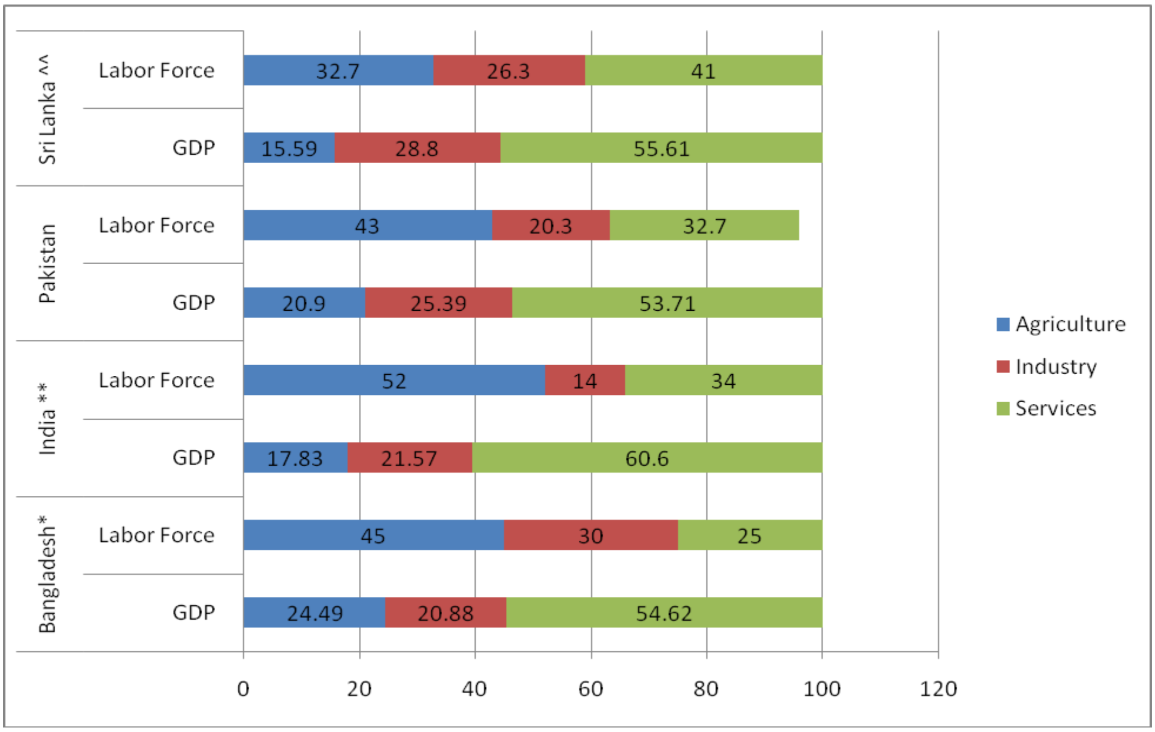
Source: NSSO, various rounds

It is found that the unorganized segment of trade sector showed an almost similar growth rate of trade sector as a whole. In the first half of the decade, whereas the organized trade depicted a negative growth rate, in the second half of the decade, a negative growth rate is observed in the unorganized trade (-.4%). In contrast, the organized trade reflects a considerably high growth rate (9%). The overall growth rate for the Trade sector in this decade was much lower than the first half (0.1%). So, it can be commented here that there has been a rise in organized trade while unorganized trade sector has been declining. However, the sector has been largely affected by slow growth of employment in the second half of the decade although there has been a rise in the organised segment

1.3. Comparison with South Asian Countries

Chanda (2011) analyses the regional trends in services employment of some South Asian countries which are Pakistan, Bangladesh, Sri Lanka and India. In this region the service sector's role as a source of employment does not commensurate with its contribution to output and overall GDP growth across these four countries. The rate of growth of employment in services has tended to be lower than the rate of growth of GDP in services reflecting the fact that services growth in the four selected countries in South Asia has not been very employment intensive.

Graph 1: Services Sector's Contribution to Gross Domestic Product and Employment in South Asian Countries (%)



GDP = Gross Domestic Product
* 2008 Figures for Bangladesh labor force
** 2009 Figures for Indian labour force
^^ December 2008 Figures for Pakistan labour force
Note: Except Bangladesh, all other country figures are estimated figures.
Source: Based on national accounts statistics, labour surveys of the various countries, and Central Intelligence Agency, World Factbook available at https://www.cia.gov/library/publications/the-world-factbook

1.4. Profile of Wholesale Trade

There are two components of Trade: Wholesale and Retail. Wholesale trade is a form of trade in which goods are purchased and stored in large quantities and sold in batches of a designated quantity, to resellers, professional users or groups, but not to final consumers (Section G, NIC, 2004 Based on International Standard Industrial Classification).

Wholesale trade provides employment to more than 5 million people in 2009-10 in the country. Of this, more than 4 million people are engaged in unorganized segment and less than 1 million people are engaged in organized segment of wholesale trade sector.

Table 5: Employment (million) in Wholesale Trade

Year	Total	Unorganised	Organised
1999-2000	3.56	3.13 (87.9%)	0.43 (12.1%)
2004-05	5.44	4.74 (87.1%)	0.70 (12.9%)
2009-10	5.32	4.51 (84.8%)	0.81(15.2%)

Source: NSSO, 56th (1999-00), 61st, (2004-05) and 66th round (2009-10). The figures in the parentheses show the corresponding shares to total.

The share of wholesale trade & Commission trade, except for motor vehicles and motorcycles was 12.2 per cent in total trade sector in 2009-10. There has been a rise in the share of wholesale trade segment from 9.7% in 1999-2000 to 12 per cent in 2009-10 with an increase of 1.7 million workers in the segment. Share of organized segment in Wholesale trade has increased from 12% in 1999-2000 to 15% in 2009-10.

Table 6: Share of Wholesale in Total Trade and Services Employment (%)

Year	Share in Trade	Share in Services
1999	9.7	3.8
2004	12.5	4.8
2009	12.2	4.5

Source: NSSO, 56th(1999-00), 61st(2004-05) and 66th round(2009-10)

The wholesale trade sector consists of certain sub-sectors following NIC classification at four-digit level.

- The classified sub-sectors are:
- Wholesale on a fee or contract basis;
- Wholesale of agricultural raw materials and live animals;
- Wholesale of food, beverages and tobacco (includes wholesale of fruits and vegetables, dairy products, eggs & edible oils & fats, meat, fishery products, sugar,

confectionery & bakery products, beverages, coffee, tea, cocoa and spices, manufactured tobacco & tobacco products etc.)
- Wholesale of textiles, clothing and footwear
- Wholesale of other household goods;
- Wholesale of construction materials, hardware, plumbing and heating equipment and supplies
- Wholesale of other intermediate products, waste and scrap.

Among these sub-sectors, wholesale of food, beverages and tobacco contributes to the highest share in total employment in wholesale trade followed by agricultural raw materials and live animals.

These two sub-sectors together contribute about 45 per cent of the total wholesale trade. The sub-sector named wholesale of other intermediate products, waste and scrap contributes to 14 per cent of the total employment provided by wholesale trade. The next important contribution is borne by wholesale on a fee or contract basis. Of the total employment in trade sector, share of wholesale trade & commission trade, except for motor vehicles and motorcycles was 12.2 per cent in 2009-10. There has been a rise in the share of wholesale trade segment from 9.7 per cent in 1999-2000 to 12 per cent in 2009-10 with an increase of 1.7 million workers in the segment.

The contribution of different sub-sectors in employment in the wholesale sector is presented in the following table for 2004-05 and 2009-10.

Table 7: The Share of Wholesale Sub-sectors in Employment

Subsectors	**Employment (%) (2009-10)**	**Employment (%) (2004-05)**
Wholesale on a fee or contract basis	12	18
Wholesale of agricultural raw materials and live animals	22	22
Wholesale of food, beverages and tobacco	22	22
Wholesale of textiles, clothing and footwear	10	7
Wholesale of other household goods	11	12
Wholesale of construction materials, hardware, plumbing and heating equipment and supplies	9	6
Wholesale of other intermediate products, waste and scrap;	14	13
Total	**100**	**100**

Sources: NSSO, 61st (2004-05) and 66th (2009-10) round.

It is found that shares of employment for certain subsectors in total wholesale trade employment have increased during 2004-05 to 2009-10 period. The contribution of the subsectors classified as textiles, clothing and footwear and the subsector titled wholesale of construction materials, hardware, plumbing and heating equipment and supplies in total employment of Wholesale trade has been significant. In the subsector titled as wholesale of other intermediate products, waste and scrap, employment has also increased leading to a marginal increase in its share over the period. Employment in the subsector wholesale on a fee or contract basis and in the category of other household goods has declined during the same period. The share of the subsectors classified as wholesale of agricultural raw materials and live animals and that of food, beverages and tobacco in terms of employment generation remained the same (22% each) during 2004-05 to 2009-10. However, these two categories contribute the most in terms of employment in wholesale trade.

1.5. Repair Sector

The share of repair sector in total trade and repair sector employment was 6 per cent (computed from NSSO data) in 2009-10. The corresponding share in 1999-2000 was 5 per cent. Employment share of the repair sector has increased from 33 per cent in 2004-05 to 39 per cent in 2009-10 in total employment contributed by wholesale trade and repair sector (excluding Retail).

It is worthy to mention here that share in employment of the unorganized segment of the repair sector in total employment of the sector has decreased from 90 per cent to 81 per cent during the period 1999-2000 to 2009-10. The contribution of the organized segment of the repair sector has increased from 10 per cent to 19 per cent in total employment by the sector over the decade. There has been an absolute increase of 0.38 million workers in repair sector over the decade. Out of this 0.12 million of increase has been in the unorganized segment and 0.26 million is in the organized segment of the repair sector.

Table 8: Employment in Repair Sector

Repair	1999-00	2009-10
Share in total Trade (%)	5	6
Share in Wholesale and Repair (%)	33	39
Increase (million)	0.38	
Increase in unorganized segment (million)	0.12	
Increase in organized segment (million)	0.26	
Share of organized segment in total Repair (%)	10	19
Share of unorganized segment in total Repair (%)	90	81

Source: NSSO, 56th (1999-00) and 66th (2009-10) round

1.6. Methodology

The study of Wholesale trade sector is based upon the secondary data from National Sample Survey Organisation (NSSO), Central Statistical Organisation (CSO), Ministries/Departments, Industry associations like Federation of Indian Chamber of Commerce and Industry (FICCI), Confederation of Indian Industries (CII), sector-specific associations; etc. In addition to these, various reports/documents pertaining to labour regulations, export-import policy, industrial policy, sectoral lending pattern of banks/financial institutions, have also been examined. For identifying various issues pertaining to employment and output various stakeholders i.e. Government officials, representatives from associations/enterprises, etc. have been conducted for various sectors at various locations. To supplement it, literature on many relevant issues of the sector has been reviewed.

1.7. Hypotheses

Certain hypotheses have been framed for the study: The hypotheses are:

1. Whether increases in investment, increased FDI and government initiatives (resulting in increased scale of operation) resulted in increase in employment in certain sectors?

2. Whether change in production techniques/processes (be imported or indigenous – due to change in relative prices) in favour of capital intensive technology replaces labour?

3. Whether outsourcing and sub-contracting of certain operations results in employment decline?
   This may be because of rise in wages, restrictive labour regulations and desire to keep the costs down, employers are increasingly relying on outsourcing major operations.

1.8. Scope and Coverage

Sectors have been classified as employment generating, jobless and job losing.

Among those sectors, Wholesale Trade is being discussed here. The report covers seven subsectors of Wholesale Trade named as Wholesale on a fee or contract basis, wholesale of agricultural raw materials and live animals, wholesale of food, beverages and tobacco, wholesale of textiles, clothing and footwear, wholesale of other household goods, wholesale of construction materials, hardware, plumbing and heating equipment and supplies, wholesale of other intermediate products, waste and scrap. In addition to the Wholesale Trade, employment trend in the Repair sector has also been examined.

1.9. Growth Trend in Wholesale Segment of Trade Sector

In the first half of the decade, both the segments – organised as well as unorganized – exhibited more than 9 per cent growth rate. However, in the latter half of the decade, only the organized segment of the wholesale Trade sector reflected a positive growth rate. Employment in the organized segment of the Wholesale sector showed more than 6 per cent growth rate over the decade, whereas the unorganised segment employment reflected 4 per cent growth during the same period.

Table 9: CAGR in Wholesale Trade

Year	Total	Unorganised	Organised
1999-00 to 04-05	8.8	8.6	10.2
2004-05 to 09-10	-0.4	-0.9	2.9
1999-00 to 09-10	4	3.7	6.5

Source: computed from NSSO data (1999-00), (2004-05) and (2009-10)

In the first half of the decade, both the unorganized and organized segment of the wholesale trade showed a very high growth rate making its repercussion on total wholesale trade. However, although the unorganized segment of the trade sector as a whole exhibited a positive growth rate as that of the Services during this period, the organized segment of trade sector had a negative growth rate. The service sector as a whole showed a positive but low growth during this period.

In the second half of the decade, the Wholesale trade sector experienced a negative growth rate. There has been a negative growth of employment in the unorganized segment of Wholesale trade although organized segment had a positive growth (2.9 %) during the period. One of the probable reasons for this positive growth trend in employment in the organized sector of wholesale trade in the second half of the decade may be traced to the FDI policy of the Government which allows 100 per cent FDI in Wholesale. The trade sector as a whole and the service sector exhibited less than 1 per cent growth during the second half. The organized trade has a very high growth rate during the second half because of employment growth in organized retail sector. The unorganized segment of Trade sector as a whole and the service sector experienced negative growth during second half of the decade.

If we compute the growth rate for the decade as a whole, it is observed that the wholesale trade sector grew at a higher rate than trade sector as a whole and the services sector. During the whole decade, both the unorganized as well as the organized segment of the wholesale trade outperformed the trade as well as the service sector. Wholesale trade is concentrated in Delhi, West Bengal, Maharashtra, Gujarat and Karnataka, Rajasthan, Jammu & Kashmir, Punjab and Haryana among all the states of India. The following table depicts the incident of concentration of wholesale trade in the states of India. Concentration has been measured as the percentage share of employment in wholesale trade to total employment in the respective state.

Table 10: Concentration of Employment in Wholesale Trade by States

States	% share of wholesale trade in total Service sector employment
Jammu & Kashmir	5.74
Punjab	5.79
Haryana	6.60
Delhi	5.0
Rajasthan	5.6
West Bengal	6.7
Gujarat	8.1
Maharashtra	5.0
Karnataka	5.2

Source: computed from NSSO data, 66th round (2009-10)

Employment in Wholesale Trade has increased in Karnataka, Bihar, Delhi, Jharkhand, J &K, Punjab, Gujarat, Rajasthan and West Bengal. In Gujarat, employment increased by 30 million, followed by West Bengal and Rajasthan, where employment increased by 11 and 10 million respectively. Besides these states, employment declined in other states such as Orissa, Kerala, Uttar Pradesh, Andhra Pradesh, Chhattisgarh, Haryana, Maharashtra, Madhya Pradesh and Tamil Nadu. In Himachal Pradesh, employment remained almost the same. The table depicting the changes in employment in 2004-05 and in 2009-10 is shown in Appendix.

The unorganized sector accounts for around 85 per cent of the wholesale trade in India. An efficient infrastructure, backed by robust supply-chain facilities should be created for this huge segment of wholesale trade in major cities.

After describing the current scenario in employment and GDP in wholesale trade, certain hypotheses are examined to know the impact of government policies, technological improvements and outsourcing etc. on employment in the sector.

1.10. Impact on FDI and Other Policies on Employment

Hypothesis 1: Whether increases in investment, increased FDI and government initiatives (resulting in increased scale of operation) resulted in increase in employment or not.

Though the impact of FDI on wages is a well-researched area, the impact of FDI on employment in the industry is a relatively less researched area. The economic theory suggests that the impact of FDI on total employment may work through two routes. Firstly, inward investment generates a straightforward labour demand effect, stemming from an exogenous increase in output. Secondly, it is alleged that the technology introduced by FDI is highly capital intensive, and therefore may tend to reduce the employment potential of industries. The idea that FDI may in fact bring in technology that is not labour augmenting, but may actually be labour saving may imply an absolute reduction in the overall employment (Nickell and Bell 1996, Pianta and Vivarelli 2000, Taylor and Driffield 2000).

Impact of liberalisation

The nexus between factor use and trade originates from the Hecksher-Ohlin trade theory. The developing economies possessing relatively higher endowments of labour enjoy comparative advantage than that of developed countries in the production of labour-intensive goods. Thus, the production of labour-intensive goods relatively expands and that of capital-intensive commodities contracts in developing countries; in the cases of developed countries the opposite scenario occurs. As a result, the demand for labour rises and that of capital falls in developing countries. Hence, it can be deduced that developing countries are the main beneficiaries under the liberalised trade regime, in terms of employment (Ghose, 2000, Abdi and Edwards, 2002).

The existing literature says that trade can affect employment through two direct channels. Hasan, Mitra and Ramaswamy (2003, 2007), Feenstra and Hasan (1996) gave the potential way in which imports, especially import of intermediate inputs or outsourcing, affect employment. Trade liberalisation facilitates the import of larger varieties of inputs and therefore increases the elasticity of substitution of labour with respect to all other inputs. So, through substitution effect, new imported material and capital inputs can substitute the services of workers. On the other hand, the increased exports have a positive effect on the level of output, tending to increase employment (Sen, 2008). This is the second channel of trade employment relationship which is called as “Scale Effect”.

Trade liberalisation has shown varied employment effects in different countries. Onaran (2008) found that during 1990-2005 in Austrian manufacturing industries, employment declined by 1.8 per cent because of increased import penetration. US also showed the same trend i.e, in US economy, employment has decreased during the liberalized trade regime. Studies by Revenga (1992) and Feenstra and Hansan (1996) concluded that increase in import competition or outsourcing has significant effect in terms of decrease in employment in US. According to Davis and Mishra (2007), the effect on employment depends on whether imports are substitutes or complementary to production. If imports are not the substitutes but complementary of domestically produced goods then the negative effect will not be observed, and even a positive effect is possible. A study by Revenga (1997) has explored this complementary relationship between import of inputs and employment in Mexico during 1980s. Studies by Christer, Kupets and Lehmann (2005) and Abdi and Edwards (2002) discovered that trade reform is not a major factor in the determination of employment in Ukraine and South-Africa. Trade reform has its effect on labour market via changes in policies, such as changes in tariff and other trade barriers or trade protection (Revenga, 1997).

Brander (1981) and La Rochelle (2007) explain that a reduction in domestic tariffs would increase sales of foreign firms in the domestic markets and that of foreign tariffs would increase sales by domestic firms in foreign markets. As employment levels are closely related to sales of the firms, falling domestic tariff decreases the sales and eliminate jobs that were protected earlier. On the other hand, changes in foreign tariffs are negatively correlated with employment changes in firms, because opportunities provided by falling tariffs would play an important role in creating new jobs. Their study was based on the basic premise that foreign tariffs and domestic tariffs would have their differential impact on employment. In this respect, Gaston and Trefler (1994, 1997) and Beaulieu (2000) found that free trade was directly responsible for a significant job loss in Canadian manufacturing industries that were protected initially by import tariffs. On the contrary, another set of studies found that the impact of trade reform or reduction of tariff barriers does not have significant effect on employment in Mexico and Morroco (Revenga, 1997, Harrison and Hanson, 1999 and Feliciano, 2001).

Although there have been a number of empirical studies of different developing countries, there seems to be no clear consensus on the relationship between trade liberalisation and employment. Economists argue that trade liberalization and employment is a country specific issue. In India, much attention has not been given to this issue. Banga (2005) found that export-orientation of industries has significant positive effect on employment whereas imports do not have significant effect on employment.

Ghose (2000) found that trade increases employment elasticity in manufacturing industries for the period 1981-94. However, he mentioned that, the share of export-oriented industries in employment has actually been declining in India, thus, the observed rise in employment elasticity cannot be attributed to export growth and trade did not adversely affect employment growth in import-competing industries.

Hasan, Mitra and Ramaswamy (2003, 2007), using state level ASI data for the period 1980-1997, found that labour demand elasticity with respect to wages increased after the trade reforms, especially in those states which are having flexible labour markets. Sankaran, Abraham, Joseph observe that trade seems to be having negative effect on employment, which is contrary to Hecksher Ohlin (H-O) theory. He comments that trade induced negative effect on employment is possible due to capital-intensive nature of the, composition of trade. Hence it is important to encourage the labour-intensive sectors exports, which can generate employment for unskilled workers.

Subbarao (2009) opines that globalization in general and India's increased openness with respect to foreign investment and trade in particular are the reasons for which India has been hit hard by the global crisis. The point is elaborated by Kumar and Alex, who write, "Indian exports fell in line with global trade flows. This should firmly dismiss the decoupling myth for the Indian economy. Collapsing foreign trade, capital flows, and exchange rate movements all transmitted negative impacts to the India economy" (2009, p. 221). David et al. (2010) estimate the effects of trade contraction in the global crisis on employment and incomes in India and South Africa. They comment that both India and South Africa have achieved a rapid pace of trade liberalization. The author comment that India had been much less open than South Africa, yet there was convergence between the countries up to the early-1990s, after which openness increased in both countries. In India, trade openness increased from about 20 to 45 percent whereas in South Africa it increased from 40 to 65 per cent. An important difference is observed in the trade pattern of both the countries. India relied more on domestic inputs and South Africa more on imported inputs for export production, (Frye, 2009; Kumar and Vashisht, 2009) This difference in the trade pattern also affected the employment scenario of these two countries as a result of trade contraction.

Kumar and Mishra (2005) write that "the 1991 trade reform…… represented one of the most dramatic trade liberalizations ever attempted in a developing country". In the middle of 1980s trade liberalization began in India and accelerated after the balance-of-payments crisis of 1990-91. The Government of India requested stand-by assistance from the International Monetary Fund (IMF) and a structural adjustment loan from the World Bank in response to it. However, the support of the international organizations like IMF and World Bank was made conditional on a wide range of economic reforms, including trade liberalization. This has been embodied in the Government's Export-Import Policy of 1992-97 (Toplova, 2005; Menon and Rogers, 2008).

The Comparison with China

A comparison can be made of the diversification pattern of India and China in terms of economic diversification and structural change. In the case of China, there has been a shift from primary to manufacturing activities in the past 25 years which has resulted in doubling manufacturing sector's share in employment and tripling its share in output. In contrast to this, in the case of India, the shift has been mainly from agriculture to services in terms of output, with no substantial increase in manufacturing, whereas there has not been any substantial change in the structure of employment. Another major difference relate to trade policy and trade patterns. The export growth of China has been much more rapid, leading to aggressive increase in its world market shares. The differences in trade pattern of China and India get reflected in employment pattern of these two countries. China had lower trade liberalization till the advent of WTO and so manufacturing employment grew rapidly in China without being counterbalanced by major losses of employment. It has reaped the benefits of opening up economy due to higher exports because of early liberalization along with protected domestic markets. After opening up of economy, India's increases in export employment were outweighed by employment losses especially in small enterprises because of import competition.

Valli and Saccone (2009) made a comparative analysis of the structural change and economic development of India and China. Because of joint ventures with foreign multinationals a substantial part of China's exports are in medium and high-tech sectors multinationals. The authors observe that India had a more balanced structural change and a slower insertion in the world market, although some sectors, such as software, steel, automotive and pharmaceuticals are recently increasing their share in the world markets. China benefitted from the economies of scale whereas because of huge number of micro-enterprises and the great size of the informal sector, India benefited much less.

According to Frankel (2005), "the government drastically cut back the number of industries reserved for the public sector, removed compulsory licensing on the private sector for starting [a business] and expanding new enterprises in virtually all industries; devalued the rupee; introduced current account convertibility to pay balances on the current export and import (trade) account; removed quantitative quotas on imports; steadily reduced tariff levels on import; lifted restrictions on majority foreign investment in a wide range of industries; allowed foreign companies to borrow funds in India, raise public deposits and expand their operations by creating new businesses, and permitted foreign financial institutions to make direct portfolio investment in India's two stock markets".

The existing literature suggests that liberalized trade regime has increased industrial and trade activities in India. Here it can be deduced that liberalization, may lead to sustained and increased employment in wholesale trade through its long production and distribution channels. The incidence of increase in employment as a result of trade liberalization has been manifested through an increased share of organized sector's employment in wholesale trade. It has also been found from the erstwhile research works that impact of trade on employment is a country specific issue. However, the studies suggest that it is important to encourage the exports of labour-intensive sectors, which can generate employment for unskilled workers.

Investment in Eleventh Plan for the Sector by Government of India

To develop export and import, the Department of Commerce, Government of India allocated money as Gross Budgetary Support for certain schemes in the Eleventh Plan.

Eleventh Plan	
The Eleventh Plan projections under Central Sector Schemes were:	Rs. Crores (at 2006-07 prices)
National Export Insurance Account (NEIA)	884.15
Investment in Export Credit Guarantee Corporation (ECGC)	707.32

In addition to these, projections for Money allocated for export promotion quality control and inspection were bifurcated as:

Export Inspection Council	44.21
Market Access initiatives	486.28

Source: Planning Commission, Eleventh Five Year Plan (2007–2012), Volume III

Foreign Direct Investment

In the last two decade the world has witnessed unprecedented growth of FDI. This growth of FDI provides new avenues of economic expansion especially, to the developing countries. India due to its huge market size, diversity, cheap labour and large human capital received substantial amount of FDI inflows during 1991-2010. India received cumulative FDI inflows of Rs. 5,77,108 crore during 1991 to march 2010. It received FDI inflows of Rs. 4,92,303 crore during 2000 to march 2010 as compared to Rs. 84,806 crore during 1991 to March 1999.

The growth in FDI contributes toward the sound performance of each sector **(especially, services, industry, manufacturing etc.)** which ultimately leads to the overall robust performance of the Indian economy. In India, investment is heavily concentrated in three cities viz. Mumbai (40.76%), Bangalore (15.97%), and New Delhi (12.05%). Further, major investment inflows came from Mauritius (24.69%), Japan (14.81%), and Cayman Island (14.60%) respectively from 2000-2008.

Trade sector received 9.67% of the total FDI inflows from 2000-11. Trading sector shows a trailing investment pattern up to 2005 but there is an exponential rise in inflows from 2006 onwards. As far as technology transfers are concerned, total numbers of 20 technical and 1111 financial collaborations have been approved for Trading sector from 1991-2008. Maximum numbers of technology transfers are approved from USA (5), Japan (3) and Netherlands.

The figures for financial year-wise FDI equity inflows for the period 2000-2011 are depicted in the following table:

Table 11: Financial Year-wise FDI Equity Inflows from April 2000 to December 2011

(Amount in Rs. crore)

Sector	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12 (Apr-Dec)**	**Total**
Service Sector	316.80	864.0	1,409.73	1,247.30	2,035.74	2,422.17	21,267.51	27,853.82	28,691.79	19,944.85	15,053.94	21,430.99	**142,538.64**
Trade	50.72	194.99	182.84	143.14	64.21	128.34	517.81	1,605.26	2,761.01	3,509.69	2,252.72	2,368.69	**13,779.42**

Source: Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, GOI. Note*:* FDI inflow information is not available for Wholesale trade, DIPP provides data for Trade as a whole.

Government Policy on Wholesale Trade

There is currently a somewhat complicated regime for FDI in non-retail trading. Automatic 100 per cent FDI is allowed in bulk handling, storage and transport of food and 51 per cent in export trading. 100 per cent equity is also allowed through the FIPB route in SSI products, hi-tech products, e-commerce (with 26 per cent disinvestments in 5 years), cash and carry wholesaling and warehousing. At least as far as these permitted areas of trading are concerned the regime should be simplified by allowing 100 per cent foreign equity through the automatic route with clearly spelt out conditions (if any).

Foreign investments into India are subject to the industrial policy established by the Department of Industrial Policy and Promotion (DIPP) under the Ministry of Commerce and Industry. Foreign Direct Investment (FDI) by non residents and foreign nationals in India is regulated by the Government of India and is subject to the provisions of the Foreign Exchange Management Act, 1999 (FEMA), regulations made there under and the various press notes, press releases and clarifications etc. issued on the subject over a period of time.

At the end of March 2010 the Government of India released a new document, Circular 1 of 2010 (the Circular), which is effective from April 1, 2010, that provides a convenient compendium of the current FDI Policy, which does not intend to change the current legal framework. Also, the Government has decided to update the FDI policy every six months.

Restrictions on Wholesale Trade

The Circular has introduced guidelines for wholesale trading or cash and carry wholesale trading. While the FDI limit has been maintained at 100%, the Circular contains certain guidelines applicable to foreign investment in this sector.

The Circular provides, among other things, that in order to determine whether the sale is a wholesale trading or not, one needs to consider the type of customers to whom the sale is made as opposed to the size or volume of sale. The Circular further clarifies that a wholesale trader receiving foreign investment is prohibited from setting up a retail shop which directly cater to the consumers.

A clear distinction has been made between wholesale or cash and carry trading ventures and retail activity to prevent circumvention of the law on this matter. Under India's FDI policy, 100 per cent FDI is permitted in wholesale trading and 51 per cent in single brand retail, while foreign investment is not allowed in multi-brand retail. As a result several multinationals like Walmart, Metro and Tesco, have set up cash and carry stores in India. India does not restrict overseas retailers from opening wholesale stores. It has been made earlier that wholesale trading would mean sale of goods to retailers, industrial, commercial, other professional business users or to other wholesalers, but not for personal consumption. Excepting for sales to the government, wholesale trading could be done with business entities holding VAT registration, sales tax, and service tax and trade licenses. It would also include B2B e-commerce. Wholesale trading of goods would also be permitted among companies of the same group. However, such wholesale trading to group companies taken together should not exceed 25 per cent of the total turnover of the wholesale venture and the wholesale made to the group companies should be for their internal use only. The rules have been incorporated in the consolidated FDI Policy document. Rs. 9,300 crores of FDI received in India between April 2000 and march 2010 for Cash and Carry Wholesale. This is 1.5 per cent of the total FDI inflow during this period.

Trading (wholesale cash and carry) received highest percentage (84.25%) of the total FDI inflow to this sector from 2000-2008 followed by trading (for exports) with 9.04 per cent, e-commerce with (2.38%).

Table 12: FDI inflow in Wholesale Trade during 1991-2008

Item	Per cent
Wholesale cash and carry	84.35
Trading for exports	9.04
E-commerce	2.38

Source: Ministry of Commerce, GOI

To test the validity of three major hypotheses of the study and to substantiate the argument received from existing literature and from the secondary data, we have surveyed industry and trade associations. It has been found that different subsectors of wholesale trade have experienced varied effects of FDI in wholesale trade.

Foreign companies like Cargill India (P) Ltd., Adani Wilmor Ltd., Agro Tech Foods Ltd., have acquired many Indian companies. The Industry associations are of the view that this amalgamation of small companies have resulted in requirement of lesser manpower in trade. The Trade associations opine that big companies sell their products directly through their own distribution outlets and do not rely on wholesalers/commission agents. This, in turn, leads to reduction of job opportunities for commission agents.

It has been emerged that import of finished products should be banned to counter balance the adverse effect on employment in the subsector like Food, beverages and tobacco. In this context, it is worth mentioning that the Government of Indonesia has cut export duty to zero on Refined Palm oil. Indonesia, the world's largest palm oil producer, has cut in taxes on refined oil exports, while keeping the duty on crude edible oils at an elevated level, has force Indian buyers to step up purchase of refined oils. Moreover, the Indian government has not yet rationalized the edible oil import duty structure to discourage dumping of refined oils. This has adversely affected Indian companies as the price of imported crude Palm oil is more than the refined Palm oil. It is no more profitable to import crude palm oil and refine it in India. The maximum tax on refined, bleached and deodorized palmolin has been reduced to 13 per cent from 25 per cent while crude palm oil is taxed at a maximum of 22.5 per cent from 25 per cent earlier in a bid to encourage local refiners. The share of India's refined edible oil purchases in the overall imports may more than double this year which will lead to huge job losses in the domestic refineries. The crushing of domestic oil seeds has also been adversely affected due to cheaper imports. According to industry estimate, the total investment on port-based refineries in India is around Rs. 10,000 crores with direct employment of over 5,00,000 people.

Sugar is covered under Essential Commodities Act and therefore sugar industries are highly regulated. Since 1993, there is slight release in the regulation but it is still not free to take its own decisions. This hampers the profitability of the companies. Government controls the domestic sales and exports of sugar. Because of the government regulation, the profitability of sugar companies is hampered leading to less production and lesser manpower.

The Clothing Manufacturers Association of India (CMAI) opines that at present there is a system of Multiple Tax Regime with many indirect taxes levied on the goods and services before reaching the final consumer. The cascading effect of indirect taxes (Tax on Tax) at both central and state level results in higher transaction costs for the consumers. Higher cost inputs leads to higher costs of production leading to higher priced outputs. As a result, the industry's competitiveness in the international market gets reduced.

The domestic textile and garment industry has grown at an annualized rate of 14 per cent since 2007. The industry provides direct employment to about 6 million people. Most of the markets of the industry were unorganized but after the removal of SSI restriction in 2003, organized sector has grown by 27 per cent (Rs. 40,000 crores). The domestic market size is expected to reach 3,00,000 crores by 2017 creating a direct employment opportunity to more than 7 million people.

The excise duty imposed on the garment industry (10 per cent excise duty on branded garments) has reduced the profit margin of industry players. Because of this excise duty, the industry witnessed lowering of growth by 25-30 per cent and the smaller players have been hit more than the larger players. This has added fuel to other hindering factors like inflation, rising labour and raw material costs and led to reduction of sales. To clear the stocks, wholesalers and retailers are giving heavy discounts of about 50 per cent from the beginning of sales season, resulting in additional loss for the industry. The associations opine that to ensure growth of production and thereby employment, excise duty on branded garments should be removed. If the excise duty cannot be ruled out, it should be reduced to 1 per cent level in line with 130 other items. In the textiles sector also, because of high excise duty, import of raw materials has been costlier than the import of finished products. Excise duty on silk yarn was 30 per cent which was much higher than that on the finished products. It was adversely affecting trade. Last year, the duty on yarn decreased from 30 per cent to 5 per cent. At present, the duty on finished product is 10 per cent.

There should be a mechanism to protect government revenue and employment in the Textile chain from low priced and cheap manufacturers of garments. The second hand (worn) clothing import should be strictly regulated. In addition, wholesalers as also the retailers of garments should be excluded from the definition of packaged commodity under the Standard Weights and Measures (Enforcement) Act, 1985. There is an ambiguity which arises due to the definition of packaged commodity. If garments are put on hangers for sale in a store, it does not satisfy the definition of a packaged commodity while those kept in bag satisfies the definition of packaged commodity. Under the aforesaid Act, a packed commodity should bear the mandatory declarations mentioned in the act, otherwise it attracts penalty.

At present, there is a system of multiple tax regime with many indirect taxes levied on the goods and services before reaching the final consumer. The tax structure is not uniform across the entire supply chain. The cascading effects lead to higher transaction costs for the consumers. Higher cost inputs transform to higher price of output leading to lesser competitiveness for the industry and less employment.

There is differentiation in policies undertaken by the government so far as subsectors are concerned. Policies differ from state to state. As for example, VAT had been introduced in two items of textile subsector and there was no clarity in the process. However, after the representation of industries, VAT is now introduced on cost basis.

There has been some breakthrough in the trade policy of the government in order to encourage employment. The government retained the 2 per cent interest benefit for exporters in labour-intensive sectors for another year i.e. till March, 2013 besides extending it to more areas.

Other Policy related issues

Trade is not earmarked for priority sector lending and since wholesale trade is credit based this segment of trade is affected adversely by non availability of credit. Trade encourages self employment and employment of unskilled labourers. The feedback from the stakeholders of the sector is that although there has been some improvement in the employment of skilled personnel, self-employment and employment of unskilled labourers are hampered by non-availability of credit.

There is no infrastructural facility like parking facilities, drinking water facilities, sanitation etc. The lack of infrastructural facilities are hampering development of trade sector and thereby employment. It has been pointed out that because of the development of transport facilities like Metro rail etc., retail trade has expanded to a great extent.

1.11. Impact of Technological Change on Employment

Hypothesis 2**:** Whether change in production techniques/processes (be imported or indigenous – due to change in relative prices) in favour of capital intensive technology replaces labour i.e. whether technology up-gradation leads to labour displacement?

Like FDI and trade, technological progress can also impact on labour markets in important ways. Technology acquisition may take place in an industry through higher imports of embodied and disembodied technology and larger research and development expenditures (R&D) by both domestic and foreign firms. The impact of technological progress on wages and employment has been discussed by both labour economists (who look at factor-biased technical change) and trade economists (who look at sector-biased technical change (SBTC) and price change). Labour economists argue that SBTC increases demand and returns to skilled labour. This has been supported by some of the studies in recent years that show technical progress has been skilled biased, i.e., it has led to decline in the demand for unskilled labour [Machin and Van Reenen (1998), Berman and Machin (2000), Hanson (2001)].

However, trade theorists argue that for large changes in technology the pattern of production changes and therefore the net impact on employment and wages may not be evident [Krugman (2000), Xu (2000)]. Studies therefore show that FDI, trade and technology acquisition can impact labour markets in different ways. However, the results of the studies are ambiguous and therefore it becomes important to conduct country specific studies to estimate the extent and direction of the impact.

The primary information collected from the interaction of trade associations indicates that because of technology up-gradation, a change has been observed in the requirement for labour. Demand for labour has been shifted from unskilled to semi skilled and skilled. Technology up-gradation has also led to a decline of labour intensive character of the sector. Because of technology up-gradation, efficiency increases leading to lowering of costs of production. Cost reduction leads to expansion of output as it gains more market share, which may potentially leads to more jobs on balance. Because of better quality and new products, an industry can capture more segments of markets leading again to more jobs. But the consequence of technogical up-gradation may also lead to lesser employment as fewer workers can produce same output. Hence, the consequence of technological up-gradation and economies of scale is different for different industries.

On the bases of the analysis of these two types of impacts it can be said that Wholesale and Retail Trade sector is particularly sensitive to changes in technology, global trade, business practices, and consumer tastes. The stresses of job loss or the stresses of over-employment may also lead to unplanned overtime, long workdays, and shifting of work.

However, Wholesale/retail job functions have not been significantly altered by technology as is the case for the manufacturing and construction sectors. It is worthy to mention that certain specific jobs of the sector are more crucially affected by technology up-gradation. As for example, technology has increased the pace of work in warehousing and decreased the amount of materials handling in the retail component. Technologies such as the internet allow wholesalers and their customers to better gather information about prices and products as well as tracking product deliveries.

1.12. Impact of Outsourcing on Employment

Hypothesis 3: Whether outsourcing and sub-contracting of certain operations results in employment decline?

Primary information from the field survey suggest that because of labour laws like Minimum Wages Act etc. employment for contract labour has increased instead of regular employment. The contractual appointments and outsourcing of various activities, employment in organized sector has declined but it might have increased in unorganized sector.

The number of workers employed in wholesale trade has increased significantly from 3.56 million in 1999-2000 to 5.44 million in 2004-05. Hence, the increase is of 1.88 million during the first half of the decade. The number of workers declined to 5.32 million in 2009-10. The decline is of.12 million during the second half. So, there has been an absolute increase of 1.76 million of wholesale trade over the decade. Out of this, 1.38 million is in unorganised segment whereas the rest .38 million is in organized segment. Organised sector employment has increased from 0.43 million in 1999-2000 to 0.70 million in 2004-05. It further increased to 0.81 million in 2009-10. So, the organized segment of wholesale trade exhibits an increase of .27m and 0.11m respectively in the two halves of the decade.

The number of workers in unorganised segment has increased from 3.13 million in 1999-2000 to 4.74 million in 2004-05. It declined to 4.51 m in 2009-10. The increase is of 1.61million in the first half of the decade and a decline of 0.23 million is in the second half of the decade. Due to stringent labour laws etc., the contribution of organized sector (reporting enterprises) in total employment of the sector has remained meagre although it has increased over the years.

Primary information from the field survey suggest that because of labour laws like Minimum Wages Act etc., employment for contract labour has increased instead of regular employment.

We find that one of the unique characteristics of the Indian labour markets is its dualistic nature where a large unorganised sector coexists with the organised sector. There are many regulations in India that apply only to the "organised sector" and some of these regulations are considered to be especially constraining to the employers leading to rigidities in labour markets. Three such types of regulations are: first, fairly stringent rules exist that relate to firing workers and also of closing down of enterprises, along with the requirements of reasonable compensation for retrenchment; second, laws governing the use of temporary or casual labour contract after a specified time of employment; and third, minimum wage legislation exists, which raises the cost of hiring workers and leads to downward inflexibility in wages.

The neo-liberal argument regarding these regulations is that these rules put undue pressure on larger employers and prevent smaller firms from expanding even when the economics of their situation demand it. This creates a dualistic set-up in which the organised or formal sector necessarily remains limited in terms of aggregate employment and the unorganised sector (small-scale) with low investment. Given this lack of flexibility in operations of labour markets, employment is adversely affected in Indian economy although the impact of rigid labour laws and its impact on employment may be different for different sectors.

1.13. Conclusion

The review from the existing literature and analyses from the feedback derived from industry and trade associations show that FDI, trade and technology have differential impacts on employment. Higher FDI in an industry does not necessarily lead to a higher employment level. However, higher exports along with a protected domestic market in an industry may improve its employment levels while higher extent of technology acquisition in an industry is found to have an unfavourable impact on the employment levels of unskilled labourers. So, FDI and trade related policies are not so much a threat to employment levels as is the accompanied technological progress.

It is important to keep in mind that the organised sector in Indian manufacturing as well as service sector employs just a fraction of total labour force and it is the informal sector with low investment that employs majority of labour force. However, level and conditions of employment in organized sector are important for sustaining the regular jobs of the sector as also to maintain the contractual employment of unorganized sector. If employment and wages are not sustained in the organised sector, employment and wage conditions in the informal sector may worsen.

Associations are of the view that FDI and other investment policies of the government have differential impact on different subsectors of Wholesale Trade. Secondly, due to technological advancement there has been a relative shift of demand for unskilled category to semi skilled and skilled category. Thirdly, to avoid stringent labour laws, contractual employment and outsourcing of jobs have increased instead of regular employment. However, inadequate employment data, especially with regard to informal and contractual activities (which cover many service sector transactions), make it difficult to properly capture the full contribution of services in total employment.

In India, the sector's contribution to employment remains at only around one-third. This divergence between services GDP and employment has led researchers and analysts to term the growth of the service sector as "jobless growth," raising questions about the sustainability of services-led growth and the pattern of services growth in India.

1.14. Policy Implications

The trade policy of the government may be oriented to encourage exports to reap the benefits from its cascading effects on employment. However, the domestic markets should be protected through rationalization of tariffs, excise duty etc. The import policy may be framed in such a way that it discourages the import of finished products.

FDI may be encouraged in different subsectors of Wholesale trade because it may generate and sustain employment in the organized sector, which, in turn, is necessary to maintain the level of employment and wages in unorganized sector as well. The stringency in Labour laws and Acts may be minimized to accommodate the interests of distributors and wholesalers involved in the supply chain. The flexibility in the relevant Acts would encourage employment for regular as well as contractual jobs. Wholesale trade sector facilitates retail trade with credit purchase for onward selling to consumers. So, credit facility should be made available to the wholesalers also. To make credit available to the sector at a cheaper rate, the wholesale trade sector may be earmarked as priority sector.

Wholesalers bear the risk of holding the stock of goods, transport and distribute them to the retailers. Hence transportation and other infra structural facilities like parking facility etc. should be created for storage, marketing and distribution of goods.

Like other sectors, uninterrupted power supply is a necessary prerequisite for unhindered growth of production and subsequently of employment in wholesale trade. Hence, policies may be directed so as to make electricity facility available for large as well as small entities in wholesale trade.

Appendix 1

Hindustan Times
New Delhi, December 07, 2011

Kirana shops cheer FDI in wholesale, not retail

Wholesale prices at cash-and-carry stores are cheaper than local mandis. Second, kirana store owners get a 15% price advantage by shopping from these stores, but they are wary of multinationals entering retail.

"The prices at the Carrefour store are cheaper by 10 to 15% than those in mandi," Mata Prasad who owns a kirana store at Seelampur in Delhi told HT. Kirana owners at Zirakpur and Bangalore agreed. Ajit Pal Singh of Zirakpur said: "I can get everything under one roof. This saves me the hassle of hopping stores at the local mandi."

Kirana owners' fear about large retailers is not without basis. Wholesale kirana traders of the mandis in the same three cities, who now compete with cash-and-carry stores, have seen a substantial dip in business.

"We are unable to match the kind of discounts and deals offered by Carrefour," Pawan Kumar Goyal, a wholesale kirana owner at Seelampur in Delhi. "Our business is down by 60% since Carrefour opened last year."

The same is the case with wholesalers at Bangalore and Zirakpur. In fact, small kirana owners of the likes of Prasad, Singh and Nagaraj consider the wholesale store owners of mandi a part of the chain of middlemen.

Their question: if the erstwhile big sharks — the wholesale merchants of local mandis — have taken such a large hit, what would happen to small businessmen?

Appendix 2

A Model for Head-start in organized trade infrastructure by Future Market Network

First-mover advantage in building organized trade infrastructure in India

- Currently developing first-of-its-kind wholesale trade market in Bengaluru

Unique value proposition

- Professionally managed facilities/services
- Multiple categories within a single infrastructure asset / complex
- Target customers including wholesalers, retailers and end-users

Sustainable competitive advantage

- Understanding of the Indian consumer from our leadership position by Future Group
- Joint-venture with Fung properties, which brings international sourcing capabilities

Traditionally, wholesale trade infrastructure was developed for smaller intermediaries in the old parts of cities which over time resulted in under-developed facilities/services leading to limited foot-falls from wholesale merchants, retail-end users and higher rentals. As cities expanded around these locations, the existing wholesale trade infrastructure could not be upgraded.

Future Market Networks aims to build wholesale markets that:

- Offer a modern shopping-mall like infrastructure
- Serve as information, innovation, exhibition and distribution centres for consumer goods
- Create an efficient market place where sellers, buyers, merchants, traders and end customers converge

Appendix 3

Table 1: Employment Elasticity in Trade

Employment (million)	
1999-00	36.63
2004-05	43.36
2009-10	43.53
absolute increase	
1999-00	6.73
2004-05	0.17
2009-10	6.90
CAGR of emp	
2000-05	3.43
2005-10	0.08
2000-10	1.74
Share	9.458
GDP at factor cost at 2004-05 prices	
1999-00	265849
2004-05	433967
2009-10	671396
CAGR of output	
2000-05	10.30
2005-10	9.12
2000-2010	9.71
elasticity of emp	
2000-05	0.35
2005-10	0.01
2000-10	0.18

Source: Computed from NSSO, CSO data

Table 2: Employment in Wholesale Trade by States

States	**Employment (million)**
Jammu &Kashmir	0.1
Himachal Pradesh	0.0
Punjab	0.2
Uttarkhand	0.0
Haryana	0.2
Delhi	0.2
Rajasthan	0.3
Uttar Pradesh	0.6
Bihar	0.2
North East	0.0
Assam	0.1
West Bengal	0.7
Jharkhand	0.1
Orissa	0.1
Chhattisgarh	0.0
Madhya Pradesh	0.2
Gujarat	0.5
Maharashtra	0.7
Andhra Pradesh	0.3
Karnataka	0.4
Goa	0.0
Kerala	0.2
Tamil Nadu	0.3
Union Territory	0.0
Total	5.3

Source: NSSO 66th Round

Table 3: Share of top five investing countries in FDI inflows. (2000–2010)

Rank	Country	Inflows (million USD)	Inflows (%)
1	Mauritius	50,164	42.00
2	Singapore	11,275	9.00
3	USA	8,914	7.00
4	UK	6,158	5.00
5	Netherlands	4,968	4.00

Source: www.iforex.in

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