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TEXTILES & CLOTHING TRADE INDIA'S SHARE MAY DOUBLE BY 2015!

A new policy suggested by FICCI targets 20 per cent per annum growth in our exports for the next five years in order to enable us to double our share in world textiles and clothing exports.



The cotton and textiles industry has an overwhelming presence in the Indian economy. Apart from providing one of the basic necessities of life, the textiles industry also plays a pivotal role through its contribution to industrial output, employment generation and export earnings of the country. Currently, it contributes about 14 per cent to industrial production, 4 per cent to the GDP, and 17 per cent to the country's export

earnings. It provides direct employment to over 35 million people. The textiles sector is the second largest provider of employment after agriculture. Thus the growth and all-round development of this industry has a direct bearing on the improvement of the economy of the nation.

Cotton in India

Cotton is one of the principal crops of the country, providing substantial employment and making

significant contributions to export earnings. It engages around 6 million farmers, while another 40-50 million people depend on activities relating to cotton cultivation, cotton trade and cotton processing for their livelihood. It is the principal raw material for the domestic textile industry comprising 1608 spinning mills and 200 composite mills, with an installed capacity of 35.61 million spindles, 448,000 open-end rotors and 69,000 looms in the organised sector plus another 1219 small-scale spinning units with 4.00 million spindles and about 157,226 rotors in the small-scale decentralised sector. Cotton has turned out to be an incredibly good performer in the country's agricultural sector. India ranks first in cotton-cultivated area and second in production among all cotton producing countries in the world, next to China.

India has brought about a qualitative and quantitative transformation in the production of cotton since independence. However, in productivity (567 kg/ha), it is far behind many countries like USA (912 kg/ha) and China (1251 kg/ha) and world average (766 kg/ha). One of the major reasons for low yield is that 65 per cent area under cotton is rain-fed. The country's cotton output for the cotton season 2009-10 has been estimated at a record 29.5

million bales (of 170 kg each). First time in 2007-08 cotton season, cotton yield was about 567 kg/ hectare, which reduced to 524 in 2008-09 and

494 in 2009-10. With the further possibility of higher use of Bt seeds/ hybrid seeds and a decline in the cost of such seeds, it is projected that by

Even then, India remains a distant second to China in cotton production.

Recent years have seen significant improvements in Indian yield and production due to widespread introduction of genetically modified (GM) seed. Since commercial planting of GM seed was first permitted in 2002-03, its use has expanded to cover the majority of Indian cotton acreage—an estimated 80 per cent in 2009-10 (according to Indian Directorate of Cotton Development). As the use of GM seed has spread, Indian yields have risen 74 per cent (from 301 kg/ha in 2002-03 to 524 kg/ha in 2008-09), and the cotton harvest has grown 61 per cent.

Another factor affecting Indian cotton yields and production is rainfall. India has distinct wet and dry seasons and depends on the monsoon rains to nourish many of its agricultural crops. About 80 per

the terminal year of XI five-year plan (2007-12), the yield per hectare will increase to 700 kg and cotton production will reach the level of 39 million bales.

India devotes more land to cotton than any other country and claimed 30.4 per cent of the world's total cotton acreage in 2008-09, compared to 20.5 per cent for China and 9.9 per cent for the United States.

Table I
Area, Production and Yield of Cotton in India

Year	Area (million hectares)	Production (million bales of 170 kg each)	Yield (kg/hect)
1999-2000	8.731	15.6	304
2000-01	8.576	14.0	278
2001-02	8.730	15.8	308
2002-03	7.667	13.6	302
2003-04	7.630	17.9	399
2004-05	8.786	24.3	470
2005-06	8.677	24.1	472
2006-07	9.144	28.0	521
2007-08	9.439	31.5	560
2008-09	9.373	29.0	591

Source: The Cotton Corporation of India Ltd

Table II
State-wise Area, Production and Productivity of Cotton

(Area in million hectares, Production in million bales of 170 kg, Yield kg per hectare)

State	2006-07			2007-08			2008-09		
	Area	Production	Yield	Area	Production	Yield	Area	Production	Yield
Punjab	0.607	2.4	672	0.604	2.20	619	0.537	1.75	607
Haryana	0.530	1.5	481	0.483	1.60	563	0.455	1.40	610
Rajasthan	0.350	0.9	437	0.339	0.90	451	0.223	0.75	627
North Total	1.487	4.8	549	1.426	4.70	560	1.215	3.90	612
Gujarat	2.390	10.3	733	2.422	11.20	786	2.417	9.00	774
Maharashtra	3.107	5.0	274	3.194	6.20	330	3.133	6.20	336
Madhya Pradesh	0.639	1.9	505	0.630	2.10	567	0.655	1.80	529
Central Total	6.136	17.2	477	6.246	19.50	561	6.205	17.00	527
Andhra Pradesh	0.972	3.6	630	1.138	4.60	687	1.345	5.30	748
Karnataka	0.378	0.6	270	0.403	0.80	338	0.390	0.90	507
Tamil Nadu	0.100	0.5	850	0.119	0.50	714	0.120	0.50	708
South Total	1.450	4.7	551	1.659	5.90	580	1.855	6.70	700
Orissa	—	—	—	0.050	0.15	—	0.058	0.15	—
Others	0.071	0.1	239	0.058	0.05	425	0.040	0.05	347
Total	—	26.8	—	—	30.30	—	—	27.80	—
Loose lint	—	1.2	—	—	1.20	—	—	1.20	—
Grand Total	9.144	28.0	521	9.439	31.50	560	9.373	29.00	591

Source: Annual Report 2008-09, Ministry of Textiles

Table III
World Cotton Consumption

(millions of 480-lb. bales)

Country	2005-06	Per cent share	2006-07	Per cent share	2007-08	Per cent share	2008-09	Per cent share	Per cent variation 2008-09 over 2007-08
China	45.0	38.6	50.0	40.4	51.0	41.5	44.0	40.0	-13.7
India	16.7	14.3	18.1	14.6	18.6	15.1	17.9	16.3	-3.8
Pakistan	11.5	9.9	12.0	9.7	12.0	9.8	11.5	10.4	-4.2
Turkey	6.9	5.9	7.3	5.9	6.0	4.9	5.0	4.5	-16.7
Brazil	4.5	3.9	4.6	3.7	4.6	3.7	4.2	3.8	-8.7
States	5.9	5.1	4.9	4.0	4.6	3.7	3.6	3.3	-21.7
Bangladesh	2.5	2.1	3.2	2.6	3.5	2.8	3.8	3.5	8.6
Indonesia	2.2	1.9	2.2	1.8	2.2	1.8	2.0	1.8	-9.1
Mexico	2.1	1.8	2.1	1.7	2.0	1.6	1.9	1.7	-5.0
Thailand	2.1	1.8	2.0	1.6	2.0	1.6	1.6	1.5	-20.0
South Korea	1.1	0.9	1.1	0.9	1.0	0.8	1.0	0.9	0.0
Syria	0.7	0.6	0.8	0.6	0.8	0.7	0.8	0.7	0.0
Uzbekistan	0.8	0.7	0.9	0.7	1.0	0.8	1.0	0.9	0.0
Vietnam	0.8	0.7	1.0	0.8	1.2	1.0	1.3	1.2	8.3
Egypt	1.0	0.9	1.0	0.8	1.0	0.8	0.9	0.8	-10.0
Rest of world	13.1	11.2	12.6	10.2	11.5	9.3	9.8	8.9	-14.8
World total	116.7	-	123.7	-	123.0	-	110.1	-	-10.5

Source: US Cotton Market Monthly Economic letter 11th March 2010

Table IV
Exports and Imports of Cotton

Year	Exports (million bales)	Value (Rs million)	Imports (million bales)	Value (Rs million)
2003-04	1.211	10,891.5	0.721	7,584.2
2004-05	0.914	6,573.4	1.217	13,380.4
2005-06	4.700	39,513.5	0.500	6,957.7
2006-07	5.800	52,670.8	0.553	7,522.9
2007-08	8.850	83,659.8	0.638	9,863.3
2008-09	3.541	38,251.0	0.947	12,320.2

Source: Annual Report 2009-10, Ministry of Textiles

cent of India's annual rainfall comes from the monsoon, which typically occurs between June and September. Since only about 35 per cent of India's cotton acreage is irrigated, yields and production are highly susceptible to annual variation in rainfall. A dry 2008-09 contributed to the first year-to-year declines in yield and production since the in-

roduction of GM seed—from 2007-08 to 2008-09, yield fell from 567 to 523 kg/ha and production from 24.6 to 22.5 million bales.

Export and import of cotton

At present, both cotton exports and imports are under Open Gen-

eral License (OGL). With a view to boost cotton exports from the country, duty drawback incentive of 1 per cent was in vogue. However, from 8th July 2008, the government of India withdrew the duty drawback incentive on cotton exports. Similarly, till 8th July, 2008, an import duty of 10 per cent was in vogue. However, from 8th July, 2008, the government of India has removed this duty along with special countervailing duty on imports of cotton. This has helped to curb the rising price trend in the domestic market.

For the last four years, cotton production in the country has been rising continuously and even after meeting the requirements of domestic mills, there has been exportable surplus. Due to availability of exportable surplus as also improvement in the quality of Indian cotton at par with international level in terms of

Table V
Progress of TUFs

(Rs billion)

Year	Received		Sanctioned			Disbursed		
	Number of applications	Project cost	Number of applications	Project cost	Amount	Number of applications	Amount	Subsidy
1999-2000	407	57.71	309	50.74	24.21	179	7.46	0.01
2000-01	719	62.96	616	43.80	20.90	494	18.63	0.70
2001-02	472	19.00	444	13.20	6.30	401	8.04	1.99
2002-03	494	18.35	456	14.38	8.39	411	9.31	2.02
2003-04	867	33.56	884	32.89	13.41	814	8.56	2.49
2004-05	986	79.41	986	73.49	29.90	801	17.57	2.84
2005-06	1,086	161.94	1,078	150.32	67.76	993	39.62	4.85
2006-07	12,336	610.63	12,589	662.33	290.73	13,168	266.05	8.24
2007-08	2,408	212.54	2,260	199.17	80.58	2,207	68.54	11.43
2008-09	6,113	565.42	6,072	557.07	240.07	6,111	218.26	26.32
2009-10*	584	70.65	583	70.65	11.58	584	10.19	25.76
As on 30.09.2009 (P)	26,472	1,892.18	26,277	1,868.04	793.83	26,163	672.23	86.65

*Up to September 2009; (P) Provisional

Source: Annual Report 2009-10, Ministry of Textiles

trash contents and contamination, the demand for Indian cotton over the years has been increasing, especially from neighbouring countries like China, Pakistan, Bangladesh and other far-eastern countries. As a result, over the years, India has emerged as the second largest exporter of cotton after USA, thus relegating the Uzbekistan to the third position. Further, with the quality of Indian cotton improving to the international level, the domestic mills are also meeting their requirements from the domestic market, except ELS cotton, for which there is shortage of 500,000 to 600,000 bales in the country. As a result, cotton imports into the country have reduced considerably. India's cotton exports as well as imports are shown in Table IV.

Role of textile industry in India's GDP

The worldwide trade of textiles and clothing has boosted the GDP of India to a great extent as this sector

has brought in a huge amount of revenue for the country. As mentioned earlier, textile is one of the leading sectors in the Indian economy, as it contributes nearly 14 per cent to the total industrial production. The textile industry is claimed to be the biggest revenue earner in India in terms of foreign exchange.

Investment in the Indian textile industry increased from \$2.94 billion to \$7.85 billion within three years, from 2004 to 2007. It is assumed that by the year 2012, investment in the textile industry will touch about \$38.14 billion.

Important features of Indian textile industry

1. India covers 61 per cent of the international textile market.
2. India covers 22 per cent of the global market.
3. India is known to be the third largest manufacturer of cotton across the globe.
4. India claims to be the second largest manufacturer as well as pro-

vider of cotton yarn and textiles in the world.

5. India holds around 25 per cent share in the cotton yarn industry across the globe.

6. India contributes to around 12 per cent of the world's production of cotton yarn and textiles.

Technology upgradation fund scheme

The Technology Upgradation Fund Scheme (TUFS) was commissioned on 01.04.1999 initially for a period of five years with a view to facilitate modernisation and upgradation of the textiles industry by providing credit at reduced rates to the entrepreneurs both in the organised and the unorganised sector. The scheme, which has now been extended up to 31.03.2012, has been fine-tuned to catapult the rapid investments in the targeted segments of the textile industry. TUFS has helped in the transition from a quantitatively restricted textiles trade to market-driven global merchandise.

Table VI
Production of Cloth

(Quantity in million sq. mtrs.)

Year	Mill sector			Handloom sector			Powerloom sector			Hosiery sector			Total quantity	Growth rate
	Quantity	Growth rate	Per cent share	Quantity	Growth rate	Per cent share	Quantity	Growth rate	Per cent share	Quantity	Growth rate	Per cent share		
2000-01	1,670	-3%	4%	7,472	2%	19%	24,503	6%	61%	6,688	5%	17%	40,333	4%
2001-02	1,546	-7%	4%	7,585	2%	18%	25,192	3%	61%	7,068	6%	17%	41,390	3%
2002-03	1,496	-3%	4%	5,989	-21%	14%	26,109	4%	63%	7,868	11%	19%	41,462	0%
2003-04	1,433	-4%	3%	5,581	-7%	13%	28,045	7%	65%	7,874	0%	18%	42,933	4%
2004-05	1,493	4%	3%	5,705	2%	13%	28,704	2%	64%	9,089	15%	20%	44,991	5%
2005-06	1,673	12%	3%	6,108	7%	13%	30,627	7%	63%	10,418	15%	21%	48,826	9%
2006-07	1,746	4%	3%	6,535	7%	12%	32,904	7%	62%	11,504	10%	22%	52,689	8%
2007-08	1,781	2%	3%	6,947	6%	13%	34,744	6%	63%	11,804	3%	21%	55,276	5%
2008-09	1,796	1%	3%	6,677	-4%	12%	33,648	-3%	62%	12,077	2%	22%	54,198	-2%

Source: Textile Commissioner, Mumbai

It has infused an investment climate in the textiles sector and in its operational life span propelled investment of more than Rs 1868.04 billion up to 30.9.2009.

The modified techno-financial parameters of the Scheme will infuse capital investment into the textiles sector, and help it capitalise on the vibrant and expanding global and domestic markets, through technology upgradation, cost effectiveness, quality production, efficiency and global competitiveness. It is estimated that this will ensure a growth rate of 16 per cent in the sector. The modified structure of TUFSS focuses on additional capacity building, better adoption of technology, and providing higher level of assistance to segments that have a larger potential for growth, like garmenting, technical textiles and processing.

Exports of textiles and clothing

India's textiles and clothing industry is one of the mainstays of national economy. It is also one of the largest contributing sectors of India's exports worldwide. At current prices, the Indian textiles industry is pegged

at \$52 billion, 64 per cent of which services the domestic demand. As per the available WTO data, India's percentage share in global textiles and clothing trade was 4 per cent in textiles, and 2.8 per cent in clothing during the year 2007. India's rank in world trade has been seventh in textiles and sixth in clothing.

In the year 2007-08, the textile exports of India suffered badly due to sharp appreciation in rupee vis-à-vis the US\$. Although the rupee has depreciated sharply vis-à-vis the US dollar since April 2008, export prospects of the Indian textiles sector continue to be adversely affected. Some of the reasons for this decline are the financial-sector meltdown and economic slowdown in international markets, and increased cost of production because of increasing raw material costs, power and other input costs that have affected the profitability of textiles and garments units in India and their exports. Liquidity crunch is another factor that is affecting the industry. In such a situation, the positive impact of rupee depreciation has been washed away.

Various export promotion councils and trade bodies represented to

the government that the textiles exports had been adversely affected by recent global recession. For exports, the major markets have been USA, EU and Japan and all the three markets have gone into recession. As a result, exports quantities were reduced or put on hold or the orders were cancelled.

Import scenario

Total textile imports were of the order of \$3.33 billion (Rs 134.18 billion). Forty-nine per cent of this included yarn and fabrics and 45 per cent included raw material and semi raw material. During 2007-08, the imports increased by 17.39 per cent in dollar terms. However, import of textiles as percentage of total imports have been going down steadily and comprised only 1.39 per cent in 2007-08. During April-December 2008, textile imports amounted to \$2.78 billion, registering an increase of 12.64 per cent over the corresponding period of previous year.

Future strategy

The Indian textile industry needs to move forward with greater

SWOT Analysis of Indian Textile Industry

Strengths

1. Strong cotton base
2. Strong entrepreneurial class
3. Flexibility in production of small order lots
4. Presence of integrated concept to consumer
5. Ability to handle value additions, embellishments, etc
6. Adequate labour supply at relatively competitive wages
7. Good 'cultural' comfort with US and Europe
8. Growing domestic market

Weaknesses

1. Poor work practices resulting in higher labour cost component in many staple garments, in spite of low labour costs
2. Rigid government labour policy and lack of rationalisation of duties in MMF
3. High transaction and power cost
4. Too much emphasis on cotton, synthetic fibre base not equally developed
5. Technological obsolescence and lower efficiencies
6. Lack of strong linkages between raw material supplier and the apparel manufacturer

Opportunities

1. Quotas carried on in China after 2005
2. Good political equation with EU and US
3. Improvements in infrastructure and regulations
4. Research and product development
5. Buyers' preference for India, after China
6. Understanding buyers' need because of language advantage

Threats

1. Rupee appreciation in last few months
2. Trade blocs and partnerships at the exclusion of India
3. Location disadvantage: long transit time to key markets
4. Pricing pressure, following opening up of quotas
5. Enhanced competition from other countries similarly constrained by quotas

sense of urgency and purpose. Currently, its total market size is only one-fourth of China's and bridging this gap requires concrete planning and implementation. The following steps need to be taken in this direction:

1. India must emulate China by taking advantage of its cheap, hardworking and low-skilled workers to compete better in world markets in the labour-intensive textile market.

2. The labour laws pertaining to the textile industry need to be relooked, as the present stringent labour laws act as a deterrent for firms planning to expand or enter.

3. The government needs to provide substantial incentive to textile machinery manufacturers and other consultancy/service providers to establish operations in India. Fortunately, India enjoys good reputation internationally for its engineering skills. This is a major attraction for European and Japanese textile and clothing equipment manufacturers to set up shop

(and R&D bases) in India.

4. The Indian industry needs to start thinking big, and make serious efforts for making high-value acquisitions overseas. This would be the fastest way to get direct entry for value-added products in the competitive European, US and Japanese markets.

5. FDI in textiles need to be encouraged in a big way. In the last five years, foreign direct investment in India has been far less (\$100 million) than \$40 billion in China. India must make it easier for foreign companies to invest.

Recognising the need to turnaround the Indian textiles and clothing industry, FICCI has suggested a five-year policy to revitalise and restructure Indian textiles industry. The Policy "Indian Textiles & Clothing Industry: 2015" aims to neutralise the impact of economic crisis on Indian textiles industry; diversify our export and domestic market; encourage consolidation of SME enterprises; encourage maximum value addition in the country;

deepening fibre consumption of India; building of 20 global brands of India; promote manufacturing of high-tech fibres and technical textiles; encouraging energy efficient and emission reduction technologies; increased indigenisation of textile equipments and increased technological support.

The policy targets steady growth of 15 per cent per annum of domestic textile industry and 20 per cent per annum growth in our exports for the next five years in order to enable us to double our share in world textiles and clothing exports. FICCI noted that if we are able to achieve 20 per cent growth in our textiles exports per annum and 15 per cent growth per annum in domestic production, our domestic textile market size would be \$106 billion by 2015 and exports would be around \$66 billion.

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