



## Perspectives Of Apparel Trade In India Under Globalized Milleu

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### Introduction

The textile and apparel industry is one of the largest segments of India's economy, accounting for 20 percent of total industrial production and slightly more than 30 percent of total export earnings. It is also the largest employer in the manufacturing sector with a workforce of some 38 million people. In addition, millions of others rely on the textile and apparel industry for their livelihoods, especially those involved in cotton production. This research examines the structure of India's textile and apparel industry, from fiber production to textile and apparel manufacturing, and concludes with an overview of its textile machinery industry, the major source of equipment for the country's textile and apparel industry.

India is the third-largest producer of cotton in the world with annual production of some 3 million tons, or about 15 percent of the world total. India grows a wide range of cotton, from short staple to extra-long staple, and has the largest area under cotton cultivation in the world today, about 7.5 million hectares. Two-thirds of the cotton growing area in India is rain fed, which has led to low productivity and wide fluctuations in annual production.<sup>19</sup> Indian cotton also reportedly contains high levels of contamination or foreign matter, contributing to low levels of productivity and product quality in cotton ginning and, in turn, the textile sector.

India ranks among the world's five largest producers of man-made fibers and filament yarns with an annual output of 1.7 million tons (21 Its manmade fiber and filament yarn sector comprised 97 establishments with an installed capacity of 2.1 million tons in 2010 ( About 70 percent of the capacity, or 1.5 million tons, is for polyester staple fiber (PSF) and polyester filament yarn (PFY).

The polyester-producing segment underwent significant consolidation in the 2010, with most of India's PSF market production capacity now accounted for by Reliance Industries (60 percent), Indo Rama Synthetics (21 percent), and JCT Fibers (8 percent). Reliance Industries increased its domestic PSF market share from 40 percent in 2008 to 60 percent in 2010. India's PFY production capacity is accounted for by at least 33 registered producers, led by Reliance Industries (35 percent) and Indo Rama Synthetics (10 percent).

India is also the world's second-leading producer of silk, with annual output of nearly 15 million kilograms.<sup>22</sup> Demand for wool in India is met by imports, primarily from Australia.

### Textile Sector

The textile sector in India is one of the world's largest; it has more installed spindles to make spun yarn than any other country except China and has the most looms in place to weave fabric. However, these production capacity measures are somewhat misleading because much of India's spinning and weaving equipment is technologically outdated.

The Indian textile industry comprises three interrelated but competing sectors—the organized mill sector and the “decentralized” handloom and the textile and apparel industry is one of the largest segments of India's economy, accounting for 20 percent of total industrial production and slightly more than 30 percent of total export earnings. It is also the largest employer in the manufacturing sector with a workforce of some 38 million people. In addition, millions of others rely on the textile and apparel industry for their livelihoods, especially those involved in cotton production. This chapter examines the structure of India's textile and apparel industry, from fiber production to textile and apparel manufacturing, and concludes with an overview of its textile machinery industry, the major source of equipment for the country's textile and apparel industry.

### Fiber Production

India is the third-largest producer of cotton in the world with annual production of some 3 million tons, or about 15 percent of the world total.<sup>17</sup> India grows a wide range of cotton, from short staple to extra-long staple, and has the largest area under cotton cultivation in the world today, about 7.5 million hectares. Two-thirds of the cotton growing area in India is rain fed, which has led to low productivity and wide fluctuations in annual production.<sup>19</sup> Indian cotton also reportedly contains high levels of contamination or foreign matter, contributing to low levels of productivity and product quality in cotton ginning and, in turn, the textile sector.

The organized mill sector consists of 285 medium- to large-sized firms that are vertically integrated “composite mills” that do spinning, weaving, and finishing operations and 2,500 spinning mills (see table 2-3). More than 900 of the spinning mills are registered as small scale industry (SSI) units, which are eligible for special GOI benefits, provided that investment in plant and equipment does not exceed an amount equivalent to not more than \$230,000 per unit. The decentralized handloom and powerloom sectors comprise thousands of small fabric-weaving units and processing (dyeing and finishing) units. The number of decentralized units grew as a result of government policy implemented following India's independence in 1947 to encourage the creation of large-scale employment opportunities.

The handloom sector is an integral part of rural life in India, employing more than 12 million workers. A typical handloom unit is a family-run business with two to six manually operated looms. Most of the 3.5 million handlooms are antiquated.<sup>24</sup> Although the handloom sector incurs relatively high production costs and low productivity, the sector is known for its craftsmanship and unique products, which have helped it to develop a niche in global markets.

The powerloom sector comprises 367,000 units with a workforce of 6.8 million people. Unlike the handloom sector, the powerloom sector uses power-driven shuttle looms; a typical powerloom unit has 12 to 44 looms. The powerloom sector

accounts for 60 percent of fabric production and is the primary supplier of fabrics to domestic apparel producers and consumers. Although the sector uses technology that lags considerably behind that of the organized mill sector, some powerloom weavers have invested in shuttleless looms, the more advanced technology. However, the transition is very slow; shuttleless looms now account for less than 1 percent of the 1.63 million looms in place in the powerloom sector.

#### Yarn Production

India's production of spun yarn in 2010 totaled 3.0 billion kilograms, 72 percent of which consisted of cotton. Almost all of the spun yarn made in India comes from the organized mill sector, reflecting the highly capital-intensive nature of yarn spinning. Spinning capacity in 2010 totaled 37.08 million ring spindles and only 445,000 open end (OE) rotors, which represent the more advanced technology. The SSI units accounted for 5 percent of the ring spindles and 12 percent of the OE rotors. In the woolen sector, India has 520,000 worsted spindles.

Although India's spinning segment is more modernized than the weaving segment, 60-65 percent of the installed spindles are more than 10 years old and OE rotors account for less than 1 percent of total spinning capacity. However, modernization in the spinning segment has been rapid; total spindle shipments during 2000-2001 accounted for about 33 percent of the installed capacity and 68 percent of OE rotors were less than 10 years old.

#### Fabric Production

India's fabric production grew by 24 percent during 2005-2006 to an estimated 38.9 billion square meters in 1999. Approximately 64 percent of fabric production consisted of cotton or cotton blends. Most fabric production occurs in the decentralized sectors, with the powerloom sector generating 60 percent and the handloom sector and the knitting mills (hosiery) producing 36 percent of the total (see table 2-4). The remaining 4 percent comes from the organized mill sector. The decentralized sectors have a total of 5.1 million looms in place, compared with just 123,000 looms in the organized mill sector. Only 6 percent of the looms in place in the organized mill sector are shuttleless looms, the more advanced technology. Shuttleless looms account for only about 1 percent of the total installed looms in India, including the organized mill sector and the handloom and powerloom sectors. See Khatua, "Problems and Prospects in the Millennium," pp. 75-79.

#### Dyeing and Finishing

The fabric dyeing and finishing segment consists of 12,596 process houses, including 10,397 independent hand-processing units and 2,066 independent power-processing units. The remaining 133 units are part of the composite mills in the organized mill sector. Most of the independent power-processing and hand-processing units are located in or near powerloom centers, and they bleach, dye, print, or otherwise finish fabrics principally for the decentralized sectors.

India's fabric dyeing and finishing segment is significantly underdeveloped in terms of technology, leading to low product quality and environmental problems. A lack of investment in the dyeing and finishing segment has hurt the competitiveness of Indian textile mills and has effectively limited their ability to supply quality fabrics for domestic apparel producers.

Although official data on India's apparel production sector are not available, industry sources estimate that India's domestic production of readymade apparel totaled about \$19 billion (Rs700 billion) in 2007. The GOI had "reserved" apparel production (including knitting) for domestic consumption for SSI units and required non-SSI sector firms, or export-oriented units (EOUs), to export at least 50 percent of their output.

India's apparel sector is highly fragmented, comprising about 30,000 units and employing some 3 million people. Most ap-

parel sector units are family-run businesses having 50-60 sewing machines, often on contract to apparel wholesalers, usually using old production equipment and methods. The EOUs tend to operate on a much larger scale in more modern facilities and offer brand-name quality goods, especially menswear.

Exporters of ready-made apparel are classified as either manufacturer-exporters or merchant-exporters. Some 2,000 manufacturer-exporters export apparel, while the roughly 26,000 merchant-exporters serve as export brokers on behalf of apparel manufacturers.

For tax purposes, export-oriented apparel firms generally own several units registered as either manufacturer-exporters or merchant-exporters. Average export revenues are \$650,000 (Rs23.5 million) per manufacturer-exporter and \$110,000 (Rs4 million) per merchant-exporter.

India has about 6,000 knitting units registered as producers or exporters; the majority of the units are registered as SSI units. The knitting segment has grown by 76 percent since 1993, with current annual output of knitwear (sweaters, polo shirts, T-shirts, and underwear) at 6.4 billion square meters, valued at nearly \$2 billion (Rs80 billion). Knitwear exports totaled \$1.5 billion in FY 2009-10.

The dominant role of the decentralized powerloom and handloom sectors in fabric production and finishing largely reflects GOI policies designed to promote domestic employment. These policies have effectively slowed modernization in the weaving and finishing segments of the organized mill sector. Whereas the organized mill sector is constrained by government regulations, which are discussed in chapter 3 of this report, the decentralized sectors benefit from favorable tax treatment, exemption from labor laws, and government subsidies for energy and water. For example, government labor policy prohibits composite mills in the organized mill sector from laying off workers, even when a mill is idle or its operation is unprofitable, and it requires composite mills to pay workers for idle time. This labor policy does not apply to SSI units in the organized mill sector or to decentralized sector units, where average wages for production workers are only about one-fourth of those in the organized mill sector. In addition, because the decentralized sectors are low-tech, their depreciation and capital costs are also low.

As a result of government policies and other factors, the powerloom sector has a significant cost advantage over the organized mill sector in fabric production. Production costs in the powerloom sector reportedly average \$0.22 (Rs9) a meter for grey (unprocessed) fabric and \$0.65 (Rs26) a meter for processed fabric, compared with \$0.62 (Rs25) and \$1.20 (Rs48), respectively, for the composite mills.<sup>37</sup> However, the fabrics made in the powerloom sector are lower in quality and more limited in styles than those made in the organized mill sector, largely reflecting the low technology level, low quality of inputs, and inadequate worker training.

The handloom sector also benefits from special GOI policies because of its importance to rural economies and its production conditions. Under the "hank yarn obligation," the GOI requires the organized mill sector to supply the handloom sector with yarn suitable for use in the manufacture of fabrics on handlooms at favorable prices. The handloom sector also benefits from excise duty exemption, government subsidies, and reservation of certain apparel products for exclusive production.<sup>38</sup> In addition, the sector receives technical, financial, and marketing assistance from the GOI to help it upgrade production systems, improve fabric quality, and market products.

The proliferation of small units in the dyeing and finishing segment largely reflects GOI policies that favor such units relative to the composite mills. The GOI provides tax concessions to small units using hand-processing devices and certain power-driven machines. For example, the excise duty on

processed fabrics is much lower for independent processors than for composite mills because of a difference in the application of duty. The excise duty for independent processors is a fixed amount based on the number of machines called stenter chambers, regardless of fabric quantity, while the duty for composite mills is based on the processed value of the fabrics. Although the GOI recently increased the excise duty for independent processors, duty fees paid by these units on average are still about one-half of those paid by the composite mills.

**Conclusion:**

Trade and industry sources in India claim that GOI policies contributed to the numerous plant closings in the organized mill sector during the 1990s. The closings also reflected low productivity in the organized mill sector, stagnant demand, rising input costs, and difficulties in obtaining adequate working capital in a timely manner. As of February 2010, the number of idle mills totaled 342 (107 composite mills and 235

spinning mills), of which 212 had closed during the past 5 years. The closed mills had a workforce of 325,000 workers and total capacity of 8.15 million spindles, 28,248 OE rotors, and 72,298 looms. Two-thirds of the closed mills (218 mills) reportedly were closed because of financial difficulties, and 18 percent (63 mills) were closed because of labor issues. Capacity utilization in the spinning segment of the organized mill sector declined significantly between FY 2010-11 and FY 2011-12, and it continued to remain low in the weaving segment. The GOI set up the Board for Industrial and Financial Reconstruction (BIFR) to detect weak and potentially weak companies and to take preventive remedial and other measures with respect to such firms. The GOI also set up a Textile Workers Rehabilitation Fund Scheme to protect the interest of the workers.