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TRENDS OF FDI IN INDIAN TEXTILE INDUSTRY: A CONCEPTUAL STUDY

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ABSTRACT

The Garment Sector has been conventionally viewed as a major source of employment generation. Of late, in addition to this dimension, following the success of the East Asian economies low skill requirements and large lab absorption potential have made it an important source of non-agrarian employment for the rural populace of these regions. To add, the garment sector is also seen to offer tremendous prospects for employment of women, unlike other traditional manufacturing sectors. It is high time to understand the labour market implications of the changes in the international trade regime. This Paper is a modest attempt to understand the FDI trends in Indian Textile Sector

INTRODUCTION

Indian textile enjoys a rich heritage. The origin of textiles in India traces back to the Indus Valley Civilisation where people used homespun cotton for weaving their clothes. Rig Veda, the earliest of the Veda contains the literary information about textiles and it refers to weaving. Ramayana and Mahabharata the eminent Indian epics depict the existence of wide variety of fabrics in ancient India. These epics refer both to rich and stylised garment worn by the aristocrats and ordinary simple clothes worn by the common people.

The contemporary Indian textile not only reflects the splendid past but also cater to the requirements of the modern times. It is the second largest employment provider and the biggest export earner accounting for nearly one third of the country's export earnings. It contributes Rs.7, 000 crores annually as duties to the central excise besides cess, State taxes and other taxes The area under cotton cultivation is the largest in the world, the spinning capacity is the second largest after China's. India has the largest hand weaving sector and a long tradition of producing some of the finest and costliest fabrics in the world. India is the biggest yarn exporter with a share of

28 per cent of the world market and is known for the quality of its fine count cotton yarns. The Indian garment sector is a supplier to the top brands the world over. It caters to the higher end of the market, leaving the lower end to emerging countries though the Indian weaving and processing sectors log behind in technology. Despite the glorious tradition of the textile industry, Government policies have been wreaking havoc in most segments by encouraging fragmentation.

Post-independence, till about the late 1980s, the Government of India put numerous policies and regulations in place to ensure that mechanisation did not occur and that labour-intensive textiles were produced, large-scale production was discouraged by restrictions on total capacity and mechanisation of mills. The labour regulations did not allow capital investment and resulted in high production costs. Imposition of price restrictions, along with decreased productivity, severely hampered the competitiveness of the sector.

Till 1985, the main concerns of Government policies were centered on import substitution, protection of existing employment in the organised sector and support for decentralised sector. These concerns were reflected in the government policies such as imposition of quotas on yarn export, strong exit barriers even for unviable operations, general discouragement of automation stringent licensing for organised sector and price regulations to handle the shortages resulting from the licensing restrictions. Restrictions of such nature only resulted in increasing costs, declining productivity and loss of competitive edge. The textile industry had to be set free from these regulatory burdens so that it could evolve, grow and remain competitive in the global market.

The textile and apparel industry is one of the leading segments of the Indian economy and the largest source of foreign exchange earnings for India. This industry accounts for percent of the gross domestic product (GDP), 10 percent of manufacturing production and slightly more than 13 percent of export earnings. The textile and apparel industry employs over 45 million people, making it the largest source of industrial employment in India.[1] India has the second-largest yarn-spinning capacity in the world (after China), accounting for roughly 20 percent of the world’s spindle capacity. India’s spinning segment is fairly modernised, approximately 35 to 40 percent of India’s spindles are less than 10 years old. During 1989-98, India was the leading buyer of spinning machinery, accounting for 28 percent of world shipments. India’s production of spun yarn is accounted for almost entirely by the "organised mill sector” which includes 285 large vertically-integrated ‘composite mills” and nearly 2,500 spinning mills.

India's share of global exports of textiles and apparel increased from 1.8 percent in1980 to 3.3 percent in 1998. However, India's export growth was lower than that of most Asian countries during that period. The Indian textile and apparel industry has a number of competitive strengths.

Policies of the Government of India favoring small firms have resulted in the establishment of a large number of small independent units in the spinning, weaving, and processing sectors. Sources in India claim that Government of India policies have provided competitive advantages for the small independent units over the generally larger composite mills, discouraged investments in new manufacturing technologies, and limited large-scale manufacturing and the attendant benefits of economies of scale. Sources in India also claim that because of the Government of India policies, small units have significantly lower production costs than the composite mills, use low levels of technology, and produce mostly low value added goods of low quality that are less competitive globally.

REVIEW OF LITERATURE

The FDI has become a major tool for economic development in the hands of the developing economies of the world especially in the Asian developing economies like China, Singapore and Hong-Kong and the like. India has also learnt a lot from the experience of these economies and realised the importance of the FDl in the economic growth of a country. For this purpose a lot of Initiatives have been taken on the part of the Government. Due to the consistent efforts of the Government of India there has been a huge Improvement in the FDI inflows in India as compared to pre 1991 period. The FDl inflows In India are not as per the potential of the economy. There is a dire need to further open the other sectors for the FDl and to offer incentives like other countries to encourage more FDl to expedite its economic growth (Ganpathi et al, 2010).

Feeny et al (2014) used OLS and GMM to investigate the impact of FDI growth in 2009 in the Pacific Island countries during 1971 - 2010. The variables studied were the GDP, the FDI, the literacy ratio, the inflation, the imports, the exports, the domestic investment and the trade openness. It is argued that the impact of FDI on the economic growth of the countries of the sample is lower than the average impact of the host countries.

Imai et al (2014) used panel data to study the impact of FDI on economic growth in 24 countries during 1980 - 2009. The variables used were the GDP, the remittances, the inflation, the civil wars, the available natural resources, the investment, the financial development and the capital account openness. It is observed that remittances contribute more on economic growth compared to FDI and ODA.

Goswami and Haider (2014) applied factor analysis and panel data to study the impact of political risk on the FDI in 146 countries during 1984 - 2009. The variables used were the market size, the GDP, the trade openness and the available infrastructure. The study concluded that both cultural conflict and the attitude of the host country towards foreign investors discourage FDI.

Seyoum et al (2014) applied panel data to study the interaction between trade openness and FDI in 25 SSA during 1977 - 2009. The variables used were the trade openness and the FDI. The researchers reached to the conclusion that there is a bidirectional casual relation between FDI and trade openness. Thangavelu and Narjoko (2014) used FE to study the relation between Free Trade Agreement and FDI during 2000 - 2009. The researchers took into consideration the GDP, the literacy ratio, the FTAs, the distance, the common borders and the language. It is argued that there is a positive relation between FDI and FTAs and that the impact of FDI on the host country's economy depends on its absorptive capacity.

Kinuthia and Murshed (2014) applied VAR and VECM to investigate the determinant factors of FDI in Kenya and Malaysia during 1960 - 2009. The variables studied were the market size, the trade openness, the financial stability, the inflation, the FDI, the institutional development and the cost factors. The study concluded that the FDI contributed to economic growth only in Malaysia because of the country's macroeconomic stability, trade openness, infrastructure facilities and institutional development.

In the early 1990s. India incurred high budget deficits (8 percent of GDP), acute balance-of payment problems due to a deteriorating fiscal position, structural imbalances caused by a high degree of government planning and regulation, and declining external reserves caused by an increase in external debt and a sharp decline in remittances from Indian workers in the Middle East Faced with these difficulties, the Government of India initiated economic reforms in 1991 after signing a standby arrangement with the International Monetary Fund to undertake fiscal and structural reforms. These economic reforms initially centered on

- Liberalising procedures for industrial licensing and investment.
- Reducing the role of the public sector in the nation's economy.
- Lowering import duties.
- Easing import licensing requirements.
- Relaxing controls on foreign direct and portfolio investment, and
- Improving operations of capital markets

Growth along with the investment of an industry depends heavily on the economic health of the country. The major demand that is being generated is by a new class of people from the booming IT-BPO sector who are still at their prime age and are outwardly fashion savvy. This has generated huge demand for fashionable dresses which has consequently led to the emergence of some world class Indian designers with their latest fashion apparels.

Textile industry is one of the major contributors to the total output of the fast growing Indian industrial sector which is at present revolving around 14% Textile sector’s contribution to GDP of India is also significant which currently amounts to 4%. It has been found out that Indian textile industry is one of the major sources of foreign exchange earnings for India and contributes around 16-17% of the total export earnings.

OBJECTIVES OF STUDY

The Textile Sector in India is booming and decision to liberalise the FDI norms in this sector is perhaps the most significant economic policy decision taken by the Government. So, the objective of the present study is to address some issues related to Textile Sector in India as follows:

- To study about the existing position of textile industry,
- To identify the financial strength and weakness of textile industry
- To provide suggestions for improving financial efficiency of the textile industry
- To provide assistance and advisory support (including liaison with other organisations and State Governments, and
- To equip the textile industry to withstand the pressures of import penetration and maintain dominance of the growing domestic market.
- To sort out operational problems, Maintenance and monitoring of data pertaining to domestic textile production and foreign investment
- To enable Small & Medium Enterprises to achieve competitiveness to face the global scenario with confidence
- To establish the Indian textiles industry as a producer of internationally competitive value added products.

IMPORTANCE OF STUDY

Economic development of a nation depends on multiple factors. Textile is important to compute development in both economic and welfare terms. The textile industry is the single largest foreign exchange earner for India Currently India has the second highest spindle age in the world after china. Textile industry is providing one of the most basic needs of people and holds importance, maintaining sustained growth for improving quality of life. It has a unique position as a self-reliant industry, from the production of raw materials to the delivery unfinished products, with substantial value- addition at each stage of processing; it is a major contribution to the country's economy, particularly for women and the disadvantaged. The textile in India has been a pioneer industry. India's industrialisation in other fields also gets accelerated and sources are generated by the textile industry. The textile industry contributes 14 percent to the country's GDP, 14 percent to industrial production and 8 percent to indirect tax revenue. It employs close to 35 million persons the second largest after agriculture and accounts for 18 percent on in industrial employment. In the global context, India offers comparative advantage in the textile and apparel sector with its excellent raw material base, skilled manpower and cost compositeness.

CHALLENGES FOR INDIAN TEXTILE SECTOR

Various challenges for Indian textile sector are as follows:

- It should be admitted that adoption of world class technology economies of scale and global manufacturing practices are very vital.
- It is high time industry takes a pragmatic outlook of its capabilities.
- Though rated as a major player next only to China and has packets of excellence, the Indian industry still carries unwanted baggage of the past.
- This legacy stems from the fact that the industry was subject to carry the adhoc policy regimes since independence.
- It is in this context. one should see whether India is a cost effective textile producer and the policy makers will allow the pIayers of this sector to make the fastest and fittest way.
- The immediate challenge facing Indian textiles is the integration of various sectors.
- Though the importance of improving the power infrastructure cannot be ignored the mute question is whether the textile industry should deploy its scarce resources in creating infrastructure or in beefing up the manufacturing base.

So, as to meet the future challenges given the obsolete technology in industry and the sub-scale of economies, it is imperative that all efforts resources are directed at sprucing up the manufacturing base.

HYPOTHESIS

India has most liberal and transparent policies in Foreign Direct Investment amongst emerging countries. India is a promising destination for in the textile sector. FDI is allowed 100% in the textile sector under the automatic route. FDI in sectors to the extent permitted under automatic route not require any prior approval either by the Government of India or Reserve Bank of India. The investors are only required to notify the Regional Office concerned of RBI within 30 days of receipt of in word remittance. Ministry of Textiles has set up FDI Cell to attract FDI in the textile sector in the country.

RESEARCH METHODOLOGY

The study is analytical in nature. Data and information have been primarily collected with the help of secondary sources. The data source include different related

- Books,
- Journals and Magazines,
- Discussion and working Papers,
- Reports-Governmental and Non-Governmental,
- Annual Reports of Ministry of Textiles, Government of India,
- Reference Annuals,
- Economic Surveys,
- Newspapers and Economic Dailies,
- Websites etc.

An appraisal of Foreign Direct Investment in Textile sector in India was made with the help of collected data and information. As per suitability and relevance, mathematical as well as statistical tools and techniques were applied for the purpose of data analysis and interpretation of results thereof. Tools and techniques which got applied include

- Ratio
- Proportion
- Percentage
- Trend Analysis

- Average
- Correlation etc.

Following approach was adopted to conduct the study:

Understanding FDI in Indian Textile and Apparel Sector	**Understanding Global FDI Scenario**

• Data Analysis for fact finding and trend analysis
    • State wise
    • Segment wise
    • Source wise
    • Forms of FDI
• Competitiveness benchmarking
• FDI Policies
• FIN attractiveness
• Government support
• Challenges
	• Largest FDI recipient countries and their attractiveness
	• FDI in Textiles- Success stories of China, Sri Lanka, Cambodia, Bangladesh, Vietnam etc.

⇩	
Strategy for attracting FDI In Indian Textile & Apparel Sector	

We analysed the data for fact finding and trend analysis like:

- Source-wise (country and investor) details of FDI made in textiles sector in the country during the last ten years.
- Flow of FDI in Textiles State wise.
- Details of FDI in different sub segments of Textile Value chain.
- Form of FDl Joint Venture/Technology transfer/others.
- FDI trend in recent past.

We also conducted comprehensive study and analysed the investment environment in Indian Textile and Apparel sector which makes coverage of the following:

- Policy Environment
  - Existing dispensation regarding FDI in Textiles in single brand and multi brand retail.
- Business Environment
  - Benchmarking textile manufacturing scenario with that in competing nations to assess India's competitiveness.
- Initiatives
  - Steps taken by the Government to accelerate FDI in Textiles at both State and Central level.
  - Benefits available to textile sector international investors.
- Challenges
  - Major impediments to the flow of FDI in Textiles to India.

Comparative analysis has also been made.

The pictorial presentation is made for better comprehensiveness with the help of

- Pie charts,
- Histograms,
- Bar Diagrams etc.

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