

EXIM BANK: RESEARCH BRIEF

Indian Textiles and Clothing Industry in Global Context: Salient Features and Issues



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INTRODUCTION

The textile industry has an overwhelming influence in the economic development of India, and is the second largest employer after agriculture. Through its contribution to the industrial output, employment generation and export earnings, the industry plays a very important role in the Indian economy. Currently, the industry contributes about 14 percent to industrial production, 4 percent to the GDP, more than 12 percent to the country's export earnings, and provides direct employment to over 35 million people.

RAW MATERIAL BASE

One of the key advantages of the Indian textile industry is abundant availability of raw material. Indian textile industry is multi-fibre based, using cotton, jute, wool, silk, man-made and synthetic fibres.

Cotton is one of the major raw materials for the Indian textiles industry. India is the second largest producer of cotton in the world, has the largest cultivated area of over 9 million hectares, and accounts for around 20% (5 million tonnes) of global production (over 25 million tonnes). The performance of the cotton sector has been increasing over the years and during the cotton season (Sept-Aug) 2007-08, the output recorded was 310 lakh bales (170 kg each).

In the world silk production, India is a distant - second largest producer, with a share of around 15%, next to China, which holds a share of 82% in the world. With a total silk production of around 18,500 MT in 2006-07, India has the distinction of producing all varieties of silk, viz; mulberry, eri, tasar and muga.

Mulberry accounted for nearly 90% of total silk production in India.

India is the 7th largest producer of raw wool in the world accounting for little over 2% of the world production, with about 4.2% of the total sheep population. Although the woolen textile and clothing industry is relatively small, compared to the cotton and man-made fibre based textiles and clothing industry, yet the woolen sector plays an important role, as it is linking the rural sector with the textile manufacturing.

India is the largest producer and consumer of raw jute in the world. During the period April-February 2007-08, India imported raw jute valued US \$ 31.6 million (over 119,000 tonnes). Export of jute products (including floor coverings) from India was around US \$ 257 million in 2006-07, which has reached to US \$ 296 million, for the period April -February 2007-08.

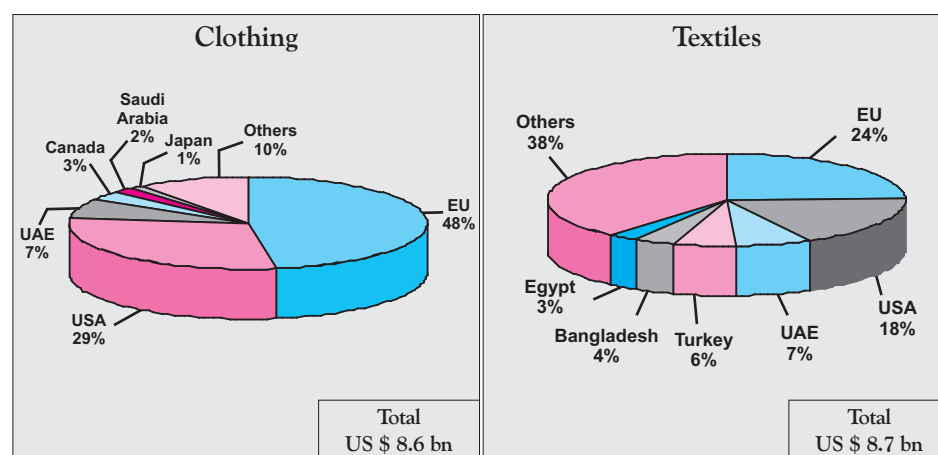
The man-made fibre industry comprises fibre and filament yarn manufacturing

units of cellulosic and non-cellulosic origin. The production of man-made fibres in India has shown an increasing trend in 2007-08, a growth of around 10% over the previous year. India also imports man-made fibres and synthetic & regenerated fibres for processing and value addition. In the year 2007-08, during the period April-February, India's imports of man-made filament and spun yarn amounted to US \$ 578 million, and India's import of synthetic and regenerated fibres amounted to US \$ 100 million.

PROFILE OF TEXTILE SUB-SECTORS

As of December 31, 2007, there were over 1,700 cotton-fibre and man-made fibre textiles mills (non-SSI) in the country with a capacity of around 35 million spindles, and around 0.5 million rotors. India's organized mill sector produced about 4000 million kgs of yarn and over 1700 million sq.mtrs of cloth.

India's Major Export Destinations for Clothing and Textiles (Apr-Feb: 2007-08)



Source: Directorate General of Commercial Intelligence & Statistics

The powerlooms sector provides a wide variety of cloth, both grey as well as processed fabrics. As on January 31, 2008, there were 20.83 lakh powerlooms distributed in over 4.64 lakh units, constituting over 60% of the global powerloomage. The handlooms sector has been playing an important role in creating an awareness of the Indian cultural diversity and fashion, which is unique. The handloom cloth production was over 7000 million square metres in 2007-08.

The clothing sector is fragmented and predominantly in the small and medium sector. It is estimated that there are over 13,000 apparel units (excluding tailoring units) in India, majority of which are in the SME sector. India's exports of ready-made garments, consisting of cotton, silk, man-made fibres, wool and other textile materials showed a marginal growth in the year 2007-08.

EXPORTS

Value of textile exports from India, including clothing, was worth US \$ 17.3 billion, during April-February 2007-08. Textiles (including carpets) accounted for US \$ 8.7 billion, and the balance US \$ 8.6 billion was accounted by clothing. As per the data collated by WTO, for the year 2006, India accounted for 4.3% of total world export of textile products, and in the clothing segment India's share was 3.3%. European Union and USA are the major destinations for India's textile and clothing exports. Other major destinations include: United Arab Emirates (UAE), China, Bangladesh, Saudi Arabia and Japan.

MARKET ANALYSIS AND INDIA'S POSITION IN EU & USA

European Union

In the EU market, in 2007, growth in imports from China was 14% as compared to the 3.7% growth in imports from India. Even imports from other Asian countries such as Vietnam (11%), Sri Lanka and Pakistan (around 7% each) have also been impressive. In the first quarter of 2008 (January-March), import growth in EU market was around 12%. However, the role of developing economies from Asia in

catering to this level of import growth has come down during this period. Except the imports from Sri Lanka and Vietnam (which grew at 13% and 7% respectively), and Bangladesh with a marginal growth of 0.6%, growth in imports from other countries, including that of China and India were negative (-0.7 and -1%, respectively).

In some product groups India has improved its market share in EU market, while in others it has lost its market share to some other competitors. In men's and boys' garments segment, India has improved its market share under HS codes such as 6205 and 6105; in babies garments segment, India has improved its market share under HS codes such as 6111 and 6209; in home textiles segment, India has improved its market share under HS code 6305; and in made-ups, India has improved its market share under HS code 6214. India's position and market share is unchanged in product sub groups such as men's and boys' garments (falling under HS codes 6201, 6107, 6203), women's and girls garments (falling under HS codes 6202, 6108, 6102), home textiles (falling under HS codes 6302, 6303), technical textiles (falling under HS codes 5911, 6116), and woven fabrics (falling under HS codes 5208, 5209, 5515). India's position has been captured by China under HS code 6206 (women's and girls garments), under HS code 6306 (technical textiles) by Bangladesh, and under HS code 6307 (made-ups) by Turkey.

USA

Textiles and clothing market in USA has grown at a CAGR of 3.3% since the elimination of quotas. However, during January-May 2008, the imports of textiles and garments by USA have been witnessing slowdown. Over the years, China, Vietnam and Bangladesh have improved their market share in USA. Other countries such as India, Pakistan and Italy have more or less retained the market share, while countries such as Mexico, Honduras and Canada from the Americas region have lost the market share. However, in the year 2008 (January-May), China has lost 3% market share; the gainers during this period include India (by more than 1%), followed by Vietnam (by less than 1%) and Indonesia and

Bangladesh (by about 0.5% each).

It may be noted that India's gain emerged mainly from export of non-clothing products. During January – May 2008, under the clothing segment, China, Indonesia and India witnessed negative growth, while Vietnam (27%) and Bangladesh (over 6%) witnessed positive growth. Under the non-clothing segment, the growth in imports from India has improved to 9%, while that of China has slowed down to 7%, and Pakistan witnessing a negative growth (of - 6%). Growth in imports of cotton textiles and products from India have improved (12%) during the period January-May 2008, as compared to China (which has posted a marginal growth of 7.5%) and Turkey (which has posted a negative growth of -22%). However, India's export of woolen textiles and silk textiles has witnessed negative growth (of - 5% and -24% respectively).

CHALLENGES AND STRATEGIES

Challenges

Impact of Rupee Appreciation on Exports

One of the recent challenges faced by the Indian textiles and garments sector was the sudden appreciation of Indian Rupee vis-à-vis US dollar in 2007-08. This has slowed down the growth momentum of textiles and clothing industry in India. Though, the growth trends in US dollar terms is not very much affected during the period April-February 2007, in Rupee terms, exports witnessed negative growth rate with regard to both textiles (-0.6%) and clothing (-4.8%). While appreciation of Indian Rupee adversely impacted the export price realization of Indian exporters, the competitiveness of Indian textiles and clothing in international markets have been gradually eroded with depreciation of competitor currencies, vis-à-vis US dollar. However, in recent months, since April 2008 onwards, Indian rupee has been depreciating against US dollar which may have a positive impact on textile exports.

Increasing Capacity Expansion in Asia

According to International Textile Machinery Manufacturers Federation

(ITMF), the general expansion of global textile machinery shipments, which is being observed in the last four years, have continued in 2007 also. Though, India had shown capacity expansion in some segments of textile machinery, compared to China, it is not significant. India, thus, needs to further improve its capacity to be more competitive as a global player.

Environmental and Social Issues

The rising ecological and social awareness has resulted in increasing buying conditions imposed by the buyers on the Indian textile and clothing industry to follow international labour and environmental regulations. The issues include polluting dyes, deployment of child labour and unhealthy working conditions. Sourcing firms are undertaking surprise checks in the manufacturing premises and tighten the vigilance level to prevent violation of such social standards in future. The buyers are also seeking from the vendors to submit a plan giving extensive details about every sub-contracted facility, as also the internal monitoring protocols to implement the vendor code of conduct.

Fragmented industry

The textile and clothing industry in India is a fragmented one with large number of players, which hampers its ability to emerge as a world-class supplier. Also, very few players have integrated their operations. Global buyers prefer to buy from a few large vendors at competitive cost. The disintegrated nature of textile and clothing value chain in India hampers the chances of securing large orders as also achieving the economies of scale.

Cost Competitiveness

With regard to cost of production, India fares well in labour cost advantage in the textile sector; however, the cost of power and other operating expenses in Indian textile sector is greater than many other developing countries. Labour cost in Indian clothing industry has grown since 2000. The labour costs of Bangladesh, Pakistan and Vietnam are far below than the labour cost in India, posing competitive threat to the Indian clothing industry.

Rising Input Prices

There has been a continuous increase in input prices in the textile value chain

leading to cost escalation in production. For example, raw cotton prices in the month of July 2007 were around Rs. 55.57 per kg, which has increased to Rs. 65.10 per kg in May 2008. Prices of cotton lint, which was prevailing around Rs. 15,000 per candy in June 2007 has moved up to Rs. 24,600 in June 2008. Similarly, the price of viscose staple fibre, which prevailed around Rs. 108.24 per kg in July 2007 has increased to Rs. 119.59 per kg in May 2008.

Skewed Fibre Mix in India

At present, in India, the fibre mix of textile industry is skewed towards cotton; about 75% of yarn production in India is cotton based. On the other hand the fibre mix in the world is estimated to be 60% of man-made fibres and 40% of cotton.

Strategies

Technology upgradation

The industry needs to undertake innovations and product development and strategies that would enhance efficiency in production, supply chain and product distribution. However, at present, the Indian textile industry is having technological obsolescence and sub-scale operations. Indian textile industry should turn into hi-tech mode to reap the benefits of scale operations and quality. The Technology Upgradation Fund Scheme (TUFS) has a major role in strengthening the technology upgradation effort of the Indian textile and clothing industry.

Scale and Integration

Internationally, trading in textile and clothing sector is concentrated in the hands of few large retail firms. Majority of them are looking at new vendors with bulk orders and opting for vertically integrated companies. Thus, there is a need for integrating operations in Indian textile and clothing industry also, from spinning to garment making, to gain their confidence. Besides, integration of operations from weaving to garment making would ensure quality and facilitate undertaking of large orders at low cost. Such integration would also bring down turn-around time and thus help the firms to stick to the delivery schedules.

Innovation and Product Development

Manufacturers are increasingly differentiating their products through innovations and product development. One UK mill has developed a new moisture management fabric for sportswear using plaited polyester. Inventions are also happening in the processing stage. An US firm has developed a software programme that corrects garment manufacturing measurements to allow for shrinkages. Another area that has potential for innovation is manufacturing of technical textiles. This segment is different from the conventional fibre to fashion value chain. Inventions and product development in the technical textiles would help India capture niche position instead of competing with other Asian developing countries such as Vietnam and Bangladesh, in the garmenting business.

Soft Skills

Indian players need to recognize the increasing role of soft skills in international trade. It is necessary to develop management, administrative and negotiation skills with specific reference to clothing trade. Further, Indian players should also enhance the design skill and capabilities to add value to the products. Indian firms should constantly track the fashion trends and adapt suitability to the changing tastes of the consumers.

Labour Laws

There needs to be changes in the labour laws especially the contract labour laws as it would be difficult for players to keep the workforce full time. Countries such as China, Bangladesh and Sri Lanka have allowed contract labour in textiles industry. India, thus needs to change the labour laws to suit the exigencies of the textile value chain so that the labour force engaged are used much more productively.

Logistics and Supply Chain

Logistics and supply-chain would also play a crucial role, as timely delivery would be an important requirement for success in international trade. The logistics and supply chain management in Indian textile and clothing industry is relatively less oriented, in both backward and forward linkages. Indian industry needs to effectively invest in logistics and

supply chain management to execute the export order well in time and at low transaction cost.

Role of Exim Bank in Development of Indian Textile and Clothing Industry

Exim Bank has been closely associated with the export efforts of Indian textile and clothing industry, in its entire value chain. Bank has been helping units in the textile value chain starting from spinning, weaving and processing to garment making. Bank has helped some of the companies to invest in overseas ventures for manufacturing and marketing, under its Overseas Investment Finance programme. The Bank's support under this programme include acquisition of a large European company engaged in technical textiles and acquisition of textile retail chains by Indian firms, in Europe and USA that helped them to position in the high-value market place, as also reach to the brand value. In addition, the Bank, through the commercial bank network has supported a number of small units under its refinance programme.

Exim Bank is one of the nodal agencies identified by the Government of India under the Technology Upgradation Fund Scheme (TUFS), to establish and approve the eligibility of the projects and release subsidy directly to the approved projects. As of March 31, 2008, the Bank has accorded approval for 148 projects with aggregate cost of Rs. 9455 crores. Loans approved and disbursed aggregated to Rs. 2780 crores and Rs. 1866 crores, respectively. The Bank's assistance under TUFS to the textile industry has been spread across various segments in the textile manufacturing, and covers several states in India

Focus on Technical Textiles

The growing middle class population and the rise in income of households are major drivers of growth for the technical textile industry in India. Also the developed

economies such as US and Europe are witnessing growing consumption of technical textiles since the last few years. Meditech, Geotech, Agrotech and Protech are the four major sub-sectors of technical textiles, that could be considered as niche growth areas, in view of increasing competition in clothing segment (from Bangladesh, Sri Lanka and Vietnam), and home textiles segment (from Turkey and Pakistan).

Brand Promotion

Brands play an important role as they assure consumers that the products are of certain quality, durability and conform to several social, environmental and durability standards. USA and Europe are entirely dominated by various global brands and many Indian exporters are merely suppliers to such brands. It has been estimated that the final retail value of the clothing products sold to consumers in the export markets are 5-10 times higher than its factory price, which shows that India is actually losing a significant amount of earnings from brand value. Brand promotion is therefore the best way of market penetration, which would help increasing the export earnings. Acquisition of brands by Indian companies is another strategy that maybe considered.

Ecolabelling

Ecolabelling is emerging as one of the key requirements for global competitiveness of textile and clothing industry. Through such third party accreditation or certification, companies adhere to comply with the environmental standards, quality standards and social standards. Some of the major global eco-labels for the textile and clothing industry include Oko-Tex, MST Label, ELTAC Label, Eco-Tex, etc. Indian textile and clothing industry, a fragmented industry having lot of small-scale units in the value chain, requires support from the Government or industry associations in achieving eco-labeling standards.

IN SUM

Globally, the Indian textile and clothing industry holds a competitive advantage with abundance of raw materials, strong production base, low-cost and skilled labour and strong design capabilities. The Government has also been extending immense support to this sector. Also the growth drivers for the industry are well established with the growth in the domestic market driven by a large young population, rising household incomes and increasing consumerism. The growth drivers for the industry in external markets include large fibre-base, presence in entire value chain-including niche segments, and cost competitiveness.

However, India needs to concentrate more on improving its technology and integration of industry. Apart from these, it needs to strengthen and develop its supply chain, soft skills and infrastructure. The long-term outlook of the Indian textile and garment industry is favourable and it would be in a position to achieve strategic position in global market place, through proper implementation of appropriate strategies.

The contents of the publication are based on information available with Export-Import Bank of India and primary desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information.

Note: Indian Rupee are referred in crore and lakhs:

1 crore : 10 million

1 lakh : 100 thousand

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