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MINISTRY OF TEXTILES

FICCI

Knowledge Paper on

Global Shifts in Textile Industry & India's Position

TAG 2016
September 2, 2016, Mumbai, India

Knowledge Partner

wazir ADVISORS

Contents

1. Global Textile and Apparel Market Overview & Emerging Trends

1.1 Global apparel market

The current global apparel market is worth US$ 1.7 trillion and it constitutes around 2% of the world's GDP. EU, USA & China are the world's largest apparel markets with a combined share of approximately 54%. The top 8 apparel consuming nations form a dominating share of 70% of the global apparel market size.

Table 1: Global Apparel Market Size (US$ Bn.)

S. No.	Region	2015	Projected CAGR	2025
1	EU-28	350	1%	390
2	USA	315	2%	385
3	China	237	10%	615
4	Japan	93	1%	105
5	India	59	12%	180
6	Brazil	56	5%	90
7	Russia	40	3%	55
8	Canada	25	2%	30
	Others	510	4%	750
	Total	**1,685**	**4%**	**2,600**

Source: Wazir Research and Analysis

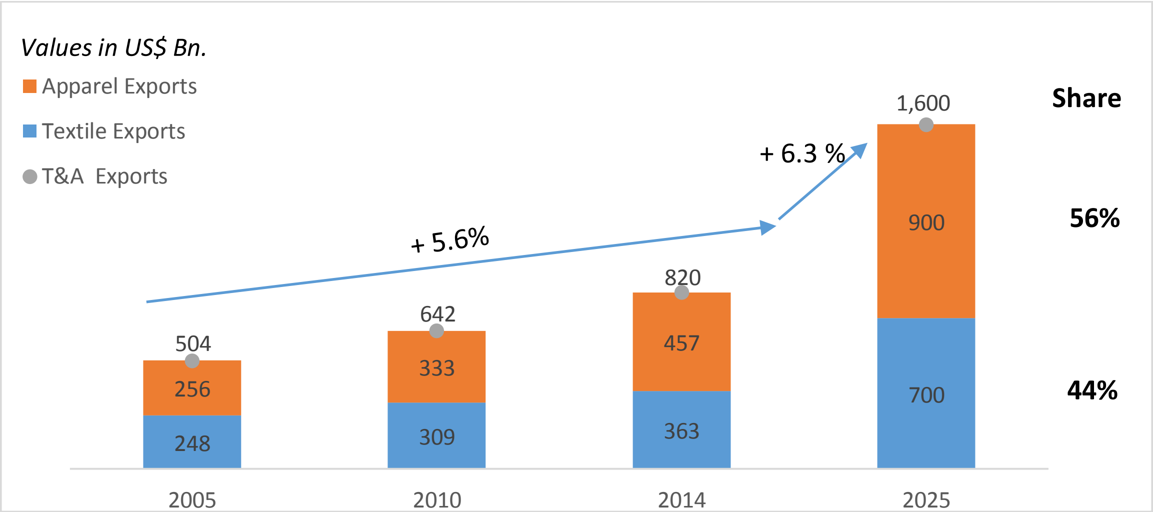
The global apparel market size is expected to reach US$ 2.6 trillion in 2025 growing by a projected rate of 4%. The major growth drivers of the global apparel market will be the developing economies, mainly China & India, both growing in double digits. China will become the biggest apparel market adding more than US$ 378 bn. in market size by 2025 while India will be the second most attractive apparel market adding around US$ 121 bn. by 2025.

A large & growing domestic demand coupled with increasing spending power of people in these two countries will result in the combined addition of around US$ 500 bn. in the global apparel market size by 2025. The combined apparel market size of China and India i.e. US$ 795 bn. is expected to exceed combined market size of EU and USA i.e. US$ 775 bn, by 2025.

1.2 Global trade of textile and apparel

The global textile and apparel trade stood at US$ 820 bn. in 2014 growing at a CAGR of 5.6 % over the last decade. Apparel categories had a larger share of 56% while textiles categories had the remaining share of 44% in the overall trade.

Figure 1: Global Textile and Apparel Trade (US$ bn.)



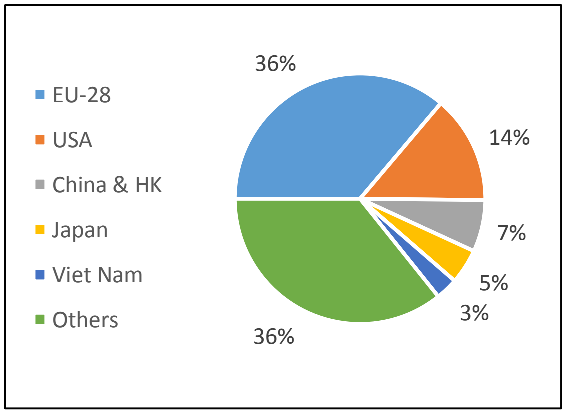
Source: UN Comtrade

The global textile and apparel trade is expected to reach at a level of US$ 1,600 bn. in 2025 growing by a CAGR of 6.3% over the next decade.

1.3 Major markets & supplier

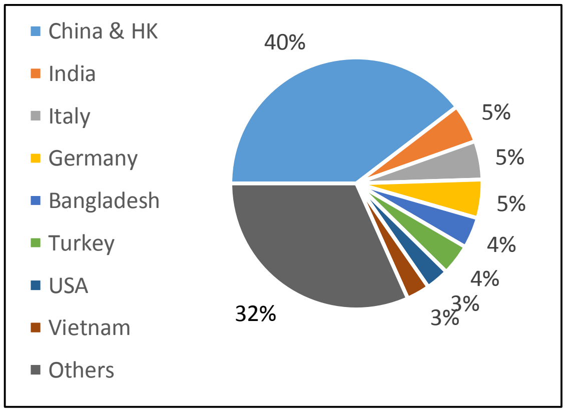
EU & USA are the largest markets for textile and apparel with a share of 36% and 14% respectively. On the supply side, China is the largest supplier of textile and apparel in the world with a dominating share of 40%. It is distantly followed by countries like India, Italy, and Germany etc. each with an approximate share of 5% in the global textile and apparel exports.

Figure 3: Major markets for textile and apparel (2014)



Source: UN Comtrade

Figure 2: Major suppliers of textile and apparel (2014)

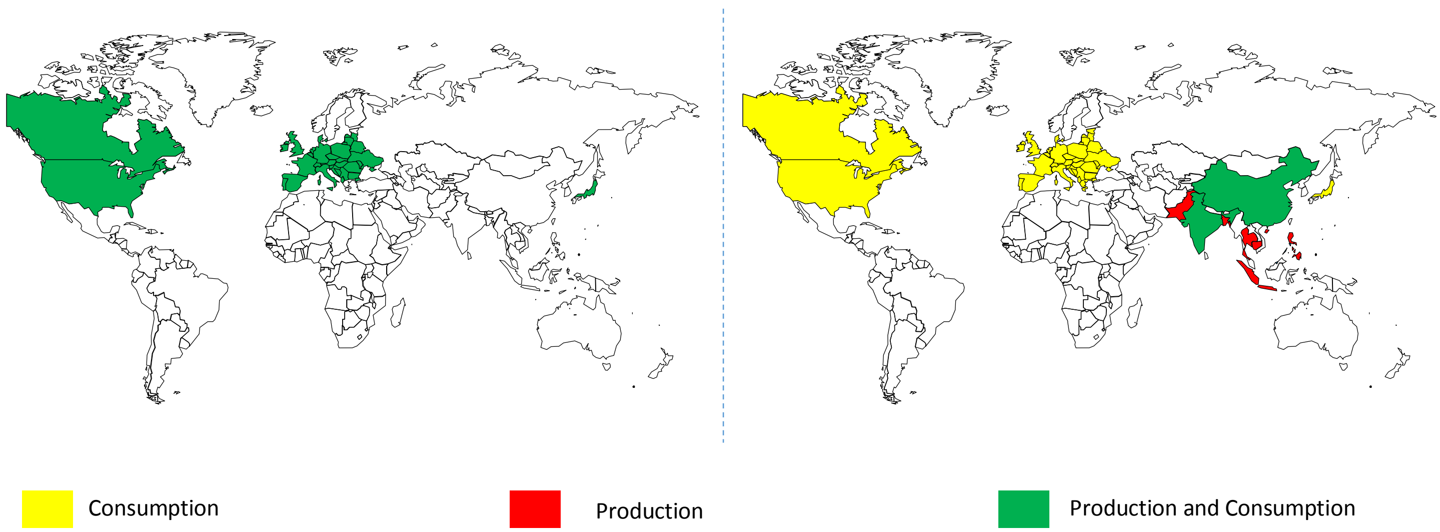


Source: UN Comtrade

1.4 Shift of manufacturing bases & emergence of new destinations

Textile industry has witnessed a major shift in the last three decades in terms of its production bases. Till the 1980s, production of textile and apparel was centered in USA and EU but over the period of time production of these commodities shifted majorly to Asian countries.

Scenario till late 80s ***Present Scenario***



This shift was a result of an attractive low cost manufacturing advantages in these developing Asian countries. As the production of textile commodities was becoming unprofitable for the manufacturers in USA and Europe due to rising costs of manufacturing, they sought for alternative destinations for the manufacturing of textile products. Asian countries with availability of abundant and cheap manpower, vast natural resources and favorable economic policies were the most attractive destination for manufacturing of textile products.

China has taken the maximum gain from this shift. After the liberalization of China's Industrial policy in 1980's, China experienced a massive boost in industrialization and as a result China became a hub of manufacturing. Over this period, China emerged as the biggest manufacturing base for textiles in the world and has remained the largest exporter of textiles and apparel in the world maintaining a dominant market share of around 40% since 2000s.

Other Asian economies such as India, Bangladesh, Indonesia, Pakistan, Vietnam, Cambodia and Thailand also experienced an upsurge in their textile and apparel manufacturing during this period.

Now, USA and Europe have become the largest consumption bases in the world while manufacturing is concentrated in Asian countries such as China & India (large consumption bases as well), Bangladesh, Vietnam, Sri Lanka, Pakistan etc.

1.5 Role of FTAs

FTAs have played a significant role in shaping the global textile and apparel industry. Due to the price sensitive and labour intensive nature of the textile industry, manufacturing nations adopt a protected regime by imposing high import duties to safeguard the interest of domestic manufacturers. FTAs provide a gateway to these manufacturing nations for the development and investment in the sector.

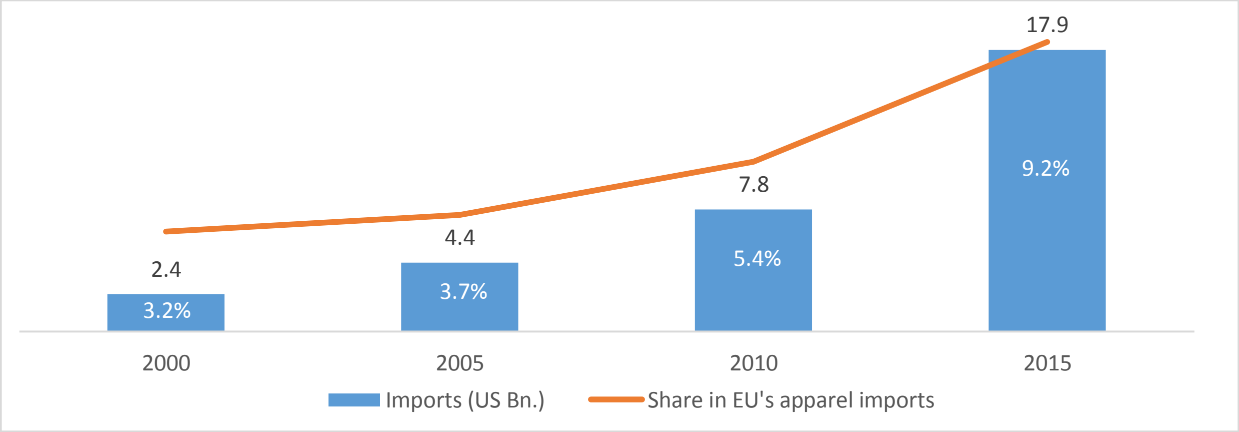
Key apparel markets – EU & US have multiple market access arrangements with several key manufacturing nations. They have entered into trade arrangements with certain countries thereby lowering or eliminating tariff rates on the imports of those countries.

Table 2: Market Access Arrangements of USA and EU

Market Access Arrangement – USA	Market Access Arrangement - EU
AGOA - The African Growth and Opportunity Act	EU-28
CBTPA - Caribbean Basin Trade Partnership Act	GSP status to 88 countries
HOPE - Haitian Hemispheric Opportunity through Partnership Encouragement Act	GSP + Status to 34 countries
NAFTA - The North American Free Trade Agreement	EBA status to 49 LDCs
CAFTA-DR - The Central America Free Trade Agreement	

Several smaller nations such as Bangladesh, Turkey, Sri Lanka, Pakistan, etc. have leveraged their preferential duty access to these large markets by increasing their textile and apparel exports manifolds. Bangladesh is one such nation which has successfully leveraged its trade access agreement with EU signed in 2001. After this agreement came into force, Bangladesh's apparel exports to EU grew from US$ 2.4 bn. in 2000 to US$ 17.9 bn. in 2015 registering a CAGR of 14%. Bangladesh is now the second largest apparel exporter to EU after China with a share of 9.2% in total apparel imports.

Table 3: Apparel Imports of EU from Bangladesh (US$ Bn.)



Source: UN Comtrade

However, there are certain exceptions to the above trend. China, the largest exporter of textile and apparel in the world doesn't enjoy any preferential trade access to the large markets of US, EU or Japan. Also there are nations which have not been able to leverage their duty advantages successfully for e.g. Sub-Saharan African (SSA) nations have preferential market access to US under African Growth Opportunity Act (AGOA). But their share of textile and apparel exports to the US market is insignificant.

Upcoming Trade Agreements:

In recent times, plurilateral negotiations have been launched on establishing three mega FTA's i.e. Transatlantic Trade and Investment Partnership (TTIP); Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP). The US and the EU have begun negotiations on the TTIP; TPP involving US and 11 other countries has been recently signed and India, China, ASEAN nations & four others have initiated negotiations to establish RCEP.

These three mega FTAs have the potential to change the global trade and investment flow owing to their cumulative economy size as well as population.

Table 4: Mega FTAs – Member nations, GDP and Population share

		TTIP	TPP	RCEP
Member nations		US and EU	Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, USA, and Vietnam	Australia, Brunei, Burma, Cambodia, China, Indonesia, India, Japan, Laos, Malaysia, New Zealand, the Philippines, Singapore, Thailand, South Korea and Vietnam
GDP current US$	US$ bn.	34,574	27,905	23,138
	Global share	46%	37%	31%
GDP PPP	US$ bn.	37,160	30,782	41,779
	Global share	33%	27%	37%
Population	Million	872	812	3,490
	Global share	12%	11%	47%
T&A exports	US$ bn.	84	84	449
T&A imports	US$ bn.	248	216	171

Source: IMF's World Economic Outlook Database, Oct. 2015; UN's World Population Prospects: The 2015 Revision; UN Comtrade.

It is important to note that there are several nations which are a part of both TPP and RCEP and hence will gain from both the agreements.

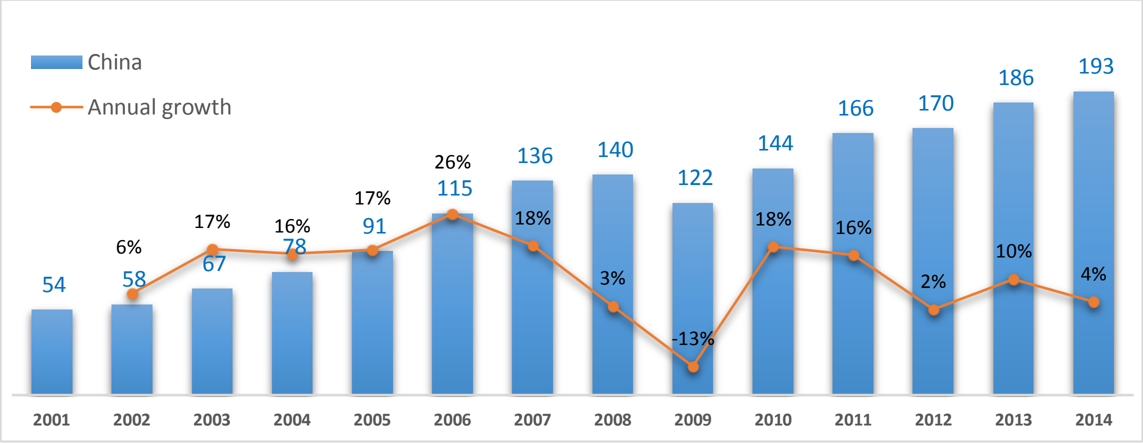
Vietnam is one such nation which is poised to gain a lot from these trade agreements especially TPP. With the signing of this agreement, import duties in US on 73% of apparel categories will be removed immediately, while for rest of the categories, duties will be reduced or completely removed in the coming years. Vietnam apparel exports to US i.e. largest importer of apparel are growing at a fast rate and with the advantage that TPP will offer, a significant trade diversion is expected from US's other large suppliers - China, Indonesia, Bangladesh and India to Vietnam.

1.6 China's slowdown & the opportunities ahead

China has been the undisputed leader in global trade over the last three decades. In the textiles and apparel segment especially, China has maintained a dominant share of over 40% over the last twenty years. Exports have played a pivotal role in this economic success of China. Between 2001 and 2014, Chinese apparel exports increased more than 5-folds from US$ 54 bn. to US$ 193 bn., growing at 10% CAGR. China has achieved this status in the world trade by leveraging its large human resource base, low manufacturing costs and large scale infrastructure which has resulted in large scale investment across the sectors.

However in the recent years, China's growth in the global textile and apparel trade has slowed down. After the economic crisis of 2009, China's growth in the trade has slowed down from an average 15% to around 4% in 2014. This trend is expected to continue further in the future also.

Figure 4: China's Apparel Trade (US$ bn.)



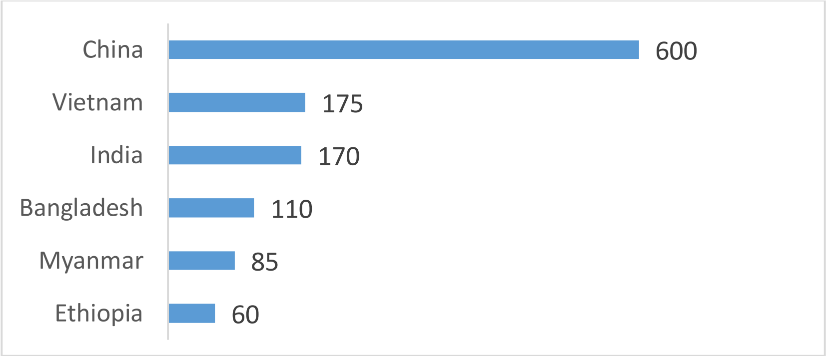
Source: UN Comtrade

The major factors behind this growth slowdown are as follows:

1. **Growth of Domestic Demand:** The present apparel market of China is worth US$ 237 bn. and it is growing at a robust rate of 15% since 2007. A similar trend is observed in China's Per Capita Expenditure on Apparel (PEAP) which has also grown at a rate of 15% to reach a level of US$ 171 during the same period. This clearly indicates that domestic demand of apparel in China is growing and is panned for further high growth over the coming years. It is estimated that China's domestic apparel market will reach US$ 615 bn. and its PEAP will reach US$ 434 by 2025.
   This ever growing demand in the domestic market will put pressure on exports as the focus of manufacturers will shift towards domestic supply.

2. **High Wage Growth:** One of the primary reasons of the exponential growth of Chinese industry was the presence of an abundant workforce available at low wage rates. But this scenario has changed over the last decade as China is no longer a low cost destination as it used to be.
   Wage rates in China have grown in double digits over the last two years and is expected to grow further. This is the result of a shrinking labor pool due to demographic changes and reduced flow of migrant labor from rural areas. High growth in wages is putting pressure on labor intensive industries like garmenting and will likely result in a slower growth of manufacturing.

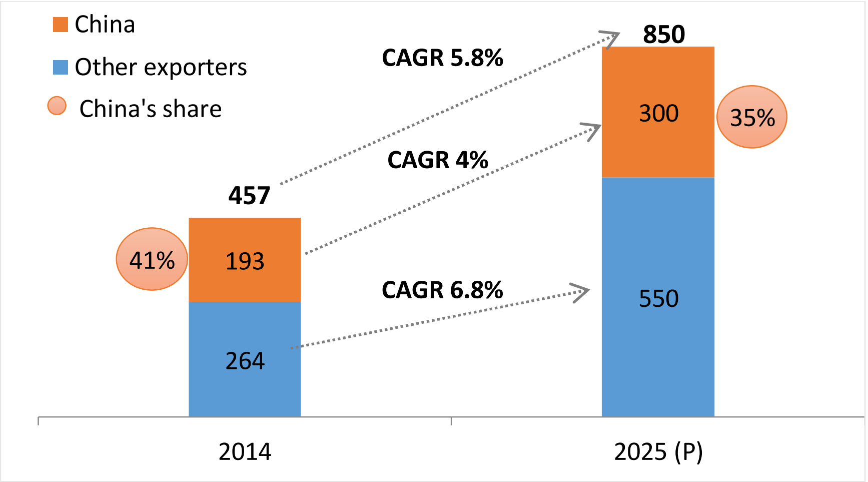
Figure 5: Average Wages in Textile Industry (US$/Month)



3. **Increasing focus towards value added segments:** As the manufacturing costs are increasing in China, production of conventional textile and apparel products for export purpose will become less viable and less profitable. So in order to maintain its export competiveness and to reinforce higher productivity and greater incomes, Chinese enterprises will start concentrating more and more on innovation driven industries like Aerospace, Artificial Intelligence, Biotechnology, Photonics, Nanotechnology, Robotics, etc. which in turn will result in a slower growth of apparel output.
4. **Relocation of manufacturing to neighboring countries:** China has established trade agreements with several Southeast and East Asian countries where manufacturing costs are lower than China. Going forward, China is expected to support investment in manufacturing set-ups as well as in overall infrastructure in these countries, to cater to China's own demand as well as exports to other markets.

The above mentioned trends give an indication that China's share in the global textile and apparel trade will reduce in the coming years. The apparel exports CAGR of China is expected to reduce to 4% over the next decade compared to last 10 year CAGR of 12%. As a result, the share of China in global apparel exports will reduce from 41% currently to around 35% by 2025. During this period, global exports of apparel will grow from $ 457 bn. to US$ 850 bn. at a CAGR of 5.8%.

Figure 6: Global Apparel Trade Projections until 2025 (In US$ bn.)



Source: UN Comtrade & Wazir Analysis

This reduction in China's share will lead to the generation of a gap of around US$ 50 bn. which will serve as an opportunity for the competing nations to increase their share in the global trade by filling it.

Emerging manufacturing nations like Vietnam, Ethiopia, Kenya, Myanmar, Bangladesh etc. can benefit most from Chinese growth slowdown. These nations not only have manufacturing competitiveness in terms of low wage rates, low power and land costs etc. but they also enjoy trade access arrangements with major markets of EU and US giving them an added advantage.

As compared to all the nations mentioned above, India is the largest and more resourceful country which has the capability to take maximum advantage because of its huge textile base, manpower availability and infrastructure. But India has yet to tap its potential as far as apparel exports are concerned. For India to capture this opportunity, large scale structural changes in policy framework starting from refining of labor laws to exit policies to fast tracking the approval process, among several others bottlenecks need to be made. Also, finalization of FTA with EU can bring about a huge positive impact for Indian apparel exports.

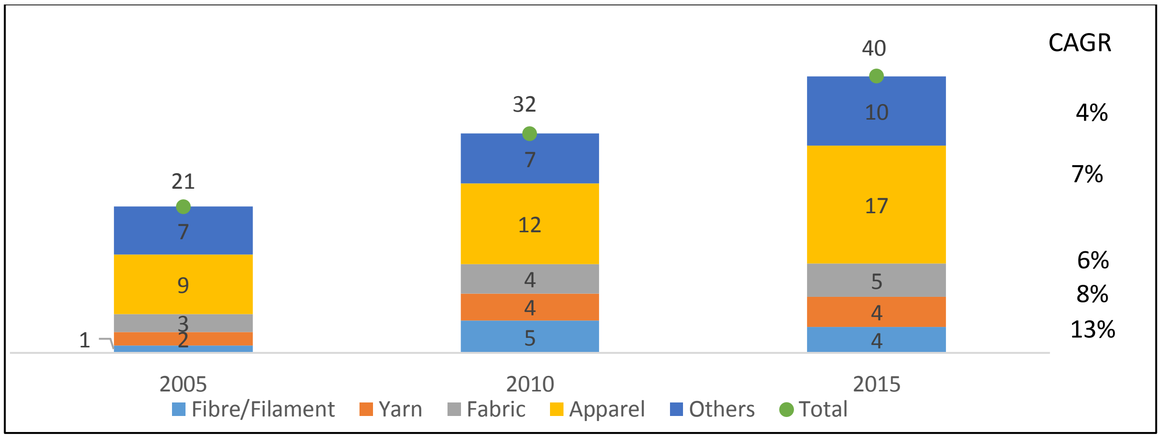
Also, nowadays, most of the large international buyers are now adopting "China plus one" sourcing model wherein they are active in at least one other country than China. Bangladesh's infrastructure cannot support the high growth it witnessed in last decade; in addition, social and environmental compliance in Bangladesh are already under question. In other competing nations like Vietnam, East Africa, Myanmar, etc. there are issues of labour unrest, political instability, higher wage growth, etc. In comparison, India is a far better and stable sourcing destination for international buyers.

2. Indian Textile and Apparel Market Overview & Global Position

2.1. Textile and apparel exports

The total textile and apparel exports of India stood at US$ 40 Bn. in 2015. Apparel is the largest exported category in India's exports with a dominant share of 43%. It is followed by the exports of "others" category which includes home textile products, made- ups and handicrafts. "Others" category contributed a share of 25% in the total textile and apparel exports of India. Fibre/Filament category has registered the highest growth in India's export of textile and apparel with a CAGR of 13% however their exports have fallen down since 2011-12.

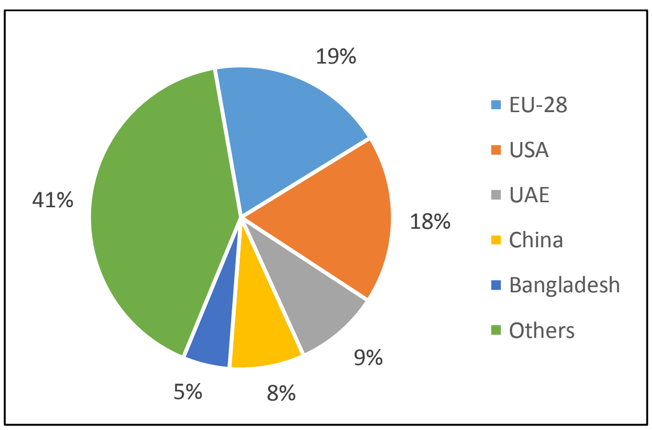
Figure 7: India's Textile and Apparel Exports (US$ Bn.)



Source: DGCIS, Ministry of Commerce, EPCH

EU and USA are the largest markets for Indian textile and apparel exports with shares of 19% & 18% respectively. The other major export markets for India are UAE, China & Bangladesh which have a share of 9%, 8% and 5% respectively.

Figure 8: Major Textile and Apparel Markets for India's



Source: DGCIS, Ministry of Commerce

2.2. Manufacturing capacities

India has a large textile manufacturing set-up and is among the very few countries with production facilities across each level of the manufacturing value chain, from fiber to finished product (garments, home textiles and technical textiles).

Table 5: Installed Capacities in Indian Textile Sector

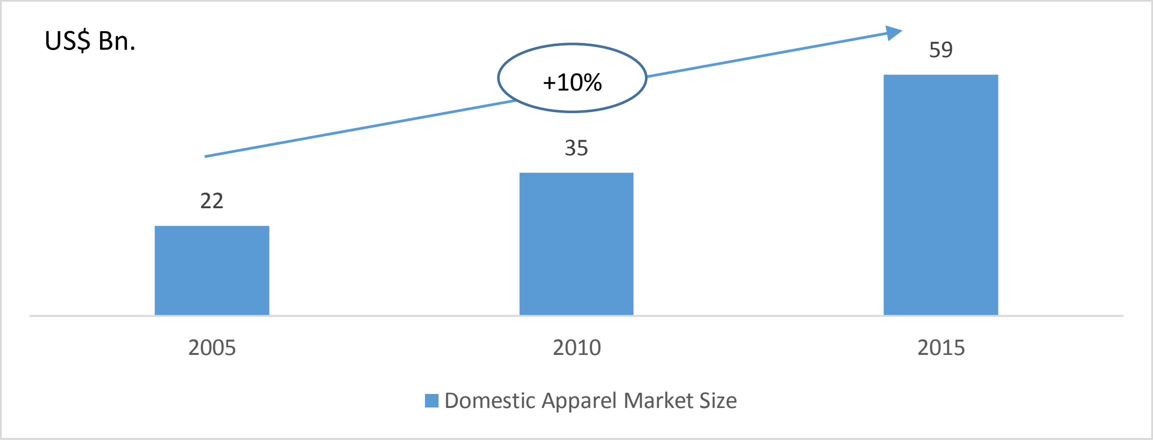
Description	Installed Capacity
Spindles	512 lac
Rotor	8.6 lac
Shuttleless Looms	1.2 lac
Powerloom	23 lac
Handloom	24 lac
Man Made Fiber	1,800 mn. Kg.
Man Made Filament	2,300 mn. Kg.

Source: Official Indian Textiles Statistics, Office of Textile Commissioner

2.3. Domestic apparel market

The domestic apparel market of India is worth US$ 59 bn. (2015) and it has registered a robust CAGR of 10% since 2005 despite global uncertainties and slack demand. Indian domestic market has performed better than the largest consumption regions like US, EU and Japan, where depressed economic conditions led to lower demand growth.

Figure 9: India's Apparel Market Size (US$ Bn.)



Source: Ministry of Textiles, Wazir Analysis

The key drivers of this growth in domestic market of India are the presence of a large and growing consuming class and an increase in spending power of people. Following are the major aspects of the market growth in India:

a. **Demographic dividend:**
India has a large population base comprising of more than one and a quarter bn. people. Almost half of the Indian population is under 25 years and as this population joins the workforce and gets more money in their hands, their spending power will increase. Apparel category will be the prime beneficiary of this increase in purchasing power.

b. **Aspirational buying:**
Over the last two decades, the consumer buying habits have changed significantly in India. They have shifted from a need based purchase to aspiration-based purchase. Nowadays consumers are inclining more towards branded product, especially in fashion segment People in in tier-II, tier-III and tier-IV cities are spending much more on apparel than they did a decade ago which has resulted in an increased focus by brands and retailers in these cities.

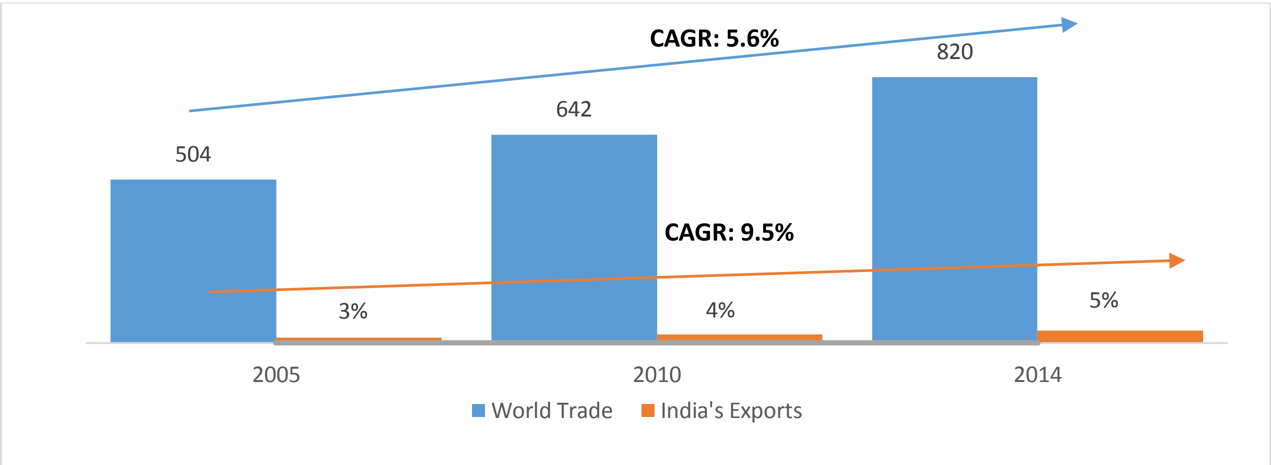
c. **Increasing urbanization**
Since the turn of this century, an increase in the urban population, expansion of cities and a growing influence of urban patterns and services in rural areas is being witnessed in India. The combined effect of these changes is putting more money in the hands of people and is creating new aspirations and demand which will in turn will have a major growth impact on apparel consumption.

d. **Growth in online retail sales:**
India is experiencing a digital revolution over the last few years and millions of people are now connected to the internet. This has resulted in an upsurge in online retailing as more and more people are looking for ease of shopping, heavy discounts offered by online portals, and better payment and return policies. Online apparel sales in 2015 stood at US$ 1.5 bn. forming a large share i.e. 30% in the overall online sales in India and it is expected to grow at a CAGR of 41% to reach US$ 45 bn. by 2025.

2.4 Share in global trade & exports to major markets

Global textile and apparel trade grew at a rate of 5.6% over the last decade to reach a value of US$ 820 bn. in 2014. During the same period, India's export of textile and apparel grew at a comparitively higher rate of 9.5% to reach an export value of US$ 42 bn..

Figure 10: Global Textile and Apparel Exports and India's Share



Source: UN Comtrade

India enjoys the position of being the second largest exporter of textile products to the world, however its share in the global exports tell a different story. As compared to the share of the largest exporter i.e China (40%), India's share is a mere 5% in the global trade. Countries like Italy, Germany and Bangladesh which are comparitively much smaller than India have similar share of around 4-5% in the global trade. This clearly indicates that, India as a manufacturer and exporter of textile and apparel has not been able to realize its potential even though it enjoys the presence of a complete value chain and an abundant supply of cheap and skilled labour.

Top 10 textile and apparel importers of the world constitute a share of 66% of the total trade.

Table 6: Top Textile and Apparel Importers and India's Share

Rank	Importers	2005	2010	2014	CAGR (9 yrs)	Share in Global Trade	India's Share (2014)
1	USA	89	93	115	3%	16%	6%
2	Germany	26	31	53	8%	8%	4%
3	Japan	20	23	39	8%	6%	1%
4	United Kingdom	21	23	36	6%	5%	7%
5	China	20	25	36	7%	5%	9%
6	France	17	19	31	7%	4%	4%
7	Italy	16	19	27	6%	4%	3%
8	Hong Kong SAR	26	23	25	-0.4%	4%	1%
9	Spain	10	13	21	9%	3%	4%
10	Netherlands	6	8	16	12%	2%	4%

Source: UN Comtrade

USA is the largest importer of the textile and apparel products in the world with an import value of US$ 115 Bn. in 2014 and a share of 16% in the global trade. Germany is the second largest importer with a share of 8% followed by Japan with a share of 6%. All the top importing nations (except Hong Kong) have shown positive growth in their imports over the last decade with Netherlands imports registering the highest growth rates of 12%.

India's position

The top ten markets in the world for textile and apparel constitute for 48% of India's total textile and apparel exports. USA is the largest market for India making up for 18% of India's overall textile and apparel exports. However, India's share in the total imports of USA is only 6% with an export value of US$ 7 Bn. in 2014.

Similarly, it can be seen that amongst all the top ten markets of textile and apparel in the world, India's share in their less than even 10%.

Top 10 trade categories of the world

Table 7: Top Ten Globally Traded Categories (US$ Bn.)

S. No.	Description	2005	2010	2014	Share in Global Trade	CAGR (9 yrs)	India's Share (2014)
1	Sweaters	33	43	53	6%	5%	1%
2	Jeans & Others	32	38	51	6%	5%	2%
3	T-Shirts	26	33	44	5%	6%	6%
4	Trousers	20	26	39	5%	7%	2%
5	Jackets	16	19	34	4%	8%	1%
6	Dresses	5	16	26	3%	18%	6%
7	Cotton Yarn	9	13	16	2%	6%	25%
8	Blouses	12	13	16	2%	3%	11%
9	Carpets	11	13	16	2%	4%	11%
10	Woven Shirts	10	12	16	2%	4%	7%

Source: UN Comtrade & Wazir Analysis

In 2014, sweaters were the largest traded category globally with a share of 6% closely followed with the imports of "jeans and other" category. Top ten traded categories make up for around 38% of the world textile and apparel trade. Amongst these top categories, trade of "dresses" category has registered the highest growth of 18% over the last decade.

India's Position

The top ten globally traded categories make up for 40% of India's exports. India has a significant share of 25% in the global trade of "cotton yarn" and 11% share in the trade of "blouses" and "carpets" each. However, amongst the top 6 traded categories, India's share is less than even 7%.

This signifies that Indian textile and apparel industry has not able to cater to the growing demand of these products. The main reason behind this is the low focus on value added products and innovation.

2.5 Manufacturing competitiveness vis-à-vis major manufacturing nations

1. Raw Material Scenario

Figure 11: Manufacturing Competitiveness in terms of Raw Material

(Values for 2015)	Unit	Bangladesh	China	India	Vietnam
Cotton production	'000 (480-pound) bales	125	27,000	29,500	4
Acrylic	'000 tons	-	640	92	-
Polyester staple	'000 tons	136	9,030	1,310	250
Polyester filament	'000 tons	70	23,909	3,070	171
Nylon s+f[1]	'000 tons	-	1,955	102	49
Polypropylene s+f	'000 tons	-	700	41	-
Cellulosic s+f	'000 tons	-	3,103	498	-

Source: PCI Analysis

India is the largest producer of cotton with a share of 26.5% of the world cotton production. China ranks second with a share of 24%. The production of cotton in Bangladesh and Vietnam is miniscule and both rely on imports of cotton to fulfil their demand for textile and apparel sector.

China is the largest producer of manmade fibres in the world while India is the second largest producer. Vietnam and Bangladesh, on the other hand, produce nominal quantity of manmade fibres.

India is also the largest producer of jute, second largest producer of silk and tenth largest producer of wool.

2. Factor Costs

Figure 12: Manufacturing Competitiveness in terms of Factor Costs

	Unit	Bangladesh	China	India	Vietnam
Labour cost	US$/ month	110-120	550-600	150-160	170-190
Power cost	US cents / Kwh	9-12	13	10-12	8
Lending rate	Local currency	13%	5-6%	12-13%	5-6%

Source: Wazir Research and Analysis

a) **Labour Scenario:** The wage cost in India is higher than Bangladesh, but lower than China and Vietnam. China has the highest labour wages amongst the competing nations, but it has developed sufficient training infrastructure to meet industry requirements. On the other hand, there is limited availability of skilled labour in Bangladesh, India and Vietnam. India is focusing on development of pool of skilled workforce in the textile industry. The Ministry of Textiles, GoI under Integrated Skill Development Scheme (ISDS) is undertaking training of 15 lakh people in between 2012-17.

b) **Power Scenario:** The cost of power in India is high in comparison to Bangladesh and Vietnam. There is erratic and limited power supply in some parts of India and Bangladesh. Vietnam enjoys a lower power cost than India and a consistent supply. China has the highest power cost but its supplies are consistent and reliable.

[1] s+f denotes staple fibre and filament yarn

c) **Lending rates:** The lending rates in India is very high in comparison to China and Vietnam, while it is comparable to that in Bangladesh. High lending rates affects the cost of production and hence its competitiveness.

3. **Scale and Level of Integration**

China & India are the largest manufacturers and exporter of textile and apparel products in the world. Both the countries feature in complete value chain i.e. from fibre to finished products. Bangladesh and Vietnam have strong garment manufacturing capacity but very limited backward linkages to support the industry.

Figure 13: Manufacturing Competitiveness in Terms of Value Chain

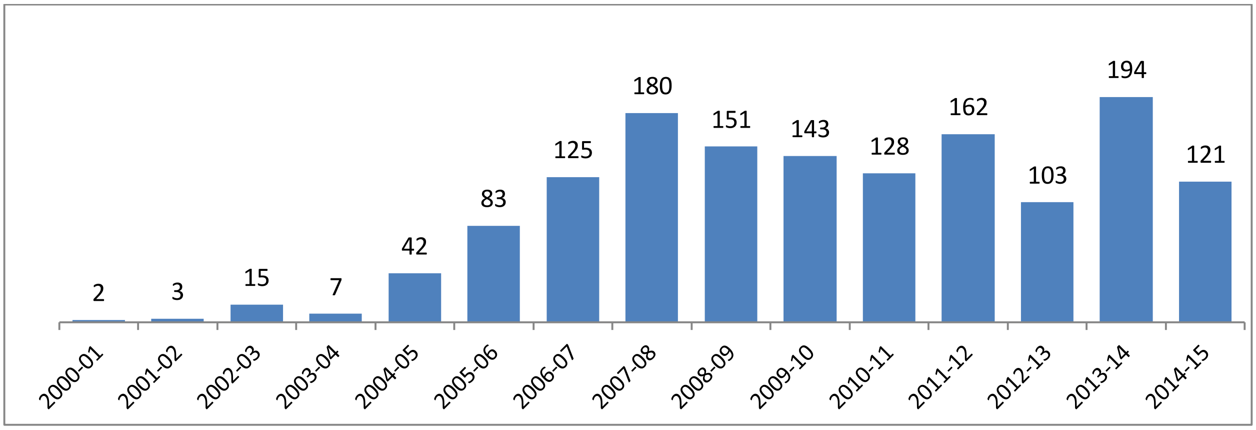
	Bangladesh	China	India	Vietnam
Fibre	• Limited cotton production • Relies on imported cotton • Second largest producer of jute	• Second largest producer of Cotton • Largest producer of wool • Largest producer of silk • Largest producer of man-made fibres	• Largest producer of cotton • Largest producer of jute • Second largest producer of silk • Second largest producer of man-made fibre	• Limited cotton production • Relies on imported cotton • 6th largest producer of silk • Also produces man-made fibres
Yarn	• 6 million ring spindles • 230,000 OE Rotors	• 120 million ring spindles • 2.4 million rotors	• 50 million ring spindles • 814,000 OE Rotors	• 6 million ring spindles • 103,000 OE rotors
Weaving	• 17,250 shuttle-less looms • 13,500 shuttle looms	• 620,000 shuttle-less looms • 650,000 shuttle looms	• 135,000 shuttle-less looms • 23.7 lakh shuttle looms	• 2,500 shuttle-less looms • 17,000 shuttle looms • Large volume of fabric is also imported to fulfil the requirements of the garment industry
Garments	• Export oriented garment industry • Apparel exports: US$ 26 bn. (2013)	• Largest manufacturer and exporter in the world • Apparel exports: US$ 170 bn. (2013)	• Apparel exports: US$ 16 bn. (2014)	• Export oriented garment industry. • Apparel exports: US$ 17 bn. (2013)

Source: UN Comtrade, ITMSS (International Machinery Shipment Statistics), Wazir Analysis

2.6 FDI inflow in the sector

The cumulative FDI in Indian textile sector from 2000-01 to 2014-15 is approx. US$ 1.5 bn. During the initial years, the FDI inflow in textiles was very low. Growth has been seen immediately after MFA phase-out in 2005, depicting the confidence of the foreign investors in the Indian textile industry.

Figure 14: FDI Inflow in Indian Textile and Apparel Sector (US$ Mn.)



Source: FDI Statistics, Department of Industrial policy and Promotion (DIPP)

FDI inflows in textile sector peaked in the year 2013-14, reaching US$ 194 million. However, it is important to note that despite of the manufacturing competitiveness of our textile sector, it has failed to attract large scale foreign investment. T&A sector attracted average share of 0.4% in the total FDI inflow in country from 2000-01 to 2014-15.

Table 8: Total FDI Inflow in India (US$ Bn.)

US$ bn.	Total FDI Inflow	FDI inflow in T&A	Share
2000-01	4	0.002	0.05%
2001-02	6.1	0.003	0.05%
2002-03	5	0.015	0.30%
2003-04	4.3	0.007	0.16%
2004-05	6.1	0.042	0.69%
2005-06	9	0.083	0.92%
2006-07	22.8	0.125	0.55%
2007-08	34.8	0.180	0.52%
2008-09	41.8	0.151	0.36%
2009-10	37.8	0.143	0.38%
2010-11	34.8	0.128	0.37%
2011-12	46.6	0.162	0.35%
2012-13	34.3	0.103	0.30%
2013-14	36	0.194	0.54%
2014-15	44.8	0.121	0.27%

Source: FDI Statistics, Department of Industrial policy and Promotion (DIPP)

2.7 Ease of doing business

For international investors, ease of doing business carries significant importance while selecting an investment location. Beyond market opportunities, low cost of manufacturing, availability of skilled manpower and infrastructure availability, the investment climate reflected in ease of doing business is the factor which can make or mar an investment decision by an international investor.

World Bank's annual flagship report series *Doing Business* measures the relative ease of doing business in various countries across the globe. The latest edition viz. *Doing Business 2015* published by World Bank (reflecting data as of 1st June 2014) positions India at a rank of 142 out of 189 countries covered. India's ranking in various sub-components, which are considered to arrive at the overall rank, is as follows:

Table 9: India's Doing Business Rank for 2014 and 2015

	2015 Rank	2014 Rank	Change
Starting a Business	158	156	-2
Dealing with Construction Permits	184	183	-1
Getting Electricity	137	134	-3
Registering Property	121	115	-3
Getting Credit	36	30	-6
Protecting Minority Investors	7	21	14
Paying Taxes	156	154	-2
Trading Across Borders	126	122	-4
Enforcing Contracts	186	186	-
Resolving Insolvency	137	135	-2
Overall Ranking	**142**	**140**	**-2**

Source: Doing Business, World Bank

The report mentions that India has made reforms aimed at starting a business, protecting minority investors and getting electricity in the period considered; but a lot remains desirable. When compared with other major textile exporting nations in Asia, India features among the bottom of the ranking:

Table 10: Doing Business Rank of Major Textile Exporting Nations in Asia (2015)

Country	Doing Business Rank 2015
Thailand	26
Turkey	55
Vietnam	78
China	90
Sri Lanka	99
Indonesia	114
Pakistan	128
Cambodia	135
India	**142**
Bangladesh	173

Source: Doing Business, World Bank

However, since publishing of Doing Business 2015 report, Indian investment landscape has seen a sea-change in policy environment propelled by a stable Government in centre. Some of the recent policy reforms which will improve India's economy and/or investment attractiveness include taking final steps towards implementation of GST, direct benefit transfer of subsidies, rolling back of fuel subsidies, power sector reform at all levels, public-private partnerships in many areas of infrastructure, and trade & investment building initiatives with major economies led directly by Prime Minister of India. These steps will bear a positive impact not only on doing business ranking next year but in long run as well.

2.8 Key issues in textile industry

1. **Higher input costs compared to competing nations**

India has one of the highest costs of capital compared to most competing countries which affects the cost of production and thus its competitiveness. The present lending rate in India is 11.0% to 12.5% while that in other competing countries like China, Turkey, Vietnam, etc. ranges from 5 to 7%. Also, the power cost in India is much higher compared to competing nations.

2. **Absence of fibre neutrality**

Globally, manmade textiles and garments are in high demand. But India, despite being second largest textile exporter in the world, lags in this category because of unavailability of manmade fibres at competitive prices. The textiles value chain in India bears a differential tax treatment while countries like China, Pakistan, Sri Lanka, Indonesia and Thailand follow a fibre neutral policy. There is a need to align our production with the world consumption patterns through the introduction of a fibre neutral tax policy.

3. **Low technology level**

The Textile Industry suffers from the use of low and outdated technologies especially in the powerloom sector, processing, etc. In general, spending on R&D, product development etc. by textile companies in India is quite low. As a result, India has had a nominal presence in high value added segments and innovation driven technical textile segment.

4. **Poor Access to Credit**

Poor access to credit is one of the major hindrance in the growth of the sector. Major institutions providing input-credit are largely centralized and unable to reach the dispersed and largely home-based weavers and artisans. Also, very few institutional sources are there to provide working capital to them. Due to this, artisans/weavers depend on their own sources of fund to cater to their fixed as well as working capital needs.

5. **Absence of FTAs with major markets**

Countries like Bangladesh, Turkey, Cambodia, Pakistan, etc. have duty free access in the major Textile markets of US and/or EU. Exporters from these countries enjoy duty advantage ranging from 10% to as high as 34%, depending on product. The absence of a FTA in the case of India with EU and US makes Indian exports to these nations significantly more expensive compared to that from various other competing countries.

6. **Fragmented nature of industry lacking economies of scale**

Indian textile sector is largely unorganized and small in size, especially the fabric manufacturing, fabric processing and garment manufacturing segments. These segments suffer from lack of capacities and use old technologies. Capacity expansion or technology upgradation is a big challenge for these small and medium scale units with limited resources because of higher risks perceived by lenders and also because of lack of awareness.

2.9 Government Schemes for textile sector

Textile & apparel industry plays a major role in India's social and economic scenario. Apart from being the largest employer in the country, providing employment to around 105 million people (direct and indirect), and the sector also contributes to around 4% in the county's GDP and 14% in India's overall exports.

Owing to the importance of this sector, Government of India has taken several measures for the upliftment of the textile industry. Government schemes that are currently active are as follows:

Scheme / Policy	Key Features
ATUFS	• 15% capital subsidy on eligible machinery in garmenting and technical textile sector with a cap of Rs. 30 Cr. per individual entity • 10% capital subsidy on eligible machinery in weaving for brand new shuttle less looms (including weaving preparatory and knitting), processing, jute, silk and handloom sector with a cap of Rs. 20 Cr. per individual entity • 15% capital subsidy on eligible machinery for composite units with a cap of Rs. 30 Cr. per individual entity (*if the eligible capital investment in respect of garmenting and technical textiles is **more** than 50% of the project cost) • 10% capital subsidy on eligible machinery for composite units with a cap of Rs. 20 Cr. per individual entity (*if the eligible capital investment in respect of garmenting and technical textiles is **less** than 50% of the project cost)
Scheme for Integrated Textile Parks (SITP)	• Grant/Equity up to 40% of the textile park development project cost subject to a ceiling of Rs. 40 Crores. • GOI support under the Scheme will be generally in the form of grant to the SPV unless specifically decided by the PAC to be equity. However, the combined equity stake of GOI/State Government/State Industrial Development Corporation, if any, would not exceed 49%.

	• Grant at 90% of the project cost subject to a ceiling of Rs. 40 Crores for first two projects in the States of North East Region of India.
Integrated Skill Development Scheme (ISDS)	• Assistance up to 75% of the cost of the project, within an overall ceiling of Rs. 10,000 per trainee.
Technology Mission on Technical Textiles (TMTT)	• Upgrade existing Centre of Excellences and set up of four new COEs • Support for business start-up • Providing fund support for organizing workshops • Support for standardization • Market development Support for sale to the institutional buyers • Market development Support for export sales • Grant for conducting Contract Research and Development in identified institutes
Swarnjayanti Gram Swarozgar Yojana (SGSY)	• Provide assistance to people by providing them income generating skills through a mix of bank credit and Government subsidy. • Subsidy at a uniform rate of 30% of the project cost, subject up to Rs. 7,500 per individual.
Integrated Processing Development Scheme (IPDS)	• Grant up to 50% of the project cost (excluding land cost) with a ceiling of Rs. 75 Crores for projects with Zero Liquid Discharge Systems and Rs. 10 Crores for projects with conventional treatment systems. Support for marine discharge projects would be analyzed on a case to case basis with a maximum ceiling of Rs. 75 Crores. • The project cost shall be borne by the Center, State, Beneficiary, Bank loan in the ratio of 50:25:15:10 respectively.
Merchandize Exports from India Scheme (MEIS)	Rewards for export of products shall be payable as percentage of realized FOB value: • For handloom, jute and coir based products - reward rate is 5% for all countries • For all other eligible textile and apparel categories - reward rate is 2% for EU (28), USA, Canada and Japan.
Duty Drawback	Drawback rates for key textile and apparel categories: • Cotton yarn: 2.8% to 4.7% • Cotton fabric: 4.3% to 7.1% • Apparel: 7.5% to 9.8%
Market Development Assistance (MDA)	• Financial support to exporters for conducting export promotion activities abroad
Market Access Initiative (MAI)	• Financial assistance for carrying out marketing projects abroad, including o Opening of showrooms o National level participation in trade fairs/exhibitions o Displays in international departmental stores

- Publication of world class catalogues to create brand identity for Indian products
    - Publicity campaign and brand promotion
    - Research and product development
- Assistance for building capacity for exporters, export promotion organizations etc. :
    - For imparting training to Indian exporters
    - For upgradation of laboratories, research institutes, universities and other National institutions for creating testing facilities
    - For National level institutes and export promotion organizations to organize training programs to upgrade quality, improve product and reduce rejection
    - For setting up common facility centers, design centers by Industrial clusters, EPCs and National level Institutions
    - For hiring consultants/designers in the buyer country for facilitating negotiations/product modification as per local requirements
- Assistance on reimbursement basis to individual exporters for charges/fees paid by them for fulfilling the statutory requirements in the buyer country
- Assistance for conducting studies:
    - Survey for promoting exports of the identified product groups from the State
    - Project/study which the Empowered Committee in its deliberation feels would further the objectives of the Scheme
    - Studies on WTO related matters and JSG/FTA/RTA studies

3. Way Forward for Indian Textile Industry

3.1 Improving productivity & efficiency

A major reason behind the lack of productivity and efficiency is that the Indian textile sector is largely unorganized and small in size, especially the fabric manufacturing, fabric processing and garment manufacturing segments. So to increase the productivity and efficiency, India needs to focus on building manufacturing scales and develop integrated manufacturing set up.

Also the other factor which significantly effects the productivity and efficiency is the type of labour engaged in the manufacturing. Textile manufacturing being a labor intensive sector, has a deep impact of the quality of labour in deciding the productivity and efficiency. Hence, focus should be on acquiring skilled labour as manpower for the improvement.

Machinery being used in Indian textile industry is mostly old and outdated. These machineries are unable to provide the level of productivity and efficiency which is the need of the hour. Hence, up gradation of the existing technology is a must to achieve higher level of productivity.

3.2 Up gradation of technology

The Indian textile industry suffers from the use of low and outdated technologies especially in the power loom sector and processing sector etc. In general, the conventional perception of Indian textile industry spending on R&D (Research and Development), product development etc. is quite low. As a result, India has had a very low presence in high value added segments and innovation driven technical textile segment which are growing in other countries tremendously.

As mentioned in the above chapters, the largely unorganized state of our textile industry adds up to the challenge of technology up gradation. These small and medium scale units which have limited resources are reluctant and apprehensive of spending money on up-gradation and R&D because of higher risks perceived by lenders and also because of lack of awareness.

However, the Indian government has taken some major steps in checking this problem by continuing schemes like TUFS (Technology Upgradation Fund Scheme) which provide capital subsidy on the purchase of textile machinery.

Increased focus on R&D is required for our industry to become internationally competitive as the global trends are shifting towards value added products. For achieving this, setups are required for R&D for outcome-based research focusing on machine, instrument and process development as well as on material and product development.

In the processing section a big issue was related to the environmental norms as the older technology couldn't withstand for the terms and condition regarding effluent generation. So a huge requirement is there in section of processing technology for the up-gradation of existing technology so that this sector does not face any challenge in meeting the standard quality norms.

3.3 Improving quality of products & services

Quality of the product and the service levels are the foremost things that a buyer seeks while purchasing products from any country. In terms of quality, India is amongst the top quality suppliers of yarn and home textile products as we have a well- established spinning sector with the latest technology. However, in the weaving and processing sector, due to the lack of latest technology and technological knowhow, India is not able to develop high quality products especially in synthetic textiles.

Also in the garmenting sector, India needs to develop strong capabilities in several products which are in high demand in the export market for example, outerwear, suits, sweaters, lingerie etc. In order to achieve the quality levels required by international buyers, Indian textile industry needs to raise the performance of machinery, process and skill training of the manpower. Indian companies also need to focus on providing full package services to buyers and become long term supply chain partners.

India is a reliable destination for buyers in terms of service levels. Indian companies (organized and unorganized) have the flexibility to cater to different order sizes (although there is a restriction in catering high bulk orders in garmenting). However India needs to further develop its product and services to tap the huge global export market potential.

3.4 Attracting FDI

Indian textile industry is a less attractive destination for investments due to the tariff barriers it faces in major international markets, high input costs, low margins, etc. In fact, reverse FDI flows in the sector driving new investments to competing countries like Bangladesh, Vietnam, Ethiopia etc. is a major challenge.

In order to achieve the desired growth in our textile and apparel industry, it is imperative to get large scale investment both foreign and domestic. To make Indian textile and apparel industry an attractive destination for investment, certain policy initiatives need to be taken such as:

a) Early finalization of FTA with EU to address the tariff disadvantage of the industry vis-à-vis competing countries.
b) Lending rates to be made more competitive for textile sector
c) Establishing a fibre neutral duty structure to align industry with the global demand
d) Incentivizing setting up of mega textile clusters to promote scale in the industry.

Earlier, strict labour laws in the textile industry were also a problem for the investors. However, these labour laws have now been relaxed in the recently released Rs. 6,000 cr. garment sector package. This move by the government has been very well received by the industry.

Steps like these will further help in attracting the desired investment in the sector.

3.5 Development of artificial clusters

One of the challenges of Indian textile and apparel industry is the lack of scale in its manufacturing. Majority of our manufacturing is sparsely distributed amongst a large number of players which have small production capacity. This poses as an unattractive feature for the investors who look for suppliers which can cater to their bulk demands.

To check this problem, establishment of large scale textile/ mega textile parks of more than 1000 acres need to be carried out, where in multiple textile companies across the value chain will be setup in a common area and will function as an integrated unit thus creating scale. In addition to these mega textile parks, theme-based textile parks should also be set-up to encourage new investment in priority sub-segments of garmenting, technical textiles and processing.

3.6 Government Policy Initiatives

Further to the recommendations provided in the above points, support of the government is required through relevant policy measures that will pave the path for the growth of the textile industry in India.

Some of the policy initiatives which the government should address are mentioned below:

1. Focus on establishing free trade agreements with major textile and apparel markets such as EU & USA, to curb the disadvantage against competing nations such as Vietnam and Bangladesh
2. Implementing fibre neutrality regime and incentivizing indigenous production of high specialty fibers / yarns and work towards a favorable duty structure to ensure availability of high specialty fibers/yarn at competitive price
3. Support in building up R&D centres in partnership with industry focused on developing high end products
4. Launching new schemes for the upliftment of traditional sectors such as jute, silk, handloom etc.
5. Providing easy credit availability to small and medium scale enterprises for technology upgradation
6. Increasing focus on technical textiles by developing specific initiatives for different segments of technical textiles including promotion of ventures, addressing the challenge of lack of awareness etc.
7. Promoting use of identified technical textile products among institutional users, especially in the area concerning public health, human safety and environment protection.
8. Formulation of special schemes for incentivizing production of value added garments
9. Increasing focus on promoting of handlooms and handicrafts by through branding and marketing.
10. Focus on developing methods for achieving the standard norms in the processing industry through research and development.

About FICCI

The Federation of Indian Chambers of Commerce and Industry (FICCI) is an association of business organizations in India established in 1927. FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs. The chamber has an indirect membership of over 2,50,000 companies from various regional chambers of commerce. It is headquartered in the national capital New Delhi and has presence in 12 states in India and 8 countries across the world.

FICCI is a non-government, not-for-profit organization involved in sector specific business policy consensus building, and business promotion and networking. It provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community. It organizes conferences, forums, exhibition, trade fairs, etc. bringing the industry insight forward.

About Wazir Advisors

Wazir Advisors is a Management Consulting assisting its clients in strategy formulation and implementation, forming alliances and joint ventures, investments and market understanding, sector analysis and due diligence-thereby providing end to end solution spanning the complete business cycle in textile value chain.

Having worked with leading Indian and International companies, public sector organizations, Government departments, development agencies, trade bodies etc., Wazir has a deep understanding of global textile sector dynamics and right connect with the people who matter.

Wazir's team of textile experts possess experience across function – projects, operations, sourcing and marketing in the sector. The team members have worked on strategy and implementation assignments in all major textile and apparel manufacturing and consumption base. Wazir leverages its body of knowledge, contact and combined expertise of its team to deliver value to clients.

Scope of Our Operations

Strategy

Wazir delivers practical, implementable strategies for clients to meet their objectives.

Be it corporate strategy intending to enhance profitability or sector growth strategy to support MSMEs or evaluating Government scheme to access its impact, we are geared to advise our clients efficiently and effectively. Our services include:

- Sector Mapping and Growth Strategy
- Policy Formulation Support
- Government Scheme Evaluation
- Corporate Strategy
- Market Opportunity Assessment
- Market Entry Strategy
- Location Analysis
- Business Performance Enhancement
- Product Diversification
- Marketing and Distribution Strategy

Implementation

Wazir provides implementation services to textile and apparel sector entities to convert the plans into reality. Whether it is to manage a Government scheme or to improve productivity in apparel factories or to identify the most suitable technology; we have in-house competence to cover all the critical elements of implementation. Our services are:

- Project Management and Monitoring
- Re-modeling of Manufacturing Plant
- Process Re-engineering
- Productivity Improvement
- Supply Chain Optimization
- Feasibility and Techno-Economic Viability (TEV) Study
- Investment Promotion
- Cluster and Industrial Park Development

Alliances

Partnerships and collaborations are ways to achieve accelerated growth, expand market reach and attain technical advancement. Realizing the importance and need of inter-organization alliances in textile and apparel sector, Wazir has developed broad range of services to support companies and organizations looking for inorganic growth globally. Our services include:

- Company Due-diligence
- Joint Venture
- Marketing Tie-up
- Technology Transfer
- M&A Execution
- Strategic and Financial Funding

About Ministry of Textiles, Delhi

The Ministry of Textiles is responsible for the formulation of policy, planning, development, export promotion and regulation of the textile sector in India. The principal functional areas of the Ministry include: Textile Policy & Coordination, Man-made Fibre / Filament Yarn Industry, Cotton Textile Industry, Jute Industry, Silk and Silk Textile Industry, Wool & Woolen Industry, Decentralized Powerloom Sector, Export Promotion, Planning & Economic Analysis, Integrated Finance Matters, Information Technology.

Contact Ministry of Textiles:

Ministry of Textiles
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Office of Textile Commissioner, Mumbai

The Office of Textile Commissioner formulates and implements various schemes of the Government of India in an industry-friendly manner. This office has wide reach across India through its 8 regional offices and 14 powerloom service centers in major textile clusters.

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