CHAPTER III

LIBERALISATION OF INDIAN ECONOMY AND IT’S IMPACT ON KNITWEAR INDUSTRY
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CHAPTER III
LIBERALISATION OF INDIAN ECONOMY AND IT'S IMPACT ON KNITWEAR INDUSTRY

3.1 INTRODUCTION

The chapter focuses on the theoretical aspects of economic liberalisation of Indian economy and its impact on the garment industry, which has led to sustainable growth and development of this industry. Simultaneously, this chapter also deals with liberalisation of Textile and Clothing industry by WTO. Moreover, the chapter probes into Michael Porter’s theory of competitiveness which states that in the changing world of clothing trade scenario, the transition from comparative advantage to competitive advantage has become essential. This theory is taken as a model to study and compare the performances of Indian garment industry with its counter-parts in Asia in general, the performance and competitiveness of Tirupur knitwear industry with its regional counter parts in particular.

3.2 LIBERALISATION OF INDIAN ECONOMY

The business environment for exports in India has undergone a radical change since the economic liberalisation reforms were introduced in 1991. Be it the policy framework, the procedural obligations or the marketing methods, the entire structure is becoming more and more transparent and flexible. Several steps have been taken by the Government to promote foreign direct investment, create growth centers, and stimulate exports.

The process of liberalization started by the Congress government in the year 1991 has created wide opportunities for the development of small-scale industries. The small enterprise has emerged as a focus area for forging and promoting trade. These economic reform programmes fostered the emergence of
Indian industry as a global competitor with increase in exports. To improve the competitive strength of the small scale industries, have clusters have to implement suitable policy measures as a most important element of its development. The following policy measures can be discussed in this regard.

The external sector in India was substantially liberalised during the 1990s. India experienced exchange rate depreciation between, 1990 and 1993, of 60 percent. Since 1993 the real exchange rate between the dollar and rupee has been approximately constant when measured in terms of consumer prices and slightly depreciating when measured in wholesale prices. The import-weighted average economy-wide tariff fell from 87 percent in 1990-91 to about 30.2 percent in 1999-2000. In agriculture from 70 to 17.7 percent, in consumer goods from 164 to 32.4 percent, in intermediate goods from 117 to 31.9 percent and in capital goods from 97 percent to 32.2 percent. The weighted-average coverage ratio for economy-wide Non-Tariff Barriers on Indian imports fell from over 95 percent in 1988-89 to less than 25 percent in 1999-2000. The opening of the economy to international trade raised the share of trade in GDP. Imports as a share of GDP increased from 8.57 percent to 10.65 and exports from 5.54 percent to 9.08 percent between the 1980s and 90s.

The mutual effects of trade liberalisation and greater trade exposure after 1991 generate two strong predictions according to the theory of comparative advantage. Concept of this theory is discussed in section 3.4 of this chapter.

- The upgrading in the industries had largely shown a shift in the structure of exports to manufactured goods and an increase in the labour-intensity of exports. The opposite pattern should occur in the structure of imports.

There are three main pieces of evidence that support these theoretical predictions in India after 1991. The first refers to the evolution of the structure of trade, the second to the structure of production, and the third to
the labour-intensity of given sectors. An exception is the increase in the share of the high-tech due to software exports.

- Persons engaged to obtain the managerial and technical staff employed by industry changed drastically. Between 1978-79 and 1989-90 India’s manufacturing export basket contained nearly 50 percent of intermediate and capital goods. The structure of exports subsequently shifted towards one dominated by (labour-intensive) consumer goods. The share of consumer goods in India’s manufacturing exports increased from 50.6 percent in 1989-90 to 72.5 percent in 1996-97, over the same period the share of intermediate goods declined from 38.5 percent to 12.6 percent. The share of labour-intensive exports in total manufactured exports increased from 13 percent in 1991-92 to 34 percent in 1996-97. The share of high-tech exports increased from 13 percent in 1978-79 to 31 percent in 1991-92 and declined to 25 percent in 1996-97. The share of resource-intensive exports in total manufacturing exports declined from 68 percent in 1978-79 to 37 percent in 1996-97. The proportion of capital goods in total manufacturing imports increased from 36.6 percent in 1978-79 to a high of 62 percent in 1996-97. The share of high-tech imports increased from 26 to 61 percent between 1978-79 and 1996-97. Between 1987-90 and 1993-96 labour and scale-intensive exports from India increased their share of total exports, while the share of differentiated and science based exports declined.

- Secondly, the pattern of growth within the manufacturing sector is broadly in accordance with that predicted by the theory of comparative advantage. It was found out that a long-term structural shift (from the late-1970s to the mid-1990s) away from the production of skill-intensive to low-skill-intensive products, or alternatively from capital and intermediate to
consumer goods in terms of both value added and employment. There has been a corresponding fall in the shares of both medium and high-skill-intensive sectors. Within the manufacturing sector the growth fell most sharply in the capital goods sector relative to earlier periods. Between 1960 and 1965-66 25.63 percent of the growth of net value added by the registered manufacturing sector was contributed by capital goods and 5 percent by consumer durables. This was an obvious consequence of the initial planning strategy. Between 1990-91 and 1997-98 more than 50 percent of manufacturing growth was accounted for by consumer goods, whereas capital goods accounted only a little over 10 percent. There has been a significant relative increase in employment in the labour-intensive consumer goods sector between 1988 and 1997, relative to 1980 to 1989\(^6\).

- Thirdly, techniques of production in Indian industry have generally become more labour-intensive. The textile mills in Ahmedabad and Gujarat shed hundreds of thousands of jobs in the 1980s\(^6\). Textile production has been transferred to the decentralised powerloom sector where almost all employment is informal. This is also true in engineering and pharmaceuticals. Large firms such as Maruti Udyog, BPL, Johnson and Johnson, TELCO, and Hindustan Lever increasingly outsourced work to home-based workers\(^6\). Subcontracting and casual work have spread widely during the era of liberalisation\(^6\). Within the Tiruppur knitwear cluster 96 percent of workers are now employed as casual, the bulk of women employed are done so as very ‘flexible’ seasonal workers, 92 percent of women were paid piece rates\(^7\).

3.3 GROWTH OF INDIAN ECONOMY SINCE 1991

Some scholars have argued an evolving structure of trade and production based on India’s existing comparative advantage as a viable strategy for
sustainable economic growth. “For the next two or three decades at least, our
analysis suggests that such an expansion of exports would and should be
concentrated on labour intensive manufactures71.

The impact of reforms after 1991 on growth was disappointing. There is no
clear evidence of a change in the growth rate of GDP after 1991, growth continued
at 5.7 percent from calendar year 1980 to calendar year 200072. The rate of growth
of exports did increase in the era of reforms, from 8.3 percent p.a. between 1981
and 1990 to 9.9 percent between 1991 and 2000, but remained significantly below
the 1970s when exports expanded by 15.6 percent p.a. There is evidence that the
growth in volumes was undermined by a declining terms of trade. The weighted
average unit price of India’s imports rose during 1995-96 to a peak in the first
quarter of 1997/98 and declined thereafter by 33 percent. Falling prices were
especially sharp for food, beverages, tobacco, animal, vegetable oils, machinery
and transport equipment73. Full implementation of the quota and tariff reductions
as part of China’s accession to the WTO after 2005 was forecasted to lead to a fall
in India’s terms of trade, in particular for clothing74.

There are few studies looking at linkages in the economy and how they
have changed over time. Service sector growth was having an increasingly
positive influence on promoting manufacturing growth over the 1990s75. The
percentage of purchases to total inputs (proxy for demand for industrial inputs in
agriculture) doubled from 16.4 percent in 1970-71 to 35.6 percent in 1983-8476.
More generally it has been found that FDI into India over the 1990s has not
generated many linkages with the Indian economy. FDI firms are conducting
minimal R&D within India77.

Between 1997-99 nearly 40 percent of FDI inflows into India have taken
the form of Mergers and Acquisitions (M&A) of existing Indian enterprises78.
FDI in Mergers and Acquisitions are poorer than green field investment in terms of spillover benefits. Greenfield FDI brings with it new production, organisation and management know-how. Between 1985 and 1996 India’s export structure remained static. Resource-based and low-technology products accounting for 86 percent of total manufactured exports in 1985 and 83 percent in 1996 (Where as world averages were 43 and 35 percent respectively)79.

The share of labour-intensive exports in India’s total exports remained high, though this share had reduced between 1980’s and mid 1990’s still it is greater than that comparable with many Asian counter parts. The share of science based and differentiated exports actually declined80. The perception that India’s economy shows little sign of dynamism during the 1990s is borne out by studies of productivity. There is a broad agreement that TFP growth has declined during the 1990s relative to the 1980s81.

The Indian Economy is today poised to grow along with leading economies of the world and it is believed that the current trend will sustain over a period of time. The growth of Indian economy by robust 8.4 percent in 2005-06, SENSEX crossing 10,000 points for the first time in the history of India and rising value of textile stocks were major eventful activities in the year. The strong fundamentals in the Indian economy have overall helped the knitwear sector also to show good performance in the domestic market as well as in the export market. In line with the growth of Indian economy, our knitwear exports have also grown by 30 percent, thanks to enhanced exports to developed countries like US, EU and Canada.

3.4 LIBERALISATION OF INDIAN ECONOMY AND ITS IMPACT ON THE GARMENT INDUSTRY

The garment industry has experienced a rapid and extensive pattern of economic growth for two decades. There are a few signs that this is leading to a
high road to growth. There are concerns which will be undermined by declining terms of trade. There is little evidence of upgrading though the sector generates significant linkages with the rest of the economy.

3.4.1 Extent of Growth

The growth of the garment sector is driven by India’s comparative advantage in low-skill intensive labour. A leading tier of competitive domestic firms were able to restructure themselves after the mid-1980s, build links with buyers and suppliers at home, abroad and increase exports rapidly. The Ludhiana knitwear cluster for example suffered a 21 percent fall in knitwear exports in 1991-92 due to the collapse of the USSR, its erstwhile largest market. Exports then revived very quickly expanding on an average by 70 percent p.a. for the rest of the decade. By 2003 India exported $13.5 billion in textiles and apparel, from under $6 billion ten years earlier. Textiles comprised 23 percent of India’s total exports and 14 percent of value added in manufacturing. With an import intensity of only 1.5 percent this made the sector the largest net foreign exchange earner.

Export growth increased rapidly after reforms to domestic textile policy in 1985. This was a pattern of extensive growth based on gaining greater market share in simple low-cost cotton based products. By 2000 India had large shares of the market in the EU and EC in a few simple products. For woven shirts for example the size of India’s MFA quota was already close to the size of the entire US market. By 1997 exports of items restrained by the MFA accounted for 81 percent of total apparel exports to the US and 71 percent to the EU. Such extensive growth began to reach limits. Export growth showed a secular decline over the twenty-year period. Apparel exports grew by 19.3 percent between 1985 and 1990, 7.8 percent between 1991 to 1995, 5.9 percent between 1996 to 2000 and 5.2 percent between 2001 to 2003.
The abolition of the MFA at the beginning of 2005 generated opportunities for renewed extensive growth. In cotton shirts, for example, about 43 percent of the US market has opened to foreign competition on January 1st 2005. Such renewed extensive growth was evident throughout 2005. Between January and August 2005 apparel exports to the US increased by 61 percent from China and 33 percent from India. It is forecast that India will rise from a 4 to 15 percent share of the US apparel market, somewhat behind China's 50 percent share. There are concerns about the sustainability of such a pattern of extensive growth.

Full implementation of quota and tariff reductions as China's accedes to the WTO, after 2005 are likely to generate a decline in India's terms of trade, especially for clothing. There are clear signs that this is already happening. Prices of apparel imports fell by 8 percent in the first six months of 2005, wool product prices by 30 percent, prices of cotton coats, dresses, knit shirts declining by more than 60 percent, cotton trousers, skirts and sweaters by almost 50 percent. Japan never imposed quotas on textile and clothing imports under the MFA. Some have argued that the market share in Japan is indicative of a post-quota world. China has 50 percent and 80 percent of Japan textile and clothing imports in 2003. Recently Japanese imports from India, South Korea, Taiwan and Hong Kong have fallen. India now has a negligible share of the Japanese market. There are recent signs of a weakening in the Indian share of the EU market.

3.4.2 Linkages

The growth of the textiles sector has not generated dynamic linkages with the rest of the economy, but occurred in spite of inefficient linkages. The textiles sector is 98.5 percent self-sufficient on local inputs, its net contribution to the balance of payments is easily the largest of any sector in India. India, like a very few other LDC's (Egypt and Pakistan), is nearly self-sufficient across the whole value chain. This advantage in terms of resource endowments has not been
translated into a competitive strength. The performance of cotton yarn, man-made
textiles and garments in terms of unit cost growth has been poor, increasing
material prices being the largest contributor to rising unit costs. The unit cost of
cotton grew by 13 percent p.a. and garments 10.6 percent p.a. between 1989 and
1997. The price of polyester yarn in India (1998-99) was Rs 70 per kg compared
to Rs 43 per kg on the international market. A poor productivity performance in
the textiles sector through forward linkages undermines the prospects of the
garments industry. Between 1989 and 1997 average annual growth of TFP was –
1.92 percent in cotton yarn and only 0.56 percent in man-made fabrics. A proxy
measure of the efficiency and reliability of the domestic supply chain are the
defect rates on final products, in India these run some where between double and
five times higher than those in China.

3.4.3 Upgradation

To sustain export growth over the longer-term a shift to a more intensive
growth path will be necessary. In East Asia the key to success in buyer driven
chains was the move from the assembly of imported inputs to more domestically
integrated and higher value added exporting such as full-package supply· or
original equipment manufacturing. This requires industrial upgrading to a higher
road of competition, emphasizing quality, productivity, variety, and timely
delivery rather than just the low prices consistent with a low road of competition.
There are key advantages to such a shift, such as the easier availability and
protection of rents and less vulnerability to declining terms of trade. In India for
example 57 percent of the value added in man’s cotton shirts and 61 percent of the
value added in men’s’ khaki trousers is added at the global retail stage. Delivery
times are longer from India than competitors. Minimum deliveries to the US are
24 days from India, 18 from Thailand, 15 from China, 12 from Hong Kong and 3
from Mexico. The mean delay in customs processing is 10.3 days in India, and
only 7 days in South Korea.
However, there have been some signs of upgrading. Indeed there has been significant forward integration by yarn-makers and spinning mills into garments. Design is becoming a significant source of competitive advantage in Indian apparel exports. The historically small scale operation of the Indian apparel sector has created the conditions for the preservation of generalist skills of the master tailor. Such general purpose skills allow complexity to be handled cost effectively and flexibly, the rigidities of a very narrow division of labour are absent.

There is however little sign of any generalised upgrading in the textile/garment sector. The level of technology in weaving is particularly low. Of the 1.6 million powerlooms installed, less than 1 percent is shuttleless. Even in the organised mills sector only 5.8 percent of the total are shuttleless compared to 80 percent in the US, Taiwan and Korea. New shuttle and shuttleless looms installed in India between 1989-98 accounted for only 1.6 percent of installed capacity in 1997 compared to 41 percent in Mexico. Between 1987 and 1996 China invested in 68,000 shuttleless looms in India only 8,000. Special and processing machines that can add significant value account for a very small part of the total number of machines in India unlike other Asian countries such as Hong Kong and China. In India most investments are in sewing machines. In India only 6 percent of manufacturers operated with more than 50 machines in 1998. The average firm in India has 119 machines, there are 698 in Hong Kong and 605 in China. India offers extremely low wages, but these are largely offset by extremely low levels of productivity.

Tirupur has been one of India’s most successful clusters seeing dramatic increase in indicators of turnover, sales, and employment since 1970s. The cluster accounts for about 85 percent of cotton knitwear exports from India. There has been substantial development of backward and forward linkages within the sector. Although this growth though has been based on an intensification of work,
through long hours and piece rates, from skilled to unskilled, male to female and adult to child labour. Females have entered sectors such as stitching, checking, ironing, folding and packing in large numbers, displacing male employees. Women are typically from backward castes (though almost 100 percent are literate), a large number of them are migrants, and the vast majorities are employed on a casual/ temporary basis, 92 percent of women are employed on a piece rate basis. Tirupur is the classic example of feminisation and segmentation of the labour market brought about through the system of sub-contracting.

A low road of competition is compensating for the need to improve productivity. There is evidence to show that this path is generally being pursued in the Indian textile industry. The fragmentation, ruralisation and casualisation consistent with a low road of competition have already had a profound impact on India. Large urban cotton mills have declined and the industry has become ruralised in smaller industrial units. Between 1985 and 1995 the percentage of cloth produced in the composite mill sector fell from 22 to 7.6 percent, while in the (informal) powerloom sector it increased from 46 to 59.2 percent and in the (informal) handloom sector from 24 to 20.6 percent.

All this means that exports from India remain at the low-end niche of the international market and are dominated by simple cotton products. By the late 1990s within total textile exports 44.3 percent of exports were accounted for by cotton fabrics and 26.9 percent by cotton yarn and in garments 69.7 percent of exports were accounted for by cotton fabric. Between 1995 and 2003 there was no sustained increase in the average value realised on units exported. In T-shirts (constant dollars per unit) this declined from 3.1 to 2.9, in women’s cotton woven blouses and shirts from 4.2 to 3.5, in women’s knitted cotton blouses and shirts from 3.1 to 2.5. Men’s knitted cotton shirts rose slightly from 3.3 to 3.4, men’s woven cotton shirts increased sharply from 3 to 4.5. Women’s knitted nightdresses
remained at 2.5, women's woven trousers increased from 3.2 to 4.1. Between them these products accounted for around 60 percent of India’s total apparel exports\textsuperscript{98}. It could be that the price of labour needs to be negative in order for a country to have a comparative advantage in labour-using industries.

### 3.5 WTO'S TEXTILE & CLOTHING TRADE LIBERALISATION POLICY

The international textile and apparel trade has been driven by quotas provided by importing nations to the exporting nations and has been outside the purview of GATT (General Agreement on Trade and Tariffs) and later on, WTO. Initially, the MFA (Multi Fiber Arrangement) governed the textile trade between 1974 to 1994.

The Agreement on Textiles and Clothing (ATC), the successor to the MFA, governed the textile trade during 1994-2004. The complete transition from MFA to WTO took place in four phases as the following figure shows.

**EXHIBIT – 4**

**ACCESSION OF WORLD TEXTILE AND CLOTHING TRADE TO WTO**
3.5.1 Accession of World Textile Trade to WTO

At the start of each phase, apart from the removal of items under quota, the quota levels were also proposed to be increased significantly by 16 percent, 25 percent and 25 percent in each of the three phases. However, notably, a very small percentage of textile and clothing products had come out of the purview of quotas in the first three phases. The reasons for this have been two-fold:

Firstly, all the items of textile and clothing - whether previously quota related or not - were included in the list of items on which quotas were to be removed. Secondly, the basis of percentage of items (according to value) to be removed from quotas was on the 1990 data. Since significant growth in trade has happened over the years, as a result, developed countries could adhere to the deadlines even by removing a few of the items from the quotas. Thus, significant level of quota deregulation has happened only in the last phase of ATC, i.e., post 1.1.2005.

The accession of textile trade to the WTO presents both an opportunity and a challenge to the developing world. While there would be the new opportunities of free market, competition among the developing countries is also expected to increase, with the result that the share of the poor performers would be taken away by the good ones. Although, in the major quota regulated markets worldwide, India hits quota ceilings, which indicates a potential for further possible level of export opportunities, its performance post dismantling of quotas would critically depend on its ability to compete with Chinese textile exports.

The Chinese textile and apparel industry has demonstrated their ability to meet sharp increases in export demand. Further, the size of Chinese textile industry is nearly three times that of India (China also hits quota ceilings) and its apparel exports are larger by even bigger factor\textsuperscript{99}.
3.5.2 Impact of Quota Removal on India

The end of MFA quotas is likely to result in significantly faster growth in India’s exports of cotton-based textiles and apparel. India’s fundamental cost competitiveness in cotton-based textiles and its large share of exports destined for the historically quota-constrained U.S. and EU markets support prospects for significant export growth even without major reforms in the domestic textile industry. Growth in export-based cotton demand would, however, be substantially higher with implementation of measures to boost investment and improve technology, scale, and integration in the weaving, finishing, and apparel sectors to levels of efficiency achieved by China and other major producers. The recent trend in government policy has been to reform the sector, but the pace of reform can be expected to be slowed by political concerns with the adjustment costs associated with restructuring an industry that accounts for a large share of industrial employment.

India has the agronomic potential to meet much, if not all, of its future growth in cotton demand domestically. However, it is unclear if and when the necessary productivity gains will be achieved. The advent of BT cotton, which appears to be yield enhancing and is being adopted rapidly, should lead to significant gains in production in the medium term. The combination of erratic moisture conditions in rain fed producing areas and weak institutions for delivery of seed, technology, and other inputs seem equally likely to slow the pace of productivity growth. In addition, meeting rising demand for quality cotton—particularly contamination-free cotton—will require changes in the cotton supply chain that are unlikely to be implemented quickly.

To the extent that textile and apparel exporters, such as India, can meet rising export demand with domestically produced cotton, the elimination of MFA quotas is likely to lead to diminished prospects for net cotton exporters, such as the United States. Recent increase in yield in India, due in part to BT technology,
may signal slower growth in cotton imports in the medium term as the technology is more widely adopted. However, the quality needs of India’s export-oriented textile firms will be likely to sustain a market for quality cotton for the foreseeable future. Market shares for the Indian cotton market appear to be sensitive to both price and quality. U.S. cotton, with a reputation for consistent quality, can maintain its market share provided it remains price competitive

A wind of change has been blowing over the Indian garment sector in particular with the end of the quota era. Slowly but surely it is changing the entire economic scenario. Delicensing, Deregularisation and decontrol have increased the sphere of competition. The globalisation of Indian economy has made it easy for capital and technology from abroad to enter the country. Indian companies at the small and middle level have already begun to feel the crunch. Mergers and take-over are on the increase. As more capital and technology flow in, Indian companies will face even more stiff competition. The question being asked is: will they be able to face the challenge or go down under competition by the multinationals and their surrogates who have far greater resources of finance, technology and skilled manpower and have the capacity to diversify and restructure themselves?

India’s path to global integration in textiles and apparel differs from the path of its proximate competitors, in that it occurred without significant FDI, or entry into regional Free Trade Agreements (such as NAFTA) or deep insertion into dominant global clothing supply chains. Rather, at the vanguard of India’s growing global presence are a tier of highly competitive domestic firms that were able to restructure themselves during the deregulation of the textile and apparel industry in the mid-1980s (which first triggered export growth in Indian apparel, as distinct from the trade liberalization of the early 1990s), and build new ties with buyers and suppliers at home and abroad in the late 1980s and early 1990s. The
external sector reforms of 1991 deepened this process of integration that began in the mid-1980s.

Experts argue that the same legacies that resulted in India's slow integration into the global textile and apparel market, have also, inadvertently produced legacies that could, if nurtured well, move the Indian apparel industry towards a higher value-added, design-intensive path of upgrading and adjustment—in addition to scaling up. This emerging pattern resembles the experience of countries like Italy and Hong Kong more than it resembles the experience of other major apparel exporters who, like India, have low wages and low production costs and concomitant factor endowments.102

3.6 MICHAEL PORTER'S THEORY OF COMPETITIVENESS

The theory of comparative advantage assumes that technology is freely available to all countries and firms which operate on the same production function. Countries will settle on the appropriate capital/ labour ratio in accordance with their factor price ratios determined by relative endowments of labour and capital, shifting effortlessly along the production function as these ratios change. There is assumed to be no problem in assimilating technology from developed countries; no adaptations are required and alternatives are available for all factor price combinations. All firms remain equally efficient and firm specific learning is unnecessary. Such traditional approaches to technology assume that innovation (movements of the production frontier rather than along it) is a completely distinct activity from mastering technology or adapting it to different conditions (the only admissible country differences are capital/ labour ratios).

In practice with imperfect knowledge productivity may differ among firms in the same industry. Technological knowledge is not easily transferred between firms. Technologies are skillful so they require learning. Firms will not be
operating on the same production function. Simply ‘getting prices right’ may be insufficient for countries to compete internationally. Neo-classical economics assumes that innovation takes place in advanced countries and learning in LDC’s is no more difficult than selecting the most appropriate among them. There is actually less difference between innovation in developed countries and industrialisation based on learning already commercialised technology. “The First Industrial Revolution in Britain, toward the end of the eighteenth century, and the Second Industrial Revolution notes that the number of export-oriented RMG factories in Bangladesh exploded after the single firm Desh proved it was a profitable proposition at the end of the 1970s, by 1985 there were 700 such firms.

Germany and the United States, approximately 100 years later, shared the distinction of generating new products and processes. By contrast, economies that did not begin industrialisation until about the twentieth century tended to generate neither, their products nor processes being based on older technology. Economies commencing industrialisation in the twentieth century transformed their productive structures and raised their incomes per capita on the basis of borrowed technology.

Technology is tacit and to effectively master it extensive experience in use is necessary. Learning-by-doing may imply a lengthy and unpredictable period of losses as firms learn and adapt technology to make it more appropriate to developing country conditions. In theory private capital markets could fund firms through the period of learning. In practice uncertainty, risk and illiquidity mean private capital will be reluctant. This is especially relevant when economies are industrialising and the economy is undergoing profound structural changes where past history is a poor guide to the future in evaluating investment and lending decisions. Investment in learning by one entrepreneur in discovering a commercial niche that can be profitably exploited is likely to lead to rapid imitation. Learning
is an investment, the returns to which cannot be fully appropriated, entrepreneurs in LDC’s face similar problems to innovators in developed countries. While neoclassical economics subscribes to the need for patent protection to generate an incentive for innovation it advocates complete freedom of market entry in all other scenarios. Learning is likely then to be under-supplied so profits/rents that reward and motivate learning may lead to a more dynamically efficient economy even if they are a sign of resource mis-allocation according to considerations of static/allocative efficiency.

These various market failures may generate a need for intervention in both factor and product markets to direct resources to particular activities and prompt the economy up a high road to competition. Such trade protection or export subsidies do not discriminate between innovators and imitators. Export subsidies could be good at discriminating between successful and unsuccessful performers ex-post. Providing subsidies or government credit contingent on exporting can allow policy makers to discriminate between firms.

The failure of infant industries protected from international competition to become dynamic and resting instead in pleasant lethargy on guaranteed profits is an often cited example. There are important pre-conditions for rents to promote learning. Rents must be allocated in a contingent manner, withdrawn from those firms failing to learn, export or reduce costs. The bureaucracy must be competent enough to allocate rent ex-ante to potentially dynamic capitalists or ex-post strong enough to withdraw them from failing capitalists. The relation of the state to various classes is important. To the capitalist class in order to enforce discipline, and ensure rents are contingent on the states desired performance criteria. The relation of the state to other non-capitalist classes must be such that they don’t mobilise and dissipate efficient rents towards non-productive areas.
3.6.1 Building Competitiveness through Clusters

Let's begin with a definition. One that is generally accepted comes from Michael Porter, who wrote: 'A cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field linked by commonalities and complementarities'. Clusters encompass an array of linked industries and other entities important to competition, including governmental and other institutions – such as universities, standard setting agencies, think tanks, vocational training providers and trade associations.

Clusters transform and stabilize industry and, indeed, agriculture. They create an environment that supports competitive positioning by the individual firm, particularly small and medium-sized enterprises (SMEs). At the same time, they reinforce inter-firm relationships and cooperation (i.e. they increase 'social capital'), thereby further raising competitiveness of not just the individual firm but, potentially, all firms in the cluster. They facilitate exchange of technical and commercial information and experience. They facilitate contact with suppliers and customers, and provide an ongoing rationale for joint marketing and sourcing initiatives. Similarly, they concentrate firm-level demand for support services, which, in turn, attracts relevant service providers to join the cluster, to orient their services to the cluster's specific needs, and to deliver their services more efficiently. They stimulate and consolidate research relevant to the needs of both individual cluster members and the cluster as a whole. They act as a magnet to professionals and skilled labour.

Simply stated, clusters produce more than the sum of their parts. They create synergies that translate into greater competitiveness, at the firm and cluster levels. They lead not only to improved export performance in terms of sales, but to improvements in terms of value-retention and value-addition.
Michael Porter’s “The Competitive Advantage of Nations (1990)” represented a major advance in the cluster concept in that it provided a common language, and a framework for linking firm-level and national-level competitiveness. Contrary to the view of many national planners that strategy should promote a diversified economy, Porter advocated specialization. In his ‘diamond model’, the proposition is that four sets of inter-related forces determine competitiveness and that these forces are strongest within the parameters of a specialized industry cluster.

**EXHIBIT – 5**

**MICHAEL PORTER’S DIAMOND**

**Factor conditions (Inputs)**
- High quality, specialised inputs available to firms:
  - Nature of resources
  - Human Resources
  - Capital Resources
  - Physical Infrastructure
  - Administrative Infrastructure

**Context for Firm Strategy and Rivalry**
- A local context and rules that encourage investment & sustained upgrading

**Demand Conditions**
- A core of sophisticated & demanding local customer(s)
- Unusual local demand in specialized segments that can be served nationally and globally

**Related and Supporting Industries**
- Access to capable, locally based suppliers & firms in related fields
- Presence of cluster
Within the context of any given sector's 'value chain', clusters provide the focus that is needed for enterprises, governments and institutions to align their efforts to specific competitiveness, value-addition, retention, and export performance targets.

As indicated above, enterprises, when part of a cluster, can 'save' effort and widen commercial prospects by taking advantage of the opportunities to access market information more expeditiously, obtain specialized inputs/technical support more easily, cost-effectively, participate in 'consortiums' to fulfill large orders, leverage market development, promotional expenses, group shipments to minimize transportation costs, share costs for ISO certification, and so on. In short, clusters enable a firm to pursue new efficiencies and to retain additional value within its own value chain.

As importantly, governments can improve the effectiveness of their support to a given sector's value chain by promoting the development, and organizing their assistance around, clusters. This is particularly relevant given that WTO rules now require the elimination of fiscal incentives, which in many countries had represented the key instrument of support to the export community. Now the emphasis of government support must be on trade facilitation, infrastructure development, the provision of qualitative trade support services and related non-financial incentives. Tailoring such support to meet cluster requirements not only ensures greater alignment and coordination, but also facilitates monitoring and impact assessment (two critical aspects of effective management of national export strategy).

Similarly, individual trade support organizations, either public or private, can customize their services specifically to the cluster's needs and export ambitions. Financial tools can be refined. Educational curricula can be adapted.
Information services can be streamlined. Consulting and business development companies can adjust the 'knowledge' trade to the specifics of the cluster. Indeed, looking at the 'big picture', clustering can effectively address directly the development dimension of national export strategy through its direct influence on skill acquisition, employment creation, regional development and other objectives associated with the national development agenda.

In summary, a cluster-based export strategy can build strong and competitive regional economies within the country, while concurrently achieving economic, social and commercial objectives at the national level.

3.7 EVOLUTION OF TIRUPUR KNITWEAR CLUSTER

In 1985, knitwear exported directly from Tirupur, a small, drought-affected town in the southern Indian state of Tamil Nadu, amounted to U$4 million. Business consisted primarily of producing for the local market and for exporters in Mumbai and other major Indian cities. In 1990, a group of local businessmen got together to initiate what was to become one of the world’s most successful industry clusters. By 2004, Tirupur’s direct export of garments had reached U$1.2 billion. Direct employment within the cluster had reached 300,000. The export target for 2007 has been set at U$2.5 billion.

The evolution of the Tirupur knitwear cluster represents a good case-in-point. Prior to 1985, Tirupur’s knitwear value chain was characterized by low value production, low value-addition and low value-retention. There was limited, and mostly informal, interaction among firms. Linkages were weak between suppliers and buyers.
The creation in 1990 of the Tirupur Exporters' Association (TEA) was the first real step in creating the cluster. The association's original objective was to advocate in favour of a reduction of government regulations and export controls that hampered the export development effort. The impact of TEA's initial efforts to forge cooperation among producers extended, however, far beyond this immediate objective.

By the end of 2004, the value of exports had risen from the 1990 level of US$100 million to US$1.2 billion. Investments had not only increased the cluster's capacity to produce at high quality standards, but had raised the efficiency of production, and substantially increased the level of value-retention. The number of garment-makers increased to more than 2,500 and the number of exporters from around 50 in 1990 to 500 in 2005. The average size of firm grew from a capacity of 50,000 garments/month and 50 employees, to 200,000 garments/month and 150 employees. Direct export, rather than through agents, became standard practice.
Networks of local out-sources (jobbers) were established to increase the cluster’s flexibility.109

EXHIBIT - 7
THE TIRUPUR CLUSTER'S VALUE CHAIN – 2005
HIGHER VALUE, GREATER VALUE ADDITION
& MORE VALUE RETENTION

Cotton Growing → Ginning → Yarn Spinning → Circular Knitting → Wet processing → Dry Processing → Garment making → Garment finishing

Foreign Buyer → Overseas Shipping → Cleaning → Exporting → Packaging/Packing → Marketing

Growth in garment making also triggered a parallel expansion within supply and service industries (e.g. yarn spinning, bleaching, dyeing, compacting, mercerising and printing) Local spinning and dyeing capacity increased by 5 and 20 times respectively as garment-makers invested in their own facilities and specialized facilities were set up.

To reduce hassles associated with customs clearance of export garments, and to save time, minimize pilferage and damage to packing and reduce transport costs, TEA set up an inland container terminal. To ensure that the increasing demand for specialized skills was met, professional and vocational training facilities were established (including a fashion design institute). To accommodate contact between cluster members and the increasing number of international buyers visiting Tirupur, a trade fair complex was constructed.

At present TEA lent its own financing, sources to build up an exclusive knitwear manufacturing complex. It launched a major water supply and sewage programme with extensive support from Central and State Governments to meet
not only the cluster’s own growth requirements, but demand for water within the entire community of Tirupur. To further increase output and efficiencies, a new, world-class industrial park, capable of accommodating 60 garment enterprises, was commissioned, with financing organized directly by TEA.

Consideration is being given to establishing a physical market presence (a distribution warehouse) in Europe, to be followed by a similar facility in the United States of America. In addition, a strategy is being worked out to establish the ‘Tirupur’ brand to reinforce market awareness, penetration and enhance the overall value of the Tirupur cluster’s product.

EXHIBIT - 8
THE TIRUPUR CLUSTER’S FUTURE VALUE CHAIN
HIGHER VALUE, GREATER VALUE-ADDITION, MORE VALUE-RETENTION & DIRECT CHANNEL MANAGEMENT

Possibly the key differentiating feature of the Tirupur cluster is that, unlike the vast majority of cluster initiatives in developing countries, its evolution was, and continues to be, led and exclusively managed by the private sector. It was only in 1992, after the first results of trade liberalisation were achieved, that the central and State governments became involved by voluntarily offering subsidies and incentives to units in the cluster (a practice that is no longer acceptable under
WTO rules), and by joining in the financing of the water supply and sewage scheme. There is, undoubtedly, a lesson or two to be learned here.

3.8 TEXTILE POLICY OF INDIAN GOVERNMENT

In November 2000, the Government of India came out with a new textile policy (refer following figure) that outlines the direction of policy reforms to be followed in the near term. The steps outlined in the policy are geared mainly towards removing the bias in policy towards the small-scale sector and promoting modernisation.

Textile policy, introduced by Government of India, in operation from 1.4.1999 to 31.3.2004 with no cap on funding, softer interest rates for modernisation in cotton ginning, pressing and spinning; silk reeling and twisting; synthetic filament yarn texturising, crimping and twisting; manufacture of viscose filament yarn/viscose staple fiber; weaving, knitting including non-woven, technical textiles; garments/madeups; and jute industry.

In the Union Budget for 2001 - 02, the Government announced the following steps aimed at removing the policy tilt towards the small-scale sector:

- Customs duty on import of shuttle-less looms was reduced;
- Budget provision was raised for automatic looms under TUFS;
- Higher depreciation rate was allowed for those availing TUFS for automatic looms;
- Budget provision was raised for Cotton Technology Mission;
- Scheme for setting up Integrated Apparel Parks was initiated;
- Budget allocation for Ministry of Textiles was raised from Rs. 4.57 billion in 2000-01 to Rs. 6.50 billion in 2001-02;
Reforms in Labour Laws were announced -- minimum employee limit for an industrial establishment coming under Industrial Disputes Act was increased to 1,000; and 16 percent excise duty was imposed on garments.

The Union Budget for 2002-03 carried forward the exercise of reforms and announced the following steps:

- Excise duty exemption on hank yarn was abolished. However, handlooms that purchase hank yarn could claim subsidy for the hank yarn purchased;
- Excise duty on processed fabrics (other than industrial fabrics), made-ups and garments was reduced from 16 percent to 12 percent;
- Producers of grey fabrics were given an option to pay excise duty. Independent processors were allowed to claim exemption from excise duty only for three processes, namely scouring, hydro extraction and Calendering, (as against 12 for cotton fabrics, seven for man-made fabrics);
- The compounded levy scheme for independent power processors was abolished;
- Garments manufactured from handloom fabrics were exempted from excise duty; and
- Excise duty on automatic shuttle-less looms, specified processing machinery, specified jute machinery and specified silk reeling, weaving and twisting machinery was also removed. The customs duty on specified silk reeling, weaving and twisting machinery was also reduced from 25 percent to 10 percent.

The Union Budget for 2003-04 also carried forward the exercise of reforms and announced the following steps:
• Reduction in excise duty on polyester filament yarn (PFY) from 32 percent to 24 percent. However, a 1 percent national calamity contingent duty on pervious financial year was imposed.
• Reduction in excise duty on all spun and other filament yarns from 16 percent to 12 percent
• Reduction in excise duty on all knitted cotton fabrics and garments from 12 percent to 8 percent
• Reduction in excise duty on all woven fabrics and other knitted fabrics from 12 percent to 10 percent
• Reduction in excise duty on garments from 12 percent to 10 percent
• Withdrawal of excise exemption on all knitted and unprocessed woven fabrics
• Completion of Cenvat chain and removal of deemed credit
• Excise exemption to hand-processed fabrics to be provided only if no power or steam is used in any process.
• No change with regard to existing excise exemptions on handloom fabrics, silk, khadi and polyester.
• Reduction in basic customs duty on paraxylene (PX) from 10 percent to 5 percent
• Reduction in basic customs duty on apparel grade raw wool from 15 percent to 5 percent
• Reduction in customs duty on a large number of textile machinery and their parts from 25 percent to 5 percent
• For strengthening the power loom sector, the following measures have been proposed:
• Technology Upgradation Fund Scheme to cover modernisation of power looms as well
• To create a better working environment and increase productivity of the units, a new powerloom work shed scheme has been proposed. Further, to improve infrastructure at the powerloom clusters, a Textile Sector Infrastructure Development Scheme has been proposed.

• All powerloom workers are proposed to be covered under the special insurance scheme entailing insurance cover against death, accident and disability.

• A mechanism for restructuring the debt portfolios of viable and potentially viable units is being devised.

The Union Budget for 2004-05 also carried forward the exercise of reforms and announced the following steps:

• Modification of Cenvat: The Cenvat Scheme was made optional. Levy of excise duty on pure cotton, wool and silk, whether it is fiber, yarn, fabric or garment was made optional.

• Blended textiles and pure non-cotton (polyester, viscose, acrylic and nylon) to have a different tax regime. However, excise duty on manmade fibers and filament yarns only (including texturised yarns) continues to be mandatory.

• It was proposed that every manufacturer—be it handloom powerloom or composite mill avail the option to choose between two routes. One will be the exemption route and the other will be the Cenvat route. Under the exemption route, no excise duty will be payable at any stage (except on Industry Comment the Indian Textiles & Clothing Industry, man-made fiber and filament yarn). Under the Cenvat route, credit can be taken for all excise duties paid at earlier stages. For the pure cotton sector, the uniform rate will be 4 percent on yarn, fabrics, garments and made-ups. For the
blended textiles sector and pure non-cotton sector, the uniform rate will be 8 percent.

• The additional excise duty of 15 percent on textiles was also abolished. Further reduction in customs duty on capital imports for textile and garment making machinery from 20 percent to 5 percent. Parts imported for manufacture of such machines to attract a customs duty also of 5 percent. Customs duty on specified machinery for silk textile industry has also been reduced from 10 percent to 5 percent\textsuperscript{110}.

The Union Budget for 2005-06 also carried forward the exercise of reforms and announced the following steps:

• Continuation of Technology Upgradation Fund Scheme with enhanced allocation of Rs 4.35 billion with additional benefits of 10 percent capital subsidy for the textile processing sector.

• For production and marketing of handlooms, the Government has initiated cluster development approach.

• 2 million handloom weavers would get life insurance cover of Rs 50,000. Health insurance package would be extended to 0.2 million weavers up from earlier 0.02 million.

• Knitwear sector to be removed from the list of products that are reserved for small scale sector.

• Customs duty on textile machinery to be reduced from 20 percent to 10 percent.

• Customs duty on fibers, yarns, intermediates, fabrics and garments to be reduced from 20 percent to 15 percent.

• A counter vailing duty of 4 percent to be levied on all goods to compensate for state level taxes, mainly VAT of 4 percent.
• Cut in excise duty on polyester partially oriented yarn/polyester filament yarn from 24 percent to 16 percent.
• Polyester Texturisers to come under optional Cenvat scheme of 8 percent in lieu of 24 percent duty earlier (on Previous Financial Year).
• Corporate tax rate to be reduced from 35 percent to 30 percent with a surcharge of 10 percent.
• Depreciation rate on plant and machinery to be reduced to 15 percent instead of earlier 25 percent

With the removal of the protectionist bias in favour of the small-scale sector, the long-term impact of the reforms on the industry is expected to be significantly positive. With textiles trade coming under the ambit of the World Trade Organisation (WTO), an inefficient weaving sector could have posed a serious problem for the Indian textiles industry. The policies drawn up to encourage investments in installing modern weaving machinery as well as the removal of policy measures that have hitherto protected the decentralised sector, are expected to provide a boost to the textiles sector as a whole. The removal of the SSI reservation for the woven apparel business in 2000 and for knitted apparel in 2005 could significantly affect India's clothing sector. These reforms allow the formation of larger scale firms and permit investment in the more capital-intensive production systems used to produce some apparel items.

Two government schemes, Apparel Parks for Exports (APE) and the Textile Center Infrastructure Development Scheme (TCIDS), now provide firms with incentives to establish themselves in apparel export zones. Economies can be achieved in these zones with the formation of geographic clusters of textile firms specializing in the various aspects of production. To encourage development of export parks, the Government exempts firms from some labor regulations and provides them with concessions on land purchases, credit, and taxes. Although
established long before the introduction of the APE scheme, one such geographic cluster in Tirupur, Tamil Nadu, has captured scale economies that have enhanced India’s competitiveness in knitwear. Tirupur now supplies 35-40 percent of India’s knitwear exports and has helped India achieve a dominant position in this export market.

The Union Budget for 2006-07 also carried forward the exercise of reforms and announced the following steps:

Accession of World Textile Trade to WTO framework to increase competition amongst developing countries. Primitive technology, low Scale and low level of integration in the Indian textile industry. Bias against manmade fibers.

i) Initiatives

Customs duty on man-made fibers, filaments yarns and spun yarns has been proposed to be reduced from 15 percent to 10 percent. Customs duty on textiles fabrics and garments has been proposed to be reduced from 15 percent to 12.5 percent. Additional duty of customs of 4 percent against the sales tax paid on domestic purchases. A fund of Rs 1.89 billion has been proposed for Integrated Textiles Parks. Additional 100 clusters proposed to be covered under the scheme of handloom cluster development. For effective cluster development, it has been proposed to constitute an Empowered Group of Ministers who will lay down the policy for cluster development and oversee their implementation.

ii) Impact

The Budget 2006-07 has carried forward the process and continuation of technology upgradation fund, integrated textile parks and decline in customs duty on capital inputs which are aimed at improving competitiveness of Indian textile industry. The reduction in excise and customs duty on man-made fibres and yarns is likely to result in improvement in price competitiveness and thereby improving
demand. The impact of reduction in customs duties on yarns and cloth and imposition of additional duty is likely to be limited as the profits of this segment (cotton and blended yarn producers, fabric producers and garment producers) come mainly from the export market\textsuperscript{111}.

The Union Budget Proposal \textit{2007-08} (ICRA rating feature)

- TUFS to continue during the 11th Five Year Plan. Provision for TUFS increased from Rs. 535 crore in 2006-07 to Rs. 911 crore in 2007-08
- Budgetary allocation under Scheme for Integrated Textile Parks (SITP) increased from Rs. 189 crore in 2005-06 to Rs. 425 crore in 2007-08
- Customs duty on DMT, PTA, MEG, polyester staple fibres and tow, polyester filament yarns and polyester chips reduced from 10 percent to 7.5 percent

\textbf{i) Impact}

Extension of TUFS deadline and increased allocation is positive for the sector. Investment in the sector picked up significantly in 2005 following dismantling of quota restrictions. A reduction in customs duty to benefit man made fiber yarn industry where the raw material price has linkages to the petroleum prices\textsuperscript{112}.

\textbf{3.9 INDIAN FOREIGN TRADE POLICY SINCE LIBERALISATION OF QUOTA ERA}

The Foreign Trade Policy for 2005-2006, designed by the Ministry of Commerce and Industry\textsuperscript{113} highlights that coherence and consistency among trade and other economic policies is important for maximizing the contribution of such policies to development.
3.9.1 The Foreign Trade Policy is built around two major objectives:

i) To double India’s percentage share of global merchandise trade by 2009; and

ii) To act as an effective instrument of economic growth by giving a thrust to employment generation.

These objectives are proposed to be achieved by adopting, among others, the following strategies:

• Removing controls and creating an atmosphere of trust and transparency;
• Simplifying procedures and bringing down transaction costs;
• Neutralizing incidence of all levies and duties on inputs used in export products
• Identifying and nurturing different special focus areas (agriculture, handlooms, handicraft, gems & jewellery, leather and footwear).

3.9.2 Available funding schemes

The two main Export Promotion Schemes of the Ministry of Industry and Commerce are:

i) Market Access Initiative (MAI): this scheme uses a 'focus product – focus country' approach, developing specific strategies for specific markets and products through market studies/surveys.

ii) Market Development Assistance (MDA): this scheme supports export promotion activities abroad\(^{114}\).

Support under these schemes is provided to exporters on a decreasing basis, normally via the Export Promotion Councils. Business plans are required only for certain activities. For both schemes, the level of assistance depends also on the export country and product. The table below reviews the main export promotion schemes, including specific measures for units exporting all of their production.
3.10 ROLE OF GOVERNMENT AND PRIVATE SECTOR ASSOCIATIONS AND THEIR COORDINATION

The Department of Commerce in the Ministry of Commerce and Industry has the mandate to formulate policies in the sphere of foreign trade, especially the import and export policy of the country.

Several public or semi-public organizations and institutions are connected with the provision of export-related services, in particular:

i) Indian Trade Promotion Organisation (ITPO): a public sector undertaking, the premier trade promotion agency of India.

ii) Indian Institute of Foreign Trade (IIFT): engaged in training of personnel, market and marketing research, area surveys, commodity surveys, market surveys and dissemination of information.

iii) Export Promotion Councils (EPC): The 20 Export Promotion Councils are organized on a sector basis and perform both advisory and executive functions. They are also the registering authorities under the Export Import Policy. One of their main tasks is to organize missions abroad. However, the results of such visits often do not meet the expectations of members, who hesitate in joining the business delegations of EPC's. Their functions have been recently reviewed.

iv) Federation of Indian Export Organisation (FIEO): The FIEO is an apex body of various export promotion organisations and institutions. It acts as a central co-ordinating agency for export consultancy services.

v) Two advisory bodies, The Board of Trade and the Export Promotion Board, on which the various concerned ministries are represented, advise the Ministry of Commerce on policy measures.
The Government consults regularly with the private sector when drafting trade policies. The latest Foreign Trade Policy (2005-2006) calls for the revitalization of the Board of Trade and an enhanced role for the Indian embassies in the export strategy. The partnership with the private sector is to be enhanced.

3.11 MAIN EXPORT INDUSTRIES

After witnessing an impressive growth in 2002-03, export growth continued to maintain momentum during the year 2004-05. According to provisional data for April-January 2004-05, exports stood at US $ 60.754 million, a growth of 25.6 percent.

During April-October 2004, there was a significant increase in the exports of processed food, meat and meat products, ores, minerals, leather, gems, jewellery, chemicals, chemical allied products, engineering goods, electronic goods, project goods, textiles, carpets, raw cotton and petroleum products. Exports of commodities like floriculture products, sports goods, handicrafts and silk carpets declined during this period.

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</tr>
</thead>
<tbody>
<tr>
<td>Engineering products</td>
<td>10516.45</td>
<td>14587.37</td>
<td>38.71</td>
<td>18.41</td>
</tr>
<tr>
<td>Gems and jewellery</td>
<td>10573.38</td>
<td>13705.44</td>
<td>29.62</td>
<td>17.29</td>
</tr>
<tr>
<td>Chemicals and related products</td>
<td>9960.12</td>
<td>12677.21</td>
<td>27.28</td>
<td>16.00</td>
</tr>
<tr>
<td>Textiles</td>
<td>12204.71</td>
<td>12017.46</td>
<td>-1.53</td>
<td>15.16</td>
</tr>
</tbody>
</table>

Exports by small scale industries (SSIs) have shown excellent growth rates during 1990-2000. While SSI production at constant prices went up by less than 8
percent between 2001-02 and 2002-03, exports rose by 20.7 percent. In 2000-2001, direct exports from the SSI sector accounted for 35 percent of the country’s total direct exports. Besides direct exports, it is estimated that SSIs contribute around 15 percent to exports indirectly. This takes place through merchant exporters, trading houses and export houses, or in the form of export orders from large units or the production of parts and components for finished exportable goods. The product groups where the SSI sector dominates in exports are sports goods, readymade garments, woolen garments, knitwear, plastic products, processed food and leather products.

**TABLE – 3.2**

**MAIN EXPORT PROMOTION SCHEMES / MEASURES**

<table>
<thead>
<tr>
<th>Type of Scheme</th>
<th>Characteristic</th>
<th>Sector</th>
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<tbody>
<tr>
<td>Market Access Initiative</td>
<td>Co financing of export promotion activities on focus country - Focus product’ approach</td>
<td>All Sector</td>
</tr>
<tr>
<td>Market Development Assitances</td>
<td>Co financing of export promotion activities</td>
<td>All Sector</td>
</tr>
</tbody>
</table>
| Measures for Export Oriented unit      | 1. Exemption from service tax in production to the export goods and services Thorny 
2. Retain 100 percent of export earning in EEFC(Exchange Earner Foreign Currency) account All Sector |
|                                        | 3. Income tax benefits on plant and machinery                                 | All Sector                  |
|                                        | 4. Import of capital goods on self-certification basis                        | All Sector                  |
|                                        | 5. Left-over materials and fabrics up to 2 percent of CIF value or quantity of import can be disposed of on payment of duty on transaction value only Textile and Garment |
|                                        | 6. Minimum investment criteria shall not apply                               | Brass, Hard ware, Jewellery, handicrafts, agriculture, floriculture, aquaculture, animal husbandry, IT & services sector |
| Status Holders                         | Status holders who achieve a strong growth in exports are entitled to a higher duty-free credits | All Sector                  |
| Export Promotion of Capital Goods (EPCGs) | Additional flexibility has been introduced for fulfillment of export obligation under EPCGs | Capital Goods               |
| Import of Secondary Capital Goods      | Import Permitted without age restriction. Minimum depreciation of plant & machinery to be relocated to India has been reduced | Capital Goods               |
| Duty Entitlement Pass Book             | Licence issued to exporter once they received                               | All Sector                  |
The Indian textile industry is going to play a significant role in the domestic and international arena in post quota free market. The Government of India (GOI) has forecast an ambition target of total textile exports of USD one hundred fifty billion by 2010. To sustain this growth, it is important that the textile industry should produce goods of high quality at reasonable prices. This aim could not be achieved unless effective government policies and promotion measures support this noble cause. The following analysis part discusses in detail on various export promotional measures initiated by government of India and exporters opinion on its applicability.

The Government of India (GOI) has encouraged the Indian textile industry to upgrade its manufacturing technologies and to remain competitive globally. The TUF became operational from April 1999, with the objective of facilitating the upgrading of the textile sector to face international competition under the World Trade Organisation (WTO) regime, effective from 1st January, 2005. In addition, the Government of India (GOI) offers incentives such as import duty waivers for the import of production machinery under its Export Promotion Capital Goods (EPCG) scheme.

The Government of India (GOI) has also recently reduced import duties to as low as five percent on several textile machinery. The major concern of the textile machinery industry relates to the lopsided import duty structure, which is tilted heavily in favour of import of complete machinery as against imports of sub
assemblies for such machinery. The liberal second hand machinery import policy has also affected the fortunes of this industry.

The following topics have stated a detailed description on export promotion measure available for Tirupur knitwear exports.

In order to encourage upgrading of textiles sector and to give a fillip to export of textile products, some of the important initiatives taken are as follows:

i) Announcement of New Textile Policy

One of the main objectives of the New Textile Policy (NT XP – 2000) announced in November 2000 is to facilitate the textile industry to attain and sustain a pre-eminent global standing in manufacture and export of clothing. This policy endeavours to achieve the target of textile and apparel exports from the present level to US $ 50 billion by 2010, of which the share of garments will be US $ 25 billion. Subsequent to the announcement of NT XP – 2000, woven segment of readymade garment sector has been de-reserved from SSI and the announcement has been made for de-reservation of knitwear from SSI.

ii) Technology Up-gradation Fund Scheme

In view of the urgent need for stepping up the process of modernization and technology upgradation of the textile industry in India, Ministry of Textiles launched a Technology Upgradation Fund Scheme (TUFS) for the textile and jute industry for a five years time frame w.e.f. 01.04.199 to 31.03.2004, providing for 5 percent interest of reimbursement in respect of loans availed there from the concerned financial institutions for investments in benchmarked technology for the sectors of the Indian textile industries specified there under. An amount of Rs. 7148.89 crore involving 2634 applications has been sanctioned up to 29th February 2004. Out of which, an amount of Rs. 5129.81 crore stands disbursed to 2227 applicants.
iii) Liberalisation of FDI Policy

Government has allowed foreign equity participation up to 100 percent. Through automatic route, in the textile sector with the only exception in knitwear/knitting sector which is still reserved for SSI. The SSI investment limit for the knitwear/knitting sector has been increased from Rs. 1 crore to Rs. 5 crore with effect from 9th October, 2001.

iv) Export Promotion Capital Goods (EPCG) Scheme

The scheme facilitates import of capital goods at 5 percent concessional rate of duty with appropriate export obligation. Import of second hand capital goods is allowed under the EXIM Policy as announced on 31.03.2003.

v) Advance Licensing Scheme

With a view to facilitating exports and to access duty-free inputs under the scheme, standard input-output norms for about 300 textiles and clothing export products have been prescribed and this scheme remained under operation.

vi) Duty Exemption Pass Book (DEPB) Scheme

DEPB credit rates have been prescribed for 82 textiles and clothing products. The nomenclature and rates for DEPB entries pertaining to certain textile products have been rationalized.

vii) Duty Drawback Scheme

The exporters are allowed refund of the excise and import duty suffered on raw materials under the scheme so as to make the products more competitive in the international market. Changes in all industry Drawback Rates for year 2003-04 were last revised on 29.01.2004, which came into effect from 09.02.2004. These changes were effected consequent to the reduction in Basic customs duty from 25 percent to 20 percent and abolition of SAD (Special Additional Duty).
viii) Construction of Apparel International Mart

Apparel Export Promotion Council is constructing an Apparel international Mart at Gurgaon with assistance from Government. For this purpose a grant of Rs. 15 crore was released during the year 2001-02 and Rs. 30 crore has been released during the year 2003-04. The total area of the plot is 5 acres and it is proposed to build an Apparel International Mart (AIM) Complex and 250-300 showrooms, which will be allotted to the exporters. This will provide a world class facility to the apparel exporters to make a show of their products and will serve as one stop shop for reputed international buyers. The work for construction of apparel mart is in progress.

ix) Setting up of Modern Laboratories

The Ministry of Textiles has assisted the Textile Committee in setting up of modern textile laboratories to ensure that the textiles exported from the country meet all international environmental standards.

x) Apparel Park for Exports Scheme

A centrally sponsored scheme titled “Apparel parks for Exports Scheme” has been launched. The scheme is intended to impart focussed thrust to setting up of apparel manufacturing units of international standards at potential growth centers and to give fillip to exports. Since the inception of scheme in March 2002, eleven project proposals have been sanctioned for setting up Apparel parks at Tronica City in Kanpur (U.P), Surat (Gujarat), Tiruvanathapuram (Kerala), Visakhapatnam (Andhra Pradesh), Ludhiana (Punjab), Bangalore (Karnataka), Tirupur & Kanchipuram (Tamil Nadu), SEZ, Indore (Madhya Pradesh) and Mahal (Jaipur, Rajasthan).
The textile and garment sectors have a lot to look up in this budget. Expected to drum up record exports for the country, the sector hopes to derive maximum brownie points, this time.

**XI) Board for Industrial and Financial Reconstruction (BIFR)**

To tackle the problem of industrial sickness in general, (including textiles) a Board for Industrial and Financial Reconstruction (BIFR) was established under the Sick Industrial Companies (Special Provisions) Act, 1985.

**XII) Technology Mission on Cotton (TMC)**

In order to improve the production, productivity and quality of cotton in the country by bringing the entire gamut of Research and Development, Marketing and processing of cotton under one umbrella through a mission approach, Government of India has launched Rs.600 crore Technology Mission on Cotton (TMC) in February, 2000. The mission consists of 4 Mini-Missions (MM) with specific objectives of:

- **MM I** - Research
- **MM II** - Dissemination of Technology to farmers
- **MM III** - Improvement in marketing infrastructure; and
- **MM IV** - Modernisation of ginning and pressing factories.

Ministry of Agriculture (MOA) administers the first two MMs and the Ministry of Textiles, the last two MMs. As on March 2004, 109 market yards and 380 ginning & pressing factories have been taken up for modernisation under Mini Missions III & IV.

**XIII) Textile Workers Rehabilitation Fund Scheme**

To give economic relief to the workers rendered jobless due to the permanent closure of textile mills (partial closure of mills also included by a
subsequent amendment of the scheme), the Government had created the Textile Workers' Rehabilitation Fund Scheme in pursuance of the Textile Policy of June, 1985. Under this scheme, the workers whose wage was up to Rs. 3,500 per month or less are given as relief on a graded scale for three years immediately after their retrenchment from employment. Earlier, this wage limit was up to Rs. 2,500 per month before 05.02.2002. Till 31.03.2004, Rs. 164.84 crore was disbursed to 72,460 workers\textsuperscript{116}.

3.13 CONCLUSION

The chapter has dealt with the concept of liberalisation of Indian economy, its growth and development since 1991, impact of WTO's trade liberalisation policy on world textile and clothing industry, as well as on Indian garment industry. The chapter has substantially drawn the reference of Prof. Michael Porter's theory on competitiveness of industry and its impact on cluster development. This theorem has influenced researcher to analyse the Regional competitiveness of Indian clothing exporters with Asia's major exporters and competitiveness of Tirupur knitwear sector among the other regional competitors within India, which is dealt in the next chapter. The last portion of study focused on the Textile related policies and the various export promotion measures since the liberalisation of Indian economy in 1991.
REFERENCES