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SHALL WE ACHIEVE UPWARDS REVISED GARMENT EXPORT TARGET?

BY: DR. H.K. SEHGAL

Shall we achieve upwards revised garment export target?

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(Views expressed in this article are the personal opinion of the author.)

The Government has always looked to the Economic Advisory Council of the Prime Minister for hopeful interpretation of the current situation and benign outlook for the projections during current or next fiscal. But what happens when EAC writes, in its preamble, to its statement on the Economic Outlook for 2012-13 that "there is a dark mood in the advanced economies; especially in Europe. The slower growth in the US and in the EU will have an adverse impact on the expansion of these markets for India's exports, both of goods and services." If any one can still dare – and announce – the upward revised export targets will be achieved, he must be a die-hard optimistic. That is what our Commerce, Industry and Textile Minister has proved himself to be, when he announced raising of export target for textile products from $38.31 billion to $40.50 billion for the current fiscal. This includes garment export target of $ 18 billion, against the actual achievement of $ 13.7 billion during last fiscal.

Is this upwardly revised target achievable? Two trade bodies related to the garment export sector have made their viewpoint available on the topic; these being; both differ from each other. While the Apparel Export Promotion Council (AEPC) is credited with the view that the upward revised target can be achieved, whereas Garment Exporters Association (GEA) feels that it would be difficult to achieve the target, Both of them recently had had their brain-storming session in view of alarming export trends as seen in the recent past. Indian garment exports have declined by a massive 12.08% from $ 3641 million in April-June, 2011 to $ 3201 million in April-June, 2012. Even the total exports from India have also suffered. Its exports dropped for second month running in June, declining 5.45% from a year ago. Things appear grim, as the WTO has estimated growth in global demand to decelerate to 3.7% in 2012, which is lower last year's slow growth of 5%. The world trade had grown at 13.8% in 2010. Then, there are other organisations like Federation of Indian Export Organisations (FIEO) and Delhi Exporters Association (DEA) whose views we shall also consider before offering our view.

Dr. A. Sakthivel, Chairman, AEPC is reported to have claimed that the target can indeed be achieved, but it is now learnt that he has also reeled out a long list of "some benefits" that the AEPC proposes, "in order to meet this target". The 15-point proposal

includes almost everything under the sky. I would not like to pick and choose some recommendations, as it would dilute, if not distort, the requirements laid down by AEPC. These recommendations are:

First, an overall view: The omnibus list of "measures", which would need to be "considered" in order to "meet the target", is so wide-ranging that it would be difficult, perhaps in some cases, even impossible to be granted. This, to my mind, is reflective of the realisation that the achievement of the revised target is beyond any reasonable possibility. The best course, in such situation, is that one must put forward the demands that are highly unlikely to be met with, providing a safe passage to get out of the commitment of achieving target. I find that the Council has been prodigal in making demands on the Government, which is deeply involved in the exercise of reducing subsidies. Most of, if not all, the recommendations made by the Council seems to have been made without any basis – at least no basis has been provided for the fine details of recommendations - reflecting a sense of propensity to demand without considering as to how far these recommendations fit in, in the financial scheme of the Government.

It is unfortunate that the basic principle of provision of justification is not being adhered to, while making demands on the Government, which is under the bounden duty of examining them in the overall scheme of things.

Now, let us have a look at the recommendations of AEPC:

The Council must provide justification, while making any proposals to the Government. For example, while making a recommendation to increase in All Industry Duty Drawback rates to the rate of 10.27% of FOB for cotton and others; 11.21% on FOB for Blend containing cotton and made-made fibres and 12.53% for man-made fibres w.e.f. 1 April,. 2012, it should have provided the justification to help the Government to see its point of view, while submitting this recommendation to the Government. Further, it is doubtful if the Council has taken all the stake holders i.e. lobbyists for both cotton and man made fabrics, on board ? Similarly, why the garment export sector should enhance Duty-free import entitlement of specified trimmings and embellishments to 5% of FOB value of exports simply because it has been allowed for handloom and handloom made-ups. The fact remains that trimmings and embellishments are certainly a bigger component in handloom sector. The present level of 3% seems more compatible to the actual requirement of garment sector. Again, it has not been explained as to why EPCG Scheme at zero duty needs to be extended up to 2016-17? Further, the recommendation that Additional duty credit scrip to 'Status Holder' be increased to 2% from 1% for the year 2012-13 an 2013-14 has been made without giving any serious thought.

However, the suggestion of inclusion of countries like Russia, South Africa, Brazil, South Korea, Japan and Australia could be considered for inclusion under Para 3.14.2 of Foreign Trade Policy.

The Council has proposed introduction of Gold Card Scheme, under which Gold Card holders should be allowed to buy duty-free oil from domestic oil companies for their factory use for self-generation of power through generators/captive power plants. Has the Council considered the gross misuse that this scheme, even if sanctioned, would promote. The cost of “minimizing the cost of power” thus available, would be only a miniscule of the revenue loss to the Government. No Government is ever likely to give a nod of approval to such an unjustified proposal.

Yet another recommendation of AEPC is provision of incentive of 5% by way of duty credit scrip on fob value of exports to certain long distance, non-traditional markets like Mexico, Argentina, Chile, Australia and New Zealand, which is not likely to get any support or even favourable consideration of the Government. MAI support of Rs. 5 crore for IIGF could possibly be considered. But the Council has also sought upscaling of MAI/MDA and financial support of Rs. 3566.47 lakhs out of the total project cost of Rs. 5877.06 lakhs without giving the details of proposed expenditure, which can hardly be considered by the Government. It is also slightly unfair to ask for 100% financial support of Rs. 150 lakhs for Study on Competitiveness in Indian Apparel Industry as this is one of the well-defined functions of a Council, which, is not, in any case, foundering for want of funds. This only shows the growing appetite for money for anything it needs to do, even if it is one of the functions of any Council.

The need for immediate finalization of **India-EU FTA** cannot be denied; though the fact that the EU is under financial cloud does rob it of the great value that it has had. Recommendation of finalization of Agreement on Textile and Clothing ahead of full FTA shows some undeserving impatience. The Council should have noted that the Government has already rejected the proposal of restructuring package, for textile units due to financial constraints; and I trust that there is no restructuring package submitted to the Government for garment sector and yet making the such demand shows that an attempt is being made to pressurize the Government for something, which is not yet known to be have been submitted; and is, in any case, not feasible.

The recommendation of continuation of 2% interest subvention, 2% Market Linked Focus Product Scheme; 1% Status Holder Incentive and all other benefits “announced in this Foreign Trade Policy in 2013-14” for the seamless benefits so that the exporters can book next year’s fashion season in this year itself, could possibly be considered, but this depends upon how much loss can Exchequer can withstand next year. The suggestion that the facility extended by the Government for 24x7 Customs clearances for free

shipping bills from 01.09.2012, could be considered for shipping bills under Duty Drawback, could as well be considered by the Government.

However, the recommendation of the Council that permission may be accorded for duty-free import of cotton yarn and allowing Duty Drawback on the readymade garments manufactured from such (duty-free) imported cotton yarn, on the analogy of cotton being imported duty-free and export of cotton yarn being currently allowed with Duty Drawback benefit, is fallacious and unjust.

On the other hand, **Garment Exporters Association (GEA)** feels that it was difficult to achieve the target of $ 18 billion for 2012-13, as the Indian apparel industry was still facing a serious crisis because of shrinking demand in the major world apparel markets. The recent depressing developments in international trade and global financial and economic scenario along with slowdown of US and the EU economies has, of late, further aggravated because of uncertain conditions, resulting in lower inflow of export orders. Apart from this, there have been a number of indigenous factors, particularly high transaction costs and input costs, high inflation rate, tight credit policy, higher interest rates, severe liquidity crunch, rigid and outdated labour laws, poor infrastructure, higher power cost and frequent power cuts, increasing cost of wages and steep hikes in fabric and yarn prices – all adversely affecting the competitive strength of Indian apparel industry in the world market.

GEA has also made some timely and valuable suggestions to take on the present situation. It has, for example, advocated for increasing production capacity of apparel units particularly when it has to compete with countries like China, Vietnam, Cambodia and Bangladesh. "To complete with them, India has to invest in operations that have scale and scope to generate efficiencies in all factors of production." Says GEA President, Rakesh Vaid. Their recommendation of extending and restructuring Technology Upgradation Fund scheme with enhanced allocation to increase production and improving productivity seems to have already been agreed to by the Government when it committed sanction of funds under TUF Scheme. Yet another recommendation of improve export infrastructure by way of ensuring 24x7 Custom clearance and export and import cargo at all the airports and ports has already been partly agreed and processed. The need for providing adequate and need-based funds to exporters at reasonable rates of interest, not exceeding 7%, is a valid point that is getting the attention of the Government. This may not be feasible in the near future, but its merit cannot be questioned. Pending grant of this demand, the interest rate subvention of 2-4% on export credit seems reasonable. Their other recommendations like labour reforms in garment sector, reduction of transaction costs by implementing the recommendations of Task Force on Transaction Costs; raising of Service tax refund to 1.5% due to higher incidence of Service tax on export services are difficult to be dismissed.

Above all, the recommendation of operationalisation of Goods & Services Tax at the earliest is necessary "to simplify and rationlise the present tax structure" is very legitimate, inasmuch as the additional allocation under Market Development Assistance, ECGC providing 100% risk cover to garment export and reduction of premium for export insurance cover and financial assistance to textile processing units, dislocated to meet the ecological requirements are all important to help exporters in race for export pie.

M. Rafeeque Ahmed, President, Federation of Indian Export Organisations (FIEO) said that the dip in export growth is primarily on account of sluggish global conditions and slowdown in domestic manufacturing and added that while EU is still a cause of concern for exporters, the indications from US are positive. He said the Government need to look into the cost of credit which is adversely impacting both exports as well as manufacturing. The high cost of credit is making it difficult for entrepreneurs to increase their capacity or modernize the same. Moreover, with contraction in demand, more focus should be on aggressive marketing for which Government should provide liberal marketing support through MAI and MDA schemes to MSME exporters. He advocated for an Export Development Fund with a corpus of 0.5% of FOB value to enable MSME exporters to aggressively enter the unexplored markets.

S.P. Agarwal, President, Delhi Exporters Association says, "Buyers in Europe are careful. They prefer holding on to their money. So, they are giving their orders very slowly. Agarwal, who himself is an exporter of handcrafts to European countries like Germany and France, says the incentives provided by the Government in June did not prove to be enough as was obvious from the declining export numbers and there was need for much more.

Our Views

The slump in garment and textile exports is real, as revealed by the latest information, coming out of top exporters. Owing to high cotton inventory and slump in the overseas markets due to slowdown, major textile and clothing (T&C) companies like Arvind, Alok, Raymond, Century and Gokaldas Exports have witnessed their bottomlines take a hit in varying degree for the first quarter of fiscal 2012-13 on a year-on-year basis. While Arvind suffered due to labour agitation, Gokaldas Exports faced increased competition in overseas markets from neighbouring countries. A look at just the net profits/losses of some of the major T&C firms shows either a dip in the former or a growth in the latter. For instance, companies like Arvind, Alok Industries and Century Textiles have seen their net profit for Q1 of FY 2012-13 declined by 31.46, 49 and 90 per cent, respectively. On the other hand, Raymond and Gokaldas Exports registered an increase in their net losses by 442 and 75 per cent, respectively. According to industry experts, while for T&C firms that primarily manufacture garments or have apparels as one of the major integrated operations has lost substantially in competitiveness in the overseas markets. "Not only has the domestic market been dull since last couple of months due to poor market sentiments, even the overseas market has become tougher in terms of

competition from Vietnam and Bangladesh that sell at much more competitive prices. Add to that fabric prices and power costs have also risen pretty high for garment makers in India," said DK Nair, Secretary General of Confederation of Indian Textile Industry (CITI).

We have often repeated that the world scenario is far from happy and it is hugely uncertain as the world bodies like IMF and WTO have repeatedly said, and there is no likelihood of any improvement, leave aside major improvement in the scenario. Even the so-called the leading economies like China and India have not fared well nor are likely to improve their export performance in any significant way.

We have seen a number of recommendations, particularly from garment export related bodies like AEPC, who appears to be taking a false pride in claiming that the upward revised target would be achieved, while GEA has been more realistic with its feet on the ground with the acknowledgement that it would be difficult to achieve the revised target, but has, however, still given some valuable and timely suggestions.

But the moot point is: will the Government do all that is necessary to not only arrest the declining garment export trend, but reverse it. Given the deep financial mess that we are in, there is much greater possibility of Government failing to rise to the occasion.