

**The Impact of Globalization on Employment Generation in India:
The case of emerging 'Big Shopping Malls and Retailers'***

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Abstract

Globalization in this paper concerns diffusion of idea, and technique of doing business. Organised retailing and retailing through big shopping complexes and malls is an idea, which is drawn from within and across nations. Thus, this idea is necessarily global and expansion of this idea is an integral part of globalisation.

Growth of organized retail sector in India is being seen by some as the next driver of the Indian economy after the information technology boom. Some have argued that the farmers are being exploited, prices are being manipulated and small traders are being displaced by the corporate retailers. A recent Parliamentary Standing Committee report on retails has made a recommendation for “a blanket ban on domestic corporate heavyweights and foreign retailers from entering into retail trade in grocery, fruits and vegetables”. Global studies on large scale retailing have also contradictory views.

Therefore, more intensive studies using primary data are required for taking better policy decisions concerning both organized and unorganized retails in India. It is in this context, using primary survey data, the following analytical questions concerning the expansion of big shopping malls and organized retailing with respect to vegetables sales are answered in this study:

- How the vegetable farmers are benefited from the emerging retailing and Shopping malls in big cities in India?
- Whether the new pattern of business is more employment intensive?

The answers to the above questions varied from state to state. Unorganized retailers in most states except in Karnataka felt the threat to their survival. Organized retail did increase employment in both rural and urban areas.

JEL Classification: L8, J2, and O5

Keywords:

Services sector, employment generation, shopping malls, vegetables sales, India.

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Preamble

Globalization has been characterized variously as “the intensification of world-wide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away” (Giddens, 1990:64) as “time-space compression” (Harvey, 1989:147); as “the receding constraints of geography on social and cultural arrangements” (Waters, 1995) and as “the compression of the world and the intensification of the consciousness of the world as a whole” (Robertson, 1992:8). Economic globalization is reflected in the rapid pace and widening scope of economic activities that have been taking place across national boundaries. This has led to an increased integration of financial and capital markets among different countries, irrespective of their levels of development. These have had far reaching implications for economic, social and political systems, both within and between countries (Ayres, 1998). Globalization “is a complex and contested concept. If we take growing international interconnectedness — increasing flows of trade, investment and communications between nations — to be what most people mean by the term, then ‘globalization’ has been happening for the past 50 years” (Hirst and Thompson, 2002:248).

While the above definitions necessarily imply the flow of goods and services across nations, they have missed out one important aspect of the diffusion of idea, knowledge, lifestyle, culture and technique of doing business in the era of emerging K-economies. For example, organised retailing and retailing through big shopping complexes and malls is an idea, which is drawn from within and across nations. Thus, this idea is necessarily global and expansion of this idea is an integral part of globalisation.

Accordingly, economic globalization, which is discussed in this paper, refers to a process of increasing economic openness, growing economic interdependence and deepening economic integration between countries through the idea of organised retailing and expansion of shopping malls. It is the transnationalisation of economic life style, the internationalisation of capital in the context of the rapid development

and international diffusion of technique and technology. Throughout this paper globalisation should be understood in its broadest context.

It is argued theoretically that economic globalization improves human development through the development of production technology and employment generation. Empirical evidence particularly from Southeast and East Asia confirms that globalization has the potential to advance human development by reducing poverty through its capacity to generate employment. However, empirical evidence from the same region also indicates that globalization has increased vulnerability and insecurity. Critics argue that globalization leads to increased inequality, which at times may even aggravate absolute poverty among some groups in certain regions (Rodriguez and Rodrik, 2001; and Stiglitz, 2002). These arguments necessitate more and more empirical work to examine the relationship between globalization and poverty reduction through employment generation in developing countries. It is in this context, the present study examines whether the globalization strategies of India have contributed to significant employment generation in both rural and urban areas.

The following section briefly describes the specific context of this research with the objectives of this research. Primary survey data and methodology are explained in the next section. With a brief description about the characteristics of big shopping malls and retailers, the impact of the presence of big shopping malls and retailers on urban employment generation is analysed in the following section. The impact of big shopping malls and retailers on rural employment generation is analysed in the next section. A final section brings out the overall conclusions and issues that need further scrutiny to gauge the impact of big shopping malls and retailers on employment generation effectively.

The Context and Objectives

One of the important characteristics of the Indian economy is its vast informal or unorganized sector which is mostly spread over services and agriculture sectors. Such informality has helped maintain resilience in the growth process of India and provides flexible employment and self employment to a large segment of Indian workforce. It has also helped in maintaining order in macroeconomic environment through quick and silent adjustments by the economic agents in case of external shocks. Another important characteristic of the Indian economy is the incidence of poverty. As per the

Indian Planning Commission study, about 26 per cent of the population live below the national poverty line of Indian Rupees per capita monthly expenditure of 400. About 60 per cent of the total population lives in rural areas and most of this population work in the informal sector.

With globalization, this fabric is under challenge of re-alignment. But, more importantly, it poses an important challenge for policy makers to readjust the economic environment in a way that would lead to better and effective targeting of the chronic issue of poverty reduction and improvement of social welfare of people. Globalization in a democratic country such as India is a paradigm shift and it cannot be stopped even if it is proved to be disadvantageous for majority of general public. However, with better knowledge, government could take calibrated interventions that would lead to discipline in the functioning of market, avoiding exploitation and unfair competition.

India started its globalization strategies seriously through its economic reforms that started in July 1991. Some of the major globalizing strategies, among others, include almost complete liberalization of private investment encouraging foreign direct investment, and promoting trade openness by eliminating quotas, import restrictions, and reducing tariffs.

There are certain sectors where the effect of structural change due to India's globalizing strategies is quite apparent and those directly adversely affected could be easily identified. One such major sector is the entry of Big Business Houses in retail trade, which is one of the huge sectors and the fastest growing sectors thus far. Through creation of air-conditioned Retail Shops and Shopping Malls, where consumers can buy anything from grocery, toiletry, and durable items to perishable items like fruits and vegetables under one roof. The corporate retailing has the potential to affect the pricing behaviour through large scale activities in wholesale market by direct procurement from the manufacturers and cultivators eliminating the middlemen. With better shopping environment, the modern retail outlets are able to attract shoppers away from the traditional merchandisers. As a result, small and petty shop owners, fruit and vegetable vendors in the vicinity are reported to suffer from a major fall in their income and those unable to face the competition are forced to withdraw from the profession.

Growth of retail sector in India is being seen by some as the next driver of the Indian economy after the information technology boom. Retailing is a huge sector, thus far away from the eyes of the corporate sector and also from government intervention. Mukherjee & Patel (2005) report recommended opening up of FDI in retail sector in India in a phased manner over a time frame of 3–5 years. The authors viewed that FDI up to 49 % should be allowed in the initial stages to provide joint venture agreements opportunities for domestic players. The study also suggested improvements in supply chain network, regulatory framework, implementation of VAT uniformly across states, and single window clearing system for retailers. The study favoured FDI in retail sector to ensure better technological know how, skills and argued that FDI in retailing would ensure development of different retail formats and modernization of sector. This would lead to supporting domestic players in developing competitiveness and access to global management practices.¹

A recent study conducted by the Indian Council on International Economic research (ICRIER, 2008) at the behest of the Government of India indicates price benefits to farmers, lower price to consumers and almost no effect on the traditional retailers. However, contradiction abound. For example, institutions such as the Navadanya Research foundation for Science Technology and Ecology have come out with counter claims that the farmers are being exploited, prices are being manipulated and small traders are being displaced.

The past years have seen sporadic agitation against large retail operators in India, mostly from the small, unregulated street-side vegetable vendors, and the mom-and-pop shops called “kirana” stores. A recently submitted Parliamentary Standing Committee report on retails has made a following recommendation among others: “... a blanket ban on domestic corporate heavyweights and foreign retailers from entering into retail trade in grocery, fruits and vegetables”. Another equally important recommendation is for the Government of India to put restriction on them for opening big shopping malls for selling other consumer products. Global studies on large scale retailing have also contradictory views (see for example, Stone & Artz, 1999; and

¹ At present, FDI up to 51% in retail trade of ‘Single Brand’ products is allowed subject to the following conditions:

- i. Products to be sold should be of a ‘Single Brand’ only.
- ii. Products should be sold under the same brand internationally.
- iii. ‘Single Brand’ product-retailing would cover only products which are branded during manufacturing.

Berry, 1999). Therefore, more intensive studies using primary data are required for taking better policy decisions concerning both organized and unorganized retails.

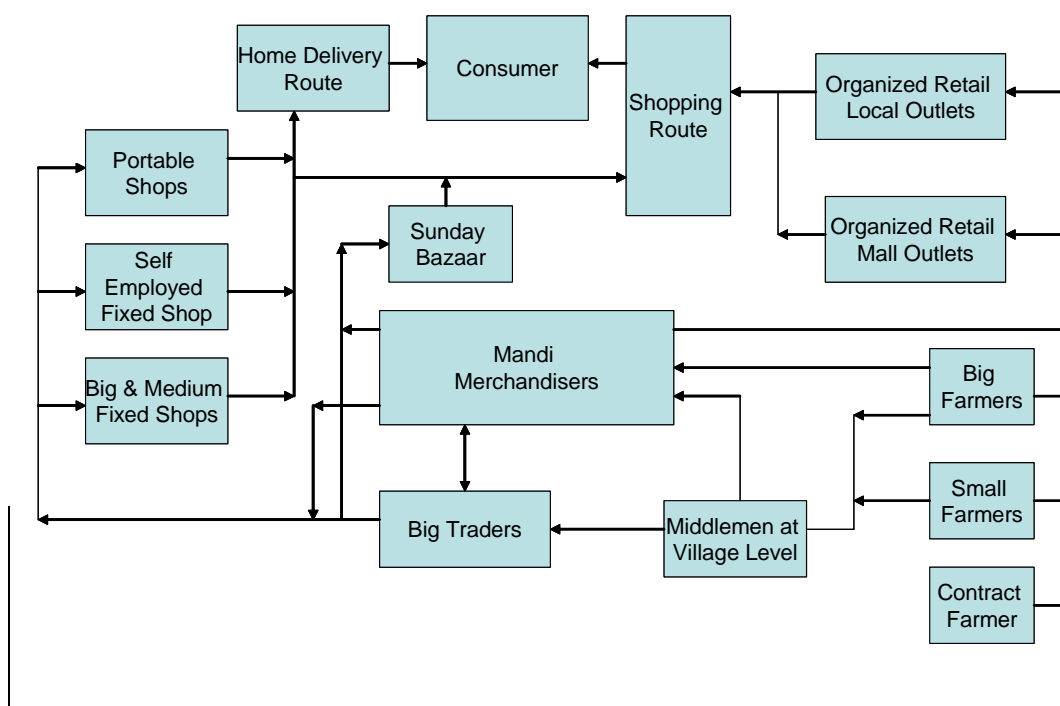
It is in this context, a pilot study with a focus on the distribution of vegetables is undertaken jointly by FASID and the CG Research New Delhi to verify the empirical fact based on primary survey of the entire chain of operations in five cities in India - Delhi, Gurgaon, Noida, Bangalore, and Chennai. The selection of vegetable retailing is motivated from the fact that it could be directly related with the contribution of modern retailing in addressing the problem of poverty reduction through employment generation in both rural and urban areas. Specifically, the following analytical questions concerning the expansion of big shopping malls and organized retailing with respect to vegetables sales are answered in this study:

- How the vegetable farmers are benefited from the emerging retailing and Shopping malls in big cities in India?
- Whether the new pattern of business is more employment intensive?

Data and Methodology

The analysis of the impact of organized retailing on poverty reduction requires clear and detailed understanding of the channels of supply and distribution of selected retail products. The preliminary survey of the supply chain for food and cereals indicates the complex process in which the organized retailing could affect the poverty conditions and the income distribution across the interest groups. Figure 1 indicates an approximate linkage of different nodes in the supply chain. At each node there is the issue of employment, price of the products, quantity, and the choice of the consumers. Given the complexity presented in Figure 1, listing for malls is done for over 800 malls spread all over the country and for organised retail shops it is done for nearly 2000 retailers in the cities selected for the study. The listing is done for obtaining basic information. Besides, a large quantity of secondary data was collected from the secondary published sources. No listing was done for the unorganised outlets. The unorganised shops were randomly selected within a limited boundary of one kilometre around the organised outlet or mall.

Figure 1. The supply channel for vegetables



In the case of vegetables, the corporate retailers use both the channels of procurement, namely farmers and through Mandi (which is wholesale market operated by the cooperatives). At Mandi the agents of the retailers could negotiate with the truckers only after it entered into the Mandi premises. The truckers auction their products in which both Mandi agents and Retail outlet agents participate. Retail companies have their godown at the Mandi where they store the products and then sent to the distribution centers. An estimated distribution of procurement through farm and Mandi obtained after interviewing retail outlet agents is presented in Table 1.

Table 1: procurement channel (%) of vegetables for the retailers

	Fruits			Vegetables		
	Mandi	Farmer/ Farmer Association	Others Including Contract farming, Self farming	Mandi	Farmer/ Farmer Association	Others Including Contract farming, Self farming etc.
DL	100			70	30	
UP	100			65	35	
HY	100			70	30	
KT	20	32	48	20	34	46
TN	68	20	12	70	14	16

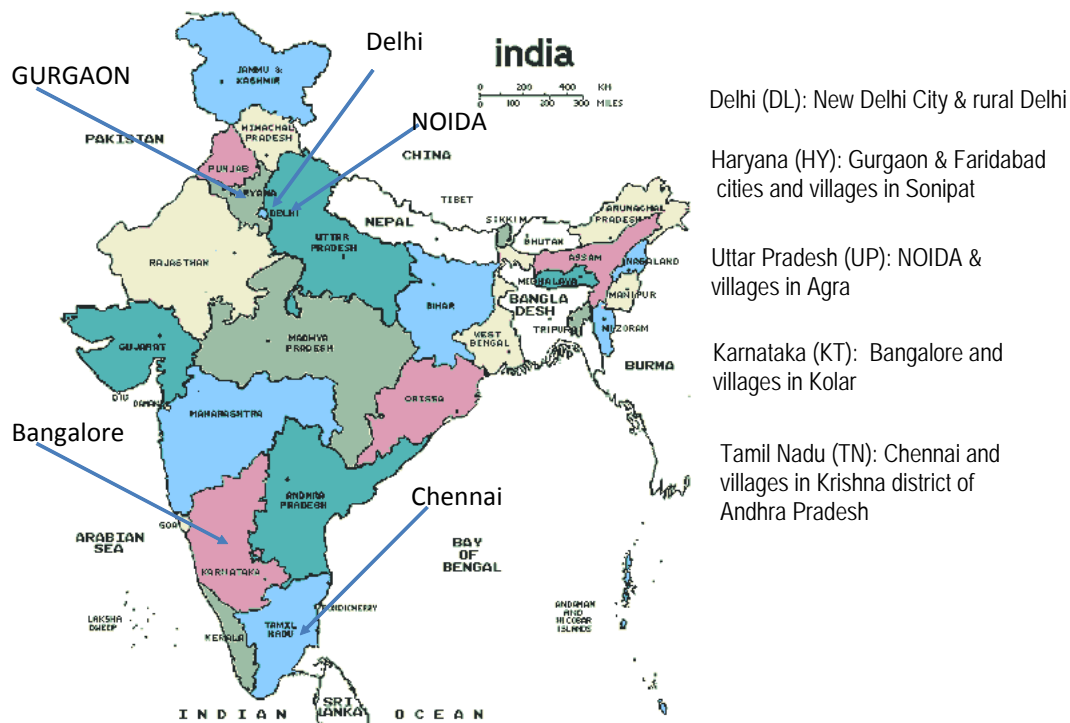
A number of structured questionnaires (Table 2) is used to collect responses of farmers, organized outlets, unorganized outlets, supply chain, intermediaries, employees, buyers, and the resulting pattern of prices across organized and unorganized sector.

Table 2: Sampling distribution of 12 Questionnaires

		Delhi (DL)	Haryana (HY)	Uttar Pradesh (UP)	Karnataka (KT)	Tamil Nadu (TN)	
Sl. No.	Title	Delhi	Gurgaon/Sonipat	Noida/Agara	Bangalore	Chennai/Andhra Pradesh	All Total
1	Farmers Schedule (20 per Village)	41	42	40	20	20	163
2	Village Schedule	2	2	2	1	1	8
3	Mandi	2	----	----	1	1	4
4	Mandi Truckers	20	----	----	10	10	40
5	Mandi Agents (Intermediaries ' Consolidators, Wholesellers)	12	----	----	5	5	22
6	Organized Retail Outlet (Must Have Vegetable)	10	5	5	5	5	30
7	Malls (4-5)	2	2	2	1	1	8
8	Employee – Organized Retail Outlet & Malls	60	35	35	30	30	190
9	Un-organized Retail Outlet (10 per ORO 5 vegetable + 5 Kirana))	100	70	70	61	61	362
10	Buyers-Organized Retail Outlet + Un- organized	100	50	50	20	20	240
11	Supply Chain / Distribution Centers	7-	-----	-----	5	5	17
12	Price	10	2	2	2	2	18
	Total:	359	208	206	161	161	1102

Figure 2 indicates the survey area from where primary data were collected.

Figure 2: Survey Locations



Impact on Urban Employment

The socio-economic characteristics of sample farmers are shown in Tables 3 and 4.

Table 3: Farmers Classifications

Farmer type	Land Owned (In Hectares)	Land Owned (In Acres)
Marginal	<1	<2.5
small	1 to 2	2.5 To 5
Medium	2 to 10	5 to 25
Large	>10	>25

Table 4: State-wise distribution of farmers of the sample households by farmer type

State	Type of Farmer					All	(%)
	Marginal	Small	Medium	Large	All		
Haryana (HY)	10	19	12	1	42	26	
Andhra Pradesh (AP)	11	9	0	0	20	12	
Uttar Pradesh (UP)	8	11	21	0	40	25	
Karnataka (KT)	9	5	6	0	20	12	
Delhi (DL)	12	22	7	0	41	25	
All	50	66	46	1	163	100	
(%)	31	40	28	1	100		

Calculations were done using the collected primary survey data. Unorganized sector had much higher employment intensity measured as persons engaged per 100 sq feet of floor area. Organised retailers (ORO) and malls had still much lower intensity. However the absolute numbers said a different story.

Table 5: Comparison of employment intensity of organized and unorganized retail outlets

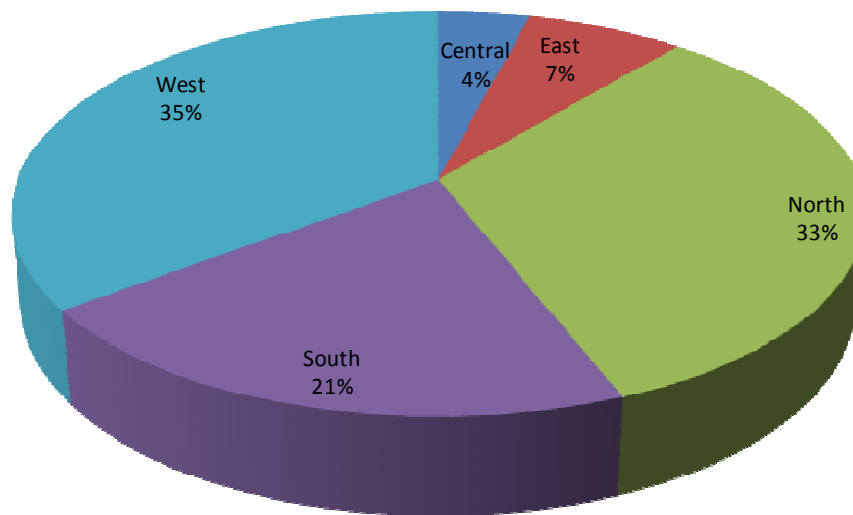
State	Sample Size			Employment Per 100 Sq. Ft			Average floor area (Sq Ft)		
	Malls	ORO	URO	Malls	ORO	URO	Malls	ORO	URO
HY	2	5	71	0.23	0.31	1.74	468500	16830	73
TN	1	5	20	0.16	0.79	1.14	750000	3760	114
UP	2	5	70	0.09	0.81	1.25	1131375	8040	116
KT	1	5	54	0.44	0.77	1.71	150000	7840	164
DL	2	10	95	0.20	0.74	1.57	427950	4090	97
Total Sample	8	30	310	0.16	0.60	1.53	619456	7442	109

In the case of malls estimates indicate (Figures 3 and 4):

- Total floor area of 277 million square feet.
- Total employment of 444 thousand people.
- Southern States are picking up fast.

- Northern and Western regions appear to have taken the lead in Mall development and Employment Generation.
- Bangalore has recorded the maximum shift, while Chennai has recorded the least shift.
- The National capital Region of Delhi, Gurgaon, and NOIDA have significantly moved to ORO.

Figure 3: Distribution of Malls across Indian regions (listing done for 782 malls)



Note: Western India (mainly Maharashtra, Gujarat, and Rajasthan lead in numbers). Northern India (mainly, Delhi, Haryana, Punjab, Uttar Pradesh, Himachal, and Uttarakhand lead in Floor Area).

Responses of Unorganized and Small Retail Outlets

Most Unorganized retailers felt that the emergence of corporate sector and malls had impacted their business adversely (Figure 5). Customers were reduced in numbers and generally customer loyalty had been the hope for survival. Due to the price pressure and fall in sales, profits had gone down. Sales and profits were reported to have gone down by 16-30 per cent across surveyed cities (Figure 6). Chennai appeared to have been the most affected, while Bangalore was the least affected region.

Figure 4: Distribution of Malls across regions and estimates of employment

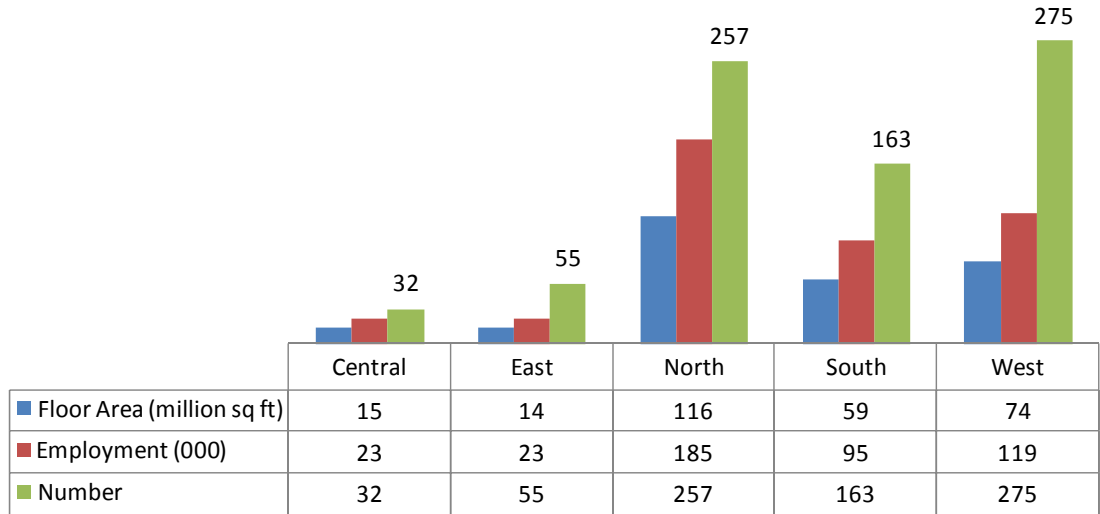
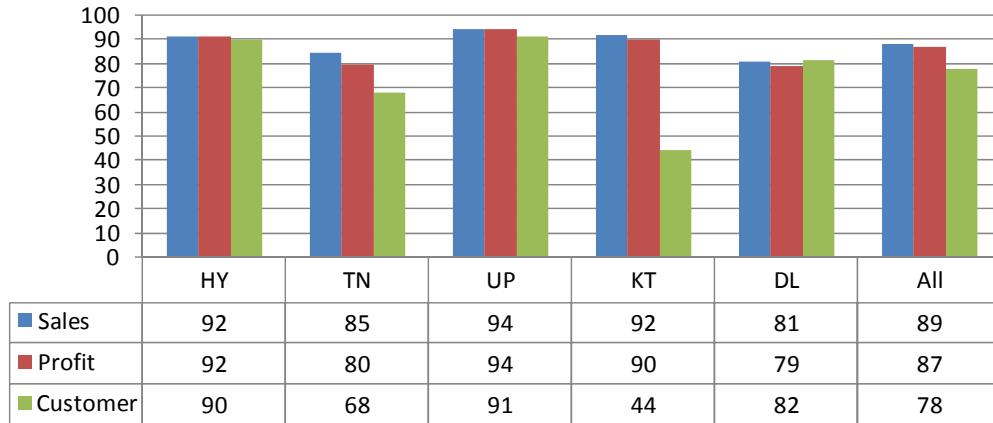


Figure 5: Responses of Unorganized and Small Retail Outlets



Unorganized retailers in most states except in Karnataka felt the threat to their survival (Figure 7). Almost half of the interviewed retailers knew incidences of closures. On an average, every retailer interviewed knew about 2 other retailers to have left the profession and taken up other jobs.

Figure 6: Extent of Adverse effect on Unorganized Retailing as per the response of URO in Selected Cities

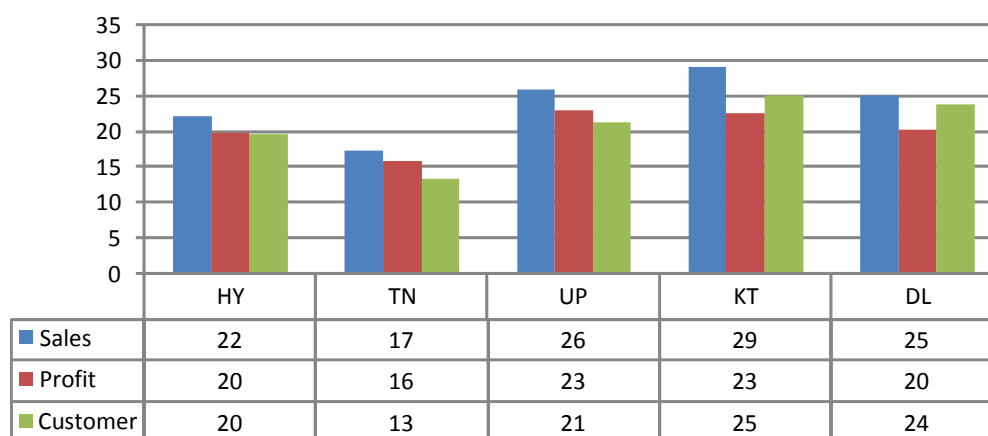
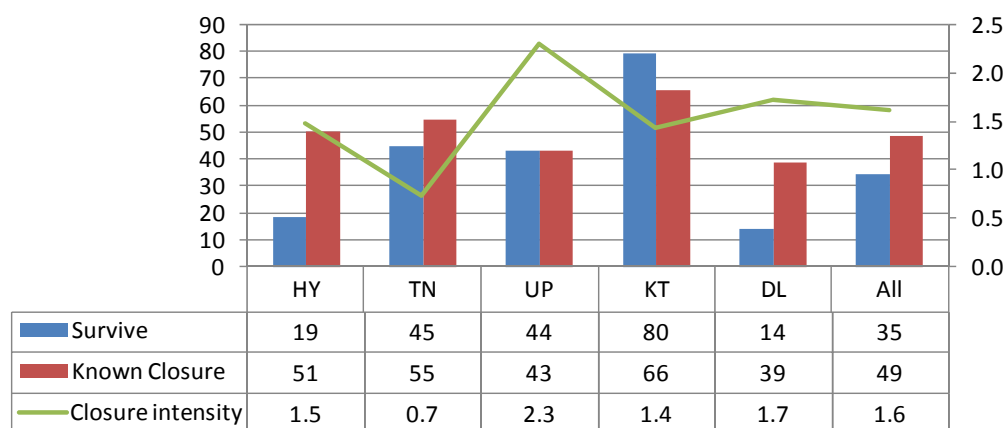


Figure 7: Closure and Survival Perception of Unorganized and Small Retail Outlets



Impact on Rural Employment Generation

Farm Employment Effect

Average Growth in farm Employment (including family employment) and real wages after a farmer started dealing with Corporate Retailers is presented in Table 6 and Figures 8 & 9. Haryana and Delhi reported the least growth, while the Southern States reported much higher growth. Clearly, this shows a kind of saturation effect and the limitations posed by the farm size and profitability compared to other produce.

Employment is restricted due to land constraint and fall in profits as real wages kept on growing, while product prices were negotiated to the advantages of the corporate sector. The corporate sector has been harder in bargaining prices with the farmers.

The scatter plot in Figure 10 is in conformity with the theory of demand and supply at full employment level. Clearly, it can be argued that with the arrival of corporate sectors, the demand for farm labour is increased. However, the natural preference of the rural youth and rightly so because of seasonality involved with farming is to move to cities for employment, which leaves villages devoid of farm labour at the time of need. This pushes the real wages. With increasing real wages, the purchasing power of labour increased, but the profit of the farmers declined.

Figure 8: Progressive participation of farmers in supplying to corporate retailers in each village over years as revealed in the sample

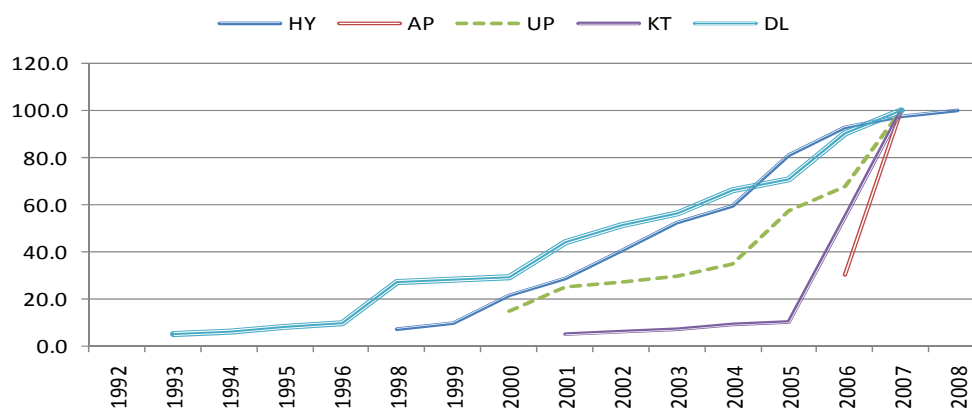
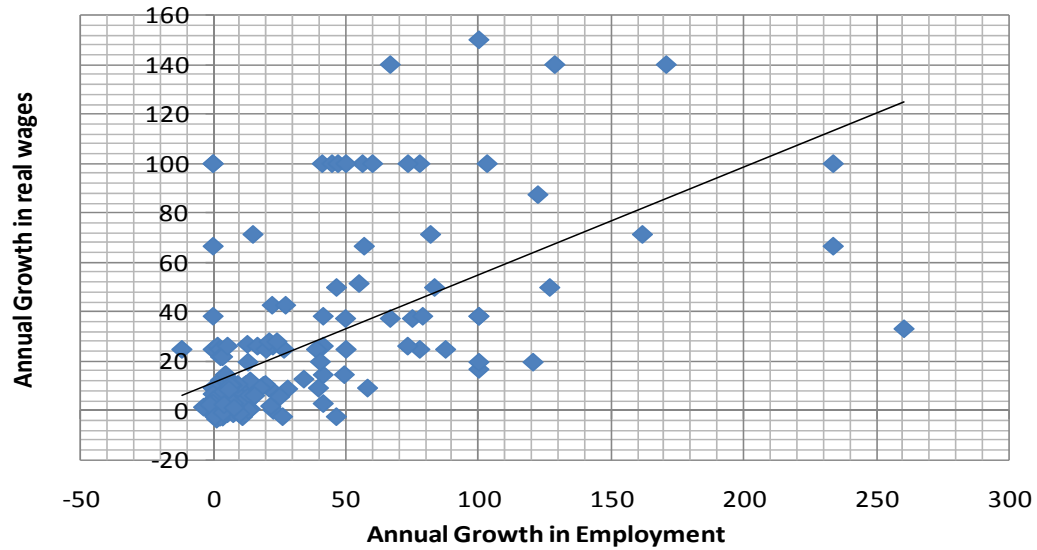


Table 6: Growth (per cent annual) of employment and real wages between the initial engagement with corporate sector and the survey date (refer Figure 8)

State	Details	Marginal Farmer	Small farmer	Medium Farmer	Large farmer
AP	GRW_EMP	35.35	36.52		
	GRW_RWG	46.57	67.64		
DL	GRW_EMP	11.45	16.20	22.80	
	GRW_RWG	8.37	8.48	9.08	
HY	GRW_EMP	25.62	16.76	8.67	4.20
	GRW_RWG	9.14	19.74	4.91	7.57
KT	GRW_EMP	90.41	129.58	93.55	
	GRW_RWG	42.87	45.45	68.25	
UP	GRW_EMP	21.03	14.49	43.54	
	GRW_RWG	23.46	19.21	67.45	

Figure 9: Scatter Plot of average growth in farm employment (including family employment) and Real Wages after a farmer started dealing with corporate retailer



Growth in employment is modeled using the survey data in alternative ways and the results are presented in Table 7. The key variable affecting the growth in employment are the experience of a farmer in growing vegetables and length of his association with the corporate buyer. Both these variables demonstrate non-linearity with opposite signs. Other control variables included in the model are growth in real wage, ownership of permanent house to capture the financial initial condition of well being and also a social variable of schedule tribe (ST), who traditionally grows vegetables. All these variables and dummy variables for Karnataka are significant with right signs. The coefficients and significance levels are calculated with the corrections for heterocadesticity.

Clearly, the experiences of farmers have non-linear relationship with farm employment individually (models (GRW_EMP2 and GRW_EMP1) and jointly, but with opposite signs and this is meaningful. As the farmers spend time with corporate, they know the behavior better and adjust the farm employment accordingly. Possibly, they are able to reduce the cost through mechanisation, or possibly their farm size does not allow high growth in employment.

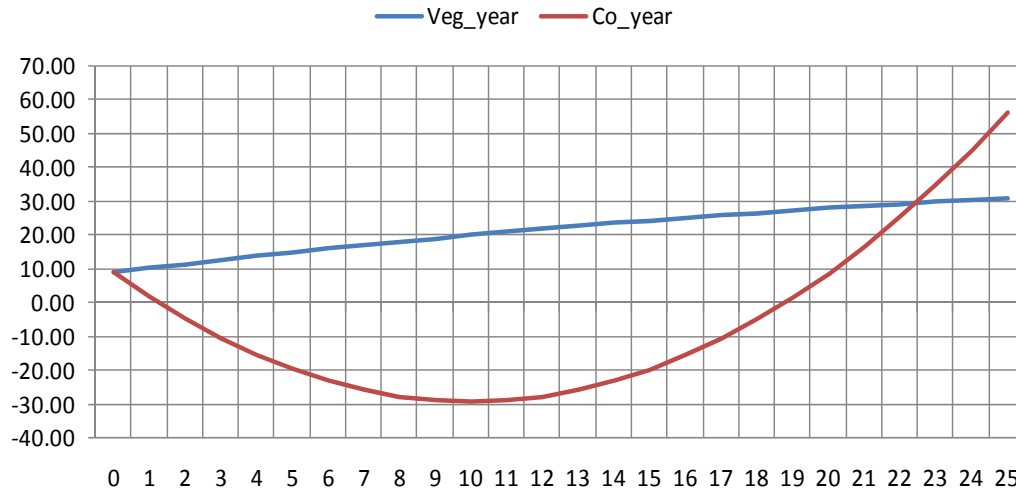
The non-linearity is modeled in an alternative way in GRW_EMP1 and GRW_EMP4. The later clearly shows that farm employment due to selling to the corporate sector could grow only between 6-15 years of association and this can be considered as a

stabilization period. A similar disposition is presented by simulating the model GRW_EMP1 over time in Figure 10 for veg_year and co_year keeping other variables unchanged. Clearly, the relationship between corporate bodies and farmers matures over time. The initial allurement of corporate sector is high enough to motivate the farmers for engagement but after initial honeymoon, the exploitation starts and many farmers start withdrawing or negotiate harder till a sustainable equilibrium is arrived where both feel benefited.

Table 7: Regression results for Growth in employment after a farmer gets engaged with corporate retail business

	GRW_EMP1		GRW_EMP2		GRW_EMP3		GRW_EMP4	
	Coeff.	Prob.	Coeff.	Prob.	Coeff.	Prob.	Coeff.	Prob.
C	8.99	0.35	76.00	0.00	11.51	0.18	10.52	0.29
VEG_YEAR	1.24	0.02			2.14	0.01	1.33	0.02
CO_YEAR	-7.63	0.00	-17.61	0.00			-8.33	0.01
VEG_YEAR^2	-0.01	0.03			-0.04	0.02	-0.02	0.11
CO_YEAR^2	0.38	0.01	0.94	0.00				
CO_YEAR6_10							3.62	0.07
COY_EAR10_15							5.76	0.03
COY_EAR15A							-0.27	0.90
HH_PUCCA	8.60	0.11					9.69	0.12
Dummy_ST	33.43	0.00					30.48	0.09
dummy_KT	65.21	0.00					64.82	0.00
Dummy_HY	7.39	0.05					9.17	0.13
GRW_Real Wage	0.44	0.00					0.42	0.00
N	163		163		163		163	
R-squared	0.64		0.29		0.34		0.64	
Adjusted R-squared	0.61		0.28		0.30		0.61	
F-statistic	29.75		32.29		13.21		24.29	
Prob(F-statistic)	0.00		0.00		0.04		0.00	
White Heteroskedasticity-Consistent Standard Errors & Covariances.								

Figure 10: Time (year) Simulation of non-linearity of Veg_year and Co_year in Model GRW_EMP1



Conclusions and Issues need to be scrutinized

Conclusions

- Unlike the East Asian growth model, India's growth is 'services sector' lead growth.
- More than 50% of GDP is generated by the services sector, of which retailing is a significant component.
- Almost 60% of GDP is contributed by the unorganized or informal sector and 65% of services sector income is generated by the informal sector.
- Western India dominates in terms of having large number of big shopping malls.
- Northern India dominates in terms of having big shopping malls with large floor area.
- Southern States are picking up fast.
- More employment is generated in Northern and Western India.
- Unorganized retailers in most states except in Karnataka feel the threat for their survival by the corporate entry into retailing.
- Most farmers in the South feel that the corporate entry into retailing will reduce poverty.

- Nevertheless, unorganized retailers in most states except Karnataka feel the threat for survival due to corporate entry into retailing. Almost half of the interviewed retailers knew incidences of closures. On an average, every retailer interviewed knew about 2 other retailers who left the profession and took up other jobs.

Issues

Through the vide notification No. 5(3)/2005-FC, Government of India, Ministry of Commerce & Industry, Department of Industrial Policy & Promotion (FC Section) Press Note 3 (2006 Series), the Government of India has decided to allow FDI up to 51%, with prior Government approval, in retail trade of ‘Single Brand’ products. This is, inter alia, aimed at attracting investments in production and marketing, improving the availability of such goods to consumers, encouraging increased sourcing of goods from India, and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices. However, FDI up to 51% in retail trade of ‘Single Brand’ products would be subject to the following conditions:

- i Products to be sold should be of a ‘Single Brand’ only.
- ii Products should be sold under the same brand internationally.
- iii ‘Single Brand’ product-retailing would cover only products which are branded during manufacturing.

FDI would be allowed only with prior approval of the Government. Application seeking permission of the Government for FDI in retail trade of ‘Single Brand’ products would be made to the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion. The application would specifically indicate the product/ product categories that are proposed to be sold under a ‘Single Brand’. Any addition to the product/ product categories to be sold under ‘Single Brand’ would require a fresh approval of the Government.

Applications would be processed in the Department of Industrial Policy & Promotion, to determine whether the products proposed to be sold satisfy the notified guidelines, before being considered by the FIPB for Government approval.

Thus, multi-brand players can set up wholesale or cash-and-carry operations. Regulation also allows foreign equity in real estate and back-end wholesale and

logistics. These have made the backdoor entries inevitable and are happening through franchises (like Reebok and Cartier) and joint ventures (Like Marks & Spencer with Reliance Retail). Metro runs wholesale market for vegetables.

Limitations of this study

Being a pilot study in nature, it was not possible to estimate net loss/ gain of employment. Poor secondary data on retail sector did not allow validation of results in any alternative ways. Corporate retail is facing political resistance and is yet to stabilize their operations. Therefore, whether they would be exploitative or supportive in the supply chain process is yet to be established more meaningfully. Therefore, further research is needed to answer the following important questions of interest among others:

- What would be the net effect on the urban employment?
- How much gain the new employment and the structure of such employment would generate to work force?
- Whether the high employment intensity of URO is consistently and significantly being offset by the high volume effect of malls and ORO?
- How effective is the argument that the increasing literacy, malls and ORO provide better opportunity for the educated youngsters, but it takes away livelihood means of traditional traders?
- Is it possible to expect that corporate participation in increasing the yield of farm could be a next wave of change with stagnating or reducing stock of farm land?

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