

Witkowska, Janina

Article

Globalization and Foreign Direct Investment in the Textile, Garment, and Leather Industry

Comparative Economic Research. Central and Eastern Europe

Provided in Cooperation with:

Institute of Economics, University of Łódź

Suggested Citation: Witkowska, Janina (2011) : Globalization and Foreign Direct Investment in the Textile, Garment, and Leather Industry, Comparative Economic Research. Central and Eastern Europe, ISSN 2082-6737, Łódź University Press, Łódź, Vol. 14, Iss. 1, pp. 5-18, <https://doi.org/10.2478/v10103-011-0001-7>

This Version is available at:

<https://hdl.handle.net/10419/259063>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by-nc-nd/4.0>

JANINA WITKOWSKA*

Globalization and Foreign Direct Investment in the Textile, Garment, and Leather Industry

Abstract

The subject of this paper is analysis and assessment of foreign direct investment (FDI) as made by transnational corporations in the textile, garment, and leather industry on a world economic scale under conditions of globalization. Significant changes are occurring in the sector and industry structure of global FDI. In terms of the three sectors of the economy, a long-term shift of FDI to the service sector at a cost to investments in manufacturing may be seen. Foreign investments are being made in the textile, garment, and leather industry. They are growing in the long term. However, the dynamics of the FDI streams flowing to this industry is one of the lowest in manufacturing. Over the long term (1990–2007), the share of the textile, garment, and leather industry in global FDI stock decreased from 1.5% to 0.6% in 2007. In spite of the labour-intensive character of this industry, in their bulk, the FDI are destined to the highly developed countries.

1. Introduction

A significant manifestation of globalization is the international flow of capital, including in the form of foreign direct investment (FDI) as undertaken by transnational corporations. Major changes are taking place on the world economic scale—i.e. changes in the positions of individual regions and countries

* Ph. D., Full Professor at the University of Łódź

in terms of global FDI stocks and flows as well as changes in the sector and industry structure of FDI.

The objective of this paper is an attempt at answering the following question: Faced with conditions of globalization and the development of a knowledge-based economy, are transnational corporations still involved in providing foreign direct investment in traditional branches of industry, especially in the textile and garment industry?

This article takes advantage of the UNCTAD database, which contains information on global cumulative FDI and annual flows as well as their structure by industry and in terms of geography. Due to the high level of aggregation of available data, the statistical analysis encompasses the “textiles, garments, and leather goods” item, which has no significant impact on conclusions with respect to the textile and garment industry. The analysis encompasses the years 1990–2008.

2. Changes in the Positions of Countries in the World Economy with Respect to Foreign Direct Investment Stock

Subject to conditions of globalization as well as regional integration, what can be observed in the long term is the changes in position of certain regions and countries in terms of foreign direct investment in the world economy.

The European Union as a whole (EU27) remains the main **net exporter of capital** in the form of FDI in the world economy. Prior to the crisis of 2007, the share of this group in **cumulative outward FDI** reached 52% of all investments on a world economic scale and over 45% in **cumulative inward FDI**. In 2008, these shares fell to 50% and 43%, respectively. This bears witness to a decrease in the capital involvement of European investors aboard as well as of the occurrence of de-investment (UNCTAD 2009 and own calculations).

In 2008 the European Union’s cumulative FDI directed abroad amounted to USD 8 trillion, which was ten times more than in 1990. At the same time the world cumulative outward FDI increased ninefold over the same period. The main competitors of the European Union in the area of outward capital flows in the form of foreign direct investment on a world scale were the countries of the Triad—i.e. the **United States and Japan**—as well as the **developing countries of Asia**.

In 2008 the cumulative foreign direct investment of the **United States** abroad amounted to over USD 3 trillion. Compared with the European Union, this was a 2.5 times smaller volume. The United States occupied second place in

the world economy in terms of share in global cumulative outward FDI. In 2008 this amounted to 19.5% of world outward FDI. This share was smaller by 4.6 percentage points than in 1990.

The cumulative foreign direct investments of **Japan** abroad amounted to USD 680 billion in 2008, which accounted for 4.2% of world investments. The share of Japan in world cumulative outward FDI decreased by over seven percentage points as compared with the year 1990.

The **developing countries** strengthened their position in global cumulative outward FDI over the examined period. These countries invested a total of USD 2.4 trillion abroad in the form of FDI, which accounted for 14.5% of the global cumulative outward FDI for 2008. Compared with the year 1990, this signified an over sixteenfold increase in such investments. The share of the **Asian countries** amounted to 10.5%. This bears witness to their dominant position among the developing countries as investors abroad (UNCTAD 2001, 2006, 2009 and own calculations). The presented data confirm the long-term shifts in position of the main foreign investors. Attention should be called to the emergence of a new player on a global scale in this field—i.e. the countries of Asia.

Data on **cumulative foreign direct investment** on a global economic scale as well as on individual regions confirm that for just about two decades the main groups of countries in the world economy—i.e. the developed countries and the developing countries—have noted an increase in inward flowing FDI stocks similar to those on a global scale. However, a clearly greater growth in cumulative FDI may be observed in the case of Japan and China—i.e. a twentyfold and eighteenfold increase when compared with the year 1990. Although true that the level of cumulative investments at the start of the nineteen-nineties was very low in those countries, the increase in capital stocks in the form of FDI bears witness to the opening up of the Japanese economy to inward FDI as well as the increase in attractiveness of China to foreign investors.

The position of the European Union as a region accepting FDI is that of a leader. Over the examined period the European Union increased its global share in inward FDI, remaining the region in the world economy that is the destination of the most FDI. A total of 43% of global cumulative FDI—i.e. four percentage points more than in 1990—was destined for this region. The United States decreased its share in global inward FDI from 20.3% in 1990 to 15.3% in 2008. The developed countries as a group increased their share by less than 1.5 percentage points—i.e. to a level of 28.7% in 2008 (UNCTAD 2001, 2006, 2009 and own calculations).

Changes in the **outward and inward flowing FDI streams** demonstrate an adjustment in the behavior of investors in time of crisis. The European Union as a whole felt the effects of the crisis in the sphere of FDI flows more strongly than all developed countries, although the situation facing the whole group was far from favorable. As a result of the decrease in FDI, the position of the European Union in annual global FDI streams also changed, which was stressed above. The participation of new member states in world FDI streams continued to be minimal. Their share in FDI flowing into the European Union amounted to 13.8% in 2008. Their share in FDI flowing out of the European Union was a mere 1.5% at the same time (UNCTAD 2009 and own calculations).

3. Shift in the Sector and Industry Structure in Global Foreign Direct Investment: The Position of the Textile, Garment, and Leather Industry

The involvement of foreign investors in all three sectors of the world economy increased in the long term. However, significant changes occurred in the **sector structure of cumulative inward FDI** on a world economic scale. In the breakdown of the economy into three sectors what may be observed is the increased interest on the part of foreign investor in the tertiary sector—i.e. services. In 2007 the cumulative FDI flowing into this sector was estimated at over USD 10 trillion, which compared with 1990 was an almost elevenfold increase. The cumulative FDI for the secondary sector—i.e. manufacturing—increased by a factor of over five over the same period. The primary, basic sector, saw investment increase over six times (UNCTAD 2009 and own calculations).

The shift in the cumulative inward FDI structure by sector resulted in an increase in the share of services from almost 49% in 1990 to just about 64% in 2007—i.e. an increase of 15 percentage points (see Table No. 1). At the same time, the share of manufacturing and the primary sector in the total cumulative inward FDI decreased. The share of manufacturing decreased from 41% in 1990 to 27% in 2007—i.e. by 14 percentage points. The share of the primary sector decreased by only two percentage points—i.e. from 9.4% to 7.5%. Thus, the shift in the FDI structure was at the cost of investments in manufacturing.

The shares of individual industries involved in manufacturing and services in total cumulative FDI also underwent modification. In spite of the growth of FDI in absolute terms, the shares of all branches of manufacturing in total cumulative FDI decreased. This also applies to the **textile, garment, and leather industry**. In 2007 the global cumulative FDI for this industry was estimated at over USD 90 billion and was over three times greater than in 1990.

Thus, growth was slower than in FDI for the whole of manufacturing. As a result, the share of the textile, garment, and leather industry in global cumulative inward FDI decreased over the analyzed period by just about one percentage point—i.e. from 1.5% in 1990 to 0.6% in 2007. The shares in other industries, even those ranked as moderately high and high technology were in the 2.5%–5.4% range.

There were also changes in share of individual types of service activity within the service sector. Foreign investors were particularly interested in finance (19.4% of total global cumulative FDI in 2007), business-oriented activities (18.6%), and trade (10.6%). The position of certain types of services, albeit high, remained almost unchanged over the analyzed period (e.g. finance and trade), while in the case of services such as support for business, construction, transportation, and warehousing, shares in the total global cumulative FDI increased significantly (e.g. by over 11 percentage points in the case of business-oriented activities).

The demonstrated changes in the structure of global cumulative FDI portray a very general tendency related to the growing importance of services in the economy, the growing importance of modern services, and the development of a knowledge-based economy.

Table No. 2 presents the **average annual levels of inward FDI flows on a world economic scale by sectors and industries**, including their growth over the years 1989–1991 and 2005–2007. The data confirm earlier observations relating to the multiplication of global inward FDI streams in the long term. They grew almost eightfold over just about twelve years. However, the sector and industry breakdown depict significant differences in the dynamics of these streams. Growth that is higher than the average for the whole of the economy is seen in the primary and tertiary sectors—thirteenfold and ninefold over the analyzed period, respectively. The average annual FDI streams increased 5.5 times in manufacturing—i.e. less than the average for the whole of the economy.

Breakdown by industry within manufacturing also demonstrates significant differences in the scale of FDI inflow. This points to differentiation in the attractiveness of individual industries to foreign investors. In terms of absolute value, the greatest DFI streams flow into the chemical industry (approximately USD 75 billion) as well as the production of food, beverages, and tobacco products (almost USD 41 billion). Growth in the FDI streams over the analyzed period was greatest in the case of electrical and electronic equipment manufacturing (an almost sevenfold growth). At the other end of the spectrum, the lowest growth in FDI streams was seen in the case of two industries—automobile and other transportation equipment manufacturing and the **production of textiles, garments, and leather goods**. In the latter case, the

inward FDI stream grew over the analyzed period threefold, reaching an absolute level of USD 6.7 billion. On an annual scale and in a global dimension this is a relatively tiny supply of foreign capital for this branch of industry.

At the same time it should be stressed that the production of textiles, garments, and leather goods is classified as a labor-intensive industry that creates jobs. In this context the relatively large number of investment projects undertaken in this industry—i.e. greenfield investment—should be seen in a positive light. These investments mean an increase in job growth and are very desirable from the point of view of the solving of labor market problems, especially in the less developed countries (UNCTAD 1994, Witkowska 2000, pp. 647-668).

Data regarding the number and share of greenfield investment projects by sector and industry is shown in Table No. 3. A total of 47.8% of new project implemented from scratch in 2008 involve manufacturing. The figure for the first quarter of 2009 was 46.7%. This share fell systematically over the entire analyzed period—i.e. 2004 – first quarter of 2009. Shares in individual manufacturing branches were subject to differentiated changes over this period, however.

The manufacture of textiles, garments, and leather goods belongs to five industries where the largest number investment projects are undertaken from scratch. The branch accounted for almost 5% of all new greenfield projects on a global economic scale in 2008, where the figure for the first quarter of 2009 was 5.5%. Greater shares in the secondary sector were only held by production of food, beverages, and tobacco products (5.7% in 2008), machines and equipment (5.9%), and electric and electronic equipment (5.5%).

4. The Geographical Structure of Foreign Direct Investment in the Textile, Garment, and Leather Industry

It would be expected that in a knowledge-based economy, labour-intensive industries that use modern technologies and human capital to a lesser extent should be pushed into the developing countries with their abundant labor force through the medium of foreign direct investment. This would be in line with traditional theoretical explanations for shifts in the locations of industrial operations—i.e. the industry life cycle (Wysokińska 1993, pp. 46-57). With respect to FDI flowing to the textile and garment industry, statistical data seem not to confirm this regularity.

Table No. 4 presents data relating to the geographical structure of cumulative FDI destined for the textile, garment, and leather industry. Table No. 5, for its part, shows data relating to annual FDI streams flowing into that industry over the years 1990 and 2007, subdivided into highly developed countries, developing countries, Southeast European countries, and CIS countries. The data demonstrate that in 2007 almost 86% of global cumulative FDI was directed to the highly developed countries. Compared with the beginning of the nineteen-nineties, this share increased by almost five percentage points. For its part, the share of the developing countries decreased over the analyzed period and amounted to just above 13% in 2007. The countries of Southern and Eastern Europe as well as the CIS countries were the destination of barely 0.8% of global cumulative FDI in 2007.

Analysis of annual levels of FDI streams flowing to the textile, garment, and leather industry on a global scale also confirms the dominance of highly developed countries as those that take in such investments. However, what is seen in the long term is the decreasing of the share of the highly developed countries in global FDI streams flowing to the textile, garment, and leather industry. What has grown is the share of the developing countries in global FDI streams. The discussed shift does not change the position of these groups of countries in terms of volume of cumulative FDI destined for the analyzed industry, however.

5. Conclusions

1. What is being observed is the long-term shift of the positions of main foreign investors in the form of FDI. The leading role of the European Union remains unthreatened. However, the shares of the United States and Japan are falling in terms of global cumulative outward FDI. At the same time, a new player is emerging in this field—the countries of Asia, especially China.
2. The breakdown of cumulative inward FDI on a world scale indicates the advantage of highly developed countries, including the European Union, over the developing countries as a destination for foreign investment. The phenomenon known as FDI cross-streams is being maintained in a highly developed country – highly developed country relation.
3. The greatest interest of foreign investors is targeted at the tertiary sector—i.e. services. The shift in the sector structure of global cumulative inward

FDI as observed over the long term was at the cost of foreign investment in manufacturing.

4. Cumulative FDI in the textile, garment, and leather industry grew over threefold in the long term. This signifies slower growth than that for the whole of the manufacturing industry. The share of the textile, garment, and leather industry in global cumulative inward FDI decreased over the analyzed period from 1.5% in 1990 to 0.6% in 2007. The share in other industries, even those ranked as moderately high and high technology, was in the 2.5%–5.4% range.
5. The manufacture of textiles, garments, and leather goods is among the five industries where greatest number of investment projects from scratch is being implemented. The industry had almost 5% new greenfield projects on a global economic scale in 2008. These investments signify an increase in the number of jobs by virtue of the labour intensive character of this industry.
6. FDI in the textile, garment, and leather industry, in spite of its labour intensiveness, was mainly directed to highly developed countries.

Table 1. Estimated world inward FDI stock, by sector and industry, 1990 and 2007, USD trillion and %

Sector/industry	1990		2007	
	USD trillion	%	USD trillion	%
Total	1942,1	100,0	15 696,9	100,0
Primary	181,9	9,4	1 172,4	7,5
Manufacturing in which:	798,6	41,1	4 245,8	27,0
• Food, beverages and tobacco	80,3	4,1	450,0	2,9
• Textiles, clothing and leather	28,7	1,5	90,3	0,6
• Chemicals and chemical products	172,0	8,9	841,9	5,4
• Metal and metal products	67,6	3,5	369,9	2,4
• Machinery and equipment	63,4	3,3	245,3	1,6
• Electrical and electronic equipment	89,3	4,6	399,5	2,5
• Motor vehicles and other transport equipment	55,2	2,8	370,0	2,4
Services in which:	947,7	48,8	10 020,5	63,8
• Electricity, gas and water	10,1	0,5	344,9	2,2
• Construction	22,2	1,1	135,8	7,2
• Trade	228,2	11,8	1 660,2	10,6
• Transport, storage and communications	29,6	1,5	920,5	5,9
• Finance	384,0	19,8	3 041,9	19,4
• Business activities	139,3	7,2	2 925,7	18,6
Private buying and selling of property	-	-	6,0	0,04
Unspecified	14,0	0,7	252,1	1,6

Source: UNCTAD (2009) and own calculations.

Table 2. Estimated world inward FDI flows, by sector and industry, 1989-1991 and 2005-2007, USD billion and %

Sector/industry	1989-1991	2005-2007	
	USD billion %	USD billion	Years 1989- 1991=100
Total	186,5	1 471,3	788,9
Primary	12,9	170,9	1324,8
Manufacturing in which:	63,8	353,2	553,6
• Food, beverages and tobacco	7,2	40,5	562,5
• Textiles, clothing and leather	2,3	6,7	291,3
• Chemicals and chemical products	12,0	74,6	621,7
• Metal and metal products	5,3	33,9	639,6
• Machinery and equipment	7,7	35,6	462,3
• Electrical and electronic equipment	4,1	28,0	682,9
• Motor vehicles and other transport equipment	3,9	8,5	217,9
Services in which:	94,1	867,3	921,7
• Electricity, gas and water	2,0	41,3	2065,0
• Construction	1,0	17,1	1710,0
• Trade	18,6	110,7	595,2
• Transport, storage and communications	2,8	96,4	3442,8
• Finance	33,1	314,5	950,2
• Business activities	18,4	225,5	1225,5
Private buying and selling of property	0.1	9,8	9800,0
Unspecified	15,6	70,1	449,4

Source: UNCTAD 2009 and own calculations.

Table 3. Greenfield FDI projects, by sector/industry, 2004-2009^{a)}, number and %

Sector/industry	2004		2005		2006		2007		2008		2009 (January-March)	
	No	%	No	%	No	%	No	%	No	%	No	%
Total	10	100	10481	100	12	100	11	100	15	100	3 363	100
Primary	326	3.2	452	4.3	482	4.0	611	5.1	1 022	6.6	256	7.6
Manufacturing in which:	5 957	58.3	5694	54.3	6 225	51.1	5 834	48.9	7 433	47.8	1 571	46.7
Food, beverages and tobacco	756	7.4	685	6.5	745	6.1	647	5.4	883	5.7	233	6.9
Textiles, clothing and leather	589	5.8	411	3.9	515	4.2	522	4.4	757	4.9	189	5.6
Chemicals and chemical products	689	6.7	591	5.6	651	5.3	656	5.5	712	4.6	162	4.8
Machinery and equipment	449	4.4	472	4.5	587	4.8	659	5.5	914	5.9	203	6.0
Electrical and electronic equipment	974	9.5	954	9.1	934	7.7	781	6.5	907	5.8	186	5.5
Services	3 939	38.5	4 335	41.4	5 468	44.9	5 483	46.0	7 096	45.6	1 536	45.7

a) January-March

Source: UNCTAD 2009 and own calculations.

Table 4. Estimated world inward FDI stock in textiles, clothing and leather, by countries of location, 1990 and 2007, USD billions and %

Countries	1990		2007	
	USD billions	%	USD billions	%
World	28 697	100.0	90 254	100.0
Developed countries	23 275	81.1	77 533	85.9
Developing countries	5 422	18.9	12 039	13.3
South-East Europe and CIS	-	-	682	0.8

Source: UNCTAD 2009 and own calculations.

Table 5. Estimated world inward FDI flows in textiles, clothing and leather, by countries of location, 1990 and 2007, USD millions and %

Countries	1990		2007	
	USD millions	%	USD millions	%
World	2 328	100.0	6 749	100.0
Developed countries	2 089	89.7	5 304	78.6
Developing countries	240	10.3	1 318	19.5
South-East Europe and CIS	-	-	127	1.9

Source: UNCTAD 2009 and own calculation.

References

- UNCTAD (1994), *World Investment Report 1994. Transnational Corporations, Employment and the Workplace*, UN, New York and Geneva
- UNCTAD (2001), *World Investment Report 2001. Promoting Linkages*, UN, New York and Geneva
- UNCTAD (2006), *World Investment Report FDI 2006, FDI from Developing and Transition Economies: Implications for Development*, UN, New York and Geneva
- UNCTAD (2009), *World Investment Report 2009. Transnational Corporations, Agricultural Production and Development*, UN, New York and Geneva
- Witkowska J. (2000), *Bezpośrednie inwestycje zagraniczne a rynek pracy w kraju przyjmującym – aspekty teoretyczne*, 'Ekonomista'. Komitet Nauk Ekonomicznych Polskiej Akademii Nauk i Polskie Towarzystwo Ekonomiczne, Wydawnictwo Key Text, Warszawa, no 5
- Wysokińska Z. (1993), *Sfera realna w gospodarce światowej*, in: *Gospodarka światowa*, ed. A. Marszałek, Wyd.II, Wyd. UŁ

Streszczenie

BEZPOŚREDNIE INWESTYCJE ZAGRANICZNE W PRZEMYSŁE TEKSTYLNO-ODZIEŻOWYM I SKÓRZANYM W WARUNKACH GLOBALIZACJI

Przedmiotem artykułu jest analiza i ocena bezpośrednich inwestycji zagranicznych (BIZ), dokonywanych przez korporacje transnarodowe w przemyśle tekstylno-odzieżowym i skórzanym w skali gospodarki światowej. W warunkach globalizacji obserwuje się wzrost wartości skumulowanych BIZ i ich rocznych strumieni w skali świata, przy jednoczesnym przesunięciu pozycji głównych inwestorów i krajów przyjmujących, mierzonej udziałami w zasobach i strumieniach BIZ. Znaczące zmiany występują w strukturze sektorowej i gałęziowej BIZ. W układzie trzech sektorów gospodarki obserwuje się długookresowe przesunięcie BIZ do sektora usług, kosztem inwestycji w przetwórstwo przemysłowe. W przemyśle tekstylno-odzieżowym i skórzanym dokonywane są inwestycje zagraniczne, zwiększające się w długim okresie, jednak dynamika strumieni BIZ napływających do tego przemysłu jest jedną z najniższych w przetwórstwie przemysłowym. W długim okresie (1990-2007) udział przemysłu

tekstylny-odzieżowy i skórzanego w globalnych skumulowanych BIZ zmniejszył się z 1,5% do 0,6% w 2007r. Mimo pracochłonnego charakteru przemysłu, BIZ lokowane są przeważająco w krajach wysoko rozwiniętych.