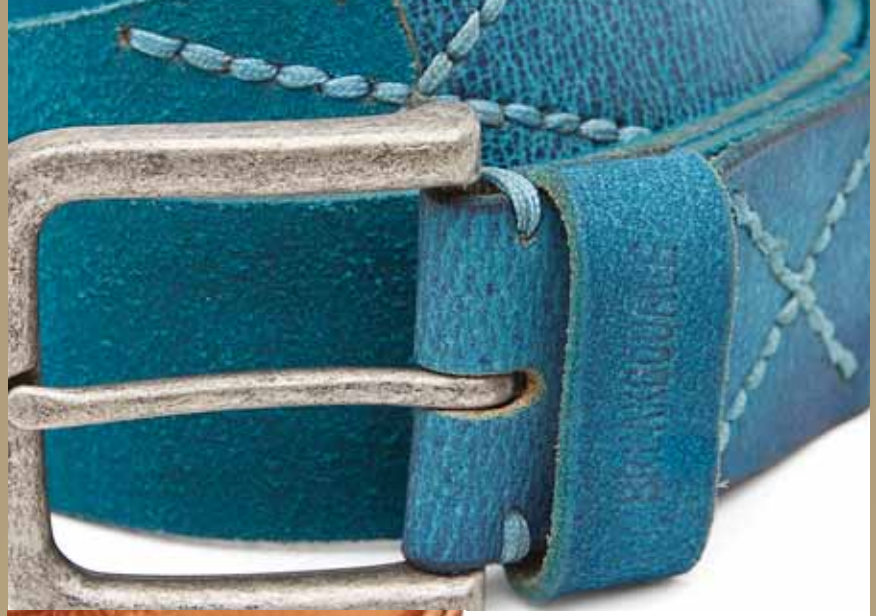
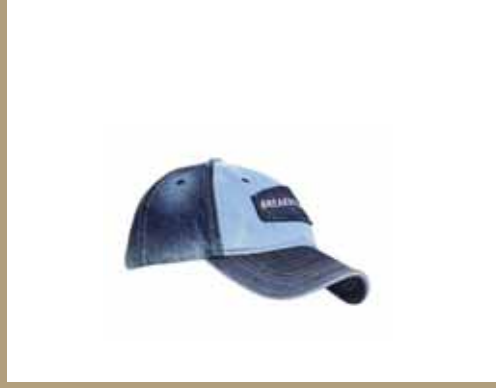
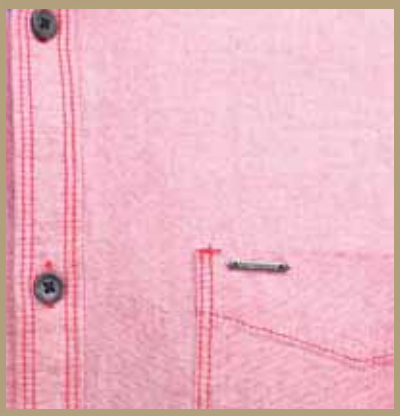
THE EXPORT CONUNDRUM

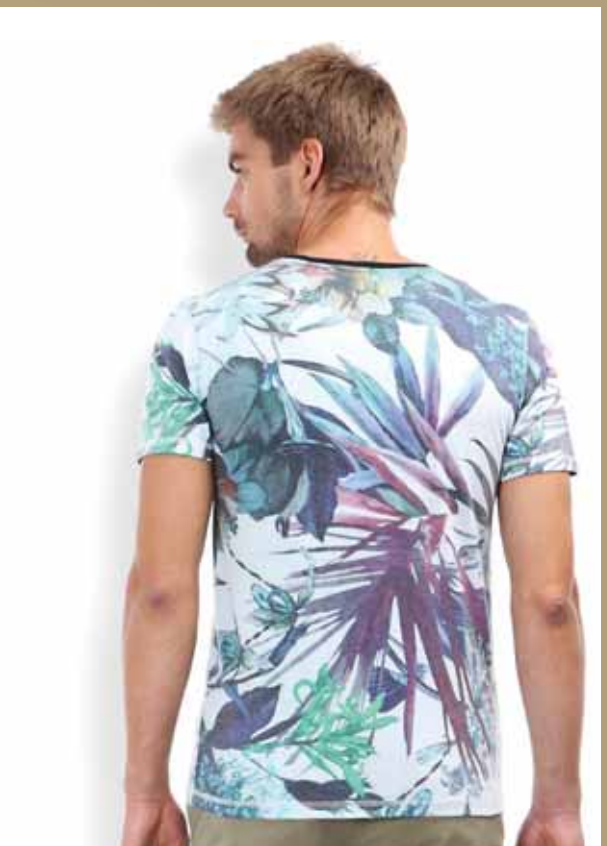
BINDU GOPAL RAO gives a lowdown on the issues affecting apparel exports and what can be done to overcome them.

The Associated Chambers of Commerce and Industry of India (ASSOCHAM)'s report, 'The Textiles & Apparels Industry-Contributing to Make in India' released in October 2015, pegs the Indian textile industry at an estimated turnover of US$ 108 billion, and is poised to reach US$ 223 billion by 2021. The report states that the textile and apparel industry contributes approximately 11 per cent of the total exports (worth US$ 41.4 billion), making it one of the largest contributors to Indian exports. Currently, the industry accounts for five per cent of India's GDP and 14 per cent of the Index of Industrial Production (IIP), thereby emerging as the second largest employer in the country. In order to leverage the vast potential of this vibrant industry, it is critical for the government and the industry to work towards addressing key challenges—which include obsolete machinery and technology, threats to the handloom sector, power shortage, illicit markets, labour-related concerns, excise duty on man-made fibres, inadequate raw material and a dearth of quality infrastructure in non-metropolitan cities. With its rich historical and cultural background, India is a treasure trove of apparel. Even as one of









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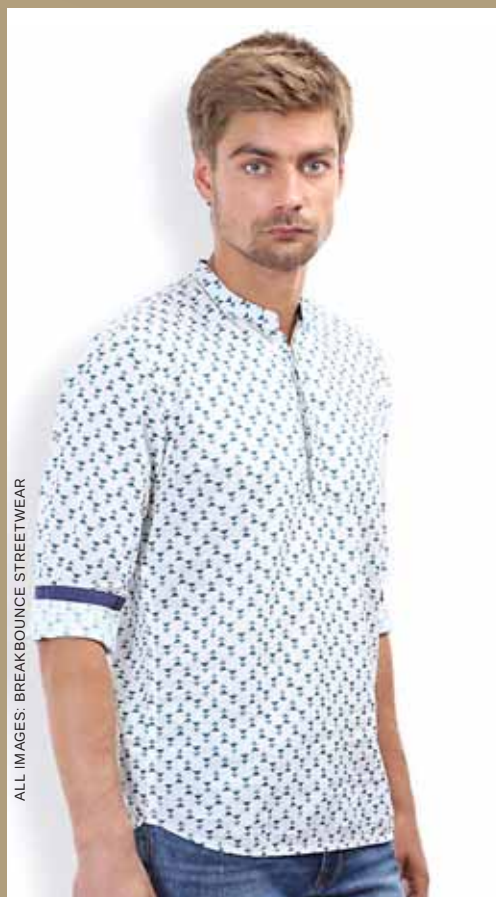

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the largest contributors to the export basket, 11 per cent isn't that large a share. What is hindering Indian apparel exports and how do we increase the share of apparel exports in the total export basket? Read on to know more.

SPEED BREAKERS

Sanjeev Mukhija, Founder of Goldenseam Industries Pvt Ltd and Managing Director of Breakbounce Streetwear, says, "A lack of quality infrastructure in manufacturing units to facilitate research and development is inhibiting India's competitiveness in relation to other countries. A direct effect of less research and development is an increase in costs. Since apparel manufacturing is a labour-intensive sector, a rising wage rate means higher costs of production. The rising cost of raw materials is another issue faced by the industry; high-quality raw materials are more expensive now than ever before. Reduced government subsidies and duty benefits to exporters are two major challenges we are facing, at the moment. This makes India a less preferred market for apparel, while other countries—such as Bangladesh, Sri Lanka and Vietnam—are able to offer better prices due to government subsidies."

HURDLES AT HOME

The composition of the domestic textile sector itself poses a challenge, as 80 per cent of the textile sector is still unorganised and includes a majority of handloom weavers, power loom weavers and handicraft artisans. The challenge is in employing them formally and ensuring that they are trained well and continually receive design inputs. Also, manufacturers in the unorganised textile sector do not have access to credit and working capital, thus hampering business growth. In the organised sector, the situation is no better. Fewer FTAs with key markets—like the European Union, Australia and the United States—make Indian apparel exports less competitive. As far as the value chain itself is concerned, manufacturers are unable to capitalise on their capabilities. Since the focus is on exporting low-value goods—such as yarn, cotton and fabrics—at the cost of apparel, there is still a long way to go when it comes to exporting more value-added products. Since the top 20 categories account for a huge 78 per cent of total exports, there is an urgent need to strengthen the Indian merchandise exports base by diversifying into more categories. Also, India has not imposed any sourcing restrictions—even for sensitive items like textiles—as it has granted unilateral, duty-free market access to countries like Bangladesh. Such restrictions would have helped India export more textile intermediates.

CHALLENGES GALORE

The government has set the country's clothing export target at US$18.7 billion for the fiscal year, but achieving this target would be an uphill task unless the government provides adequate policy support. A few hindrances impeding Indian apprel exports are: the abolishment of certain export subsidies in the recently-announced Foreign Trade Policy for 2015-20; stagnating demand from Europe, which accounts for almost 41 per cent of India's garment exports; a remote chance of a free trade agreement with the EU; and, competition from Vietnam, Bangladesh and Cambodia. Another disadvantage is that Indian mills have to bear an export duty of 9.6 per cent for supplies to Europe, while Bangladesh and Pakistan have zero-duty access to the European market. This apart, the lack of a robust, efficient marketing platform for Indian manufacturers limits their ability to increase sales.

TAKING THE RIGHT MEASURES

India, owing to its integrated cotton value chain, has some advantages in production. "However, countries like Bangladesh and Vietnam are preferred markets, as they have the price advantage due to free trade agreements. There aren't many duty benefits given to Indian exporters, and hence, it is important that the government steps up to provide more subsidies and benefits of free trade to drive apparel exports," says Mukhija. The list of reforms required includes reducing tariffs, easing labour norms and promoting foreign investment. There is also a need for the government to step in and help the

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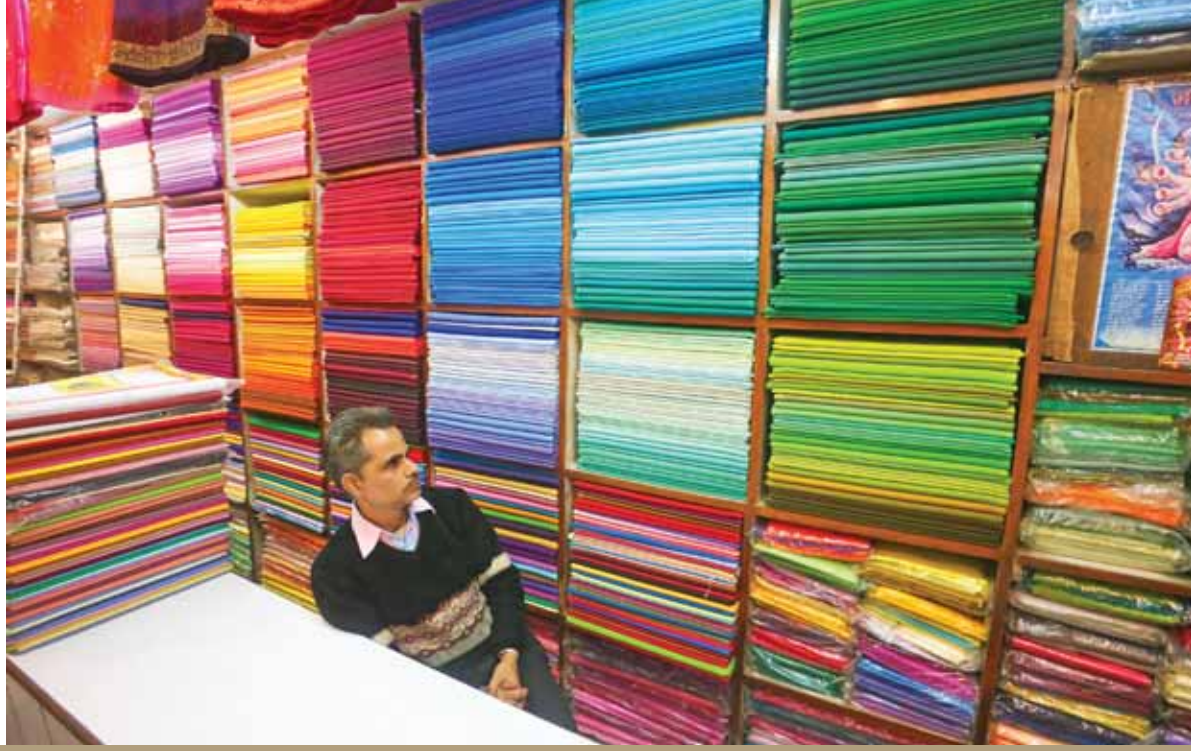

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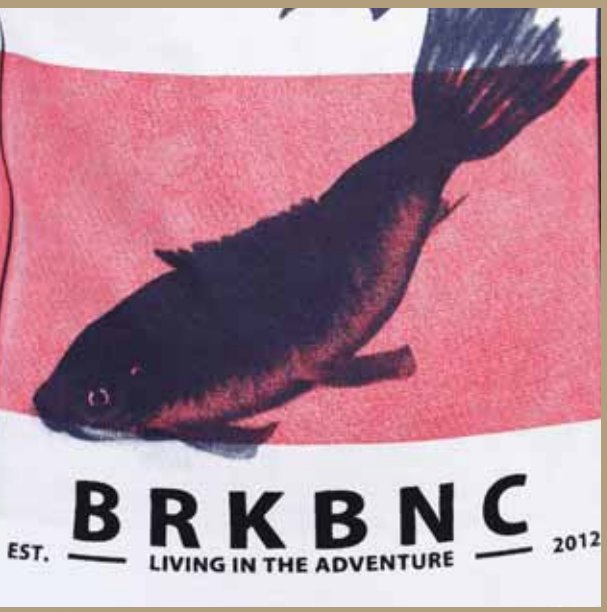

The lack of government subsidies is a major roadblock which needs to be addressed in order to boost apparel exports.

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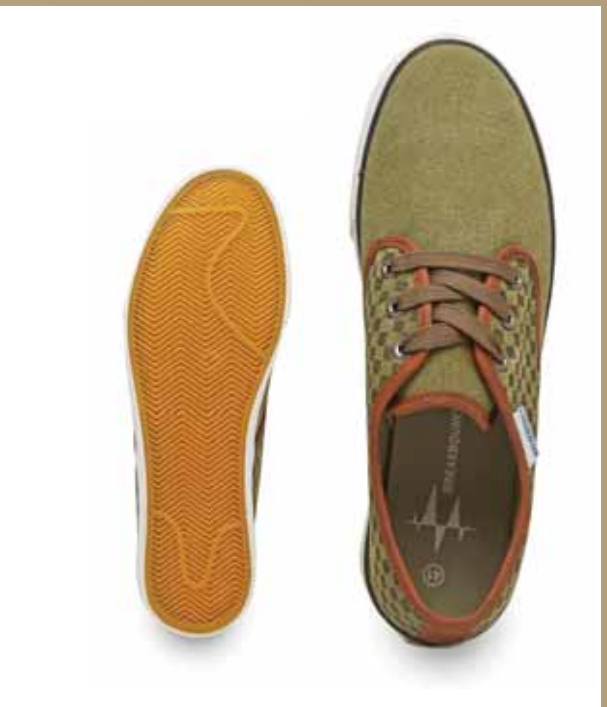
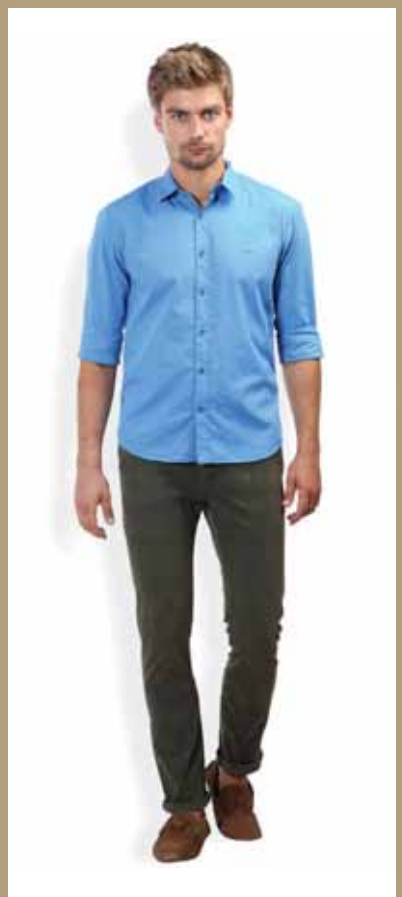
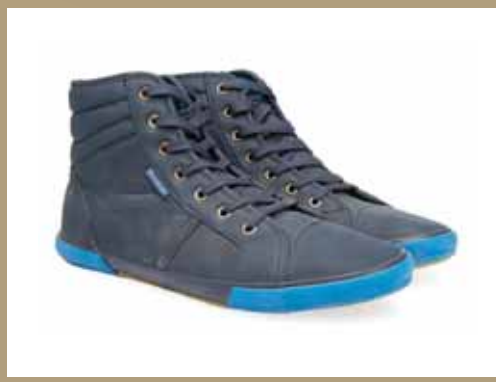
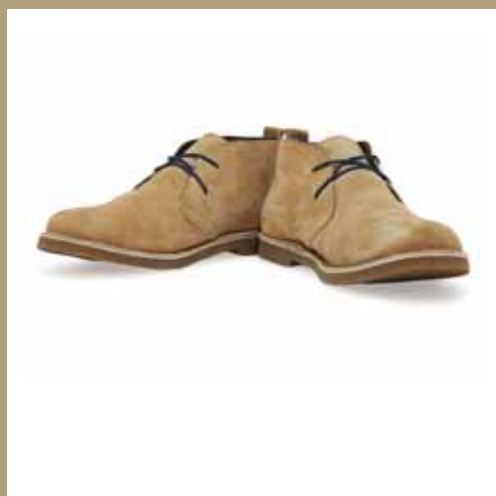
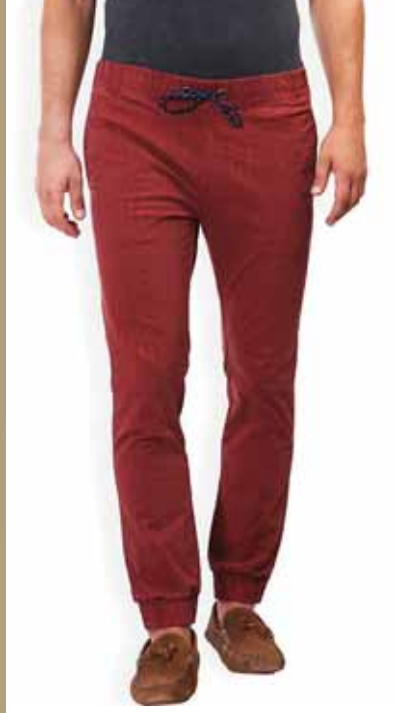








apparel sector connect to global value chains and consider joining mega-FTAs to get preferential access to large, lucrative markets like the US, according to a recent World Bank report, titled 'Stitches to Riches? Apparel Employment, Trade, and Economic Development in South Asia'. There is also an urgent need to ease barriers to the import of man-made fibres, facilitate market access and encourage foreign investment from more markets. Incidentally, the import duty on manmade fibres is currently at around 10 per cent, while competing markets like Sri Lanka have no such charges. The report states that India has several things holding back a big export surge, ranging from higher wages (hourly wages in India were US$ 1.06 in 2012 as compared to



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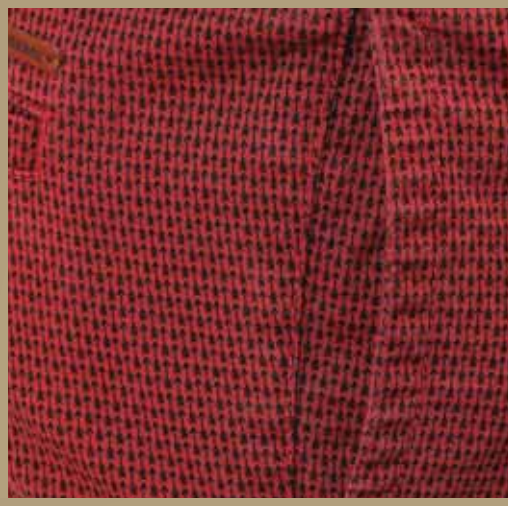

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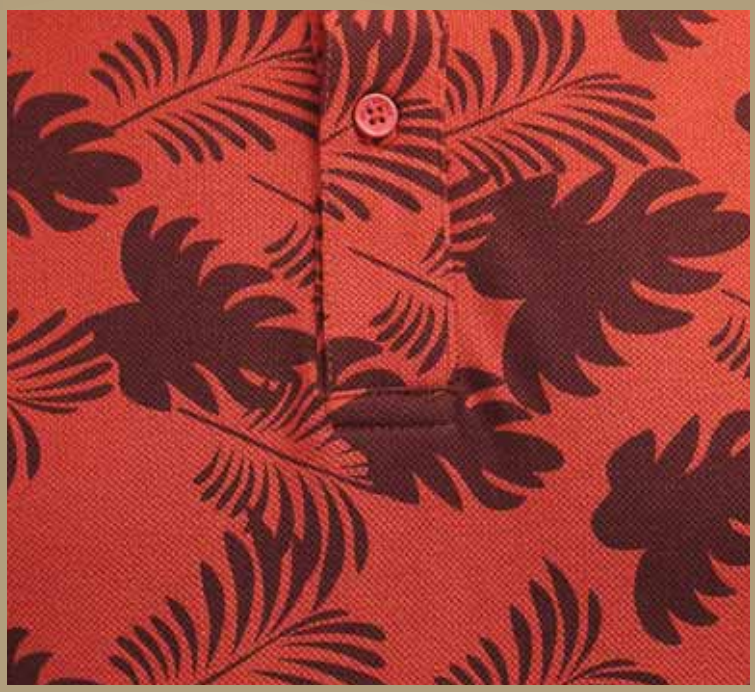

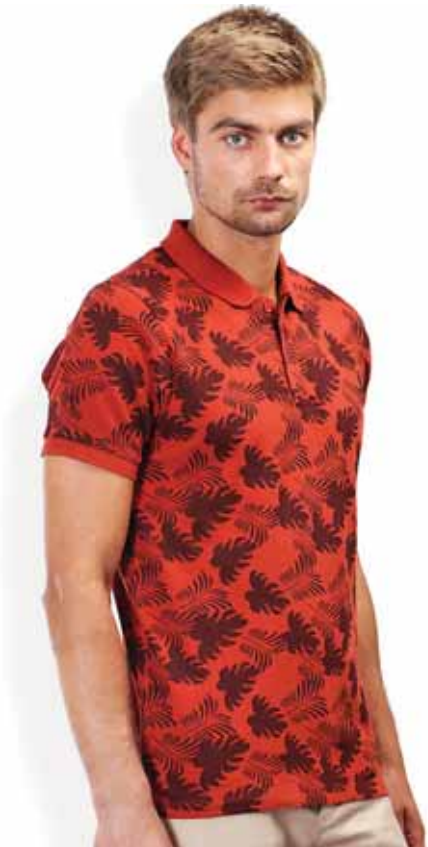

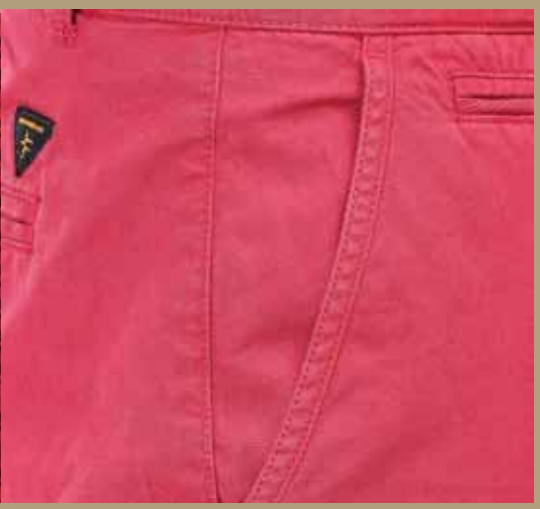

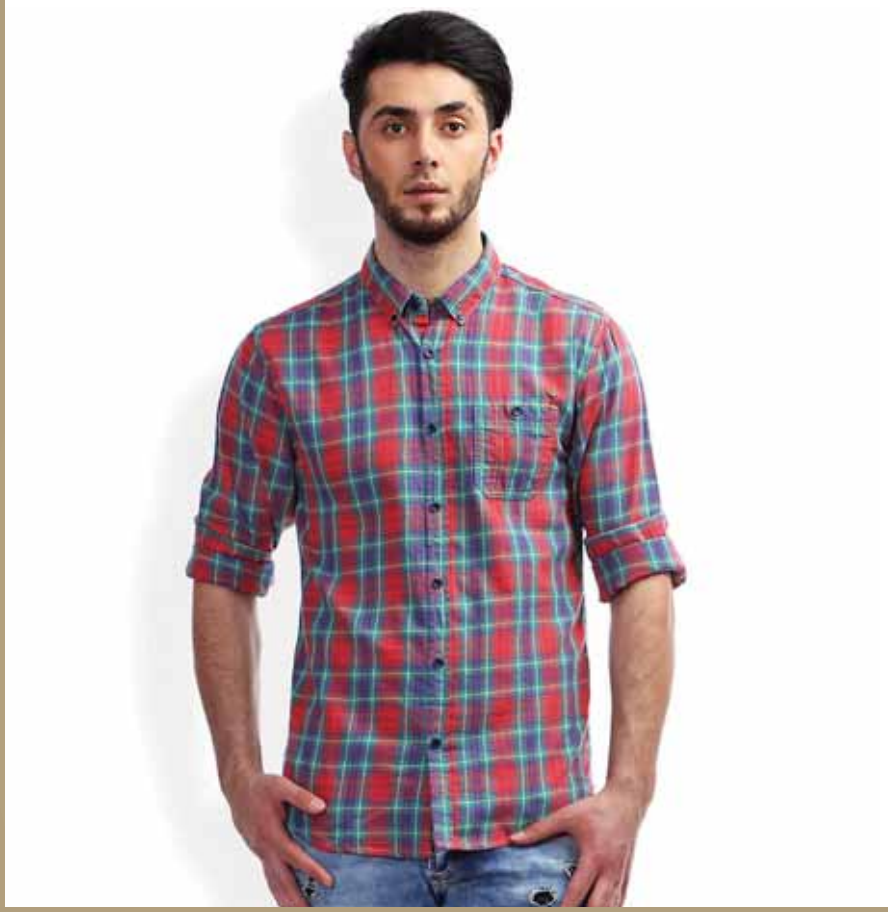

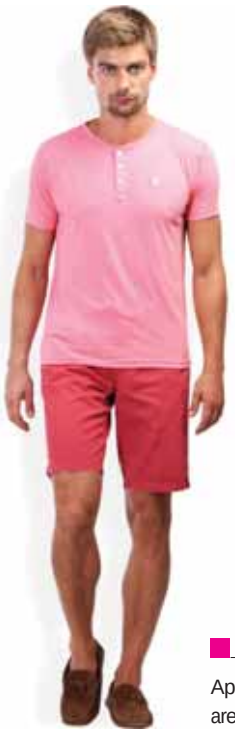

Apparel exports are estimated to touch US$ 20 billion by the end of the fiscal year.

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US$ 0.51 in Bangladesh), lower productivity (India is ranked sixth in a buyer perception survey as compared to Vietnam, which is ranked third), and longer lead times in deliveries (India is ranked sixth versus Vietnam, which is ranked second) to a poor presence in synthetic fibres compounded by high import tariffs. Recently, the Cabinet has sanctioned the Amended Technology Upgradation Fund Scheme (ATUFS), which will offer technical and mechanical support to textile manufacturers, as the focus will be on fabric and apparel-making segments. This should encourage manufacturers to produce high-value goods domestically and help India move up the value chain. Apparel exports are estimated to touch US$ 20 billion by the end of the fiscal year. It's high time the government intervenes to ensure that such an important sector achieves higher and higher growth, sooner rather than later. ■