Indian Textile Exports: Past and Present

Rashmi Taneja

Abstract

Textile sector is India’s second largest manufacturing sector. The textile sector contributes about 4% to the gross domestic product; about 14% of the total industrial output; 21% of the workforce and about 14% of the gross export earnings. But in the present scenario non-conventional sectors viz engineering, chemicals are replacing this sector especially in terms of export performance. Textile sector, including apparel, which was the largest export sector and accounted for almost a quarter of our exports has dropped to being fifth in rank and less than half its earlier share. This is despite dismantling of the textile quota regime in the developed markets from 01.01.2005 as per the World Trade Organisation (WTO) Agreement on Textiles and Clothing (ATC). In this study, aim is to analyse the export trend of textile sector since 2001-02 and would try to identify the possible reasons of falling exports of one of our key sectors. On the basis of the study, we will make an effort to put certain suggestions to revive its export growth which might contribute to growth of the Indian Economy.

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Indian Textile Exports: Status and Revival

Textile sector is India’s second largest manufacturing sector. The textile sector contributes about 4% to the gross domestic product; about 14% of the total industrial output; 21% of the workforce and about 14% of the gross export earnings. But in the present scenario non-conventional sectors viz. engineering, chemicals are replacing this sector especially in terms of export performance. Textile sector, including apparel, which was the largest export sector and accounted for almost a quarter of our exports has dropped to being fifth in rank and less than half its earlier share. This is despite dismantling of the textile quota regime in the developed markets from 01.01.2005 as per the World Trade Organisation (WTO) Agreement on Textiles and Clothing (ATC). In this study, aim is to analyse the export trend of textile sector in the past and present and would try to identify the possible reasons of falling exports of one of our key sectors. On the basis of the study, we will make an effort to put certain suggestions to revive its export growth which might contribute to growth of the Indian Economy

I Introduction:

Textile and Clothing sector is one of the most important sector in the Indian economy. Apart from providing one of the basic necessities of life the textile industry also plays a pivotal role through its contribution to industrial output, employment generation and the export earnings of the country. “Currently it contributes about 14% to industrial production, 4% to GDP and 17% to the country’s export earnings. It provides direct employment to over 35 million people. The textile sector is the second largest provider of employment after agriculture.”(Annual Report, 2010-11, Ministry of Textiles).

The textile and clothing sector which carries utmost importance for the country had faced various economical, political, natural and technological challenges during different period of time. Sometimes economic policies of the government did not support the sector and sometimes importing countries by imposing tariff and non tariff barriers created hurdles for its trade and development. In addition to this natural calamities (drought, flood), political wars viz. world war II, Indo China, Indo Pak war resulted unfavourable circumstances for this sector. In spite of above difficulties, its level of production, contribution to employment exhibited upward trends especially after Independence and its export performance

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experienced a remarkable shift in terms of volume and contribution to the India’s and Global exports of textile products. The sector which remained relatively neglected, discriminated emerged as a powerful source of export earnings and attained the first rank for making the highest contribution to India’s total exports in 1970s. This position remained the same for a very long period of time, we can say till 2003-04 but after that not only its growth is declining on year on year basis but its contribution to the total exports has also been declining and gradually its position is also taken over by the other commodities. Therefore, in this study we will make an attempt to understand the growth pattern and export performance of textile and clothing sector; to identify the causes of its success and failure in different period of time and ultimately to provide certain suggestions so as to revive the sector. At this backdrop, specific objectives of the study are:

1. To understand the growth pattern and export performance of textile and clothing sector
2. To identify the causes of success and failures, faced by the sector in different point of time
3. To put forward suggestions so as to maintain/revive the export performance of the sector.

Research Methodology: In order to pursue the study in hand, following research methodology is adopted.

Nature of Study: Study is exploratory in nature, implies different time period will be explored to have a comprehensive understanding of the sector. For the sake of simplicity time period is also divided into three categories:

1. Before 1949
2. 1950-1990 (Pre economic reforms)
3. 1991-2010-11 (Post economic reforms)
C. **Data Collection/Data Sources**: Secondary method will be applied to collect the data from authentic sources viz. Reports published by the Ministries of Textiles, GOI, Confederation of Indian Textile Industry, WTO; Database published by Economic Survey, Reserve Bank of India, United Nations; various websites, journals and newspapers.

**Part 1: Before 1949**

The Indian cotton industry has had as past, as great and glorious as old. Of all the Indian industries of the present day the cotton industry is probably the oldest. Nobody can say who grew the first cotton plant, who spun the first thread, and who wove the first piece of cloth and when all the processes were evolved, but all are agreed over this that it was a denizen of this sacred land who had the honour of discovering and making the first use of cotton and that this happened at a time when other countries were not even civilised. India, therefore, occupies a very important place in the history of the cotton industry.

It is accepted that cotton manufacturing commenced in 1200 B.C. and it became the customary wear of Indians. Coming to the later period its spinning and weaving methods became advanced and manufactures of cotton achieved high skill of excellence. This resulted commencement of exports of cotton and cotton fabric to the civilized people and thus brought world wide importance for the Indian cotton industry. This industry even flourished during the regime of Akbar when handicrafts i.e. using silver and gold to adorn clothes, using different coloured fine threads to make carpets, bed tapes was emerged as a new area of the cotton industry. This made India more prominent in the world. Every one from cape of good hope to China; man and woman is clothed from head to foot in the products of Indian looms.

The merchant of Europe were lured by the trade and prosperity of India. Since cotton goods were beautiful, durable, fine but cheap had a strong commercial feature of making profit. This pushed the English merchants to carry the product into England. At the end of the
17th century great qualities of cheap and graceful Indian Calicoes, muslin and chintz were imported into England. These products found such favour that woollen and silk manufactures of Europe were seriously alarmed. Now in order to protect the domestic industry East India Company made deliberate endeavour to use the political power to discourage the manufactures of India in Europe. Therefore, during the period 1794-1824, high excise and import duties were imposed on Indian Manufactures and on its imports in Europe. Whereas European goods were exempted from any duties while entering Indian Market. As a result, Indian cotton fabrics/products exports which were famous for its great durability, permanent of whiteness, delicacy of textures, purity and fastness of colours, grace of design and above all for the cheapness faced a rapid fall in its exports within less than 75 years (1757-1822). Moreover India reduced the position of a manufacturing country to that of a supplier of raw material to British looms.

Later on, several British merchants found that they could save the freight of carrying raw cotton to England and bringing it transformed as good to India, if they could set up power looms on the spot. Therefore, as early as 1818, the first cotton mill was established with English capital but the real development of the mill industry begins with floating of Bombay Spinning and Weaving mill in 1851 which commenced its work in 1856. This year 1955-56 marks a turning point in the Indian Cotton Industry. Till 1870 Indian cotton industry enjoyed prosperous time in terms of increased production, capacity, consumption, exports and profitability. But, after 1873 India started facing problems of continuous famines, outbreak of plague, Swadeshi Movement, exchange rate movements, increased completion from other foreign counties, technology backwardness which led to restricted growth of the Indian Cotton Industry till World War I. Post WW II brought boon for the Indian cotton exports because imports from UK curtailed. But this boom was temporary, as soon its position was displaced by the Japan. Since then India Cotton Industry was not remained from
free from struggles at the domestic and international level. It is only by 1950s when India became the world’s largest exporter of cotton fabric because of devaluation of rupee in 1949 and outbreak of Korean War.

**Part II  1950-1990**

**Pre Economic Reforms**

This period was also full of problems, prospects and even the blunders made by the government. In accordance with that the industry experienced upward and downward trend of exports of cotton textiles. In this section we will try to understand the economical, political, natural and technological challenges encountered by the Indian textile industry at the national and international level; the opportunities, the industry received and the mistakes done by the Indian Government in terms of undertaking defective policies. For the sake of simplicity the whole discussion is stated in chronological order:

**1950** - During 1st Five year plan, Government restricted the exports of cotton fabric by fixing export quota, high export duties in order to cater the domestic demand.

**1950s-1960s** - Man made fibre such as viscose filament yarn, viscose staple fibre, began in early 1950s but its use was prohibited in 1960s as soon as there was a switch from cotton to man made. This was in order to protect the agriculture sector and handloom sector.

**1950s** - Installation of spinning mills and power looms was prohibited from 1956-1985 , to prevent people from loss of jobs. Since, automation in this sector could result unemployment.

**Since 1955** - Disappearance of the low price benefit since U.S.A started subsidising its cotton industry. Cost of production was also increasing whereas cost in Hong Kong, Taiwan, and in South Korea was falling because of the modernisation of industry during 1960s
1960s - Relative high wage cost per unit of output because of the slow pace of modernisation and renovation;

1960s - Less proportion of automatic loom in the total loomage so as to prevent job loss in agriculture sector, handloom sector and also to prevent outflow of forex reserve.

1960s - Mismatch of production with customer preference i.e. focussed on grey/medium/coarse variety of fabric rather than on dyed/processed and fine varieties of cloth.

Since 1960s - Imposition of import quota by UK, U.S.A. and Japan on the imports from South Korea, India, Taiwan and Hong Kong to curb their imports in developed nations. For this Long term Arrangement was agreed in 1962 and Multifibre Agreement was initiated in 1974. This resulted restrictions on the export of mill made and hand made items and ban on the export of Ready made garments in late 1970s.

1966 - Political disturbance occurred owing to the Indo Pak war in 1966 which led to the devaluation of official currency

Opportunities:

1949 - Korean War and WW II gave opportunity to the developing countries to produce and export more for the developed nations.

1960s - Support by the government to increase the production of long staple varieties of cotton to meet the increased demand of fine and super fine varieties of cloth,

1959-69 Import substitution policy in 1959, led to production of ready made garments in the domestic market. Export promotional measures, on the other hand pushed its exports also.
**1970-1976** Increased demand of Indian ethnic looking items in America and European market

**1971-1976** On the one hand process of import liberalisation started to modernise the industry and on the other hand policy change with respect to exports took place mainly in four areas: Industrial licensing, import licensing, export incentives and bureaucratic procedures.

**Throughout out** - Export Promotional measures and incentives by the government but these were not substantial.

**1985** : It was a turning point a new textile policy was undertaken whereby :

i. Difference in Mill and powerlooms was abolished;

ii. Dropped the freeze on loomage in the mill sector;

iii. Excise duty was reduced

iv. Composite mill could use artificial silk yarn ,man made fibre

v. Allowance to close sick part of the units by entrepreneur themselves;

vi. Modernisation of handloom.

**Conclusion :**

On the basis of above discussion it is apparent that Indian Cotton Textile Industry during this period also encountered with many regulatory, technological, political and international challenges. Many a times Indian Government by imposing restrictions on the installation of power looms, spinning mills discouraged the advancement in the industry which ultimately created technological gap. Moreover, the industry was prohibited to use man made fibre and mill made yarn. Sometimes, government deliberately restricted the exports of cotton
products. The purpose of all these restrictions was either to protect the agricultural sector, employment of people or to meet the domestic gap. But, serving this purpose made the Indian Cotton Industry backward and uncompetitive in the international market. Moreover, political disturbance viz. Indo Pak war, Indo China war also hit the pace of cotton fabric exports when they were at peak. Last but not the least imposition of complex quota system by the developed countries created more troubles for Indian exports. In contrary to these problems, India also received the opportunities to grow and develop. Korean War, installation of power looms, spinning mills (which was made prohibited by the Indian government), import substitution policies which led production and exports of readymade garments, demand for ethnic wear of India, various export promotion incentives through out the year. But, the tragedy was, whenever Indian cotton exports started to take a rapid pace anyhow it used to get disturbed by any of the above factors. But still we can say if the Cotton Industry would have been advanced in time; would not have been prohibited powerlooms; would not have imposed high excise duties; would not have reserved production for handlooms; would have supported the industry adequately – The Industry must have been achieved tremendous growth till now.

Owing to all the above mentioned positive or negative circumstances; Indian Textile Industry had experienced different export performance during different period of time:

This export performance in terms of textile exports (cotton fabrics and ready madegarments) share in total export share is exhibited in Table 1 and India’s textile export performance in comparison to its competitors is exhibited in Table 2.
Table: 1 India 's Export Earning share in Total Exports of Principal Commodities 1960-1990

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The previous discussion and above table shows that, owing to the different phases of problems and prospects, the Indian textile industry experienced different export performance. The share of cotton fabrics started falling after its share in total exports reached the peak level (9.4%) in 1973-74. On the other hand, the share of readymade garments in total exports tends to rise continuously and achieved 12.3% share in 1990-91. Moreover, its rank became No. 1 amongst the principal export commodities of the country.

Therefore, the textile industry had been one of the vital sectors for the Indian Economy.

Part III 1991-2010

Post Economic Reforms

Textile Policy 1985 was an important step towards increasing and revival of textile exports but the policy could not augment the textile exports substantially. This is after the major economic reforms and various specific measures undertaken for Textile Sector after 1991, textile exports started increasing remarkably.

In this section we are making an attempt to highlights the major economic reforms and its impact on the textile industry in terms of its export performance during 1991-2000

Economic Reforms:

1. The system of Advance License was initiated; Procedure for import of Capital Goods in simplified

3. Export House, Trading House, Star Trading House, EOU, EPZ, have been strengthened

4. Various items were shifted from SIL to OGL;

5. EPCG/Duty Drawback Scheme/ Duty Exemption Schemes were more liberalised;

6. 100% FDI is permitted;
7. LERMS/Current Account Convertibility was introduced

8. QRs were reduced on the import of various raw material of producing textile products;


10. Announcement of new Textile Policy 2000

**Specific Measures:**

1. Dereservation of few sector from SSI category;

2. ‘Textile Package’ including reduction in excise duty, custom duty, funds allocation for Apparel Park was announced;

3. Removing the ceiling on the cotton yarn export and withdrawal of ban on the export of cotton waste was also announced;

4. Construction of Apparel International Mart, Apparel Export House

5. Technology Upgradation Fund is launched to modernise the industry for five years w.e.f 1.4.1999-31.3.2004, which provides 5% interest reimbursement on loans. Scheme extended to the year 2007

6. Setting up of modern laboratories to meet the international environmental standards, Creation of Special Purpose Vehicle for improving infrastructure during 2004-05

7. Handloom and Handicrafts identified under special focus initiative scheme

**These reforms resulted growth in textile products in terms of value and its position in India’s overall exports.**
(million $)

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Source: Handbook of Statistics, RBI

Table: 1 India's Export Earning share in Total Exports of Principal Commodities 1991-92-2010-11

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<td>Petroleum Products</td>
<td>1.4</td>
<td>1</td>
<td>4.2</td>
<td>5.6</td>
<td>14.7</td>
<td>17.4</td>
<td>15.8</td>
<td>16.5</td>
<td></td>
</tr>
</tbody>
</table>

Source: Economic Survey, various issues
IV Analysis:

**Textile Export Performance during Post Reforms**

The above table exhibits that after undertaking economic reforms


ii. Entire decade experienced the increased export growth rate except 2-3 years because of the Asian Crisis.

iii. Textile sector has been the highest contributor to the India’s total exports during the same period and thus ranked at no. 1 till 2003-04.

**This significant export volume and position in total exports, made this sector significant for the Indian economy.**

But if we observe during 2001-2002 its growth in exports declined to 10 percent. The reason behind this was mainly i. due to the slowdown in the economies of some of the major importing countries such as US and ii. increased competition from our
neighbouring countries like China, Bangladesh etc. iii. Apart from this higher prices of cotton yarn in indigenous market has also affected its exports in the major markets. However, the downtrend in textile exports has been reversed and the textile exports have again started recording positive growth from the year 2002-2003. During 2005-2006 owing to the abolition of Multifibre Agreement, exports of textile from India surged from 13555 million dollar to 16402 million dollar registering 21% growth over the previous year. This was a jump from 6% export growth in 2004-05. Although it attained high growth of exports but lost its position from first to second in the same year. Now, this is the year since when India’s textile exports growth did not show the consistent high growth. Rather it remained fluctuating and its share in total exports also accounted declined from 25% in 2000-2001 to 9.2% in 2010-2011. Moreover its top most position also slipped gradually from first to second, third, fifth in 2005-06, 2006-07,2007-08 and now it is at sixth position. These position have been taken by Engineering Sector, Petroleum and Chemical Sector.

On the basis of this analysis a question comes in mind ....The sector- Textile which has been showing a remarkable performance in the foreign trade of India why and how? Its growth, contribution and ranks has slipped so down?

V Reasons:

First, cotton fibre, which looks very promising. We have doubled our production in five years and have sufficient cotton to feed the growth of the industry. We are the second largest producer today and have also become the second largest exporter of cotton. This means that we have a clear advantage on the cost of cotton. However, the shocking news is that it is not necessarily true – the relative advantage of India vis-à-vis competing countries like Bangladesh, Pakistan, Vietnam, Indonesia, and Thailand has come down, with the gap
between Indian cotton price and that of the other countries reducing over the last five years due to the acceptance of Indian cotton by other nations and large scale exports from India.

Second, the technology access and its cost. India has access to the best global technology in addition to its locally available machinery. However, apart from ginning and partly spinning, we are largely dependent on imported technology. Europe is considered a hub for it, but the severe appreciation of its currency has made it more expensive by about 20 percent over the last few years (European machinery is anyways not cheap), which is further compounded by import duty despite export obligations

Thirdly, labor. However, in absolute terms we are higher than many of our competitors like Bangladesh, Pakistan, and other developing countries and if adjusted for productivity we are higher than all major textile nations like China, Indonesia, Thailand, and Vietnam.

Fourth, we have a restriction on labor flexibility, making it very difficult for the garment industry, which has seasonal loads of work – thereby allowing very limited space for companies to adjust to the changing times and seasonal demands.

Fifth, we have the ‘cost of power’, which is probably the most expensive amongst all the nations globally. Our power costs are 10-12 cents per unit and still we don’t have uninterrupted supply leading to higher costs of self-generation. On the contrary, most other nations have power costs in the range of 5-7 cents per unit. Textile industry is fragmented, making it difficult for self-generating units to be set up and reduce the power cost impact (the steep oil price hike in 2008 made

Sixth, Antidumping Measures by the major economies viz. EU, Japan, Korea.

Seventh: Appreciation of rupee.
Eighth: One of the factors affecting production of textiles in the economy is the demand from the different countries and the US and Europe which are the major buyers for Indian textile and clothing, declining income in these economies has resulted fall in the production of textile products in India. We have the issue of markets. India is in a unique position where it has no preferential access for any product nor does it enjoy any proximity advantage. Turkey has the whole of Europe at its doorstep, the ASEAN countries can trade amongst themselves with preferential duty structure and even Korea is giving them preference. Pakistan and Bangladesh have enjoyed preferences for various markets. We are, on the contrary, opening up our markets to the low and competitive nations like Bangladesh, Pakistan, and Sri Lanka with duty free access to our growing consumer population.

VI Strategic Initiatives:

Facilitation Required by the Government:

- Government should take steps to reduce the cost disadvantages of Textile and Clothing Industry which are created on account of unfavourable government policies;
- Captive power generation should be supported in the region suffering from acute power shortages
- Labour laws should be liberalized in terms of extending labour working hours, allowing contract labour
- Association should develop skilled development centers in order to impart training to the labour focusing on the specific skills
- Indian government should diversify the garment exports markets in order to reduce the dependence on EU 27 and US.
• Technology up gradation project should be undertaken in order to enhance the competitiveness

Facilitation by the Firms:

• Control over supply chain – working closely with suppliers and customers to reduce the working capital cycle
• Working closely with customers to understand their needs and innovate the designs accordingly
• Investment in Information technology

The agenda for the industries should be to derive competitiveness and customer acceptance through focus on strengthening supply chain, innovating new precuts, building brands and acquiring economies of scale.

Conclusion:

While the Indian textile and garment sector enjoys some strategic and commercial advantages, there is a case to focus its energies on in meeting the impending challenge. Both industry and policy-makers need to work together to achieve the desired results within the given timeframe. Indian textile and corporate sector shows that despite the high level of fragmentation, a lot can be done at the macro and micro level to enhance the sector’s competitiveness.
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