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China power shortage to benefit textile exporters but high cotton prices a dampener

Textile exports from India have surged as companies rush to tap the increased demand for cotton and yarn across the world amid a decline in supplies from China.

Exports of cotton yarn grew 5.5 percent to about 1 million tonnes during FY21 and shipments spiked by about 60 percent to 448,000 tonnes during April-July this year, according to Bhagyashree Bhati, assistant director, industry research, Care Ratings.

Economists said there could be a further increase in India's cotton and textile exports as China faces power shortages.

"The textile industries in Jiangsu, Zhejiang and Guangdong, which are major hubs for the products, are affected due to power shortage. Another textile hub Xinjiang is affected due to labour issues and this has impacted textile exports from the country," said OP Gulia, CEO (India) of SVP Global Ventures, a cotton yarn manufacturer.

China contributed about 39 percent of the world's textile exports, with the US and Europe as its major markets, before the pandemic, according to experts. However, the country's share has narrowed to 31 percent and analysts indicate that it could drop below 30 percent due to stalled production.

"Demand for textiles has picked up drastically as we emerge from the second wave and given the supply crunch in China, India can benefit," said Gulia. "We are expecting a 28-30 percent increase in textile export revenue due to the developments in China."

Prices surge

High demand for cotton and the supply shortfall have also led to a spike in cotton prices, which are at a decade high globally. India, too, witnessed a price rise, although it was relatively lower than in the international markets.

"Cotton prices of S-6 variety in India averaged at Rs 135 per kg during October 2020-August 2021, which is 6.6 percent lower than the average international prices of Cotlook A index at Rs 145 per kg during the period," said Bhati.

Experts indicated that the high prices of cotton in India are also the result of higher exports. According to Hetal Gandhi, director, CRISIL Research, Indian cotton is available at lower prices than international cotton prices and any increase in international prices drives demand for Indian cotton.

Apparel makers hit

While high cotton prices have helped exports, apparel makers are struggling with rising input costs.

"Brands were reluctant to hike prices until recently due to the drop in consumer demand. But we are now asking brands – international as well as domestic – to increase prices and they might pass it to the end-consumer in the months ahead," said Arvind Mathur, CEO, Raymond UCO Denim, a supplier to international and national brands.

Others are in a wait-and-watch mode and may increase prices of clothing products if high prices persist. However, experts indicated that the situation may not abate soon.

"In the global market, prices continued to remain under pressure due to a decline in end stocks, largely in India, Brazil and Turkey, leading to a wider demand-supply gap. Expected decline in acreage in China, India and Pakistan will put further pressure on prices going forward," said Gandhi.