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Indian Apparels – A Sector Study

The Indian readymade garments/apparel industry is the largest segment in the Indian textile and apparel industry. The sector is characteristically unorganised and segmented. As per the Annual Survey of Industries (ASI) 2017-18, there were 10,498 factories engaged in the manufacturing of apparel. These factories are divided into three categories, namely, manufacturers of wearing apparel (except fur apparel), manufacturers of fur apparel and manufacturers of knitted and crocheted apparel[1]. There are huge number of small manufacturers in this sector, making it difficult to arrive at a formal size of apparel industry. Most of the production happens in clusters and major clusters are located in Bangalore, Delhi NCR, Kolkata, Ludhiana, Mumbai, Tirupur, and other cities. As per a study by the Apparel Export Promotion Council (AEPC), 95% of the total apparel production takes place in the top 19 clusters.

The Indian Apparel industry is integrated into global value Chains (GVCs). The integration is of two types: supplying to the European Union (EU) and the United States of America (USA); and supplying to the Middle East market (to cater to South America).

While the Indian apparel industry continues to remain a significant supplier to world apparel markets, in the recent years, the industry is faced with heightened competition from the traditional as well as emerging apparel supplying countries. Besides competition from China, which is the leading supplier, apparel products from India are increasingly facing competition from Vietnam, Indonesia, Bangladesh and Turkey.

With the advent of new trade models, such as e-commerce, greater integration of global value chains and changes in consumer and market preferences towards ethical and sustainable apparel, the industry is exposed to increased vulnerabilities in trade. It is thus, important for the industry to revisit its potential as a global supplier and address its limitations and challenges to capture the emerging market opportunities.

Indian Apparel Industry

The Index of Industrial Production (IIP) (base year 2011-12), for wearing apparel has registered a positive y-o-y growth since January 2018, but came in the negative growth territory during October 2019 with y-o-y growth of (-) 2.8%, and since then continued to register a negative trend until recently. The IIP witnessed a y-o-y fall of 40% in March 2020, followed by 94% fall in April 2020. This dip was due to the imposition of stringent lockdown norms during the COVID 19 pandemic. The index slowly started picking up in the following months, with ease in the lockdown norms.

The FDI equity inflow in the textile and apparel sector during April 2000 to September 2020 was estimated at US$ 3,464.1 million, which was 0.7% of the overall FDI equity inflow in India. Total outstanding credit from bank and financial institutions to the textile and apparel industry in India was estimated at ₹1924.2 billion at the end of financial year 2019-20, which equals to 6.6% of total outstanding credit to all industries for the year 2019-20.

In terms of trade, India has been a net exporter of apparel, having a trade surplus. The export of apparel[2] by India was estimated at US$ 16.5 billion in 2019, registering a y-o-y growth of 5.4%. Apparel exports registered a CAGR of 5% during 2010 to 2019. Garments of cotton including accessories were the highest exported item, with an estimated export of US$ 8.6 billion in 2019-20. It was followed by readymade garments of manmade fibres with an estimated export of US$ 3.5 billion in 2019-20.

Top five export destinations for India's apparel export contributed to around 59.1% of total apparel export from India in 2019. The USA was the largest export destination for Indian apparels, with an estimated export of US$ 4.4 billion in 2019, accounting for a share of 26.7% in India's apparel export. Other major export destination includes the UAE (11.5%), the UK (9.7%), Germany (6.4%), Spain (4.7%), and France (4.5%). The import of apparel by India was estimated at US$ 1.14 billion in 2019, registering a y-o-y growth of 7.5%. Apparel import registered a CAGR of 23.2% during 2010 to 2019. Bangladesh is the largest supplier of apparel to India.

Global Apparel Industry

The global market for apparel manufacturing was estimated at around US$ 898.3 billion during the year 2019[3], which was expected to reach around US$ 950 billion by 2020. Due to the global impact of COVID 19 pandemic, the expected market value is anticipated to have altered and the overall market for apparel is projected to witness a downward trend during 2020. The global apparel manufacturing market witnessed a CAGR of 5.3% during 2015 to 2019. The Asia-Pacific region accounted for around 64% of the total market for apparel during 2019. European aggregation accounted for around 30% of the market. Western Europe, China, the USA and India were the top contributors to the revenue in the global apparel market during 2019.

[1] Ministry of Textiles, Government of India

[2] HS code 61 (Articles of apparel and clothing accessories, knitted or crocheted) and 62 (Articles of apparel and clothing accessories, not knitted or crocheted)

[3] Market Line

The global textile and apparel export was estimated at US$ 821.3 billion in 2019. Apparel and clothing accessories (HS 61 and HS 62) had a combined share of 57.8% in total textile and apparel exports during 2019[4]. China is the largest exporter of apparels with exports worth US$ 138.2 billion in 2019, accounting for a share of 29.1% in the total global apparel exports, followed by Bangladesh with a share of 8.5% (US$ 40.4 billion) in the total global apparel exports. Vietnam was the third largest exporter of apparels globally in 2019 with a share of 7.0% (US$ 33.3 billion) in global apparel export. Other major apparel exporters during 2019 include Germany (5.0%), Italy (5.0%), India (3.4%) and Turkey (3.3%). Globally, the HS code 610910 which includes T-shirts, singlets and other vests of cotton, knitted or crocheted, was the most exported item with exports worth US$ 31.1 billion in 2019. Bangladesh was the top exporter in this segment with a share of 19.2% in total global exports in the segment during 2019, followed by China (12%) and India (6.3%).

The USA was the largest importer of apparel with an estimated import of US$ 87.5 billion in 2019 and a share of 20.1% in the total global import of apparel. Germany was the second largest importer of apparels with an estimated import of US$ 39 billion in 2019, accounting for 9% of the global apparel import. Other major apparel importing countries during 2019 included Japan (6.4%), the UK (5.7%), France (5.5%) and Spain (4.5%). The major apparel importing countries witnessed a downward trend, with six out of the top ten importers in 2019 witnessing a negative growth rate.

Asia has emerged as the apparel supplier to the world. While China continues to dominate the global apparel supply chain, consequent to rising labour cost in China, apparel manufacturing is steadily shifting to other low-cost countries in Asia, such as Bangladesh, Vietnam, Indonesia, Cambodia and Sri Lanka. India too appears in the list of leading Asian suppliers; however, the country is facing intense competition from the emerging Asian competitors, resulting in a loss of share in the global markets.

Market Access Arrangements

India has several trade agreements, however, only a few are relevant with respect to trade in textile and apparel products as majority of the countries covered by these arrangements are not significant importers of textile and apparel products. The key importers of apparel products globally are the USA, the EU, the UAE, South Korea, Japan and China. India's major trading partners in apparel products are the USA, the EU and the UAE. India does not have free trade agreements (FTAs) with its key apparel import markets. Unlike India, all major apparel exporting countries have trade agreements with the leading importing countries, particularly the USA and the EU, allowing them tariff free preferential access to the markets. India has a GSP status from the EU; however, the utilisation rate of the status by India for apparel exports to the EU has been low. Apparel exports to the EU and the USA are subjected to high autonomous tariff; however, competitor countries under various trade agreements have the benefit of zero or preferential tariffs. This has put Indian apparel manufacturers into a disadvantageous position in these markets. Though India has established trade agreements with South Korea and Japan, the gains have not been significant as they are competed by other bilateral and multilateral trade agreements signed by the two countries with other peer countries of India in the sector, such as with Vietnam, Bangladesh, Turkey and China. India's trade agreement with the Association of South East Asian Nations (ASEAN), has also not been able to render significant gains in apparel trade with member countries. A product-wise analysis of apparel products traded between India and the member countries with whom India has FTAs reveals that: only in few products India has been able to expand its trade in these markets; diversification of products in these markets has been low in the case of India; India has been lacking consistency in supply to these markets; India also has been facing steep competition from emerging apparel suppliers, such as Bangladesh and Turkey. Lack of uniformity in Rule of Origin (RoO) across the trade agreements of India has also emerged as a limiting factor in enhancing trade in apparel products. Impact of this discriminatory RoO is particularly felt in case of the Agreement on South Asia Free Trade Area (SAFTA).

Challenges

In the recent years, dwindling exports, under-performance of the garment industry, cut-throat competition from new and emerging garment manufacturing countries, slacking approach of the industry to keep pace with the changing needs and developments of the global garment value chain, and changing dynamics of liberalised trade are some of the deep drawn challenges faced by the Indian apparel sector.

Long drawn policy imperatives have restricted the garment sector largely to small scale units, discouraging large size enterprises from entering the sector. Though these policies have been phased out, the impact of the policies are still felt strong in terms of the sector's largely fragmented structure with limited economies of scale. This has been detrimental for the sector's overall growth and productivity.

Despite a liberal investment regime, foreign capital inflows have remained minimal in the Indian apparel sector largely due to poor quality of infrastructure, fragmented structure of industry, lack of congenial business environment, complex regulatory environment, high transaction costs, stringency in labour rules, and sectoral caps on FDI in the retail sector. The total FDI inflow into the textile and apparel

[4] ITC Trademap, includes HS Code 50 to HS Code 62

sector during April 2000 to December 2020 stood at only 0.7% (US$ 3,682.7 million) of the total FDI inflow in all industries[5]. Besides, a lack of synergy between the National Manufacturing Policy (NMP) and FDI policy is also cited as one of the reasons for low FDI inflow into the sector.

Differential taxation for yarn and fabric has also been detrimental to the sector's competitiveness and has been directly affecting the growth of the SMEs in the sector. Global trends in apparels have been a mix of 35:65 in favour of Manmade Fibre (MMF), whereas in Indian apparel sector, Cotton-MMF composition in textile for garmenting is 58:42. This sluggish adaptation of MMF in the Indian apparel industry has been largely due to limited availability of manmade fibres at competitive prices. Raw materials dominate the overall operating cost for the Indian apparel industry. Rising expenditure has been creating downward pressure on the profitability of the apparel companies.

Apparel trade from India has been subjected to a plethora of non-tariff barriers in various export markets, particularly labour, making them challenging in terms of cost competitiveness and compliance. The textile and apparel sector accounts for around 4.1% of non-tariff measures faced by all categories of exports in top destinations[6].

Export similarities with its competitors is also a significant challenge for Indian apparel trade. The Finger Kreinin Index (FKI)[7], which indicates similarities in exports, shows considerable similarities in products exported by India and its Asian competitors. The similarities have been rising over the years from 17% during 2009 to over 50% in 2019. An analysis of unit export prices of apparel products from India and its competitors to the world market shows that the export unit prices of major export items from Bangladesh are lower compared to India's unit price, largely due to its lower labour cost. Therefore, as export baskets are converging, apparel exports are also facing stiff competition in terms of prices.

Indian apparel industry has the largest workforce in Asia and one of the lowest productivity largely due to lack of adequate operational skills, inadequate management skills, poor production planning, insufficient performance assessment, limited machine efficiency, poor conditions for workers, domination of migrant labours exhibiting seasonal behaviour, and focus on low value-added production. Structural deficiencies of the industry, such as industrial fragmentation, small size, coupled with limitations of the clusters in terms of informal production scattered across the country results in the sector lacking competitiveness internationally. Additionally, lack of standardised labour norms across India also puts the apparel industry further into a disadvantageous position.

India's exports of apparel are also plagued by long lead time, most often cited due to delays in availability of quality raw material, requisite accessories, labour productivity and operational efficiency. Indian apparel sector is still struggling for "Right First Time" quality perspective. Rework and rejection rates are considerably high in Indian apparels compared to global standards and peers.

Recommendations

Trade facilitation: Policy reforms need to focus on WTO compliant export incentives to enhance integration of domestic value chains with global value chains, reduce distortions and aid exports. To minimise any supply side shocks, trade policy in addition to downstream segments should also emphasise on upstream segments that include cotton, yarn, cotton blended yarn and fabric, in which India holds traditional comparative advantage and enjoys substantial integration with global clothing value chains. To enhance competitiveness of Indian apparel products, policy options should explore neutralizing the effects of duty paid on imported inputs. This may require policy makers to undertake a comprehensive mapping of imported inputs used in apparel. There is a need to consider revamping the Scheme for Integrated Textile Parks (SITP), to develop the SITPs in relevance to the global apparel value chains. Policy makers may consider linking the benefits availed under the Mega Textile Regions and Parks scheme (MITRA) launched recently, with a set of performance parameters to ensure judicious use of the subsidies and funds, and with adequate assessment of WTO compatibility of such provisions. To enhance competitiveness of the SMEs in the industry, a fund may be created for upgradation of production system and facilitating wider marketing. A Production Linked Incentive (PLI) scheme may also be extended to the apparel sector particularly to boost those segments that are at a disadvantageous position in global value chain and trade, such as the knitting segment.

Revisiting FTAs: Configuring any multilateral trade deals should undertake a prior review and assessment of existing FTAs in terms of benefits to various stakeholders, such as industry and consumers, trade complementarities and changing trade patterns in the past decade. Negotiating bilateral FTAs with countries where trade complementarities and margin of preference are high may benefit India in the long run. Reducing compliance cost and administrative delays is extremely critical to increase utilisation rate of FTAs. Further, adequate safety and quality standards should be set to avoid dumping of lower quality goods into the Indian markets. Expediting finalisation of pending FTAs, such as

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[5] Department for Promotion of Industry and Internal Trade

[6] Exim Bank Study on NTB

[7] It ranges between 0 to 1. If 0, then the two structures are completely different; if 1, then the two structures are identical i.e. countries export the same products and with the same intensity

with the EU and the USA is critical for the apparel industry. Simultaneously, re-negotiating existing FTAs / partnership agreements and exploring market entry mechanisms are also vital for mitigating market concentration risks. Renegotiation of RoO under SAFTA should emphasize the inclusion of a 'Yarn Forwarding Rule'.

Addressing Standards: India's standard setting and monitoring institutions, such as Bureau of Indian Standards need to work closely with institutions concerned with standards. Harmonization of regulatory standards through Mutual Recognition Arrangement may be explored.

Streamlining Infrastructure and Logistics: To compete efficiently in the global apparel value chain, the sector requires significant overhauling in terms of relocating clusters with provisions of adequate expansions, technology friendly upgradation, reduction in dwell time, and offering ease of operations and management. Creating GVC friendly infrastructure needs to be emphasised by encouraging private investments in the sector.

Rejig Labour Laws: To enhance productivity and efficiency in the industry and improve competitiveness, there is a need to implement a uniform labour law across the country, with respect to wages and compensation, employment terms, working hours, and worker's conditions.

Procedural Simplification and Incentivising Sustainability: For ease of regulatory compliance for the industry and reducing compliance related lead time, there is a need to bring in clarity in compliance norms and simplify procedures. Encouraging self-regulation, inspection and certification may help in addressing delays in clearances and promote uninterrupted operations at the industry level.

Credit and Insurance Facilities: To address payment risks with recent trend of reduced trade in apparel using Letters of Credit (LCs), particularly in the developing country markets in Africa, Asia and the CIS, exports of apparel may be considered under commercial credit lines. The industry's demand of getting ECGC cover for pre-shipment risks (order cancellation) may also be explored particularly for the financially weaker exporters.

Recommendations for the Industry

Indian apparel industry needs upgrading at three levels, viz., product, process, and functional. The industry also needs to emphasise and invest significantly to adapt to Industry 4.0 requirements and migrate effectively to remain relevant in the global apparel value chain. Cluster development and productivity improvement may explore consortium-based initiatives.

Outlook

The global market for apparel was projected to grow over US$ 2 trillion by 2025, which is reported to have shrunk by 22%[8] during 2020 due to the pandemic. Global consumption of apparels is expected to reach pre-Covid levels over the next couple of years and then retrace its growth path to reach US$ 2,007 billion by 2025. Strengthening of regional supply chains is forecast to remain the dominant factor in the global apparel value chain.

While there are global cues of shift in China-centric sourcing of apparels by most of the importing countries, Indian apparel industry is forecast to not gain much due to its prevalent challenges. The Government of India has initiated several policy interventions to support the growth of the textile and apparel sector in the near to long-term. As the Indian textile and apparel industry re-organizes itself to overcome the economic impact of the COVID 19 pandemic, it will be imperative for the industry to uphold the social and environmental responsibilities, going forward. With several trade arrangements, such as RCEP anticipated to increasingly influence international trade in apparels, India's apparel trade is forecast to largely depend on the industry's agility and ability to diversify both in terms of product offering and markets.

[8] Wazir Advisors Analysis 2021

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