

TEX SUMMIT 2007 KEYNOTE ADDRESS

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Let me at the outset compliment the organizers for bringing together leaders of India's textile industry, policy makers and other stakeholders on a common platform to deliberate issues relating to the prospects of an industry of which India can be justifiably proud. Historically, India has always been a major player in the global textile scene. It is estimated that about three centuries ago it produced close to 25% of the world's cloth. The golden age of Indian textiles yielded to a phase of sharp decline following colonization and the Industrial Revolution in Europe. Despite being denied protective tariffs in its infant phase, by the early twentieth century a modern textile industry had taken strong roots in the country. In the post Second World War period, several factors, domestic and external had adversely affected the global presence and competitiveness of India's textile industry. However, the liberalization and opening up of the Indian economy, and the gradual phasing out of the Multi-Fiber Agreement, has seen a rapid resurgence of the Indian textile industry as it seeks to re-establish its competitive advantage in an increasingly globalizing world. However there is much hard work ahead.

India's textile industry is amongst the largest in the world and is the second single largest economic activity in the country following agriculture. Garment making is a labour intensive industry with a huge potential to reduce the pressure on employment in the economy. The government has identified it as one of the six priority sectors for improving competitiveness on a continuing basis in view of its high growth potential and large multiplier effect on employment. I am confident that this conclave would go a long way towards charting out an optimal strategy for the future of a vital sector of the Indian economy.

The Indian textile industry has inherent strengths, such as its long tradition and experience, strong raw material base, diversified production across the entire value chain, a large and growing domestic market and long years of international market presence. Most analysts therefore predicted that the textile and clothings trade would grow smartly following the termination of the Agreement on Textiles and Clothings in January 2005, and that China and India would come to dominate world trade. This indeed appears to be happening. Indian textiles and clothings exports grew by about 35% in the first two years after the termination of the ATC. It is clear however that China is winning the textile war hands down in the post MFA world, with India coming in at a distant second. The Chinese threat might be even greater than what the export figures suggest for major importing countries have used China specific safeguards to moderate the surge in Chinese textile and clothing imports. These safeguards would expire by the end of 2008. Other competitors are also fast creeping up from behind. A matter of immediate concern is the fact that export performance has taken an ominous dip from the second half of the financial year 2006-07. In first half of the calendar year 2007 exports of textiles and clothing to the United States showed a negative growth of -1.2%. This dip cannot be fully explained by the appreciating rupee since it predates the recent appreciation. Both Industry

and government consequently need to put their act together to position India strongly in the highly competitive post ATC global environment by addressing the structural weaknesses in India's textile and clothing industry.

The structural weaknesses are well known, and I would like to simply underscore some of the major weaknesses and urge upon you all to address them before it is too late. Government also has a major role to play in addressing some of these issues.

The five major areas where urgent action is required by the industry are modernization, fabric processing, up scaling, reviving the textile machinery industry and skills upgradation. While impressive strides have been made recently in the upstream sector through increase in raw cotton production, induction of BT cotton and modernization of spinning, major concerns on the downstream side remain. The weaving and garmenting industry in India is highly fragmented with over 90% units in the unorganized sector preventing them from modernizing and exploiting economies of scale. The greatest disadvantage of this fragmentation is the lack of marketing reach of these small units that constrains them in tapping into the global demand that is dominated by a handful of giant chains like Wal-Mart and Macys.

A major constraint coming in the way of the modernization of India's textile industry is the virtual demise over the years of India's textile machinery industry. India was to a great extent self sufficient in textile machinery about 20 years back. There are only a handful of major textile machine manufacturers in the world and a focused effort needs to be made to woo them through joint ventures or otherwise to set up large capacities in India at this crucial juncture.

The problem of skill deficit in India is real. We have launched some innovative efforts in terms of training the people for textile industry. It is necessary to set up appropriate institutes in "catchment areas" from where the textile workers are traditionally drawn. What is required is a clear training needs analysis and the participation of the industry in designing training programmes to meet the skill deficit.

My understanding is that most of the fiscal and tax concerns of the industry have been progressively addressed by government over the last few years. Readymade garments, hosiery and knitwear have been de-reserved from the SSI sector. Excise duty on man made staple fibre have been progressively lowered and custom duties have been similarly reduced on man-made fibers, yarns and intermediaries. The import of specified textiles and garment machinery items has been allowed at a concessional rate of customs duty to encourage investments and to make our textile products competitive in the global market. The cost of machinery has also been reduced through fiscal policy measures. The recent appreciation of the rupee, whatever be its other impact, also presents an opportunity to modernize quickly as it has reduced the cost of imported capital goods.

There is understandable concern in the textile industry on account of the recent appreciation of the Rupee. Given the inherent strength of the Indian economy, the level of external interest and attendant capital flows, the Industry may however need to factor in this amount of appreciation of the rupee. The industry must understand that competitive advantage rests on several pillars and the exchange rate is just one of them.

The Ministry of textiles has thrown the gauntlet at the textile industry to sustain an annual growth rate of 16%, including an export growth rate of 22%, which would enable the Indian textile industry to acquire a 9% share in the global textile market by 2015. This is a daunting but achievable task. I am confident that given India's rich textile heritage, its vibrant entrepreneurial class and a responsive government, this ambitious target can be achieved.

Thank you for your attention. I wish Tex-Summit 2007 every success.