INSPIRING LUXURY

from farm to fashion

Speech

by

***Shri R K Dalmia***

*Chairman*

*at the*

***62nd***

***Annual General Meeting***

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TEXPROCIL

THE COTTON TEXTILES EXPORT PROMOTION COUNCIL

# Speech by Shri R K Dalmia, Chairman at the 62nd Annual General Meeting

**Friends,**

It gives me great pleasure to extend a warm welcome to all of you at the 62nd Annual General Meeting of our Council.

The 62nd Annual Report and Audited Accounts along with the Auditor's Report for the year ended 31st March 2016, setting out the financial results and major activities undertaken by the Council during the year under review are already with you.

With your permission, I take them as read.

## Economic Outlook

The global economic outlook for 2016 varied between the subdued and the grim as alerts were sounded on possible global deflation with a fall in trade. Both the IMF and the WTO forecast trying times especially for the advanced economies in the coming months. The IMF has stated that a "broad based phenomenon" of low inflation, fed by a collapse in commodity prices and faltering demand can lead to a deflation trap in the advanced economies.

The WTO has forecasted that global trade volumes are expected to rise only by 1.7 per cent this year. This would be the slowest increase since the 2008 financial crisis.

As Robert Azevedo, Director General, WTO has observed, "the dramatic slowing of trade growth is serious and should serve as a wake-up call."

This trend is particularly worrying in the context of the downward pressure on global interest rates, increase in protectionism and anti-globalization rhetoric emanating from different corners of the world.

Added to this, two major developments have taken place on November 8, 2016 which may have far reaching consequences for trade and industry both at the national and international levels.

## Recent Developments

The first development is the de-monetization of currency in the denomination of Rs 500 and Rs 1000 and it's sudden withdrawal from circulation as legal currency.

The second development is the election of the President in USA who on the back of slogans like “Making America Great Again", may become inward looking.

Both these events unfolding at present may have far reaching consequences in terms of the way business and trade is conducted in the coming years.

## State of the Indian Economy

Amidst this gloomy landscape, the Indian economy grew around 7.1 per cent during the fiscal year 2014-15 and registered a modest growth of 7.2 per cent in FY 2015-16. India stands out as a shining example of stability and an outpost of opportunity.

It's macro-economy is stable and economic growth is amongst the highest in the world founded on the government's commitment to fiscal consolidation and low inflation. These achievements are remarkable considering the global headwinds. The overall prospects for 2016-17 are positive as the growth momentum is expected to remain robust.

## Foreign Trade

India's total exports (all commodities) stood at USD 261.1 billion in 2015-16, recording a steep fall of (-) 15.85 per cent over the previous year. Imports too dipped by (-) 15.28 per cent to USD 379.6 billion in 2015-16, leaving a trade deficit of USD 118 billion in the last fiscal year. In fact, exports have seen a declining trend in the last 20 of the 22 months causing all-round concern.

Why is it that our exports are declining in spite of the country making good economic progress is an important question that needs reflection.

## World Trade in Textiles & Clothing

As regards the Textile & Clothing sector, world trade is estimated at USD 745 billion in the year 2015 and is expected to grow at a CAGR of 6 per cent in the coming years, increasing to USD 1,120 billion by 2020 with clothing occupying the major share followed by made-ups, fabrics and yarn.

The textile and clothing sector employing well over 170 million people worldwide, continues to remain an important segment of the global economy, serving as an engine of sustainable growth.

## Exports of Cotton Textiles

In line with the general trends, exports of cotton textiles from India also recorded a decline of 4.15 per cent in 2015-2016 coming down to a level of USD 10.96 billion from USD 11.43 billion in the previous year.

While cotton made-ups showed a positive growth of 2.87 per cent in value terms cotton fabrics declined by about (-) 11.95 per cent during the fiscal year 2015-16.

Cotton yarns, on the other hand, showed a positive growth of 4.29 per cent in volume terms but a decline of 8.32 per cent in value terms, mainly on account of price pressures on margins.

The declining trends continued in the current fiscal year 2016-2017, with available data for the period April - October 2016, showing a decline of (-) 2.81 per cent in total exports of textiles & clothing and decline of (-) 9.81 per cent in the cotton textile sector represented by us.

## An Era of Challenges

Friends, as we look back on the last eleven months of 2016, global recovery continues at a slow and fragile pace. Various reasons have been assigned for this slow growth by analysts, one of them being the slowing population growth in the developed economies leading to lower economic output. The other is a lack of investments leading to a slowing down of productivity per employee thereby limiting the disposable income. A third reason attributed for slowing global demand are the changes in the Chinese supply-chain which have made its GDP growth less import intensive.

While these factors are contributing to the structural changes limiting the contribution of trade as a component of GDP growth, the key challenge that emerges is "How do countries increase their market share in an era of falling demand?"

Studies have shown that reducing operating costs, providing an enabling policy environment and enhancing productivity levels remain the three major pillars on which competitiveness can be sustained by emerging economies like India.

As we step into the future, a concerted effort to build a strategy based on these pillars can serve as a good starting point.

Even as we develop our strategies to enhance our export performance in the coming months, it would be useful to take stock of the present internal & international challenges confronting our industry and trade.

## INTERNAL CHALLENGES

Without a doubt, Friends, the textile and clothing sector in our country remains an important vehicle of economic growth. Yet, it is important to note that in spite of it's vast potential to generate employment and inclusive growth, the textile sector remains a low margin business, highly sensitive to price and exchange rate fluctuations.

A recent report prepared by the Boston Consulting Group (BCG) states that the total employment in the Textile & Clothing sector will reach 74 million by 2020 and 103 million by 2025 from an estimated 49 million in 2014. The share of women employed is almost 69 per cent of the total employment. The sector also facilitates quick employability as only 45 days are required to train a garment worker.

In this context, the "Special Package" announced for the Garment sector is a welcome step and should be extended to the other segments of the textile industry especially Made-ups & Home Textiles.

## Availability of Raw Materials

The price sensitivity of the industry is evident in the availability of raw materials especially cotton and also man-made fibres.

The hardening of cotton prices between April-August every year remains a matter of concern for the textile industry. In spite of being surplus in cotton, regrettably, we are subjected to "price hikes" during the lean season thereby causing hardship to many Small and Medium Enterprises (SMEs).

A possible solution could be that the Cotton Corporation of India (CCI) is mandated to buy around 15-20 lakh bales when the prices are low during the peak season and sell it over E-Auction during the lean months. This will ensure certainty of supplies and also act against price fluctuations owing to speculation during the lean periods of the cotton season. Many other steps can also be taken to increase production like yield per acre, improvements in picking methods and modernization of Ginning factories.

All these steps can go a long way in enabling Indian manufacturers to get raw materials at international prices or below at all times.

With changes in fashion demanding greater use of various blends, access to man-made fibres as raw material becomes important.

At present due to high excise duty, import duty and Anti-Dumping duties the prices of man-made fibres in India are high by around 25-30 per cent, as compared to international prices. It is very essential that the levies are rationalized so that the raw materials are available at international prices.

It is only when we undertake efforts to make raw materials available to our entrepreneurs at international prices that we can hope to unleash their "animal spirits" which are much needed in order to make India a manufacturing hub in the true sense of the "Make in India" movement.

We need to introspect on these matters so that exports can be diversified and new products can be developed as envisaged in the Foreign Trade Policy.

## Spinning Sector

The Spinning sector is another vital segment of the textile economy needing the support of the Government, as it is currently facing stressful times due to various factors. India has developed core competency in this sector which we should try to preserve as a strength in order to support our large textile industry in the years to come. Timely intervention by the Government by way of granting some benefits in the form of MIES and interest subvention to exports of cotton yarn even for a short period would help in reducing the stress levels in the Spinning sector.

## Role of Merchant Exporters

At the same time, we need to acknowledge the significant contribution made by merchant exporters to our export efforts. The Council has requested the Government to extend the interest equalization scheme to them in order to help them manage their funds more effectively.

It is earnestly felt that if some of these steps are taken on a priority basis, India can raise it's export competitiveness and withstand the pressures of declining demand in global markets.

**EXTERNAL CHALLENGES – Global Trading Environment**

Globalization has thrown up intermittent challenges throughout history which have been ironed out over the long run.

However, for the first time, perhaps after the 2nd World War, anti–globalization forces have appeared to have gained an upper hand leading to rising protectionist sentiment across major economies of Europe and the USA.

Apart from this, the advent of technology has made many jobs in labour intensive sectors redundant. Further, as technology progresses, developed countries innovate to improve existing products and make them affordable, while introducing new products as well.

**Economic Superpower – USA**

The USA is steadily emerging as an important producer of not only textiles but also garments. A recent ITMF Report finds that while China may be the world's largest producer of clothing articles, it is not the most productive. In fact the USA is by far the most productive country in the clothing sector with a high level of productivity measured as the real output per employee.

Many companies have improved their competitiveness by reducing their workforce and by investing in more automated and efficient machinery. Regulatory policies and managerial practices are other factors that have contributed to higher levels of productivity.

The results of the recent Presidential elections in USA will also add a new dimension to trade policy and practice, judging from the high pitched campaign rhetoric. If the President-elect implements some of the campaign pledges related to re-negotiation of NAFTA and abandoning of the Trans Pacific Partnership Agreement (TPP), we can look forward to a paradigm shift in the architecture of global trade.

**European Union**

The European Union has been dealt a body blow by "BREXIT" - the UK vote in favour of leaving the European Union. The situation is fluid at present as the whole process is likely to take almost 3-4 years before it settles down.

In the immediate term, the uncertainty about the future relationship between the UK and the Euro area has dampened the growth rate. "BREXIT" promises to stipulate new technical barriers to trade, prescribe different standards and add new tariffs all accompanied by a heavy baggage of cumbersome procedures.

Notwithstanding these developments, the European Union remains an important market for India's exports of Textiles & Clothing accounting for around 27 per cent of the total exports from the country. In view of this, the need to negotiate a FTA with the European Union is the need of the hour, especially as some of our competitors in South Asia benefit from tariff preferences.

With the UK accounting for 25 per cent of our exports of Textiles & Clothing to the EU, negotiations for initiating a separate Agreement or Protocol with them at the earliest also assumes critical importance.

## Dealing with China

China remains the dominant force in World Textile & Clothing trade, accounting for 35 per cent of global trade. Contrary to general belief the Chinese textile industry continues to transform and upgrade itself achieving stable development but at a slower pace given the rising production costs, growing international competition and sluggish growth in demand worldwide.

Various estimates indicate that China's textile industry is expected to maintain stable growth in the coming years, driven mainly by an expanding domestic market and greater emphasis on consumption.

In recent times there have been reports that China is shifting away from manufacturing in the textile and clothing sector to other high value consumer products. Contrary to these reports, available evidence suggests that during the year, China has recorded good growth in production of technical textiles indicating the benefits that can be derived from relying on technical advancement. Other sectors like man-made fibres, printing & dyeing and knitting have also shown improvements in profits.

Reports suggest that China is also furiously building the Xinjiang province as a hub for the spinning industry. Around 60 per cent of the cotton grown in China comes from the Xinjiang region. More than USD 440 million has been reported to have been invested during the last nine months in new spindles. The target is to increase the spindle capacity to 18 million by 2020 from the present 8 million spindles.

Considering these developments, Indian textile manufacturers and policy makers need to urgently reflect on suitable strategies to enhance competitive advantage so as to regain momentum in exports.

## Other Challenges

Apart from the above, there are other challenges relating to rising costs, exchange rate fluctuations and the advancement of automation and technology.

Out of these three major challenges, the rise of large scale automation in the erstwhile labour intensive sectors like textiles, garments, footwear is worth analyzing.

In a recent study, the International Labour Organization (ILO) has pointed out that those working in the garment industry are particularly vulnerable to losing their jobs on account of automation. The study points out that out of the nine million people working in the textiles, clothing and footwear industry in South - East Asia, 64 per cent of the workers in Indonesia, 86 per cent in Vietnam, and as much as 88 per cent in Cambodia are at a high risk of losing their jobs to robots. As the ILO Report notes, “Robots are becoming better at assembly, cheaper and increasingly able to collaborate with the people"

In the Indian context also as per the EY Study commissioned by the Council on "Textile Industry - A vehicle of job creation for inclusive growth" almost 37 per cent of the present jobs are likely to become redundant in the textile sector in the coming years on account of automation.

Judging from these likely developments there is a need to create a conducive environment to promote greater investment in human capital, research and development and high value production.

## Government's Role

The Ministry of Textiles has been striving to facilitate growth of Indian Textiles through a slew of schemes and initiatives such as “Make in India”, “Digital India” and “Skills India”, thereby helping various sectors of the Indian economy to gain global competitiveness; create an architecture for India’s global trade engagement with a view to expanding its markets and ensuring better integration with major regions.

## Special Package for Garments

In this connection, the special package announced recently for the Garment sector offers a slew of measures for labour reform & tax concessions for employment generation and enhancing exports and is a step in the right direction. These schemes and initiatives are aimed at encouraging our entrepreneurs to set up new units as well as expand the existing ones with a view to generating large employment opportunities.

The special package envisages the creation of 10 million new jobs, USD 30 billion additional exports (over and above the textile and garment export of around USD 37 billion in 2015 - 2016) and investments worth Rs 70,000 crores.

Considering that the textile sector is a low margin industry, introduction of such packages can lead to an exponential leap in export performance. This can be seen from the fact that export of garments have shown an increase of around 11 per cent during the months of September/October, despite a downward trend for most other sectors.

The specific impact would be that the enhanced cost competitiveness will help expand exports rapidly.

It will also assist in conversion of contract labour into fixed term workforce while more companies will be covered under labour compliance. Companies will be able to execute larger orders during peak season and it will help in garnering better investment attractiveness supporting creation of larger capacities and emergence of new entrepreneurs.

However, this special package needs to be extended to the Made-ups and Home Textile sector also. Through various representations submitted to the Government, we have repeatedly emphasized that this sector is equally, if not more labour intensive in comparison to the apparel sector, and has the capability of generating sizeable new employment. At the same time, it will also act as a pull factor for increased consumption of fiber, yarns and fabric produced domestically.

We have been assured that the package will be extended to the Made-ups sector also and we are looking forward to it's early implementation.

**Duty Drawback**

I am glad to inform that the recent announcement of the Duty Drawback rates by the Government has favorably addressed some of the concerns raised by the Council. The revised drawback schedule has also incorporated a separate entry for blankets made out of cotton and man-made fibre with an enhanced drawback rate and cap which will go a long way in promoting exports of this value added item.

Also, the rates relating to cotton yarn have been retained with some tweaking in the rates for the Count group 40s to 100s. The rates for Made-ups have also been increased marginally which is an encouraging sign.

## Implementation of GST

Another policy initiative is the Government's commitment to implement GST by 1 April, 2017 - a landmark legislation in India’s economic and taxation history. The GST Council has finalised the rate structure in four slabs of 5 per cent, 12 per cent, 18 per cent, and 28 per cent.

As per the proposal, while essential items like food grains will have a zero tax rate, demerit and luxury goods will be taxed at the highest rate and will also attract a cess.

We have stated that the cotton textile sector should be kept in the lowest slab in order to ensure minimum disruption to the trade & industry, considering that at present these products are under the exemption route.

With the Government showing its strong commitment to implement the GST regime adhering to specific timelines, we need to familiarize ourselves with the procedural aspects of implementation including registration and imparting training to staff.

Whichever way we look at it, GST is a “game changer” and we should all welcome it wholeheartedly, notwithstanding the teething troubles which we will face in the initial months of it's implementation.

## Leveraging Free Trade Agreements (FTAs)

As mentioned, India’s competitive position in global trade is being determined not only by high cost of inputs but also by preferential benefits being offered to competitors.

The policy of providing preferential access being followed by the European Union (EU) has led to diversion of trade rather than it's deepening much to the detriment of the non-preferential suppliers like India. Growth in exports from Bangladesh, Pakistan, Turkey, Vietnam can be directly attributed to the policy of preferential access.

With the exit of Britain from the EU and the backlash from the anti-globalization forces in the USA seen in the recent Presidential elections, hopefully, the phenomena of mega trade agreements will come to an end and the true spirit of multilateralism would be revived under the auspices of the WTO.

On it's part, India should continue to put faith in the multilateral process and at the same time take an integrated approach, rather than an ad hoc one, while negotiating new FTAs or re-negotiating old ones.

One of the reasons that the FTAs have given poor returns for India is the lack of depth in them. India has not gained much as the agreements seem to be loaded against it. This has also resulted in a scenario where imports of certain products like steel, pharma, engineering, chemicals are continuously on the rise while their exports have waned. In the case of the Textile sector there has also been some rise in the imports of man-made fabrics from China and other South-East Asian countries.

For the FTAs that India has signed, TEXPROCIL has been representing to the government to review certain aspects and anomalies relating to staging of tariff reduction, the sensitive and exclusion lists etc. especially under the India-ASEAN FTA, India-Korea CEPA and the India-Malaysia CECA.

## Benefitting from China

‘How to deal with China as a trade partner’, is an important strategic question. With a trade deficit of USD 53 billion accounting for almost 45 per cent of India's aggregate trade deficit, a strategic approach needs to be devised in our dealings on trade with China. One of the sectors which can contribute to reduction of the trade deficit is the Textiles sector. With India already accounting for 35-40 per cent of China's requirements of cotton and cotton yarn, we need to scale up our trade in fabrics, made-ups and even garments.

An opportunity presented itself in the context of the fourth round of the Asia Pacific Trade Agreement (APTA) but unfortunately, India was unable to leverage any advantage for the textile sector.

Notwithstanding the lost opportunity under the fourth round, India needs to aggressively pursue its engagement with China under various other forums like the India-China Strategic Economic Dialogue aimed at adopting a new theme for closer cooperation in different sectors, while simultaneously dealing with them in the Regional Comprehensive Economic Partnership (RCEP) Agreement.

## Looking to the Future

Friends, with an enabling environment and adequate policy support from the Government, the textile sector in India can grow and achieve the ambitious vision of exports of USD 300 billion and 20 per cent share of global trade by 2024-25 as envisaged in the Vision & Action Plan 2024-25 of the Government for the Indian textile and apparel sector. The sector can also create substantial employment opportunities especially in the rural areas and for women.

The industry needs to take positive steps towards building an efficient and cost competitive textile value chain. As stakeholders, all of us need to reinforce our focus on brand building and strengthening our innovation capacity.

Trends in world trade indicate that we need to invest in producing value-added products and at the same time, we need to diversify our export basket of consumables like Fabrics to manufacture new products in the technical textiles sector.

At the same time, the Textile Industry merits adequate attention by the Government in the setting up of an enabling framework. In this context, three critical areas need to be emphasized.

Firstly, the raw material pipeline especially in the man-made fibre segment needs to be cleaned up so that raw materials are available to the value added manufacturers in the downstream segment at international prices.

Secondly, FTAs with European Union, Australia, Canada need to be expedited as India is losing market share to competing countries on account of preferential tariffs being accorded to them.

Thirdly, reforms in labour laws and a need to give a policy thrust to create a "Hub & Spoke" model of garment production involving hinterland areas adjoining tier 3/4 cities to create employment locally.

For this purpose the Government should facilitate availability of land for constructing "industrial sheds" to set up manufacturing and stitching facilities.

## TEXPROCIL – The Facilitator

Friends, during my tenure in office as Chairman of TEXPROCIL, apart from the wide ambit of export promotion activities, the Council continued to sensitize the government through various representations on the diverse needs of industry and stakeholders.

Today, as I demit office, and hand over the charge to my successor, I am happy to note that the industry has become well aware about the need to produce value added items, encouraging many of our entrepreneurs to make innovative products.

At the Council, it has always been our endeavour to look at developed as well as emerging markets as export destinations for cotton textiles. Towards this end, the Council has drawn up a comprehensive program to target new markets like Myanmar, Iran, Indonesia, and Mexico apart from intensifying our efforts in markets like China, Colombia, Turkey, Egypt, and Bangladesh.

On its part, the government has also drawn up an integrated marketing plan covering all aspects of textile and apparel trade with the involvement of apex industry bodies.

A number of studies were also commissioned by leading consulting firms like Boston Consulting Group, Ernst & Young, Gherzi International, Wazir Advisors – on various aspects of textile trade including exploring the market opportunities in Africa.

I am sure that all these reports have served the objectives of sensitizing the trade and industry on the immense opportunities available to it for expanding trade.

At the same time, the various agencies of the Government have taken note of the enormous potential of the textile industry and trade in promoting the goals of inclusive growth and higher employment.

We have also undertaken comprehensive review of the promotional campaign of the Council which was recently unveiled by the Hon'ble Minister of Textiles, Smt Smriti Zubin Irani at the TEXPROCIL Awards function in Mumbai. As a part of the campaign, we have introduced the new look promotional material comprising brochures, flyers, etc. and brought out the feeling of luxury of cotton textile that inspires all of us, owing to its natural properties.

**Acknowledgements**

Before I conclude, I would like to take this opportunity to place on record my sincere thanks on behalf of the Council and members of the Committee of Administration to Smt Smriti Zubin Irani, Hon'ble Union Minister of Textiles for her unstinted support and guidance to make the sector vibrant. I would also like to place our deep sense of appreciation to the former Minister of State for Textiles Shri Santosh Kumar Gangwar.

Our special thanks are due to Smt Pushpa Subrahmanyam, Additional Secretary in the Ministry of Textiles for her active support to the various promotional programmes of the Council.

We are deeply grateful to Smt Nirmala Sitaraman, Hon'ble Minister of State for Ministry of Commerce and Industry for her encouraging support and benign counsel in expanding exports.

We are also thankful to Dr. Kavita Gupta, Textile Commissioner for her continued support to the growth of the sector.

I also wish to convey our deep gratitude to Smt Rashmi Verma, Secretary (Textiles), for her positive approach in providing pragmatic solutions to the various issues confronting the textile sector.

We are also grateful to Smt Rita Teotia, the present Secretary (Commerce), and Shri A. K. Bhalla, the present DGFT for their constructive approach and positive response to the various issues relating to the Foreign Trade Policy.

The Duty Drawback Committee headed by Dr. Saumitra Chaudhuri has been extremely positive to the suggestions made by the Council and we are indebted to them for having given due recognition to the new product lines.

I would like to convey my sincere thanks to Shri Ujwal R Lahoti, Vice Chairman and Dr. K V Srinivasan, Deputy Vice Chairman for sharing my responsibilities and making my task lighter and easier.

I thank all my colleagues in the Committee of Administration and other Sub-Committees for their active cooperation and support.

Finally, I would like to thank the TEXPROCIL team headed by the Executive Director, Shri Siddhartha Rajagopal, for carrying out their duties with diligence, determination and dedication.

Thank you.

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