LETTER

CONFEDERATION OF INDIAN TEXTILE INDUSTRY

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Can India weave its way to becoming the world's next textile hub?

India, a country with a rich heritage in textiles, is once again at the forefront of discussions on global trade. The recent political unrest in Bangladesh has opened the door for India to potentially reclaim its leadership in the global textile market. However, while the opportunity is large and tempting, the path forward is riddled with challenges that could either propel India to the top or leave it trailing behind.

A tale of two textile giants: India vs Bangladesh

The global textile industry has been dominated by a few key players, with India and Bangladesh standing tall among them. India's textile industry is massive, valued at approximately $150 billion, with exports contributing around $40 billion. On the other hand, Bangladesh, though smaller in size, punches above its weight with exports totalling about $45 billion, driven primarily by its ready-made garment (RMG) sector.

India's ready-made garment exports are 1/3rd of Bangladesh at $15 billion and are almost stagnant since 2015. The competition is fierce, and while India has the scale, Bangladesh has carved out a niche with its efficiency and export-oriented approach.

Cotton conundrum: The yield problem

At the heart of India's textile industry lies a fundamental problem -- cotton yield. India and China are the world's largest cotton producers, each churning out around 6 million tonnes annually. But here's where the story takes a twist. China manages this feat using just 3.2 million hectares of land, while India requires more than 13 million hectares for the same output. The maths doesn't add up in India's favour.

India's average cotton yield is a meagre 460 kg per hectare, significantly lower than the global average of 780 kg per hectare (again World average is deflated due to very low cotton yield in India). Compare this to China's Xinjiang region, where yields soar to 2,000 kg per hectare, or Brazil's 1,800 kg per hectare, and the issue becomes glaring. Poor seed quality, fragmented land bank and outdated technology are dragging down India's potential, and unless addressed, this could be the Achilles' heel that undermines India's textile aspirations.

The MSP dilemma: A blessing or a curse?

To support its farmers, the Indian government has been increasing the Minimum Support Price (MSP) for cotton, with a hike of 9 percent for the 2023-24 season and recent hike of 7.3 percent for 2024-25. While this move is well-intentioned, aiming to offset rising cultivation costs, it brings with it a host of challenges.

The increase in MSP may offer short-term relief to farmers, but it also raises questions about sustainability. Higher MSPs make Indian cotton more expensive, especially when international prices are falling. Over the past six months, global cotton prices have dropped by 30 percent, making Indian cotton less competitive in the international market.

Add to this the import duties imposed by India to protect domestic farmers, and you have a scenario where raw material costs for textile manufacturers skyrocket. This price discrepancy between domestic and international markets not only impacts profitability but also threatens India's position in the global textile arena.

Spinning a new strategy: Impact on cotton spinning

The ripple effect of these challenges is felt most acutely in the cotton spinning industry. When international cotton prices were high, Indian yarn exports flourished. But as global prices plummeted, the tables turned. Now, with domestic cotton prices propped up by MSP and import duties, Indian yarn is struggling to find its footing in the global market.

The surplus yarn that can't be exported is being funnelled into the domestic market, causing an oversupply that drives down prices. For Indian spinning mills, this is a double whammy -- reduced export competitiveness and shrinking margins at home. Without a strategic shift, the future looks uncertain for this critical segment of the textile value chain.

The road ahead: Challenges and opportunities

India's journey to becoming the world's next textile hub is far from straightforward. The challenges are daunting -- low cotton yield, high domestic prices, availability and higher prices for manmade fibres and fierce global competition. Yet, the opportunities are equally compelling. With the right mix of innovation, government support, and strategic foresight, India can weave its way back to the top.

The world is watching, and the stakes are high. Will India rise to the occasion, or will it let this opportunity slip through its fingers? The answer lies in how well it can address its internal challenges and leverage the new seeds of change being sown today. The fabric of India's future in textiles is being woven as we speak, and only time will tell if it's a tapestry of success.

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Indian textile sector to gain from B'desh unrest'

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India's economy on track for 7% growth despite first-quarter slowdown

The economy appears to be on track for 7% growth this fiscal year, despite an expected slowdown in GDP expansion in the first quarter. Indicating an improvement in growth parameters, private final consumption expenditure also seems to be on the rise.

According to official data released on Friday, the economy grew by 6.7% in the April to June 2024 quarter, compared to 8.2% growth in the first quarter of the previous fiscal year.

Gross value added (GVA) in the economy expanded by 6.8% in the first quarter of FY25, down from 8.3% in the same period a year ago. While agriculture showed improvement with a 2% growth in the quarter, manufacturing expanded by 7%. The construction sector recorded the fastest growth at 10.4%, followed by electricity, gas, and other utilities at 10.4%, and public administration, defense, and other services at 9.5%.

"The slight slowdown was anticipated by many commentators, and the 6.7% growth is well within consensus," noted Chief Economic Adviser V Anantha Nageswaran. Briefing reporters after the data release, Nageswaran highlighted that private final consumption expenditure, gross fixed capital formation, and net exports have held up quite well.

"The Indian economy is sustaining its growth momentum," he added, noting that the private sector is also beginning to invest. He pointed out that there appears to be an upswing in rural demand, which is expected to receive a further boost from a good monsoon.

In the first quarter of the fiscal year, Private Final Consumption Expenditure (PFCE) and Gross Fixed Capital Formation (GFCF) at constant prices grew by 7.4% and 7.5%, respectively. PFCE, a key indicator of private demand, has been muted since the pandemic as households faced income pressures, but it reached a seven-quarter high in the first quarter of the current fiscal year.

"Although overall private consumption shows mixed trends in the first quarter, initial signs of a pickup in rural consumption are visible. We expect private consumption demand to improve this year over the anemic growth of 4% in fiscal 2024," said DK Joshi, Chief Economist at CRISIL. He added that unlike last fiscal year, rural consumption is expected to outpace urban consumption, as higher interest rates have a greater impact on urban areas.

Rumki Majumdar, Economist at Deloitte India, noted that with inflation easing, there is some recovery in consumption spending, especially in the rural economy. "The potential for increased spending during the festive seasons, bolstered by falling inflation, better farm income, and a stable policy outlook, is a reason for optimism," she said.

Majumdar also highlighted that gross fixed capital formation spending remained strong despite uncertainties and significant income repatriation from foreign capital flows.

Most analysts remain optimistic about growth prospects and expect the economy to expand close to 7% this fiscal year.

"Overall, the numbers are impressive, and there is reason to be optimistic about 7% plus growth for the year. Consumption has picked up, and capital formation is up with steady growth, mainly due to housing and private investment. With the government stepping in significantly post-elections, there will be acceleration," said Madan Sabnavis, Chief Economist at Bank of Baroda, adding that government spending will likely increase to compensate for the first quarter, and a good monsoon holds prospects for buoyant demand.

Upasna Bhardwaj, Chief Economist at Kotak Mahindra Bank, also said the bank retains its GDP growth expectations of 6.9% in FY2025, largely supported by rural demand and government spending. However, she noted the need to closely monitor potential fatigue in urban demand, private capital expenditure, and the pace of the global slowdown.

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India's forex reserves swell by $7 billion to hit fresh record high of $681.69 billion: RBI

India's forex reserves jumped by USD 7.023 billion to touch a new high of USD 681.688 billion in the week ended August 23, the RBI said on Friday.

The overall reserves had jumped by USD 4.546 billion to USD 674.664 billion in the previous reporting week.

The previous all-time high for the overall reserves was recorded at USD 674.919 billion as on August 2.

For the week ended August 23, foreign currency assets, a major component of the reserves, increased by USD 5.983 billion to USD 597.552 billion, the data released on Friday showed.

Expressed in dollar terms, the foreign currency assets include the effect of appreciation or depreciation of non-US units like the euro, pound and yen held in the foreign exchange reserves.

Gold reserves increased by USD 893 million to USD 60.997 billion during the week, the RBI said.

The Special Drawing Rights (SDRs) were up by USD 118 million to USD 18.459 billion, the apex bank said.

India's reserve position with the IMF was up by USD 30 million to USD 4.68 billion in the reporting week, the apex bank data showed.

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Floods in Bangladesh impacting cotton import, shipments may divert to India

Garment factories in Bangladesh, one of the world's biggest clothing production hubs, are struggling to complete orders on time as flooding disrupts their cotton supplies - exacerbating a backlog caused by recent political turmoil.

Bangladesh is a leading global cotton importer due to the size of its textile and garment industry, but the devastating floods mean few trucks and trains have been able to bring supplies to factories from Chittagong port over the last week, industry officials and analysts said.

The disruption, on top of the unrest and protests that led to factory closures earlier this month, have caused garment production to fall by 50%, said Mohammad Hatem, president of the Bangladesh Knitwear Manufacturers and Exporters Association.

"The industry is now under immense pressure to meet deadlines, and without a swift resolution, the supply chain could deteriorate even further," Hatem said.

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Bangladesh was ranked as the third-largest exporter of clothing in the world last year, after China and the European Union, according to the World Trade Organization, exporting $38.4 billion worth of clothes in 2023.

At the clothing factory she runs in the capital, Dhaka, Rubana Huq is counting the cost of lost production.

"Even for a moderate-sized company like ours, which makes 50,000 shirts a day and if the price of one single shirt is $5, there was $250,000 of production loss," said Huq, a former president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

She said some garment plants were slowing resuming production, but estimated that complete recovery "would be at least six months away", warning that Bangladeshi manufacturers could lose 10%-15% of business to other countries.

Bangladesh's readymade garments industry, which supplies many of the world's best-known fashion brands, accounts for more than 80% of the country's total export earnings.

Buyers are adopting a cautious approach and could potentially delay new orders, said Shahidullah Azim, a director of the BGMEA industry group.

"The longer this uncertainty persists, the more challenging it becomes for us to maintain the momentum we have built," he told Reuters.

The Bangladesh Meteorological Department said flood conditions could persist if the monsoon rains continued, as water levels were receding very slowly.

Some cotton shipments could get diverted to India, Pakistan and Vietnam, commodity analysts said.

“We are already hearing and seeing some cotton for prompt delivery wanted by Pakistan and Vietnam,” said Louis Barbera, partner and analyst at VLM Commodities based in New Jersey.

New orders shifted from Bangladesh could also be accommodated in southern India, said Atul Ganatra, president of the Cotton Association of India.

Even before the floods and political unrest, the Bangladeshi garment industry was grappling with power shortages that remain a problem, said Fazlee Shamim Ehsan, vice president at the country’s knitwear manufacturers and exporters association.

“Energy shortages continue to hamper our operations,” he said.

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