# Before the colours fade away

Combating international competition and racing against time, the textile industry is looking to the Centre for a leg-up

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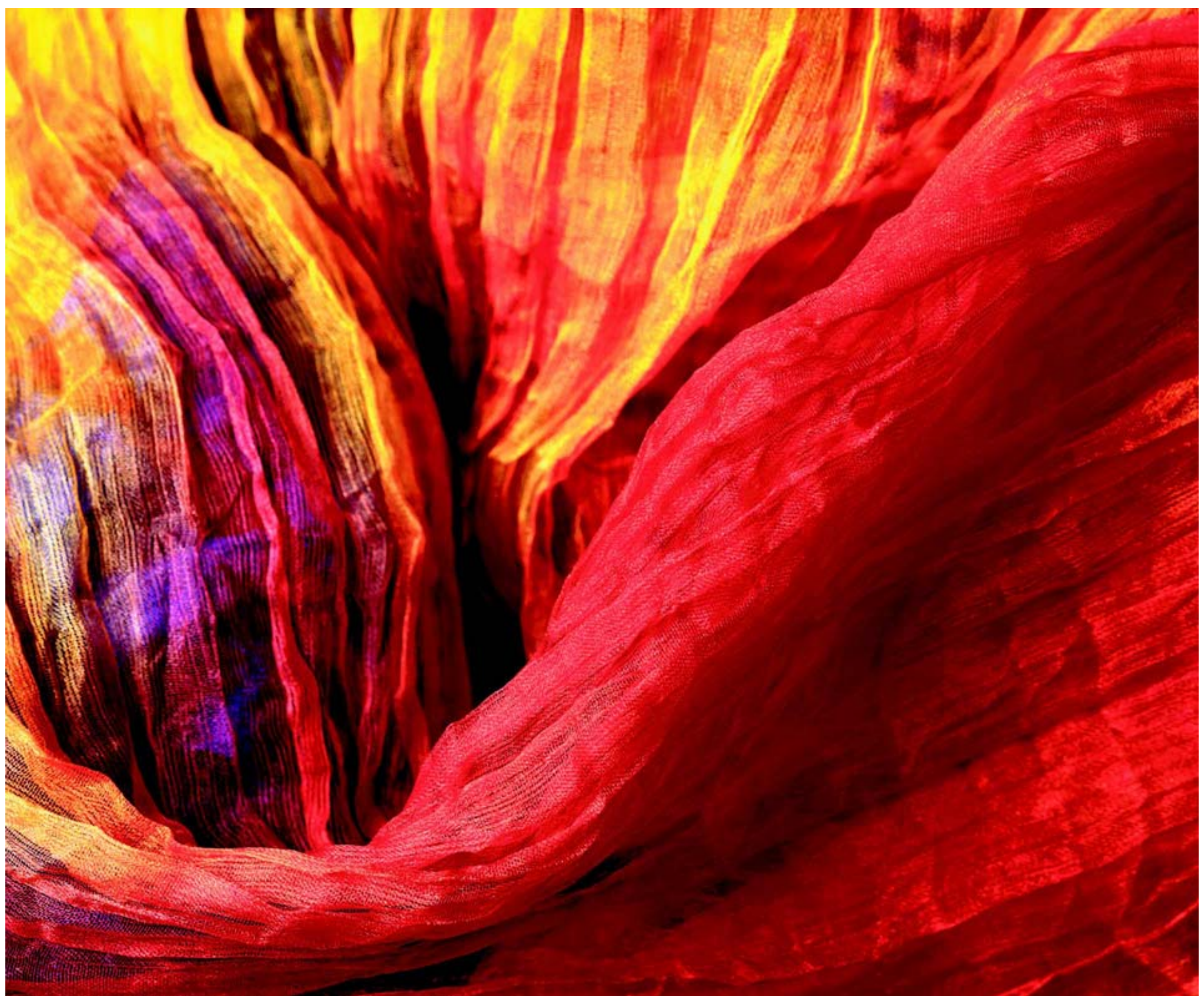
As the country prepares to migrate to the Goods and Services Tax (GST) regime from July 1, textile and clothing exporters rest their hopes on the continuance of duty drawback taking into account all levies.

"For an international buyer, it is what India brings to the table beyond product, quality, and reliability. The concern of exporters is that they should not be outpriced by competitors," said an industry insider.

The GST will cover several taxes and the duty paid by exporters for the products they import will come as a refund in the form of a duty drawback. However, there are certain levies that are not subsumed in the GST and these should be refunded, say exporters. Examples of such levies include electricity tax, market committee fees and VAT on fuel. It is critical, said the industry person, that poor clarity on duty drawback against these levies does not impact international competitiveness.



**Seeking foreign shores:** There has been little to cheer on the export front for the textile and clothing industry in 2016-17. Exports increased by a mere 0.9% for the year. ▪GETTY IMAGES/ISTOCK

### 'Matter of concern'

Analysis of data available for Indian textile and clothing exports during 2016-2017, there is little to cheer about for the industry. Textile and clothing exports increased by a mere 0.9% for the year ended March 2017. Exports were $35.42 billion in 2016-2017 as against $35.11 billion the previous year.

Data from Cotton Textiles Export Promotion Council (Texprocil) shows that export of cotton yarn, fabrics and made-ups declined 3.06% in 2016-17 compared with the previous year. Export of man-made yarn, fabric and made-ups also contracted 2.75 %. However, ready-made garment clothing exports rose 2.31% $17.35 billion.

For a country that has the second-largest integrated textile manufacturing facility globally, next to China, the almost flat growth in the exports is a matter of concern, especially since countries such as Bangladesh and Vietnam have seen exports rising.

China enjoys about 35 % share in the world textile and clothing exports while India, in second position, has a mere 4.89% share. Bangladesh and Vietnam are close behind at 4.62% and 4.05% share respectively and their exports are mainly garments. Significantly, world imports of textile and clothing had fallen 2.39% in 2016 (January-December) as against imports in 2015.

Almost 75% of the units in the weaving and garmenting segments in the country are in the unorganised sector. These units have to adapt to the new tax system and that, industry watchers said, might take time. The revised drawback rates should be announced at the earliest so that exporters can quote prices to the buyers.Hence, there will a short-term impact on exports when GST is introduced, say industry sources.

In the process of adapting to the new system, exporters in the man-made fibre segment (MMF) might face even more challenges because of the inverted duty structure. While it is 18% for MMF fibre and yarn under GST, the rate is 5% for fabric.

For a large-scale MMF garment exporter, the option of importing fabric will be cost-effective, pointed out Durai Palanisamy, executive director of Pallavaa Group, which is into MMF yarn and fabric.

However, the impact of GST on exports will depend largely on duty drawback that will be available, he adds.

### Why exports have fallen

While the slow down in global demand and strengthening of the rupee against the dollar in recent months are some of the factors, there seems to be an inherent competitiveness issue for the Indian textile and clothing industry, said an industry insider – an opinion that has popular support in the industry.

Infrastructure challenges that push up costs, preferential tariffs that neighbouring countries such as Pakistan, Sri Lanka, and Bangladesh enjoy with EU markets, the need for economies of scale, and significantly, the China factor are all issues that need to be addressed for textile and clothing exports to leap forward.

"While a bit of the slowdown of Indian exports is market-linked, in the last four or five years, competition has intensified and it is purely cost competition," said a spokesperson of the Apparel Export Promotion Council.

From fibre upwards in the value chain, the textile and clothing sector is strong in spinning and garmenting segments. But, weaving and processing are weak links, said a source. Similarly, while India is a leading producer of cotton, man-made fibre is not available to the industry at international prices. Globally, 65% of the textile and clothing consumption is man-made fibre-based and the remaining 35% is cotton based. While 80% of Chinese exports are MMF-based, almost 80% of Indian exports are cotton based. Thus, the Indian industry seems to be competing in a limited space. Man-made fibre imports attract anti-dumping duty and there is a need to make available MMF at international prices to be competitive, the source said. "This will give the manufacturers an [alternative] to cotton, and boost production of man-made fibre-based fabric and garments too."

The global supply chain has also undergone changes since 2012. China is more dependent on Vietnam and ASEAN countries for its needs, Bangladesh and Vietnam are growing leaps and bounds, and Indian costs are going up. "We should be able to leverage on the strengths in the spinning and garment segments by strengthening the processing and weaving segments," said Siddhartha Rajagopal, executive director of Texprocil.

"We should become a hub for fabric manufacturing. We should look at countries that can source fabric from us and gradually for garments too," he said.

### 'Large units needed'

Last year, the Union Government announced a ₹6,000 crore special package for the apparel sector, a special package for made-ups and a comprehensive scheme for the power loom sector. What is needed is a focused scheme to have at least 30 or 40 large-scale, high-technology processing units, says J. Thulasidharan, chairman of Confederation of Indian Textile Industry.

On the infrastructure front, since the industry is highly segmented and is spread across the country in clusters, movement of goods is high. The need for better road connectivity, operation of vessels to key international destinations, and power, among others, all add to the cost. These are long-term issues and efforts should be at least initiated to address these so that the industry sees the benefits in the coming years, said a source, requesting anonymity.

Textiles is also an industry that sees frequent fluctuations in prices and demand and many units are in the unorganised sector. While a push in apparel exports can be an engine of growth for the other segments, both the industry and the Government should work towards building the international competitiveness of the overall industry, said the source.

This requires substantial incentives to strengthen the weaving and processing segments. "Further, the needs of the small and medium-scale exporters should be met and they should encouraged to expand as just 3% of the industry has economies of scale. The policies meant for the domestic industry should not impede exports."

Industries need to be encouraged to re-invest their profits in the textile value chain rather than hedging in other sectors and in business innovation. Policies for the garment sector should look at exporters and domestic players separately.

"As a country, we need to be export-oriented in our policy," says D.K. Nair, a textile sector consultant.

GUEST COLUMN

# For a stronger India-U.S. bond

CHANDRAJIT BANERJEE

As Prime Minister Narendra Modi travels to the U.S. this week, it is worth recalling that one of President Trump's first phone calls following his inauguration was to the Indian leader, where he termed India as a "true friend and partner in addressing challenges around the world."

The U.S.-India partnership has historically enjoyed bipartisan support, with successes in defence, security and civil nuclear cooperation over the last two decades. In trade and investment, the U.S. is India's second-largest trading partner and the fifth-largest source for foreign direct investments. In the last five years, total trade in goods has remained at around $64 billion. In services, there has been a surge, with India's imports of U.S. services increasing by a third and exports to the U.S. rising more sedately over three years.

However, in recent months, concerns like the trade deficit and labour mobility threaten to overshadow the otherwise positive trajectory of the relationship. These perspectives overlook the fact that the U.S. is India's second-largest source of imports, following China. Tariffs on major U.S. products are lower in India than in other countries. In the last three years, the Indian government has rolled out numerous reforms, making India among the most attractive investment destinations. Liberalisation of FDI policies in multiple sectors such as defence production, real estate and insurance, create new opportunities for U.S. firms. The U.S. already ranks fifth in India's FDI profile. Equally, the U.S. remains a favourite destination for Indian companies. A CII survey of 100 Indian companies in 2015 showed 91,000 jobs were created in the U.S. with investments of over $15.3 billion.

### High-skill labour

A critical factor impacting business engagement between the two nations is an unprecedented focus by the U.S. on high-skill labour mobility. Indian firms firmly support weeding out the abuse of the visa system. Many have committed to local hiring, including Infosys, which has announced a plan to hire 10,000 Americans. Social security payments by Indian firms also contribute to the local economy. Companies also assist in funding training (especially in Science, Technology, Engineering and Maths) for U.S. veterans and students.

A major foundation of the relationship is security and defence collaboration. The U.S.-India Defence Technology and Trade Initiative aims to develop strategic partnerships. Resultant defence contracts are helping

**The U.S. is India's second-largest source of imports, behind China**

create jobs in the U.S. while the partnership in defence is helping address the shared concerns about terrorism and other regional security issues. It is critical that both sides acknowledge the mutual benefits of our economic relationship, as companies from both nations deserve a non-discriminatory and level-playing field.

Indian industry has been calling for the early negotiation and conclusion of a Bilateral Investment Treaty to support trade engagement and further encourage two-way investment flows. It is also important to make progress on a Totalisation Agreement to help avoid double taxation for short-term workers.

As the terms of globalisation are transforming in unexpected ways, it is even more important for the two nations to stress upon a stronger economic relationship, leveraging India's rapid growth and the more stable economic environment in the U.S. The gains from such a sound trade and investment partnership go beyond profits for businesses to strategic and geopolitical outcomes.

*(The writer is director general, Confederation of Indian Industry)*

EXPLAINER

# China shares in MSCI index: what it means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Last week, Morgan Stanley Capital International (MSCI), a widely-tracked global index provider, said it would add China's local currency shares, referred to as China 'A' shares, to its benchmark emerging markets index, after three years of having rejected overtures on the same.

**What is MSCI?**

■ It is the world's biggest index compiler, with more than $10 trillion in assets benchmarked to its products, with emerging markets alone accounting for $2 trillion.

**Why are MSCI indices important?**

■ The indices are closely tracked by global investors. Inclusion in MSCI Inc.'s stock indices opens up investment interest from foreign investors in a particular country and brings a stamp of financial credibility.

**What is mainland China and why haven't its shares been featured in the MSCI index so far?**

■ It is an area under the direct jurisdiction of China and excludes special administrative regions of Hong Kong and Macau. Chinese mainland markets were not open to foreign investors.

So, foreign investors hitherto had access to non-mainland shares – those that are traded in the markets of Hong Kong and Macau. The non-mainland shares have been part of the MSCI Emerging Markets Index. China has been working to ease restrictions on foreign investors, influencing MSCI's decision now.

**What happens now?**

■ MSCI will add 222 China A shares (shares of large enterprises) starting next year. The stocks, which would represent a weightage of only 0.73% in the benchmark, will be included via a two-phase process in May and August next year.

**How will this affect India?**

■ Most experts see only minimal impact on the Indian market in terms of outflows. However, MSCI has said it is open to adding more China A shares, provided it opens up its equity market further. If China continues to gain more weightage on the index, more money could well flow out of India.

INTERVIEW | ABHAY BAKRE

# 'Super-efficient energy category to be new norm'

'Appliances exceeding 5-stars yet to get formal tag; between one-star of 2010 and that of 2016, efficiency has risen 35-40%'

TCA SHARAD RAGHAVAN

*The recently-released Energy Conservation Building Codes can save as much as 50% of conventional energy consumption, Bureau of Energy Efficiency (BEE) director general* **Abhay Bakre** *said in an interview. However, the decision to make the Codes mandatory lies with the States and not the Centre, he added. The BEE is also working on a 'super-efficient' category of appliances that save even more energy than the highest-rated five-star appliances. Excerpts:*

**How does one reconcile the huge energy demand in India with the need to also save energy?**

■ On the one side, we have a very clear roadmap for the economy, and on the other hand we have a clear objective in terms of electricity and energy.

In terms of electricity, we have a very definite programme that it has to reach every household. That means there will definitely be an increase in demand. On the other side, the economic development and growth will again increase energy demand, including electricity demand. But we have to match the supply. So, not only do we have to increase supply, but also whatever new demand that is coming up, we want it to be as optimised as possible, as efficient as possible. So, in new homes, buildings, factories, they should have energy efficient appliances like LED lighting, and very efficient ACs.

So, even though the size of energy demand is increasing, we want it to be efficient so that the overall demand is not as high as expected.

**The BEE introduced the star-rating system for energy efficiency in appliances a few years ago. How is it evolving?**

■ We can broadly categorise this into three different phases. The first phase was in 2006-10, when pieces of equipment were first put into the star labelling band. Many manufacturers at the time were not even manufacturing one-star rated appliances. So, they were brought into the star-rated category. In a complementary manner, consumers started gaining awareness that they should go for star-rated appliances. So that increased the demand, which increased the attraction for the vendors and manufacturers to increase their share of star-rated products. That has [brought] the market and the manufacturing into the star-rating system.

The second phase was increasing customer awareness even more. They had to believe that investing in a star-rated appliance was worth it. Instead of going for one-star and two-star, consumers began demanding four-star and five-star appliances. This, again, induced the vendors to stock more four-star and five-star appliances. By 2014-15 or so, we came to a situation where the one-star and two-star appliances were wiped out.

In the last three years, we have come out with an even more efficient category. The four-star and five-star of a few years ago have become one-star and two-star. Now there are vendors aspiring for the new four-star and five-star appliances. The new phase is that we are moving towards new 'super-efficient' equipment, which are beyond five-star. If there are ACs, LED lamps, and even ceiling fans that are more efficient than five-star, then they will be deemed super-efficient. We haven't worked out a rating for them, but we have begun calling them super-efficient.

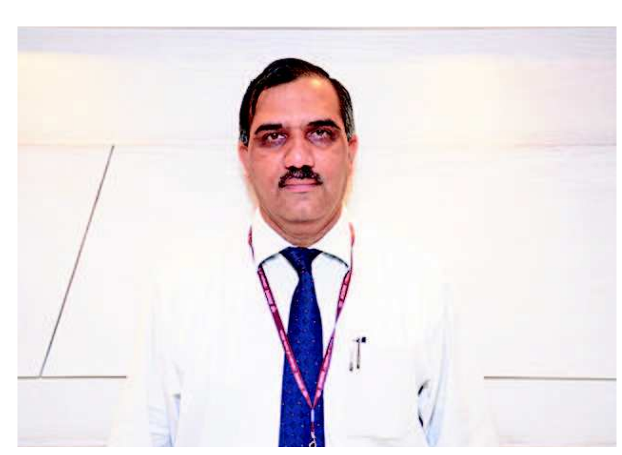
We are at international levels in terms of the energy efficiency of some of these appliances.

**What does this mean in energy savings?**

■ Take the example of ACs, which have the most impact. What is one-star now was four-star in 2010. And overall we have seen that comparing the one-star of 2010 and the one-star of 2016, there is almost an improvement of 35-40% in energy efficiency. That's the effect of the change in technology.

**Power Minister Piyush Goyal recently released the Energy Conservation Building Codes. How will these work in reducing power consumption in the country?**

■ We have buildings for different applications. This document comes out with a very clear understanding of the application [or the use] of a building. That's why the (energy efficiency) criteria for every application of a building has been very clearly defined.



**The benefit of the Building Codes is that implementation can start right away**

If it is an office building hosting a service sector office that is running 14 hours a day, then that should have an occupancy sensor in the rooms (to be able to tell if the room is empty or not), for example.

That is a clear requirement. On the other hand, if it is a school, which operates for only 6-8 hours, it doesn't need an occupancy sensor. The children are there during school hours. An occupancy sensor in this case would [mean] an extra expenditure for very little benefit.

This is the approach: that for every application of a building, there is a specific criterion.

**Is the government considering making the codes mandatory?**

■ The benefit of the code is that it is a ready reckoner. Any designer, developer, and architect can go through it and implement it. So implementation can start now.

The question of whether it has to be made mandatory or backed up by a regulation or law is an entirely different process. Since building laws are by the state governments, they can decide what they want to make mandatory for whatever application. They may like to make it mandatory for office buildings or for institutions like colleges. It is up to the state governments or even municipalities, depending on their jurisdiction, to decide what should be made mandatory.

**Was there a target for energy savings while designing the Codes?**

■ It was not a target; in fact, it was an analysis. We did a technical analysis, a material-based analysis, a simulation, etc. Based on the criteria that were developed, we are in a position to estimate that the base level itself (the lowest level of energy-efficient steps to be taken in the codes) will give a 20% saving over conventional levels. The higher levels will give about 35%. The highest level can give as much as 45-50%.

**What benefit do the Codes have for buildings that are already constructed?**

■ The Codes have come out in such a manner that it is directly beneficial to new buildings. If the building is already constructed, then a major portion of the benefit is compromised as the shell of the building is already made. There are other features like systems, lighting, and comfort controls that can be retrofitted. The cost will not be much. There are certain times when the inner design of a building is modified, the walls are broken down or shifted, for example, and this can be done according to the Code.

**Is customer awareness of energy-efficient appliances present only in the main metros or is it taking place in the smaller cities and towns as well?**

■ There is a good response even in these cities. We get the regular sales data from companies for each location. It is mandatory for them to provide the data. And we have regular dealer programmes, since dealers are the main contact for the consumers. They are getting trained and are facilitating the sale of higher energy-rated appliances.