

## EU'S FOREIGN DIRECT INVESTMENT IN INDIAN TEXTILES INDUSTRY- TREND, COMPOSITION AND FUTURE

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### **Abstract**

The world's two largest democracies, the European Union and India share many pleasant ethics and principles and their relationship is historical, dates back to 1960's when India was one of the first countries to entrench diplomatic relations with European Economic Community (now European Union). This long-established relationship has changed remarkably over the recent years and so the level of Indo-EU trade; rising from Euro 4.4 billion in 1980 to Euro 79.9 billion in 2011. EU as a bloc of 27 countries is India's largest trading partner. India and EU have improved their trade in both goods and services. Both have signed number of Trade and Investment Agreements. EU's FDI in Indian Textiles Industry has improved in last years particularly after the removal of quotas under Multi-Fibre Agreement.

Keeping in view the trade relations of India and European Union, the present paper examines the trend in EU's FDI in Indian Textiles Industry between the Pre and Post MFA Phase-out period and explores the potential for future. The paper also discusses the challenges faced by EU's investors to invest in Indian textiles industry.

**Key Words:** Multi-Fibre Agreement, India, European Union, Trade, Indian Textiles Industry, EU Textiles Industry, Foreign Direct Investment.

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## Introduction

Indian textile industry is one of the oldest industries of the nation. It is one of the largest employer and top foreign earner of the country. Thus, India needs to carefully analyse the consumption and production trends, generate and manage the exportable production surpluses, identify the target markets and make consistent efforts to enhance the market acceptability for its textile exports. Simultaneously, textile and clothing industry occupy an important place in the EU industrial structure. It plays a pivotal role in economic and social development of various regions of EU. The EU textile and clothing sector is a SMEs based industry as companies of less than 50 employees account for more than 90% of the workforce and produce almost 60% of the value added (European Commission, 2013). After the removal of quotas on 31<sup>st</sup> December 2004, both the countries are competing in global textiles market. The only difference is, EU is striving hard to shield its Textiles & Clothing sector from being vanished by the developing countries whereas India is competing with other rising developing giants specially China in international textiles market.

### Indo-EU Trade Relations:

Indo-EU relations date back to early 1960s (Ministry of External Affairs, 2013). India was amongst the first countries to pioneered diplomatic relations with the European Economic Community. The very first cooperation agreement signed in 1994 between these two nations postulated the bilateral relationship beyond the bounds of trade and economic cooperation. The 5<sup>th</sup> India-EU Summit held at The Hague in 2004, escalated the relationship to 'Strategic Partnership' (Ministry of External Affairs, 2013). The two nations embraced a Joint Action Plan in 2005 with a view to invigorate the dialogue and consultation mechanisms in political and economic meridian, augmenting trade and investment, and engaging people and culture.

**Tble1. India-EU Trade in Goods (€ billions)**

| Year | India exports | India imports | Balance |
|------|---------------|---------------|---------|
| 2010 | 33.3          | 34.9          | 1.6     |
| 2011 | 39.6          | 40.6          | 0.9     |
| 2012 | 37.3          | 38.5          | 1.1     |

Source: European Commission

EU as a bloc of 27 countries is India's leading trading partner. India's exports to EU amounted to Euro 37.3 billion during 2012 as compared to euro 39.3 billion in 2011, showing a decline of 5.1%. India's imports from the EU stood at Euro 38.5 billion in 2012 as compared to Euro 40.4 billion in 2011, showing a decline of 4.7%.

**Table 2. India-EU Trade in Services (€ billions)**

| Year | India exports | India imports | Balance |
|------|---------------|---------------|---------|
| 2010 | 9.1           | 10.8          | 1.7     |
| 2011 | 10.8          | 11.3          | 0.5     |
| 2012 | 11.0          | 11.5          | 0.5     |

Source: European Commission

Indo-EU trade in services has improved over the years. In 2010, India's export was 9.1 billion Euros, it increased to Euro 10.8 billion in 2011, registering a growth of 18.68%. It further added an increased growth of 1.85% in 2012. India's import of services from EU also showed an upward moving trend from 2010 to 2012. It was 10.8 billion Euros in 2010 and reached to Euro 11.5 billion, registered a growth of 6.48% from 2010 to 2012.

### **Decimating Trade Barriers in India**

India and EU have deep desire to increase their trade not only in goods and services but also in the fields of investment by way of Free Trade Agreement negotiations accelerated in 2007. EU is gratifying India to assimilate into the world economy in order to enhance bilateral trade and investment ties. The European Commission's Trade and Investments Barriers Report, Published in March 2012, points out that some progress has been made to dismantle trade barriers in India (FICCI, 2013):

1. Two Trade barriers were fully removed in 2012: export restrictions on cotton and security requirements for telecommunication equipment.
2. Progress has also been achieved with regard to sanitary and phyto-sanitary rules.
3. No positive movement has been seen in the area of equity caps.
4. India's industrial policies contain trade-restrictive elements.

5. The report also identified India's national manufacturing policy as a key priority for reform.

### India –EU Textiles Trade

The textiles trade relations between India and EU have changed remarkably in last decades. After the removal of quotas, India's textiles export to EU nations has changed its shape. In 2000-01, India's textiles export to EU was Rs. 16029.42 crores and reached to Rs. 21531.35 crore in 2004-05. Soon after the phase-out of Multi-fibre Agreement on 31<sup>st</sup> December 2004, India's textiles export to EU took a jump of 30.89% and reached to Rs. 28183.92 crores in 2005-06. This figure has become more than double in 2011-12 by adding an impressive growth of 77.97% over the year 2005-06.

As far as FDI is concerned, India has become an attractive destination for investment because it has the most liberal policies amongst the emerging countries in terms of investment. But if India is compared to EU, it has less open economy for FDI. As far as textiles sector is concerned, India has allowed 100% FDI under automatic route (Ministry of Textile, 2013). Before the year 2000, EU had restrictions to invest in Indian Textiles Industry.

### Objectives of the study

To access the performance of EU's FDI in Indian Textiles Industry and find out the future trend, the present study has the following objectives:

- To explore the trade relations of India and EU, textiles trade in particular
- To study and analyse EU's investment trend in Indian Textiles Industry in Pre and Post MFA Phase-out period.
- To explore the future potential of EU's investment in Indian textiles industry for next 10 years (from 2013-14 to 2022-23).

### Literature Review

After reviewing the available literature the researcher found that Indo-EU trade relations have been extensively analysed by number of scholars in their research work. However, none of these studies provide the analyses about the trend of EU's FDI in Indian textiles sector in

pre and post MFA phase-out period. Thus the research gap exist is the study of EU's FDI in Indian textiles industry in pre and post MFA phase-out period and a projection about the future potential of EU's investment in Indian textiles industry.

### Methodology of the Study

The data used for the present paper entirely depends on secondary sources. The secondary data has been gathered from the following sources:

1. FDI Cell, Ministry of Textiles, GOI.
2. European Commission's Website

### Tools for Analysis

Statistical too Trend Analysis and Regression is used to project EU's FDI in Indian textiles industry from 2013-14 to 2021-22. To find the trend values the least square trend equation used is as follows:

$$\Sigma Y = Na + b \Sigma X$$

### Performance of EU's FDI in Indian Textile Industry in Pre MFA Phase-out period

Table 3

| Pre MFA EU's FDI in Indian Textile Industry |                   |          |
|---|-------------------|----------|
| Year  | FDI<br>(Rs crore) | % Growth |
| 2000-01                                     | 1.26              | Nil      |
| 2001-02                                     | 7.42              | 488.89   |
| 2002-03                                     | 24.48             | 229.92   |
| 2003-04                                     | 56.44             | 130.56   |
| 2004-05                                     | 20.24             | -64.14   |

Source: Ministry of Textiles, Government of  
India (FDI Cell)

Table 3 divulges the performance of investment by EU in Indian textiles industry before the phase-out of MFA. The data indicates that the investment by EU in Indian textile industry was as impressive as 488.89 % in 2001-02 but the same percentage growth began to observe a declining trend and entered a negative phase in 2004-05.

### Performance of EU's FDI in Indian Textile Industry in Post MFA Phase-out period

**Table 4**

| Post MFA EU's FDI in Indian Textile Industry |                          |          |
|--|--------------------------|----------|
| Year   | Investment<br>(Rs crore) | % Growth |
| 2005-06                                      | 109.94                   | Nil      |
| 2006-07                                      | 362.32                   | 229.56   |
| 2007-08                                      | 42.75                    | -88.20   |
| 2008-09                                      | 79.95                    | 87.02    |
| 2009-10                                      | 237.96                   | 197.64   |
| 2010-11                                      | 39.61                    | -83.35   |
| 2011-12                                      | 104.25                   | 163.19   |
| 2012-13                                      | 176.7                    | 69.49    |

**Source:** Ministry of Textiles, Government of India (FDI Cell)

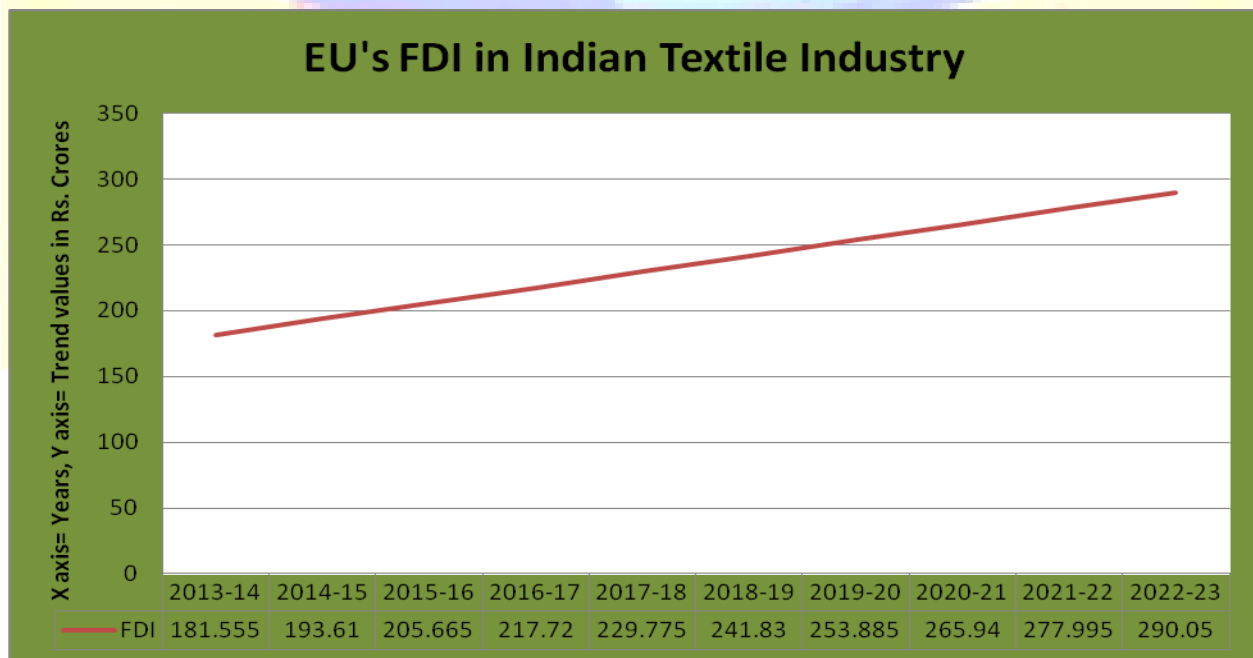
Table 4 elucidates the performance of FDI by EU in Indian textiles industry after the phase-out of MFA. As per the table EU's FDI in Indian Textile industry improved in 2006-07 but it declined steeply to -88.20% in 2007-08. It further improved in 2009-10 and 2011-12. The year 2010-11 witnessed a negative growth, whereas 2012-13 experienced a declining trend.

**Future estimated trend of EU's FDI in Indian textile Industry**

**Table 5: Calculation of Trend values of EU's FDI in Indian Textiles Industry**

| Years   | Trend Values |
|---------|--------------|
| 2013-14 | 181.555      |
| 2014-15 | 193.61       |
| 2015-16 | 205.665      |
| 2016-17 | 217.72       |
| 2017-18 | 229.775      |
| 2018-19 | 241.83       |
| 2019-20 | 253.885      |
| 2020-21 | 265.94       |
| 2021-22 | 277.995      |
| 2022-23 | 290.05       |

**Chart 1**



**Source:** Self developed on the basis of the calculated trend values in table 5.

On the basis of the above mentioned equation the trend values are calculated in table 5. The values reflect a regular increasing trend of EU's FDI in Indian textile industry till the year 2022.

## Conclusion and Recommendation

Based on the above discussion it can be concluded that EU's FDI in Indian textile industry has been on an increasing track in the past decade. The trend values calculated in table 5, substantiate the performance of EU's FDI in Indian textile industry in future and exhibits a positive upward moving trend.

The growing relations, dependence, co-operation and understanding between India and EU, visualize that India has become a leading trade partner of EU. India's ultimate interest in EU is because of the fact that EU nations are relatively industrialized nations equipped with latest technologies. On the other hand, India too has strong attractions for EU as the former has recognized by the later as the world's largest democracy with a population of over one billion people, registering an impressive growth rate year by year. Textiles trade between the two has been increasing continuously. As far as EU's FDI in Indian textile industry is concerned, though the figure has bright future, but greater efforts should be made to attract more FDI. Some of the recommendations made on the basis of findings:

1. India has allowed 100% FDI under automatic route in Textiles sector and no approval is required either from government or RBI. With a view to attract foreign investors, incentives packages in the form of concessions in taxes, capital, interest subsidies, land at concessional rate, etc. should be offered. This will encourage the EU investors to invest in different projects under textiles sector.
2. If we talk in terms of business environment, India is not healthy, which is discouraging for doing business. Child labour, Labour market rigidity, lack of facilities at ports/airports, excessive bureaucracy, corruption, etc. are the factors that discourage foreign investors to invest in India.
3. M&A is an important tool to attract FDI. Many Indian midsize companies in textiles sector are looking towards M&A with foreign companies. For the rapid growth of Indian textiles industry and to strengthen its relationship with EU, efforts should be made to upgrade the textiles engineering industry, technology transfer and promotion of joint venture. Inorder to achieve these objectives there should a combination of routes like



there should be a joint venture with EU textiles machinery manufacturers, technology transfer should be encouraged through the route of re-engineering. It would provide opportunities for the investors of both the nations to enter in each other's textiles market.

4. Indian textile industries are still running on outdated and obsolete methods and machines. Though modernization has taken place but we still lack behind. International market is full of strong players with latest technologies and if we want to stand in the market and face competition we have to update ourselves. Thus, it makes necessary to transfer and adopt latest and selective technology. On the short run it causes heavy outflow of foreign exchange but in the long run the selective technological imports will fetch huge amount of foreign exchange.
5. FDI has direct linkages with Intellectual Property rights. The countries having poor protection of IP rights collect less FDI in comparison to countries with strong IP rights protection. India despite huge market has weak IP rights which repel foreign companies to invest. In order to attract more FDI, India should take initiatives to protect and respect Intellectual Property rights.

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