How Years of Neglect and Wrong Policies Hit India's Promising Textile and Apparel Sectors

thewire.in/labour/years-of-neglect-and-series-of-wrong-policies-badly-hit-indias-promising-textile-apparel-sectors

Representational image. Photo: textilelearner.blogspot.in

analysis

Labour

Despite the crisis, both sectors are still the largest providers of employment after agriculture. However, since 2011, the textile sector has barely grown while the apparel sector has shown a significant slowdown.

Naveen Joseph Thomas and Abhishek Anand

Economy

Labour

01/Mar/2023

The textile and apparel sectors have traditionally been one of the most employment-intensive sectors in India. As per the data from the ministry of textiles, the sector is the largest employer after agriculture and employs 45 million people directly and 60 million people in allied sectors. More importantly, these two sectors offer tremendous opportunities for job creation, especially for women. Women constitute nearly 33% of the total formal workforce in these two sectors whereas the corresponding number for the rest of the manufacturing is a meagre 15%.

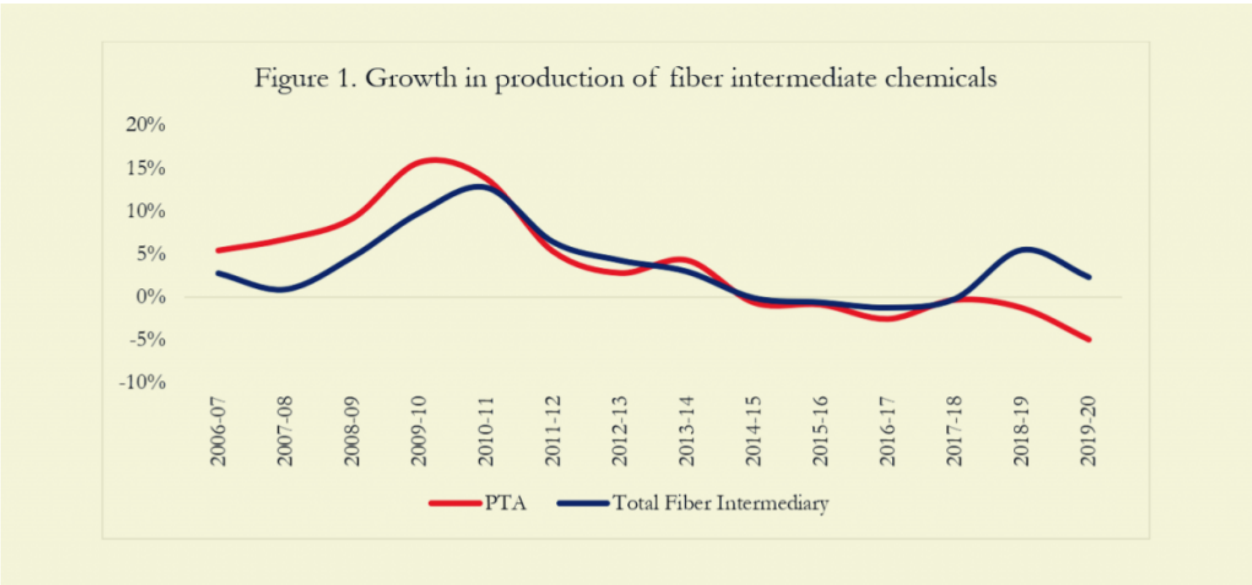
Despite the promise that these sectors hold, their performance has stagnated in recent years. Since 2011, the real output of the textile sector has barely grown whereas that of the apparel sector has witnessed a significant slowdown. The situation on the external front is even more concerning. Our global market share post-2014 has declined from 5.9% to 4.6% in 2020 in the textile sector, and from 3.9% to 2.9 % in the apparel sector. Bangladesh and Vietnam have already overtaken us in apparel exports. In textile exports, Vietnam is rapidly catching up to India.

What explains this turn of events in India?

Of course, there are some long-standing structural bottlenecks – weak linkages to global value chains, fragmented value chains, complex labour laws; high logistical costs; land market frictions; high power costs – that adversely hamper the productivity of the sector. However, these issues, though important, have existed for decades now and cannot fully explain the declining performance in recent years.

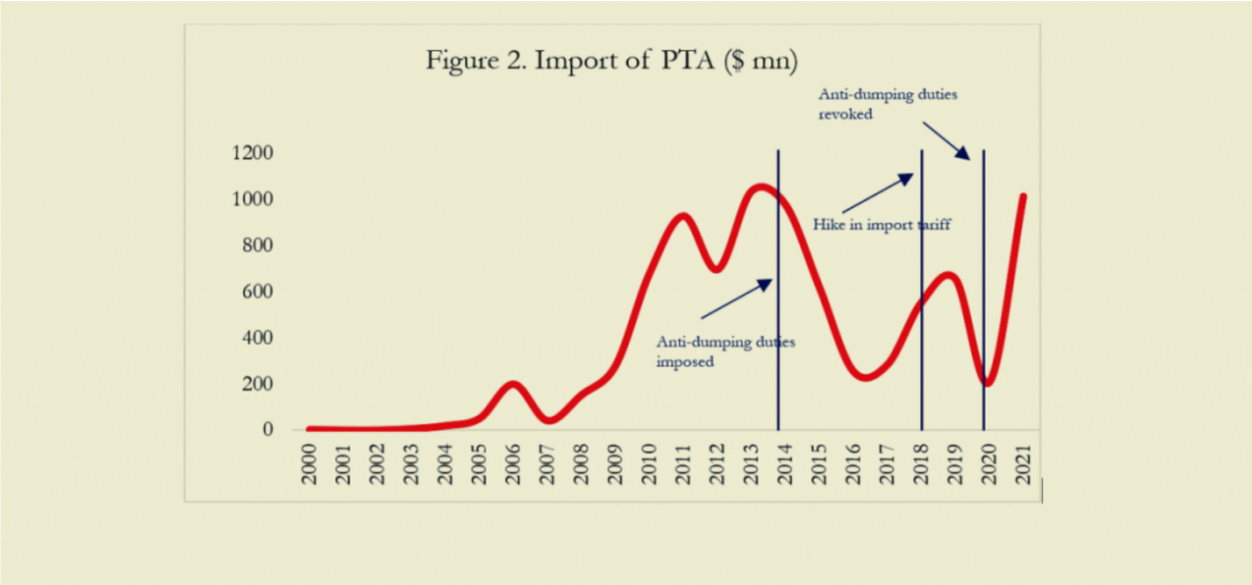
Crisis in the polyester manufacturing sector

In our new research, we find that the key reason for the setback India has faced is the declining production of polyester fibre. The decline stems from the stalled progress in the domestic production of key chemical intermediaries, Purified Terephthalic Acid (PTA), required for the production of polyester yarn and fiber. Growth in domestic production of PTA declined sharply since 2010 and has witnessed virtually no growth since 2014 (see Figure 1).



Source: Chemical and Petrochemical Statistics at a Glance 2020, GOI.

As the domestic PTA production stagnated, polyester manufacturers responded by importing the same as evident from the sharp increase in PTA imports by more than 140% between 2008 and 2013. However, since then the trend reversed, and imports contracted by more than 50% (see Figure 2).



Source: Chemical and Petrochemical Statistics at a Glance 2020, GOI.

But why should India's PTA imports be falling precisely at a time when domestic production was stagnating even as the demand for polyester fiber and filament yarn was robust?

The answer to the questions lies in two policy interventions that the government introduced. First, the government imposed anti-dumping duties in 2013 on PTA imports from major source countries, making the import prices prohibitive. Second, in 2018, the government hiked the import tariff on PTA from 7.5% to 10% which further increased import costs.

Also read: Chart: The Low Wages of Garment Workers

At a time when the import of PTA was at an all-time high, the anti-dumping duty was imposed based on a petition filed by the two largest PTA producers: Mitsubishi Chemical Corporation India Ltd. and Reliance Industries Ltd. with the Director General of Trade Remedies (DGTR) in October 2013 for unfair trade practices by major PTA exporters to India.

Garment workers in India. Credit: ethicaltrade.org

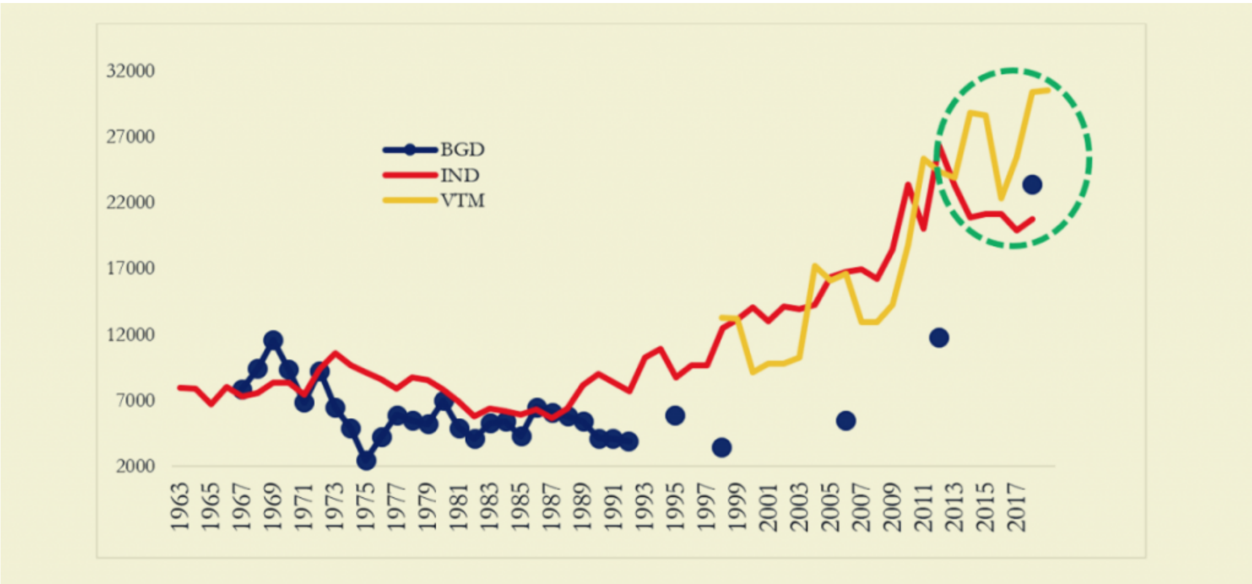
The government finally imposed anti-dumping duty on PTA, in the range of $24 to $117 a tonne, on imports from China, South Korea, Thailand and the European Union. Later in 2016, anti-dumping duties ranging from $84-$168 per ton were imposed on PTA imports from Taiwan, Malaysia, Indonesia, and Iran.

As these countries accounted for nearly 90% of India's total PTA imports, the anti-dumping measures, followed by a tariff hike in 2018, resulted in India's PTA imports contracting by almost 35% between 2014 and 2019. The contraction in domestic production followed by the contraction in imports, making domestic PTA prices relatively more expensive than that of our competitors. The price rise adversely affected polyester producers who purchased PTA from the open market.

In contrast, the integrated PTA and Polyester producers like Reliance Industries benefitted from the duty as they could employ PTA in their polyester production at a significantly more competitive price. Moreover, the duty increased concentration in an already highly concentrated sector.

Faced with higher input prices relative to global competitors, the polyester fibre and filament yarn produced by producers procuring PTA from the open market became relatively uncompetitive compared to those firms that produced their own PTA. This resulted in a deterioration of capacity utilisation of polyester production. Consequently, the firms had to pass on the higher production costs to the final output. All this ultimately led to a productivity decline in the downstream sectors, even as their global competitors were gaining productivity (see Figure 3).

Figure 3. Per Worker GVA in man-made textile (Constant PPP $)



Source: UNIDO

In fact, per-worker output in the man-made textile sector in India has fallen below that of Bangladesh and Vietnam. With the rising cost of production, declining productivity, and rising output prices, the man-made textile sector lost out on the external front.

India’s global share in man-made textile exports has declined by almost 1.5 percentage points, more than half of which has been captured by Vietnam.

Crisis hits apparel industry

As man-made textile is the most important input that goes into the manufacturing of man-made fabric (MMF) apparel, it is natural to expect that the sluggish performance of the former should feed into the latter. The labour productivity in the MMF-based apparel sector declined by more than 23% between 2016-2019. The worrying trend is that the decline in labour productivity of MMF apparel manufacturing firms is entirely driven by the most productive firms.

Also read: If the Textile Industry Is to Recover From the Lockdown, It Needs Quick Government Help

The per-worker output of the top 10 percentile of firms ranked by their productivity in MMF apparel manufacturing declined by nearly 10% between 2012-13 and 2018-19. During the same period, the rest of the firms saw their productivity rise by 16%.

With the loss of productivity and a decline in investments, especially in the most productive units, our MMF apparel producers have become relatively less competitive in the external markets. Our share in world MMF apparel exports declined to 2.8% in 2021. During the same period, our global competitors have done exceedingly well and have significantly increased their market share. Bangladesh’s export share overtook that of India in 2018, and it stood at 4.1% in 2021. Vietnam, on the other hand, further consolidated its market and accounted for nearly 9% of global exports in 2021.

In 2020, the government finally rolled back the anti-dumping duties on PTA. However, the other policy interventions of the government may fail to do enough for the sector. First, the Production Linked Incentives (PLI) scheme is largely focused on the high-skill manufacturing sector and the outlays made for the man-made textile sector are minimal. Second, the government maintained the import tariffs on polyester intermediates, fibers and filament yarns at high levels to provide protection from foreign competition.

Given the high concentration of production upstream of the polyester value chain, particularly by producers who have the capacities and means to compete with the external competition, it is imperative to keep trade barriers low on the import of polyester fiber intermediates as well as of polyester stable fiber and filament yarn.

This will encourage value addition and employment generation in the downstream industries. A key recent development has been the drastic reduction of customs duties on polyester fiber intermediates, filament yarn and staple fiber in May 2022. While the move is in the right direction, it remains to be seen whether this will be adequate to reverse the regression on the domestic and external front.

Note: The article is based on the finding of the authors in their study ‘Reigniting the Manmade Clothing Sector in India’ which can be accessed here.

Naveen Joseph Thomas is an Assistant Professor at the Jindal School of Government and Public Policy. Abhishek Anand is a consultant at PwC Middle East.