VI. INDIAN TEXTILE AND CLOTHING SECTOR POISED FOR A LEAP*

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Introduction

The Indian textile and clothing industry, as one of the oldest industries of the country, has witnessed several changes in fortune during the post-independence period. Following a quick upturn in the immediate post-independence period until the 1960s, when the dominant industrial policy was that of import substitution, it went into a decline until almost 1985 as market forces were not being allowed to operate and the entire policy had become very restrictive and stifling. The "New Textile Policy" of 1985 managed to relax several licensing requirements, raised the maximum investment limit and generally created a good investment climate.

However, in the absence of a general economic resurgence in the country, the textile sector continued to languish until a few years ago. Since then, it has witnessed unprecedented optimism and investment, heralding the vision of a new and glorious era in the Indian textile and clothing sector. This chapter first reviews the static scenario of the Indian textile sector and its standing in the world textile economy. It then discusses and analyses the trend in production and exports of Indian textiles and clothing. Finally, it looks at supportive government policies for facilitating growth in this sector, the industry's response to those policies and emerging trends that are making the sector strong and vibrant. The chapter concludes with a discussion on what would make the Indian industry more competitive globally.

A. Overview of the sector

The Indian textile and clothing industry is one of the largest segments of the Indian economy, as it contributes around 14 per cent of total industrial production, or about 4 per cent of India's gross domestic product, and bout 17 per cent of the gross export earnings with a very low import intensity. The sector directly employees about 35 million people, making it the second largest provider of jobs after agriculture.[1]

The Indian textile sector is also well placed globally (table 1). In terms of installed capacity of spinning machinery, it ranks second after China, while in weaving it ranks first in plain looms and fourth in the shuttleless variety. In raw materials, it ranks third in cotton after China and the United States, first in jute, second in silk and fifth in synthetic fibres and yarn.

Thus, it can be seen that India is traditionally strong in textile production capabilities and in raw materials. However, decades of restrictive government policies favouring small-scale operations have led to certain structural weaknesses in the sector.

* For further statistical information and details, readers are invited to check www.txcindia.com and www.texmin.nic.in.

1 See Ministry of Textiles, 2007, *Annual Report, 2006/07* (also at www.texmin.nic.in).

Table 1. India's position in the world textile economy

Category		World	India	India as per cent of world	India's world rank	Country with first rank
Installed capacity						
Spinning – 2005						
Spindles (cotton system)	Million	190.87	37.42	19.60	2	China
Spindles (wool)	Million	14.98	1.04	6.94	3	China
Spindles (cotton and wool)	Million	205.85	38.46	18.68	2	China
Rotors	Million	8.39	0.52	6.20	5	Russian Federation
Weaving – 2005						
Shuttle looms	Million	4.34	1.98	45.62	1	India
Shuttleless looms	Million	0.88	0.05	5.68	4	China
Handlooms	Million	4.60	3.90	84.78	1	India
Total looms		9.82	5.93	60.39	1	India
Production (P)						
Fibre/yarn						
Raw cotton (2005/06)(Oct-Sept)	Million kg.	24 756	4 148	16.76	3	China
Cellulosic fibre/yarn (2005)	Million kg.	2 529	295	11.66	2	China
Synthetic fibre/yarn (2005)	Million kg.	31 762	1 850	5.82	5	China
Raw wool (greasy) (2005)	Million kg.	2 164	45	2.08	7	Australia
Raw silk (2004)	Million kg.	126	17	13.49	2	China
Jute (2005/06)	Million kg.	2 826	1 575	55.73	1	India
Total		64 163	7 930	12.36		
Yarn – 2005						
Cotton yarn (est.)	Million kg.	24 994	2 460	9.84	2	China
Fabrics – 2005						
Cotton fabrics (est.)	Million kg.	14 011	2 071	14.78	3	China
Per capita fibre consumption						
Total fibre, 2005 (P)	Kg.	9.28	5.05	–	–	–
World trade – 2005						
Total textiles and clothing exports	US$ billion	479.54	17.08	3.56	6	European Union 25

Sources: WTO, ITMF, ICAC, JMDC, ASFI and Fibre Organon, compiled in the "Compendium of international textile statistics" (available at www.txcindia.com).

Therefore, although India has the highest member of weaving looms, the percentage of shuttleless looms (which ensure high-quality fabric) to plain looms is hardly 3 per cent compared with the world average of 16 per cent. Except for spinning, sectors such as weaving, processing and garment production are predominantly in the decentralized sector, thus lacking the advantage of scale. The processing and weaving sectors in particular are highly fragmented and technologically less advanced.

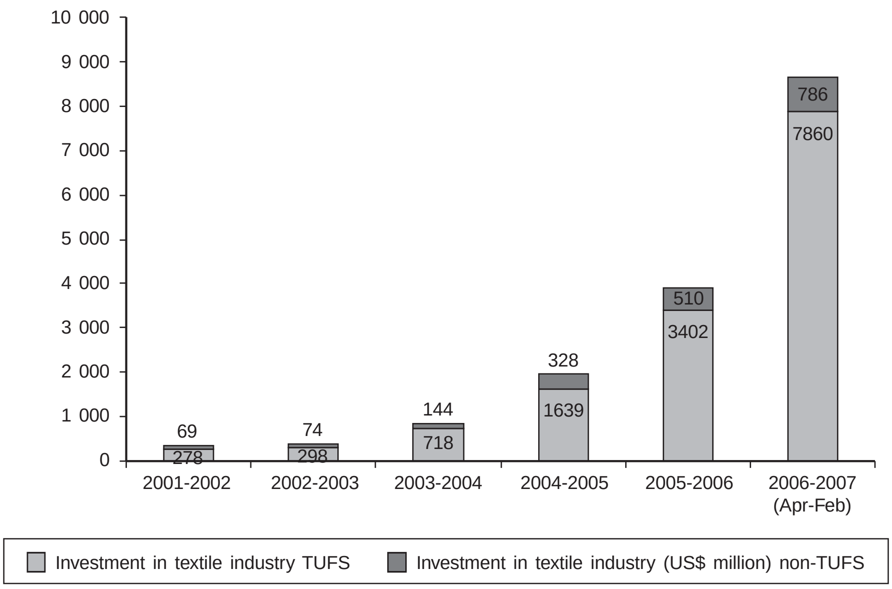
B. Trends in investment and production

In the post-independence period until the mid-1980s, India followed a strong inward-looking policy, using a variety of regulatory mechanisms to orient the textile and clothing sector in a key way. A strict industrial licensing regime required firms to seek government permission for establishing any new operation or the expansion of existing ones, while several sectors such as garments, knitting etc., were kept restricted for small-scale entrepreneurs, and strict labour laws proved a disincentive for expansion. The New Textile Policy relaxed several licensing requirements, raised the maximum limits on allowable investment and reduced import controls. Businesses were also encouraged to modernize their technological base through the disbursement of cheaper lines of credit.

This trend continued in 1991 with the opening up of the Indian economy, but the sector remained largely stagnant and decaying during the 1990s when several large mills closed and several traditional entrepreneurs moved out of the textile trade.

In fact, after a very long time the sector has received a real boost only in the past four-five years as the general economy has substantially improved, leading to a surge in demand. There is an all-around sentiment of tremendous optimism, backed by a surge in production and investment growth. As the investment figures in figure I show, the sanctioned investment (basically, projects in various stages of implementation) has shown almost 100 per cent growth, year-on-year, for the past five years. The investment figures at this level have so far been unprecedented in the history of the Indian textile sector.

Figure I. Sanctioned investments in India's textile and clothing sector



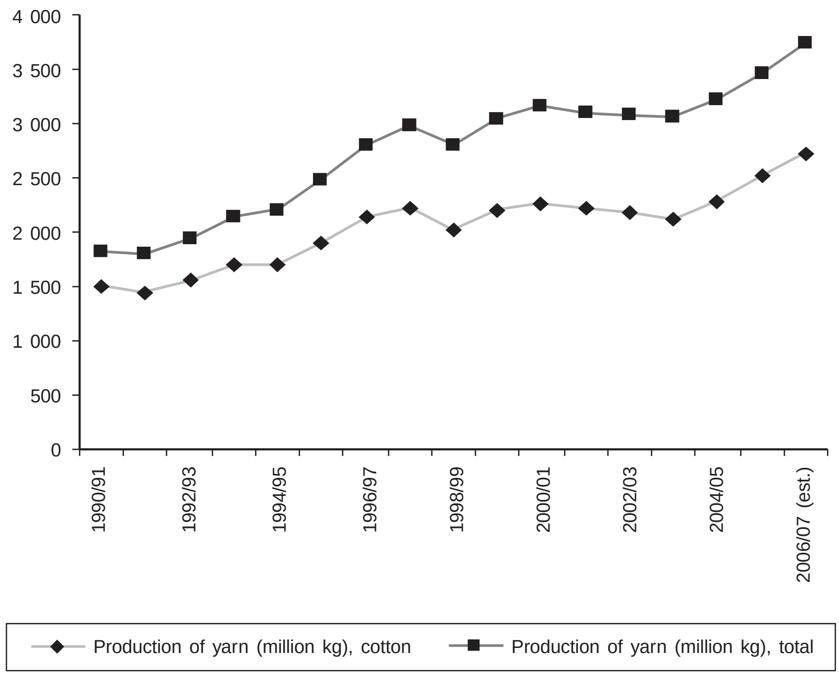
Source: www.txcindia.com.

Note: The non-TUFS investment is an informed estimate.

As a result, production in the Indian textile sector has certainly received a boost as can be seen from figures II and III, which show the increase in the production of yarn and fabric of cotton. In fact, the growth in yarn production has averaged between 8.5 per cent and 10 per cent for various types of yarn after a period of stagnation. Similarly, the rate of growth for fabrics in the past few years has increased from 8 per cent to 10 per cent and the target has been set at 12 per cent during the next five years of the Eleventh Plan. In cotton textiles, particularly, this growth has come after a long period of practically a flat graph.

At this point, it is worthwhile analysing the growth drivers that are boosting India's textile demand and consequent production. In the domestic sector, the increase in GDP per capita, at around 8.5 per cent for the past four to five years, has significantly increased the disposable income of the expanding Indian middle class.[2] The increasing number of working women, the greater use of credit cards and the greater number of working youths (a result of the much talked about "demographic dividend" boom in the construction/housing sector leading to the use of more home textiles) have all facilitated increasing purchases of textiles and clothing items. Above all, the growing penetration of organized retail (the percentage of which is expected to grow from the

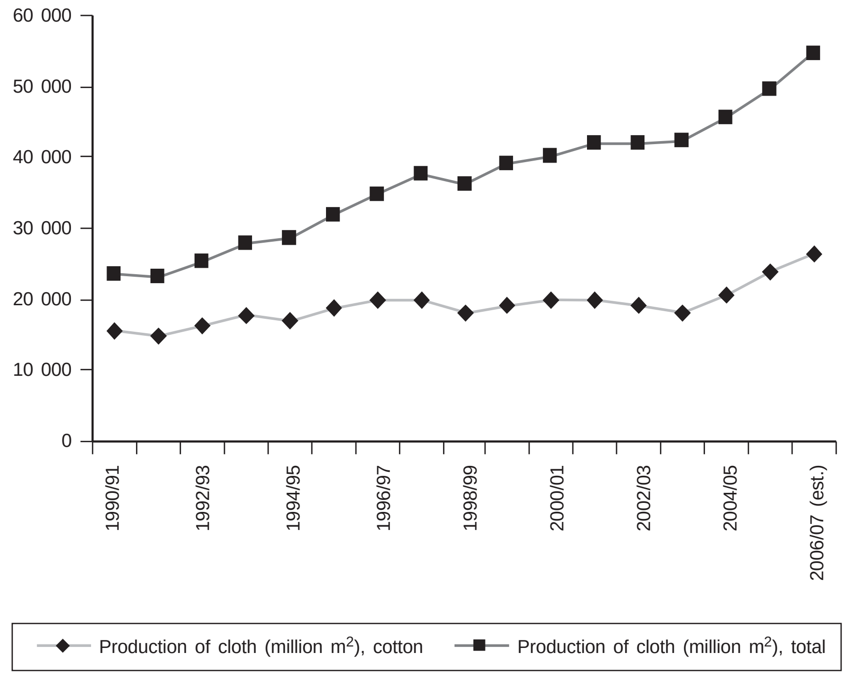
Figure II. Production of spun yarn in India



Source: Official Indian Textile Statistics, 2005/06, p. 21 (at www.txcindia.com).

[2] For GDP figures, *see Economic Survey 2006/07* (also at www.indiabudget.nic.in).

Figure III. Production of cloth in India



Source: Official Indian Textile Statistics, 2005/06, p. 30 (at www.txcindia.com).

present 3 per cent to more than 10 per cent by 2010) (Kearney, 2006) will facilitate availability, thus substantially increasing purchases of textiles and clothing by Indian consumers.

In the export sector, the end of the MFA has given a boost to the Indian textile entrepreneur trend, which has been augmented by the progressive dismantling of spinning and weaving from the developed world.

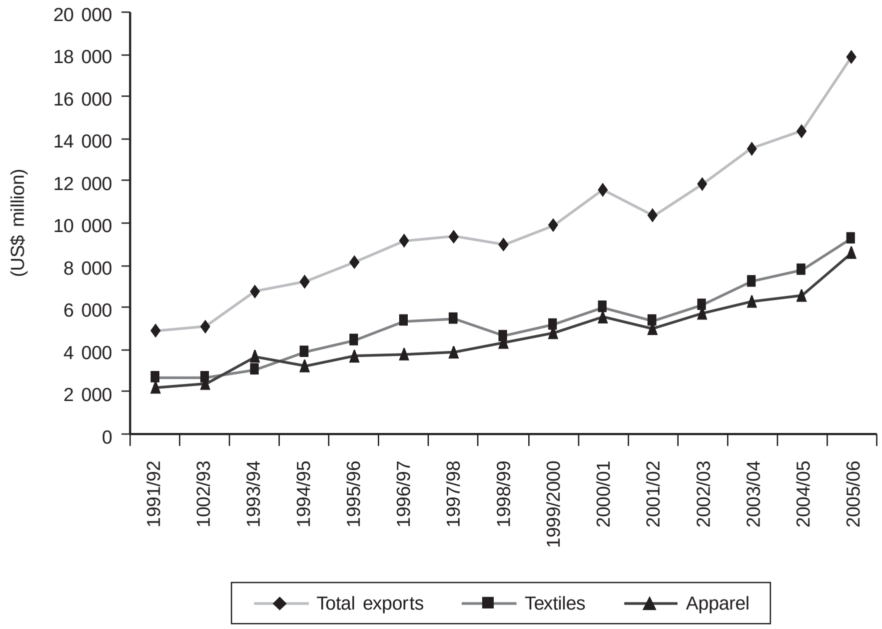
In fact, in response to the growth drivers, and in anticipation of those drivers becoming sustainable in the long term, the Indian textile industry has been making substantial investments in the past four-five years (see figure I).

C. Trends in exports: How does India fare?

Indian exports from 1992/93 to 2005/06 showed an increasing trend (figure IV), especially in 2005/06, when a growth rate of 18.33 per cent was recorded.

However, India was not a big gainer during the early period of integration. While the share of China in global textile and clothing exports increased from 7.94 per cent in 1990 to 14.75 per cent in 2000, 20.93 per cent in 2004 and 24.02 per cent in 2005, India's figures are more modest. India's share increased from 2.22 per cent in 1990 to 3.16 per cent in 2000, 3.12 per cent in 2004 and 3.56 per cent in 2005.

Figure IV. Growth in Indian textile and clothing exports



Source: Foreign trade statistics of India (principal commodities and countries).

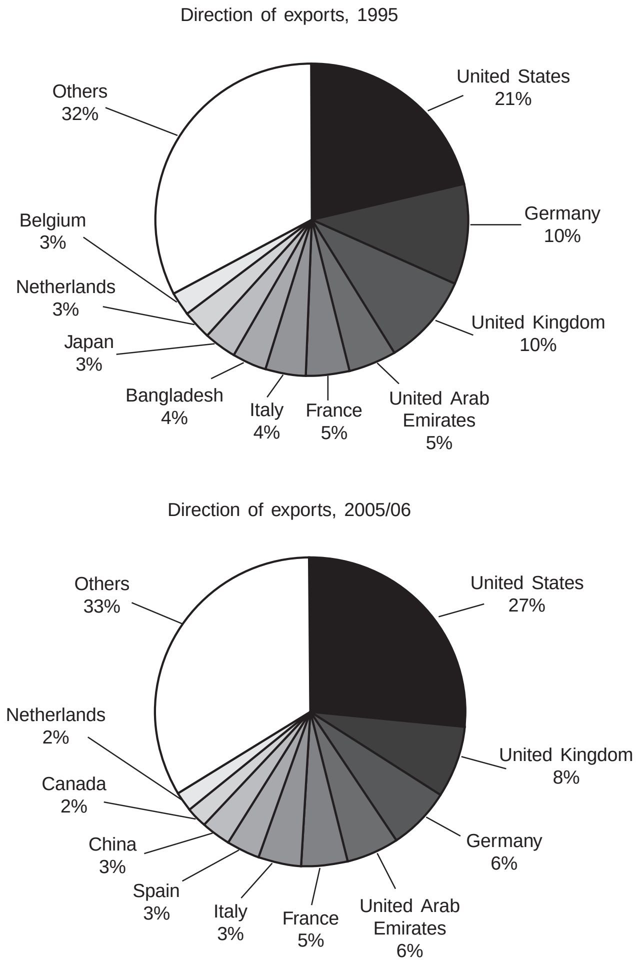
The United States has remained the largest single-country destination for Indian textile and clothing exports, with its share rising from 21 per cent in 1995/96 to 27 per cent in 2005/06 (figure V). The European Union, with 41.006 per cent, is a major destination. Among other major destinations are the United Arab Emirates (5.51 per cent), China (3.05 per cent), Canada (2.21 per cent), Bangladesh (2.15 per cent) and Saudi Arabia (2.02 per cent). Compared with 1995 figures, there has not been any major change. The United States and the European Union remain India's major destinations, with the latter country becoming of increasing importance. The major items of export to the United States comprise ready-made garments and made-ups, including home textiles and carpets. However, Japan has declined somewhat as an export destination, with a present export level of only 1.5 per cent compared with 3 per cent earlier. At the same time, not unexpectedly, China has become an important importer of raw cotton and cotton yarn.

D. Analysis of production and export trends

Certain characteristics of India's textile and clothing sector stand out when compared to other successful exporters.

First, unlike several other exporting countries, India has a strong domestic textile presence across the entire value chain, ranging from raw materials to garments. Indeed, India's apparel industry draws heavily on its local fibre and fabric base. It is thus hardly surprising that India's export basket consists almost equally of textiles and clothing, with

Figure V. Direction of exports, 1995 and 2005



Source: Foreign trade statistics of India (principal commodities and countries).

values of US$ 8.86 billion and US$ 8.22 billion, respectively. Only a few countries such as China, Indonesia, Pakistan and Turkey, plus the European Union, are strong in both subsectors or else their major clothing exporters are also significant textile importers.

However, this strength in textile production and raw materials has not been properly utilized in enhancing exports, as China has so capably done. One reason has been the restrictive government policies that, until the 1990s, kept the garment subsector only for the small-scale enterprise sector, while labour policies ensured that most industries would rather remain small and not take export orders then expand. Another reason was a huge disparity between domestic textile producers and apparel exporters – the two being separate set of entrepreneurs. The latter group was thus unable to take full advantage of India's extensive textile production capabilities.

Third, the Indian textile and clothing sector received an insignificant FDI inflow of only US$ 450.02 million between 1991 and March 2006, amounting to just 1.16 per cent of total FDI of US$ 38.96 billion.[3] This was due, in part, to the lesser attractiveness of India as an FDI destination and in part to the Government's restrictive policy. Thus, India was unable to gain from the growing global integration as the rapidly expanding apparel-exporting countries such as Cambodia, China, Mexico and Viet Nam, plus the countries of Eastern Europe, were able to expand their apparel exports due to substantial FDI inflows.

Another consequence of the poor FDI inflow was the relative absence of global retailers and textile chains until quite recently. The weak presence of major buyers such as Wal-Mart, Sears, Nike and Liz Claiborne hindered the organization of the domestic product towards substantive exports.

A third factor that hindered India's export growth was its absence from practically all major regional free-trade agreements. In the past decade, the fastest-growing apparel exporters – Bangladesh, Mexico, Romania and Turkey – have all been part of preferential trade agreements while China has received massive FDI inflows from Hong Kong, China, Taiwan Province of China and Japan. In fact, each of the above exporting countries experienced a surge in exports after joining their respective regional trade agreements or a bilateral preferential trade agreement.

E. Supportive government policies and new trends towards re-emergence of the textile economy in India

1. Supportive government policies

It has been shown above that the Indian textile and apparel sector has shown positive signs of an upturn in the past three to four years. The Government has taken several positive steps, detailed below, to facilitate the smooth growth of the sector.[4]

(a) Technology Upgrading Fund Scheme

To facilitate technological upgrading in the sector, the Government launched TUFS with effect from 1 April 1999 for five years initially, and which has now been extended up to 2011/12. The scheme provides for reimbursement of 5 per cent interest paid on term loans for technological upgrading of textile machinery. In this way, the Government has assisted the Indian textile companies by ensuring that they are not over-burdened by the high interest rate prevailing in the country.

(b) Integrated textile parks scheme

In order to a world-class infrastructure for textile units as well as facilitate the need for them to meet international social and environmental standards, this scheme envisages the creation of textile parks in the public-private partnership mode. Currently, 30 parks are in various stages of implementation, and 50 more are planned for the next five years.

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[3] See the proceedings of the seminar on "The Need and Scope of FDI in Indian Textiles" at www.crisil.com/policy-advisory/seminar-textiles/.

[4] Details of these steps can be found at www.texmin.nic.in and www.txcindia.com.

(c) Fiscal rationalization

In the 2006 budget, the excise duty on all manmade fibres and yarns was reduced from 16 per cent to 8 per cent. The 2007 budget carried it forward by reducing the customs duty on polyester fibres and yarns from 10 per cent to 7.5 per cent. The customs duty on polyester raw materials such as DMT, PTA and MEG were also reduced from 10 per cent to 7.5 per cent. These measures are expected to make manmade fibres and yarn cheaper and thus increase the competitiveness of fabric and apparel manufacturers.

(d) Technology Mission on Cotton

In February 2000, the Government launched the Technology Mission on Cotton with the objective of addressing the issues of raising productivity, improving quality and reduction of contamination in cotton. Indeed, cotton production in the past three years has increased substantially and contamination has been reduced, as assessed by independent agencies.

(e) Other steps taken to increase competitiveness

Earlier, only small-scale manufacturers were allowed to make woven RMG, knitted and hosiery products. While the initial aim was to boost employment opportunities and promote entrepreneurship at the smaller enterprise levels, in practice it rendered the small manufacturers uncompetitive globally. By 2003/04, the sector had been totally freed.

In addition, FDI up to 100 per cent through the automatic route has now been allowed.

2. Positive response of the industry

The industry has responded positively to these policy initiatives, and investment in this sector has been unprecedented. In fact, growth figures during the past few years have made the entire textile industry brim with unprecedented confidence and optimism. It is no coincidence that two separate studies (although overlapping in part), carried out in 2006, projected almost identical growth targets for the industry. The first study was the "Report of the Working Group on the Textile and Jute Industry for the Eleventh Five-Year Plan",[5] in which the textile industry was projected to grow at 16 per cent in value to reach US$ 115 billion by 2012. The report also projected a growth rate of 12 per cent in volume for cloth production while apparel was expected to grow at 16 per cent in volume and 20 per cent in value terms. Exports were expected to grow at a rate of 20 per cent in value.

The second study was the Confederation of Indian Textile Industries-sponsored "Vision for the Indian Textile and Clothing Industry" prepared by CRISIL.[6] The study envisages a figure of US$ 110 billion by 2012, boosted by a CAGR of 10 per cent annually in the domestic sector and 19 per cent annually in the export sector.

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5 See www.txcindia.com.

6 See www.citiindia.com for details.

3. Why has textile sector investment picked up only recently?

A question that is persistently asked is why have the investments in the textile sector picked up only recently, especially when it had long been known that the MFA system would be fully dismantled from 1 January 2005. Of course, the post-quota atmosphere provided a tremendous incentive for the Indian textile and cloth entrepreneurs to grab the impending opportunity. However, an equally important factor boosting investment has been the present buoyancy in domestic textile demand and the expectation of continued buoyancy (the drivers of domestic textile growth, both in the supply and demand side, have been discussed above). At the same time, the Indian textile sector was only recently unshackled from most restrictions. In the apparel subsector, while the woven segment was de-reserved from the small sector industry limitation in 2001, the knitwear segment was totally freed only in 2005.

The fiscal rationalization in the entire sector began significantly in 2004. Naturally, investments started flowing in as the industry became unshackled and able to compete freely and fully. Yet another factor propelling investment has been the extraordinary growth in cotton production since 2004/05, which has removed the dependence on cotton imports and the consequent uncertainty leading to poor investments.

4. New trends towards re-emergence of the textile and apparel subsectors in India

Several new trends can be seen in the textile and clothing sector that will only serve to strengthen the sector.

(a) Consolidation and integration

There is a significant scaling up by way of horizontal consolidation and vertical integration. The majority of the investments under TUFS have come not from new entrants but by the existing players. With the removal of restrictions on increasing capacity, following the progressive liberalization of this sector during the mid-1980s and continuing into the 2000s, the mean investment per firm in plant and machinery has significantly increased. In the past fours, in particular, this trend has greatly accelerated. The largest Indian firms, such as Arvind, Indian Rayons, Vardhaman, Welspun and Alok, among others, have sanctioned investments of more than Rs 10,000 crores in the past few years.[7]

Second, there has been a significant forward integration into garments by yarn makers, spinners and major weavers. For example, Arvind Mills and Vardhman exemplify this trend. Interestingly, a significant number of cotton ginners are forward integrating into spinning, as can be seen in the cotton areas of Andhra Pradesh and Punjab.

Third, significant backward integration by small and medium-sized knitwear exporters into yarn-making is occurring in the Coimbatore-Tirupur area. In fact, some of the best examples of full integration are exemplified by Alok, Welspun Industries and Vardhman Industries, which straddle the entire range from spinning to branded garments and home textiles.

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[7] Office of the Textile Commissioner.

Thus, there is an all-around trend towards scaling up as well as capturing the entire value chain from spinning to garmenting, in order to gain from the efficiencies at each level. Even the government-facilitated integrated textile parks scheme is serving the purpose of informal consolidation, as despite separate ownership, firms are likely to have a similar brand name and take common big orders.

(b) Blurring of boundaries between export and domestic markets

Whereas previously domestic textile companies and exporters formed two separate sets of entrepreneurs, that boundary is now fast becoming blurred, as all major domestic players are becoming significant exporters. As purchasing power in the Indian market has increased, due to India's increasing GDP and "demographic dividend", there has been a rapid rise of domestic brands. Practically all of the 20 to 30 top textile and apparel firms have introduced their domestic brands and are aggressively positioning themselves within segments of domestic markets.

As these players become large, several of them are going beyond the national boundaries by purchasing international brands in order to penetrate the First World market as well as to supply the domestic market under that brand name. For example, in the home textile market, Welspun has purchased Christy while GHCL has purchased Dan River and Roseby's, Creative has purchased Portico brands to facilitate entry into the United States and European Union markets while Alok Industries has purchased 8 to 10 European brands.

Thus, the earlier difference between domestic manufacturers and exporters is being whittling away; the successful textile player has to constantly look at opportunities in the domestic and export markets.

(c) Entry of large domestic and foreign retail buyers

Until recently, India had been virtually ignored by the top international retail chains. Now their strong presence is increasingly being felt and several top firms have opened their sourcing centres in India. However, even more significant is the impending entry of the very large Indian retailers such as Reliance, Bharati-Wal-Mart, the Aditya Birla Group and Tata-Trent. Although the current penetration by organized retailers is only 3 per cent in India, it is expected to grow to around 12 per cent by 2012. As clothing forms an important aspect of organized retail, the sale of clothing through organized retail chain shops can be as high as 15 per cent to 20 per cent of total sales. This would still be much less than in the United States, where the 24 biggest retailers account for 98 per cent of apparel sales. The position in the European Union is similar.

International experience suggests that because of their large distribution network and considerable buying power, these high-volume retail chains exert a great deal of control over prices and quality terms. The retail experience has two other features. First is "lean retailing", which allows retailers to maintain a lean inventory, but will involves suppliers for "rapid replenishment" of goods. Second is the concept of "full packaging" in that rather than buy fabric from specific sources for conversion into apparel by different sources, the retailer prefers a "full package" solution from a limited member of sources.

Thus, the increasing presence of national and international major retailers in India will result in further formal and informal vertical integration and horizontal consolidation in the sector as well as in enhancing quality trends. The pressure on margins will serve to reduce inefficiencies in the system by way of further modernization, consolidation and integration. The best outcome, however, will be the increase in the demand for fabric and, hence, an increase in the size of the sector.

(d) Confident participation in foreign exhibitions

Indian textile and apparel exporters are now confidently exhibiting at international trade fairs as they seek new areas and territories. The various textile and apparel export promotion agencies are currently extremely pro-active and have introduced several schemes for promoting exports to new areas. An example of this newfound confidence was the recent Indian participation in Heimtextile at Frankfurt where, after the German exhibitors, the second highest number of participants were from India.

5. Further steps required to increase India's competitiveness

(a) Improving labour laws

One of the main requirements for growth in the apparel subsector is the relaxation/amendment of the labour laws, to ensure an equal chance of success for the country's exporters and manufacturers in the present global environment.[8] Outdated labour laws have induced inflexibility in the clothing industry, leading both to fragmented operations in order to circumvent these laws and to lost export orders due to industry's hesitation over expanding when there is an upsurge. Most of the countries competing with India have labour laws that are more flexible. For example, the Chinese apparel industry has highly flexible labour laws that allow for lay-offs during the non-peak season, hiring of contract labour, and a flexible hiring and firing system in SEZ-based units. The Mexican apparel industry allows layoffs during the slack business season.

The industry in India is proposing the provision of flexibility to textile exporting units in hiring labour, subject to ensuring 100 days employment to cater to variations in demand. An increase in daily working hours from 9 hours a day to 12 hours a day, and in weekly working hours from 48 hours a week to 60 hours a week, is also being proposed.

(b) Decreasing transaction costs

Various studies have established that the transaction costs faced by the Indian industry are very high, which adversely affects its competitiveness. A study undertaken by the EXIM Bank of India clearly showed that although transaction costs in India had declined because of declining procedural complexities, they were still substantially higher if compared with competitors. Transaction costs vary from sector to sector, and are very high in the textiles and garment subsector, ranging from 3 per cent to 10 per cent of export revenue in 2002. These costs, inter alia, are shown in table 2.

(c) Improving the general infrastructural conditions

This improvement includes roads, transportation etc., so that the costs of reaching the nearest port as well as turn-around time at the port are globally comparable, to ensure that Indian exporters are not placed at a disadvantage vis-à-vis global competitors.

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8 For an outstanding analysis, see T. Besley and R. Burgess, 2004.

Table 2. Transaction cost in Indian industries

Incidence of un-neutralized state taxes and duties	Percentage of FOB value of exports
Sales tax (including CST)	3.41
Octroi, Mandi Tax and other local levies	1.36
Electricity duty	1.00
Others	1.00

Source: EXIM Bank Study, 2002.

(d) Augmenting existing training infrastructure

Significant improvements are necessary in order to ensure the availability of a sufficient number of trained personnel needed to meet the huge shortfall. Already, areas such as Tirupur and Surat are experiencing a noticeable lack of trained manpower.

F. Conclusion

Investment in the textile sector in the past three to four years, the consequent increase in yarn and fabric production and the immense optimism witnessed in the sector have definitely resulted in a very different scenario compared to the stagnation and the despondency witnessed just five or six years ago. As India's Minister of Textiles Sri Shankersinh Vaghela has said, "the erstwhile sunset sector is now recognized as the new sunrise sector".

However, it must be recognized that the industry still has a long way to go, these recent advances notwithstanding. Large sections of the textile value-chain still need to be fully modernized, while the export sector has yet to take full advantage of its existing production strength. There are many areas around the world and many product lines where India is very weakly represented. Thus, while the private sector will need to continue its heavy investment in this industry during the next several years, building on the recent positive trends, India also needs to integrate more fully into the global textile and apparel value chain in order to reap the full benefits from its strengths.

Only a coordinated effort by all – the Government, industry and individual units – can enable India to achieve its apparently high and stretched targets of the eleventh Five-Year Plan. Therefore, the next five years will indeed be a period of reckoning when the future direction of the Indian textile and apparel sector will be set for the foreseeable future. The period 2007/12 will also show whether India has successfully grasped the momentous and unprecedented opportunity that has come its way.

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