Gender and Economic Policy Discussion Forum

The Politics and Economics of Foreign Direct Investment (FDI) through a Gender Lens

FORUM VII | 9 APRIL 2013 BRIEFING NOTE 7

HIGHLIGHTS / KEY POINTS

- Foreign investors are attracted to invest in countries based on their market size, availability of natural resources, availability of infrastructure and labour market regulations.
- Host countries are interested in FDI to complement domestic capital flow, enable superior technology, skills and idea transfer, access to foreign markets, creation of job opportunities and increase in wages.
- Foreign investment in India grew rapidly post the 1991 economic reforms.
- FDI inflows in India have been the highest in the service sector, followed by construction, telecommunications and computer hardware and software.
- The existing literature on the relationship between FDI and gender has been restricted to the analysis of women's employment and wages in the manufacturing sector. In India the service sector has received the maximum inflows, however, women tend to be dominant in the primary sector.
- Analysis of impact of FDI on women across different sectors in India has revealed some positive as well as some negative results.
- It is felt that in order to maximize the benefits of FDI, the policy context of foreign investment as well as the domestic policy environment need to be such that they not only strengthen the domestic economy but also protect the rights of the employees and result in greater gender equity.
- There is also a need for more scholarship in this field, especially in India.

The Gender and Economic Policy (GEP) Discussion Forum on The Politics and Economics of Foreign Direct Investment (FDI) through a Gender Lens, held on 9th April, 2013 addressed the pros and cons of FDI from a gender perspective.

It is argued that though there is literature available on the effects of FDI on development, such studies have generally been gender-blind. Additionally, the limited body of work on the relationship between FDI and gender has been restricted to the analysis of women's employment and wages in the manufacturing sector. It has been found that FDI, in the short-run, has had a positive impact on women's employment and wages in semi-industrialized countries. However, impact can also be assessed in terms of women's autonomy, empowerment and general well-being. [1]

What is FDI?

World Bank defines foreign direct investment (FDI) as "the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor"[2]. Foreign investors are attracted to invest in economically dynamic countries for their market size, availability of natural resources, transportation and communication infrastructure and labour market regulations. Three types of FDIs are thus distinguished: efficiency-seeking FDIs, aimed at minimizing production costs, hence the labour costs in the host country are a significant determinant; resource-seeking FDIs, aimed at exploiting natural resources of the host country;

and market-seeking FDIs[3], concerned with the market size and per capita income of the host country in order to be able to sell its products in the host country's domestic market.[4]

For the host country, on the other hand, FDI is a good source of capital flow. It complements domestic private investment and also crowds-in or encourages domestic investment in ancillary industries. It is a source of transfer of superior technology, skills and innovative ideas as well as access to markets. Additionally, it may also lead to creation of job opportunities and increase in wages. Foreign investment is preferred over short term capital for its relative stability and commitment. In developing countries it is sought after to aid in accelerating industrial development.

FDI is also a policy option to be considered if the domestic economy is not able to meet its infrastructural demands. Low investment begets a vicious circle with consequences such as lack of adequate infrastructure, high wastage, high costs, high inflation, and consequently low savings and low employment which again lead to low investments. Economies facing low investment then have to take certain policy options to escape from the vicious circle to increase output and employment:

a. they can undertake economic interventions by interest rate cuts to propel investments or
b. intervene through monetary policy to arrest the domestic currency from appreciating below a threshold level or
c. open the economy to foreign investment.[5]

FDI in India

FDI in India grew unprecedentedly after the economic reforms of 1991 that integrated India into the global economy.[6] Foreign investments provided the much needed capital and job opportunities to jumpstart India's GDP, which was very low to support the rapidly increasing population. Since 1991 FDI has been liberalized further. The Government of India, however, upholds prohibition of foreign investment in certain sectors such as: atomic energy, lottery and chit fund business, gambling and betting, Nidhi companies[7], agricultural (excluding floriculture, horticulture, development of seeds, animal husbandry, pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and plantations activities (other than tea plantations), housing and real estate business (except development of townships, construction of residential/commercial premises, roads or bridges to the extent specified in FEMA), trading in Transferable Development Rights (TDRs) and manufacture of tobacco or tobacco substitute products such as cigars , cheroots, cigarillos and cigarettes.[8] Additionally, since the service sector is considered sensitive from a developing country perspective, FDI in services has been restricted, and in several services FDI is banned or is limited, e.g. multi-brand retail, insurance, pension, postal services, banking and financial services etc.[9]

With liberalization of the economic policy regime in the 1990s, the sectoral composition of FDI shifted from a focus on manufacturing to services, which currently receives about 53% of all FDI inflows. The source of foreign inflows also changed post reforms with the US[10] emerging as an important investor (European countries were earlier the major source of foreign investment in India). Additionally, mergers and acquisition of existing Indian enterprises emerged as an important channel of FDI inflow in the post reform period; earlier greenfield investments were more predominant.[11] Total FDI inflows into India since April 2000 to March 2013 is reported to be worth $290078 million, with $36860 million during the financial year 2012-13.[12]

FDI and Gender in India

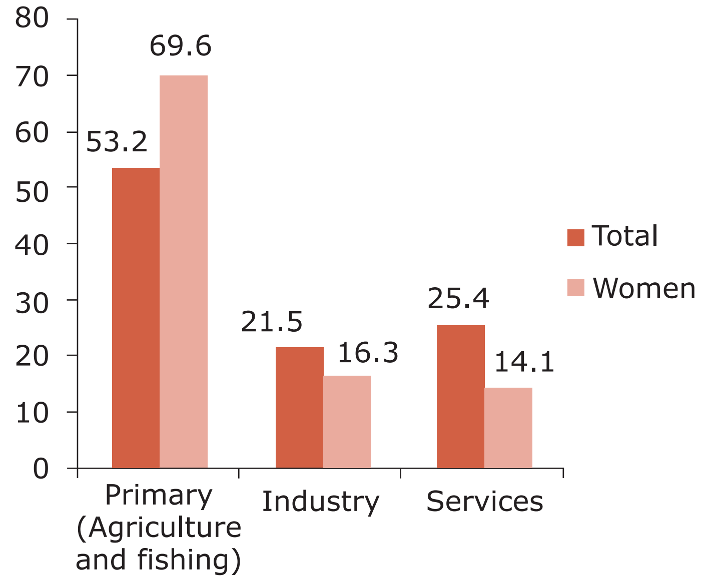
FDI inflows in India have been the highest in the service sector (including a range of activities such as financial, banking, insurance, outsourcing, R&D, courier and others), followed by construction, telecommunications and computer hardware and software. (See Table 1 for sector-wise FDI inflows). The service sector makes the highest contribution to the Indian GDP at more than 50%; however, its share of total employment is 25.4% and the lowest for women at 14.1%.[13] The primary sector has the highest share of total employment (53.2%) as well as women employment (69.6%). (See Figure 1) An industry wise break-up of women employment reveals that a majority of women are employed in agriculture (68.6% of all employed women), followed by in manufacturing (10.8%) and construction (5.1%). Education and wholesale and retail trade also account for significant proportions of women employment (3.8% and 3.5%, respectively). Women are primarily employed in low-skilled or unskilled jobs as skilled agricultural and fishery workers (40.36%), followed by in elementary occupations such as mining, construction and basic manufacturing (37.1%), and as craft and related trade workers (8.55%). While the proportion of women employed as service and sales workers account for just 3.62%, those employed as professionals, technicians and senior officials is even lower (See Figure 2) .[14]

Table 1: Sector-wise FDI Equity Inflows from April 2000 to March 2013[15]

		Amount of FDI Inflows `		%age with total FDI Inflows (+)
S.No.	**Sector**	**(In Rs. Crore)**	**(In US$ million)**	
1	SERVICES SECTOR (Finance, Banking, Insurance, Non Fin/Business, Outsourcing, R&D, Courier, Technology Testing and Analysis, Other)	172,275.31	37,234.60	19.26
2	CONSTRUCTION DEVELOPMENT Townships, housing, built-up infrastructure and construction-development projects	101,049.13	22,080.20	11.42
3	TELECOMMUNICATIONS	58,732.23	12,856.06	6.65
4	COMPUTER SOFTWARE & HARDWARE	52,774.07	11,691.10	6.05
5	DRUGS & PHARMACEUTICALS	48,879.53	10,318.17	5.34
6	CHEMICALS (OTHER THAN FERTILIZERS)	40,495.55	8,880.83	4.59
7	AUTOMOBILE INDUSTRY	39,169.94	8,294.85	4.29
8	POWER	36,136.88	7,834.22	4.05
9	METALLURGICAL INDUSTRIES	34,814.13	7,507.07	3.88
10	HOTEL & TOURISM	33,260.03	6,631.25	3.43
12	TRADING	18,646.51	3,955.80	2.05
13	INFORMATION & BROADCASTING (INCLUDING PRINT MEDIA)	15,495.69	3,284.21	1.7
21	FOOD PROCESSING INDUSTRIES	8,681.38	1,811.06	0.94
23	AGRICULTURE SERVICES	7,797.73	1,608.69	0.83
24	HOSPITAL & DIAGNOSTIC CENTRES	7,437.93	1,597.33	0.83
30	MINING	4,368.18	998.3	0.52
41	VEGETABLE OILS AND VANASPATI	1,893.72	384.94	0.2
50	RETAIL TRADING (SINGLE BRAND)	459.55	95.36	0.05

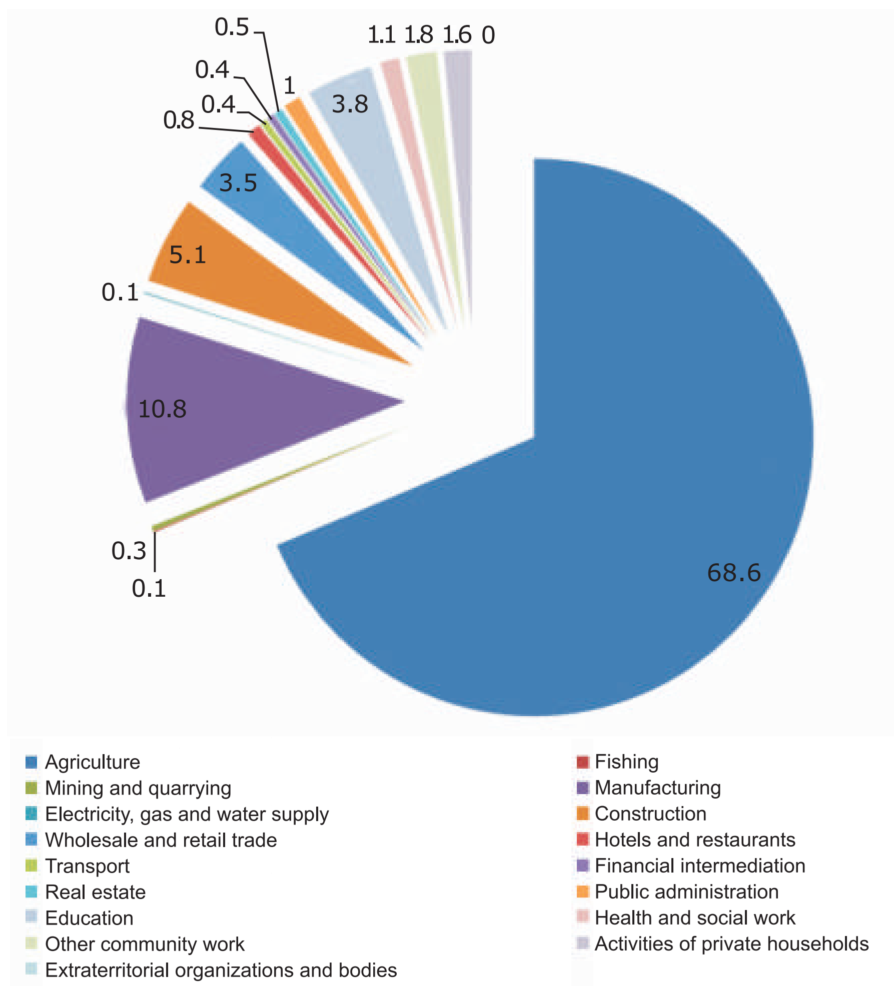
Source: Department of Industrial Policy & Promotion

Figure1: Total employment and share of women employment in percentage (2009-10)



Source: Arpita Mukherjee and Deboshree Ghosh based on NSSO 2009-10 for GEP Discussion Forum VII

Figure 2: Industrial Classifciation of employed women (%)



Source: Arpita Mukherjee and Deboshree Ghosh based on NSSO 2009-10 for GEP Discussion Forum VII

FDI has been argued to have implications on four categories of women: the wage earner, the casual worker, the dependent housewife and the paid reproductive worker.[16] For the wage earner such investments have created jobs although at the same time confined them to the bottom in the hierarchy of skills and wage. Also, there is an increasing move towards temporary, casual and subcontracting work, taking advantage of women's care responsibilities. Thus, space rental costs and social protection costs (such as maternity leave with pay and health insurance) that should have been borne by the corporations are subsidized by the casual workers

Division of labour within the household leads to the housewife becoming the default social welfare system for the generally male labour force; ensuring that the meals are prepared and clothes are washed and ironed, as well as providing emotional and psychological support. However, this division of labour poses a challenge for the wage earners, whose employment opportunities have increased with foreign investment. Thus those who can afford hire the services of the paid reproductive worker. Outsourcing care work has led to an increase and feminization of labour mobility. While female migration breaks away from the traditional patriarchal control over woman's mobility, transnationalization of care work re-enforces the division of labour within the household.

Sectors with likely implications on women's work

Certain sectors that have attracted FDI in India have implications on gender beyond employment. For instance, FDI can have impact on women as far as their entrepreneurship is concerned; in India women find it easy to be in small and medium enterprises with low capital and technology requirements. Entry of FDIs can then drive out such small industries and render women unemployed. Also, foreign investment in natural resources such as land can affect women more as their economic and household activity is closely linked to availability of natural resources.

IT Services

The IT sector benefited from low legal rigidity and also liberalized labour laws. The Indian IT-BPO sector is the largest private sector employer in the country comprising of 30-35% women. The comparative high salary, easy international mobility, gender neutral policies based on knowledge and skills, and flexible work routine along with comfortable indoor work environment are factors that have encouraged women to participate in this sector. However, women tend to be dominant only at the junior level; there is low representation of women at the senior management level.[17]

FDI in retail

The issue of FDI in retail came in the limelight with the central government's announcement of reforms in single brand and multi-brand retail in November 2011. The reforms aimed at raising the FDI ceiling from 51% to 100% ownership in single brand retail trade and allowing 51% FDI holding in multi-brand retail, which was earlier forbidden. In January 2012, single brand retail reforms were approved with the condition that 30% of the goods were to be procured from within the country. In September 2012 the government enabled FDI in multi-brand retail subject to the approval of the state or union territory. FDI in trade is also allowed with up to 100% ownership in cash and carry wholesale and export trade since 1997.[18]

FDI in multi-brand retail trade faced opposition from many quarters for its misplaced expectations and adverse impact on traditional retail. The government on its part tried to strengthen the policy by levying several conditions such as - a minimum investment of $100 million, 50% of which shall be invested in back-end infrastructure; at least 30% of the products shall be procured from small and medium enterprises; the government shall have the first right to procure farm products; and, these retail outlets shall be set up only in cities with a population of more than 10 lakhs.[19]

Eliminating the middleman and thus benefitting both the producer and the consumer is considered one of the main justifications provided for opening the Indian market to such FDI. Eradicating intermediaries would provide the producers better access to the market and also reduce wastage in farm produce. The critiques, however, argue that farmers would not benefit much, in fact they will continue to be exploited: the buying power of the big investors would ultimately depress the price of the producer. The consumers are expected to benefit from choice as well as affordability of products; curbing food inflation is one of the main arguments provided in favour of FDI in multi-brand retail. The counter argument provided, however, is that market power would concentrate in these supermarkets and lack of competition would enable them to monopolize prices at the buying end as well as at the selling end. Further, FDI in retail would, it is argued, eliminate the unorganized retail sector in the long run.

The Indian retail sector is vast and varied with 96% of it being unorganized[20]. It accounts for 9.5% of the urban women's total employment and 16.63% of their services employment. Women's employment in retail may vary from small family run shops to street vending. With FDI in multi-brand retail, jobs of the many in the unorganized would be replaced by a few in the organized. Foreign investments of such magnitude would lead to the creation of new jobs. It is argued however that such jobs would be few in comparison to the ones lost and also that these would provide employment to a different category of people–the educated professionals–than the ones who would lose. There already has been a decline in women's share in total retail employment as well as the share of retail in women's employment in services between 1999-00 to 2004-05[21]. Rise in corporate retail is argued to be one of the reasons responsible for this. The entry of foreign retail chains may further push women out of this shrinking space. It may, however, also induce a shift in employment from the unorganized to the organized sector.[22]

It is important to mention here ways in which foreign capital has been operating in the retail sector, albeit through the backdoor, prior to the retail reforms. Foreign companies have utilized the cash and carry wholesale trade space (available to them since 1997) to enter the retail space by several means. For instance, Bharti Wal-Mart, a joint venture formed between the American retail chain Wal-Mart and the Bharti group in 2007, was primarily engaged in wholesale cash and carry business but entered retailing through a subsidiary company. Talking about the implications of such organized retail, Venkateswaran argues that there is loss of unorganized low-skilled jobs and self-employment in the short run; women vendors are especially vulnerable to such operations. However, low consumer prices, low inflation, increased output, semi-skilled employment and tax collection for the government, compensate in the long run for the loss of jobs. Organized retail also improves farm prices as farmers are forced to be cost effective. Additional investment in the sector in the form of FDI will make it more competitive and further improve prices for consumers and farmers. The Bharti Wal-Mart venture, additionally, entails for Bharti, a company with no prior experience in the sector, knowledge gains and spillover.[23]

Another retail format in which the wholesale trade space has been used is direct selling, which is organized retail operating through the unorganized network. The direct selling industry in India is 11th in the world, worth $901 million. The share of women in this sector is more than 50%. Women have been found to have benefited from this form of retail set up in terms of financial independence, higher earnings, flexible timings, self esteem and improved ability to take care of the family. However, retail marketing is not a steady source of income and it also has not been found to benefit much in terms of women empowerment.[24]

Construction

FDI in construction, including building of townships, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities and city and regional level infrastructure, is allowed up to 100% under the automatic route. Not only are the inflows in this sector very high, this sector is also crucial from the perspective of women employment: 13.6% of workers in this sector are women and it accounts for 38.9% of the unorganized female casual non-agricultural workers. This sector being labour intensive and low-skilled holds a lot of scope for women employment. However, increasing