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C O N T E N T S

Crisis at One End, Opportunity on the other: Sri Lankan Crisis A Surge for Indian Tea and Textile Exports

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Abstract

The Sri Lankan economy is currently in a state of distress ever seen in the country's history. Although Sri Lanka's economy has surpassed many other nations in economic and social improvements over the years, sustaining structural challenges have dimmed the nation's economic prospects. The country is currently grappling with the setbacks caused mainly due to twin deficits, the COVID-19 crisis and the war between Russia and Ukraine. Sri Lanka, a prominent player in the global tea and textile markets, is no longer able to export tea or textiles. Its massive debt default and the ongoing crisis in the economy may give new opportunities for Indian tea and textile exporters. The core objective of the current study is to explore the main factors contributing to the crisis in the Sri Lankan economy and how this condition has given India an opportunity to grow its exports. The present study used a SWOT analysis to provide critical insights into the current state of opportunities and threats, advantages and disadvantages, to get a concise picture of the Indian position. The study concluded that filling global supply gaps will be difficult for India owing to a wide range of factors such as high tariffs, rising input costs, global supply chain arrangements, and other competitors. Overall, due to these reasons and the dearth of Sri Lankan exports on the global market, India may only benefit to a limited extent.

Keywords: Current Account Deficit, Economic Crisis, India, Sri Lanka, Exports.

Introduction

In the throes of a worsening economic crisis, India's southern neighbour, Sri Lanka, is trying to stay afloat. The country's foreign exchange reserves are practically depleted, which restricts its ability to purchase imports and drives up the price of items produced domestically. Sri Lanka's ability to import food, petrol, fuel, medication and other requirements has been severely lowered as a result of escalating international debt pressure, and the island nation has sought assistance from its neighbour India to acquire necessary commodities. Garments and tea are major export items of Sri Lanka. Because of the ongoing Sri Lankan economic crisis, global demand for textiles and tea has started diverting to India. According to Samaranayaka (2022), the pandemic hit foreign exchange earnings which determined the government’s ability to rebuild the economy after the crisis. This happened primarily due to a substantial reduction in foreign exchange earnings from three major sources: apparel (garment) exports, tourism and remittances. Currently, to confront the high levels of debt, lower the budgetary deficit, retain external stability, and lessen the negative effects of the crisis, urgent policy measures are required.

- **Macroeconomic Performance**

Ceylon, an island off India's southeast coast, formally changed its name to Sri Lanka in 1972 after gaining independence from the United Kingdom in 1948. Sri Lanka is currently engulfed in its worst financial and economic crisis since gaining independence, despite being praised for its development success story as a low-income nation. The 26-year civil war, which ended in 2009, had a profound effect on the domestic economy's structure in Sri Lanka. Despite significant infrastructure spending and a growth rate that was fairly stable from 2013 to 2019, many premature and poorly managed economic strategies contributed to the current Sri Lankan crisis. The external causes such as the COVID-19 outbreak and the war between Russia and Ukraine have made the situation even more severe (Bhowmick, 2022). Table 1 summarizes the macroeconomic performance of Sri Lanka over the five years i.e. 2017-2022.

Table 1 Sri Lanka's Macroeconomic Performance (2017-2022)

Macroeconomic Indicators (2017-2022)							
Indicator	**Unit**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022 (P)**
Real Sector							
Growth of Real GDP	%	3.6	3.3	2.3	-3.6	3.7	1.0
GDP at Current Market Price	Rs. Billion	13328	14291	14997	15027	16809	20700
GDP Per Capita	US $	4077	4057	3848	3695	3815	3041
External Sector							
Trade Balance	% of GDP	-11.0	-11.8	-9.5	-7.4	-9.6	-12.4
Current Account Balance	% of GDP	-2.6	-3.2	-2.2	-1.5	-4.0	-2.6
Overall Balance	US $ mn	2068	-1103	377	-2328	-3967	-
Official Reserves (External)	US $ mn	7959	6919	7642	5664	3139	-
Fiscal Sector							
Current Account Balance	% of GDP	-0.7	-1.2	-3.6	-7.9	-7.7	-
Primary Balance	% of GDP	0.02	0.6	-3.6	-4.6	-6.0	-
Overall Balance	% of GDP	-5.5	-5.3	-9.6	-11.1	-12.2	-10.2
Central Government Debt	% of GDP	77.9	84.2	86.9	100.6	104.6	108.2
Monetary Sector and Inflation							
Broad Money Growth	%	16.7	13.0	7.0	23.4	13.2	12.7
Private Sector Credit Growth	%	14.7	15.9	4.2	6.5	13.1	10.0
Annual Average Inflation	%	6.6	4.3	4.3	4.6	6.0	22.0

Source: Central Bank of Sri Lanka and Department of Census & Statistics, Ministry of Finance

Note: P indicates provisional

According to the central bank's most recent report, Sri Lanka's sudden economic collapse has worsened its recent macroeconomic performance. The table shows that the growth of Real GDP contracted by 3.6 per cent in 2020 due to the pandemic. The growth of Real gross domestic product (GDP) in Sri Lanka was anticipated at 1 per cent in 2022 because of the consequences of the Ukrainian war (World Bank, 2022). The GDP at the current market price stood at US dollars 16,809 billion in 2021, with a projected increase to US dollars 20,700 billion in 2022. The GDP per capita was US dollars 3,815 during 2021 which is expected to decline to US dollars 3,041 in 2022. The projected trade balance widened notably (-12.4 per cent) in 2022. The current account balance grew considerably in 2021. The overall balance recorded a deficit in 2020 as well as in 2021. Sri Lanka's external official reserves have been continuously declining since 2019. There has been an upsurge in the fiscal current account balance and primary balance since 2019. The overall fiscal deficit further widened to -12.2 per cent during 2021 from -11.1 per cent in 2020 owing to a shortfall in revenue collection. The overall fiscal deficit is expected to reach -10.2 per cent by 2022. Over the years, the debt of the central government showed a consistent upward trend and is projected to do so in 2022 with a value of 108.2 per cent. The consistent increase in the central government's debt, spurred by poor fiscal sector performance, has remained a major fiscal challenge. The broad money growth accelerated to 23.4 per cent in 2020 from 7 per cent in 2019 and predicted 12.7 per cent in 2022. The growth of private sector credit remained elevated post-2019 and is expected to reach 10 per cent by 2022. Inflation is expected to hit an all-time high double-digit level i.e. 22 per cent by 2022.

Although the pandemic has severely affected Sri Lanka's economy its recent weaker macroeconomic performance is a reflection of many other factors not just the COVID-19 pandemic crisis.

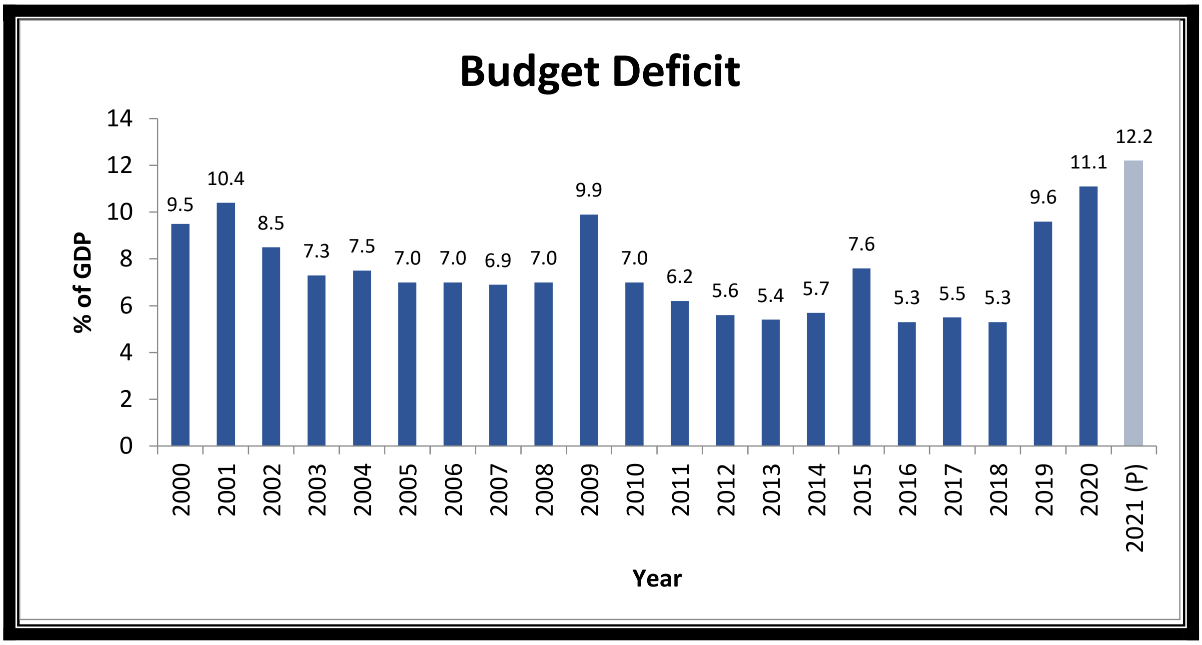
The Underlying Causes of Economic Crisis in Sri Lanka

Critics argue that the economic mismanagement of governments, which led to and retained a twin deficit—a shortfall in the budget as well as a deficit in the current account —is what brought on the crisis, dreadful in the past several decades. According to a working paper from the Asian Development Bank published in 2019, Sri Lanka has a "typical twin deficits economy." "Twin deficits" signify an insufficient level of tradable goods and services produced by a nation paired with an excess of national spending over national income. (Weerakoon et al., 2019). The twin deficit challenge made Sri Lanka heavily reliant on foreign debt.

- **Budget Deficit**

Due to the economy's downturn, high relief spending, and post-presidential election 2019 tax cuts, Sri Lanka's budget deficit went up from 9.6 per cent of GDP in 2019 to 11.1 per cent of GDP in 2020. The deficit is projected to reach 12.2 per cent of GDP in 2021 instead of the intended lowered level of 8.8 per cent (refer to Figure 1).

Figure 1 Sri Lanka's Budget Deficit for the period 2000-2021(P)



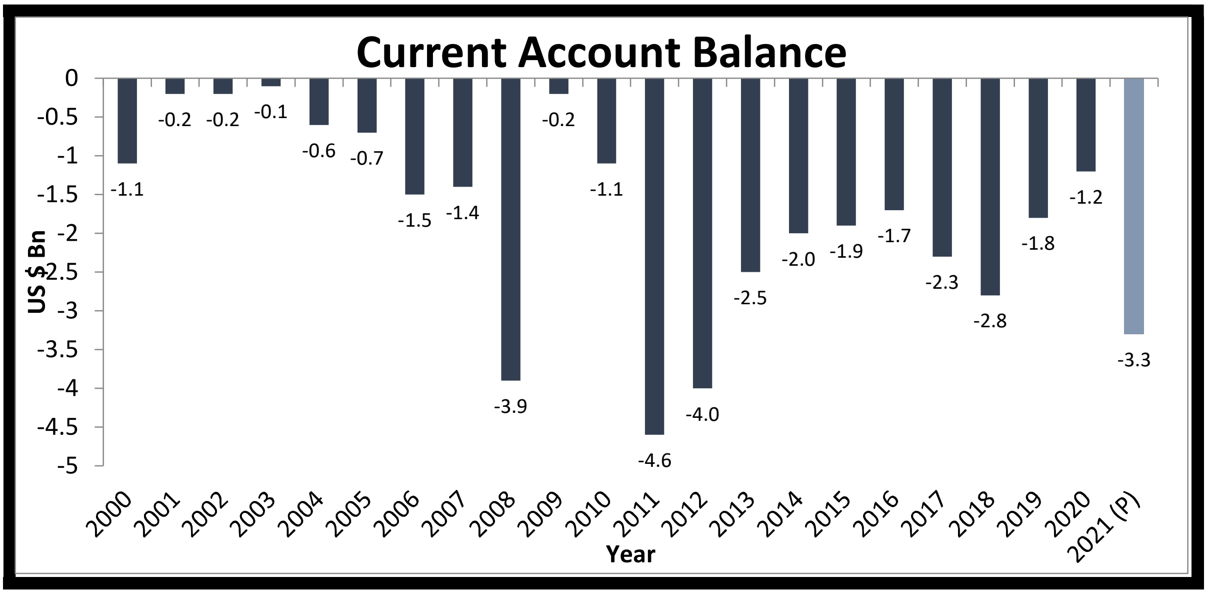
Source: Ministry of Finance

Note: P refers to provisional

- **Current Account Balance**

The deficit or current account balance is likely to hit an eight-year high of US dollars 3.3 billion during 2021 as compared with a balance of previous years. Figure 7 shows that the deficit reached an all-time high of US dollars 4.6 billion in 2011 and a record low of US dollars 0.1 billion in 2003. The current account balance is expected to widen notably in 2021 (refer to figure 2).

Figure 2 Current Account Balance of Sri Lanka for the period 2000-2021 (P)



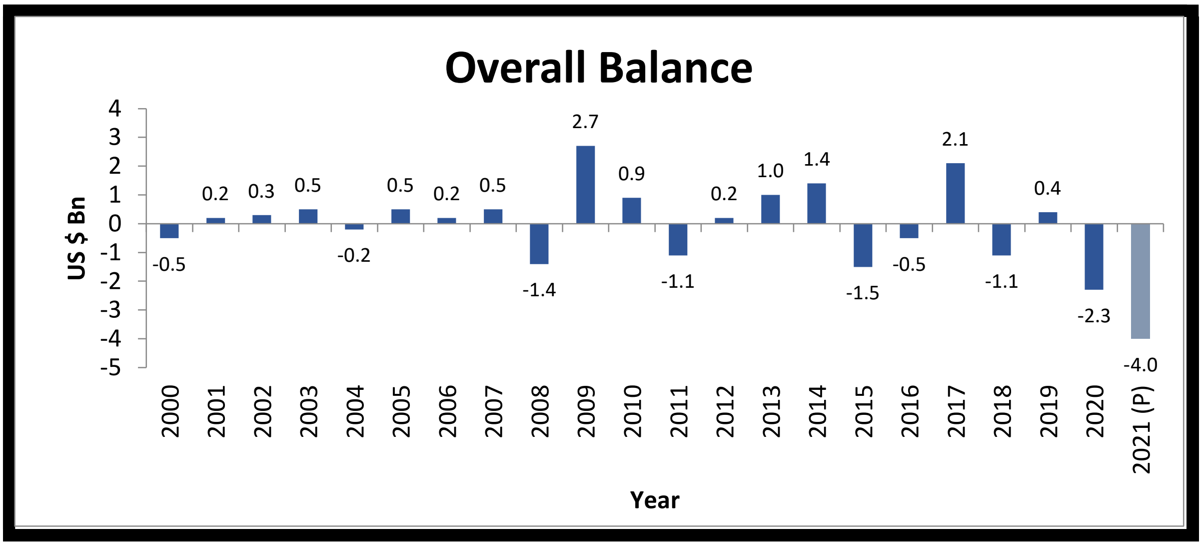
Source: Central Bank of Sri Lanka

Note: P refers to provisional

- **Overall Balance**

Sri Lanka's capital account and current account balances have generally gone in opposite directions, with the former in surplus and the latter in persistent deficit. Hence, the current account balance has substantially led to overall deficits. The overall balance of Sri Lanka's balance of payments is expected to record a considerable imbalance of around US dollars 4.0 billion during 2021 highest in the past 20 years (refer to figure 3).

Figure 3 Balance of Payments of Sri Lanka for the period 2000-2021 (P)



Source: Central Bank of Sri Lanka

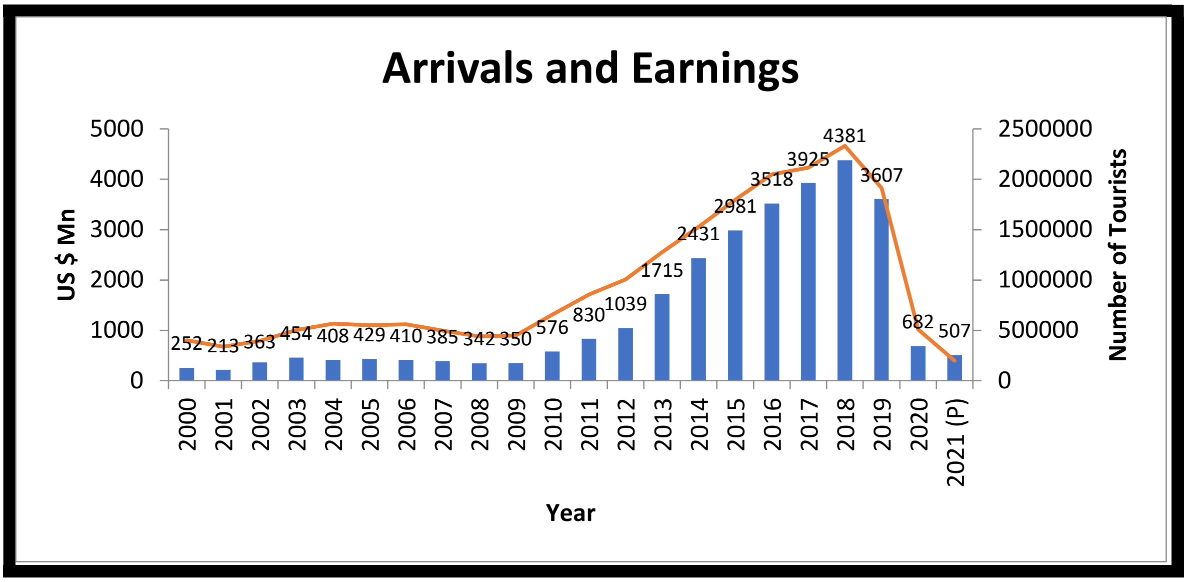
Note: Prefers to provisional

The primary factor triggering the crisis is a dearth of foreign exchange reserves. In the latter half of February 2022, it had decreased by 70 per cent in just two years less than US dollars 2 billion, hardly enough to cover imports for two months. As of this year, the country has committed to paying about US dollars 7 billion in foreign debt. There are many causes of the FOREX crisis. Due to the pandemic's devastating effects on Sri Lanka's valuable tourism industry and the remittances sent home by foreign employees, the country's largest source of funds fell 22.7 per cent to US dollars 5,491 million in 2021.

- **Tourist Arrivals and Earnings**

Following the 2019 Easter Sunday suicide attacks, tourism, the third-largest source of foreign exchange came to an abrupt end. The number of visitors dropped as much as 70 per cent. Over 250 people, including at least 45 foreigners, lost their lives in the Easter time explosions in Colombo's commercial area. Christians in three church buildings and guests at three luxurious hotels were targeted. Several businesses stayed closed for many days after the attack. The arrivals of tourists in Sri Lanka during 2020 totalled 507,704 indicating a 73.5 per cent decrease after 2019 (refer to figure 4). The unprecedented healthcare and human crisis triggered by the COVID-19 pandemic caused severe damage to this sector, almost setting it to a standstill. Bhowmick (2022) argued that the war between Russia and Ukraine has further crippled the Sri Lankan tourism sector. In 2022, nearly 30 per cent of visitors were from Russia, Ukraine, Poland, and Belarus comprising about 20,000 Russian and Ukrainian tourists who travelled to Sri Lanka. The conflict has posed a threat to halt this flow.

Figure 4 Tourist Arrivals and Earnings in Sri Lanka from 2000-2021 (P)

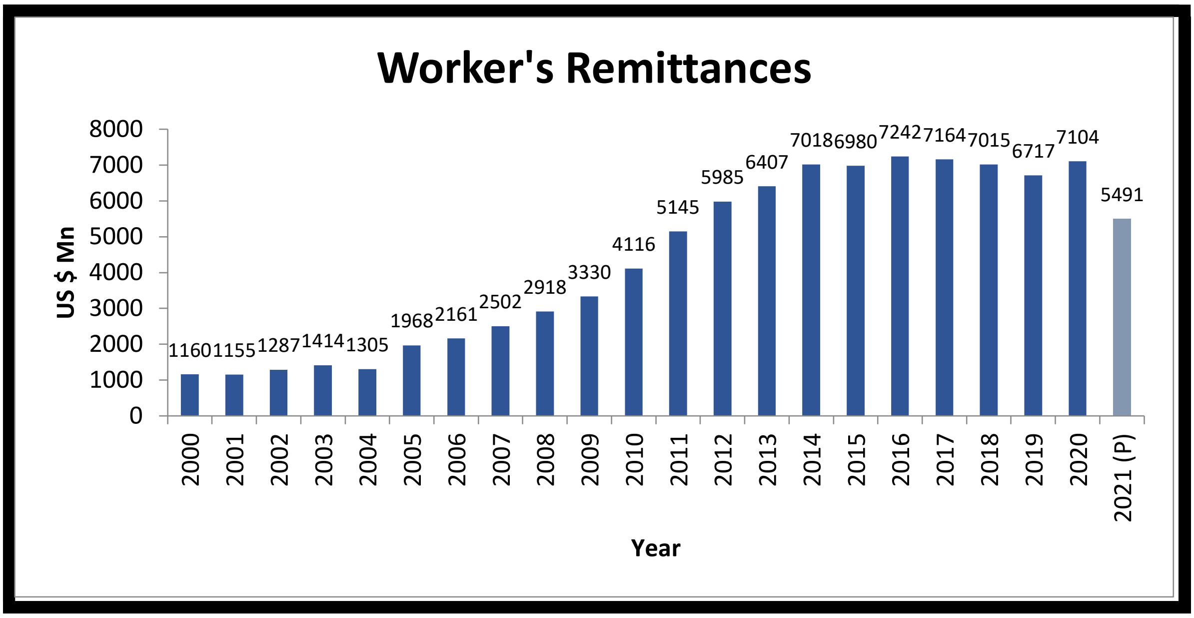


Source: Sri Lanka Tourist Development Authority (SLTDA) and Central Bank of Sri Lanka

- **Worker's Remittances**

Over the past 20 years, on average, workers' remittances have covered 80 per cent of the annual trade deficit, making them a significant source of foreign exchange earnings. (Central Bank of Sri Lanka, 2022). Due to the pandemic, workers' remittances which were one of the major sources of foreign reserves slumped by 22.7 per cent to US dollars 5,491 million in 2021 from US dollars 7,104 million in 2020 (refer to figure 5). Moreover, the remittances were not used productively by the government.

Figure 5 Worker's Remittances in Sri Lanka from 2000-2021 (P)



Source: Central Bank of Sri Lanka

- **Tax Cuts**

In fulfilment of the promise made before the elections, the government approved large tax cuts towards the end of 2019 and in early 2020, before the pandemic (refer to Table 2), which ripped out parts of Sri Lanka's economy. As a result between the years 2020 and 2022, there was a huge fall in several taxpayers creating a severe challenge to the Sri Lankan economy, which was already beleaguered by widespread tax evasion and fraud.

Table 2 Taxes Abolished in Sri Lanka during FY 2019-20

Tax Category	**Amendment**
Value Added Tax (VAT)	Knocked down to 8 per cent from 15 per cent.
Nation Building Tax (NBT)	The previous 2 per cent of NBT was eliminated. NBT was pooled with the Ports and Airport Development Levy with a relevant ratio of 10 per cent
Economic Service Charge	Abolished
Debit Tax on Banking and Financial Institutions	Abolished
Capital Gains Tax on the Share Market	Abolished
VAT on Sovereign Property	Abolished
Pay As You Earn (PAYE) Tax	Abolished
Withholding Tax on Interest Income, other types	Abolished
Credit Service Tax	Abolished
Tax on Telecommunication Tariffs	Decreased by 25 per cent

Source: Colombo Page and Bhowmick (2022)

Sudden Transition to Organic Farming

The Sri Lankan government outlined a ten-year vision for the country's transition to fully organic farming. To lessen the health risks posed by using chemical fertilizers and pesticides in agriculture and to support environmentally friendly sustainable agricultural systems, the government declared to ban the import of agrochemicals. Although switching to organic farming seemed to be a step towards environmental sustainability, the rapid switch was like a ticking bomb that was about to burst off (Bhowmick, 2022). The government's decision was however later reversed; it adversely affected the Sri Lankan agricultural sector, resulting in a decrease in output and higher prices (The Indian Express, 2022; Vanamali, K.V. 2022).

- **Russia- Ukraine War**

Many factors, ranging from debt to inflation, have contributed to the ongoing crisis. Food and energy prices have increased globally as a result of the Russia-Ukraine war, making imports more expensive. Russia and Ukraine are major importers of Sri Lankan black tea and exporters of wheat respectively. Nearly 18 per cent of Sri Lankan fermented black tea exports are received by Russia and Ukraine. Similarly, these two nations account for 45 per cent of wheat imports. Besides, more than half of Sri Lanka's imports of soybeans, sunflower oil, sunflower seeds, and peas come from Ukraine. In addition, both countries are significant suppliers of asbestos, iron and steel, semi-finished products, copper (cathodes), and potassium chloride for fertilizer. (Wijesinghe, 2022). Tourism revenue is another issue. In 2022, almost 30 per cent of visitors came from Belarus, Poland, Russia, and Ukraine, and the war threatened to stop that flow (The Times of India, 2022b).

- **Objective and Need of the Study**

The collapse of Sri Lanka drew immediate attention on a global scale. India can take the opportunity to explore new markets and boost its exports by learning from the mistakes made by its neighbours. This particular issue has not yet been the subject of a detailed evaluation. A move has been made in this direction as a result.

The core objective of the present study is to explore the main factors contributing to Sri Lanka's economic problem and how this condition has given India an opportunity to increase its exports. SWOT analysis has been used to discover India's strengths, weaknesses, opportunities and threats. The study has been segregated into six sections. In section 2 historic perspective has been given. Section 3 deals with the main exports of Sri Lanka and opportunities for India. SWOT analysis has been performed in section 4. Section 5 gives the policy recommendations while Section 6 brings the discussion to a conclusion.

- **Historic Perspective**

A brief examination of the historical perspective, including the causes and consequences of the crisis in the Sri Lankan economy, has been conducted. Yousuf (2021) examined the impact of the Sri Lankan economic crisis on India. The study emphasizes the cause of the crisis. The three main factors causing the crisis were a fall in exports of major commodities viz. tea, rubber and garments due to decreased production or output, a decline in worker remittances, and a drop in tourism. The fall in output was caused by the sudden move to go organic. The terror attacks and the COVID-19 pandemic weakened the tourist sector. The study sheds insight on the economic ties between India and Sri Lanka in light of Chinese intervention. The study suggests India remains vigilant and offers related policy implications. The impact of the 2019 tax cuts on the domestic economy, subsequent balance of payment (BOP) crises, a series of mishandled IMF bailouts, the abrupt disastrous switch to organic farming, the tourism sector's decline following the 2019 Easter Sunday explosions, and rapidly growing external debt are the six key economic issues that Bhowmick (2022) identified as having contributed to the Sri Lankan crisis. The study outlined some rational points from the Sri Lankan instance which necessitate critical analysis to provide macroeconomic implications to South Asian neighbours. Aryal (2022) attempted to investigate the crisis in the Sri Lankan economy from the standpoint of a geopolitical war between China and India. It also emphasized disseminating details regarding India's possibilities in Sri Lanka. The study found financial mismanagement, corruption, lack of transparency, foreign debt, huge tax cuts, the COVID-19 crisis and the war between Russia and Ukraine were the reasons behind the severe economic crisis in the country. The study noted that because of its geostrategic location, Sri Lanka is of great interest to both China and India. The study further suggested that India now has a chance to establish itself as a reliable regional leader amid the Sri Lankan economic crisis. Yadav and Rai (2022) evaluated the economic situation in Sri Lanka. The study identified current account balances, tax concessions, and government borrowings as red flags for the Sri Lankan crisis. Apart from that failed policy of organic drive, the COVID-19 pandemic, loss of tourism and investor confidence, and currency depreciation due to poor governance contributed to the collapse of the Sri Lankan economy. The study noted that the Russia- Ukraine war has also contributed to this woe. The study concluded that the impact of the crisis can be seen in its neighbouring South Asian counterparts Pakistan and Nepal. Sultana (2022) examined Sri Lanka's current condition and the policy steps taken to address it. The study observed the decline in foreign exchange reserves as a result of a decline in the exchange-earning sectors of tourism, remittances, and exports as the cause of the crisis. To address the issue of settling imports and debt, the government has reached out to bilateral partners for credit, loan, and currency swap facilities. Additionally, by not defaulting on debt servicing special emphasis is also being placed on restoring investor trust while dealing with the economic crisis. Sharma (2022) examined the ongoing political turmoil and economic crises in the Sri Lankan economy. The study focused on the underlying causes, domestic factors, and effects of crises on the economy. The study showed how China has an impact on the economy of Sri Lanka. The report discusses the response to the Sri Lankan crisis on a global platform. The study looked at the actions the government is taking to help the economy out through the present financial crisis.

How India can seize this opportunity has not been primarily focused on the research available. Hence, the present study attempts to accomplish this.

- **Main Exports of Sri Lanka and Opportunities for India**
- **India- Sri Lanka Ties**

Over 2,500 years, exchanges involving shared religious, cultural, and linguistic practices served as the foundation for Sri Lanka and India's historical relations. In the 1800s, the British colonised both Sri Lanka and India, which attained independence in 1947 and 1948, respectively. Before the advent of colonialism, Sri Lanka and India maintained close commercial connections. Sri Lanka's major trading partner and primary source of foreign direct investment (FDI) is India. Sri Lanka, however, has a smaller impact as an economic partner because of its relatively small market size. Another facet of economic linkages between the two countries is an enduring development relationship that involves many sectors which mainly comprises infrastructure, transportation, connectivity, housing, livelihood and rehabilitation, health, education, and industrial growth. Both nations are members of inter-governmental organizations namely SAARC and BIMSTEC, which focus on strengthening regional cooperation and integration in the South Asian region (Huettemann, Pabasara and Panwar, 2020).

- **Sri Lanka's Main Exports**

Tea, coffee, rubber, and spices were among the top export-oriented crops that dominated Sri Lanka's agricultural industry after the island nation got its independence from the British in 1948. According to the Central Bank of Sri Lanka's annual report, tea, rubber, and coconut were the three main plantation crops that accounted for around 90 per cent of the country's exports. The export of these crops brought in foreign exchange that contributed significantly to the country's GDP. The essential food items were imported through this money. Over time, the nation started exporting garments and generating foreign exchange from remittances and tourism. This implies a fall in exports would be a disruptive economic event and put pressure on foreign exchange reserves. Therefore as a direct consequence, Sri Lanka frequently experienced balance of payments crises (Ramakumar, 2022). Due to the crisis, Sri Lankan exports have suffered significantly, providing an opportunity for other countries. Table 3 indicates that Sri Lanka mostly exports textiles & garments and tea.

Table 3 Top 10 export commodities of Sri Lanka (2019-21)

				(Value in US $ million)
HS Code	**4-digit heading of harmonized system 2017**	**2019**	**2020**	**2021**
	All commodities	11974.2	10706.9	13331.2
0902	Tea, whether or not flavoured.	1322.6	1329.5	1391.6
6212	Brassieres, girdles, corsets, braces, suspenders, garters.	645.8	501.4	690.2
6108	Women's or girls' slips, petticoats, briefs, panties, knitted or crocheted	651.8	496.3	675.7
6104	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts	519.8	430.1	557.2
6204	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts	564.1	434.3	491.5
6109	T-shirts, singlets and other vests knitted or crocheted.	507.2	404.3	541.6
4012	Retreaded or used pneumatic tyres of rubber	338.8	297.3	438.9
6203	Men's or boys' suits, ensembles, jackets, blazers, and trousers.	377.1	295.5	393.1
6116	Gloves, mittens and mitts knitted or crocheted	329.6	321.4	404.8
4015	Articles of apparel and clothing accessories	207.3	267.8	391.6

Source: International Trade Statistical Yearbook

Sri Lanka is a well-known exporter of tea and related products. The country's recent internal issues have had a significant impact on tea exports, prompting countries such as India to try to fill the gaps in international markets. Almost 98 per cent of Sri Lanka's annual tea production, which amounts to approximately 300 million kg, is exported. The vast majority of tea items are traditional. Traditional techniques like picking, twirling, oxidation/fermentation, and drying are used to make loose-leaf tea (Kannan, 2022). Sri Lanka continues to be one of the top five tea-producing countries in the world, as per the Sri Lankan Export Development Board. Even though China, India and Kenya are major tea exporters by volume, Sri Lanka stands as the world's third-biggest tea exporter of Ceylon tea worth US dollars 1.4 billion. Excellent flavour, variety, and high quality are hallmarks of Ceylon tea. Black tea predominates the country's tea exports, and the country is still working to fully exploit expanding global market demand for leafy green tea, various organic tea variants, and herbal infusions of fruit (EDB Sri Lanka, 2022).

Sri Lanka's apparel industry accounts for around half of its exports, placing the country among the world's top producers of clothes. The apparel industry is estimated to account for six per cent of the country's GDP, which supports 7,00,000 people indirectly and 3,50,000 people directly. The economic downturn has also harmed Sri Lanka's reputation as a reliable partner and exporter in the apparel industry. Numerous small firms have been forced to close due to power and fuel shortages, which has also raised the cost of garment and apparel production. India is once more seen by nations wary of importing from Sri Lanka as a reliable alternative (Kannan, 2022).

Table 4 Sri Lanka's Export Direction 2017-2021 (P)

Direction of Exports										
	Value (US $ million)					Share (percentage)				
	2017	2018	2019	2020	2021 (P)	2017	2018	2019	2020	2021 (P)
Countries										
USA	2909	3085	3141	2500	3108	25.6	25.9	26.3	24.9	24.9
UK	1036	980	998	908	938	9.1	8.2	8.4	9.0	7.5
India	691	777	768	606	829	6.1	6.5	6.4	6.0	6.6
Germany	540	614	648	570	758	4.8	5.2	5.4	5.7	6.1
Italy	524	572	528	455	581	4.6	4.8	4.4	4.5	4.6
Netherlands	221	258	301	290	426	1.9	2.2	2.5	2.9	3.4
Belgium-Luxembourg	347	361	357	297	343	3.1	3.0	3.0	3.0	2.7
Canada	210	211	241	213	316	1.8	1.8	2.0	2.1	2.5
UAE	275	290	276	190	287	2.4	2.4	2.3	1.9	2.3
China	247	239	240	225	277	2.2	2.0	2.0	2.2	2.2

Source: Central Bank of Sri Lanka

The major single market for Sri Lankan exports is the United States. The Sri Lankan exports to the USA stood at US dollars 3108 million in 2021. The main buyers of Sri Lanka's exports include the USA, UK, India and Germany (see table 4).

- **Opportunity for India**

The approximately 170-year-old Indian tea industry contributes significantly to the nation's economy. India is one of the top five exporters of tea and the second-largest producer in the world and accounts for roughly 10 per cent of total tea exports. Traditionally, India and Sri Lanka are competitors in the global market. Black tea is India's predominant export, accounting for 96 per cent of total exports, Indian tea exports consist of black, green, regular, masala, herbal and lemon tea. Among these, black, regular, and green tea account for approximately 80 per cent, 16 per cent, and 3.5 per cent of total tea shipped from India, respectively. In India, tea plantations are mostly found in rural, hilly regions of the northeastern and Southern States. Assam, West Bengal, Kerala, and Tamil Nadu are the primary growing locations for tea in the nation. In addition to green tea, India also produces orthodox and CTC (crush, tear, and curl) teas, unlike the majority of other nations that produce and export tea (IACC, 2017; Tanwer, 2022). India is ready to address supply shortages following Sri Lanka's unexpected halt of tea supplies to the global tea market. The world's largest exporter of tea, Sri Lanka, has been coping with a dramatic fall in tea production as a result of daily power outages lasting 12-14 hours.

Exporters of Indian tea are in a great position to gain market share in nations that import traditional tea. India could expand its presence in new markets like Turkey, Iraq, the United States, China, and Canada as well as Iran (Bhardwaj, 2022).

India is one of the world's leading garment-producing countries. There is a heritage of excellent craftsmanship throughout the whole value chain of Indian textile and apparel products, from fibre, yarn, and fabric to premium garments. India is well known for its cotton, silk, and denim, and its apparel has been successful in establishing fashion hubs around the world. India is one of the largest producers and consumers of cotton, occupying 12.35 million hectares, or 37 per cent of the world's total area, under the production of cotton. A significant percentage of the highly diverse Indian textile and apparel business is made up of traditional handloom, handicraft, wool, and silk products, as well as the organized textile industry. The United States was the leading export destination for the apparel and textile sectors in 2021-22, accounting for 27 per cent of total exports, up from 24 per cent in 2019-20 (IBEF, 2022). In India, the domestic apparel and textile sector accounts for 7 per cent of the industrial production in terms of value and 2 per cent of the country’s Gross Domestic Product (GDP). Textile, garment, and handicraft exports accounted for 11.4 per cent of total Indian exports in 2020-21. India accounts for 4 per cent of the global apparel and textiles trade. India is the world's sixth-largest exporter of textiles and apparel. India is a major producer of cotton and jute in the world. India is also the world's second-largest silk manufacturer, contributing more than 95 per cent of all hand-woven fabric. The Indian technical textiles segment is valued at US dollars 16 billion, accounting for approximately 6 per cent of the international market. India's textile and apparel sector is the country's second-largest employer, employing 45 million people directly and another 100 million indirectly (Tyagi, 2022).

- **SWOT Analysis**

India's position can be evaluated using a SWOT analysis which identifies strengths, weaknesses, opportunities, and threats. An industry's strengths are what make it stand out from the competitors and what it excels in. Weakness prevents the industry from operating at its best. Opportunities are positive external elements that might give a sector or industry a competitive edge. Threats are anything that could hurt a sector or industry of the economy. In simple terms, a SWOT analysis examines both internal and external factors affecting the sector. Consequently, some of these elements will be under control, while others won't. SWOT analysis is represented as a square separated into four quadrants, each of which is devoted to a distinct facet of SWOT. This visual illustration shows a concise picture of the industry's position. All of the components that fall under a specific issue provide critical insights into the balance of opportunities and risks, benefits and drawbacks, and so on.

Table 5 SWOT Analysis

INTERNAL FACTORS	
STRENGTHS (+)	**WEAKNESSES (-)**
Textile & Apparel • 6th largest exporter of textile and apparel • accounts for 5 per cent of the world's trade • Supplies 95 per cent of the total world's hand-woven fabric, Exports to more than 100 countries across the globe • Highly diversified & maintained a positive trade balance over the past ten years Tea • 2nd biggest producer & among the top five exporters • The world's best and finest teas are Assam, Darjeeling, and Nilgiri tea • McLeod Russel India, CCL, Tata Tea and Neelamalai Agro had significant gains	Textile & Apparel • High tariff • The paucity of large manufacturing capacities Tea • Indian tea varieties do not fit into the vacuum of Sri Lankan high-grown (high altitude) varieties. • India primarily sells black tea, accounting for around 96 per cent of total tea exports, whereas Sri Lanka primarily exports orthodox tea

EXTERNAL FACTORS	
OPPORTUNITIES (+)	**THREATS (-)**
Textile & Apparel • 7 mega textile parks have been planned • a massive raw material and manufacturing base • GOI has launched various initiatives to promote this sector • Duties and taxes on exported goods are waived • Major International brands have been reportedly looking toward India Tea • The Tea Board of India launched a campaign to promote packaged tea of Indian origin • The Tea Board is providing subsidies to domestic exporters to participate in International Fairs and Exhibitions • Tea exporters have started to concentrate on venturing into new regions and markets to fill the gap arising due to the Sri Lankan Crisis.	Textile & Apparel • Less competitive in comparison to countries such as Vietnam and Bangladesh due to high import and export duty • Multiple trade agreements are leading to complexities of compliance and adding to the trade costs • High cost of raw materials such as cotton and yarn Tea • Higher cost to produce orthodox tea and the output processes might cause crop losses • China, Vietnam and Indonesia are close competitors as they produce a lot of tea products.

Chart Area

Strengths and Opportunities

India is the sixth-largest exporter of apparel and textiles worldwide. India manufactures high-quality apparel, accounting for 5 per cent of the world's textile and apparel trade. India exports handlooms and handicrafts, along with apparel and textiles, to more than 100 nations worldwide. It produces nearly 95 per cent of the world's hand-woven fabric. The organized textile industry in India as well as its traditional handloom, handicrafts, wool, and silk items, are just a few of the many segments that make up the diversified textile and apparel sector in India. Over the previous ten years, India has generally kept a positive trade balance in this area. By 2025–2026, 7 mega textile parks are expected to expand India's textile and apparel sector to dollars 190 billion. India has a sizable manufacturing and raw material base. The Advance Authorization (AA) and Amended Technology Upgradation Fund Scheme (ATUFS) programmes are aimed at boosting and expanding the nation's textile and apparel manufacturing. The Government of India has introduced several additional initiatives over the past few years to support apparel and the textile sector, including the implementation of the Textile Cluster Development Scheme (TCDS) from 2021–2022 to 2025–2026, the creation of seven PM Mega Integrated Textile Region and Apparel (PM MITRA) parks in greenfield and brownfield locations, and the production linked incentive (PLI) scheme for technical textiles. The government has also approved extending the RoSCTL programme (system for a rebate of central and state taxes and levies on the export of garments and made-ups) through March 2024 to improve the export competitiveness of Indian apparel and manufactured goods. By conducting research and contributing ideas on the Free Trade Area (FTA), Foreign Trade Policy (FTP), and bilateral agreements, the AEPC (Apparel Export Promotion Council) is promoting the apparel sector. Major international retailers like Mango, Zara, and Hennes & Mauritz (H&M) have chosen to concentrate on India because other Asian exporters like Bangladesh, Vietnam, and Cambodia are unable to fill the gap. The UK, EU, and even Latin American countries, where Indian textiles had little to no presence, have started to place orders with Indian apparel exporters in Tirupur District, the centre of the textile industry in Tamil Nadu, indicating that the Indian textile industry is also poised to benefit from the crisis.

India is the second-largest tea producer in the world. It is among the best five producers of tea for export worldwide. One of the best teas in the world comes from Assam, Darjeeling, and Nilgiri. In recent months, shares of McLeod Russel India, CCL, Tata Tea, and Neelamalai Agro all saw considerable rises. Indian tea is among the best due to strong region-specific indicators, significant investment in tea manufacturing plants, ongoing innovation, increasing product mix, and smart market expansions. The Promotion for Packaged Tea of Indian Origin programme launched by the Tea Board of India offers support with promotional campaigns, including cost reimbursement of up to 25 per cent, exhibition in global department outlets, creation of product literature and websites, and a 25 per cent cost reimbursement for inspection fees. To take part in global trade fairs and exhibitions, the Tea Board also offers subsidies to local exporters. To fill the void left by the Sri Lankan issue, Indian tea exporters may focus on expanding into other markets such as Turkey, Iraq, the US, China, and Canada.

- **Weaknesses and Threats**

It is very challenging for Indian exporters to compete with such nations that have lower tariffs than India. The absence of import taxes on cotton from Australia, Brazil, and South Africa in nations like Bangladesh and Vietnam in contrast to India has resulted in high input costs and rendered them uncompetitive. As a result, our importers urged the government to eliminate the import tax. In some markets, such as the European Union and the UK, Vietnam, Bangladesh, Sri Lanka, and Pakistan are gaining an advantage, while Indian exporters are suffering. The high cotton and yarn prices are a major concern for the Indian textile industry. Multiple trade agreements are also leading to complexities of compliance and adding to the trade costs which may discourage industry from taking advantage of the free trade agreements.

Assam and Bengal tea varieties do not match Sri Lankan high-cultivated (high altitude) varieties. Moreover, India mostly exports black tea, accounting for around 96 per cent of total tea exports while Sri Lanka largely exports orthodox tea which tends to be harvested and processed by hand. The cost of producing orthodox tea is 20 times higher, and the output process may result in crop losses. Local producers are hesitant to invest in upgrading their production processes because they fear that the window for selling more traditional tea will be closed as soon as the crisis is over. Apart from that, China, Vietnam and Indonesia are close competitors as they produce a lot of tea products.

- **Can India fill the gap?**

The United Kingdom, the European Union, and even Latin American countries, where Indian textiles were largely absent are starting to place orders with Indian apparel exporters, signalling that the Indian textile sector is also prepared to benefit from the crisis. Tripur, Tamil Nadu's textile hub known for high quality and low cost, is experiencing an increase in overseas orders as export demand is shifted to India as a result of the ongoing Sri Lankan crisis. India has also taken steps to increase its apparel exports to capture a larger proportion of the global market, which is largely occupied by Man-Made Fibres (MMFs). Since India manufactures high-quality apparel and has a large manufacturing capacity, increasing exports may be easier.

With an annual tea production of 900 million kg, India is well-positioned to capitalize on the opportunity and fill the gap. Orthodox teas from both India and Sri Lanka are very popular in Russia, and India relies largely on the CIS for tea exports. The scarcity of Sri Lankan tea may increase the demand for Indian orthodox tea. As predicted by the commerce ministry, Iran and Saudi Arabia are more receptive to Indian Orthodox tea after the Sri Lankan crisis. There has been a surge in Indian tea exports. However, India produces approximately 100–120 million kilogrammes of Orthodox tea, whereas Sri Lanka produces approximately 300 million kilogrammes of tea, 90 per cent of which is Orthodox. Therefore, manufacturing of Indian Orthodox tea will contribute to partially filling the gap. Additionally, the Sri Lankan problem does not imply that Indian exporters will considerably gain because the island nation's produce has its unique nature and taste. (Business Today, 2022)

- **Policy Recommendations**

India should make use of this opportunity and must come up with an action plan to increase exports. The following must be done by India if it wants to take advantage of export opportunities in developed markets.

First, tariff rates for intermediate inputs should be lowered to either zero or be negligible level as high cotton and yarn prices are making textile exports uncompetitive. Second, growth, promotion and research in the tea industry must be optimized to encourage tea exports. The proposed Tea Promotion and Development Act must be implemented as soon as possible. Third, to reap the benefits India must improve its trade integration with global supply chains to join larger trade agreements and regions. Fourth, India must continue to focus on its specialization patterns toward labour-intensive processes and product lines. Given our comparative advantage in labour-intensive activities and the need to employ a growing labour force, the textile industry holds the greatest potential for export growth and job creation. Fifth, a sustained and constructive foreign direct investment (FDI) policy is essential as foreign capital and technology are essential drivers of global supply chains. Sixth, if fundamental problems like power availability and logistical impediments continue to rear their heads, exports may suffer. Power, transportation, communication, and other services need to be enhanced for an uninterrupted export supply. Lastly, without government assistance, it would be challenging for the industries to invest in improving their production method and output. To reap benefits, the government should provide exporters substantial support.

- **Conclusion**

Concerningly, Sri Lanka's current account deficit demonstrates the country's heavy reliance on the external sector, which frequently causes the economy to become insolvent due to the accumulation of excessive net foreign debt. Sri Lanka's unusual economic situation has worsened in recent months, owing to mismanaged government finances and ill-timed tax cuts, as well as the impact of the COVID-19 pandemic and the Russia-Ukraine War. Depleting foreign exchange reserves, massive debt loads, currency devaluation, growing inflation, and a struggling economy have forced the residents to battle for necessities as well. Despite being a key player in the global tea and textile markets, Sri Lanka has been unable to export tea and textiles due to a severe economic crisis, creating an opportunity for the Indian tea and textile industry to tap into the market. Gripped by the crisis, Sri Lanka is losing orders to its competitor and neighbour, India. Indeed, India should seize the opportunity presented by the current circumstances. Although, it will be difficult for India to fill the gap created by the crisis in Sri Lanka. It may reap the benefits to some extent.

Note

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