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FOREGIN DIRECT INVESTMENT IN THE MANUFACTURING INDUSTRY: WITH SPECIAL REFENCE TO TEXTILE INDUSTRY IN INDIA

Dr. S. Saravanan
Assistant Professor, Department of Economics
PSG College of Arts and Science, Coimbatore - 641 014

ABSTRACT

The Foreign Direct Investment means "cross border investment made by a resident in one economy in an enterprise in another economy, with the objective of establishing a lasting interest in the investee economy. FDI is also described as "investment into the business of a country by a company in another country". Mostly the investment is into production by either buying a company in the target country or by expanding operations of an existing business in that country". Such investments can take place for many reasons, including to take advantage of cheaper wages, special investment privileges (e.g. tax exemptions) offered by the country. Indian textile and apparel industry is one of the largest in the world and contributed significantly to national output, employment and exports. It provides direct employment to about 35 million people and another 56 million are engaged in allied activities. India has most liberal and transparent policies in Foreign Direct Investment (FDI) amongst emerging countries. The present paper analyzed the FDI in manufacturing in general and textile in particular. It was found that now Government of India allowed 100 percentage FDI in the textile sector under the automatic route. The rule is most flexible and well in-line with other countries. Under automated route, International investor can invest without prior approval either of the Government or the RBI. With this flexibility in FDI more countries were came and invest in textile industry in India.

KEYWORDS Foreign Direct Investment, Inflows, Routes, textile

Introduction

The Foreign Direct Investment means "cross border investment made by a resident in one economy in an enterprise in another economy, with the objective of establishing a lasting interest in the investee economy. FDI is also described as "investment into the business of a country by a company in another country". Mostly the investment is into production by either buying a company in the target country or by expanding operations of an existing business in that country". Such investments can take place for many reasons, including to take advantage of cheaper wages, special investment privileges (e.g. tax exemptions) offered by the country. Indian textile and apparel industry is one of the largest in the world and contributed significantly to national output, employment and exports. It provides direct employment to about 35 million people and another 56 million are engaged in allied activities. India has most liberal and transparent policies in Foreign Direct Investment (FDI) amongst emerging countries.

Major Routes

In India Foreign Direct Investments enter through two routes as given under:

i. Automatic Route: FDI is allowed under the automatic route without prior approval either of the Government or the Reserve Bank of India in all activities/sectors as specified in the consolidated FDI Policy, issued by the Government of India from time to time.

ii. Government Route: FDI in activities not covered under the automatic route requires prior approval of the Government which is considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs and Ministry of Finance.

iii. General Permission of RBI under FEMA

Indian companies having foreign investment approval through FIPB route do not require any further clearance from RBI for receiving inward remittance and issue of shares to the foreign investors. The companies are required to notify the concerned Regional office of the RBI of receipt of inward remittances within 30 days of such receipt and within 30 days of issue of shares to the foreign investors or NRIs.

FDI Inflow in India

India has attracted a cumulative FDI of US$ 369 billion from 2000-01 to 2014-15. After a decade long growth of FDI inflows in India, there was a drop in the recession period mainly because of subdued cross border merger and acquisition (M&A) activities and weaker return prospects for foreign affiliates, which adversely impacted equity investments as well as reinvested earnings. While the emerging market

Economies were able to recover back in 2010-11, despite the sound domestic economic performance India was not able to attain pre-crisis inflow levels. This was mainly on account of the amplification of policy uncertainties in India. Realizing the importance of FDI in development of the country, Government of India started making efforts to improve the scenario of FDI inflows in India. Steps were taken to improve ease of doing business and relaxation in FDI norms are the factors. In August 2013, the government increased the FDI limits in twelve sectors, including telecom and insurance. These efforts resulted in a robust growth of FDI inflows in the country. The inflow of Foreign Direct Investment in India was analyzed by using the Annual Growth Rate (AGR).

Table 1 FDI Inflow in India

Year	Rs. In Crores	US $ Million	Percent Growth
2000-2001	10,733	2,463	-
2001-2002	18,650	4,065	65
2002-2003	12,871	2,705	-33
2003-2004	10,061	2,188	-19
2004-2005	14,653	3,219	47
2005-2006	24,584	5,540	72
2006-2007	56,390	12,492	125
2007-2008	98,642	24,575	97
2008-2009	1,42,829	31,396	28
2009-2010	1,23,120	25,834	18
2010-2011	97,320	21,383	17
2011-2012	1,65,146	35,121	64
2012-2013	1,21,907	22,432	36
2013-2014	1,47,518	24,299	8

Source: FDI Synopsis

From the above table it was found that the inflow of FDI in India has been increasing every year. In 2000-2001 it was about 10.733 crores and it has increased to 147,518 crores in 2013-2014, particularly after 2006-2007 it has increased tremendously as from 65 percentages to 125 percentages.

Country-wise FDI Inflows in India

The top rank of Mauritius in India for FDI inflows could be attributed to the double taxation treaty that India has signed with

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Mauritius and also to the fact that most USA investment into India is being routed through Mauritius. According to the Double Taxation Avoidance Agreement (DTAA) between India and Mauritius, capital gains arising from the sale of shares are taxable in the country of residence of the shareholder and not in the country of residence of the company whose shares have been sold. Therefore, a Company resident in Mauritius selling shares of an Indian company will not pay tax in India. Since there is no capital gains tax in Mauritius, the gain will escape tax altogether. The provisions of the treaty to evade taxes has made the Mauritius as largest foreign investor of India. Country wise Foreign Direct Investment in India was analyzed here.

Table 2 Country wise Inflow in India during 2000-2014

Rank	Country	Crores	Us $ Million	Percent Growth
1	Mauritius	384,077.44	80,808.09	36.25
2	Singapore	131,603.97	26,417.34	11.85
3	United Kingdom	104,123.46	21,308.99	9.56
4	Japan	82,559.65	16,587.26	7.44
5	United States of America	56,652.77	12,081.08	5.42
6	Netherlands	57,194.55	11,384.91	5.11
7	Cyprus	36,590.62	7,590.07	3.41
8	Germany	32,108.27	6,602.76	2.96
9	France	19,191.28	3,959.27	1.78
10	Switzerland	13,452.24	2,758.28	1.24

Source: FDI Synopsis

The above table, it was revealed that country-wise FDI in India. The Mauritius had the first rank in terms of FDI in India it was about 36.25 percentages in 2000-2014 followed by Singapore 11.85 percentage. Among the top ten countries Switzerland had the least one i.e., 1.24 percentage.

FDI in Manufacturing Sector

The Foreign investment in Indian manufacturing has doubled from USD 12 billion to USD 24 billion in 2011-2012. The total foreign investment is therefore added to USD 102 billion up to 2011-2012 in manufacturing. The foreign investment is no uniformly coming in all manufacturing whereas the targeted manufacturing activities are Machinery & Equipment, Chemicals, Telecommunication, Power and other Manufacturing and Transport & Equipment etc.,

India is one of the most cost efficient textile manufacturing countries in the world. As per the report by ITMF on international product cost comparison, India is the third most competitive country in terms of ring yarn manufacturing and second in terms of knitted and woven ring yarn fabric manufacturing. The cost competitiveness of India can be attributed to low labour cost and ample availability of raw material. Apart from that, the Technology Upgradation Fund Scheme (TUFS) by the Government of India enables the firms to access low- interest loans for technology upgradation. With increasing cost in China, Korea and Egypt, the long term outlook for India is positive.

Benefits Available to Textile Sector Investors

Indian Government has initiated various schemes viz. Scheme for Integrated Textile Parks (SITP), Revised Restructured Technological Upgradation Fund Scheme (RRTUFS), Integrated Skill Development Scheme (ISDS), etc. to support the sector. In addition, various states such as Gujarat, Maharashtra, Rajasthan, Karnataka, etc. have also developed textile sector specific policies to promote investments.

FDI Policy : Textile Industry

As per consolidated FDI Policy by Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India, 100% FDI is allowed in the textile sector under the automatic route . The rule is most flexible and well in-line with other countries. Under automated route, International investor can invest without prior approval either of the Government or the RBI. Simple reporting to RBI is required a) On receipt of share application money and b) Upon issue of shares to non-resident investors. It is kept lenient because Indian manufacturing industry does not need any protection from foreign companies, being competitive in domestic market. The idea is to generate employment and promote technical and market know-how transfer.

In absence of any restriction, international investors do not have any issues with India's FDI policy for the sector.

FDI inflows- Industries

The following table shows the Industry wise FDI inflow in India

Table 3: FDI inflows- Industries (US$ million)

Particulars	1991-2002	2002-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Total Equity	Share (%)
Machinery and Equipments	5232.8	8360.3	3907.1	5086.5	2592.9	1846.7	4147.45	23707.65	23.2
Chemicals	1810.4	1934.1	582.3	992.5	616.1	734	10745.5	17406.45	17.0
Power	1885.8	398.5	1011.2	1070.1	1894.3	1464.4	2104.55	9828.75	9.6
Transport Equipments	431.1	1130.8	674.8	1151.7	1214.8	1286.1	922.99	6812.26	6.7
Metals and Metal Products	223	548.7	1176.9	960.9	419.9	1098.1	1786.14	6213.64	6.1
Textiles	249.2	327.2	186	157.4	150.6	129.8	164.74	1364.9	1.3

Source: FDI Synopsis

From the above table, it was found that, machinery and equipments sector it has the highest share from 1991-2002 to 2011-2012 (23.2%) followed by chemicals (17.0%) but the textile sector was contributing only 1.3 per cent during the same period.

FDI IN TEXTILE INDUSTRIES

Inflow of Foreign Direct Investment (FDI) in Indian textile from 2000-01 to 2012-13 were analyzed in table 4.

Table 4: FDI in Textile Industries in India

Year	Inflow of FDI and Textile in India		
	FDI in all sectors (Rs.billion)	Textiles (including Dyed, Printed) Rs.billion	% of FDI in Textiles
2000-01	103.68	0.09	0.09
2001-02	184.86	0.24	0.13
2002-03	128.71	2.58	2.00
2003-04	100.64	0.43	0.43
2004-05	146.53	1.97	1.34
2005-06	245.84	4.15	1.70
2006-07	563.90	5.68	1.02
2007-08	986.42	7.45	0.75
2008-09	1428.29	7.57	0.50
2009-10	1231.20	7.15	0.58
2010-11	885.20	5.89	0.67
2011-12	1739.46	8.05	0.45
2012-13	238.20	1.75	0.74
Grand Total	**7892.93**	**52.98**	**0.66**

Source: Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, Govt of India

From the above table, it was found that, the FDI in textile has been increasing from 0.09 billion in 2000-01 to 1.75 billion in 2012-13 and its share also increasing from 0.13 per cent in 2001-02 to 0.74 per cent in 2012-13 to the total FDI. In overall share it contributed 0.66 percent to the manufacturing sector.

FDI in Textile in India: Country wise Analysis

FDI by Region Africa is the largest investor in Indian textile sector, with nearly one-third of the total FDI inflows in India since 2000-01. Out of the investment of US$ 462 million from Africa, Mauritius accounts for about 99% of investment. Europe ranked second in FDI inflows in India accounting for 25% of total investments. The top 3 investing countries of Europe are Belgium (27%), Finland (13%) and Switzerland (11%). Asia is the third largest investor in the Indian textile sector with a cumulative FDI inflow of US$ 231 million since 2000-01. Within Asia, South-Eastern Asia is the largest investor with a share of 44% of the total investments followed by Eastern Asia and Western Asia with a share of 32% and 24% respectively. Singapore accounts for a share of 27% of the total FDI inflow in Asia. Other top Asian countries include Japan (25%) and UAE (20%). America is the fourth largest investor with USA accounting for a majority share of 50% share of the total investment of US$ 180 million from America. The Caribbean has a share of 47% in the total investments followed by Canada (4%).

Conclusion:

In India, among the manufacturing sector, the textile sector was a prominent one because of its tradition. But nowadays the Foreign Direct Investment (FDI) has influencing in textile sector due to lack of technology in the country. So the government should take necessary steps for the involvement of Indian investors through financial assistance for the Research & Development. But now Government of India, 100 percentage FDI is allowed in the textile sector under the automatic route . The rule is most flexible and well in-line with other countries. Under automated route, International investor can invest without prior approval either of the Government or the RBI. With this flexibility in FDI more countries were came and invest in textile industry in India.

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