1 GLOBAL TEXTILES AND CLOTHING INDUSTRY

1.1 Global Textiles and Clothing Industry

A $480 bn market which is expected to grow to about $700 bn by the year 2012, yes we are talking about the world trade of textiles and apparels-barely five years after the expiry of MFA. The Multi-Fibre Arrangement (MFA), that had governed the extent of textile trade between nations since 1974, expired on 31st December, 2004. It is expected that, post-MFA, most tariff distortions would gradually disappear and firms with robust capabilities will gain in the global trade of textile and apparel. Quotas on textile and apparel meant multi country and multi vendor sourcing for the buyers. While the abolishment of quotas has presented the buyers with an option to source from the most efficient and cost effective vendors and countries, for the suppliers it has opened the Pandora's box: stiff global competition driven by low costs and new legislation.

The first two years of quota free trading has seen a number of changes taking place in the apparel and textile trade: a shift in the supplying bases, a decline in the sourcing prices & re-orientation of the buyer-supplier relationship. While the phase out of quotas has seen clear emergence of supplier regions (China and South Asia), it hasn't wiped out the vulnerable countries. The countries like Bangladesh, Indonesia, Vietnam and Cambodia etc., which were expected to lose business, have on the contrary seen an increase in their exports to key destinations in the first two years. This is partly due to the fact that a number of buyers have not altered their sourcing strategy drastically and also due to various steps taken by apparel industry in these countries to improve their competitiveness.

An important question Indian firms are facing is whether their capabilities and their diverse supply chain are aligned to benefit from the opening up of global textile market?

1.2 Indian Textiles and Clothing Industry

The history of textiles in India dates back to the use of mordant dyes and printing blocks around 3000 BC. The diversity of fibres found in India, intricate weaving on its state-of-art manual looms and its organic dyes attracted buyers from all over the world for centuries. India saw the building up of textile capabilities, diversification of its product base, and its emergence, once again, as an important global player.

The Indian Textiles Industry has an overwhelming presence in the economic life of the country. Apart from providing one of the basic necessities of life, the textiles industry also plays a pivotal role through its contribution to industrial output, employment generation, and the export earnings of the country. It contributes about 14 per cent to industrial production, 4 per cent to the GDP, and 16.63 per cent to the country's export earnings. It would provide direct employment to over 35 million people by 2010 (Texmin 2005), which includes a substantial number of people from less privileged sections of society. The textiles sector is the second largest provider of employment after agriculture. Thus, the growth and all round development of this industry has a direct bearing on the improvement of the economy of the nation.

The Indian textiles and apparel industry has an unbalanced structure, 95 % of the industry is the unorganized and only 5 % is the organized. Sector consolidation process in certain segments, to take advantage of economies of scale is necessary. This will generate more employment, as smaller operations affect cost and competitiveness.

1.3 India's Position in Global Textiles and Clothing Industry

- India's position in the World Textiles Economy Second largest producer of raw cotton.
- Second largest producer of cotton yarn.
- Second largest producer of cellulosic fibre/yarn.
- Second largest producer of silk.
- Fourth largest producer of synthetic fibre/yarn.
- Largest producer of jute.

The Indian textiles industry is one of the largest textiles industries in the world. With the abolition of quotas in 2005, Indian Textiles and Apparel exports grew by 19% to reach US$ 17 billion in 2005-06. Indian exports increased in both the major destinations of US and EU. Indian exports to US increased by 27% to reach US$ 4.6 billion, while exports to EU increased by 18% to reach US$ 6.2 billion. Despite falling prices, Indian exports were able to maintain their UVR to US and EU. Indian exports also benefited in the latter half of the year due to safeguards on China. On the account of increasing exports, most of the Indian companies experienced healthy growth in their top and bottom lines. The exports of Textile and Garments have reached to US $ 19.2 billion in 2006-07.

1.3.1 Major Sectors of Indian Textile Industry

Domestic market also experienced a healthy growth, with the Indian apparel market reaching US$ 20 billion in 2005. The share of the branded sector increased to 24% as compared to 21% in 2003.

India is one of the few countries that encompass the entire supply chain in close proximity, from diverse fibres to a large market. It is capable of delivering packaged products to customers comprising a variety of fibres, diverse count sizes, cloth of different weight and weave, and panoply of finishes. This permits the supply chain to mix and match variety in different segments to deliver new products and applications. This advantage is further enhanced by cost based advantages and diverse traditions in textiles.

The Indian textiles industry is extremely varied, with the hand-spun and hand-woven sector at one end of the spectrum, and the capital intensive, sophisticated mill sector at the other. The decentralized hand looms / hosiery and knitting sectors form the largest section of the textiles sector. The close linkage of the Industry to agriculture and the ancient culture and traditions of the country make the Indian textiles sector unique when compared to the textiles industry of other countries.

The major sectors of the textiles industry include the:

Organized Cotton/ Man- Made Fibre Textiles Mill Industry

- Man-made Fibre/ Filament Yarn Industry
- Decentralized Power-looms Sector
- Woollen Textiles Industry
- Silk Industry
- Handlooms Industry
- Handicraft Industry
- Jute Industry

1.3.1.1 The Organized Textiles Mill Industry

The Cotton/Man-made fibre textiles industry is the largest manufacturing industry in the country in terms of employment (nearly 1 million workers).

As in the beginning of 2007, there were 1,818 cotton/man-made fibre textiles mills (non-SSI), with an installed capacity of 35.37 million spindles and 0.45 million rotors. This is expected to increase to 39.50 million spindles and 0.62 million rotors.

The production of spun yarn, which was 3160 million kg in 2000-01, increased to 3458 million kg in 2005-06, and was anticipated to touch 3791 million kg during 2006-07. Amongst spun yarns, cotton yarn production has fluctuated, depending upon the cotton crop during respective years. Blended and 100% non-cotton yarns however, have shown a consistent increase year after year. During 1999-05, capacity utilization in the spinning sector was between 80% and 93%.

In the organized sector, loomage capacity declined from 1.23 lakh in March 2000, to 0.86 lakh in March 2005, and to 0.69 lakh in January 2007.

Over the years, the production of cloth in the mill sector has been fluctuating. It declined from 1670 mn. sq. mtrs. in 2000- 01 to about 1576 mn. sq. mtrs. in 2005-06, and projected to be 1,729 mn. sq.mtrs. in 2006-07.

As on January 31, 2007, employment generation in the cotton/man-made fibre textiles industry was 9.4 lakh. The total production of cloth by all textiles sub-sectors, i.e., mill, powerlooms, handlooms, hosiery and khadi, wool and silk has shown an upward trend in recent years.

1.3.1.2 The Man-Made Fibre / Filament Yarn Industry

The industry comprises fibre and filament yarn manufacturing units of cellulosic and non-cellulosic origin. The total man-made fibre production from April-August 2006, increased by 16%, as compared to the corresponding period of the previous year.

The production of Viscose Staple Fibre & Acrylic Staple Fibre is expected to decrease by 10% and 3%, respectively, during 2006-07. The production of Polypropylene Staple Fibre and Polyester Staple Fibre is expected to increase by 26%, and 11%, respectively during 2006-07.

The total production of man-made filament yarn increased by 9%, during April-August 2006, as compared to corresponding period of the previous year. The total filament yarn production during 2006-07 is expected to increase by about 11%, as compared to 2005-06. The production of Nylon Filament Yarn and Viscose Filament Yarn is expected to decrease by 2% during 2006-07. The production of Polypropylene Filament Yarn and Polyester Filament Yarn is expected to increase by about 12% during 2006-07 as compared to 2005-06.

1.3.1.3 The Decentralised Power-looms Sector

The decentralised power-looms sector plays a pivotal role in meeting the clothing needs of the country. The power-looms industry produces a wide variety of cloth, both greys as well as processed. The production of cloth and the generation of employment have been rapidly increasing in the power-looms sector. In 2005-06, it contributed 62% of the total cloth produced in the country (30,254 mn. sq. mtrs.), and provided employment to about 4.86 million workers. There are 19.54 lakh power-looms in the country.

1.3.1.4 The Wool and Woollen Textiles Industry

The woollen textiles industry is a rural based, export oriented industry in which the organized sector, the decentralized sector, and the rural sector complement each other. This industry provides employment to 27 lakh workers in a wide spectrum of activities. The country is the seventh largest producer of wool, and contributes 1.8% to total world production. The anticipated production of indigenous raw wool is estimated at 57.20 million kg in 2006-07. It was 55 million kg in 2005-06. Of the total production of raw wool, 5% is apparel grade, 85% carpet grade, and 10% coarse grade. Domestic produce is not adequate; therefore, the industry is dependent on imported raw material. Wool is the only natural fibre in which the country is deficient. Woollen exports, excluding hand knotted carpets, rugs, durries, etc, were Rs. 2098.27 crore in 2005-06, and it is estimated that they will rise to Rs. 2360.55 crore in 2006-07.

1.3.1.5 The Jute and Jute Textiles Industries

The Jute industry occupies an important place in the national economy. Globally, India is the largest producer, and the second largest exporter of jute goods and this sector supports the livelihood of about 40 lakh farm families. It provides direct and indirect employment to 4 lakh workers. There are 78 jute mills in the country. Of these, 61 are in West Bengal., 3 each in Bihar and Uttar Pradesh, 7 in Andhra Pradesh, and one each in Assam, Orissa, Tripura and Chhattisgarh. Annually, the exports of jute products range between Rs. 1100-1200 crore.

The production of raw jute varies between 90-100 lakh bales (180 kg each), and the domestic consumption of jute goods is in the range of 13.5-14.5 lakh MT. The ratio of domestic consumption to exports is 80:20. The production of jute is concentrated in 36 districts of West Bengal, Orissa, Bihar, Assam, Meghalaya, Tripura and Andhra Pradesh. In the jute season (July-June) 2005-06, the production of raw jute was 85 lakh bales, and is expected to reach 105 lakh bales in the jute season 2006-07.

1.3.1.6 The Sericulture and Silk Textiles Industry

Globally India is the second largest producer of silk and contributes about 18% to the total world raw silk production. India has the unique distinction of being endowed with all the four varieties of silk, namely, Mulberry, Eri, Tasar, and Muga. Sericulture is the most important cottage industry and is practiced in approximately 54 thousand villages throughout the country. The sericulture sector provides employment to about 6 million people, mainly in rural areas.

1.3.1.7 Handlooms

Handlooms constitute a timeless facet of the rich cultural heritage of India. The production of cloth by the handlooms sector during 2004-05 was 5722 million sq.metres and it increased to 6108 million sq.metres in 2005-06. It is expected to reach 6871 million sq.metres in 2006-07.

1.3.1.8 Handicrafts

The importance of handicrafts, in brief, can be said to be both cultural and economic. The sector at present provides employment to an estimated 63.81 lakhs artisans, of which 47.42% are females and 24.73% are SC/ST or backward minorities. The exports of handicrafts had increased from Rs. 15,616 crore (US $ 3.57 billion) in 2004-05 to Rs. 17,277 crore (US $ 3.90 billion) in 2005-06.

1.3.2 Issues concerning the various sectors

- Several textiles mills have closed due to the following problems:
- Excise Duty structure
- Low productivity due to lack of modernization
- Increase in the cost of inputs
- Inability to expand in the export market
- Shortage of timely and adequate working capital
- The processing sector too has not developed sufficiently to cater to the increasing processing requirements in the clothing industry. The main problems are:
- High fragmentation of the industry
- Environmental issues concerning the type of chemicals used
- Lack of modern infrastructure and R& D inputs
- The cotton fibre industry needs to improve in terms of the market infrastructure, R&D, dissemination of technology to farmers and modernisation of the ginning and pressing factories. The decline in production of man-made textiles is mainly due to the non-availability of raw material (polyester) at international prices, because of the high customs duty on import of polyester.
- Overall, the production of man-made filament yarns is expected to increase. However, better policy measures need to be undertaken to improve the supply of raw material and also to increase capacity utilisation. The quality of cotton needs to be improved through use of better technology in ginning and investment in R&D.

- Expansion to scale issue because of archaic labour laws
- High transaction costs
- Technology gaps
- High power tariffs with uncertain power supply
- Lack of credit availability & lack of market awareness
- The indigenous production of fine quality wool required by the organized mills and the decentralized hosiery sector is very limited. The country depends largely on import, Australia being the major supplier. Hence, possible investment in this area needs to be made. Further investment in capacity building needs to be done in the woollen industry, especially for apparel grade wool.
- Domestic silk manufacturing capacity needs to be increased to reduce dependency on imports. For this further investment would be required in this sector.
- Shortcomings of the handlooms industry include obsolete technology, credit deliveries, an unorganised production system, low productivity, inadequate working capital, a conventional product range, weak marketing links, overall stagnation of production and sales.
- The critical areas of improvement in the jute sector include research and development, technology upgradation, creation of infrastructure for the storage, marketing of raw jute, and product and market development activities for jute and diversified jute products.

What is new is perhaps the steep appreciation of the INR during the last few months. The Rupee has appreciated by about 10% against the Dollar, during the last two months. Among our major competitors, Sri Lanka, Bangladesh and Vietnam saw the depreciation of their currencies during this period and countries like China and Indonesia had negligible currency appreciation.

During last few months, Chinese Yuan appreciated by 3.5% and Mexican Peso less than 1%. In fact, the currencies which depreciated considerably include Pakistan (1.3%), Sri Lanka (5.5%), Indonesia (2.3%) and Taiwan (2.26%).

The Impact of the appreciating Rupee has been most severe on the textiles sector for the following reasons:

- Unlike other sectors the import intensity as compared to export intensity in the Textiles and Clothing sector is very low (Less than 3%).
- The growing competition from low cost suppliers like China, Bangladesh, Vietnam, and Indonesia has put severe pressure on prices.
- The rising cost of power and other utilities is severely constraining competitiveness.
- The rise in interest rates is resulting in a slowdown in capacity expansion and modernization programmes.
- Existing contracts, negotiated for deliveries during the months April-August 2007 are being cancelled, and exporters are facing severe losses.

Consequently urgent corrective measures need to be taken by the Government to arrest the strengthening of the Indian Rupee against the US $, failing which its impact on the textiles and clothing sector will become irreparable. The following consequences will ensue:

- Projects approved under the Technology Upgradation Scheme (TUFS) will slow down in commission.
- Fewer new Investments likely in the sector as projects would become unviable.
- Slow down in production and exports, resulting in loss of jobs.
- Additional employment will not be created.
- Imports of cotton will rise, thereby could adversely affecting to production, procurement and the livelihood of farmers.

1.3.3 Economic Analysis

The recent continued buoyancy in the Indian economy coupled with flap in the current US economic situation has resulted in the appreciation of the rupee. the US $ has dipped against all major currencies of the world except the Japanese Yen. The Indian economy has seen a spate in FDI, FII and the investment in the services leading to massive inflow of foreign exchange, convertibility of which has fuelled the inflationary trends in Indian market. At the macro level the Government's concern is more focused towards controlling the inflationary trends rather than boosting exports. Empirically the rupee appreciation phenomenon in the past has always seen the surge in exports from the country. Moreover the impact of the currency appreciation of a domestic economy for net importing countries (balance of trade in favour of import) is always positive for the regions of fluctuating Dollar value and its convertibility. India being a net importing country ensures a higher return for the economy as a whole. On a secondary economic play, it is a matter of export-import juxtaposition in terms of content of exportable product which is mainly driven from imported commodity ratios; there are sectors like gems and jewelery, mineral oil, automotives which stand to gain wherein our forex outgo could be limited. In the current scenario as it is noted the net impact would be:

- The profit margins would certainly go down
- With the environment of competitive supplier countries whose currencies have appreciated at a lower level than that of India, our products will become costlier
- The stock-in cost of our suppliers will go up

In course of time the input cost of the industry will go down, because of lower cost on crude oil and other imports of raw material.

1.3.4 SWOT Analysis of Indian Textile & Apparel Industry

Strong	**Weaknesses**
Strong cotton base Strong entrepreneurial class Flexibility in production of small order lots Presence of integrated i.e. concept to consumer. Ability to handle value additions, embellishments etc. Adequate labour supply at relatively competitive wages Good "cultural" comfort with US and Europe Growing Domestic Market	Poor work practices resulting in higher labour cost component in many staple garments, in spite of low labour costs Rigid government labour policy and lack rationalization of duties in MMF. High transaction and power cost Too much emphasis on cotton, synthetic fibre base not equally developed Fabric/processing still to gear up to meet international standards Technological obsolescence and lower efficiencies A lack of strong linkages between raw material supplier and the apparel manufacturer. Highly fragmented, unit production capacities very low in international standards
Opportunities	**Threats**
Quotas carried on in China after 2005. Good political equation with EU and US. Improvements in infrastructure and regulations. Research and product development Buyers preference for India, after China Understanding buyers need because of language advantage	Rupee appreciation in last few months. Trade blocs and partnerships at the exclusion of India. Location disadvantage: long transit time to key markets. Pricing pressure, following opening up of quotas Enhanced competition from other countries similarly constrained by quotas.

1.3.5 Action Areas

Indian textile and apparel industry need to move forward with greater sense of urgency and purpose. Currently, India's total textile industry market size is only one-fourth of that of China and to bridging this gap requires concrete planning and implementation. The following steps need to be taken in this direction.

- India must emulate China by taking advantage of its cheap, hardworking, and low-skilled workers to compete better in world markets in the labour-intensive textile market.

- The Government needs to take a planned policy decision to close down non-competitive manufacturing units.

- The Labour laws pertaining to the textile industry need to be re-Iooked, as the present stringent labour laws act as a deterrent for firms planning to expand / enter.

- A corpus of an investment fund (perhaps in the range of US $ 6-7 billion or about Rs 25,000 crores to start with as against total required investment of Rs 194,000 crores) should be created as seed capital/promoters equity for starting or expanding large textile manufacturing businesses in partnership with existing Indian textile and other businesses/entrepreneurs. This initial funding will assist in the capital formation urgently required by India to achieve export target of US $ 50 billion.

- The Government needs to provide substantial incentive to textile machinery manufacturers and other consultancy/service providers to establish operations in India. Fortunately, India enjoys good reputation internationally for its engineering skills. Hence, a major attraction for European and Japanese textile and clothing equipment manufacturers to set up shop (and R & D bases) in India.

- The Indian industry needs to start thinking big, and make serious efforts for making high value acquisitions overseas. This would be the fastest way to get direct entry for value added products in the competitive European, US, and Japanese markets. Partnerships with European and US design houses, and other product development/R & D entities will also be essential in this regard. However, while the size of such deals may appear daunting, it must be kept in mind that India is still perceived as one of the likely winners in the post MFA era. Hence, finding lenders/investors from overseas willing to partner with the Indian companies planning to make such acquisitions should not be too difficult.

- FDI in textiles need to be encouraged in a big way. In the last 5 years Foreign Direct Investment in India has been far less as compared to China–US $ 100 million in India vs US $ 40 billion in China. India must make it easier for foreign companies to invest.

Additionally, the following areas of concern need immediate attention:

- Setting up of design centres to encourage design and product development
- Infrastructure
- Current levels of Productivity and efficiency
- Climate for large scale investment.
- Training facilities all across India
- Creation of new management institutes for textiles and apparel
- Brand India and Market exploration and promotion
- Institution for data collection at industry level.

1.3.6 Initiatives by Ministry of Textiles

In view of the above, it is conclusive that the Indian Textile and Apparel industry is faced with higher input cost as compared internationally.

These higher input costs are broadly on account of the following:

- **Higher fiscal regime**: The fiscal regime has been made favourable in the last two to three years. However, many issues still remain unattended such as BCD and excise duty on man-made fibres and filaments, technical textiles raw material, textile machinery etc.

- **Rigid labour laws**: The existing legal environment for the labour laws has been a problem for the textile industry, mostly on account of scarcity of skilled manpower. In consultation with the industry, the Ministry of Textiles has prepared a detailed road map for skill development for the sector.

- **Excessive transaction cost**: As per the latest survey by the EXIM Bank, the textile and apparel sector suffers on account of high transaction cost to the level of 10%. The latest EXIM Policy by the Department of Commerce has in principle agreed to refund the service taxes paid for domestic and exports and is in consultation with the DOR for finalizing the modalities.

- **Insufficient infrastructure**: The Ministry of Textiles has been continuously promoting the cluster approach for focal development of high level infrastructure through APE and ITP Schemes, in addition to MOC's Schemes of EOI and SEZ. In addition, the 11th Plan mandates for 50 additional parks with specific emphasis on export oriented sub-sectors.

- **Technology gap**: Technology has been one of the biggest hurdles for the Indian Textile and Apparel industry. In recent years the infusion of TUF Scheme led investment has given a boost to the sector. It is suggested to continue with TUFS and increase the bandwidth of the scheme by adding more industries like Textile machinery manufacturing.

In addition to the strengthening input mechanism the current international scenario demands active intervention in market expansion strategy through multilateral/bilateral negotiations.

Our future strategy has to be two fold in terms of market expansion; i.e., exploration of new markets as well as expanding the basket of product offering. The new initiatives like brand development, common code compliance, textile policy etc. needs to be operational at the earliest in addition to attending to PTAs and FTAs seriously.