



Beat the global economic crisis with high value garments, and exploration of new avenues

M. K. PANTHAKI is director with CMAI and has decades of experience in the Industry in various capacities with expertise in the area of data analysis and interpretation.

Present scenario

We are dwelling in a recession-hit global economy. The recession has hit the developed world more acutely than the developing countries. This is for various reasons, partly economics but largely due to monetary imprudence. Unbridled loans, plastic currency without sparing any thought for the solvency of the banking structure is primarily responsible for it. Care-free living by consumers in the developed world have added to their woes. Massive subsidies to farmers and petroleum products, coupled with large increase in salaries and compensations to (already) highly paid officers and directors of limited companies, have compounded the problems, leading to large-scale lay-off of the working class. Social interest is a natural corollary.

Injection of billions of dollars into the banking system to keep afloat some major banks and induce them to lend to consumers will hinder growth since the additional finances are not backed by means of production, especially of capital-intensive industries on which their economies are dependent.

Developing economies cannot be globally insulated although they are not equally affected due to their home market and less dependence on exports. In the case of India, whose economy is as much agrarian as it is industry-oriented, with a large population to feed and exports to the extent of almost 25%, injection of financial bailouts does also affect both, inflation and growth. In the initial years, inflation had climbed to double - digit with a corresponding fall in growth percentage and industrial production. Due to monetary tightening, inflation has now been reduced to 3% and domestic growth, which maintained a steady 9% for four years running, has come down though to only 7%. Industrial production that had peaked to 12% came down alarmingly but is now more on the rise. Foreign investment, which is largely volatile, dependent on the rate of return, slipped out of the country but is now returning on the strength of a large domestic market and control reins on the economy.

Reaction

Industry leaders are a queer lot irrespective of whether they are in the developing or developed world. They are always keen to ensure that their nest is lined. Their success is judged on the gains over the preceding year, irrespective of whether these gains are conscionable or not.

Indian exporters cried hoarse when the rupee-dollar parity came down to below Rs 40/- (sign of a booming economy). They demanded government intervention to hold the parity steady but find their argument with government blunted, now that the rate has risen Rs 50 per dollar.

A lower exchange rate undoubtedly favours imports of raw material or intermediates and lowers cost as much as it disfavors exports. Unfortunately, their vision is only one-sided. Even when the exchange rate had nose-dived, Indian exporters rushed to forward cover the exchange at a rate they considered lucrative. Now that the rate has gone beyond the "lucrative" rate, they are once again calling upon the government to help them out!

India's strategy

Why all this hullabaloo? It is no doubt true that the US is the single largest global market for readymade garments and that it is followed by the EU (enlarged group) and Japan. It is also true that orders from the US are large and basic, whereas those from the EU and Japan are comparatively small but fashion-oriented (in fact, even Indian-oriented) in which India excels. But is that the end of the world? Countless Indian exporters concentrate on other markets of the globe, mainly the Middle-East, South-East, Russia, East European market (excluding those aligned to the EU) and markets in the Pacific Ocean. Some of the markets place only small orders for quick delivery. These markets absorbed about 15% of the total garment exports from India, prior to the financial meltdown. There is greater concentration in these markets, which now account for 20% of India's total exports of garments. Indian exporters are undoubtedly resourceful. Those still left high and dry, have shifted their attention to the domestic market to keep their factories running.

Government assistance

Export figures of garments, released by AEPC (Apparel Export Promotion Council) point to only a 3% fall in exports during 2007/08 over the previous year. Considering the clamour, one would have expected a fall of 10 to 15%. It is however, true that even this fall of 3% has to be viewed against a backdrop of 10% to 12% increase in the previous year. With due respect to the garment lobby, government has already taken several steps to boost production and assist exporters. These are: -

1) Reduction in the interest rate for pre- and post shipment advances, reduction in interest rates for SME units to PLR + 4%, subject to a minimum of 7% allowed for agriculture; restoration in the rate of draw back and DEPB (lowered earlier due to change in rupee dollar -parity); reduction of 4% in excise duty across the board; 4% interest subvention for projects approved by TUF to encourage modernisation and increase in government expenditure on infrastructure to stimulate consumption.

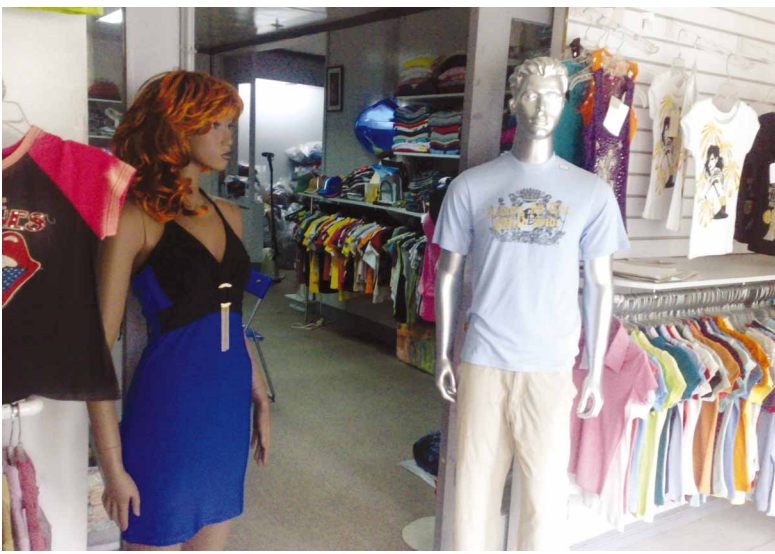
It must be understood that the steps taken by the government were mainly to boost consumption in order that the economy may not slide back dangerously.

The industry was not satisfied with these government initiatives. The industry legitimately demanded full refund of duties/taxes irrespective of the source of levy stating legitimately that in these difficult times every saving in taxes goes to increase the competitiveness of Indian garments in the overseas markets. The industry further clamoured for a tax holiday in income tax and a two-year moratorium on principal and interest on bank advances.

High-value products

While the US is the largest single country worth around \$75 billion in 2008, Europe is the biggest fashion market with a turnover of \$90 billion. The US a bulk market for basics, while Europe is a market for fashion with undoubtedly smaller lots per design. Indian exporters cater to both.

However, there are garments which are high value products with typical Indian designs, hand embroidered, hand painted, patchwork on silk fabrics, linen, chiffon, block prints etc and/or on blends in the price range of Euro 100 per piece and over to be delivered in 120/150 days. Apart from silk and linen, other fabrics for such high value garments are satin, superfine voiles preferably from organic cotton. These garments are heavily embellished with tassels, fancy buttons, tribal beads, laces, sequins etc. The design is intricate with some part of it hand embroidered and the rest by computerised embroidery machines. A worker who can normally handle six to seven pieces per day can hardly manage one to two pieces. Such high value garments were formerly supplied by Turkey but when importers found the Indian workers had better handle of the designs, they switched over to India. Tribals from Bihar and Orissa revel in this art. The infrastructure is 100 to 120 machines. The products are designer wear and/or sold in boutiques. The marketing is done by the importer, while the production, designing and timely delivery is that of India. Such high value products are not affected by the current financial



crisis. In order to save on time, the fabric as well as accessories are purchased in bulk and stored. Designs are often changed by buyers at the last minute. Due allowance in delivery time is given by buyers for such change. For such high value garments, the fabric has to be flawless. Although China and India are the largest producers of silk fabrics, that from India is reported to have too many defects and hence Chinese silk fabrics are preferred. Often, Indian designers make their own designs. Their collections are shown to overseas buyers interested in such fashion garments. These designs are invariably accepted by the buyers.

Tunics, dresses, blouses, trousers etc all for ladies wear are these high value items. Complete concentration on designing is essential while working on such garments as the rejection rate otherwise is extremely high going to as much as 50%.

Even in these times of recession, these high value products grew by 40%. The preferred markets are France, Italy, Spain, Germany and the US.

Rich Russia

Another major market, comparatively unaffected by the current crisis, is Russia. The Russian economy is currently the 12th largest global economy but is expected to reach the eighth position by 2020. The retail market in Russia is the second best after China. By 2009, Russia will be 7% of the world market for luxury goods with a growth of 15% per year. The retail market which was \$318 billion in 2006 is expected to be valued at \$745 billion by 2011.

The per capita income was \$45,000 in 2005, though a large section of the population lives below average standard. As many as two million Russians earn about \$3000 per month while another 3.5 million Russians earn at least \$4000/month. Income distribution is however, not uniform.

Per capita garment consumption

Middle class families, growing at 10– 12% per year, spend 25% of their earnings on clothing and footwear. In 2008, the Russian consumer purchased \$38 billion worth of clothing and footwear of which apparel alone was \$29 billion.

Russian clothing is import-oriented. Women's clothing market is booming at \$12 billion, growing at a steady 15% per year.

The market is yet fragmented. Due to disproportionate income distribution, cheap clothing is preferred, particularly for the

middle-income group; otherwise, clothing is getting sophisticated in boutiques.

The main distribution of the retail set-up is situated around Moscow and St Petersburg but is now spreading fast to Tier 2 cities. By 2012, 700 new malls are slated to open in Russia. Western countries are actively cultivating this market. Zara, Globus, Collins, Mark, Armani are some of the buyers who have already entered the market.

India was one of the leading suppliers of garments and house furnishings to Russia before the break up of the Soviet Union, which was effecting purchases for all the markets including those which are now a part of the EU. Even at present, this market figures among India's top 10, excluding the US and the EU, although imports have come down drastically.

Oil-rich Middle East

This is yet another group of markets which are rich in oil and can take sizeable quantities of apparel. Saudi Arabia and the UAE are the major markets in this region. Market in the Persian Gulf, especially Bahrain, Kuwait and Oman, collectively import sizable volumes. The region has natural affinity for India, more so after the political conflict with the US and the UK. Except for a few, Indian exporters have been concentrating in the developed markets in the northern hemisphere. Although compliance is generally not an issue for India, this region does not place too much emphasis on this aspect. Oil prices hence came down to around \$35 per barrel but this region has enough reserves to see them through for a number of future years.

Conclusion

The current financial meltdown and the weakness in the global economy are a God-sent opportunity for Indian exporters to cultivate markets nearest home. Even in the sophisticated markets, there are sectors unaffected by the current crisis. It is quite true that for the bulk of these exporters, it would mean a departure from the traditional approach of catering to basics only but, as they say, fortune favours the brave. The current global crisis was waiting to happen when one considers the sequence of events that have led to it. Those exporters who had the foresight to visualise it, and have moved away from the traditional, have been the winners.

It has been the experience of the trading community that no matter the decibel or the sensitivity of their appeals to government, there is a limit up to which assistance can be rendered to a section of the industry since government has to take into account repercussions of their action on the entire economy. While the industry will judge the government for its actions on its own preaching that the country has to export goods and not, taxes, the government is duty - bound to refund all taxes on exports, whatever be the level that these are charged. The government has to gear up on this issue and cannot just sit idly pleading inability. At the same time, needless restraint placed on high value garments in the duty drawback schedule need to be eliminated. This is the least the government can do to help the industry in this hour of crisis ●