INTRODUCTION:

Textile Industry and Global Trade in Garments: A Critical Overview

After seven years of protracted negotiations—called Uruguay Round of Trade Negotiations—a new rule-based leading system with a new apex body, the World Trade Organization (WTO), equipped with the authority of enforcing the commitments, rules and norms of discipline came into existence on January 1, 1995. This Uruguay Round of Trade Negotiations—Seventh in the series of such negotiations—was unique in several respects. It covered many new areas such as agriculture, textiles, technology; intellectual property rights (IPRs), trade-related investment, services, etc. It included in its scope of liberalization, non-tariff barriers (NTBs) along with tariffs, and conceived many new norms and disciplines such as sanitary and phytosanitary measures, anti-dumping measures, dispute settlement procedures, safeguard measures, etc. with a view to ensuring liberalized effective market access and rule-based trade. Unlike the erstwhile GATT, the new institution—WTO—is equipped with legal authority and provisions for enforcement of the rules and the disciplines of the new trading system.
Some of the positive achievements of the Uruguay Round of Trade Negotiations that have been incorporated in the Final Act and WTO framework need to be explicitly recognized. Over the past several years, many countries, which were vocal advocates of free trade and free play of market forces, had been adopting many market-intervention policies to serve their own national interests. For example, huge subsidies to the agricultural sector given to the farmers in European Union (EU) were indeed a source of distort on in agricultural trade. The multifiber agreement (MFA) for trade in textiles was another example of managed trade in an otherwise market-based trading environment. The Agreement on Agriculture, as part of WTO, has mandated phased reduction of agricultural subsidies, even though some of the so-called Green Box Measures, such as decoupled income support, adopted in the USA and other countries, have continued to retain the distortions in the market-based trading environment of agriculture. The whole of MFA is proposed to be phased out as part of the textile Agreement. Of course, it will take a decade or more before all the items of the textile sector are available for quota free trading. Introduction of some norms in the adoption of sanitary and phytosanitary measures, tightening of the discipline in the context of dumping and adoption of and dumping measures, indication of rule-based environment for intellectual property rights, introduction of discipline in the context of trade-related
investment measure, etc. are the examples of some of the provisions made in the WTO system which could have positive effects on the world trading environment.

As against the positive aspects of the WTO system mentioned above, there are the negative aspects also which need to be highlighted. Even though the developing countries desired that the nexus between trade, finance and development should be recognized in the new framework of the rules, this nexus does not seem to be prominently incorporated in the provisions of the various Agreements. It is not enough to give a longer period to the developing countries or the least developed countries to fall in line with the new trading system. What is required to building up of some special measures and initiatives which would ensure creation of trading capabilities of those countries and societies, which are laggards in the power game of trade. The responsibility of strengthening the trade and development capabilities of the laggards and, thereby, ensuring level playing fields in a highly competitive environment of the new trading system rests with the powerful actors of the game. Unfortunately, the new trading system seems to favour the relatively more powerful actors and leaves the weaker segments of the world economy to fend for themselves in the emerging competitive market-based world economic environment. The erstwhile approaches
of development cooperation, resource transfer, technology transfer, special provisions for the developing countries, adopted under the initiatives of the UN system, have now been given a complete go-by under the presumption that competitive forces, unleashed under the new trading system of WTO, would improve all around efficiency and human welfare. This presumption is questionable both in terms of its analytical rigour and practical feasibility.

The new trading system of WTO seems to give unduly greater emphasis to private sector and competition and fails to recognize the strategic role which the State has to play in promoting the right kind of development with emphasis on equity and social infrastructure. Over-emphasis on competition and declaration that IPR is a private property seem to have created an erosion of the concept of public good and, thereby, provided a partial view of the development process. There is an urgent need for the development economists to critically examine the philosophy of development and the concept of development paradigm that underlie the new trading system under WTO. It is interesting as well as puzzling to note that along with the explicit evolution of the new market-based trading system, there has been a new surge for an innovative concept of development paradigm called ‘Third Way’ implies a proper blend of the market and the State in such a
way that the blend serves the objectives of fostering growth and development with social justice. Thus, the critical evaluation of the implications of the new trading system requires some fundamental new thinking in development theory and welfare economics.

For long, no one paid much attention to the Indian textile industry. Most companies were in the doldrums, mired in debt and struggling with over-capacity. Textile scripts were largely inactive and the removal of quotas seemed a distant possibility. But as the deadline for the phasing out of the Multi-Fiber Agreement drew nearer, the industry appears to have got a new lease of life with modernization, expansion and value chain concept brought into practice. It is major industry of India from exports, revenue and employment potential point of view, and for that matter, for most of countries.

Overview of Indian textile Industry and export performance:

India is replete with natural resources like cotton, jute and silk. Indian products were known for fine designing, embellishment and craft. Besides this the ancient Indian fabric designers and weavers were one of the best in the world (Reference: The Dhaka Muslin-one of finest and light weight weaving that could pass through a finger ring) Indian textile Industry is also largest employer (after agriculture) of workers directly and indirectly. Due to ethnic diversity and cultural multiplicity besides
racial traces in India's hinterland, several designs and variety of
costumes and apparels are used that enrich Indian textile garments
design possibilities.

Industry plays significant role by contribution of 4% of GDP and 20% to
the Indian exports kitty. Indian textile Industry is completely self reliant
in the entire value-chain from cotton crop to Hi-fashion garment making.
India has around 40 Million Spindles (23% of world) and 0.5 million
rotors (6% of world capacity). India has 1.8 Million Shuttle looms (45%
of world capacity), 0.02 Million shuttle less looms (3% of world capacity)
and 3.90 Million handlooms (85 % of world capacity). The Industry is
highly fragmented except for spinning sub-sector and thus manually
intensive. This is obvious from data of weaving sector mentioned
above. Organized sector contributes to almost 100% of spinning but
hardly 5 % of weaving of fabric. Cotton products are stronghold of India.
As of March 2004 India had 1787 cotton/man made fiber textile mills
including 1564 spinning mills (stand alone) and 223 Composite
verticals. Many organized sector giants are actually conglomeration of
medium sized mills, for example, Vardhman Group in Punjab. The
Indian textile Industry had been plagued by obsolescence, labor
problems, raw material vagaries and lack of modernization including
that of spindles. The post fabric stage processing technology has also
been lagging but is now coming up fast with infusion of textile processing technology. SSI firms perform the majority of weaving and processing operations. The level of weaving technology is of lower order and knitting units don't possess capacity to perform dyeing, processing and finishing to international standards.

The apparel sector has over 25000 domestic manufacturers, 48,000 fabricators and around 4000 manufacturers/exporters. Over 80% of these are small operations (less than 20 machines) and are proprietorship or partnership firms. In 2001, GOI de-notified RMG products from SSI reservation list for obvious reasons. As stated before, cotton apparels constitute major part of India’s apparel exports, although cotton appears to be out-thing in current global markets with share declining from 50% in 1982 to 38% in 2003. The export product mix of India is quite interesting with low and mid priced products and also high fashion items. India processed 1900 million kgs of jute fiber at 1st rank, 15 million kgs of raw silk at 2nd rank, 2700 Million Kgs of cotton fiber at 3rd rank, over 2000 million Kgs of man made fiber at 5th rank, and finally 51 million kgs of wool at 8th Rank in Global markets. After de-throttling of industry under new Textile policy of 1985 man made fiber industry has seen investments and scale economies coming up. India imports silk, fine quality wool and rags to feed its organized sector
as well as shoddy yarn units. Most of woolen capacity is concentrated in North India.

Export Scenario:

Textiles contributed 20% of India's exports to about US $ 12.5 Billion. The Quota Countries mainly USA, EU (15) and Canada constituted 70% of total garment exports and 40% of India’s textiles exports. In non-quota countries UAE is the largest market with 7% of textile exports and 10% of garment exports from India.

Table:

<table>
<thead>
<tr>
<th>Countries/Region</th>
<th>Export of Textiles</th>
<th>Export of Garments</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>6.47</td>
<td>6.10</td>
</tr>
<tr>
<td>Quota Countries</td>
<td>2.86</td>
<td>4.19</td>
</tr>
<tr>
<td>EU</td>
<td>1.64</td>
<td>2.35</td>
</tr>
<tr>
<td>USA</td>
<td>1.12</td>
<td>1.60</td>
</tr>
<tr>
<td>Canada</td>
<td>0.098</td>
<td>0.239</td>
</tr>
</tbody>
</table>

Source: DGCIS-Calcutta

In exports Cotton yarns, fabric, made ups etc made largest chunk with US$ 3.33 Billion or 26.5% in textiles category, and
Ready Made garments (RMG)-cotton including accessories made largest chunk with 4.67 Billion US $ or 37.1 % of total exports. Whereas, manmade yarn and fabrics in textiles group and RMG-Man made fibers constituted second position in the two categories, respectively. Carpets and woolen garments are other items exported from India.

Global scenario:
Developed countries' exports declined from 52.2% share in 1990 to 37.8 % in 2002 and that of developing countries increased from 47.8% to 62.2 % in the same period In 2005 the exports figures in percentage of the world trade in Textiles Group (for select countries) were:

<table>
<thead>
<tr>
<th>Country</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>34.8%</td>
</tr>
<tr>
<td>USA</td>
<td>6.4%</td>
</tr>
<tr>
<td>Japan</td>
<td>3.8%</td>
</tr>
<tr>
<td>China</td>
<td>15.9%</td>
</tr>
<tr>
<td>Republic</td>
<td></td>
</tr>
<tr>
<td>of Korea</td>
<td>6.0%</td>
</tr>
<tr>
<td>Taipei, Ch.</td>
<td>5.5%</td>
</tr>
<tr>
<td>India</td>
<td>3.8%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>3.4%</td>
</tr>
<tr>
<td>Turkey</td>
<td>3.1%</td>
</tr>
</tbody>
</table>
Mexico
1.2%

In Clothing Sector the figures were as below in 2003 in percentage of total experts globally:

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>26.5%</td>
</tr>
<tr>
<td>USA</td>
<td>2.5%</td>
</tr>
<tr>
<td>China</td>
<td>23.0%</td>
</tr>
<tr>
<td>Turkey</td>
<td>4.4%</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.2%</td>
</tr>
<tr>
<td>India</td>
<td>2.9%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

In this sector the exports have declined for EU (15) from 42% to 26.5% in period 1980-2003 whereas of China increased from 4% to 23% and of India from 1.7% to 2.9% only. We can see that developing countries' share in textiles had declined and in clothing it has increased sharply. The global competitiveness factors are cost, quality and timely deliveries. Indian textile Industry certainly does not measure up to these criteria.

To enhance competitiveness both categories of factors - Internal-like productivity and technology adoption by individual units, and External -like fiscal policy measures, labor policies and infrastructure are important factors to improve in. Though India stands second to China in cotton yarn and fabrics, the productivity pf cotton as
measured by yield/Hectare is lowest compared to Brazil, Turkey, China, Pakistan and USA with Turkey ranking highest followed by China and Brazil.

Global trade in Textiles and clothing has moved from MFA (since 1974) to ATC (Agreement on Textile and Clothing) which has now been dismantled from 1st Jan 2005 thus gradually throwing open the Textile trade under new WTO regime, which will result in adverse effect on some countries and will benefit other countries like China and India, hopefully, as some of quota areas for USA imports like Caribbean Basin Initiative (CBI), North American Free Trade Area (NAFTA), African growth and Opportunity Act (AGOA) and ANDEAN countries will cease to get favorable treatment under earlier restrained quota regime. The US imports in restrained category has declined from 86.89% in 1990 to 69.38% in 2003 from these preferential countries while overall imports increased from 13.11 % to 30.19% from these countries.

Pattern in EU Market: ¹

India’s share in EU imports in textiles was 3.6% in 2003 and of clothing 3.0% in same year ¹. Whereas major chunk of EU imports in both categories came from EU (15) themselves and C/E Europe, the leading

exporter is clearly China with share of 5.3% in textiles and 12.2% in clothing. Turkey and Romania are other stronger contenders to India in EU cake. Pakistan and Bangladesh are following, but Bangladesh, Sri Lanka and some African countries may loose out post ATC liquidation. Here lies opportunity for India. India has been leading supplier of cotton yarn to EU with 17.6% share in 2003 up from 8.4% figure in 1990. In fabrics woven from synthetic yarns China has moved up fast in EU markets from 0.5% in 1990 to 35% share in 2003. In T shirts- Turkey was clear leader in EU with market share of 30% in 2003 followed by Bangladesh at 13.8%. In pullovers also these two countries were leading. In trousers worth noting countries in EU market were Turkey (16%) followed by Tunisia (11%), Romania (10%), Morocco and Bangladesh (9%) each. Bangladesh has thus improved its market share in many items thanks to its low cost operations. For example, in trousers it was Euro 3.9 unit price as compared to Euro 11 per unit from Tunisia. In women's blouses in EU market Turkey and India each had 14.5% share (India loosing out) while Romania increasing share to 13.2%. Hong Kong and China next followed with 8% and 4% share respectively in 2003. India had better unit price of Euro 3.90 as compared to Euro 2.43 for Bangladesh. In Men's shirts Bangladesh was leading with 14.5% share in 2003 followed by India, Romania, Turkey and Hong Kong. Bangladesh had cheapest unit Price at Euro 2.7. Again
China was leading supplier in Women's skirts with 23.3% share (increased). Next was Romania, and India stood at 5\textsuperscript{th} place with 6.4% market share (actually contracted). China was again leading in women's Suits with 41% market share in 2003. The newly acceded EU (10) countries (called ACs) like Poland, Czech republic, Hungary and Slovakia hitherto enjoyed unrestricted access to EU (15) they will now face stiff competition from China and India. The EU (25) duties may increase in future and China and India may loose GSP status. In long run India may not face competition from these ACs but from other GSP suppliers\textsuperscript{2}.

Pattern in US Market:

In US Market India had share of 8.4\% in textiles and only 3.2 \% in Clothing in year 2003 as compared to 19.8\% and 16.9 \% respectively for China with EU, China, Canada and Mexico leading the scene in textiles imports in USA and Hong Kong and Vietnam joining the fray in clothing segment. It is worth noting that India has increased its share in US market in Cotton pile towels from 3.5\% in 1990 to 19\% in 2003 but

unit price is US $1.82 only as compared to $2.98 for China. It is seen that in both EU and US markets Indian unit prices are lower than China except for fabrics woven from synthetic filament yarn and the women's skirts. In cotton skirts and women's dresses Indian price realization is sharply lower than Chinese. This points to need for value addition. Another reason has been discrimination by EU and US with Indian exporters in past.

Import trends in Canada:

Amongst the leading suppliers of textiles and clothing to Canada, USA had the highest share of over 31 percent (US $ 8.4 Bn), followed by China (21% - US $ 1.8 Bn) and EU (8% - US $ 0.6 Bn). India was ranked at fourth position and was ahead of other exporters like Mexico, Bangladesh and Turkey, with a market share of 5.2 percent (US $ 0.45 Bn).

Implementation of ATC:

Developed countries treat textiles/clothing as sensitive items like agriculture and have been reluctant to bring down tariffs. In the pre

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costs. Therefore, while China will focus on low value high volume capabilities, India should gain through fashion content. India will also be favorite destination as alternative source other than China for major retailers globally. India can emerge as good outsourcing center for EU and US giants. Another important factor is under valuation of Chinese currency by at east 20% vis-à-vis Dollar. China may retain their operations in Sri Lanka, Cambodia and Vietnam due to low costs prevailing there, when china set up facilities there for taking quota advantage.

Internationally, trading in textile and garment sector is concentrated in the hands of large retail firms. Majority of them are looking for few vendors with bulk orders and hence opting vertically integrated companies. Thus, there is need for integrating the operations in India also, from spinning to garment making, to gain their attention. This would also bring down the turn around time and improve quality. Indian players should also improve upon their soft skills, viz., design capabilities, textile technology, management and negotiating skills. Garment manufacturing business is order driven. It would be difficult for the players to keep the workforce full time, even in lean season. This

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According to statistics, the global textile market is worth of more than $400 billions at present. In a more liberalized environment, the industry is facing competition as well as opportunities. It is predicted that Global textile production will grow up to 25 % by the year 2010 and 50 % by 2014. The world textile and apparel industry has gone into a phase of transformation since the elimination of quota in the year 2005. Many new competitors as well as consumers have entered the global market with their immense capabilities and the desire to grow:

(Source : Journal of Textile Association)

- It is expected that China will represent around 45% of global trade by 2010. Inspite of its significant growth trend, China's rising costs and perceived risks are creating more opportunities for other low cost countries.
- It is also expected that India will represent around 20% of global trade by 2010. India is rapidly expanding its role with new capacity build-up in management control of textile trades through vertical integration. Vertically integrated companies are organized in a hierarchy and share a common owner. Usually each member of the hierarchy produces a different product or service. The products are combined to achieve a common goal. The advantage of Vertical integration is that it avoids the hold-up problem.

- Pakistan, Vietnam, Cambodia and Bangladesh are relying on their low manufacturing costs due to cheap labour available there. Thus they are building up more capacity in textile manufacturing.

(Source: Journal of Textile Association)
• Turkey, closely connected to Italy, is fast emerging as a critical regional player. It is creating a number of new regional brand players by providing them "Turquality" accreditation. The purpose of this accreditation is to strengthen the quality image and enhance the recognition and awareness of Turkish brands.

• Egypt is presently working with new emphasis in textile sector.

Eastern European countries, have suffered a slight set back due to their growing costs. As a result they are rapidly refocusing and repositioning on higher market segments.

• South and Central America maintain a relevant focus on textile

• Italy still leads in the luxury segments.

• In the western countries, imports have almost reached 85-90% of total consumption

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Table: Per Capita Textile Consumption

<table>
<thead>
<tr>
<th>Country</th>
<th>Consumption (Kg per person)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>3.0</td>
</tr>
<tr>
<td>Pakistan</td>
<td>5.0</td>
</tr>
<tr>
<td>China</td>
<td>8.5</td>
</tr>
<tr>
<td>Japan</td>
<td>8.5</td>
</tr>
<tr>
<td>USA</td>
<td>12.1</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>5.5</td>
</tr>
<tr>
<td>Developed Countries</td>
<td>6.8</td>
</tr>
<tr>
<td>Global Average</td>
<td>17.7</td>
</tr>
</tbody>
</table>

(Source: Journal of Textile Association)
Cost of Production: 5

Cost of production of textiles yarns and fabrics is much higher in India despite low labor rates. We should not forget that India will also lose this advantage over time in as much as ACs (EU-10) are likely to lose the same over a period of time in EU market access. Production cost of textured yarn is estimated to be US $ 2.06/kg in India, which is higher than that of China (US$ 1.40/kg) and Brazil (US$ 1.90/kg). Similarly woven and knitted textured yarn production cost in India is higher than that of China, Brazil and South Korea. These costs include power cost that is higher in India besides low productivity, obsolescence and structural abnormalities.

Hourly wage cost in textiles in select countries (US $):

<table>
<thead>
<tr>
<th>Country</th>
<th>Hourly Wage Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>22.15</td>
</tr>
<tr>
<td>USA</td>
<td>14.24</td>
</tr>
<tr>
<td>Argentina</td>
<td>5.90</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.20</td>
</tr>
<tr>
<td>Turkey</td>
<td>2.69</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.20</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1.47</td>
</tr>
</tbody>
</table>

China 0.69
India 0.58
Pakistan 0.37

The message is clear—the labor productivity; power and other costs are higher in India. Percentage share of capital costs too was higher in India than China in both Ring and OE yarn and fabric production (India 20%-29% of total cost of production) as compared to China (12% to 26%

Level of Integration:

Very few exporters have gone in for integrated production facility. It has been noted that countries that are globally competitive are the ones with significant integration facility and consolidated supply-chain. A visit to Ludhiana, Gujarat and Coimbatore will display poor condition of Indian textile industry both in cotton and woolen sectors. This decentralized sector has been suffering from low productivity, old technology, and lack of scale of economies. That is why GOI de-reserved the garment industry and our RMG units will have to set up integrated manufacturing facilities. India should also embark on textile
processing facilities (Post fabric and garment production) of world-class level.

Supply Chain Management:

Indian textile and clothing industry has one of most complex, fragmented and long supply chain in the world right from raw material procurement to shipping port handling facilities. The average manufacturing and delivery lead time from fabric buying to shipment of apparels comes to 45-60 days and in most cases can extend to 80 days. The mean delay in procurement of raw materials for garments and then exporting finished garments form India is estimated to be 15.5 days. Since shelf life of fashion driven products is hardly 45 days, such delays are untenable. In contrast Turkey has flat 30 days cycle from approval of design to delivery in warehouse. Turkey is also strategically located for EU markets and has a favorable liberal political climate. It won't be out of place for some Indian exporters to locate facilities in Mexico, Turkey, Maldives and Mauritius. Sri Lanka and Bangladesh are likely to be losers in post ATC scenario, in longer time horizon. According to AEPC member database of garment units in India, there are only few companies with high turnover, whereas over 1000 firms are with a turnover of less than Rs 100 Million and, similar is the situation in fabrics. To conclude India has low competitive position with
regards to availability and price of cotton (good quality), low level of technology, poor automation, and lack of scale economies in weaving and processing sector, and low brand image in textile garment sector

Strategies for Indian Exports:

Quota free market means competition amongst firms and not nations. Quotas have frozen the growth in market share. They encouraged the high cost domestic industry in many textile-importing countries by freezing the market share. Even the high cost exporting countries (Hong Kong, South Korea, Taiwan) continued to have high market share taking advantage of quotas. Quotas also assured fixed market opportunities in early years to Indian garment industry and textile industry despite low productivity, poor time delivery and quality. Number of incentives was provided in India including Duty drawback and cash compensatory support. Garment quotas are distributed by AEPC based on Government policy from time to time regarding past performance, etc and quotas were traded in gray market for long time. This is in sharp contrast to world-class manufacturing and supply chain tried by some units in Europe and USA in online transmission of high sale garment designs in departmental stores and replenishing the sold stocks quickly through a very low delivery cycle. Where as Indian

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domestic market shall hot up by entry of both retailing chains in India (FDI has been now permitted up to 51% in single brand stores) and Outsourcing centers for International chains like Wal-Mart, the Indian exporters will get on one hand newer opportunities to enter restrained markets, while on other hand they will face stiff competition from countries like Turkey, Brazil, Mexico, Korea, China, Tunisia, Romania, Bangladesh and Pakistan. Quotas by restricting market supply have also kept the export prices artificially high. There is bound to be a price war in post quota regime. Already it has started happening with Indian exporters (at least for price elastic goods). Developed countries have relocated facilities offshore or have shifted to high value products. Developing countries that were free from MFA restraints will loose out due to fall in prices. The Indian textile and clothing Industry except for cotton yarn sector should test waters within domestic markets to establish their global competitiveness and consumer acceptance.

USA is developing a DNA marker system to trace the fabric origin. The technology can identify the US produced cotton yarn and check illegal textile imports. Instead of criticizing, countries lie India should hold high vision as regards standards of health, safety and child labor to conform to international standards and to avoid non-tariff barriers. Technology Up gradation Fund (TUF) has to be better utilized and textile technology
training infrastructure has to be improved in country\textsuperscript{7}. The textile sector should take lead in this. Global trade is expected to be in range of US $ 800 Billions in 2014 up from US $ 350 Billion in 2002 with share of textiles at 40\% and clothing at 60\%. According to some studies China and India will be major gainers. India could increase their share from present 8 \% in US textile market to 13.5\% and from 3\% to 8\% in US Garment market\textsuperscript{8}. For EU the projections are from 3.6 to 8\% and 3\% to 8 \% in textiles and garment sectors. As on date China has distinct advantage in terms of supply chain management, low cost and better designs. Whereas Morgan Stanley has projected India to be one of top three exporters of textile and garments, another study by Indian Cotton Mills Federation has estimated Indian textile exports to reach US $ 40 Billion by 2010. GOI on other hand has projected exports to double from US $12 Billion to 25 Billion in next couple of years and eventually to US $ 50 Billion by 2010. Whereas new buying season starting Jan 2005 already has seen demands for 10-15\% price reduction by the importers\textsuperscript{9}. China lacks capability in value addition and fashion design. India stands to gain in ladies blouses because of strength in hand-works, like embroidery, sequins, printing etc. On the other hand China has clear advantage in Nightwear due to large capacity and lower

costs. Therefore, while China will focus on low value high volume capabilities, India should gain through fashion content. India will also be favorite destination as alternative source other than China for major retailers globally. India can emerge as good outsourcing center for EU and US giants. Another important factor is under valuation of Chinese currency by at least 20% vis-à-vis Dollar. China may retain their operations in Sri Lanka, Cambodia and Vietnam due to low costs prevailing there, when China set up facilities there for taking quota advantage.

Internationally, trading in textile and garment sector is concentrated in the hands of large retail firms. Majority of them are looking for few vendors with bulk orders and hence opting for vertically integrated companies. Thus, there is need for integrating the operations in India also, from spinning to garment making, to gain their attention. This would also bring down the turn around time and improve quality. Indian players should also improve upon their soft skills, viz., design capabilities, textile technology, management and negotiating skills. Garment manufacturing business is order driven. It would be difficult for the players to keep the workforce full time, even in lean season. This

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calls for changes in contract labor laws. To offset competitive disadvantage Indian industry will have to expand vertically and set up scale of economies units while grappling with infrastructure bottlenecks and high cost limited power availability. The main factors identified in a study by Ramaswamy and Gereffi\textsuperscript{10} as having contributed to the globalization of world apparel industry includes:

- Labor intensive nature of apparel industry
- Loss of comparative cost advantage of developed countries
- Dramatic decline in transport and communication costs
- Search for production sites with lower labor costs\textsuperscript{10}
- Shift in apparel manufacturing from more restricted to less restricted developing countries due to the discriminatory nature of restrictions imposed by erstwhile MFA (Multi Fiber Agreement 1974)

Another strategy Indian exporters and garment manufacturers can adopt is coming together privately or through State sponsored agencies to do joint Brand marketing. If not done early, then MNC retailing organizations will hijack the Indian garment Industry initiative and India may simply get reduced to outsourcing center for major textiles and

Garment exports, although there is nothing serious about it, but India may well loose status of being independent India Brand garment exporter with higher value realization to the national exchequer. It is estimated that industry would require Rs 1000 billion investment as new capital over the next five years.

While Indian exports to the US have risen 22 per cent in the first quarter of 2005, profits are sliding as prices have dropped 8-20 per cent and the industry is on the verge of a shakeout. With importers preferring suppliers that have 'vertical' production systems rather than dispersed production facilities, Indian exporters need to shore up their mass production techniques. Of the 1,500 Indian exporters only 15 have turnovers of $50 million-plus. Infrastructure development is the need of the hour. Power and water contribute to nearly 37 per cent of total production costs. In contrast, in China, this cost comprises just 24 per cent. India also has to deal with inefficient port handling facilities. The Chinese figures have less credibility including their artificially fixed high exchange rate.

Key advantages of the Indian industry being:
* India is the third largest producer of cotton with the largest area under cotton cultivation in the world. It has an edge in low cost cotton sourcing compared to other countries.

* Average wage rates in India are 50-60 per cent lower than that in developed countries, thus enabling India to benefit from global outsourcing trends in labor intensive businesses such as garments and home textiles.

* Design and fashion capabilities are key strengths that will enable Indian players to strengthen their relationships with global retailers and score over their Chinese competitors. This is also visible in auto sector and many other industries like IT and software and Pharma research.

* Production facilities are available across the textile value chain, from spinning to garments manufacturing. The industry is investing in technology and increasing its capacities, which should prove a major asset in the years to come\textsuperscript{11}.

* India has gathered experience in terms of working with global brands and this should benefit Indian vendors.

Companies with integrated capacities, such as Arvind Mills and Vardhman Spinning, capable of delivering large volumes are likely to gain. Alternatively, market leaders in niche segments, such as Alok Industries, Abhishek Industries and Welspun India (both in cotton pile towels), may also emerge as gainers. Some of the largest garment exporters, such as Orient Craft and Gokuldas Exports, which supply to international retailers, could gain considerably.

The WTO believes in trade liberalization through an open, rule-based and non-discriminatory multilateral trading system and providing predictable market access to its members. Transparency and provision by members of national treatment and most favoured nation treatment to all the members are its chief principles. It has an effective dispute settlement mechanism that encourages adherence to these basic principles by all its members and provides for remedies in case of any violation. It is the best basis for establishing and maintaining a bilateral world trade order with a system for international legal constraints on national trade policies under the MFN principle. Three broad approaches regarding the future work programme of the WTO emerged at the Geneva Ministerial Conference: (a) European Union

(EU) is pushing for a comprehensive new round of trade negotiations. The basic argument for the Millennium Round, according to the EU, is the fact that a comprehensive round of negotiations would give greater negotiating room to all parties (b) Except USA, the OCED countries and many of the countries in the Cairns Group (agricultural exporters) and countries comprising the Asia Pacific Economic Cooperation (APEC) are in favor of a large agenda, including at least industrial tariffs and, in many cases, investment. The USA, on the other hand, is focusing on a manageable agenda which includes the industrial tariffs. The early deliverables include items such as Information Technology Agreement – II, Rollover of Standstill on Customs Duties in Electronic Commerce\textsuperscript{13} and a framework agreement on Transparency in Government Procurement. (c) Several developing countries including India, the SAARC countries, Egypt and some other African and south Asian countries oppose the additions of any new issues to the WTO agenda and basically wants the future work programme to be confined to the built in agenda\textsuperscript{14}. The rationale behind this approach is that the agenda of the WTO is already overloaded and developing countries are yet to realize the market access gains that they had legitimately expected.

\textsuperscript{13} World Trade Organization 2002 Compilation of Discussions in Various WTO bodies on implementation Related issues Concerning Customs Valuation, WTO background note by the Secretariat: G/VAL/W/97, Geneva: WTO

from the Uruguay Round Agreements. The developed nations advocate
open-door policies for under-developed countries but have liberalized
trade on area basis, while maintaining restrictions against other areas
in which most of the under-developed countries are located. While India
and like-minded developing countries feel that their concerns related to
implementation of the Uruguay Round Agreements are an overhang of
the last Round and need to be addressed as a 'stand alone' issue, the
developed countries' concerns have been mostly of the redress type
which need to be resolved through fresh negotiations. Many countries
including India have voiced its concerns on important issues on many
occasions at different discussions forums e.g. in informal Ministerial
meetings of countries who call themselves "Friends of the New Round",
the meetings of the "Invisibles", Group of the global trading majors and
the round tables being held by UNCTAD, the G-15, G-77 and the
SAARC, EC and USA, Doha, etc. Textiles being one of the most
globalised industries in the world have also been a example of how
trade practices in the global market are still distorted in favor of
advanced economies. Last few decades have witnessed trade
restrictions, price and quantitative, in the form of non-tariff barriers. The
removal of institutional barriers to trade would have important

equilibrium assessment", chapter 6 in Robertson, D (ed), East Asian Trade after the Uruguay Round,
Cambridge: Cambridge University Press.
implications for output markets of low-income economies seeking to industrialize through promotion of the garment sector.

Global Trade in Garments:
As imports increased exports remained weak and consequently US textile and apparel output fell. However, later industry debt eased and fared better as profits started recovering. In Argentina, the collapse of the economy continued to plague the industry. It also hit Brazil and exporters canalizing their marketing initiative towards USA, Mexico and Chile. In Columbia, civil strife affected exports. Mexican clothing exporters having a tough time fighting their Asian competitors like China. EU output fell in 2002 in spite of some export successes notably in Turkey and Mexico. Clothing output fell sharply as retail sales growth slowed and imports rose particularly from China and Pakistan. Import from Eastern Europe was subdued although supplies from Romania and Slovakia remained strong. Exports remained subdued but there was a sharp rise in denim exports to USA Exports from Hong Kong, & South Korea was weak\textsuperscript{16}. Thailand's economy picked up but quotas were set to curb Vietnam's Soaring exports to the USA. --During the MFA period of 24 years the textile exporters from industrial nations and

those from developing economies merely exchanged shares among themselves. The share of industrial nations declined. The countries that gained market share are the ones whose industries are integrated to one or the other advanced country through some policy induced preferential arrangements\textsuperscript{17}. India, Pakistan and Sri Lanka fared better compared to 2001 but Bangladesh struggled as quotas restricting competitors were liberalized. The international trade in clothing transformed significantly owing to the phasing out of the Multifibre Arrangement eta and ushering in of the era of quota free trade. With the end of the MFA the rules applying to industrial goods had to be extended to textiles and clothing. It is against this backdrop that the Agreement in Textiles and Clothing (ATC) assumes significance. ATC is an outcome of the Uruguay Round of WTO agreement\textsuperscript{18}.

Agreements on Textiles and Clothing: Operations and Impact:

Restrictions were reduced in the 1950s quantitative trade once both the GATT and the IMF started pursuing the liberalization of trade. The gradual removal of trade restrictions din the developed countries coincided with the emergence of developing countries as exporters of textiles. Those developing countries that had an access to raw


\textsuperscript{18} Anathakrishnan, P and S.Jain-Chandra (2005), 'The Impact of India of Trade liberalization in the Textiles and Clothing Sector', IMF working Paper WP/05/214
materials and cheap labour were in the position to increase their exports of cotton textiles, followed a few years later by clothing exports. The developed countries did not receive this trend favorably as they viewed the emerging imports from developing nations as a threat to the local industry. In order to avoid potentially serious social problems some developed nations negotiated with the supplier governments in developing nations for special trade agreements in order to limit the quantities of their exports. The Short Term Arrangement Regarding International Trade in Cotton Textiles (STA) in 1961, which was later, followed by the Long Term Arrangement Regarding International Trade in Cotton Textiles (LTA) (1963-1973)19. After the LTA, the Multifibre Agreement was introduced as a temporary measure to control trade in textiles and clothing. The MFA was meant to achieve the expansions of trade, the reduction of barriers to trade and the progressive liberalization of world trade in textile products. At the same time, it was expected to ensure the orderly and equitable development of this trade along with the avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries. Extensions of this ‘temporary’ measure were negotiated several times and new provisions were added and new products were

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and clothing. At the same time the producers in the developing countries are trying to emulate the recent development in industrialized countries particularly in the fields of environmentally friendly products, production methods, social clause and social labels. The International Trade Center UNCTAD/WTO (ITC) has been conducting a series of workshops related to the implications of the introduction of the agreement on textiles and clothing in all the countries, which are going through the transition. ITC has recently become more actively involved with matters related to environmental aspects of the industry and an ITC report titled "Textiles and clothing – an introduction to quality requirements in selected markets" was published some years ago.

Regional Trading Agreements:

Mexico, the Caribbean region, east European countries and Mediterranean are the countries that are increasing their share in clothing exports are the ones whose industries are integrated with an advanced country through some policy-induced preferential arrangements. are capturing much of the space vacated. There has

\[22 \text{Bora, B., Kuwahara, A. and Laird, S. 2002 Quantification of Non-Tariff Measures Policy Issues in International Trade and Commodities, Study Series No.19, Geneva: UNCTAD} \]
been a much greater globalization in clothing than in textiles\textsuperscript{23}. Indeed that has been one of the principal reasons for the developed countries agreeing to an eventual phase-out of MFA quota in the list of negotiations. In this context, India could be a loser. There was a dramatic shift with the introduction of NAFTA in the sourcing pattern. It forced the distant Asian suppliers to compete against the combined power of the textile industries in the USA along with the apparel industries in Mexico and Canada. Mexico has been the greatest beneficiary of the RTA however, NAFTA has had a negative impact on the US textile industry leading to negative profits plant closures, layoffs and eventual bankruptcy.

Indian Garment Industry – its importance:

The Indian textile and clothing industry occupies a unique place in the Indian economy. It contributes about 4\% of the GDP and 14\% of industrial output. The second largest employer after agriculture, the industry provides direct employment millions of people including substantial segments of weaker sections of society. It is the largest net foreign exchange earner in India earning almost 35\% of foreign

exchange. This is the only industry that is self sufficient and complete in
the value chain of cotton producing everything from fibers to the highest
value added finished product\textsuperscript{24}. Export potential is about
competitiveness, which in turn is a function of factors related to cost of
products, as well as those related to non-price factors such as delivery
schedules, reliability of producers\textsuperscript{25}, and such intangible factors like the
image of our country and brand equity. However in order to
translate industry competitiveness into sales (greater export share of
world market) another set of issues in addition to productivity need to
be examined. This study takes us through the era of managed trade
and highlights the areas which are promising in the new market access
conditions.

Garment Exports as a share of manufactured exports from India rose in
1992-93. This was primarily due to tremendous surge in demand of
handloom garments in US and Europe. The second phase begins from
1983/84 and has been marked by a more steady growth. From around
Rs.640 crs in 1983 it has increased to around Rs.22, 915 crs. In 1999
(Exim Bank of India). However this steady growth has been
accompanied by certain changes in the relative shares of segments

\textsuperscript{24} Thai Textile Statistics 2003, Textile Industry Division, Bureau of Industrial sectors development
and Department of Industrial Promotion

\textsuperscript{25} Reinert, K.A., 2000, “Give us virtue, but not yet: Safeguard actions under the agreement on Textiles
and Clothing”. The World Economy 23, 1:25-55
actually dominated the Indian economy since independence. This sector was restricted initially and was not included under the purview of GATT agreement\textsuperscript{30}. The reason primarily was because the sector was imposed by specially negotiated rules, which were designed to regulate trade right from the beginning of 1960s.

This was further acclaimed from 1974 onwards through the governance of the then negotiated MFA agreement. On a global perspective, Multifiber Agreement governed the textile and clothing industry till 1st January 2005. This agreement, which was implemented on January 1, 1974, had replaced all long-term and short-term agreements made applicable during the earlier 1960s primarily to protect the US textile producers against Japanese exporters. Developing countries were included much later within the purview of MFA Agreement. Under MFA foreign trade in textiles, was subjected to very high tariffs and quotas. Consequently, it severely restricted the entry of India in the international textile market. In the light of abolition of MFA, the Indian textile industry is now exposed to the global market\textsuperscript{31}. Therefore, there is an interesting future ahead of the industry. The industry under the changed market scenario will have to concentrate more on vital needs

\textsuperscript{30} Dam, W Kenneth, The GATT – Law and International Economic Organisation (Chicago: Chicago University Press

of the hour such as modernization, quality control, technology upgrading, etc. Another major challenge lies in facing the competition in the liberalized market conditions. Therefore, on a global basis the industry was highly distorted and hidden costs were imposed on the export sector of the Third World. This situation continued to dominate the market and, in 1974, with the implementation of the MFA, the pervasive quota regime was officiated. This had forced restrictions on the Indian textile industry from participating in free export. After the successful conclusion of the Uruguay Round in 1994, the MFA was replaced by the Agreement on Textiles and Clothing (ATC), which almost had the same MFA framework. The objective was to seek expansion of the textile trade globally under reduced market barriers. This could never have been possible without ensuring the orderly and equitable distribution of the market. But this was somewhat restricted due to disruptive effects in individual markets and individual lines of production in both the importing and exporting countries. MFA agreement also imposed restrictions on the levels of production in textile fabrics, especially for the developing countries, in order to protect producers in a developed economy. The terms and conditions that governed quantitative restrictions were classified either through

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negotiations, or on a bilateral or unilateral basis. Bilateral negotiations restricted the import and export related to different types of textile products. These included products such as clothing made of wool and manmade fibers (MMF) as well as cotton and blends thereof.

Certain advantages of MFA were that it permitted a certain degree of flexibility in quota restrictions for the exporters. This was to make them adjust towards changing market conditions and demands, which matched their production capabilities. MFA also provided facilities for developing countries under restricted export conditions. It provided access for higher quotas and liberal growth in a developing economy. Although it provided a healthy competition in the market, the textile and clothing industry in most of the developing economies including India, suffered from various problematic issues.

In the current context, the abolition of MFA poses a new challenge to the Indian textile and clothing industry. In fact, this endeavor to phase out quotas can be traced back as early as January 1, 1995. This was when the Agreement on Textiles and Clothing (ATC) was implemented, which, in turn, called for a progressive phasing out of all MFA restrictions and other discriminatory measures in a period of ten years.

The abolition of quotas therefore, opens new frontiers for the Indian textile market. In order to sustain the force, Indian Government had
already signed agreements with two of its major partners – the US and the European Union, at the very beginning of the year 1995. The agreement signified a major reduction in import tariffs and controls in a phased manner over a period of three to seven years. This poses a major competition from the EU and US textile producers, as they are enabled to get a greater access to the Indian textile market. They will no longer be restrained from buying cheap raw materials from India, which will sustain their production capacity. Therefore, the industry should be prepared to face a stiff competition from both the developing and developed countries. This will never be possible without total modernization of all the segments including weaving, woven processing and clothing. This would require a huge investment and infrastructure development together with technology innovations. Multifiber Agreement came into force in the year 1974, and was seen as a temporary protectionist measure that set quotas for the amount of textiles and apparel that developing countries could export. MFA had shaped the pattern of production and textiles for the past three decades by binding countries to maximize the quotas of export for specific product categories. The MFA had provided a certain level of stability and countries could reasonably be sure of creating a fixed level of

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quota and thereby estimate orders, jobs and foreign exchange. Now that the quotas are eliminated, the change will create uncertainty, and negatively impact industries that experienced growth during the past three decades. Demand for cotton and manmade fibers in India will likely strengthen in response to rising consumer demand in India, and increased exports of textiles and apparel following the removal of the Multifiber Arrangement quotas. The pace of growth in cotton demand will hinge on execution of reforms to policies, including taxes that discriminate against the use of manmade fibers and regulations affecting the scale, technology use, and export competitiveness of the textile and apparel industries. Imports of raw cotton have increased in concert with the rising demand in recent years, but future growth will depend on the extent to which India can boost chronically low cotton yields and improve cotton quality. The current phase in the global textile and clothing industry which is passing through perceptible changes and the development is not exactly foreseeable. The ending of the textile quotas is, on the other hand, a blessing for China’s manufacturers since the export had increased progressively. But, China has to justify its trade actions not only towards the European Union and the United States, but also to the less competitive manufacturers from small developing economies. The abolition of quotas gives the textile exporting countries the opportunity to compete in the global market,
depending on their ability and strength. The global trade implications of MFA quota removal on cotton and textile industry. We can compare the alternative scenarios of MFA quota and tariff elimination and mentions three sets of issues in which the global trade is affected post-MFA. Such issues include the impact at the global level, changes in apparel imports, and textile and clothing expansion market.

Due to the quota abolitions which involve large transfers and there are major impacts on labor markets in many exporting countries. The resultant effect is that the exporting countries' are experiencing a certain decline in their real income. Both the developed and developing countries which are expected to benefit greatly from the quota free trading as a result of multilateral trade liberalization and the income gains experienced by the developing countries in quota free trade. Consequently, the developing countries will have a higher share of the clothing, which will provide a further push for the relocation of textile and clothing productions from the developed to the developing world. This will ultimately lead to short-term costs and dislocations followed by structural adjustments and policy reforms on the whole of the global textile industry. Indian textile industry as a whole, which is one of the

largest contributors to the economy after the MFA abolition. Therefore, it is inevitable that India will be exposed to the global market where it will have to concentrate more on needs such as modernization, quality control and technology upgradation. The Indian textile industry should be prepared to face stiff competition from both the developing and the developed countries in future years.\textsuperscript{35}

Much of the competition is expected from China and keeping this in view, the Indian Textile Industry will have to reshape and reshuffle itself to produce tailor-made items, especially suited to the market demand. Post-quota abolition period in which the demand for cotton and manmade fibres in India will strengthen, thus enhancing the export capacity. The elimination of MFA Quotas\textsuperscript{2},\textsuperscript{3} induced the Indian policy makers to relax investment restrictions, and to adopt market liberalization measures. During the post-quota era, developments in the Indian Textile Industry will have important implications for the United States as because one of the prime products dominating the textile market is cotton, which is very cheaply available in India.

\textsuperscript{35} Institute of Company Secretaries of India, World Trade Organizion: International Trade: Joint Ventures and Foreign Collaborationas (New Delhi: Institute of Company Secretaries of India, 2005)
The Indian textile industry has greatly suffered as a result of skewed government policy and is not in a position to face the competition. The textile ministry should focus on the overall improvement of the market rather than on rehabilitation of sick mills. Much more needs to be done to help it overcome the problem of technological obsolescence, capitalize on scale economies and move up the value chain. Policy pressures are created by India on WTO for faster implementation of integration by large textile importers such as the US and the EU. Therefore it is high time for the Indian Textile Industry to reorient its domestic policy so as to enable domestic firms to restructure and face emerging competitive market when the quota restrictions are already over.

Textile is a key contributor to GDP to the order of 4%. It accounts to 14% of National Industrial production and it is a significant forex earner to the tune of 16% through exports. Textile export is 17.8 $ billion and Textile imports was 2.2 $ billion. It is an important employment generator sector next to only agriculture sector and it provides direct and indirect employment to about 35 million people. In the year 2004-2005 we have had Textile Mills as follows:

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Spinning Mills Nos.-2,012;
Composite Mills Nos.-1,566;
Exclusive weaving mills Nos.- 202.

Capacity Installed
Spindles Million Nos.-37.47.
Looms Lakh Nos.-1.03.
Powerloom Lakh Nos.-19.03.
Handloom Lakh Nos.-38.91.

The industry is playing the role of mother industry. It has wide raw materialbase. It is number 2 in cotton production; Silk, Jute, MMF very strong; Low costs in manufacturing; Relatively cheap labour.; Highly improved Policy Environment as compared to past-Fiscal, Regulatory and Supportive. See Table below.

<table>
<thead>
<tr>
<th></th>
<th>Export</th>
<th>Domestic</th>
<th>Total</th>
<th>%age to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel</td>
<td>8.64</td>
<td>19.22</td>
<td>27.86</td>
<td>59.28</td>
</tr>
<tr>
<td>Textile</td>
<td>9.24</td>
<td>9.99</td>
<td>19.14</td>
<td>40.72</td>
</tr>
<tr>
<td>Total</td>
<td>17.88</td>
<td>29.12</td>
<td>47</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: CRISIL Study, 2004

The tremendous increase in demand and so also the supply which are serving as strong drivers. It has been one of the major factor causing this enhanced demand. With respect to their participation in contributing toward national wealth generation, women population has been slowly increasing. The use of credit cards (plastic money) has increased significantly in the last 3-4 years. The number of credit cards issued has
grown at 26% per annum in the past 5 years while debit cards have grown by a whopping 113%. The age profile of Indian borrower has gone down from 44 to 33 years now. The population of India is expected to increase from 1029 million to 1400 million during the period 2001-2026. The population profile of India is shifting towards a larger composition of people in the age group 15-59. India most favorably placed globally. Out of the total population increase of 371 million between 2001 and 2026, the share of the age group 15-59 years in this total increase is 83 %. Out of the total population increase of 371 million during 2001-2026 in the country, the share of increase in urban population is expected to be 249 million. Favorable Demographics increasing young population and that too in the urban area coupled with rising income levels will act as a key growth factor for the Indian Textile Industry. From 2 mn sq ft in 2001, we had 28 mn sq ft of mall space in 2005 - and by end 2008, the eight Indian large cities will have a supply of 66 mn sq ft and the next seven large cities about 13 mn sq. ft.

The key reasons for such a spurt in growth are Dismantling of the MFA regime and the full play to the Indian entrepreneurship, Progressive dismantling of the textile and mass apparel industry from the Western world. India is a major player to fill this gap. The current quantitative
restriction on China is helping India. Buying of several Western brands by Indian industry, thus facilitating entry in EU and US. Increasing modernization of Indian textile and apparel manufacturing sector in response to the increased global demand and facilitated by the TUFS scheme.

Can we take advantage of all these favorable factors and demand conditions to reach our vision 2010? The vision is characterized by following key target goals: Market size of US$95 Bn.; Export Target-US $50 Billion; (National Textile Policy, 2000); Domestic market - US$ 45 Billion; (CRISIL Study, 2004); India's market share in World textiles trade to grow from 3% to 6%; 12 Million Additional jobs; Investment - Rs. 140,000 Crores. Yes, our optimism is based on the dynamism shown by the Industry in the last 2 years. Not coincidentally these two years have been the post-quota years when the Indian textile entrepreneurship could sense the unprecedented opportunity domestically and globally. It has not hesitated on encashing the opportunity in slow down and enhanced the infrastructure by importing machinery at throw away price. It is also based on growth in fabric production. The reasons for optimism include significant growth in investments in Textile Sector. Investments under TUFS have grown significantly recently. In fact the projected investments in the last 18
months have surpassed previous 7-8 years. Export enhancement is another reason to be optimistic about reaching the target goals. When one analyses this scenario, it is clear that India is poised for excelling its performance. § Gainers: China, India, Turkey o Losers: Thailand, Pakistan, Indonesia. Similarly the picture is encouraging when analysis of US market is done.§ Gainers: China, India, Indonesia, Cambodia etc. o Losers: Turkey, Mexico, Canada.

Despite all favorable factors and demand conditions, there are bottlenecks and issues which require our urgent resolution. The developments in US exports can be summarized: (i) In Jan-Sept 2006, as compared to Jan-Sept 2005, US's textile imports grew only by 2.5% and India’s exports to US increased by 11.1%. (ii) In this period, Indonesia grew by 26.9% (almost exporting the same amount as that of India in Sept 2006), Vietnam by 23.9%, Bangladesh by 23.4%, Pakistan by 16.4%, Cambodia by 26.2%. In other words, India lagged in performance as compared to other countries. Any Chinese proxy exports through some of the SE countries? This could be also a possibility. We lag behind on two counts: firstly on lack of modernization and secondly on very nature of industry being fragmented. Processing is one of the major weak links and at the same time has lot of potential in value addition to the product. Indian processing industry is
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call strikes abruptly disrupt production schedules; Restrictions on working hours. Due to rigid labour laws, this situation is further aggravated. Because of this, our competitors always get an edge over our exporters. Chinese Apparel industry has highly flexible labour laws which allow for lay offs in non peak season; hiring of contract labour; flexible hiring and firing system in SEZ units. Mexican Apparel industry is allowed lays offs during slack business. Even Bangladesh allows workers lay off in Free Trade Zones Unions and strikes are not allowed in Free Trade Zones. If the growth is being driven due to enhanced demand and supply and a lot of investment in developing fresh capacity is made, commensurately it is important that the gaps in human resources are narrowed down as fast as possible (as per table below).

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Sector</th>
<th>Investment (In Crores)</th>
<th>Additional Capacity</th>
<th>Man Power Requirements (All in Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Spinning</td>
<td>45,000</td>
<td>15 Million Spindles (31)*</td>
<td>2.93</td>
</tr>
<tr>
<td>2</td>
<td>Weaving</td>
<td>30,000</td>
<td>84,600 Looms</td>
<td>0.8</td>
</tr>
<tr>
<td>3</td>
<td>Knitting</td>
<td>10,000</td>
<td>21,000 M/Cs (30,000)*</td>
<td>0.47</td>
</tr>
<tr>
<td>4</td>
<td>Processing</td>
<td>30,000</td>
<td></td>
<td>0.9</td>
</tr>
<tr>
<td>5</td>
<td>Garment</td>
<td>25,000</td>
<td>11.25 lakhs M/Cs (18.75)*</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,40,000</td>
<td>*Total Including Replacements -</td>
<td>42.1</td>
</tr>
</tbody>
</table>

Source: CRISIL Study, 2004

Man Made Fibre sector is faced with a no of issues:
Cotton: Man-made fibre balance 60:40 in India, as compared to 40:60 global; Vast export potential for manmade textile items; Mandatory CENVAT on manmade fibres/yarns - 8%; Resultant increase in cost of upstream products; Indian MMF manufacturers prefer to export rather than supply to domestic MMF user industry at international prices; This discourages value addition within the country; High incidence of import duty on MMF restricts access to imports by MMF users. To reach US$ 95 Billion mark, Rs. 140,000 Crores investment is required in Textile Industry. The break up of this investment is described in Table below.

<table>
<thead>
<tr>
<th>Table: Sectorial Breakup for Required Investment</th>
<th>Target of $50 Bn Exports and $45 Bn Domestic Mkt</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Present Capacity</td>
</tr>
<tr>
<td>Spinning (Million Spindles)</td>
<td>39</td>
</tr>
<tr>
<td>Number of Looms</td>
<td>20000</td>
</tr>
<tr>
<td>Number of Knitting Machine</td>
<td>4500</td>
</tr>
<tr>
<td>Processing (woven) Mn. Sq. Meters</td>
<td>33800</td>
</tr>
<tr>
<td>Processing (Knits) Mn. Sq. Meters</td>
<td>7800</td>
</tr>
<tr>
<td>Sewing Machines (Million)</td>
<td>3.3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

Source: CRISIL Study, 2004
Stake holders have to plan their strategies. So that we collectively achieve our targeted goal. For the government, following strategy could be beneficial. Scheme for Integrated Textile Parks) has had a huge success. In all 26 parks were approved. GOI's contribution will be Rs. 866 crores with another Rs.1250 crores to come from private sector. Estimated investment is of Rs.13445Crores. There is a need to continue such schemes on the PPP model. Indian textile companies are small and fragmented. (Top 32 companies = 11% of capital employed). Financial strength of individual companies to invest is weak, in relation to the overall investment requirement of $ 36 Bn. Between 1991-2006, only 1.31% of total FDI was in textiles. Looking at 14% of industrial production is textiles, this picture is quite decimal. Our competitors have an edge on this front. For example against investment of US$ 5.8 Billion in China, investment in India was $ 50 Million only.

We must know that FDI will help us build large scale capacities; FDI will bring in best practices and technology in textiles manufacturing and it will introduce newer products / markets. The specific areas needing FDI are Weaving and processing (large garment exporters imports upwards of 40% of their fabric requirements) ; Home textiles (large export potential); Logistics and supply chain; Technical Textiles; Machinery Manufacturing. From MMF sector there is proposal that the import duty reduction should take place for MMF. There is a need to correct fiscal
duty imbalance between MMF Vs Cotton. Also it is expected that the reduction in CENVAT on MMF be up to 4% on optional basis. There are certain issues involving high transaction costs which are as follows: According to EXIM Bank Study (2002), transaction cost is very high in Textile & Garments Sector ranging from 3-10% ; Ownership of exports — less support from State Governments ; Non-refundable incidence of State Taxes - VAT, Entry Tax, Luxury Tax, Mandi Tax, Electricity Duty, Octroi, etc. The proposal is to consider refund of State / Local levies through appropriate refund mechanism. There involves another issue and that is high power cost. There is cross subsidization and also frequent power interruption, which not only affect the production, but also erodes the competitive edge in the business.

Human Resource Development must be done on priority, as mentioned earlier. Governments in PPP mode with the industries must invest heavily in training in the textile sector esp. garmenting which has the potentiality to provide 4 million jobs by 2010. Integration and Consolidation. Both in domestic and international arena the increasing competition will play havoc with the stand-alone and small players. To fully absorb competitive pressures, players will have to take advantage of margin throughout the value chain. The culture is likely to see the "Return of the Composite Mills" Leading Home-tax players like
Welspun, Alok are now fully integrated, with strong competencies in spinning, weaving, and finishing. Between success and failure Scale will be the differentiator. The big retailers will also look for big suppliers. But will the death knell of small players be sounded? Small players may have to join together in a cluster. The SITP parks will be able to facilitate the coming together of several small players to take orders as a group. Quality Norms, i.e. not only in terms of the fabric finish, but all social norms will have to be followed. It means right from the issue of cotton contamination during ginning and processing to shuttle-less weaving to continuous power processing and international quality stitching, all these stages are encompassed when quality is looked into. The new retailers will demand both low price comparable to China and very high quality. This is not to say that older technology will not remain. Because India will continue to have demand for all types of products, but their bargaining strength will drastically reduce. Hence there is an urgent need to modernize. It is certain that older technology players will wither away. Realization is becoming evident that real value addition comes only after branded sale. In apparels, on the domestic front the major brands are with Madura, Arvind, Raymonds. In home textiles, Spaces brand of Welspun, Carmichael House of S. Kumars are becoming popular. On International front we have several examples in home textile e.g. Purchase of Christy by acquiring CHT holding by
Welspun or Dan Rivers and Roseby's by GHCL. Designer labels will also have to be brought in to counter the pull of top international labels like Tommy Hilfiger, Zegna, Mark and Spencer and Ralph Lauren. Alliance with Indian designers is very important over here. We have to get into newer areas e.g. Technical textiles, which are destined to grow at a much faster rate. The industry leaders have to constantly innovate, think of newer fibres, newer fabrics and newer designs. India is re-emerging in textiles, as in most other fields of economy. India must press ahead our tremendous advantages and must keep in mind that India cannot afford to miss this opportunity.

Abolition of quota has placed before India enormous opportunities to expand her share in Textiles and Apparel segment. International scenario does indicate conducive business atmosphere for India, the extent India, should have had progressed is relatively lesser than neighboring countries. Structurally, fragmented weaving, processing and garmenting sectors need further strengthening in terms of technology modernization and human resource training. For realizing the dream goal of US $ 95 Bn, India has to encourage a lot of local as well FDI in this sector so that the pace of progress could be maintained. The government understands its responsibilities. However, all the stakeholders have to redouble their efforts so that our share in World Textile Trade increases significantly.
As stated, it is high time for the Indian textile industry to re-orient its domestic policy so as to enable domestic firms to re-structure and face emerging competitive market when the quota restrictions are already over. Keeping in view the fiasco created by the developed countries in the recently concluded conference on climate at Copenhagen, it is an open secret that the developing countries are at the mercy of the whims and fancies of the developed countries. Therefore, the developing countries, includes India, have to make its industry competitive by confirming to the rules laid down in this respect by the WTO as also to make it domestically competitive by re-enforcing its infrastructure.