EU’s FDI in Indian Textiles Industry- A Post MFA Scenario

Asiya Chaudhary,
Assistant Professor, Department of Commerce,
Aligarh Muslim University, Aligarh, India.
Email: asiya.chaudhary1@gmail.com

Sabiha Khatoon,
Research Scholar, Department of Commerce,
Aligarh Muslim University, Aligarh, India.
Email: khansabiha5@gmail.com

Abstract
India’s textiles trade pattern with EU is highly favorable. The textiles trade between India and EU has significantly increased after the phase-out of MFA as many others EU members have entered into trade agreements with India after the removal of quotas under MFA. Though India has a richer textiles base and enjoys good textiles trade relations with EU but still the position of EU’s investment in Indian textiles industry is not satisfactory. The present paper is an attempt to analyse the trend of EU’s FDI in Indian textiles industry and its impact on India’s textiles export to EU and India’s textiles import from EU after the phase-out of MFA. After applying the Linear Regression Model on the recent data, it is found out that there is no noticeable change in investment pattern of EU in Indian textiles industry after the phase-out of MFA. The situation is almost the same as before the phase-out of MFA.

Key Words: Multi-fibre Agreement, India, European Union, Textiles Export, Textiles Import, FDI
1. Introduction

The relations between India and EU are as old as the birth of EU itself. Over the years this relationship has been nurtured and developed with a view to establish a closer co-operation and partnership. India had a great interest in EU because of the fact that EU nations were relatively industrialized nations ready with latest technologies and had explicit political leverage. Thus India endeavoured to cover all the areas of trade and investment, political linkages as well as cultural exchanges. The growing relations, dependence, co-operation and understanding between the two, indicates the success of India in the said direction. However, India had also remained an attractive destination for EU because India had been recognized by EU as the world’s largest democracy with a population of over one billion people, registering a comfortable growth rate year by year. India and EU are striving hard to further increase the textiles trade relations between them by dismantling trade barriers in India after the phase-out of Multi-fibre Agreement (MFA). With the removal of quantitative restrictions especially after 2002, India’s textile and clothing exports grew at an impressive rate during 2002-2007 with growth in world trade in T&C (Textiles & Clothing). India emerged as the biggest gainer among the South Asian countries after the phase-out of MFA and became the leading textiles exporter to EU. As far as foreign direct investment (FDI), India is a liberal country in terms of FDI policies. India has allowed 100% FDI under automatic routes in textiles sector. India opened its doors for EU to invest in textiles sector after the year 2000. In 2000-01 EU’s FDI in Indian textiles sector was Rs. 1.26 crores, it increased in 2001-02 and reached to Rs. 7.42 crores (Ministry of Textiles, GOI). After the removal of quotas in 2005 EU’s investment in Indian textiles sector has further improved. Recently both the nations have signed an FTA which is going to benefit their Textiles and Clothing sector.

The present paper addresses a number of critical issues in Indo-EU negotiations and problems faced by EU investors for carrying out business in India. These issues include child labor, working conditions, infrastructural facilities etc. Later, the researcher discusses the important initiatives taken by Government of India with a view to attract more FDI in Indian Textiles Sector.

2. Review of Literature

Rangarajan (2005) examined the post- MFA challenges for the textiles and clothing industry in general and India in particular. The author also focused on the strategies for full MFA phase-out from 1st January 2005. Kumar (2007) analysed the trends, patterns, and determinants of the Outward Foreign Direct Investment (OFDI) by Indian enterprises. The author argued that the sharp rise in OFDI since 1991 has been accompanied by a shift in the geographical and sectoral focus of Indian investments. The results of the paper suggests that...
Indian enterprises draw ownership advantages from accumulated production experience, cost effectiveness of their production process and adaptations to imported technologies made with technological effort with increased ability to differentiate the product(s). Archna, Nayak and Basu (2007), by applying Panel Data Model (PDM) and Seemingly Unrelated Regression (SUR) model studied the quality shift in the FDI inflow in India. The results show that the country is not only cost-effective but is also a hot destination for R&D activities. Sasidaran and Shanmugam (2008) attempted to investigate the implication of unshackling of the global textile trade, following the complete phasing-out of the Multi-fibre Agreement (MFA) in 2005, on the efficiency of firms operating in the Indian textile industry. The authors argued that the firms in Indian textile Industry are failed to utilize the efficiency of their inputs during the period of liberalization, which, if utilized, would have helped them to oppose and overcome the violent competition from other players like China. Dina and Stephanie (2009) threw light on impact of MFA phase-out on Cambodian Textile industry and its impact on global market competition. Hudson (2010) explored some of the issues surrounding the WTO negotiations for cotton. The author in this paper examined the impact of the phase-out of the Multi-fibre Agreement (MFA) on the location of production of textile and cotton trade flows. Hasan (2013) analysed the impact of MFA phase out on export performance of Bangladesh Ready Made Garments (RMG) industry. The two main factors i.e. cheap labour force and captive market under quota system facilitated the development of RMG industry in Bangladesh. A closer look at the industry reveals that the industry has maintained its competitive strength in the market by exporting low cost apparels based on the availability of cheap labour. But at the same time the industry is also facing some internal problems such as poor infrastructure, lack of backward linkages, high lead time and market and product diversification. Shetty, Kiran and Dash (2013) examined the impact of the removal of quota on the performance of textile and clothing exporting units in Bangalore and their response strategies. Authors argued that the main impact of removal of quotas was an increase in the volume of textile and clothing exports. Moreover exporters in Bangalore expended their markets, introduced changes in the mode of export, and thereby increased their profit margin.

2.1 Research Gap

From the comprehensive literature review, the researcher came to the conclusion that a number of studies on the impact of MFA phase-out have been done. However, none of these studies provide the analysis of impact of EU’s FDI in Indian textiles industry after the phase-out of Multi-fibre agreement. Thus the research gap exists is the study about the impact of EU’s FDI in Indian Textiles Industry after the Phase-out of Multi-fibre Agreement. In order to
fulfill this gap, the present study covers the trade relation of India with EU with special focus on textiles trade. In order to fill this gap following objectives have been framed.

2.2 Objectives of the Study

To measure the impact of EU’s FDI on India’s textiles export to EU and India’s textiles import from EU in post MFA phase-out period, the present study has the following objectives:

• To study the trend of EU’s FDI in Indian Textile Industry after the phase-out of MFA.
• To analyse the performance of India’s textiles export to EU after the phase-out of MFA.
• To examine the performance of India’s textiles import from EU after the phase-out of MFA.
• To measure the impact of EU’s FDI on India’s textiles export to EU and India’s textiles import from EU after the phase-out of MFA.

3. Methodology of the Study

The present study covers a period of 8 years from 2005-06 to 2012-13 to analyse the possible effects of EU’s FDI in Indian textiles industry on India’s textiles export to EU and India’s textiles import from EU.

In order to perform the research work, the present study entirely depends on secondary and tertiary sources of data. The secondary data has been gathered from the following sources:

• Export Import Data Bank- Department of Commerce, GOI.
• FDI Cell, Ministry of Textiles, GOI
• European Commission’s Website.

Parameters/Variables of the Study

To assess the impact of EU’s FDI on Indian textiles industry two variables are considered for the present study. These variables are:

➢ India’s textiles export to EU.
➢ India’s textiles import from EU.

Hypotheses of the Study

The following hypotheses have been developed in order to achieve the objectives of the study:

Hypothesis 1

H₀: There is no significant Impact of EU’s FDI in Indian Textiles Industry on India’s Textiles Exports to EU after MFA phase-out.

H₁: There is a significant Impact of EU’s FDI in Indian Textiles Industry on India’s Textiles Exports to EU after MFA phase-out.
Hypothesis 2

H₀: There is no significant Impact of EU’s Investment in Indian Textiles Industry on India’s Textiles Imports from EU after MFA phase-out.

H₁: There is a significant Impact of EU’s Investment in Indian Textiles Industry on India’s Textiles Imports to EU after MFA phase-out.

3.1 Tools for Analyses

In order to measure the impact of EU’s FDI in Indian Textiles Industry after the phase-out of MFA, and to measure the validity of the formulated hypothesis, following method has been applied with the help of SPSS:

Simple Regression Model

Simple linear regression is used to measure the relationship between one dependent variable $Y$ and one independent variable $X$. It can be represented with the help of the following equation:

$$Y = \alpha + \beta X$$

$Y =$ Response Variable (Dependent Variable)

$X =$ Known Constant value of the predictor Variable (Independent Variable)

Following are the results produced by Statistical tool (Simple Linear Regression Model) that is applied by the researcher on the different parameters along with the set of designed hypotheses for the study.

3.1.1 General Indo-EU Relations

India-EU relations date back to the early 1960s, with India being amongst the first countries to establish diplomatic relations with the European Economic Community (India-EU Relations, 2013). Various delegations met from time to time to refresh the relations between the two nations. “The first India-EU Summit held in June 2000 and marked a turning point in the progress of the relationship. Since then, twelve annual summits have been held, the last one in New Delhi on 10 February 2012” (India-EU Relations, 2013). EU27 is India’s largest trading partner. Bilateral trade between these two nations was valued at 75.8 billion Euros during 2012 as compared to 80.2 billion Euros in 2011, representing a decline of 5.49%.

Table 1: India-EU Trade in Goods

<table>
<thead>
<tr>
<th>Years</th>
<th>EU Imports</th>
<th>EU Exports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>25.4</td>
<td>27.4</td>
<td>2.0</td>
</tr>
<tr>
<td>2010</td>
<td>33.2</td>
<td>34.8</td>
<td>1.6</td>
</tr>
<tr>
<td>2011</td>
<td>39.3</td>
<td>40.4</td>
<td>1.1</td>
</tr>
<tr>
<td>2012</td>
<td>37.2</td>
<td>38.4</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source: FICCI, 2013
The data in table 1 shows the trade in goods between India and EU. The data shows a growth in trade from 2009 to 2011. India’s export to EU amounted to 37.2 billion Euros during 2012 as compared to the export in 2011, as per the data it shows a decline of 5.3%. India’s import from EU remained on increasing trend from 2009 to 2011 but it dipped during 2012, showing a decline of 4.9%.

The data given in table 1 is also represented with the help of chart 1.A.

Table 2: India’s Textiles Export to EU after MFA Phase-out

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (Rs crore)</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>28183.9282</td>
<td>Nil</td>
</tr>
<tr>
<td>2006-07</td>
<td>29850.2123</td>
<td>5.91</td>
</tr>
<tr>
<td>2007-08</td>
<td>29774.7467</td>
<td>-0.25</td>
</tr>
<tr>
<td>2008-09</td>
<td>36018.6383</td>
<td>20.97</td>
</tr>
<tr>
<td>2009-10</td>
<td>35664.7717</td>
<td>-0.98</td>
</tr>
<tr>
<td>2010-11</td>
<td>37046.898</td>
<td>3.86</td>
</tr>
<tr>
<td>2011-12</td>
<td>50160.023</td>
<td>35.39</td>
</tr>
<tr>
<td>2012-13</td>
<td>50716.2547</td>
<td>1.11</td>
</tr>
</tbody>
</table>

Source: Ministry of Commerce & Industry, Government of India
Note: % growth is calculated on the basis of immediate previous year

The above table shows the textiles export trend of India to EU after the phase-out of MFA. In the above table the percentage growth from 2006-07 to 2010-11 shows a fluctuating trend. The growth in India’s textiles export was 5.95% in 2006-07 but it declined by -0.25% in 2007-08. It shows an improvement and increased to 20.97 % in 2008-09 and again declined
by -0.98% in 2009-10. India’s textiles export to EU shows an improvement of 3.86% in 2010-11 this percentage growth improved in 2011-12 to 35.39% and an increase of 1.11% is noticed in 2012-13. This table shows that with respect to India’s textiles exports to EU, quota has indeed been a constraint.

Table 3: India’s Textiles Import from EU after MFA Phase-out

<table>
<thead>
<tr>
<th>Years</th>
<th>Total (Rs crore)</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>1156.664</td>
<td>Nil</td>
</tr>
<tr>
<td>2006-07</td>
<td>1157.4062</td>
<td>0.06</td>
</tr>
<tr>
<td>2007-08</td>
<td>1208.4041</td>
<td>4.40</td>
</tr>
<tr>
<td>2008-09</td>
<td>1479.387</td>
<td>22.42</td>
</tr>
<tr>
<td>2009-10</td>
<td>1312.9738</td>
<td>-11.25</td>
</tr>
<tr>
<td>2010-11</td>
<td>1630.5181</td>
<td>24.19</td>
</tr>
<tr>
<td>2011-12</td>
<td>2,505.81</td>
<td>53.68</td>
</tr>
<tr>
<td>2012-13</td>
<td>2852.5577</td>
<td>13.84</td>
</tr>
</tbody>
</table>

Source: Ministry of Commerce & Industry, GOI
Note: % growth is calculated on the basis of immediate previous year

Table 3 shows the performance of India’s import of textiles from EU after the phase-out of MFA. This table shows an increasing growth upto 2008-09 but after 2008-09 growth declined sharply and become negative in 2009-10. An improvement in growth is noticed from 2010-11 to 2012-13.

Table 4: EU’s FDI in Indian Textile Industry after MFA Phase-out

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment (Rs crore)</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>109.94</td>
<td>Nil</td>
</tr>
<tr>
<td>2006-07</td>
<td>362.32</td>
<td>229.56</td>
</tr>
<tr>
<td>2007-08</td>
<td>42.75</td>
<td>-88.20</td>
</tr>
<tr>
<td>2008-09</td>
<td>79.95</td>
<td>87.02</td>
</tr>
<tr>
<td>2009-10</td>
<td>237.96</td>
<td>197.64</td>
</tr>
<tr>
<td>2010-11</td>
<td>39.61</td>
<td>-83.35</td>
</tr>
<tr>
<td>2011-12</td>
<td>104.25</td>
<td>163.19</td>
</tr>
<tr>
<td>2012-13</td>
<td>176.7</td>
<td>69.49</td>
</tr>
</tbody>
</table>

Source: Ministry of Textiles, GOI

Table 4 shows the performance of FDI by EU in Indian textiles industry after the phase-out of MFA. This table shows that EU’s FDI in Indian Textiles industry was improved in 2006-07 but it declined sharply by -88.20% in 2007-08 and again it improved its performance in 2009-10. As per the above data year 2010-11 is showing a negative growth. Years 2011-12 and 2012-13 are show declining trend.
4. Empirical Results

**Hypothesis 1:** Testing the Impact of EU’s FDI in Indian Textiles Industry on India’s Textiles Exports to EU in Post MFA period

Table 5: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.098*</td>
<td>.010</td>
<td>-.155</td>
<td>9483.28505</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant), EU’s FDI in Indian Textiles Industry*

**Interpretation:** The above Model Summary table shows the correlation (R) between the two variables i.e. EU’s FDI in Indian Textiles Industry and India’s Textiles Export to EU in Post MFA period. In the above model summary table, the coefficient of determination (R-Square) is 0.010; therefore, about 10% of the variation in India’s textiles export to EU is due to EU’s FDI in Indian textiles industry in Post MFA period. The correlation coefficient is 0.098; therefore, we can conclude that the relationship between EU’s FDI in Indian textiles industry and India’s textiles export to EU in post MFA period is not strong.

Table 6: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Un-standardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>38308.57</td>
<td>5752.851</td>
</tr>
<tr>
<td>EU’s FDI in Indian Textiles Industry</td>
<td>-7.849</td>
<td>32.422</td>
</tr>
</tbody>
</table>

*a. Dependent Variable: India’s Textiles Export to EU*

**Interpretation:** The un-standardized beta coefficient in the above coefficient table is -7.849. which shows a negative impact of EU’s FDI in Indian textiles industry on India’s textiles export to EU after the phase-out of MFA. P-value is 0.817 which is greater than 0.05 which shows that this impact is not significant in Post MFA period. Thus null hypothesis stands to be accepted.

**Hypothesis 2:** Testing the Impact of EU’s Investment on India’s Textiles Imports from EU in Post MFA period.

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**Table 7: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.117(^a)</td>
<td>.014</td>
<td>-.151</td>
<td>702.37850</td>
</tr>
</tbody>
</table>

**Interpretation:** In the above model summary table R Square is 0.014 which shows that the variation of 14% in India’s textiles import from EU is due to EU’s investment in Indian textiles industry in Post MFA period. Correlation coefficient is 0.117; therefore, there is no strong relationship between EU’s investment in Indian textiles industry and India’s textiles import from EU after the phase-out of MFA.

**Table 8: Coefficients\(^a\)**

<table>
<thead>
<tr>
<th>Model</th>
<th>Un-standardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1763.155</td>
<td>426.084</td>
<td>-.117</td>
<td></td>
</tr>
<tr>
<td>EU’s Investment in Indian Textiles Industry</td>
<td>-.695</td>
<td>2.401</td>
<td>-.17</td>
<td>-.289</td>
</tr>
</tbody>
</table>

\(^a\) Dependent Variable: India’s Textiles Import from EU

**Interpretation:** The un-standardized beta coefficient in the above table is -0.695. This shows that there is a negative impact of EU’s investment in Indian textiles industry on India’s textiles import from EU after the phase-out of MFA. The p-value in the above coefficient table is 0.782 which is greater than the significant value 0.05. It indicates that the impact is not significant. Thus the null hypothesis stands to be accepted.

**4.1 Findings**

As mentioned earlier the broad objectives of the present study were to find out the impact of EU’s FDI in Indian textile industry on India’s textiles export to EU and India’s textiles import from EU in Post MFA Phase-out period. The statistical data has also been analysed by the application of statistical tools and has been critically commented. Based on data analysis and hypothesis testing following findings are generated:

Impact of EU’s FDI in Indian Textiles Industry on India’s textiles export to EU after the phase-out of MFA was analysed by applying Linear regression Model. After the removal of quotas, i.e. after 2005, EU’s investment increased, but this increment was not impressive. As far as the impact of EU’s FDI on India’s textiles export is concerned, it is insignificant after the phase-out of MFA. India’s textiles import from EU in post MFA period has no strong relationship with EU’s FDI in Indian Textiles Industry. Though EU’s investment in Indian Textile Industry increased after the removal of quotas but as far as its impact on India’s textiles import to EU is concerned, it is negligible.
5. Conclusion and Recommendations

Although India has a rich textiles base and enjoys good textiles trade relations with EU, the position of EU’s investment in Indian textiles industry is still not satisfactory. As per the data, no considerable change is noticed in investment pattern of EU in Indian textiles industry after the phase-out of MFA. The situation is almost the same as before the phase-out. EU investors experience many problems while doing business with India like long legal procedures, licensing policies, bureaucratic hurdles, high tariffs, lack of transparency, limitations for investment in Indian Equity by Foreign companies and so on. All these limitations act as barriers for attracting FDI from EU in Indian textiles industry. As FDI is a bunch of technological know-how, managerial skills and capital, so in order to attract more FDI, India should work to unbundle this package. If we talk in terms of business environment, India is not healthy, which is discouraging for doing business. Merger & Acquisition (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. In order to achieve these objectives there should a combination of routes, such as the presence of 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 into each other’s textiles market. EU is a great source of investment for India but at the same time India is a less open economy for FDI. If India opens its borders to attract FDI in all sectors, the inflow of FDI is much likely to increase. Moreover, India should enter into technology licensing agreements with EU nations to import technological and managerial know-how. With the increased use of latest technologies, the importance of Intellectual Property Rights has also multiplied. India imports the technologies from the world’s most developed countries through Foreign Direct Investment of multinational companies. Respect and protection of their IP rights is a mandatory for host country. As far as India is concerned, the protection of IP rights is very poor and because of this fact foreign investors are diversifying their investment in other countries particularly in China. If India put special focus towards IP rights protection comparable to China, it will attract more FDI and will be able to generate huge benefits for the economy and people.

5.1 Initiatives Taken by Government of India

In last few years, Ministry of Textiles of Government of India has taken various attractive policy initiatives with the objective of accelerating the growth and attracting FDI in Indian Textiles Industry. The schemes launched by GOI are discussed below:
• **Technology Upgradation Fund Scheme (TUFS)**

The Technology Upgradation Fund Scheme was launched by GOI on 01.04.1999 (Ministry of Textiles, GOI) for a period of five years but was subsequently extended upto March 31, 2007. Recently this scheme has been extended for the entire 12th Plan Period. The main objective of this scheme is to provide financial support to textiles industry in the form of working capital, reduction of transaction cost, etc. It helps the textiles industry to expand its domestic market as well as to increase its share in global market by way of technology upgradation, cost effectiveness, good quality production and global competitiveness.

• **Scheme for Integrated Textiles Park (SITP)**

The Scheme for Integrated Textiles Park was launched by GOI in 2005 to remove the infrastructural bottleneck in Textiles Sector. The main objective of this scheme is to facilitate the textiles sector with State of the art, excellent infrastructure facilities by creating textile parks of international standards.

• **Technology Mission on Technical Textiles (TMTT)**

In 2007, Prime Minister Dr. Manmohan Singh announced the Technology Mission on Technical Textiles under the XI Five Year Plan (Technology Mission on Technical Textiles, Compendium on Centers of Excellence, 2011). The main objectives of this scheme is to make available the raw material, making technical textiles products globally competitive, R&D for product development, technology upgradation, enhance export, financial support for developing capital infrastructure and focus on key technical textile segments.

• **Export Promotion Councils (EPC)**

GOI has introduced many promotion councils with a view to increase the share of India’s export in international market. Measures in the form of Export Promotion Councils take by GOI are as under:

- Cotton Textile Export Promotion Council
- Handloom Export Promotion Council
- The Synthetic and Rayon Textile Export Promotion Council
- Indian Silk Export Promotion Council
- Wool and Woollen Export Promotion Council
- Carpet Export Promotion Council
- Export Promotion Council for Handicrafts
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