

Executive Summary

Study on “VALUE-ADDED” Exports of Cotton Made-Ups and Fabric Products from India vis-à-vis other Competing Countries



ICRA Management Consulting Services Limited

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Executive Summary

Context

In 2011 global trade in textiles and apparel was around US\$ 705 billion. This was approximately 4% of the total global trade of all commodities estimated at ~ US\$ 15 trillion. During the period 2000 to 2010 the textile and apparel trade has grown at a CAGR of 6.4% per annum. With growth slowing down in developed markets, the dynamics of the global fashion market are expected to change dramatically. Emerging economies, namely Brazil, Russia, India & China, along with a few other Southeast Asian countries, are seen as the major growth centres in the future.

Indian textile industry is facing several challenges in the aspects of production, marketing, and support infrastructure. The key challenges for textile and apparel industry in India are lack of value addition, low productivity, low pace of modernisation, lack of scale and high fragmentation. The industry also suffers due to general infrastructure related issues which lead to higher transaction costs, unreliability in transit times, etc. along with focus on limited markets, and weak brand positioning of India.

Further, MFA phase-out and the current economic crisis have affected global sourcing and production networks among firms. Firms from high-wage developing economies are finding it increasingly difficult to retain a competitive edge in a progressively global market place. These firms have constantly to confront the competitive challenge from firms in low-wage, industrialising economies that are able to produce more cheaply. This has caused increased competition among developing economies in T&C industry.

Amidst the burgeoning competition from various developing economies, focused efforts are required to strengthen the competitiveness of Indian textile industry and move up the value chain by identifying value added products for Indian cotton textile industry, which can sustain the industry for long term growth. A strategic course of action would be to identify value added products, which have potential to grow and analyse the competitiveness of Indian textiles industry in these product segments vis-à-vis competing countries. In this context, The Cotton Textiles Export Promotion Council (TEXPROCIL) has commissioned ICRA Management Consulting Services Limited (IMaCS) for conducting a study to identify “value-added” exports of cotton made ups and cotton fabrics from India vis-à-vis other competing countries namely Bangladesh, Pakistan, China, South Korea, Turkey, Vietnam and Indonesia.

Based on the agreed terms of reference, IMaCS has conducted a detailed secondary research in order to identify value added products in cotton fabrics and made-ups and determine India’s manufacturing competitiveness for these products vis-a-vis the identified competing countries. Further, IMaCS also conducted detailed one-on-one discussions with Industry Associations as well as textile companies in India and the competing countries to capture the perspective of the industry with respect to value added products in cotton textiles and made-ups. The analysis and the findings of this study are presented in the report.

Terms of Reference

The Terms of Reference for this engagement are reproduced below for easy reference:

1. Identify and study the current top 10 value added cotton made ups and top 10 value added cotton fabric exports from India.
2. Identify the top 10 global value added cotton made ups and cotton fabric exports for the corresponding period and also the future trends for these product categories.
3. Compare India’s current technology levels in the various “value-addition” stages in cotton textiles (spinning, weaving, processing and making-up) and their impact on the cost of production, quality and export competitiveness.
4. Compare the infrastructure in India vis-à-vis competing countries (Bangladesh, Pakistan, China, South Korea, Turkey, and Indonesia).
5. Evaluate the Indian manufacturing costs of chosen products with that of competing countries, covering all cost parameters relating to spinning, weaving, processing and making-up
6. Study incidence of various taxes and levies, including excise duties, import duties, and local taxes along the cotton textile value chain.
7. Conduct a comparative study of the incidence of fiscal duties on capital goods for the sector and also investment policies vis-à-vis competing countries
8. Compare the incentives offered by the Government of India with that of the competing countries under study for exports and their compatibility.
9. Analyse the export/import policies of competing countries vis-à-vis India and its implication for exports from India
10. Study the transaction cost and cost of export financing both pre- and post-shipments.
11. List major threats faced by Indian exporters in order to draw the Government’s attention to the present and future threats.

12. Analyse and comment on the VISION of the competing countries as far as “value-added” products are concerned.
13. Recommend the measures to become internationally acceptable in terms of global value added cotton made ups and fabric categories and cost competitive along the whole supply chain.

Methodology

Methodology

This engagement was accomplished through a mix of primary and secondary research.

Primary research

IMaCS has conducted primary survey of the industry players, industry associations, government institutions related to textile industry, traders and other stakeholders based in India and other competing countries through country visits /face to face meetings as well as telephonic discussion. The contacts covered during the primary research are covered in the report.

Secondary research

As part of the secondary research initiatives, we have analysed data and information related to Indian cotton textiles and made-up industry from various sources along with data provided by TEXPROCIL. We also analysed corresponding information of the competing countries obtained from various trade associations, industry players and research reports of reliable agencies.

Brief on Indian textile and clothing industry

India was the second largest textile & clothing manufacturer in the world for the year 2011-12 with an estimated export value of ~ US\$ 34 billion and domestic consumption of ~ US\$ 57 billion. The textile & clothing sector accounts for 14% of the industrial production, which is around 4% of the GDP. It also provides employment to around 45 million persons. India is amongst the very few countries, which have presence across the entire value chain, from natural and synthetic fibres right up to finished goods manufacturing. It has presence in organised mill sector as well as decentralised sectors like handloom, power loom, silk, etc.

Global textile trade analysis

In 2011 global trade in textiles and apparel was around US\$ 705 billion. This was approximately 4% of the total global trade of all commodities estimated at ~ US\$ 15 trillion. During the period 2000 to 2010 the textile and apparel trade has grown at a CAGR of 6.4% per annum. With growth slowing down in developed markets, the dynamics of the global fashion market are expected to change dramatically. Emerging economies, namely Brazil, Russia, India & China, along with a few other Southeast Asian countries, are seen as the major growth centres in the future.

By analyzing the value of India’s top ten fabric exports vis-à-vis world exports, we can infer that 40% of India’s fabric exports comprise of unbleached and bleached fabrics, while the share of the same is 10% in world exports. On the other hand around 54% of world’s top ten fabric exports is dyed fabric which in case of India is only 11%. The majority of these fabrics fall under categories of fabric dyeing, yarn dyeing, and printing, and blended fabric. This indicates that India can significantly add value by exporting finished fabrics instead of unfinished fabrics.

One more trend that has been witnessed in the world textile trade is growth in blended fabrics especially in blended denims. The growth of blended denim has witnessed a Compound Annual Growth Rate (CAGR) of around 20% during 2007-2011. While India’s share in cotton denim trade was 6% in 2011, the share of cotton blended denim was less than 4%. Similarly India has less than 1% share in the export of knitted fabrics blended with spandex, which has better realization value. In this segment apart from China/Hong Kong countries such as South Korea, Italy, Turkey, Taiwan and Japan are top exporting nations. So an opportunity for India exists in the area of cotton blended fabrics to build its export share.

India’s Top Ten Value Added Textile products are derived in Knitted and Woven category of textiles. Further, an analysis of the share of exports of India’s value added textile products in global exports across both knitted and woven categories shows that it is below the average share of 6%, which is India’s contribution to the overall export of world textiles. This signifies that India lags in export of value added categories. This is further supplemented by the difference in unit value realisation of value added exports undertaken by countries which when analysed shows a strong correlation between the exporting country and its competitiveness in the specific segment.

In the case of cotton made ups, though China is still the leader with a trade share ranging between 26% and 47% across various product categories, its trade share is not as dominant as in case of fabrics, with Turkey, Pakistan and India too having a significant share in exports, Bangladesh, which is one to the countries considered for this study also has presence in some segments. If you analyse the exports of

woven *plain* bed linen, Pakistan and Bangladesh have an export share of 22% & 6% respectively, where as in case of woven *printed* bed linen Pakistan and Bangladesh have an export share of 3% and 1% respectively and Turkey in this case has a higher share of 15% in comparison with an export share of 2% in case of woven plain bed linen. Thus Pakistan and Bangladesh export predominantly the basic cotton bed linen products where as Turkey exports printed and other value added products. India’s export share ranges from 5% to 21% across various product categories with highest being in case of Curtains (including drapes) and lowest being 5% in case of printed bed linen.

Market Overview

US and several countries in EU region have been traditionally the key markets for the exports of made ups from India. However there are several markets where potential exists to increase exports of made ups from India.

Based on the analysis of world’s top importers of made ups and India’s export share, we have identified 12 countries where export potential exists for India. These countries are Brazil, Venezuela, Ukraine, Slovakia, Austria, Portugal, Kenya, Netherlands, Poland, Sweden, Spain, and Switzerland. The trade analysis of these countries was done to understand competing countries, and other countries which to which further export potential exist. A brief profile of these countries has been made along with details on key trade agreements and tariff for exports from India.

Technology Overview

Historically technology in textile Industry has had a major impact on the industry’s performance across the value chain. With costs of labour and energy rising across most of the countries, the industry is increasingly focusing towards becoming more automated, thereby more productive with increased quality of output and thrust on reducing manpower, energy consumption and environmental footprint.

The spinning sector in India is relatively modernised, while weaving and processing sector suffers from fragmentation and obsolete technology leading to issues with respect to quality, price competitiveness, and environmental sustainability. Technology up-gradation in weaving is vital as shuttle-less looms in comparison with the shuttle looms are more productive and quality is superior and well accepted in the export market. Though shuttle-less looms have clear competitive advantage, the capital required to set up these looms is far higher when compared to the shuttle looms. In addition, the minimum efficient scale is considered to be 8-12 units, requiring an investment of Rs.5-7 Crore for a high end technology and optimum size of 24 looms. So capital investment is a barrier in up gradation, of looms, since the shuttle looms are predominantly operated by Micro and Small Scale units, having tax incentives.

Knitting industry unlike spinning, weaving and processing, is not capital intensive, so SMEs are the key segment drivers. Of the total shipments of knitting machines during 2002 to 2011, 68% of the machines were shipped to China and India, Bangladesh and Turkey each having 4% of the share. Knitting industry, not only caters to apparel fabrics, but also to the home textile fabrics which comprises of predominantly knitted bed linen. Pakistan is the largest exporter of knitted bed linen with an export share of 44% and Turkey as a second largest exporter of knitted linen has a share of 11%. India with a share of 8% is the third largest exporter. While Pakistan is focusing on basic knitted bed linen, Turkey has increased presence in the value added knitted bed linen segment, with its capability to produce, jacquard and printed bed linen.

Knitting machines with jacquard electronics can add value by producing variety of designs. These machines are being employed to produce fabrics both for apparel and bed linen. China had over 21% of the total machines with Jacquard electronics shipped during 2002-11, Turkey had 12% and Korea had 7% of the machines, while India had only 3% machines with jacquard electronics. In spite of having lesser number of basic single and double jersey knitting machines, Turkey & Korea have higher share in the machines with jacquard electronics attachment. India has significant potential to add value by producing knitted jacquard fabrics and make a clear statement to the buying countries that it is also a reliable supplier of value added fabrics by adding significant capacities and developing complementary design capabilities.

Processing is an important stage of value addition in the textile value chain. While international trade in textiles is significantly focused on processed fabrics, in India, processing is the weakest link. So focus on creation of high technology processing can not only boost value realization but also generate higher foreign exchange earnings through exports of value added fabrics. Processing industry in India is highly fragmented with 90% of the units in SME segment. Majority of the units are engaged in fabric dyeing, printing and yarn dyeing.

During the 11th five year plan number of modern dye houses in India has increased from mere four units to around 200 units registering a significant improvement. This was mostly due to up gradation through Technology Upgradation Fund Scheme (TUFS) which provided 10% additional subsidy to processing sector. China on the other hand took a focused approach towards modernization and building scale in dyed cloth production with above-scale printing and dyeing enterprises increasing by 66 % in 2010

compared to 2005. During the same period fresh water consumption per unit of fabric in the dyeing and processing sector had reduced by 37.5% and water re-use rate has increased from 7% to 15%. Even energy consumption in terms of consumption of standard coal had reduced from 59 kg /Hundred Mtr to 50 Kg/ Hundred Mtr.

As modern textile processing is capital intensive, the traditional unorganised processing sector in India competes through manual dyeing processes, which are cost effective. However the quality of output is not consistent and often leads to reprocessing because of poor fastness of colours. In addition there are ecological implications from the un-organised sector with respect to effluent treatment and disposal, which makes it imperative to build modern process houses for Indian textile exports sector. As processing is at a later stage of textile value chain and is done based on specific customer requirements especially in case of exports, it makes this more sensitive to time when compared to spinning and weaving, and also affects capacity utilization, increasing the management complexity. This complexity is the key reason for most of the spinners and weavers not integrating forward into processing.

Home textile and made-ups industry in India is highly fragmented. While there are a few large scale integrated players that operate in India within home textile space un-organised players form significant part across the all the clusters. Technology can play a big role in improving the productivity and reducing the cost, especially through material handling and using specialized machinery for operations specific to home textiles. Various machinery/technologies have been listed and benefits have been highlighted under the technology section of this report.

Though India is one of the largest producers of textiles, barring spinning sector, other downstream segments suffer from structural and technological issues. The industry is important for the nation from both economic and social perspectives and unless the downstream value chain segments including weaving, processing, and making up are strengthened it would not be possible to export more value added products resulting in a serious challenge to sustain competitiveness of the industry.

Factor Cost Comparison

Based on our estimates, we have found that as of 2012, the cost of ring spinning is lowest in India and it is highest in China. China’s high cost is mainly attributed to cost of domestically grown cotton due to its policies on minimum support price. Impact of increase in raw materials in China has impacted the fabric price thereby affecting its competitiveness in cotton and blended fabrics.

Labour cost is one of the most relevant drivers of cost competitiveness in the countries and has been a key determinant of how the production has moved across countries/geographies in the last 30 years. On this dimension, Bangladesh, Pakistan and Vietnam have advantage of lower labour costs which has been leveraged to grow their exports in apparel and home textiles. Further, these countries are focusing to develop the upstream capacities in processing, weaving and spinning.

Competitiveness is also impacted by infrastructure components such as quality of roads, railroads, ports, air transport and electricity supply. Korea, Turkey and China have advantage of infrastructure, while India and other developing countries have unreliable infrastructure affecting competitiveness.

Raw material used for production of cotton textiles and its price as a key determinant of the overall cost of textiles. While countries like India, Pakistan, Turkey and China produce their own cotton, other countries such as Bangladesh, Indonesia, Korea and Vietnam are dependent on imports of cotton and thus are also subject to volatility in international prices of cotton. Even Turkey, while producing its own cotton is heavily dependent on cotton imports from other countries.

Transaction cost and time in South Korea, Turkey and China is lower adding to their export competitiveness. As of 2013, South Korea ranks the best amongst the eight countries compared as part of this study on the ease of trading across borders, while India stands last. On the front of cost of domestic logistics and transaction costs for export, in Korea it costs USD 665 per container, while in India the cost is almost double at USD 1,120 per container, which is on similar lines even for imports.

It is therefore necessary to address the structural issues India faces with respect to infrastructure, transaction costs and adoption of latest technology in order to effectively leverage the advantage of accessibility and price of cotton fibre and meet the challenge of competition from other countries in Textile/Made-up exports.

Review of Trade Agreements

Increasingly, nations have signed trade agreements with partner countries and regions in order to get access to cheaper goods in case of countries where manufacturing is uncompetitive. Concurrently, these agreements have also been signed in order to gain market access for alternative goods. As a whole, this has helped in improving consumer choice and standard of living for the trade partners.

Such agreements can also pose challenges to countries that have otherwise been prominent players in global trade. At present, India faces challenges because of existing FTAs and on-going FTAs between competing countries and developed economies. Though, India is pursuing to sign an FTA with EU, which

would give boost to Indian textile exports, Bangladesh and Pakistan enjoy GSP status, which gives it advantage in exports and makes it more competitive as compared to India. India therefore will need to have a coherent strategy to enter into such trade agreements especially with the most prominent trade partners like EU and USA.

Further, the trade alignments happening in the ASEAN region along with China and Korea is bound to pose more challenges to India to maintain its share in global trade and effectively compete. Such instances are evident in cases like the China- ASEAN FTA wherein China is able to set off the impact of economic slowdown in EU and USA by exporting textiles to ASEAN region. China is also negotiating FTA with EU and is in preliminary talks with USA. Going forward, because of TPP agreement which is expected come into effect from 2015, Vietnam is poised to take over as the major exporting country in textiles and garments. Vietnam also has a bilateral trade agreement with the USA, and with TPP this partnership would extend to other countries including Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, and Singapore. Vietnam might give direct competition to India for export of textile products because of new investments flowing in Vietnam to strengthen the value chain of textiles from Yarn stage to fabric stage.

India therefore needs to get its FTA strategy right as FTA with right trading partner can have significant impact on growth of trade as in the case of Vietnam.

Export and Import Policy Review

The customs duty on textile machinery also plays vital role as it promotes modernisation of the industry to achieve competitiveness. Hence, countries like Turkey, Indonesia and Korea, which have low custom duty on machinery have achieved higher level of modernisation. India on the other hand is facing difficulty in modernising the industry and one factor is high customs duty on the machinery though the government support in modernization partially offsets this disadvantage.

Countries including India, China, Bangladesh, Pakistan, Vietnam and Indonesia provide fiscal support (capital, interest rates, income tax, duty drawback, etc.), which helps the industry to increase exports.

The issues with respect to the structure of the textile industry in India where the organised players are present mostly at the yarn stage and the finished product stage with the intermediate segments being dominated by unorganised players, it has been difficult to implement VAT across the entire textile value chain. This complexity and sensitivity that resulted in many States to rollback VAT on various unorganised and sensitive segments of textile industry.

The inefficiency in the VAT system is primarily because of:

- Variation in tax rates
- Loss of input tax
- Impact of other taxes like entry tax. Octopi etc.
- No mechanism granting automatic input tax relief on exports

It is expected that these inefficiencies will be removed with the imposition of uniform Goods and Services Tax (GST).

India’s competitiveness has further been impacted by high interest and income tax rates compared to its competing peer countries.

Vision of competing countries towards value added products

While low cost countries such as Pakistan, Bangladesh, and Vietnam are focusing on strengthening infrastructure and developing state of the art manufacturing facilities, countries including China, Turkey and Korea are focusing on developing high value added products with focus on R&D and building global brands. China during 12th five year plan (2011-15) has set a target of achieving breakthrough in 50 key technologies in textile manufacturing and application of 110 advanced technologies. In during the same period country is planning to develop proprietary brands in Textile and Home textile space with a target of 5-10 Brands of global reputation and 25% exports from top 100 companies as own brands. South Korea is emphasizing to promote home brands across the globe leveraging the FTAs. Turkey promotes R&D in Textile industry by providing incentives towards building infrastructure and tax rebates. Under its renowned ‘TURQUALITY’ programme Turkey is targeting to develop 10 globally reputed brands by 2018. Organisations such as Zorluteks and Koton have leveraged this programme to expand their foot prints globally.

Threat faced by Indian textile and made up industry

India has witnessed strong competition in global textile trade owing to:

- China’s renewed focus on stabilizing its export market share outside the EU and USA
- Resurgence of Korea through trade agreements and focus on manufacturing
- Continued domination of Turkey in EU by leveraging its location and design capabilities
- Double digit growth of Bangladesh and Vietnamese exports

Further, the advantage of lower labour costs and raw material availability are also eroding putting significant pressure on India’s current basket of textile and made-ups exports.

Currently with increasing labour cost, China is planning to shift low value production capacities to other countries that continue to enjoy low wages and focus on building capabilities to produce and export value added products. The highlights of China in its 12th plan (2011-15) is to

- Produce high value added products such as high tech, specialised, functional, environmental friendly and intelligent products
- Upgrade technology with focus on efficiency, environment and specialized products
- Achieve breakthrough in R&D across textile value chain with 50 new technologies and 110 Applications
- Develop proprietary brands in Textile and Home textile space with a target of 5-10 Brands of global reputation and 25% exports from top 100 companies as own brands

Bangladesh and Vietnam, which at present are primarily taking advantage of lower labour costs are also \ leveraging the current strength in apparel exports to build up-stream capability in the areas of fabric and yarn production to reduce dependency on imports.

Korea is focused on innovation with a strong footprint in manmade fibres. It has also renewed its focus on increasing manufacturing foot print. Under ‘Policy Package to boost the Textile & Fashion Industry- 2011’ the country is focusing on

- Research and development of innovative textile products
- Setting up total fashion centres with “Good to Work” and “Like to Work” environment to create additional employment
- Expand manufacturing by employing low cost labour from foreign countries, especially for dyeing and sewing operations
- Cultivation of own brands at the global level
- Co-ordination with other ministries, promoting specified zones as fashion districts with special support
- Source basic products from other low cost destinations through its trade agreements and re-export these after adding value

All these moves by the competition makes it imperative for India too to quickly regroup and focus on improving capabilities across the textile value chain so as to become a serious player in the global trade of value added textile and home textile products.

Recommendation

India is poised to become a significant player in the global textile economy from the perspective of producer and consumer of textiles. In addition to catering to the growing domestic market, India had added significant value from exporting the products through employment generation and generating foreign income, to help balance of payments. However there is a significant potential to strengthen the exports further, by leveraging the fibre capacity of India to produce more value added products.

Amidst these circumstances, in order to ensure the growth of Indian cotton textile exports, concerted efforts are required towards improving the competitiveness of Indian cotton textiles and home textiles.

India in addition to building **efficient value chain** also should focus on **innovation** to have better realization of the products.

The key areas of focus to build efficient and cost competitive textile value chain are;

A. Building capability in cotton blends : Based on the world trade analysis, during 2007-2011 Cotton denim imports have de-grown at a CAGR of -1%, and during the same period blended denim (predominantly cotton polyester) fabric imports has grown at 22% CAGR .So Cotton Blends have registered higher growth. With Cotton becoming increasingly premium fibre, the fabrics with manmade fibres and cotton blends are increasingly being consumed in the value segment of home textiles and apparel. The value segment will be a huge opportunity and especially when premium segment is vulnerable to global economic down turns. In addition the blends with premium fibres such as modal, spandex increase the value of the fabrics substantially both in textiles and made-ups. India should therefore focus on building capability in manufacturing cotton fabrics blended with manmade fibres.

B. Modernization of the weaving Industry: Indian textile industry would need to install over three lakh shuttle-less looms to achieve a modernization of 50% in weaving, in addition to over one lakh shuttle-less looms which are currently operating in the country. An estimated investment of Rs.75,000 Crore would be required to achieve this target. Major deterrents for modernization are capital intensity of modern shuttle-less looms and minimum economic scale of operation in comparison with the traditional powerlooms.

There is a need to introduce modern shuttle-less looms in every power loom cluster with necessary infrastructure, with capital cost being the single largest deterrent to embrace new technology, newer financial products including leasing/ hire purchase can introduced with participation from banks and NBFCs.. Necessary support should be provided for infrastructure and service centres may be established for shuttle-less looms. Uninterrupted power supply is of prime importance ensure returns, due to high capital cost, so necessary support for providing uninterrupted power supply will be required.

C. Development of sustainable processing Industry:

I. Developing Large Scale Wet Processing Zones with Anchor Investors: Processing industry is highly decentralized with less than 20% of production in organised processing units. Following the Madras High Court verdict that ordered closure of all dyeing and bleaching units in Tiruppur until they comply with Zero Liquid Discharge (ZLD) norms, over 700 dyeing and bleaching units have stopped operations in South India around Tiruppur. This has created a significant capacity constraint for dyeing in the industry.

Ensuring ZLD norms is likely to increase the operational costs of dyeing and bleaching units by 7 to 10%, which will in-turn negatively, impact the competitiveness of the textiles industry. Alternatively, Marine discharge project for disposing the treated water from dyeing units into the sea is being looked at as a permanent solution to end this crisis. Since common salt is used in the processing meeting marine standards is economical in comparison with following ZLD norms. Large scale wet processing zones needs to be set up along the costal line with anchor investors. There is a need to add a capacity of 10Million meters/ day with an estimated investment at Rs.15,000 Crore. Centralized ETP / Marine discharge facilities managed on PPP basis has to be included. Government can incentivize private players to reduce overall capital cost of ETP and transportation/ disposal of treated water. Settings up of processing zones on the coast will also aide movement of materials through the sea, including raw materials, finished goods and coal for power generation.

II. Transfusion of expertise from other countries

Experts in processing in the areas of dyeing, printing and other value added finishes can be invited from countries such as Japan, one of the leading manufacturers of printing machines, Korea, and Turkey to develop and improve capabilities in the processing industry. The expertise has to be built in cotton/manmade fabric processing. Government can play role by empanelling such experts and conducting workshops with the industry stakeholders.

D. Manpower development to address skill gaps:

India is witnessing continued increase in labour cost hurting the cost competency in the export market. The current training infrastructure in the country is inadequate on both number of people trained and also the quality of training being imparted. The newly induced workers learn through informal training and learning from the experience of the existing workforce. IMaCS study for National Skill Development Corporation (NSDC) estimates a requirement of 11.5 Mn people by 2018 in the areas of spinning, weaving, knitting and processing. The objective of the skill development is to increase productivity and capability to develop and manufacture value added products.

India needs a three pronged strategy in developing the manpower in the textile industry

- I. Development of Skill infrastructure
- II. Attracting and developing talent in the areas of management & innovation
- III. Up gradation of Skills of existing workforce to increase the efficiency and productivity to the level of best practices

I. *Development of skill infrastructure:* The key components proposed under this module are

- Expanding training capacity at existing Government institutes such as TRAs, Powerloom service centres, etc..
- The number of ITIs targeted specifically to the requirements of the textiles sector need to be increased. The courses and curriculum need to be revised with inputs from the textiles industry to make them more relevant to modern machineries and processes used in textiles industry.
- New training centres may be established in smaller clusters where presently there are no training centres for skill development of workers.
- With the wage levels increasing significantly in the urban areas, it is the need of the hour is to train employees in the secondary areas around the clusters to make them available at competitive costs.

II. *Attracting and developing talent in the areas of management & innovation:*

Textile industry does not figure among the most preferred industries to work for the talent from the reputed institutes both in the areas of management as well as innovation. Textile graduates from the reputed institutes prefer non-textile roles post qualification. So it is necessary to for the industry and government to develop the existing management continuously on the latest management, design, product development skills. Industry should increasingly invest towards innovation both in terms of infrastructure and Manpower. Government can incentivise firms based on number of qualified staff.

Note: Government of Turkey issues R&D centre certificate to textile companies who employ more than 50 qualified full time equivalent R&D Personnel. Government in addition to providing financial support to such centres, also provides tax incentives.

III. Up gradation of Skills of existing workforce to increase the efficiency and productivity:

Emphasis should be laid on not only educating and skilling the workers but also on a continuous process of skilling, re-skilling, and multi-skilling. During the primary research a manufacturer from Turkey who is having a manufacturing unit in India mentioned that, though the cost of labour in India is cheaper the productivity is far lesser than that of Turkey. Similarly Indian managers working in Indonesian firms mentioned that the productivity level of workforce in Indonesia is higher in comparison to Indian workforce. Any effort in improving the efficiency will have positive impact on competitive advantage of Indian textile industry. There is a need for up skilling the existing workforce to increase productivity, efficiency and also capability to produce complex products.

E. Building Research, design and development capability:

India has presence across the value chain of textiles; however, manufacturing is pre-dominantly made to order, with design inputs being received from the international buyers. As a result of this India faces increasing price based competition from low cost manufacturing destinations such as Bangladesh. However countries such as Turkey have moved ahead in value chain and more often they manufacture against their own designs which are shortlisted by the buyers. The recommendations for capacity building in the area of design in India are as follows:

- I. *Setting up design infrastructure and tracking market specific design insights :* Indian firms especially SMEs lack design capabilities. There is a need for setting up design studios at firm level with requisite design personnel, software and resource centre and on a continuous basis market insights have to be tracked. Government may support through incentives to set up such design studios.
- II. *Transfusion of knowledge from the design focused countries:* Workshops for design and product development should be conducted periodically where designers from Europe and the US and other key markets are invited to train the participants. Furthermore, consultants from Europe and the US should be invited to work with Indian companies on a long term basis to help build

capacity in these aspects. Government should support these efforts by empanelling these designers and incentivise to encourage the companies to develop product development capabilities.

III. *Creating ITDC (Indian Textile Design Council) to develop and promote design capability:* Indian Textile Design Council (ITDC) can be set up with leading designers across the industries as members and headed by leading manufacturers, in the same lines as IDC (Indian Design Council).

IV. *Creating Design Incubation Centres in the Institutes of Design:* Design Incubation Centres (DIC) can be set up in the existing design education institutes such as NIFT. In DICs design entrepreneurs will be mentored by successful designers from India and other countries. In addition the entrepreneurs will have access to product development centre, design resource centre, design infrastructure, product development centre and product showcasing infrastructure in addition to work space. While set up cost can be borne by GOI, the running cost can be recovered by charging a fee to the entrepreneur. This model is expected to reduce the risk for designers who would like to set up their own enterprise thus promoting design entrepreneurship. These design entrepreneurs can form crucial link between industry and institution.

F. Building Indian home textile brands for the world: India has potential to move up the value chain from being a home textile manufacturer towards building reputed global brand in the overseas markets. This would not only build sustenance to the exports which are mostly price driven, but also has potential to increase value realisation. Countries such as China, Korea and Turkey have policies focused on building brands of global reputation. These policies have been highlighted in this report.

Indian home textile industry with the strength of manufacturing cotton home textiles, in addition to building design capability, should focus on supplying private labels to the retailers as well as build global brands. There is potential market for large companies which have designing capability and currently catering to the western market to venture into private label and brand business. While markets of developed countries such as US and European markets are significant in size, the competition is higher. Emerging markets can also be targeted to build brands. Developing country specific distribution/retail capabilities are essential to increase penetration.

Government can provide assistance in building the brands through MDA (Market development Assistance) for the Indian Branded textiles and home textile exports through the following measures

- Increased export incentives to the exports of Indian brands,
- Support in promotion of brands overseas by providing financial assistance in
 - Registration trade mark, logos
 - Participations in leading expos and fairs,
 - Participation Fashion events of global repute
 - Setting up of infrastructure such as retail stores and distribution centres (DCs) outside India.