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A Study on Foreign Direct Investment (FDI) Inflow in Textile Sector of India for the Period of 2000 to 2015

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Abstract:

FDI inflow is significantly grownup in various sectors of the Indian economy. Textile sector is an oldest and largest industry in India. In Indian economy, this sector forms a significant role for generating of employment and foreign exchange earnings. There have many opportunities for development and upgradation in this textile sector. There have been many provisions to technology upgradation or transformational change in technological ways through various innovative procedures from low technology to procure of high technology process and items for consumption in the textile sector in Indian developing economy. And highly diversified maketization and branded segment is very essential for this textile industry. The government of India is continuously restructured for raising this industry. Here the Government of India allowed 100% FDI inflow directly in Textile sector. The very deprived portion i.e. 0.65% of total FDI equity inflow is engaged in textile sector during the period from April 2000to June 2015. The present study investigate the trend and opportunity of FDI inflow in textile sector of India in terms of the invested amount in US\$ based on the secondary data available during the financial year from 2000 to 2015. Here it is observed that the trend of FDI inflow in India is downward and the trend of FDI inflow in textile sector is downward and the co-relation among them is inadequately positive. Here, for upgrading of textile industry the necessity of FDI is essential which may be able to focus on employment and foreign exchange earnings.

Keyword: Textile sector, FDI inflow.

1. Introduction

Indian textile sector is an oldest and largest sector in the world by means of a massive raw material and textile manufacturing base. From ancient age, it has large significance in Indian economy and international textile economy. Textile sector displays a very complex sectoral dispersal from handloom to mills. It included the variety of fibres from agriculture to artificial. It is a self reliant and complete in value added industry. Indian economy is many fasted in terms of textile sector's contribution to the industrial production, employment generation and foreign exchange earnings. Indian textile sectors contributed 12% to the world production of textile fibres and yarns (including jute), 2nd largest producer of silk, 2nd largest producer of cotton after Chinaⁱ. India is the 2nd producer of cellulosic fibre/ yarn and 5th largest producer of synthetic fibre in the worldⁱⁱ. Now this sector has been suffered with many problems at different points of time. One of them has been that growing sickness in this textile industry. Major cause for this sickness in textile industry could be attributed to the structural transformation in mill sectors and competition faced from power looms having grater cost advantage. Other causes could be excess employment, lower productivity of labour and machine, lack of modernization, and technological upgradation, increased in cost of imputes mainly raw material and lake of adequate working capital. The number of sick textile mills is 820 during the year 1999- 31st May of 2005 in India (as per registered with BIFR). Handloom industry is another important sector of textile sector. Handloom industry plays a significant role in Indian culture and economy. There are 27.83 laces handloom workers households and majorities (87%) of them are located in rural area, live in kutchha house (54%) and the majority of them are control by the master weavers or middle man and co-operative society. Most of the adult handloom workers are female (77.9%), never attained school 29.4%, and below less than 18 years 11.2%ⁱⁱⁱ. So there are many opportunities for development of this wide production process and marketing segment in this large employment sector.

Since capital and investment are the essential pillars of economic development. Then the Government of India freely allowed FDI in all sectors. In last a few years all sector more or less has been attracted FDI inflow, directly or indirectly. The Government of India has taken various planes to promote the growth of textile sector. Some of these are Technology Up-gradation Fund Scheme (TUFS), Scheme for Integrated Textile Park (SITP) and Integrated Skill Development Scheme (ISDS) etc. Moreover, Ministry of Textile of India Government has set up FDI cell at the Economic Division to attract FDI in this sector. Here, FDI allowed up to 100% in the textiles sector through the automatic route. The FDI and foreign technologies are also brings the modern managerial practices in this sector. Some of the foreign investors in textile sectors are Rieter (Switzerland), Trutzschler (Germany), Socktas (Turkey), Monti (Italy),

Marks & Spencer (UK), Zara (Spain), Skaps (USA), Nissinbo (Japan) etc. In this background, to study the inflow of FDI in Indian textile sector which are very significant.

1.1. FDI Inflow in India

Here, it can say about the tale of two economic policy of India. Policy during the period of 1951-1991, was name das Nehruvian model economic policy. Principally, it was due to socialist pattern of society, a planned economy and emphasis on public sector enterprises. Here heavy industries were expected to gain the commanding heights of the economy, autarky, import substitution and self-reliance. On the other hand, a new economic policy named as liberalized economy which is introduced by the Narasimha Rao minority government and gave a definite shape from July 1991. Basically it can reform by the Rajib Gandhi Government during 1985-89^{iv}. There Government start to new economic reforms of liberalization and open door policy or globalization in India and shift from planning to marketisation, from public sector and co-operative sector to private sector enterprise, from command and control regulation to deregulation, from autarky to inter-dependent of an open economy and from progressive taxation to moderate taxation on the high income groups and corporate. This liberalization of Indian economy and world trade as well as raisings' consumer's prosperity has grown-up new opportunities in production process and marketing segment. Here, in order to FDI inflow, inflow restrictions reduced significantly in this country. During the last two decade India has attracted large FDI inflow and is among the top 4th countries getting FDI in the OPEC – G20 countries. FDI inflow in India is continually increasing from sector to sector and time to time. The FDI equity inflow during the last 15 years [2000-2015(June)] in all sector and in Textile sector in India is shown by the table -1. And growth in percent (%) over previous year of FDI inflow in all sector and textile sector in India are shown in 4th & 5th column respectively in this table.

Financial Year	FDI in flow in Million of US\$ in India in		Grow thin percent (%) over previous year of FDI in flow in India in	
	All Sector	Textile sector	All Sector	Textile sector
2000-01	2.38	0.002	0.00	0.00
2001-02	4.03	0.01	69.33	400.00
2002-03	2.7	0.05	-33.00	400.00
2003-04	2.19	0.01	-18.89	-80.00
2004-05	3.22	0.04	47.03	300.00
2005-06	5.54	0.09	72.05	125.00
2006-07	12.49	0.13	125.45	44.44
2007-08	24.58	0.19	96.80	46.15
2008-09	31.4	0.16	27.75	-15.79
2009-10	25.83	0.15	-17.74	-6.25
2010-11	21.38	0.13	-17.23	-13.33
2011-12	35.12	0.16	64.27	23.08
2012-13	22.42	0.1	-36.16	-37.50
2013-14	24.3	0.2	8.39	100.00
2014-15	30.93	0.2	27.28	0.00
2015-16 (April-June)	9.51	0.13	-69.25	-35.00
Total	258.02	1.75	-	-

Table 1: FDI Inflow in India (With Textile Sector)
Source: Economic Division Updated on: 7th Oct., 2015

From the following Figure -1 it observed that higher rate of growth of FDI inflow in India is above 120% has been found for the year 2006-07. Then decline gradually to 96.80% in 2007-08 and again declining drastically to 27.75%, -17.74% & -17.23% in the year 2008-09, 2009-10 & 2010-11 respectively. Then the growth rate is increase and finally this rate is declining. The declining trend of FDI equity inflow may be due to various conservative Government policy and lake of investor friendly climate. The last 7 years from 2007-08, a little and gradually declining trend has been witnessed in FDI equity inflow in India which shows in Figure-1. And the equation of Trend line of FDI inflow in India during the period 2000-2015, is $y = -3.1028x + 48.003$.

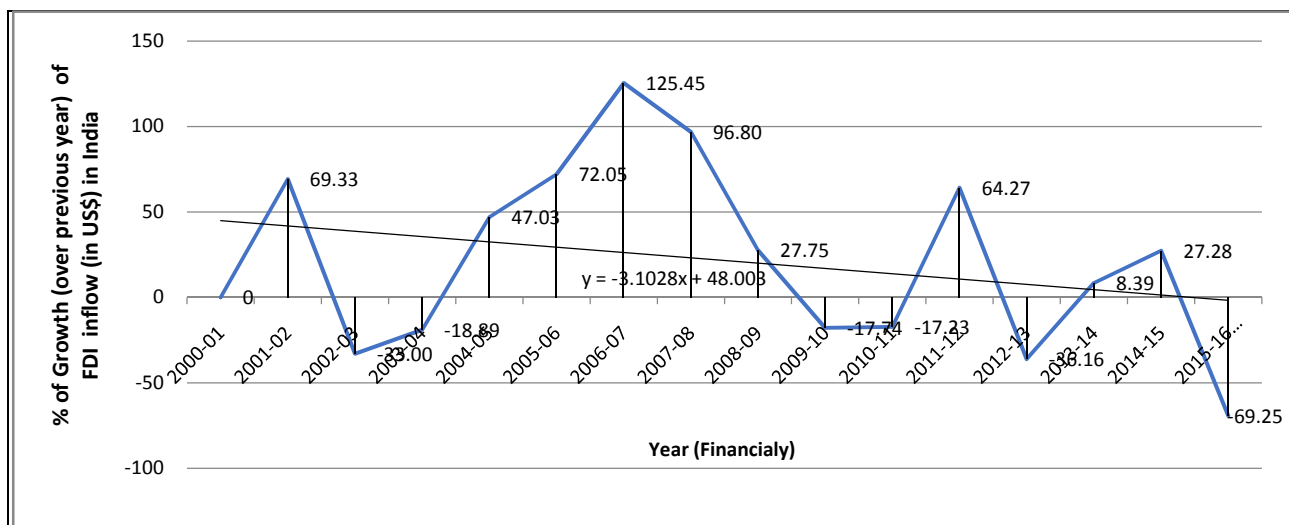


Figure 1: Trend of FDI Equity Inflow in India During the Year (2000-15, June) in US\$ In Million

1.2. Textile Sector in India

Textile sector is a most significant industry in India. It consisted Cotton/manmade fibre textile Mills, Power loom units, Production of fibre [raw cotton, manmade fibre, raw- wool, raw silk], Yarn [cotton yarn, other spun yarn, manmade filament yarn], fabrics [cotton, blended, 100% non cotton], and Production of textile machinery etc. This industry included everyone type of fibres from natural fibres, synthetic /manmade fibres and multiple blends of such fibres and filament yarns.

Textile industry has mainly produced of cotton textile, manmade textile, and silk textile, wool & woolen, readymade garments, handicrafts, jutes, coir & coir manufactures and handloom products. This industry is the 2nd largest (after agriculture) employment generating industry in India. It currently generates 21% of the total employment in the economy. It provides direct employment to about 35 million people and another 56 million are engaged in allied activities^v. Textile industry plays a very important role in the rural economy through the base of handlooms industry in India. There are 43.31 lace handloom workers, out of which 36.33 laces workers stay in rural area and 6.98 laces stay in urban area^{vi}.

In Indian economy, Textile Industry contributes approximately 5 per cent to India's gross domestic product (GDP), and 14 per cent to overall Index of Industrial Production (IIP)^{vii}. Even today, textiles sector is one of the largest contributors to India's exports with approximately 11 per cent of total exports^{viii}. Around 8% of the total excise revenue collection is contributed by the textile industry. India has the potential to increase its textile and apparel share in the world trade from the current level of its 4.5% to 8% and reach US\$ 80 billion by 2020^{ix}. With its consistent growth performance and abundant cheap skilled manpower, there are huge opportunities both for domestic and foreign investors to make investments in textile sector in India. In fact in the last decade, India has move from an era of scarcity to surpluses, in respect of textile manufacturing, exporting and retailing. India is a promising destination for FDI in the textile sector as a phenomenon investment in the form of capital, technological, management skill, and marketing channel. Here the Ministry of Textiles, Government of India has set up a FDI Cell and allowed 100% FDI in the textile sector.

1.3. Objectives of the Study

- To understands the concept and environment of FDI in textile industry.
- To study the opportunities of FDI in the textile sector of India.
- To study the trend of FDI inflow in the textile sector of India.
- To forecasts the future of FDI in textile industry.
- To know the findings.

1.4. Methodology

1.4.1. Data, Analyzing and Findings

The study is based on the analyzing of the secondary data. These data were collected from the various reports like- Ministry of textile industry, Compendium of Textile Statistics 2010, Annual Report of Department of Industrial Policy and Promotion (DIPP), RBI Bulletin, Economic survey, Handloom Census Report of India 2009-10 by NCAER, and various website. Appropriate and statistical tools have been used for analyzing the explanation of these data.

1.5. Opportunities of FDI in Indian Textile Sector

Ministry of Textiles have been organized many workshop/seminar in the different cities in different times in India. There are many organizers like the Synthetic & Art Silk Mills' Research Association (SASMIRA), the Federation of Indian Chambers of Commerce and Industry (FICCI), the Confederation of Indian Industry (CII), the Regional office of Textiles Commissioner, Indian Technical Textile Association (ITTA), and Indian Chamber of Commerce (ICC) Kolkata. And there are discuss about funding model, technical

upgradation and business model of textile industries. Generally the following points can be maintained in respect the need of FDI inflow in Indian textile sector.

1. Due to diverse agro products condition, textile industries is a wide ranging and large raw material base procedure; there has many scope for progressing of these value added production process.
2. Due to cheaper workforce (comparatively) in India; there can be effectively utilized to set up large low cost production base for domestic and export market.
3. Due to shortage skilled man power in textile industry there are many scopes for opening of a vocational training course, for creating awareness about technical textile schools.
4. Due to increase for ex position of this country.
5. Due to capital formation by bringing fresh capital.
6. Due to non-availability of Doctors/ Medical fraternity for formulating the standards for mediate, there are so many scope for workers medical facilities and safety i. e drugs, medicine, hospital etc.
7. Large scope for develop of medical textile sector for consumable medical textiles in medical textile industry.
8. Due to automatic approval (including foreign technology agreement with in specified norm) permitted for FDI up to 100% in this sector.
9. Foreign equity ownership is allowed for MSMEs' including handloom industry.
10. For rapid urbanization, increase literacy, raised per capital income has all since rapid growth and chaining in demand pattern, leading to incredible new opportunities for exploring the large latent market specially for handloom weavers.
11. Due to zero percent import duty on capital goods and raw material for this sector.
12. Due to modernization of retail supply chain restriction etc.

So many scope of FDI inflow for dealing of agriculture equipment/machinery, seeds and planting materials, fertilizer, pesticide and irrigation system, material handling equipments, agro processing , packing and agribusiness service; equipment and machinery related to poultry and dairy; machinery related to sericulture and animal husbandry and biotechnology; agro textile industry. The process of fibre, yarn, and fabrics producing, and marketisation of yarn and fabrics is very broad scope.

1.6. Trend of FDI inflow in Textile Sector in India

The government of India takes many steps for developing of the textile sector through various plan, budget and scheme from 1951 to till date. In post liberalization era, FDI inflow has been allowed directly in many sectors at a various level. Since textile sector are very complex sectoral industry, there FDI inflows are directly fully or partly allowed. Here we find that a deprived portion i.e. 0.65% of total FDI equity inflow is employed in textile sector during the period of April 2000 to June 2015 which is shown in the Table –2

	FDI inflow in India	
	US \$ in Million	%
Service sectors	43,350.23	16.80
Construction development	24,097.91	9.34
Computer software & Hardware	17,575.15	6.81
Telecommunication	17,452.60	6.76
Automobiles Industry	13,476.99	5.22
Drugs & Pharmaceutical	13,335.88	5.17
Chemicals	10,588.22	4.10
Power	9,828.08	3.81
Trading	8,957.62	3.47
Metallurgical	8,679.72	3.36
Hotel & truism	8,140.10	3.15
Petrol & Natural Gas	6,575.97	2.55
Food Processing Industry	6,429.15	2.49
Textile (incl. dyeing & printing)	1688.22	0.65
Others(43 sectors)	67,844.26	26.32
Total FDI inflow[April -2000 to June-2015(in US\$ in Millions)]	258,020.10	100.0

Table 2: Name of Top Sector

In this table it is found that FDI inflows in the textile sector in India is less than 1 % (i.e. 0.65%) which is not significant as compared to that of the other important sectors (accounting for more than 2%). This is shown by the Figure-2.

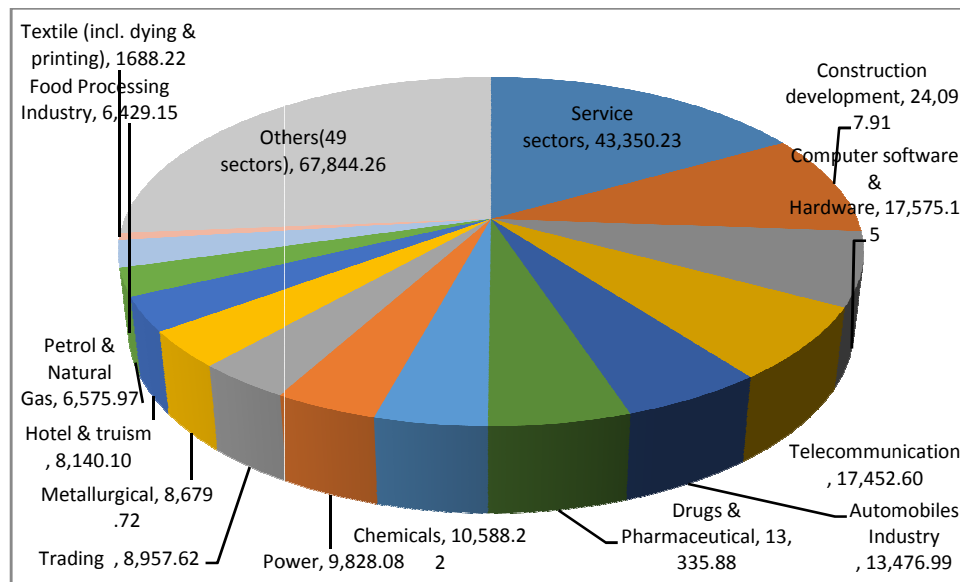


Figure 2: FDI inflow in various sector during 2000 -15 (June)

1.6.1. Trend of FDI Inflow in Textile Sector in India during the Period 2000- 2015 (June)

From table -1, it observed that higher rate of growth of 400% has been found from the year 2001-02 to 2002-03 and then decline to -80% in the year 2003-04 and then growth rate is upward from 2004-05 to 2007-08 and then gradually decline. The declining trend may be due to various conservative Government policy and lake of investor friendly climate. During the last 15 years, a little and gradually declining trend has been witnessed in FDI inflow in textile sector of India is shown in Figure—3

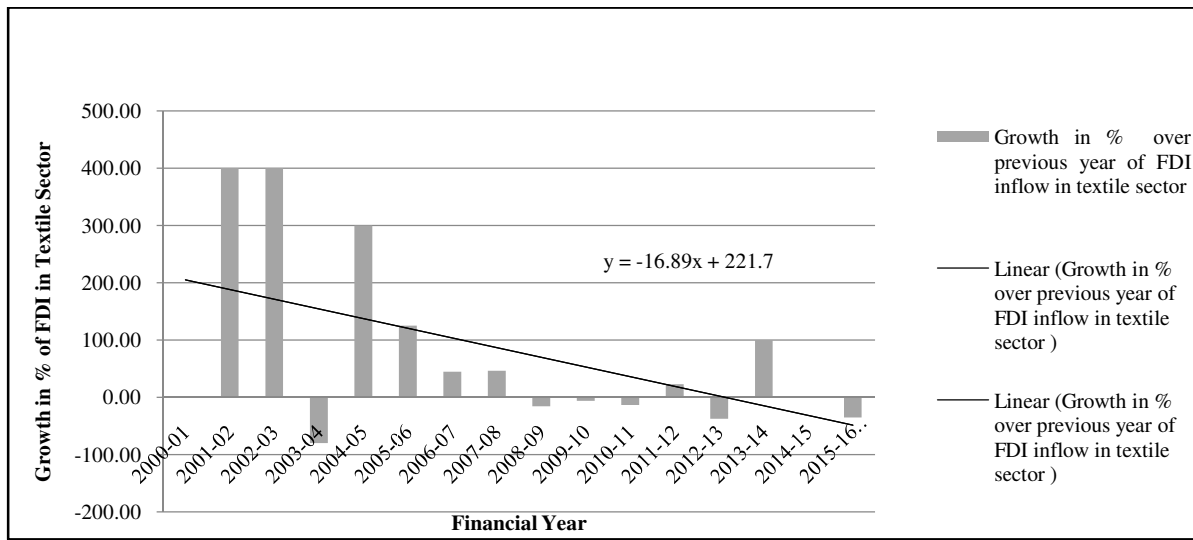


Figure 3: Growth (in % over previous year) of FDI inflow [in Million US\$] in Textile Sector

FDI inflow in textile sector during the last 15 years is very poor and the trend of FDI inflow in textile sector is downward. And the correlation between the FDI inflow in India and FDI inflow in textile sector of India is poorly positive i.e. (+) 0. 2269.

1.7. FDI Allowing in Textile Sectors

From Figure 2 it is found that FDI inflow in Textile Sector is very poor .During the union budget 2011-12, and Foreign Trade Policy 2009-14, various incentives allowed as 100% FDI inflow in textile sector under the automatic route. There are not requiring any prior approval either by the Government of India or Reserve Bank of India (RBI). The investors are only required to notify the Regional Office concerned of RBI within 30 days of receipt of inward remittance. The Ministry of Textiles has set up FDI Cell to attract FDI in the textile sector in the country and it will operate the following objectives;

- To provide assistance and advisory support (including link with other organizations and State Governments).
- Assist foreign companies in finding out joint venture partners,
- To sort out operational problems,
- Maintenance and monitoring of data pertaining to domestic textile production and foreign investment.

Some scheme and promotion allowed as 100% FDI inflow are mention below–

- a. Welfare schemes: the government has offered FDI inflow for health insurance coverage, life insurance coverage to weavers and ancillary worker under the Handloom Weavers Comprehensive Welfare Scheme (HWCWS).
- b. E-Marketing: the government has allowed FDI for E-marketing issues through the Central Cottage Industries Corporation of India (CCIC), and Handicraft and Handlooms Export Corporation of India (HHEC) for developed a number of e-marketing platforms to simplify marketing issues.
- c. Skill development: the government has offered FDI inflow for train people of all sub sectors of textile sectors such as textile, apparels, handicrafts handloom, jutes, sericulture under the Integrated Skill Development Scheme as per 12th five year plan.
- d. Credit linkages: there are offer FDI inflows for issuing up credit cards with regards to the Credit linkages schema as per the credit Guarantee Program.
- e. Financial package for weavers: The government of India has announced that package of US\$ 604.56 million to weave of overdue loan in the handloom sectors. This also included the weavers of overdue loan & and interest till 31st March 2010, loan for disburse to handloom sector.
- f. Textile parks: The Government has offered FDI for setup the new textile park of the product mix in this parks would included apparels and garments parks, hosiery parks, Silk Park, processing parks, technical textile including medical textile, carpet and power loom parks.

So the trend of FDI inflow in textile industry is may be increase in fact of the above scheme, otherwise Indian economy may hamper nationally and internationally.

1.8. Findings of FDI Inflow in Indian Textile Sector

During the last 15 years partial distribution of FDI inflow raise the production and marketing segment as well as increase production value, export value in Indian textile sector. During the period 2007-12 the Indian textile industry (including dyed and printed) attracted foreign direct investment worth US\$ 1.04 billion. Some of the major investments of FDI equity inflow in Indian Textile Sector are maintain below –

- a) The average growth of FDI equity inflow in India during last 15years i.e. April, 2000-June, 2015 is 37%.
- b) The Portion of FDI inflow in textile sector is very little [0.65]^x.
- c) The Growth of FDI inflow in textile sector is very low [i.e. 1.00%]^{xi}.
- d) The Co-relation between the growth of FDI inflow in India and FDI inflow in Indian textile sector during the period April, 2000 to June, 2015 is positive[0.2269].
- e) There are benefited some weaver and co-operative societies from their overdue loan with interest till 31st March 2010. [At least 30000 handloom weavers and 15000 cooperative societies by the package of US\$ 604.56 million].
- f) Italian luxury major Canali has entered into a 51:49 joint venture (JV) with Genesis Luxury Fashion, which currently has distribution rights of Canali-branded products in India. Canali also plans to invest Rs 7.65 crore (US\$ 1.37 million) in India. The JV Company will now sell Canali branded products in India exclusively^{xii}.
- g) Italian luxury apparel maker, Canclini Tessile is tying up with Tirupur-based Emperor Textiles to stitch its shirts in India. The equal joint venture (JV) with Emperor Textiles will set up a separate manufacturing unit in Tirupur to manufacture Italian fabric for domestic consumption^{xiii}.
- h) The Aditya Birla Group has signed an in-principle agreement to buy the assets of Ontario-based Terrace Bay Pulp Mill for Rs 605 crore (US\$ 108.63 million). The acquisition would be carried out through AV Terrace Bay (Canada), a special purpose vehicle (SPV) in which two group companies, Grasim Industries and Thailand-based Thai Rayon Public, would hold stake^{xiv}.
- i) American apparel-maker Tommy Hilfiger plans to add 500 stores in India over the next five years as part of their expansion spree. Currently, Tommy Hilfiger operates 58 franchisee outlets and over 60 shop-in-shops in other department stores^{xv}.
- j) British clothing brand Super dry plans to open 20 stores in India over the next five years, as per Mr. James Holder, Founder, Superdry^{xvi}.
- k) Canclini Tessile plans to tie up with Tirupur-based Emperor Textiles to stitch its shirts in India. The equal joint venture (JV) with Emperor Textiles will set up a separate manufacturing unit in Tirupur to manufacture Italian fabric for domestic consumption^{xvii}.
- l) Raymond's 'Complete Man' plans to enter the developed markets in the US, Europe and East Asia as the textile company seeks to expand the network of its Made to Measure (MTM) stores. With plans to invest around Rs 200 crore (US\$ 33.24 million), the company is looking for partners to help it grow its overseas business^{xviii}.
- m) American casual fashion retailer Aéropostale, Inc. has inked a licensing agreement with Arvind Lifestyle Brands Ltd to open standalone stores in the country. Aéropostale will open 30 stores and 25 shop-in-shop locations over the next three years^{xix}.
- n) Reliance Industries Ltd (RIL) plans to enter into a joint venture (JV) with China-based Shandong Ruyi Science and Technology Group Co. The JV will leverage RIL's existing textile business and distribution network in India and Ruyi's state-of-the-art technology and its global reach^{xx}.

There are many venture of FDI in textile sector directly. Many sectors are related with textile sector all over them FDI is allowed there indirectly. Although FDI is allowed in this sector directly and indirectly, this is not sufficient for upgrading of textile sector. From the above Pie chart it is expose that a very least portion of total FDI inflow in India is allotted in the textile industry. Since the correlation between FDI inflow in India and FDI inflow in Indian textile sector during the period 2000-2015 is positive (0.2296) although it is very slim. Here FDI inflow is very essential for upgrade ion of this industry in future.

1.9. Conclusion

In global textile industry, Indians' share is most significant. Government of India has supported some export promotion policies for textile sector in Union Budgets 2011-12, 2012-17 and Foreign Trade Policy 2009-10. The Government of India regarding this aspect allowed 100% FDI inflow in this specific policy. But this sector is not avail self-important contributories in respect of FDI inflow in comparison to those of the other sectors. There the trend of FDI inflow in all sector and textile sector is downward in India. India is one of the world s' major textile producer and having positive growth parameter near feature .But it accounts of cost component, power cost and other raw materials cost are very high. The other major constraints are poor infrastructure for storing raw materials and marketing of finished products. It indicates vast scope of foreign investors and exporter on account of up gradation, technical development, brand building through high investment on production infrastructure, technology up-gradation and huge merchandizing of the textile sector. So it can say that there have required to certainty of FDI inflow in textile & dyeing sector for full-fledged of their requirements. If it is satisfactory then it may not hamper the growth prospect of textile industry in the world.

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