

## **Incentives for Tapping Newer Markets in T&C Sector on the Anvil Industry -Government Consultations for Evolving National Fibre Policy**

**New Delhi Friday 12<sup>th</sup> June 2009** Mr. Dayanidhi Maran, Union Minister of Textiles, said that the Government would extend a helping hand to the industry to seek opportunities in the new markets to reduce their dependence on traditional markets like the US and Europe. That will also help the industry to withstand the competition from neighboring countries and overcome protectionist measures being adopted by developed countries.

The Minister was addressing the textile industrialists in the country today in New Delhi at meeting was organized jointly by CITI, TEXPROCIL, AEPC and SRTEPC\*. “There is a need to diversify textile and clothing exports to new markets like Gulf Cooperation Countries (GCC), namely Bahrain, Kuwait, Oman, Saudi Arabia, Qatar and UAE, Latin America, Russia and Oceania,” he added. He also mentioned that the export markets in the US and Europe are showing signs of recovery.

Mr. Maran disclosed that the Government would take steps in the short, medium and long terms to provide relief to the industry. As a part of the short term strategy, the Government would strive to rationalize fiscal structure, exempt service tax, reduce interest rates on pre and post shipment credit and facilitate faster clearance of arrears of terminal excise duties and Central sales tax. The medium strategy envisages the inducting momentum to the implementation of Technology Upgradation Fund Scheme, Scheme for Integrated Textile Parks and Technology Mission in 11<sup>th</sup> Five Year Plan period. In the long run, there is a need for improvement in the infrastructure, labor law reforms and to create a new business orientation by the industry in line with the global trends.

The Textile Minister said that his ministry would initiate consultation process immediately with the stakeholders to form a National Fibre Policy. He called upon the industry to give inputs to frame the policy. “I humbly request industry to come forward and let there be a single forum representing the wide spectrum of textiles interest. Time is essence and let us move forward,” he added. The Minister also opined that the domestic consumption of T&C sector has been adversely affected and the Government is looking ways and means of increasing the demand.

Earlier the Minister released a study commissioned by the industry associations – CITI, TEXPROCIL, AEPC and SRTEPC- and undertaken by ICRA Management Consulting Services (IMaCS). (Highlights of the study is being separately sent along with the release)

While addressing the meeting, Ms. Rita Menon, Union Textile Secretary highlighted the problems being faced by the textile industry, such as glitches on the banking front like high interest rates, tariff related issues, TUFs, incidence of state level taxes etc. She wanted more structured responses from the textile industry in terms of augmenting exports and imparting skills to more number of people to improve their employability in the textile industry. She also underscored the need for industry orchestrating their problems in a cogent manner so that their problems are heard and appropriate actions taken.

Importantly, the Textile Secretary released the CITI Directory 2009, which gives detailed information on more than 2500 units belonging to spinning, weaving, composite, made-ups, garments, textile machinery, garment machinery and textile and apparel parks.

In his welcome address, Mr. RK Dalmia, Chairman, CITI pledged the support of the textile industry in creating one crore additional gainful employment in the textile sector. He also described the rationale of commissioning the study on “Impact of Economic Slow Down on Textile and Clothing Industry” and hoped that the findings of the study would prove beneficial to all the stakeholders in the textile business.

There was also industry presentations from various textile associations and textile industrialists, which widely covered industry prescriptions for a speedy recovery in the textile sector.

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\* CITI- Confederation of Indian Textile Industry, TEXPROCIL-The Cotton Textiles Export promotion Council, AEPC- Apparel Export Promotion Council and SRTEPC-Synthetic and Rayon Textiles Export Promotion Council.

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## **Study on Impact of Global Economic Slowdown on Indian Textile & Clothing Industry**

*Commissioned by:*

*Confederation of Indian Textile Industry (CITI), Apparel Export Promotion Council (AEPC), The Cotton Textiles Export Promotion Council (Texprocil), The Synthetic Rayon and Textiles Export Promotion Council (SRTEPC).*

*Undertaken by:*

*ICRA Management Consulting Services Limited (IMaCs)*

The Indian Textile and Clothing (T&C) industry is currently one of the largest and most important industries in the Indian economy in terms of output, foreign exchange earnings and employment. The industry contributes 4% to the country's GDP, 14% to the country's industrial production and around 12% to the country's foreign exchange earnings. The T&C industry is also the second largest employment generating industry, after agriculture with direct employment of 33.17 million<sup>[1]</sup> people (as of March 2006). Ministry of Textiles, Government of India, has targeted a growth of 16% per annum for the Indian T&C industry to reach US \$ 115 billion by the end of Eleventh Five Year Plan. Provided the targeted growth is achieved, Indian T&C industry has potential to employ 45 million people and generate export earnings of US \$ 55 billion by 2012.

Indian T&C market in FY2008 was estimated at US \$ 63.4 billion in 2007-08 with exports accounting for 35% valued at US \$ 22.4 billion of which Textile exports accounted for US \$ 12.7 billion and Garment exports accounted for US \$ 9.7 billion. The industry has significant dependence on EU27 being the largest export market, accounting for 33% of the total T&C exports by value. US is the second largest export market for Indian T&C products with a 21% value share. Other important export markets are UAE (6%), China (5%), Bangladesh (3%) and Japan (1%).

*Declining demand in EU27 and US markets caused by the economic slowdown has severely impacted Indian T&C exports to these markets in 2008*

The recent economic slowdown has significantly impacted the major export markets of Indian T&C industry i.e. EU27 and US. During 2008, value-wise yarn imports by EU27 declined by 13% resulting in a drop of 15% in Indian yarn exports to the region. Similarly, fabric imports by EU27 declined by

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[1] This also includes employment in Handloom, Sericulture, Handicraft and Jute industry.

13% which negatively impacted Indian fabric exports by 7% y-o-y. However, China increased its yarn exports to EU27 by 5% and fabric imports by 1.9% in the same period.

The US markets also witnessed a decline in y-o-y yarn imports by 9% and fabric imports by 7%. This resulted in India's fabric exports to US declining by 8% whereas China increased its exports value by more than 2%. The only silver lining for India was an increase in value of fabric exports to the US by around 23% (y-o-y).

In the ready-made garments (RMG) segment, imports by EU27 remained stagnant. However, Indian exports witnessed a 3.2% increase. RMG imports by US declined by 3% in value terms which negatively impacted the Indian T&C industry resulting in a 3% decline in exports. Despite lower imports by both EU27 and US markets, competing countries like Bangladesh, China and Vietnam outperformed by showing an increase in imports by 7%, 14% and 8% respectively in the EU27 region while in the US markets, Bangladesh exports increased by 11% and so did Vietnam by 20%.

The made-ups market in both EU27 and US declined by 2% resulting in a fall of 6% in Indian made-ups exports to EU27 but with a gain of 2% in the US markets, India was able to maintain its share here. In comparison, Bangladesh increased its made-ups exports to EU27 by 8% and to the US by 9% whereas Chinese made-up exports to EU27 surged by 6%.

The decline in exports to these key destinations has resulted in the industry missing its growth targets under the Eleventh Five Year Plan. The resultant fall in production is reflected in the Index of Industrial Production (IIP) figures. The monthly IIP for cotton textiles declined by 3.7% (y-o-y) in Dec 2008, 6.2% (y-o-y) in Jan 2009 and 12.1% (y-o-y) in Feb 2009 while the IIP for Textile products including apparel (2.3% y-o-y in Feb 2009).

With the T&C industry having witnessed debt-funded capacity expansion, primarily driven by interest compensation under TUFS, the recent drop in production has resulted in under utilisation of capacities leading to inadequate absorption of fixed costs and weak debt coverage indicators. The decline in production and worsening financial performance of T&C industry has resulted in an estimated loss of 5 – 6 lakh jobs during the last few months.

Lack of cost competitiveness among Indian T&C manufacturers vis-à-vis countries like China, Bangladesh, Vietnam and Sri Lanka has resulted in demand shifts in imports by EU27 and US to these countries. As highlighted earlier in the analysis of trends in imports by EU27 and US, though the slowdown has impacted all competing countries the intensity of impact is varied across these countries with India being the most severely impacted. Analysis of cost competitiveness reveals that

Indian T&C industry has a significant cost disadvantage vis-à-vis China, Bangladesh, Vietnam and Sri Lanka varying from 2% to 12% depending on the T&C segment and country. Major factors contributing to the cost disadvantage of Indian T&C industry are high raw material cost, high labour cost, high power cost and high transaction cost. Moreover, on account of free market access available to Bangladesh (for exports to EU27 and Japan) and to Sri Lanka (for exports to EU27), these countries have a further cost advantage vis-à-vis India. This is further compounded by anomalies in taxes and duties thereby affecting the overall cost competitiveness of Indian T&C industry.

Besides lack of cost competitiveness, the other impediments to growth for the Indian T&C industry are:

- v High dependence of T&C trade on EU27 and US markets
- v High dependence on cotton products
- v Lack of availability of skilled labour
- v High working capital interest for procurement of cotton
- v Delay in disbursement of TUFS assistance and other assistance

As the Indian T&C industry has a significant employment potential and export potential as envisioned in the Eleventh Plan, Government should take steps to address the issues affecting cost competitiveness of this industry by adopting the following measures:

- Power related issues: Support captive power generation in the regions suffering from acute power shortage by allowing exemption of excise and customs duty paid for liquid fuels used for captive power generation.
- Labour issues: Increase labour flexibility especially for the labour intensive sectors of T&C industry by allowing contract labour, extending labour working hours and relaxing the norms of Industrial Disputes Act, 1947 with regards the number of workers.
- Anomalies in taxes and duties: Till systematic corrections in the taxation policy are implemented, devise a mechanism to refund the state level taxes and duties to T&C exporters, the incidence of which is on an average 4% of the ex-factory price. Also revise duty drawback rates to completely neutralize the incidence of all duties paid and the disbursement of duty drawback claims should be expedited.
- Transaction cost: Documentary procedures at the ports should be simplified to reduce the transaction costs incurred by the exporters. Efforts should be made to increase port capacity and to improve rail/road connectivity to ports.
- Raw material related issues: Formulate a comprehensive Fibre Policy to ensure availability of raw material (especially cotton and polyester) to the domestic T&C

industry at competitive prices. Till a fibre policy is formulated, support the industry to reduce its dependence on cotton by abolishing import duty on manmade fibres and their intermediates, and abolishing excise duty on manmade fibre and their intermediates

Government intervention is also needed to address other key issues of the Indian T&C industry on the following dimensions:

- Ministry of Commerce should negotiate better trade terms with the global T&C markets including Japan
- Immediate steps should be taken to allocate sufficient funds in order to clear the back log of TUFS till date. Moreover, for future loans under TUFS the mills should be permitted to pay interest net of interest compensation to the banks; Government should arrange to remit the interest compensation amounts directly to banks concerned.
- Government should facilitate policy changes to provide working capital loan for cotton on similar terms as applicable to agriculture sector. Moreover, considering the liquidity related problems of the T&C industry, the margin money for working capital loan for cotton should be reduced to 10% (from the current 25%) and the duration of such loan should be extended to 9 months.

In order to ensure long term sustainable growth of Indian T&C industry, the industry along with the government will need to focus on certain structural measures as highlighted below:

- Ø Constitute a Joint Working Group with representation from Government and T&C industry, should be formulated to periodically review the performance of T&C industry
- Ø Fabric and Garment sectors of the industry should improve cost competitiveness by upgrading technology and achieving economies of scale
- Ø Garment industry should explore new markets to reduce trade dependence on EU27 and US
- Ø Industry associations should establish Skill Development centres to ensure availability of skilled labour to the industry