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Impact of FDI on Employment Generation in India

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Abstract

Job creation is one of the main challenges for developing countries. Many people believe that FDI can generate many benefits to help solve the capital shortage problem in developing countries. But in terms of job creation, the effects seem more complicated. It has direct and indirect effect on employment. The effect of the FDI on employment is one the most direct expressions of FDI. A substantial amount of development has been observed in the inflows of Foreign Direct Investment (FDI) in India over the last two decades. The extraordinary growth of FDI in 1990 around the world has made it an essential constituent of development strategy for both, developed and developing countries. However, the most profound effect has been observed in developing nations. Macroeconomists have performed various studies in order to prove that FDI plays an important role in generating employment and improving the economic development.

Keywords: Foreign Direct Investment, Employment, Growth and Development.

1. Introduction: Employment

The following are four different effects of FDI on Job creation:

1-Employment Creation: It means the FDI brings new production capacity and new jobs. Meanwhile it can improve the development of relevant industries.

2- Employment Crowding-out: It means the inflow of the FDI makes the competition more intensive. So some domestic enterprises have had to reduce employment to improve their competitiveness.

3- Employment Shift: It means the cooperation between foreign and domestic companies will create joint ventures. That will make workers transfer to new enterprises.

4- Employment Loss: It means the foreign-invested enterprise have their own management methods. Those who have not efficiency or are not suitable for this corporate environment will lose their jobs.

There is direct and positive relationship between FDI and employment. As firms are operated in India they require skilled and unskilled labour. In India labour is cheap source and available in abundant. Therefore, FDI provides employment to all the section of the people. They contribute a good proportionate of the total employment. Normally Greenfield's generates employment when they start a project or firm but mergers and acquisitions do not generate employment at the time of entry but over the period it creates employment and also develops trade linkages in the long run. One of the objectives of development of special economic zones is generation of employment. More than two-fifth of the market capitalization originates in Class-3 cities. FDI-enabled firms in manufacturing sectors provide employment to about 15.6 lakhs persons, accounting for about 4 to 5% of the total employment in the organized sector. Class-3 cities provide employment to about 7.9 lakhs workers (more than 50% of the total). Sectors providing a relatively high share of employment in Class-3 cities include transport equipment; growing and processing of crops; construction parts; textiles; and non-metallic mineral products.

FDI has played an important role in the process of globalization during the past two decades. The rapid expansion of FDI by multinational enterprises (MNEs1) since the mid-eighties may be attributed to significant changes in technologies, liberalization of trade and investment regimes, and deregulation and privatization of markets in many countries including developing countries like India. Fresh investments, as well as mergers and acquisitions, (M&A) play an important role in the cross-country movement of FDI While the quantity of FDI is important, equally important is the quality of FDI. The major factors that might provide growth impetus to the host economy include the extent of localization of the output of the foreign firm's plant, its export orientation, the vintage of technology used, the research and development (R&D) best suited for the host economy, employment generation, inclusion of the poor and rural population in the resulting benefits, and productivity enhancement.

Investment Outlook

A number of studies in the recent past have highlighted the growing attractiveness of India as an investment destination. According to Goldman Sachs (2003), the Indian economy is expected to continue growing at the rate of 5 per cent or more until 2005.According to the A.T. Kearney (2007), India continues to rank as the second most attractive FDI destination, between China at number one and the United States at number three. India displaced the United States in 2005 to gain the second position, which it has held since then. FDI inflows in 2006 touched $19.6 billion and in 2007, total FDI inflows.

FDI in India and Its Growth Linkages: in India stood at $23 billion, showing a growth rate of 43.2 per cent over 2006. In 2008, total FDI inflows into India stood at $33 billion. One of the most important and sensitive areas for developing countries is foreign direct investment (FDI). It is now defined as not only a simple transfer of money, but as a mixture of financial and intangible assets such as technologies, managerial capabilities, marketing skills and other assets. There is a major debate in the literature regarding the impact of FDI on economic growth. The traditional argument states that an inflow of FDI improves economic growth and thereby enhances employment opportunities. Most studies (Hill and Athukorala 1998 have shown that FDI's social and distributional impact on the host country has been generally favourable in developing countries of various regions. Apart from bringing in a package of highly productive resources into the host economy there have been a visible positive impact on the creation of jobs not only in those sectors attracting FDI inflows but also in the supportive domestic industries. Foreign Direct Investment (FDI) is often seen as a driver for economic development as it may bring capital, technology, management know-how, jobs and access to new markets. Policy-makers have, therefore, tended to emphasize the benefits that FDI can bring to host economies, particularly in developing countries. Accordingly, many governments have developed policies to encourage inward FDI. While FDI and multinational enterprises (MNEs) are often perceived to be beneficial for local development, they have also aroused much controversy and social concerns. For example, MNEs have often been accused of taking unfair advantage of low wages and weak labour standards in developing countries.

MNEs also have been accused of violating human and labour rights in countries where governments fail to enforce such rights effectively

Trends in FDI inflows into India:

FDI inflows grew steadily through the first half of the 90s but stagnated between 1996-97 and 2003-04 (Table 1.1). The year-on-year fluctuations until 2003-04 make it difficult to identify a clear trend; however, inflows have been increasing continuously since 2004-05. During 2008-09, India registered FDI inflows of $33.6 billion and total cumulative inflows from August 1991 to March 2009 have been to the tune of $155 billion. FDI equity inflows rise 24% to $22.43 bn in Jan-Sep 2015. The government in August has allowed FDI up to 49 percent on approval route in defence sector with certain conditions.

Table 1.1 FDI Inflows (August 1991 -Sep2014)

Year	Amount of FDI inflows			
	Rs. Crore	US$ million	Annual Growth $ Value	
1991-92	375	129		
1992-93	1051	315	144.2	
1993-94	2041	586	86.0	
1994-95	4241	1314	124.2	
1995-96	7317	2144	63.2	
1996-97	10170	2821	31.6	
1997-98	13317	3557	26.1	
1998-99	10550	2462	-12.5	
1999-2k	9409	2462	-30.8	
2000-01	18404	4029	87.0	
2001-02	29269	6130	52.1	
2002-03	24681	5035	-17.9	
2003-04	19830	4322	-14.2	
2004-05	27234	6051	40	
2005-06	39730	8961	48.1	
2006-07	103037	22826	154.7	
2007-08(P)+	137935*	34362	50.5	
2008-09(P)+	159354^	33613	-2.2	
2009-10	123120	25834	-	
2010-11	997320	21283	-	
2011-12	165148	35121	-	
2012-13	121970	22423	-	
2013-2014	113401	18149	-	
2015(jan-sep)	182724	22.43	24	

Source: Secretariat for Industrial Assistance, various FDI Fact Sheets.

Note: + RBI has included the amount of US$ 92 million for the month of April 2007.

Current Scenario of Employment

FDI to India has increased significantly in the last decade. However, the growth in FDI flows has been accompanied by strong regional concentration. The findings of the study reveal that market size, agglomeration effects and size of manufacturing and services base in a state have significant positive impact on the regional distribution of FDI flows in India. The impact of taxation and cost of labour is negative. While the impact of quality of labour is ambiguous, infrastructure, however, has a significant positive impact on FDI flows. Mining has a positive influence on FDI flows, but lacks statistical significance.

The presence of strong agglomeration effect indicates that the states already rich in FDI flows tend to receive more of them which make it more difficult for the other states to attract fresh investments. In view of this difficulty, a conscious and coordinated effort at the national and the state government levels would be essential to make the laggard states more attractive to FDI flows. The direct method to achieve this objective may be to design the national FDI policy in such a way that a sizable portion of FDI flows to India move into the laggard states. The indirect way is to provide a boost to the overall economy of the less advanced states, with special thrust on the manufacturing, services and the infrastructure sectors so that they themselves become attractive to foreign investors.

First, the Chinese government was to raise the entry requirements for FDI into coastal belt designed to secure high value investments, while encouraging labour intensive investments in the interior. Accordingly, since the late 1990s, most MNEs in China have made fundamental changes to their business strategies and operational policies to adjust to changes in policy, market conditions and the regulatory environment. In view of the Chinese experience, similar set of policies may be considered in the Indian context to direct part of the FDI flows to the states, which are not receiving much of FDI flows at present.

Second, as regards the indirect method, it has been observed that size of the manufacturing sector has a significant positive impact on FDI flows. This implies foreign investors' preference for states with a strong industrial base. Therefore, it is essential for the less industrially developed states to catch up with the developed ones to attract larger share of FDI flows. The National Manufacturing Policy (NMP), recently announced by the Government of India is a welcome step and may help in this direction if properly implemented. The equity and distributive justice would be best fulfilled if under the NMP, the Government gives top priority to the states with lower industrial base to give them a chance of catching up with the others.

Third, the services sector has attracted a large share of FDI flows to India in the recent period. The econometric analysis also reveals that services sector has a significant positive impact on FDI flows. In addition, growth of the services sector can create more employment for skilled, semi-skilled and unskilled people. It has been observed that in the recent period, it is the IT/BPO services which has created the largest job opportunity in India and not the manufacturing industries. Therefore, apart from providing a boost to the manufacturing sector, it is equally important to provide a boost to the services sector, which spans the value chain from low-end localized services to the most sophisticated globally-competitive intellectual property based services. Accordingly, the manufacturing policy in India needs to be complemented by a compatible services policy.

Fourth, the impact of the mining sector on FDI flows was found to be less important in the study. FDI in mining in the recent period has confronted with a number of socio-economic problems. The operations of two of the mega FDI steel projects - POSCO India and Arcelor Mittal have been delayed due to seemingly intractable problems, mostly surrounding socio-economic issues like acquisition of land, forest and environment clearances, rehabilitation and resettlement of the project affected people, Naxalite movements in Chhattisgarh, Jharkhand, Orissa and West Bengal, non-allocation of adequate captive mines, and supply of raw materials. Given the large potential for FDI in mining due to the Central Government's thrust towards development of the infrastructure sector, and with a number of large FDI projects in mining in the pipeline (POSCO India steel projects in Orissa and Karnataka, Arcelor Mittal steel projects in Orissa, Jharkhand and Karnataka, BP-Reliance oil and gas project in Andhra Pradesh, Lafarge cement project in Himachal Pradesh etc.), it is essential for the central and the state governments to take coordinated policy efforts towards creating a more favourable policy environment by simplifying the land acquisition procedure and reducing the delay in the approval mechanism.

In Indian Service Sector: The number of service sector jobs (skill and unskilled) has increased in India, new findings have revealed. A survey conducted by the country's Labour Ministry indicated that during the last quarter, employment in the industry rose to 15.72 million, Channel News Asia reported. The research revealed that two sectors have shown the strongest improvement in terms of hiring levels; information technology and business process. Out sourcing. Commenting on the findings, Nimish Adani, chief executive of workosaur.com, told Channel News Asia: "As far as employment is concerned, there have been certain short-term initiatives taken by the government." There has been an infusion of stimulus packages in sectors which were labour-intensive. So, there has been a marginal improvement."Finance Services sector is growing with rapid rate, Finance sector is the second preferred choice of students of management post graduation top B-Schools in India, following figures are explaining the preference of skilled professional in Indian service sector. For analyzing the perception of skilled toward various segment of service sector.

Summary: FDI is an important stimulus for the economic growth of India.FDI shown a tremendous growth in second decade (2002 -2012) that is three times then the first decade of FDI in services sector. Banking & Insurance is first and Telecommunication is second segment of service sector which pick the growth in second decade of reforms.FDI create high perks jobs for skilled employee in Indian service sector.FDI has helped to raise the output, productivity and employment in some sectors especially in service sector. Indian service sector is generating the proper employment options for skilled worker with high perks.

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