

# Foreign Direct Investment in Indian Textiles Sector: An Analysis

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## ABSTRACT

The present study analyses the foreign direct investment scenario in Indian textiles sector. It reveals the growth of Indian textiles sector during past few years and its expected growth rate in near future. It also analyses the several advantages of foreign direct investment towards the industry and country. The study reveals the market size, government initiatives and attractiveness of foreign investors towards the Indian textiles sector. The study is purely based on secondary data.

**Keywords:** Foreign Direct Investment, Market Size

## INTRODUCTION

The Indian textile sector has huge potential area for foreign investment due to a surge in demand for industrial and technical textiles in the nation. The expected growth of Indian textiles industries will be worth about US\$ 220 billion by 2020.

Investment plays an important role in the development of an industry. The investment activities are increased day by day. The Indian textile industry generates high level of employment opportunities for both skilled and unskilled labour. India is first in global jute production and shares 63% of the global textile and garment market. India is second in global textile manufacturing and also second in silk and cotton production. India has huge 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 huge potential to expand their market share in textile and apparel industries. International scenario does indicate favourable business atmosphere in India.

The textile sector of India is one of the oldest industries in Indian economy. India's overall textile exports during FY 2017-18 stood at US\$ 39.2 billion and are expected to increase to US\$ 82 billion by 2021 from US\$ 31.65 billion in FY 19. The Indian textile is extremely diversified, with the hand-spun and hand-woven textiles sectors at one end of the spectrum, while the capital intensive sophisticated mills sector at the other end of the spectrum. The decentralised power looms/ hosiery and knitting sector form the largest component of the textiles sector. The Indian textile industry has the capacity to produce a wide variety of products suitable to different market segments, both within India and across the world.

### Market Size

Currently, the market size of the Indian textiles industry is estimated at around US\$ 150 billion, is expected to grow US\$ 250 billion by 2019. India's textiles industry contributed

7 per cent of the industry output (in value terms) of India in 2017-18. It contributed 2 per cent to the GDP of India and employs more than 45 million people in 2017-18. The sector contributed 15 per cent to the export earnings of India in 2017-18. The production of raw cotton in India is estimated to have reached 36.1 million bales in Financial Year 2019.

### Government Initiatives

The Government of India has come up with several policies for the promotion and development of the textiles sector. It has allowed 100 per cent FDI in the Indian textiles sector under the automatic route. The various initiatives taken by Government of India are as under:

The Directorate General of Foreign Trade (DGFT) has revised rates for incentives under the Merchandise Exports from India Scheme (MEIS) for two subsectors of textiles industry i.e. readymade garments and Made ups from 2 per cent to 4 per cent.

As of August 2018, the Government of India has increased the basic custom duty to 20 per cent from 10 per cent on 501 textile products, to boost Make in India and indigenous production.

The Government of India announced a special package to boost exports by US\$ 31 billion, create one crore job opportunity and attract investments worth Rs. 80,000 crore during 2018-20.

Integrated Wool Development Programme (IWDP) approved by Government of India to provide support to the wool sector starting from wool rearer to end consumer which aims to enhance the quality and increase the production during 2017-18 and 2019-20.

The Cabinet Committee on Economic Affairs (CCEA), Government of India has approved a new skill development scheme named 'Scheme for Capacity Building in Textile Sector (SCBTS)' with an outlay of Rs. 1,300 crore from 2017-18 to 2019-20.

### FDI Policy in India

- 100% FDI is allowed in the textile sector under the automatic route.
- 100% FDI in single-brand retail
- Up to 51% FDI in Multi brand retail

### FDI Attractiveness of the Indian Textile Sector

#### (i) Cost Competitiveness

One of the main reasons for FDI attractiveness of the Indian textile sector is its cost effective manufacturing feature. According to the report of ITMF on international product cost comparison, India is the third most competitive country in terms of ring yarn manufacturing and second in terms of knitted and woven ring yarn fabric manufacturing.

**Table-I Source: International Production Cost Comparison, ITMF**

Countries	Spun Yarn (US\$ per kg)	Woven Fabric (US\$ per meter)	Knitted Fabric (US\$ per meter)
Brazil	3.67	1.1	0.88
China	4.51	1.13	1.07
Egypt	5.35	1.21	1.27
India	3.52	0.9	<b>0.83</b>
Indonesia	3.33	0.82	0.79
Italy	4.87	1.59	1.22
Korea	3.71	1.03	0.9
Turkey	3.68	0.97	0.87
USA	3.51	1.01	0.86

**(ii) Doing Business**

As per the Doing Business Report 2019 by World Bank, India ranks 77 out of 190 countries covered. Following table indicates the ten economies improving the most across three or more areas measured by Doing Business.

**Table-II Source: Doing Business Report, 2019**

The 10 Economies Improving the Most Across Three or More Areas Measured by Doing Business												
Economy	Ease of Doing Business Rank	Change in Ease of Doing Business Score	Reforms making it easier to do business									
			Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Afganistan	167	+10.64	√				√	√	√			√
Djibouti	99	+8.87	√			√	√	√	√		√	√
China	46	+8.64	√	√	√	√		√	√	√		
Azerbaijan	25	+7.10		√	√	√	√	√	√	√		√
India	77	+6.63	√	√	√		√		√	√		
Togo	137	+6.32	√	√	√	√			√		√	
Kenya	61	+5.25				√	√	√	√			√
Cote d'Ivoire	122	+4.94	√	√			√		√		√	
Turkey	43	+4.34	√	√			√		√	√	√	√
Rwanda	29	+4.15	√		√	√	√			√	√	√

**Other Reasons for Attracting FDI in Indian Textile Industries**

- Large size of the Indian textiles industry.
- Consistence performance of the industry.
- Availability of skilled human resource.
- Flexible FDI policy of India.
- 100 per cent FDI in textiles industry through automatic route.

**Textiles and Apparel Exports from India**

The favourable trade practices i.e. ease of doing business and superior quality drive textile and apparel exports from India. Following table depict the relevant data:

**Table-III Source: Ministry of Textiles, Make in India, Technopark, Aranca Research**

Textiles and Apparel Exports from India	
Financial Year	Quantity Exported (US\$ billion)
2016	36.75
2017	39.00
2018	39.20
2019	31.65
2021 (Estimated)	82.00

The table III reveals that India's textile and apparel exports stood at US\$ 39.20 billion in FY18 and is expected to increase to US\$ 82.00 billion by 2021 from US\$ 31.65 billion in FY19.

**Textile Export vs. Import in India**

Exports have been a core feature of India's textile and apparel sector, a fact corroborated by trade figures. Exports of textiles from India reached US\$ 31.65 billion during FY19. The Goods and Services Tax that rolled out in July 2017 is expected to make imported garments cheaper by 5-6 per cent, as GST regime will levy 5 per cent tax for both domestic textile manufacturers and importers.

<b>Table-IV Source: Ministry of Textiles</b>		
<b>India's Textile Trade</b>		
<b>Year (FY)</b>	<b>Export (US\$ billion)</b>	<b>Import (US\$ billion)</b>
11	27.80	4.20
12	33.30	5.20
13	33.05	5.40
14	37.57	5.30
15	37.66	6.01
16	36.75	5.85
17	39.00	6.30
18	39.20	7.30
19	31.65	6.42

### Shares in India's Textile Exports

Following table illustrates shares of cotton fibre, cotton fabrics etc in India's textile exports for FY19. It shows that Cotton Fabrics, Madeups, etc. had a share of 40.83 per cent in exports and reached US\$ 12.92 billion in FY19.

<b>Table-V Source: Ministry of Textiles</b>	
<b>Shares in India's Textile Exports (FY19)</b>	
<b>Particulars</b>	<b>Quantity (%)</b>
Cotton Fibre	7.02
Cotton Fabrics, Made ups, etc.	40.83
Rmg Cotton	40.81
Others	11.35

### Foreign Investment Flowing into the Sector

The Government of India has approved 100 per cent FDI in textile industry through automatic route. Cumulative FDI inflows into the textiles sector over April 2000 – December 2018, totalled to US\$ 3.09 billion. The textile industry in India is experiencing a significant increase in collaboration between global majors and domestic companies. Several international apparel giants, such as Hugo Boss, Liz Claiborne, Diesel and Kanz, have already started operations in India. Following table depicts FDI related data for India during various financial years.

<b>Table-VI Source: Ministry of Commerce and Industry, DPIIT</b>	
<b>FDI in Textiles Sector (including dyed, printed)</b>	
<b>Year (FY)</b>	<b>Foreign Direct Investment (US\$ billion)</b>
2011	0.96
2012	0.17
2013	0.10
2014	0.20
2015	0.16
2016	0.26
2017	0.62
2018	0.46
2019	0.16
Total	3.09

### Advantages of FDI in Indian Textile Industries

Foreign Direct Investment in Indian textile industries will result into numerous advantages to the country and its nationals. Some important advantages are as under:

- Capital formation.
- Advanced technology.
- Growth opportunities for the sector.
- Employment generation.
- Poverty reduction.
- Surge in the demand.
- Economic development of the nation.

### CONCLUSION

The investment decision of an investor is very crucial for him because most of the investments are irreversible. The investment activities are increased day by day but there are several problems faced by the investors. The textile sector of India is mainly export-oriented and it is influence by foreign exchange rate at a high level. One of the important hurdle in this respect is that the constant appreciation of the Indian currency with respect to US Dollar. The Indian textile sector is very large in size and it contributes two per cent of the GDP of the country. There are several avenues of profit for the foreign investors in Indian textiles industry. Indian textiles industry will be worth about US\$ 220 billion by in the year 2020. The Government of India should promote the textile sector in front of foreign investors in order to enhance the level of foreign investment in the sector. FDI play a vital role in the development of an economy.

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