The Cotton / Textile Scenario in India – Post MFA

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Indian Scenario

- Cotton Production & Mill Consumption
- The New Indian Consumer
- Driving the New Consumer Toward Cotton
- MFA and the Consumer - Revisited
Indian cotton production = unprecedented growth
More than double in five years since 2002-03

Cotton Production

Figures in million bales of 480 lbs
Source: Office of the Textile Commissioner
Indian cotton production = unprecedented growth
More than double in five years since 2002-03
Cotton Production

- Cotton production in India in 2007 was 23.4 mn bales up from 12.4 mn in 2002 ... an increase of 90%. India is now the world’s second largest producer of cotton.

- The average cotton yield reached 450 lbs/acre in 2007 as compared to 275 lbs/acre in 2002.

- Approval / adoption of Bt seeds, better management practices, addition of irrigation. Largely driven by GOI investment.

- Much of the new investment made in anticipation of and with great expectations for the phase-out of the MFA. Government and Industry sensing opportunity.
Cotton Production

- During quota regime exports were restricted suppressing domestic cotton prices … a disincentive to commit to investment in increased productivity.

- Removal of quotas strengthened links between domestic and world prices of cotton, boosting profitability of the grower and mitigating price risk.

- GOI also adopted a strategy for post-quota period to un-restrict cotton production and increase productivity by encouraging genetically improved seeds, and bringing Technology Mission on Cotton apart from other indirect measures.
Since the end of the MFA, Indian mill consumption of cotton has increased by approximately 800,000 tons.
Exports of cotton textiles has increased by more than 300,000 metric tons since the end of MFA.

Source: GTIS, Global Trade Atlas
Post Quota Exports have increased to major markets

India Textile and Apparel Exports to US

<table>
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<tr>
<th>Year</th>
<th>Apparel (US$ Billion)</th>
<th>Textiles (US$ Billion)</th>
<th>Total (US$ Billion)</th>
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<td>2003</td>
<td>2</td>
<td>1.2</td>
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<tr>
<td>2004</td>
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<td>2005</td>
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<td>1.6</td>
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<tr>
<td>2006</td>
<td>3.2</td>
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+8.8% increase from 2003 to 2006.
Post Quota India is the second largest gainer in US...
The MFA Effect – mill consumption

- With the end of the MFA, trade from preferential blocks (NAFTA, AGOA etc) has shifted to resource-based-advantage blocks (India, China etc)

- This shift means more consumption of cotton in India for export products as well as to meet growing Indian consumer demand.

- Quotas were also more restrictive of trade in cotton-based clothing, the category in which India has had long-standing comparative advantage.

- India’s cotton-based clothing exports have generally been 60%+ in the total clothing exports basket, enhancing opportunities for Indian Industry.
The MFA Effect – mill consumption & cotton production

Based on these few observations it is fair to conclude the phase-out of the MFA has ...

- … positively impacted cotton production in India in a more indirect fashion by encouraging government involvement and helping to nurture a climate of more open policies regarding cotton production.

- … more directly impacted consumption of cotton at the textile mills by opening new markets for export products.
Cotton Production & Mill Consumption

The New Indian Consumer

Driving the New Consumer Toward Cotton

MFA and the Consumer - Revisited
# Indian Consumer - Changing Faces

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<td><img src="image" alt="Products" /></td>
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</table>
India’s Ever Growing Population – Growing Base of Consumers

India is home to 20% of the World’s Population - a very large base is still growing

Source: Central Statistical Organization
A Growing Economy...

- Economy size: US$ 935 billion
- World’s 2nd fastest growing economy
- GDP growth rate = 8.9% in 2007
- 2008 Growth projections = 8-10%
- Rated among the most favored investment destinations (UNCTAD, JETRO, JBIC, Deutsche Bank, EIU, etc.)

![GDP Growth India Chart]

Source – Reserve Bank of India
GDP US $930 Bn

Private Consumption
US $548 Bn (59%)

Public Spending and Gross Capital Formation
US $382 Bn (41%)

Retail
US $330 Bn (60%)

Non-Retail
US $218 Bn (40%)

Urban
US $150 Bn (45%)

Rural
US $180 Bn (55%)

Source: Central Statistical Organization (CSO), IRF data and Technopak Analysis
Year: 2007
Explosive Growth in Middle Class - Evolving Segmentation

- Unprecedented shifts creating new & distinct consumer segments.
- A shift from “Pyramid” to “Eiffel Tower.”
Explosive Growth in Middle Class- Adding a Million a Month

- **70 million consumers** to become *middle class* in next 60 months
  - More than “a million” new middle class consumers every month

- People between **20–49 years of age** are projected to *increase* from 450 million in 2005 to 510 million in 2010
  - Again “a million” a month

- Additional **65 million middle class consumers in urban India** by 2010
  - Another “a million” every month
Indian’s prefer natural fibers - particularly 100% cotton.

Source: Global Lifestyle Monitor IV – India Report
Indian Consumer - Changing Needs
Crossroads: India’s First Shopping Mall

Crossroads opened mid-1990’s

Over 600 malls under construction or “on the books”
Retailing in India Today

Massive influx of international brands and Joint Ventures
The New Indian Consumer

- Young, Wealthy India
- Ability to Buy
- Growing Aspirations
- Dynamic Retail
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Cotton losing market share to MMF

Final Consumer Demand, India

Source: PCI Fibres & Raw Materials Supply/Demand Report 2005
CCI Contribution – Last 5 Years

**CGA: 2002-04**
- Started CGA. Encouraged retailers, manufacturers and spinners to produce more cotton by making them licensees
- Developed “The New Face of Cotton” campaign to give boost to cotton sales
- Developed & implemented advertising, media, PR, and direct marketing plans

**GCE: 2005-07**
- Started ‘Generic Cotton Education Program’
- Focus shifted to consumer awareness
- Advertising, promotions, media workshops – some of the vehicles used
Going Forward

- **Campaign** – ‘Cool With Cotton’.
- **Objective** – Cotton is Cool and a fabric of all seasons
- **Target** – Age 15-54 SEC A, B, C

1. Consumer Level Promotion
2. Industry Level Promotion
3. Interaction with Policy Makers
4. Media Awareness Creation

**Generic Cotton Education Program**
'Cool with Cotton' in Pictures
Media Workshop – in progress
NIFT Event – on stage
‘Cool with Cotton’ in Media

Q: What is the soul of cotton? The soul of cotton is a product made of 100 per cent cotton. The fibre is its body and the yarn is its soul.

A: The yarn is its soul.

Q: What are the benefits of 100 per cent cotton over other fabrics? 100 per cent cotton fibre can absorb and expel moisture faster than other fabrics. It’s also good for the skin as it regulates heat in the body. Shrinkage of cotton is also minimal.

A: The benefits of 100 per cent cotton over other fabrics include its absorbency, breathability, and comfort. Cotton is also a sustainable fabric, as it requires less water and energy to produce compared to synthetic materials.

CCI to push cotton usage

Bangalore: Garment exporters may be hit by the strengthening of the rupee, but the situation has within, says Cotton Council International (CCI) representative for India, Pakistan and Sri Lanka, Ashish Dixit.

“The rupee has risen, and suddenly, the cost-effectiveness of the rupee has been reduced. This is a big issue for Indians who do a lot of exports,” he said.

Despite having the largest area under cotton cultivation, India produces less cotton than China and USA and contributes only 10% to the global trade of 135 billion. The current yield at 562 kg per hectare is acceptable, but the quantity produced is so large that it is still need more technology to improve it. The size of the fibre gives its price and makes cotton market share of consumption. CCI is aggressively pushing cotton with all its advantages to the Indian consumer and is starting from the top – with a series of fashion shows in city cities. Cotton t-shirts concentrate more on silk and synthetic fabrics. By putting cotton in this category we hope to get the message across that cotton too can be fashionable and innovative,” Dixit said.

Next on cards are cotton curatives across metros as the two cities, where promotion and awareness campaigns will be conducted in cities and other retail space.

Unlike linen and silk, CC does not turn to detectives. “But we would definitely urge people to tag on clothes as it creates awareness about the fabric. Although cotton garments are basic in every Indian wardrobe, it’s necessary to have constant restoration. There has only been a 1% growth in preference to cotton and that must change,” Dixit said.

Brìhcat international studies show that most consumers go for greater preference to cotton than other brands. “It’s our preference that we must leverage to promote cotton value in India.”
Campaign Resulted in Awareness of Seal of Cotton

- Increase in cotton consumption among consumers – campaign has contributed
- Awareness of all the Seal of Cotton has quadrupled since the program began
- There has been a growth of more than 100% in 2007 compared to 2006

Preference for 100% cotton products

Indian Men & Women, SEC A,B,C

Difference in the percentage of consumers who give a “high” rating to 100% cotton products vs. those who give a “high” rating to synthetic products

Source: Seal of Cotton logo tracking survey, TNS Mode, June 2006
Among “SEC A”, consumption of cotton has increased from 8.5 lbs of cotton per year in 2003 to 14.7 lbs in 2007.

(Figures in lbs)

Source: Consumer Index of Cotton Consumption, Technopak, June 2007
Cotton’s share of total fiber consumption is up.
An 8% increase observed in 2007 among SEC A, B, C.

Source: Consumer Index of Cotton Consumption, Technopak, June 2006
Cotton Share of U.S. Net - Apparent Fiber Usage

Cotton's Share

'61-'75 Trend

Source: Fiber Organon
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Summary

- India’s growing economy is resulting in explosive growth in middle class with new segmentation in the middle class evolving.

- With this growth the Indian consumer’s buying power has increased and consumer is ready to pay a premium for the product with good better fiber … particularly cotton.

- Indian consumer has evolved and changed focus to become more ‘global’.

- MFA and phasing out of quotas has given more impetus to cotton consumption in India … both domestic market and for exports.

**Bottom Line:** India has a large, growing, increasingly wealthy population much more ‘international’ than the past who prefer cotton textiles and apparel –

**A Scenario for Ever Increasing Cotton Consumption!**
While the end of the MFA has had both direct and indirect impacts on the production and consumption of cotton in India …

… the greater driver of cotton off-take is tied to the development of the new consumer class in India …

…. And the story in the future will be written by the behavior of this key group of consumers and the choices they make with their pocketbooks
Thank You