Eurozone crisis: Why India textiles need to look inward

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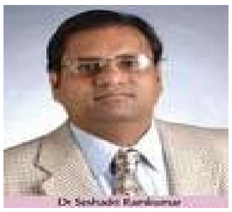
Dr Seshadri Ramkumar

By Seshadri Ramkumar

"It's the economy, stupid," are the now infamous words of James Carville, former advisor to President Bill Clinton. It is now widely accepted that the political campaign designed by Mr. Carville focusing on the economy enabled President Clinton to win the White House in 1992. It was economy then and now, that is impacting nations around the world. And, India is not immune to it.

From the point of view of the textile industry, trade between nations is the critical factor that keeps the doors to knitting factories and spinning mills open. This is particularly true for India, whose textile industry is heavily dependent on its export to developed nations such as the Euro zone countries and the United States of America.

The market for Indian textiles in foreign nations in actual sense is its people, i.e., consumers. Therefore, the economic well being of these consumers in the developed economies is very critical to the well being of the export dependent Indian textile industry. More strikingly, with the price of an important raw material for the Indian textile industry, going over the roof, i.e., price of cotton, the profitability of the entire value chain of the Indian textile industry is a question mark now! Given the slow economic growth in developed economies, volatility in cotton price, high inflation in developing economies such as China and India, the Indian textile industry should take proactive measures to keep it competitive and creep towards growth.

Current Indian economic landscape offers good potential for the growth of the textile industry. Although the textile industry in China and India will be export oriented in this decade, the growing domestic market in BRIC nations (Brazil, Russia, India and China) and other emerging Asian economies should not be ignored. In fact, one of the outcomes of the recent G-20 summit in Seoul, South Korea is the clarion call made by developed nations in the G-20 group that countries like China should try to focus on its domestic market and grow it more.

The humungous trade surplus in China has sparked criticisms and concerns in Washington, DC and London as the trade imbalances have caused jobs in developed nations. As I have written in my earlier article, there are a few economists in the U.S. have gone to the extent of blaming China for keeping its currency low to boost its export. In fact, some economists have indicated that the devalued Chinese Yuan to be one of the reasons for recession in the U.S. The undervalued Chinese Yuan situation has permeated the political and social landscapes in the United States. In fact, the U. S. government's treasury department was about to release an official report on the currency manipulation by China. But, due to its impact on the U.S.—China relationship, the report has not been made public yet.

China, Ireland and India

The economic situations in China, India and Ireland can signal what is happening around the world and its impact on India's textile exports. As I was penning this article, during late Sunday afternoon, November 21st, the Irish Prime Minister made it clear that Ireland will take EU's offer for a financial bailout. Past few days, European Union and International Monetary Fund have been forcing Ireland to accept tens of billions of dollars in loan to save its economy from collapse. When Greece was being bailed out, there were serious doubts on the financial health of Spain, Portugal and Ireland. Ireland not long ago was touted as "Celtic Tiger," and its economy was booming. Many multinationals were lured to Ireland due to its lowest corporate tax, 12.5%.

The collapse of the housing bubble led to the mortgage crisis which has brought the Irish financial sector to its knees. Euro zone nations lead by Germany and France, in order to save the Euro, have to keep some nations in Euro zone such as Portugal, Ireland, Greece and Spain (PIGS) solvent. One may ask, what has the collapse of Euro got to do with the Indian textile industry? Simply put, Euro zone nations are the biggest buyers of Indian apparels and textile products.

If the Euro weakens, contracts traded in Euro currency will result in lesser returns in Indian Rupees. And, more importantly, if the debts in poorer Euro zone nations increase and their economy collapse, due to severe austerity measures, which will be taken by these governments, the buying power of consumers will come down. These nations have to lay off several thousand employees and will suspend a number of public sector projects. All these will put dent in consumer spending, which will impact imports from exporting countries such as India, China, Bangladesh and Vietnam.

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