Indian Garment Exports: Uncertainty Looms Large

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Indian garment exports have hardly been in the comfort zone, ever since January, 2005 when the world got free from MFA and everybody thought that they would gain a bigger pie in the international garment trade. India was one country that was looking forward to a big jump in post-MFA scenario, but that was not to be. We had had a rough terrain with some softer patches here and there, but things turned sour with the collapse of Lehman Bros, with its domino effect all over the world. Though India initially, if we were to believe our then Finance Minister, made a claim that India would not be impacted with this, but as we cruised along 2008 through 2009, we started feeling the heat which never ceased to exist.

The last fiscal year saw us barely touching the $14 billion, and there was an air of jubilation, even celebration on the day, we got the first inkling of achieving the target. In fact, apparel exports between April and February rose to $12.14 billion due to an initial pick-up and a 16 per cent depreciation of the rupee against the dollar that made exports more remunerative. The Government had expected the exports to rise in 2011-12 as demand seemed to have returned after the global financial turmoil in 2008, but the debt crisis in Europe added to the worries of exporters. This was aggravated by Indian textile mills caught off-guard by a fall in local yarn prices after they had bought their main raw material, cotton, at high prices. They could not sell yarn locally at a profit nor could they ship out products due to poor demand as well as export restrictions, resulting in huge losses. Anyway, the year 2011-12 has passed; giving us anxious moments towards close of the year, but all is well that ends well.

What holds forth for current fiscal?

We started with a target of $17 billion for the year 2012-13 but later on, the Union Ministry of Textiles was pleased to enhance the same to $18 billion. What were the reasons that impelled or compelled the Government to do so, continues to be a mystery. However, the upwardly revised target is hardly likely to be achieved, even though, at one point of time, Chairman, Apparel Export Council did assert that this target would be achieved, but later on, in course correction, he has realized and admitted that achieving the revised target of $ 18 billion would be very difficult.

Our garment exports have been consistently declining month after month in dollar terms during current fiscal. Our exports during April 2012 came down to $ 1059 million from $ 1173 million in corresponding period in last fiscal registering a fall of 9.7%. And this trend continues with our exports for May declining to $1037 million, down from $ 1232 in May last year, recording a greater decline by 15.8%. Our exports for the months of June, July and August during current fiscal were of the order of $1105 million, $ 1070 million and further down to $ 989 million respectively, while the corresponding figures

for the last fiscal were $ $1236 million, $ 1282 million and $ 1066 million with corresponding decline of 10.6%,.16.5% and 7.2%. These figures are a matter of serious concern.

Releasing the export data for the month of August 2012 for the apparel exports in India, Dr. A Sakthivel, Chairman AEPC, stated that, "Apparel exports were to the tune of USD 989 million in August 2012-13 with a decline of 7.2 per cent against the corresponding month of last financial year. In rupee terms, the exports have increased by 13.9 per cent in August 2012-13 over the same month of previous fiscal year. Export in dollar terms for first five months of the FY 2012-13 has declined by 12.16 per cent over the same period of previous FY. India's apparel exports to the EU slumped by 10 percent year-on-year during first half of the current year, while its exports to the US fell by 25 percent year-on-year.

Seeking early inking of Free Trade Agreement with the European Union, Dr. Sakhtivel has reasoned out that "the global financial crisis emanating inter-alia from sub-prime mortgages and unregulated credit default swaps is behind us. However, the sovereign debt crisis in the euro-zone has followed immediately thereafter. The weak recovery in EU and USA has reduced the purchasing power of the people in these markets- leading to the shortfall in the overall demand. I will request Government to soon ink the India-EU FTA because EU is our biggest market and textiles sector overall will benefit much more."

He added that the EU accounts for 50 percent of India's apparel exports, while the US and other countries have a 26 percent and 24 percent share, respectively. During the first five months of the current year, India's apparel exports slumped 12 percent to US$ 5.26 billion. However, the Council is optimistic of achieving US$ 16.5-17 billion levels in exports during current fiscal.

As a part of their efforts to explore new markets with varied products, AEPC delegations visited countries like Japan, South Africa and Israel, which predominantly sourced their apparel requirements, around 90-98 percent from China, and around 0.5-1 percent from India, Shaktivel said. He added that they have received good response from these markets, following which they even plan to send delegations to Panama, Russia and Columbia, where they eye great potential for promoting diverse apparel ranges. However, he has chosen not to disclose what "good response" AEPC has got from these countries in terms of orders booked or even serious inquiries received.

With no visible signs of recovery in trade with the US and Europe, the two traditional markets for Indian apparels, AEPC said they are now exploring other markets to improve export position. With the same intention in mind the Council has planned a series of trade fairs and exhibitions in countries such as Panama, New Zealand and Colombia, and is expecting good response from these markets. The Council has already successfully organized trade fairs and exposure in Russia, Israel and the UK, and has

even led high-level trade delegations to South Africa, Uruguay, Japan and Chile. Moreover, several Indian apparel enterprises took part in several international fashion fairs like the one held in Hong Kong.

Government action

The Government is keenly aware of the implications of declining export trend and has asked the exporters to fill in the gap created by the exit of Chinese players from lower-end of the manufacturing space, while readying measures including an end to the "stop-and-go" policy on export of value-added policy. "We are telling exporters to look at areas that China is vacating at the lower-end of the manufacturing chain and move in there", says S.R. Rao, Commerce Secretary. At the same time, he indicated the Government was gearing up for competition from China, especially in the Asean region. The Government has already identified China along with Africa and Latin America as key focus areas for development of new markets and reduce reliance on traditional areas such as the US and the EU, which are n a prolonged period of economic downturn.

Uncertainty looms large

Though everyone seems to be talking of good times ahead, but the fact of matter is that nobody seems to be sure as to what is in store, in so far as garment exports are concerned not only for the current fiscal, but also later on. How deeply is the uncertainty has seeped in not only in Commerce Ministry in so far as Indian exports are concerned, even the regularity with which the international institutions are revising downwards the growth rate for all the countries and regions is yet another indication as to where the world trade stands today and hereafter.

The Government is also looking into the problems that are being faced by the exporters. "Interest rate is a matter of concern and the regulator has taken the right call in view of the persistent inflation, which has come down significantly. It is important that we lift investor mood and reduce the cost of credit. The Minister of Commerce has already taken up the issue of interest subsidy with Finance Minister." said S.R. Rao. Acknowledging that it was a bad time for trade, the Commerce Secretary said he expected the situation to improve towards end of October, 2012." Significantly, he added, "If that does not happen, then we are in for a major worry on current account deficit. There is no other option but to boost exports. I still wish that the growth is 20% but that seems to be very uphill task."

Assessment of International agencies like IMF

Since a high degree of growth is crucial for exports and world trade, a realistic assessment of growth prospects of India, would be only befitting. For the sake of objectivity, I would like to draw heavily from what international agencies have said on growth prospects in India.

A day after the IMF slashed India's growth for calendar 2012 to 4.9%, its Bretten Woods sister organisation World Bank also revised down its growth forecast for the current fiscal, though it also noted the recent burst of reforms. In its India economic update, the development bank lowered India's growth projection for the current fiscal to 6% from 6.9% estimated in June this year, and warned that the possibilities of a worse performance are high. "We project growth in the current fiscal year to reach around 6%, a slowdown from the already low 6.5% growth in the previous year. This growth projection is predicated on an improving domestic and external environment, but the risks for a worse outcome are high," Ulrich Bartsch, senior country economist at the World Bank, said in a blog accompanying the report.

The revision is in line with India's dismal first quarter growth of 5.5% following which its growth outlook for the fiscal faced cuts from all quarters with most analysts bringing it down to the range of 5-5.5%. The Bank said that the country will face a significant slowdown from the recovery it made between 2009 and 2011 owing to global uncertainties playing havoc with current account, low business confidence caused by lack of policy initiatives and ballooning fiscal imbalances. The World Bank in its update also pegged the inflation estimate for the current fiscal at a high 8% taking into consideration the diesel price rise, despite Government's efforts to bring it down to more acceptable levels. Noting the positive measures announced recently by the Government to rein in subsidies and open sectors to FDI, the agency said that it will bring in greater capital flows but will have limited impact on fiscal balances. Fiscal deficit can worsen due to lower tax collection and depressed domestic demand with interest rate hike following high inflation rate, it cautioned.

"Investors are waiting for signals on other issues: reform of direct taxes, implementation of the long-delayed GST, and passage of the land acquisition and mining bills," Bartsch added. India's fiscal deficit, with Government's expenditure overshooting its revenue, is estimated at 5.8% of the GDP, well above the budgeted 5.1%. The Bank also called for greater fiscal tightening, as in the current global scenario, there was much less room for macroeconomic policy.

Mounting trade deficit and low forex reserves

If we needed any evidence, we now have the same in terms of concrete evidence of adverse changes on the external trade front. The most recent data on foreign trade released by the Directorate General of Commercial Intelligence and Statistics confirms that the deceleration in exports that has been evident in the past few months has continued into September. What renders the situation more difficult is that there has been perceptible increase in imports, coupled with declining GDP growth. This has resulted in aggravating the trade deficit which is already causing considerable concern.
Concerns about the fragility of the Indian balance of payments and about the growing imbalances in trade have once again been revived after more than a decade when in 1990, when Indian forex reserves fell too low to permit and support the imports that the

country needed. Of course, the things are not as bad as that – and the Government of India has assured us on that - but with the situation worsening month after month, it is high time that we take an effective control of the situation. A look at the trends of exports, imports and the trade balance since the early part of the previous decade confirms there has been an overall deficit in trade balance throughput this period. The deterioration in the trade balance was especially rapid from 2008-09.

The more recent behaviour of merchandise trade indicators makes it evident that the current financial year is showing even worse trade performance than 2011-12. Exports have continued to fall in dollar terms in the first quarter of this year. However, the decline in imports is more marginal and indeed in the most recent quarter there was even a slight increase. This is despite the overall deceleration of GDP growth, and points to the growing import dependence of domestic activity, a feature that has been widely noted in many open economies before they have experienced financial and balance of payments crises.

Can FDI help?

Not in the present case, to my mind for a number of reasons. First, the Government notification on FDI is not what foreign retailers have been looking for, and some of the terms would indeed be difficult for them to comply with e.g. 30% of procurement to be done domestically from companies whose investment is not more than one million dollar at the time these were set up. Second, there have not been many takers, and the international retailers are in a mood of "wait and watch", given the serious political opposition that this measure has evoked. Third, even when they come up for FDI, they would have to spend a lot of money, 50% to be precise, on back-end infrastructure. Now, if you view it from apparel sector, most of these conditions would be difficult to implement.

Further, FDI in apparel sector leads us to the question of our home market, which not only keeps the local garment manufacturers going, but also offers an escape route to our exporters, who find the pinch of export market getting tough. We are already paying the price of the world's two biggest economies i.e. the US and he EU suffering from their own problems, which have impacted all the economies in the world. Already, there is a marked decline in India's garment exports. There has lately been a trend of exporters turning their attention to the domestic market, which seems to be sometimes more profitable than exports, thanks to the rising income levels of domestic consumers and decline in exports due to cut-throat competition in garment exports. There is an urgent need to insulate our domestic market from international retailers, who not only do have deeper pockets to sustain marketing their products at seriously reduced profit to get a foothold in the market, which could be turned into a stranglehold later on, once they have captured Indian domestic market with cheap imports from countries like China, Bangladesh, Cambodia and even African continent.

Somehow or the other, our new avatar of Finance Minister has flaunted his confidence that everything will fall in place, but has failed to explain how?

We would come up with our suggestions on this important topic soon, by which time, probably the fond hope and "expectation" of our Commerce Secretary of "improvement of situation" as referred to above, would be fulfilled.