



Impact of Economic slowdown on Indian Textile and Clothing Industry

A Study assigned by CITI, Texprocil, AEPC and SRTEPC.

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1. Introduction

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. During 2007-08, Indian T&C exports were 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.

Indian T&C industry is also the second largest employment generating industry, after agriculture with direct employment of 33.17 million¹ people (as of March 2006). In addition, the industry generates significant employment through forward and backward linkages; the large number of skilled and unskilled activities in the industry makes it extremely important from the perspective of inclusive growth.

Ministry of Textiles 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 Plan². It also wants to secure a 7% share in global T&C trade by the end of the Eleventh Five Year Plan. Provided the targeted growth is achieved, Indian T&C industry has potential to employ 45 million² people by 2012. Further, the export earnings from this industry are estimated to increase to US \$ 55 billion² by 2012. However, during the period April – December, 2008 T&C exports have missed the expected growth targets on account of economic slowdown in major T&C export markets. As a result, production of T&C has also declined during the same period as against the estimated levels under the Eleventh Plan.

Under these circumstances, the T&C industry is unlikely to achieve the envisioned targets unless the industry makes a strategic shift in the coming year. Confederation of Indian Textile Industry (CITI) and The Cotton Textiles Export Promotion Council (TEXPROCIL) have therefore commissioned ICRA Management Consulting Services Limited (IMaCS) to conduct a detailed study to assess the

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

² Report of the Working Group on Textiles & Jute Industry for the Eleventh Five Year Plan

impact of ongoing economic slowdown on the Indian T&C industry and suggest suitable interventions to enable sustained growth for the industry including exports.

Based on the agreed terms of reference iMaCS conducted a detailed research to analyse the impact of the global economic slowdown on demand of T&C in select global markets i.e. EU27, UK, US and Japan. iMaCS also conducted a detailed analysis of the performance of Indian T&C industry vis-à-vis identified competing countries i.e. China, Bangladesh, Sri Lanka, Vietnam and Turkey through secondary research. In addition, iMaCS conducted a primary survey of Indian T&C companies and had detailed one-on-one discussions with the member companies of CITI, TEXPROCIL and The Southern India Mills' Association (SIMA). Further, iMaCS also conducted an analysis of the policy approach impacting the Indian T&C industry as well as the policy interventions made by Governments in competing countries. Accordingly, iMaCS has recommended certain interventions required for the Indian T&C industry by both the Government and the Industry.

2. Analysis of Indian Textile and Clothing industry

Indian T&C market is estimated at Rs. 2.55 Trillion (2007-08) with exports accounting for 35% of the total market value. The industry has significant dependence on exports with EU27 being the largest export market, accounting for 33% of the total T&C exports by value in 2007-08. US is the second largest export market for Indian T&C products with a share of 21% by value of total T&C exports in 2007-08. Other important export markets are UAE (6%), China (5%), Bangladesh (3%) and Japan (1%).

The recent economic slowdown has significantly impacted the major export markets of Indian T&C industry i.e. EU27, US and Japan thus, negatively impacting the Indian T&C industry. During Apr – Dec 2008, India's garment exports grew by 7% (y-o-y) as against a growth of 9% (y-o-y) in FY08 whereas India's Textile exports declined by 4% (y-o-y) as against a growth of 21% (y-o-y) in FY08.

Decline in export demand has resulted in drop in production of T&C industry. The Index of Industrial Production (IIP) for Cotton textiles has 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. Decline has also been observed in the IIP for Textile products including apparel (2.3% y-o-y in Feb 2009). This has severely affected the financial performance of Indian T&C industry. Analysis of a sample of Indian T&C companies reveals that both operating profit margin and net profit margin have declined significantly from Q3FY08 to Q3FY09 (refer Table

2.1). Majority of surveyed T&C manufacturers have reported an order book status of 15 days to a month thus, indicating a pessimistic future outlook.

Table 2.1: Net profit margin of Indian T&C companies³

	Q3 FY08	Q4 FY08	Q1 FY09	Q2 FY09	Q3 FY09
Spinning companies	-3%	-8%	-5%	-9%	-18%
Weaving companies	7%	5%	4%	4%	3%
Garment companies	7%	7%	6%	5%	1%
Made-ups companies	3%	0%	-4%	-4%	-2%

Over the last few years, Indian T&C industry had 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. As highlighted in Table 2.2, the interest coverage ratio of T&C manufacturers has declined significantly from Q3FY08 to Q3FY09.

Table 2.2: Interest coverage ratio⁴ of Indian T&C companies³

	Q3 FY08	Q4 FY08	Q1 FY09	Q2 FY09	Q3 FY09
Spinning companies	0.6	Negative	0.3	Negative	Negative
Weaving companies	2.9	3.1	1.9	2.1	1.8
Garment companies	4.5	4.3	3.4	2.3	1.6
Made-ups companies	1.8	0.9	0.3	Negative	0.7

Decline in production of T&C industry has also negatively influenced employment in the sector. Since information from primary survey was not sufficient to draw statistically significant inferences regarding job loss in this industry, iMaCS has analysed⁴ the job loss in Indian T&C industry based on

³ Based on analysis of a sample of 81 Indian companies

⁴ Interest coverage ratio has been calculated by dividing earnings before interest and taxes (EBIT) by the interest expenses of the same period. The lower the ratio, the more the company is burdened by debt expense.

the decline in average IIP⁵. The average IIP for Textiles and Textile products has witnessed decline of 1.44% (month-on-month average) from June 2008 to February 2009; considering that T&C industry has not witnessed any major technological change over the nine month period under discussion, the loss in production of 1.44% is estimated to have resulted in a loss of 5 – 6 lakh jobs.

3. Impact of economic slowdown on the demand of textile and clothing

3.1 Impact of economic slowdown on T&C imports by EU27

EU27 is the largest export market for Indian T&C industry, accounting for 33% of India's total T&C exports by value in 2007-08. It is the largest export market for Indian yarn (accounting for 17% of India's total yarn export by value) and Indian garments (accounting for 47% of India's total garment export by value) as well as the second largest export market for fabric (accounting for 13% of the total fabric export by value) and Indian made-ups (accounting for 39% of India's total made-ups export by value) in 2007-08.

EU27 witnessed an economic slowdown from the third quarter of 2008 with its GDP declining by 0.2% (quarter on quarter) in Q3, 2008, followed by a decline of 1.5% in Q4, 2008.

Table 3.1: Increase / decrease in T&C imports by EU27 in value terms during 2008 (2007)

	Q1	Q2	Q3	Q4	Jan- Dec
Yarn	-8% (5%)	-10% (-0.2%)	-15% (2%)	-21% (-2%)	-13% (1%)
Fabric	-9% (3%)	-13% (0%)	-12% (-0.1%)	-18% (-4%)	-13% (-0.2%)
Garments	-0.6% (6%)	0.3% (5%)	0.8% (5%)	0.6% (4%)	0.3% (5%)
Made-ups	-3% (10%)	-0.7% (4%)	0.4% (10%)	-4% (5%)	-2% (7%)
Total T&C	-2.3% (5%)	-2.5% (3.3%)	-1.8% (4.6%)	-5% (2.4%)	-2.9% (4.0%)

As seen from Table 3.1, yarn imports by EU27 witnessed an impact of this economic slowdown with value-wise yarn imports declining by 15% (y-o-y) in Q3, 2008 (as against an increase of 2% y-o-y in

⁵ Refer Annexure III of the report for details

Q3, 2007) and 21% (y-o-y) in Q4, 2008 (as against a decline of 2% in Q4, 2007). Likewise, value-wise fabric imports declined by 12% (y-o-y) in Q3, 2008 and by 18% (y-o-y) in Q4, 2008.

Impact of economic slowdown was also observed in garment imports with the import value almost stagnating in Q3, 2008 and Q4, 2008 (as against an increase of 5% y-o-y and 4% y-o-y respectively in the same period of previous year). The import of made-ups by EU27 also registered a decline of 4% (y-o-y) by value in Q4, 2008 as against an increase of 5% (y-o-y) in Q4, 2007.

3.2 Impact of economic slowdown on T&C imports by UK

UK is the largest export market for Indian T&C industry in the EU27, accounting for 7.5% of India's total T&C exports by value in 2007-08. The country accounts for 1.5% of India's total yarn export value, 4.7% of India's total fabric export value, 12.3% of India's total garment export value and 7% of India's total made-ups export value in 2007-08.

UK witnessed an economic slowdown from Q3, 2008 with its GDP falling by 1.5% in Q4, 2008 after a 0.6% drop in the previous quarter.

Table 3.2: Increase / decrease in T&C imports by UK in value terms during 2008 (2007)

	Q1	Q2	Q3	Q4	Jan- Dec
Yarn	-16% (-4%)	-12% (-7%)	-21% (-5%)	-20% (-11%)	-17% (-7%)
Fabric	-11% (-0.6%)	-19% (7%)	-22% (3%)	-24% (-6%)	-19% (0.5%)
Garments	-11% (1%)	-13% (4%)	-7% (3%)	-3% (-1%)	-9% (2%)
Made-ups	-12% (13%)	-11% (2%)	-15% (4%)	-9% (-10%)	-12% (2%)
Total T&C	-11% (1.6%)	-13% (3.2%)	-10% (2.9%)	-7% (-2.4%)	-10% (1.3%)

As observed in Table 3.2, yarn imports by UK witnessed an impact of economic slowdown with value-wise imports declining by 21% (y-o-y) in Q3, 2008 (as against a decline of 5% y-o-y in Q3, 2007) and by 20% (y-o-y) in Q4, 2008 (as against a decline of 11% y-o-y in Q4, 2007). Likewise,

value-wise fabric imports declined by 22% (y-o-y) in Q3, 2008 (as against an increase of 3% y-o-y in Q3, 2007) and by 24% (y-o-y) in Q4, 2008 (as against a decline of 6% y-o-y in Q4, 2007).

Garment imports in value terms declined significantly in Q1, 2008 (by 11% y-o-y), Q2, 2008 (by 13% y-o-y) and Q3, 2008 (by 7% y-o-y) as against an increase in each of the three quarters of 2007; though the decline moderated in Q4, 2008 (to 3% y-o-y). Made-ups imports by UK also witnessed a significant decline during 2008 with made-ups import value declining by 12% (y-o-y) in Q1, 2008, 11% (y-o-y) in Q2, 2008, 15% (y-o-y) in Q3, 2008 and 9% (y-o-y) in Q4, 2008.

3.3 Impact of economic slowdown on T&C imports by US

US is the second largest export market for Indian T&C industry, accounting for 21% of India's total T&C exports by value in 2007-08. The country is the largest export market for Indian made-ups (accounting for 43% of India's total made-ups export value) and the second largest export market for garments (accounting for 28% of India's total garment export value). Indian T&C industry also exports yarn and fabric to US however, US accounts for only 2% and 6% share of India's total yarn export value and fabric export value, respectively.

Economic growth in US fell by 0.3% between June and September, 2008. Retail sales of clothing and clothing accessories in US started declining from September, 2008 with a significant decline in November, 2008 (by 8% y-o-y), December, 2008 (by 10% y-o-y) and January, 2009 (by 10% y-o-y) owing to the economic slowdown and resulting drop in expenditure. On account of reduced sales, the inventory to sales ratio of the US clothing and clothing accessories stores has increased from 2.55 in September, 2008 to 2.73 in December 2008.

Table 3.3 (a): Increase / *decrease* in T&C imports by US in value terms during 2008 (2007)

	Q1	Q2	Q3	Q4	Jan- Dec
Yarn	-9% (-11%)	-10% (-12%)	-4% (-10%)	-13% (-4%)	-9% (-9%)
Fabric	-0.04% (-2%)	-5% (0%)	-6% (3%)	-19% (4%)	-7% (1%)
Garments	-5% (10%)	-3% (4%)	-2% (1%)	-3% (-1%)	-3% (3%)
Made-ups	1% (7%)	-0.3% (5%)	-3% (7%)	-6% (7%)	-2% (6%)
Total T&C	-3.8% (8%)	-2.7% (3.5%)	-2.4% (1.9%)	-4.5% (0.7%)	-3.3% (3.4%)

Table 3.3 (b): Increase / *decrease* in T&C imports by US in value terms during 2009 (2008)

	Jan	Feb
Yarn	-27% (-6%)	-29% (-5%)
Fabric	-25% (3.5%)	-32% (4%)
Garments	-6% (-5%)	-17% (1.8%)
Made-ups	-11% (-0.6%)	-24% (11%)
Total T&C	-8% (-4%)	-19% (3.8%)

As observed in Table 3.3(a), garment imports by US witnessed a decline since Q1, 2008 with garment import value declining by 3.2% (y-o-y) in Jan – Dec 2008 (as against an increase of 3.2% y-o-y in 2007). As seen from Table 3.3(b), decline in garment imports continued in 2009 with the import value declining by 6.3% (y-o-y) in January 2009 and by 16.5% (y-o-y) in February, 2009.

Jan – Dec 2008 also witnessed a decline of 2.1% (y-o-y) in made-ups import value by US (as against an increase of 6.4% y-o-y in 2007). Decline in made-ups import value worsened in H2, 2008 with import value declining by 3% (y-o-y) in Q3, 2008 (as against an increase of 7% y-o-y in Q3, 2007)

and by 6% (y-o-y) in Q4, 2008 (as against an increase of 7% in Q4, 2007). Decline in imports continued in 2009 with made-ups import value declining by 10.7% (y-o-y) in January 2009 and 23.6% (y-o-y) in February 2009.

Yarn import value by US also declined in each quarter of 2008 however, in line with the decline observed in 2007; the trend continued in January 2009 and February 2009 with value-wise yarn imports declining by 26.5% (y-o-y) and 28.5% (y-o-y) respectively. Fabric imports by US declined 19% (y-o-y) by value in Q4, 2008 (as against an increase of 4% y-o-y in Q4, 2007) indicating an impact of economic slowdown. Decline in fabric imports continued in 2009, with import value declining by 25.2% (y-o-y) and 31.5% (y-o-y) in January and February respectively.

3.4 Impact of economic slowdown on T&C imports by Japan

Japan accounts for only 1% of India's total T&C export value (2007-08); China being the major exporter of textile and clothing products to Japan, accounts for over 70% of Japan's total T&C imports.

Japan accounts for 2.2% of India's total yarn export value, 0.4% of India's total fabric export value and 1.4% of India's total made-ups export value in 2007-08. Though Japan is world's third largest importer of garments with a share of 6.7% in world clothing imports in 2007, the country accounts for only 1.1% of India's total garment export value in 2007-08.

Japan is witnessing an economic slowdown with the country's economy shrinking by 0.1% in Q3, 2008 after shrinking by 0.9% in the April to June, 2008.

Table 3.4: Increase / *decrease* in T&C imports by Japan in value terms during 2008

	Q1	Q2	Q3	Q4	Jan- Dec
Yarn	-2%	-0.7%	-2%	-17%	-5%
Fabric	-3%	-5%	5%	-14%	-5%
Garments	-7%	-10%	-3%	-3%	-6%
Made-ups	-3%	-4%	7%	3%	0.8%
Total T&C	-6%	-9%	-1.7%	-4.1%	-5%

As observed in Table 3.4, value-wise yarn imports by Japan declined by 17% (y-o-y) in Q4, 2008 indicating an impact of economic slowdown. Decline in yarn imports continued in January 2009 with import value declining by 31.6% (y-o-y). Similar trend was observed in fabric imports with import value declining by 14% (y-o-y) in Q4, 2008 and by 22.4% (y-o-y) in January 2009.

Value-wise garment imports by Japan witnessed a significant decline in Q1, 2008 (by 7% y-o-y) and Q2, 2008 (by 10% y-o-y) however, the decline moderated to 3% (y-o-y) in Q3, 2008 and Q4, 2008. The trend reversed in January 2009 with garment import value increasing by 7.5% (y-o-y) (as against a decline of 2.5% y-o-y in January 2008). Made-ups imports by Japan witnessed a growth of 7% (y-o-y) in Q3, 2008 and 3% (y-o-y) in Q4, 2008 in value terms. The trend continued in January 2009 with import value increasing by 11% (y-o-y).

4. Comparative performance of Indian T&C industry in identified global markets

4.1 Yarn exports to identified global markets

As observed in Table 4.1.1, India maintained its value share in the yarn imports of EU27, US and Japan and registered marginal gain in value share of UK's yarn imports during 2008. However, owing to the decline in total yarn imports by these markets, India's value-wise yarn exports to these regions declined significantly. On the other hand, China's yarn exports to EU27 and US increased in value terms. Turkey also witnessed an increase in export value to US and UK.

*Table 4.1.1: Value-wise yarn imports from competing countries
by the identified global markets*

Global markets	Market Share in 2008 (2007)			Increase/decrease in imports in 2008 (2007)		
	India	China	Turkey	India	China	Turkey
EU27	4.4% (4.5%)	7% (6%)	5% (5%)	-15% (4.5%)	5 % (35%)	-15% (-5%)
UK	5% (4.3%)	5% (4.6%)	9% (7%)	-2.9% (19%)	-4.5% (4.1%)	1.6% (-3.8%)
US	4.8% (4.7%)	7% (6%)	3.9% (3%)	-8% (9%)	2.2% (24%)	20% (9%)
Japan	9% (9%)	21% (22%)	Negligible	-10% (-1%)	-8 % (16%)	

*Table 4.1.2: Volume-wise yarn imports from competing countries
by the identified global markets*

Global markets	Market Share in 2008 (2007)			Increase/decrease in imports in 2008 (2007)		
	India	China	Turkey	India	China	Turkey
EU27	6% (6%)	11% (8%)	6% (6%)	-13% (8%)	14% (53%)	-15% (-7%)
UK	4.8% (4.2%)	11% (10%)	10% (8%)	-1.2% (10%)	2.3% (37%)	15% (1.6%)
US	6% (6%)	11% (10%)	2.5% (2%)	-11% (4.1%)	4.4% (52 %)	8% (9%)
Japan	6% (6%)	18% (19%)	Negligible	2.3% (-3.7%)	-6% (10%)	

During Jan – Feb 2009, India witnessed a significant decline in yarn exports to US (2.5% y-o-y in January 2009 and 57% y-o-y in February 2009 in value terms) resulting in marginal drop in India's market share to 3.7% in Jan – Feb 2009 (as against 4% during the same period in 2008). China also witnessed significant decline in yarn exports to US (29% y-o-y in January 2009 and 19% y-o-y in February 2009). On the other hand, value-wise exports of Turkey to US increased by 49% (y-o-y) in January 2009 and 28% (y-o-y) in February 2009 resulting in increase in Turkey's market share to 4.6% in Jan – Feb 2009 as compared to 2.4% during the same period in 2008.

Price realisation in terms of Euros/kg of yarn was also affected in 2008 with average price realisation for yarn exports to EU27 declining by 1.4% (y-o-y) and that for yarn exports to UK declining by 2.2% (y-o-y).

4.2 Fabric exports to identified global markets

As seen from Table 4.2.1, India's value-wise fabric exports to EU27 (which is the second largest export market for Indian fabric) declined by 7% (y-o-y) during 2008. However, on account of decline in total fabric imports by EU27, India maintained its value share in the fabric imports of EU27. India's fabric exports to US increased significantly (23% y-o-y by value) during 2008 resulting in increase in market share. China witnessed an increase in fabric exports to EU27 and US resulting in increase in market share whereas Turkey witnessed a significant decline in exports to each of the identified global markets.

*Table 4.2.1: Value-wise fabric imports from competing countries
by the identified global markets*

Global markets	Market Share in 2008 (2007)			Increase/decrease in imports in 2008 (2007)		
	India	China	Turkey	India	China	Turkey
EU27	2.1% (2%)	10% (9%)	7% (7%)	-7% (-3.2%)	1.9% (8%)	-14% (5%)
UK	8% (7%)	8% (8%)	8% (9%)	-11% (-1.7%)	-18% (7%)	-23% (9%)
US	4.2% (3.2%)	22% (18%)	2.5% (2.4%)	23% (1.5%)	11% (10%)	-5% (6%)
Japan	1.4% (1.4%)	42% (41%)	0.6% (0.7%)	-0.5% (29 %)	-3.1% (2.1%)	-19% (16%)

Table 4.2.2: Volume-wise fabric imports from competing countries by the identified global markets

Global markets	Market Share in 2008 (2007)			Increase/decrease in imports in 2008 (2007)		
	India	China	Turkey	India	China	Turkey
EU27	3.1% (3.7%)	18% (19%)	8% (9%)	-9% (2.1%)	3% (19%)	-11% (7%)
UK	8% (8%)	12% (12%)	6% (7%)	-13% (-13%)	-16% (8%)	-23% (5%)
US	6% (4.6%)	22% (18%)	1.7% (1.9%)	27% (1.8%)	8% (4.5%)	-16% (13%)
Japan	2.9% (2.7%)	48% (50%)	Negligible	8% (20%)	-3.4% (-3.5%)	

During Jan – Feb 2009, India witnessed a significant decline in fabric exports to US (5.4% y-o-y in January 2009 and 35% y-o-y in February 2009 in value terms) however, India’s market share increased marginally to 4% in Jan – Feb 2009 (as against 3.6% during the same period in 2008) on account of a significant decline in total fabric imports by US during the same period. China also witnessed significant decline in fabric exports to US (21% y-o-y in January 2009 and 37% y-o-y in February 2009). Decline was also observed in Turkey’s fabric exports to US with export value declining by 37% (y-o-y) in January 2009 and by 28% (y-o-y) in February 2009.

4.3 Garment exports to identified global markets

As observed in Table 4.3.1, India’s garment exports to US declined by 3% (y-o-y) in value terms during 2008. Since total garment imports by US declined by 3% (y-o-y) during the same period, India maintained its value share in the garment imports of US. On the other hand, despite decrease in total garment imports by US during 2008, Bangladesh and Vietnam witnessed a significant increase in garment export to US.

India’s garment exports to EU27 increased by 3.2% (y-o-y) during 2008 resulting in marginal increase in market share however, Bangladesh, China, Sri Lanka and Vietnam witnessed comparatively higher increase in their garment export value to EU27. India’s garment export to Japan increased by 5% y-o-y during 2008.

Table 4.3.1(a): Value-wise garment imports from competing countries by the identified global markets

Global markets	Market Share in 2008 (2007)			Increase/ decrease in imports in 2008 (2007)		
	India	Bangladesh	China	India	Bangladesh	China
EU27	3.8% (3.7%)	4.2% (3.9%)	24% (21%)	3.2% (1.1%)	7% (-4.6%)	14% (14%)
UK	6% (6%)	6% (5 %)	33% (26%)	-6% (14%)	-1.1% (-2.7%)	17% (12%)
US	4.3% (4.3%)	4.8% (4.2%)	32% (31%)	-3% (-0.5%)	11% (7%)	0.8% (23%)
Japan	0.8% (0.7%)	Negligible	84% (84%)	5% (-10%)		-5% (2.5%)

Table 4.3.1(b): Value-wise garment imports from competing countries by the identified global markets

Global markets	Market Share in 2008 (2007)			Increase/ decrease in imports in 2008 (2007)		
	Sri Lanka	Turkey	Vietnam	Sri Lanka	Turkey	Vietnam
EU27	1% (1%)	7% (8%)	1.2% (1%)	8% (7%)	-11% (8%)	10% (11%)
UK	3.9% (3.3%)	10% (12%)	1.5% (1.3%)	6% (0.3%)	-27% (9%)	10% (9%)
US	2.1% (2.1%)	0.6% (0.8%)	7% (6%)	-7% (-7%)	-28% (-23%)	20% (35%)
Japan	Negligible	Negligible	3.5% (3.1%)			7% (13%)

Table 4.3.2(a): Volume-wise garment imports from competing countries by the identified global markets

Global markets	Market Share in 2008 (2007)			Increase/ decrease in imports in 2008 (2007)		
	India	Bangladesh	China	India	Bangladesh	China
EU27	3% (4%)	6% (8%)	28% (34%)	3.9% (6%)	7% (-1.2 %)	12% (14%)
UK	6% (6%)	9% (9%)	35% (32%)	1.5% (22%)	3.6% (-1.2 %)	14% (22%)
US	3.9% (3.7%)	6% (6%)	34% (34%)	1.7% (3.3%)	6% (3.4%)	-3.1% (24%)
Japan	0.5% (0.4%)	Negligible	91% (92%)	1.2% (-16 %)		-1.9% (-2.3%)

Table 4.3.2(b): Volume-wise garment imports from competing countries by the identified global markets

Global markets	Market Share in 2008 (2007)			Increase/decrease in imports in 2008 (2007)		
	Sri Lanka	Turkey	Vietnam	Sri Lanka	Turkey	Vietnam
EU27	0.9% (1.2%)	4.6% (7%)	1.6% (3.1%)	6% (7%)	-12% (3.7%)	-30% (25%)
UK	3.7% (3.6%)	7% (9%)	2% (2%)	9% (9%)	-22% (3.7%)	2.4% (17%)
US	1.7% (1.8%)	0.3% (0.5%)	7% (5%)	-7 % (-9%)	-38% (-33%)	20% (34%)
Japan	Negligible	Negligible	2.9% (2.5%)			15% (12%)

During Jan – Feb 2009, India’s garment exports to US in value terms declined by 7.8% (y-o-y) in January 2009 and 8.6% (y-o-y) in February 2009, though India maintained its market share in US garment import value on account of decline in total garment imports by US during the same period. Unlike India, China and Vietnam witnessed an increase in garment exports to US during January 2009 (7.5% y-o-y and 16% y-o-y respectively in value terms) but exports declined in February 2009 (12% y-o-y and 6% y-o-y respectively in value terms). As a result, market share of China in Jan – Feb 2009 increased to 33% (as against 29% during the same period in 2008) and that of Vietnam increased to 8.5% (as against 7.2% during the same period in 2008). Bangladesh witnessed an increase in the garment export value to US by 15% (y-o-y) in each of January 2009 and February 2009, hence its market share increased to 6% in Jan – Feb 2009 (as against 4.6% during the same period in 2008).

4.4 Made-ups exports to identified global markets

As seen from Table 4.4.1, India’s made-ups exports to EU27 declined by 6% (y-o-y) in value terms as against Bangladesh and China who witnessed a significant increase in made-ups exports by value during 2008. However, India maintained its value share in the made-ups imports of EU27 since the total made-ups imports by EU27 declined during the same period.

India’s made-ups exports to US witnessed a growth of 2.1% (y-o-y) though the growth moderated as compared to 2007 (5% y-o-y).

*Table 4.4.1 (a): Value-wise made-ups imports from competing countries
by the identified global markets*

Global markets	Market Share in 2008 (2007)			Increase/decrease in imports in 2008 (2007)		
	India	Bangladesh	China	India	Bangladesh	China
EU27	7% (7%)	2.1% (1.9%)	23% (21%)	-6% (11%)	8% (19%)	6% (9%)
UK	11% (11%)	5% (5%)	35% (31%)	-12% (10%)	-11% (-3%)	-0.2% (2.1%)
US	11% (11%)	0.6% (0.6%)	56% (55%)	2.1% (5%)	9% (7%)	0.7% (12%)
Japan	1.2% (1.2%)	Negligible	84% (84%)	1.9% (-0.5%)		1.3% (3.4%)

*Table 4.4.1 (b): Value-wise made-ups imports from competing countries
by the identified global markets*

Global markets	Market Share in 2008 (2007)			Increase/decrease in imports in 2008 (2007)		
	Sri Lanka	Turkey	Vietnam	Sri Lanka	Turkey	Vietnam
EU27	Negligible	10% (10%)	0.9% (0.9%)		-7% (2.5%)	-6% (8%)
UK	Negligible	8% (9%)	0.7% (0.7%)		-25% (-7%)	-17% (0%)
US	Negligible	2.3% (2.7%)	1.1% (1.1%)		-15% (-2.1%)	-1.8% (8%)
Japan	Negligible	Negligible	3.4% (3.2%)			4.5% (9%)

*Table 4.4.2 (a): Volume-wise made-ups imports from competing countries
by the identified global markets*

Global markets	Market Share in 2008 (2007)			Increase/decrease in imports in 2008 (2007)		
	India	Bangladesh	China	India	Bangladesh	China
EU27	9% (9%)	3.2% (2.7%)	30% (28%)	-1.8% (15%)	16% (18%)	8% (16%)
UK	13% (14%)	7% (7%)	35% (33%)	-9% (11%)	0.2% (3.6%)	3.3% (19%)
US	8% (7%)	1.4% (1.1%)	64% (64%)	1.2% (2.1%)	14% (10%)	-6% (10%)
Japan	0.9% (0.8%)	0.7% (0.6%)	86% (86%)	14% (-7%)	24% (7%)	1.8% (-0.4%)

Table 4.4.2(b): Volume-wise made-ups imports from competing countries by the identified global markets

Global markets	Market Share in 2008 (2007)			Increase/decrease in imports in 2008 (2007)		
	Sri Lanka	Turkey	Vietnam	Sri Lanka	Turkey	Vietnam
EU27	Negligible	9% (9%)	1.4% (1.5%)		-7% (1.9%)	-5% (9%)
UK	Negligible	6% (7%)	0.8% (1.1%)		-16% (-11%)	-24% (3.6%)
US	Negligible	1.6% (1.7%)	0.8% (0.6%)		-14% (-10%)	29% (-17%)
Japan	Negligible	Negligible	4.6% (4.6%)			2% (2.2%)

During Jan – Feb 2009, India witnessed a decline in made-ups exports to US (11% y-o-y in January 2009 and 24% y-o-y in February 2009 in value terms) but India was able to maintain its market share at 12.7% owing to a decline in total made-ups imports by US during the same period. China also witnessed significant decline in made-ups exports to US (6% y-o-y in January 2009 and 29% y-o-y in February 2009). Imports from Vietnam witnessed an increase in January 2009 (50% y-o-y in value terms) followed by a marginal decline in February 2009 (3% y-o-y in value terms) resulting in increase in its market share in Jan – Feb 2009 to 1.6% (as against 1.1% during the same period in 2008). Though Bangladesh has a small market share in US made-ups imports (1% in Jan – Feb 2009), the country witnessed an increase in its made-ups export value to US by 7% (y-o-y) in January 2009 and 33% (y-o-y) in February 2009.

Analysis of performance of competing countries reveals that the economic slowdown has impacted all competing countries but the intensity of impact is varied across these countries.

5. Analysis of cost competitiveness of Indian T&C industry vis-à-vis competing countries

iMaCS conducted an analysis of cost competitiveness of Indian T&C industry vis-à-vis identified competing countries. For benchmarking costs in India against the competing countries, the cost structure of each segment of the Indian T&C industry was analysed. Different cost drivers were then studied to evaluate their impact on the cost structure in India vis-à-vis the competing countries. The cost drivers analysed included raw material cost, labour cost, costs of power, infrastructure issues, interest rates, taxes and duties and their cascading impact, etc.

Since each of the competing countries was competitive in certain product segments while was not a key player in certain other product segments, the comparison of cost competitiveness was based on a product country matrix.

Sub-sector	Product – country matrix				
	China	Bangladesh	Sri Lanka	Vietnam	Turkey
Yarn	√				√
Fabric	√				√
Apparel & Made-ups	√	√	√	√	√

To devise a product-country matrix India's share in total product imports of identified global markets was set as benchmark. Countries having a market share equal to or higher than that of India were considered for comparison⁶.

As seen from Table 5.1, India has a significant cost disadvantage in manufacturing of cotton yarn, manmade yarn, cotton fabric and manmade fabric vis-à-vis China on account of high raw material cost, high power cost and high finance cost.

⁶ Though Sri Lanka's market share in garment imports of identified global markets is less than that of India, the country is gaining share in garment imports of EU27 and UK thus, it has been included in comparative analysis.

Table 5.1: Total manufacturing cost advantage / (disadvantage)⁷ of Indian T&C industry vis-à-vis competing countries

	China	Turkey
Cotton yarn manufacturing	(3.6%)	32.7%
Manmade yarn manufacturing	(6.4%)	26.2%
Cotton fabric manufacturing	(7%)	10.6%
Manmade fabric manufacturing	(4.3%)	13.3%

	China	Turkey	Bangladesh	Vietnam	Sri Lanka
Cotton garment manufacturing	(1.5%)	30.9%	(10.1%)	(5%)	(6%)
Cotton made-ups manufacturing	(4.2%)	31.9%	(11.8%)	(7.9%)	(5.2%)

As regards manufacturing of garments and made-ups, India has a significant cost disadvantage vis-à-vis each competing country except Turkey. India's cost disadvantage in garment manufacturing vis-à-vis China is primarily on account of high power cost and high finance cost. However, Bangladesh, Vietnam and Sri Lanka have a cost advantage over India with regards, raw material cost, employee cost and power cost which results in their cost competitiveness in garment and made-ups manufacturing. Moreover, on account of free market access available to Bangladesh (for exports to EU27 and Japan) and to Sri Lanka (for exports to EU27), the countries have a further cost advantage vis-à-vis India.

In addition to the analysed costs, Indian T&C manufacturers and exporters incur additional costs on account of the following:

- ❖ Non-refund of state level taxes and duties.
- ❖ Anomaly in duty drawback rates; the rates are insufficient to neutralize the incidence of all duties.
- ❖ High transaction costs

⁷ This does not factor in the market access advantages and logistics cost differentials and impact of taxes and duties

6. Major policy aspects impacting the industry

Government of India has taken certain measures for improving the competitiveness of Indian T&C industry though, certain policy related issues are impacting the growth of the industry.

6.1 Policy approach towards Cotton fibre

❖ Hike in cotton MSP

MSP for cotton has been increased from Rs 2,055 per quintal in CY2007-08 to Rs 2,850 per quintal in CY2008-09 which has resulted in strengthening of cotton prices. In December 2008, S-6 variety of cotton was priced at Rs 21,950 per candy as against Rs 19,800 per candy in December 2007. This hike in cotton price is estimated to have resulted in 6.2% increase in cost of yarn, 3.7% increase in cost of fabric and 1.9% increase in cost of garment.

Moreover, hike in MSP has resulted in artificial shortage of cotton in domestic market with procurement by CCI (up to January 20th of CY2008-09) going up by 6 times (y-o-y), of which 99% has been procured under MSP.

❖ 5% export incentive for raw cotton

On 17th February 2009, Central Government has introduced 5% export incentive for raw cotton through the '*Vishesh Krishi aur Gramodyog Yojana*'. Majority of raw cotton from India is exported to China, Bangladesh and Pakistan who are the key competitors to Indian T&C industry. Export of cotton at competitive prices to these countries is likely to hamper the competitiveness of Indian T&C industry vis-à-vis these countries.

6.2 Policy approach towards manmade fibre

India is one of the largest producers of manmade fibres in the world; the country is a net exporter of polyester staple fibre and filament yarn with exports increasing significantly over the years. However, despite a strong base in manmade fibre production, manmade fibres constituted only 36% of India's total fibre consumption in 2007 as against 62% in world fibre consumption. High polyester prices in India, unlike China could be one of reasons for preference in cotton consumption. Anomaly in duty

structure⁸ of manmade fibres is partly responsible for the existing price differential between cotton and polyester.

6.3 Stringent labour laws

T&C industry comes under the purview of Contract Labour Act, 1970 which prohibits contract labour for the work that is perennial in nature. In addition, The Factories Act, 1948 poses restriction on the maximum working hours which restricts the ability of units to meet peak season demand.

Moreover, units employing over 100 people currently fall under the purview of the Industrial Disputes Act, 1947 (IDA, 1947). This creates unfair discrimination amongst large companies and the smaller ones and thus, is partly responsible for lack of economies of scale and poor competitiveness of Indian T&C industry.

6.4 Delay in disbursements of refunds

Though TUFS has supported modernisation and expansion in the T&C industry, delay in disbursement of interest compensation under TUFS has been a major deterrent. Analysis reveals that there has been on an average one year backlog in the disbursement of interest compensation. This is a significant cost to the industry and has compounded the current working capital problems of the industry.

⁸ Refer slide 259 and 260 of the report for details

7. Analysis of government interventions by competing countries

7.1 Key interventions made by Chinese government

❖ Tax Credits and Rebates

- Chinese government has raised the export rebate rate for textiles and apparels thrice, from 11% at the beginning of 2008, to 15% by February 2009, the highest level in 10 years.
- 1% increase in export rebate is estimated to distribute 7.6 billion Yuan (US \$ 1.11 billion) to exporting companies.

❖ Reduction in lending rates

- Government is supporting T&C industry by helping them in getting low-interest loans from the state-owned banks.

❖ Textile plan for revamping T&C industry, which focuses on

- Developing new markets like Russia, Brazil, India and Africa as well as domestic market with focus on rural markets
- Investing in updated technology and developing brands
- Saving energy
- Providing financial support to SMEs in terms of credit guarantees

7.2 Key interventions made by Vietnamese government

❖ Reduction in taxes

- Vietnamese government has announced plans to halve the value-added tax on cotton imports from 10% to 5%.

❖ Export subsidies

- Vietnamese government has agreed to provide support to the country's T&C industry at a ratio of forty Vietnamese dong per one dollar in exports value i.e. exports valued at US \$ 1 million would be given a support of VND 40 million from the government.
- Vietnam T&C industry achieved an export turnover of US \$ 9.1 billion in 2008; this equates to around US \$ 21 million in export subsidies.

❖ Reduction in lending rates

- Vietnamese government has assigned the State Bank of Vietnam to grant low-interest loans to Vietnam Textile Corporation (VTC) in order to import cotton.

7.3 Key interventions made by Turkish government

❖ **Reduction in lending rates**

- Government has reduced lending rates by 3.75% over the period of October to December 2008.

❖ **Protection for domestic yarn industry**

- Government has taken anti-dumping sanctions to protect the spun and filament yarn manufactures from Asian competition

7.4 Key interventions made by Bangladeshi government

❖ **Incentives for the development of backward linkages**

- 15% cash subsidy of the fabric cost is given to exporters who source fabric locally.
- Incentives are extended to "deemed exporters" supplying indigenous raw materials to export-oriented industries.

7.5 Key interventions made by Sri Lankan government

❖ **Export incentive program based on maintaining revenue and employment**

- Sri Lanka's government is giving a 5% incentive payment in domestic currency to exporters who show 5% increase in export proceeds remitted to the country over the same quarter last year. Such exports are required to have prescribed minimum domestic value addition. The incentive payment made will be tax-free.

❖ **Depreciation of Rupee**

- In order to limit the slowdown in export sales, the Central Bank accepted a depreciation of the rupee which fell about 7% in 2008 against the dollar.

8. Recommendations

Indian T&C industry has a significant employment potential and export potential in case the envisioned growth target is achieved. However, during Apr - Dec, 2008 production and exports of T&C industry have missed the expected growth targets thus, requiring a strategic intervention to

realise the envisioned targets. Analysis reveals that the Indian T&C industry is facing issues at two broad levels:

➤ *Current issues, arising because of recent economic slowdown*

- Decline in demand from global markets
- Liquidity crisis

➤ *Issues, affecting long term growth of industry*

- Significant dependence on Cotton products
- Lack of skilled labour

The major impediments to the growth of Indian T&C industry are:

- ❖ Lack of cost competitiveness in majority of T&C products as compared to China, Bangladesh, Vietnam and Sri Lanka
- ❖ Delay in disbursement of TUFS assistance and other assistance
- ❖ High working capital interest
- ❖ High dependence on cotton products
- ❖ Lack of availability of skilled labour
- ❖ High dependence of T&C trade on EU27 and US markets

Strategic interventions are required by both the Government and the industry to ensure the growth of T&C industry.

8.1 Cost competitiveness

The major factors that have caused cost disadvantage in T&C industry are:

- ❖ High power cost
- ❖ High labour cost
- ❖ Anomalies in taxes and duties
- ❖ High transaction cost
- ❖ High import tariffs by global markets

Government should take steps to reduce the cost disadvantage of T&C manufacturers which is created on account of unfavorable government policies.

❖ **Captive power generation should be supported in the regions suffering from acute power shortage**

Power cost in India is on an average around 40% higher than that in the analysed competing countries. Moreover, the Indian T&C industry suffers from shortage of power for instance Tamil Nadu which accounts for around 40% of India's spinning activity and over 25% of total T&C activities has a declared power cut of 40%. Long term steps are being taken by the government to reduce the power shortage however, the industry needs a support during this crisis period.

Many T&C mills have their own captive power generation to meet their power requirement because of non-availability of quality and adequate power. However, as per industry feedback, captive power is two to three times costlier as compared to grid power. Liquid Fuels such as furnace oil and diesel used for captive power generation attract 10% basic customs duty and 14% excise duty; this coupled with high fuel prices makes the captive power costly.

Government should support captive power generation in the regions of acute power shortage by allowing exemption of customs and excise duty paid for the liquid fuels that are used for captive power generation.

❖ **Government should increase labour flexibility especially for the labour intensive sectors of T&C industry**

Indian Garment and Made-ups industry suffers from labour cost disadvantage as compared to the key competitors i.e. Bangladesh, Vietnam and Sri Lanka. To make this industry competitive, measures should be taken by the Government to increase labour flexibility by:

- ✓ Extending labour working hours
- ✓ Allowing Contract labour

- Government should consider routing the National Rural Employment Guarantee Programme (NREGA) through the T&C industry; in this regard, the industry can commit employment guarantee on the lines of the NREGA.
- ✓ Relaxing the norms of Industrial Disputes Act, 1947 with regards the number of workers.
- ❖ **Anomalies in taxes and duties should be streamlined**

Taxes and duties charged by the State Governments and local bodies are not refunded to the T&C manufacturers and exporters. Moreover, the duty drawback rates fixed by the Ministry of Finance are not sufficient to neutralize the incidence of all the duties paid by the exporters. In addition, there is delay in disbursement of duty drawback claims to the level of 40 – 60 days which affects the cash flow of the companies. Government should take the following steps to overcome this anomaly:

 - ✓ Refund State level taxes and duties
 - Till systematic corrections in the taxation policy are implemented, central government should devise a mechanism to refund the state level taxes and duties to the T&C exporters, the incidence of which is on an average 4%⁹ of the ex-factory price.
 - ✓ Revise duty drawback rates and expedite the drawback claim disbursement
 - Government should revise duty drawback rates to completely neutralize the incidence of all duties paid.
 - The disbursement of duty drawback claims should be expedited.
- ❖ **Other interventions required from the government**
 - ❖ **Negotiate better trade terms with major global T&C markets**

⁹ Government levies an additional customs duty of 4% on imported goods to counterbalance the sales tax, value added tax, local taxes and other charges leviable on sale or purchase or transportation of like goods in India.

Similarly a refund of 4%, equivalent to the incidence of state level taxes and duties should be provided to the T&C exporters to bring them at par with the global players.

Indian T&C trade faces comparative disadvantage on account of free market access available to Bangladesh, Sri Lanka and Turkey. Ministry of Commerce should negotiate better trade terms with the global T&C markets including Japan¹⁰.

❖ **Streamline EXIM procedures to reduce the transaction costs**

Indian EXIM processes involve more documentary procedures as compared to that in analysed competing countries which results in comparatively higher transaction costs. 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.

8.2 TUFS assistance

❖ **Government should take immediate steps to clear the backlog of TUFS as well as to revise the TUFS procedures for future applications**

Delay in disbursement of TUFS assistance results in significant additional cost. Government should take immediate steps 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.

8.3 Working capital

❖ **Government should take measures to overcome the working capital related problems of the industry**

T&C manufacturers pay working capital interest at the rate of 11 – 13%. Working capital requirement of the Cotton textile industry has increased on account of hike in cotton prices. Government should make provision to provide working capital loan for cotton on terms applicable for agriculture by reducing interest rate for working capital loan to 7%. 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.

8.4 Dependence on Cotton fibre

Unlike World T&C industry, Indian T&C industry is cotton dominated with Cotton fibre accounting for 62% of total fibre consumption (2007) and cotton T&C accounting for substantially higher share of the total T&C exports of India. Measures should be taken by the Government to promote the domestic consumption of manmade fibres.

❖ Comprehensive Fibre Policy

A **Comprehensive Fibre Policy** should be formulated in order to

- Reduce the dependence of Indian T&C industry on Cotton, which is an agricultural product
- Ensure availability of raw material (especially cotton and polyester) to the domestic T&C industry at competitive prices.

Till a fibre policy is formulated, Government should support the industry to reduce its dependence on cotton by the following measures:

✓ Abolish import duty on manmade fibres and their intermediates

Manmade fibres attract a 5% import duty as against cotton fibre on which the import duty has been recently reduced to zero. Moreover, polyester fibre intermediates attract a basic import duty of 5%. Import duty on polyester (and its intermediates), which is an important raw material for the T&C industry, affects its usage. Government should abolish the import duty on polyester fibre and its intermediates; this will aid reduction of polyester prices thereby increasing its share in total fibre consumption.

✓ Abolish excise duty on manmade fibre and their intermediates

Manmade fibres and textiles attract an effective excise duty of 4.12% as compared to zero excise duty on cotton. Moreover, polyester intermediate MEG attracts a higher excise duty (8.24%) as compared to polyester resulting in accumulation of CENVAT credit. Excise duty on manmade fibre and their intermediates should be abolished to promote the use of manmade fibres.

✓ Policy framework should promote export of value added products rather than fibres

Indian T&C industry should strive to export value added products since, this would result in more employment generation in the country. Government should consider withdrawing the export incentive for various fibres especially when the domestic industry is suffering from high raw material prices.

In addition to above, the following measures are required to ensure sustained growth of Indian T&C industry:

➤ **Joint Working Group with representation from Government and T&C industry, should be formulated to periodically review the performance of T&C industry**

Joint Working Group (JWG) comprising of members from the Ministry of Textiles, the Ministry of Finance, the Ministry of Commerce and members from T&C industry associations, should be formulated to periodically review the performance of T&C industry. The Working Group should periodically review the dynamics of the T&C export markets and examine the factors affecting the competitiveness of the T&C industry. The findings of the Working Group should support the Government to make necessary policy interventions in order to ensure long term growth of the industry.

➤ **Fabric and Garment sectors of the industry should improve cost competitiveness by upgrading technology and achieving economies of scale**

Weaving, Processing and Garment sectors of the industry are fragmented thus, lacking economies of scale. Moreover, of the total TUFs disbursement up to December 2008, weaving industry accounted for only 7.7% and Garment industry accounted for only 5% as against 34% of Spinning industry. This indicates that the sectors have not undergone significant technology up-gradation. Fabric industry and Garment industry should undertake technology up gradation as well as achieve economies of scale to become cost competitive.

➤ **Garment industry should explore new markets to reduce trade dependence on EU27 and US**

Indian garment exports have significant dependence on EU27 and US; EU27 accounts for 47% share of India's total garment export value whereas US accounts for 29%. Though India's

trade dependence on EU27 and US is in line with the World garment trade, Indian garment exports to the other leading garment importers are comparatively less.

Japan¹⁰ which is the third largest garment importer with a share of 6.7% in world clothing imports in 2007, accounts for only 1.1% of India's total garment export value. Similarly, Russia which is the fifth largest garment importer with a share of 4.1% in world clothing imports in 2007, accounts for only 0.6% of India's total garment export value.

Efforts should be made by the industry to diversify the garment export market by developing business in these markets to reduce its trade dependence on the EU27 and US.

➤ **Industry associations should ensure the availability of skilled labour for the industry**

Non-availability of trained labour is one of the primary business constraints mentioned by the industry. The initial cost of training is high which acts as a deterrent to in-house training initiatives by the industry because of high chances of losing the trained man power. Associations should establish **Skill Development centres** to ensure availability of skilled labour to the industry. The **Skill Development centres** should run certified training courses focusing on the specific skills required by the industry. Registration of skilled workers should be done at the Skill Development centres to maintain a databank of skilled labour.

¹⁰ Japan intends to reduce the share of Chinese textile and clothing in its total T&C imports to around 50% from the current 77%. This is likely to generate significant business opportunity for the other Asian garment exporters.

Source: Japan's International T&C Trade Office at Japan's Ministry of Economy