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INDIA A NEW OPPORTUNITY FOR FASHION LUXURY BRANDS

Relatore: Chiar.mo
Prof. Lo Turco Alessia

Tesi di Laurea di:
Erika Cilia

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ABSTRACT

Questa tesi analizzerà il nesso positivo tra IED e miglioramento dei prodotti esportati. Per dare un esempio tangibile, analizzeremo l'industria manifatturiera, per essere più specifici in quanto l'industria manifatturiera comprende diversi tipi di produzione, ci concentreremo sul tessile e abbigliamento. Nella maggior parte dei casi gli IED sono rivolti ai paesi in via di sviluppo; quindi, ai fini di questa ricerca scegliamo come paese l'India. La domanda principale è: in che modo gli IDE possono influenzare il prodotto in uscita con una qualità migliore? E: c'è qualche possibilità che questo possa essere tradotto come un'opportunità per i marchi di moda di lusso?

Per rispondere a queste domande, abbiamo organizzato questa ricerca nel seguente modo: la prima parte riguarda la definizione e l'analisi degli IDE e delle loro determinanti e l'effetto principale di questa pratica che è l'export upgrading nei paesi in via di sviluppo. La seconda parte è focalizzata sulla panoramica del paese target, l'India; l'analisi del settore tessile e dell'abbigliamento all'interno del paese; e le opportunità per i marchi di moda di lusso in questa economia. Infine, mostreremo un'analisi empirica che mostra il nesso tra gli IDE e il potenziamento delle esportazioni nel settore tessile e dell'abbigliamento. Concluderemo il documento con commenti sull'output del modello che risponderà alle domande precedenti.

INTRODUCTION

This thesis is going to analyze the positive nexus between FDI and Export upgrading. In order to give a tangible example, we will analyze the manufacturing industry, to be more specific since the manufacturing industry includes different types of output, we will focus on the textile and apparel. In most cases FDI are towards developing country so for the purposes of this research we choose as targeted country India. The main question is: how FDI can influence the output product with a better quality? And: there is any chance that this can be translated as an opportunity for luxury fashion brands?

To answer those questions, we organized this research: the first part regards the definition and analysis of FDI and their determinants and the main effect of this practice that is export upgrading in developing countries. The second part is focused on the overview of the targeted country, India; the analysis of the textile and apparel industry inside the country; and the opportunities for the fashion luxury brands in this economy. Lastly, we will show an empirical analysis that shows the nexus between FDI and export upgrading in the textile and apparel industry. We will conclude the paper with comments on the output of the model that will answer the previous questions.

CHAPTER 1: FDI AND EXPORT QUALITY UPGRADING

1.1 DETERMINANTS AND EFFECT OF FDI

According to the OECD an FDI "is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy."[1]
FDI plays a fundamental role in the international economic integration, thanks to the fact that it creates a solid bond between economies. Thanks to this practice is possible: to encourage the international trade by entering a foreign economy, to exchange and improve technologies and know-how across countries, to give an important contribution to economic development. It can be a serious opportunity for the host country to get their products more visibility in a globalized environment.
With the increasing of liberalization of exchange control and a smoother market access, economies have shaped themselves into a globally integrated framework. This has intensified competition in markets, but nevertheless has improved financial instruments, diminish transaction costs, gaining the attention of investors from other country. All of this has accelerated in the latest years, in an exponential

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[1] https://www.oecd-ilibrary.org/finance-and-investment/foreign-direct-investment-fdi/indicator-group/english_9a523b18-en

way, thanks to technologies innovations that speed up in a very important and efficient way the communications and the data processing.

The booming of this practice has shown that nowadays entering a new market is not a luxury for MNEs, indeed, considering the expansion in size and number of individual FDI transaction, and the widening of diversification in enterprises across industries and economies; we can affirm that there is an important presence of small and medium size companies that represents the augmentation of this practice.

To give a practical example, for direct investment is meant a company presence in the host territory that can assume multiple forms: we can find subsidiaries where the direct investor holds the 50% of power, associates where the direct investor holds from the 10% to a maximum of the 50% of voting power or, lastly a quasi-corporation for example some company's department that are fully owned by their respective parents.

Before taking this huge and company life changing decision, it is important to have an accurate analysis of the territory and the economy in which is better to invest. To allow this passage all companies go through the so-called determinants of the FDI that can help firms to have a solid background of the targeted country and the effect that the presence of a foreign investor can have in the local market.

Exchange rate

"One of the many influences on FDI activity is the behavior of exchange rates. Exchange rates, defined as the domestic currency price of a foreign currency, matter both in terms of their levels and their volatility. Exchange rates can influence both the total amount of foreign direct investment that takes place and the allocation of this investment spending across a range of countries."[2]

In the moment that a currency depreciated, so the value of the currency in question decreases, its value in comparison with another currency; FDI can be involved in two ways.

First of all, there is a decrease of a depreciated currency of their country's wages and production costs in respect to a foreign country with a more valuable currency.

Then, it creates the so called "locational advantage" it means it has caught the attention of another country that is willing to send productive capacity investments. This creates a "relative wage" because the exchange rate depreciation increases the overall rate of return to another country; that makes the market more attractive for investments project in the targeted country.

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[2] Linda S. Goldberg, "Exchange Rates and Foreign Direct Investment", *Princeton Encyclopedia of the World Economy*

In order to analyze the exchange rate effect using this praxis depends on two main points. The first consideration is related to the association between the variation of productive costs through the countries, and the exchange rate movement; it means that firms must maintain wages and production costs in the targeted economy where they decide to invest.

The second one is referred to anticipated exchange rate, in other words it affirms that if a country actuate an anticipated rate wage it can compromise investments from another country, this happen because there is an augmentation of the cost of financing investments project, in fact the main advantage of this practice is the equity condition between the interest rate and equalize risk-adjusted expected rates of returns across countries.

Taxes

Another determinant for FDI are Taxes. The main characteristic that makes taxes one of the determinants is that they influence the net return on capital, basically taxes are responsible for capital movements across countries; but they can also be consider an obstacle in a case where taxes create barriers in the host economy. It is easily notable that in countries where the governments want to be internationally competitive, one of the first step to attract FDI is to remove barriers and as a first access in a host country is to reinforce and modify tax policy.

Three main points are fundamental in the develop of a successful tax policy to attract FDI. First of all, governments need to coordinate their tax policies from a regional level to international level, creating an organic tax legislation.

Second, try to create a link between tax policies that connects the countries involved in the exchange, a more harmonious environment can positively affect the behavior of multinationals.

Lastly, an important focus is needed in the tax incentives, by improving their associated costs; this passage is really important because it can cause ambiguous behaviors in the manage of tax administration and MNEs. This particular issue is present mostly in developing counties where corruption and budgetary constraints are more evident than an industrialized country.

Tax policies are one of the main determinants in attraction of FDI, because higher tax rates reduce after-tax returns. "Countries do not only differ in their tax policies, but also in their commercial and regulatory policies, market size, natural endowments, and human capital. All these factors influence the desirability of an investment location. Governments have several tax instruments that they can use to attempt to influence the effective tax rates and the location decision of multinational companies."[3]

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[3] Jacques Morisse and Neda Pirnia, "How Tax Policy and Incentives Affect Foreign Direct Investment",

This practice is a win-win for the counties involved, “the resulting net increase in domestic income is shared with government through taxation of wages and profits of foreign-owned companies, and possibly other taxes on business (*e.g.* property tax).”[4] For the host country it is a real possibility to conveniently impact their domestic market, thanks to spillover effect, with the introduction of new technologies and last but not least an encouraging improvement of human capital thanks to the implementation or acquisition of skills. For these reasons counties that wants to attract FDI are always reviewing their taxation legislation, so that their can assure inbound investments.

“FDI is attracted to countries offering access to markets and profit opportunities; a predictable and non- discriminatory legal and regulatory framework; macroeconomic stability; skilled and responsive labour markets; and well-developed infrastructure. All of these factors will influence the long-term profitability of a project.” [5]

Institutions

Institutions are another important variable that needs to be considered in case of international investments. In developing counties institution are not always in a good place, for several reasons. When the quality of institution is poor the risks

[4] https://www.oecd.org/investment/investment-policy/40152903.pdf

[5] https://www.oecd.org/investment/investment-policy/40152903.pdf

are really high for MNEs; in case of a bad-functioning market where corruption is heavily present, the costs for the company can dramatically increase, making a fast reduction of FDI in the target country. Institutions, amongst all their variable, are responsible for infrastructure; consequently, a bad infrastructure network makes the domestic market less attractive for international investments.

Institutions don't have a specific metric of measure, "Most measures are some composite index of a country's political, legal and economic institutions, developed from survey responses from officials or businessmen familiar with the country. Comparability across countries is questionable when survey respondents vary across the countries."[6]

Three main factors affected the relationship between FDI and institutions.

The first important element is the awareness from institution to establish attractive incentives for economic activity with a special focus on investments.

The second one is related to the great increasing of FDI since the 90', that made developing countries a great field for investments.

Last, institutions have taken an important place amongst foreign investors decisions, in terms of investments, that is directly proportional to the quality of the institution of the targeted country.

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[6] Fathi A. Ali & Norbert Fiess & Ronald MacDonald, "Do Institutions Matter for Foreign Direct Investment?", Published online: 3 March 2010 Springer Science+Business Media, LLC 2010

“Institutions are the humanly devised constraints that structure human interactions, including economic exchange.”[7]

The structure of institutions can be divided into two subgroups: formal and informal.

With formal we refer to constitution and laws, for informal we relate to conventions and customs. The main aim of institution is to reduce uncertainty amongst human interaction about the action that are possible or not under specific circumstances. The economic activities are affected by institutions because they can impact transaction and production costs. “. Transaction costs are costs associated with economic exchange, they consist of: costs of measuring the values of what is being exchanged, and, costs of protecting and enforcing property rights.”[8] When an economic exchange is incomplete the augmentation of the transaction costs show information about the behavior of the counterpart, giving to the home country several information about the regulatory of the host country; this implies that institutions must be present in order to avoid uncertainty during an economic exchange; so we can affirm that “Institutions, both formal and

[7] Fathi A. Ali & Norbert Fiess & Ronald MacDonald, “Do Institutions Matter for Foreign Direct Investment?”, Published online: 3 March 2010 Springer Science+Business Media, LLC 2010

[8] Fathi A. Ali & Norbert Fiess & Ronald MacDonald, “Do Institutions Matter for Foreign Direct Investment?”, Published online: 3 March 2010 Springer Science+Business Media, LLC 2010

informal, arise to provide rules and procedures that reduce uncertainties involved in economic exchange.”[9]

Trade Protection

“International trade is the buying and selling of products and services on international markets. This activity increases consumer choice, creating competitive markets that should result in reduced end prices and increased quality of products and services.”[10] It is mostly connected to natural resources that are unequally distributed across the globe; that’s why international markets set agreements to supply those country that are in need for resources. Trade can be identified in three forms, first import of good and services transported into a country, second exports of goods and services shipped out of a country, and thirdly is entrepot, when a good or service is stored into a market before being shipped to another country. In some cases, though, when a government intercept a possible threat to a specific industry, in order to protect their advantage, they adopt a protectionist policy, like tariffs or trade barrier.

On one hand we can affirm that FDI and trade are complementary to each other, it is indeed a shared opinion that FDI affect positively a country’s export. The main

[9] Fathi A. Ali & Norbert Fiess & Ronald MacDonald, “Do Institutions Matter for Foreign Direct Investment?”, Published online: 3 March 2010 Springer Science+Business Media, LLC 2010

[10] https://www.investmentmonitor.ai/global/the-relationship-between-fdi-and-international-trade

reason why is related to the new products for export and the introduction of new technologies, that allows host economy to be more competitive in the international market with an augmentation of GDP and improving local workforce with trainings offered from the MNEs. FDI are the cardinal in the exchange of intangible assets like technological knowledge and skill, process that is not possible to develop with traditional trade.

On the other hand, FDI can negatively affect country's exports, the main reason that this practice become counterproductive id the poor level of imported technologies that can preclude an incrementation of the presence of the domestic companies in the international scenario. In this case it is a common strategy from the local governments to develop a trade protection, that is a closure of their market towards international commerce. [11]

In conclusion, the main determinant that affect FDI are exchange rate, taxes, institutions, and trade protection. In literature there is proof that this are not the only parameter existing in order to develop a penetration in a targeted country, it is a matter of fact that many variables are needed to create a clear view of the economic environment. Some example that are noteworthy are: trade openness, so how open is the market in embrace new MNEs in their economic circuit; growth rates, necessary especially in evaluating developing countries, that can be

[11] https://www.investmentmonitor.ai/global/the-relationship-between-fdi-and-international-trade

explained as the expected grow of a specific market in a determined period of time; economic freedom, “the degree to which a market economy is in place, where the central components are voluntary exchange, free competition, and protection of persons and property”[12]; market size, how big is the targeted market, number of competitors, and extension of the potential customers.

Moreover, for the purposes of this research, that is focused on the textile sector, we will also analyze textile regulation agreements, labor, and technology in India.

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[12] Caetano, José; Caleiro, António (2009) : Economic Freedom and Foreign Direct Investment -- How different are the MENA countries from the EU?, Documento de Trabalho, No. 2009/02, Universidade de Évora, Departamento de Economia, Évora

1.2 FDI DECISION AND LOCATION

"The attractiveness of host country locations to foreign investors depends not only upon location-specific attributes such as labor costs, but also upon the location's proximity to alternative locations." [13]

In International Business distance is not strictly related to geography only, but it includes cultural, psychic, and institutional too; these variables affect the behavior of MNEs in the choice of entry mode in a targeted country.

The concept of distance is still relevant in terms of spatial dimensions in order to understand the potential in business activity. This can be defined as one of the most important determinants that needs to be analyzed so that foreign investors can namely the choice of the FDI location in the targeted country. This decision is not exclusively moved by this variable but also by specific feature present in the host country such as labor costs or proximity to an alternative location. The concept of proximity, again, is not just defined by geographical distance, but the similarity in administration and economy between the home and the host country and how these variables affect the FDI choice.

[13] Fre´de´ic Blanc-Brude,Graham Cookson , Jenifer Piesse, Roger Strange; "The FDI location decision: Distance and the effects of spatial dependence"; International Business Review 23 (2014) 797–810

“The choice of FDI location is determined by such location-specific attributes as local market attractiveness, agglomeration economies, labor costs, quality of human capital, transportation infrastructure and trade openness.” [14] The most attractive market for MNEs to invest their capital above all are related to rich local markets, because it is implied that there is a higher turnout of customers, that consequently indicate a great potential demand for the output of the good or service that the foreign firms want to invest.

Industry agglomeration, has numerous advantages for both sides: “better infrastructure, better trained workers, a finer division of labor, the provision of more specialized support services and, in general, lower production costs.” Moreover “agglomerations of foreign investment led to additional benefits such as the creation of expatriate that the choice of FDI location is determined by such location-specific attributes as local market attractiveness, agglomeration economies, labor costs, quality of human capital, transportation infrastructure and trade openness.”[15]

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[14] Fre´de´ic Blanc-Brude,Graham Cookson , Jenifer Piesse, Roger Strange; “The FDI location decision: Distance and the effects of spatial dependence”; International Business Review 23 (2014) 797–810

[15] Fre´de´ic Blanc-Brude,Graham Cookson , Jenifer Piesse, Roger Strange; “The FDI location decision: Distance and the effects of spatial dependence”; International Business Review 23 (2014) 797–810

According to all this information we can state that geographic distance is not the most suitable variable to take in consideration to start an economic connection with another country. In literature there are several proofs of the fact that the main variables that push a MNEs to invest abroad depends mostly on economic and administrative distance, the more are similar to the one of the home country the more attractive they become.

In conclusion, we can sum the FDI location decision in three main points.

First point, in the moment that a firm decides to invest in another country, especially in a sub-national level, the factors that affect positively this decision are: "local market attractiveness, aggregation economies, human capital, trade openness, and government spending"[16], on the other hand the factors that affect negatively the decision are: "the distance from the coast, the percentage population in rural areas, and (weakly) by labor costs."[17] Governments can implement their policy in order to satisfy the parameter needed to ensure international investments, the main areas where this implementation are needed are: "additional expenditure on demand management, so that they can increase

[16] Fre´de´ic Blanc-Brude,Graham Cookson , Jenifer Piesse, Roger Strange; "The FDI location decision: Distance and the effects of spatial dependence"; International Business Review 23 (2014) 797–810

[17] Fre´de´ic Blanc-Brude,Graham Cookson , Jenifer Piesse, Roger Strange; "The FDI location decision: Distance and the effects of spatial dependence"; International Business Review 23 (2014) 797–810

market attractiveness, education and training in order to improve human capital, industrial subsidies with the aim to attract investment and generate agglomeration economies, trade liberalization, and the promotion of intra-prefecture migration to the urban areas."[18] This implementation of course need an huge amount of work and money, so before approving this new policies, governments have to consider if the benefit compensate the faced costs.

Second main point, in which we need to focus, is that there are more chances that the above-mentioned expenditure made to attract international investments, if the targeted city is close to other; otherwise, if the city is in a more isolated position MNEs are reluctant to invest and FDI attractor may fail. So, economic and administrative distance are determinants in the choice of a specific market.

Third main point, more variables are needed for this evaluation, that are not so determinant as the one already analyzed, but still influence the choice. These variables are: "alternative measures to capture the complexity of the administrative autonomy within prefecture-cities; measures of effective city governance relating to inter alia the control of corruption, the protection of intellectual property, and bureaucracy; measures related to the quality and

[18] Fre´de´ic Blanc-Brude,Graham Cookson , Jenifer Piesse, Roger Strange; "The FDI location decision: Distance and the effects of spatial dependence"; International Business Review 23 (2014) 797–810

effectiveness of the prefecture-city institutions.”[19]. Moreover, every country has specific factor that needs to be analyzed that are the so-called country specific factor, that varies not only for the nation but also for industry.

[19] Fre´de´ic Blanc-Brude,Graham Cookson , Jenifer Piesse, Roger Strange; “The FDI location decision: Distance and the effects of spatial dependence”; International Business Review 23 (2014) 797–810

1.3 EXPORT QUALITY UPGRADING EFFECT

"Economic development requires the transformation of a country's economic structure." [20]

In order to achieve a more efficient economy some implementations are needed: diversification into new industries, reallocation of resources toward more efficient firms. The improvement of existing portfolio of products, can help developing countries to enhance comparative advantage to increase productivity and consequently export revenues. Not all the goods portfolios of course can be boosted with this technique, in literature there are proof of the fact that the industry that react best to this practice is manufacturing. Developing countries must face not only implementation but also the creation of new products, as a precondition for better and high revenues derived from the process of quality improvements. The quality parameter is a relative factor, something that for someone is defined as "high quality" for someone else can be perceived as "low quality", this happen often among exporters, because they are influenced by the local production techniques and factor endowments. The most suitable commerce in which this variable is not a determinant is the intra-industry, where it is normal

[20] Christian Henn, Chris Papageorgiou, Jose Manuel Romero, Nikola Spatafora; "Export Quality in Advanced and Developing Economies: Evidence from a New Data Set"; IMF Economic Review (2020) 68:421–451

to find products of different quality. Developing countries have shifted towards more defined products, still using a low quality of production, therefore diversification didn’t get the desired effect, that is a considerable income in the GDP per capita. That’s why diversification and quality upgrading must be considered as complementary process during the implementation of the procedure. According to literature there is the global necessity to create “quality ladders” that can allow also developing country to participate, at their own level of quality and then work on the needed implementation to improve their products and finally become more competitive in the international market. The combination of capabilities varies from country to country, so the acquisition of new production capabilities is different, according to the country specific necessities. In other words, the quality upgrading is the base of the growth process in the measure in which new capabilities are required in the target country, especially in the case in which products that are already close to the desired quality, in order to produce higher value-added goods. From a macro-level point of view the improving quality and diversification bring a great advantage in terms of volatility, that is drastically reduced; because the specialization in a more extent gamma of sectors, make a country market less volatile and need a major use of inputs in their production.

Quality is not an observable data, but it needed to be estimated, “Unit values, defined as the ratio of export values to quantity for any given product category, are observable"[21]; moreover, unit values is directly proportional with GDP per capita. Unit values though are determined by other variables such as production cost differences, so the export quality can't be determined only on unit values. "The strategies recently developed for quality estimation typically model demand, and in some cases also supply, using explicit microeconomic foundations. However, these methodologies do not allow calculation of a set of quality estimates with large country and time coverage, owing to their significant data requirements."[22]

The main question is: how is export quality upgrading affect the host country and MNEs?

From the point of view of the host country the export quality upgrading can improve the attractiveness of international investments in their market. Considering that in most cases the host country is a developing reality the allocations of investments are almost necessary. "Multinational presence may

[21] Christian Henn, Chris Papageorgiou, Jose Manuel Romero, Nikola Spatafora; "Export Quality in Advanced and Developing Economies: Evidence from a New Data Set"; IMF Economic Review (2020) 68:421–451

[22] Christian Henn, Chris Papageorgiou, Jose Manuel Romero, Nikola Spatafora; "Export Quality in Advanced and Developing Economies: Evidence from a New Data Set"; IMF Economic Review (2020) 68:421–451

influence local private firm outcomes through a number of potential channels."[23] Local firm have the chance to improve their knowledge or acquire new competences from MNEs, obtain better technology, and get new opportunities in the international market, get better quality inputs, or broaden the variety of inputs, all this factor can affect positively the local firm productivity. On the other hand, there are also some negative aspects that can affect the local market like: "multinational exposure may harm local firms if growth in multinational firm activity intensifies product market competition or raise the local costs of production inputs".

The presence of international firms in a targeted market, makes transaction prices durable, and it also helps to achieve a high survivor rate in the international transaction.

These two features are definitely connected to each other as literature explains, it is a matter of fact that companies that are present in the international scenario for a longer time have better quality relationship, without international connection would be harder for local companies to find the right channel to improve the presence in the international market.

[23] Deborah L. Swenson and Huiya Chen; "Multinational Exposure and the Quality of New Chinese Exports"; OXFORD BULLETIN OF ECONOMICS AND STATISTICS, 76, 1 (2014) 0305-9049

1.4 POSITIVE RELATION BETWEEN FDI AND EXPORT UPGRADING

The export upgrade is an effect of the FDI. As a matter of fact, the investments in a host country in most cases affect positively the local economy. The main aspect in which there are improvements are on efficiency and on the productive structure. "Economic efficiency is when all goods and factors of production in an economy are distributed or allocated to their most valuable uses and waste is eliminated or minimized."[24]

Economic efficiency affects several aspects of the supply chain from production to allocation, to distribution. How FDI can help in the improvements of all this processes?

In the moment an advanced country decides to invest in a developing country they have a more mature experience in the international scenario; so, they can actually teach the local firms. One of the first steps is the improvements in the labor skills, in developing country there is often a huge workforce, but they have not the necessary skills to face the work, that's one of the main prerogatives of the MNEs when they acquire facilities in the new economy. Another important aspect for a better efficiency that FDI can improve in a country is the upgrading of the supply chain, it is a matter of fact that the better the process of production is organized the better will be the output; a smoother combination of process can ameliorate the final product; MNEs have, in most cases, spread facilities in order to reach

[24] https://www.investopedia.com/terms/e/economic_efficiency.asp

economies of scale so they know better how to get raw material, how to process them in the best way giving the chance to the host country to improve their quality.

Shifting to the productive structure we can define it as “The structure (physical lay-out and interdependence relations) of the transformations that together result in the constitution of the goods and services that an organization intent to deliver to their customers”[25]. When international investments enter a developing market, the main aim is to enhance the technologies already present. One of the first things is the modernization of the machines with newer models, which in the past were out of budge; of course, this can boost the productive structure.

In conclusion we can affirm that in most cases there is a positive connection between FDI and export upgrading, it is obvious that MNEs can bring to a developing country many improvements both tangible, like new machinery, improvements of the communication system, better raw materials; and intangible such as better skilled workforce and better connections in the global market.

[25] https://www.igi-global.com/dictionary/production-structure/23700

CHAPTER 2: INDIA OVERVIEW

2.1 ABOUT INDIA

India is situated in the Southeast Asia, and it is the second most populous country with a population of 1.25 billion people. The position of this country is strategic because it is bounded with Indian Ocean in the South the Arabian Sea in the southwest and the Bay of Bengal in the southeast. The country has 28 states and eight union territories, the capital is New Delhi, and the official languages of the country are Hindi and English. The currency used is the Indian rupee, that correspond more or less to 70/73 rupees for 1 dollar.

After gain the independence in 1947 India has opened their market to the world. In the early 1990s India has begun a process of economically liberalization and some of the novelty included a reduced controller on the 14 trade and investment.

In the latest years India has experienced one of the fastest growing in economy and according to studies it will be one of the top three economic power in the next 15 years, add determinant factor of this grow is the LC democracy and trustworthy partnerships that includes companies and other countries.

Regarding the market size the gross domestic product (GDP) is estimated at USA dollars 73.2 billion.

A deeper evaluation is necessary to understand the real meaning of the analysis.

Regarding the strength of this country, we can start affirming that India has a great workforce, as we mentioned before India has a really large population and thanks to a solid educational system, they developed a lot of IT and engineering force.

Another interesting data on India is definitely connected to the English-speaking country this allows the country to share their competences with the western companies that of course are more willing to consider India as a place for allocate resources and outsource operations in the country because it's easy to communicate with them considering that English is used as lingua franca in the business environment.

According to studies India in the next years will have a huge grow rate in economy. New policies are promoted in order to grow a solid and sustainable growth, there is more attention to the social environment, new reforms are developed to create opportunities for the inclusion in the global economy and finally there is a new consciousness regarding green energy in order to limit climate changes.

India is also known for the abundance of natural resources, for this specific study we are going to analyze the textile sector and the allocation of raw materials such as cotton.

On the other hand, this country shows some weaknesses. One of that is the high poverty rate; there is an enormous gap between the rich and the poor, in fact, the last one’s struggle to get access to goods needed for the basic needs of life.

Another problem that affects negatively this country are the poor internal infrastructure. This weakness is a constrain in India growth, from an economic point of view, foreign companies won't invest in the local market to avoid consistent problems such as distribution or transportation of goods.

Moving to the opportunity that this country has to offer, it obvious that there are several possibilities that can prevail the eventual weaknesses and threats.

The labor cost is low, but still maintain a good quality, the main sectors where Indian labor is concentrated are IT specialist, that are highly request in the market especially after the Covid-19 pandemic, engineering that allows to develop new technologies or machines useful to develop economies of scale. The cost is not only the main factor that creates a consistent competitiveness, but also the fact that every worker is able to speak English so there are no communication barriers between the foreign companies and locals.

Geographically speaking India is in an advantageous position. It's easy to reach most of Asian countries, thanks to the presence of 13 harbors, that cover about the

95% of India's trading in terms of volume and 70% of the value is obtained through maritime transport.

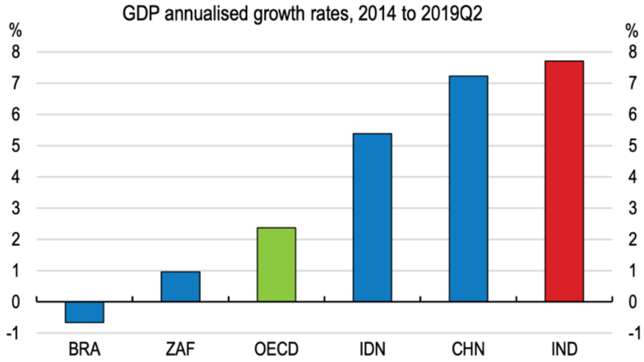
New reforms are going to open India to international business, especially after the pandemic that hit hard the country this opportunity is almost a necessity in order to remain competitive in the globalized scenario.

In the end according to threats, some geopolitical issues with Pakistan and China can compromise the willing to invest in this market. Furthermore, India is often victim of natural disaster like heat waves, cyclones, and flood, unfortunately this can create doubts in the foreign investments because the damages of this phenomena can create problems from an economic point of view.

After the bad impact of the pandemic India decided to recover his economy through reforms. They recognized the critical factor that would negatively affect their economic rebound and acted by implementing and creating new rules that will allow India to become stronger in the international economic scenario. The situation before the pandemic was anyway set to make this improvement. The OECD Economic Survey of India present the already problematic area of this country.

The first analysis is about promoting solid and sustainable growth, even if revenues were highly growing in the precedent years, the Indian economy has experienced a drastic loosening because it has left behind private investments.

Figure A. Income is growing steadily

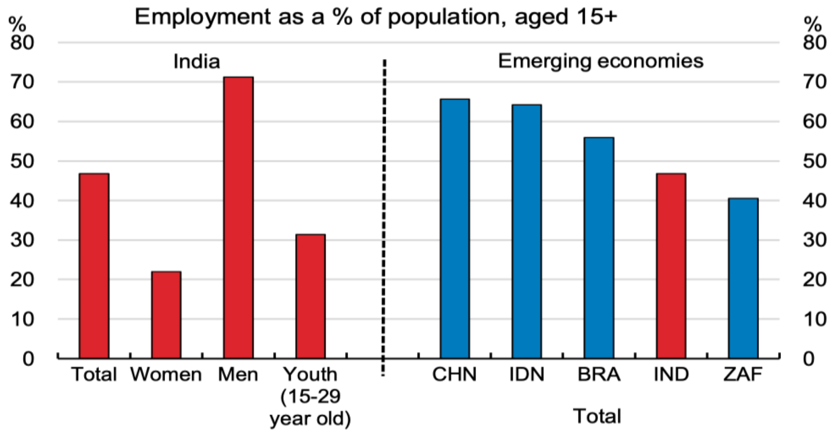


Source: OECD, Analytical database.

In 2016 India adopted and inflation-targeting regime that allowed the country to bring down inflation, but in 2019 even if inflation has diminished, the lending rates were still not completely adjusted. It was still high the public debt-to-GDP, even if they were already programmed new reforms to improve the general incomes and well-being.

An aspect that was already take in consideration was the social reforms that included the creation of new employments, the simplification of labor laws.

Figure B. The employment rate is low

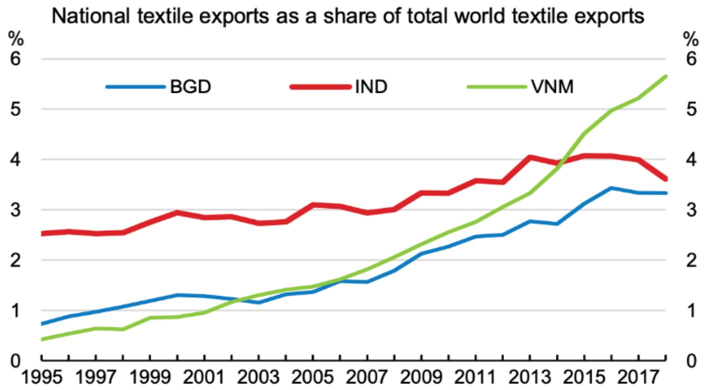


Source: National Statistical Office; World Bank.

They were already working to socials welfare policies, in fact there was an amelioration on access to public services, but the main purpose was to upgrade quality.

Another point that was take in consideration was the expansion of participation in the global economic scenario, that in 2019 registered a rise up with a remarkable performance, but they were still struggling with the labor-intensive exports that were hanged back, and unfortunately had a bad impact on the textile sector.

Figure C. India's export market share in textile could rise further

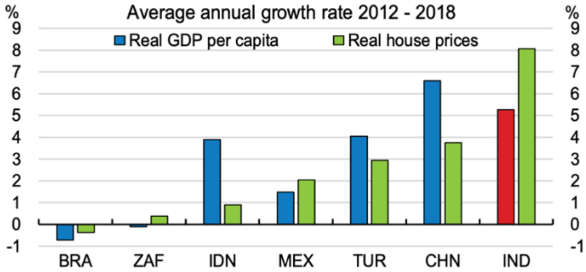


Note: Low-technology exports of textile, garment and footwear.

In order to face this conflict, they solved problems in the domestic structural bottlenecks so that can encourage India to be more competitive in the international scenario, in addition there was the idea to reduce trade barriers, so that they can push manufacturing exports and bring enhancements in jobs and consequently in the living general quality.

Another aspect evaluated by India was to provide a better housing for all, even if housing program was revisited and improved, the lack of accommodation created a heavy burden in Indian government, this has created doubts about the affordability of this country.

Figure D. Affordability is more an issue in India than in other countries



Note: Data for India relate to fiscal years.
Source: OECD.

A solution imagined was to expand the rental market, so that they could satisfy the request of the citizen left out by the oversupply of high-end housing.

Finally, the last prerogative of the government was connected to greening growth so that could contain the climate changes, nine out of ten cities in the list of the most polluted metropolis belongs to India, and the lack of action would have brought India to double their energy consumption by 2040, luckily the government has engaged to reach a standard of an usage of green energy sources of the 40% until 2040.

After covid the priorities slightly change, the OECD disclosed a note "Going for Growth 2021 India" and the main areas where they developed consistent improvements are in macroeconomics policies and governance; investments, productivity, and growth; social conditions; FDI and green energy.

According to the OECD[26] most affected sector, but also the main industry that provides jobs, was the informal one; and it is fundamental to improve the employment in the formal sector, health care, and the protection of vulnerable individuals.

To create a higher recruitment rate in the formal sector some modifications are imperative in order to improve positively this sector. First of all, it is necessary to intervein in the reduction of the administrative and regulatory burden on business. Then, the employment protection legislation needs easing. The money spent on public health are lower than the other G20 countries, maybe it is due to the fact of the scarce growth of the GDP, but it should be implemented, because India have to deal not only with Covid-19 but also with pre-pandemic issue like malnourishment, tuberculosis, diabetes and cancer; in addition this reform is urgent because proper structure are needed in order to grant vaccination for Covid-19 to the population. To avoid eventual health problem in the future a better natural resource management like access to clean water, sanitation, and air pollution; an improved and successful financial system is required.

India has already developed, between 2019 and 2020, some reforms but the OECD after a review gave some recommendations to give to this law a better implementation.

[26] https://www.oecd.org/economy/growth/India-country-note-going-for-growth-2021.pdf

The first reform regards the competition and regulation: reduce statutory barriers and red tape to increase business dynamism. The new reforms read: "The Farmers Produce Trade and Commerce (Promotion and Facilitation) Bill 2020, the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Service Bill 2020, and the Essential Commodities (Amendment) Bill 2020 liberalize marketing of agricultural produce, allow contract farming and remove controls on transportation, storage, prices and distribution enacted under Essential Commodities Act (ECA) of 1955.

FDI is now allowed in sectors such as defense, civil aviation, railways, coal, mining, and e-commerce; the automatic route has been opened." [27]The main recommendation from the OECD regarding these laws are several; it is good point to add a 30-day notice and a discussion period for new regulations, give a mandatory cost-benefit analysis for new regulation, slacken equity limits for external capital and management and control restrictions and lastly diminish administrative burdens for independent workers and micro enterprises to promote formality.

Second point of the reforms is linked to labor market: Review stringent employment protection in the formal sector to accelerate jobs creation. The new reform states "With the Code on Wages 2019, the Industrial Relations Code 2020, the Code on Social Security 2020 and the Occupational Safety Bill, Health and

[27] https://www.oecd.org/economy/growth/India-country-note-going-for-growth-2021.pdf

Working Conditions Code 2020, the process of simplifying the complicated labor law regime has taken a leap forward.” The main recommendation from OECD includes the simplification of employment protection rules and regulation, and should be respectful to necessity, legality and proportionally principles; guarantee an equitable reform linked to occupational and social safety; improve digitalization of inspection and register that covers worker and enterprises.

Mention to healthcare with an Increase public spending to improve health outcomes in an equitable way, as the reform affirm that “The National Digital Health Mission (NDHM) was launched in August 2020 to create a national digital health ecosystem that supports universal health coverage.

The National Medical Commission (NMC) has replaced the Medical Council of India. The NMC Act is planned to steer medical education towards a more transparent, efficient, and accountable system.”[28] As mentioned before there are few recommendations moved by the OECD like increase founds, upgrade infrastructure to boost vaccination against Covid-19, put attention to people with disability by dealing with health care and develop rehabilitation facilities.

An aspect that India has not considered is the innovation on environmental policies to Improve the state of the environment. India is one of most polluted and polluting country on earth, and after Covid-19, people developed a major awareness to sustainability. The OECD recognize that to be more attractive it is

[28] https://www.oecd.org/economy/growth/India-country-note-going-for-growth-2021.pdf

necessary to invest in a sustainable economy, because customers now are more willing to recognize other intangible value, such as sustainability of a brand, to make their buying choices. So, the suggestion of the Organization assert that this is a new priority to the country with a focus on the improvement of natural resources, enhances access to clean water and guarantee to citizen access to different power that does not exploit solid fuels, adopt a taxation related to environmental stress such as parking fees, road taxation so that it will reduce the usage of private cars.

Lastly, the financial system: facilitate further resolution proceedings. According to the reforms: "The Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019, gives Indian banks the discretion to refer defaulters to the National Company Law Tribunal (NCLT) on a case-by-case basis.

The Insolvency and Bankruptcy Code (Amendment) Act, 2019 increased the resolution deadline for NCLT cases to 330 days.

The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2020 was issued in the wake of COVID-19."[29] Of course there are some adjustments necessary to make India an attractive international market; get a better governance of public banks and intensify the general performance to clarify the issues connected to nonperforming loans; accelerate the judge accommodations in courts; remedy to

[29] https://www.oecd.org/economy/growth/India-country-note-going-for-growth-2021.pdf

unclear issue such as inter alia, the determination of suspension period of insolvency.

In 2020 India was successful in the approval of most of this reforms especially the ones of legislation consolidation and simplification of the labor low regime, nevertheless they also include some laws aimed to liberalize the marketing of agricultural production; moreover they started to include some reforms for green energy and sustainability like an online system for green clearances for the new projects, drawn up guide guidelines for environmental impact studies and also launch the new standard condition to prevent pollution and to make a faster environment clearances process.

2.2 TEXTILE AND APPAREL IN INDIA

The Indian textile and apparel industry is the second largest in the global scenario, and it is experiencing a sensational breakthrough with an implementation on supply chain and distribution channels and a new integration of systems to create a sustainable and responsible manufacturing. These novelties will allow a constant grow of the 5% in the next 5 years. India is really famous for the attachment to traditional textile and the abundance of natural fibers, in fact is the largest producer of cotton, the second globally producer of polyester and silk. To give proof of the strength of this industry, are the data connected to the business:

- It covers the 7% of the Indian manufacturing production
- It is the 5^{th} largest exporter of textile and apparel
- The industry value corresponds to the 2.3% to the total GDP
- The 13% of country's export earnings are given by this business

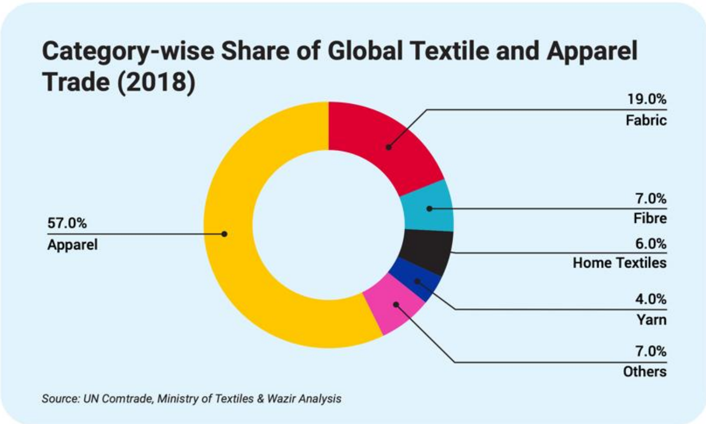
The following table will provide a global review and where India is ranked.

Table/Map Header: Top 5 Global Apparel Market Size (USD Bn)[2]

Country/Region	Value 2018	Share 2018 (%)	CAGR (2018-2025) (%)	Value 2025 (P)
EU-28	427	23	1	458
United States	348	18	2	400
China	231	12	10	450
Japan	100	5	1	107
India	**74**	**4**	**12**	**164**

The actual value of the global apparel market size corresponds to 1.9 trillion dollars, but projection promises a significant growth that will reach a value of 2.6 trillion dollars. According to the table India is now occupying the 5th position in the global apparel market size, but it is going to change this position ranking the 4th place, surpassing Japan with a market value of 160 billion dollars. In the export ranking, of the years 2018/2019, India placed its position to the 5th place.

In the past few years, the global trade in this sector has experienced a constant and persistent grow. The main income of this business came from the trade of apparel that covered the 57% of the total industry. The previsions for the global trade are promising too, and a boost is expect in the following years increasing their income from the actual value of 823 billion dollars to 1 trillion dollar with a constant annual grow rate of the 3%.[30]



[30] https://wazir.in/pdf/Wazir%20Advisors_Inside%20View%20%20Annual%20Report%20on%20Textile%20and%20Apparel% 20Industry.pdf

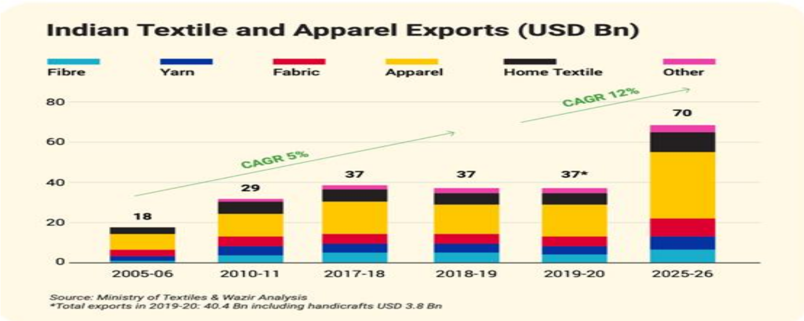
Domestic overview

In 2018-19 India 's domestic fabric and wearables request was evaluated over 100 billion dollars, but it is hoped that will have in 2021 a growth of 12% reaching the size of 223 billion dollar. Wearables orders in India presently held a value of 78 billion dollars, this value covers the 74% of India 's total textile and apparel request. Specialized fabrics, are witnessing also an augmentation and it is one of the most promising and growing sub-segments with a 12% i in its request size in India[31].

[31]https://static.investindia.gov.in/s3fs-public/2020-05/Textile%20Brochure-Leaflets_V2%20%283%29%20%281%29_0.pdf

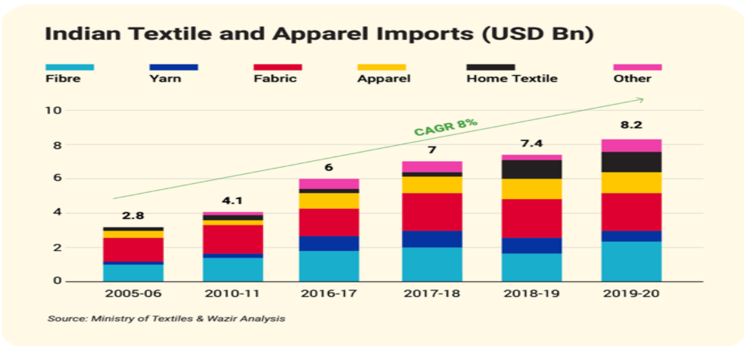
Exports

The worth of the Indian exports during the years 2018/2019 worthen 40.4 billion dollars, being the 5th country in the global export of textile and apparel. In 2025/2026 export will touch a value of 70 billion dollars with a growth of the 12%. The graph shows that from 2017 to 2020 parameters are stable giving proof of the fact that textile industry, despite the crisis period, has successful maintain stability.



Imports

In the years 2018/2019 the worth of the Indian imports worthen 7.3 billion dollars, and in the last 13 years they experienced a constant and consistent growth of the 8%



2.3 DETERMINANTS AND EFFECT OF FDI INDIA TEXTILE SECTOR

"High/low growth in textile export is affected by number of determinants. The determinants including Gross Domestic Product (GDP), real exchange rate, per capita GDP and population growth rate of the importers all have a significant impact."[32]

Exchange Rate

This determinant affects Asian developing countries textile sector in a different way, depreciation is, in fact, one of the main factors that influence textile and apparels values. Exchange rate is one of the most used practices to push export growth and diversification, so that a country can be more competitive in the international market. Devaluation of a specific currency is a determinant factor that in most cases boosts export values. This happens because exchange rate and price import products are directly proportional so when the first one is affected by a reduction, also the second one will decrease as well; on the other hand, export prices will raise because the value of the importing country currency's is higher and they have to pay in their currency.

"The determinants including real exchange rate and population growth rate of the importers all have a significant impact. The devaluation of the Indian Rupee

[32] Rahul Dhiman, Manoj Sharma; Textile Exports in South Asia and its determinants– A Literature Review; Research Scholar, # Assistant Professor, Department of Humanities and Social Sciences National Institute of Technology, Hamirpur (Himachal Pradesh)

would boost textile exports due to the fact that the buyers would enjoy cheaper textile products. Exchange Rate and Real Effective Exchange Rates were significant variables in explaining export competitiveness of most of sections of manufactured exports."[33]

For example, in the years 2007/2008 the Indian currency, the rupee, thanks to the appreciation against the US dollar has brought to the Indian textile and clothing exports industry a great return. But this can push away eventual investments in the country from the US, that's why it should be needed a reform from the Reserve Bank of India to keep in control the constant fluctuation in the exchange rate of the Indian currency at the dollar expense. In the ASEAN countries the exchange rate volatility is a negative determinant, that can preclude the possibility of receiving FDI.

GDP Growth Rate

According to OECD, GDP is defined as "an aggregate measure of production equal to the sum of the gross values added of all residents, institutional units

[33] Rahul Dhiman, Manoj Sharma; Textile Exports in South Asia and its determinants– A Literature Review; Research Scholar, # Assistant Professor, Department of Humanities and Social Sciences National Institute of Technology, Hamirpur (Himachal Pradesh)

engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs)" [34]

GDP is measured also by Industry; this is very important to intercept the contribution that a specific sector provide to the general heath of a country. In general, this parameter gives to foreign country a clear vision of the health of the targeted country, also providing the value of goods and services in a specific time.

"Positive GDP growth rate in India and higher national income of the importers tend to import more in textiles products. The devaluation of the Indian Rupee would boost textile exports since the buyers would enjoy cheaper textile products"[35]

Foreign Direct Investment (FDI)

"FDI would continue to play a key role in textile and apparel industries of developing countries. Enhancement of working productivity through skill training

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[34] Rahul Dhiman, Manoj Sharma; Textile Exports in South Asia and its determinants– A Literature Review; Research Scholar, # Assistant Professor, Department of Humanities and Social Sciences National Institute of Technology, Hamirpur (Himachal Pradesh)

[35] Rahul Dhiman, Manoj Sharma; Textile Exports in South Asia and its determinants– A Literature Review; Research Scholar, # Assistant Professor, Department of Humanities and Social Sciences National Institute of Technology, Hamirpur (Himachal Pradesh)

and technological upgrading would diversify production into higher value-added garments such as the more fashion-sensitive women's wear categories"

Developing countries are not able to face a rapid growth only with their domestic capital, so the need of attract FDI is imperative, a great example is the textile sector in India, that is one of the main sectors that influences economic growth, and implementation of technologies and production capacity are necessary to modernize the entire industry, so that can be present in the international market. It is a matter of fact that there is a strict connection between the import of investments, technologies and skills and a successful export strategy; because the amelioration of some features can solve discrepancies that are present in the specific economy.

"Another study has used Johnson's cointegration methodology to examine the relationship between domestic investment, export and economic growth in India during 1970-71 to 2007-08 and found that all the variables under study, that is, gross domestic capital formation and exports are found to have a positive relation with economic growth"[36]

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[36] Sultan, Z. A., & Haque, M. I. (2011). The Estimation of the Cointegration Relationship between Growth, Domestic Investment and Exports: The Indian Economy. *International Journal of Economics and Finance*, 3 (4), 226-232.

Phasing out of quota system/ Multi Fiber Agreement

In 1974, to regulate the world trade of textile and clothing the Multi Fiber Agreement (MFA) was written. The necessity to create this type of agreement was dictated by the sudden and huge augmentation of textile export that includes from cotton to man-made fabric, and both affirmed and developing country. The aim of this project is to defend domestic producers from market disruption. But the agreement, as many studies has proven over the years, was discriminatory with restriction that became more and more strict putting some countries in deeply in trouble. "In India, the pre-Multi Fiber Agreement (MFA) era, the year-on-year percentage growth of exports shows the increase at a decreasing rate. However, in the year 2005-06, a drastic increase in the export performance was witnessed immediately after the abolition of MFA." [37] In 2005 the quota system was cancelled, and thanks to this some Asian developing countries increased their performance in the textile and apparel performances; on the other hand, it has negatively affected other countries that started to have scarce export performance and loose comparative advantages. This happens because of the elimination of the quota system that enhance countries with a larger competitiveness in the global scenario and with a labor surplus; as example we can cite India and China.

[37] Sharma, Manisha, Prashaant, & Anu. (2009). An analysis if performance of the Indian textile industry in quota free regime. Paradigm, 13 (2).

Labor

"The clothing industry is labor-intensive, and it provides employment to those with simple skills, including women."[38] "Flexible labor laws, easy entry exit norms for the firms are some of the basic policy measures which would help the Indian textile and garment industry become more cost effective."[39]

Labor costs, in this specific industry, varies according to the country ad of course affect in a different way the export performance. In theory, low labor cost is perceived as an advantage, but in practice ad applied to the textile industry this is not necessary an asset, in fact it varies from country to country.

"In the case of India, the textile industry benefits from low wage rates and access to a huge domestic market, an abundant supply of skilled labor, and a large production base for raw materials and intermediate inputs. However, low productivity and product quality, limited product diversification and differentiation, high energy and capital costs, and an underdeveloped

[38] Chakrabarty. (2014). Textile and Clothing Exports from India – An Analysis of Select Issues. A dissertation presented in part consideration for the degree of Ph.D., IIFT, New Delhi.

[39] Hashim.(2004).Cost & productivity in Indian textiles: Post MFA implications. Working paper no. 147, *Indian Council for Research on International Economic Relations (ICRIER).*

infrastructure, especially as it relates to weaving and finishing fabrics, undermine the textile export industry' s competitiveness"[40]

The main two determinants that affect labor productivity at firm level are: firm size and raw material supply.

Technology

The quality of the outputs depends mainly on the raw material and to the technologies used to achieve the final product. When we talk of export firm competitiveness, the main goal is to have enough resources to pay for technologic costs and to have the possibility to access to new one. in the Indian scenario the textile sector has still a great margin of growth because inputs of capital and labor are not always sufficient, and in most cases, technology is not at the needed level. Thanks to liberalization, country like India can have access to better technology and less expensive raw materials, improving their export sector.

Another important factor that affects technology is Information Technology (IT) that enhance the possibility for a better export performance. Unfortunately, IT has not improved the Indian performance of internationalization, the main reason is

[40] Shetty, S. A. (2011). *India's Textile and Apparel Industry: Growth Potential and Trade and Investment Opportunities*. US International Trade Commission

that Indian textile and apparels industry prefer to invest on low-cost products instead of aiming to top-shelfs products.

Tariff and non-Tariffs Barriers

"Tariff is a tax levied by governments on the value including freight and insurance of imported products. Tariffs, an important trade barrier to protect domestic production, regulate the global trade in textile and apparel industry"[41]

The elimination of the quota system has negatively affected the export performance of the firms of Asian developing countries that operates in the textile sector. Import Taxes affect the final price of a goods, creating an augmentation of price that in most cases is faced by buyers of the imported countries. India was the country with the highest tariff rate before the removal of the quota system.

The difference between tariff and non-tariff barrier is that tariff barriers are immediately recognizable and visible, like tax policy; on the contrary non-tariff barriers are intangible and invisible, like cultural differences. Between the two, the one that have the power to affect export industries in emerging counties, are the non-tariffs barriers.

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[41] Kaplinsky, R. & Morris, M. (2008). Do the Asian drivers undermine export-oriented industrialization in SSA? *World Development, 36*(2), 254-273.

2.4 OPPORTUNITIES FOR FASHION LUXURY BRAND

E-commerce and digitalization

With the closure of the boundaries countries like Italy, France and United Kingdom the international travel has experienced an important reduction, this caused a weak local demand that has negatively affected the sales of luxury goods, for most people the acquisition of luxury goods is this strictly connected to the experience behind the product for example the good acquired a different value if you buy it from the country that the good is produced. A solution for this problem was the development of E commerce, but not all brands were fully convinced to adopt this methodology, because that would be a lack of experience that it's an intangible value that consumers are willing to pay. Before the pandemic the e-commerce corresponds do that 10% to that 12% of the whole luxury sales worldwide. The lockdown has created new expectations for consumer, the wildly usage of internet not only helped brands to still sales their products, but also it became a source of inspiration and worldwide communication that creates a stronger sense of community for people that shares the same interest, in this case fashion. With the real possibility that physical store can close from one moment to another, it is fundamental for brands to act in a proactive way and exploit at the maximum capacity the opportunity of the e-commerce. The main areas where these tools can actively improve the company’s performance is first of all the sales department, but it can be a useful tool to create a personalize customer communication and service, it can be also interesting to join the online communities in order to have general feedback, a direct collection of data and consumer behavior. It is highly recommended to invest in the digital sector and focus on only on sales but mostly in consumers engagement, through digital marketing, so that when physical store will open, they will be more willing to visit stores. It is important though to maintain the high standard of the general offline experience in the stores, also on the online front; it is important to develop and most of all invest in useful tools.

Investments

Changes need investments, and in this case the main areas in which it’s necessary to allocate funds are in the expansion of new sales channels, in the development of data analytics and in artificial intelligence. The fast change of the economic environment forced the fashion luxury brands to rethink about core businesses decisions, because what worked before is highly probable it won’t work in the future; and these changes must be rapid but also creative and original, so that companies are still able to transmit to their customer the experience and magic behind their exclusive products.

A recent technology has been tested and seems to marry pretty well the necessity of the fashion empire, it was developed in China and imported in France by Alibaba for a short-live pop-up event. It consists in a hybrid technology that exploit both physical and digital experience for the customers, they created a concept store where clients were able to see and touch the over 300 hundred products from Alibaba, and in the eventual purchase decision, and by taking a picture of the good they were redirect directly to the product sheet to finalize the order. To reach customer from all over the world because they weren't able to be physical in the store, the company has reserved an area inside the pop-up store with e-influencers that tested the product on live streaming. This is a great example of implementation and creativity that has torn down the borders between online and offline without sacrifice the customer experience.

Because of restriction some fundamental events for the fashion industry were cancelled, an example is the "fashion week", an essential and iconic marketing instrument. These events allow fashion brand to present their collection and to show the new trends in the fashion environment, because the big fashion brands are the ones that dictate the next mode. Of course, it was impossible to cancel completely the event, so firms had to adapt to this situation, some made livestreams of the event that happened anyway without public or at least with few people present, that are ambassadors of the brand or influencers. The organization was flawless with amazing sets and suggestive backgrounds, some companies bet on digitals backgrounds, others, most Italian brands, used famous squares or sites of tourist interest to give exclusiveness to the event and promote tourism once the restrain on borders were cancelled. Unfortunately, some critic factors came along, not all customer or potential were able to enjoy the shows live because of differences in time zone, not everyone had access to stream platform and problems with internet connection that were diffuse in the period because of the high usage of internet. So, the idea was good, but the scarce resources allocated on digitalization didn't gave the complete experience to the final consumer.

Another improvement that digitalization can bring to companies is the development of virtual showrooms, that give advantages for improve and maintain productivity during period of crisis, it can be also a great tool to keep a direct and stronger relationship with the final consumer that will perceive a similar experience as the one given in the physical stores.

All these types of technology of course need a huge investment from the firms but is it true that the benefits of this asset will be long lasting and will attract the new generations.

Sustainability

The total closure has given to earth the possibility to breathe again, and pollution has diminished a lot. So, this gave the chance to people to rethink about their habits and how they affected earth, so sustainability became a widely discussed topic. companies are now responsible to rethink about this aspect so that the brand cannot be affected negatively by a bad reputation. The general opinion has often impacted big companies and in a moment of uncertainty like the one that we are facing firms must listen to consumer wish. It can easily happen that a client will choose a good above another just because the ethical values of the brand correspond to the ones of the final consumer. This aspect is not the only one that should drive corporations to have a more sustainable impact on earth, the main factor should be a willing to protect the planet.

Distribution

Distribution is a key factor in this industry because the physical stores sell not only goods, but an experience. Fashion luxury brands stores are very exclusive, even to enter inside the store you must satisfy certain parameters, nevertheless they improve the surroundings, just picture the 5^{th} Avenue in New York, and they also embellish the store based on particular events like Christmas for example. Opening a store for this kind of firms is an important investment not only at the beginning but the maintenance is necessary to keep the brand image untouched. In this case it is a necessary investment because the presence of stores, can help companies to enter market that at the moment are not a business concern. The Asian luxury market has recorded the most drastic drop in sales, so it is necessary to improve the presence of retails store, especially in times like the one we are experiencing nowadays. Some great suggestions are to tailor the experience inside retail to Asian market to provide a local experience, the consolidation of the enterprise wide both online and offline and involve local consume by targeting two or three cities where build a physical store.

2.5 OPPORTUNITIES FOR FASHION LUXURY BRANDS IN INDIA

Thanks to the new reforms of the Indian government especially the ones that regard FDIs, Global retailers have considered India as a new market that can provide to them new opportunities, about 40 different companies have evaluated the possibility to enter in this new market and those companies embrace how widely range of industries from high tech to fashion luxury brand. The novelty on FDI concerns a more flexible enter in the market, so the decrease of market entry barriers has made the Indian market more attractive to foreign firms. The main attractive factors about this new regulation are the possibility of integration of the local operation to the global supply chain and the chance to operate online even if there is not a physical store in Indian soil, action that was forbidden before the implementation of the norms. The great opportunity of the opening of the online purchases can give to the global companies to evaluate the potential of Indian market before opening stores or dislocate supply-chain sector to the country.

In Kumar Rajagopalan opinion, that is the chief executive officer of the Retailers Association of India (RAI) “There are a certain number of stores a brand can open. A lot of factors go into opening a physical store. To create volumes, online retail is required. This will help a lot of brands enter India,". This process is a win-win for both parts, from the firms point of view there is a major security in investments, and a slimmer bureaucracy accelerate the penetration of the market, on the other side for India there is the possibility to solve some of the main problem that affect the country such as higher competition on the international environment, an augmentation of employment in sectors like digital payments, logistic, product skilling and customer care. Nevertheless, the dislocation of the global supply-chain in India can boost Indian economical presence in the South and Southeast Asia.

“These companies can now source 30 percent value of their goods sold in India based on a 5-year average in the initial 5-year period.”[42]

Another important reform is the allowance, from the Indian government, of the 100% FDI in contract manufacturing enabling enterprises from around the world to establish sourcing facilities.

Retail sector in India

India is considered one of the countries with a huge growth potential in the retail sector, this branch is attracting many global companies that are interested in investing, thanks to the reform of the FDI policies. The projections disclosed by the Investment Commission of India affirm that this area is going triplicate their level, for a total value of 870 billion dollars by 2019.[43] This sector has a high rate

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[42] https://www.fashionatingworld.com/new1-2/india-s-new-fdi-rules-to-attract-more-luxury-brands

[43] https://www.researchgate.net/profile/Ashok-SenGupta/publication/349052118_An_Analysis_of_Foreign_Direct_Investment_in_Indian_Retail_Sector/links/601cf6f6299bf1cc26a2f5ab/An-Analysis-of-Foreign-Direct-Investment-in-Indian-Retail-Sector.pdf

of employment in the country, that correspond to the 10% of the total employment.

An FDI is a Foreign Direct Investment, that consist in an income of capital from abroad companies in a designed country, allowing firms to penetrate new markets and increase their presence in the global market; it is also an advantage for the host country, especially the developing economies that, allowing foreign investment, can improve the above-average growth prospects, creates jobs, learn a better skilled know-how and in general boost the whole condition of the country both from a social and economic point of view.

Based on the Confidence Index drawn up by A. T. Kearney India gained the second position in FDI attractiveness, preceded only by China; in a developing country this kind of investments are fundamental because they can be a possibility of modernization and general health.

For retail sector we imply that they are business in charge of selling goods and services directly to the final client, so it is the last phase of the supply-chain, and it is a key factor in the distribution channel. It is important for firms to pay particular attention to this process because it represents the physical connection between the company and the final client, and an uncared distribution can change the perception of the client amongst their customers, and this can affect sales in a very heavy way.

An improvement in the social environment has created new demands in the local economy, in the last years, in fact, the middle class is blooming, and this novelty has encouraged the naissance of shopping malls, departmental stores and supermarket so that the increasing demand of the new social class can be satisfied. There is another division in the Indian retail market that explain the difference between organize and unorganized retailing.

a. Organized retailing includes the retail chain, the corporate backed hypermarket and the privately owned large retail business. It is related to the trade activities executed from the licensed retailers, so the ones enrolled for income and sales tax. This covers just a small part of the whole retail industry with a percentage of the 3-4%.
b. On the other hand, the unorganized retailing includes cigarettes shops, grocery shops, owner manned general stores, pavement vendor and convenience stores, we can identify this kind of retail as low cost and yet are most diffuse in all over India. This kind of selling approach is not interesting from an international invest point of view, but the main aim is to provide fast services to the local population.

Types of retailing in India

The major categories that can be identified in the Indian retail sector are three. “single retail”, “multi-brand” and “cash and carry”.

The single retails have to follow these guidelines in order to fit in this definition:

- Only single-brand products are sold
- Products are sold under the same brand internationally
- Single-brand products include only those identified during manufacturing
- Any additional product categories to be sold under single-brand retail must first receive additional government approval FDI in single-brand retail implies that a retail store with foreign investment can only sell one brand.[44]

A multi-brand retail process is referred to the possibility to exploit one physical structure to sell different brands. In 2019, this process is constrained to a 49% of foreign equity participation, but the Committee of Secretaries is advising to enlarge the percentage to 51%, a minimum investment of 100 million dollars and an imperative 50% of reinvestment in backend practices.

The cash and carry retails are defined as the "sale of goods and merchandise to retailers, industrial, commercial, institutional or other professional business users or to other wholesalers and related subordinated service providers"[45]. In this case FDI are 100% allowed.

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[44] https://www.researchgate.net/profile/Ashok-Sen-Gupta/publication/349052118_An_Analysis_of_Foreign_Direct_Investment_in_Indian_Retail_Sector/links/601cf6f6299bf1cc26a2f5ab/An-Analysis-of-Foreign-Direct-Investment-in-Indian-Retail-Sector.pdf

[45] https://www.researchgate.net/profile/Ashok-Sen-Gupta/publication/349052118_An_Analysis_of_Foreign_Direct_Investment_in_Indian_Retail_ f

Prospects of FDI in retail sector

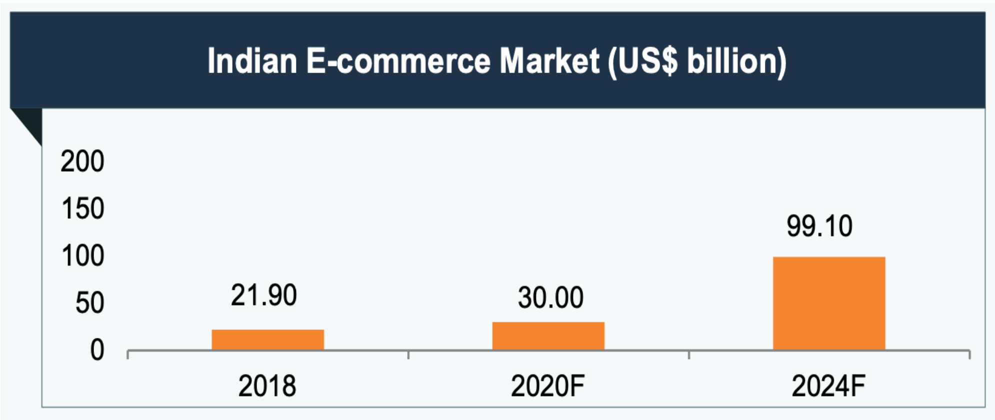
There are a lot of benefit in the India FDI retail sector but the most important for international firms are: the substitution of intermediaries with physical retails and the creation of new jobs.

The intermediary's figures are people that sell goods on behalf of the company, this is a quite common way of internationalization for company but not always is effective. In this case this profile doesn't add value to products instead it increments the costs because of the added commission that intermediaries keep as our payment for their services. If companies decide to open an organized retailer this kind of figure became completely useless and brings to the company much more advantages than the usage of the intermediation practice. Some of these advantages could be a more identified brand among the Indian country, a reduction of costs for the selling of the final good and lastly have a direct contact to the local market that can be useful in order to collect important data.

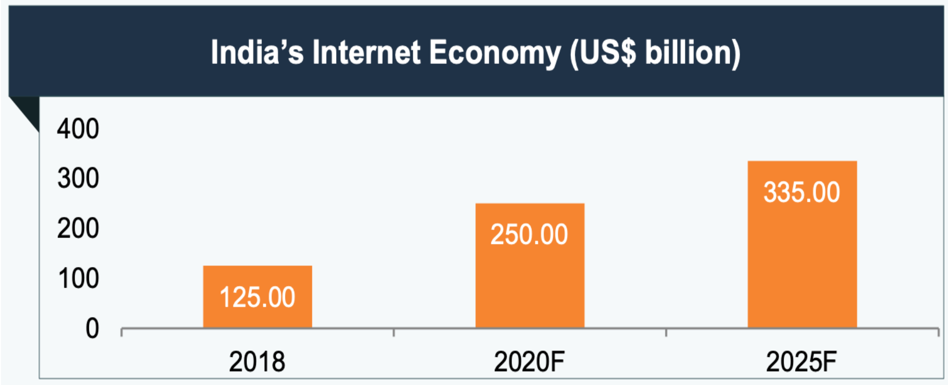
Another important perspective is the creation of new employment thanks to FDI in retailer there would be the chance to improve the quality of jobs thanks to the international background of the companies in several areas from the retail one to the tertiary sector, it is customary that the firm that decided to invest in a certain country we'll take responsibility to train and develop resource system on their expensive, they also help to implement technologies. From an Indian point of view, it is a great opportunity to learn practices especially in the management area to gain position in the international economic scenario. The improvement of this training will improve the customer care and service and consequently create an added value in the selling of goods.

E-commerce

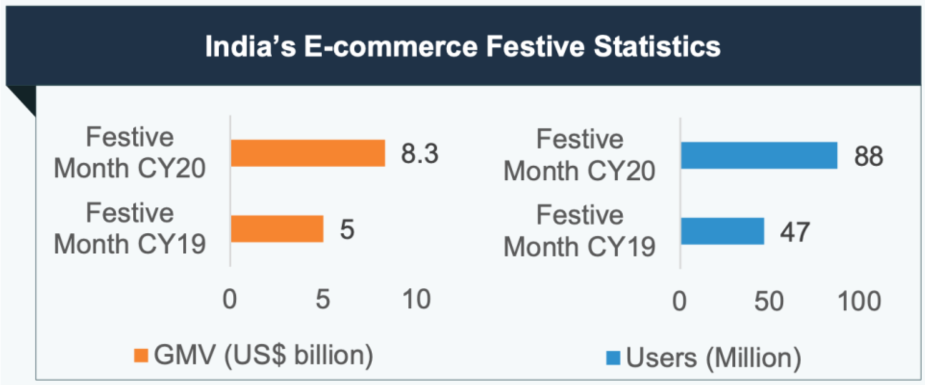
The compound annual growth rate (CAGR) states that e-commerce in India, in 2014 will touch the 99 billion dollars with an incremental and consistent rate of the 27% between 2019 and 2024, affirming that the grocery and fashion/apparel industry will be the main driver of this augmentation. During 2020 the online purchases have increased of the 7/8%. The future of the online shopper seems promising, previsions show huge numbers, in fact in 2025 there will be 220 million users.



The Indian digital sector will double its value reaching, in 2025 a worth of 335 billion dollars, this will happen thanks to the proactivity of the Indian government that with the develop of the project “Digital India” will create a trillion-dollar online economy.



A particular period of year can further improve these results, in fact during the festive season of the 2020 Indian e-commerce crashed the record of $8.3 billion with an augmentation of the 66% in comparison with the same period of the previous year, with a market of 88 million user debt increased of the 87% in respect to the year 2019.

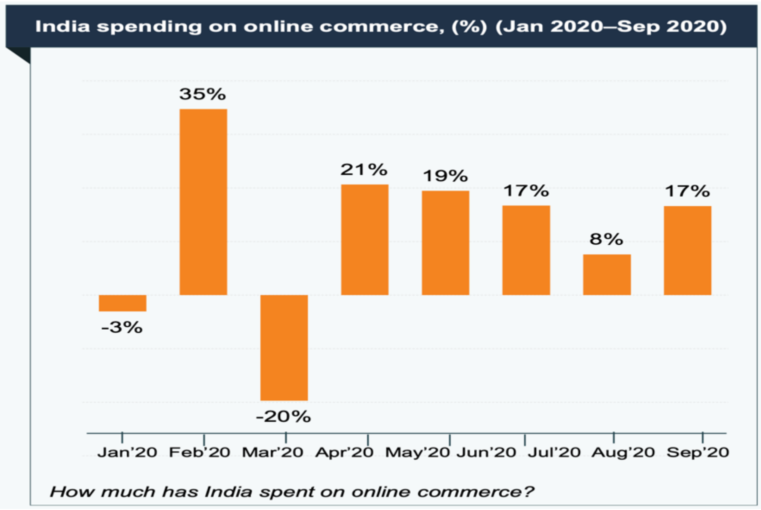


The main advantage is in invest in this sector in this specific country are several. First of all we have attractive opportunities, even if the COVID-19 created a negative shock and uncertainty in the market and also a last we love from the consumer in the acquisition of goods, our substantial increase is expected in 2021.

another important factor is the growing demand in the second part of the 2020 Indian e-commerce has increased the of the 36%. Then there is a useful policy support as a matter-of-fact India has authorize 100% FDI in e-commerce, the Government of India is investing in infrastructure that will allow an improvement of the internet connection with the implementation if the 5G. At the same time there is an increasing in investment, due to the pandemic a digital literacy was necessary because most of the normal transactions and activities happened online, the resources were scarce and this brought a flood of investment focused on the e-commerce, that improved new model that replaced the old and not efficient service.

Growth of e-commerce in India

The promising projection of Indian e-commerce provide an increase in apparel of the 8% from 2020 to 2025. Most Indians do too restriction began to user he commerce in order to provide goods, Online trader convinced most of the population that can be an optimal substitution to the normal way of shopping. In the global ranking of the e-commerce industry India gained the 9th position.

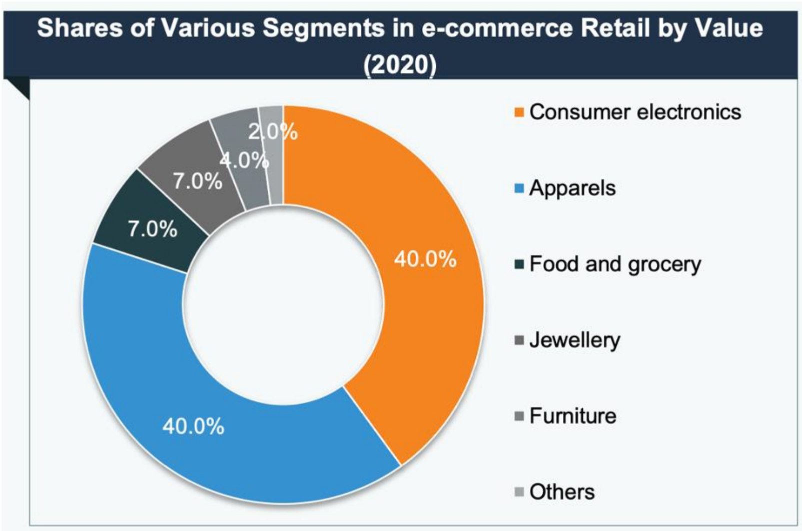


Another critical factor is the growth of internet users in India. The Digital India program increased to 747.41 million the internet connection with o cover of the 97% in wireless connection. Internet is expecting to reach also the rural side of the country with a grow expected rate of the 45% in the end of 2021; an objective satisfying data considering that in 2020 the same value reached only the 22%. Thanks to this Indian population has a faster access to internet, and that's the reason why they raked the second position in the global active internet users' chart with a consumption of 10.40 GB user/per month.

Online retail market

The online retail market became almost a necessity during the pandemic, and in India this sector will have a promising future with a projected increase of the 37% expected in the 2030. In the incoming years the e-retail will embrace an exorbitant number of shoppers that oscillates from the minimum of 300 to a maximum of

350 million shoppers that by 2025 will have a Gross Merchandise Value of circa 100-120 billion dollars.



The graph shows which industry will experience this online revolution. A 40% will belong to consumers electronic, another 40% is owned by apparels, and with much smaller value, but still significant there are food and grocery, jewelry, and furniture.

The e-commerce will follow two different business models, the first one is the Marketplace model, the other the Inventory-led model.

In detail the marketplace model is a zero-inventory model that provides a digital space both for customers and retailers for the commerce of goods and services without the necessity of holding an inventory. This digital space puts in touch sellers with logistic companies and financial institutions, and takes charge of delivery, shipments, and payments.

The inventory-led model, on the other hand shopping online platforms that gives the chance to customer to choose amongst the product portfolio, and the same website will take charge of the post-purchase process, from payment to delivery, and this kind of model includes the presence of warehousing.

Some new policies and initiative allowed this industry to enhance. One of them is a personalized experience that gives to consumer a personalized experience channeled in their interest and preference, that are intercepted by location, choices, products buy, and according to the visited websites; that helps companies to develop a targeted shopping adventure. Another feature is the subscription for e-commerce, that creates a direct connection with the consumer and with the exploitation of discounts, free tester product and in general benefits boost the loyalty of clients. Marketing has to adapt their strategies to the digital world, and the rules are different from the normal marketing, consumer behavior has changed so it is important to revise this approach, by investing resources in digital marketing, as matter of fact the 34% of businesses have already increased found in this new practice.

The main drivers that accompany the growth of this sector are government initiatives, the growth of logistic and warehouses, the adaptation of the internet content in the local language, the increment of smartphone and payment's modernization. Indian government is playing a crucial role in the implementation of e-commerce with an improvement of FDI policies and several initiative, just to mention some of them Digital India, E-commerce draft policy, that encourage the usage of the marketplace model, and the national Retail Policy that recognize five areas that needs to integrate both online and offline in detail the areas in question are: rationalization of the license process, ease of doing business, focus on reforms, open network for digital commerce and digitalization of retail. The growth of logistics and warehouses are also driven factor in the implementation of the business, in fact previsions states that it will attract over 2 billion dollars in investments by the end of 2020. Languages are often barriers for develop an international business, but with internet this aspect found a solution, from the data collection is easy to understand the location of consumers, so companies can use the local language besides English, only Indian speaking users will reach 540 million in 2021, so it could be useful to include this language to the website. Smartphones and in general the usage of mobile internet has helped the Indian community to reach retailers that are present just in targeted cities that were impossible to reach due to lockdown restriction; the number of mobile devices that will be reached in 2022 is of 859 million. The evolution of payment was almost a necessity during Covid-19, in fact trends states that consumers shifted they payment from cash to card, boosting the contactless payments; so, it’s important to possess a real-time digital payment infrastructure.

CHAPTER 3: AN EMPIRICAL ANALYSIS OF THE NEXUS BETWEEN FDI AND EXPORT UPGRADING.

3.1 DATA

In order to prove this theory, we have collected the necessary data useful for the purposes of this research. The main dataset used in this calculation are from BACI and OECD FDI statistics.

"BACI provides disaggregated data on bilateral trade flows for more than 5000 products and 200 countries"[46], the main characteristic of this dataset is that the dataset is composed of a combination of exporter-importer-product-year, and it is composed by 6 different variables that includes: year; product category with an HS 6-digit code; exporter and importer with ISO 3-digit country code; value of the trade flow measured in thousand current USD; quantity measured in metric tons.

The OECD FDI statistic data, instead we used the inward and outward FDI by industry, and the inward and outward FDI by country. "The inward FDI flows by industry record the value of cross-border direct investment transactions received by the reporting economy during a year, by industry sector. It represents transactions that increase the investment that foreign investors have in enterprises of a specific industry resident in the reporting economy, less transactions that

[46] http://www.cepii.fr/cepii/en/bdd_modele/presentation.asp?id=37

decrease the investment of foreign investors in those resident enterprises."[47] There are shown just a list of 9 ISIC4 , but the source database includes 84 ISIC4 industries giving the chance to discover the main attractive industry for FDI in every OECD economy in a specific year, this indicator is measured in USD millions.

"Outward Foreign Direct Investment (FDI) flows by industry record the value of cross-border direct investment transactions from the reporting economy during a year, by industry sector. It represents transactions that increase the investment that investors in the reporting economy have in enterprises resident abroad less any transactions that decrease the investment that investors in the reporting economy have in enterprises resident abroad, for a specific industry."[48] The structure is the same as the inward FDI, and it is measured in USD millions as well.

"Inward Foreign Direct Investment (FDI) flows by partner country record the value of cross-border direct investment transactions received by the reporting economy during a year, by source country. It represents transactions that increase the investment that foreign investors from the source country have in enterprises resident in the reporting economy, less transactions that decrease the investment of foreign investors in resident enterprises."[49] The shown data are restricted to just

[47] https://data.oecd.org/fdi/inward-fdi-flows-by-industry.htm

[48] https://data.oecd.org/fdi/outward-fdi-flows-by-industry.htm

[49] https://data.oecd.org/fdi/inward-fdi-flows-by-partner-country.htm

7 origin countries, but the source database contains inward FDI flows for worldwide geographic details, giving the chance to recognize the country with the main financial support of FDI for a specific OECD country in a specific year. It is measured in USD millions.

"Outward Foreign Direct Investment (FDI) flows by partner country record the value of cross-border direct investment transactions from the reporting economy during a year, by destination country or region. Outward flows by partner country represent transactions that increase the investment that investors in the reporting economy have in enterprises in the destination country less any transactions that decrease the investment that investors in the reporting economy have in enterprises in the destination country."[50] The structure of the dataset is the same as the inward FDI flows by partner country, and it is measured in USD million dollar as well.

Observations

The sample used to define the theory of a positive relationship between FDI, and export upgrading is composed of 11 different countries: Czech Republic, Deutschland, Estonia, Finland, Hungary, Italy, Korea, Norway, Poland, Slovakia and Slovenia. We will only consider textile and apparel product, that in our dataset are composed of a 6-digit code, every code corresponds to a specific product.

[50] https://data.oecd.org/fdi/outward-fdi-flows-by-partner-country.htm

Variables

The main variables that we used to develop the model are:

UV_{pdt}: log of the unit value of the 6-digit Hs product exported from India to country d,

FDI_{dt} : share of investment in the country of destination in Asia D manufacturing investment in the country d,

GDP_{d}: log of GDP country d

d_{od} : log distance between India and country d

EXP_{t} : log of total exports of apparel and textile from India to country d

$GDPpc_{dt}$: log income per capita country D

RTA_{dt}: dummy=1 if India has a regional integration agreement with the destination country.

Missing Data

In the process of the collection of data we noticed that the parameter for "FDI in India manufacturing sector" was unable to be found, so we computed this data on our own using the FDI inward and outward by partner country and FDI inward and outward by industry.

3.2 MODEL

The model used to describe the relationship between FDI and Export Upgrading in the textile and apparel industry in India, is the linear regression model estimated by means of Ordinary Least Square Estimator.

The OLS is used to "estimating coefficients of linear regression equations which describe the relationship between one or more independent quantitative variables and a dependent variable"[51]. The OLS model equation is:

$$Uv_{pdt} = \alpha_p + d_{od} + FDI_{dt} + Controls_{dt} + m_t + \varepsilon_{pdt}$$

Here Uv is the unit value of Indian export product p sold in country d at time t, d_od measures the distance between India and the destination market, while FDI_into_India_d is our variable of interest and proxies FDI from country d into the Indian textile and apparel industry at time t. Controls includes a set of regressors measuring size and income per capita in country d; ε is an idiosyncratic error.

[51] https://www.xlstat.com/en/solutions/features/ordinary-least-squares-regression-ols

3.3 RESULTS

The given output of our model is:

	COEFFICIENT	STANDARD ERROR	*
$FDI_{\_into\_}India$	0,057	(0,004)	***
GDP_d	-0.18	(0,01)	***
D	3,24	(0,20)	***
$GDPpc_{dt}$	0,13	(0,01)	***
EXP_t	0,04	(0,013)	***
RTA_{dt}	1,16	(0,06)	***

N° OBSERVATION	10525
R^2	0,33
FIXED EFFECTS	
PRODUCTS	YES
YEAR	YES

Now we will analyze the output for the most significant variable, and we will give proof of the nexus between FDI in the textile and apparel sector and export upgrading toward the country of the investment.

The three stars represent the critic value for the significancy of the 1%.

The FDI_d that represent the share of investment in the country of destination in Asia manufacturing investment in the country d, has a positive coefficient, this means that there is already a strong presence of investments in India in the textile and apparel industry from the country portfolio that we included in our dataset. The value is not low, the implicit elasticity is 3.5; the association between FDI and export quality upgrading is positive and very significant.

The GDP_d represents the log GDP of country d, has a negative output on the model but it is not necessarily a bad thing, the interpretation of this output indeed means that India exports high quality product in country with a middle-income, we can assume that at ethe moment the Indian textile industry doesn't have the right means to export to bigger country, this can give to big luxury fashion brands the chance to settle in this market and intensify the local production, so that India can be able to establish an economic connection towards bigger country respecting the high standard required.

The EXP_{ot} represents the log of total exports of apparel and textile from India to country d, the actual output has a low number, the interpretation is that India, despite being one of the countries with a strong presence of raw materials in the textile industry, is still struggling in export the final product, one of the several reasons can be the ineligibility of production machinery that comply with the high standards of the finished product, another one can be the scarce skill setting of the workers in the industry; so this variable shows that important investments are needed in the country sector, thanks to the new FDI regulation in India for the home country invest in this country can give more benefits than risks.

CONCLUSION

This work has dealt with the role of FDI in promoting export upgrading in developing countries. After examining the literature on the issue, we have focused on the Indian case, and we have provided evidence that FDI is positively associated to the quality upgrading of Indian exports to investors' countries.

With the purpose of answering the questions, that brought us into this research, we can affirm: regarding the first question that is "how can FDI influence the output product with a better quality?" We are now able to answer that there is a positive connection between FDI and export upgrading, thanks to the investments it is possible to improve the quality of the final product that will be exported to scale the "quality ladder". The second question presented is "there is any chance that this can be translated as an opportunity for luxury fashion brands?" The answer is positive, thanks to FDI reforms in India and the strength of the textile sector, there is a positive margin of growth.

The main advantage for India in receiving FDI in the analyzed industry are an improvement of technologies that still in these days are not sufficiently effective; a general improvement in population wealth, a more skilled worker is a more payee worker, money that will improve the general wealth of the local economy, that at the moment is in real struggle; a more stable and imponent presence in the international market.

For the companies, instead the main advantages that an investment in India will bring are low labor costs that allows to reinvest the saved money in the teaching of the know-how to locals that will improve faster the climb of the "quality ladders"; the allocation of raw material directly from India can help simplify the process of the supply of materials and improve economies of scale; the reform in the country especially in the internet network improvements and the presence of the best IT specialist probably in the global scale will allow fashion luxury brands to develop a new digital area that can be used as a faster communication between the production sector, a more accurate collection of customers data and finally create a new digital experience for clients, from the selling until the develop of digital fashion shows.

In the face of such research, we can say that it is highly recommended to luxury fashion companies to think about investing in the textile and clothing industry in India.

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