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Role of FDI on Employment Scenario in India

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Abstracts: ***Employment generation is treated as an important stimulus for enhancing growth in the developing countries. It is quite easy to believe that FDI inflows can provide the solution for many economic issues in the economy, but in case of employment creation this effect is quite convoluted in India. The central objective of this paper is to find out the relationship between FDI inflows and employment generation in India during the period 1991 to 2018. This research paper uses secondary data from different published sources to analyse the influence of FDI on employment generation in India using the relevant descriptive analysis.FDI has both backward and forward linkages in employment creation in India. FDI shows a three times increase in growth rate in the second decade than in the first decade, i.e., during 2002 to 2012 in the service sector in India. Banking and insurance sector is the first in attracting major FDI proposals followed by the telecommunication sector, which is in second position in attracting FDI in India. In the service sector FDI generates highest job opportunities than any other sector in India. The result of this study shows that employment generation in India during the last two decades is quite detectable, but FDI inflows may not be regarded as a major factor for this growth rate. Thus the government of India should take some policy measures to captivate employment generation in India basically in organised sector.***

Key words: Development, Employment, Foreign Direct Investment, Unemployment

I. INTRODUCTION

On the path of development, every economy has to pass through various stages of development. Investment is the fundamental factor for economic activities. Domestic investment is not sufficient for the development. So there are immense needs for overseas investment in the pattern of Foreign Direct Investment(FDI). No country is self-reliance to achieve the optimum level of economic growth without overseas capital. This overseas capital in the form of FDI is immensely needed to supplement its growth objectives. It is the direct contribution made by the foreign firms or state in the industries of another country to obtain favourable business environment. Favourable foreign investment leads to capital accumulation in the country which further enhances productivity, income level, effective demand, accumulated savings and investment and finally leads to the overall growth and development of a country.

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Employment formation is a matter of great concern for a developing country like India. The fundamental cause of many increasing social and economic evils is the increase in the unemployment rate. Engagement of a person in some occupation gives a feel of self-confidence, honour, dignity and self-respect in the community.

It is not only a matter of self-satisfaction and dignity in the society,but also contributes to the development of a country.

FDI inflow reflects an astounding growth rate during the period 2002 to 2012 in India by achieving three times growth rate than in the late 1990s in the service sector. Banking and insurance sector, which attracted more FDI than telecommunication are the first growing sector among several service sectors in the post reform period. FDI provides several job opportunities for skilled manpower in the service sector than manufacturing sector and primary sector. FDI also helps to increase output and production in the service sector in India.

Because of FDI inflows the trends of employment generation,has altered over the last four years. The percentage of the work force in agriculture, industry and the service sector has shown a tremendous change over time. The proportion of the work force in agriculture and allied activities has decreased from 74.3% to 48.9% in the year 2011-2012. Similarly the proportion of the work force in the secondary sector expanded from 10.9% to24.3% in the year 2011-12. The percentage of employment in the service sector heightened from 14.8% to 26.8% in the year 2011-12. As a result of the overseas capital investment, the share of self-employed labour force has reduced to 52% and the share of salaried labour force has increased to 18% and the participation of women in formal and informal employment sector was 21% and 31% respectably in the same year. Thus FDI inflows, employment generation and economic growth are correlated and directly related to each other.

A. Literature Review

India is a labour abundant country in which the rate of labour force addition recorded as 52.5% of all labour. India's subscription to world economy heightened from 8.3% in 2001-07 to 14.4% in 2014.Analysing these data Khandare (2016) attempted to found the liaison between GDP growth rate, FDI inflows, and employment generation rate in India in the time period 2001 to 2012. He finds that during this period, 25.58% of the share of FDI lead to increase in GDP by 12.59% and employment generation by 0.49% in India. This shows that GDP growth rate, FDI inflows and employment generation rate are positively related with each other. By taking coefficient of correlation method, it is realised that one unit of rise in FDI leads to increase in GDP by 0.875 unit and employment generation by 0.857 units, which shows the maximum significance of FDI on GDP and employment generation growth rate in India. So the author suggests to formulate adequate monetary and fiscal policies to attract more FDI in India.

FDI is prerequisite for growth and development of developing country like India. Before introduction of the New Economic Reform in 1991, India confronted serious Balance of Payment(BOP) crisism,which forced the policy makers to endorse unique reform in the structure of liberalisation, privatisation and globalisation to make Indian economy globally competitive.

As a result, fresh foreign investment rushed into the Indian economy in several sectors in the form of FDI. This overseas capital inflow enhanced the development and growth of the Indian economy by increasing the GDP growth rate, employment opportunities and industrialisation. In his paper Khan and Agrawal (2015) attempted to scrutinize the influence of FDI inflows on GDP growth rate and employment generation in India before and after liberalisation period, that is, pre-reform period from 1971 to 1990 and post reform period from 1991 to 2010.To analyse this study Compound Annual Growth Rate (CAGR) is calculated for both the period independently. By using Compound Annual Growth Rate (CAGR) and regression equation method, they found that due to increase in FDI inflows in India only 0.2 % of changes in employment generation is identifiable which is insignificant. Employment generation is not favourably influenced by the growth of FDI due to limited inflows of foreign investment and adoption of antagonistic policies in India .It was noticed that FDI inflows has not much positive impact on employment generation, but has it on GDP growth rate.

In his paper Someshu (2015) tries to investigate the inflows of FDI on employment generation and prosperity of the Indian economy by analysing macro-economic variables. Results obtained showed that FDI has a positive impact on employment generation of skilled manpower in the service sector than any other sector in India.

In turn to accomplish the aspiration of economic growth, capital act like a panacea for each and every economy. Finance is the matter of concern for economic development of developing countries. Thus, several countries are in a race to attract more and more inflows of foreign capital into their economy by suitable policies. Palit (2017) finds trade openness and volume of trade to be significant factors in attracting FDI while inflation and the combined effect of inflation and volume of trade, 'infla-trade’, was found to be adverse on FDI.

Kirti and Prasad (2016) examined the influence of foreign capital inflows on the employment creation and growth rate in India by interlinking GDP with employment as well as correlate employment generation and the increase in output in the economy.It reveals that no doubt increase in FDI inflows increases employment in each sector but the coefficient of correlation is not satisfactory between them. But employment generation and economic growth both are positively related. By using latest technologies, it is possible to increase the productivity in primary, secondary and tertiary sector in India which ultimately increases employment opportunities. In India FDI inflows are more in service sector and manufacturing sector than primary sector. So, the relation between employment generation and FDI inflows in India is favourable, but do not persist much. Employment generation and economic growth are directly related to each other. FDI plays very significant role in enhancing the economic activities in developing countries. FDI is a matter of both monetary as well as nonmaterial assets like technical knowhow, competencies, business responsibilities, etc. As a result FDI inflows lead to overall development of developing countries. Zia et al (2009) tries to examine the influence of FDI on employment generation of three Asian countries i.e. India, Pakistan and China during 1985 to 2008. By using Cointegration, panel data techniques and Unit root test they found that the influence of FDI on employment generation is not significant in these three Asian countries and employment creation is not persistent. They suggested implementing policy measures to eradicate unemployment in these countries, which is the hindrance on the path of development.

It is quite impossible for developing countries to fulfil its objectives of economic growth without taking assistance from foreign countries in the form of investment, technical knowhow; employment generation, etc. Indian economy has received much foreign financial assistance in the post liberalisation period. Narendra and Dhankar (2016) tries to examine the impact of foreign capital inflows on employment genesis in both public and private sectors in the pattern of Foreign Portfolio Investment, FDI, External borrowings, deposit of Non Residence in India during 1991 to 2012. Secondary data are collected from different websites of RBI, Department of Industrial Policy and Promotion, World Bank, Economic Survey and analysed by using different Statistical tools like Johansen co-integration, unit root test and ordinary least squire methods. The result obtained revealed that among several forms of foreign capital inflows FDI and external commercial borrowing helps to increase employment opportunities in the private sector in India than any other forms of foreign capital. But employment generation in the public sector is not possibly affected by these inflows. Due to foreign investment there is an increase in infrastructure facilities, educational attainment rate, hence encourages employment. In order to obtain better employment opportunities and economic growth, Indian government should take effective policies to attract more foreign capital into the economy.

Mehra (2013) investigates the influence of FDI on employment and GDP improvement rate in India. Secondary data are collected from websites of World Bank and RBI from 1970 to 2007. To analyse data Multiple Regression Method is used with SPSS software. The result obtained reveals that major shares of FDI inflows are confined to service and manufacturing sector and hence increased economic growth and employment rate in the economy. Only negligible shares of FDI inflows are confined to primary sector and hence leads to low employment generation in India. Thus Indian government should take appropriate policy measures to attract FDI in primary and manufacturing sector to increase more employment avenue in India. Palit (2019) finds the existence of link that the sectors which attracts more FDI due to appropriate government policies towards them were also found to be outward foreign investors themselves overtime showing the incentives enables them to attain the competitiveness.

Rekha and Karan (2017) investigate the effect of overseas direct investment on employment creation and GDP growth in post liberalisation period. They also analysed weather FDI increase employment and economic growth in the economy in the post liberalisation period.

By analysing data over time the period 1991 to 2013 using Multiple regression method, they found that the affinity between GDP and FDI is positive whereas between employment and FDI is not satisfactory. FDI increases employment opportunities in India, but not much as it is for GDP growth rate.

Thus the policy maker should take effective policy measures to make positivity between FDI, employment opportunities and GDP growth rate in India. This article also examines the affinity between FDI inclusion in the manufacturing sector and the employment rate in India. By taking 54 three-digit industries during the period 2008-09 to 2015-16 from the Annual Survey of Industries analyses whether the nature of employees influences the employment repercussion of FDI in manufacturing industries. By applying System Generalised method of movement developed by Blundell and Bond in 1998, they found that there was a very negligible or no effect of FDI inclusion on domestic employment creation.Thus the manufacturing industries during 2008-09 to 2015-16 showed a negligible FDI inflow effect in employment generation in India.

Globalization implies the continuing expansion and intensification of political, social, economic, judicial and cultural relations across borders. Globalization indicates the enduring extension and acceleration of consanguinity beyond the edge. In this article author Ahmad (2019) tries to provide a better and deeper knowledge regarding the process of globalisation and overflow into nearby countries depending on political criterion in the country. The overflow of globalisation effect can be best understood by taking geographical and institutional sectors By taking a panel data of 83 countries over 30 years using a spatial autoregressive panel data method, this article finds out a separate growth model with a parameter to captivate the spatial dependency of the country indicating a positive effect of globalisation in the economy.

B. Objectives:

The objectives of this study are:

- To analyse the affinity between GDP growth rate, FDI and employment in India.
- To analyse the effect of overseas direct investment on employment generation in the Primary, secondary and the tertiary sector in India.
- To identify the dependency ratio between the GDP growth rate, FDI, and employment generation in India.

C. Hypothesis:

To achieve the above stated objectives, the various hypotheses to be tested are:

- That, FDI inclusion has favourable effect on the employment generation in Primary,secondary and tertiary sector in India.
- That, FDI expands the employment of both organized and unorganized sector.
- That, FDI expands both technical as well as non-technical employment in India. .
- That, FDI inflows and employment creation are correlated.

D. Research Methods

This research paper analyses the secondary data from different sources like World bank, RBI, Economic survey of India, Director General of employment, Ministry of labour and employment, and Training to analyse the influence of FDI on employment generation in India using descriptive analysis as is relevant.

II. FINDINGS

The findings of the above study are as follows:

A. Employment Scenario In India Through FDI

Employment generation and economic growth and development are directly related as they enhance economic activities. In developing countries decrease in the unemployment rate can solve many socio-economic evils. After introduction of New Economic Reform 1991, India's openness to Global scenario by adopting Liberalisation, Privatisation and Globalisation regimes is widely remarkable. Now India is more competitive in the global market than before. For this kind of openness there is integration of home economy with the rest of the world. It leads to inflows of tangible as well as intangible things to the economy like goods and services, technical know-how, skills, capital inclusion etc. in the form of FDI. Thus, it is believed that FDI inflows lead to employment generation in India and paves the way for solving capital deficit in the country. But the scenario is not that easy as is visualised. FDI has both candid and ambiguous impact on employment. Among the several impacts of FDI on employment fundamental effects are:

- Job Creation- In this case FDI comes up with new production strategies and new employment opportunities which increase economic growth.
- Crowding out effect- In this case the competition between FDI providing country and the host country is quite competitive and to prove her competitive capacity host country improve her production capacity by retrenching employees in the enterprises.
- Transfer of Employee- In this category employees are transferred from one enterprise to another. Through Foreign collaboration and joint venture of foreign and domestic enterprises, new jobs are created and workers are transfered from one company to joint new enterprises.
- Loss of Employment- FDI inflows not only increases employment opportunities, but also decreases it. When foreign companies are allowed to set up their venture in host country they generally come up with their own methods of production. Thus, in host country those who are skilled and efficient enough according to their production requirements are hired and others are forced to lose their jobs.

Thus the believed on which many articles lined up that FDI inflows gives a positive impact on Indian economy by generating employment is partially acceptable, because FDI also indirectly increase unemployment in the host country. FDIs are categorised into two heads: Investment in Brown Field and Investment in Green Field.

Brown field investment occurs when foreign companies purchase a production house which already exists in that country and Green field investment reflects the foreign investment through constructing a new production house. Thus, both in these two ways employments are generated in the host countries. But the sustainability of increased employment widely depends on the business avenues which the foreign countries desire to do in the host country. No doubt with the introduction of the new foreign companies' foreign technologies increase the competitive attitudes in the host country, but the inflow of FDI on employment varies from time to time. Categorising FDI inflow sector wise in India, it is the service sector, which occupies 17.18% of total proposed FDI whereas the Construction sector occupies 9.76% of total FDI. Among them most of the production activities required capital intensive techniques and anticipation of more use of manpower is a Myth.

In Agriculture sector FDI inflows give 50% direct and 12% indirect employment opportunities and received 0.16% of agricultural services among the total FDI share. In India more than 60% of the total population are engaged in agriculture and it contributes up to 19% of GDP growth. So the expectation of more employment creation in the primary sector is quite high through FDIs. But it is not realised due to the prevalence of disguised unemployment, which is more acute in the primary sector. Therefore, if we modernise and mechanise the agriculture, then FDI inflows can increase employment opportunities in agriculture. Table-I shows the percentages of employment shares in major sectors in India during the year 1973 to 2000. In the manufacturing sector FDI inflows are higher than primary sector. In the manufacturing sector,fertiliser occupied 4.17%, Automobile with 4.96%, power sector with 3.88% and thus generate employment by 18% in India. With the help of foreign capital investments the production in different sectors is improving a lot. As a result standard of living of the masses increases with increasing in overall development of those areas. By the year 2022 it is expected that FDI inflows contribute 25% to GDP and 100 Million jobs will create through industrialisation in India.

Among the above two sector,the service sector is apt to captivate considerable share of FDI in India which is 17.18%. Service sector not only contributes to the GDP growth rate but also generate skilled labour force and employment in the country. If we take employment generation in private and public sector, the rate of employment is quite consistent during the year 2002-03. The contribution of FDI to employment generation of these sectors changed to 60% in public sector and 40% in the private sector respectably in 2012. But with time, the private sector generates more employment avenue than the public sector.If we take the trends of FDI inflows, GDP and employment in India during 1991 to 2013 reflects increased by 32.2% in 2013. FDI reflects mixed trends and increased by 466.82 times in 2013 compared to 1991. The GDP was increased from 17.06% in 2013 by enhancing rupees 10472807 cores. The total employment generation in India was 267.4lakhs person in 1991 and increased to 296.5 lakhs person in 2013.With the functioning of MNCs and foreign investments, it is quite cheap and easy for Indian industries to access latest and sophisticated global class technologies in production activities. As a result, it is necessary for the Indian industries to import technologies from other countries, especially in form of raw materials. There was a drastic increase in outlay on internal research and development in sophisticated technologies used in industries like machinery and chemical industries since 2000. The positive effect of this importation of technologies increases the output productions and export capacities, but it negatively affects the economy in the form of increasing capital concentration in production. Due to use of sophisticated technologies in production, there has been a sudden increase in employment in the manufacturing sector till the year 2005 along with a decrease in all core spheres during 2006 and 2010. This decrease in employment between 2006 and 2010 was due to global economic recession. There are mainly two different channels in which FDI influences the rate of employment in India.

- Positive influence: As there is inward FDI in the country, it leads to increase in output by increasing production activities and hence increases demand for labour.
- Negative influences: More use of labour saving technologies limited the capacity of labour and hence decreases the demand for unskilled labour but continued to increase the demand for skilled labour. As the technical resolutions are taken at the corporate stages, the issues of industry level employment generation on the basis of technological change was quite irrelevant and ownership structure of the corporate companies got due importance with the functioning of MNCs and FDI inflows into the country.

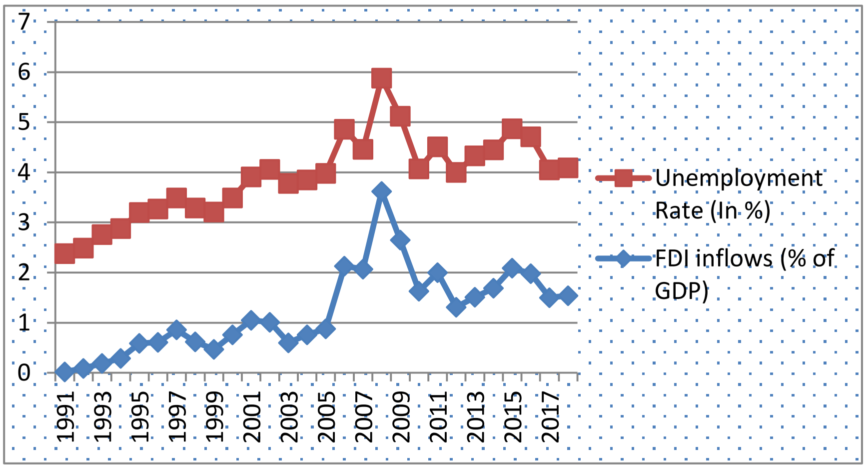
The rate of unemployment in India before 1991 was very high,implying a huge difference between the demand for labour and supply of labour. As a result labour was available in plenty and relatively cheap in supply. Due to globalisation and abolition of trade restriction gave a chance for the foreign companies to explore their business in the Indian market and there was a win-win premise for all. However,there is an asymmetrical distribution of FDI inclusions in all the sectors in India and different sectors attested different consequences.

Table –I:Sectorial Contribution to Employment in India

Year	Primary Sector (in % of Total Employment)	Secondary Sector (in % of Total Employment)	Tertiary Sector (in % of Total Employment)
1991	63.04	15.3	21.65
1992	62.77	15.35	21.87
1993	62.48	15.35	22.16
1994	62.17	15.42	22.39
1995	61.75	15.56	22.67
1996	61.43	15.72	22.83
1997	61.07	15.87	23.04
1998	60.66	16.02	23.31
1999	59.92	16.02	23.85
2000	59.64	16.32	24
2001	59.04	16.66	24.29
2002	58.43	17.04	24.52
2003	57.66	17.55	24.77
2004	56.68	18.38	24.93
2005	55.82	18.97	25.2
2006	54.89	19.65	25.45
2007	53.86	20.44	25.69
2008	53.09	20.96	25.94
2009	52.12	21.6	26.27
2010	51.05	22.37	26.56
2011	48.96	23.52	27.51
2012	47	24.35	28.64
2013	46.59	24.35	29.04
2014	46.07	24.38	29.54
2015	45.55	24.33	30.1
2016	45.12	24.28	30.58
2017	44.52	24.97	31
2018	43.86	24.68	31.45
2019	43.21	24.89	31.89

Source: World Bank Database

Fig.-I: FDI inflows and Unemployment rate in India from the year 1991 to 2018 in percentages.



Source: Author's own compilation from World Bank Database

Table II: Employment generation in organize sector taking both public and private sector in India during 1990 to 2013 (in %)

Years	Public sector (end March) in %	Private sector (end of March) in %	No. of person on the live registered (end of December) in %
1990-91	19.06	7.68	36.3
1991-92	19.21	7.85	36.76
1992-93	19.33	7.85	36.28
1993-94	19.45	7.93	36.69
1994-95	19.47	8.06	36.74
1995-96	19.43	8.51	37.43
1996-97	18.56	8.69	39.14
1997-98	19.42	8.75	40.09
1998-99	19.41	8.7	40.37
1999-00	19.31	8.65	41.34
2000-01	19.14	8.65	42
2001-02	18.77	8.43	41.17
2002-03	18.58	8.42	41.39
2003-04	18.2	8.25	40.46
2004-05	18.1	8.45	39.35
2005-06	18.18	8.77	41.47

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2006-07	18.6	9.24	39.97
2007-08	18.6	9.88	39.11
2008-09	17.67	10.38	38.15
2009-10	17.86	10.85	38.88
2010-11	17.55	11.45	40.17
2011-12	17.61	12.04	44.79
2012-13	NA	NA	46.8

Source: Directorate General of Employment and Training, Ministry of Labour and Employment, Government of India

Table III: FDI Inflows and Employment to Population Ratio

Years	FDI inflows (% of GDP)	Employment to population ratio (In IOL Estimated %)
1991	0.02	57.21
1992	0.09	57.17
1993	0.19	57.11
1994	0.29	56.93
1995	0.59	56.71
1996	0.61	56.53
1997	0.86	56.31
1998	0.62	56.09
1999	0.47	55.92
2000	0.76	56.01
2001	1.05	56.09
2002	1.01	56.21
2003	0.6	56.47
2004	0.76	56.68
2005	0.88	55.98
2006	2.13	55.3
2007	2.07	54.51
2008	3.62	53.56
2009	2.65	52.79
2010	1.63	51.81
2011	2	50.84
2012	1.31	50.78
2013	1.51	50.79
2014	1.69	50.75
2015	2.09	50.71
2016	1.98	50.6
2017	1.5	50.78
2018	1.54	50.67

Source: World Bank Database

B. **Diversified repercussion of FDI inflows on employment creation in various sectors in India:**

The impact of FDI rose gradually after 1991 and was in peak in 2008 in India. Thus, there is was a favourable effect of FDI on GDP and has increased the average growth rate from 3% due to the FDI inclusion in the country. But the impact of FDI on employment rate shows a different picture.

Figure-I shows that the impression of FDI on employment rate is sporadic due to huge investment in start-up projects which ultimately was not able to generate large employment in India. The other cause for the unfavourable effect of FDI on employment is the high income inequalities in the country. Thus, it is clear from the above figure that FDI inflows are not able to create more employment in India. As per the data collected from several sources, the effect of FDI on employment generation is less than those of the BRCIS countries.

India is regarded as an agrarian economy and it attracts majority of unemployed people towards it. But nothing can be done to revolutionize the primary sector through FDI. As a result has no symbolic effect of FDI on this sector.It is the tertiary sector,which brings maximum growth and development in India through FDI inflows. The software industry attracts maximum FDIs in India in current scenario and generates maximum employment opportunities as well. As a result, IT sector has generated maximum Export Promotion Operations in the post liberalisation period of Indian economy.

There is a favourable and direct interrelationship between FDI, Secondary and tertiary sector in India. It is the secondary sector after service sector, which attracts more FDI and generates massive employment in India. Railway, ports, sea transport, automobile and air transport are the major beneficiary industries receiving FDI in India. Among these industries automobile sector received maximum FDI and gave employment to more than 25 million people directly as well as indirectly in the year 2016 in India, whereas 9% employment opportunities are generated by transportation industries including air and sea transport in India.

Table-II shows the Employment generation in organize sector in percentages taking both public and private sector in India during 1990 to 2013

Table-III shows the FDI inflows inform of GDP growth rate percentages and employment to population ratio in India during the year 1991 to 2018.Government of India has taken several steps like leveraging FDI policies in various sectors such as PUS oil refineries, telecom, stock exchange, defence etc. As per the data available with Department of Promotion of Industry and Internal Trade (DPIIT), FDI inclusion in India for the year 2019-20 is USD 19.33 billion showing the efforts of the Indian government in international business. The FDI inflows increased from ₹10,732 to ₹64,583 which rose by 25.58% during the year 2001 to 2012. The GDP growth rate was increased by 41.49 times during the same year. The total employment rate was increased to 295.8 lakhs people in 2012 from 277.9 lakhs in 2001. The employment growth rate was only 0.49% during the same year. The above analysis shows that the employment in India is not much responsive to increased FDI during this period.

Various studies have estimated labour substitution and employment linkages by applying Trans log cost function and the findings revealed that the linkages between FDI and employment generation are basically influenced by stages of development in the FDI attracting country and geographic location. It recorded a low degree of correlation between employment generation and FDI in India.

III. CONCLUSION AND POLICY SUGGESTIONS

Employment generation is treated as an important stimulus for enhancing growth in the developing countries. It is quite easy to believe that FDI inflows can provide the solution for many economic issues in the economy, but in case of employment creation this effect is quite convoluted in India. FDI is also considered as an important vehicle for overall development and growth of a country by generating employment for the unemployeds in India. It has both backward and forward linkages in employment creation in India. FDI has shown a three fold increase in growth rate in the second decade than in the first decade, i.e., during 2002 to 2012 in the service sector in India. Banking and insurance sector leads in attracting major FDI proposals followed by telecommunication sector, which is in second position. In the service sector, FDI generates highest job opportunities in the service sector than any other sector in India. The result of this study shows that the employment generation in India during the last two decades is quite detectable, but FDI inflows may not be regarded as a major factor for this growth rate. Thus, the government of India should take some policy measures to captivate employment generation in India basically in organised sector. India should boost its regulatory mechanism by advancing its monetary and fiscal policies. India should adopt favourable business environment for attracting more FDI in India in order to maintain a good reserve of foreign exchange with it as its contribution cannot be ignored in this competitive global village.

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