

The Role of the Small Retailer

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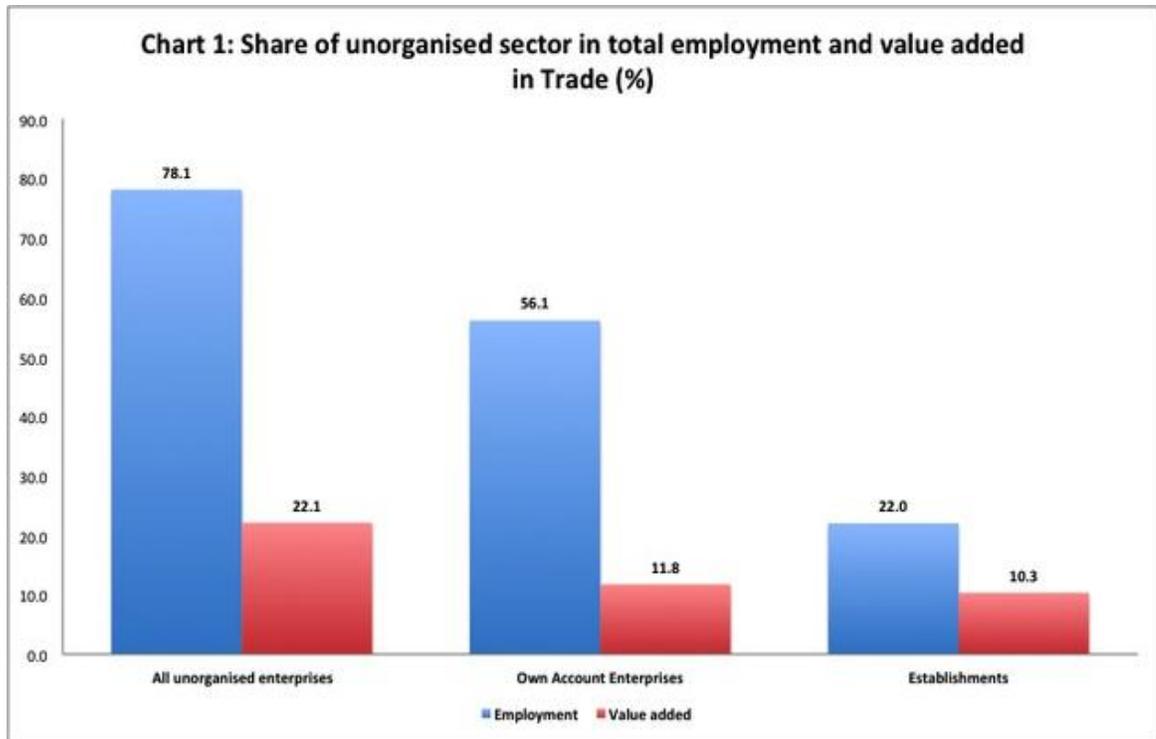
In its attempt to demonstrate to foreign capital that it is committed to reform, UPA II has launched on what many consider a liberalisation blitz. A principal feature of the new measures is the greater space and influence being afforded to foreign investors in sectors varying from retail and civil aviation to insurance and pensions. Multiple arguments have been put out by official spokespersons to justify the new measures: that they would spur growth, attract foreign capital into areas requiring large investments, shore up the rupee, and even deliver much-needed employment. There is, however, much to argue that none of these need be true. But the jury is out till the evidence comes in, and, by then, at least this UPA leadership will not be around to answer.

Whatever the merits of the official case there is one issue that remains controversial: the impact that liberalisation would have on existing players operating in the fields where foreign presence is to be expanded. That question is particularly important in retail, which is known to be populated by small players, who often enter this activity because of lack of opportunities in the commodity producing sectors. Returns earned by these enterprises are extremely low since, given the lack of social security, they need to engage in something to survive.

The government's claim is of course that large retail would not encroach on the areas of operation of these players, and that this has also been partly guaranteed by the requirement that foreign retailers will only be allowed to operate in cities with a population of more than 1 million. However, this is just the first step, as is clear from the provision that in states where there are no cities that match this population size, the state governments can choose where to allow foreign chains to operate. It is no doubt true that big retail will not seek to cater to small, dispersed and remote markets. But cities and large towns other than the major metropolitan centres are bound to be targets for a system that requires scale to garner adequate profits.

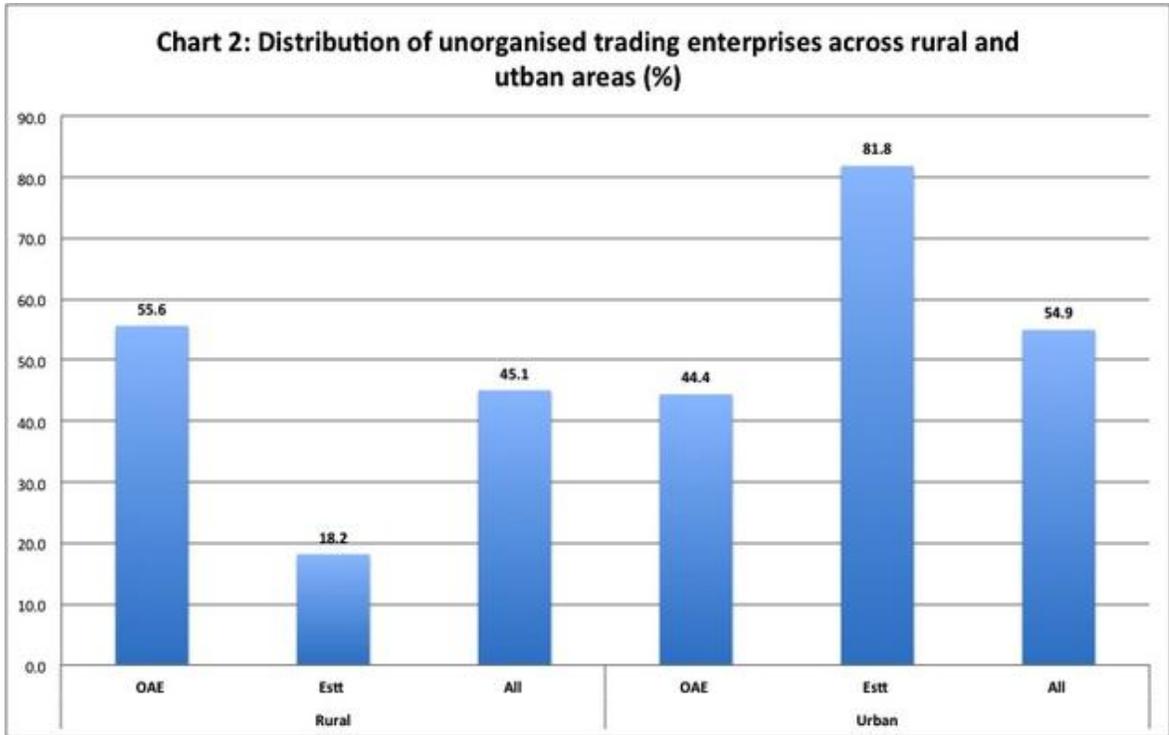
This has generated interest in the role that small players play in India's trade. Unfortunately, the evidence is limited. One source of recent evidence on the role of the unorganised sector in trade (including wholesale trade and repair facilities) is a recent survey report from the National Sample Survey Organisation relating to 2010-11, which provides information on both employment and gross value added in enterprises engaged in trade. It also provides information on certain structural features of these enterprises.

Data on aggregate value added in trade, covering both the organised and unorganised sector is estimated and included in the National Accounts Statistics for that year. And employment in the trading sector as a whole is available for 2009-10 from the large sample survey on employment and unemployment conducted by the NSS. While these different sources are not strictly comparable in terms of both coverage and time, some broad orders of magnitude relating to the relative importance of the organised sector in trade can be gleaned from these numbers.



What emerges from these data sources is that the unorganised sector in trade accounts for more than three-fourths (78.1 per cent) of employment in the sector as a whole in the country. On the other hand, gross value added in the unorganised enterprises engaged in trade amounts to just 22 per cent of the value added in the trading sector as a whole in the country. Thus, the unorganised trading sector does indeed provide for employment for a substantial majority engaged in the sector, though with net earnings that are clearly very much lower than in the organised sector.

So if the expansion of the organised segment in the retail trade, which would be accelerated by the entry of foreign investors and chains with deep pockets, does adversely affect the unorganised sector, the impact on employment and already fragile livelihoods can be damaging in both scale and intensity. The government's argument is that restricting organised retail to the urban areas would substantially reduce its impact on the unorganised sector. However, as Chart 2 indicates, 55 per cent of even the unorganised trading enterprises are located in urban areas. There are an estimated 18.8 million people engaged in the unorganised trade in the urban areas. In particular, an overwhelming majority (82 per cent) of units in the nature of "establishments", which (as opposed to "own account enterprises" of the self-employed) employ at least one hired worker on a fairly regular basis, are located in the urban areas. These are the units that are likely to be subject to competition from the organised sector, resulting in possible loss of employment and livelihood.



Thus the evidence does point to the strong likelihood of an adverse fall-out of the policy of pushing organised retail, domestic and foreign, in the name of improving the quality of the supply chain. That evidence has to be assessed in the light of international experience, especially in similarly placed developing countries, which suggests that employment losses can indeed be substantial. Official claims that FDI in retail would spur growth and augment employment choose to ignore that evidence, given the focus on attracting and appeasing foreign investors.

* This article was originally published in the Hindu on October 5, 2012.