

India: Textile, Clothing, Footwear, Leather

FRIDGE Studies

Executive Summary

Policy

- TCFL very important to Indian economy
- Separate Ministry for Textiles
- Public funds for development programmes and incentives
- Aim to improve int. competitiveness through
 - Modernisation, advances in technology
 - Tax based incentives
 - Grants
 - Development zones
 - Drawback of duty schemes

Policy (cont)

- Optimism for post-quota era
 - Modernisation programmes
 - To enhance competitiveness
- Termination of WTO Agreement on Textiles and Clothing:
 - China & India to benefit most – to detriment of most other countries
 - India: Benefits not fully materialised
 - Elimination of quotas = “*Double-Edged Sword*”
 - Huge increase in Chinese exports

The Market

- Large market: Population 1.1 billion
- Largest part very low disposable incomes
- Upper and middle class small, although growing
- Not easy market to penetrate i.r.o. consumer goods
- Distribution arrangements very important
- Dominated by local unbranded clothing / footwear
- Branded market growing from small base
- Well known international branded products best chance of penetrating Indian market

Features: TCFL

- Major industries in India & internationally in terms of:
 - Production
 - Employment
 - Exports
- Industries based on:
 - Huge supply of raw materials
 - Large labour pool at low wages
 - Covers entire supply chain

Textiles

- Spinning segment internationally competitive
- Export oriented
- Medium- and large scale factories
- Most technologically sophisticated segment
- Vertically integrated production performing
 - Spinning
 - Weaving
 - Processing
- Dyeing, finishing and processing weakest links

Textiles: Yarns

- Primarily cotton based
- Wide range of other fibres
 - Man-made fibres
 - Jute, Silk
- India major world producer
- World's 3rd largest producer of cotton
- Yield and quality low – will improve
- No 1 exporter of cotton yarn
- Yarn production
 - India 3 232 000 tons in 2004/5
 - SA 176 000 tons
 - India's yarn production 18 times that of SA

Textiles: Fabrics

- India 2nd largest producer of fabrics
- Production 2004/05 = 45 billion sq m
- SA production = 433 000 sq m
- India's fabric production = 104 times SA's
- India: 46% cotton; 13% blended; 41% non-cotton

Clothing

- 60 000 manufacturers of clothing
- Most on a very small scale
- 2nd largest producer & exporter of clothing
- Large producer of made-up textiles
- Strength in clothing manufacture are
 - Low-medium quality clothing for domestic market
 - Medium-quality relatively high-fashion clothing for niche segments of export market
 - Knitwear

Footwear and Leather

- Major producer of leather, footwear & leather goods
- Abundant supply of hides & skin
- Production capacity for leather FW 909 mil. pairs; other FW 960 mil. pairs in 1999
- World's 2nd largest manufacturer and exporter of footwear

Footwear and Leather (cont)

- F&L production
 - Currently US\$ 5 billion/a.
 - Expected US\$ 12 billion by 2010
- Exports
 - Currently US\$ 2.4 billion/annum
 - Projected US\$ 5.1 billion by 2010
- Employment - 2.5 billion

Employment

- Employment in clothing 4 million
- Employment in textiles 30 million
- Labour costs one of lowest in the world, but:
 - Higher prices for other inputs
 - Low labour productivity
- SA wages/hour 4x that of India
- India competitive with most developing countries, very competitive relative to developed countries
- Logistics and cost raising effects major problem

Inefficiency in TCFL Industries

- Due to
 - Fragmentation
 - Lack of sufficient investment in technology upgrading
- Reasons
 - Reservation of sectors for small scale industries (SSI)
 - Government's past restrictive regime in respect of foreign investment
- Other problems
 - Inadequate infrastructure
 - Power costs
 - Port delays: Customs procedures / red tape

Imports and Exports

- India imports of textiles 2004/05 US\$ 2.1 billion
 - 2.02% of total country imports
- Export of textiles US\$ 12.7 billion in 2004/05
 - 17.9% of total exports.
- India imports insignificant quantities of clothing
 - Clothing imports US\$ 32 million in 2004
 - Compared to exports of US\$ 6.15 billion

TCFL South Africa

- Produces 4.9% of VA by manufacturing industry
 - Wearing apparel largest at 46%
 - Textiles 37.2%
 - Footwear 8.5%
- 2005 TCFL employed 15.1% of manufacturing labour
- Clothing industry employed 59% of that
- Textile sector employed 28%
- Footwear 8%
- 2000-2005: Job losses in all sectors

Protection Tariff Bindings

- India's WTO goods schedule: Bound tariffs for industrial products high, mostly 40%
- Many sensitive products not bound
 - Carpets
 - Knitted fabrics
 - Clothing
 - Made-ups
- Footwear not bound

Protection Tariff Bindings (cont)

- TPR report shows some lines are bound
- WTO confirms India has bound most of previously unbound textile & clothing lines
- Doubt whether this is a 'binding' commitment
- All SA's TCFL tariff lines are bound

Custom Tariffs: Applied

- India CIF, SA FOB
- India reduced applied tariffs over last few years
- Basic duties are uniform, mostly 15% (as from 1 March 2005)
- Tariff structure not transparent
- Large number of notifications, general exemptions & partial exemptions not shown in the Schedules to the Act

Custom Tariffs: Applied (cont)

- Actual basic duties may be lower than shown in Schedule 1 (e.g. steel)
- Fabrics & clothing and some yarns & made-up textiles subject to alternative specific duties in Rs/m² or Rs/piece
- Has the effect of higher actual duties on lower priced products

NTBs

- NTBs a major problem for export to India (although the situation has improved)
- NTBs with most effect on TCFL are
 - Policy unpredictability and uncertainty
 - Additional (excise) duties based on MRP
 - Azo-dies certification
 - Custom procedures & delays
 - Customs valuation
 - Port / transport infrastructural problems
 - General red tape
 - Labelling requirements

Anti-Dumping

- India uses anti-dumping most of all countries
- Textiles 7.3% of anti-dumping actions
- India 5th on list for anti-dumping investigations
- India subject to more countervailing (anti-subsidy) measures than any other country

Trade Flows

- Indian exports 20x that of SA
 - India responsible for 3% of world trade in TCFL products
- India imports less than SA (2004 in US\$: Textiles 1.5 bill.; clothing 32 million; footwear 53 million)
- India had a positive trade balance of US\$ 12 791 million in 2004
- SA had a trade deficit of US\$ 1 236 million
- Indian TCFL market is shielded from import competition
- SA experiences high import penetration

Trade Flows: India

- Exports of clothing by India
 - US\$ 6 152 mil. in 2004
- Export of knitted clothing increased by 10% p.a. between 2000 and 2004
- Made-ups dominate textile exports
- Growth in leather footwear exports
- Exports to 7 countries: US & EU the main markets

Recommendation: Offensive

Considering

- India's strength in whole of the TCFL pipelines
- its international competitiveness in TCFL
- India's very low import propensity particularly in clothing, made-up textiles and footwear
- India's already low duties on TCFL products
- NTBs present in India that discourage imports;

export opportunities in TCFL are limited. Potential for synthetic filament yarns and tyre cord fabric. Identify other products in consultation with the industries.

Recommendation: Defensive

- India has a comparative advantage in TCFL products + size advantage + incentives
- With the South African suffering injury and the Indian TCFL industries
 - already very large and diversified, and now growing capacities and economies of scale,
 - improving their competitiveness, and
 - targeting large scale export growth;

tariff preferences should not be granted to India in respect of TCFL products under the proposed PTA.

Recommendation: Negotiations

- India is likely to request concessions in regard to the TCFL sectors in view of their export drive
- SA has a strong case to not agree to preferences based on the current situation in the sectors; already high import penetration; and the small SA market
- SA can request concessions in regard to a limited number of products. India may agree to this
- Should India insist on counter TCFL concessions, the TCFL sectors should be excluded from a PTA on both sides.