

# **Textile Industry of India & its Status in the Present State of Globalization**



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India is country in South Asia. It is the second most populous country with over 1.2 billion people, the most populous democracy and the seventh largest country by geographical area. It shares land borders with Pakistan to the West, Burma and Bangladesh to the East and Nepal, Bhutan and China to the North-East, bounded by the Indian Ocean in the South, the Bay of Bengal in the South-East and the Arabian Sea in the South-West.

## **The Tradition of Textiles in India**

The origin of Indian textiles can be traced to the Indus valley civilization (some 5000 years ago). India has a diverse and rich textile tradition. Excavations at Harappa and Mohenjo Daro have unearthed household items like needles made of bone and wooden spindles, pieces of cotton stuck to a silver vase, all suggesting that the people spun cotton at home to make yarn and finally garments. The first literary information about textiles in India is available in the RigVeda, which refers to weaving. Craftsmen of Mauryan Empire, Ashoka's rule and Gupta Age excelled in weaving, under royal patronage. Information about ancient textiles of India can be garnered from the various sculptures belonging to the Mauryan and the Gupta ages as well as from ancient Buddhist scripts and murals. According to legends when Amrapali who was a courtesan living in the kingdom of Vaishali (in present day Bihar), went to meet Gautama Buddha, she was attired in a richly woven sari. This testifies to the technical achievements of the ancient Indian weaver.



**Amrapali attired in a richly woven sari went to meet Gautama Buddha**

The ancient Hindu epics, the Ramayana and the Mahabharata mention a variety of fabrics in vogue during those times. Findings of textiles in other countries date back to second century BC. The Ramayana refers to the rich garments worn by the aristocracy and the simple clothes worn by the commoners and ascetics. Block print fabrics, mainly of Gujarat region, found in Egyptian tombs are a proof that India was producing enough cotton textiles to import them to other countries in the medieval ages.

Indian textile trade with other countries began as early as the second century BC. India had numerous trade links with the outside world and Indian textiles were popular in other

countries. Indian silk was popular in Rome in the early centuries of the Christian era. A hoard of block printed and resist-dyed fabrics of Gujrati origin were found in the tombs of Fostat, Egypt, (older areas of Cairo city, the country's capital) are the proof of large scale Indian export of cotton textiles to the Egypt in medieval times. Cotton textiles were also exported to China during the heydays of the silk route. South Indian Silk fabrics were exported to Indonesia during the 13th century. Printed cotton fabric cintz were also exported by India to Europe and other Asian countries like Java and Philippines, long before the arrival of the Europeans.

Indian cottons and silks were hand spun and hand woven before the introduction of mechanized means of spinning in the early 19th century. Those fabrics were highly popular and were called the khadi. Hand-woven fabrics that use mill-spun yarn are known as handloom. In present times cotton is an integral part of textiles in India. Approximately four million handlooms are engaged in weaving fabrics of nearly 23 different varieties of cotton. Handlooms form a precious part of the generational legacy and exemplify the richness and diversity of our country and the artistry of weavers. Tradition of weaving by hand is a part of our country's cultural ethos.

### **India in the Global Textiles Ecosystem**

Globalization is a process of interaction and integration among the people, governments and companies of different nations. It is a process driven by international trade and investment and aided by information technology which impacts the environment, political systems, culture, prosperity, human physical well-being in societies around the world and economic development. "The nations have now moved from an environment where the big eat the small to a world where the fast eat the slow", as observed by Klaus Schwab of the Davos World Economic Forum. Living standards of people have considerably improved due to market growth. With the development in technology and its introduction in the global markets, there is a steady increase in the demand for commodities; greater utilization and consumerism.



These are exciting times for the textiles and apparel industry in India which is on a high growth path. Globally there are clear indications that textiles and apparel production is consolidating with production after quota -abolition shifting towards Asian countries which have a strong raw material base and abundant cheap labor. India is blessed with both and this along with other factors will make it one of the biggest beneficiaries of this global trend. Domestic demand for textiles is increasing led by rising income levels, growth in organized retailing, demographics and housing boom in India.



Textile and apparel exports have been significant Foreign exchange earners for India. The export basket for textile comprises yarns, fabrics, and made ups of cotton, manmade fiber, wool, silk as well as jute and carpets.

EU is the largest export market for India. India's textiles and apparel products including handloom and handicrafts are exported to more than 100 countries. US is the single largest buyer of Indian textiles and apparel.

India has gained post Multi Fibre Agreement. To regulate global trade in textile and apparel products MFA was established in 1974. Countries like Canada, US, EU under the agreement set limits called quotas on the amount of foreign made textiles and apparel they would permit into their countries from a specific producing country. ATC, Agreement on textile and clothing came into effect in 1995 under which quotas were phased out in 4 stages over a ten year period and were eliminated on January 1, 2005 marking a new era in Global Textile and Apparel industry. India and China were two countries to derive maximum benefit from phasing out of MFA. Post MFA India's share in world apparel export has been predicted to increase phenomenon ally.

To take advantage of these trends most Indian textiles companies are expanding their capacities across the value chain in areas of design, fabric, yarn, retail forays and garments. The sector is also witnessing a rising wave of entrepreneurship resulting in spawning of several start-ups. In the past few years with growing number of new entrants and expansion by existing companies the textile and apparel sector has taken rapid strides.

Not surprisingly the industry is also experiencing some pains concomitant with the fast pace of growth. In recent years the industry in India has not been able to comprehensively harness the full potential of the global opportunities. Global competition, cost competitiveness, technological obsolescence, low productivity levels and a strong Rupee appreciation are some of the key challenges being faced by the industry currently.

### **Indian Textiles and Apparel Industry – An Overview**

The Indian textile industry consists of the following sectors:

- Readymade Garments
- Cotton Textile Industry including Handlooms (Millmade / Powerloom/ Handloom)
- Man-made Fibre Filament Yarn Industry
- Silk Textile Industry
- Woollen Textiles Industry
- Handicrafts including Carpets
- Coir
- Jute Industry



Technical textiles sector is still in its infancy and a tangible growth will be highly visible by 2035 when the growth in this sector will be exponential.

The cottage industry with its handlooms produces dress material featuring fine floral and other patterns. Handlooms have a unique texture which serves as its value addition. It is however sad that the worker at the lowest end of the chain does not get paid with minimum per day labor charge.

India is the largest producer of Jute, 2nd largest producer of Silk, 3rd largest producer of cotton with the largest area under cotton cultivation in the world, 3rd largest producer of Cellulose fibre/yarn, 5th largest producer of synthetic fibre/yarn and 11th largest producer of wool.



The overall growth of the Indian textile industry can be attributed to the globalization. At present the Indian textile industry employs around 35 million personnel directly and it accounts for 21% of the total employment generated in the economy. Currently, India's share in the global textiles and apparel market is only US \$ 19 billion. The global textile and apparel trade is reportedly worth about US \$ 450 billion with US and European markets dominating global trade in this industry which is expected to cross US \$ 700 billion by 2012.

Globalization of the Indian textile industry has facilitated introduction of modern and efficient manufacturing machineries and techniques in the Indian textile sector. Hence, majority of India's economic growth is largely dependent on textile manufacturing and exports.

- The global demand for apparel and woven textiles is likely to grow by 25% from current figures to about 35 million tonnes in 2012, of which 85% is likely to come from Asian countries.
- India therefore stands to benefit immensely from this growth as international brands and buyers increasingly look to low cost producing countries to broaden their sourcing base.
- The textiles and apparel industry in India has traditionally been one of the corner stones of our economy in terms of our foreign exchange earnings, output, and employment. However in recent years the industry has not been able to comprehensively harness the full potential of global opportunities available.
- On one side there have been attempts to move to manufacturing base up the value chain from commodity to value added products and high value specialized technical textiles. On the other hand efforts are being made to bridge the prevailing gaps in the areas of infrastructure and manpower.

- The initiatives announced by the Government recently are being viewed as a booster measures to infuse a much needed impetus to the industry which in the past few months has lost some of its momentum due to its non-competitiveness on the global front. Global competition , cost competitiveness low productivity levels, technological obsolescence, environmental issues and a strong rupee appreciation are some of the key challenges being faced by the industry currently.
- Going ahead, vision, strategic growth plans and vigorous reorganization will be the key to achieve desired levels of scale and competitiveness required to tap this huge global opportunity.

### **Investments for Indian Textile industry**

Although current regulations do not permit any foreign textile and apparel retailers to own outlets in India, foreign retailers have a presence in retailing through Franchisee agreements. With all positive changes taking place in the supply of quality real estate, changing consumption patterns, rising incomes and favorable demographics India cannot be ignored in the emerging Global Market.

Investment has increased significantly in the textiles sector and is expected to touch ₹ 1, 50,600 crore by 2012. This enhanced investment will generate 17.37 million jobs (comprising 12.02 million direct and 5.35 million indirect jobs) by 2012.

India's growing Market for consumer goods , already in the top 10 is estimated to reach 400 billion US \$ by 2010 making it one of the 5 largest in the world. By 2015 organized retail will constitute 15% of total retails sales in India. By 2015 growth in organized retail sector will outstrip GDP growth, largely driven by urbanization, change in lifestyles and strong economic growth.

**SWOT analysis of Textile and Apparel Sector:** India has never before faced such a tremendous window of opportunity to become a significant player in the global economy as now.

- It has a clear competitive edge in low cost cotton sourcing compared to other countries.
- Average wage rates in India are 40 to 50 % lower than those in developed countries, henceforth enabling India to benefit from global outsourcing trends in labor intensive businesses such as apparel and home textiles.
- Huge domestic demand is being driven by a larger consuming class, increasing per ca pita consumption and growth in residential real estate.
- Design and fashion capabilities are key strengths that have enabled Indian players to strengthen their relationships with global retailers and score over competition over China and other peer countries in Asia.
- Production facilities are available across the textile value chain from spinning to apparel production. The industry is investing in technology and increasing its capacities which should prove to be a major asset in the years to come.

- Indian companies offer experience entrepreneurship and design skills which companies in competing countries find hard to match.

### **Strengths**

- Abundant raw material; availability of natural and manmade fibres.
- Availability of large varieties of cotton fibre and has a fast growing synthetic fibre industry.
- Availability of low cost and skilled manpower provides competitive advantage to industry.
- Abundant raw material availability that helps industry to control costs and reduces the lead-time across the operation.
- Industry has diversified and large segments that provide a wide variety of products
- Indian textile industry is an independent & self-reliant industry.
- India is one of the largest exporters of yarn in international market and contributes around 25% share of the global trade in cotton yarn.
- The Apparel Industry is one of largest foreign revenue contributor and holds 12% of the country's total export.
- It is a growing economy and has a great potential in domestic and international market.
- Lot of spinning mills and power looms
- Availability of low cost, skilled technical and managerial talent
- Adequate processing facility for yarn dyeing and production of yarn dyed fabrics.
- Vertical integration of the industry across the value chain from field to shelf
- Widespread cotton cultivation.
- India tops in world organic cotton India contributes exactly half of the world's organic cotton output. India is undeniably the world leader in this field and can continue to increase its production if the government takes care of the availability of fertilizers, general disenchantment with genetically modified cotton production and prohibitive cost of synthetic pesticides.

### **Weakness**

1. Industry is fragmented and this hampers the ability to scale up and emerge as world class supply base. Global buyers prefer to source from 2 to 3 large vendors and Indian manufacturers find it difficult to meet capacity requirements.
2. Most of the technology is outdated rendering manufacturers less competitive than their counterparts in China, Korea and Taiwan. Recently though technology up gradation has started happening.
3. Infrastructure and logistics required for export industries is poor resulting in delays and higher costs.
4. Lack of sufficient skilled labor
5. Increased power tariff and fuel cost.
6. Higher indirect taxes, power and interest rates.
7. Lack of technological development that affect the productivity.

8. Industry is highly dependent on cotton
9. Lacking to generate economies of scale
10. Declining in mill segment
11. Infrastructural bottlenecks and efficiency.
12. Unfavorable labor laws

## Opportunities

Looking ahead the Industry has a bright future. India has a huge opportunity to capitalize on and increase its share in global trade.

- ☞ Value added products will have greater demand which will result in processing playing an important role.
- ☞ Traditional designs and craftsmen in India can command a greater market share for niche products in garments.
- ☞ Environmental issues: There are a lot of environmental issues, pollution being the most severe of them.
- ☞ Competition from other low cost countries like China, Bangladesh, Vietnam, and Turkey are posing serious threats to the industry. EY research indicates the Sri Lanka, Vietnam, and Bangladesh quote prices that are 20% lower than Indian rates.
- ☞ Rupee appreciation – the relentless ascent of the rupee has resulted in smaller orders, deep uncertainty for apparel exporters and lower prices. The US accounted for a third of 2006-07's estimated \$ 19 billion (₹ 76,000 crore) textile and apparel exports. But the rupee's rise has rendered the current fiscal's \$25 billion (₹ 1.00,000 crore) target unachievable. Apparel which constitutes about half of exports has been worst hit. Apparel exports to the US declined 2.11 percent to \$ 3.17 billion (₹ 12, 680 crore) for the year ending July 2007, according to the office of Textiles and Apparel , US Department of Commerce.
- ☞ Operational costs
- ☞ Labor laws
- ☞ Scalability and availability of talent
- ☞ Availability of good infrastructure
- ☞ IT environment
- ☞ Abolition of quota system has resulted in fluctuations in export demand.
- ☞ Post expiration of Agreement of Textile and Clothing (ATC) on January 1, 2005, countries in Asia especially China has emerged as a chief competitor of India.
- ☞ Continuous quality improvement is the need of the hour.
- ☞ Increasing competition from other countries.





- ☞ Emerging retail industry and malls
- ☞ Greater market lead by elimination of quota restriction
- ☞ Domestic textile industry's growth rate
- ☞ Shifting to branded ready-made garment
- ☞ Product development and diversification.
- ☞ Elimination of quota system has led to fluctuations
- ☞ Geographical demerits
- ☞ Balance between quality and price, demand and supply
- ☞ Continuous quality improvement
- ☞ International environmental laws
- ☞ Competition from other developing countries, mainly China

### **FDI Policy in Textile and Apparel**

Textile and apparel industry in India enjoyed reservations as a SSI (Small scale Industry) with the Foreign Equity Restrictions of 24%. Over a period of time the Government has gradually de reserved it from SSI list and allowed 100% FDI to this industry. India now has most liberal and transparent foreign policies in FDI. Ministry of Textiles has set up an FDI Cell to strategize and promote FDI in textile sector.

Technical textiles are an emerging field and Government of India has launched a Technology Mission on Technical Textiles (TMTT).

TUFS, Technology Up gradation Funds Scheme has been launched to overcome obsolescence and lack of economies of scale. This reimburses 5% on the interest charged by financial institutions on sanctioned projects.

### **Strong Domestic Demand Supporting the Exports Opportunity**

- The Indian domestic textile market is witnessing a strong growth led by young consuming population (median age 24 years) , its fast growing economy and rising household income levels and over 30% growth in the organized retail sector.
- Going forward we expect the share of the organized textile and apparel segment to continue to rise as the number of urban households in the high and middle income classes grow and disposable income of the younger population increase rapidly. Nearly two thirds of India's population is under 35 years of age, which makes consumers spend more on lifestyle products.
- It is estimated that the number of households with an annual income of more that ₹ 500000 will double over the next few years. This coupled with the growth of organized retailing should lead to an increase in demand for high quality textile and apparel products.
- Increase in number of new urban households, higher spending on home furnishings by Indian consumer and growth in organized retailing will fuel the growth in home textiles as well.

The initiation and development of globalization and Indian textile industry took place simultaneously in the 1990s. The Indian textile industry, until the economic liberalization of Indian economy was predominantly an unorganized industry. The economic liberalization of Indian economy in the early 1990s led to stupendous growth of this Indian industry. The Indian textile industry is one of the largest textile industries in the world and India earns around 27% of the foreign exchange from exports of textiles and its related products. Further, globalization of Indian textile Industry has seen a paradigm increase in the 'total industrial production' factor of this Industry, which presently stands at 14%. Furthermore, the contribution of the Indian textile Industry towards the gross domestic product (GDP) of India is around 3% and the numbers are steadily increasing. The process of globalization and Indian textile industry development was the effect of rapid acceptance of 'open market' policy by the developing countries, much in the lines of the developed countries of the world.

The initiation and its subsequent development of globalization and Indian textile industry respectively, was effected by the Ministry of Textiles under the Government of India. The aggressive policy that was undertaken for the rapid development of globalization and Indian textile industry were really praiseworthy. The most significant step amongst them was introduction of "The National Textile Policy 2000". This policy envisaged to address the following issues -

- Global competition increased in the post 2005 trade regime under WTO
- Large import numbers of cheap textiles from other Asian neighbors
- Production cost high with respect to other Asian competitors
- Use of manufacturing technology that is outdated
- Immense transit cost and poor supply chain management
- Large unorganized and decentralized sector

Further, this policy also aims at increasing the foreign exchange earnings to the tune of US \$ 50 billion by the end of the year 2010. It includes rational projections for the overall development and promotion of all the sectors involved directly or indirectly with the Indian textile industry. Furthermore, this policy also envisages the inclusion of the huge unorganized and decentralized Indian textile sector under the organized textile industry. The reason for it is that the unorganized textile manufacturing sector in India accounts for 76% of the total textile production.

**The Globalization of the Indian Textile Sector was a cumulative effect of the following factors -**

- ☞ Huge textile production capacity
- ☞ Efficient multi-fiber raw material manufacturing capacity
- ☞ Large pool of cheap and skilled work force
- ☞ Entrepreneurial skills
- ☞ Huge export potential
- ☞ Large domestic market

- ☞ Very low import content
- ☞ Flexible textile manufacturing systems

India compares in a number of important variables with three benchmark countries; South Korea, the United States and China. A great advantage of India is its people. India is second only to China with a population of over one billion. Although India accounts for roughly 17 per cent of world population, it contributes less than 2 per cent to world GDP and 1 per cent or less of world trade in goods and world foreign direct investment (FDI) inflows. Even in terms of purchasing power parity, per capita GDP in India is only about half that of China and less than one-tenth that of the United States.

India's GDP growth has soared from 5 - 6%. If this growth is sustained, as the 11<sup>th</sup> Plan hopes to do, average living standards will rise and poverty will be reduced. The good sign, however, is the positive indications of increase in consumer confidence and consumer demand in the developed economies, namely, USA, Japan and the Europe. The demand contraction and low consumer spending in the USA, the EC and Japan had decisively impacted the demand for imported textiles and clothing from, both the USA and the Europe. Because of above and the ongoing slow pickup in demand and prices, the Indian textile sector is in static mode, mainly to slow lifting of fabrics and made-ups owing to continuing slowdown in demand for clothing and apparels in both global and domestic markets.

### **Summary**

The Indian textile industry is one of the largest textile industries in the world and India earns around 27% of the foreign exchange from exports of textiles and its related products. Indian textile industry however needs to focus on all major sectors right from fibre to fashion and should plan for an organized growth across the supply chain so as to compete with China and even countries such as Thailand, Pakistan and Vietnam.

The Indian textile industry has the advantages of high operational efficiencies in spinning and weaving, availability of raw material, low-cost skilled labour and design capabilities. Aggressive up gradation of technology is taking place in the Indian textile companies to compete in the global market. The slowdown witnessed in the US and Europe caused an impact on its growth in the textile sector resulting in production cuts and shutdown of loss making units, causing job losses to the tune of 3,00,000 to 4,00,000 between October-December 2008 (0.92% decline in overall employment on year).

To survive and succeed in garment manufacturing business in today's era of globalization and increasing competition, it is very essential for firms to analyse the environment in which it is working. Firms have to make efforts to decrease their cost with cutting margins between the cost and the selling price. Integration of China in the global economy is one of the most significant developments that is affecting the structure and evolution of the global system.

China is ahead of India in the garment industry. This industry in India needs to be improved. For this various recommendations are outlined which would help

Textiles and Apparel Industry in India is on a high growth path. Ever since quota -abolition the focus has shifted towards Asian countries and the Textiles and Apparel production industry has begun consolidating itself. India has a strong raw material base and abundant cheap labor and this along with other factors will make it one of the biggest beneficiaries of this global trend. Over and above this trend the domestic demand for textiles is increasing due to advancing technology, rising income levels, demographics, growth in organized retailing, housing boom in India, opening up of international trade and globalization.

Going ahead, vision, strategic growth plans and vigorous reorganization are crucial to achieve desired levels of scale and competitiveness required to tap this huge global opportunity. Therefore, there is a need to examine the present situation and take stock of what is required to be done to take the industry to the next level of growth.

Structural anomalies, and other key factors inhibiting the growth of the industry, Government programs designed to help improve competitiveness, competitive strengths and weaknesses, tariffs and other market access barriers impeding growth in trade and investment need to be understood to approach the strategic objectives and growth opportunities in India.

The government has streamlined the anomalies in taxation that used to exist in the textile industry. It is providing subsidized loans to companies for technological up gradation and is also acting as a facilitator to bring together the players in the industry. Even as the global economic crisis worsened day-by-day, industry of the emerging and growing economies of South and South East Asia, stayed to take up competition and innovation.

Emerging once again as an important global player, the Indian industry has enriched its manufacturing capabilities and diversified its product base. India retains a strong and sustainable position among the top five exporters of textiles and clothing in the world with a current market share of just over three per cent. It is not unrealistic to expect India to catch up with China any time soon given the current market share positions. However, the trend clearly is towards a reintegration of India's industry with the global trade.