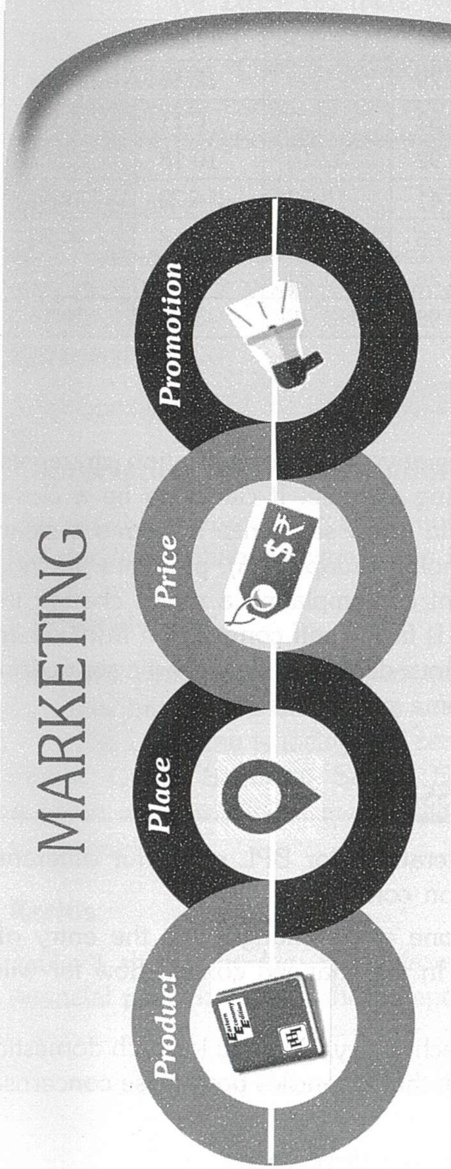
CASE 8

INDIAN GARMENTS



INDUSTRY PROFILE

The Indian Textile Industry plays a vital role in the nation's economy. It is the single largest industry accounting for 14% of the total industrial production index, 4% of the GDP and 17% share in total export earnings. The industry employs about 35 million people and is the base on which the pyramid of the industrial sector of the country has been built.

Textiles occupy an important place in the overall world trade also. According to the GATT Secretariat, in 1984 the most important product category in industrial exports (excluding fuels) for the 88 developing countries participating in the Uruguay Round was textiles and clothing (22%), followed by electric machinery (14%) and metals (11%). Of the 54 developing countries producing textiles and clothing, 30 indicated that the share of textiles and clothing of the total exports was either high (21–50%, 16 countries) or very high (51–100%, 12 countries).

The main raw materials of the textile industry are natural fibres like silk, cotton, wool and man-made fibres such as cellulose (viscose, acetate) and synthetic (polyester, nylon, acrylic, etc.). The industry is considered to be extremely complex with hand-spinning and hand-weaving sector at the one end and the modern sophisticated and highly mechanised mill sector at the other. In between, lie the decentralised small-scale power looms.

The industry is undergoing major restructuring. The mills are modernising their plant and machinery and devoting greater attention to exports. The handloom sector, which is being outstripped by the powerlooms in production of cheap and ordinary clothes, may have to switch over to the production of high value items and cater to the sophisticated export market for specialised products.

The report of the Working Group constituted by the Planning Commission for boosting India's manufacturing exports during the 12th Five Year Plan (2012–2017) envisages India's exports of Textiles and Clothing at US$ 64 billion by March 2017.

READY-MADE GARMENTS

In India, the ready-made garment industry is considered an offshoot of the textile industry, dating back to the middle of the 19th century. There was no ready-made garment industry worth the name till the dawn of independence although this particular industry calls for no extraordinary skills or huge capital investments. It only accounts for 2% of the Indian textile exports. It is very small in relation to its size in the developed countries and some developing countries. In terms of major manufacturing countries, the USA accounts for 30% of the world's production of ready-made garments followed by Japan with 14%, West Germany 10% and UK 9%, while India's share in the world production stands at 4.5 per cent.

According to the latest CII report, India has the potential to increase its textile and apparel share in the world trade to 8% and reach US$80 billion by 2020.

Garments have always contributed to the bulk of our exports. The number of exporters has also increased throughout.

Some of the recent developments focus on competitiveness, making it a major issue. Some of these developments are discussed in the following sub-sections.

GATT Accord and the Multi-Fibre Agreement

On the International front, Multi-Fibre Agreement (MFA) was a barrier to increasing exports to the developed countries, namely Canada, the European Union (EU), Norway and the United States. Canada and the United States maintained restrictions on all three countries of South Asia while the EU and Norway applied restrictions on imports from India only. Since then, these restrictions have been phased out during 1994–2004 in four phases. Currently, the textile and clothing industry is fully integrated into the World Trade Organisation (WTO).

Competition from South Asian Countries

A significant phenomenon that has occurred of late is the shifting of textile industries from all over the world to the developing countries, notably to the Asian continent.

Thus, countries like China, Hong Kong, Korea, Thailand, Philippines and Indonesia have become major competitors to India. Owing to high labour costs and stringent enforcement of environment laws since 1980, many European countries have closed more than half of their textile and apparel industries. Similar is the case with Japan and US. The result: textile industry, particularly cotton textiles, became the sunrise industry in Asia due to the availability of cheap labour and non-enforcement of stringent environmental laws. The 1980s were especially the emerging years for South-East Asia and the 90s the golden years for India, Bangladesh and Pakistan. However, the strong domestic demand and the revival of the Economic markets by 2009 has led to huge growth of the Indian textile industry. In December 2010, the domestic cotton price was up by 50% as compared to the December 2009 prices. India's share in global trade is depicted in Table 1. Table 2 depicts close competition from South Asian countries.

TABLE 1 India's Share in the Global Textile and Apparel (T&A) Industry

(US$, Billions)

	1990	*2000*	*2005*	*2008*	*2009*	*2015 prediction*	*2020 prediction*
World T&A trade	213	353	486	612	510	800	1000
China T&A exports	16	52	104	175	157	236	350
India T&A exports	4.6	11.4	15	21	23	45	80
India's share in global T&A trade	**2.1%**	**3.2%**	**3.1%**	**3.4%**	**4.5%**	**5.6%**	**8.0%**

TABLE 2 Competition from South Asian Countries in Clothing Exports (2011), (As per WTO Secretariat)

(US$, Billions)

Rank	*Country*	*Export value*	*Global share*
1	China	152	36.9
2	EU-27	116	28.2
3	Hong Kong	25	6.07
4	Bangladesh	20	4.85
5	India	14	3.40
6	Turkey	14	3.40
7	Vietnam	13	3.16
8	Indonesia	8	1.94
9	United States	5	1.21
10	Mexico	5	1.21
	Global Total	**412**	

UN Statistics show that Bangladesh has, over the past few years really become an important player in the international garment trade. Currently, Bangladesh is the second largest exporter of ready-made garments after China.

A worldwide shift in the usage from cotton fabrics to man-made fabrics

In the past 35 years, there has been a major change in the cotton textile industry. Till 1980s, cotton constituted nearly 100% of the total fibre. Cotton textiles are sought after because of their superior moisture absorption. In a tropical country like India, moisture absorption plays a major role in determining the wide use of a fabric. In fact, cotton accounts for 75% of the total fibre consumed in India as against 49% worldwide. Major reasons for this shift include:

- Properties imparted in man-made fibre, e.g., easy care, durability, etc.
- Low cost of production due to low cost of input.
- Changing trends of consumer tastes.

As of now, nearly 90% of India's textile exports are cotton based. The tilt towards cotton in India is mainly due to unfavourable fiscal policies towards man-made fibre. The government till recently, perceived man-made fibre as a luxury good and levied high duties, making man-made fibre more expensive than cotton. While the rest of the world considers cotton to be a premium fabric, India regards it as a common man's fabric. Also, the cotton yield per hectare is the lowest compared to other countries. The yield per hectare at 540 kg compares poorly with the world average of 740 kg. Even Bangladesh and Pakistan are way ahead with a yield per hectare of 581 kg and 726 kg respectively.

Government regulations favouring the unorganised sector

The unorganised sector has always been viewed as a potential employment generation sector and has, therefore, been backed up by policy support. The textile policy till 1985 has given much weightage to workers' interest in this sector. From a marginal share in the total fibre production in the country in 1950–1951, powerlooms now contribute nearly 72% of the total production of the fabric. This sector gets many tax benefits, which work against the large mills and handloom sector.

Since, India exports more than one-third of its total textile exports to European countries, the insistence by the European community for ISO 9000 series of standards poses a serious challenge to these small-scale industries and Indian garment exports as a whole.

Cost of production

In spite of the fact that Indian cotton costs the least at US$ 0.91/kg as against Italy's US$ 1.26/kg, Thailand's US$ 1.31/kg and Brazil's US$ 1.5/kg, the cost of producing a yard of stitched cloth is not as less. The reason for this are as follows:

- Lack of modernisation in the production process due to more than four decades of protected environment. Most of the old generation mills did not really bother to either modernise or upgrade their technology.
- The presence of unorganised sector is still predominant; the industry is thus deprived of implementation of economies of scale and efficient production techniques for cutting down of costs.

German ban on textiles

The German Health Ministry has imposed a ban for the import and manufacture of goods dyed with Azo dyes, Benzidine and other similar amines considered carcinogenic. The other EU countries, USA and Canada may also follow suit.

Eco-friendly garments and textiles

A significant and lasting trend in the export of textiles to the USA, Germany and other European countries is the increasing concern for environmental health. Ecological issues are becoming primary concerns of consumes because of possible health hazards from substances used in textiles as well as a concern for the effect of substances used in textile production on the environment in the manufacturing countries and on the health of workers who produce textiles for exports.

SWOT ANALYSIS

A SWOT analysis of the industry is given as follows:

Strength

- Large cotton base
- Cheap and abundant labour
- Handcrafting skills
- Domestic market potential

Weakness

- Low productivity, lack of technical manpower
- Poor quality of fabric dyeing and printing
- Poor delivery systems
- Incompetitive man-made fibres

Opportunity

- Product and market diversification
- Labelling and product upgradation
- Strategic alliance with South Asian countries

Threats

- Competition from China, Indonesia, and Thailand
- Rising cost of inputs
- Raw material exports instead of value-added products

GOVERNMENT POLICY

The government has taken a number of measures to increase the export of garments. Sophisticated garment manufacturing machines, which are not manufactured in India, are allowed to be imported under the Open General Licence (OGL). For instance, import of over 120 machines was placed under the OGL for the garments and hosiery manufacturers, which attract concessional customs duty. The aim was to improve the quality, so as to be competitive in the international market. Another concession given by the government related to duty drawback rates for cotton garments. The number of days of preshipment credit has been increased from 90 to 160 days. The interest rates, on the other hand, have been reduced to help textile exporters.

The government has also permitted the use of foreign brand names for domestic sales in case of ready-made garments with the stipulation that indigenous fabrics be used. At least 75% of the production is to be exported and no royalties are allowed on domestic sales. The government has announced a three-year quota policy of export of textiles and garments designed to be exporter-friendly. It is also giving liberal assistance for sponsoring and funding promotional activities, such as market studies, buyer-seller meets and participation in fairs and exhibitions.

A survey was undertaken of various export houses in Bangalore (now, Bengaluru) to elicit their response to the policy issues. The views obtained are summarised below:

Short-term measures

- Preference should be given to value-added exports.
- Adequate raw materials should be applied to manufacturers at reasonable prices.
- Deemed export treatment to be given for supply of fabrics to the garment industry.
- Low rate of interest to be levied for the imports of capital goods by Export-Oriented Units (EOUs).

Long-term measures

- Implement quality systems in the industry.
- No differentiation to be shown between the organised and unorganised sectors.
- Encourage the unorganised sector.

FUTURE OUTLOOK

Talks of a Free Trade Agreement (FTA) between India and Europe have been going on since 2010 and is likely to be finalised in the near future. This would result in duty free exports of Indian garments to the Euro-27 countries. With Euro-27 being the largest importer of ready-made garments, the FTA would greatly boost the Indian apparel industry. Indian clothing manufacturers are also targeting markets in Japan, South America and the Middle East which have a huge potential for ready-made garments.

The Government has also introduced a number of export promotion policies for the Textile and Apparel sector in the Union Budget 2011–2012 and the Foreign Trade Policy 2009–2014. This includes incentives under Focus Market Scheme and Focus Product Scheme, etc. to increase the India's share in the global trade.

- Provision of 2% interest subvention for sectors like Handlooms and Ready-made Garments.
- Inclusion of new markets such as New Zealand, Latvia, Lithuania and Bulgaria under the Focus Market Scheme.
- Incremental export incentive scheme.

ISSUES FOR DISCUSSION

1. With the worldwide shift in usage from cotton to man-made fabrics, and India being a major exporter of cotton, what short-term and long-term measures should be taken so that India can fully exploit the situation?
2. Labelling or branding has been considered as a major opportunity. How will consumers in the West react to the 'Made in India' label? How should we position our product?
3. How has the current National Trade Policy addressed the issues concerning the garment export industry? What other measures can be implemented to encourage exports?
4. At what stage of the International Product Life Cycle (IPLC) can the garment industry be put and what future marketing strategies should be considered? How should the opportunity of opening up of markets through phasing out of MFA restrictions be explained?