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South Asia Textile Business Review 2010

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By Abdul Waheed Rana

Editor: Geoff Fisher

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Introduction

South Asia, one of the world's most populous areas, has several advantages in the manufacture of textiles and textile products. The production of cotton, an abundant labour force, the availability of water, proximity to emerging markets, and the availability of other raw materials and inputs have made the region an attractive place for the continued relocation of textile production to low-cost countries.

According to the International Textile Manufacturers Federation (ITMF), around 38m spindles and 38,000 shuttle-less looms have been shipped to South Asia since 2005 to further strengthen the textile manufacturing base. In addition, 30% of the world's cotton and 10% of its polyester fibres are now produced in the region.

Since the abolition of textile and clothing quotas from developing countries with the end of the Multi Fibre Arrangement (MFA) on 31 December 2004, India, Pakistan, Bangladesh and Sri Lanka have been among the main beneficiaries of this change, while the Maldives and Nepal have lost out heavily.

India, for example, has made significant headway in the production of cotton fibre, doubling output since 2001 to become the world's second largest producer; Pakistan has doubled its textile and clothing exports over the past 10 years; Bangladesh's garment exports have increased by 170% since 2001-02; and Sri Lanka's textile and clothing exports have increased by 32% since 2004.

The global textile and clothing trade is currently estimated to be worth US$600bn and is forecast to grow to US$800bn by 2014. Production facilities will continue to close in the West, and the increased sourcing of textile and apparel products from more efficient areas of the world will result in higher textile investment, production and exports from the South Asian region.

Regional importance

The textile and clothing industry is hugely important to the economies of this region, particularly in the key countries of India, Pakistan, Bangladesh and Sri Lanka.

The textile sector accounts for about 4% of Indian gross domestic product (GDP), 12% of the country's total exports earnings and 14% of industrial production, and provides employment to 35m people, making it the second largest employer after agriculture.

Similarly, the textile industry in Pakistan is the backbone of its economy, accounting for 46% of the manufacturing sector, 9% of GDP and more than 53% of total merchandise export receipts, and providing direct employment to around 2.5m people, or 38% of manufacturing sector employment.

In Bangladesh, the textile industry is the largest labour intensive manufacturing sector, employing 5m people and accounting for 83% of total exports, 13% of GDP and 40% of manufacturing value addition, and has a 2% share of global textile and clothing trade. In addition, associated support businesses provide employment to a further 10-12m people.

Textiles and apparel is also a key manufacturing industry in Sri Lanka and plays a pivotal role in the country's economy. The industry accounts for 6% of GDP, 39% of industrial production, 33% of manufacturing sector employment, 20% of value addition, 46% of total exports and 62% of industrial exports.

Government incentives

The various governments in South Asia have provided numerous incentives to their respective textile and clothing industries to strengthen competiveness and gain an increased share in the growing trade of textiles and clothing from the region.

For example, the Technology Mission on Cotton (TMC), Technology Upgradation Fund Scheme (TUFS) and Scheme for Integrated Textile Parks (SITP) have contributed significantly to the growth and development of the Indian textile industry.

The TMC has helped India become the world's second largest producer of cotton; cotton yield increased to the highest ever level of 567 kg/ha in the 2007/08 season.

Under the TUFS, the Indian government has paid a subsidy of INR86bn through a 5% interest rate subsidy, 10% capital subsidy to certain sectors and 5% compensation of exchange rate fluctuation on foreign currency loans. The scheme attracted investment of INR1.87trn in the 10 years to 30 September 2009.

Meanwhile, the SITP has provided world-class infrastructure support by building a number of textile parks in India. Forty such facilities have now been approved with an estimated project cost of INR41.41bn, of which the government subsidy has been INR14.2bn. These parks have attracted an investment of INR194.59bn and an estimated annual production of INR335.9bn, generating employment for 820,000 people.

In addition, the Indian government has been investing heavily by promoting a textile worker rehabilitation fund scheme, creating power-loom service centres, a group insurance scheme for power-loom workers, group work-shed schemes for the power-loom sector, a power-loom cluster development scheme, a 20% credit link capital subsidy for the power-loom sector, a power-loom mega cluster, an integrated handloom development scheme, a handloom worker welfare scheme and schemes for the development of the jute sector. It has also supported and funded eight textile-specific export promotion councils and seven textile research associations for different sectors of the Indian textile industry.

The government of Pakistan has also been offering a number of facilities and support programmes to the textile and clothing industry. For example, the State Bank of Pakistan provides project financing facilities under the Long Term Financing Facility (LTFF) scheme, where the interest rate is 5% lower than the prevailing rate in the country.

A total of PKR17bn was earmarked for the 2009-10 fiscal year (July-June) as a cash subsidy of 3% of the free on board (FOB) value for exports of knitted or woven garments, 2% for home textiles and 1% for processed fabrics. In addition, a 1% subsidy is being provided to exporters that increase their shipments by 15% compared with the previous year.

Bangladesh

The textile industry of Bangladesh began developing in the late 1970s and has expanded dramatically over the years, becoming a prominent player in the country's economy accounting for the largest share of the manufacturing sector. The industry contributes significantly to export earnings, employment creation, poverty alleviation and the empowerment of women.

In the early 1970s, the textile industry was mainly a small sector producing a portion of local fabric requirements. It entered the export market for ready-made garments in the early 1980s. During this decade, the industry remained concentrated in the manufacture and export of woven ready-made garments.

In the 1990s, the Bangladeshi textile industry began expending into the manufacture of knitwear. And in the current decade, it has started strengthening its backward integration by establishing a primary textile sector (PTS), i.e. spinning and weaving, and has maintained a spectacular pattern of growth. Now, in addition to meeting 100% of the domestic requirements for fabric, the sector also contributes significantly to the economy through exports of textile and clothing.

Around 50% of the woven cotton fabric demand for the export-oriented garment subsector and more than 95% of the yarn and fabric requirements of the export-oriented knitwear subsector are met domestically.

The major factors behind the success of the Bangladeshi textile industry are the availability of cheap labour, free market access into the EU under the Generalised System of Preferences (GSP) scheme, and low-cost electricity and natural gas.

Cotton

Production

According to the US Department of Agriculture (USDA), cotton production in Bangladesh remained at around 50,000 bales (10,960 tonnes) in the 2009/10 season, and is estimated to decline to 48,000 bales (10,500 tonnes) in the 2010/11 season.

Cotton production in Bangladesh has not shown any significant growth in recent years, and currently domestic production of raw cotton meets only 2% of the country's demand. Farmers are more inclined to sow food crops, such as potato, maize, vegetables and rice, as the climate does not suit cotton growing.

The Cotton Development Board (CDB) is responsible for encouraging farmers to grow cotton, upgrade technology through research, disseminate technology to farmers through extension services, and ensure production and supply of quality seeds. However, the institutional capacity of the CDB is weak relative to its mission.

Bangladesh: duty structure of the textile industry, 2009-10

(%)	Import duty	VAT	Advance income tax	Licence fee	Total
Man-made fibres	10	15	3	2.5	30.5
Yarn	10	15	3	2.5	30.5
Fabric	25	15	3	2.5	45.5
Textile dyes, chemicals	15	15	3	2.5	35.5

Source: National Board of Revenue

Bangladesh: primary textile sector – spinning, 2005-2009

	2005	2006	2007	2008	2009
No. of mills	230	260	283	341	376
Spindle capacity (million)	4.9	5.5	6.0	7.2	7.6

Source: BTMA

Bangladesh: area and production of raw cotton, 2005-2010

	2005-06	2006-07	2007-08	2008-09	2009-10
Area ('000 ha)	49.8	42.1	28.7	32.6	31.5
Production ('000 bales[1])	77.0	70.5	42.4	50.6	60.3
Production ('000 t)	14.0	12.8	7.7	9.2	11.0

[1] of 400 lb

Source: CDB

Bangladesh: production and consumption of yarn, 2004-2009

	2004-05	2005-06	2006-07	2007-08	2008-09
Production ('000 t)	430.0	464.0	550.0	602.0	640.0
Consumption ('000 t)	630.0	680.0	720.0	760.0	820.0

Source: BTMA, Ministry of Textiles

Bangladesh: production and consumption of fabric, 2004-2009

	2004-05	2005-06	2006-07	2007-08	2008-09
Production (m m^2)	2,500	2,700	2,850	3,000	3,250
Consumption (m m^2)	4,200	4,500	5,200	5,600	5,800

Source: BTMA, Ministry of Textiles

India

The textile industry in India has made remarkable progress since the country's independence in 1947. Based on such competitive advantages as cheap raw materials, labour, electricity, water and gas, the sector plays a significant role in generating gross domestic product (GDP), employment and foreign exchange earnings.

India has the advantage of producing a wide variety of natural and man-made fibres, including cotton, jute, silk, wool, polyester, polyamide, acrylic and viscose. It has the capacity to transform these fibres into finished value added textile products through ginning, reeling, spinning, weaving, dyeing, printing, finishing and garment manufacturing facilities. India has also made significant expansion in the manufacture of textile machinery and the production of textile dyes and chemicals.

The Technology Mission on Cotton (TMC), the Technology Upgradation Fund Scheme (TUFS) and the Scheme for Integrated Textile Parks (SITP) are three flagship schemes that are helping the Indian textile industry to improve across the entire chain.

Meanwhile, the growth of the textile industry in the current decade is primarily the result of a number of reforms initiated by the government.

In phase I reforms, the government removed procedural irritants, zero rated exports by allowing sizable drawbacks/refunds and additionally provided incentives like TUFS.

In the 1990s, liberalisation of trade and economic policies and rationalisation of the fiscal duty structure of the Indian textile industry influenced the growth of the sector. Historically, the fiscal policies concerning the textile industry have always considered that "small is beautiful", which led to the dissimilation of the "organised" (formally registered) textile sector and the emergence of a fragmented power-loom sector.

Rationalisation of the fiscal duty structure has strengthened the organised sector, particularly the composite (integrated) sector, which has intrinsic strength in terms of economies of scale, higher productivity, superior technology, integrated working, a skilled workforce and the capability to produce superior quality goods.

The industry is now pressing the government for phase II reforms, which include reforms of the labour laws and an expansion of infrastructural facilities to cope with the projected increase in textile production in the future.

India is presently perceived to be not only an option to China, but may match and even overtake its north-eastern neighbour.

The future growth prospects of the Indian textile industry are based on:

- a robust local demand for textile goods that is supporting sustainable growth in Indian textile and apparel production;
- with US$18bn in exports and a domestic textile and apparel market worth US$34bn

India: exports of textiles and clothing to the EU-27, 2004-2009

(€m)	2004	2005	2006	2007	2008	2009[1]
Yarn	406.7	407.3	492.7	507.7	432.0	169.6
Fabric	467.0	457.20	477.0	457.0	430.1	167.5
Made-ups	1,037.1	1,116.5	1,175.1	1,304.6	1,230.0	552.8
Garments	2,471.7	3,224.0	3,797.7	3,823.6	3,884.5	2,344.6
Total	4,382.4	5,204.9	5,942.5	6,092.8	5,976.6	3,234.4

[1] January-June

Source: Eurostat

India: progress report on the GIS for power-loom workers for the 2010-11 fiscal year, April 2010

	No. of workers enrolled[1]	Indian government's share of the premium[1] (INR)
Ahmedabad	1,731	259,650
Amritsar	149	22,350
Bangalore	704	105,600
Coimbatore	4,235	635,250
Indore	302	45,300
Kanpur	428	64,200
Kolkata	185	27,750
Mumbai	1,493	223,950
Noida	383	57,450
KSPDC	1,903	285,450
Total	11,513	1,726,950

GIS = group insurance scheme

KSPDC = Karnataka State Powerloom Development Corporation

[1] cumulative since April 2009

Source: CITI

India: domestic yarn consumption by mills, including SSI units, 2003-2009

('000 t)	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09[p]
Hanks	421	440	471	504	535	523
Hosiery cones	628	730	834	922	946	1,014
Weaving cones	1,013	1,095	1,216	1,325	1,361	1,383
Beams and pirns	20	25	27	22	13	18
Sewing thread and others	101	87	100	91	96	107
Total	2,183	2,377	2,648	2,864	2,951	3,045

[p] provisional

Source: Office of the Textile Commissioner

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