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# An Analysis of Performance of the Indian Textile Industry after Phase of Quota System

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**Abstract**

Today the Indian textile industry is one of the most important and vital industry of our economy not only in terms of output but also in terms of foreign exchange earnings and employment generation. The Indian textile industry managed to penetrate its roots deep in the international market but that was in the era when multi-fiber Agreement (MFA) was in existence, but now, since 1 January 2005, the Multi-fiber Agreement has phased out and India needs to strive harder to sustain its past achievement. MFA is an agreement through which developing countries of the world were restricted to export their textile products beyond a certain level to the markets of developed nations. Thus, the motive behind this was to provide a window of opportunity for developed and underdeveloped economies or to save the interest of the domestic textile industry of the European Union and the US. Now since the quota is phased out it is a grand opportunity for developing countries. This development may have a positive impact not only on the textile sector of the country but also on the entire economy as a whole. The present research tries to make an attempt to analysis the export performance the Indian textile industry after the abolition of the multi-fiber Agreement.

***Keywords:*** *Textile Industry, MFA.*

## 1. Introduction

The history of India witnesses the glorious past of its textile industry. Many countries bought textile products from India for exchange of gold and silver. The diversity and richness of Indian culture reflects in its textile products in terms of variety, colors, and patterns it offers to the world. Textile was one of the principal commodities for which India enjoyed its trade at international platform. The inimitability of Indian textiles lies in its fine quality, vibrant colors, elaborate designs, natural sheen. Although India underwent many invasions, suffered slavery and revolution, India's textile proficiency was imitated in the West. After independence, this industry restored its position as one of the most significant textile industries of the world. Textile industry also has a unique position as a self-reliant industry. From the production of raw material to the delivery of a vast variety of finished products, the industry adds substantial value at each stage of processing. It has a major contribution in the country's economy as it is the second largest employment generator after agriculture. Today the Indian textile industry is one of the most important and vital industry of our economy not only in terms of output but also in terms of foreign exchange earnings and employment generation. According to economic survey 2008-09 textile sector contributes 14 percent to industrial production, 4 percent to the gross domestic product, and 17 percent to the country's export earnings. It provides direct employment to over 35 million people, which includes a substantial number of economically weaker sections of the society [1]. Textile industry has a strong base as it is vertically integrated, from producing raw material to providing value-added products. It accounts for 18 per cent of industrial production and 25 per cent of export earnings. India is the world's third largest producer of cotton and cellulose fiber and yarn, the second largest producer of silk, and the fifth largest producer of synthetic fiber and yarn. Indian textile industry is bestowed with many factors of production like raw material, skilled and unskilled labour, vertical integration, growing domestic market, institutions for textile designing like the National Institute of Fashion Technology (NIFT), support by government in the form of Technology Up gradation Fund, etc. The industry has a complex structure because it has various independent units which individually form different micro industries like the spinning industry, the weaving and knitting industry, the Indian fabric processing industry, and the garment (apparel) manufacturing sector as well. There exist a large number of players in each sector but none of these is large enough to stimulate the demand for its textile products in the global market. So far international trade in textile and clothing has been managed through forced consensus. Textile trade between developing and developed countries, that is the exporting and importing countries, had been the hardest fought trade issue [2].

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According to MFA developing nations trading in textile and clothing were assigned a quota for exporting textile products to developed nations. This agreement was implemented in order to safeguard the textile industry of these nations to provide breathing time to textile industries of these countries to make structural readjustments. Those countries whose markets were disrupted by increased imports of textiles and clothing from other countries were able to negotiate quota restrictions. MFA was to initially operate for a limited period of four years and was primarily meant to provide breathing time to textile industries of the developed countries to make structural readjustments. However, the quota regime of MFA got extended for varying periods till 1994. The Agreement on Textile and Clothing (ATC) came into force in January 1995 and replaced the multi-fiber Agreement. ATC is a transitory regime between the MFA and the integration of trading in textiles and clothing in the multilateral trading system. The ATC provided for a stage-wise integration process to be completed within a period of ten years (1995-2004) and when it expired on 1 January 2005 there was no longer the need for an agreement devoted solely for textile product. 1, January 2005, marked the end of a 10-year phase-out process of the quotas under the World Trade Organization. The abolition of quotas on specified products was gradual process which phase out in four stage as mentioned below:

**Table 1: Agreement on Textiles and Clothing (ATC)**

| Year | Percentage of product to be brought under removal of quotas. |
|---|---|
| January 1995 | 16 |
| January 1998 | 17 |
| January 2000 | 18 |
| 1 January 2005 | 49 |

MFA is an agreement through which developing countries of the world were restricted to export their textile products beyond a certain level to the markets of developed nations. Thus, the motive behind this was to provide a window of opportunity for developed and underdeveloped economies or to save the interest of the domestic textile industry of the European Union and the US. Now since the quota is phased out it is a grand opportunity for developing countries. This development may have a positive impact not only on the textile sector of the country but also on the entire economy as a whole. The present research tries to make an attempt to analysis the export performance the Indian textile industry after the abolition of the multi-fiber Agreement [3].

Mills, powerlooms and handlooms constitute three independent sectors of the Indian textile industry. The mill sector is organized, mechanized and modernized production of yarn whereas the power loom and handloom sectors have remained technologically backward and stagnant. Almost all the spun yarn made in India come from the organized sector, reflecting the highly capital intensive nature of yarn spinning. Weaving in the mill sector has been gradually suffering due to the competition from the power loom and the trend may continue. The decentralized powerlooms sector plays a pivotal role in meeting the clothing needs of the country. The power loom industry produces a wide variety of cloth, both grey as well as processed. Production of cloth as well as generation of employment has been rapidly increasing in the power loom sector. There are 22.38 lakh power loom in the country as on 31st December, 2009 distributed over approximately 5.03 lakh units. This is about 60.39 percent of the total looms in the world. The power loom sector contributes about 62 percent of the total cloth production of the country, and provides employment to about 55.95 lakh persons during the year 2008-09. As an economic activity, handloom is the 2nd largest employment provider next only to agriculture. The sector with 60.40 percent about 35 lakh handlooms provides employment to 65 lakh persons, of which 60.40 percent are women and 35 percent belong to minority section of the society [4].

**India’s Textile Exports**

The Textiles exports basket consists of Ready-made garments, Cotton textiles, Textiles made from man-made fiber, Wool and Woolen goods, Silk, Handicrafts, Coir, and Jute. Further, the export basket consists of variety of items: cotton yarn and fabrics, wool and silk fabrics, man-made yarn and fabrics, jute industry etc. ,Textile exports play a dominant role in the total exports of the country. In India, 17% of the country’s total export earnings are textile exports. India’s share in the global textile market and apparel market is 4% and 2.8% respectively [5]. Indian textile industry is the second largest in the world. It has the largest cotton acreage of 9 million hectares and is the third largest producer of this fiber. It ranks fourth in terms of staple fiber production and sixth among filament yarn production. The country accounts for about one fourth of global trade in cotton yarn [6]. Indian textile and clothing industry was generally inward looking till 1980s. The Textile Policy of 1985 heralded a new beginning for the textile industry by focusing on the deep rooted structural weaknesses. The reforms initiated in 1990s further boosted the textile industry. The textile industry was delicensed and reforms on fiscal and external front were pursued. As a result Exports of textiles and clothing products from India have increased steadily over the last few years, particularly after 2004. India's textiles & clothing export registered robust growth of 25 percent in 2005-06, recording a growth of US$ 3.5 billion in value terms thereby reaching a level of US$ 17.52 billion and the growth continued in 2006-07

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as textiles and clothing exports were US$19.15 billion recording a increase of 9.28 percent over previous year and reached US$22.15 billion in 2007-08 denoting an increase of 15.7 percent but declined by over 5 percent in 2008-09 with exports of US$ 20.94 billion. Indian textiles and clothing exports is facing various constraints of infrastructure, high power and transaction cost, incidence of state level cess and duties, lack of state-of-the-art technology etc [7].

**Table2: Product-wise Indian Textile Exports**

(US$ million)

| Items | 2006-07 | 2007-08 | 2008-09 | Apr.-Sept. 2009 (P) | Growth Apr.-Sept. 2009 (percent) |
|---|---|---|---|---|---|
| Ready-made Garments | 8,282.3 | 9,069.8 | 10,242.8 | 4,528.8 | -10.3 |
| Cotton Textiles | 5,564.2 | 6,858.6 | 4,741.6 | 1,788.9 | -35.1 |
| Wool & Woolen Textiles | 423.8 | 443.1 | 478.2 | 240.6 | -8.7 |
| Man-made Textiles | 2,398.9 | 3,177.1 | 3,280.5 | 1,889.8 | -2.4 |
| Silk | 706.0 | 657.7 | 675.5 | 280.7 | -24.7 |
| Handicraft* | 1,364.9 | 1,452.3 | 1,074.0 | 401.8 | -33.6 |
| Coir & Coir Manufactures | 145.8 | 160.3 | 148.0 | 78.3 | -2.7 |
| Jute Goods | 260.2 | 327.9 | 299.1 | 109.9 | -40.8 |
| Handloom Products | 0.0 | 0.0 | 0.0 | 112.3 | 0.0 |
| Grand Total | 19,146.1 | 22,146.8 | 20,939.8 | 9,431.1 | -15.5 |

Source: Directorate of Commercial Intelligence and Statistics (DGCI&S) Kolkata

## 2. Review of literature

Manojit Saha (2005) emphasizes on the end of quota regime that ushers a new era for the Indian textile industry, and offers a huge opportunity for the textile and apparel sector in India. This development is expected to result in higher export possibility for Indian manufacturers to the US and the EU which was restricted previously.

M. Knappe (2004) emphasizes that market access in 2005 will be free of quota restrictions, trade will become more liberal, but it is also likely to become complex. This paper gives an overview about possible trade perspectives beyond 2005 and the challenges and trade uncertainties with which manufacturers in developing countries are confronted. Quotas gave some transparency to the trade flows, this transparency will disappear and will be replaced by an insecure environment. Enterprises in developing countries need to adapt to new requirements imposed by importing governments and buyers but the ability to do so is less developed in least developed countries (LDCs) and small economies than in larger developing economies. All this causes confusion and complexities at the level of importers and exporters. Hence no market player will risk concentrating imports or exports too much on one or two countries.

Ram Upendra Das (2004) explores the prospects for horizontal specialization and industrial restructuring with the help of strengthening trade-investment linkages in this sector in the SAARC region along with adopting some other policy measures. The paper also argues that it will not be easy to change the production processes in these countries especially in the post- MFA era and thus regional cooperation in this sector could be one of the ways to meet the challenges in the post MFA regime.

Elbehri Aziz (2004) examines the global trade implications of MFA quota removal on cotton and textile industry. This study compares alternative scenarios of MFA environment and focuses on three sets of issues: (i) impact at the global level, sorting out the global expansion as well as the critical shifts in bilateral textiles and apparel trade pattern; (ii) trade implications for the US in the textile and apparel markets; and (iii) impact of the textile and clothing expansion on global fibre demand. The analysis supports significant trade in apparel shifts in favour of Asian and South Asian suppliers.

IIFT (1997) conducted a study to assess the export capabilities of the Indian garments industry. This study examined the perceptions of exporters regarding their product competitiveness in post MFA phase-out scenario and the extent of improvement expected in the margin due to infrastructure up gradation

Verma (2002) examined India's competitive performance in the US and EU markets for multi fiber arrangement products categories that are important to Indian export

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market. In this study it is concluded that Indian garment export to the EU and US markets are export competitive. This study has pointed out various areas requiring Government policy intervention. Several policy reforms that are needed urgently in order to become more competitive in the world market have also been discussed.

Koshy (1997) studied the perceptions of 107 exporters regarding overseas importers regarding with respect to garments and fashion garments. The study pointed out that for 'basic garment' sourcing, the exporters believe that production capability has an important generic value, forming the basis of value chain match in the eyes of overseas buyers. According to this study, Indian garments exporters perceive that the importer-segments expect many additional dimension in fashion garments which distinctly different from basic garments. These factors can be termed as 'production, product specialization and development function' and 'quality and quick response'. The exporters realize that the capability to design and develop fabrics, specialize in product categories, give the final finish and presentation of garments, deal with a short lead time and speed of response are some of the dimensions the buyer expect from exporters of 'fashion garments'.

Robyn (2005) emphasizes India is a developing country. Its textiles and apparel industry is one of the most important industries for the country's economic growth. The textiles and apparel industry is one of India's largest foreign exchange earners, accounting for nearly 16 percent of the country's total exports. The industry contributes about 14 percent of total industrial production in India, employing approximately 38 million workers, and accounts for about 30 percent of the country's total exports. India exports about $US14 billion of textile and apparel products a year, and exports predict that this figure will reach over $US50 billion by 2010, which is about four times the current figure .

Macbean (1996) examined the index of instability of export earning of developing countries and developed nation during 1946-1958. He found that index of instability of export earnings was 23 for 45 developing nations and 18 for a group of 18 developed countries. This indicates that export instability was greater for developing economics.

Gehrals (1991) suggests that higher volatility of export earnings implies higher volatility of profits of those sectors producing export tables. This will have negative effect on the productivity growth of the economic, since historically productive growth has been reported to be higher in trade goods sector.

## 3. Objective

To determine export marketing performance of textile exporting units in India after phase out quota system.

## 4. Research Methodology

### Research Design

The study conducted would be diagnostic cum empirical in nature. It is diagnostic in a sense export marketing bottlenecks would be identified in light of foreign trade policy. The focus of the studies has been on developing effective and efficient frame work textile exporters. After expiry of multi fiber agreement in 2005 the export marketing scenario has completely changed. And in this changed situation where the focus on the export marketing frame work very few studies has been conducted so far. The study would be empirical in nature as the researcher would attempt to study and understand the experiences and observe the different components of export marketing strategies adopted by the textile exporters.

### Data Collection

For the purpose of research the data will be collected from the secondary source. The main source of the secondary data magazine, newspaper and through website. The secondary data also would be collected from publications of ministry of textiles, publications annual reports of various textile export promotion councils like cotton textile export promotion council, carpet export promotion councils, export promotion councils for handicrafts, handloom export promotion council, silk export promotion council, wool export promotion councils. The statistics for the exports would be gathered from publications of Centre for Monitoring Indian Economy (CMIE), National Council for Applied Economic Research (NCAER), Indian Trade Promotion Organization (ITPO), publication of RBI and export and Import bank of India. The primary data would be also compensated by journal publications like Economic and Political weekly, Foreign Trade Review, yojana, Federation of Indian Exporter Organization etc.

## 5. Analysis

### 5.1 Industry Average

The textile readymade and apparel industry has been increasing its operating revenues year on year at a brisk rate. The number of companies that are in this industry has increased three folds from around 33 companies in 2008 to around 90 companies recently. This increase in the number

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of companies can be attributed to the rise in the sales revenue.

**Table 3: Industry Average various Financial Indicators**

| Year | 2004 | 2005 | 2006 | Latest |
|---|---|---|---|---|
| Debt-Equity Ratio | 1.02 | 1.19 | 0.99 | 1 |
| Current Ratio | 1.83 | 1.64 | 1.43 | 1.58 |
| Fixed Assets Turnover Ratio | 2.15 | 3.16 | 2.54 | 2.95 |
| Inventory Turnover Ratio | 3.35 | 4.54 | 3.77 | 4.44 |
| Interest Coverage Ratio | 2.77 | 2.97 | 5.56 | 3.97 |

Source:http://money.rediff.com/companies/bang-overseas-ltd/16070099

We find that the capital Structure of the Industry has reached a position wherein the companies are raising capital through debt and equity in the same ratio of 1:1 The current ratio is also moving slowly up recently despite the fall in 2006 towards the optimum ratio of 2:1. At present it
is at 1.58:1 The two turnover ratio‘s namely Fixed Assets Turnover Ratio and the Inventory Turnover Ratio are becoming high. This is a positive sign if the turnover ratio is high. The interest coverage ratio has dropped noteably but this can be attributed to the expansion plan of companies.

## 5.2 The organized textile mill industry

The Cotton/Man-made fiber textile industry is the largest organized industry in the country in terms of employment (nearly 1 million workers) and number of units. Besides, there are a large number of subsidiary industries dependent on this sector, such as those manufacturing machinery, accessories, stores, ancillaries, dyes & chemicals. As on 31.10.2009, there were 1834 cotton/man-made fiber textile mills (non-SSI) in the country with an installed capacity of 37.07 million spindles, 4,89,718 rotors and 56,524 looms . The capacity utilization in the spinning sector of the organized textile mill industry ranged between 80 to 90% while the capacity utilization in the weaving sector of the organized textile mill industry ranged between 41 to 62%. The weaving capacity in the organized sector, along with the number of composite textile mills, however, has stagnated because the past Government policy permitted only marginal expansion in weaving capacity in the organized mill sector. Even after the removal of restrictions in the Textile Policy of 1985, weaving capacity has been consistently declining. This is attributable to the structural transformation in the industry, leading to the de-linking of weaving from spinning and the emergence of the decentralized power loom sector. In the organized sector the loom age capacity has declined from 1.23 lakh in March, 2000 to 0.86 lakh in March, 2005, and to 0.56 lakh in March 2008 and the same marginally increased to 0.57 lakh in October 2009. The total number of textile miles and their capacity installed are given at tables 4 or 5.

**Table 4: Textile Mills Non SSI**

| Item | Unit | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Spinning Mills (Non SSI)** | No. | 1565 | 1579 | 1599 | 1564 | 1566 | 1570 | 1608 | 1597 | 1653 | 1657 |
| **Composite Mills (Non SSI)** | No. | 281 | 281 | 276 | 223 | 223 | 210 | 200 | 176 | 177 | 177 |
| **Total** | No. | 1846 | 1860 | 1875 | 1787 | 1789 | 1780 | 1808 | 1773 | 1830 | 1834 |
| **Exclusive Weaving Mills (Non SSI)** | No. | 203 | 207 | 209 | 206 | 202 | 204 | 204 | 179 | 184 | 184 |
| **Spinning Mills (SSI)** | No. | 996 | 1046 | 1146 | 1135 | 1161 | 1173 | 1236 | 1219 | 1247 | 1249 |
| **Powerloom Units** | Lakh No. | 3.74 | 3.75 | 3.80 | 4.03 | 4.26 | 4.34 | 4.40 | 4.69 | 4.94 | 4.99 |

Source: www.txcindia.com, Export & Imports: Foreign Trade Statistics of India (Principal Commodities & Countries)

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**Table 5: Capacity Installed**

| Item | Unit | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Spindles (SSI + Non SSI)** | Million No. | 37.91 | 38.33 | 39.03 | 37.03 | 37.45 | 37.51 | 39.5 | 39.07 | 41.3 | 41.27 |
| **Rotors (SSI + Non SSI)** | Lakh No. | 4.54 | 4.8 | 4.68 | 4.82 | 5.00 | 5.20 | 6.01 | 6.21 | 6.57 | 6.65 |
| **Looms (Organised Sector)** | Lakh No. | 1.40 | 1.41 | 1.37 | 1.05 | 1.03 | 0.92 | 0.69 | 0.56 | 0.57 | 0.57 |

Source: www.txcindia.com, Export & Imports: Foreign Trade Statistics of India (Principal Commodities & Countries)

## 5.3. Production of Cloth

Textile production covering man-made fiber, filament yarn and spun yarn showed a minor setback in 2008-09. Man-made fiber production recorded a fall of about 15% and filament yarn production recorded a fall of about 6% during 2008-09. Blended and 100% non cotton yarn production recorded a fall of about 4% during 2008-09. Cloth production by mill sector showed an increase of 1% during 2008-09. Cloth production by handloom, power loom decreased by about 4% and 3%, hosiery sectors production increased by 2%. An overall cloth production decreased by about 2% during 2008-09.. Over the years, production of cloth in the mill sector is showing a steady growth since 2003-04 onwards and was 1796 million sq. meter in 2008-09. The total production of cloth by all sectors i.e. mill, power loom, handloom, hosiery and khadi, wool and silk has shown an upward trend in recent years. The Cloth production in 2008-09 is 54966 mn. sq. meters. (Provisional). The cloth production during April-Oct (2009-10) showed an increasing trend by 10% (provisional). The data on production of cloth in the mills, handlooms, powerlooms and hosiery sectors during the past several years and the current year are given at table 6.

**Table 6: PRODUCTION OF CLOTH IN DIFFERENT SECTORS (in million sq meter)**

| ITEM | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 (P) | 2009-10 (April-Oct)(P) |
|---|---|---|---|---|---|---|---|---|
| **Mill Sector** | 1496 | 1434 | 1526 | 1656 | 1746 | 1781 | 1796 | 1035 |
| **Handloom Sector** | 5980 | 5493 | 5722 | 6108 | 6536 | 6947 | 6677 | 3942 |
| **Decentralised Powerlooms Sector** | 25954 | 26947 | 28325 | 30626 | 32879 | 34725 | 33648 | 21867 |
| **Decentralised Hosiery Sector** | 7881 | 7847 | 9112 | 10418 | 11504 | 11804 | 12077 | 7779 |
| **Khadi, Wool & Silk** | 662 | 662 | 693 | 769 | 724 | 768 | 768 | 448 |
| **Grand Total** | 41973 | 42383 | 45378 | 49577 | 53389 | 56025 | 54966 | 35071 |

Source: www.txcindia.com, Export & Imports: Foreign Trade Statistics of India (Principal Commodities & Countries

## 5.4 Post Multi Fiber Agreement

It is generally believed that quota phase-out can only be beneficial for the industry. In 1993, a study of seven countries found that the price of cotton yarn per kilo, was cheapest in India at US$ 2.79, compared to US$ 3.30 in Brazil, US$ 4.19 in Japan, and US$ 3.10 in Thailand. This was because overall labour and raw material costs are cheaper in India. However, it should be realized that the opposite can also happen. Removal of quotas may open new frontiers but will also close captive markets. The EU and the US will no longer be restrained in buying as much as they want from the cheapest possible sources. Some argue that the ending of quotas will result in cut-throat competition between developing countries. Coupled with this is erosion in the growth of markets in industrial countries. Apparent consumption of textile products, in real terms, remained stagnant during the decade 1985-95.

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Purchases become discretionary and fashion-driven. As a result, fashion cycles got shorter and order-cycles compressed. Retailers order requirements on short-order cycle term and demand rapid responses to in-season ordering. Hence, they are compelled to secure their supplies of top-up orders from those in close vicinity.

There is, therefore, a propensity towards sourcing from low-cost countries in the neighborhood as also a growth of offshore processing by manufacturers in developed countries. Regional integration reinforces this. Further exporters in India fear that freer imports could lead to dumping of low-cost fabrics from China and other Southeast Asian countries. Thus, the industry needs restructuring on all fronts. Although the policy framework can be blamed partially for its ills, internal factors are equally important.

Recent studies indicate that India is beginning to lose out to its rivals. In one survey of US textile and apparel imports, China and Hong Kong had higher market shares than India. In certain categories, other Asian low cost producers like Pakistan and Indonesia had higher market shares and had emerged as close competitors to India. Because many of these countries depend on imports, however, India can take advantage of home production. Further, formation of NAFTA means direct competition from the Latin American countries. The United States has farmed-out offshore processing work to enterprises in Mexico and the Caribbean Base Initiative countries. Similar relocation has taken place in Europe with manufacturers shifting base to Eastern Europe, which provides similar advantages of cheap labour and proximity.

According to projections by TECS, EU imports of ready-made fabrics will double between 1994 and 2004, as a result of the elimination of quotas. US imports are expected to treble over the same period according to another prediction, apparel output could more than double (i.e. expand by 241%) between 1995 and 2005, compared to an increase of only 114%, without the agreement on textiles and clothing. By increasing market access, the ATC will generate multiplier effects in the Indian economy, eventually feeding back into the textile industry itself. The rise in demand for exports could increase output and employment in the textile industry. This in turn will stimulate the agricultural sector to meet the rising demand for cotton. As profits rise, so will wages, which will act as further stimulus. The export boom in the textile and clothing industry will also generate considerable foreign exchange.

Given India's high quota growth rates during the phase-out period, its competitive product niches and established links with retailers and importers in developed countries, it should experience vigorous growth in the future. The World Bank predicts a growth rate of 16% per annum in the coming decade.

Ultimately, the extent that India will benefit from trade liberalization depends on its current cost competitiveness, its ability to increase productivity and upgrade quality.

**Table 7 : Implications on Indian Exports (Optimistic Scenario)**

(US $ million)

| | **1994** | **1998** | **2002** | **2005*** | **2010*** |
|---|---|---|---|---|---|
| Yarn | 590 | 1780 | 2333 | 2701 | 3131 |
| Made-ups | 851 | 1498 | 2620 | 4527 | 11266 |
| Fabric | 1214 | 1716 | 2512 | 3530 | 7100 |
| Garments | 3713 | 4829 | 6510 | 10794 | 21711 |
| *Total* | *6368* | *9823* | *14035* | *21552* | *43208* |

Source : Directorate of Commercial Intelligence and Statistics (DGCI&S) Kolkata
* Projections

**Table 8 : Implications on Indian Exports (pessimistic Scenario)**

(US $ million)

| | **1994** | **1998** | **2002** | **2005*** | **2010*** |
|---|---|---|---|---|---|
| Yarn | 590 | 1780 | 2003 | 2126 | 2022 |
| Made-ups | 851 | 1498 | 2038 | 2427 | 3098 |
| Fabric | 1214 | 1716 | 1931 | 2050 | 2154 |
| Garments | 3713 | 4829 | 5435 | 5939 | 6885 |
| *Total* | *6368* | *9823* | *11408* | *12542* | *14159* |

Source : Directorate of Commercial Intelligence and Statistics (DGCI&S) Kolkata
* Projections

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As opposed to the optimistic scenario, the pessimistic scenario shows a shortfall of nearly US $4000 mn of exports in year 2005 and the exports are not likely to be much higher than the present figures. It would also lead to development of textile and clothing industry in the other nations and India would lose out as a significant player in the industry. This would also stifle the domestic textile industry which would be in a very weak position to compete with imports. (These are expected to become cheaper with import duty rationalization as per international treaties and cost competitiveness of overseas players). Some of the subsidies currently extended by the Indian government to promote exports which are sector specific (TUF, 80 HHC) or region specific (EPZS, EOUS) may also need to be withdrawn.

## 6. Conclusions

To effectively tackle the situation India needs to invest in research and development to develop new products, reduce transaction costs, reduce per unit costs, and finally, improve its raw material base. India needs to move from the lower-end markets to middle level value-for-money markets and export high value-added products of international standard. Thus the industry should diversify in design to ensure quality output and technological advancement.

The weakest links in the entire chain are the powerlooms and the processing houses. The latter especially are very important because they are responsible for the highest value addition in the manufacturing line. A power loom co-operative structure could be evolved for pooling of common services and functions such as quality testing, marketing, short-term financing, etc. Further, because of the geographical proximity enjoyed, a cluster approach can be adopted. The government also needs to make policy changes like dereserving the small-scale sector so that it can achieve economies of scale and adopt a synergistic approach.

Handlooms by their very nature can adopt a strategy of “niche” marketing. In this respect, export promotion, common credit and marketing facilities and more significantly publicity are important areas for co-operation. Here too, a co-operative structure would be useful though government agencies should be involved because of their outreach. Newer and more innovative forms of involvement are required where decentralization should be a key element.

India has made little attempt to forge partnerships – in equity, technology and distribution in overseas markets. The newer nuances of global apparel trade demand joint control of brand positioning, distributing and quality assurance systems.

The Indian textile industry has recognized the need for a cradle-to-grave approach when tackling environmental issues i.e. eco prescription should be applied right from the stage of cultivation to spinning to weaving to chemical processing to packaging. Here especially there is great scope for private -public partnerships.

A great deal of work has been done by Indian trade and industry to comply with ecological and environmental regulations, and so Indian garments can adopt an appropriate label signifying a distinct quality.

Efficiency and output of handloom and power loom sectors also needs to be increased. The clothing sector needs the support of high quality and cost-effective cloth processing facilities. Modernization of mills is a must. R&D in Textile Machinery for technological up gradation:.

Human resource is another area of focus. The workforce must be trained and oriented towards high productivity. There is a serious gap between the training needs of different segments of the textiles industry. Therefore, centers for training of employees should be established in order to take full advantage of the manpower.

The business environment of the future will be intensely competitive. Countries will want their own interests to be safeguarded. As tariffs tumble, non-tariff barriers will be adopted. New consumer demands and expectations coupled with new techniques in the market will add a new dimension. E-commerce will unleash new possibilities. This will demand a new mindset to eliminate wastes, delays, and avoidable transaction costs. Effective entrepreneur-friendly institutional support will need to be extended by the Government, business and umbrella organizations.

Need for FDI: There is a need for FDI in textiles machinery sector which is inadequate to meet the demand. So far the textiles machinery industry has no presence in knitting and garmenting machinery. However, FDI proposals should be considered to support the growth of this sector which in turn will help the other sectors of textile industry perform up to the expectations. FDI is also needed in apparel manufacturers, synthetic fabrics, and technical textiles.

To improve quality: Research should be conducted on natural fibres other than cotton and man-made fibres. Some of these fibres like bamboo fibre, soya protein fibre,

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milk fibre, etc., are magnificent and noble in appearance All the three fabrics can be used in combination with the other fabrics.

The textile engineering industry does not have adequate capacity imports at concessional rates become a necessity. Capital assistance and modernization of textile engineering units are prime requirements.

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