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HAWKER ECONOMY

Small Business, Big Role–I

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[A survey on Kolkata street hawkers, spread over three different zones of KMC, was done, around 2004, by a group of social activists. Using a structured questionnaire, feedback on twenty-one socio-economic parameters were collected from a convenient sample of 2306 stationary hawkers. This paper presents and tries to analyze the findings of the survey in the broader perspective of a changing global economy, especially in the context of the mounting power of transnational retailing activities. The study concludes with the observation that the global capital, searching desperately for new avenues to get out of recession, has realized that fortune lies 'at the bottom of the pyramid'. Capital, for its own survival, has become very aggressive and every economic space, however small and informal it might be, is being invaded by it. The process of integration of local informal economies, like the hawker economy, with the global monopoly capital has been started in a well planned manner.]

Hawker economy is an economic activity that survives on small local producers and numerous buyers from poor and middle income groups. Over the years, a hawkers' economy has emerged as an essential economic system in a country like India. Street vendors/hawkers constitute approximately two percent of the population of metropolis.

Hawker economy is primarily an informal economy. The activities of an informal economy could be categorized into two broad sections- self employed and casual (non-permanent) labour. It typically includes providers of economic activities not recorded in the national accounts and not subject to formal rules of contract, licensing, labour inspection and taxation. The common characteristics of these activities are: ease of market entry; reliance on indigenous resources; small scale operation; labour intensive (low capital requirement per worker); unsophisticated technologies; unregulated and competitive market. The primary motivation of these business activities is assumed to be survival than return to investment. It provides subsistence existence. Returns tend to be low and intermittent, security and stability are minimal and working conditions are poor. Typically an informal sector is defined to include 'self employed with less than thirteen years of education, unpaid family members, employees and employers in establishments of less than five employees'.

The street vendors (commonly known as hawkers) play an important role in the hawker economy by acting as a bridge between the numerous small buyers and small producers. They hawk wide range of commodities - food, agricultural products, clothes, utensils, stationery and numerous necessary items - used mainly by the middle class and poor citizens of urban centers. The hawkers buy commodities, in small quantities, from small producers at a low price and sell the same to a buyer who has a limited purchasing power. With active participation of many small producers, small sellers (hawkers) and small buyers, numerous undersized economic circuits are constructed everyday. Thus, a common man's economy where hawkers play the central role runs parallel to the 'formal'/'organized' economic activities.

There exist grey areas in the formal and informal sector. Informality, illegality and precariousness are used as synonymous. In 1972, the International Labour Organization (ILO), while explaining the problem of unemployment in less developed countries, highlighted the condition of 'working poor'. These are the people who do not earn enough money to make a living. Recognizing the existence of unprotected labour beyond microenterprises, ILO widened the definition of informal sector and introduced the concept of the *informal economy*.

At its 90th Session (June 2002), the International Labour Conference (ILC) had adopted a resolution concerning 'Decent Work and Informal Economy'. It was pointed out that all four dimensions of decent work, namely rights; employment; social protection; organization and social dialogue, reinforce each other and a comprehensive and integrated decent work approach was essential for addressing the multi-faceted and multi-rooted problem of the informal economy. As a first step, ILO decided to move away from the words 'informal sector', instead, preferred the term 'informal economy' which was referred to: ' All economic activities by workers and economic units that are in law or in practice- not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome or imposes excessive costs'.

The ILC had further distinguished informal activities from 'criminal and illegal activities, such as smuggling of illegal drugs which are not appropriate for regulation or protection under labour or commercial law'. Another significant feature of the new conceptual framework was that it had done away with the idea that there were distinct formal and informal sectors without direct links. Instead, it was stressed that there were 'linkages, grey areas and interdependence between formal and informal activities'. ILC suggested that the policy concern should be to enhance the positive linkages and to ensure that there was 'decent work' all along the continuum.

As a first step towards integration of the hawker economy of India with the globalization process, the National Policy on Urban Street Vendors 2009, approved by the government of India, has re-christened the street vendors as *micro-entrepreneurs*.

Across the world, small and medium enterprises (SMEs) drive economic development by creating employment. It is estimated that 99.7% of all enterprises in the world are SMEs and rest 0.30%, are 'large'. They account for, directly and indirectly, around 80% of the employment and nearly 80% of all value addition within the economy. European Commission has defined SMEs as independent enterprises that have fewer than 250 employees and an annual turnover not exceeding Euro40/£25 million or a balance-sheet total not exceeding Euro27/£17 million. 23 million SMEs of EU as a whole represent about 99 percent of all EU enterprises and 57 percent of the EU's total economic added value. In OECD countries, SMEs account for 60-70 percent of employment. In developing countries this number is often much higher. For example, in Ecuador, 99 percent of all private companies have no more than 50 employees. In India also SMEs have (SSIs—Small Scale Industries) been playing vital role since early fifties as a growth engine of the economy, generating around 80 percent of employment. At the beginning of the Xth Five Year Plan (2002-03), the segment provided gainful employment, through 10.5 million units, to 24.9 million people in the rural and urban areas of the country. Over the next four years (end 2005-06), the manufacturing units have grown to 12.3 million units providing employment to 29.5 million persons.

SHIFT

In the emerging economies of India, Latin America and People's Republic of Korea (South Korea), the recent trend indicates that the contribution of small and micro enterprises *(smes)* in the economy are growing at a faster rate compared to the SMEs. Political thinkers like M K Gandhi had strong faith in the creativity of the poor masses. Gandhi did not believe that the capital and energy intensive highly sophisticated western mass production system would in any way help the poor of the developing countries. Instead, he talked about an alternative village based production system where poor masses would produce their products in millions of such small production units using very simple technology. To endorse and extend Gandhi's logic, Schumacher (1973) talked about Buddhist economics ('Right Livelihood'). He also wrote about an 'intermediate technology'–a technology with a human face and popularized the idea that 'small is beautiful'.

Almost after four decades of the publication of Schumacher's seminal work, a book titled 'The fortune at the bottom of the pyramid eradicating poverty through profits' by management guru C K Prahalad (2005) has turned the attention of policy makers, worldwide, to the small and micro enterprises *(smes)*. The focus of this new thinking is different. To Gandhi and Schumacher, 'production by the masses' using labour intensive simple technology was the philosophy of life. But to the new thinkers like Prof Prahalad, it is a new business strategy to earn profit.

By 2000, informal sector was providing around 47% of total urban employment in Latin America and its share in the labour market continued to grow steadily. Out of every 100 new jobs created during the 1980s, seventy had been informal ones. Compared to this, between 1950s and 1980s, approximately 4 out of every 10 new jobs were created by the informal sector. This trend was determined by two factors: withdrawal of the public sector as the net employer, and downsizing measures implemented by large enterprises. The informal nature of small scale economic activities resulted in the inability to absorb the cost involved in regularizing the contractual situation of the workers and to comply with social protection requirements. On an average some 65% of wage labour manufacturing in micro enterprises in Argentina, 80% in Peru and 50% in Chile had no contract or found themselves in a precarious situation.

In South Korea, the growth of micro-enterprises was more evident. Since the 1990s, the number of micro-enterprises (5-9 employees) in the manufacturing sector has been rapidly increasing, while small and medium companies (50-299 employees) have been displaying a continual decline. In 1990, micro-enterprises in the manufacturing sector numbered 21,652 (31.4% of total business). By 2004, this number had jumped to 56,976 (50.7% of total business).In comparison, the number of small and medium businesses in the manufacturing sector has significantly decreased from 8,820 in 1990 (12.8% of total business) to 8,034(7.2%) in 2004. The number of large companies in the sector has also dropped from 1,193 in 1990 (1.7%) to 695 in 2004 (0.6%). The percentage of manufacturing employees and value- added production accounted for by micro-enterprises has increased from 4.9% and 2.3% respectively in 1990, to 12.9% and 5.0% in 2004.

The reason Korea was experiencing such a replacement of small and medium manufacturing business by micro-economics was the 'quick to build and quick to fall' type start- ups that swept the country following the restructuring measures taken by large companies. The employment growth rate, according to company size, between 1990-1999 shows that the number of employees in micro-enterprises has grown significantly, implying a migration of labour from large companies and SMEs which provided higher wages to micro-enterprises which offered lower wages. Despite job creation in micro-enterprises, the average income level of these companies decreased from 56.6% of large company levels in 2000 to 48.4% in 2004. This also indicates the declining bargaining power of the *smes* vis-à-vis large firms

Unlike the Korean manufacturing industry, Japan displayed no sign of growth in micro-enterprises. In fact, the number of micro-enterprises (4-9 employees) in Japan has been continually decreasing between 1990 and 2003.

To recognize the growing importance of micro enterprises in India, the government has enacted the Micro, Small and Medium Enterprises Development Act, 2006 which seeks to facilitate promotion and development of these enterprises. Subsequently, the President under a notification dated 9th May 2007 has created a new ministry namely 'Ministry of Micro, Small and Medium Enterprises'. It was formed by merging the 'Ministry of Agro and Rural Industries' and 'Ministry of Small Scale Industries'. Nearly 61% of Indian manufacturing job is in the small and micro enterprises which employ less than five employees. The average annual earnings of the employees of the medium sized industry were 2.3 times and in the large industry were 4.6 times higher than that of small-scale industry.

INTEGRATING THE INFORMAL SECTOR WITH THE GLOBALIZATION PROCESS

Different and complementary means are explored by policy makers to integrate the informal sector with the globalization process. Generally a three -pronged approach is followed. (a) Providing support to foster the productive development of micro- enterprises by facilitating their access to the market and productive resources. Training and credit programs are used more frequently to achieve this objective. (b) Social welfare of informal workers. Extension of life and medical insurance to informal workers is one such policy initiative. (c) Strengthening of regulatory framework.

High cost is associated with formality. It is reported that to bring a microenterprise in line with regulations, micro-entrepreneurs in Brazil have to go through at least eleven different administrative procedures, while that of Peru and Colombia must go through nine and six respectively. A study conducted in Peru estimated that only 35% of the microenterprises employing five or less workers could comply with the whole package of social insurance contributions. It was also estimated that full compliance would represent over a 50% cut into the profits of 75% of those enterprises. In addition to that it was also revealed that a family unit in which regular labour relations had no place and which operate at such low levels of productivity and income that compliance with administrative regulations and tax laws was hardly feasible.

INTEGRATING *SMES* WITH THE GLOBAL SUPPLY CHAINS

Various factors are responsible for the existence, continuation and growth of informal sector in the developing and emerging economies. It is argued that the primary reason is the urge to survive. In a labour surplus economy, when good jobs in the modern sector are scarce, people desperately seek low productivity- low income solutions by producing or selling anything for their survival. The second most critical driving force is associated with globalization and changes to the international division of labour. Productive decentralization is the latest corporate strategy of the modern enterprises to deal with an increasingly unstable demand. To adapt to the new environment, they introduce more flexible productive systems and decentralize productive and labour processes, which allows them to cut production costs and to externalize demand fluctuation.

Global supply chains have created new opportunities for labour-intensive exports from low-cost locations which resulted in a dramatic growth in the number of producers, increasing competition among the world's factories and farms for a place at the bottom of the chain. At the top end, however, few leading retailers and brands consolidated their market share. New technologies, trade liberalization, and capital mobility have strengthened this process of consolidation of power in a global scale.

In this global business environment, *'smes'* are increasingly losing their independence and are being turned into an insignificant component at the bottom of the global supply chains of transnational manufacturers and retailers. It has been reported that some leading durable and non-durable product manufacturers have started to 'append SHGs as channel partners' to promote their brands in rural markets of Tamil Nadu (India). A new terminology 'glocal' has been popularized to endorse this new strategic thinking. Already the governments of different developing countries, including India, have liberalized their FDI policies and have formulated regulations to facilitate creation of industry clusters (say automobile hub, food processing hub et al) to integrate those enterprises to the global supply chains of the major TNCs. Added to this, 'micro-credits' have been mobilized locally for funding the small and micro-enterprises *(smes)*.

The identified 'fortunes at the bottom of the pyramid' is attracting huge fund (both national and international) to the undeveloped regions for the development of infrastructure-both physical and human. Capital is also mobilized at the grassroots level by organizing self-help groups (SHG) and encouraging the practice of thrift among them. A network of such SHGs have been formed in many developing countries like Bangladesh and India to mobilize and manage 'micro-credits' and 'micro-enterprises'. The concept of micro-credit that was introduced in USA and Bangladesh by the Ford Foundation has been popularized in many developing countries to finance millions of *smes*.

In the Gandhi-Schumacher model, *'smes'* were portrayed as a challenge (an alternative) to the large scale mass production system of the western capitalism. Now these *smes* are considered as part of the global production/supply system.

CONFLICT

The retail and brand companies have positioned themselves as powerful gatekeepers between the world's consumers and producers. Their global supply chains stretched from the supermarket shelves in the world's major shopping centers to the fruit and vegetable farms of Latin America and Africa and the garment factories of South Asia and China. Integration of retails chains with global supply chains resulted into a new business model for major retailers like Wal-Mart, which in 2005; procured products from over sixty-five thousand suppliers spread across the globe and sold products worth $312 billion dollars through its 6,600 odd retail outlets located in different countries.

A complex model of organized retailing is being developed by linking millions of small and micro enterprises with the major retailers. This is done through global supply chains developed and managed with the application of sophisticated technology. The small producers survive at the mercy of the big retailers as all traditional local outlets get wiped away by the global retailers .

It has been observed that over the past twenty years, fresh produce and food service industries have headed towards global consolidation. The same trend is observed in India also. The *e-chopal* promoted by ITC (a large multi-business conglomerate in India) is an example of such development, aimed at establishing a sophisticated supply chain, to strengthen large corporations' grip on food business. To facilitate this change, the public sector National Bank for Agricultural and Rural Development (NABARD) has initiated, in January 2009, an in-depth study on 'organized agri-food retailing and supply chain management', covering different Indian states and all major agricultural commodities including fruits and vegetables.

The hawker's economy does not fit into this emerging structure of the global economy. It acts as a challenge to this globalization process by helping the small enterprises to retain their independence. Findings of the survey also suggest the same. If hawker's economy could be destabilized, the *smes* would automatically become part of the global supply chains of major retailers. All across the globe, including India, these very vital and independent economic entities have been targeted by the states and the transnational retailers. The later duo (states-transnational retailers) has taken a two pronged strategy. While evicting hawkers forcefully from the urban business centers the state has, simultaneously, extended all kinds of support to organized retailers to establish their footholds in the fast expanding urban markets.

Recently, in West Bengal (India) the state legislative assembly has decided to allow transnational wholesales traders operate and invest in the 144 state controlled wholesale markets across the state. Contract farming has also been allowed. Now major global suppliers like Metro Cash and Carry, ITC, Hindustan Unilever would be able to deal directly with the small help groups (SHGs) and cooperatives at the grassroots level to ensure supplies of various agricultural products. Needless to say that these global players would exert their monopoly power while negotiating with millions of small suppliers of this country. □□□ *[To be concluded]*