



# FDI in Indian Textile Industry



Source:  
Textile Review

## FDI in Indian Textile Industry

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***The Indian authorities believe that the technical textile sector is another potential area for foreign investment due to the rapid growth of the demand for industrial and technical textiles in the nation. The sector is targeting US\$ 6 billion foreign direct investment (FDI) by 2015 to be invested in textiles machinery, fabric and garment manufacturing, as well as technical textiles. The expected growth of Indian textiles industries will be worth about \$220 billion by in the year 2020.***

*The investment scenario is becoming rise day by day, India is a growing source of supply of textiles and apparel to the world market, the exports are growing rapidly as more and more buyers around the world turn to India as an alternative to China. India has enormous opportunities to expand their share in Textiles and Apparel industries. International scenario does indicate favorable business atmosphere in India, FDI Inflows to Textiles industry in India enhanced the growth of the sector. India has been known for its textiles all over the world. The Indian textile industry contributes about 14 % to industrial production, 3 % to the country's Gross Domestic Product (GDP) and 27 % to the country's total foreign exchange. The Indian textiles market is expected to grow at the rate of 12% per year. The market value is US\$ 22-25 billion which is expected to grow to US\$ 35-37 billion by the year 2011. The Indian authorities believe that the technical textile sector is another potential area for foreign investment due to the rapid growth of the demand for industrial and technical textiles in the nation. The sector is targeting US\$ 6 billion foreign direct investment (FDI) by 2015 to be invested in textiles machinery, fabric and garment manufacturing, as well as technical textiles. The expected growth of Indian textiles industries will be worth about \$220 billion by in the year 2020.*

Foreign Direct Investment has grown faster over the recent years. Higher flows of Foreign Direct Investment over the world always reflect a better economic environment in the presence of economic reforms and investment-oriented policies. Foreign direct investment is that investment, which is made to serve the business interests of the investor in a company, which is in a different nation distinct from the investor's country of origin the development of economic globalization, foreign direct investment (FDI) is increasingly being recognized as an important factor in the economic development of countries. Foreign Direct Investment refers to long term participation by one country into another country. It usually involves participation in management, joint-venture, transfer of technology and expertise. Direct investment excludes investment through purchase of shares. Each and every country over the globe is stepping forward to change the climate for attracting more investment.

Sound investment climate is crucial for economic growth. Microeconomic reforms aimed at simplifying business regulations, strengthening property rights, improving labor market flexibility, and increasing firms' access to finance are necessary for raising living standards and reducing poverty in a country. FDI is now widely perceived as an important resource for expediting the industrial development of developing countries it flow as a bundle of capital, technology, skills and sometimes even market access.

A recent UNCTAD survey projected India as the second most important FDI destination for transnational corporations during 2010-2012. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. FDI for 2009-10 at USD 25.88 billion was lower by 5% from USD 27.33 billion in the previous financial year. Foreign direct investments in August dipped by about 60% to USD 1.33 billion the lowest in this financial year. After liberalization India's FDI policy system considerably changed since 1991 after this liberalization has been accompanied by increasing inflows. The liberalization has also been accompanied by changes in the sectoral composition, sources and entry modes of FDI.

## **FDI in Indian Textile Industry**

India is a growing source of supply in textiles and apparel to the world market, the exports are growing rapidly as more and more buyers around the world turn to India as an alternative to China. In the year 2005 prompted by the global elimination of shares shipments to the EU soared by 30% and those to the USA shot up by 34%. It given that the EU imports from all sources increase by only 8% while US import growth was just 6%. The textiles industry in India is experiencing an increase in the collaboration between national and international companies. India ranks among the top apart from China, no other country can match the size, spread, depth, and competitiveness of the Indian textile and apparel industry.

The opportunity in Indian textiles and apparel industries are *very* large. India has a complete supply chain from a *vast* raw material supply to high quality finished products. Labour costs are among the lowest in the world. Indian firms offer experience, entrepreneurship and design skills which Chinese firms find hard to match. This is also highly adaptable, smaller firms offer the flexibility needed for smaller orders while vast firms have the capacity to service the world's biggest buyers. Government policies are changed and Indian economy opens up to the outside world, foreign investment opportunities are being transformed.

Textile industries are expanded capacities, use new technologies since the elimination of quotas, Indian firms have been gearing up to meet fast growing foreign demand for their products. New capacities are being built, and competitiveness is improving as new technology is installed at a dramatic rate. Collaboration and joint ventures in India is opening up to the outside world. With economic liberalization, there are new opportunities for creating joint ventures aimed at supplying international markets. Opportunities for Sourcing and Collaboration will provide India's most competitive apparel and home textile products, based on its recent achievements are attract consumer markets.

## **Opportunities for FDI in Indian Textiles Industries**

India has enormous opportunities to expand their share in Textiles and Apparel segment. International scenario does indicate conducive business atmosphere in India, India should have progressed is relatively lesser than neighboring countries. Structurally, fragmented weaving, processing and garmenting sectors need further strengthening in terms of technology modernization and human resource training. India has to encourage a lot of local as well FDI in this sector so that the pace of progress could be maintained. The government understands it responsibilities. The stake holders have to redouble their efforts so that our share in World Textile Trade increases significantly.

The world market for textile products are driven by changing consumer lifestyles, transforming fashion and style trends, new and innovative fabric/fiber developments, and shifting consumer preferences towards sophisticated textile products. The intimate apparel market is driven mainly by style, and fashion with equal importance accorded to comfort, and novelty. The industry is marked by new fabric developments, and innovations in prettier, and more comfortable garment designs. Purchases are widespread, and purchase decisions are typically based on feel-good factors, instincts, style, fitting and necessity.

### **Government fund in Indian Textile Industry**

The investment circumstance in Indian textile industry was changed after the 2003-2004 budgets. The recommendations made in that budget included the reforms that are required to be made in the financial policy of the Indian textile Industry for attracting investments. The policy matters associated with restructuring of debt for financial viability of this industrial sector are also being addressed in this budget. A fund was set up in accordance with the recommendations of the budget with an initial principal amount of Rs. 3000 crores; this fund was setup for restructuring of the textile sector.

### **FDI Inflows to Textiles**

FDI inflows to Textiles industry in India enhanced the growth of the sector. India has been known for its textiles all over the world. The Indian textiles industry is a highly established sector. The advantages of the Indian Textile industries are fully equipped manufacturing units, vast multi-fiber raw material base, advanced designing capabilities, highly skilled and effective human resources. India has good scope of becoming the global textile and apparel sourcing center.

### **Reasons for attracting FDI in Indian Textile Industries**

- The size of the Indian textile industry is huge.
- Performance of this industry has been consistent from the beginning to till.
- Availability of the skilled labor in India is comparatively cheap in other countries.
- The India's FDI policies are flexible among all the developing countries.
- There is no limit on foreign direct investment in the textile industries.
- 100 % foreign direct investment permitted in textile industries.
- FDI is permitted *via* usual route and offering a trouble-free way of investment.
- These investments are not required to be approved by the government or the apex bank of India.
- The foreign investors are only required to make a notification to the regional office of the apex bank only after receiving the receipt of the remittance
- The development of Textile Industry in India the textile ministry has formed a special cell for attracting FDI in this sector.

### **Government Initiatives in FDI**

- Foreign Direct Investments (FDI) up to 100% is allowed in this sector through the automatic route by the Reserve Bank of India.
- The governments provide quality cotton raw materials at reasonable price to the manufacturers.

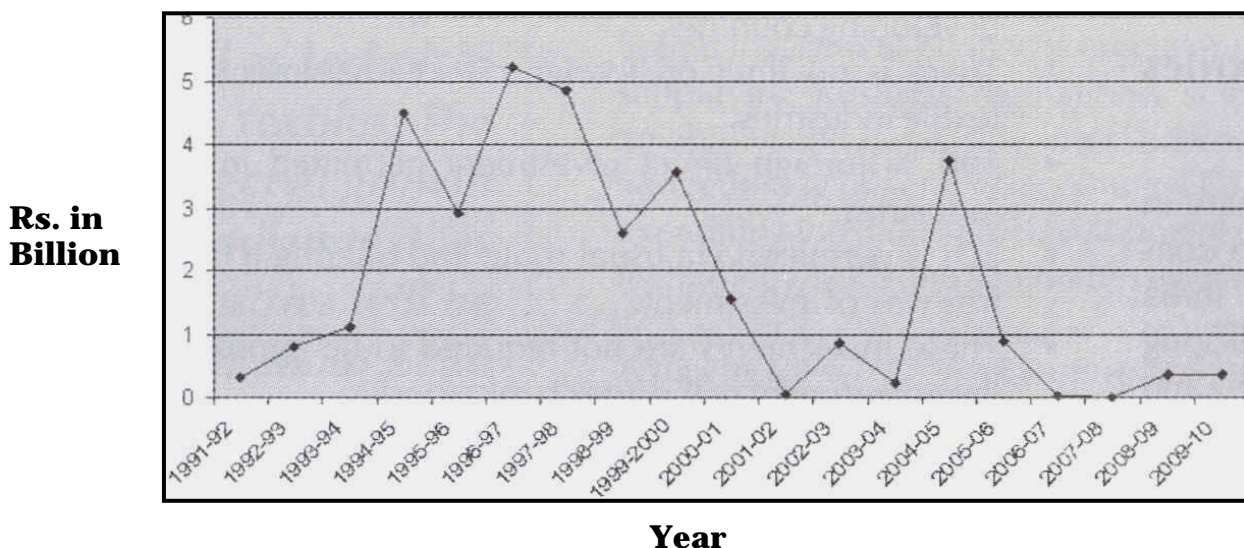
- The governments facilitate the technological advancement in the textile industries; the Technology Up-gradation Fund Scheme (TUFS) was set up by government.
- The Scheme for Integrated Textile Park (SITP) is set up to provide world standard infrastructure facilities.

**Financial year-wise break-up for FDI & FTCs approved by Government of India during August 1991 to March 2010 in Textiles (include Dyed, Printed)**

Year (Apr-Mar)	Total Number of Cases	No. of FOI Approved	Technical Cases Approved	Amount of FDI Approved (Amount in billion)	
				In ₹	In US \$
1991-92 Aug-Mar	20	8	12	0.31	0.01
1992-93 Apr-Mar	40	27	13	0.80	0.03
1993-94	71	50	21	1.12	0.04
1994-95	84	67	17	4.49	0.14
1995-96	93	78	15	2.91	0.09
1996-97	86	76	10	5.21	0.15
1997-98	99	85	14	4.86	0.13
1998-99	66	51	15	2.60	0.06
1999-2000	78	68	10	3.55	0.08
2000-01	54	40	14	1.55	0.04
2001-02	31	21	10	0.04	0.00
2002-03	38	33	5	0.86	0.02
2003-04	42	32	10	0.24	0.01
2004-05	22	19	3	3.74	0.08
2005-06	8	7	1	0.88	0.02
2006-07	5	5	0	0.03	0.00
2007-08	0	0	0	0.00	0.00
2008-09	5	5	0	0.36	0.01
2009-10	3	3	0	0.36	0.01
<b>Grand total</b>	<b>845</b>	<b>675</b>	<b>170</b>	<b>33.92</b>	<b>0.93</b>

Source: Dept. of Industrial Policy & Promotion, Ministry of Commerce and Industry, Govt. of India FDI & FTCs in India Aug 1991 to Mar 2010

**FDI & FTCs in India Aug 1991 to Mar 2010**



## Statement on FDI inflows in textiles from April 2000 to August 2010

Sector	Amount of FDI Inflows		%age with Total Inflows
	(₹ in crore)	(In US\$ mill.)	
Textiles (Including Dyed, Printed)	3879.76	861.26	0.72

Source: Percentage of inflows worked out in terms of US\$ & the above amount of inflows received through FIPB/SIA route, RBI's automatic route & acquisition of existing shares only.

The Ministry of Textiles has launched a special cell for attracting FDI in textile industries. The main objective of this cell is attracting FDI to India. This cell helps the willing foreign companies to find out viable partners meant for floating a joint venture company in order to produce textile products.

- To help foreign companies find partners intending to float a joint Venture company to produce textile products.
- FDI special cell acts as a negotiator between the foreign investors and different organizations for setting up and structuring the textile industry.
- The cell offers both advisory support and assistance.
- It also mediator between the foreign investor and the different organizations for setting up the textile industry. The specialized helps that are given by this cell involve advisory support along with assistance.
- FDI cell monitors as well as maintains the data related with the total production of the textile sector.
- They also collect the stratified data of production by both domestic industry as well as the industry set up by the foreign investor.
- At the time of operation of the textile industry set by the foreign investor face certain problems these problems are solved by the FDI cell.
- A textile industry set up with the help of a foreign investor might probably lead to some problems in the future. These problems are also solved by the FDI cell.
- FDI cell maintains data with total production of the textile sector.

Indian textiles is making headway in a positive direction and attracting global investors. Recently, investments in Indian textile sector by biggies overseas have increased. In a decade, the sector has embarked foreign direct investments around US\$817.26 million. The industry has taken initiatives to work hand in fashion accessory with Indian players, grounds the view Indian Textile industry is proving itself a sector to be chance upon.

Indian textile industry contributes about 14% to industrial production, 3 % to the country's gross domestic product (GDP) and 27 % to the country's total foreign exchange, through textile exports. The industry directly employs 35 million people and is the second largest provider of employment after agriculture. The industry is estimated to generate 12 million new jobs by 2010-11. This industry is not only generates jobs in its own industry, but also opens up scopes for the other ancillary sectors. India's textile exports may reach USD 24 billion in 2010-11 from an estimated USD 20 billion in 2009-10. FDI in country's textiles sector increased 11 % to USD 201 million (INR 9.6 billion) in 2009 from USD 181 million INR 8.7 billion in 2008 and were mostly from Europe, USA and China.

The growth drivers that boosted India's textile production and demand, by pointing up the increase in GDP per capita at around 8.5% for the past 4 to 5 years which has significantly increased the disposable income of the Indian middle class. The increased number of

working women, young age workforce and the greater use of credit cards has led to the increased purchase of textiles and clothing items, the growing penetration of organized retail to more than 10% in 2010 and 20% by 2020 would facilitate accessibility and increase purchase of textiles and clothing products.

### **Advantages of FDI in Indian Textile Industries**

Foreign direct investment provides a major source of capital which brings with it up-to-date technology. It is difficult to generate this capital through domestic savings and it is still difficult to import the necessary technology from abroad, since the transfer of technology. Over a long period of time FDI creates many externalities in the form of benefits available to the whole economy. One of the advantages of foreign direct investment is that it helps in the economic development of the particular country where the investment is being made. This is especially applicable for the economically developing countries. The foreign direct investment has helped several countries when they have faced economic hardships.

Foreign direct investment could be provided in form of technology. Else, the money that comes in a country through the foreign direct investment can be utilized to buy or import technology from other countries. This is an indirect way in which foreign direct investment plays an important part of economic development. Consistent economic growth, deregulation, liberal investment rules, and operational flexibility are all the factors that help to increase the inflow of Foreign Direct Investment. Main advantages of FDI is Expansion in Information and communication technologies, Improvement in logistics necessarily allows production to be close to markets while taking advantage of the specific characteristic of individual production locations.

Indian Textile sector has its own inherent strengths owing to large and fast growing domestic demand for quality fabric and apparels, own cotton production, comparatively low cost of labour and presence in the entire spectrum of the value chain, the industry is characterized by its typical issues concerning the investors. These factors have been responsible for extremely low level of FDI in the Indian Textile Industry during last decade. FDI in Indian textile sector had been hardly 1.8% of the total FDI, although the country is the 2nd largest textile economy. This also needs to be understood in the light of FDI in textile sector of China crossing 8% of the total FDI in China."

### **The major Challenges of Indian Textile Industries**

1. Advancement from Low cost-low value producer to High value-high volume supplier.
2. Moving up the value chain through Branding, Creating own local brands as well as acquisition of existing, Brands for application to Indian markets
3. Technology up-gradation
4. Seizing the opportunities in Technical Textiles.

The Investors ready to chance on the Textile companies which are balanced for exploiting the fabric / apparel demand of exploding middle class and those who have potential as well as capability to quickly move up the value chain in terms of quality fabric/apparels and high returns on investments through Branding. The investors are willing to fund the acquisitions of even middle level brands overseas for their extension to fast growing Indian markets in urban, semi-urban areas as well as for agri-based rural clusters with large

purchasing power. The investors however are guided by their assessment of the quality and experience of the management to take up these challenges.

The fastest growing areas among technical textiles are the products for agriculture, medicine, automobiles, aviation and sportswear, and this sector has large untapped potential and the units with requisite technical tie-ups have ability to attract large investments. Indian textile industry would continue to grow at a moderate rate, the Ministry of Textiles proposes to allocate US\$ 785.2 million for the modernization of the textile industry, our exports of garments are showing marginal increase and non-apparel textiles are registering reasonable growth. India can sustain the rebound in exports will depend significantly on the economic developments in West Europe and the US.

From a current size of about \$70 billion, the textiles industry is going to be about \$220 billion by 2020. Exports will provide a huge opportunity about \$80 billion of the growth will come from exports by 2020. Foreign direct investment in India's textiles sector increased 11 % to Rs 968.7 crore (Rs 9.68 billion) in 2009, compared to the previous year. In 2008, the textiles industry had attracted FDI worth Rs 869.6 crore (Rs 8.69 billion). Foreign direct investment in the textiles sector has been received mostly from Europe, US and China.

The government has been taking several steps like development of technology, design and textile parks, besides improving labour conditions, for attracting FDI and optimum utilization of foreign funds. The government allows 100% FDI in the textiles sector under the automatic route and diversify of textiles exports and reduce dependence on the US and European markets, the government is promoting an export regime to cover other areas in the East and South East Asia. The policy envisages not only search for new markets but also attracting FDI. The sector, which was hit-hard by the global economic crisis, has witnessed a slowdown in exports as well as the domestic market. Foreign investment and collaboration in India's textile and apparel industry has increased significantly in recent years. The increase is attributable partly to the derestriction of foreign direct investment and partly to the fact that domestic demand for textiles and apparel in India is large and optimistic. It also stems from recognition that the sector has strong export potential. FDI in the textile and apparel sector has been modest in past years, FDI inflows in this sector have roughly doubled every year since 2003 Rs. 838 in 2003, Rs. 1, 785, in 2004 and Rs 3, 462 in 2005.

Foreign companies have been motivated to enter into collaborations with Indian firms by the increasing gains that can be made by producing brands in India and selling them into the Indian market. Indian companies have been motivated by the scope for gaining technical and marketing expertise from foreign partners. Indian firms are attracted in particular to companies whose brands enjoy considerable popularity in their home markets as those brands can be manufactured more cheaply in their Indian plants. In the year 2006 the Indian government started to open up the retail sector by allowing FDI of up to 51 % of the equity with prior government approval in the retail trade of "single brand" items. Many textile firms will continue to pursue franchising rather than investing in their own outlets as it offers a cheaper and faster way of expanding retail networks and increasing the spread of product distribution.

## **Conclusion**

The investment scenario is becoming rise day by day, but a problem in this smooth road is the constant appreciation of the Indian currency with respect to US Dollar. The textile



sector is losing much of its profitability as because the large quanta of textile product produced by it are basically export-oriented. The Indian textiles sourcing market is expected to grow at the rate of 12% per year. The market value is US\$ 2225 billion which is expected to grow to US\$ 35-37 billion by the year 2011. The Indian authorities believe that the technical textile sector is another potential area for foreign investment due to the rapid growth of the demand for industrial and technical textiles in India. The sector is targeting US\$ 6 billion foreign direct investment (FDI) by 2015 to be invested in textiles machinery, fabric and garment manufacturing, as well as technical textiles. The expected growth of Indian textiles industries will be worth about \$220 billion by in the year 2020. Promotional efforts to attract foreign direct investment have become the important point of competition among developed and developing countries. This competition is also maintained when countries are adopting economic integration at another level. FDI is very important for development of economies in all countries.

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