

**T**he Indian textiles and clothing industry has an overwhelming presence in the national economy. Apart from providing one of the basic necessities of life, the industry contributes about 14 per cent to the country's industrial production, 4 per cent to the GDP and 16.63 per cent to the export earnings. It is the second largest provider of employment after agriculture. It provides direct employment to 33.17 million people and indirect employment to 54.85 million people through allied sectors, totaling around 88 million. Thus, the growth and all-round development of this industry has a significant bearing on the economy.

India has a dominant position in the world textile economy. It is the second largest producer of raw cotton, second largest producer of cotton yarn, second largest producer of cellulosic fibre/yarn, second largest producer of silk, fourth largest producer of synthetic fibre/yarn and largest producer of jute. Also it boasts of the largest loomage and second highest spindlage.

We have a strong multi-fibre raw material base, a vast pool of skilled workers, flexible production systems and dynamic entrepreneurial skills.

### Helpful duty regime

The growth of the industry in the last decade has been considerably more than in earlier decades, thanks to the liberal trade and economic policies initiated by the government in the 1990s. The fiscal duty structure has also influenced the growth and structure of the industry. Historically, the fiscal policies for the textile industry have always considered "small is beautiful" and consequence is reflected in structural anomalies and the concentration of downstream segments of the industry in the decentralised sector and decimation of the organised sector.

The rationalisation of the duty structure has strengthened the

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# THE CHALLENGE OF RESTRUCTURING THE TEXTILES INDUSTRY



India lags much behind China in capacity build-up

## Processing, garmenting and powerlooms are still weak links in the textile value chain and yet to realise full potential.

organised sector, particularly the composite sector which has intrinsic strength in terms of economies of scale, higher productivity, superior technology, integrated working and skilled workforce, and can produce superior-quality goods. In the competitive globalised scenario, the resurrection of the composite sector is of utmost importance if India has to emerge as a major player. A coordinated and focused approach to

integration and modernisation is the need of the hour.

The Technology of Upgradation Fund Scheme (TUFSS), introduced in April 1999, has provided a fresh lease of life to the textile industry. It has helped to overcome technological obsolescence and create economies of scale. It has also helped in the transition from a quantitatively restricted textiles trade to a market-driven export regime. In its operational

### Capital/Additional Machinery Requirement

Sector	Investment required (Rs crore)	Additional machines required
Spinning	55,000	20 million spindles
Weaving	38,000	134,592 shuttle-less looms, 109,871 automatic looms, 43,699 semi-automatic looms, 48,069 plain looms
Knitting	10,000	36,500 machines
Processing	51,000	468 process houses with one lakh metre per day capacity
Garmenting	40,000	2.7 million
<b>Total</b>	<b>194,000</b>	—

life span of eight years up to March 31, 2007, the scheme has propelled investment of more than Rs 86,000 crore. The spinning and composite segments have derived the maximum benefit, whereas processing, garmenting, powerlooms and other segments are still weak links in the textile value chain and yet to realise their full potential.

The government recognises the potential of garmenting, technical textiles and processing segments for their high value addition and employment generation capabilities and accords high priority to the decentralised powerlooms segment in the small and medium enterprises dominated textiles economy.

Realising the importance of strengthening the industry's competitiveness in the globalised environment and aiming at inclusive and equitable growth, the government has identified the textile industry as a thrust area and come out with a lot of proactive measures during the last three years that include the extension of the Technology Upgradation Fund Scheme over the Eleventh Plan period.

### SWOT analysis

**Strengths.** Strong cotton base, strong entrepreneurial class, flexibility in production of small order lots, presence of integrated companies (from concept to consumer), ability to handle value additions, embellishments, etc, adequate labour supply at relatively competitive wages, good 'cultural' comfort with the US and

Europe, and growing domestic market

**Weaknesses.** Poor work practices resulting in higher labour cost component in spite of reasonably low labour costs, rigid government labour policy, anomalies in the duty structure of man-made fibres, high power cost, poor synthetic fibre base, technology obsolescence across the textile value chain except spinning sector, dependence on brokers and traders, lack of marketing skills and branding, highly fragmented structure of the weaving and processing sectors, and high internal transport costs due to insufficient infrastructure

**Opportunities.** Good political equation with the EU and the US, improvements in infrastructure and regulations, research and product development, buyers' preference for India after China, and understanding buyers' need because of language advantage

**Threats.** Sudden appreciation of rupee against the US dollar, trade blocks and partnerships and the exclusion of India, locational disadvantages like long transit time to key markets, pricing pressure following the opening up of quotas and enhanced competition from other countries similarly constrained by quotas.

### Lag in spinning capacity

With the shifting of textile manufacturing activities from the developed countries, Asian countries have emerged as the clothiers

of the globe.

The ICAC's estimates show that in 2005, India's share was just 10 per cent of the world cotton yarn production of 25,000 million kg, while China accounted for 50 per cent. In chemical fibre yarn (including filament yarn) also, China had a 45 per cent share while India accounted for six per cent of the world production of 34,250 million kg. This clearly indicates that China has made significant progress in capacity build-up whereas India lagged much behind, in spite of having the second largest spinning capacity. This calls for upgradation of the existing technology and speedier capacity building not only to increase the capacity but also to retain its share in the global market.

It may be recalled that there had been no capacity addition in India for almost five complete years since delicensing in 1991 because of the lopsided policies of the government. The spinning capacity increased from 26 million spindles and 19,300 rotors in 1986 to 39.40 million spindles and 6.03 lakh rotors as of October 2006—just an addition of 13.40 million spindles and 5.84 lakh rotors over two decades.

China, on the other hand, increased its installed capacity of spindles to 75 million and rotors to 1.41 million in 2006 from 24 million spindles and 1.25 lakh rotors in 1986.

Pakistan too has increased its installed capacity at a faster rate than India. The country which had 4.5 million spindles and 39,600 rotors in 1986 increased its capacity to around 11.9 million spindles and 2.04 lakh rotors in 2006. Similarly, Indonesia, which had an installed capacity of 2.5 million spindles and 23,100 rotors in 1986, increased its capacity base to 8 million spindles and 92,000 rotors in 2006.

### Low capacity mills

The Indian spinning sector has been classified into organised (non-SSI) and small-scale (SSI) sectors.

The number of spinning mills in the organised sector increased to 1614 (October 2006) from 1164 in 2003-04—an addition of just 50 mills.

This includes mills which graduated from the SSI sector. Around 1.5 million spindles have been added since 2003-04. That is, this sector accounted for 35.5 million spindles in October 2006 (34 million in 2003-04). The average size of a mill in this sector works out to 22,000 spindles only, whereas in China mills with five or seven million spindle capacities are common. Moreover, in today's environment, the economic size of a mill to face the stiff global competition is 50,000 spindles and not 10,000 spindles.

During the same period, the number of mills in the SSI sector increased by 116 to 1251 with an addition of 8.9 lakh spindles to 3.89 million spindles. The average installed capacity in the SSI sector works out to just 3100 spindles.

### Weak links in value chain

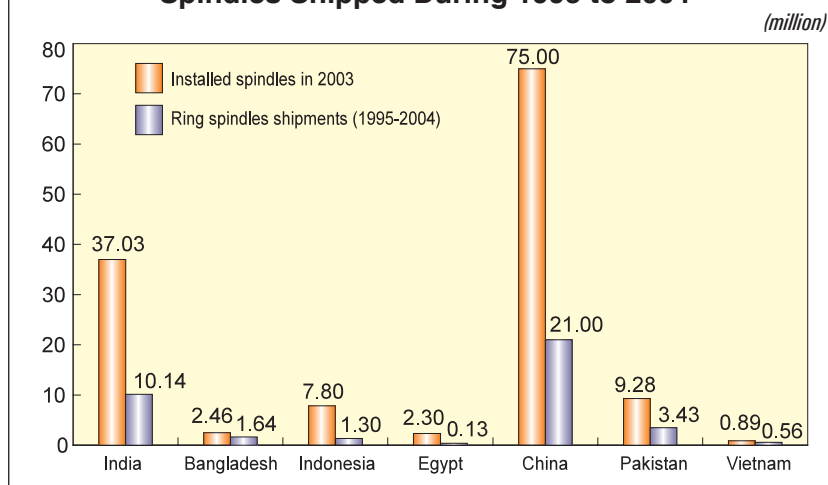
The textile value chain extends from raw material (fibres) to finished products (clothing and made-ups). Fibre manufacturing and spinning processes are strong, while weaving and processing are relatively weak segments.

At the time of independence, the mill sector had a 75 per cent share of the total cloth production. Subsequently, restrictions were imposed on the weaving capacity of the mill sector. As a result, the weaving capacity of the organised mill sector stagnated for a number of years. Even after the removal of the restrictions in 1985, the capacity of the organised sector has been consistently declining. Between 1985 and 2006, the weaving capacity declined from 2.10 lakh to 92,000 looms—a decline of over 50 per cent.

### Powerlooms upgrade

The powerloom sector has been expanding steadily. The number of

**Ring Spindles (Short Staple) Installed in 2003 and Spindles Shipped During 1995 to 2004**



powerlooms increased from 15.99 lakh in 1998-99 to 19.38 lakh by the end of 2006. Further, the technology level of the sector, which used to be very low, has started improving. Efforts are on for progress of this sector. Cluster development programmes in identified clusters of powerlooms have also been initiated by the government organisation.

In the last 2-3 years, more than 20,000 shuttleless looms have been installed. Further, by taking advantage of the 20 per cent capital subsidy scheme under TUFS, weaving and weaving preparatory activities are being upgraded by the powerloom sector.

There is tremendous potential for knit products and global demand for the same is growing faster than for woven textiles. Increased use of knitted fabrics for fashion wear and household articles has opened up new vistas for this sector.

The knitted segment has been dereserved from March 2005. Production of this sector touched 10.297 million sq.m in 2005-06. With the removal of restrictions in investment due to de-reservation, investment is likely to go up.

The processing stage is undoubtedly the most significant in the value chain of various textile products contributing to the essential user

requirements of easy maintenance, colour fastness and also aesthetic value addition in terms of colours, motifs and designs.

### High-tech processing

The value addition at this stage of production is maximum, often manifold; in the form of bio-finishes, various surface finishes such as peach finish, sand finish, raised finish or brush fabrics, coated, impregnated fabrics, water repellents, fire retardants and anti-bacterial finish. In India also, many high-tech processing units have been set up in the recent past and many more are at the implementation stage. The government has approved additional 10 per cent capital subsidy for specified processing machinery under TUFS from April 2005. Major deterrents for investment in processing are the stringent effluent discharge norms in certain major textile producing states. In some cases, the norms are even higher than in industrially developed countries. The high costs involved do not provide a level-playing field for the processing industry in certain states.

The clothing segment has gained prominence since the 1970s owing to the growth potential of apparel exports. It has grown into a gigantic





*The clothing segment has gained prominence since the 1970s*

industry spread across the country. Its growth rate has almost doubled over the last eight years and the knitted segment has grown faster than woven garments. The estimated production of this industry is about 8000 million pieces.

The country pines its hopes on this segment to drive the textile industry and trade. In spite of several problems, this segment has shown dynamism and achieved rapid growth in the last two decades. It has the potential for tremendous growth particularly in the global trade by broadbasing its market and product mix to overcome the hurdles created in its major markets, namely, the US and the EU.

To provide the segment with world-class infrastructure facilities, the Scheme for Integrated Textile Parks (SITP) was launched.

### **Modernisation, technology Upgradation**

Substantial investments have been made in the state-of-the-art technology of compact spinning with over 1.2 million spindles already in place and much more in the pipeline. As of March 31, 2007, projects worth Rs 86,026 crore had been sanctioned under TUFs for technology upgradation, expansion and greenfield projects.

The Gherzi study on the vintage

of Indian spinning and rotor capacity has reported that only 27 per cent of the installed spindles and 31 per cent of rotors in the country are less than 10-year old.

Country-wise percentage of ring spindles that are less than 10-year old are India-27 per cent, Bangladesh-67 per cent, Indonesia-17 per cent, Egypt-6 per cent, China-28 per cent, Pakistan-37 per cent and Vietnam-63 per cent. The percentage of open-end rotors that are less than 10-year old are India-31 per cent, Bangladesh-57 per cent, Indonesia-13 per cent, Egypt-5 per cent, China-79 per cent, Pakistan-4 per cent and Vietnam-100 per cent.

Clearly, there is need for clearing the huge backlog. This can be achieved by continuous, rapid modernisation of the spinning sector in India. Rapid modernisation, technology upgradation and capacity expansion will achieve economies of scale in production. Realising the need for technology upgradation and capacity building, the government has extended TUFs for the entire Eleventh plan period.

### **Vision 2012**

The industry is expected to become a market worth \$110 billion (domestic household market potential of \$60 billion and FOB value of exports at \$50 billion) by 2012.

To achieve this objective, as per a CRISIL study undertaken by the Confederation of Indian Textile Industry (an apex body for the textile industry), the industry has increased the scale of operation, upgraded the technology and made additional investments in machinery.

### **At crossroads**

Though the textile industry has been performing extremely well and fully gearing itself for capacity expansion, improving the scale of operation and technology upgradation (doubling its investment year after year since 2003), its performance started declining drastically from April 2007 onwards.

Currently, the industry is at crossroads due to the recent appreciation of the rupee against the US dollar, steep increase in bank interest rates, high cotton price and a sluggish local market. In Tamil Nadu, the frequent power shutdowns have added to the problem. This has stalled all new investments into capacity expansion, greenfield projects and technology upgradation across the textile value chain.

At Tex Summit 2007, a conclave organised by the Ministry of Textiles, the various work groups submitted their recommendations to revive the industry from the turmoil and make globally competitive.

The few sops provided for boosting textile exports have not yielded the desired results as these are insignificant when compared to the quantum of loss incurred by the mills. It is essential to create a conducive environment to attract fresh investments to upgrade the technology and improve the scale of operation at the earliest, to sustain the competitiveness of the Indian textiles and clothing industry in the globalised environment. ■

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