Addressing Issues in India’s Textiles Industry

What is the issue?

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Indian textile industry has some deep-rooted problems which needs to be addressed with long-term sustainable solutions.

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What is the potential of Indian textile Industry?

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- The textiles and apparels industry in India is valued at around $127 billion in size.
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- The sector is a large foreign exchange earner, and is the second-largest employer (after the agricultural sector) in the country.
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- In India, the sector enjoys the presence of the entire value chain from fiber, yarn, fabric and apparel apart from the availability of cheap and abundant labor.
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- Thus for India the textiles industry is important not just for labor absorption and as a source of foreign exchange, but also as a symbol of India’s rich heritage.
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What is the status of Indian textile trade?

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- Indian textiles industry which is one of the oldest industries of the Indian economy is finding it difficult to compete with much smaller players such as Bangladesh and Vietnam.
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- However, in spite of these benefits, India’s share in the global textiles

exports is just 5%, which is minuscule as compared to China’s share of 38%.
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- Much smaller players like Bangladesh and Vietnam have a share of 3% in global exports and are increasingly threatening India’s exports.
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- The exports from the sector are valued at around $37 billion, amounting to 13% of India’s total exports.
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- The share of textiles in India’s total exports has fallen sharply from a high of 25% in FY02.
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- The rise in labor cost in China could have been the perfect opportunity for India to increase its share in the global textiles industry.
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What are the problems in the textile industry?

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- **Market Reality -** India’s textile industry grapples with domestic issues including outdated technology, inflexible labor laws, infrastructure bottlenecks, and a fragmented nature of the industry.
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- The textiles sector in India, primarily dominated by the unorganized and small players, had taken a major hit with demonetization and the implementation of the goods and services tax (GST).
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- **Global Policies -** According to the WTO’s Agreement on Subsidies and Countervailing Measures, a country needs to phase out export subsidies for a product as it achieves export competitiveness, defined as 3.25% share in world trade, and the per-capita income reaches more than $1,000 per annum.
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- As per this agreement, India is under pressure to end export subsidy for the textiles sector by 2018.
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- This implies that the existing subsidy schemes including the Merchandise Export from India Scheme (MEIS) and the Export Promotion Capital Goods (EPCG) Scheme will get affected by the same.
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- **Demand for MMF -** Globally, manmade textiles and garments are in high demand, with the ratio of cotton-to-manmade-fiber consumption at 30:70.
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- India, despite being the second-largest textiles exporter in the world, lags in this category because of unavailability of manmade fibers at competitive prices.
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What sustainable solutions needed in this regard?

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- Government needs to move away from export-specific subsidy, which violates WTO norms, to focus on regional and cluster subsidies, technology upgradation and skill development subsidies, which benefit all the producers.
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- In India, cotton and manmade fibers (MMF) have differential tax treatment, here fiber neutrality will give a boost to the industry.
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- Under differential tax treatment cotton is taxed at 5% and manmade fibers at 12%.
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- In fact, of the total textiles and clothing exports from India, cotton accounts for around 75%, there is a need to increase production with the global consumption patterns.
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- While India has abundant supply of labor, flexibility in labor laws and adequate skilling will give a big boost to the textiles industry.
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- For instance, women should be allowed to work in all three shifts, after taking into account adequate safeguard measures.
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- Technology upgradation schemes will help Indian players to increase both their productivity and competitiveness.
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- In addition, the government needs to carefully evaluate the various trade agreement opportunities Bangladesh and Vietnam benefit from favorable access to some of the big apparel markets.
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- The government also needs to re-look at fiber neutrality and evaluate

various trade agreement opportunities, while domestically focusing more on technology upgradation and skill development.
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Source: Financial Express

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