



IMPACT OF COVID-19 ON INDIA'S INTERNATIONAL TRADE

STRATEGIES AND POLICY PERSPECTIVE



5.3.2 Textiles and Garments Exports

5.3.2.1 Impact of the Pandemic

As the pandemic struck the World, almost all major economies, including China, the United States, India and many European nations, resorted to complete or partial lockdown. Many retail stores announced closures, followed by cancellation of orders and delays in payment by the customers and brands. The demand for textile products abroad and domestic sales came down to a grinding halt due to the panic situation badly affecting trade/investment across the sector. **All textile items except protective textiles were badly affected.**

The apparel sector is one of the highly impacted sectors. With a long value chain, spread across continents, the sector has seen a multiplier effect of the inter-play of the challenges of various stakeholders and countries. India which is an important part of the global Apparel chain is facing the brunt of this crisis. Apparel production was at a standstill since the lockdown in March 2020. **The uncertainties of order position, logistic challenges with textile products getting stuck in Ports and worker availability following mass reverse migration among other things, have slowed the restart of production.**

Textiles and allied products have been registering high negative growth since March 2020, but the magnitude of decline has been falling during July-August 2020 and there was even positive growth in September and October 2020.

In the case of RMG, the major textiles and garments export item of India, negative growth was marginal or low before the pandemic as can be seen from 2019-20 export growth. But after the pandemic set in, negative growth became high with -33% growth for RMG cotton, -37.9% for RMG Man-made fibres and -29.2% for RMG of other textile materials during April-October 2020. Negative growth peaked in April 2020, after which the magnitude of decline became less and in September and October 2020, growth even turned positive. **Cotton Fabrics, Made-ups, etc., the second major Textiles and Clothing item** also showed similar trends with even good positive growth in September and October 2020. Cotton yarn export growth became positive from June 2020. **Man-Made Yarn, Fabrics, made-ups, the third major item** in this sector however continued to register negative growth even in September and October 2020, though the magnitude of decline has reduced. (Table 5.2)

Table 5.2: India's Major Textiles Exports

Major Items	Value 2019-20 (US \$ Million)	Share 2019-20 (%)	Growth Rate (%)									
			2019-20	2020-21 (April-Oct)	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Manmade Staple Fibre	503	1.49	-11.9	-35.0	-28.1	-59.5	-60.2	-29.7	-25.9	-24.3	6.1	-34.9
Cotton Yarn	2761	8.19	-29.1	-6.0	-38.4	-80.2	-36.2	29.6	37.4	17.2	22.9	2.9
Cotton Fabrics, Made-ups Etc.	5968	17.70	0.3	-15.4	-28.2	-84.4	-50.2	-11.3	3.1	-1.6	15.9	14.4
Other Textile Yarn, Fabric Madeup Articles	477	1.42	4.2	-25.0	-28.4	-89.7	-37.8	-9.6	-2.2	-14.4	-6.6	-15.1
Silk, Raw	0.2	0.0005	-13.5	-27.6	-63.6	NA	NA	2602.9	-87.5	188.3		3272.2
Natural Silk Yarn, Fabrics, Made-ups	58	0.17	1.0	1.1	-27.9	-97.4	-53.7	2.1	17.3	25.7	31.7	80.4
Man-made Yarn, Fabrics, Made-ups	4821	14.30	-3.2	-34.9	-24.8	-84.2	-58.8	-31.9	-23.7	-24.3	-9.1	-12.8
Wool, Raw	0.1	0.0003	-92.1	45.8	NA	-94.1	NA	NA	NA	NA	422744.4	NA
Woollen Yarn, Fabrics, Made-ups, etc.	181	0.54	-17.8	-49.3	-58.6	-85.4	-68.8	-39.3	-29.5	-28.7	-50.0	-30.6
RMG Cotton Including Accessories	8643	25.63	-0.6	-33.0	-34.2	-89.8	-65.3	-34.1	-19.2	-11.3	6.1	-0.3
RMG Silk	119	0.35	-30.0	-42.1	-70.6	-95.9	-56.1	-50.8	-18.0	-28.2	10.7	12.7
RMG Man-made Fibres	3506	10.40	-9.0	-37.9	-42.9	-91.8	-65.8	-40.0	-31.9	-23.6	12.0	18.3
RMG Wool	155	0.46	-21.6	-45.4	-52.9	-92.6	-92.5	-46.6	-35.3	-34.2	-0.3	-28.0
RMG Of Other Textile Materials	3065	9.09	-4.9	-29.2	-22.3	-92.8	-68.5	-29.4	-17.3	-9.4	20.9	14.7
Coir And Coir Manufactures	340	1.01	4.0	30.1	-9.7	-51.2	25.4	41.0	43.8	52.0	53.9	68.6
Handloom Products	319	0.95	-7.1	-45.0	-47.9	-96.4	-77.5	-45.9	-35.8	-28.0	-7.5	-9.3
Silk Waste	14	0.04	-25.3	44.1	-39.3	-40.7	-11.6	116.3	109.1	14.7	6.9	170.5
Jute, Raw	15	0.04	-4.6	11.9	-38.1	NA	-73.8	-28.3	3.7	-18.8	151.9	84.0
Jute Yarn	17	0.05	6.4	-33.1	54.7	-91.5	-68.2	-68.1	-17.5	11.8	-54.6	13.6
Jute Hessian	103	0.31	-9.5	-23.1	-29.4	-87.9	-73.5	-33.9	7.1	-7.7	18.9	10.9
Floor Covering Of Jute	70	0.21	32.6	6.7	-4.0	-89.5	-44.3	17.0	28.8	11.7	52.0	58.7
Other Jute Manufactures	153	0.45	7.1	-15.0	7.3	-92.3	-70.6	-11.8	-0.8	22.6	16.0	4.2
Carpet (Excluding Silk) Handmade	1353	4.01	-7.7	-7.2	-34.7	-91.4	-46.3	-9.7	4.7	16.0	39.1	37.0
Silk Carpet	20	0.06	26.0	9.7	-44.0	-99.6	-59.3	-8.4	-48.3	-6.7	552.4	98.5
Cotton Raw Including Waste	1057	3.14	-49.8	129.8	-51.8	-81.7	-4.8	305.3	253.2	216.3	336.7	283.4
Total of Above	33719	100.00	-8.6	-24.1	-33.5	-86.9	-57.1	-19.6	-8.6	-6.8	13.8	9.4

Source: Based on DGCI&S data.

5.3.2.2 COVID-19 related disruptions on the Demand and Supply-side

Demand-side disruptions in the sector related to COVID-19 are curtailment of consumption and postponing of investments by firms. Firms are also seen resorting to downsizing the workforce by reducing informal workers and undertaking pay-cuts to save costs. Also, uncertainties over the longevity of the pandemic spread have led to a fall in demand, while lack of liquidity is causing credit defaults and bankruptcies. Supply-side disruptions that took place led to a decrease in labour supply, disruptions in the supply chain and curtailment of production. Quarantine and social distancing have also led to various constraints resulting in the requirement for adjustments starting from the shop-floor at the workplace. In the case of RMG, there were disruptions in sourcing raw materials like fabric, trimmings, etc. due to the lockdown, import restrictions, etc. The resultant excess capacity is expected to result in shorter lead times and tighter margins that are likely to be reduced by 15% to 20% during 2020 - 2021. Further, the delays in payments have led to the stagnation of cash flow at all levels resulting in working capital issues. Sudden closure of factories has tested the financial strength of the manufacturers, creating difficulties in payment of wages during the idle-time. The return of migrant workers to their native place poses new challenges to the factories.

Indian textiles and apparel factories have resumed operations with the starting of the unlock process since May 2020. However, they have been able to function at only around 50% of the capacities due to lack of workers and demand for the manufactures. Reports have suggested recovery for the Indian textiles and apparel sector to set in by the second half of 2020. **With signs of improvements starting from June, there has been an encouraging increase in export value of Textiles & Garments by 13.8% in September 2020 and 9.4% in October 2020.**

5.3.2.3 Trade-related measures taken by the Indian Government specific to the Textiles Sector

Countries worldwide have provided trade relief measures to resume trade operations along with tax reductions to lessen the cost impact, easy means of finance to resume business and minimize losses. Indian Govt. has also taken many measures.

The measures initiated by the government, specific to the textiles and garments sector are the following :

- **In order to make the textile sector competitive by rebating all taxes/levies in the international market, the Government has decided to continue the RoSCTL (Rebate of State and Central Taxes and Levies) scheme** (a scheme specific to the textiles sector) until such time the RoSCTL scheme is merged with Remission of Duties and Taxes on Exported Products (RoDTEP) scheme. For this purpose, the Government has approved an ad-hoc allocation of funds of Rs. 7398 crore for the FY 2020-21 for issuance of duty credit scrips under RoSCTL scheme.
- **Further, to boost exports in the MMF sector, the Government has removed anti-dumping duty on PTA (Purified Terephthalic Acid),** a key raw material for the manufacture of MMF fibre and yarn.
- **A special measure to alleviate the difficulties of beneficiaries under Amended Technology Upgradation Funds (ATUFS) was initiated by the Ministry of Textiles during the COVID-19 pandemic.** Under this measure, an option has been given to the applicants, where the physical examination of the machinery by the Joint Inspection Team (JIT) has been completed, to avail their subsidies released on submission of Bank Guarantee. The advance release of subsidy against bank guarantee is met from the regular budget allocation under ATUFS.
- **To mitigate the effect of the COVID-19 pandemic on trade, the various trade facilitation related issues** raised by the industry stakeholders from time to time have been taken up with the concerned Ministries for early redressal.

5.3.2.4 Opportunities Arising from Covid-19

Due to the COVID-19 pandemic, there is a huge demand for PPE kits across the world. Besides the frontline healthcare workers, the PPE products are required by the staff and other paramedical staff. In many countries, including India, Masks have been made mandatory in public places. PPE kit includes items such as gowns, respirators, face masks, safety-footwear harnesses, eye protection gear and gloves. **India has ramped up its production of PPE kits and completely opened up exports of PPE kits.**

Europe and the US are the two markets that contribute to almost 60% of India's export basket in textiles and apparel and these markets are shrinking. Bangladesh, China and Sri Lanka are other major markets for exports from India which have experienced the economic impact of the pandemic. Since the traditional markets are shrinking, **India has to try to retain as much as possible of the traditional market, and also look for opportunities for growth in trade from potential textile markets like Australia, Egypt, Japan, South Korea, UAE and United Kingdom.**

India is exploring the possibility of garnering market share likely to be vacated on account of restrictions on import of T&C from China by the USA on products made from Xinjiang cotton on account of forced labour practices. Meanwhile, Trade Diversion and realignment in global supply chains is happening and investors are shifting base from China. Reports suggest around 33% of the businesses are looking forward to divert trade and investments in China to other feasible destinations and some of these are being funded by their governments in the process. While it may take a while for businesses to completely shift base from China, in the shorter term it may prove useful to entice these companies by providing incentives to invest in India. **The textiles and apparel sector holds a promise for India to become an alternate supplier to China as the country is a major supplier of these products to many markets in the World. This could do what India could not achieve when the Multi-Fibre Agreement was phased out by the developed countries.**

There is a growing demand for MMF though this is not a consequence of the pandemic. Studies on the Global Market Trends show that China, Cambodia, Vietnam and Indonesia are exporting 80% Manmade Fibre Garments globally and Industry also opines that the top importing countries are buying 85% garments made out of Manmade Fibre, whereas India exports 90% of cotton garments only. Export of Manmade Fibre Garments needs to be encouraged. The recent measure in Budget 2021-22 of rationalizing customs duty on raw material imports for manmade textiles could help in this regard.

Technical Textiles is another potential area. Technical or engineered textiles are defined as products that are used for functional purposes. These textiles have applications in multiple areas of economic activity, such as aerospace, shipping, sports, agriculture, defense and health care. The technical textiles industry is import-intensive. Though the country currently spends a significant amount on imports, the dependence can eventually be reduced by further investing in technology-heavy products. This presents a huge scope for import substitution. Among all categories, Packtech forms the largest segment and holds 42% of the market share. This is followed by Indutech, Mobilitech and Hometech. With regard to growth, Geotech is predicted to grow the fastest at a CAGR of 30%. Some of the examples of high-growth potential technical textiles include shade nets, crop covers, baby diapers, sanitary napkins and surgical disposables, among others.

5.3.2.5 Issues and Policy Suggestions

Issues and Policies specific to the Textiles and Garments sector are given in this section.

1. Addressing Emerging Challenges

i) Changes in trade pattern

There have been some shifts in the trade pattern of cotton textiles. On the raw material side, reduced consumption has led to price fluctuations and stock pressures. India's cotton yarn exports

have reported a significant decline due to the fall in demand from China combined with cheaper yarn supplied by Pakistan and Vietnam. Many export orders from the US and the EU have been cancelled. There has also been a spike in prices of imported raw materials e.g. dyes and chemicals essential for manufacturing, which in turn can increase production costs for the manufacturers. These shifts need to be taken note of while formulating strategies and policies.

ii) Changes in Global Value Chains due to pandemic

There has been a remarkable shift in Global Value Chains with businesses seen migrating from a closed single level suppliers' network to multi-level suppliers' networks across multiple countries. Companies in advanced economies have begun to re-shore production reducing dependency on a single market for supplies. This could be an opportunity for India to tap.

iii) Operational Changes

COVID-19 has accelerated the pace of automation and digitization amongst companies, raising the need for quick supply response from the time the order is placed. The need for rapid response by suppliers requires quicker sampling with minimal documentation, accelerated on-line clearances and speedy financial approvals. There is a need to intensify efforts towards digitization and automation across the value chain with a thrust on innovation, R&D and value addition in the products offered.

On the domestic front, textile manufacturing requires close physical contact and the COVID-19 related restrictions like ensuring social distancing which increases the distance between machines on the Shopfloor may affect production levels and consumption thereof. Whereas, activities that can be done at a distance, like tradable services and online sales could have comparative advantages. These could play on India's intrinsic strengths in manufacturing and affect factors like price, quality and time taken for delivery of the products on offer.

iv) Emerging restrictions

Accelerated de-globalization and renewed protectionism have led companies in developed economies to source from suppliers in regional markets and with preferential access. Markets enjoying favorable access and offering competitive tariffs along with low-wage services are seen attracting more contracts and investments, intensifying the competition for Indian products. India has a tariff disadvantage in almost all top importing countries like the USA, the EU, Canada, China, Australia, Switzerland, GCC Countries, Israel and Chile. Competing countries like Bangladesh, Vietnam, Pakistan, Sri Lanka and Indonesia have privilege access to major textiles importing nations.

The COVID-19 pandemic has led to tighter restrictions on the movement of goods, services, capital, labour, technology, data and information. Importing markets for supplies of textiles and apparel from India are seen increasingly resorting to protectionist measures. Further, in order to ensure unabated supplies, even the traditional markets of the US and the EU are re-aligning markets post-US-China trade conflict.

There is also some liberalization in Tariffs in some countries. In response to COVID-19 certain countries like Chile, the USA, etc. had reduced the tariff on medical products including textiles-related medical products which is an opportunity to tap.

v) Crisis situation for MSMEs

India has a large unorganized sector. Exporting units, in the unorganized textile sector, are largely micro, small and medium enterprises and they continue to face an existential crisis in the Covid-19 situation. While the central government's micro, small and medium enterprises package would provide liquidity infusion, the units may need straightforward fiscal support like, for example, waiving of electricity charges, water bills, etc. for a short period.

2. Foreign Trade Policy related issues

i) Issue of Cancellation of Export orders or delay in payment

In the present situation, many overseas buyers are either cancelling or postponing confirmed export orders and are also holding back or indefinitely deferring the payment for goods already shipped/ready-to-ship and asking for hefty discounts. Also, several buyers are filing for Chapter 11 Bankruptcy. Buyers are not making payments for goods where delivery has already taken place and existing shipments are on hold either on ships or are lying in the warehouses/factories/ports.

The exporters have claimed Duty Drawback & ROSCTL for the shipped goods. Now, if the Buyer does not pay for the shipped goods, exporters have to repay the Duty Drawback & ROSCTL with interest. **So there is a need to consider a one-time waiver from the refund of Drawback & ROSCTL claimed against shipments made from November 2019 till at least March-April 2020 as a lot of these shipments will not receive the payments as per the contracts with the buyers.**

ii) ROPDTEP scheme

There is a need for the entire textile value chain, including cotton yarn, to be considered for eligible refund of duties and taxes under the RODTEP Scheme.

iii) MAI

In the current scenario, when intentional travel is restricted and social distancing norms are being followed, physical trade fairs are limited and the option of Virtual trade fair is being explored and being organised. In this regard, the textiles sector is planning two of its biggest shows, ITF, Japan and Sourcing by Magic (USA), in the coming months on a virtual platform. **While there is a need to consider MAI for the Physical as well as Virtual Fairs for 2020-21, immediately there is a need to consider MAI for ITF (Japan) in virtual and physical form and Sourcing by Magic in virtual platform only.**

3. FTAs and Market Access

There has been a growing concern in the industry that the benefits for India from the Free Trade Agreements (FTAs) the country has signed and implemented so far, have been limited.

In India's case, Comprehensive Economic Cooperation Agreement (CECA) with ASEAN and Comprehensive Economic Partnership Agreements (CEPA) with Korea and Japan, have been found to be more beneficial to other economies and need to be evaluated to make them more trade and business-friendly.

The apparel exporting industry, in particular, has been very badly affected in our principal export markets of the USA, the UK and Europe and an important area that can supplement the efforts in this direction is improving export competitiveness through a comprehensive review of India's Trade Agreements through a fast-tracked mechanism with the EU, the UK, the US, Australia and Canada. The present scenario of Indian Apparel Exports is that we have a duty disadvantage of 9.6% in the EU market as compared to India's competitors like Bangladesh, Cambodia, Sri Lanka, Pakistan, etc. Recently, Vietnam has also concluded an FTA with the EU and most of India's competitors are leveraging such FTAs in a big way to enhance their cost competitiveness. In the case of the USA which is India's major destination for India's Apparel exports, the average Tariff is 12.5% but the USA applies a peak tariff of 28% on some products. Hence an FTA with the USA would have a significant impact on these products. India has taken initiatives to promote exports of MMF-based Apparel where there is a very high duty of 28%. An FTA with the US can help.

At present, there is an exceptionally large "Positive sentiment" in global sourcing from India and India needs to capitalise on this. Apparel exports will grow significantly by forging ties with strong and robust Trade agreements.