

REVIEW ARTICLE

An Overview of Indian Textile and Clothing Industry

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Abstract

The textiles and clothing industry occupies a very important place in the Indian economy in terms of its share in employment, value added and export earnings. The garments sector is undergoing significant expansion in recent years. India has the potential to increase its textile and apparel share in the world trade from the current level of 4.5 per cent to 8 per cent and reach US\$ 80 billion by 2020. Recently, Bangladesh has set up two SEZ for attracting Indian companies, and duty free trade between the two countries. The industry attracted FDI, which stood at USD 129 million in FY11. The export ban for cotton in India creates a restriction on textile industry as demand rises for the commodity in China which pushes up the prices, threatening India's textile makers. India's yarn production growth declines by 8.8% in May 2011. India is considering filing an official complaint against Egypt at the World Trade Organisation for "wrongful" imposition of penal duties on cotton yarn imported from the country. The Budget for 2013-14 has given a push for modernisation and expansion of the industry. TEXPROCIL has set up higher cotton textile exports target of 20 per cent in FY14. TEXPROCIL request Cotton Corporation of India (CCI) and NAFED to start selling their large inventory to remove the artificial shortage and restore international price parity which is important to help maintain export momentum. India's textiles and clothing industry is one of the mainstays of the national economy. It is also one of the largest contributing sectors of India's exports worldwide.

Keywords: Sez, Texprocil, Textile and Clothing Industry.

Introduction

The Indian textile and cotton industry contributes about 14 per cent to industrial production, 4 per cent to the country's gross domestic product (GDP) and 17 per cent to the country's export earnings. The industry provides direct employment to over 35 million people and is the second largest provider of employment after agriculture.

SEZ in Bangladesh

Bangladesh is planning to set up two Special Economic Zones (SEZ) for attracting Indian companies, and duty free trade between the two countries. The two SEZs are intended to come up on 100-acre plots of land in Kishoreganj and Chattak, in Bangladesh. Italian luxury major Canali has entered into a 51:49 Joint Venture with Genesis Luxury Fashion, which currently has distribution rights of Canali-branded products in India. The company will now sell Canali branded products in India exclusively. Fabric production rose to 60,996 million sq. meters in FY 2011. Production of yarn grew to 6,233 million kgs in FY11. Production of man-made fibre rose to 1,281 million kgs in FY11. India has the potential to increase its textile and apparel share in the

world trade from the current level of 4.5 per cent to 8 per cent and reach US\$ 80 billion by 2020 [1].

Investment and Industrial Growth

The industry attracted FDI worth US\$ 934.04 million between April 2000 and January 2011. FDI in the textile industry stood at USD 129 million in FY11. NSL Textiles has set up a textile processing facility at Chandolu near Guntur, Andhra Pradesh with an investment of US\$ 64.23 million. Indian textile and clothing industry has embarked on a vision of capturing market worth USD 110 billion by FY 2012 - total of domestic household consumption and exports, from USD 52 billion in FY 2006. The above growth would translate into value of production of the industry (including non-household consumption) to increase at 16% p.a. from USD 27 billion in FY 2005 to around USD 76 billion in FY2012 [2].

Cotton Exports

Short supply in local markets caused India to impose a ban on cotton exports - the second within just two years. Rising demand for the commodity in China pushed up prices, threatening India's textile makers. The export ban for cotton was

imposed with "immediate effect", a statement issued by the Indian Commerce Ministry. The decision taken by the ministry's Directorate General of Foreign Trade (DGFT) came in light of stagnant cotton production in India and spiking exports recently. India - the world's second largest producer of cotton after the United States - has already exported 8.5 million bales (1.4 million tons) in the current financial year, which ends in March. That is more than a government estimate of 8.4 million bales and well above the 7 million bales exported in the last financial year, ending in March 2011. The ban also comes in the wake of lower output estimates for India, seeing production fall to 34.5 million bales this year from 35.6 million projected earlier. In addition, demand has soared recently, driven mainly by factories in China, the world's largest textile manufacturer. The ban comes just six months after India completely freed cotton export controls. However, it's India's second stop of overseas shipments of the commodity within two years and likely to crimp global supplies and subsequently drive up market prices. [3]

Cotton Imports

India is now importing a large quantity of cotton using foreign exchange, and is creating a trade deficit in the economy. And, it does this after exporting large quantities in the same season just a few months ago. In the on-going cotton season (October 2011- September 2012), India exported 120 lakh bales, significantly higher than the Cotton Advisory Board's (CAB) estimated exportable surplus of 80-85 lakh bales. And now, together, the mills are likely to import more than 15 lakh bales. Domestic prices have firmed up and are currently higher than international prices. With deficit monsoon in many of the cotton growing areas, arrival of cotton is expected to be delayed next season that starts in October. Hence, the textile mills are entering into contracts for imports to ensure availability of cotton at a relatively lower price for the next two to three months. China, which is the largest producer, consumer and importer of cotton, has a strong data monitoring system. Each segment faces cost pressure as prices of all inputs, such as power and labour, have increased manifold. The government should, therefore, refrain from controlling or monitoring prices in any one segment alone. (*The Hindu*, August 6, 2012)

Growth of Cotton Yarn Drops by 8.8%

In the last 17 years, India's yarn production has increased 111% from 2.2 billion kg in the fiscal year ending March 1995 to 4.6 billion kg in the

fiscal year ending in March 2011. However, in current fiscal year 2011-2012, India's yarn production decreased 0.46% in April 2011 and dropped drastically by another 8.8% in May 2011. The decrease in overall yarn production was due to a big drop in cotton yarn production, which fell by 12.3% to 248.93 million kg in May 2011 from 283.69 million kg in the previous year. Cotton yarn makes up about 70% of India's total yarn production, followed by blended yarn at about 20% and non-cotton yarn at about 10%. According to the chairman of the Confederation of India Textile Industry, the sagging demand for cotton yarn forced spinning mills to cut cotton yarn production by about 33% in May 2011. The unsold stocks of cotton yarn and high-cost cotton led to losses for most spinning mills, resulting in closures and production cuts for cotton spinning mills throughout the country. Recently, leaders of various associations sought several solutions to prevent the crisis from worsening. These measures include reinstatement of drawback facility on cotton yarn exports, withdrawal of the excise duty of 10.3% on garments, as well as other actions to be taken by the government. [4]

Egypt's Safeguard Duties

India is considering filing an official complaint against Egypt at the World Trade Organisation for "wrongful" imposition of penal duties on cotton yarn imported from the country. Egypt is the fourth largest market for Indian cotton yarn after China, Bangladesh and South Korea, and the additional duties ranging between 13 per cent and 14 per cent has affected the industry's competitiveness. Egypt imposed safeguard duties – a levy to check surge in import of a particular commodity causing disruption in the local market – on cotton yarn from India last July. India has argued that its cotton yarn imports to Egypt have not surged or disrupted the local market and there is no justification for the safeguard duties. (*Business Line*, 2013)

Texprocil Expects 20% Growth in Exports

The Cotton textile exports are expected to gain double digit growth this financial year. Last year's exports were US\$ 8.42 billion and it is expected to be US \$ 9.56 billion for the current financial year. The yarn export is estimated to grow at 8 per cent, fabrics 9 per cent and home textiles 10 per cent in FY 13. The council (TEXPROCIL) has set up higher cotton textile exports target of 20 per cent in FY14, adding the industry needs to maintain momentum by ensuring raw materials

are available at international prices to Indian manufacturers. The textile industry seems to have fully recovered from the losses it incurred in the previous years when there was a severe volatility in the national and international markets. The Budget for 2013-14 has given a push for modernisation and expansion of the industry. The industry is looking at expanding exports to Japan and South Korea, who offer zero import duty, and Australia, with which India is expected to sign a Free Trade Agreement. TEXPROCIL request Cotton Corporation of India (CCI) and NAFED to start selling their large inventory to remove the artificial shortage and restore international price parity which is important to help maintain export momentum. (*The Economic Times*, March 8, 2013)

India Ratings for Textile Industry

This year's outlook for the Indian cotton textiles is "negative-to-stable" due to subdued demand, though margins are likely to benefit from softening of raw material prices, India Ratings has said in a report. The outlook for cotton textiles, however, remains negative, it said. "The outlook for cotton textiles remains negative-to-stable for 2013....The outlook for synthetic textiles remains negative for 2013 due to reversal of substitution demand and oversupply in domestic partially-oriented yarn, pressurising selling prices and margins of synthetic textile companies," it said in the report '2013. Muted international demand for cotton and surplus production are likely to keep cotton prices stable and range-bound during 2013. "India Ratings expects cotton yarn manufacturers to benefit from slow but steady pick-up in domestic demand, the likely higher demand of cotton yarn from China, and improving margins on account of low cotton prices and firm cotton yarn prices (*Business Line*, January 27, 2013).

Textiles Exports

The targets for textiles exports for 2012-13 initially set at USD 38 billion have been revised

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upwards to USD 40.50 billion, following the Foreign Trade Policy Annual Supplement in June, 2012. The export Council-wise targets are (i) Apparel Export Promotion Council (AEPC) – USD 18.00 billion (ii) The Cotton Textiles Export Promotion Council (TEXPROCIL) & The Powerloom Development Export Promotion Council (PDEXCIL) – USD 9.00 billion (iii) The Synthetic & Rayon Textiles Export Promotion Council (SRTEPC) – USD 7.00 billion (iv) Export Promotion Council for Handicrafts (EPCH) – USD 3.30 billion (v) Handloom Export Promotion Council (HEPC) 0.40 billion (vi) Wool & Woollens Export Promotion Council (W&WEPC) – 0.75 billion (vii) National Jute Board (NJB) – 0.50 billion (viii) Carpet Export Promotion Council (CEPC) – 1.05 billion (ix) Indian Silk Export Promotion Council (ISEPC) 0.50 billion. [5]

Conclusion

During 2008-2009, the cotton textile industry had suffered unfavourable climatic conditions that hampered cultivation; yet, it managed to generate 290 lakh bales of cotton, and still retained the second position in world cotton production. Lately, the textile and clothing industry has been developing in tremendous momentum to cater to foreign markets. They are thus bringing home prized foreign exchange. One of the problems faced by cotton textile industry in India was the old-fashioned technology of old mills and their industrial sickness. Slowly, but steadily old technology is being taken over by the new one. The textile industry has implementing numerous techniques and measures to supply eco-friendly products, which are of superior quality, to the world market. In India, use of non-hazardous colours and dyes has come into use for manufacturing textiles. At present, the Indian apparel and textile sector is struggling to survive because of increasing costs of raw material, poor off take of yarns coupled with the poor realization from yarn dealers and a sharp rise in interest rate and, the worse, the rising value of the Indian rupee.