

CHAPTER V

PROBLEMS AND CHALLENGES FACING THE STEXTILE INDUSTRY, AND INITIATIVES OF VARIOUS ORGANISATIONS

I. Challenges facing the Textile Industry and Strategies to be Pursued

5.1 Introduction

The post-ATC global market has not only opened a vista of opportunities but has also brought in a host of challenges to the Indian Textiles and Clothing (T&C) export. The opportunity provides unlimited market access, a competing position of India vis-a-vis other competitive nations for its strength on a strong resource base and production of small and wide variety of research products. The Indian exports has also received opportunity to expand in terms of products and market diversification. However, the Indian T&C exports has not been able to corner the benefit as was expected on account of a plethora of challenges being faced by the sector, both in domestic and export markets.¹

Textile exports must get special focus in view of its immense importance in the economy of country. More than 95 million people of India are directly and indirectly engaged in textiles or textiles related sectors. It is the largest employment generating segment of the economy, next to agriculture. This sector contributed 12.5 per cent of country's export earnings in 2009-10. Besides some selective big textile enterprises, this industry basically consists of medium, small and numerous micro enterprises scattered all over the country. The textile sector is the most labour-intensive, and has a rich heritage and tradition of thousands of years. The industry earned world-wide name and fame prior to the industrial revolution. In view of the labour-intensive nature and de-centralised character,

¹ Nayak, P. (2008a), "Post-quota regime—The Help and the Hassles", *Modern Textiles*, Vol. 3 No. 1, February–March, pp. 18-24.

Indian textile industry is also in a position to make positive and meaningful contribution towards achieving the cherished objective of 'inclusive' growth.²

Indian textile industry requires to be competitive and cost effective by improving its productivity, product diversification and enhancing operational scale. The up-gradation of workers' skill is also a must along with the adoption of state-of-the art production technology and total quality control. The need of the hour is formulation of innovative strategy along with reforms in labour laws to address the emerging issues effectively in order to enable the country to secure a bigger share of the global textile market.

Quotas which have restrained the export growth of the Indian textile industry for over four decades were eliminated with effect from January 1, 2005. Government of India during the 11th five year plan, i.e., April 2007 - March 2012 has initiated, and has continued with several positive schemes to support the growth of non-woven and technical textile industry, which will focus on creating awareness, human resource development, capacity building of the non-woven and technical textile industry base and the related machinery industry base, establishing centres for research excellence, and support with testing and standardization. This mission spans the entire spectrum of the technical textile industry, and focuses on those areas that will aid the growth of the industry. The Government has identified four important segments within the technical textile industry for immediate attention and growth. These are Medi-tech, Geo-tech, Agro-tech, and Pro-tech, as identified by the National Mission on Technical textiles, with a market size of US \$12-15 billion by 2012³.

This chapter focuses on pinpointing the problems and challenges faced by the textiles and clothing (T&C) industry in the country; reviews the efforts made so far by various organisations, including Government of India and Reserve Bank of India, and brings out suggestions for enhancing the competitiveness of enterprises in various segments to improve India's market share globally in developed and developing countries. The problems on the home front and in

² Kothari, D.D. (2008), "Rupee-Value appreciation—Calculating the Crisis", *Modern Textiles*, Vol.3 No.1, February - March, pp. 26-29.

³ Ministry of Textiles, Government of India (2010), *Annual Report 2009-10*, New Delhi.

external markets in various countries are covered in considerable detail. Institutional development relating to various segments of the industry is reviewed. Measures taken by Government of India and Reserve Bank of India at the time of recession to help the industry to come out of the woods are reviewed. Suggestive measures critically examined for intensification include the following: technology upgradation, scale and integration, bridging the skill gap in the industry, infrastructure for export promotion including the textile industry, brand promotion, foreign direct investment, and regional trade agreements, and comprehensive economic cooperation and partnership agreements.

5.2 Strengths and Weaknesses of the Textile Sector

The Indian textile industry has inherent strengths in terms of rich legacy of textile production, strong multi-fibre raw material base, large and expanding production capacities, very low import intensity, vast pool of skilled workers and technical and managerial personnel, flexible production systems, large and expanding domestic market, dynamic and vibrant entrepreneurship, etc. However, these strengths have been diluted to a great extent due to severe disadvantages suffered by the industry in certain other areas affecting its productivity, quality and cost competitiveness. Such factors are technological obsolescence, structural anomalies, poor productivity of labour and machine, lopsided fiscal policies, multiplicity of taxes and levies, high cost of capital, redundant and outdated controls/regulations, restrictive labour and industrial laws, lack of aggressive marketing, poor perception of Indian products abroad, procedural problems in exporting, poor infrastructure relating to transport, communication and banking, high power tariff, etc.

The technological obsolescence which is pervading almost all the segments of the textile industry has placed it far behind its major competitors in the world textile economy, and is threatening its very existence. The reasons for technological obsolescence are structural anomalies created due to lopsided fiscal policies, high interest cost, excessive controls and regulations, and restrictive provisions in the Industrial Disputes Act relating to closure, retrenchment etc., denying the entrepreneurs their basic right to make decisions based on techno-

economic norms, and also social obligations imposed on the organised sector in the form of hank yarn obligation, etc. All these factors have created negative environment stifling investment in technology upgradation. The consequential impact has been sickness and closure of mills on a large scale. Such adverse factors have led to the failure of the Indian textile industry to exploit its distinctive advantage in terms of strong multi-fibre raw material base to the optimum level.

The Indian textile industry has a significant presence in the Indian economy as well as in the international textile economy. The spinning capacity is the second largest after China's. India has the largest hand weaving sector and a long tradition of producing some of the finest and costliest fabrics in the world. India occupies second place in terms of spindles (after China) and fourth in terms of cotton consumption (after China, Russia, and USA).

India is the 2nd largest producer of cotton in the world, but in terms of productivity per hectare we are one of the lowest. Similarly, our cotton is among the most contaminated in the world. With regard to man-made fibres / yarns, production of such fibres and yarns has spurted during the last five years to the extent that we are now the 5th largest producer in the world but in terms of quality, price competitiveness and innovative product range, we are nowhere in the picture. The man-made fibres / yarns are produced in the country as a 'commodity' and not as a 'product'.

Considering the significance of raw material to the finished textile product, be it spun yarn, fabric, garment or made-up, it is imperative to augment the availability of different varieties (from standard to specialised) of textile fibres/yarns of internationally acceptable quality at reasonable prices to provide the platform to the value added textile products to acquire 'world class' status. The emphasis has to be on building up necessary capabilities including R&D facilities for improvement of fibre quality and for development of 'specialised' fibres/yarns, especially fibres/yarns required for manufacture of technical textiles.

Indian textile industry is predominantly cotton based. In contrast to the consumption pattern of textile fibres in the world, which is tilted heavily in favour of non-cotton fibres with a ratio of 44:56 of 'cotton' to 'non-cotton' fibres, the

consumption ratio in India is 66:34 in favour of cotton. The Textile Policy of 1985 has stated that the predominant position of cotton will be maintained though the consumption of man-made fibres/yarns will be augmented. The Committee is of the view that the time has come to attach equal importance to cotton and non-cotton fibres. It may not be possible or even necessary for India to reach the consumption pattern of world which is heavily in favour of non-cotton fibres, due to the climatic conditions and cotton advantage that India enjoys. It would be reasonable to provide additional thrust for consumption of non-cotton fibres, particularly in value added blended textiles and technical textiles, to release the demand pressure on cotton and make it more cost competitive. More importantly, it will release high value cotton for value added textile exports. In the final analysis, the market forces should determine the relative fibre balance.

5.3 CITI's Vision Statement⁴

The Confederation of Indian Textile Industry (CITI), which represents almost all the segments of textile and allied industries in the country, had commissioned a study by CRISIL in 2004, and formulated a Vision Statement for the textile industry for the period up to 2010. The study took into account, among other things, the positive policy inputs of the government and also the expected increase in exports in the context of removal of bilateral quotas by December 2004. The projections in the Vision Statement are as follows.

- This size of the textile and clothing industry which was US \$36 billion in 2002 could grow up to US \$85 billion by 2010.
- This would entail an increase in per capita consumption of fabrics from 19 metres to 32 meters and an increase in exports from US \$13 billion to US \$40 billion.
- The growth envisaged in the Vision Statement would result in creation of 12 million additional jobs. Currently the industry employs 35 million workers directly and 47 million indirectly.
- Achievement of these targets would require an investment of Rs.1,40,000 crore by 2010.

⁴ Nair D.K. (2006), "Textile Exports - Heartening Rebound", *The Survey of Indian Industry 2006*, Kasturi & Sons Ltd., Chennai, pp. 235-237.

According to the recent study by CRISIL (commissioned by ICMF), the Indian textiles and apparel industry can achieve a potential size of US \$85 billion by 2010, of which, the domestic market potential would be US \$45 billion, and export potential would be US \$40 billion.⁵

5.4 Problems and Challenges facing the Textile Industry

5.4.1 On the Home Front and in Export Destinations

The in-house problems relate to inadequate infrastructure, obsolete machinery, lack of trained manpower, decentralised and fragmented nature of the industry, besides the inflexible labour laws. Though a large number of policy measures have been undertaken by the Government in terms of making easy and subsidised credit available for modernisation of technology, supporting the industry for cluster development and establishment of integrated textile parks, provision of duty drawbacks on exports, etc., the Indian T&C exports doesn't seem to have converted these benefits to their advantage.⁶

In addition to the challenges faced by the exporting community from the home front, they also face tariff and non-tariffs barriers from the major export destination countries of EU and the US. The US market practises peak tariffs and tariff escalations in the textile import from India and other developing countries so as to provide protection to its own industry. A similar situation is also observed in the EU market though the rates of tariffs are lower compared to USA. Both EU and the US have been pursuing the path of preferential trading regime for the benefit of their economies. While the US entered into a large number of preferential trade agreements like NAFTA, CBI, AGOA, AFTA, etc. With many countries of the world, EU has also entered into more than 100 Free Trade Agreements (FTAs) with the partner countries. In addition to the above, the New Generalised System of Preferences (GSP) provision of EU extended to Sri Lanka, preferential treatment to Bangladesh for its LDC status, and special preferential treatment to Pakistan through Arms Act have made Indian T&C exports costlier in the export market, and therefore Indian exports has not increased at the same level

⁵ Press Information Bureau (2005), "TEXTILES: The End of Quota Era", *Yojana*, Vol.49 No.2, February, pp. 4-5.

⁶ Nayak, P. (2008a), *op. cit.*

of growth of some of the neighbouring countries. The other non-tariff barriers such as sanitary and phyto-sanitary measures, standards and systems, social accountability, testing and quarantine requirement, security requirement and other compliances are some of the issues hounding the Indian exports. The anti-dumping investigations carried out by EU in the past have also brought uncertainties of Indian exports to their market. Besides the above, the recent appreciation of value of Rupee against US Dollar has also adversely affected the exports from India to the US.

In the Indian case, besides the short term relief measures and stimulus packages, some fundamental policy changes are needed. For the merchandise trade sector, these include continuation of the reduction in customs and excise duty to make our exports and industry competitive, streamlining of existing export promotion schemes, giving special attention to export infrastructure along with rationalisation of port service charges based on services rendered by ports in tune with our competing countries, weeding out unnecessary customs duty exemptions, rationalizing the tax structure including specific duties in a calibrated manner taking into account the specific duty levels in our trading partner countries, checking the proliferation of SEZs, evolving clear-cut policy for beneficial Comprehensive Economic Cooperation Agreements (CECAs) even with some developed countries instead of just Free Trade Agreements / Preferential Trade Agreements (FTAs / PTAs) which should be well integrated with our economic and trade policy reforms and the blueprint for possible changes due to WTO negotiations.⁷

The biggest challenge before industry will be to radically change its mindset. No more can industry continue to survive behind high tariff barriers and /or non-tariff walls like import licensing, etc. Neither can it keep on depending upon the Government for subsidies and doles to earn a profit. The earlier regime of import substitution at any cost is over. There is no enduring alternative to Indian

⁷ Government of India, *Economic Survey 2008-09*, p. 170.

industry but to gear itself to raise its efficiency and competitiveness to meet the international competition even in the domestic markets.⁸

In the domestic market, industry must be prepared to meet growing competition from three sources, viz., from imported goods coming into the domestic market at lower and lower import duties; from goods produced in the country for the domestic market by foreign controlled enterprises using their trade marks and latest technology; and lower prices because of an inability to raise prices in the face of low world inflation.⁹

In the external market, Indian industry will face two major challenges. First, competition from other developing countries who have taken to outward orientation much before US, and have thereby enhanced their international competitiveness. Second, from non-tariff barriers in industrial countries in the guise of environmental, health, safety, and technical standards. Competition can be expected from the whole spectrum of goods from the lowest quality to the highest quality.¹⁰

5.4.2 Problems of SMEs in the Textile Sector¹¹

The textile SMEs, located in identifiable clusters in India, face several common problems:

1. Lack of technology upgradation,
2. Inadequate capacity to source the requisite raw materials,
3. Marketing of products,
4. Inability to avail institutional credit,
5. Diversification and inadequacies in the area of infrastructure

5.4.3 Problems of Garments Industry

According to the President of the Tirupur Exporters' Association (TEA), exports will increase only after the phasing out of quotas. Demand from U.S has picked up during the last 6-7 years, and the quota utilization has been full. Apart

⁸ Office of the Economic Advisor, Ministry of Commerce & Industry, Government of India (2001), "WTO and its Implications for Industry", National Seminar conducted by NISIET, Hyderabad, on "Impact of WTO on Trade and Industry with special reference to the SMEs" on 5th May 2001.

⁹ *ibid.*

¹⁰ *ibid.*

¹¹ Rangarajan, K. *et al.* (2007), "Impact of IPR on SMEs with special reference to Textiles and Processed Food", *Foreign Trade Review*, Vol. 42 No.2, July-September, pp. 27-65.

from quality, price is a major factor that will determine the market for exporters. Though modernization and technology upgradation will improve productivity, exporters also need the support of the government to tackle some problems. Products are now mainly shipped to the respective countries. However, as there is no mother vessel coming to the southern ports, the logistics time is more. Hence the TEA has been continuously appealing for upgradation of the southern ports so that they get the mother vessel facility. The duty drawback for knitwear exports is now around 12 per cent. Though the TEA had been demanding 18 per cent earlier, it has now scaled it down to 14 per cent. As the volume of exports is huge from Tirupur, and there are a number of small scale units, exporters say that the interest rate for export credit should also be brought down further. Another plea has been for changes in labour laws so that there could be productivity-linked wages. Exporters have to deliver the goods at the earliest in order to meet competition; and this demands improved productivity. With constant modernization at all levels of apparel manufacturing- knitting, processing and stitching – most units are now using sophisticated machinery that require good quality power. Similarly, wider roads will facilitate transport of products and the TEA has suggested that at least the main connection roads could be upgraded with the assistance of the ASIDE scheme.¹²

5.4.4 Market Entry Barriers to Trade

Two types of market entry barriers for trade in textiles and clothing (T&C) are faced by developing countries: (i) arbitrary conditions imposed by powerful apparel contractors possessing large distribution channels in the major markets; and (ii) closed networks created by preferential rules of origin under the regional trade agreements.

Arbitrary Conditions

Industry analysts predict that in the post-ATC phase international contractors would increase pressures on their business partners in India to improve working conditions imposing their private codes of conduct. The challenge for

¹² Sathyamurthy, G. and M. Soundarya Preetha (2003), "Gearing for new Regime - Tirupur Knitware," *The Hindu Survey of Indian Industry 2003*, pp. 362-363.

India is to counter problems of private codes of conduct. Particularly international contractors often control large and powerful distribution channels for textiles and clothing products in major importing countries, and firms in India have practically no bargaining power. Moreover, there is no mechanism to effectively address the problem of private codes of conduct in relevant organisations such as ILO and UNCTAD, or through a body of clear cut trade rules.

Apparel retailing in the major importing countries is dominated by large firms which control major distribution channels. In the US the 29 biggest retailers make up 98% of the US apparel sales, and in the EU retailing has been marked by substantial concentration in the last decade. Apparel firms face intense competition in their domestic markets and in seeking low-cost producers' contract factories in developing countries of all regions. They are scrutinised by the unions and NGOs in their countries on the labour conducts in having businesses with manufactures in developing countries, particularly LDCs and low-income developing countries. Consequently, they impose tough labour conditions to their business partners to avoid having a damaging publicity in their home countries. For factories in developing countries, it is essential to meet the conditions imposed by their contractors as they control major distribution channels in their home markets.

The problem for factories in developing countries is that conditions imposed are often arbitrary, unpredictable and exceed the basic labour rights defined by the ILO. Examples of such conditions cited by apparel factories are compulsory building of gym facilities, condition on number of washrooms, restrictions on over-time work. Also, these factories often have to face frequent on-site inspections conducted by contractors. Reportedly, a factory can have such inspections more than twenty times a year. The ILO Declaration on Fundamental Principles and Rights at Work adopted in June 1998 defines basic labour rights as: (a) freedom of association and the effective recognition of the right to collective bargaining; (b) elimination of all forms of forced compulsory labour; (c) effective abolition of child labour; and (d) elimination of discrimination in respect of employment and occupation. However, it is to be noted that the conditions stated above are outside the scope of trade negotiations. Advocates of labour standards

in the EU and the US insist that what they are after, conforms to what is stated in the ILO basic labour rights; however, what is happening is quite a different story.

The challenge for developing countries is how to solve the problem caused by labour conditions imposed by powerful contractors. As noted above, these conditions are outside the scope of the ILO basic labour rights, often arbitrary, selective and unpredictable. They seriously disrupt business and exports of apparel manufacturers in developing countries, yet affected firms do not have appropriate channels to bring their cases. This is the area where UNCTAD should consider how this sort of unfair business practice could be addressed, and assist affected developing countries.

Closed Networks

The two major markets for textiles and clothing, the EU and the US, are expanding their preferential trade partners concluding trade agreements with them, and increasing textile and clothing are entering to these markets with preferential treatment. However, at the same time, preferential trade agreements are creating closed networks between the major markets and their preferred trade partners due to the preferential rules of origin unfairly excluding third country suppliers. The most relevant trade agreements in this respect are the Caribbean Basin Initiative, the Andean Trade Preferences Act, the North America Free Trade Agreement, and the African Growth and Opportunity Act for the US, and the ACP-EU Trade Agreement, Everything but Arms (EBA) Initiative, and the Euro-Mediterranean Association Agreements for the EU.

The EU and the US have negotiated stringent rules of origin with their respective preferred countries with the objective of increasing their inputs in textiles and clothing products coming from the preferred countries. Subsequently, manufacturers in the two importers supply intermediate inputs like cut fabric, thread and buttons to factories in the preferential trade partners to be assembled and to be re-imported with preferential market access. Statistics indicate a high ratio of intra-firm trade in textiles and clothing for the EU and the US between their respective preferential trade partners. Also, substantial investments have been made by EU and US firms in the apparel sector in the partner countries.

Reportedly, the networks of trade and investment formed between the preference giving and receiving countries are causing trade diversion effect on third country suppliers even when their products are competitive. It is highly likely that producers in the EU and the US will further seek ways to tighten the networks between them and preferred countries to facilitate use of their inputs.

Asian developing countries are excluded from preferential trade networks of a major market, the United States, except for GSP schemes. These countries have no preferential access to the US market for their textiles and clothing products as the US does not provide AGOA like duty-and-quota free market access to them. Textiles and clothing are the most important export for Asian developing countries, playing an important role in their economic and social dimensions, but the export is seriously disadvantaged by the lack of preferential access to the US. At present, about one-fifth of all textile and clothing imports enter on a preferential basis to the US, and it is projected that share will rise to about half in a few years if present trends of favouring free trade agreement continues. In this scenario, textiles and clothing exports of Asian developing countries will be further disadvantaged.

In this changing scenario, it is necessary to concentrate both on quality and cost competitiveness. There is a need to activate special economic zones and facility centres for garment manufacturers for quality testing. It is also important to rationalise the duty structure to take care of cost disadvantages induced by an inverted duty structure. There is a need to emphasise synthetic products given India's comparative advantage as the largest producer of polyester in India. Finally, in addition to quotas, there are a range of other determining variables of future trade patterns such as supply capacity, competitiveness, market access, and market share of developing countries other than India in exports to world markets, and each of these needs to be considered when estimating dynamic gains to India from trade in textiles and clothing.

5.4.5 Textile Machinery Shortages

The textile industry is grappling with the inability of replacing its old and worn out machinery as there is a dearth of domestic machinery manufacturers. The paucity of domestic producers of shuttleless looms and spindles is greatly affecting the industry with the waiting time per order being 2 to 3 years. The industry has to heavily rely on imports, and imports of textile machinery which was Rs.4.5 billion in 1990-91 has grown to Rs.24 billion in 2003-04.

5.4.6 Raw Material Shortages

While India has adequate raw material for polyester production, it is deficient in cotton. Though India is the second largest producer of cotton in the world next to China, our production figures are not even half of what the world leader China produces. The yield per hectare is among the lowest. At 524kg per hectare in 2008-09, India is way below the world average yield of 766 kg, China's 1,251 kg, and USA's 912 kg. Further, cotton production is subject to wide fluctuations. Since 85% of Indian garment exports are linked to cotton, the fluctuations in production and the poor yield per hectare necessitate the need for imports at varying prices. This creates problems in production planning and achieving cost efficiencies. Further, the industry is heavily dependent on imports for long and extra long staple varieties from the US and Egypt as they are not grown except in a limited area around Salem in Tamil Nadu.

5.4.7 Tax Distortions

Man-made fibres account for over 55% of global textile trade. As against this, only 15-20% of our textile exports are currently in the form of man-made fibres, the reason being the continued tax disincentives against man-made fibre manufactures. The excise duty on certain fibres like cotton has been brought down from 8% to 4%, whereas the filament yarn tax has been retained at 24%. This is contrary to the N.K. Singh Committee suggestion of the uniform duty of 8% on the textile industry for a five year period. The increased excise duty incidence on man-made fibres and polyester filament yarn has a big negative impact on prices, making Indian goods uncompetitive in the world market, and it is no surprise that the export performance of the MMF industry has been lackluster.

5.4.8 Problems from Rising Cotton Exports

Close to 4,500 small, medium and large spinning mills across the country downed their shutters on 9th July 2008 to press their demands including a ban on export of raw cotton till the end of the year, and regulating the trading in cotton by multinational agencies. However, the industry associations, have decided not to precipitate the issue further by going for an indefinite strike with the Union Government conceding some of their demands. The chairmen of six textile mills associations in Tamil Nadu that had called for the work stoppage, in a press release issued in 2003 said the textile mills have been grappling with abnormal increase in cotton prices and shortage of power. In spite of a bumper crop of 315 lakh bales during the current season, the mills were hit by the liberal export of cotton of around 100 lakh bales as against 65 lakh bales, the estimate made by Cotton Advisory Board during the beginning of the cotton season. This had depleted the stock-to-use ratio to below 20 per cent as against over 40 per cent maintained by other competing countries like China, leading to spike in cotton prices by about 45 per cent. The industry argued that while the multinational cotton traders were able to get funds at 2 to 3 per cent interest, the mills were hamstrung by the abnormal interest rates of 14-15 per cent charged by the Indian financial institutions. They also face constraints in getting finance to meet their working capital requirements. The high financial costs prevented the mills from stocking their cotton requirement for the entire year, and were forced to hold stocks only for a few months, leaving them vulnerable to fluctuations in cotton prices. They wanted the Centre to come to the rescue of the industry by ensuring that mills were extended finance on easier terms. The associations estimated that the one-day stoppage of work had resulted in loss of production of Rs. 500 crore at the national level and Rs. 200 crore worth production loss in Tamil Nadu. The industry employs around 12 lakh people nationally, of which about five lakhs are in Tamil Nadu. The association leaders thanked the Union Government for acceding to two major demands, viz, zero duty

on cotton imports and withdrawal of 1 per cent duty drawback (export incentive) offered for export of cotton.¹³

5.4.9 Rupee-value Appreciation-Calculating the Crisis

The rapid rise in Rupee-exchange rate against the US Dollar by around 15 per cent has been hurting Indian exports since March 2007. And one of the worst affected segment is textiles and clothing. US is the main market of Indian textile exports, and about 85 per cent of India's textile exports business is transacted on the basis of Dollar. The steady decline in value of Dollar and appreciation of Rupee exchange rate can be mainly attributed to ongoing sub-prime mortgage crisis in the US¹⁴.

The Reserve Bank of India tried to check ongoing Rupee-value appreciation by purchasing Dollars out of its present comfortable foreign exchange reserves. But this was found to be insufficient to check decline in value of Dollar vis-à-vis Rupee. The Dollar exchange value will continue to decline as long as the US market continues to remain sluggish. The textile exporters have been forced to lay-off thousands of workers. It is reported that about 35,000 workers engaged in this sector have already lost their jobs¹⁵.

The exports of textiles and clothing registered huge growth of about 25% in US \$ terms in 2005-06 (export value US \$17.55 billion), the highest growth rate recorded for the sector so far. However, during 2006-07, exports increased to US \$19.15 billion recording a growth of about 9%; in 2007-08 US \$22.15 billion (growth rate of 15.6%); in 2008-09 US \$20.98 billion (growth rate of -5.3%); and in 2009-10 US \$22.38 billion (growth rate of 6.7%). The moderate and negative growth rates are being attributed by the Industry partly to the appreciation of the rupee, apart from global meltdown. Contribution of the textile sector to India's export earnings was 28.7% in 1998-99, 28.6% in 1999-2000, 27% in 2000-01, 23.6% in 2002-03, 17% in 2005-06, and it declined to 11.3% in 2008-09, and 12.5% in 2009-10. Decline in the share of textiles exports is partly due to faster

¹³ *The Hindu Business Line*, July 10, 2008, p. 21

¹⁴ Kothari, D.D. (2008), *op. cit.*

¹⁵ Kothari, D.D. (2008), *op. cit.*

growth rate of overall exports, apart from global recession. India's export target of US \$55 billion by 2012 has been fixed keeping in view the following factors.¹⁶

- End of quota regime, wherein the lower cost of manufacturing is likely to lead to rising preference for ready to use products
- Growing world economies with rising per-capita income, spurring consumption.
- Increased trade in apparel driving the demand for fibre, yarn and fabrics.
- A surge in demand for technical textiles
- A shift from manufacturing/stitching to design-cum-manufacturing.
- Increasing penetration of high format retail stores.

5.4.10 Problems and Suggestions on Global Trade¹⁷

It was expected that the global trade in textiles and clothing will become simpler in the post-quota era. Contrary to these expectations, the world textile trade has become more complicated and newer impediments are emerging on the road to a borderless trade.

(A) Higher Tariffs: Progressive reduction in tariffs has definitely helped world trade expand, but the sector still faces much higher tariffs as compared to the trade in other industrial products. In the developed world, the average tariff applied on clothing products is 16.1 per cent while overall manufactured products face much lower average tariff of 6.2 per cent. Besides higher tariff, the developed countries are also using the tariff peaks, i.e, tariffs exceeding 15 per cent, as an instrument to restrict trade from developing countries. Increasing the tariff level as the value chain moves up, termed as “tariff escalation”, is also being used by many countries to protect themselves in the post quota era, aimed at restricting trade in value added textile goods such as made-ups and garments. In this regard, the international community needs to eliminate “tariff escalation”, and reduce the “tariff peaks” in order to improve global trade.

(B) Restrictive Rules of Origin: Another challenge to the global textile trade stems from varying and restrictive rules of origin under different trade agreements. Although the role of preferential rules of origin is to prevent trade

¹⁶ Ministry of Textiles, Government of India, *Annual Report 2008-09*, pp. 3-15.

¹⁷ Prem Malik, (2008), “Surviving Roadmap in the Borderless World Era—An Indian Perspective”, *Texprocil News letter*, August, 2008, pp. 8-11. Government of India.

deflection, the restrictive rules are also being used to achieve other objectives, such as protecting domestic producers of intermediate goods. The preferential rules of origin were applied to almost 28 per cent of total T&C imports into USA in 2005. Moreover, rules of origin are increasingly being used to influence the direction of trade flows as they create artificial demand for raw material and intermediate textile articles of the preference giving country for use in the production of value added goods which are then re-exported to the preference giving country free of duty. In order to meet the changing rules of origin requirement, the producers are forced to make changes in the production systems which leads to higher costs. Besides the burden of increased costs, the exporters also face the complications in procedures as the same product is assessed differently by different importing countries depending on its rule of Origin. With increasing number of trade agreements, it is feared that international trade will become much more complex in the years to come.

(C) Rules of Origin¹⁸: The WTO Agreement includes an “Agreement on Rules of Origin” which lays down the non-preferential Rules of Origin for conducting international trade in goods. Rules of Origin are basically used for deciding the country of origin of goods for the purpose of access, tariff, safeguard actions, etc. Agreement on Rules of Origin seeks to harmonize the Rules of Origin currently being implemented by different contracting parties, over a stipulated period. This process is to be handled by a Technical Committee on Rules of Origin (TCRO) based in Brussels, and a Committee on Rules of Origin (CRO) functioning from the WTO Secretariat in Geneva. According to the work programme in the Agreement on Rules of Origin, the process for harmonizing the Rules of Origin of various contracting parties was to commence soon after the entry into force of the WTO agreement and to be completed within a period of three years. Thus, the process should have been completed by December 1997 or early 1998. However, this process has not yet been completed and discussions are still continuing in the CRO. Since the Agreement on Rules of Origin covers only

¹⁸ “Rules of Origin”, *Textile Times*, May, 2007, p. 13 (publication of Confederation of Indian Textile Industries (CITI).

non-preferential Rules of Origin, preferential trade agreements have been using various Rules of Origin mutually agreed among participating countries. Even if and when the process of harmonization is completed by CRO of WTO, this will not cover Rules of Origin in preferential trade agreements. In USA, most of their trade agreements such as NAFTA, AGOA, CBI, CAFTA, etc. provide preferential access for textile & clothing products into US market on the basis of “Yarn Forward Rules”. Essentially, the stipulation is that T&C products would be eligible for duty concessions stipulated in these agreements, provided the process of manufacturing of those products from the stage of yarn onwards has been within the territories of participants in the relevant preferential agreements. Most of these agreements also have a provision for joint inspection by US authorities and the authorities of the concerned Government in order to ensure that exports declared to be from a participating country are really so. India’s trade agreements such as SAFTA, BIMSTEC, ASEAN-FTA, MERCOSUR-FTA, ABSA-FTA and the bilateral agreements with Sri Lanka, Nepal, Thailand, Singapore, etc., have separate Rules of Origin stipulated for preferential access for goods including T&C products. India does not have a uniform framework for preferential Rules of Origin. Therefore, the Rules of Origin stipulated in various trade agreements differ from each other considerably. Preferential Rules of Origin basically have two elements. One is the change in tariff lines, and the other is the extent of value addition that takes place in the country of export. Both these are meant to ensure that the goods have undergone a substantial transformation in the country of export in order to make it eligible to be considered as products originating in that country. Change in tariff lines is identified on the basis of HS lines. Thus, CC would mean change of chapter in the HS line-i.e change at two digit level. CTH would mean change of tariff heading-i.e. change at four digit level. CTSH would mean change of tariff sub heading-i.e change at six digit level. Value addition would be spelt out in terms of percentage relating to the extent of value added to the product in the country of export. In the trade agreements of India, value addition norms vary from 25 % to 40%. Ideally, the country of origin rules for T&C products to be stipulated in the preferential Rules of Origin for a country like India should be

CTH+40%, i.e., change of tariff heading and value addition of 40%. However, as of now, we have agreements that stipulate CTH +40%, CTH+35%, CTSH+30%, etc. In some of the agreements, there is also a further reduction of 5 % for LDCs in value addition norms.

(D) Trade Remedy Measures for Trade Distortion: Introduced in the global trading system as measures to protect domestic industry from unfair foreign competition, trade remedy or contingent protection measures have become tools in the hands of the domestic protectionist interest in the developed and developing countries. The tendency to use trade remedy measures for protectionist purposes, if unchecked through clearly defined rules, can be accelerated with serious implications, among others, for trade in T&C products. In this regard, it is worth noting that India successfully contested EU claim in WTO for its imposing anti-dumping duty on Indian bed-linen. However, the bed-linen products from India are facing anti-subsidy duties in the EU market.

(E) Standards-Related Barriers: It is the sovereign right of each country to impose regulatory or standards related barriers, such as testing, certification and labelling, to achieve certain policy objectives. However, some of these barriers are not only arbitrary or unjustifiable discrimination but a disguised restriction on international trade. In other words, these barriers can be easily captured by protectionist interests, and there have been instances of this happening in a number of countries.

(F) Other Non-Tariff Barriers: As the countries lower their tariffs, non-tariff barriers like Sanitary & Phytosanitary measures, stringent technical standards etc, are being increasingly used resulting in trade restrictions, especially for the exporters in developing countries. In this connection, upcoming regulation of the European Union chemicals sector, called REACH (Registration, Evaluation, Authorisation, and Restriction of Chemicals), need to be carefully evaluated by all the stakeholders in the industry as it has the potential to create unnecessary barriers to trade.

(G) REACH as a Non-Tariff Barrier¹⁹: The EU has instituted REACH, for registration, evaluation, authorisation and restriction of chemicals, with high standards of regulations in December 2006. Reach has entered into force on 1 June 2007. Under the Regulation, enterprises, which manufacture or import more than one tonne of a chemical substance/ article per year into EU, will be required to register it in a central database administered by the new EU chemicals Agency. The agency provides IT tools and guidance and the member States also offer helpdesk assistance to the impacted companies. The new Regulation aims to improve the protection of human health and the environment while maintaining competitiveness, and enhancing the innovative capability of the EU chemicals industry, REACH will furthermore give greater responsibility to industry to manage the risks from chemicals and to provide safety information that will be passed down the supply chain. REACH is a radical step forward in the EU chemicals management. The onus will move from the authorities to industry. In addition, REACH will allow the further evaluation of substances where there are grounds for concern and foresees an authorisation system for the use of substances of very high concern. This applies to substances and articles that cause cancer, infertility, genetic mutations or birth defects, and to those which are persistent and accumulate in the environment. The Authorisation system will require companies to switch progressively to safer alternatives where a suitable alternative exists. Current use restrictions will remain under REACH system. REACH also ensures that animal testing is kept to the strict minimum and that alternative methods are encouraged.

5.4.11 Strategies to face Global Competitiveness²⁰

- upgrade the technology for weaving and processing
- modernization and consolidation of fragmented and low-tech apparel industry
- shift to value addition

¹⁹ “REACH and its Applicability to Textile Sector”, *Texprocil-Newsletter*, June, 2008, pp. 4-6, published by The Cotton Textiles Exports Promotion Council, Government of India.

²⁰ Reddy R.C.M (2001), “Global Competitiveness of Indian Textiles – Perspectives on Quality and Standards”, in *Window to the Future - Quality and Compliances Route to Global Competitiveness for Indian Textile & Clothing Industry*, Textiles Committee, Ministry of Textiles, Government of India, pp. 53-57.

- focus on quality and speed to reduce costs
- professionalise the management
- respond to the felt needs of the market, improve the infrastructure
- adoption of standards ISO 9000, ISO 14000, SA 8000, OHSAS 18001,
- ISO -17025- Laboratory management systems,
- ISO- 9001 quality management systems,

Initiatives of the Government²¹

- new textile policy-clear vision and goals
- textile package in budget 2001-02: De-reservation of RMG, labour reforms, apparel parks, critical infrastructure, market access fund
- TUFs for technology upgradation
- Technology Mission on Cotton for improvement of quality of cotton
- Upgradation of textile testing labs and PSCs
- Network of NIFTs for trained manpower

Two areas which need the special attention of industry are quality consciousness and the observance of environmental, health, safety and technical standards of the industrial countries. The importance of quality can hardly be overstated in meeting the competition that will intensify in the international market place in the coming years. Indian industry as a whole will have to establish an image for quality, credibility and reliability in external markets. In a way, the pressure of competition in the domestic market will help the Indian industry to enhance its level of quality. However, total quality management in the entire set up of an organization will have to become a basic plank of corporate commitment. The building up of Indian brand names overseas in the near or distant future will hinge upon the determination of the industry to make a quantum jump in its quality and design standards.

As regards environmental, health, safety and technical standards, it must be noted that the two agreements of the Uruguay Round bearing on the subject, namely, the Agreement on Sanitary and Phyto Sanitary Measures (SPS) and the Agreement on Technical Barriers to Trade (TBT), give full and complete freedom to the industrial countries to adopt and apply standards that they consider

²¹ *ibid.*

necessary to protect their human life and safety, animal and plant life and health, and the environment. The Uruguay Round agreements only exhort the industrial countries that, in adopting such standards, they should, as far as possible, use international standards, and avoid using such standards as disguised barriers to trade. But there is every likelihood that even as MFN tariffs in the industrial countries are brought down to low levels, they will use the SPS and TBT standards as new forms of non-tariff barriers. There are two reasons as to why environmental standards may become more stringent in industrial countries. First, the increasing pressure on the Governments by green lobbies. Second, the technology required for complying with such standards, including capital equipment, know-how and materials, resides with the enterprises of the industrialised countries.

There is, therefore, considerable scope for them to sell such technologies in the emerging markets of the developing world which seek to export goods to the developed countries.

Rather than rhetorical complaining about the emergence of new standards as a non-tariff barrier, pragmatism demands that Indian industry should concentrate its efforts on keeping abreast of the emerging standards and acquiring or developing technologies (including capital equipment, know-how, materials, etc.) to comply with the standards.

Indian industry is being increasingly subjected to anti-dumping duties and countervailing measures by the other countries. The application of anti-dumping duties and countervailing duties is at times not in consonance with the spirit of the agreements signed at the WTO. India will also have to enhance its institutional set up of speedily levying anti-dumping and countervailing duties on certain products from abroad²².

Research into productivity has shown that more than fifty per cent of the increase in productivity can be attributed to technological progress and innovation. Innovation has become the industrial religion of the late 20th century. Acquiring technological know-how and its absorption by industry will hold the key to future

²² Office of the Economic Advisor, Ministry of Commerce & Industry, Government of India (2001), *op. cit.*

growth. The very fact that the protection of intellectual property has been brought on the trade agenda and that the TRIPS Agreement has been so formulated as to set stringent norms for the protection and enforcement of intellectual property rights in seven categories of industrial property, should show that technology is increasingly becoming a dominant force behind international competitiveness. The building up of domestic technological capabilities is, therefore, a matter of vital importance to our country. Indian industry would need to raise substantially its level of R&D efforts and expenditure and this is important not only for developing its own technologies, but even to negotiate, with some strength, with foreign technology suppliers, and for adaptation and improvement of imported technologies.

Industry and the Government will have to quickly and seriously apply their mind to tailor the existing subsidies into the non-actionable category of WTO. New ways of encouraging research and development can also be provided as they fall under the non actionable category. The present uncertainty regarding the nature of export/domestic subsidies being extended to industry will have to be removed at the earliest possible. To build a sustainable export promotion strategy requires that industry has to be sure about the WTO status of different export promotion strategies and domestic subsidies, etc. The present uncertainty hanging over some of these schemes puts a damper on the export effort of the industrialist.

The availability of high quality, fairly priced and adequate infrastructure such as power, transport, telecommunications, ports and airports etc. is absolutely essential to enable Indian industry to meet competition and achieve substantial export growth. It needs to be emphasised that policies should be framed and implemented vigorously to encourage private investment, both Indian and foreign in the infrastructure sector and to raise the level of efficiency of the public sector entities in the infrastructure sector. For a long time to come, the public sector enterprises would have a substantial role in this sector and the raising of the level of their efficiency is, therefore, as important as the encouragement of private sector investment in this field. Till this is achieved, a part of the tariff protection given to the Indian industry would indeed be a protection given to them against the higher

costs (including the unreliability costs) of the infrastructure facilities in the country.

5.4.12 Price Regulation Measures for Cotton

Price Regulation Measures for cotton are important to enable Indian cotton textile industry compete with the rest of the world. Indian cotton prices are rising some times due to the impact of rising cotton exports. It leads to increase in the production cost of total value added products, and Cotton Textile Industry facing difficulties to compete in the international market. To prevent the shortage of raw material and higher prices of domestic cotton, Indian government may follow the following measures.

The industry should prevail upon Government to implement following measures:

1. Cotton exports should be regulated by restricting the same to a maximum of 20 per cent of cotton crop.
2. Cotton trade has often been expounding that Indian cotton prices are the lowest. By exporting cotton at such lower prices. Indian exporters are subsidizing foreign buyers, which is not in the interest of Indian cotton economy. There is, therefore, a strong case for levying export duty of 5 per cent on cotton exports.
3. Alternatively, the ideal situation would be to completely remove import duty on cotton, as our cotton economy is fully integrated with the global economy.
4. If complete waiver of import duty is not acceptable, the least that should be done is to immediately bring down the import duty to 5 per cent.
5. Textile mills have been declaring cotton stocks held by them every month. Similarly, a mechanism should be evolved for declaration of stocks by ginning / pressing factories, traders and Government agencies like CCI, Maharashtra Federation, etc.
6. The Textile Commissioner should be empowered to register contracts for exports and imports of cotton.

Unless the above measures are acted upon, the Indian textile industry will suffer irreparably in respect of production, employment and foreign exchange earnings.

5.4.13 Rupee-Dollar Exchange Crisis - Suggestion for Direct Intervention

It is suggested that the Government may examine the feasibility of direct intervention by adopting a policy to control/ regulate Rupee-exchange rate against US Dollar in the interest of the economy. China has been resorting to such measures covertly or overtly. It may not be unjustified, if India does so.²³

The protagonists of free market economy may argue that we are living in a global village. In the present globalised market-economy, market forces should determine the exchange rate. Direct intervention has no place in such a system. This type of argument might have its validity if all the economies of the world could be judged on infrastructure facilities, low labour productivity, outdated production technology, rigid labour laws and many other draw-backs. In these circumstances, direct intervention by purchasing of Dollars by RBI, adopting fiscal measure, any other type of control or regulation would not be unjustified. Of course, in the long-run, solution lies in all-round development of the economy and enhancement of India's competitiveness.²⁴

II. Institutional Development Relating to Textile Industry

5.5.1 Technology Mission on Cotton (TMC)

To improve the productivity and quality of cotton, Government of India has launched Technology Mission on Cotton (TMC). The mission comprises four mini-missions, which are being jointly implemented by the Ministry of Agriculture and Ministry of Textiles. One of the important ingredients of the Mission is cotton processing facilities by upgrading / modernising the existing ginning and pressing facilities and setting up of the new market yards / improvement of existing market yards²⁵.

The Technology Mission on Cotton was launched in 21st February 2000 to give a focused impetus to cotton research and development, and it would continue

²³ Kothari. D.D. (2008), *op. cit.*

²⁴ Kothari. D.D. (2008), *op. cit.*,

²⁵ Press Information Bureau (2005), "TEXTILES: The End of Quota Era", *Yojana*, Vol. 49 No. 2, February, pp. 4-5.

till the end of Xth Plan. The mission aims to address the issues of raising productivity, improving quality, and reducing the cost of production which will provide the much-needed competitive advantage to the textile industry, along with ensuring attractive returns to cotton farmers. The Mission comprises 4 Mini Missions with the specific objectives of (1) Research, (2) Dissemination of Technology to Farmers, (3) Improvement in Market Infrastructure, and (4) Modernisation of the Ginning and Pressing sector. Indian Council of Agricultural Research (ICAR), and the Ministry of Agriculture are the Nodal Agencies for Mini Missions 1 and 2, respectively. The Ministry of Textiles is implementing the latter two Mini-Missions. The tenure of MMs-3 and 4 of TMC has been further extended for 2 years in the XI Plan, i.e. up to end March 2009 in terms of target and completion of on-going projects. Under MM-3, development of 250 market yards has been sanctioned, out of which 242 have been completed. The total cost of the sanctioned projects is Rs.488.65 crore, out of which the TMC share is Rs.253.26 crore. The initial target of MM-4 was to modernise 500 Ginning & Pressing (G&P) factories (150 in IX Five Year Plan and 350 in Xth Five Year Plan). It was increased to 1,011 G&P factories later. As on March 2009, 993 Ginning and Pressing Factories have been sanctioned, and 885 have been completed. The Total cost of the sanctioned Projects is Rs.1427 crore, out of which the TMC share is of Rs.224 crore. Fund allocated to TMC (MM-3 & 4) during the year 2008-09 was Rs.50 crore and during 2009-10 is Rs.50 crore²⁶. This has resulted in providing cleaner cotton to the textile mills. This is a continuous process, and at present around 85% of cotton is being processed in such modernised factories resulting in significant improvement in processing of cotton for the industry.

5.5.2 Cotton Advisory Board (CAB)

The Cotton Advisory Board (CAB) is a representative body of Government agencies, growers, industry & trade. It advises the Government generally on matters pertaining to production, consumption and marketing of cotton, and also provides a forum for liaison among the cotton textile mill industry, the cotton growers, the cotton trade and the government. The tenure of the CAB is two years.

²⁶ Ministry of Textiles, Government of India, *Annual Report 2009-10*, p. 10.

The Board was reconstituted on June 25, 2008, and has got 57 members from the Central Government, State Government, cotton growers, Textile Industry, Cotton Trade, Ginning and Pressing Sector, Cotton Research & Development Institutions, Powerloom Sector and Handloom Sector, and Member Secretary. The reconstituted Board is valid up to June 24, 2010.

5.5.3 International Cotton Advisory Committee (ICAC)

The International Cotton Advisory Committee is an association of governments having interest in the production, export, import and consumption of cotton. It is an organisation designed to promote cooperation in the solution of cotton problems, particularly those of international scope and significance. The functions of the International Cotton Advisory Committee, as defined in the Rules and Regulations, are:

- To observe and keep in close touch with developments affecting the world cotton situation;
- To collect and disseminate complete, authentic, and timely statistics on world cotton production, trade, consumption, stocks and prices;
- To suggest, as and when advisable, to the governments represented, any measure the Advisory Committee considers suitable and practicable for the furtherance of international collaboration directed towards developing and maintaining a sound world cotton economy.
- To be the forum of international discussions on matters related to cotton prices.

5.5.4 Cotton Corporation of India (CCI) Limited

The role assigned to the CCI under the Textile Policy of June 1985 was

1. To undertake price support operations whenever the market prices of kappas touch the support prices announced by the Government of India without any quantitative limit.
2. To undertake commercial operations only at CCI's own risk; and
3. To purchase cotton to fulfill export quotas given to CCI

The above role of the CCI continued under the New Textile Policy of 2000. However, the last stated function is no longer relevant as export of cotton is now free and the Government is releasing no quotas. Nevertheless, CCI purchases cotton even now to undertake export of cotton.

Besides the above role, CCI has also been designated as the nodal agency for implementation of Mini Missions 3 and 4 of the Technology Mission on Cotton for improvement and development of Market Yards and Modernisation of Ginning and Pressing factories, and thereby improving the quality of cotton by reducing contamination of cotton, and ensuring better prices to the growers.

In addition to the above, the Ministry of Agriculture has also nominated the CCI as the implementing agency for undertaking Front Line Demonstrations under Mini Mission 2 of the TMC.

Under its developmental activities, the CCI has been implementing the Contract Farming Project in all the cotton growing States.

5.5.5 Organic Cotton Advisory Board (OCAB)

A New Advisory Committee has been constituted of Organic Cotton Advisory Board (OCAB) on 14-10-2008 for 2 years. The OCAB shall be headed by the Textile Commissioner, which is a representative body of the Central and State Government agencies, Certifying agencies, Agriculture Universities/ Research Institutes, Ginning & Pressing Sector, Textile industry and Non official Members. The role and functions of the Organic Cotton Advisory Board shall be as under:

- i) To assess the demand and supply situation
- ii) To recommend subsidy for production practices to be followed for cultivation of organic cotton under Mini-Mission 2 of the TMC/ICDP (Integrated Cotton Development Programme).
- iii) To evolve the guidelines for the basis of certification, delineation/identification of production areas and varieties suitable for organic farming.
- iv) Co-ordination with Agricultural and Processed Food Products Exports Development Authority (APEDA) and National Organic Farming Institute (NOFI), Faridabad along with its Regional Stations at Jabalpur and Nagpur.

Organic Cotton and its importance: Cotton grown without the use of any synthetic chemicals, i.e., pesticides, plant growth regulators, defoliant and fertilizers is considered 'Organic' Cotton. Organic Cotton production means not only the absence of Inorganic Synthetic fertilizers and pesticides but it involves very careful planning of the whole farming system. In general, Organic Cotton is

grown using methods and materials that have low impact on the environment with the organic production systems replenishing and maintaining soil fertility, reducing the use of synthetic pesticides, fertilisers and building a biologically diverse agricultural system. Organic Cotton production uses “natural” chemicals like Sulphur dust and BT (*Bacillus Thuringiensis* additive, and not insect-resistant biotech Cotton) and other biological control agents in pest management and Organic acid-based foliar sprays, such as citric acid and nitrogen and Zinc sulphate in harvest preparation. Biotech Cottons, containing BT or other artificially introduced genes, are not allowed to be used for the production of Organic Cotton; the general reason being that the technique is currently considered synthetic gene manipulation, not natural.

5.5.6 Technology Mission on Technical Textiles (TMTT)

During the “TexSummit 2007, the Prime Minister announced the “Technology Mission on Technical Textiles” during the XI Five Year Plan. To start with, the Government has approved the Scheme for growth and Development of technical Textiles during XI Five Year Plan which comprises three components (i) Baseline Survey to build the database of technical textile industry, (ii) Creation of awareness among the entrepreneurs, (iii) Setting up of four centers of excellence.²⁷

5.5.7 National Manufacturing Competitiveness Council (NMCC)²⁸

Globally, the manufacturing activities are now acquiring a new dimension. The trend is to source products from low-cost countries. India with its past experience, large pool of skilled manpower, established raw material and supply base, and growing domestic volumes, has the potential to emerge as major manufacturing hub for the global market. To harness the opportunities and the potential, appropriate sector specific interventions with special focus is the need of the hour. Textiles Sector is one such sector which offers immediate opportunities to garner a major share of the global market.

²⁷ *Ibid.*, p. 52.

²⁸ *Ibid.*, pp. 41-53

Attaining competitive edge in ‘manufacturing’ depends critically on mitigating constraints; both the general constraints such as inadequate infrastructure, high transaction costs, higher interest, power and regulatory issues as well as sector specific constraints such as technology upgradation, market access, duty structure, managerial practices and competitive scales, etc. Resolution of these constraints necessitates focused attention and action involving not only inter-Ministerial/Departmental co-ordination but also closer interaction amongst stakeholders viz., industry, input providers, financial institutions, education, research and management institutions.

In the above background and in line with the priorities laid down in the national Common Minimum Programme, the government has set up the National Manufacturing Competitiveness Council (NMCC). This is an interdisciplinary and autonomous body at the highest level to serve as a policy forum for credible and coherent policy initiatives in the manufacturing sector.

NMCC has identified Textiles & Garments (T&C) as one of the Priority sectors having high growth potential and higher multiplier effects for employment generation. Timely policy intervention can boost the competitiveness of this sector manifold, as the grown impetus prevailing in the sector is vibrant. Market size potential for the industry is envisaged at US\$ 115 billion by FY 2012, compared to \$52 billion in FY 2009. This would create 12 million job opportunities – 5 million direct jobs in textile industry, and 7 million jobs in allied sectors. In order to achieve the vision, investments to the tune of Rs.1,50,600 crore would be required.

5.5.8 Textiles Committee (TC)

Textiles Committee is a facilitator dedicated to quality improvement towards enhancing competitiveness of the textiles and clothing industry. It offers world-class services across the length and breadth of the country, be it testing of textiles through its 12 accredited laboratories, inspection, certification and assistance to exporters, consultancy for implementation of ISO 9000 QMS, ISO 14000 EMS, Social Accountability (SA) 8000, OHAS 18001, CSM 2000 standard, Market intelligence and industry specific study, and HRD programmes of

facilitating the cluster development programme. It's a one-stop shop for textile entrepreneurs to bring competitiveness into their business.

It is Asia's First ISO 17020 Accredited Third Party Independent Inspection Body.

Services provided:

- Quality Inspection of products according to technical regulations, specifications and /or recognised national and international standards.
- Endorsement of GSP Certificate & Certificate of Origin Non-Preferential.
- HS, ITC Classification of Textiles & Clothing

Other Value Added Services:

- Wide Range of Testing Services - Safety, Ecological, Chemical and Mechanical properties of textiles & dyes
- Consultancy on ISO 9000, SA 8000, ISO 14000, ISO 17025, etc.
- Market Intelligence and industry survey
- Consultancy on Geographical Indication Registration
- Cluster Based capacity building of SMEs
- Implementation of Handloom Mark Scheme.

5.5.9 Cotton Textile Research Associations (CTRAs)

There are eight Textile Research Associations (TRAs) receiving financial support from the Ministry of Textiles. Of these, the following are prominent, Cotton Textile Research Associations (CTRAs) - Ahmedabad Textile Industry's Research Association (ATIRA), Ahmedabad, Bombay Textile Research Association (BTRA), Mumbai; South India Textile Research Association (SITRA), Coimbatore; Northern India Textile Research Association (NITRA), Ghaziabad.

Textiles industry promoted private bodies, set up and promoted by the textile industry of the respective regions for carrying out research, and providing them various services including consultancy, testing, training and research, etc.

5.5.10 Export Promotion Councils

A) Apparel Export Promotion Council (AEPC)

The Apparel Export Promotion Council (AEPC) was sponsored on February 22, 1978 to promote exports of readymade garments from India. The

Council was administering the exports entitlements quota in respect of readymade garment items, which were subject to restraint in USA, European Union and Canada. Besides its headquarter at New Delhi, the Council has Regional Offices at New Delhi, Jaipur (Rajasthan), Ludhiana (Punjab), Mumbai (Maharashtra), Chennai and Tirupur (Tamilnadu), Bangalore (Karnataka) and Kolkata (West Bengal).

B) The Cotton Textiles Export Promotion Council (Texprocil)

The Cotton Textiles Export Promotion Council (TEXPROCIL), Mumbai was incorporated under the Indian Companies Act, VII of 1913 in October, 1954 with the pressing objectives of export promotion of cotton textiles. In the year under review, the Cotton Textiles Export Promotion Council (TEXPROCIL), Mumbai made a number of suggestions for strengthening the export efforts and also to provide data for monitoring exports. The Council continued to disseminate information on demand patterns, consumer preferences, competing products/countries etc. with a view to assist Indian exporters to compete effectively in the overseas markets. The Council also undertakes export promotion measures to project the considerable product range of Indian cotton textiles in India and abroad.

C) The Synthetic & Rayon Textiles Export Promotion Council (SRTEPC)

The Synthetic & Rayon Textiles Export Promotion Council (SRTEPC), Mumbai was incorporated in 1954 under the Indian companies Act, 1913 with the basic objectives to establish, promote and operate, maintain, and increase the export of synthetic and/or cellulosic yarn, etc. In the period under review, the Council provided comprehensive inputs to the Government for modification in export-import policy/procedures as well as disseminated information on demand patterns, fashion trends and prices of competing products in the overseas markets to enable Indian exporters to implement modernised cost-effective manufacturing techniques, product adaptation and diversification. The Council undertook several export promotion measures to generate greater awareness of Indian man-made textiles among overseas buyers.

D) Export Promotion Activities of EPCs

During the year 2009-10, the EPCs continued export promotion activities of textiles exports. These included participation in overseas exhibitions/fairs, organisation of Buyer-seller-Meets (BSMs) abroad and, sponsoring trade delegations for consolidating the existing markets and exploring new markets.

5.5.11 Fashion & Design Promotion Council (FDPC)

During the year 2008-09, The Ministry of Textiles was instrumental in the setting up of the Fashion & Design Promotion Council . The FDPC has been constituted under the Societies Registration Act 1860, and has prominent members of the textiles trade and fashion industry, as members. The FDPC has been primarily set up for promoting young and upcoming talents in the fashion industry as also to give the Indian fashion industry adequate global and domestic exposure.²⁹

5.5.12 Apparel International Mart (AIM)

The Apparel International Mart (AIM) has been constructed at Gurgaon in Haryana with a covered area of 3.5 lakh sq.ft., where International buyers can have the converge at one single source to access their requirements, and conduct on-the-spot business. A total of 223 showrooms have been booked against the available 229 showrooms. The events like Market Week and Markets Carnivals were organised during 2008-09 by the Council, where the showroom holders displayed their collections. The Apparel house has become an important landmark in Gurgaon, and houses facilities like Auditorium, Exhibition Hall, Art Gallery, Cafeteria, and Plaza Area & Amphitheatre.³⁰

5.5.13 Apparel Training & Designing Centres (ATDCs)

Apparel Training & Designing Centre was registered as a society under Societies Registration Act on February 15, 1991 at New Delhi with the mission to upgrade the technical skills of the human resource employed in Garment Industry. There are 49 ATDC centres functioning across the country to provide trained manpower in the field of Pattern Making/Cutting Techniques and Production

²⁹ *Ibid.*, pp. 52-53.

³⁰ *Ibid.*, pp. 41-53.

Supervision and Quality Control Techniques to the Readymade Garment Industry so that quality garments are manufactured for the global market.³¹

5.5.14 National Institute of Fashion Technology (NIFT)

The National Institute of Fashion Technology was set up in 1986 as an autonomous Society in collaboration with the Fashion Institute of Technology (FIT), New York, to train professionals to meet the requirements of the textiles industry. The institute has pioneered the evolution of fashion business education across the country through its network of seven centres at New Delhi, Bangalore, Chennai, Gandhinagar, Hyderabad, Kolkata and Mumbai. A Centre at Rae Bareilly has been added from academic year 2007-08 and four Centres at Patna, Bhopal, Shillong and Kannur have been added from academic year 2008-09. The National Institute of Fashion Technology Act, 2006 came into force on July 14, 2006 and became operational from 1st April, 2007. The Act provides statutory status to the Institute and formally recognizes its leadership in fashion technology sector, and empowers NIFT to award degrees to its students. NIFT is the first institute in the world to award degrees in fashion education³².

5.5.15 Sardar Vallabhbhai Patel Institute of Textile Management (SVPITM), Coimbatore

Sardar Vallabhbhai Patel Institute of Textile Management was set up on December 24, 2002 as a national level Institute for Textile Management at Coimbatore, Tamil Nadu to prepare the Indian Textile Industry to face the challenges of the Post-MFA era and enable it to establish as a leader in the global textiles trade³³.

³¹ *ibid.*, pp. 41-53

³² *ibid.*

³³ *ibid.*

III. Measures being Pursued by Government of India and Reserve Bank of India, and Implementation of Programmes

5.6 Announcements by Government of India and Reserve Bank of India during the Recession Period (2008-10) for Textile Industry and Export Promotion

The Government is seized of the submissions of the industry and trade associations regarding potential loss of employment in the textiles and clothing industry consequential to declining sales in domestic and international markets from 2008. Some of the steps taken by Government of India to support the textiles and garments industry include the following: (Ministry of Textiles, GOI, *Annual Report 2009-10*).

Stimulus Scheme Announced on 07.12.2008

- General reduction of 4% in CENVAT rates. As a result, the textile machinery had 10% (Previously 14%) and Non-cotton textile have 4% (Previously 8%) CENVAT rate.
- 4% optional CENVAT on cotton textiles has been abolished.
- NAPTHA has been exempted from import duty (Previously 5%) for use in the power sector.
- Rate of C. Excise duty on cotton textiles reduced from 4% to Nil. (Notification No.59/2008 (C. Excise dated 07-12-2008).
- The benefit of Service Tax refund (Already available to 19 other services, which are not in the nature of "input services" but could be linked to export goods.) is now extended to service provided by a clearing & forwarding agent to exporters.
- The Threshold limit of refund of service tax paid by exporters on foreign commissioner agent service has been enhanced from 2% of FOB value to 10% of FOB value of exports.
- Draw back benefit can now be availed of simultaneously with refund of service tax pad in respect of exports.
- Pre and post - shipment export credit for certain specific sectors including textiles belongs to SME sector is being made more attractive by providing an interest subvention of 2% upto 31/03/2009 subject to minimum rate of interest 7% per annum.
- An additional allocation of Rs.1400 crore will be made to clear the entire backlog in TUF Scheme.
- All items of handicrafts will be included under 'Vishesh Krishi & Gram Udyog Yojana, All items of Handicraft included under Vishesh Krishi &

Gram Udyog Yojana (VKGUY) Scheme, under which exports are eligible for Duty Credit Scrip equivalent to 5% of FOB value.

- To boost collateral free lending, the current guarantee cover under Credit Guarantee Scheme for Micro and Small enterprises on loans will be extended from Rs.50 lakh to Rs.1 crore with guarantee cover of 50 per cent.
- Government back-up guarantee for ECGC to the extent of Rs.350 crore to enable it to provide Guarantees for exports to difficult markets/products, to continue the single buyer policy.
- Additional fund of Rs.1100 crore for refund of Terminal Excise Duty (TED)
- Additional provision of Rs.350 crore for export incentive schemes.

Scheme Announced on 02.01.2009

- The DEPB Scheme extended till December 31, 2009 and restored the rates at those prevailing prior to 5th November 2008.
- Restored DEPB Credit rates to those prevailing prior to 1-9-2008. However, no benefit to exporters of cotton textiles since there was no reduction the DEPB rates for cotton textiles.
- Decided to remove the all- in- cost ceilings on External Commercial Borrowings.
- Duty Drawback revised rates/value caps with retrospective effect i.e. w.e.f. 1-9-2008.
- Increased Value cap for Cotton Yarn from Rs. 8/- per Kg to Rs. 12/ per kg for Grey Yarn and from Rs. 14 per kg to Rs. 16 per kg for Dyed yarn.
- Increased rate of Drawback for Cotton Knitted Fabrics from 4.5% to 5% and value cap from Rs. 14 per kg to Rs.15.60 per kg.

Interim Budget 2009-10

- General rate of Central Excise Duty is reduced from 10% to 8%. As a result Central Excise Duty on Textile Machinery is reduced from 10% to 8%.
- Rate of Service Tax on taxable services is reduced from 12% to 10%.

Stimulus Package Scheme Announced on 24.02.2009

- Customs Duty - The facility of exemption from Basis Customs Duty on imports of Naptha for generation of Electric energy is being extended beyond 31-03-2009.
- **Excise Duty**
 - General Reduction in Excise Duty rates by 4% made wef 7-12-2008 is being extended beyond 31-03-2009.
 - Further reduction in the rate of Excise Duty by 2%; i.e. from 10% to 8%.

- Retaining the rate of Central Excise Duty on goods currently attracting Ad-Valorem rates of 8% and 4% respectively.
- Service Tax - The rate of Service Tax on taxable services has been reduced from 12% to 10%.
- Exemption from Income Tax for SEZ/s - Removed the anomaly in computation of export profits with reference to the total turnover of the assesses in SEZ/s.

Major Supplementary Trade Facilitation Measures Announced on 26.02.2009 under Foreign Trade Policy (2009-14)

- Rupees 325 crore provided under promotional Schemes for Leather, Textiles etc., for exports made with effect from 1.04.2009. It is in the form of 2% duty credit scrip of FOB value of exports under market linked focused product scheme exclusively for exports into US and EU.
- Benefit of 5% duty credit scrip of FOB value of exports under Focus Product Scheme has been notified for exports of handmade carpets, in lieu of 3.5% benefit allowed earlier under VKGUY scheme (Vishesh Krishi and Gram Udyog Yojana).
- Technical Textiles has been added under High-Tech Products Export Promotion Scheme and now entitled to duty credit scrip equivalent to 1.25% of FOB value of exports.
- Under EPCG scheme, in case of decline in exports of a product by more than 5%, the export obligation of that product is to be reduced proportionately. This provision has been extended for the year 2009-10, for exports during 2008-09.
- DEPB/Duty credit scrip utilization extended for payment of duty for import of restricted items also.
- Procedure for claiming duty drawback refund and refund of terminal excise duty further simplified.
- Re-credit of 4% SAD, in case of payment of duty by incentive scheme scrips such as VKGUY, Focus product and Focus Market, was allowed.
- Export obligation period against Advance Authorizations extended up to 36 months.
- Permitted supply of intermediate product/s by the domestic producer directly from the factory to the port of shipment against Advance Intermediate Authorization.
- Dispensed with the requirement of MODVAT/CENVAT certificate in cases where the Customs Notification itself prescribed for payment of CVD, in respect of Advance Licences issued prior to 01-04-2002.

- Export House - Reduced the threshold limit for recognizing Premier Trading Houses from Rs. 10,000 crore in the preceding three years and current year to Rs. 7,500 crore.

Scheme Announced on 04.03.2009

- The Government announced facility of refund of service tax paid on all input services, irrespective of whether they are consumed inside or outside the zone, to Special Economic Zones (SEZ) units and developers. Previously, the government exempted SEZ developers/units from paying a tax on services that were consumed within the zone.

Other Facilitation Measures

- Re-imburement of Additional Duty of Excise levied on fuel under the Finance Act would also be admissible in respect of EOU's. . Re-credit of 4% SAD, in case of payment of duty by incentive scheme scrips such as VKGUY, FPS and FMS, has now been allowed.
- Simplification of the provision for getting refund of Terminal Excise Duty/Deemed Export Benefits and now exporters can submit a statement certified by Central Excise Authorities in lieu of individual invoices and a monthly statement confirming duty payment in lieu of ER-1/ER-3.
- Krishnapatnam sea port included for the purpose of Export Promotion Schemes.
- Electronic Message Transfer facility for Advance Authorization and EPCG Scheme established for shipments from EDI ports w.e.f.01-04-2009.
- Requirement of hard copy of Shipping Bills dispensed with for Export Obligation discharge.

Steps Taken by Reserve Bank of India (25-03-2009)

- The validity of interest subvention at 2% on Pre Shipment Credit up to 270 days and Post Shipment Credit up to 180 days was extended from 31-03-2009 to 30-09-2009 and subsequently extended upto 31-03-2010.

Major Incentives Introduced under Foreign Trade Policy (2009-14)

- Incentive Schemes have been expanded by addition of new products and markets.
- 26 new markets have been added under the Focus Market Scheme. These include 16 new markets in Latin America and 10 in Asia-Oceania.
- The incentive available under Focus Market Scheme (FMS) has been raised from 2.5% to 3%.
- The incentive available under the Focus Product Scheme (FPS) has been raised from 1.25% to 2%. This covers a large number of products from

various sectors which have been included for benefits under the FPS. These include Jute and Sisal products, Technical Textiles and vegetable textiles.

- Market Linked Focus Product Scheme (MLFPS) has been greatly expanded by inclusion of products classified under as many as 153 ITC(HS) Codes at 4 digit level. This covers textiles madeups, knitted and crocheted fabrics.
- MLFPS benefits also extended for export to additional new markets for certain products. These include apparels among others.
- Higher allocation for Market Development Assistance (MDA) and Market Access Initiative (MAI) schemes is being provided.
- To aid technological Upgradation of export sector, EPCG Scheme at Zero Duty has been introduced for apparels and textiles among others.
- To impart stability to the Policy regime, Duty Entitlement Passbook (DEPB) Scheme is extended beyond 31-12-2009 till 31.12.2010.
- To simplify claims under FPS, requirement of 'Handloom Mark' for availing benefits under FPS has been removed.

5.7 Implementation of Programmes

5.7.1 Technology Upgradation

Technology can play a lead role in the weaving and processing segments, to improve the quality and productivity levels. The economies of scale operating under hi-tech processing would enable operating expenses to be lower with minimal fabric defects. Further, upgradation / modernisation in the industry would help ensure economies of scale and quality improvement. The industry needs to undertake innovations and product development, and strategies that would enhance efficiency in production, supply chain, and product distribution. The Indian textile industry should turn into high-tech mode to reap the benefits of scale. The Technology Upgradation Fund Scheme (TUFS) has a major role in strengthening the technology upgradation efforts in the industry. The scheme which was started in April 1999 has been extended up to March 2012. It encompasses all the interconnecting sectors such as ginning, spinning, weaving, knitting, processing, and readymade garment making. There are various subventions under the scheme for different forms of capital subsidy / interest subsidy. The scheme has not only provided to different segments of the industry capital subsidy for modernisation of their plant and machinery to make them competitive, but has also given them incentive to plan new investments and expand capacity through self financed

sources and/or through equity capital. However, spinning and composite mill categories still constitute the largest beneficiaries of the scheme.

The TUF Scheme has been fine-tuned in 2007 to catapult the rapid investments in the targeted segments of the textile industry. TUF has helped in the transition from a quantitatively restricted textiles trade to market driven global merchandise. It has infused an investment climate in the textiles sector, and in its operational life span has propelled investment of more than Rs.1,86,804 crore up to end-September 2009. Twenty per cent capital subsidy scheme under CLCS-TUFS for powerloom units was launched on November 6, 2003. Under the scheme, Rs.350.20 crore has been disbursed in respect of 2,515 enterprises from November 2003 to November 2009. Response to the scheme has been steadily improving. Powerlooms have the option to avail of this scheme in lieu of 5% interest reimbursement on investment in TUF compatible specified machinery subject to a capital ceiling of Rs.2 crore, and a ceiling on subsidy of Rs.20 lakh. A minimum of 15% contribution from beneficiaries will be ensured. The modified techno-financial parameters of the Scheme will infuse capital investment into the textile sector, and help it capitalise on the vibrant and expanding global and domestic markets, through technology upgradation, cost effectiveness, quality production, efficiency, and global competitiveness. It is estimated that this will ensure a growth rate of 16 per cent in the sector. The modified structure of TUF focuses on additional capacity building, better adoption of technology, and provides for a higher level of assistance to segments that have a larger potential for growth, which have not received adequate support so far. Special mention may be made of sectors such as garment manufacturing, weaving, knitting, made-up manufacturing, processing of fibres, yarn, fabrics, technical textiles, etc. which need further encouragement for modernisation. Horizontal and vertical integration in the industry will also be facilitated through modernisation and expansion of capacities, and establishment of new enterprises engaged particularly in high value added processes.³⁴

³⁴ Ministry of Textiles, Government of India, Annual Report 2009-10, pp. 36-38.

5.7.2 Scale and Integration

Internationally, trading in textile and clothing sector is concentrated in the hands of a few large retail firms. Majority of them are looking at new vendors with bulk orders and opting for vertically integrated companies. Thus there is need for integrating operations in the industry, from spinning to garment making, to gain their confidence. This would ensure quality and facilitate undertaking of large orders at low cost. Such integration would also bring down turnaround time, and thus helps the firms stick to delivery schedules. More and more players need to be focusing on integration in order to reduce lead time, cut down the cost, and improve quality. Role of cooperatives and industry associations is important in facilitating this process. Cooperatives can facilitate integration through linking decentralised enterprises engaged in different activities, and associations can play a lead role in providing market information, and encouraging entrepreneurs in the desirable directions.

One of the reasons for relatively less investment in weaving, knitting and apparels segment has been reservation of articles in these categories for small-scale enterprises only. Due to reservation, these segments could not expand, and several economies of scale could not be harnessed. On the other hand, spinning segment in which there were no such restrictions was able to expand, and capitalise on scale economies. Thus composite mills (which had spinning, weaving, and processing under one roof) were prevented from expanding their weaving and processing operations. This had the effect of rendering quite a few of the composite mills unviable since they could not expand their weaving operations to match the expansion in spinning. It also led to the emergence of specialised spinning mills. This was exacerbated by the excise duty evasion done by the small-scale powerlooms that affected the competitive advantage of composite mills. It was only recently that most of the restrictions on weaving and apparels segment were unshackled. In the apparel sub-sector, while the woven segment was de-reserved from the small sector in 2001, the knitwear segment was totally freed only in 2005. Due to de-reservation of these segments, pace of investment

has picked up in recent years. TUFS policy was a major policy incentive through which it got boost further.

Gradual de-reservation and removal of restrictions on expansion of capacities in the last couple of decades has also been conducive to occurrence of horizontal and vertical integration in the industry. In recent years there has been significant forward integration into garments by major spinners and weavers. Arvind Mills and Vardhman Industries exemplify this trend. Interestingly, a significant number of cotton ginners are forward integrating into spinning, as can be seen in the cotton areas of Andhra Pradesh and Punjab. Similarly, significant backward integration by small medium-sized knitwear exporters in spinning is occurring in Coimbatore - Tirupur region of Tamil Nadu. Some of the best examples of full integration are Alok Industries, Indian Rayon & Industries, Welspun Industries and Vardhman Industries, etc. which straddle the entire range from spinning to branded garments and home textiles (Singh, 2007). Thus, there is an all-around trend toward scaling up as well as capturing the entire value chain from spinning to garmenting, in order to minimise the inefficiencies at each level of the chain. The government-facilitated integrated textile parks scheme introduced in 2005 is also serving the purpose of informal consolidation. These parks incorporate facilities for spinning, sizing, texturising, weaving, processing, apparels, and embellishments. These textile parks will further reinforce the trend toward consolidation in the industry in the years to come.

5.7.3 Inflexibility of Labour Laws

Inflexibility in labour laws has been an Achilles heel in the Textiles industry more specifically for the garments sector. It is eroding the competitiveness of the industry, and has affected the expansion of garments sector. Outdated labour laws have induced inflexibility in the clothing industry, and led to fragmented operations. This has cost us considerably due to industry's hesitation over expansion process even at the time of upsurge. Most of the countries competing with India have labour laws that are more flexible. For example, the Chinese apparel industry has highly flexible labour laws that allow for lay-offs during the non-peak season, hiring of contract labour, and a flexible hiring and

firing system in SEZ-based units. Similarly, the Mexican apparel industry allows layoffs during the slack business season (Singh, 2007). There is need for major reforms in labour laws to attract investments in the sector, and make the sector more competitive. But even if the government adopts the long overdue flexible labour policy in the near future as recommended by numerous committees and analysts, firms should follow restraint in executing mass lay offs during slack season particularly in skill based segments such as garments. They should rather attract and retain highly skilled workers, and try to diversify themselves into high value sub-segments, and increase their productivity during this period as has been exemplified by countries like Japan and Italy. In this way they will also be able to compete with their competitors during such times. It will be in the interest of both beleaguered textiles firms and workers.

5.7.4 Bridging the Skill Gap in Textile and Clothing Industry

In the age of cut throat competition among enterprises, continuous upgradation of machinery is a must to remain competitive in a sector like textiles and clothing, where export potentials are high. Along with modernisation, there occurs need for skilled workers who can run the machinery efficiently and understand the modern production processes. Thus skill requirement increases with the technological upgradation. In the Indian scenario for want of availability of skilled labourer in adequate quantity, many firms in the industry are hesitant to expand their scale of operations or enter into high end segments with cutting edge technology. (National Council of Applied Economic Research – NCAER. 2009. *Assessing the Prospects for India's Textile and Clothing Sector*, New Delhi)

Segment-wise Skill-gap

Nature and scale of skill gap vary across different segments of the industry. Skill gap is found to be minimal in the handloom segment, and maximum in the technical textiles segment. Major reasons for less skill gap in the handloom segment are very low level of modernisation, and traditional level of skill required to become weavers. The traditional skill for handloom sector for centuries was transferred from one generation to the next. Further, in the powerloom/knitting sector, the extent of the skill gap depends upon the type of powerloom/knitting

machine used. In case of shuttle looms, the skill gap is lower as compared to shuttleless looms. Similarly, in the modern knitting machine, the need for skilled labourer is more, and hence there exists high skill gap in modernised knitting units as compared to less modernised knitting machine units. This is because of lack of proper training institutes in the nearby place, and on the labourer part lack of resources, willingness and high opportunity cost to spare time. In garment and technical textiles sectors, skill gap is far more severe. Skill gap is also found in terms of efficient management systems, for instance, indigenous CAD/CAM skills and efficient enterprise management, *viz.*, ERP systems. These are capabilities that serve as a key to move up the value chain. At the middle and senior management level, knowledge/information gap is observed. This hampers the quality and socio-environmental compliance by customer segments along the global value chain. This also resulted in achieving competitiveness merely because of lack of business information in certain modernised units such as fabric sourcing, appropriate energy options, technology, government support and markets, etc. (Padmanand and Jadeja, 2007). The skill gaps, however, are found across the entire textiles and clothing value chain.

Measures to Improve the Existing Institutions and training facilities

- Currently, there is a massive gap between the availability of skilled manpower and the requirements of the industry, particularly in the weaving, dyeing, processing, and garment segments. To bridge this gap requires massive expansion and modernisation of training institutes / polytechnics across the country, with specialisation in various branches of textile technology. They can be opened on public-private partnership basis with maximum industry-institute interface.
- The number of ITIs targeted specifically to the requirements of the textiles sector need to be increased significantly to meet the shortage of operators. They may be persuaded to relate their courses and curriculum in textiles with the inputs from the textiles industry to make them more relevant to modern machineries and processes used in textiles industry.

- Post graduate courses are required to develop a specialised skilled labour pool for the industry. These are to be offered as part of engineering degree programmes in various engineering colleges, Indian Institutes of Technology (IITs), and National Institutes of Technology (NITs).
- The Textile Research Associations (TRAs) may be strengthened with one time grant from the government to design and offer more short term structured training programmes.
- The existing network of Apparel Training and Design Centres (ATDCs) promoted by the Apparel Export Promotion Council may be expanded and strengthened to meet the needs of the rapidly growing RMG sector.
- Knitting & knitwear service centres may be set up in the major knitting centres of Tirupur, Ludhiana, Delhi, and Kolkata to cater to the support service needs of the decentralised knitting and knitwear industry.
- Emphasis should be laid on not only educating and skilling the workers but also on a continuous process of skilling, re-skilling, multi-skilling, and skill modulation.
- Capacities of powerloom service centres to conduct training programmes can be expanded. Simultaneously, new training centres may be established in smaller clusters where presently there are no training centres for skill development of workers.
- The reorientation and modernisation of the industry may require major adjustments in human resource development policies so that skilled workers displaced during the adjustment process may be reabsorbed into productive employment. For this purpose, there is need to develop and install a meaningful mechanism that can utilise skilled weavers displaced from the handloom sector to productive employment in the powerloom and mill sectors. These skilled handloom weavers are major assets to the industry, but only if they can be utilised in the production of the sophisticated products that are in demand for domestic and export markets in handlooms or even in power looms and mills sector.
- Need to reform the rigid labour laws.

Industry associations like CITI (Confederation of Indian Textiles Industry) and other smaller associations should play a pivotal role in coordinating with training institutions and industry for the fulfillment of the training needs of various segments of textiles industry, and help in laying the foundation for development of such institutes.

5.7.5 Infrastructure Development for Exports and for the Textile Industry

India needs to enhance its focus on developing infrastructure, especially export-related infrastructure, including modernisation of ports. This would help the country to enhance its brand equity as a reliable supplier. Efforts are already being made to speed up the movement of raw materials and finished products, by investing in road development, port infrastructure, and providing thrust to multi-modal transport to match with international standards. Prioritisation of areas for infrastructure development especially in industrial clusters, coastal regions, and special economic zones may yield the desired results in export growth. Simultaneous efforts need to be made to create infrastructure for creating brand equity, supply chain management, and educational infrastructure to support textile and clothing industry.

Regarding textile specific infrastructure, two relevant schemes being implemented are: integrated textile (IT) parks for textiles, and special economic zones for a variety of industries, with a few of them for textiles. Two schemes implemented earlier are now merged with the new scheme of integrated textile parks. These are apparel park and textile centre infrastructure development scheme (TCIDS). 18 proposals for TCIDS and 12 proposals for apparel parks have been sanctioned earlier. For 18 projects approved under TCIDS, state-wise details are as follows: Andhra Pradesh (2), Gujarat (3), Haryana (1), Jammu and Kashmir (1), Kerala (1), Madhya Pradesh (1), Maharashtra (3), Rajasthan (2), Tamil Nadu (3), and Uttar Pradesh (1). For 12 projects approved for setting up Apparel Parks, state-wise details are as follows: Visakhapatnam (Andhra Pradesh), Bangalore (Karnataka), Tirupur & Kanchipuram (Tamil Nadu), Thiruvananthapuram (Kerala), Indore (Madhya Pradesh), Butibori - Nagpur (Maharashtra), Surat (Gujarat), Ludhiana (Punjab), Mahal (Jaipur, Rajasthan), Tronica City & Kanpur

(Uttar Pradesh). Under IT parks, 40 locations have been approved up to November 2010, and 25 more are proposed during 2010-12. The IT Park Scheme launched on July 25, 2005 targets industrial clusters / locations with high growth potential, which require strategic interventions through provision of world class infrastructure. Industry associations or groups of entrepreneurs are the main promoters of IT parks under Public Private Partnership (PPP) mode. The scheme enables entrepreneurs to meet international environmental and social standards, and contribute significantly to Gross Domestic Product (GDP). These parks will enable the textile sector to increase production of high quality fabrics, and reduce dependence of the industry on imports. The combined equity stake of Government of India and State Government should not exceed 49 per cent. Central Government's support is through grant or equity, limited to 40 per cent of project cost, subject to a ceiling of Rs.4 billion. State Government would be a facilitator for the park. State-wise details of sanctioned projects are – Andhra Pradesh (6), Assam (1), Gujarat (7), Karnataka (1), Madhya Pradesh (1), Maharashtra (9), Punjab (3), Rajasthan (5), Tamil Nadu (6), and West Bengal (1). These Parks would have facilities for spinning, sizing, texturising, weaving, processing, apparels, etc. The estimated project cost (for common infrastructure and common facilities) for the 40 approved projects is Rs.4,144.35 crore, of which Government of India assistance under the scheme would be Rs.1,422.43 crore. 2,216 entrepreneurs plan to put up their units in these parks covering an area of 4,334 acres. The projected investment in these parks is Rs.19,459 crore; and estimated annual production is Rs.33,587 crore. When fully operational, these parks would generate employment for 8.19 lakh persons (3.15 lakh direct & 5.04 indirect). So far assistance of Rs.752.49 crore has been provided for execution of these projects. The promoters of these textiles park projects have brought in about Rs.1800 crore as their contribution. 25 out of 40 sanctioned IT Parks have become operational. Brandix India Apparel City near Visakhapatnam, and Pochampally Textile Park in Nalgonda District in Andhra Pradesh are shining examples of attracting Foreign Direct Investment (FDI) under the scheme.

To bring together the efforts of different export promotion councils, Government of India has planned to set up a textile hub called 'Textilpolis' that would also integrate and make policies for the entire textile value chain. Textilpolis would act as a trade facilitation centre for Indian image branding, and R&D. The objective is for setting up an exhibition and buyer-seller interaction centre, and common data resource centre which *inter alia* includes export and marketing infrastructure like global procurement centre, international merchandise centre, single window centre for regulating services, centre for brand administration, and fashion development.

5.7.6 Market Development Assistance Scheme (MDAS)

For apparel exporters, the increased allocation of Rs.124 crore under the market development assistance (MDA) is expected to provide minimal impetus. While the Apparel Export Promotion Council (AEPC) has identified non-traditional markets of Japan, Russia, China, Turkey, South Africa, Brazil, Argentina, to decrease dependence on the US and EU, and double the share of these markets from current 12.15 per cent over the next five years, apparel exporters would get peanuts. 'There are no provisions for SMEs at all and as against our demand to allocate Rs.500 crore under MDA for apparel, we will get peanuts for the purpose,' AEPC chairperson Mr Rakesh Vaid said. The budget made no provision to make Indian exporters competitive vis-à-vis China, Cambodia, Bangladesh and Indonesia. Tirupur Exporters Association president Mr. A. Sakthivel too felt that allocation under MDA needed to be increased³⁵.

5.7.7 VKGUY Scheme

In the apparent move to revive exports in the face of declining global prices, the Centre has granted Vishesh Krishi and Gram Udyog Yojana (VKGUY) benefits to raw cotton shipments. The sop, significantly, is to be effective on a retrospective basis from April 1, 2008. Under the scheme, exporters are entitled to a 5 per cent duty credit scrip on the free-on board value of their shipments. Thus, if a company exports Rs.100 crore, it can import other items on which duty relief of up to Rs.5 crore can be claimed. Alternatively, if the company has no import

³⁵ Indian news, "Budget not tailored for growth", *Asian Textile Journal*, July-August 2009, p. 20.

requirement, it can sell this Rs.5 crore-worth scrip in the secondary market to those who want to import. Raw cotton exports were hitherto not covered under the scheme³⁶.

5.7.8 Brand Promotion

Brands play an important role as they assure consumers that the products are of certain quality, durability, and conform to several social, environmental and durability standards. Brand promotion is an important step for market penetration. Acquisition of brands by Indian companies is another strategy for promoting exports. Government of India has proposed a brand promotion scheme, based on public-private partnership (PPP) approach for the T&C industry. The scheme is expected to develop globally acceptable Indian apparel brands. Ecolabelling is emerging as one of the key requirements for global competitiveness through third party accreditation or certification, when companies adhere to comply with the environmental, quality and social standards. Government support is needed to help the fragmented industry to attain these standards.

5.7.9 Encouraging Foreign Direct Investment (FDI)

FDI is crucial for economic development, including the textile and clothing industry. This facilitates technological advancement and capacity expansion, and brings in latest technical know-how, latest manufacturing practices and processes, managerial expertise, latest marketing techniques, latest fashion designs and styles, etc. It also leads to overall quality improvement compatible with world standards and creation of mega facilities such as modern processing plants with large capacities, etc. Encouragement of FDI inflows especially in the clothing sector would enable large sourcing companies to set up their base in India. Encouragement to retail industry would also enhance the domestic demand, and promote large scale manufacturing in the country. Manufacture of textile machinery, synthetic fabrics, and technical textiles are other areas for attracting FDI.

From August 1991 up to February 2009, out of the total FDI inflow into the country, only US \$856 million has been attracted to the T&C industry (0.86%).

³⁶ *The Hindu Business Line*, July 12, 2008. p.10.

Performance from 2005 has been better, and is steadily improving. The volume of FDI inflow into T&C industry is much smaller compared to the size and status of the industry in the economy.

5.7.10 Regional Trade Agreements, and Comprehensive Economic Cooperation, and Partnership Agreements

Regional Trade Agreements (RTAs) are supplementing the multilateral trade agreements covered by the World Trade Organisation (WTO). RTAs are increasingly being viewed as a link between developing and developed countries towards the common goal of economic development and as a gateway to global trade. This subtle and gradual shift in the interest among developing countries to engage in agreements with developed countries and *vice versa* has been particularly noticed from 2004. India could draw insights from the global trend and pattern of gradual shift from south-south trade agreements to preferential trade agreements and comprehensive economic cooperation agreements between developing and developed countries, and explore opportunities to engage in trade in goods, services, and investment with developed countries such as USA, Japan, European Union (EU), and individual EU member countries. While India needs to maintain consistency in negative lists with regard to agreements with different countries to effectively protect its domestic industries, it is also crucial to address the issue of non-tariff barriers especially when engaging in agreements with developed countries.

The ASEAN (Association of South East Asian Nations) plus three approach could serve as a model in this regard. ASEAN which started with five countries expanded to ten countries, with six dialogue partners, and was subsequently increased to ASEAN plus three by including Japan, China and South Korea. India is a dialogue partner at present. Efforts are under way to form ASEAN-India Free Trade Agreement. India has been successfully diversifying in terms of its direction of trade. During 2008-09, Asia and ASEAN region accounted for 58 per cent of India's total trade of exports and imports, and is India's largest trading partner region. Europe and America together accounted for around 43 per cent, with America (North America, Latin America and Caribbean region) remaining stable

at 12.5 per cent. India's 'Look East' policy focuses on close links with ASEAN and SAARC (South Asian Association for Regional Cooperation) countries. Comprehensive Economic Cooperation Agreement (CECA) is nearing finalisation with ASEAN. In addition, India has CECAs and CE Partnership Agreements (CEPAs) with a few other countries, and is negotiating with a few more regions including EU. Focus Africa and Focus Latin America programmes were initiated by India from 1997. CEPAs with Japan and EU are nearing finalisation.

The agreement with Japan goes beyond Free Trade Agreement (FTA) whose usual components are investment, goods and services. These components apart, the agreement covers facilitation of business environment and rules of origin which are used to determine the country of origin of a product for international trade. CEPA will help India make inroads into the areas of its strength such as information technology and pharmaceuticals. It will ensure national treatment for Indian companies in registering drugs, making it easier for them to get over the barriers, a deterrent in most countries. Trade in high technology is another area to make Japan's norms "easier and predictable".

IV. Summing Up

In the external market, Indian textiles industry will continue to face two major challenges. First, competition from other developing countries which have taken to outward orientation much before India, and have thereby enhanced their international competitiveness. Second, from non-tariff barriers in industrial countries in the guise of environmental, health, safety, and technical standards. Competition can be expected from the whole spectrum of goods from the lowest quality to the highest quality. Indian Government is already taking a number of measures to protect and develop the Indian cotton textiles trade. However, our efforts are not sufficient to meet the global required standards because small countries like Vietnam have been showing better results in cotton textiles exports growth.

Two promising directions in the field of textiles which need greater attention are: **Development of Organic Cotton, and focus on Technical Textiles.**

Organic cotton production not only refers to the absence of inorganic synthetic fertilisers and pesticides but it involves very careful planning of the whole farming system. Demand for cloth using organic cotton has very high potential, as consumers in developed and developing countries are more environment conscious for improving health and safety. Technical Textiles (TT) is recognised as a dynamic and promising area for the future. It offers new ways, means and opportunities to the Indian Textiles Industry to sustain the present growth, and add a new dimension for the advancement of the industry. It is a potential area where the Indian textiles industry can excel. The National Mission on Technical Textiles aims at reaching a market size of US \$12-15 billion by 2012 in technical textiles. Four promising sub-sectors are Medi-tech, Geo-tech, Agro-tech and Pro-tech. These could be considered as niche growth areas in view of the increasing competition in clothing segment (from Bangladesh, Sri Lanka, and Vietnam), and home textiles segment (from Turkey and Pakistan). Market in USA and EU is growing substantially.

The focus and priority in future years has to be on increasing production, and exports of high value added products, and bringing about technological upgradation and modernisation, and diversification of product range in the entire value chain of textiles. India will have better prospects to contribute to the major share of global cotton textiles trade, in view of its highest acreage advantage in the world, and availability of human resources, if we improve our technological skills in all aspects at a faster pace, and facilitate integrated value chain in the industry. Only then Indian cotton textiles industry can compete and operate efficiently. The Indian textile and clothing exports have the resilience and strength to face challenges and grow in its own way. The policy measures adopted by Indian Government facilitate establishing Indian exports within the global market. However, India must pursue the path of rationalised inclusive trade policy to grow in the export market as well as retain a huge coveted domestic market, which is already the target of international retail chains.