FOREIGN DIRECT INVESTMENT IN INDIAN TEXTILE SECTOR

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Introduction

Since Independence rapid economic development resulted in formulation of many industrial policies by the government of India. Foreign capital was assigned an important place and viewed as a solution to meet inadequate domestic capital. Thus FDI has brought many sweeping changes in Indian textile sector. This paper analyses the contribution of FDI sector in India in general and the issue of FDI in textile sector in particular.

Indian textile Industry at a Glance

India’s textiles sector is one of the oldest industries in Indian economy dating back several centuries. Even today, textiles sector is one of the largest contributors to India’s exports with approximately 11 per cent of total exports. The textiles industry is also labour intensive and is one of the largest employers. The industry realised export earnings worth US$ 41.4 billion in 2014-15, a growth of 5.4 per cent, as per The Cotton Textiles Export Promotion Council.

The textile industry in India has two broad segments. First, the unorganised sector consists of handloom, handicrafts and sericulture, which are operated on a small scale and through traditional tools and methods. The second is the organised sector consisting of spinning, apparel and garments segment which apply modern machinery and techniques such as economies of scale.

The Indian textiles industry is extremely varied, with the hand-spun and hand-woven textiles sectors at one end of the spectrum, while the capital intensive sophisticated mills sector at the other end of the spectrum. The decentralized power looms/ hosiery and knitting sector form the largest component of the textiles sector. The close linkage of the textile industry to agriculture and the ancient culture and traditions of the country in terms of textiles make the Indian textiles sector unique in comparison to the industries of other countries. The Indian textile industry has the capacity to produce a wide variety of products suitable to different market segments, both within India and across the world.

Foreign Direct Investment (FDI)

Foreign direct investment is defined as investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. Right from the introduction of new economic policy (1991), government is insisting on the importance of foreign direct investment (FDI) and
foreign port folio investment (FPI). FDI is a controlling ownership in a business enterprise in one country by an entity based in another country. Foreign Direct Investment includes merger and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans. In a narrow sense, it refers just building new facilities.

Government Reforms

At the time of independence, the attitude of the government towards foreign capital was one of fear because of British rulers. But slowly and steadily government encouraged foreign investment in India.

Since 1991, the government has adopted various reform measures to liberalize trade and attract foreign direct investment (FDI) in India considering its direct as well as indirect effects as a part of globalization policy.

As a first step the government announced in 1991 a list of industries in which FDI would be automatically allowed up to 51 percent. These industries ranged from the capital goods and metallurgical sector to entertainment, electronic, food processing and service sector with significant export potential hotel and tourist related areas were also allowed foreign equity holdings by international trading companies of up to 51 percent.

In order to accelerate the progress of the power sector, 100 percent equity participation was allowed for setting up power plants. Existing companies with foreign equity could raise it to 51 percent subject to certain prescribed guidelines. FDI was also allowed in exploration, production and refining of oil and marketing of gas. NRIs and overseas corporate bodies (OCBS) predominantly owned by them were permitted to invest up to 100 percent equity to high priority industries. NRI investment up to 100 percent was also allowed in hospitals, sick industries, hotels and tourism related industries, computer software and hardware, telecommunication construction, power, automobile industries, drugs and chemical.

Foreign investment inflows

As per data provided by the government of India, during 1991-92 to 2012-13, total foreign investments flows were of the order of $456.9 billion, out of which about $270.2 billion (59.1 percent) were in the form of port folio investment. Moreover, out of the total direct foreign investment of the order of $270.2 billion, nearly 45 percent ($120.7 billion) was contributed by non-resident Indians NRI. Thus the net contribution of foreign firms in direct investment was about 55 percent of foreign investment flows.

FDI in the Textile Sector

FDI in the textile sector is believed to propel the export growth. In the era 1970-1998, exports have grown over 11 per cent p.a while the GDP growth is about 5 percent. Since 1990, FDI has been rising continuously, making India the 9th largest recipient among the developing third world countries. Although FDI has been a major success story of the east and south Asian nations, its role cannot be generalized to India, considering the infrastructural lags. However, export performance majorly depends on the nature of FDI.

The role now played by textile and clothing production in the industrialization process of India is far more differentiated than it was a generation ago. While low wages can still India a
competitive edge in world markets, quick turnaround times now play a far more important role in determining international competitiveness in the fashion –oriented and ever more time-sensitive textile and clothing markets. The comparative advantage of developing countries in the assembly process, i.e, low-wage sewing, does not necessarily translate into a comparative advantage in the management of the entire supply chain when all services-linked dimensions are considered. India should develop expertise in the higher value-added segments of a supply chain. This can be done by the upgrading domestic skills in design, material sourcing, quality control, logistics and retail distribution. On the other hand, textile and clothing suppliers of the developed countries is now exposed to greater competitive pressures. Retail group in developed countries have greater liberty to source products globally and to accelerate the expansion of the distribution networks worldwide which is better served by an open and liberal multilateral trading environment. Although firms themselves have to play the critical roles of adjustment in the new scenario, Governments play a supporting role with a balanced policy regulatory framework.

The textiles sector has witnessed a spurt in investment during the last five years. The industry attracted Foreign Direct Investment (FDI) worth US$ 1.77 billion during April 2000 to September 2015. Some of the major investments in the Indian textiles industry are as follows:

- 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.
- Giving Indian sarees a ‘green’ touch, Dupont has joined hands with RIL and Vipul Sarees for use of its renewable fibre product Sorona to make an ‘environment-friendly’ version of this ethnic ladies wear.
- Grasim Industries has invested Rs 100 crore (US$ 15 million) to develop its first fabric brand, Liva’, which it will distribute through 1,000 outlets as part of a plan to stay in sync with changing consumer behaviour.
- Snapdeal has partnered with India Post to jointly work on bringing thousands of weavers and artisans from Varanasi through its website. “This is an endeavour by Snapdeal and India Post to empower local artisans, small and medium entrepreneurs to sustain their livelihood by providing a platform to popularise their indigenous products,” said Mr Kunal Bahl, CEO and Co-Founder, Snapdeal.
- Welspun India Ltd (WIL), part of the Welspun Group has unveiled its new spinning facility at Anjar, Gujarat - the largest under one roof in India. The expansion project reflects the ethos of the Government of Gujarat’s recent ‘Farm-Factory-Fabric-Fashion-Foreign’ Textile Policy, which is aimed at strengthening the entire textile value-chain.
- 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.

**MERITS OF FDI IN TEXTILE SECTOR**

1. **Capital infusion/Capital inflow:**
This would provide an opportunity for cash-deficient domestic textile to bridge the gap between capital required and raised. In fact FDI is one of the major sources of investment for a developing country like India.

2. **Boost healthy competition and check inflation:**

   Healthy competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices and convenient distribution to the marketing offers.

3. **Improvement in supply chain:**

   Improvement of supply chain/distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest wastages.

4. **Improvement in Returns:**

   Flexible return on direct investment is a great advantage as compared with rigid interest and amortization requirements associated with public foreign loans.

5. **Improved Technology:**

   Direct investment by foreign companies introduces, in the developing country, new technology, modern skills, innovations and new ideas. This is a great gain because the developing country is backward in technology and skills.

6. **Portfolio Investment:**

   The profit is ploughed back into business and is not drained off from the country as it happens in the case of portfolio investment. The profits are invested either in modernization and expansion of existing concerns or for establishing ancillary or subsidiary concerns in related fields.

7. **Improvement in Infrastructural Investment:**

   Another important advantage of direct foreign capital is that it can be induced to be invested in infrastructure such as power, telecom, and development of ports which is an obstacle to accelerating economic growth in the developing countries.

**DEMERITS**

1. **Domination of Developed Countries:**

   Many developing countries or at least countries with a history of colonialism, fear that foreign direct investment may result in a form of modern day economic colonialism, exposing host countries and leaving them and their resources vulnerable to the exploitations of the foreign company.

2. **Increased Aggregate Demand:**

   FDIs may increase the aggregate demand of the host economy in the short run, via productivity improvements and technological transfers, critics have also raised concerns over the efficacy of purported benefits of direct investments.
3. **Jeopardized Capital Returns:**

The long-run balance of payment position of the host economy is jeopardized when the investor manages to recover its initial outlay. Once the initial investment starts to turn profitable, it is inevitable that capital returns from the host country to where it originated from, that is the home country.

4. **Affect Net Capital Flow:**

The levels of FDI tend to be resilient during periods of economic uncertainty; it has the potential of adversely affecting the net capital flow of a developing economy especially if it does not have a healthy and sustainable FDI schedule.

5. **Effect in Labour Market:**

FDIs generate negative externalities in the labour market of the host economy.

6. **Favours MNC’s**

Multinational companies do pay a slight premium over local-term wages, but does this really not benefit the host economy

**Conclusion**

The future for the Indian textile industry looks promising, sustained by both strong domestic consumption as well as export demand. With consumerism on the rise, the retail sector has experienced a rapid growth in the past decade with the entry of several international players like Marks & Spencer, Guess and Next into the Indian market. The organised apparel segment is expected to grow at a Compound Annual Growth of more than 13 per cent over a 10-year period. This will give a way forward for textile industries in India.

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