
UNIT 9 TEXTILES AND GARMENTS

Structure

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9.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the importance of the Textiles and Garment industry to the Indian economy
- outline the various sectors of the Indian Textiles Industry
- analyse the export performance of the Textiles Sector and identify growth areas
- outline the contribution of the Garment Sector to the Indian Export effort and analyse its relative strengths and weaknesses
- describe the framework of the International trade in Textiles & Clothing (including the MFA and the new Agreement on Textiles & Clothing)
- explain some of the salient international developments in this sector and outline its possible repercussions for the Indian exporters
- discuss possible strategies to combat the emerging challenges in the context of current international developments in this trade.

9.1 INTRODUCTION

The Indian Textiles industry occupies an important position in our economy. The industry has, over the years contributed significantly to total national output, employment generation and the export effort. It is reported to account for nearly 1/5 of the national production of all commodities, contributes to about 1/3 of our exports and provides employment to millions of our people. The industry covers a wide spectrum of our work force, from the simple cultivators of cotton to sericulturists, weavers of cotton, woollen and manmade fabrics, artisans and designers besides the countless number of factory workers engaged in the organised mill sector. There are also several small-scale and tiny units in the unorganised/decentralised sector weaving fabrics on powerlooms and handlooms, contributing equally, if not in greater measure to the export effort of the country.

The Indian Textile Industry is also complex and varied in structure comprising the organised and sophisticated mill sector, the highly decentralised and small-scale powerloom sector and the cottage-scale handloom sector. The three-tier structure of Textile industry is highly significant and is not generally found outside the Indian sub-continent. Over the years the decentralised weaving sector has emerged as the pre-dominant one, contributing as much as 80 per cent of the total fabric output. A large number of Textile units have now embarked on a phased programme of technological upgradation and modernisation of their machinery and

equipment in view of the challenges ahead. Modernisation of this sector is considered vital if the Indian textile industry is to survive in this era of globalisation and cut throat competition, particularly in highly sophisticated international markets. In this unit, you will learn an overview of Indian Textile industry, trends in Indian textiles and readymade garments exports, strengths and weaknesses and future prospects and strategic responses.

9.2 AN OVERVIEW OF INDIAN TEXTILE INDUSTRY

The Indian Textiles industry presents a complex and varied structure comprising the Organised and sophisticated Mill sector, working mainly on cotton and man-made fibres; the highly Decentralised Powerloom sector; and the widely scattered and primarily cottage scale Handloom sector working on a wider range of fibres and yarns including natural silk. The three-tier structure of the Indian Textile industry is considered somewhat unique, since this pattern is not found anywhere else in the world. Over the years, the decentralised weaving sector in the country, notably the powerlooms segment has emerged as the predominant one, contributing to well over 70% to India's Production of fabrics. Even with regard to exports, its contribution is no less significant. The point to be noted is that the handloom sector has made a significant contribution to India's clothing needs and export effort, despite growing competition from the powerloom sector, largely perhaps due to the continuing protection accorded to this segment by the Government of India as a matter of deliberate policy.

Viewed from the overall national perspective, the Textile industry in the country now accounts for over 20 per cent of the Industrial production and provides employment to nearly 15 million people. Another significant fact is that India has the largest area under cotton cultivation in the world today (although the productivity by international standards continues to be low) and this area is expected to grow by 2.4 per cent per annum from the current level of 7.5 million hectares. Under such circumstances the principal raw material for the Textile industry continues to be cotton either singly or in blends with other non-cotton fibres. Other important raw materials consumed by the textiles sector include man-made fibres and yarn which are derived from petro-chemicals, wool which is largely imported and natural silk (both mulberry and tassar) which is obtained from silk-worms. Since cotton fabrics and garments account for well over 80 per cent of India's textile exports, the overall import content in this sector is very low pointing to the need to encourage its rapid development.

The Organised Mill Sector: There were 1767 textile mills in the large-scale organised sector as of March 1998, working primarily on cotton and man made fibres. The number of composite mills (includes spinning weaving) stood at 278 while the number of spinning mills stood at 1489. There were also 801 small scale spinning units registered with the Textile Commissioner as of March 1998.

The organised textile industry of India, is the second largest in the world with over 33 million spindles, 0.29 million open end rotors and 1.24 lakh looms. In 1997-98, the share of Millmade fabrics in the total production of cloth in the country worked out to only 5.39 per cent as compared to fabrics made in the decentralised Powerloom sector 56.13 per cent and the Handloom sector 21.73 per cent. The hosiery segment accounted for the balance 16.75 percent. This is indicative of the total dominance of the decentralised powerloom and handloom sectors in the total production of Indian textiles.

The relatively insignificant share of the Organised Mill sector in the cloth production of the country has been attributed to the high incidence of sickness in the sector. The major reason for the sickness afflicting the mill industry is due to the cut-throat competition that it faces from the decentralised powerlooms which are more cost efficient. The other reasons for sickness/closure of textile mills in the country include their low productivity due to the slow pace of modernisation in this sector, their lack of competitiveness in the export markets, escalating cost of inputs, lack of adequate finance and sluggish domestic demand.

To tackle the problem of chronic sickness in the mill industry, Government of India has set up a Board for Industrial and Financial Reconstruction (BIFR) for the timely detection of sick and potentially sick units. This would enable the authorities to take certain preventive and remedial measures. A Textile Workers and Rehabilitation Fund has also been created to

protect the interests of the workers laid off as a result of sickness etc. But the most noteworthy measure introduced by the Government is the special scheme known as the "Textile Upgradation Fund" of the Ministry of Textiles. The main objective of this fund is to enable the Indian textile industry to take appropriate measures to bridge the technology-gap so as to upgrade the quality of textiles produced in this sector. This would in turn enable the industry to be more competitive both in the domestic and export sectors. Most of the Indian Textile Mills are reported to be lacking in upto-date processing and finishing facilities. There is also gross inadequacy in the total number of State-of-the-Art Looms in the country which has compounded the problem. The Ministry of Textiles has also proposed a Textiles Modernisation Fund, under which concessional finance will be made available to all the textile units on priority basis. The industry should be in a position to reap considerable advantage from these measures.

Decentralised Powerlooms Sector: The contribution of the decentralised powerloom sector to the production and exports of Textile produced from India continues to be the maximum. Currently the powerloom sector accounts for a little over 56% of the total production of our textiles (excluding the production by powerlooms in non-SSI or large units and the hosiery/knitting units) Powerloom fabrics have also competed successfully in the international markets and India's garment exports are almost entirely made from powerloom fabrics. There are at present an estimated 15 lakh powerlooms spread through the length and breadth of the country in the decentralised small scale sector, producing a variety of textile using varied raw material.

The employment generated by this sector was reckoned at 7.08 million. In an attempt to encourage powerloom exports the Government of India is reported to have earmarked a specified export quota of fabrics and made-up articles from this sector to the development markets (Quota imposing countries) under the Multi-Fibre Arrangement (MFA) since the year 1992.

To accord more focussed attention to this sector, the Government has set up Powerloom Service Centres in major production areas in the country. According to reports there are 13 powerloom services centres functioning under the jurisdiction of the Textile Commissioner and 32 similar centres under the Textile Research Associations/State Government Agencies. The basic thrust in these centres is to develop new designs and test market samples which have been developed. It is understood that the Textile Ministry has also now proposed to use these Centres as effective instruments for the technological upgradation of this sector, in realisation of its vast export potential. The proposal in this regard is to install shuttleless looms, drop box looms, dobby and jacquard, terry fabrics weaving looms, fabric testing equipment etc. in the Centres. The existing testing laboratories in the centres are also to be upgraded so that the powerloom entrepreneurs are able to access modern testing facilities in adjacent areas. Government is also understood to have sanctioned 8 Computer - Aided Design Centres in specified centres like Coimbatore, Hyderabad, Surat, Solapur, Bhiwandi, Erode etc.

In order to provide a proper thrust to the development of the powerloom sector and more particularly to boost exports of powerloom fabrics, Government of India has established a separate Powerloom Export Promotion Council. The Council came into existence on September 1995.

The All India Powerloom Board was also reconstituted in 1997, and made more effective and broadbased by including in it representatives from the Central and State Governments. Powerloom Federations and Associations of the Powerloom Industry as its members.

Handloom Sector: Next to agriculture, handloom weaving is the largest economic activity in the country providing employment opportunity to more than 30 lakh weavers, on direct and indirect basis. The production of handloom fabrics in the country has witnessed a steady increase over the years. The sector contributes to about 23% of the total cloth production in the country and also substantially to the export effort. Although cotton is the basic rawmaterial, the handloom sector is gradually increasing its utilisation of non-cotton yarns including a wide variety of silks, synthetics and even wool. Cotton handlooms however have the major share of both production and exports.

In order to protect and nourish the rich heritage of Indian handlooms and forestall the steady encroachment on this sector by the more versatile and powerful powerloom and mill sectors, the Government of India has been providing since 1976, various support schemes for the promotion and development of handlooms. These schemes being implemented by the Development Commissioner for Handlooms are in terms of providing input support; training of personnel; establishment of weavers service centres; publicity campaigns for handloom and organising handloom exhibitions in different centres in India from time to time. A more recent scheme to be implemented by the Ministry of Textiles is the creation of "Handloom Development Centres" and "Quality Dyeing Units" at different centres. The Handloom Development Centres will make necessary tie-up arrangements for procurement of hank yarn, prepare production plans keeping in view the market demand and establish marketing outlets. The Quality Dyeing Units will provide the dyeing facilities and training relating to modern dyeing practices.

The broad components of the Government of India's promotional schemes for handlooms (which include the direct support extended by the office of the DC-Handloom) are as follows:

- i) greater emphasis on upgradation of technology and modernisation of looms.
- ii) development of handloom through the cooperative sector and Central/State level Corporations.
- iii) special thrust on ensuring adequate supply of yarn and other inputs to the industry.
- iv) production of blended fabrics on handlooms.
- v) protection to handlooms by reserving specified articles for exclusive production by this sector.
- vi) organising marketing complexes and regular training of marketing personnel in the sector.
- vii) controlled cloth production earmarked for exclusive privilege of handloom sector.

Handlooms will continue to obtain special attention from the Government because it is rural based, employment oriented and India's rich tradition in this sector. There is also the fact that India has what is called a "USP (Unique Selling Proposition) factor" in handlooms. Very few countries in the world have such a large concentration of weavers and variety of handloom cloth production. A fascinating variety of items are produced on handlooms and include fabrics, dress material, sarees, lungies, bed spreads, bed covers, furnishing, shirts, towels, napkins and floor coverings to mention just a few. The industry is structured into four types of manufacturing units i) individual and family units ii) cooperative societies iii) master weavers, and iv) factory type establishments.

The two other Textile sectors, namely the Woollen Textile Industry and the Sericulture sector are placed in a separate category because the raw material are animal based fibres (a variety of sheep and silkworm respectively). The raw material, particularly in the case of the woollen textile industry is also largely imported. The value added factor in exports of such items is therefore relatively low as compared to products made from cotton yarns and its blends.

Woollen Textile Sector: There are 658 units registered units in the Indian woollen textiles sector, employing about 12 lakh workers with an installed capacity of 7107 powerlooms producing a range of items which include yarn, fabrics and hosiery goods. The industry is fairly scattered mostly occurring in the North of India. Punjab and Haryana together account for 67 per cent of the total number of registered units followed by Rajasthan (10%). Uttar Pradesh, Maharashtra and Gujarat account for the balance.

The Woolen industry in India is broadly classified under the following two sectors:

- a) **Organised Sector**
 - Composite Mills
 - Combing Units
 - Worsted and Non-worsted spinning units
 - Machine made Carpet manufacturing Units.
- b) **Decentralised Sector**
 - Hosiery and Knitting
 - Powerloom
 - Handknotted Carpets, druggets and namdahs
 - Independent dyeing, processing houses.

India depends on imports from Australia and to some extent on imports from New Zealand, since its indigenous production of fine quality wool required by the organised wool industry and the decentralised hosiery industry is extremely limited. It is understood that New Zealand wool is being imported mainly to meet the requirements of the carpet sector for blending with the indigenous wool.

Central Wool Development Board has been set up by the Government to look after growth and development of the Indian woolen industry. The Board is currently reported to be administering the following schemes for the accelerated development of this sector with the help of the concerned State Departments and certain non-governmental organisations,

- i) **Integrated Sheep & Wool Development Project:** This project covers such aspects as sheep improvement, health coverage, product development, marketing assistance and training to sheep breeders in sheep husbandry and productivity. Quality of wool produced in the country is stated to have improved considerably since inception of this programme in 1991-92.
- ii) **Integrated Angora Rabbit Development Project:** To augment production of Angora wool in the country, the Government is encouraging rabbit farming in distant hilly areas. This step is also aimed at conserving precious foreign exchange of the nation. The project is reported to have been taken up by the Board fairly recently (1994-95) initially in Himachal Pradesh and later on was extended to Uttar Pradesh and Rajasthan.
- iii) **Machine Shearing -cum-Training Project:** This project has been taken up to popularise machine shearing among the sheep breeders and train extensively through demonstration programmes in different centres. The programme taken up by the Board in 1993-94, has increased the productivity in the wool sector.
- iv) **Industrial Service Centres:** The Industrial Service Centres set up by the Board at selected wool manufacturing centres like Bikaner (Rajasthan), Amritsar (Punjab), Pithoragarh (UP) are designed to provide testing facilities for fibre, yarn and woollen fabrics as also dyeing facilities for yarn. It is also said to have computer colour matching facilities for woven and printed woollen fabrics.
- v) **Area based Project for Wool and Woollens Development:** This scheme aims to provide a variety of facilities for the woollen industry. Apart from providing certain common facilities for weavers and spinners, the project also envisages organising training programmes to weavers and wool growers, upgrade the technology and levels of skills in the industry and also improve the marketing framework in designated wool and woollens manufacturing clusters. Four such projects are reported to have been taken up by the Board in the States of Gujarat, Himachal Pradesh, Andhra Pradesh and Maharashtra.
- vi) **Marketing Intelligence:** The Board has recognised the importance of an efficient and comprehensive networking system of marketing intelligence for the growth and orderly development of this industry. It has therefore established 10 functioning

centres to gather marketing information in the main wool producing areas in the country. Information being gathered in this regard relates to subjects like the prevailing market rates of wool and woollen yarn, latest trends & transactions in wool and woollen products etc. on weekly basis. Centres covered by the networking include Bikaner, Beawar, Panipat, Ludhiana, Shima, Hubli, Mirzapur, Jamnagar, & Jammu.

Sericulture Sector: India ranks second only to China in the production of natural silk. It has also the unique distinction of being the only country in the world to produce all the four varieties of silk, namely Mulberry, Tasar, Eri and Muga. Among the four varieties produced in the country, mulberry alone accounts for 91.7 per cent of the total raw silk production in the country. This factor is related to the huge demand for mulberry silk products both within the country and in the overseas markets. This sector has also been receiving considerable amount of State patronage since it is a highly labour-oriented and agro-based industry providing gainful employment to about 6 million persons in the rural and semi-urban areas in the country. An additional factor in its favour is that a sizeable number of workers in this sector belong to the economically weaker sections of society who are entitled to priority attention from the Government. Also as stated earlier the Central Silk Board has the overall responsibility of looking after the various interests of this industry which would include Research and Development facilities, training needs, extension work and establishing basic support systems. It also certifies the silk goods for export and extends a helping hand to the State Governments in the various sericulture development schemes.

Research work carried out by the Central Silk Board is mainly directed to evolve mulberry varieties which give high leaf yields, breeding superior silkworm races, besides evolving improved techniques of silkworm rearing, control of pests and diseases of both mulberry and silkworms.

Despite India's distinct advantages in this sector, our market share is a little over 10 per cent of the world trade in silk goods on an average. One of the major reasons for India's low share in international trade of silk is its growing domestic demand and consumption of the item. Currently it is reported that more than 80 per cent of the production of silk in this country is being consumed by the domestic market and the demand has shown no signs of abating. Exports under such circumstances can only be a poor second option. In fact, India's silk production of around 15,000 tonnes falls far short of the local demand of a little over 20,000 tonnes and the balance requirements are met through imports, principally from China. Chinese silk has also been found to be of a superior quality. That country has also been found to be a somewhat reluctant supplier of raw silk to India, because of its own need to prioritise and export value-added silk products rather the raw material to maximise its export earnings.

9.3 INDIAN TEXTILES EXPORT

India is a traditional exporter of textiles to various global markets. Indian cottons, muslin and silk articles were famous the world over even in the bygone era. However the fact that it has not been able to keep pace with the technological changes occurring in the textile industry abroad had posed certain problems to the export effort of this industry in recent years. The Government of India has therefore provided priority attention to the task of technological upgradation of this sector to enable it to meet effectively competition in the overseas markets.

Export of Indian Textiles play a provide role in the economic profile of the country, since it contributes to approximately 35% of Indian exports of all commodities. Indian exports begin primarily cotton based (indigenous cotton), textiles is the largest single net foreign exchange earner for the country.

Look at Table 9.1 which shows India's exports of textiles excluding readymade garments. The exports have increased from \$ 2870.61 in 1993-94 to \$ 5030.45 in 1999-2000. The major portion of textiles is accounted for by readymade garments and cotton textiles.

Table 9.1 India's Exports of Textiles (Excluding Readymade Garments)

(\$ million)

Year	Export
1993-94	2870.61
1994-95	3811.23
1995-96	4341.35
1996-97	4867.80
1997-98	5162.57
1998-99	4480.75
1999-2000	5030.45

Source: CMIE, July 2000.

All the textile items, however, seem to have maintained a fairly steady export growth during the past few years. Only in the case of silk articles there has been a fluctuation in terms of dollar realisation, which could be attributed to lower unit - values realised in respect of specific products in the group. The range of items exported by the Textile sector is fairly comprehensive and include yarn, fabrics, made up articles, furnishings, scarves and stoles, shawls and a variety of clothing.

India has been exporting its textile goods both to the developed and developing markets, although the developed markets are the principal importers in regard to many of its specialised items like furnishing, dress material, made up articles, silk fabrics and readymade garments. In most cases of Indian textile exports, developed markets like the USA, Europe (mainly Germany, UK and France) top the list of our import markets for a variety of such products. Look at Table 9.2 which shows major markets for Indian textiles export.

Table 9.2 Major Markets for Indian Textile Export

Countries	Year			
	1996-97	1997-98	1998-99	1999-2000
USA	748.98	746.13	759.36	882.41
UK	415.20	403.07	337.94	341.42
Germany	378.13	336.01	300.46	338.88
UAE	232.01	259.91	236.68	270.34
Italy	179.66	241.64	233.14	215.48
Hong Kong	248.10	273.43	226.30	191.41
Korea (Republic)	130.05	127.01	88.30	185.13

Source: CMIE, July 2000.

This is despite the fact that the developed countries are also the so-called "quota countries" i.e. countries which have curtailed the textile export from the developing world through the instrument of quotas on the plea that they have to safeguard the interests of their own domestic textile industry against low cost imports. Fortunately for India, as it is for many other developing nations which have a vital stake in the textile sector, the dismantling of the quota regime under the new Agreement on Textiles and Clothing presents considerable opportunities to expand and diversify its export effort.

Having regard to the fact that the world trade in textiles and clothing is to tune of around US \$135 billion annually, Indian performance of around \$ 10 billion leaves tremendous scope for scaling greater heights in the export effort of this commodity.

Check Your Progress A

- 1) What is textile upgradation fund?

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- 2) Enumerate two major problems for India's low share in international trade of silk.

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- 3) Enumerate five major markets for India's export of textiles.

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- 4) State whether the following statements are **True** or **False**.

- i) The organised textile industry of India is the second largest in the world.
- ii) Handloom weaving is the largest economic activity in India.
- iii) India ranks first in the production of natural silk.
- iv) Textiles is the largest single net foreign exchange earner for the country.
- v) UK is the leading market for Indian textiles export.

9.4 TRENDS IN READYMADE GARMENTS EXPORT

Garments have emerged as the star-performer in the Indian Textile export scenario by the sheer magnitude of the achievement recorded by this industry. Look at Table 9.3 which shows India's exports of readymade garments. The exports have increased from \$ 2583.41 in 1993-94 to \$ 4807.92 in 1999-2000. The garment sector has achieved an impressive export performance over the years despite stiff international competition. It must also be mentioned that the Indian garment industry is primarily in the small scale sector with a fairly low capital investment. Even though the total exports of India in this sector may be far lower than many of its competitors like Hong Kong, South Korea or Taiwan, the growth rate achieved by this country is reported to be far higher than most.

Table 9.3 : Exports of Readymade Garments

(US \$ million)

Year	Exports
1993-94	2583.41
1994-95	3282.83
1995-96	3681.04
1996-97	3756.45
1997-98	3880.85
1998-99	4363.96
1999-2000	4807.92

Source: CMIE, July 2000.

The Indian garment export sector has maintained a pattern of steady growth over the years. A number of reasons have been mentioned for the escalating exports from this industry. Some of the factors responsible for the export growth of this sector are recounted below.

- i) **Rising Labour Costs in Development Markets:** Studies conducted by various research agencies in the past had found that many of the developed markets found it difficult to maintain their garment manufacturing operations due to rising labour costs. In fact many of these nations found it more economical and cost-effective to import their requirements of clothing from the developing countries where there was relative abundance of labour and whose wages were also far lower.
- ii) **Shift to Technology Intensive Industries:** The 1970's was also the period when many developed nations shifted their focus to the creation and strengthening of some of the hi-tech industries like computer hardware and Software, electronics, ship building etc. Certain industries which were basically labour oriented and pollution prone like textiles, clothing and leather industry were progressively de-emphasised since these did not basically fit into the economic profile of many of the developed countries. Developing nations like India stepped in to fill the vacuum so created.
- iii) **Special appeal to Indian Fabrics:** Indian made fabrics created considerable impact on foreign buyers', particularly the Western designers by virtue of their rich colours and design variations. In fact, it was the Indian handloom fabrics which triggered the garment export boom in the early 1970's. Two well known handloom fabrics of that time - "Madras checks" and "Cannanore crepes" captured the imagination of the western designers and clothing made out of these items became extremely popular in Europe. Though the phenomena was short lived, it did reveal to potential exporters in India the opportunities abroad in the garment export trade and they did capitalise on this discovery during the subsequent years.
- iv) **Swing towards natural fibres:** There has been a gradual swing towards natural fibres and blends thereof as opposed to synthetics (nylons etc.) 'initially due to the oil crisis and the rising cost of petro-chemical based items in the mid-1970's and later on owing to factors like comfort in wearing apparel and health/environmental reasons. Cotton apparel derived a definite advantage from such swings in consumer preferences and Indian exporters also availed of opportunities thrown open.
- v) **Ability to cater to small orders:** Import orders for garments emanate not only from the large importers and department stores abroad but also from ethnic shops and small boutiques. Despite the fact that the individual orders emanating from such sources may be small, collectively they account for a bulk of the import orders for clothing. The type of orders from these sources also differ from the larger stores in the fact that they indent for a variety of designs and colour combinations. The Indian garment sector being small in size and decentralised is extremely flexible and in an ideal position as compared to many of its competitors, to cater to small orders for diversified varieties. Most of our competitors who have set up composite clothing units with assembly line operations find such small orders for varied designs and colour combinations unavailable.
- vi) **Improved Publicity and Promotional Campaigns:** Having realised the potential of garment export Government of India has also stepped up its publicity and promotional efforts to popularise Indian made garments among importers and prospective overseas markets. India has been a fairly regular participant in several of the specialised clothing exhibitions abroad. Organisations like the Apparel Export Promotion Council which has been set up by the Government to direct exclusive attention to the cause of export promotion of garments and the Clothing Manufacturers Association have been holding periodic buyer - seller meets in the important production centres and conclusive business deals have been arrived at in such venues.
- vii) **International Travel and Personal Contacts:** The relative ease and volume of international travel in the recent years have also bridged the North-South divide and brought prospective sellers and buyers closer together. There is also a greater realisation of Indian capabilities in certain fabric designs and variety of clothing, especially summer wear. It has also been pointed out that the garment export sector rose to prominence due to private initiative i.e. the direct inter-face between the Indian entrepreneur and the overseas importer. Government assistance and incentive came later, once the industry established itself to some extent.

- viii) **Wage cost push in competing countries:** In the early nineties and immediately thereafter the rising labour costs in some of the competing countries like Hong Kong, Taiwan and South Korea made exports of certain labour intensive goods like clothing unattractive for its exporters. Some of these countries had also shifted emphasis to technology intensive industries like electronics and automobiles and the accompanying spurt in their economy and exports had resulted in a sharp appreciation of their currencies. Indian exports of clothing therefore became relatively more competitive.

It is evident from the preceding facts that there is no single factor but a cumulative set of factors which have led to the boom trade in garments. However, when we consider the fact that India as yet, accounts for only around 3% of the international trade in garments, it points to some inherent weaknesses in the industry as also the scope for expanding our share in international trade of such items. The reasons for India's small share in the international trade in garments is not far to seek. World trade in clothing is largely in terms of polyester /cotton blends whereas India's exports is virtually confined to cotton based clothing. Secondly, the export sector of the garment industry in India is dominated by merchant-exporters and small size units who have shown not much of an inclination to diversify their product range. Most of the competing nations have established large scale garment units with assembly line production facilities (i.e. starting from production of fabrics, fabrication of garments, final processing and merchandising of garments) with a capacity to manufacture and process a wide range of garments. Thirdly, the cut throat competition from the powerloom sector and the fear of imposition of additional quotas seem to have acted as a deterrent for many of the large scale units particularly in the Indian mill sector from entering the export garment trade.

The share of some of the important exporting countries of garments like Hong Kong, Korea and Taipei (Taiwan) have shown a progressive decline over the years, while share of some of the new suppliers like China, Turkey, Thailand and Indonesia have registered a definite growth. China's performance has been the most impressive having risen from a modest 4% share of the world trade in garments to a significant 15% in 1996. China's performance may be due to the number of foreign investments that it has been able to attract for its various industrial sectors, including textiles and garments, particularly from the overseas Chinese. It has also apparently been able to modernise its textile sector at a much faster pace than India and this coupled with the fact that it also enjoys the benefits of cheap labour has provided that country with a distinct competitive edge in certain labour-intensive sectors.

Indian garments are currently exported to all parts of the world. However, the developed markets notably the USA and the European Union countries account for the major proportion of our clothing exports. Indian exports are more or less in conformity with the international import trade in this sector since the developed countries account for the bulk of the trade in garments.

Table 9.4 Major Markets for India's Exports of Readymade Garments

Countries	Year			
	1996-97	1997-98	1998-99	1999-2000
USA	1273.49	1297.59	1426.06	1491.92
UAE	133.56	173.81	403.98	482.41
UK	356.27	311.12	291.76	405.92
France	263.98	287.30	312.03	347.88
Germany	429.27	380.36	393.33	321.84

Source: CMIE, July 2000

Look at Table 9.4 which shows major markets for India's exports of readymade garments. USA is the leading market for India's readymade garments followed by UAE, UK, France and Germany. They accounted for 63% of India's total export of readymade garments.

9.5 STRENGTHS AND WEAKNESSES OF INDUSTRY

It would be pertinent at this stage to assess some of the basic strengths of the Indian garment sector and also analyse some of its weaknesses to ascertain where India stands in relation to its competitors. The following set of factors may be regarded as the natural strengths of this industry.

- i) **Strong Cotton Base:** India has a very strong cotton base. The country has one of the largest areas under cotton cultivation in the world today placed at over 7.5 million hectares and this area is expanding. Cotton also accounts for 75% of the textile fabric consumption in this country and cotton garments already account for about 65 per cent of our total trade in garment assortments. The world demand for cotton fabrics and clothing is expected to be fairly stable.
- ii) **Abundant and Low cost manpower resources:** Indian labour is plentiful and it is also reported to be one of the cheapest in the world today. This fact needs no reiteration.
- iii) **A Large and Diversified Textile Industry:** India is perhaps the only nation in the world where all the three textile sectors, namely handloom, powerloom and the mill industry co-exist. This fact does provide the country some advantage in producing a wider variety of designs and colour combinations in its textiles to satisfy the more discerning foreign buyers.
- iv) **Creativity of Indian craftsmen/weavers and entrepreneurs :** The creativity of Indian weavers particularly in the handloom and decentralised powerloom sectors has obtained the admiration of Western designers who often visit India to buy fabrics or get the garments made according to detailed specifications. Many of the larger departmental stores abroad are known to have got some of their garment fabrication done in Indian although they may ultimately give their own labels to the clothing so manufactured.
- v) **Ability to Cater to Small Orders :** This aspect of the Indian garment sector has already been mentioned earlier. It refers to the flexible structure of this industry which enables it to secure smaller orders from overseas importers for varied assortments and designs - a proposition which many of the large scale units find totally unviable.
- vi) **Liberalised policies of the Government of India:** Having realised the vast export potential of this sector the government has liberalised the imports of wide range of modern garment manufacturing machinery, include high-speed machines. Similarly imports of essential items like zip fasteners, trimmings and embellishments have also liberalised. Import duties on several of these items have also been substantially reduced. Such measures should help to develop the production base of this industry, a process which has already started.

The industry suffers from certain inherent weaknesses which has been responsible for its apparent inability to capitalise on many of its advantages. These are as follows:

- i) **Decentralised Structure of Industry:** The Industry is highly decentralised. At the top of the exporting chain is the merchant - exporter who canvasses for and finally executes the import orders. The production operations however are carried out by independent and individual fabricating units who are sometimes assisted by button-holding units and other small processing units. Although this factor gives the industry some degree of operational flexibility, it can cause hardships if the merchant exporter has no control or little control over the fabricators leading to delayed shipments and needless trade disputes.
- ii) **Old and outdated machinery:** Compared to most of the other exporting nations of the world the Indian garment sector is equipped with obsolete machinery - in many cases with simple pedal operated machines, with hardly any productivity. This problem is only now being addressed with a liberalised import policy.
- iii) **Shortage of trained manpower:** Although labour in India is plentiful, the garment sector has been experiencing a shortage of skilled labour force — like export cutters,

machine - operators, designers and so on, in the different manufacturing centres. There is also a problem of a migrant labour force, which have no stakes in the industry, particularly in a place like Delhi which has often posed a problem to entrepreneurs.

- iv) **Restricted fabric base:** While acknowledging the fact that India has a vast and variegated textile industry, it has been recognised that the production of specialised and heavier varieties of fabrics like drills, twills, gaberdines, courdroyes, velvets and denims etc. is generally of very poor quality or grossly inadequate for the requirements of the Indian garment sector. This has precluded the garment sector from producing heavier garments for winter wear or the finer varieties for sports wear and so on.
- v) **Restricted export range:** The limitations experienced by the Indian garment sector in regard to fabrics has had its impact in the export sector also. Currently India's apparel exports are more or less confined to light weight cotton garments made from the powerloom sector mainly for summer wear. These items are also used as casual wear. There is a huge international demand for standard garments like formal wear shirts and trousers besides children's garments made out of polyester/cotton blends besides winter clothing and industrial clothing in which India has currently little or no representation.

From an analysis of India's strengths and weaknesses in the garment industry it emerges that on the balance, the strengths in the industry are more pronounced. Also many of the weaknesses mentioned are now being suitably addressed by the Government of India. For instance, the establishment of the Institute of Fashion Technology by the Ministry of Textiles should overcome the problem of obtaining skilled technicians and designers for the industry. The industry on its part has also been establishing garment production & training institute in different parts of the country to supplement such efforts. The liberalised policies for imports of the Government should also result in the induction of modern and up-to-date machines into this sector which will improve its productivity. The industry is also going in for marketing tie-ups with some of the reputed international brand leaders of specific varieties of garments like jeans and sportswear which augurs well for quality and variety of garments to be manufactured in the country in the future.

9.6 THE AGREEMENT ON TEXTILES AND CLOTHING — IMPLICATIONS FOR INDIA

International Trade in Textiles and Clothing has been characterised by a long history of managed trade i.e. it has been subject to regulation in one form or the other for well over 50 years. Since the first voluntary restraint (quota) was negotiated by the USA on Japanese textile exports in 1935, there has been a large number of national, bilateral and international rules governing the trade in textiles and clothing which culminated in 1974 with the Agreement regarding "International Trade in Textiles (commonly known as the Multi-Fibre Arrangements — MFA). This has been negotiated within the framework of the General Agreement on Tariffs and Trade. Although the statement of objectives relating to the MFA is full of noble intentions in effect it permitted the developed nations to regulate exports of textiles and clothing from the developing countries on real or imagined threat of market disruption. The developed countries were apprehensive that a flood of imports from the low-cost developing nation may force the closure of their ailing domestic textile industries even though it had been demonstrated on many occasions that such imports had done no apparent damage to their economies and such imports in fact represented only a fraction of their total requirements. On the other hand imports from the developing nations had proved to be most cost-effective and provided them an opportunity to rehabilitate their ailing textile and clothing industries. According to one source, "it (the MFA) enabled the importing countries (developed economies) to impose quota restraints on exporting countries (developing economies) on selective basis, while at the same time permitting almost unrestricted trade among developed nations. There was therefore, a clear case of discrimination which ran counter to the doctrine of non-discriminatory nature of international trade enshrined in the GATT doctrine as far as the trade in textiles and clothing was concerned. Perhaps the best insight into the

discriminatory nature of the MFA. Arrangement has been provided by the observations of the former Director General of GATT, Mr. Arthur Dunkel when he stated that "the Multi - Fibre Arrangement is a major derogation from the non-discriminatory principle in that it permits safeguard actions to be taken against individual suppliers who are neither dumping nor subsidising their exports, essentially by means of bilateral agreements but also in some cases by unilateral action. Exporting countries (mostly developing economies) have been willing to accept this discrimination in return for the security provided by guaranteed growth of exports under quota". What he implied was that the MFA, by assigning a specific export quota to each of the developing countries provided them with a protected though restricted market access. It is also important to mention at this point that it was called the multi-fibre arrangement since the restrictive treaty covered all categories of textile fibres and products namely, cotton, man-mades, woollens, silk etc.

For India the quota regime for textiles and garments under the MFA had the following identified adverse consequences:

- i) The growth in the production of textiles including clothing in the exporting countries (including India) had been virtually pegged to the growth in domestic demand plus whatever share of the growth of demand in developed countries is allocated to imports.
- ii) A continuous pressure was exercised on the size of quotas granted to major exporting countries, in order to make room for new exporters among the developing countries.
- iii) A generally negative impact was present on the economic growth rates of the developing countries as a result of constraints posed by MFA, especially on their ability to specialise more fully on those products in which they have greatest comparative advantage.
- iv) A continuing adverse impact was also exercised on investment opportunities in the textile and clothing sectors in developing countries, as a result of the uncertainty created by the threat of imposition of new quotas.

In short many of the shortfalls experienced in the realisation of export targets in the clothing and textile trade by India is attributed to the distortions introduced by the MFA regime.

The Agreement on Textiles and Clothing: This Agreement signed in late 1994 is regarded as one of the most significant achievements recorded by the developing countries in the Uruguay Round of Multilateral Trade Negotiations (MTNs) concluded in that year. The developed nations seemed at last to have succumbed to the concerted pressure exerted by exporters from the developing countries in the final round of MTNs having agreed to integrate the textile and clothing sector into the GATT regime. For India, which had been at the forefront of the campaign to end the restrictive MFA quota regime for such items and also pressing for the early adoption of non-discriminatory GATT regulations, the agreement represented a significant breakthrough

In simple terms what the Agreement implied was that the MFA quota regime in textiles and clothing was to be phased out in a span of 10 years starting from July 1995. At the end of the ten year period i.e. from 2005 onwards, trade in this sector would be entirely governed by GATT rules. There will be no longer any quotas governing the international trade in textiles. Tariffs may exist under the GATT regime but these will be progressively reduced. The tariff structure will also be transparent and bound.

The 10 year period, commencing from early July 1995, has been divided into three stages of 3:4:3 years and at each stage a specified percentage of the total volume of clothing imports recorded in 1990, of products covered under the MFA shall be integrated into GATT. The calculation is that 51% of the total imports shall be integrated into GATT framework by Jan, 2002, leaving the remaining 49% to be integrated by Jan, 2005. Trade in this sector would be entirely governed by GATT rules from 2005 onwards. The agreement also provides for the existing growth for products already subject to quota restrictions to be increased by 16%, 25% and 27% respectively at the beginning of each of these stages.

The most significant feature of this agreement is that it has provided for the total elimination of the discriminatory quota regime prescribed by the MFA within a specific timeframe.

Broadly speaking, the implications of bringing Textiles and Clothing under the GATT (now the WTO) framework for India are as follows:-

- i) A likely redistribution of clothing production and exports among the developing countries in conformity with relative costs and marketing skills.
- ii) Overall a more competitive trading environment both internationally and also within each exporting country (for instance, new firms hoping to get established in clothing production and exports would not be hampered by the need to obtain quota licences).
- iii) A significant increase in the investments and a definite move towards upgradation in the technological capacity of this industry, as potential investors in the textile and garment sector would no longer be hampered or threatened by imposition of fresh quotas.
- iv) On the whole therefore the Agreement on Textile and Clothing seems to have been beneficial to the Indian textile industry, provided of course that the rules of the game are strictly adhered to by all the countries concerned.

19.7 FUTURE PROSPECTS AND STRATEGIC RESPONSES

According to reliable estimates the world merchandise trade is going to increase by around US \$200 \$300 billion annually after 2005, mainly due to the achievements of the Uruguay Round Trade Accord in terms of tariff reductions and liberalisation of trade in agriculture and textiles. Although a major proportion of the growth is attributed to agriculture, a fairly significant percentage of the increase in international trade will occur due to the growth in textiles and products. Since the developing countries have also a comparative advantage in this sector and India has currently only a modest share in regard to the international trade of both textiles and clothing, there is considerable potential to augment our export earnings from this sector through proper policies and programmes. While it devolves on the Government to devise suitable promotional policies and incentives to facilitate the industry, it is the function of the textile and garment industry to fashion appropriate responses and strategies to meet the future competition.

It would be fallacy to assume that India's exports of textiles and clothing will automatically increase once the quotas disappear. The disappearance of quotas will probably be accompanied by increased global competition as each exporting country would scramble to obtain a bigger slice of the import cake. At present the importer has to spread his purchases over two or three countries to fulfil his requirements given the quota restrictions imposed by his own country. However, if there is free trade, the importer can very well buy his entire needs from any one exporting country, which can offer him the best quality at an economic price. India therefore, has virtually no option but to strengthen its production base and sharpen its marketing strategies and skills in the intervening period of 10 years. This is the only way it can face the intense global competition which will characterise the post - Uruguay round era. Let us discuss some of the strategic responses that Indian exporters of textiles and clothing could consider in context of the emerging competition in the near future.

- a) **Product/Technology Upgradation:** A mention has already been made of the fact that India has not been able to tap the vast world market for a variety of textiles and clothing. India's export advantage is currently confined more or less to a lighter range of cotton fabrics and in clothing to the so-called budget items, catering to the lower end of the market, namely leisure-wear or summer-wear made out of cotton. This is attributed to limited availability and high prices of certain heavier varieties of cloth, especially speciality fabrics in India including polyester/cotton and wool blended fabrics. If India is to make a serious dent in the foreign markets in the future, there is an urgent need to diversify into production of some of the high range

fabrics in adequate quantities and of suitable qualities. Such items would include an entire range of polyester/cotton and other blends and in clothing - winter garments, sports wear, institutional garments and hi-fashion garments. This would naturally involve higher R & D inputs from the industry and technology upgradation of the sector by importation also if need be of high quality textiles and clothing manufacturing machinery without any further loss of time.

- b) **Labour Productivity:** Robotics and automation are stated to be cutting down labour and time related costs in the textile and clothing industry abroad. India's labour cost advantage therefore may no longer confer any specific advantage to the country in the near future. In fact some of our new competitors in this sector like China have not only similar advantages as abundant and cheap labour, but the productivity of labour is also very high as compared to India. Since productivity of labour is closely related to upgrading of skills and retraining, appropriate schemes may need be drawn up to train Indian labour in this sector and impress upon them to accept new norms of efficiency. A chain of fabric testing and production management cum training institutions can be set up in the major manufacturing centres in the country towards this objective.
- c) **Tie-ups with International Brand Leaders:** If India is keen to make a dent in the large international demand for items like sportswear, jackets, winter clothing etc, it would be necessary to forge appropriate production and marketing tie-ups with international brand leaders in specific categories of clothing to gain acceptance in quality conscious markets in the US and European Union.

Some of the leading Indian companies have already capitalised on such strategies by entering into production-cum-marketing tie-ups with global leaders like Benetton (Italy), Cluett Peabody (USA), La Perla (Italy), Lacoste and so on in specific categories like denims, knitwear, standard garments and also in the casual wear categories. However this tempo needs to be accelerated, since many of our competitors have also been offering attractive terms for collaborative production ventures.

- d) **Off-shore Production Facilities:** Many of the developed countries are now attempting to locate production sites overseas, mostly in the developing world for specific goods and services, to derive the advantages of low-cost labour. The USA, for instance, has set up production facilities for textiles & clothing in Mexico and the Caribbean under specific trade arrangements to take full advantage of the cheap labour available in those countries. The European Union is understood to have similar arrangements with some of the countries in the Mediterranean region. China and Indonesia on the other hand have been inviting considerable amounts of foreign direct investments in these sectors in designated economic zones.

India should also consider the feasibility of adopting similar strategies. The establishment of offshore production facilities to attract foreign investment in designated economic zones could help in securing some portion of the anticipated increase in world trade of textiles and clothing on the final dismantling of the quota regime.

- e) **Growing Concern with Environmental Standards:** A concern with environmental norms and human welfare has taken deep roots in the Western world in recent times. This has been translated into certain safety standards to be adopted by the industry and trade in its production and marketing activities. Imports are also being subjected to detailed scrutiny to ensure that they conform to accepted environmental standards. In terms of textiles and clothing, this implies that developing countries like India need to take special steps to convince the importing countries that the chemicals they are utilising in the dyeing, processing and printing of fabrics and clothing are free from all carcinogenic (cancer causing) or other harmful substances. The environmental agenda has been seen by many trade analysts as the single most important factor for determining the course and direction of international trade in the post-Uruguay Round phase. India therefore needs to take adequate safeguards in this context to optimise its benefits from the international trade in textiles & garments.

- 1) Enumerate four major reasons for escalating exports of textiles.

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- 2) Enumerate four major markets for readymade garments export.

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- 3) Enumerate four strengths of Indian garment sector.

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- 4) State whether the following statements are **True** or **False**.

- i) There has been a gradual swing of trade towards natural fibres and blends thereof.
- ii) India's export of readymade garments is not confined to cotton based clothing.
- iii) UAE is the second leading market for India's export of readymade garments.
- iv) India is not having a strong cotton base.
- v) The world merchandise trade is going to increase by around US \$ 200 - \$300 billion annually after 2005.

9.8 LET US SUM UP

The Indian Textiles sector occupies an important position in Indian economy. It accounts for nearly 1/5 of the national production of all commodities, contributes to about 1/3 of the total exports and provides employment to millions of our people, including the rural poor, if we take into account the handloom sector.

The Indian textile industry is also unique and varied in structure comprising the organised and sophisticated mill sector, the highly decentralised and small scale powerloom sector and the almost cottage scale handloom sector. Over the years the decentralised sector, especially powerlooms have emerged as the predominant sector accounting for about 80 per cent of the output. The relative insignificance of the mill sector is attributed to the high incidence of sickness in this sector.

India is also a traditional exporter of textiles to many world markets. But its primary strength has been in terms of its cotton fabrics, made-up articles and cotton garments because it has some natural advantages in such items. Cotton textiles and garments accounted for about 85% of the total textiles exports from India in 1997-98. Readymade garments, particularly

cotton garments have emerged as the star-performer in the textile export basket. A number of factors have been responsible for Indian's boom trade in garments among which Indian labour -cost advantage is a prominent factor. However, the international trading environment, particularly for articles like textiles and clothing is undergoing rapid changes and India has to be ready to face new type of challenges in the coming millennium. Although quotas are being progressively dismantled in this sector, the new international trading order for textiles and garments as exemplified by the Agreement on Textiles and Clothing is designed to bring in fierce competition as more nations try to take advantage of the liberalised conditions that will prevail in such trade. India needs to draw up appropriate strategies and responses in which product upgradation, marketing tie-ups and environmental standards will form important components.

9.9 ANSWERS TO CHECK YOUR PROGRESS

A4 i) True ii) False iii) False iv) True v) False

B4 i) True ii) False iii) True iv) False v) True

9.10 TERMINAL QUESTIONS

- 1) Textile and Clothing sector occupies a pivotal role in the economy of the developing countries. Elucidate with reference to the Indian economy.
- 2) Describe the type of developmental activities initiated by the Government of India to help develop different sectors of the textile industry.
- 3) The export performance of the Indian textile industry is a record of steady growth. What are the factors contributing to the growth. Explain with particular references to the cotton textiles and garment sector.
- 4) The new Agreement on Textiles and Clothing is considered beneficial to Indian exporters. Discuss.
- 5) Outline the export strategies that India need to adopt to combat emerging challenges in the Post-Uruguay Round phase, when the quota regime in textiles and clothing is finally dismantled.