CHAPTER IV
DISCUSSIONS:

(A) EXPORT OF READYMADE GARMENTS:

It was the year 1978 when Indian garment exports entered the international market by exporting garments worth US$ 0.08 million. Today with the sheer determination, innovation and with active cooperation from the Government the exports of ready-made Garments had reached a figure of US$5.2 billion in 1998-99. The garment industry has been evolving over the years. India's share in world exports has increased perceptibly. Readymade garments account for approximately 46% of the country's total textile exports. They represent value added and less import intensive sub sector. Exports of garments from India have been chronicled from the year 1980 in the initial years, exports were routed mainly to U.S.A. In those years, Indian exporters had set up offices in U.S.A, which were manned by their relatives who either were settled in U.S.A. or had crossed the borders. The initial volume of exports was not large enough to attract the attention of the US domestic industry. The pace of growth was also gradual until 1988, thereafter, growth picked up fast. The US government recognized the challenge of Indian exports since 1983 when it controlled imports from India of
cotton shirts and trousers. This was later extending to cover additional items of garments with the net spread wider to cover synthetic garments as well. The USA was joined by eight other countries of west Europe (EU) on a similar mission to restrict imports from India. By 1988, exports of cotton and synthetic garments from India were well truly restricted by EU and USA. The Government of India entered into an agreement with the governments of importing countries laying down basic levels, annual increases with provision for carry forward to the succeeding years of unutilized quantities and bringing forward to the existing year, quantities from the succeeding year depending upon demand and supply but only up to levels stipulated in the agreement. The basic tenet was free and orderly flow of trade. The Government of India insisted that the quotas would be monitored from India and not by the importing countries. This was accepted in principle. Although the quotas were meant to ensure free and orderly flow of trade, they created serious distortions in the pattern of production in India. A large part of production was diverted into the manufacture of such restricted varieties under the mistaken belief that marketing costs for such garments was almost negligible. The end-result being over-production of such garments which were not backed adequately by available quotas even after adjustments were made for bringing forward of quotas.
Although the quotas were meant to ensure free and orderly flow of trade, they created serious distortions in the pattern of production in India. A large part of production was diverted into the manufacture of such restricted varieties under the mistaken belief that marketing costs for such garments was almost negligible. The end-result was over-production of such garments which were not backed adequately by available quotas even after adjustments were made for bringing forward of quotas. The distribution of quotas by the Government of India also left much to be desired with result that a thriving open market for quotas came into being. Traditional exporters found it difficult to meet the needs of their overseas buyers. As a result, several satellite firms were set up to maximizing quota availability. This development was not unknown to overseas buyers. In spite of these attempts several situation arose where exporters would have orders on hand but no quotas to service them, at the same time there were exporters who had quotas but their production facilities were not large enough to utilize them. Depending on demand quota premiums for certain categories rose steeply giving to rise third party shipments. Quite often exporters starved of quotas had to reluctantly request their buyers to share the quota premium with prices being adjusted in other categories where quotas were available. Where such adjustments were not possible, their standing buyers would agree to share the premium but since this would
result in a cut in their profits, they were on a look out for supplier where such sharing was not called for. In either case, India stood to lose either by an artificial depression in prices of its products or by an outright loss of the buyer to other supplying countries. Alarmed at this turn of events, Government of India encouraged exporters to divert their attention to markets that did not restrict garments from India. This had a salutary effect on exports Indian garments particularly after 1990, when exports of UN restricted items to quota countries as well as exports of garments to non-quota countries outpaced those of restricted items to quota countries. By the year 2000, export of restricted items to quota countries fell to almost 45% of total volume of garment exports from a level of around 60% earlier.

Table below gives exports of garments from India by volume and value for restricted categories as well as to non-restricted countries/categories. We observe that there has been a steady growth in exports to non-quota countries.
**Table:** Export of Ready-made Garments from India in Million Pcs. & Rs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total exports</th>
<th>Non – quota</th>
<th>Quota Countries/ Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M.pcs M.Rs</td>
<td>M.pcs M.Rs</td>
<td>M.pcs M.Rs</td>
</tr>
<tr>
<td>1993</td>
<td>665</td>
<td>300</td>
<td>365</td>
</tr>
<tr>
<td></td>
<td>53581</td>
<td>309632</td>
<td>22619</td>
</tr>
<tr>
<td>2004-05</td>
<td>1543</td>
<td>810</td>
<td>733</td>
</tr>
<tr>
<td></td>
<td>277713</td>
<td>165086</td>
<td>112627</td>
</tr>
</tbody>
</table>

Table below gives the same information but in terms of percentage. We observe that there has been a steady growth in exports to non-quota countries however; year 1993 and 2004 reflects the growth in quota countries. It is imperative to note that the first stage of MFA phasing off took place on 1.1.1995 hereby confirming the world that genuine efforts are being made to create a more congenial trade environment.

**Table:** Comparison between the export shares of non-quota-to-quota countries

<table>
<thead>
<tr>
<th>Year</th>
<th>Total exports Quota countries/ Share to Categories</th>
<th>Share to exports</th>
<th>Quota %</th>
<th>Non-quota %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M.pcs.M.Rs.</td>
<td>M.pcs.M.Rs</td>
<td>% quota</td>
<td>Non-quota</td>
</tr>
<tr>
<td>1993-94</td>
<td>665</td>
<td>53581</td>
<td>22619</td>
<td>54.88</td>
</tr>
<tr>
<td>2004-05</td>
<td>1543</td>
<td>165086</td>
<td>112627</td>
<td>54.68</td>
</tr>
</tbody>
</table>
Table below reflects the growth in exports to non-quota countries from 1993 due to an increasing number of categories coming under the quota regime. The period saw the highest growth in the non-quota regime. The period saw the highest growth in the non-quota sector. However 2004-05 witnessed a balanced growth in both the sectors.

**Table:** Yearly growth in value of exports of garment from India

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Quota Categories</th>
<th>Non-quota countries/categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>18.31</td>
<td>10.51</td>
<td>-----</td>
</tr>
<tr>
<td>2004-05</td>
<td>10.61</td>
<td>10.13</td>
<td>11.27</td>
</tr>
</tbody>
</table>

Table below gives us the details of exports of readymade garments from India from financial year 1993-94 with the targets fixed by the Ministry of textiles and the achieved level.

**Table:** Details of export, target & achievement

(Value in lakh US$ & Rs)

<table>
<thead>
<tr>
<th>FINANCIAL YEAR</th>
<th>TARGET FIXED LAKH US$</th>
<th>ACHIEVEMENT LAKH US$</th>
<th>% ACHIEVEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>27070</td>
<td>30649</td>
<td>113.22</td>
</tr>
<tr>
<td></td>
<td>Lakh Rs</td>
<td>(877963)</td>
<td></td>
</tr>
<tr>
<td>2003-2004</td>
<td>60000</td>
<td>47694</td>
<td>79.49</td>
</tr>
<tr>
<td></td>
<td>Lakh Rs</td>
<td>(2303535)</td>
<td></td>
</tr>
</tbody>
</table>
Analytical Interpretation:

The graphs show the year-wise growth of exports in the quota countries and comparison between the export shares of non-quota to quota countries. It can be seen that the exports to quota countries had been outpaced by non-quota countries. Major non-quota markets for Indian garments were and continue to be UAE, Saudi Arabia, Japan, Asia, Canary Island, Central Africa and South Africa in Asia Africa region; CIS in Eastern Europe; Switzerland in west Europe; Chile and Panama. Republic in America; and Australia in Oceania region. These together accounts for 70 to 75% of the volume of exports to non-quota countries only.

India's share in world textile that stagnated around 2.1% throughout the 80's and enhanced to 3% in 1999 against Republic of Korea whose share increased sharply from 4% in 1980 to 7.9% in 1999. Nineties saw unshackling of Indian and Turkish textile exports. The 1990-99 growth report rates in US$ terms place India (10%) ahead of Republic of Korea (7%), Taipei (7%), Pakistan (6%), China (7%) and

Hong Kong/China (5%). It was only Turkey that could match India's growth figure of 10%. On the garments front, Indian share increased faster from 1.5% in 1980 to 2.65% in 1999 against China, which rose
from 4% in 1980 to 16.2% in 1999. Here India was way behind its other competitors like Mexico (33%), Bangladesh (25%), US (14%), China (13%) and Turkey (8%). Thus we see that in the remaining period of quota regime India faces stiffer competition on the garments front compared to textiles. RMG had recorded an annual export growth of 16.95% in 2003-2004. The year 2002, was a year of mixed fortunes for the Indian textile and clothing industry.

In general, textiles fared better than clothing in 2002 after a poor year for both sectors in 2001. The clothing sector responded rather slowly to the improved economic climate. Exports in Jan-Aug. 2002 were down in both volume and value compared with the equivalent period of 2001, the number of garments exported fell by about 5% to 860.7 mn items while export earnings dropped by about 6% to US$3,047 MN. However the year 2002 ended with a happy note as the growth picked up to 5% despite the fact that major part of the year was affected by the onslaught of 9/11. The year 2003 saw double digit growth and the trend has continued to 2004. The growth rate registered in March 2005 was 20% and exports to Canada and EU have shown substantial growth.
(B) **MAJOR SHORTCOMINGS:**

1) Quality awareness:

Our share of the global trade is far below the potential that exist in India. There is no doubt that the garment industry has made tremendous progress in the recent past however on the quality front it has not kept pace with the international developments. It has been realized only of late that quality has value which can be expressed in monetary terms. In rapidly growing international trade, quality has assumed added importance. Poor quality not only results in loss of national image in the international market place, but also acts as a serious impediment in the way of further enhancing trade.

2) Raw material:

Generally Indian Garment Industry is neither aware of value of quality nor various parameters that contribute to it. This is manifested in their purchase decision wherein the industry procures raw material paying scant or no attention to the quality of fabric vis-à-vis its texture finish, colour fastness or draping characteristics. Pricing rather than its impact on the overall product quality and the overall economy of production is being sidelined and concern being that of high pricing. Oblivious to aspects of timely deliveries and its relation to customer satisfaction,
garment industry willingly accepts delays in receipt of raw materials and displays its lack of awareness to quality.

3) Small sector concentration:

Cotton fabric plays an important and dominant role in the Indian garment industry. By its very nature cotton garments find market for only limited times on account of climatic reasons, besides the industry mostly small scale is not capable of economies of scale for want of resources. Global market requirements are for large orders in few designs to be delivered at short notices because of changing fashion trends and weather conditions. The later the order is placed the more close it is to fashion as fashion scenario changes very fast. Further, every buyer would also prefer to operate on reduced levels of inventory and therefore delivery period demanded are sharp and short. The garment industry in the absence of sound management systems doctored to address such situations and also on account of there being small in size is unable to meet these requirements on a continuing basis.
4) Different processes:

A specific feature of our industry is the special operations the material undergoes during its production, which required specialized and professional handling. Another aspect, which it has to overcome, is its disadvantages of being small. The small-scale industry tends to achieve economics of scale by accepting large orders and subsequently subcontract the same work operations to achieve the desired quantum of output. Several subcontractors doing the same work can be a quality nightmare, as this would directly inject greater variation into the system and its output leading to inconsistencies in operations as also in final product quality, not to mention the additional cost of rejections.

5) Customer care:

Understanding of customer needs is an early step towards achieving quality. In fact it is better to start addressing quality after identifying the customers' needs and requirements. Today what counts is not marketing what the industry can produce but quality manufacturing and marketing what the customers' want. On account of cultural differences, differing perceptions, lack of quality awareness, Indian industry finds itself on a difficult spot. Short term profits dictate the garment industry to
respond with commitments to the market for the fear of losing clients, but without analyzing its capabilities of understanding the customers fast changing needs and its potential to meet those expectations. It finds itself unequipped to handle the fast changing needs and short time delivery schedules. As a result, customer needs do not get the desired focus and quality suffers.

6) Absence of competition in domestic market:

India has blessed with a large and expanding domestic market and production barely manages to come close to the demand. Consequently, in this seller market there has been a dearth of compulsive market forces prompting either the industry of the quality of garment to improve. However with the liberalization of the Indian economy, competitions have started building up in some areas for both domestic and international markets.
(C) GARMENTS EXPORT TO EU AND USA:

Export enhancement is another reason to be optimistic about reaching the target goals:

<table>
<thead>
<tr>
<th>Table: Indian Textile Market Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Apparel</td>
</tr>
<tr>
<td>Textile</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: CRISIL Study, 2004

WTO has predicted that China and India will triple their individual shares of the US clothing market following the lifting of the quotas next year. The study also predicts that the smaller players will not be as adversely affected as believed. The WTO paper on "The global textile and clothing industry post the Agreement on Textiles and Clothing" names India and China as major beneficiaries of quota elimination. Mexico, the Caribbean, Eastern Europe and North Africa are less likely to be affected by competition from China and India than had been predicted in the past. These countries have a location advantage with the EU and US and are likely to be helped by structural shifts in the fashion industry. However, the impact of the end of the 40-year-old quota regime has been heightened by fears of Chinese domination. The study has not only looked at changes in relative prices and cost
competitiveness but has also focused on other factors such as vertical specialization in the clothing sector. Here inputs used in the final product (raw material, accessories etc.) cross border several times so tariff levels are critical. The report says "the outcome of the phasing out of quotas will depend much more on the prevailing tariff rates and the preference margins of countries receiving such preferences than is captured by the conventional estimates. Secondly time to market is of utmost importance particularly in the fashion clothing sector, so countries close to the big consumer market will have comparative advantage. Western consumers now spend less but shop more frequently for ever changing fashions, forcing the industry to adapt production regularly and bring new designs into stores more swiftly. This gives an advantage to exporters that can offer the combination of short delivery times and cost runs. The most likely losers are those located far from the major consumer markets and which have had either tariff and quota free access to the United States and EU markets or which have had non-binding quotas. Local producers in the EU, the United States and Canada are likely to lose as they have enjoyed more than forty years of temporary protection but have headed for a long-term structural decline.
During the MFA period 1993-1997 there was a shift from developed countries to developing countries in clothing, the shift away from developed countries was grabbed by 'preferred' developing countries. Thus in clothing the non preferred group of developing countries are now consolidating their efforts in order to integrate its manufacturing with that of an importing country. This trend is gaining momentum as Outward Processing Trade (OPT) traffic increases. In the year 2000, EU imported US$23.5 billion textiles from extra-EU sources. Of this, US$ billion originated in preferential countries and US$ 11.4 billion in restrained countries. The growing tilt towards imports from preferential suppliers is evident here since the total textile imports during 1990-2000 grew by 2.07%, whereas that from preferential sources grew by 9.25%. Imports from restrained sources grew only by 5.03%. Almost 21% and 49% of textile imports originated in preferential and restrained sources respectively. The share of extra-EU imports as a percentage of intra-EU imports increased from 50% to 73% from 1990 to 2000. This is good news for textile exporters, specially preferential suppliers. In the case of clothing, the tilt towards preferential suppliers is not as strong as in textiles. While the total clothing imports increased by 6% during the decade of 1990s, that from preferential and restrained sources increased by 9% and 4.8% respectively. This is explained by the increasing significance of Outward
Processing Trade (OPT) between EU and its neighboring regions. After understanding the import trends of the two major markets for the Indian garments, we now go through the export figures in terms of quantity and value of the past five years of both these countries. The tables below give us an exact picture of the export growth. In these tables R is used for restricted items, NR for non restricted items, OBA is for items that are outside bilateral trade and GT is for grand total.

Table:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>R Items</td>
<td>Qty.</td>
<td>6798</td>
<td>7198</td>
<td>8084</td>
</tr>
<tr>
<td></td>
<td>V/US$</td>
<td>31785</td>
<td>29474</td>
<td>34039</td>
</tr>
<tr>
<td></td>
<td>Rs.</td>
<td>1454975</td>
<td>1407</td>
<td>1643838</td>
</tr>
<tr>
<td>NR</td>
<td>Qty.</td>
<td>3579</td>
<td>3553</td>
<td>3804</td>
</tr>
<tr>
<td>Items</td>
<td>V/US$</td>
<td>6622</td>
<td>7018</td>
<td>9135</td>
</tr>
<tr>
<td></td>
<td>Rs.</td>
<td>302774</td>
<td>335631</td>
<td>441107</td>
</tr>
<tr>
<td>OBA</td>
<td>Qty.</td>
<td>3419</td>
<td>11772</td>
<td>878</td>
</tr>
<tr>
<td>Items</td>
<td>V/US$</td>
<td>13108</td>
<td>6305</td>
<td>3452</td>
</tr>
<tr>
<td></td>
<td>Rs.</td>
<td>595781</td>
<td>299755</td>
<td>166703</td>
</tr>
<tr>
<td>G.T</td>
<td>Qty.</td>
<td>13766</td>
<td>12523</td>
<td>12766</td>
</tr>
<tr>
<td></td>
<td>V/US$</td>
<td>51515</td>
<td>42797</td>
<td>46626</td>
</tr>
<tr>
<td></td>
<td>Rs.</td>
<td>2353530</td>
<td>2042556</td>
<td>2251738</td>
</tr>
<tr>
<td>%</td>
<td>Qty.</td>
<td>-</td>
<td>-9.03</td>
<td>1.94</td>
</tr>
<tr>
<td>INCR(+)</td>
<td>V/US$</td>
<td>-</td>
<td>-16.92</td>
<td>8.95</td>
</tr>
<tr>
<td>Decr(-)</td>
<td>Rs.</td>
<td>-</td>
<td>-13.21</td>
<td>10.24</td>
</tr>
</tbody>
</table>

Source: CRISIL Study, 2004
The share of extra-EU imports as percentage of intra-EU imports increased from 101% to 170% between 2002-05 and 2004-05. Like in textiles, this is good news for clothing exporters to the EU, specially the preferential suppliers. The high growth of EU imports from its preferential suppliers and the stringent quota constraints on restrained suppliers is more glaring when one looks at the EU import data in quantity terms. For instance, in textiles, whereas the total extra-EU imports grew by 4.6%, that from preferential and restrained suppliers grew by 10.9% and 7.3% respectively. Similar data for clothing is 9.8%, 11.9% and 6% respectively. The quantity restraints are more binding in
clothing than in textiles. Thus, EU's domestic producers are unlikely to retain their existing share in post quota world. Besides, preferential countries took up major portion of the share that the EU vacated. This was a result of bilateral arrangements of these countries with EU, as well as because of quota restriction on restrained suppliers. Despite this, the amount of intra-EU trade which in 2000 was US$ 32 billion and US$ 25 billion in textiles and clothing respectively, is by itself a big market for a country like India whose total textile and clothing exports are in the range of US$ 12-13 billion.

The USA imported 32.9 billion square meter equivalent (sme), worth US$ 71.69 billion of MFA fibers in the year 2000 in terms of MFA fibers. It was the second largest importer of textiles and clothing defined in MFA terms, importing 21% of world import. Out of the total MFA fiber import value, 80% was in the form of apparels and the rest 20% was non-apparel (textiles). Yarn, fabric and made-ups constituted 10%, 39% and 51% of total textile imports for the year. On an average, every sme that the US imported in 2000 was worth US$2.18. (?) US imported US$ 37.17 billion worth cotton fibers, which was 52% of all MFA fibers imported, at a unit value of US$ 2.51. Man-made fibers constituted 39% of all MFA fibers imported and had unit values of US$ 1.61. rest was silk and other vegetable fibers, which constituted 10% of
total MFA fiber imports in 2000. In 2000, the US imported US$ 57.2 billion of apparels with average unit values equal to US$ 3.57 per sme. 56% of these, valued at US$ 32.01 billion were cotton apparels and only 34% were mmf apparels. Less than 10% were apparels made from silk and vegetable fibers. The average unit values of cotton apparels were higher at US$3.64 per sme compared to US$ 2.98 per sme of the previous year.

EU textile and clothing imports fell by a marginal 0.3% in value terms during 2002, according to estimates by Euratex. The decline followed a weakening in import growth in recent years. In 2001 imports grew in value by only 4.5% after rising in 2000 by 10.4%. However the decline in value during 2002 contrasted with a 5.2%, or 314,000 tons, increase in import volume, signifying a marked weakening of average import prices. Where investment in advanced technology has helped to combat import competition, the decrease was confined to textiles. The decline in textile imports also reflects weaker demand for materials for the European clothing industry and more generally reflects the slowdown in economic activity in the EU. According to EIU (Economist Intelligence Unit) real GDP growth in the European Union slowed from 3.5% in 2000 to only 1.5% in 2001 and slowed further to 0.9% later. Reasons for slowdown: Deceleration in private consumption; Fall in the
Euro against the USD; General weakening in unit prices as international competition intensified.

Importers from autonomous countries grew in volume by 3.4% in 2002. These countries include Vietnam and the former USSR–which is now separated into two groupings—the Baltic States and the CIS. Imports from MFA countries rose by 11.3%. Import from the Mediterranean Rim nation like Egypt rose aided by their preferential terms of access to the EU market. Some of the fastest growing countries among the major suppliers were China-up by 34.1% Malaysia-up by 29.4% Hong Kong-up by 14.9% Pakistan-up by 12.7%, Egypt-up by 12.2%, Romania-up by 9.8%, Vietnam-up by 9.8%, Bangladesh-up by 8.7% and Slovakia-up by 8.4%. The future prospects of imports from India will depend upon recovery in domestic demand. In view of the uncertainty after the Iraq war, the EIU does not expect much improvement.

**Table:**

India’s competitive performance in the EU: growth in the last 5 years

<table>
<thead>
<tr>
<th>Product Category</th>
<th>GR of EU Imports</th>
<th>GR of Imports from India</th>
<th>Extra-EU imports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Val</td>
<td>Uvr</td>
<td>Val</td>
</tr>
<tr>
<td>Garments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>45%</td>
<td>16%</td>
<td>30%</td>
</tr>
<tr>
<td>5</td>
<td>42%</td>
<td>36%</td>
<td>56%</td>
</tr>
<tr>
<td>6</td>
<td>48%</td>
<td>3%</td>
<td>48%</td>
</tr>
</tbody>
</table>
Inferences: (a) We infer from the above table that EU's imports of yarns and fabric is on the decline whereas that of made-ups and garments is noticeable. Except category 26 in garments, EU import of all other garment categories have grown quite appreciably in value terms. (b) It's difficult to draw a clear picture in respect of the UVR of total EU imports. All sectors of yarn, fabric, made-ups and garments show a mixed picture. Interestingly, the UVR of synthetic fabrics (cat. 3 and 3a) has grown quite significantly. (c) Thus we see that India has performed reasonably well in the EU in terms both of value and UVR. The leaders are yarn—both cotton and synthetic—and synthetic table linen. It is interesting to note India's good performance in synthetic products (yarn and made-ups) in textiles. Among garments, the leaders are all W&G categories—suits, coats, jackets, and skirts. The products whose exports to EU have been constrained by quotas, and hence gained from 2005 quota dismantling.
US import growth on the clothing side was driven by a 10.9% increase in imports of cotton clothing. Imports of mm clothing grew by only 2.9% and imports of wool clothing actually declined by 12.75 in 2002 the imports continued to be dominated by China. China has surpassed Mexico as the largest supplier of textiles and clothing to the USA. Most of this growth took place in products that were removed from quota on Jan. 1, 2004, in accordance with the ATC. Trade in these products surged by 30.3% in 2004 however, to give due recognition to China’s competency import of products that remained under quota also increased significantly, by 33.0%.

Key Features of the US Import Market:

- Emergency of Vietnam as a major supplier. In 2004 US imports from Vietnam soared by 994.4%. Reasons attributing to such growth are USA granting the MFN status to Vietnam and no quota restrictions applied to Vietnamese goods.

- Mexico being in a much more advantageous position compared to its Asian counterparts because of NAFTA.
• The US textile industry has called upon the Bush administration to reimpose QR’S on products from China that were removed from quota in 2004. These products include knitted fabric, luggage, dressing gowns and brassieres. Restraints can be imposed under the textile safeguard provisions included in China’s Protocol of Accession to the WTO.

• Other countries to make major volume gains in the US import market during 2004 include Pakistan (up 15.9%), Germany (up 20.5%), Cambodia (up 22.1%), Turkey (up 22.6%), India (up 23.6%), South Korea (up 46.9%) and Brazil (up 162.1%).

Table:
Exports to USA

<table>
<thead>
<tr>
<th>Catg.</th>
<th>Details</th>
<th>(QTY. IN LAKH PCS)</th>
<th>(VALUE IN LAKH US$ &amp; Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2001-02</td>
<td>2002-03</td>
</tr>
<tr>
<td>R. Items</td>
<td>Qty.</td>
<td>2726</td>
<td>2964</td>
</tr>
<tr>
<td></td>
<td>V/US$</td>
<td>17620</td>
<td>15474</td>
</tr>
<tr>
<td></td>
<td>Rs</td>
<td>805663</td>
<td>738510</td>
</tr>
<tr>
<td>NR Items</td>
<td>Qty.</td>
<td>193</td>
<td>287</td>
</tr>
<tr>
<td></td>
<td>V/US$</td>
<td>1530</td>
<td>2093</td>
</tr>
<tr>
<td></td>
<td>Rs</td>
<td>69837</td>
<td>100033</td>
</tr>
<tr>
<td>OBA Items</td>
<td>Qty.</td>
<td>62</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>V/US$</td>
<td>642</td>
<td>453</td>
</tr>
<tr>
<td></td>
<td>Rs.</td>
<td>29212</td>
<td>21507</td>
</tr>
</tbody>
</table>
US Import quota relative to US market:

This information would throw light on the intensity of competition in different categories that the US market witnessed post-2004. For instance, in categories where the import quotas form a higher percentage of total US market size, there was relatively lower intensity market-war compared to the categories in which the quotas in 2004 form a small share of US market.

India's Competitive performance in the US:

Table:
Garment exports to the US from India as % share

<table>
<thead>
<tr>
<th>YEARS</th>
<th>R. ITEMS</th>
<th>NR ITEMS</th>
<th>OBA</th>
<th>GT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>40.10</td>
<td>5.39</td>
<td>1.81</td>
<td>21.65</td>
</tr>
<tr>
<td>QTY</td>
<td>55.43</td>
<td>23.10</td>
<td>4.89</td>
<td>36.12</td>
</tr>
<tr>
<td>V/US$</td>
<td>55.37</td>
<td>23.06</td>
<td>4.90</td>
<td>3.62</td>
</tr>
<tr>
<td>Rs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>48.91</td>
<td>7.09</td>
<td>1.82</td>
<td>33.21</td>
</tr>
<tr>
<td>---------</td>
<td>-------</td>
<td>------</td>
<td>------</td>
<td>-------</td>
</tr>
<tr>
<td>QTY</td>
<td>54.87</td>
<td>23.96</td>
<td>5.99</td>
<td>45.19</td>
</tr>
<tr>
<td>V/US$</td>
<td>54.90</td>
<td>23.97</td>
<td>6.00</td>
<td>45.22</td>
</tr>
<tr>
<td>Rs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Of the eight cotton apparels India's market share in US import market exceeded 10% in cotton dresses (336), W&G woven shirts (341), and cotton skirts (342). Market share grew in 336 and 341. In 336, India exported higher quantity at reduced prices, while in 341, India moved up the value chain. Nevertheless, the US import market grew strongly in 341 and 342, and not as much in 336. However, in 341, the size of quota is close to the size of US home market, whereas in 336 about 43% of US home market opened only on 1st January 2005. Therefore, not much growth was expected in 341 in terms of US market size. Besides, there are no current threats from 'preferred' developing countries in 341 yet. Hence, this is one category where India should very clearly focus, since the competitor countries are essentially Asian. The one big threat would be China.

2. Currently, China exports at an appreciably higher UVR compared to India. The evidence from 1997-2002 indicate that China has upgraded its 341 faster than India has. If China countries on that
path, India may not worry too much, since the gap between Indian and Chinese prices would be quite significant. Then, if India also upgrades its product, as it has done in 341, competitiveness based only on price will be extremely risky.

3. In descending order of UVR, India exports of the chosen cotton apparels belong to between 40 and 50 percentile, among all supplier countries for a given MFA product category. This means India operates in the low value segment in most cotton apparels. UVR have been between percentiles 55 and 60. They are knit shirts (cat 338) and trousers for M&B (cat 347) and for W&G (cat 348). Incidentally, US imports of these products is growing fastest among all cotton apparel categories. In 347, its unit prices have grown fastest among top ten suppliers. In addition, almost 70% of US market remains to become quota-free only on 1st January 2005. India must build up its strength in this product category quickly to capture the huge market that suddenly opened in 2005. Quite apart from 'preferred' group of developing countries, Pakistan is one country which has done exceedingly well in 347, and has been building its domestic manufacturing facilities very fast. Pakistan is not yet as much of a threat since its unit, value is considerably lower than India. China, however, is likely to emerge
as a big threat to India in 347 since their UVR is closer to India's and they too are upgrading their product rapidly. Their market share declined wholly due to quota constraint.

4. They seem to be producing less numbers and better quality of 347 for US export market. They would pose a big challenge to India.

5. In cotton apparels, the competitor countries – aside from 'preferred' developing countries- are Indonesia, Malaysia, Hong Kong, Philippines, Sri Lanka and Bangladesh. From among these, Bangladesh is the lowest cost supplier in almost all categories. In view of the threat from 'preferred' developing countries, India must move away from competing only on the basis of price, since the share of this segment is any case declining with the 'preferred' countries growing rapidly in this segment. And when India upgrades its value, it would have to contend with strong Asian competitors like Hong Kong, China and South Korea, whose performance has been constrained due to quota ceilings. However, once the quotas are removed, India may find itself again losing in this upgraded market segment due to sheer size of these countries' exports. The important lesson for
India therefore is that it must not only upgrade its values, but also begin to find ways of competing increasingly on non-price factors.

6. In the 11 apparel categories – both cotton and mmf- China is not India’s close competitor since UVR of its exports to US is significantly higher than India’s and these two countries operate in quite different price- segments. In 339 and 347, where it is India’s close competitor, its UVR is higher than India’s. However, China is a strong competitor of India in cotton fabrics, even though in all chosen textile categories, its UVR is (marginally) higher than India. The major threat from China therefore lies in fabric exports, specially if China chooses to devalue its currency. This is not an unrealistic scenario and in case it happens, Indian fabric exports to US would be almost wiped out. The lesson becomes stronger. India must not only upgrade in fabric exports, but also seek newer non-price criterion for competing. Alternatively, as a country, perhaps begin to focus more on apparel and made-up export.
### Table:

Retail formula in the US

<table>
<thead>
<tr>
<th>TYPE OF STRUCTURE</th>
<th>CHARACTERISTICS</th>
<th>RETAILERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Chain Stores</td>
<td>*Similar merchandising</td>
<td>*Department store</td>
</tr>
<tr>
<td>Chains e.g.</td>
<td>*Similar store décor and Ambience</td>
<td>Macy's store</td>
</tr>
<tr>
<td></td>
<td>*Specialty store</td>
<td>Gap, the limited</td>
</tr>
<tr>
<td>Chains e.g.</td>
<td>*Discount store</td>
<td>Marshals</td>
</tr>
<tr>
<td>2. Specialty chain</td>
<td>*Consisting of tens or even Hundreds of stores spread</td>
<td>*The Limited</td>
</tr>
<tr>
<td></td>
<td>*The Gap</td>
<td></td>
</tr>
<tr>
<td>3. Discount stores</td>
<td>*Every day low price stores</td>
<td>*K – mart</td>
</tr>
</tbody>
</table>
4. Department stores

- Large-scale organization
- Wide variety of goods
- Merchandise is offered for

Avenue

- Sale in separate units of Departments

5. Hyper markets

- Combined department store and supermarket with 25,000 to 30,000 sq.m. area
- Features a large assortment of general merchandise

6. Catalogue

- Some mail-order houses offer Lands End

Spiegel, Etc.

Retailing exclusivity through catalogues

- Others
Inferences:

1. Study concludes that Indian exports to the EU and the US reveal that insofar as apparel exports are concerned, quota has indeed been a constraint for most of cotton apparel and made-ups that India exported to these two markets.

2. Indian textile and clothing sectors have a tremendous potential, only a portion of which has been exploited due to policy constrains. Moreover, where exploited, Indian entrepreneurs have done the country proud.

However, there lies a considerable potential that has not been exploited primarily due to government policy marked by ad hocisms, fragmented vision, and political opportunism. These policy constraints have been identified and analysed in the later part of the discussion.
exports depend more on fashion changes than on any inherent competitive strength based on quality or productivity. Despite these limitations, we find that India has improved its market share in 9 out of its 17 main product categories and further that, there has been an increase in the unit values realized. This appears to have been possible due to the advantages derived from such a decentralized and networked production structure, which enable firms to compete in low-volume segments with greater fashion content as compared to say, China or Bangladesh where the minimum efficient scale of operation is much higher. While Indian firms subcontract 74 per cent of their output, countries do not subcontract more than 36 per cent of their output in all other cases. Investment of Indian firms in processing techniques is very low when compared to other exporting countries. Given the fact that considerable section of Indian garment industry is confined to the 'unorganized' or 'informal' sector, working conditions for the workers are hardly under the legal purview resulting in harsh working conditions for the labourers which entails leads to lower productivity. Unfortunately, due to lopsided Government policies the firms registered under the Factories Act account for only 25 per cent of the total value of garment output. Hence, secondary data at the macro-level too are hard to come by in this regard.
The former market is highly volatile and is characterized by short production runs, fast changing fashions and designs, aggressive marketing and higher mark-ups. In response to market instability, firms target smaller, more rapidly changing market niches, which require quick alteration of product designs. Here, cost advantages do not matter as much as in the mass-market segment. More important is the 'quick response' factor (QR), the ability to deliver in time and adjust production to changing designs and quantities. In other words 'flexibility' becomes an essential characteristic of production for this segment. Time is the essence of this trade where consumers rather than spending more on unit item prefer to spend less but more frequently. The target market of this segment is the younger generation particularly teenage and working girls who look forward to every weekend of shopping.

We therefore see that the cost advantage gained in dispersing production to low wage areas of low-income economies tend to be offset by slowness in supply response. Production in distant locations is not suited for such markets, where reorders or repeats and fashion obsolescence are common. Further, the quality requirement of the fabric meant for such up-market garment production necessitates confinement of production to countries with better processing technologies. Nevertheless, garments of certain segments
that the relatively less intensely driven by fashion and requiring lesser quality may continue to be sourced from distant regions. In summation, despite dispersal to low wage economies, the fragmentation of the apparel market into fashion-determined smaller market and smaller niches has enabled the core economies to retain their competitive edge in these segments of the apparel industry. Another important explanation for the simultaneous dispersal and concentration of apparel production takes into consideration the social embeddedness of production processes and their part played in reducing transaction costs of firms in this sector. A key factor that works against greater dispersion of garment production globally is the amount of transaction costs involved in coordinating a global network of decentralized producers and traders. The high vertical and horizontal disintegration in this industry increases the volume and rapidity of inter-firm transactions. The location of production will therefore be also influenced by geographical proximity to suppliers, contractors and final markets, particularly when transactions are “small scale, irregular and involve production for quickly changing niche markets”. In a cluster of firms in a region, the social embeddedness of production organization creates extra economic ties that facilitate transactions. Community and ethnic relationships provide certain regions with economic advantages in such a milieu. This is more relevant to the garment sector dominated by
vertically disintegrated firms. Firms tend to cluster in regions that have a common ethnic or communal identity that enable entrepreneurs to enter into long term contracts with less risk. Given the high transaction costs involved, it may not be too feasible for buyers to shift their point of sourcing too often taking into consideration only the labour cost advantage. Non-price factor such as reliability plays an important role in establishing a buyer seller relationship. Buyers do not like to change suppliers very often unless driven by some serious cause.

The costs of finding and entering into a long-term relationship with new suppliers too would deter buyers from shifting points of sourcing. Given these factors, established suppliers may continue to manufacture for importers even if they lose the labour cost advantage over time. This is likely to be true in the mid-price segment where production costs are a lesser source of competitiveness. While garment exports have registered impressive growth rates relative to the rest of manufactured exports from India, as we saw in an earlier section, India's relative performance vis-à-vis its competing nations have not been too well. With the withdrawal of quota and price restrictions from 2005, India, despite having unrestrained access to global markets may face tougher competition from similar countries seeking to expand their market-shares on which remedial steps need to be taken.
(E) INDIAN GARMENT INDUSTRY STRUCTURE:

Given the importance of non-price factors like quality in influencing the competitiveness of garments, unit value realization may be a better indicator as a measure of competitiveness. This measure is problematic given the highly fragmented nature of the apparel market. Higher unit values may probably indicate a foothold in a different market segment rather than competition in a similar market. Nevertheless, higher unit values indicate an ability to upgrade, which would be a critical factor in sustaining or improving competitiveness over time. Lastly, given the importance of many non-price factors like quick response, quality of fabric and processing, no single indicator can reflect the extent of competitiveness of Indian garment exports. Consequently, we draw upon a multitude of indicators to understand this dimension of Indian apparel exports.

1. Social compliance-Competitiveness of Indian garment export industry is being affected by the increasing role of social compliance. Compliance is one of the major change apparel industry has seen in the last decade. Nothing else has affected the business as much as social compliance has. In several other parts Asia including Indian exporters viewed social compliance as
a curse. As a result, Indian exporters have not been able to harness the benefits of social compliance. Compliance should be viewed as a tool to influence work culture productivity, quality, and efficiency.

2. Labour – remains the single most important ingredient in the Asian competitiveness in the apparel. It will remain so for years to come. However, within Asia there is going to be competition driven by efficiency of the labor force. In the hypothetical situation, technological input being the same competitiveness of the work force will be the key differential.

3. Culture – many Indian exporters have jazzed up their factories with new building and expensive machine. However, the efficiency still hovers around 40%. The reason is that the work culture remains the same. Human capital remains neglected and ill-managed with a poor history of human resources management in apparel factories, factory owner has no road map to make their organization productive. Compliance is a pre-requisite to creating a healthy work culture. Countries that have embraced compliance with open arms a few years ago and lived up to, can embark upon building work culture. However building work culture is a
sophisticated process employing time testing management skills, it is also time-consuming process. Its implementation requires goods measure of patience as it is a skillful change management system. Building work culture translate into creating an organization that is smart productive, positive, innovative, competitive, global, economical, smooth, efficient, vibrant, and flexible is the challenge. Once the organizations succeed in creating a healthy work culture the fruits are visible. It leads to higher productivity, improved quality innovation, increased loyalty, economy of operation, employee retention and of course higher profits.

4. Quality – is our best assurance of customer allegiance, our strongest defense against foreign competition, and the only path to sustained growth and earnings. Thus we see that consistent good quality is paramount.

Indian garment exports do not compare well with many other peripheral economies. Though the growth of its exports has moved in tandem with world garment trade, its performance does not compare too well with that of other peripheral economies. Economies like Thailand, Indonesia, Bangladesh, Mauritius, Pakistan and Sri Lanka have achieved higher
growth rates during this period as compared to that of India. China, for instance, has more than tripled its share from 4 per cent in 1995 to 15.2 per cent in 2005. Bangladesh has increased its share to 0.9 per cent from near nil exports in the early 1980s. As a result, India’s share in ‘developing’ countries’ exports has not improved beyond the 4 per cent mark achieved in 1974. This relative stagnation assumes further significance in the context of India’s advantages in terms of cheap cotton production and availability of large pools of labour. In fact, substantial quantities of cotton fabric and yarn are exported from India to some of these economies from where they are made up into garments and exported. In order to understand the competitiveness of our apparel export industry we need to study the structure of the industry.

The reason for poor productivity in garmenting has been the extremely fragmented structure that has arisen chiefly due to the government SSI reservation policy. This has prevented modernization, quality investments, scale adoption, and change in product mix from exclusive reliance on cotton garments to mass clothing items based on synthetic and mmf fibres. This has also therefore impeded the growth in exports non-quota markets since non-quota markets, as Latin America and Asia
are not rich countries and they demand blended and synthetic garments more than EU and US.

--- Extremely fragmented industry
--- 77,000 Garments manufacturers

--- Domestic Manufacturers = 27,000
--- Fabricators = 48,000
--- Manufacturer - exporters = 1000
--- Direct employment estimated by NIFT at 4.28 Mn.
--- The factors impeding the growth of investment in this sector are
  • Policy of reservation for SSI
  • Labour Laws

--- Total export of T & C in 2004-05 US$ 11.85 bn out of which US $ 5.46 bn was exports of apparel.

--- Apparel export basket is characterized by
  * Concentration of -- Product
    -- Destination &
    -- Fiber

----- Low UVR at less than US$ 4 per piece.
Since heavy industries are capital intensive, and given the huge labour surpluses in India, the state assigned a few light goods industries, including the garment sector, the role of a labour absorber. The strategy of import substitution based industrialization, with emphasis on growth of heavy industry has exerted a strong influence on prospects of the garment industry. Since there already existed a strong traditional artisan garment sector, it was felt that it needs protection from the more 'efficient', modern capital. As a result, sectors like the garments were reserved for firms that fall under the 'small scale' sector. Firms with a capital investment limit of less than Rs.3 crore were categorized, as 'small' and any firm with greater investment need to commit to export more than 75 per cent of its output. The small firms too would be unable to upgrade their technology, as this would invite a movement beyond the capital ceiling fixed for the small-scale sector. The Indian garment sector is found to consist of smaller firms as compared to other exporting peripheral nations, thereby placing limits on the sector's ability to compete based on productivity. Moreover, given the importance of market information in this industry, traders exert a dominant influence in the export market.

Out of 10,000 exporters registered with AEPC, only 250 are manufacturer exporters. As a result, incentives to improve production techniques have not been forthcoming. It is therefore said that Indian
exports depend more on fashion changes than on any inherent competitive strength based on quality or productivity. Despite these limitations, we find that India has improved its market share in 9 out of its 17 main product categories and further that, there has been an increase in the unit values realized. This appears to have been possible due to the advantages derived from such a decentralized and networked production structure, which enable firms to compete in low-volume segments with greater fashion content as compared to say, China or Bangladesh where the minimum efficient scale of operation is much higher. While Indian firms subcontract 74 per cent of their output, countries do not subcontract more than 36 per cent of their output in all other cases. Investment of Indian firms in processing techniques is very low when compared to other exporting countries. Given the fact that considerable section of Indian garment industry is confined to the 'unorganized' or 'informal' sector, working conditions for the workers are hardly under the legal purview resulting in harsh working conditions for the labourers which entails leads to lower productivity. Unfortunately, due to lopsided Government policies the firms registered under the Factories Act account for only 25 per cent of the total value of garment output. Hence, secondary data at the macro-level too are hard to come by in this regard.
While government policies have thus constrained garment producers from competing on the basis of scale economies and improved labour productivity, they have fostered a structure, albeit accidentally, that facilities production for a more flexible product market. However, with the removal of reservation for the small scale sector, a possibility of entry into large-scale production and benefiting from the scale of economy has been facilitated. Further, with a good domestic production base in cotton fibre and lack of import restrictions to upgrade process techniques, Indian garment producers may venture to compete in the mass market as well. Nevertheless, given the strong competition in this segment and absence of a first-mover advantage, it may still be in the ‘flexible’ market segment that Indian producers retain their advantage in the post-MFA regime. Simultaneously, it also opens up possibilities for the latter segment to upgrade its quality by taking advantage of availability of new processes.
(F) CONSTRAINTS & INITIATIVES:

Any discussion on constraints is incomplete without understanding the cost structure of garment manufacturing which is as below:

Fabric cost - 55% of the cost

Fabrication - 22% of the cost

Overhead - 15% of the cost

Finishing - 9% of the cost

In order to be cost effective we need to rationalize the fabric cost, it is to be noted that only 5% of the fabric is being produced by organized mills and about 57% is being produced in power looms, 17% is knitted and 21% is handlooms. Garment manufacturing is reserved for SSI in India. However, the new textile policy (NTxP-2000) announced the de-registration of woven segment of readymade garments from SSI and the de-registration for knitwear is also in the pipeline.

Domestic factors influencing trade

1. Factor Cost-Despite technological advances, clothing sector remain labour-intensive globally, and hence its manufacturing is secularly shifting away from developed to developing countries.
Textile production has seen considerable technology improvement, but that has only partially restored the comparative advantage of developed countries in textile manufacture. In the context, therefore, of garment sector, labour cost assumes great significance in production costs. India compared very favorably across the developing countries in terms of low labour costs. Only countries such as Bangladesh, Pakistan and Vietnam’s labour costs are marginally lower than India’s. However, empirical evidence suggests that low wages are not a factor of competitiveness. High wage levels reflect high levels of skill, productivity and automation that in turn, are important factors of export competitiveness.

2. Cost of raw material – Indian fiscal and customs policy too has discriminated against development of synthetic base in India in line with the government belief that ‘synthetic is for the classes and cotton is for the masses’. This has slowed the growth in exports to non quota markets such as Latin America, Eastern Europe and Asia where the demand for blended raw and synthetic garments is high.
Our policies are structured to keep the cotton prices low whereas synthetic fiber was deliberately priced uncompetitive. Despite years of liberalization, the excise duty, for instance, on PFY is still 36.8% (2001-02), against 9.2% on cotton. Similarly, the raw materials for synthetic fibers have an excise duty at 16%. This discrimination against synthetics is visible in case of customs duty rates also. While effective import tariff on cotton import was 5.5% in 2001-02, it was 48.5% for man-made fiber. It is not surprising therefore, that the international prices of raw materials (DMT, PTA, wood pulp etc.) has been considerably lower than domestic prices. It is projected that, compared to 49% share of cotton in world fibre consumption in 1990, it reduced to 41.5% in 2005. The entire set of issues related to direct cost of inputs and its acquisition by firms is a function of what-in modern terminology-is called as Supply Chain Management (SCM). In a dynamic environment where demand is uncertain and significantly seasonal, where the product life cycles are short, and where the competitive intensity is high-companies that organize for functional integration tend to outperform those that are organized for functional excellence. SCM refers to "delivery of enhanced customer and economic value through synchronized management of the flow of physical goods and associated information from sources to points of consumption. "The Indian textile and clothing industries have one of the longest and most
complex supply chains in the world, with as many as 15 intermediaries between the farmer and the final consumer. Each contributes not only to lengthening of lead times, but also adding to costs. By the time cotton worth, Rs.100 reaches from farmer to the spinning unit, its cost inflated to Rs.148. By the time it reaches the final consumer, it costs Rs.365. This is unacceptable if India is to become competitive.

3. Infrastructure – According to the World Competitiveness Report 1997, India was ranked 45th among 46 countries in terms of competitiveness in infrastructure. In 2002, India’s rank was 42 out of 49 countries.

(a) Transportation: Transportation is one area where India compared very unfavorably with its competitors. For instance, shipping a container of textile or garments from India to the USA is costlier in India than in its Asian competitors. Despite a longer route, shipping to the US eastern seaboard out or Bangkok is almost 18% cheaper compared to Mumbai or Chennai. If this is weighted for trade volumes the overall cost advantage in shipping from Bangkok to the US is almost 23%. China enjoys 13% cost advantage in shipping garments from Shanghai to the US
East Coast, a staggering overall advantage of 37%. The huge disadvantage of India is due to delays and inefficiencies in Indian ports compared to other Asian countries.

(b) Energy cost: India has had the unenviable reputation of suffering from high industrial energy costs. It has been identified that high energy cost is among the biggest deterrents in attaining competitiveness. Much of this is due to cross-subsidization in different states, as well as huge transmission and distribution (T&D) losses. All these problems show up in reduced productivity and competitiveness.

(c) Interest rate: None of India's international competitors have as high interest cost as in India. Interest cost as a percentage of sales in Indian manufacturing companies was close to 5.5% compared to less than 4% in countries such as Indonesia, South Korea, Malaysia, Philippines and Thailand. Some other infrastructure bottlenecks that exist are the poor quality of inland roads, especially state highways, large number of octroi posts, local regulations regarding road use during specific hours only and absence of expressways which could reduce the inland
transportation time given the continental size of the country equally plagued by corruption in most of these channels.

4. Transaction cost: Transaction costs in India deserve a special mention since the policies and procedures involved at each stage of exporting and importing are so cumbersome that they induce tremendous delays. For E.G. in getting a duty free advance license for export production, the average time taken by 35 exporters was 7 months. Another two months were needed for redeeming the legal undertaking, making it a total of 9 months. However, at a cost of Rs.10,000, the exporter could get his/her license in 2.5 months, and for another Rs.8,000 could get the legal undertaking redeemed in 15 days. Analytically, this tantamount to an export tax, and hence any reduction in these would directly enhance price-competitiveness.

5. Non price factors: In the context of emerging global marketplace, prices are now falling in priority of list of criterion considered important by major retailers in the export market. An industry study by Canadian Department of Industry rates several factors considered important by retail buyers/private labels for choosing source countries. Delivery and reliability, and quality scored
higher with 9.2 and 9.0 grades (on a 10 point scale) compared to price which was ranked third with a score of 8.8. Other factors in descending order of importance were size standards, fashion and styling fabric and fabrication, developed manufacturing base. Non-price factors such as design, quality and variety and exclusivity are paramount. While price would remain important, it would not be the sufficient factor in getting export orders. A study on buyers’ perception of India as a source country showed that while India was perceived satisfactorily on price, quality technology, flexibility, small order quantity etc. it was perceived unfavorably on lead times, responsiveness, communication, trust, meeting contractual obligations, ethical standards etc. — a blot on India’s image.

Level of modernization in Indian clothing sector:

The level of technology in the spinning sector is relatively better compared to weaving sector. Still, about 65% of installed spindles are more than 10 years old. Moreover, OE rotors account for less than 1% of total installed spindles. India was the world’s leading buyer of spinning equipment during 1989-98, accounting for 28% of global shipments. Spindles purchase during this period accounted for 33% of
total installed capacity, while 68% of OE rotors were less than 10 years old. The level of technology in the weaving sector is low compared to other countries of the world. Of the 1.6 million power looms installed, less than 1% are shuttle less looms. In organized mills sector, only 5.8% are shuttle less looms, compared to 80% in US, Taiwan and Korea, and 62% in Pakistan. The rate of modernization in comparison to countries such as Mexico where modernization rate was 41% is very slow. The level of investment in Indian apparel sector is very low.

The average investment in a machine in an Indian factory was $29,760 compared to $2.5 million in Hong Kong and nearly $1 million in China. This reflects the smaller size of the India firm, which has an average of 119 machines compared to 698 in Hong Kong and 605 in China. Investment per machine is very low in India at $250 compared to $3510 and $1500 in Hong Kong and China. This is due to Indian firms having a much higher proportion of manual machines, and even the power-based machines are not as sophisticated.

Countries such as Hong Kong and China have invested significantly in such special machines that add significant value to product and improve productivity levels for their firms as whole. That is not the case in India and the fact of SSI reservation of garment industry has not
helped exports at all. Unlike other Asian countries where average size of garment firm and hence the average level of investment is higher, typical Indian garmenting unit is small, and hence incapable of investing big. The large-scale firms who enter into garmenting have to undertake 50% export obligation. Therefore, the firms in garmenting are small, and hence incapable of investing much. That affects productivity as well as competitiveness. Intensity of adoption of information technology (IT) did play a significant role in influencing the export performance of India garment firms. However, they are expensive, and necessitate extensive training of people. For small size firms, it is not an optimal solution, and Indian garment industry is a sector of ‘infants’.

Management practices and organizational skills:

Manufacturing management is a key link between technology adoption and competitiveness of firms. Productivity gains are indeed achieved through better managerial practices on the existing technology. The study by Chandra (1999) developed a framework for evaluating manufacturing management, which included factors such as the work environment, capabilities and operational performance. Using this framework, the study compared the primary textile industry of China, Canada and India. Of all the parameters used in the framework, India
appears to score over China only in the breadth of home market, quality of managerial workforce, and managerial practices. In all other components, India compares unfavorably with China. Perhaps here lies some explanation for higher competitiveness of China compared to India in the textile industry.

Productivity in Indian apparel sector is lower compared to other countries. For instance, compared to 20.6 ladies blouses that Hong Kong manufactures per machine per day, India manufactures only 10.2. Similar figures for trousers for Hong Kong and India are 19.3 and 6.8, or in gents shirts are 20.9 and 9.1.

McKinley study noted, using number of shirts produced per day as a measure, that productivity in India is 16% of that in US, which is alarmingly low. According to the study, poor ‘organization of functions and tasks’ (OFT) was the most important contributor to poor productivity in Indian apparel sector.

The preliminary interviews of some garment exporters revealed their almost complete ignorance of international issues, and even issues related to the WTO. Nevertheless, there are brands and exporters – though mostly big ones – who are preparing for the quota-free trading regime through cost rationalization attempts on the one hand, and
increasing capability on the other. Changing mindset is far more challenging than changing machine or shifting factories from an under developed commercial are to an Export Processing Zone. The scary part is that the transformation has to start at top to make it happen throughout the organization. The top management has to take the lead in demonstrating the work culture and value system in its own working style. Most owner may find it threatening as bringing about the change would require heavy investments, which may not confirm to their business ethics. Exporters need to have a broader outlook and a more social attitude, as modernization is not a one-time exercise but ever evolving phenomena.

Government policies influencing trade:

There as many as 20 control orders/notifications that are still in force despite the long years of liberalization and deregulation and deregulation of the Indian textile and clothing industry 54. Some of the government policies that have a bearing on global competitiveness of the Indian textile and clothing sectors are briefly outlined below:

1. Excise Policy: The exercise duties applicable to the textile industry are the Basic Excise Duty (BED). Additional Excise Duty
(AED) @ 15% applicable on cotton yarn and on all synthetic / blended yarn, fiber. and AED in lieu of sales tax applicable on power-processed fabric. However, the duty structure is biased since duty incidence falls disproportionately on different segments of the Indian textile and clothing sectors. Garments and made-ups that contribute 15% of value added contribute 55% of the duty. Grey fabric pays no duty at all. SSI units that compete with duty paying segment, and disproportionate excise duty incidence across the chain are major impediments to developing competitiveness in the industry. It has distorted market structures, created unhealthy competition among the segments themselves, and created a diverse variety of stakes who are now opposing any reform in the sector. However, government has been able to reform the excise duties in textile and garment sector in the current Union Budget 2003-2004. Most of major lacunae have been removed.

2. Technology Up-gradation Fund (TUF). Under the TUF scheme, manufacturing units are eligible for long and medium term loan from IDBI, SIDBI and IFCI, at interest rates that are 5% lower than the normal lending rates of banks. However, whether specific units are credit worthy for loans
or not is to be independently evaluated by the lending institutions.

The utilization of funds under this scheme has been disappointing. As of 29th February 2001, GOI received 304 applications and sanctioned 210 projects amounting to an outlay of $385 million. Of this, only $115 million was disbursed to 94 applicants. Sector-wise, the largest recipients of this loan were composite mills and spinning sector. However, the one positive observation is that processing sector—which is the least modernized in the entire value chain—is also among the largest recipients of the loans. The reasons for poor utilization of funds under TUF has been that, in the very first place—in today's situation of excess capacity built up in the Indian textile—no one is willing to invest. In apparel, the SSI reservation of garment units prevents them from making significant investments. In addition, during times when the garment exports have not been doing well, large scale units are not willing to expand capacity. There is a very high incidence of sickness and declining capacity utilization in the textile industry. Very few firms are therefore willing to commit to the sector any6 more funds than which are they already have. The reasons also lie in the unwillingness of the financial institutions to lend money to—what they call—sunset industry. Besides, until sometime back, there was an
attractive investment opportunity in the booming ICE (Information, communication and Entertainment) sectors. Over and above these are the reasons associated with hidden costs of loan processing (exceeding 1F of loan amount), prepayment penalty and higher lending rates of FIS compared to commercial banks. Some industry sources say that the sectors of the Indian economy that have 80% share in the GDP, contribute only 7% of the government's excise revenues. On the other hand industries that have share of 20% in the GDP contribute 93% of the government's excise revenues. Textile contributed 4% to GDP but shared 10% excise in 1997-98 clearly the tax structure is extremely skewed and is not income elastic. For, even when the sectors having an 80% share in the GDP grow rapidly, the impact of their growth on the government's excise revenues would be marginal. Industry sources mention that most of these disbursements have been in the processing units of composite mills, which in any case were relatively more modernized.

4. Cotton Technology Mission (CTM): India is the third largest producer of raw cotton in the world. However, the yield of Indian cotton (approx. 300 kg/ha) is very low compared to world average (553 kg/ha) and dismal with respect to some countries like China
(1064 kg/ha) and Turkey 1151 kg/ha). Moreover, ITMF surveys have repeatedly concluded that the Indian cottons are among the most contaminated in the world. This reflects the poor storage facilities and methods of handling cotton, not only at the picking stage but also during ginning and pressing. Not much information is available on the utilization of funds under CTM. It is critical to remember that cotton yields and quality are to be improved not for its own sake, but for finally improving the global competitiveness of the end users of cotton, viz. fabric, made-ups and garment manufacturers. This supply chain management perspective is very critical for R&D in cotton. Cotton Inc. of the USA views cotton as a raw material with the product (garment/specialized application product) in sight. This end-to-end sight guides all R&D. In contrast, Indian R&D in cotton views cotton as a raw material, defining it by its technical properties, and attempting to improve those properties, irrespective of the utility of such enhanced technical features for the final end product. Research institutions like ATIRA/BITRA/SITRA/CIRCOT etc. could take up R&D in cotton along such lines, and develop newer applications of cotton keeping the final end-use of the research product in mind. For the year 2005-06, the market size is shown in bn. $ as follows:
5. Hank Yarn Obligation (HYO): The HYO relates to the supply of yarn for the handloom sector, and is exempted from excise duty. As per HYO, 50% of all yarn spun from not less than 90% cotton/viscose, packed for the home market for civil consumption, has to be packed in “hank” form. The HYO is aimed at guaranteeing an assured supply of cheap and coarse yarn to the handloom sector, so that it can, in turn, churn out “cheaper” fabrics. In reality, however around 40% of hank yarn is being consumed by power looms at zero excise duty. The HYO was tantamount to granting a subsidy to the handloom sector on the one hand, and taxing the yarn producers on the other. But the yarn producers business suffered because they were forced to produce a fixed proportion of their yarn of below 40s count, which fetched them a lower margin. More importantly, the affected subsequent stages like fabric and garments too. The HYO thus, militated against the competitiveness of the textile and clothing sectors.

6. Quota Entitlement Policy: The issue relevant for competitive analysis in this policy is the fact of over-categorization that has been practiced through these policies, and the International Textile Manufacturers Federation. It has not only prevented
expansion, but also impeded technological upgradation of the garment manufacturing units. As a result, the garment units could neither attain optimal economies of scale, nor produce international quality of garments.

7. Labour laws: Labour laws in India make it virtually impossible for companies to shed labour. It also introduces unfair discrimination against large companies who are forced to comply with the labour laws relating to minimum wages, social security, contractual obligations, nature of terminations, internal transfers/job rotation, right to leaves and regulations regarding working hours etc. while the smaller ones (like power looms) manage to evade compliance with such regulations. This introduces a de facto competitive edge to power looms compared to organized mills, and has led to decline of mills and proliferation of power looms in India, with all its attendant adverse implications for competitiveness of the textile and clothing sector chain.
Policy measures for making the sector more competitive.

1. Technological Up gradation:

Indian textile & clothing industry, perhaps with the exception of spinning sector, suffered for want of capital infusion. Encouraged by the success of 'Textile Modernisation Fund' in VII plan particularly in spinning sector a new fund titled, "Technology Up gradation Fund" and popularly known as TUF was launched on 1st April 1999 for a 5-year period for the textile, clothing and jute industries. There, the scheme covers the entire period right up to the end of quota regime. Although no cap is prescribed for any individual loan, so long as it is bankable and technologically – feasible, yet overall funding envisaged is Rs.25,000 crore over the 5-year period. Until January 2002, an amount of Rs.4,201 crore had been sanctioned to 803 applicants of whom Rs.2,236 crore had been disbursed to 560 applicants. Therefore, with only 8.9 per cent of disbursement target covered in one year and ten months. Mere earmarking large funds does not suffice, due impetus needs to be accorded to effectively utilize this fund.

| Table: Machinery and Investment Levels by Apparel Export Firms (Unit:Nos) |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| Total Inv.(‘000$)               | Manual Machines | Power Machines  | Investment      |
| Manual                        | Power Machines  | Investment per Machine |

156
Table:
Typewise no. of machines installed by Apparel Export Firms (nos.)

<table>
<thead>
<tr>
<th>Country</th>
<th>Precutting Machines</th>
<th>Cutting Machines</th>
<th>Sewing Machines</th>
<th>Special Machines</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. Korea</td>
<td>2.9</td>
<td>12.3</td>
<td>134.5</td>
<td>77.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taiwan</td>
<td>2.6</td>
<td>7.5</td>
<td>185.1</td>
<td>49.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2.3</td>
<td>13.2</td>
<td>455.4</td>
<td>112.7</td>
</tr>
<tr>
<td></td>
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<tr>
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<td>2.3</td>
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<td>7</td>
<td>12.8</td>
<td>460.8</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>2.3</td>
<td>103.7</td>
<td>8.6</td>
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<td></td>
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</table>

Source: Kathuria and Bhardwaj

Thus, we see from the above tables that investment in machinery in India is minimal.

2. Economies of Scale:
In a welcome move, the Government had brought readymade garment segment outside the SSI (small-scale industries) reservation from 1st January 2002. However, the knitting and hosiery segments are still constrained by compulsion to produce only in small-scale units. By contrast, other developing countries like China, Sri Lanka, Bangladesh, and Thailand etc. have a large number of assembly line based knitting/hosiery units, against a handful in India. In a move to facilitate modernization of knitting and hosiery sector, the plant and machinery investment limits for this sector were enhanced to Rs.5 crore in October 2002. It needs to be seen as to how useful this enhancement proves to enlarge size of operations in this sector. An analysis of SSI de-reserved garment sector reveals that much investment is not accruing to this sector as was promised. Some of the continued inhibiting factors are excise exemptions for garment units with investment in plant and machinery up to Rs.1 crore and turnover up to Rs.3 crore, continuation of the practice of multi-title manufacturing capacities to bag export quotas, non-liberalization on labour sector leading to vagaries of 'inspector raj' and so on.
3. Stronger Fiber Base, higher crop productivity, cheaper raw material:

The National Textile Policy, 2000 (NTP 2000) states as one of its goals and objectives, 'Develop a strong multi-fiber base with thrust on product upgradation and diversification'. A Cotton Technology Mission was launched by the PM, 21st February 2000 in order to facilitate cotton development. The mission is being jointly run by the Ministry of Agriculture (MoA) and Ministry of Textiles (MoT). The basic objectives of the Rs.600 crore Mission are productivity, improving research, reducing contamination, and tackling obsolete ginning and pressing factories lacking storage facilities etc. The Mission has 4 Mini Missions (MMs) with specific objectives of research, dissemination of technology to farmers, improvement of marketing infrastructure and modernization of ginning and processing factories. While the Ministry of Agriculture is implementing the first two MMs, Ministry of Textiles is implementing MM III and IV.

The mill sector producing quality fabric is crucial for both backward and forward linkages. Appeal and utility of a good fabric depends upon quality of cotton used, spinning affected, weaving technology used and processing applied. It is distressing to note that the mill sector produces a paltry 5.3 per cent of Indian fabric (excluding
knitted), the lion's share coming from decentralized power loom sector (71.9 per cent) and balance coming from Handloom sector (22.8 per cent). One of the reasons for lowering share of mill sector is obsolescence of the machinery used. For instance, weaving mills need to switch over to shuttle-less looms to face global challenge particularly from China, Bangladesh, Sri Lanka and SE Asian countries. India perhaps needs to allow import of second hand shuttle-less looms also to reduce weaving costs. While India is third in the world in cotton production, it is a poor second in silk production with 22 per cent of global production, China leading with over 71 per cent. To get a larger slice of silk market Indian Central Silk Board (CSB) has drawn ambitious plans projecting production for raw silk at 26,000 tones by 2006-07 (deadline was never met). For this Government of India has launched a project called 'Operation Silk Wave' to help in production of superior pivoting silk from only 300 tones a year to 10,500 tones by 2007 largely through independent rearing houses. In other fibers like wool, jute etc. India's strength clubbed with large capacities created in synthetic and viscose sector cannot be ignored, only costs have to be kept under, without compromising with quality.
4. Removal of infrastructural bottlenecks and reduction of power and interest costs:

Lack of adequate infrastructure leads to inefficiency and delays adding to costs of production making the output less competitive. The key areas of infrastructural concern for Textiles sector are Ports (including facility to handle mother vessels, large number of containers etc.), Inland Container Depots (ICDs), round-the-clock availability of power at reasonable price, highways, telecommunication, electronic data interchange (EDI) etc. Certain steps have been taken address these handicaps like encouraging private investment in segments like Ports (on build, operate and transfer basis), power generation and distribution, express ways etc. In the power sector a lot needs to be done to convert PPAs on paper, into power generation and distribution on the ground on the interest front as already discussed poor take off of TUF is a grave cause of concern.

5. Foreign Direct Investment (FDI) And Joint Ventures (JVS)

Under the textile policy, FDI was proposed in the garment sector, without any strings of export obligation. De-reservation of garment sector would prove conducive to invite FDI. Unfortunately FDI in
general has never much taken off in India. A decade of reforms could bag a paltry $28bn of foreign investment of it only 51.3 per cent was FDI. For India, 1996-97 was the best year in terms of foreign investments, when inflows peaked at $6.13 bn. Even this sum is nothing much to write home about, when one compares FDI inflows into China, which currently stand at $40bn annually. Indian garment and textile sector has not been able to arrive at many JVs over the years. There is a case for promoting, under a special scheme 'joint ventures for garment sector', with no investment limit obligations and with only a reasonable export obligation (say positive), which may have focus on non-primary products such as sports jackets, mountaineering outfits, lingerie suits, industrial garments etc. However, one needs to be cautious of and emphasizes on the need for encouraging FDI capital and reformation in labour laws.

6. Cluster Approach – Creation Of Integrated Apparel Export Parks, EPZS, SEZS

It was being felt for quite sometime to establish an Apparel Modernization Fund that could either be a separate fund or an earmarked portion of the TUFs. Eventually the idea of 'Integrated Apparel Parks' was accepted. Textile policies seek to achieve annual
garment exports exceeding $25 billion by 2010. It also emphasized for de-reservation of garment sector from SSI, which came true in January 2001. The policy also envisages to set ‘Integrated Apparel Parks’ in various states in areas conveniently connected by airports/ports, and to provide therein facilities concerned with labour, infrastructure, and duty structures that will encourage growth, and increase competitiveness in the global market. Facilities for designing, finishing quality assurance, training etc. are also proposed to be provided in near future.

7. Restructuring of Export Promotion Council

The Export Promotion Council (EPCs) in textile and clothing sector of India by and large have remained pre-occupied during the better part of their existence with management of quotas and distribution of various kinds of governmental aid to their members. The EPCs, especially AEPC and TEXPROL (the big two), over a period of time acquired characteristics of a regulatory body rather than a body committed to export promotion. By contrast other councils, (barring to a little extent SRTEPC, WWEPC and HEPC), were barely assigned any role in quota management. Thus except the big two, rest had little income generation avenues leading to their perpetual financial fragility. The true objective of promotions councils is to devise innovative ways to
promote current and future exports go their members. It is only in the recent times that activities, like Buyer Seller Meets (BSMs), promotional fashion shows, fashion forecasting seminars, publications and such other measures are being undertaken by the councils more seriously and intensely. Therefore, the export promotion councils may be restructured or other options including major revamp through merger etc. needs to be carried out in view of the new role expected of the councils.

8. Institutional bodies

National Institute of Fashion Technology (NIFT)

NIFT was registered as an autonomous society in 1986. It established in collaboration with the Fashion Institute of Technology (FIT) New York. It has emerged as the premier training institute in India nurturing and creating bright and generation of professional in fashion technology and allied disciplines. Over the years NIFT has expanded to six new centers beyond New Delhi which are at Bangalore, Chennai, Gandhinagar, Hyderabad and Calcutta. NIFT had also taken initiative to form International Foundation of Fashion Technology Institutes (IFFTI) in 1998, bagging a decision for its initial headquarters at NIFT campus in Delhi.
9. Legal Support System

It is feared that with the rising anti-dumping and anti-subsidy actions, likely to be frequently initiated by the developed countries, with a view to protecting the domestic industries in their respective countries, with a view to protecting the domestic industries in their respective countries the need for legal support system may become intense. While these arrangements need to be strengthened further, especially in the context of the fact that Members like the European Community employ over a 200 people, and US over 800 people in their anti-dumping units to deal with the complaints received from the local industry, there is also an urgent need to strengthen expertise within the country to deal with anti-dumping cases initiated against India by other developed countries. Teamwork by the industry associations, legal experts, cost accountants, government officials, etc. needs to be a rule rather than an exception in handling such matters.

10. Taxation and Exim Policy Changes

Duty structure should encourage import of raw material and discourage import of value-added products to facilitate growth. As per the current policy there is still considerable difference in duty structure between
cotton, wool, acrylic and polyester though in the case of polyester, the
taxi level (basic customs duty) has come down considerably.
Although EPZs, SEZs and EPIPs operational in India are exporting only
a small fraction out of Indian exports, their potential is not bleak. The
recent stress starting EXIM policy 2001-02 indicates a fresh impetus to
the sector. Government of India, with the help of State Governments
and private promoters has planned to set up such new zones, while
completing and expanding the existing ones. EOZs at Kandla, Santa
Cruz and Cochin are also being converted into 'SEZs.

11. Rationalized Labour Laws-Need for efficiency oriented
labour laws

In the post liberalization era reforms have concentrated on removing
barriers to entry but not much on removing barriers to exit. On the face
of it, non-existence of an exit policy may appear to be pro-labour, but by
discouraging prospective investors on this count, it inflicts even more
harm on labour community. Besides, the little gains accrue to the
‘insider’ labour that too in the organized sector, but in the process
‘outsider’ unemployed labour is deprived of prospective jobs. The
controversial issues like a flexible ‘exit’ policy, seasonal changes
required in the labour force employed, contract labour etc. and have
almost remained untouched. In segments like garment production where capacity utilization depends upon receipt of orders, labour requirement fluctuates. It is a prerequisite for attracting assembly line production units from both domestic and foreign investors that the labour laws are made more producer friendly and a simple exit policy is formulated.

The state governments should also provide a special labour reconciliation machinery in EPZs/SEZs/EOUs proposed ‘Apparel Parks for Exports scheme’, with time bound decisions and minimum number of appeals/review/revision of their decisions.

12. Apparel Training and Design Centers (ATDC)

In the sphere of garment technology up gradation at shop floor level, the AEPC has started ATDCs at Bangalore, Chennai, Delhi, Calcutta, Hyderabad, and Jaipur. ATDCs train craftsmen at shop floor level to meet the burgeoning demand from garment manufacturing sector.
Strategic alliances have become crucial in the textile and clothing sectors in view of the growing number and scope of PTAs. Government needs to design its policies for Indian companies investing abroad in consonance with this reality. Access to markets like EU and US might increasingly be mostly via those developing countries that have a PTA with world's big markets. Indian textile and clothing industry has a great potential, which has not been cultivated for global performance. The above set of recommendations would provide the right kind of Institutional context and investment climate for the Indian firms engaged in these sectors to rise to the occasion. As for making the Indian textile and clothing industry globally competitive, the government can trust the ingenuity of the Indian entrepreneurs but needs to bring about certain policy changes at the micro and the macro level.
(G) POLICY RECOMMENDATIONS:

The strong advantageous position of India being self sufficient in cotton value chain, however, has been frittered away due to fragmented and lack of clear vision of the government that resulted in policies that ran counter to market signals. However, the current industry structure is in a significant position to perform despite this. Keeping in mind that the protection that quota afforded to Indian textile market would soon disappear and in view of the global developments in the retail sector, it is imperative for the Indian textile and clothing sectors to reform, and do that quickly. As is evident by now, most of the impediments to India's export competitiveness lies at home. Market access conditions arise only after India develops the competence to survive in the market. Also, it is clear that most of the problems are structural in nature, and emerge from a lack of holistic view about the entire value chain-from fiber to retail, which in itself is engendered by the fragmented government policies. Needless to write, most of the reform in this industry pertains to changes in government policies. It would be useful to mention a few of the guiding principles which lay the foundation of recommendations:

1. While the role of the government in creating and sustaining national advantage is significant, it is inevitably partial because in
the absence of underlying national circumstances that support competitive advantage in a particular industry. India is endowed with these ‘underlying national circumstances’ in textile and clothing sectors in full measure.

2. Governments do not control national competitive advantage, they only influence it. The central role of the government policy therefore, is to deploy a nation’s resources (labour and capital) with high and rising levels of productivity, since productivity is the root cause of a nation’s standard of living.

3. Government cannot create competitive industries. Firms must do so. Governments shape or influence the context and institutional structure surrounding firms, as well as the inputs that firms draw from. Based on these premises, following policy recommendations are made:

- Textile Specific:

1. Allow foreign direct investment (FDI) in garment retailing to enable large, modern retail showrooms to set up shops in India. Owing to comparative advantages in clothing manufacture that
would be available indigenously, the government need not worry if these large retailers would begin to outsource their clothing requirements. Presence of large retailers would create domestic demand for ready-to-wear garments, and also push for higher productivity in garment manufacturing through bulk orders. This would also help promote large-scale manufacturing facilities for garmenting, and help Indian exports diversify standardized, clothing items.

2. Reduce the import duty on textile and apparel to infuse competition in the domestic market, which would, inter alia, drive up demand for higher and better clothing. The Indian import tariffs in this industry are among the highest in the world, ranging between 25-40%. And with quota abolished in 2004, the global attention turned towards tariffs in this industry. There already is tremendous pressure on India to improve market access by reducing the high import tariff rates. India can use this as an opportunity to minimize the threat from proliferating regional trading arrangements. GOI can use ‘reduction in import tariffs’ as a bargaining tool to get MFN tariff rates (especially peak rates) in EU and US negotiated downwards as a reciprocal measure. That
would significantly reduce the adverse tariff impact of PTAs on India vis-à-vis the PTA countries of US/EU.

3. Rationalise excise duty structure across the entire value chain from fiber to garment retailing. Levying of moderate, uniform VAT should be the long-term objective. Do away with exemptions on ginned cotton, hank yarn, grey fabric, hand processors (and a few specified processes), knitwear and hosiery and SSI units in garments. The GOI had been announcing though that customs tariffs would be rationalized to just two rates, viz, 10% and 20%, in a few years. This recommendation has just been made by the GOI Expert Group on Textile Policy set up under the chairmanship of N.K. Singh (November 2002). Spinning bears almost 55% of total excise revenue collections from this industry. But contributes only 39% to value addition. Abolish Additional Excise Duty (Textile and Textile Articles) – AED (T&TA) on mmf/yarn and cotton yarn. These would go a long way in realignment of the industry structure at all stages, since the structure of the textile sector particularly has been the result of distortion and discriminatory excise policy, replete with exemptions. New industry structure based on market forces would be more attractive for productive investments, thereby
raising the technological standards and quality levels of the entire industry.

4. Remove policy-bias against synthetic fiber/yarn. Rationalise excise duties on synthetic fiber to bring it in line with cotton fiber. Lower customs duty on raw materials used in manufacture of synthetic fiber/yarn. This would enable the development of a vibrant synthetic fiber base in India, which is critical to correct the predominance of cotton in Indian exports and consumption. Global consumption of synthetic is growing faster than that of cotton, and share of cotton is expected to decline to less than that of synthetic fiber. India has virtually no presence in this area. This is also essential to grow into the vast area of technical textiles that is emerging as a special-use textile in the world. India is just not present in the huge and growing area of non-apparel textile applications. Most of standardized items of clothing too cumbersome form of blend. Moreover, that would enable Indian exports to diversify into on quota-markets. And finally, that would take of some pressure on cotton to clothe the domestic market. Cotton then, can concentrate on higher value addition.
5. Abolish Hank Yarn obligation. It is the power looms that have been benefiting mostly through this regulation, and gain unfair competitive edge over organized mills. This has been a yet another contributory factor to organized mills’ sickness. And decline in share of organized mills due to unfair competition from power loom has been detrimental to competitiveness of the supply chain. Assistance to handlooms, until such time as it might be required, can be provided through existing market assistance schemes. In view of the special characteristics of the handloom sector, it might need some government assistance for some time. – perhaps to refund the excise duty collected through existing handloom rebate schemes.

6. Remove manufacturing of knit garment and fabric from SSI reservation list. One of the chief reasons for the current fragmented, decentralized garment sector in India is that it is reserved for SSI. De-reservation would attract large-scale firms into manufacturing of mass-items of clothing, which reap scale economies. Large-scale firms would not in any case enter the product lines, where order size is small, and considerable manufacturing flexibility is required. So SSIs would not be wiped out. De-reservation would allow India to enter into markets segments, which are among the fastest growing and are factory-
based. Besides, ceiling on scale has prevented modernization and investment in the sector. This would also allow processing of bulk orders from large retailers overseas as well as at home (after FDI in retailing is allowed). This would make the sector attractive for quality investment through technological upgradation. Very importantly, this would also enable the sector to invest in products not on the basis of SSI constraints, but on the basis of composition of demand. Finally, since building non-price competitive competencies are crucial for export growth, the sector would begin to invest in brands, designs, IT driven superior customer services, unique style and patterns etc.

7. Promptly close down sick units in NTC mills those are not capable of being revived, sell their surplus land and use that to pay the employees through a generous VRS package. That would release land in prime centers of cities, prompt more realistic land prices (which may positively affect retail sector), and also cut down the annual losses being incurred due to non-viable operations. In those NTC mills that can be revived, close the weaving units, and modernize and upgrade the viable spinning and processing units. The space created by the closure of weaving units can profitably be used for garment making. The
upgraded processing units, together with garment conversion units. Such a step being actually employment generating and this will release some surplus capacity in the weaving sector, could then cater to the domestic market. The labour displaced as a result of closing down of weaving units should be redeployed in a more labour-intensive garment conversion units.

8. There exists a plethora of regulations like Cotton Control Order, Essential Commodities Act, which need to be critically reviewed in view of their limited usefulness. They are product of an era of shortages, and a drag in the era of surpluses that characterizes the Indian textile and clothing sectors currently. Recently, woven garment manufacturing was de-reserved. Knitwear and knit fabric continue to remain reserved for SSI.

9. This relates to the building of world class infrastructure — port, inland transportation, power, and communication etc — facilities within the country. Owing to resource constraints, it may not be possible to develop such structure for the entire country at once. As a first step, such infrastructure must be made available to units in Special Economic Zones, and extended to rest of the country. It is a fact that the poor quality of Indian infrastructure has had adverse effect on
Indian exports of textile and clothing. Quick response and timely delivery is virtually impossible.

10. Modify the labour related provisions - in Industrial Disputes Act 1948 (Ch V-B). Contract Labour (Regulation and Abolition) Act 1970 (Section 10) and Trade Union Act 1926, to bring them in line with current realities, market requirements and expectations. That fabricators are today the 'backbone' of the garment industry is chiefly due to the outdated labour laws in India. That has created fragmentation especially in the garment industry (since it is more labour intensive). Outdated laws relating to retrenchment, transfers, dismissals and job rotations have adversely affected organized sector too. This has given rise to an industry structure that is completely incapable of becoming globally competitive. It has prevented modernization, scale economies in bulk purchases, production and marketing, and product-diversification into assembly line produced items.

11. For higher value added exports, high-ended approach is one technique for acquiring sustainable and global competitiveness. Right from availability of primary raw material, to spinning, weaving, processing and garment-converting units,
along with the testing labs, etc. should be developed in compact geographical areas, for which demarcation in some form already exists. Government policies there are a strong concern for unemployment that this may cause. However the proposed reforms will have the effect of expanding employment in the organized sector, thus extending the many benefits that at present accrue only to labour in the organized sector to a much large proportion of working population. Like in Special Economic Zones where the investment climate is world class must be industry-friendly, and infrastructure in such areas should be world class. In developing such conglomerations, location factors, particularly pertaining to raw material availability, should also be considered. These facilities should be promoted to evolve as "Centers of Excellence". Tiruppur today is very akin to a conglomeration in knitting/hosiery sector. These `clusters’ could also be much focused on product(s) that India has revealed a competitive advantage in. This develops the supply chain approach and optimizes the synergy between textile and clothing sectors.
### Table:
The Major Markets 2004-2005:

<table>
<thead>
<tr>
<th>Market (US)</th>
<th>Export in '000 Rs</th>
<th>% share in total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA (Q)</td>
<td>86004974</td>
<td>28.21</td>
</tr>
<tr>
<td>Germany (Q)</td>
<td>17553366</td>
<td>12.50</td>
</tr>
<tr>
<td>UK (Q)</td>
<td>20438518</td>
<td>9.50</td>
</tr>
<tr>
<td>France (Q)</td>
<td>18874624</td>
<td>6.64</td>
</tr>
<tr>
<td>Benelux (Q)</td>
<td>11267203</td>
<td>4.90</td>
</tr>
<tr>
<td>Italy (Q)</td>
<td>7164583</td>
<td>5.11</td>
</tr>
<tr>
<td>UAE (NQ)</td>
<td>6046261</td>
<td>2.92</td>
</tr>
<tr>
<td>Japan (NQ)</td>
<td>1902686</td>
<td>3.34</td>
</tr>
<tr>
<td>Switzerland (NQ)</td>
<td>2068803</td>
<td>2.40</td>
</tr>
<tr>
<td>Canada (Q)</td>
<td>10512041</td>
<td>3.04</td>
</tr>
<tr>
<td>USSR (NQ)</td>
<td>1880</td>
<td>4.21</td>
</tr>
<tr>
<td>Sweden (Q)</td>
<td>1915831</td>
<td>2.70</td>
</tr>
<tr>
<td>Australia (NQ)</td>
<td>573</td>
<td>1.30</td>
</tr>
<tr>
<td>Austria (Q)</td>
<td>562</td>
<td>1.30</td>
</tr>
<tr>
<td>Norway (Q)</td>
<td>478</td>
<td>1.10</td>
</tr>
<tr>
<td>Spain (Q)</td>
<td>512</td>
<td>1.20</td>
</tr>
<tr>
<td>Denmark (Q)</td>
<td>538</td>
<td>1.20</td>
</tr>
<tr>
<td>Panama (NQ)</td>
<td>422</td>
<td>0.92</td>
</tr>
<tr>
<td>Saudi Arabia (NQ)</td>
<td>220</td>
<td>0.50</td>
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<td>Kuwait (NQ)</td>
<td>124</td>
<td>0.30</td>
</tr>
<tr>
<td>Singapore (NQ)</td>
<td>289</td>
<td>0.64</td>
</tr>
<tr>
<td>Finland (Q)</td>
<td>230</td>
<td>0.51</td>
</tr>
<tr>
<td>New Zealand (NQ)</td>
<td>145</td>
<td>0.32</td>
</tr>
<tr>
<td>Hong Kong (NQ)</td>
<td>210</td>
<td>0.50</td>
</tr>
<tr>
<td>Mexico (NQ)</td>
<td>478</td>
<td>1.10</td>
</tr>
</tbody>
</table>

Export from India over US $ 10 millions
NQ: Non-quota country
Q: Quota Country
Indian textile and clothing industry is the most important Indian industry, after agriculture, it contributes almost 4 per cent of national GDP and 20 per cent of manufacturing value added, contributes almost 4 per cent of national GDP, and 20 per cent of manufacturing value added. It also earns one-third of India's foreign exchange, and employs over 6.5 million persons directly as well as indirectly. The international trade in textile and clothing is being transformed significantly owing to the phasing out of the Multifiber Agreement (MFA) era, and ushering in of the era of quota-free trade. This has jolted the entire pattern of global trade in textile and clothing from years of stupor, and each country has suddenly become busy preparing its own national strategy for competitiveness in the new scheme of global trade. The Agreement in Textiles and Clothing (ATC) remains the principal driver of such a mammoth economic upheaval in this sector.

International trade in textiles and clothing is an exception to the objective of GATT¹ all along its history. After the end of the Second World War, restrictions on cotton textiles began to be applied under Voluntary Export Restraints. At a GATT Ministerial meeting in

November 1959, the US pointed about those sharp increases in imports over a brief period of time could have serious economic, social and political repercussions in the importing country. It was at the behest of the US that the Short Term Cotton Arrangement (STA) came for a year in 1961. Textiles came to be acknowledged by GATT as a 'special case'. The STA was followed by Long Term Arrangement (LTA) which was in force from 1962 to 1973, which, in turn, was followed by the Arrangement Regarding International Trade in Textiles, better known as Multifiber Arrangement (MFA). This remained in force from January 1, 1974 to December 31, 1994\(^2\). These arrangements set aside, for the sector, the rules and disciplines of Articles XI (General Elimination of Quantitative Restrictions), XIII (Non-discriminatory Administration of Quantitative Restrictions) and XIX (Emergency Action on Imports of Particular Products); the principle of Most Favoured National (MFN) treatment was thrown out. While the arrangements began by restricting only cotton goods, they soon spread their tentacles to wool as well as man-made fibers, and by 1986, had encompassed practically every fiber in existence. Simultaneously, several countries subjected to quotas become 'addicted' to them, and quota traders emerged as a lobby often more powerful than the manufacturers themselves. Indian textile and clothing industry is a case in point.

\(^2\) GATT Activities 1985 – An Annual Review of work of GATT
Thus, it meaningful liberalization to trade was to be achieved at the Uruguay Round (UR)\textsuperscript{3}, the MFA had to go, and the rules applying to industrial goods had to be extended to textiles and clothing. It is against the backdrop that the Agreement in Textiles and Clothing (ATC) assumes significance. Specifically, ATC presents some definitive advantages over the MFA era; viz. (i) it puts an end to the long life of MFA; (ii) it brings textiles and clothing at par with all other industrial products, and the sector ceases to be a "special case" and (iii) it is self-destructive having extinguished itself in 2004. Quotas phased out using two methods - at the start of each phase/stage, a proportion of quotas integrated immediately and remaining quotas, meanwhile, are increased each year at a faster rate of growth than applied in the previous phase\textsuperscript{4}. The quota imposing member countries were, therefore, obliged to integrate at least 16\% of their total volume of 1990 import of all textiles and clothing as on January 1, 1995, another at least 17\% on January 1, 1998, 18\% on January 1, 2002, and finally the remaining 49\% on January 1, 2005\textsuperscript{5}. The only other condition being that the surrendered products must include at least one category selected from each of the following four groups, viz., tops and yarn, fabrics, made-up textile products, and clothing.

\textsuperscript{3} GATT Activities 1986 An Annual Review of Work of GATT ( Geneva, Jue 1987
\textsuperscript{4} GATT Agreements, Results of Uruguay Round ( Bombay, MVIRDC, WTO, 1995)
\textsuperscript{5} World Trade Organization, The legal Texts : The Results of Uruguay Round of Multilateral Trade Negotiations ( New York: Cambridge University Press 1999)
PROBLEMS FACING THE INDUSTRY:

Very few industries are as ubiquitous as textile and clothing industry. As such, the intentions of the primarily importing countries in the developed world are still as protectionist as they historically have been. However, one big difference between yester years (MFA era) and the era of ATC is the explicit implementation of the "General Elimination of Quantitative Restrictions" (Art. XI) that is enshrined in GATT 1994 through ATC. The protectionist tools have now changed, even though the intentions remain unchanged. This is evident in the scores of issues that have arisen during the actual implementation of the ATC by the developed countries, notably the US and the EU. They have half heartedly followed the ATC.

The product integration under ATC calls for fixed percentage of all MFA-restrained plus non-restrained categories) the 1990-level imports of textiles and clothing to be integrated at designated dates. USA has published their ten-year integration schedule in 1990, 36.85% HS lines of all textile and clothing imports into USA were non-restrained. It was 33.64% for the EU. Therefore, in case of both USA and EU, not a single product surrendered for integration on January 1, 1995 was

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restricted by quota! At stage II (beginning January 1, 1998) also, only a few products surrendered were ever subject to quota, and almost all of these quotas had been severely under-utilized in the previous year. Even the 3rd phase of the ATC that began on January 1, 2002 left several important quotas in place. Indeed, integration of the most ‘sensitive’ goods had been deferred until the end of the ten-year period. This is not a characteristic unique to the USA, even though USA’s integration plan being more skewed among all countries maintaining quota in textile and clothing. That members like the EU, Canada and Norway being not too far behind.

WTO members have offered greater and more predictable domestic market access through tariff bindings and reduction commitments. Aside from quantitative restrictions (QRs), Compared to 78% HS tariff lines that were bound in the developed countries before UR, 99% have been bound following the UR. Post-UR bindings are 73% (up from 21%) in the case of developing countries. This is not small achievement. India too has bound 67% of its 5113 tariff lines, up from 6% before UR.

**Table:** Tariff Binding on HS Lines

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Table: Tariff Binding on HS Lines

---

<table>
<thead>
<tr>
<th>Product Group</th>
<th>Developed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bound</td>
</tr>
<tr>
<td>1. Agriculture excluding Fish</td>
<td>5.2</td>
</tr>
<tr>
<td>19.9</td>
<td>7.2</td>
</tr>
<tr>
<td>2. Fish &amp; Fish products</td>
<td>4.2</td>
</tr>
<tr>
<td>25.9</td>
<td>4.9</td>
</tr>
<tr>
<td>3. Petroleum</td>
<td>0.7</td>
</tr>
<tr>
<td>10.3</td>
<td>0.9</td>
</tr>
<tr>
<td>4. Wood, pulp, paper &amp; furniture</td>
<td>0.5</td>
</tr>
<tr>
<td>10.3</td>
<td>0.9</td>
</tr>
<tr>
<td>5. Textiles &amp; clothing</td>
<td>8.4</td>
</tr>
<tr>
<td>25.5</td>
<td>11.0</td>
</tr>
<tr>
<td>6. Leather, rubber, footwear</td>
<td>5.5</td>
</tr>
<tr>
<td>15.9</td>
<td>6.5</td>
</tr>
<tr>
<td>7. Metals</td>
<td>0.9</td>
</tr>
<tr>
<td>10.4</td>
<td>1.6</td>
</tr>
<tr>
<td>8. Chemical &amp; photo, Supplies</td>
<td>2.2</td>
</tr>
<tr>
<td>16.8</td>
<td>3.6</td>
</tr>
<tr>
<td>9. Transport equipment</td>
<td>4.2</td>
</tr>
<tr>
<td>13.2</td>
<td>5.6</td>
</tr>
<tr>
<td>10. Non-electric machinery</td>
<td>1.1</td>
</tr>
<tr>
<td>14.5</td>
<td>1.9</td>
</tr>
<tr>
<td>11. Electric machinery</td>
<td>2.3</td>
</tr>
<tr>
<td>17.2</td>
<td>3.7</td>
</tr>
<tr>
<td>12. Mineral products, precious</td>
<td></td>
</tr>
<tr>
<td>stones &amp; metals</td>
<td></td>
</tr>
<tr>
<td>13.3</td>
<td></td>
</tr>
<tr>
<td>13. Manufactures, n.e.s.</td>
<td>1.4</td>
</tr>
<tr>
<td>14. Industrial Goods (Rows 4-13)</td>
<td>2.5</td>
</tr>
<tr>
<td>13.3</td>
<td>3.5</td>
</tr>
<tr>
<td>All merchandise trade</td>
<td>2.6</td>
</tr>
<tr>
<td>13.0</td>
<td>3.7</td>
</tr>
<tr>
<td>13.3</td>
<td></td>
</tr>
</tbody>
</table>

Source: Finger, Ingo and Reincke

Notes: Weighted averages, excluding trade within FTAs. The applied rates are those for the base period, while the bound rates are those
applied after the implementation, in some instances, this means that the applied rates are higher than the bound rates. Textile and clothing remains to attract the highest set of bound duties in developed countries-11 per cent against an average of 3.7 per cent on all merchandise. Developing against an average of 3.7 per cent on all merchandise. Developing countries are no exception either. The tariff peaks in textile and clothing is more clearly reflected in Table below.

**Table:**
Import Tariff Peaks of Textile and Clothing Sector

<table>
<thead>
<tr>
<th>Developed Countries</th>
<th>Pre-WTO</th>
<th>Post-WTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>All industrial products avg. 3.8%</td>
<td>6.3%</td>
<td></td>
</tr>
<tr>
<td>Textile and clothing 12.1%</td>
<td>15.5%</td>
<td></td>
</tr>
<tr>
<td>U.S.A. Average for garments</td>
<td></td>
<td>18.3%</td>
</tr>
<tr>
<td>Tariff on Cotton Trousers 22.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The world trade in textiles and clothing has grown, 55 times in 2004-2005, whereas, during the same period, Indian exports have grown only by 15 times. This is duly corroborated in the falling share of Indian
textile and clothing export in the global sectoral trade. The total trade in textiles and clothing in 2005 being US$550 billion, out of which clothing would approx. comprise, US$350 billion. Garment indeed is the engine of growth in this sector in the foreseeable future. USA and EU imported US$53.5 billion and US$82.6 billion of clothing respectively in 2000. In the case of textiles, USA and EU imported US$69 billion, which is 46 per cent of global textile imports. The deficit countries in textiles and clothing are primarily the developed countries, with USA and EU leading. Little wonder then that, given that the developed countries are likely to remain deficit countries, and developing ones are where textile and clothing would be overflowing, it is of paramount importance for the developing countries to ensure a meaningful market access to the developed country markets. The crucial question, therefore, is, does ATC ensure such an access?

Over 115 Regional Trading Arrangements (RTAs)—including the EU and NAFTA—are in place as of date. Article XXIV of GATT 1994 provides for the formation of Customs Unions and Free Trade Areas provided certain conditions are fulfilled. Originally intended to be a stepping stone to global free trade, RTAs have, in practice, led more to trade diversion, than trade creation, much to the detriment of the welfare enhancing effects of free global trade. The non-harmonisation
of rules of origin has exacerbated this exception to the principle of MFN. This is very clearly reflected in the case of both NAFTA-CBI and EU, which have encouraged OPT\textsuperscript{11} arrangements by promulgating skewed rules of origin clauses in the agreements forming the RTAs. It is now widely known that NAFTA promulgates its rules of origin to encourage OPT between USA on the one hand, and Mexico and CBI countries on the other, the sources of apparels imported into USA has shifted to Mexico and CBI nations. Apparel imports by USA from these two regions has increased from about 10 per cent (of all its apparel imports) in 1993\textsuperscript{12}. It is also pertinent to note that these apparels originating in, say Mexico, are not made out of Mexican fabrics, but are mostly converted from fabrics manufactured in USA. Under ‘807’, fabric must be cut in the US, and then shipped to Mexico or CBI countries for assembly only. They are shipped back into US with duty paid on value added only. And it is the ‘807’ trade that is the principal driver of rising US apparel imports from Mexico. Textile and clothing trade data for EU reveals a similar trend, though not as pronounced as that in case of USA. The EU has been increasingly sourcing its apparels from Eastern and Central European countries, as well as Mediterranean countries through OPT arrangements. This short paper would not allow reporting

that analysis here. Not content with the trade with NAFTA and CBI countries alone, the USA has now initiated a new RTA with the forty-eight countries of the Sub-Saharan African Region, under the African Growth and Opportunity Act 2000. This RTA forges a similar relation with African nations of the Sub-Saharan region as it has with NAFTA and CBI countries. In de facto terms, the beneficiaries are the domestic textile manufacturers in USA. The preferential treatment (quota free and duty-free) is heavily skewed towards the import of apparels from sub-saharan region that are converted from fabrics, formed and cut in USA. This modus operandi is similar to that prevailing in NAFTA and CBI arrangements. The inescapable conclusion, therefore, is that countries such as India are getting more and more marginalized in the global scheme of trade patterns in the textile and clothing sector. Increasingly, apparel imports into USA and EU is of preferential origin.

**Table:** African Growth and Opportunity Act 2000 – Preferential Rules of Origin

<table>
<thead>
<tr>
<th>Preferential Treatment</th>
<th>Preferential Treatment</th>
<th>Preferential Treatment</th>
<th>Preferential Treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With Limitations</td>
<td>For LDCs #</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yarn spun in Anywhere</td>
<td>USA</td>
<td>USA</td>
<td>USA/SS</td>
</tr>
<tr>
<td>Fabric Cut in Anywhere</td>
<td>USA</td>
<td>SS</td>
<td>---</td>
</tr>
</tbody>
</table>
Fabric Formed in USA USA SS Anywhere
Thread Formed in Anywhere USA Anywhere Anywhere
Assembled in USA/SS USA/SS SS SS
Source: Sub-Saharan Beneficiary Country

That import of textile has grown remarkably in the last couple of years is a well-known fact. However, what is perhaps not as well-known is that the growth rate of import of textiles into India has been more rapid before WTO came into existence than after India’s commitments to reduce its import tariffs came into effect! It is not correct to blame WTO for such import surges in textiles in recent times. Undoubtedly, the exchange rate devaluation in 1991, and the consequent depreciation of the Indian Rupee played a role in increased import value reported in Rupee terms. However, data on total textile imports in US$ terms do not reflect a different story. Unfortunately, no disaggregated data on import of textiles is readily available in order to arrive at a reasoned judgment. Perhaps, the hue and cry being raised by the domestic industry owes itself to the perception that India’s commitments to WTO, and its bilateral agreements with USA and EU relating to removal of QRs and reduction in bound and applied tariff rates, is the chief culprit.
for the rising import values\textsuperscript{13}. That certainly is not the case. Having mentioned that, it is anybody’s case that India has been losing competitiveness in textiles and clothing globally. And with the emerging trade patterns, the pressure to become globally competitive is stronger than ever before, while the time to attain such global competitiveness is increasingly shorter now\textsuperscript{14}.

While some of the “grey measures” like Voluntary Export Restraints are outright prohibited under the GATT 1994, some other forms of Non-Tariff measures (NTMs), which are sanctioned by the WTO, have assumed importance in the context of global trade in general, and that in textile and clothing in particular.

These include administrative measures, like customs valuation, extensive documentation, inspection requirements, blacklisting of companies and attempts to link trade with social and environmental issues, and national record of Human Rights\textsuperscript{15}. Around 75 percent of all textile and clothing imports into the EU region faced NTBs of one kind or the other, after the WTO came into existence in 1995. Interestingly, Mexico has rapidly resorted to the use of NTBs for textile and clothing


\textsuperscript{14} Ackah, C. and Appleton, S. (20027) ‘Food price changes and consumer welfare in Ghana in the 1990s’, Credit Discussion Paper N 07/03, Nottingham University of Nottingham

imports. This could be in order to divert the benefits of trading under NAFTA regime to its domestic manufacturers alone, and at the cost of more competitive counterparts from the rest of the world, chiefly Asia. The developing countries believed developed countries could create trade barriers by using trade sanctions for non-compliance with non-trade objectives. Therefore, there are legitimate concerns whether a trading system in which trade barriers were generally declining for the last fifty years, would again experience higher barriers in the garb of non-trade issues. The experience of the ATC implementation over the last quinquennium since 1995 has indicated that such concerns are indeed very real.

OBSERVATIONS:
Integration of textile and clothing into GATT 1994, according to the plan laid out in the ATC, would definitely increase the magnitude of global textile and clothing trade. That clothing would be the engine of growth of such massive trade also appears to be quite clear. Market access to WTO member countries would become more predictable (with bound tariffs) and transparent (owing to Trade Policy Review Mechanism of GATT 1994). Moreover, with progressive reduction in tariffs themselves, the world is likely to see its massive price-effect on trading volumes.
However, all this would come along with greater, more ruthless, and
global nature of competition. Internationalization of operations in order
to realize most cost-effective overall operations would lead to a
borderless world. No firm would remain unaffected by globalization that
is well under way. And all firms would have to match their operational
effectiveness to that of best global competitor. In the emerging world of
unfettered capitalism, firms would have to run in order to stand where
they are. Textile and clothing is no exception. Notwithstanding the wind
of globalisation that is sweeping the international trading landscape, the
counterforce of protectionism is already rearing its head among
developed countries in textile and clothing. For, in this sector,
comparative advantage particularly in clothing certainly lies with the
relatively low labour cost Asian countries. With most overt protectionist
weapons having been prohibited under the WTO regime, newer forms
of protectionism under the umbrella term of NTBs are emerging. And
the developing countries need to guard against such tendencies. The
guarding may better ensue quickly. Indian textile and clothing industry
conttributes nearly 4 per cent of national product, earns 35 per cent of
national foreign exchange, and supports over 6.5 million persons
directly and indirectly. It is therefore, of paramount importance that the
vectors of change in the global trading system are studied carefully, and
industry's competitiveness bolstered urgently. It is time for the industry
to understand the nuances of WTO agreements, and widen their horizon to reach global frontiers of knowledge if the industry is to survive in the fiercely competitive trade regime that has already set in. For, "competitive advantage ultimately rest its from an effective combination of national circumstances and company strategy. Conditions in a nation may create an environment in which firms attain international competitive advantage, but it is up to the company to seize the opportunity." For long, the Indian textile and clothing industry has admonished the developed countries for following the ATC in letter and not in spirit. It is time the Indian industry stops harping its repeated pleas and also stops censuring the developed countries for doing their homework on WTO better, and, for a change, instead sit down to do their own homework on WTO better.

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(I) WTO AND INDIA'S TEXTILE EXPORTS

WTO agreements' main thrust being trade liberalization through the removal of all kinds of non-tariff barriers, and allowing optimal use of world resources in accordance with the objective of a sustainable development. To meet the concept of sustainable development, link between trade and environmental policy was established. Trade policy in the context of environment was favoured to (i) redress competitive effects of differences in environmental standards, (ii) induce other countries for adopting appropriate environmental standards, (iii) enforce domestic environment standards, (iv) enforce international agreements, (v) give effect to existing international agreements, because the effects of trade policy are immediate, and (vi) increase animal welfare. Apart from the link between trade policy and environmental policy, labour standards are also being introduced in international trade. These environmental policies and labour standards are also being interpreted as protectionist policies in view of the growing unemployment in Europe and declining or stagnant real wages of unskilled workers in the US. However, these new non-tariff barriers will put pressure on developing countries like India in the form of elimination of competitive cost

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1 Anson, Robin, Strategies for Global Competitiveness, Paper presented at Texcon'99, Chandigarh, India, 3 Dec 1999
advantage and there will not be a proper balance between free trade and fair trade.

India has a comparative cost advantage in the production and exports of textiles. The on-going liberalization process as well as dismantling of the trade barriers in the world, and phasing out of MFA in 2005 under the WTO regime, has offered bright future for textile exports. But India’s share in world exports of textile yarn, woven cotton fabrics (fab.), woven fab, of man-made fibers has declined over the years². The rate of growth of India’s exports of textiles has not kept pace with that of the world exports after 1994. In view of the performance not being commensurate with the expectations, there is a need to look at India's performance on the textiles export front especially after the WTO wris came into existence. It is in this context that an attempt has been made in this paper to study export performance of textiles for the period 1998-2005.

To study export performance and commodity composition of textiles, textiles have been broadly divided into two categories i.e. textiles (excluding ready made garments: RMG) and RMG. Textiles (excluding

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RMG) include 10 categories, while RMG include 5 categories. Direction of exports has been analysed for each category of exports. For each category, 19 countries (accounting for more than 80 per cent of India's exports of that category) and 50 countries for all categories of textiles exports have been considered. Relevant data have been taken from CMIE publications. To examine the structural change in commodity composition of textiles exports percentage shares were worked out from 1998-2005. Further, linear trends in export shares of 40 countries (having greater than one per cent export share in India's exports in 2004-05) were worked out. For Understanding geographic concentration/diversification, Hirschman index of geographic concentration of each category has been used. For the purpose of this exercise, the world consists of 19 countries in each category. Linear trend in geographic concentration index for each category were also worked out.

**EXPORT PERFORMANCE:**

As per analysis of the export performance of textiles shows that exports of textiles (excluding RMG) increased at a rate of 19.07 per cent per annum during the period 1998-2005. Of the 10 categories included in textiles, exports of five categories, namely coir and coir manufactures, cotton yarn fab. made-ups etc., floor covering of jute experiencing highest growth rate of 71.91 per cent), man-made yarn fab. made-ups
and of woolen yarn fab. made-up etc. increased at faster rates than for
the group as a whole. Exports of four commodities viz. carpet hand
made (having lowest growth rate of 6.22 per cent), carpet mill made,
jute manufacturing excl. floor covering and natural silk fab. made-up
increased at lower rate. Exports of ready-made garments (RMG)
witnessed a growth rate of 18.12 per cent during the post-liberalisation
period. Of the 5 categories considered in RMG, exports of 3 categories
namely RMG of cotton incl. Accessories, RMG of man-made fibers and
RMG of wool (with the highest growth rate of 21.67 per cent) increased
at a faster rate than RMG group as a whole. RMG of other textile
materials also maintained double digit rate. Exports of RMG silk
showed a relatively poor performance and recorded a growth rate of
only 2.12 per cent.

Changing Compositions of Textiles Exports.
Within textiles (excl. RMG), exports of three main categories namely
cotton yarn fab. made-up (27.08 per cent share), carpet handmade
(8.72 per cent share) and man-made fab. madeups (7.47 per cent
share) constituted a lion’s share in exports in 1998-99. Exports of other
categories viz. carpet mill made, coir and coir manufactures, floor
covering of jute, jute mfg. excl. floor covering, natural silk yarn fab.
madeups, silk carpets and woolen yarn fab. made-up etc. each
constituted a very low (less than 2 per cent) share in exports of textiles.
Within RMG, of the 5 categories, two main categories, namely RMG of cotton incl. Accessories (with the highest share of 35.07 per cent) and RMG of man made fibers (7.53 per cent share) together occupied the preponderant position in exports of RMG in 1998-99[^3]. The shares of each of the other RMG items were very low. During the post-liberalisation period, export shares of textiles and its four major constituents viz. coir and coir manufactures, floor covering of jute, cotton yarn fab. made-up and man made yarn fab. made-up have been continuously increasing except for one or two years. Woolen yarn fab. made-up witnessed fluctuating but increasing trend in export share. Carpet handmade has been experiencing continuous and rapid decline in export share. Natural silk yarn fab. made-up witnessed an increase in export share. Export shares of carpet mill made, silk carpets and of jute mfg. excl. floor covering fluctuated and finally decreased. Between 1999-2005, RMG and its main category RMG of cotton yarn fab. made-up etc. experienced rapid increase in export share. Three categories viz. RMG of manmade fibers, RMG of other textile materials and RMG of wool experienced fluctuating but increasing trend, while RMG of silk witnessed fluctuating but decreasing trend. Textiles constituted 50.18 per cent share, while RMG constituted 49.82 per cent share. Thus,

[^3]: Bibek Debroy, ed 'The WTO Millennium Round – Towards a Negotiating Agenda for India, Confederation of Indian Industries, New Delhi, 1999
there has been an almost negligible change in broad composition of textiles exports. Within textiles (excl. RMG) three categories viz. cotton yarn fab. made-up, carpet handmade and manmade yarn fab. made-up and in RMG two categories viz. RMG of cotton incl. Accessories and RMG of manmade fibers continued constituting major share in exports. Compared to 1998-99, of various categories of textiles exports considered, only two categories viz. carpet handmade and cotton yarn fab made-up experienced rapid change in export share in 2004-05. While the export share of the former decreased rapidly, for the latter, it increased rapidly in 2004-05, compared to 1998-99. It may be worthwhile pointing out that the share of textiles kept on increasing, slowly, between 1999-2005 while that of RMG kept on declining, again at a very slow pace, for the same period. In other words, the interception of WTO and the agreements relating to textile exports did not affect the internal composition of India's textile and RMG exports, surely for a few years to begin with.

(a) Textiles (Excl. RMG):

52 per cent of exports were destined to five nations namely, USA (16.35 per cent share), Germany (12.57 per cent), UK (9.77 per cent), UAE (6.47 per cent) and Bangladesh (7.01 per cent) in 1998-05, 52 per cent of exports were directed to these five and three more nations viz. Italy, Hong Kong and Belgium put together as per the CMIE data on
foreign trade and associated aspects. Regarding structural change in the direction of exports, ten countries witnessed an increase in the share of India’s exports of textiles (of which the share of Hong Kong increased rapidly from 1.57 per cent in 1998-99 to 5.02 per cent in 2004-05 and that of Germany decreased rapidly from 12.57 to 6.78 per cent, during the same period). Within textiles, changes of varying degree are discernible in respect of individual items. For example, in the case of carpets handmade category, USA and Germany together continued to dominate the list of importers; for coir and coir manufactures, six countries (USA, UK, Italy, Germany, Netherlands and France) accounted for two-third of India’s exports for cotton yarn fab. made-up, besides USA and UK continuing to dominate the list of buyers, Hong Kong and Taiwan also started emerging as visible buyers; USA continued to be the most domineering importer of India’s floor-covering jute products; the largest export destinations for manmade yarn fab. made-up continued to be UAE and UK; for natural silk, USA, UK, Germany, and Italy continued to be our bulk purchasers; and Germany, USA, France and Switzerland have continued to buy more than 70 per cent of exports from India, and so on. In brief, two tendencies clearly seem to have governed the pattern of India’s exports of textiles (exclusive of RMG). First, USA and a few big European economies, notably UK, Germany and France, have continued to be the
bulk buyers of our textiles: all WTO conditionalities and agreements concerning textile exports, largely emanating out of such economies, have thus to be taken seriously if the future of textile exports is to be safeguarded. Second, some small buyers, noticeably Hong Kong, Taiwan, Israel, South Africa, UAE, etc. are also emerging, and the strategic wisdom demands that such upcoming markets must also be developed, especially because a fairly tough competition prevails amongst the South Asian and South-east Asian economies. In particular, South Africa, Israel and Ireland for manmade yarn fab. and Iran and Saudi Arabia for jute manufactures (excluding floor coverings) need to be nursed¹.

(b) Ready made Garments:

As per the CMIF data about USA, Germany, UK and France accounted for 60 per cent of exports in 1998-99 and 56 per cent of those later on. However, UK and Germany lost importance in country’s exports while USA and UAE emerged as largest destinations in 2004-05 compared to 1998-99. A similar trend has been observed in the case of two main categories of RMG, i.e., RMG of cotton incl. Accessories and RMG of manmade fibres. Regarding RMG of other textile materials, USA, UAE, UK, Germany, France and Russia continued 68 per cent share of

India's exports and 64 per cent in. UAE emerged as a major market along with USA, while Germany and UK experienced rapid decrease in share of exports in 2004-05. In the case of RMG of silk, USA alone absorbed 50 percent share of exports in 1998-99. Apart from USA, Germany and UK were major markets in 1998-90. In 2004-05, apart from these three markets, other major destinations were Hong Kong, UAE and France. For RMG of wool, Russia alone absorbed 44 per cent share in exports and it absorbed only 14 per cent of exports. USA, UAE and Germany were the largest destinations\(^5\).

(c) Trend Analysis:

In the case of textiles (excl. RMG), the trend analysis of different categories of textiles exports showed that the trend co-efficient was positive and significant at 5 per cent level for only one country i.e. Mauritius, and it was negative and significant for 7 other countries\(^6\). Within textiles (excl. RMG) group, in the case of carpet handmade, only one country, i.e. USA has experienced a highly significant increase in country's export share. For carpet manmade, the trend coefficient was highly significant and negative for Germany. Regarding coir and coir manufactures and cotton yarn fab. made-up etc., the trend coefficient was highly significant and negative for Germany. Regarding coir and

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coir manufactures and cotton yarn fab. made-up etc., the trend coefficients for almost all countries were highly significant. In the case of floor covering of jute, three economies, viz. USA, UK and Australia, registered a significant decrease in export share. In the case of jute manufacturing excl. floor covering, seven countries experienced a significant increase in export shares, while four experienced a significant decrease in their shares. In the case of manmade yarn fab. made-up, the trend coefficients were significant and positive for seven and significantly negative for six countries. For natural silk yarn fab. made-up category, there was a significant increase in export shares of three countries only (USA, France and Canada). Regarding silk carpets, three countries viz. UK, Germany and France experienced a rapid increase in export shares. In the case of woolen yarn fab. made-up etc., export shares of six nations increased significantly.

In the case of ready-made garments (RMG), the trend coefficients were highly significant for almost all countries except Saudi Arabia. Within the RMG group, for RMG cotton incl. Accessories category, there was a significant increase in the export shares of two countries only, viz. USA and UK. In the case of RMG man-made fibers, five and in the case of RMG of other textile materials, six countries experienced a significant increase in export shares. In the case of RMG of silk category, only two countries viz. Germany and France witnessed a rapid increase in export
shares, while for RMG of wool category, only three countries viz. USA, Italy and France experienced a significant increase in export share. Trend analysis of different categories of textile exports show that USA and France are gaining importance in country’s exports, as shares of these nations experienced an increase for most categories. The share of USA has increased in ten categories, while France it has increased in nine categories of textiles exports during the post liberalization period. UK and Germany are losing importance as country’s trading partners in textiles. The share of UK has decreased in eleven categories, while of Germany has decreased in twelve categories of textiles exports.

Market Diversification/Concentration:

The coefficient of geographic concentration index is higher than its minimum value for almost all types of textiles categories indicating that exports are concentrated only in a few markets. However, the highest concentration was found in the case of floor covering of jute (index = 61.32) followed by RMG of silk (53.6), carpet handmade (48.84), RMG of wool (47.77), the concentration was found to be the highest in carpet

\[ \text{Index} = \frac{\sum \text{exports of a country}}{\text{total exports}} \]

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Notes:

handmade (52.11), followed by carpet mill made (48.64), silk carpets (48.39) and in floor covering of jute (48.20). Exports are diversified in the case of textiles (excl. RMG), cotton yarn fab. made-up etc. and manmade yarn fab. made-up etc. During the post-liberalisation period, the geographic concentration index decreased for most years for seven categories, namely textiles (excl. RMG), coir and coir manufacturers, cotton yarn fab. made-up, floor covering of jute, jute mfg. excl. floor covering, manmade yarn fab. made-up and RMG of silk. The index fluctuated and decreased for two categories viz. RMG of man-made fibers and RMG of wool. Trend coefficients were negative and highly significant for these nine industries indicating that India has started exporting these products to a large number of markets. Geographic concentration index fluctuated and increased for four categories namely carpet handmade, woolen yarn fab. made-up, RMG and RMG of cotton. Four categories namely carpet mill made, natural silk, silk carpets, and RMG of other textile materials experienced a continuous increase in geographic concentration index except for one or two years.

To understand India’s position among other textile producing the industry contributes 9% of GDP and 35% of foreign exchange earning, Indias share in global exports is only 3% compared to Chinas 13.75%
percent. In addition to China, other developing countries are emerging as serious competitive threats to India. Looking at export shares, Korea (6%) and Taiwan (5.5%) are ahead of India, while Turkey (2.9%) has already caught up and others like Thailand (2.3%) and Indonesia (2%) are not much further behind. The reason for this development is the fact that India lags behind these countries in investment levels, technology, quality and logistics. If India were competitive in some key segments it could serve as a basis for building a modern industry, but there is no evidence of such signs, except to some extent in the spinning industry.

OBSERVATIONS:

The developed countries still remain the major destinations for most of India’s exports of textiles. However, the most important directional change in exports has been a sharp decline in the shares of Germany and UK in ready-made garments, carpet handmade and carpet mill made and an increase in importance of UAE, Hong Kong and USA for a large number of textile exports. A reduced of-take by Germany in major textile products (due to imposition of strict environment and labor standards) is a cause of worry to exporters. Germany introduced eco-labels for clean garments, in the form of (a) obligation to label ‘close to skin products’, (b) ban/restriction on the use of pentachloro phenol, chlorinated pesticides, (c) ban on the use of azo dyes, (d) restrictions
for use of heavy metals in textiles, and (e) no chlorine bleaching.

These eco-labels have been introduced due to growing awareness about environmental problems posed by textile industry, a noticeable increase in the number of textile related allergies, to boost sale of textiles by introducing new norms and slogans and problems faced in disposing of used textile goods. As trade restricting measures, Germany has put a ban on the use of azo dyes. The ban imposed by Germany has become an example for other countries; Netherlands introduced the same ban later. It is feared that similar bans may be imposed by other European countries and USA (major trading partners in India’s exports). Moreover, at present, only product related standards and prohibition of certain substances such as azo dying has been considered, but in future, much more stress may be laid on ‘clean processing’, which will imply further restrictions for exporters. In order to meet ecological challenges, identified and posed by Germany, to exploit competitive advantages of production of superior quality and high production, to have sustainable export growth both by volume and value, to diversify export market and to face strict tariff and non-tariff barriers, there is a need to adopt specific product techniques to comply with new environmental regulations introduced in the target markets.

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8 Khanna, Dr. Sri Ram and IBC Research Team, Trends in US Textile and Clothing Imports, Textile Outlook International, May 2000, No. 87
For manufactures of eco friendly textiles and for a healthy growth of the industry, industry itself has to adopt the ‘cradle to gravel approach’ i.e. industry must start applying eco-prescription right from the stage of cultivation of cotton to the spinning of yarn, weaving of fab., dyeing, finishing and refining the fab., chemical processing, garment manufacturing, packaging, usage of clothing and its care and, finally, to the recycling or disposal of waste. Textiles should be made from organic cotton or other natural fibers cultivated or should be produced without application of chemicals⁹.

In order to remove residue fertilizers and pesticides, at the level of crop cultivation, crops should be cultivated for three seasons, without use of any chemical fertilizers. In the case of wool, animal husbandry must follow organic rules; in the case of silk, mulberry plantation must be organically cultivated. In weaving and knitting, care should be taken in the selection of lubricants. In the finishing of textiles, mechanical and high temperature processing should be adopted. Natural dyes free from toxic materials should be used. In the case of garment manufacturing, stain removers containing chlorinated products must be avoided. For packaging, environment friendly materials, which can be reused and recycled, should be used. Wooden crates treated with insecticides

⁹ Krueger, Anne O., ed. The WTO as an International Organization, 1999, Oxford University Press, Delhi
should be avoided. Further, textile industry should comply with eco-
regulations by procuring dyestuff from reputed manufacturers and
should avoid loose packing of dyestuff. Thus, introduction of
environment policy will put pressure on Indian textile industry in the
form of rising environment cost as the textile industry may have to find
alternative dyes and auxiliaries in place of the conventional ones (at
present Indian textile industry is using more than 8000 different
chemicals in the manufacture of different goods\(^{10}\). Apart from rising
costs, difficulties are most pronounced due to the dominance of the
decentralized sector in the industry (about 64 per cent of weaving is
done in the decentralized sector). The decentralized sector itself is
highly heterogeneous in terms of the range of techniques used. The
awareness of new eco-standards is generally low because mainly small
farmers do processing of raw cotton and cooperatives and it becomes
difficult for them to provide pesticide-free cotton to the textile industry.
There is no direct interaction with suppliers of dyes as the units buy
inputs from local markets. The decentralized sector lacks technical
know-how, possible substitutes and financial resources. A well defined
strategy and an action plan is needed to solve problems in the
decentralized sector which involves (a) constant interaction with

\(^{10}\) Lalbhai Arvind, et al., Indian Textile Industry: Strategy for Achieving Strong Global Presence,
Paper presented at 54\(^{th}\) All India Textile Conference on “Textiles in New Millennium: Innovations,
Challenges and Impact”, Textile Association, Ahmedabad Unit, Ahmedabad, November 1998
suppliers, (b) interaction with support system and (c) pre-emptying major problems of adjustment process. To solve the problem of the adjustment process, awareness of new requirement (eco friendly products), should be created. For this purpose, services should be strengthened in the areas of information, testing eco-quality control, technique assistance, R&D, education and training of staff and environment management system. Approach based on Best Available Technology Not Entailing Excessive Cost is most suitable now a day. Thus, needs of quality, production and environment friendliness, both of process and product, can be simultaneously solved by manufacturers, exporters/ central/ state Govts/ agencies operating in different area. No doubt, government has been adopting regulatory and developmental approaches in supporting the industry. Setting up eco testing laboratories, technology up-gradation fund, cotton technology mission (fund to improve the yield of cotton), but its role needs to be further strengthened.