



CHALLENGES AND OPPORTUNITIES OF FOREIGN DIRECT INVESTMENT WITH SPECIAL REFERENCE TO TEXTILE INDUSTRIES IN TIRUPPUR DISTRICT

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Abstract

Exporting is the most encouraged sector in the LPG era and India's balance of payment position becomes safer due to the export promotion after the 1990s. The textile industry especially Tiruppur is one of the Export Promotion Zones of India and the area has a lot of industrial clusters. The present research work is a descriptive study because it tries to narrate the problems involved in the textile exporting business arising from the FDI Tiruppur, Tamil Nadu. The textile and ready made garment exporting firms in Tiruppur are functioning well but at the same time they have some grievances in respect of incentives/subsidies. And it is a strange situation that some eligible firms also do not avail the benefits of subsidies due to operational difficulties and governmental formalities.

Key Words: *Foreign Direct Investment(FDI), Exporting, Incentives and Subsidies.*

Introduction

India is the world's second largest producer of textiles and garments after China. It is the world's third largest producer of cotton—after China and the USA—and the second largest cotton consumer after China. The Indian textile industry is as diverse and complex as country itself and it combines with equal equanimity this immense diversity into a cohesive whole. The fundamental strength of this industry flows from its strong production base of wide range of fibres / yarns from natural fibers like cotton, jute, silk and wool to synthetic /man-made fibres like polyester, viscose, nylon and acrylic. The growth pattern of the Indian textile industry in the last decade has been considerably more than the previous decades, primarily on account of liberalization of trade and economic policies initiated by the Government in the 1990s. In producer-driven value chains, large, usually transnational, manufacturers play the central roles in coordinating production networks. This is typical of capital- and technology-intensive industries such as automobiles, aircraft, computers, semiconductors and heavy machinery. Buyer-driven value chains are those in which large retailers, marketers and branded manufacturers play the pivotal roles in setting up decentralized production networks in a variety of exporting countries, typically located in developing countries.

This pattern of trade-led industrialization has become common in labour-intensive, consumer-goods industries such as garments, footwear, toys, handicrafts and consumer electronics. Large manufacturers control the producer-driven value chains at the point of production, while marketers and merchandisers exercise the main leverage in buyer-driven value chains at the design and retail stages. Apparel is an ideal industry for examining the dynamics of buyer-driven value chains. The relative ease of setting up clothing companies, coupled with the prevalence of developed-country protectionism in this sector, has led to an unparalleled diversity of garment exporters in the third world. Apparel is an ideal industry for examining the dynamics of buyer-driven value chains.

Importance of the Study

Today, the buyers of textile and readymade garment segments are aware of the running trends, and demand the newest in fashion and products at a reasonable cost. At the front position of this evolution are the smaller players, which private labels that are thoroughly transforming the dressing way of men, women and children. With the supply chain limitations eased, organization in real estate markets, and rationale tax structure, the readymade garment segment has become more lucrative and it is anticipated that the readymade garment segment will be the main segment in the next five years. Particularly, the export sector takes a vital role to increase India's share in the world market. It is expected that India will reach utmost destination in the world market in respect of readymade garment sector.

Statement of the Problem

Exporting is the most encouraged sector in the LPG era and India's balance of payment position becomes more safe due to the export promotion after the 1990s. The ready made garment industry especially Tiruppur is one of the Export Promotion Zones of India and the area has a lot of industrial clusters. All types of manufacturing units i.e., micro, small, medium and large scale industrial units are running in this area. More concessions and export promotion measures have been announced and implanted by the government to promote the exports from this area. The area has all sorts of infrastructural facilities . To

what extent the facilities are used by the export units in the area in the case of entry of Foreign Direct Investment (FDI)? In what way the textile units are benefited or not benefited? These are the questions to be answered. These are the research problem of the present research work.

Objectives of the Study

The primary objective of the present project work is to analyze the operational difficulties (practical problems) of readymade garment exporters of Tirupur. The major objective is split into the following secondary objectives:

1. To examine the mode of securing foreign orders by the textiles firms in Tirupur
2. To analyse the practical difficulties involved in raising export finance
3. To render suitable suggestions for the development of the export of ready made garments

Hypothesis: There is significant association between the size of the textile exporting firms and major source of foreign orders.

Research Methodology: The present research work is a descriptive study because it tries to narrate the problems involved in the textile exporting business arising from the FDI Tirupur, Tamil Nadu.

Data Used: Secondary data related to the export business of India have been collected from web sites and various study reports and they were shown in the initial chapters. The primary data have been collected from the selected readymade garment firms in Tirupur.

Population and Samples: As per the records of the District Industries Centre, Tirupur, there are 6,892 Micro, Small and Medium textile units -, functioning in Tirupur district. Among them, 4,269 units are export units as per the records of Tirupur Exporters' Association. This is the population of the study. As the size of the population of the study is very large, 200 sample firms from the Micro, Small and Medium sector are selected for this study as per the convenient sampling method.

Questionnaire : A well defined questionnaire was prepared and pre tested accordingly. Necessary modifications were made in it to collect the data from the sample exporting firms. The questionnaire consisted of general profile of the firms and the questions were included in respect of the dimensions of the study viz., Securing the foreign orders, Export marketing, Availing, Incentives and Subsidies and other related to the FDI.

Method of Analysis

The primary data were classified and tabulated properly and then they were analysed with the help of percentages. By means of the percentage analysis, inferences can be made at a logical base. So, the percentage analysis was undertaken. The chi square test is applied to test the hypotheses. Like t and test, a chi-square distribution is also a function of its degrees of freedom.

Analysis of Data

Table No. 1, General Profile of the Firms

Variable	Divisions	No. of Exporting Firms(N=200)	Percentage
Ownership Pattern	Sole trading firm	70	35
	Partnership	60	30
	Joint stock company	40	20
	Cooperative firm	30	15
Size of the firm	Micro	70	35
	Small	70	35
	Medium	60	30
Annual production (in tones)	Upto 5 tonnes	42	21
	5-10 tonnes	48	24
	10 -15 tonnes	50	25
	Above 5 tonnes	60	30
Age of the firms	Upto 5 years	68	34
	5-10 years	85	42.5
	Above 10 years	47	23.5
Type of the firm	100% Export Oriented Units	120	60
	Other Export Units	80	40

Source: Primary Data

Table 1 shows the general profile of the sample firms of the present study it is needless to interpret the issues related to the contents of the table because the table is self explanatory in nature. However, the flowing points are noteworthy:

- Majority of the sample firms (35 %) are of sole proprietorship in nature.
- Micro and small sized firms take equal majority (35 % each) in the total samples.
- Majority of the firms (30 %) produce usually more than 15 tonnes of ready made garments annually.
- Majority of the firms (42.5 %) have been started within the period of 5 to 10 years.
- 60 % of the sample firms are of 100 % Export Oriented Units.

Table No.2, Most Discouraging Factor in Respect of the FDI

Most Discouraging Factor in Respect of the FDI	No. of Exporting Firms	Percentage
Delay in getting the amount	92	46
Short period of time	40	20
Taxation	37	18.5
Terms and conditions	18	9
Commission to agents	13	6.5
Any other	00	00
Total	200	100

Source: Primary Data

As far as the discouraging factor is concerned, delay in receipt of the money is the major problem to the majority of the firms. This is due to practical difficulties arising from the banking transactions and other formalities. Short period of time for executing the order makes the 20% firms as discouraged. Taxation is the factor to the 18.5 % of the firms and it include the customs duty as a major part.

Table No.3, Retaining Factor in the Market

Retaining Factor	No. of Exporting Firms	Percentage
Profitability	35	17.5
Incentives and subsidies	40	20
Acessibility into the market	125	62.5
Total	200	100

Source: Primary Data

Majority firms (62.5 %) exist in the export business because of the easy entry into the international market. This is possible to the firms because of the LPG that appears in India after 1990s. Because of the LPG waves, abolishment of licensing policy, removing a large number of items from the negative list, export promotion measures of the Government of India etc., this entry in the world market becomes easy. 20 % of the firms point out that the incentives and subsidies retain them in the industry. Profitability comes last and it is supported by 17.5 % firms.

Table No.3, Major Problem in the foreign market due to the FDI

Major difficulty in the foreign market	No. of Exporting Firms	Percentage
Heavy competition	116	58
Importers' restrictions	20	10
Scatteredness of the market	36	18
Narrow distribution net work	18	9
On line trade	10	5
Total	200	100

Source: Primary Data

Majority firms (58%) face the problem of competition in the world market because all the countries are in the market invariably. This makes the market more sensitive and complicated. 18 % firms feel that the market is spread in wider area so that the firms have to pay more expenses for transportation. 10% firms suffer from the problem of importer's terms and conditions. 9% firms have narrow or short distribution channel so that they cannot extend the market and scale of operations. 5% firms point out that the on line trade is the problem.

Table No.4 ,Availing the incentives and subsidies

Availing the incentives and subsidies	No. of Exporting Firms	Percentage
At all times	48	24
Occasionally	172	86
Never	20	20
Total	200	100

Source: Primary Data

In respect of the incentives and subsidies, majority of the firms (86 %) have availed the incentives and subsidies in the past period occasionally and that 24 % of the firms have benefited always. This depicts that the the firms are alert in this issue so that they could get. On the other hand, 20% firms did not avail them in the past period. It is necessary to comply with the norms fixed by the government o the part of the firms. If the norms are not fulfilled properly or the firms do not apply for the incentives /subsidies it is not possible to the eligible concerns to avail them. The 20% firms fall under this category.

Table 5, Major difficulty in availing the incentives/ subsidies

Major difficulty in availing the incentives/ subsidies	No. of Exporting Firms	Percentage
Norms fixed by the government	12	6
No transparency	23	11.5
Bribe	10	5
Inordinate delay	155	77.5
Total	200	100

Source: Primary Data

Major difficulty in availing the incentives and subsidies, majority firms feel that that there is inordinate delay to grant them. It is purely a reason of red tapeism of the government offices. 11.5% firms blame that there is no transparency at all because, many times, the applications of the firms for getting the incentives /subsidies have been rejected without proper reason. Norms fixed by the government are hard to 6 % firms. At the same time, an usual prevailing thing i.e bribe to government officials is the difficulty to 5 % of the firms.

Testing of Hypothesis

Null Hypothesis (HO₁)

There is no significant association between the size of the textile exporting firms and major source of foreign orders.

Table 6,Cross Table

size of the textile exporting firms	major source of foreign orders				Total
	Direct orders from customers	Association of exporters	Government Agencies	Middlemen	
Micro	10	4	20	36	70
Small	25	3	12	30	70
Medium	12	3	6	39	60
Total	47	10	38	105	200

Source: Primary data

Table 7,Cross Table

Table Value at 6 d.f at 5% significant level	Calculated value	Result
12.6	14.6177	Null Hypothesis is rejected

As the calculated value of the chi square is less than the table value, there is significant association between the size of the exporting firms and major source of foreign orders.

Conclusion

The textile and ready made garment exporting firms in Tirupur are functioning well but at the same time they have some grievances in respect of incentives/subsidies. And it is a strange situation that some eligible firms also do not avail the benefits of subsidies due to operational difficulties and governmental formalities. The District Industries Centre of Tirupur



and State Government have to perform more in this regard. Likewise, the role of the Association of Tirupur Exporters is to be further improved. The present work identifies the problems in every nook and corner of exporting the textile units due to the entry of the FDI in the textile sector. Particularly, receipt of foreign orders directly from the parties, bank finance, availing the incentives/ subsidies and heavy operating expenses are the immediate problems to the export firms. So, it is concluded that the micro, small and medium firms, engaged in export of ready made garments in Tirupur should be given adequate supporting measures by the government as early as possible.

Suggestions

1. The government may take further steps to include all the industrial units which are engaged in the exporting of ready made garments but are not covered under the scheme of incentives and subsidies by redefining the eligibility criteria.
2. Quantum of subsidies may further be increased for the benefit of the exporting units.
3. Formalities and procedures of applying for subsidies may be relaxed
4. Exporters' association may act as the bridge between the exporting firms and banks as well as the government agencies.
5. Periodical training for export firms and continuous feedback should be ensured by means of entrepreneurial training programme.

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