**TEXTILE SECTORS – CUSP OF GROWTH?**

**China + 1 Theme in Textiles – A structural and persistent trend?**

**Chinese apparel textile industry has been impacted by 3 reasons**

Chinese textile industry is present across the value chain, with modern mills. It accounts for 43.5% of the apparel export market presently. (Apparel export is 50% of global textile trade)

China exports are ~ 132 bn USD worth of apparels (fallen from 190 bn USD in the past). Reason for reduction in exports is **three fold**:

1. **Rising labour costs:** The apparel sub segment is manual labour intensive and rising labour costs are impacting cost of production; further labour availability is an issue due to the one-child policy. Hence, they could not scale up any further and cost of production started increasing. As labour costs in China increased, Vietnam became a preferred destination for apparels, with the upstream activity in China. As labour costs in Vietnam increased (as they diversified into electronic manufacturing), Cambodia became the preferred destination, while Laos and Myanmar could not scale up. **Bangladesh also scaled up as a textile apparel exporter to 35 bn USD due to twin benefits** a) compellingly cheap labour costs and favourable labour policies and fabric sourced from India b) 10-11% duty free access to EU due to LDC (Least Developed Country) status – This benefit expires in 2025
2. **US imposes trade restrictions on China due to geopolitical reasons: In 2020, the US banned the entry of all products containing cotton** from the Xinjiang region in China.
3. **Pandemic supply chain disruptions:**  Zero covid policy in China, supply chain disruptions led to exporters adopting China + 1 policy

**Clothing Export Market in 2020**

|  |  |
| --- | --- |
|  | **%** |
| China | 43.5% |
| EU Union | 18.1% |
| India | 4.2% |
| Turkey | 3.3% |
| USA | 3.2% |
| Vietnam | 2.8% |
| Korea | 2.2% |
| Pakistan | 2% |
| Japan | 1.6% |

**India advantage in Textile apparel sector: This opportunity is likely to be there for 3 to 5 years**

1. India has traditionally been Textile apparel exporter, but share of exports were not growing. **The rising cost of production in China and Vietnam; and China +1, is enabling India to re-emerge as a preferred textile destination**
2. Supplier consolidation and preference for larger players:
	1. Post Pandemic, financially weaker textile suppliers were sidelined in favour of financially stronger textile vendors
	2. Sustainability compliance meant that the brands globally wanted to source from ethical players, who met the ESG norms
3. Rapid roll out of covid vaccination in India enabled less covid related lockdowns as against China and other countries
4. Strengthening dollar and weakening rupee made India very attractive destination for outsourcing
5. **Govt support**

Textile sector is the 2nd largest employment generator in the country, 6th largest exporter – rank has fallen from being the 2nd largest exporter. Mega Integrated Textile Region and Apparel scheme (MITRA) has an outlay of ₹4,445 crores, to increase the competitiveness of Indian textile exports

* 1. **FTA agreements:** [Free Trade Agreements (FTAs)](https://rn619dmj.r.us-east-1.awstrack.me/L0/https%3A//pib.gov.in/PressReleasePage.aspx%3FPRID%3D1811506/1/0100018316345ab4-fffde2ff-40d3-4be5-9a76-bfeb687f0cdf-000000/uifW2lc-xc8pqFeQ_SpWcg1WS00%3D286) with the Australia and UAE have been signed; FTA with UK in the advanced stages and a FTA dialogue with EU expected to start in 2023. This will give Indian textile industry unfettered access to these markets. FTA with EU, with give a level playing field with Bangladesh and enable customers to diversify their production base.
	2. **7 mega textile integrated parks are proposed across the country. This will improve cost competitiveness of the Indian textile sector.** These textile parks will include the entire garment value chain  in one location — from spinning yarn, weaving, dyeing, printing and manufacturing the final product in a single set-up eliminating high logistic costs. India is currently uncompetitive vs Bangladesh due to higher labour cost, power cost, logistic cost etc.
	3. **A stable ROSCTL incentive scheme till FY24**: An initiative called the Rebate of State and Central Levies and Taxes (RoSCTL) Scheme aims to reimburse all embedded State and Central Taxes/Levies for exports of manufactured goods and garments.
	4. PLI scheme supporting MMF based textile industry

**Key challenges faced by Indian textile sector:**

1. **Improve work ethic:** Labour force mindset needs to shift towards productivity rather than clocking hours
2. **Modernisation of plants**
3. **Onerous labour laws**

**India aims to double its apparel exports share to 30-35 bn USD from current 16 bn USD in next 5 to 7 years**

* World Textile Trade is valued at USD 1 trn. World **Apparel Trade** is 50% of total textile trade and is valued at USD 500 bn.
* India is currently exporting 16 bn USD (3%) of apparel
* China apparel exports are falling (132 bn USD currently, earlier were at 190 bn USD levels
* Other significant apparel exporters are Bangladesh (40 bn USD), Vietnam (35 bn USD), Sri Lanka (5 bn USD). When currency drops for Pakistan and Bangladesh, their textile goods become more price competitive, but their cost competitiveness is affected by internal economic troubles, high inflation, high cost of fuel etc
* India can seize this opportunity and is **targeting to double its apparel exports in the next 5 to 7 years**.

**Textile Industry – Basics (How is it classified)**

1. **VALUE CHAIN OF TEXTILE INDUSTRY**
* Cotton and Synthetic Yarns (MMF ie Acrylic fibre, Viscose Fibre, PSF, PFY etc)
* Yarn: Spinning process to make yarn
* Weaving companies (highly fragmented)
* Fabric processing (printing, dyeing etc)
* Garment

Eg Gokaldas is converts fabric to Garment

Eg Arvind is an integrated player

1. **KNIT vs WOVEN:** Another way to classify: Woven (Formal shirts) and Knit Garments (T shirts); Globally the proportion is 50:50

Eg KPR is into knit garments

Eg Gokaldas is into woven garments

1. **Fibre Based:** Natural (1/3rd of global apparel industry) and man made fibres (2/3rd of global apparel industry)

Source: <https://www.youtube.com/watch?v=vFHJwnGBnjc> – Aug 2022

[**https://www.youtube.com/watch?v=OBSf1IdMa9c**](https://www.youtube.com/watch?v=OBSf1IdMa9c)

 https://finshots.in/archive/mega-textile-push/