



Apparel and Leather industry key to generation of formal and productive jobs: Economic Survey 2016-17

Economic Survey recommends reforms in labour and tax policies to make the Apparel and Leather sector globally competitive

Posted On: 31 JAN 2017 12:56PM by PIB Delhi

Apparel and Leather & Footwear sectors are eminently suitable for generating jobs that are formal and productive, providing bang-for-buck in terms of jobs created relative to investment and generating exports and growth. This was stated in the Economic Survey 2016-17 presented by the Finance Minister Shri Arun Jaitley in the Parliament today. The Survey adds that these sectors provide immense opportunities for creation of jobs for the weaker sections, especially for women, and can become vehicles for broader social transformation in the country.

The Survey highlights the opportunity for India in this sector in global context by saying that India has an opportunity to push exports since rising wage levels in China has resulted in China stabilizing or losing market share in these products. India is well positioned to take advantage of China's deteriorating competitiveness due to lower wage costs in most Indian states, it adds.

The Survey also lists a number of challenges faced by these sectors. It says that the space vacated by China is fast being taken over by Bangladesh and Vietnam in case of apparels and Vietnam and Indonesia in case of leather and footwear, while Indian companies struggle in face of a set of common challenges related to logistics, labour regulations, tax & tariff policy and disadvantages emanating from the international trading environment compared to competitor countries.

On logistics, the Survey says that costs and time involved in getting goods from factory to destinations are greater in India than those for other countries. On labour costs, India's source of comparative advantage in this sector, also seem not to work in its favour due to problems like regulations on minimum overtime pay, onerous mandatory contributions that become *de facto* taxes for low-paid workers in small firms that result in a 45 per cent lower disposable salary, lack of flexibility in part-time work and high minimum wages in some cases.

According to the Survey, in both apparel and footwear sectors, tax and tariff policies create distortions that impede India gaining export competitiveness. India imposes a 10 percent tariff on man-made fibers vis- a-vis 6 percent on cotton fibres. On the other hand, domestic taxes also favor cotton-based production rather than production based on man-made fibers, and leather footwear rather than non leather footwear. The global demand for apparel is moving from cotton fibre products to manmade fibre and similarly footwear of non leather, it adds. India's competitors enjoy better market access by way of zero or at least lower tariffs in the two major importing markets, namely, the United States of America (USA) and European Community (EU), the Survey says.

Another problem faced by the leather sector highlighted by the Survey is that despite having a large cattle population, India's share of cattle leather exports is low and declining due to limited availability of cattle for slaughter in India.

The Survey suggests several measures to make these sectors globally competitive and unlock its potential for creating new jobs and generating growth. It recommends that there is a need to undertake rationalization of domestic policies which are inconsistent with global demand patterns.

.

Several measures have been initiated that form part of the package approved by the Government for textiles and apparels in June 2016, the Survey notes. Accordingly, textile and apparel firms will be provided a subsidy for increasing employment, but these need to be complemented by further actions such as the following:

- An FTA with EU and UK in the case of apparel will offset an existing disadvantage by India's competitors- Bangladesh, Vietnam and Ethiopia. In the case of leather and footwear, the FTA might give India an advantage relative to competitors. In both cases, the incremental impact would be positive.
- The introduction of the GST offers an excellent opportunity to rationalize domestic indirect taxes so that they do not discriminate in the case of apparels against the production of clothing that uses man-made fibers; and in the case of footwear against the production of non-leather based footwear.
- Third, a number of labor law reforms would encourage employment creation in these two sectors.

DSM/UM/AD/SS

(Release ID: 1481448) Visitor Counter : 42

