CHAPTER II

RESEARCH METHODOLOGY AND REVIEW OF LITERATURE

With the implementation of liberalisation policies from 1991, initially in trade and industry, and in a phased manner in a number of other sectors including monetary and fiscal policies, a sea change has taken place in the economic and social transformation of the country, and in the integration of the Indian economy with the global environment. Foreign trade, foreign direct investment, capital flows from other countries in various forms, and technology transfer have acted as a stimulus for accelerated economic growth of the country. For purposes of the present study, foreign trade of India with special reference to textiles has been selected in view of its growing prominence in the Indian economy, with labour intensive small and medium enterprises contributing to export promotion substantially. The study reviews the overall foreign trade of India, and examines developments with special reference to the entire value chain in the textiles industry. This chapter presents the research methodology and review of literature with reference to foreign trade, foreign direct investment, and changes taking place in the production and marketing of cotton, and in the textiles industry in the context of the World Trade Organisation (WTO) environment. Emphasis is laid on examining the trends of recent years from 1994 to 2010 (16 years).

I. Design of the Study

2.1.1 Objectives

(i) to review the trends, composition, and direction of overall foreign trade of India, and the evolution of trade policies in recent years;

(ii) to examine the trends, composition and direction of imports and exports of textiles, with the break-up of cotton and non-cotton textiles, as well as specific product groups such as fibre, yarn, fabrics, readymade garments (RMGs), and made-ups. Position of cotton textiles in each of the components is to be examined in greater depth, along with policies of Government of India, and role of export promotion councils.
(iii) to study the implications of the World Trade Organisation (WTO) Agreements during the period of operation of the Agreement on Textiles and Clothing (ATC) (1995–2004), and in the post–ATC period (2005-2010) with regard to imports and exports of Indian Textiles; and

(iv) to capture the experiences of textiles industry in foreign trade with developed and developing countries in recent years, and suggest strategies for strengthening the competitiveness of Indian textiles in the global market.

2.1.2 Scope of the study

The scope of the study is limited to analysis of overall foreign trade of the country, with special reference to textiles and clothing (T&C) industry, and cotton textiles and clothing in particular, to bring out suggestions on strategies to be pursued by the industry in the global competitive environment. Period covered is mainly 1994 to 2010, with review of broad aspects on trends and policies of earlier years. In the key tables dealing with analysis of T&C exports and imports, period covered is 1998-2009 (11 years)

2.1.3 Sources of Data

The study is based on secondary sources of data available from various publications at the national level brought out by the concerned organisations, and consultations with export promotion councils, and other organisations and industrial units in the cotton textiles trade. Primary data collection has not been attempted in view of the nature of the study as visualised in the objectives and scope. Premier organisations on which attention was focussed for pooling data and collecting relevant literature are: Union Ministry of Commerce and Industry (Department of Commerce), Ministry of Textiles, Ministry of Finance, Ministry of Micro, Small and Medium Enterprises, and their concerned executive organisations and research institutions. These include: Office of the Textile Commissioner, Textiles Committee, Development Commissioner (Micro, Small and Medium Enterprises), Directorate General of Commercial Intelligence and Statistics (DGCI&S). Publications of Reserve Bank of India, Textile Commissioner, Textiles Committee, Centre for Monitoring Indian Economy (CMIE), and the annual Economic Survey of the Union Ministry of Finance have been extensively utilised for mobilising relevant data on various aspects of the
study. These are listed under the following heads in the preliminary pages of the thesis: (a) select organisations dealing with foreign trade and their websites, (b) special reports and documents, and (c) professional journals on textiles. Cotton Textiles Export Promotion Council (TEXPROCIL), Apparel Export Promotion Council (AEPC), and Confederation of Indian Textile Industry (CITI) have been consulted; and their annual reports and trade journals have been profusely referred to. Websites of relevant organisations including that of World Trade Organisation (WTO) have been drawn upon. WTO’s World Trade Reports 2007 and 2010 have been referred to for understanding the WTO operations. A wide variety of publications on foreign trade, including those on WTO, and the concerned annual reports of relevant organizations, and articles in various economic and trade specific journals have been utilised for analysing the trends, and pooling experiences of the industry in the global economic environment. Among research and training institutions consulted, and their publications utilised, special mention may be made of the Indian Institute of Foreign Trade (IIFT), New Delhi.

2.1.4 Period covered in the Study

Period covered for intensive analysis of overall foreign trade and of textiles is 1998-2009 (11 years), and in some contexts 16 years (1994-2010). While selecting the period to be covered for the present study, the following important landmarks influencing foreign trade and development of textiles industry, apart from accelerating economic growth and employment generation have been kept in view.

<table>
<thead>
<tr>
<th>January 1995</th>
<th>Commencement of World Trade Organisation (WTO) operations. As a legal and institutional foundation of the transparent multilateral trading system, WTO promotes free trade in the world among member countries, which number 153 by the end of 2009.</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 2001</td>
<td>Virtually all quantitative restrictions (QRs) have been removed by India regarding import of goods, permitting imports from other countries liberally.</td>
</tr>
<tr>
<td>January 1995</td>
<td>In a phased manner, removal of QRs regarding textiles in developed countries to permit imports from developing countries liberally without any restrictions. This is based on the provisions of the Agreement on Textiles and Clothing (ATC) of WTO in operation from January 1995 to December 2004. Minimum</td>
</tr>
</tbody>
</table>
volume of integration of items indicated is 16% on January 1, 1995, 17% on January 1, 1998, 18% on January 1, 2002, and the rest of 49% on January 1, 2005. When the ATC expires on January 1, 2005, all textiles items are to be integrated, and textiles as a group will not be considered as a separate category thereafter for administering the WTO provisions of GATT (General Agreement on Tariffs and Trade).

October 2008

Global Financial and Economic Crisis, which affected developed countries, particularly USA, European Union (EU), and Japan from August 2007, and more acutely from September 2008, after the collapse of Lehman Brothers in US in mid-September 2008. Slowdown in the real economy in India got transmitted to the financial sector, including banks from October 2008.

October 2009

Start of slow recovery in the real sector in India

Indian Five Year Plan Periods and Policies

<table>
<thead>
<tr>
<th>Period</th>
<th>Plan/Policy</th>
</tr>
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<tbody>
<tr>
<td>1997-2002 (FYs)</td>
<td>Ninth Five Year Plan</td>
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<td>2002-07 (FYs)</td>
<td>Tenth Five Year Plan</td>
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<td>2007-12 (FYs)</td>
<td>Eleventh Five Year Plan</td>
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<td>2000</td>
<td>Textile Policy of India</td>
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<td>1997-2002 &amp; 2002-04</td>
<td>Export-Import (EXIM) Policy of India</td>
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<tr>
<td>2004-09</td>
<td>Foreign Trade Policy of India</td>
</tr>
<tr>
<td>2009-14</td>
<td>Foreign Trade Policy of India</td>
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</tbody>
</table>

2.1.5 Hypotheses

In Chapter III covering cotton production and marketing, and foreign trade of Indian Textiles Industry, it is proposed to test the following hypotheses dealing with various components of the Textiles and Clothing Sector based on recent years’ data of 1994-2009. Results of analysis are presented in Chapter III.

1. Removal of quantitative restrictions on exports of textiles and clothing to developed countries from 2005 has had a positive impact on the exports of the sector. This is due to increase in both cotton and non-cotton products.

2. Percentage share of exports of high value added products, namely, readymade garments (RMGs) and made-ups to total textiles exports has been steadily increasing.

3. Regardless of the growth rate of exports of combined textiles and clothing sector (cotton, non-cotton, and others), cotton textiles and clothing exports has been consistently growing at a faster pace.
4. Percentage share of imports of low value added products, namely, fibre, yarn, and fabrics to total textiles imports has been steadily increasing.

5. Percentage share of imports of non-cotton textiles and clothing imports in relation to combined textiles and clothing imports has been steadily increasing.

2.1.6 Statistical Tools Used for Analysing the Time Series Data

The data pertaining to exports and imports for India over a period of 10-15 years are presented in Chapters I and III. Many of the tables given in Chapter III refer to data for 1998-2009 (11 years). A few tables present data up to 16 years. Percentage share for the year and percentage change over the previous year have been worked out annually. In a few cases, compound annual growth rate (CAGR) has been worked out for different periods to capture the growth rate in the respective periods, to supplement annual growth rates. In any time series data, there will be four components, viz.,

1. Secular Trend component
2. Seasonal component
3. Cyclical component
4. Random component

Since, the data considered in this work is yearly data, seasonal component is eliminated. The methods generally used for study and measurement of the secular trend component in a time series data are:

a) Free hand curve fitting method
b) Semi-average method
c) Moving average method
d) Least squares method

Of these four methods, the principle of least squares is considered the best as it provides us with an analytical or mathematical device to obtain an objective fit. This will be more reliable for forecasting and predictions.

The method of least squares allows us to find a regression line, or the line of best fit based on the criterion of minimising the sum of squares of the errors, where error is the difference between the original and estimated values of time series data. The regression line of time series data may be denoted as

\[ y_t = a + b_t + v_t \quad t=1,2,----n. \]

Where \( t \) is time point, \( (y_t) \ (t=1,2----n) \) in the times series data and \( V_t \) is the disturbance or white noise at time ‘t’.
In the above regression line, ‘b’ represents the simple growth rate or trend of the time series data, whereas ‘a’ represents the constant terms or level of the data. Trend lines have been drawn for the time series data based on derived data using the trend equations. The square of correlation coefficient ($R^2$) may be interpreted as the percentage of variation in time series data that is explained by the time ‘t’. If $R^2$ is significant, then only we can say that the growth rate is significant. If the critical p-value (given in the table) is less than 0.05, then we say that $R^2$ is significant, and hence the growth rate is significant. If the critical p-value is greater than 0.05, then we may conclude that the time series regression line is not suitable for the data. In other words, the growth rate and the fitted trend value of the given time series data are useful only when the critical p-value is less than 0.05.

For comparing the time series data between two different periods, **Dummy Variable Regression Technique** can be used. With the help of this technique, it is possible to know whether there is a significant difference between the growth rates of the given time series data for two different time periods as applied in Chapter III. This technique has been used to compare the growth rates representing exports and imports of cotton and non-cotton textiles for different products for the time periods of ATC (1998-2005) and Post-ATC (2005-2009). The computations are carried out using MINITAB.

Other statistical tools used in the study are Karl Pearson’s correlation and Spearman’s rank correlation. Pictorial presentation for a few features of Indian exports and imports has been attempted using horizontal and vertical bar diagrams, pie diagrams, and line graphs.

**2.1.7 Limitations of Data**

Secondary data compiled from different sources and even from the same source, in certain contexts slightly vary. Reference is to data of Directorate General of Commercial Intelligence and Statistics (DGCI&S) given in Rs. crore and US $ million in various publications of Reserve Bank of India (RBI), Centre for Monitoring Indian Economy (CMIE), Economic Survey of the Ministry of Finance, and Annual Reports of the Ministry of Commerce and Industry.
Review of literature in the present study is divided into four categories, namely, (a) Studies on Foreign trade, (b) Studies on Production and Marketing of Cotton, (c) Studies on Impact of various measures on Cotton Industry/Trade in the World Trade Organisation (WTO) Environment, and (d) Studies on Impact of Foreign Direct Investment (FDI) on Cotton Industry.

In all, 102 reviews are presented here. These include 71, eight, twelve, and eleven from the above categories, respectively. The coverage includes a large number of articles, Ph.D. theses, and publications.

2.2.1 Studies on Foreign Trade

This part covers various reviews relating to India’s Foreign Trade.

B.N. Ganguli’s (1956) book provides an extremely valuable account of the evolution of economic development in the Asian and Pacific countries in the past century and of India's economic relations with them. This is one of the
important works with regard to India’s economic relations with the Asian countries.

S.J. Patel (1959) made a pioneering attempt to analyse the long term trends in India’s foreign trade. He examined the stagnancy of India’s exports over years, and explained it in terms of stagnancy and declining world demand for Indian exports.

India's trade with the socialist countries of Eastern Europe has been perhaps the most dynamic sector of India's foreign trade during 1960s. Payment arrangements under trade for its imports from East European countries were in non-convertible rupees. The effectiveness of these arrangements has been analysed by many scholars such as Surender Dave, Sunanda Sen, Sumitra Chisti and Asha Datar.

Anne Kruger (1961) and B. Cohen (1964) felt that stagnation of India's exports has been more due to higher domestic production costs and rising domestic demand leading to higher relative prices of exports in the world market.

Singer (1957), Myrdal (1961), and Prebirch (1962) have argued that international trade if left to market forces leads to deterioration in terms of demand transfer income from the poor nations to the rich nations, and a slower rate of growth of the former.

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3 Surender Dave (1961), “India’s Trade Relations with East European Countries”, The Indian Economic Journal, July.
4 Sen, Sunanda (1965), India’s Bilateral Payments and Trade Agreements, Bookland, Calcutta.
5 Chisti, Sumitra (1966), India’s Trade with East Europe, Indian Institute of Foreign Trade (IIFT), New Delhi.
R. Bharadwaj (1962)\textsuperscript{12} sought to test empirically, with the help of Indian data, the Becksher Ohlin hypothesis that a country’s exports use intensively the country’s abundant factors of production.

A. Kruegar (1961)\textsuperscript{13} maintains that the observed stagnation in the Indian export behaviour can be more than adequately explained by policies of the Government of India and the Planning Commission combined with internal demand and supply factors.

Da Costa (1965)\textsuperscript{14} demonstrates that the world demand has severely constrained Indian export. The stagnation was followed by moderate expansion during 1960s, and there was a temporary decline during 1965-67, and a buoyant growth in the seventies.

A study conducted by the Indian Institute of Foreign Trade (1966)\textsuperscript{15} shows that the export and import prices were quoted at international rates, and that the terms of trade were usually in favour of India.

Dharam Narain (1967)\textsuperscript{16} states the prices paid by some of the socialist countries including the USSR were 5 to 10 per cent higher than the internationally traded commodities of India.

Bhagvati and Desai (1970)\textsuperscript{17} attributed stagnation in India’s exports to domestic policies. They failed to notice the probability that an oligopoly market may sometimes involve a reduction in the market share of the leading producers due to the new marginal entrants. He attributed improvement in India's exports in the early 1960s to (a) a major increase in exports to Soviet block countries, (b) export subsidisation, (c) the inclusion of Goa's foreign trade, and (d) increase in

\begin{footnotesize}
\begin{enumerate}
\item Bharadwaj, R.(1962), \textit{The Structural Basis of India's Foreign Trade}, Bombay.
\item Indian Institute of Foreign Trade (1966), \textit{Trade Ties with East Europe}, New Delhi.
\item Dharam Narain (1967), \textit{Aid Through Trade}, UNCTAD Secretariat, Geneva.
\end{enumerate}
\end{footnotesize}
the overland exports to Nepal. They opined that export growth could be achieved only at a relatively higher opportunity cost.

**Haberler (1970)** says that "International trade has made a tremendous contribution to the development of less developed countries in the nineteenth and twentieth centuries, and can be expected to make an equally big contribution in the future if it is allowed to proceed freely". Trade is preferable to aid as it could evoke dynamic responses to competitive opportunities that would reinforce the growth process.

**Neelakant (1972)** emphasises that the Article VI of the Treaty of 1971 attaches great importance to economic and technical cooperation, and envisages broader cooperation in the fields of trade, transport and communications, and gives a great boost to the growth of economic relations between India and Soviet Union.

**The Reserve Bank of India (1974)** study reveals that the growth in India's trade with the Soviet bloc has been a natural one, and not at the expense of trade with convertible currency.

**E.N. Komarv (1975)** observed that for more than 20 years Indian firms have business relations with the Russian trade organisations; and the cooperation of the Soviet Union and India has very favorable prospects for development. This is guaranteed by the common position shared by both the countries in regard to vital international issues, their mutual interest in strengthening and expanding Soviet economic ties with India which has become traditional.

**Ragnekar (1975)** reveals that the decline in the share of traditional exports in the country is due to the absorption of a rising proportion of output in the domestic economy, and the country seems to have lost its comparative advantage.

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Mark Frankena (1975)\textsuperscript{23} says that there are four types of changes which influenced export performance in the country. They are, changes in material supply, constraints on output as result of changes in import licensing, changes in domestic demand. Changes in productive capacity and changes in explicit exchange rates on exports as a result of export subsidisation and devaluation.

Kelkar and Sharma (1976)\textsuperscript{24} say that India’s falling share in the world market could be due to the declining share of exports in domestic production.

Nayyar Deepak (1976)\textsuperscript{25} revealed that India's falling share in the world market could be due to the declining share of exports in domestic production.

A. Halder (1976)\textsuperscript{26} observes that the decline in the export share of India for her important traditional goods up to 1966 occurred when world exports of these commodities has not shown declining trend in absolute terms.

K. Thiruvenkatachari (1976)\textsuperscript{27} observed that our primary exports are having stiff competition in the international markets. Under such circumstances assured purchases from the Soviet Union and the Socialist Bloc have helped India in expanding her exports. Otherwise we would have experienced a lot of difficulties in maintaining our international trade. That would have caused irreparable loss to our economy.

The Seminar of the Indian Institute of Foreign Trade (1977)\textsuperscript{28} provides the analysis of the total trade that India had with the socialist countries especially with the USSR over the last two decades. The Seminar emphasised that Indian exporters interested in promoting stable markets for their products in the East European Countries including the USSR. The ultimate marketing success will

\textsuperscript{23} Frankena, Mark (1975), Devaluation, Recession and Non-Traditional Manufactured Exports from India, \textit{Economic Development and Cultural Change}, October, pp. 109-137.


\textsuperscript{25} Nayyar, Deepak (1976), \textit{India’s Exports and Export Policies in the 1960s}, Cambride University Press, Cambridge, United Kingdom.

\textsuperscript{26} Halder, A. (1976), \textit{India’s Exports – Patterns and Analysis on Potential Diversification}, Minerva Associates, Calcutta.


\textsuperscript{28} Indian Institute of Foreign Trade (1977), \textit{National Seminar on Emerging Opportunities for India’s Trade and Economic Cooperation with East Europe}, New Delhi.
depend on how best Indian exporting community can make effective use of marketing facilities provided to foreign exporters in the socialist countries of East Europe.

**Girish Misra (1979)** says that since 1950s, a sea change has occurred in both the direction and the composition of India's foreign trade, and the Indo-Soviet cooperation has been the initiator of a number of novelties in bilateral trade relations.

**Sarma (1979)** opined that the history of Indo-Soviet trade is a story of an honorable cooperation in the field of economic and trade relations between the two countries.

**Batuk Desai (1979)** says that the trade relations with the USSR stipulate the forms of repayment without resorting to foreign exchange with the rupee being the currency in which all the calculations are effected.

**Lajapathi Rai and Ganju's (1980)** study traces the process of exchange which started between India and Soviet Union in 1951. The authors suggest that a better provision for new non-traditional items in the future trade plans should be made and the share of such items be progressively increased from year to year.

**R.K. Sarma (1980)** and **M.S.N. Menon (1975)** have assessed the development of Indo-Soviet trade, and assert that it has been a part of the economic cooperation between the two countries, and has greatly benefited India in the critical economic times.

The **Indian Council of Social Science Research (ICSSR) (1980)**, has reviewed all the relevant research works on Indo-Soviet trade relations.
concludes that India's trade with the socialist countries of Eastern Europe has been perhaps the most dynamic sector of India's foreign trade. On the basis of bilateral trade and payment arrangements in non-convertible rupees, the trade conducted between the two countries has saved India from the foreign exchange problems and lessened the problem in her balance of payments. Besides, India's terms of trade with the USSR are favorable. Conclusive evidence is lacking to prove that some of the Indian goods purchased by the USSR bloc countries are being re-exported in the form of switch trade.

**Balaraj Mehta (1980)**\(^{36}\) in his study states that though the trade exchanges between India and the USSR qualify the fact that the growth of trade turnover has touched impressive figures, certain problems and constraints which are likely to intensify in the future have tended to be side-stepped by preferences to certain qualities in trade exchanges. It should not be missed that much of the increase in the rupee value of this trade turnover does not represent any significant increase in the real growth of trade and can be accounted for primarily by an increase in prices, more specially of crude oil and petroleum products which India imports from the Soviet Union. This is hardly a satisfactory position for either of the countries.

**Lajapathi Rai and Ganju (1981)**\(^{37}\) maintain that the phenomenal growth of the Indo-Soviet trade relations is the outcome of a series of bilateral trade agreements concluded between the two countries. The bilateral trade agreements between India and the Soviet Union, known as "compensating agreements" call for automatic linking of exports with imports through these agreements. They consider that India's foreign trade with the East European countries since independence has developed largely due to the system of "rupee payment". The trade relations with the USSR stipulate the forms of repayment without resorting to foreign exchange with the rupee being the currency in which all transactions are made.


Modi (1984)\textsuperscript{39} mentioned that bilateral trade between India and Pakistan should be liberalised in a manner that it does not jeopardise the interests of either country, and that both could import from and export to each other as many commodities as possible, and thus reduce dependence on developed countries.

Lajapathi Rai (1985)\textsuperscript{40}, covering “Indo-Soviet Trade Relations” has examined trends in India’s foreign trade with a brief history of Indo-Soviet relations, role of institutions and organisations in the promotion of Indo-Soviet trade and Indo-Soviet Trade in perspective. He made a critical appraisal in all these areas.

Vijay Singh and Madanlal (1985)\textsuperscript{41} expressed that south Asian economic cooperation can enable the countries of the region to achieve the economies of scale, better specialisation opportunities, improved efficiency through increased competition, less instability of external earnings and improvement in the bargaining position of the countries involved. There is considerable scope for expansion of mutual trade among the countries of the region. These countries are, however, competitive rather than complementary. The economies of South Asian countries are unequal from the viewpoint of industrialisation and technology. Hence production strategy is to be so devised as to match the demand for and supply of export products among themselves and in international markets. If these countries cooperate in promoting industrialisation of their partner countries in the region, their intra-trade is bound to increase.

Vinod Apte (1986)\textsuperscript{42} observed that the two countries, namely, India and Pakistan can fruitfully cooperate for exchange of skills, joint tendering for projects


in West Asia, and joint ventures in the third countries. He has identified some of the areas where joint ventures can be undertaken.

V. Chandra Sekhara Rao and D.K.R. Sarma (1986) in their paper reviewed the marketing record of industrial and developing countries of South Asia, by analysing the origin of their collective imports. They have studied the marketing experience of constituent countries of this region through an analysis of intra-regional trade, and finally they examined India's experience with this region, particularly in the case of export of machinery and transport equipment.

M. G. Quibria (1986) empirically stated that inward remittances constitute a major source of foreign exchange earnings for the South Asian countries.

Santosh Pal and Bharali (1986) expressed that harmonious relations between India and Bhutan are indicative of the healthy economic relations to be developed over the years, bringing in its wake mutual benefit to both the countries.

Saxena and Chawla (1986) felt that there may be keen competitiveness in the arena of trade, and that there is scope for the expansion of intra-regional trade in the SAARC region; more specifically, in certain commodities, which are being exported by some of these countries. They emphasised that economic cooperation among the SAARC members has to be utilised for converting competitive values into complementarity features.

Kletzer and Bardhan (1987), show that countries with relatively well-developed financial sector have a comparative advantage in industries that depend on external finance. They revealed that even when technology and endowments are


identical between the countries and economies of scale are absent, credit market frictions lead to one country facing a higher interest rate or rationed credit compared to other countries. This may lead to differences in comparative advantages in processed goods which require more working capital, marketing cost or trade finance. They presumed that more sophisticated manufactured finished goods require more finance to cover selling and distribution costs than primary or intermediate goods.

Chakravarthy (1987)\(^\text{48}\) says that SAARC is intended to boost South-South Cooperation for collective self-reliance in the region of South Asia.

Vinod Apte (1987)\(^\text{49}\) appreciated the efforts of the leaders of the South Asian countries in establishing SAARC, despite so many heterogenous characteristics of the group. He also mentioned that SAARC is the world's youngest but the most populous regional grouping, accounting for one-fifth of the world population. In his report, he has also stated the objectives with which the SAARC was formed.

V. Chandra Sekhara Rao's (1988)\(^\text{50}\) study focussed on India's trade relations with the Organisation of Petroleum Exporting Countries (OPEC). He analysed the trends in OPEC's external trade, and studied India's trade relations with OPEC as a whole, and with selected significant countries. He has also analysed the structural changes that have taken place in the commodity composition of India's exports to and imports from OPEC.

Varshney and Rajkumar (1988)\(^\text{51}\) opine that political and economic cooperation among the SAARC member countries will not only make the South Asian Region a political and economic power in the world but also help in bringing economic prosperity to the member countries. It will also minimise the chances of armed conflicts among them. They reiterated that economic


cooperation is the only means not only to bring lasting peace and stability to any region, but also large scale prosperity. They go to the extent of saying that economic cooperation is the road to political harmony and unity. They felt that economic cooperation has got immense potentialities in this region, both in the fields of economic gains and political harmony and unity. This region fulfils all the economic pre-requisites for a sure and tremendous success in economic cooperation. Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka are only different parts of one single whole, i.e., the Indian subcontinent. Maldives is a little away in the Indian ocean. Thus the regional association offers utmost proximity of the member nations to one another, a great positive aspect for any regional grouping for economic cooperation.

S. D. Muni (1988)\(^{52}\) writes that for an evaluation of SAARC'S achievements or otherwise, both its organisational aspects and programme of action need to be looked at closely. Organisationally, SAARC has made impressive progress. A three-tier structure of annual summits at the levels of Council of Ministers, standing committee of foreign secretaries, and technical committees of officials and experts has been laid down in the charter adopted at the Dhaka summit. This elaborate and reasonably well defined organisational structure compares favourably with the other organisations in Asia like ASEAN which preceded SAARC by almost two decades, and also the GEQ which has been a contemporary of SAARC. The second aspect of SAARC's evaluation relates to its actual performance in the field of advancing the stated objectives of promoting regional cooperation and building mutual trust and understanding amongst its members. The apparent indicators of SAARC’s progress on concrete issues seem to be considerably positive.

Hari Govind Singh (1988)\(^{53}\) analyses the main problems of economic cooperation in south Asia. He says that the economies of the South Asian countries are basically competitive rather than complementary. The most important problem


involved in the regional trade is the nature of size, population, resource base, potential for economic growth, military strength, and viability of the constitution and political system. In addition, countries of the region have deliberately adopted a restrictive import policy to promote import substitution as it is easier to restrict imports than to promote exports.

Kulkarni et al. (1989)\(^{54}\), using regression analysis, find that exchange rate variability affected exports negatively in India during the period 1970-85. They suggested that instability of exports in Indian context is due to shifts in exogenous policy parameters such as taxes, quotas, fees and subsidies. They conclude that the instability in India may be attributed to some *adhoc* factors like changes in government policies rather than the variables considered in the existing international studies.

ASSOCHAM (1989)\(^{55}\) study entitled India and South Asian Association for Regional Cooperation states that the Government of India and the Indian business community should play a major role in the economic unification of the SAARC region by stimulating trade and investment flows among member countries. India's trade with the SAARC members, the study points out, is not only negligible but also declining; India's investments in the neighboring countries are below the potential existing in the SAARC region. The study has identified certain constraints that limit the scope of economic cooperation among the SAARC countries. The study suggests gradual creation of a SAARC preferential free trade zone, arriving at suitable arrangements like risk insurance, market sharing, regional investment funds, etc., to reduce the risks associated with trade and investment; developing proper institutional and credit facilities to support pricing and marketing strategies, creating a SAARC data bank on the production pattern of the region, and identification of tradable products of the region.


Delis and Zilberfarb (1993)\(^{56}\) have argued that high volatility of exchange rates may theoretically exert either positive, negative, or no effects upon trade flow. They suggest that the impact depends upon several important key factors including the relative strength of income and substitution effects and the degree of risk aversion of the trader.

Kumar and Dhawan (1991)\(^{57}\), Arize et al. (2000), and Doroodian (1999) find a negative relationship between exchange rate volatility and trade.

Ch. Suravinda (1993)\(^{58}\), examined “India’s Trade Relations with Major Countries of Arab League”. The present research project concerns itself with the *expost facto* examination of Indo-Arab trade relations. It emphasises the need for co-operation between India and the Arab countries. Such co-operation should remain as an ideal example for collective efforts for south-south co-operation in establishing a new International Economic Order (NIEO), and worthy of emulation by other developing countries.

Uma Rani (1993)\(^{59}\) investigates the impact of exchange rate volatility on trade flows in India during the period January 1975 to December 1988. The study concludes that India's bilateral imports and exports have, in most of the cases, been adversely affected by the volatile nature of exchange rate.

Samanta (1998)\(^{60}\), examining the long-run equilibrium relationship between exchange rate risk and the volume of foreign trade in the context of the Indian economy during the period 1953-1989, failed to find a statistically significant relationship between the exchange rate volatility and India's trade during 1960-86.


\(^{58}\) Suravinda, Ch. (1993), *India’s Trade Relations with Major Countries of Arab League*, Ph.D thesis submitted to Nagarjuna University, Guntur.


 Fanelli and Medhora (2002)\textsuperscript{61}, reveal that the competitiveness of a country depends both on the price and non-price factors. For improving the price competitiveness, devaluation can prove helpful in the short run. However, the price competitiveness can be induced in industries by enhancing the level of productivity. They explain that in an environment of efficient financial markets, the financial intermediaries are in the position of imparting the level of innovation by identifying and channelling funds to the most efficient users. The imperfections in the financial market, on the other hand, reduce the ability of the financial sector to efficiently channel funds from lenders to the borrowers; and that negatively impacts the productivity growth. Hence, higher level of financial development impacts comparative advantage of a country by enhancing the level of productivity by identifying entrepreneurs with the best chances of successfully implementing innovative production processes.

 Prusa and Skeath (2002)\textsuperscript{62} also pointed out that anti-dumping actions may be retaliatory.

 Bown and Crowley (2003)\textsuperscript{63} suggested that anti-dumping measures may be a defensive response. They reveal that trade deflection may be one of the pathways through which anti-dumping duties are multiplying.

 Konings and Vandenbussche (2004)\textsuperscript{64} provided empirical evidence that temporary anti-dumping protection on an average raises the productivity growth of domestic import-competing firms, and that trade policy under certain conditions can induce technological catching-up.

 Vijaya Katti (2005)\textsuperscript{65} points out that for India to become a major player in world trade, an all encompassing and comprehensive view needs to be taken for the


overall development of the country's foreign trade. The EXIM policy was renamed as the new Foreign Trade Policy. The Foreign Trade Policy was built around two major objectives. These are to double our percentage share of global merchandise trade within the next five years, and to act as an effective instrument of economic growth by giving a thrust to employment generation. She was of the opinion that the new trade policy was of immense use to India's foreign trade.

\textbf{Syamala Gopinath (2006)}\textsuperscript{66} tries to analyse how the regulatory environment has evolved in the Indian foreign exchange market. According to her, the main objective of markets including Foreign Exchange markets should be to support economic activity and raise the potential for economic growth. The focus of the exchange control regulations has facilitated transactions in international trade in goods and services. The number of incentives has been taken towards procedural simplification with the objective of reducing the transaction cost. Thus, the focus of the external sector reforms measures has been to dismantle controls and provide an enabling environment to all entities engaged in external transactions.

\textbf{Yazid and Muda (2006)}\textsuperscript{67} studied the usage pattern of foreign exchange management strategies in multinational corporations. They found that multinationals are involved in foreign exchange risk management primarily because they sought to minimise operational overall cash flows, which are affected by currency volatility. Also, majority of multinationals centralise their risk management activities, and at the same time impose greater control by frequent reporting on derivative activities. It is likely that huge financial losses related to derivative trading in the past led to top management being extra cautious. Though many studies have revealed that active currency management by using derivatives is very much necessary for the firm to be on par with the competitors in a global business environment, there are some studies which argue otherwise.


J.N. Bhagwati and A. Krueger (2007)\(^{68}\), in their comparative analysis of the impact of foreign trade regimes and economic development in a number of countries, defined a set of analytical phases with reference to the EXIM policy of a country. These phases in the foreign trade regime were designed essentially as a descriptive device to capture meaningfully the evolution of foreign trade regime in terms of its restrictionist content and the dimensions and pattern of its use of control and price instruments. There are broadly five phases. Phase one is characterised by the systematic and significant imposition of quantitative restrictions (QRs), in response to an unsustainable balance of payments deficit. Phase two is characterised by continued reliance upon quantitative restrictions and generally increased restrictiveness of the entire control system. Phase three is to systematise the changes, introduced during phase two, and initiate liberalisation. Phase four continues liberalisation introduced in Phase three and goes a step further. Phase five occurs when the exchange regime is virtually liberalised. There will be full convertibility on current account, and quantitative restrictions will not be employed as a means of regulating the balance of payments.

Vijaya Katti et al. (2007)\(^{69}\) in their paper make an attempt to study some of the major sectors of the Indian economy. They have identified four major sectors, and analysed how export promotion councils have helped to shape the Indian economy, its export growth, and the challenges they face in an increasingly globalised world. They also focus on the employment and export intensity of the Indian economy, and highlight the industries that are in particular having low and high export and employment intensity.

Neena Malhotra (2008)\(^{70}\), says that the ratio of exports to imports, has improved over time, and the fear that liberalisation will adversely affect agriculture, doesn't seem to be valid. Rather immense export opportunities are opened by export market, and our farmers are also taking advantage of these


opportunities. The structure of imports shows that major categories of import are of edible oils, fertilizers, and fertiliser manufacture. There is need for change in the cropping pattern, and domestic oil seeds production should be promoted in a big way to reduce import dependence. Government should provide appropriate facilities in the form of transportation and storage, infrastructure, better varieties of seeds, packaging and branding, and also quality testing centres for matching our products with international quality standards. Thus, domestic marketing reforms must be there with liberalisation of external trade of agriculture commodities.

**Jeevan Kumar Khundrakpam (2009)^71** in his paper investigated the exchange rate pass-through to domestic prices in India during the post-economic reform period, and found fairly robust evidence of a rise in pass-through until recent years. This is in contrast to a decline in pass-through observed in several countries since the 1990s. When a large domestic economy liberalises, and gets increasingly integrated with the global economy, the influence of the external sector, including the exchange rate movement, could become substantial during the transition. Dismantling various types of controls within the economy itself could also affect the way the external sector influences the inflationary process in the economy. In consonance with the literature, the plausible factors are reduction in tariff and removal of quantitative restrictions on trade; rise in the proportion of imports and exports in the income and consumption basket; changing composition of imports; increased inflation persistence due to dismantling of price controls; and lack of control on government deficit under limited monetary independence.

### 2.2.2 Studies on Production and Marketing of Cotton

**B.C. Saxena (1964)^72** studied the practices and problems of cotton marketing in Punjab. He pointed out that nearly 85 per cent of the produce was brought by the growers themselves to the regulated markets. The paper brought to light that even though co-operative marketing societies were operating, their impact was minimal since they hardly handled one per cent of the total arrivals.

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The main reason for this lean business of the societies in Punjab was their inability to advance loans to the producers. He found that the cost of ginning and pressing varied from market to market.

**Gopalakrishnan and Ramakrishna Rao (1964)**\(^{73}\) studied the regional variations in agricultural productivity in the different districts of Andhra Pradesh. The study established a high degree of co-relationship between productivity and irrigation. The main conclusion of the study was that low productivity districts were mainly those which had a low resource endowment. Low resource endowment leads to a low level of organisation. This was mainly reflected in the cropping pattern. The study suggested a diversion of the population from agriculture to industry and tertiary sectors to raise productivity levels in agriculture.

**Kaul (1968)**\(^{74}\) in a study on the dynamics of cotton acreage in nine districts of Maharashtra found that a considerable proportion of cotton acreage had been gained by jowar over the years although acreage for other crops like groundnut had also shown some increase. The study has pointed out that cotton growers respond to price changes both in the short run as well as in the long run. The response, however, is slow because of restraints on acreage allocation due to subsistence needs. It suggested a favourable cotton / jowar price as a policy measure to increase acreage under cotton cultivation.

**Prakash Mehta (1970)**\(^{75}\) studied the movement of American cotton prices in Punjab. He pointed out that more than 80 per cent of the cotton growers disposed of their produce within two months from the harvest due to considerations of demand and shortage of storage facilities. The price variations were pronouncedly high.


\(^{74}\) Kaul, S.M. (1968), *A Study in Dynamics of Cotton Acreage Response in Maharashtra Region*, Indian Agricultural Research Institute, New Delhi.

Khandelwal (1970) studied the problem of cotton and cotton-seed forward markets in Madhya Pradesh to visualise the problems connected with future markets of cotton and cotton-seed, and to suggest effective measures to overcome these problems. He found that the forward markets were not functioning effectively in Madhya Pradesh. The strength of the membership of the Association had declined. The study suggested the need for reforms in cotton marketing practices and changes in the government policy.

A study by the National Council of Applied Economic Research (1971) into the marketing problems of cotton in Andhra Pradesh revealed that cotton yield was very low since it was cultivated on poor soils and in regions of uncertain rainfall. The yield is further affected by a high incidence of pests and diseases. The study brought to light the prevalence of malpractices like unauthorised deduction and the existence of a few buyers in some regulated markets, thus giving scope for concentration, and the use of more inputs like fertilisers and cultivation under assured irrigation facilities.

Mandalia and Kukadia (1975) studied the economics of cotton cultivation in Baroda district, Gujarat. They made a cost-benefit analysis for a desi variety, Digvijay, and a new high-yielding variety, MCU-5, and compared the two. The study pointed out that MCU-5 cotton fetched a net return higher by Rs 53/ per quintal over Digvijay.

Gangwar and Singh (1975) examined the economic feasibility of financing cotton growers in Hissar district of Haryana. The study relates to two types of cotton varieties. As the American cotton requires more pesticides, fertilisers, and irrigation, farmers were facing severe constraints of these inputs. They should prefer desi variety. The net income derived from both the varieties is

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the same. It was brought to light that even under adverse weather conditions, the financial institutions may consider advancing credit since these varieties assure minimum recovery of the amount invested.

2.2.3 Studies on Impact of various Measures on the Cotton Industry/Trade in the WTO Environment

**Garten (1994)**[^80] concluded that anti-dumping duties are justified because dumping prices are presumptive evidence of abnormal and temporary cheapness as the cheap prices brought about by dumping do not last long, and are followed by monopolisation and hiked pricing.

**Blonigen and Bown (2003)**[^81] found significant empirical evidence in relation to the fact that the U.S. industry was influenced by the threat of reciprocal foreign anti-dumping duties with respect to determining which foreign countries to name in the initial anti-dumping petition, and that the U.S. anti-dumping authority's decisions were influenced by the threat of foreign retaliation under the GATT/WTO dispute settlement mechanism.

**Crowley (2006)**[^82] says that over the past decade, more and more members, especially developing countries had become active users of anti-dumping measures. The imposition of anti-dumping has an important bearing on trading decisions and this makes it important for organisations to understand the implications of these trade related issues. The parties involved in an anti-dumping investigation include domestic industry, importers, investigating authority, and consumers in the importing country, and governments of the exporting countries.

The paper focuses on perspectives of two major role players, viz., the domestic producers and importers, regarding the impact of anti-dumping measures in India, both at the macro level and at organisational level. The empirical novelty of this paper is that it examines the impact of anti-dumping duty by capturing the perceptions of the interested parties, who have been associated with anti-dumping

case in some form. It also discusses the strategies adopted by importers in response to levy of anti-dumping duty. The paper concludes with a discussion of the results and implications.

Sheela Rai (2007) observed that WTO has certain protective clauses which allow the members to provide their domestic industry temporary respite from the rigors of free market. Provision for safeguard measures under Article XIX of the GATT 1994 and the Agreement on Safeguards is one such provision that allows members to restrict imports if there is a serious injury to the domestic industry because of the increase in imports. However, as held by the Appellate Body, it needs to be proved that increase in imports has been the result of unforeseen developments. The article critically analyses the provision of unforeseen developments as interpreted by the Appellate Body, and then examines whether the decision of the Appellate Body was correct in the light of the negotiating process.

Jebamalai Vinanchiarachi (2007) says that in the textile industry, the elimination of the Multi-Fiber Agreement (MFA) quotas has led to intensified competition in domestic and international markets. Pressures for efficiency gains are constant. While tariffs on textile products have been gradually reduced, thereby eroding the benefits of preferential schemes (particularly for least developed countries), a number of non-tariff barriers to trade remain. The challenge for textile clusters in India is to convert comparative advantages into Competitiveness. It stems from enhanced adaptive capabilities to use modern technology and devices and to commercialise new knowledge. "Cooption ", i.e., cooperate to compete, is the new industrial theology, and a collective response to competitive pressure is key to enhance competitiveness. This theology must, of course, play its due role in sustaining poverty reduction through the effective empowerment of the poor in the development processs.


Alokesh Barua and Robert M. Stern (2010)\textsuperscript{85}, in their edited volume on “WTO and India – Issues and Strategies”, comprising 18 well researched papers on various aspects of the theme, provide the developing countries’ perspective, negotiating options and strategies, market access, trade facilitation, and government procurement, TRIPS (Trade-related Intellectual Property Rights), GATS (General Agreement on Trade in Services), and growth, poverty and inequality. The multilateral trade agreements covered by the WTO (World Trade Organisation) include GATT (General Agreement on Tariffs and Trade) 1994 and its related Agreements; GATS and TRIPS. In addition to these three agreements, Annexures 1 and 2 cover the dispute settlement mechanism and Annexure 3 the trade policy mechanism. A noteworthy feature is that these three annexures are part of a “single undertaking” approach. The fundamental principles of the regime are: most favoured nation (treating all countries equally), national treatment (Treating foreigners and locals equally), and freer trade (reductions in tariffs and removal of non-tariff barriers).

The WTO has 153 members, and about two-thirds of them are developing countries. The special and differential treatment (S&DT) provisions allow developed countries to treat developing countries more favourably than other WTO members. Developing countries face some challenges in coping up with the trade regime. They are: fulfilling commitments under WTO agreements which require legal and administrative reforms; capacity building to articulate concerns and trade offs during the negotiations, adaptation and mitigation policies to contain the adverse effects of globalisation; and the shrinking of policy space because of global commitments. They perceive that globalisation process is skewed (greater mobility of goods and capital, and lesser mobility of labour), and that most of the S&DT provisions are not mandatory. The Doha Ministerial Conference (2001) tried to incorporate development concerns in the new round of trade negotiations. Overall, the book gives an exhaustive and lucid account of the WTO issues, the perceptions of the developed as well as developing countries on various trade

issues, and how national circumstances of countries influence negotiating strategies and formation of coalitions.

The study carried out by the Export-Import Bank of India (2007)\textsuperscript{86} on Regional Trade Agreements: Gateway to Global Trade, deals with Regional Trade Agreements (RTAs) at the global level as a link between bilateral agreements, plurilateral agreements, and multilateral agreements. This will facilitate countries to move from regionalism to multilateralism. This could also be viewed as bottom up ‘approach’ in contrast to the notion of ‘top down’ approach exhibited by the concept of multilateralism. The study presents the concept and rationale, types and nature of RTAs, factors that led to their proliferation in the last decade and a half, and in particular from 2000 and 2004, and discusses the compatibility of RTAs with the World Trade Organisation (WTO) framework. A region-wise analysis is attempted in the study in America, Africa, Europe, Asia, West Asia, and CIS (Commonwealth of Independent States) regions for delineating recent developments, trends and patterns in the proliferation of RTAs across the globe to review the trade performance in each bloc as well as in some of the leading countries in the respective blocs. The study lays special emphasis on the emerging regionalism in Asia with focus on India’s initiatives in RTAs, comprehensive economic cooperation agreements (CECAs), and Free Trade Agreements (FTAs), and suggests broad strategies to be pursued by India.

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. This could be attributed to the interest among developed countries to engage in bilateral agreements with developing countries subsequent to erosion of their confidence in multilateralism. India could draw insights from the global trend and pattern of gradual shift from south - south trade agreements to preferential agreements between developing and

\textsuperscript{86} Export – Import Bank of India (Exim Bank) (2007), \textit{Regional Trade Agreements: Gateway to Global Trade}, Occasional Paper No. 120, Exim Bank, Mumbai.
developed countries, and explore opportunities to engage in trade agreements in goods, services and investment with developed countries such as USA, Japan, and European Union (EU). While India needs to maintain consistency in its negative lists with regard to agreements with different countries to effectively protect the domestic industries, it is also crucial to address the issue of non-tariff barriers especially when engaging in RTAs 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, and was subsequently increased to ASEAN plus three, by including Japan, China and South Korea. Efforts are under way to form ASEAN – India Free Trade Agreement.

The NCAER study (2009)\(^7\) on “Assessing the Prospects for India’s Textile and Clothing Sector” is a comprehensive empirical study covering the entire supply chain of textiles and clothing sector for an assessment of the prospects for the industry in the light of global competition from developed and developing countries. The textile industry is presently in a state of flux due to the severe contraction in export and domestic demand in the wake of global economic and financial crisis. Major business restructuring is taking place across the industry. The government has been considering measures to support the industry on which livelihood of millions of people is dependent. The industry is affected by slow and uneven modernisation across various segments. Insufficient modernization is especially the case with dyeing and processing, weaving, garments, non-woven and technical textiles segments. Existing policies for modernisation such as Technology Upgradation Fund Scheme (TUFS), and policy to attract foreign direct investment need to be properly designed to allow investments where they are most essential. This requires an understanding of the state of the textile and clothing industry so that relevant policy decisions are taken on the basis of facts and figures.

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The study is, thus, an attempt to provide alternative estimates of basic parameters of the industry (number of units, output, value added, employment, number of machines / looms, etc). The study provides a review of the government policies and programmes for the industry by analysing the relevant information. It provides some insights into the corrections required in various policy measures, and explores additional measures to make the industry more efficient and competitive. The study looks at a wide range of aspects such as stages of processing, sectors of production, their competitiveness, retail marketing, number of intermediaries involved from factory stage to final consumer stage, and margins and value addition by them. It also looks into the state and potential of technical textiles in the country. Dereservation of weaving and knitting, introduction of TUFS, lowering of customs duties, and Agreement on Textiles and Clothing (ATC) of World Trade Organisation (WTO) phasing out during 1995-2004 are the major policy changes responsible for bringing about remarkable change in the environment for the industry. The recent global slowdown has, however, impacted the prospects of this sector also.

Primary data collection was attempted through survey work to estimate the contribution made by various size units belonging to handloom, powerloom, knitting, and garment segments to overall employment, output, value addition, fabrics production, etc. of the textile and clothing sector. The survey covered 40 industrial clusters including artisanal clusters representing all categories in the value chain. Powerlooms constituted bulk of the clusters covered in the study.

The Exim Bank study (2008) on “Indian Textile and Clothing Industry in Global Context: Salient Features and Issues”, is a comprehensive empirical study covering the entire supply chain of Indian textile and clothing sector for an assessment of prospects for the industry in the light of global competition. The study focuses on market analysis of leading countries in exports and imports of textiles in the world, to draw lessons for improving the market share of India in major destinations for its exports, namely, European Union (27 countries), USA,

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and Japan. Other players whose export-import of textiles data have been examined are China, Bangladesh, Pakistan, Indonesia, and Turkey. Period for which data have been examined is the Post-quota period from 2005 till 2008. Analysis in respect of India is from a number of angles: multi-fibre based, textiles (including carpets), and clothing (ready-made garments) segment-wise - mill sector, powerlooms, handlooms, hosiery, and processing enterprises. Export picture has been examined product group-wise, and destination-wise. The study highlights the competitive advantage India enjoys in the global environment with abundance of raw materials, strong production base, low cost and skilled labour, strong design capabilities, and pro-active government policies. The growth drivers for the industry are well established with growth in the domestic market driven by a large young population, rising household incomes, and increasing consumerism. The growth drivers for the industry in external markets include large fibre-base, presence in entire value chain – including niche segments, and cost competitiveness. The study suggests that India should concentrate more on improving its technology, and integration of industry. Apart from these, it needs to strengthen and develop its supply chain, soft skills, and infrastructure. The long term outlook for the industry is bright; and it would depend on proper implementation of appropriate strategies and the strategic response of the industry in different segments. Segments with high potential for exports in which sizeable foreign direct investment is to be attracted are: retailing of garments and fabrics, apparel manufacturing, manufacture of textile machinery, synthetic fibres, technical textiles, etc. The study pinpoints the challenges facing the industry in global competition, opportunities available for increasing India’s market share in global markets, and suggests strategies to be pursued.

Indian textile industry is multi-fibre based, using cotton, jute, wool, silk, man-made and synthetic fibres. Cotton is the major raw material for the industry. In India, the fibre-mix of textile industry is skewed towards cotton; about 60 per cent of yarn production in the country is cotton-based. On the other hand, the fibre-mix internationally is estimated to be 60 per cent man-made fibre, and 40 per cent cotton. Production of cloth in India in 2008-09 is as follows: total quantity 54
billion square meters, with the proportions in percentage terms segment-wise - mill sector 3.3, handlooms 12.3, powerlooms 62.1, and hosiery sector 22.3. Decentralised powerloom sector has been maintaining steady growth annually around 5 to 7 per cent, and hosiery sector with around 10 to 15 per cent in some years. Mill sector and handlooms have been showing declining trend. Total textile exports in 2008-09 was US $21 billion, and in 2009-10 US $22.4 billion. Export of readymade garments/clothing is around 51 per cent of total textile exports. Textile exports in relation to the country’s overall exports is 12.5 per cent in 2009-10. Textile imports in 2009-10 constitute US $3.4 billion, 1.2 per cent of the country’s overall imports.

Market analysis of India’s position in European Union and in USA’s imports of textiles during 2007 was as follows: In the EU, growth of imports source-wise in percentage was: China 14, India 3.7, Vietnam 11, Sri Lanka 7, and Pakistan 7. In USA, textile and clothing market recorded compound annual growth rate of 3.3 per cent in recent years. Over years China, Vietnam and Bangladesh have improved their market share in USA. Other countries such as India, Pakistan, and Italy have more or less retained their market share, while a few other countries have recorded reduced market share. It may be noted that India’s gain mainly emerged from export of non-clothing products. India should improve the market prospects of high value added items such as readymade garments and made-ups taking into account the trends of fashions of consumers in developed countries. Branding and ecolabelling will go a long way in improving India’s market share. Technical textiles is another area that offers opportunities for growth of exports.

V. Padmanand and D.P. Jadeja’s publication (2007)⁸⁹, “Strengthening Industry Value Chains in Textile Clusters in India” deals with interventions in industrial and artisan clusters, largely in the micro, small and medium enterprise sector, consisting of conglomeration of the same or similar type of industry in a geographical area. The institutions pioneering interventions include the Textiles Committee of the Union Ministry of Textiles, and others such as various bodies

under the Ministry of Textiles, and Ministry of Micro, Small and medium Enterprises (MSME) as well as the Ministry of Commerce and Industry. Several international organisations are also involved in taking related initiatives. These include DFID of UK, GTZ of Germany, and the United Nations Industrial Development Organisation (UNIDO). Cluster value chain approach in terms of diagnosis and interventions is pursued in the industry in the overall value chain to facilitate competitiveness of the final product / service.

Cluster development interventions pursued in the country by different institutions adopt varying methodologies. The approach taken by the Textiles Committee involves a trained cluster development agent guided by expert technical advisors. The publication encapsulates the pioneering attempts as well as successful initiatives of the Textiles Committee and other stakeholders including facilitation of building consortia and special Purpose Vehicles (SPVs) amongst small and medium enterprises (SMEs) to establish common facilities such as setting up modern dyeing facilities, testing facilities, common and competitive alternative energy projects for export-oriented firms, raw material banks addressing procurement gaps, building capacities of industry associations, and facilitating corporate linkages for the handloom sector. Many interventions indicated in the volume have evidently been led by the Textiles Committee with technical advice from the authors. Such interventions as well as recommendations have substantial potential for replication on a large country-wide scale for evolution of a competitive and sustainable Indian SME and textiles sector, and also provide an excellent framework of reference.

The authors have developed a thorough strategy framework to identify the value chains and related clusters; conducting an environmental study of the selected value chains to capture dimensions such as policy, factor conditions, stakeholders, and firms’ internal health; evolving and validating a vision, and preparing an action plan to bridge the perceived gaps; spelling out the implementation and its phasing and; monitoring and evaluating the performance. Comprehensive procedural details on a host of suggestive intervention instruments features the latter part of this user-friendly handbook.
Balaji (2008) in his article “Textiles: A Roadmap for Competitiveness in the Post-Quota Regime” presents the prominence of the textile and clothing sector to the Indian economy in view of its labour intensiveness, apart from its contribution to industrial output, and exports, highlights the challenges, and presents strategies for the post-quota regime. The phasing out of the textile quotas by developed countries have created free access to Indian textiles to enter the US $150 billion US market, and the US $120 billion EU market. In actuality, however, India has not been able to utilise the golden opportunity to the extent the potential favoured. China’s share in global textile trade which was only 4% in 1980 has more than trebled to over 13% now; but India which had a share of 2% in 1980 is still tottering in the range of 2.5% to 3.0%. Consolidation to reap scale economies, investment in modern technology, revolutionary and non-incremental improvement in productivity levels, continuous innovations, focus on branding, building up marketing muscle, collaborative approach including vertical integration in the entire value chain, are a sine-qua-non for the success of the textile trade. Government has to play a key role in providing quality infrastructure, easing the flow of institutional finance, and creating an enabling environment for flow of foreign direct investment. Industry associations, along with the government need to constantly monitor the environment, and efficiently combat the protectionist tendencies of the developed world. These will go a long way in building the competitiveness of the sector.

WTO’s (2010) publication, *World Trade Report 2010 – Trade in Natural Resources*, consists of two parts. The first part deals with a brief summary of the Global Trade situation in 2009-10. The Second part focuses on the special theme of Trade in Natural Resources. The executive summary given in the beginning of the report presents the special theme coverage in a concise manner. The annual publication aims to deepen understanding about the trends in global trade, trade

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policy issues, and the multilateral trading system. The theme selected for the publication is of growing importance in international trade relations. Natural resources are at the root of a major part of economic activity; they are the key component of many economies; and their share in world trade is growing. A number of features exclusive to natural resources explain why they occupy a special place in economic, political economy, and policy analysis. Natural resources discussed are fish, forestry, fuels, and mining products. Agricultural products are not included in the analysis as they are cultivated rather than extracted from the natural environment. Other non-traded resources are only briefly discussed. For instance, the report considers water, not as a traded product in itself, but rather in terms of water content of other commodities. Natural resources such as air or biodiversity are only examined to the extent they are affected by trade. Natural resources are stocks of materials that exist in the natural environment that are both scarce and economically useful in production or consumption, either in their raw state or after a minimal amount of processing. A number of important characteristics of most natural resources include uneven distribution across countries, exhaustibility, externalities (market-failures in the form of unpriced effects resulting from consumption and/or production), dominance in output and trade, and price volatility.

The treatment on trade in natural resources is divided into six sections: (a) introduction, (b) natural resources: definitions, trade patterns, and globalisation, (c) trade theory and natural resources, (d) trade policy and natural resources, (e) natural resources, international co-operation, and trade regulation, and (f) conclusions. Among the range of policies affecting natural resources trade, subsidies and export policies appear to be the most challenging. Subsidies can be useful instruments for addressing market failures and changing incentive structures in ways that favour superior outcomes. But they can also make matters worse. Everything depends on the nature of the subsidies, and the purpose for which they are designed, and whether they serve public welfare concerns or pressures from narrow interest groups. Governments may use export taxes and restrictions for a variety of reasons, including economic diversification and domestic price
stabilisation, to counter escalating tariffs in importing countries, and to manage environmental externalities. But at the same time, export taxes and restrictions may also raise world prices, and shift economic ‘rents’ arising from scarcity.

The analysis in the report argues strongly for international cooperation. The characteristics of these products make it vital that governments work together to find common ground and appropriate trade-offs. **Such cooperation should aim to ensure sound resource management, equity and mutual gain.** The trade aspects of cooperation have been a particular focus of the report, and the case has been made for seeking accommodation through effective multilateral trade rules. Many aspects of natural resources are regulated by international rules and conventions outside the WTO, and a number of challenges can only be effectively confronted through better global governance. Well designed rules on trade are not only about securing standard gains from trade; they are also a key component of cooperation in domains, such as environmental protection, and domestic policies to manage scarce resources.

### 2.2.4 Studies on Impact of FDI on Cotton Industry

**Romer and Rivera (1990)**\(^92\) state that Foreign Direct Investment (FDI) flows have greater impact on growth than mere trade flows because trade flows only increase the level of growth. Investment flows, on the other hand, increase the growth rate. This is because investment flows are accompanied by exchange of ideas. Increasing flow of ideas, they say, has the effect of increasing productivity of research, which eventually increases growth rate in the world. Romer and Rivera suggest that information flows would create a positive incentive for researchers to copy designs from the other, and there are very few offsetting incentives to enforce property rights.

**Grossman and Helpman (1991)**\(^93\) examined economic growth from the viewpoint of 'creative destruction'. They point out that introduction of new technology (through foreign transfers, for example) renders an old technology

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obsolete, and firms can climb up in the 'quality ladders' of technology by investment on research. Such investment would yield innovation in technology, which in turn would lead to faster growth. Implicit in this theory is the assumption that new technology is necessarily more efficient than the one it replaces.

Rajan and Zingales (1998)\(^{94}\) concluded that in countries with well-developed financial systems, industries that are naturally heavy users of external finance grow faster. They argue that this result has implications for trade patterns because well-developed financial sector is a source of comparative advantage for a country in industries that rely more on external finance.

Howitt (2000)\(^{95}\) builds a model, in which countries depend on each other only through technology transfers. He uses this model to show that in the presence of technology transfer, there is a permanent rise in the country's per capita income \textit{vis-a-vis} other countries. In addition, there is a rise in the growth rate of world income. Theoretically, there is ample reason to explain the 'spillover' effects of FDI in a developing country. Empirical studies examining the 'spillover' effect of FDI on the host country do so by examining the effect of FDI on productivity and competitiveness in the domestic industry, as they are most amenable to measurement. The findings of empirical studies have been mixed, in the case of Canada,

Caves (1974)\(^{96}\) observed that in this case, no strong or significant relationship has been found between FDI flows and productivity.

Beck (2002)\(^{97}\) explores a link between level of financial development and the level and structure of international trade. He analyses theoretically a channel through which economy-wide level of external finance determines the commodity structure of trade balance. The Beck model focuses on the role of finance in


mobilising savings and facilitating large-scale and high return projects. He also finds empirical evidence supporting his model that a well-developed financial sector translates into a comparative advantage in the production of manufactured goods.

Sandhya Ananthanaryanan, Chandrasekhar Krishnamurthi and Nilajan Sen (2003) found in their study strong evidence consistent with the base-broadening hypothesis. The study did not find compelling confirmation regarding momentum or contrary strategies being employed by Foreign Institutional Investors (FIIs). It supported price pressure hypothesis. It did not find any substantiation to the claim that foreigners destabilise the market.


Tanushree Mazumdar and Vijay (2006) - The authors believe that the benefits (in terms of cost efficiencies, productivity and profitability) that a developing country reaps from FDI flows depend on the motives behind the FDI flows. They hypothesise that a country is likely to gain more from efficiency-seeking FDI flows than from market-seeking or resource-seeking FDI flows. The authors test this hypothesis with respect to India, using annual data and a distributed log model. Five sectors have been selected for the purpose of testing the hypothesis. Findings reveal that in India, FDI flows have not contributed significantly to the three parameters - cost reduction, improvement in productivity and profitability - in most of the sectors. It is a significant finding that the computer industry has gained from FDI flows in terms of cost reduction.


99 Bhanumurthy and Rai (2003), Determinants of Foreign Institutional Investment in India, The role of Risk, Return and Inflation, Development Planning Centre. Institute of Economic Growth, University of Delhi, Delhi.

Debashis Chakraborty and Arup Guha (2007) felt that the usefulness of easing controls on capital flows in a country is a long-debated question. It is felt that the liberal capital control regime boosts the confidence of the international community on the domestic economy and becomes instrumental for ensuring higher capital inflows. On the contrary, it is widely held that controls on capital flows ensure a developing country against experiencing a sudden potential currency crisis. In the light of the current debate in India on the appropriateness of adoption of Capital Account Convertibility (CAC), the author examined the interrelation between current and capital account balance in the country. He also examined the macroeconomic scenario in order to explore whether the country has reached a stage to opt for full-fledged CAC. The empirical findings suggest that India should move cautiously in this regard.

Guangling Liu (2007), in his paper investigates the impact of the real effective exchange rate volatility on South Africa's exports for the period from 1978 to 2005. A General Autoregressive Conditional Heteroskedasticity (GARCH) model is used to measure exchange rate volatility, and the Johansen cointegration tests and Error Correction Model (ECM) are employed to analyse the long run equilibrium and the dynamic short run relationship between exports and the real effective exchange rate volatility. The empirical evidence indicates that exports is positively related to foreign income, and negatively related to the real effective exchange rate in the long run. However, in the short run, the real effective exchange rate volatility is insignificantly related to exports volume. In other words, the volatility does not have impact on South Africa's exports during the study period.

This study addresses these issues in the context of foreign institutional investors' (FII) trading activities in a big emerging market - India. India liberalised its financial markets, and allowed FIIs to participate in their domestic markets from 1992. Ostensibly, this opening up resulted in a number of positive effects.

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First, the stock exchanges were forced to improve the quality of their trading and settlement procedures in accordance with the best practices of the world. Second, the information environment in India improved with the advent of major international financial institutional investors in India. On the negative side, we need to consider potential destabilisation as a result of the trading activity of foreign institutional investors. This is especially important in an emerging country that has embarked upon reforms to open up its market.

III. Summing Up

Comprehensive review of literature presented above indicates the wide range of areas that have been covered in various publications, Ph.D. Theses, and articles published in different journals and edited publications. For purposes of the present study, the focus decided on is as follows:

(i) Overview of foreign trade of India dealing with merchandise goods in recent years, in particular during 1994-2010, along with a review of policies and strategies adopted by Government of India, in consultation with export promotion councils, trade associations, and other professional bodies;

(ii) An in-depth analysis of the trends, composition and direction of the exports and imports of textiles, with cotton and non-cotton break-up, and an examination of the trends and direction of their components in the textiles industry – fibre, yarn, fabrics, readymade garments (RMGs), and made-ups;

(iii) Implications of the WTO Environment on exports and imports of textiles during the operation of the Agreement on Textiles and Clothing (ATC) (1995-2004), and Post-ATC period (January 2005 till date); and

(iv) Bring out suggestions on strategies to be pursued in future after examining the problems faced by the industry in different periods.

The study is based on an analysis of secondary data available from publications, relevant documents, websites, and professional journals.

Chapterisation attempted for the study is as follows:

I. Review of India’s Foreign Trade – Trends and Policies
II. Research Methodology and Review of Literature
III Foreign Trade of Indian Cotton Textiles Industry
IV Implications of WTO on Indian Textile Industry
V Problems and Challenges facing the Textile Industry, and Initiatives of Various Organisations
VI Summary of Conclusions and Suggestions.