CHAPTER 1

INTRODUCTION
CHAPTER I

INTRODUCTION

The economical prosperity of a country depends to a large extent on its quantum of international trade. "In the recent past, there has been turbulent situations on the international economic front, reflecting the uncertainties which posed a serious threat to the national economy and the Balance of payment position of the nation". 1 The Balance of payment crisis has brought the foreign exchange level of the country to its nadir. "The trade deficit of the nation, at the late 80s and early 90s was growing in alarming proportion" 2 and it needed a suitable strategy to boost India's export performance.

"Burgeoning trade deficit portrays a dismal trade scenario for India, during the fiscal year 1992-93. The Country's external trade deficit mounted to a staggering Rs.7484.91 crores. This coupled with galloping import growth and a slower increase in export is certainly a cause for sluggish economic development and the

resultant adverse Balance of payment position".  

The confederation of Indian Industry has estimated that the trade deficit is expected to be 6.1 Billion dollars in 1992-93, the same frightening level, which brought India to the brink of external bankruptcy in 1991-92.

India's overall exports have continued to grow at 5.37% in dollar terms during the first six months of current financial year (1992-93) while imports surged at 22.29%. "Exports showed a growth of 38.7% while import grew at 51.37% This evidently shows that there is a widening gap between export and import in India".  

There are many factors attributed to the growing trade deficit, "To mention, a few of them are growing protectionist tendencies, invocation of more and more anti-dumping laws by the developed countries, economic slump in the erstwhile Soviet Union, high domestic inflationary pressures, faster growth of imports triggered by liberalisation of Indian economy, high cost of export credit etc".  

---


5 Ibid., p.47.
Past trends in the trade balance indicate that export growth leads to larger import growth and thus trade deficit grows. It would need a great deal of effort and sound macro-economic management, to ensure that there is export growth without a corresponding growth in imports. Unless high growth in exports could be maintained with a modest growth in imports, the export projections would go wrong and BOP situation would worsen. Therefore, it is inevitable that efforts should be made to encourage exports and to ensure the greater export momentum by creating a more conducive environment.

"Export promotion and Import substitution strategies continue to be the need of the hour".  

"Small scale leather garment, textile garment and software export industries are the forerunners in the foreign exchange earnings and their share in augmenting export revenue to the Govt. is noteworthy", due to the fact that:

1. All these goods enjoy adequate share in the export market of India.


2. They are value added items, as a result of which the chance of burging foreign exchange resources are abundant.

3. Since the goods are indigenously made their import commitment is minimum. Hence these sectors are considered to be major export revenue earners to the exchequer.

A study becomes immanent to identify the problems and prospects of these industries to throw light not only on the performance of these industries but also to suggest ways to improve their performance.

Statement of the Problem

The Government of India has started realising the importance of Export Market right from the early 80s and devised new export promotion strategies to augment its export and to overcome the BOP crisis, through the liberalised schemes, strategies and policies of the Government announced at different intervals.

Increased attention has been given to the development of small scale leather garment, textile garment and software export industries by the Government of India due to their dominating share in the export trade. No doubt, the attempt of the Government seems to
have produced significant results yet, there are reasons afflicting export prospects of these industries, which can be brought to fore through this study. It is contented that Finance, Modernisation, Mobility of skilled manpower, Cargo transport are some of the key factors which greatly affect the smooth functioning of both leather garment and textile garment industries. As a result, their export potentials are likely to be disturbed. Apart from this, availability of uniform quality leather and to keep pace with the growing shift in the technology and marketing are posing hindrance to leather and software export industries. Despite the continued efforts of the Central and State Governments to promote these industries, there are certain problems posing threat to these industries which are yet to be removed. Adoption of sound export promotion practices may help these industries to minimise the problems and provide faster growth.

In view of this burging problem a serious attempt has been made to identify the factors crippling the export potentials of the select industries.

(The present study has been undertaken with the following objectives: )
Objectives

The main purpose of the study is to examine the factors that affect the small scale leather garment, textile garment and software industries export prospects in Tamil Nadu. The specific objectives are:

1. To ascertain the significant contribution made by small scale export units in Tamil Nadu.
2. To evaluate the strategies adopted by the Government towards export promotion of SSI units.
3. To review the status and identify the problems of small-scale leather garment export units in Tamil Nadu.
4. To review the status and identify the problems of small-scale textile garment export units in Tamil Nadu.
5. To review the status and identify the problems of small-scale software export units in Tamil Nadu.
6. To give summary of findings of the study and to offer suggestions for their future development.

Hypotheses

The study attempts to test the following hypotheses viz.
1. There is a direct relationship between the Export value and the size of the investments of the sample industries.

2. Problems faced by these industries are uniform irrespective of their nature of organisation.

3. There is an increasing trend in the export turnover of the sample industries and their share in the export market is also increasing.

METHODOLOGY

Sampling

The primary data for the study was collected from 150 sample units, drawn from the States of Tamil Nadu comprising districts like Madras, Chengai M.G.R. & North Arcot Ambedkar District. The list of small scale Exporters and their Export trends published by the respective promotion Councils constituted the sample frame for this study. The respondents of the sample group were selected at random from the above.

The primary data for the study was collected through a interview Schedule. The exporters of the small scale leather garment, textile garment and software industries constituted the sample respondents for the study. A total of 150 respondents were
contacted personally by the researcher for the purpose of collecting necessary data. Out of which 130 Schedules were made use of for the ultimate analysis. The remaining schedules were discarded due to non-availability of the complete information or other reasons.

While selecting sample respondents 130 units were chosen from all types of export units. Madras, Chengai M.G.R. and North Arcot Ambedkar Districts in Tamil Nadu are chosen for collecting the necessary data, since in these districts only, small scale leather garment, textile garment and software export units are clustered.

Data Collection

This is an analytical study and the responses from a sample group of leather garment, textile garment and software exporters constitute the primary data. Apart from the primary data, the secondary data, also were made use of, in the present study. For instance, the reports and the publications of the various institutions such as Leather Export promotion Council, Madras, Apparel Export Promotion Council - Madras, South Indian Chamber of Commerce, Hindustan Chambers of Commerce, FIEO (Federation of Indian Exporters Organisation) Central Leather Research Institute, Madras

Besides, informations were also collected through the personal enquiry and discussion with the authorities of Export Promotion Councils, S.I.S.I., Commercial Banks extending loans and advances to Small Scale Exporters, office bearers of All India Small Scale Exporters Association, Tamil Nadu Small Scale Exporter's Association Joint Chief Controller of Exports and Imports. All these were duly considered and formed the basis for the subsequent analysis and interpretation.

Statistical Tools

The data was analysed by using statistical tools like correlation technique, Chi-Square test and the multiple regression analysis. Besides these, Graphs and simple percentages etc., are also used to explain and substantiate the data.

Scope of the Study

The identified sector is well set for the rapid growth in the 1990s and the policy measures adopted by the Government have started paying rich dividends. The Export of leather and leather Goods have crossed Rs. 25,000 million, of which leather garments alone
accounted for 26%. Textile is the fastest growing sector in World Textile trade registering a world wide annual growth rate of around 10%. Indian Garment exports have been growing at over 30%. The growth has been spectacular in Tamil Nadu accounting for 70% increase during 1992. Software exports earns more foreign exchange for the country compared to hardware, during the past four years. Software exports registered an annual growth rate of 21% in the last four years. Concentration on these industries provides the following benefits in addition to their sizable share in the Export earnings.

1. Better use of available national resources.
2. Increased overall level of technological development.
4. Reduction of Unemployment.
5. Mobilising scarce foreign exchange and ensuring a sound national economy.

Significance of the Export Trade

In view of the burgeoning trade deficit, it becomes necessary to mobilise and encourage export trade continuously.
"Indeed the growth of export trade is considered as an important indicator of the country's economic development". Subramanya, S., *Foreign Trade and India's Export Policy*, Deep and Deep Publications, New Delhi, (1986), p.28.
Export Trade and its Trade Deficit

India's export trade position is exhibited in the table 1.1.

**TABLE 1.1**

**INDIA'S FOREIGN TRADE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Percentage Variation</th>
<th>Imports</th>
<th>Percentage Variation</th>
<th>Balance of trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986-87</td>
<td>12451.95</td>
<td>+ 14.3</td>
<td>20095.76</td>
<td>+ 2.2</td>
<td>- 7643.81</td>
</tr>
<tr>
<td>1987-88</td>
<td>15673.66</td>
<td>+ 25.9</td>
<td>22243.74</td>
<td>+10.7</td>
<td>- 6570.08</td>
</tr>
<tr>
<td>1988-89</td>
<td>20231.50</td>
<td>+ 29.1</td>
<td>28235.22</td>
<td>+26.9</td>
<td>- 8003.72</td>
</tr>
<tr>
<td>1989-90</td>
<td>27681.47</td>
<td>+ 36.8</td>
<td>35451.90</td>
<td>+25.4</td>
<td>- 7734.43</td>
</tr>
<tr>
<td>1990-91</td>
<td>32553.34</td>
<td>+ 17.6</td>
<td>43192.86</td>
<td>+22.0</td>
<td>-10639.52</td>
</tr>
</tbody>
</table>

Source: DGCI & S, Calcutta.

The Table 1.1 discloses the export and import trade positions clearly and the growth of trade deficit from Rs.7643 crores in 1986-87 to 10,639 crores in 1990-91.

**Small Sector's Major Role**

"The number of small-scale units is provisionally estimated to have gone up from 19.48 lakh in 1990-91 to 20.80 lakh in 1991-92 - 14.96 lakh registered units on
the rolls of the State Industries Departments and 5.84 lakh unregistered units—registering an increase of about 6.8%.⁹ 40% of these registered units might be non-functional.

The value of output of the SSI sector in 1991-92 at current prices is estimated at Rs. 1,78,700 crores, about 15% higher than the output of Rs. 1,55,340 crores in 1990-91. Adjusted for inflation, the real growth of output of the sector in 1991-92 might be less than 2%. "Estimated employment in the sector has also increased from 125.3 lakhs in 1990-91 to 128.8 lakhs in 1991-92, an increase of about 3%".¹⁰

The growth of the sector in 1991-92 was inspite of a number of constraints like import restrictions affecting the availability of requisite raw materials, credit squeeze and a rise in interest rates leading to severe erosion of the industry position of the SSI units, according to the Economic Survey (1993-94).

The second all-India census of registered small-scale industrial units was conducted by the Small

---

⁹ Mittal, M.M., "Small Scale Industry: Recent Developments and its Implications CITI NEWS, Published by Chamber of Indian Trade and Industry, New Delhi, March 93, Vol.7, No.2, pp.3 & 5.

¹⁰ Ibid., p.6.
Industries Development Organisation (SIDO) in 1987-88 and its results have been published. They show that, out of 9.87 lakh registered SSI units as on March 31, 1988, included in the frame, 3.05 lakhs units which constituted about 31% of the total registered units were closed and another 57,000 units were not traceable. Out of 5.82 lakh working units for which data were tabulated 96.2% were SSI units, 3.2% small service establishments and 0.5% ancillary units.

Some of the important structural ratios and coefficients derived from the results of the two SSI censuses of 1972 and 1977-78 are contrasted with the corresponding ratios and coefficients derived from the summary results of the Annual Survey of Industries (ASI) 1987-88 as shown by table 1.2.
**TABLE 1.2**

RESULTS OF SSI CENSUS AND ASI

<table>
<thead>
<tr>
<th>Ratio / Coefficient</th>
<th>SSI Census</th>
<th>ASI 1987-88 Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1972</td>
<td>1987-88</td>
</tr>
<tr>
<td>Fixed investment per unit (Rs.lakh)</td>
<td>0.76</td>
<td>1.60</td>
</tr>
<tr>
<td>Investment in plant and machinery</td>
<td>0.38</td>
<td>0.95</td>
</tr>
<tr>
<td>per unit (original value) (Rs.lakh)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment per unit (number)</td>
<td>12.00</td>
<td>6.29</td>
</tr>
<tr>
<td>Value of output per unit (Rs.lakh)</td>
<td>1.86</td>
<td>7.38</td>
</tr>
<tr>
<td>Fixed investment per employees(Rs.000)</td>
<td>6.38</td>
<td>25.36</td>
</tr>
<tr>
<td>Value of output per employee (Rs.000)</td>
<td>15.75</td>
<td>117.22</td>
</tr>
<tr>
<td>Net value added per employee (Rs.000)</td>
<td>5.10</td>
<td>27.99</td>
</tr>
<tr>
<td>Wages paid per employee (Rs.000)</td>
<td>1.56</td>
<td>6.27</td>
</tr>
<tr>
<td>Value of output/investment in fixed assets</td>
<td>2.47</td>
<td>4.62</td>
</tr>
<tr>
<td>Net value added/investment in fixed assets</td>
<td>0.32</td>
<td>1.10</td>
</tr>
</tbody>
</table>


The census results provide the much-needed data base for the SSI sector. Findings of the census also give empirical support to the generally accepted hypotheses about the distinct characteristics of the SSI sector compared with those of the large and medium sector, namely, lower capital base, lower capital labour ratio, lower productivity of labour and higher productivity of capital and lower wage rates.
Leather Garment

"The leather industry, with its substantial contribution to the employment and export growth, occupies a pre-eminent place in the Indian economy. Total employment in the industry is estimated to be about 1.4 million". 11 Since the 1970s there has been a steady structural change taking place in leather industry. On the export front, there was a gradual switch-over from semi-finished hides and skins to finished leather and leather manufacturers which account for over 70% of leather exports now.

"A number of policy initiatives have been taken by the Government in recent years to encourage value-added exports of leather product". 12 To discourage the export of finished leather, a 5% export duty was levied on it in the Budget for 1992-93. Duty-free imports of raw hides and skins, chrome tanned, crust and finished bovine leather have been allowed without any import licences.

Further skill and capacity upgradation is constrained to some extent by entry barriers against

---

large-scale units in major segments of the industry. Another constraint is the excessive import dependence of the industry for many critical components, raw materials, chemicals and machinery. Lack of finance, Modernisation, Skilled manpower mobility, non-availability of uniform Quality leather, cargo transport and absence of a good brand image and weakness in export marketing strategies are the other factors which have limited the growth of leather industry.

Exports of leather in value terms at current prices increased from Rs.2,578 crores in 1990-91 to Rs.3,076 crores in 1991-92, recording an increase of about 19%. "India is still a small player with a meagre 3% share in the global exports of leather and leather products. Germany (32%), the US (20%), the former USSR (17%), the UK (17%) and Italy (14%) were the five leading buyers of our leather and leather goods in 1991-92".13 Leather industry has been identified as one of the thrust areas of export and an export target of Rs. 4,253 crores has been set for 1992-93.

Textile Garment

Textile Garment Industry with its substantial contribution to employment and export growth, occupies

pre-eminent place in the Indian economy. "The industry which started with modest beginnings of Rs. 436 crores in 1980, grew many folds reaching a level of Rs. 8,000 crores in '92 recording an increase of 48%. As a net foreign exchange earner, this industry made its mark contributing to almost 15% of the total export from India.

Further, this Industry is constrained to some extent by lack of finance, technological sophistication, manpower mobility and cargo transport etc. Absence of good brand image and weakness in export marketing strategies are the other factors which have limited growth of textile readymade garment industry.

Software

Software market has grown tremendously over the last one decade, which is closely associated with the growth of the computer industry. "The revenues of the software industry register a compound growth rate of 21% in the last four years. The software export value reached Rs.330 crores in 1991 compared to Rs.34 crores in 1985 indicates a spectacular growth in the sector".  

---


Recent Developments and its Implications

Small Scale Industry is a vital component of Indian Industry. Its growth, in terms of number of units, investment, employment, output and exports, is consistent and spectacular. SSI sector has been contributing significantly to industrial production, export promotion and employment. All these are evidenced in Table 1.3, which is shown below.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total No. of units (Lakh No.)</th>
<th>Employment (Lakh No.)</th>
<th>Investment (Rs. Cr.)</th>
<th>Production (Rs. Crore, Current Prices)</th>
<th>Exports (Rs. Crore)</th>
<th>% Share to total Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>4.16</td>
<td>39.7</td>
<td>2,296</td>
<td>7,200</td>
<td>393</td>
<td>15.6</td>
</tr>
<tr>
<td>1974-75</td>
<td>4.98</td>
<td>40.4</td>
<td>2,697</td>
<td>9,200</td>
<td>541</td>
<td>16.3</td>
</tr>
<tr>
<td>1975-76</td>
<td>5.46</td>
<td>45.9</td>
<td>3,204</td>
<td>10,100</td>
<td>532</td>
<td>13.2</td>
</tr>
<tr>
<td>1976-77</td>
<td>5.92</td>
<td>49.8</td>
<td>3,553</td>
<td>12,400</td>
<td>766</td>
<td>14.9</td>
</tr>
<tr>
<td>1977-78</td>
<td>6.70</td>
<td>54.8</td>
<td>3,959</td>
<td>14,300</td>
<td>845</td>
<td>15.6</td>
</tr>
<tr>
<td>1978-79</td>
<td>7.34</td>
<td>63.8</td>
<td>4,431</td>
<td>15,790</td>
<td>1,069</td>
<td>18.7</td>
</tr>
<tr>
<td>1979-80</td>
<td>8.05</td>
<td>67.0</td>
<td>5,540</td>
<td>21,635</td>
<td>1,226</td>
<td>19.1</td>
</tr>
<tr>
<td>1980-81</td>
<td>8.74</td>
<td>71.0</td>
<td>5,850</td>
<td>28,060</td>
<td>1,643</td>
<td>24.5</td>
</tr>
<tr>
<td>1981-82</td>
<td>9.62</td>
<td>75.0</td>
<td>6,280</td>
<td>32,600</td>
<td>2,071</td>
<td>26.5</td>
</tr>
<tr>
<td>1982-83</td>
<td>10.59</td>
<td>79.0</td>
<td>6,800</td>
<td>35,000</td>
<td>2,045</td>
<td>23.2</td>
</tr>
<tr>
<td>1983-84</td>
<td>11.58</td>
<td>84.2</td>
<td>7,630</td>
<td>41,260</td>
<td>2,164</td>
<td>22.1</td>
</tr>
<tr>
<td>1984-85</td>
<td>12.42</td>
<td>90.0</td>
<td>8,380</td>
<td>50,520</td>
<td>2,553</td>
<td>21.7</td>
</tr>
<tr>
<td>Year</td>
<td>Total No. of units</td>
<td>Employment (Lakh No.)</td>
<td>Investment (Rs. Cr.)</td>
<td>Production Current Prices (Rs. Crore)</td>
<td>Exports Rs. Crore</td>
<td>% Share to total Exports</td>
</tr>
<tr>
<td>---------</td>
<td>--------------------</td>
<td>-----------------------</td>
<td>----------------------</td>
<td>---------------------------------------</td>
<td>------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>1985-86</td>
<td>13.55</td>
<td>96.0</td>
<td>9,585</td>
<td>61,228</td>
<td>2,785</td>
<td>25.6</td>
</tr>
<tr>
<td>1986-87</td>
<td>14.64</td>
<td>101.4</td>
<td>10,881</td>
<td>72,250</td>
<td>3,631</td>
<td>29.2</td>
</tr>
<tr>
<td>1987-88</td>
<td>15.86</td>
<td>107.0</td>
<td>12,610</td>
<td>87,300</td>
<td>4,535</td>
<td>28.9</td>
</tr>
<tr>
<td>1988-89</td>
<td>17.12</td>
<td>113.0</td>
<td>15,229</td>
<td>106,400</td>
<td>5,490</td>
<td>27.0</td>
</tr>
<tr>
<td>1989-90</td>
<td>18.26</td>
<td>119.6</td>
<td>18.196</td>
<td>132,320</td>
<td>7,628</td>
<td>27.6</td>
</tr>
<tr>
<td>1990-91</td>
<td>19.48</td>
<td>125.3</td>
<td>-</td>
<td>160,000</td>
<td>9,664</td>
<td>-</td>
</tr>
<tr>
<td>1991-92</td>
<td>20.80</td>
<td>129.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Industrial Herald, January 1993, P.15
Table 1.3 discloses that percentage share to the total exports increased to 27.6% in 1991-92 from 15.6% in 1973-74 with the active co-operation of SSI Units. The table 1.3 also reveals that some of the encouraging parallels that is employment generation from SSI sector increased to 130 lakhs in 1991-92 compared to 40 lakhs in 1973-74. Production value from SSI sector also increased to Rs.1,60,000 crores in 1991-92 compared to Rs.7,200 crores in 1973-74.

**Future Prospects**

In Korea and Japan small business has entered the export market in a big way, in India it has a long way to go. The Indian small fries find it tough to compete with the multinational sharks.

The stalemate stems from its basic handicap. From its very inception Indian trade policy has not given much thought to products. This is because there is no knowledge within the small business circles about the opportunities available abroad. In many cases this gap has been filled by the merchant exporter, who utilises his knowledge of both sides to reap a rich harvest for himself alone.
In all other cases, lack of supporting export service and complex export procedures have discouraged small businessmen from entering the world market.

Attaining Globalisation through international competitiveness is a primary objective of India. Obviously, the industrial sector has been assigned a major role in achieving this objective. The realisation of this objective should result in accelerated growth of Industrial Exports. Naturally, leadership for the mission of "Acceleration of Exports" has been found in SSI. Therefore, in the process of economic reforms, government should give sufficient importance to the improvement of investment climate for SSI. Changes have to be introduced in labour laws to free SSI from bureaucratic controls. It is the need of the hour to strengthen and develop the inherent ability of SSI especially for the above mentioned sample industries to contribute to industrial production, export promotion and employment generation.

Export promotion and Import substitution are the twin needs of the hour which should be canalised effectively through encouraging Small-Scale Exporters.
Period of Study

The present study covers a period of five years viz. 1987-88 to 1991-92.

Limitations

The present study suffers from the following limitations.

1. The study is confined to the State of Tamil Nadu covering three districts Viz., Madras, Chengai M.G.R. and North Arcot Ambedkar District. Among the Exporters of these districts, only small scale leather garment, textile garment and software exporters alone have constituted the sample for the study.

2. This study does not cover D.G.T.D. export units in the field.

3. The study concentrates on the problem-side excluding production and marketing dimensions due to time and cost constraints.

4. Another limitation is that of period which restricted to five years viz., 1987-88 to 1991-92.
Chapter I deals with introductory part of the study covering objectives, Hypotheses, Methodology and Sampling. Scope and limitations of the study.

Chapter II reviews the export, import policies of the various periods, steps taken by the Government, for its development and role of various promotional Agencies.

Chapter III focuses on the Export trend of small scale leather garment industries in Tamil Nadu. Apart from reviewing their situation, the growth dominance in these sectors is also examined. Besides, small scale leather garment exporters and their problems relating to finance, modernisation, skilled manpower, availability of uniform quality leather and Cargo Transport with appropriate statistical tools were also analysed.

Chapter IV examines the export trend of small scale textile garment export units in Tamil Nadu and their problems relating to finance, modernisation skilled manpower and Cargo Transport with necessary tools.
Chapter V assesses the export trends of software industries in Tamil Nadu, besides analysing their problems relating to marketing, shift in the technology and skilled manpower mobility with necessary tools.

Chapter VI Summarises the conclusions and findings of the study and offers suggestions for future development thereof.