CHAPTER III

ROLE OF SPINNING MILLS AND ECONOMIC DEVELOPMENT

INTRODUCTION

The Indian spinning and textile industry has a significant presence in the economy as well as in the international textile economy. Its contribution to the Indian economy is manifested in terms of its contribution to the industrial production, employment generation and foreign exchange earnings. It contributes 20 percent of industrial production, 9 percent of excise collections, 18 percent of employment in the industrial sector, nearly 20 percent to the country’s total export earning and 4 percent to the Gross Domestic Product.

In human history, past and present can never ignore the importance of textile in a civilization decisively affecting its destinies, effectively changing its social scenario. A brief but thoroughly researched feature on Indian textile culture\(^1\).

The Indian spinning and textile industry contributes a very important role in Indian economy. It is one of the leading cotton and textile industries in the world. Though it was predominately industry even a few year back but the scenario started changing after the economic liberalization of Indian economy in 1991. The opening up of economy gave the much needed thrust to the Indian textile industry. This is now successfully become one of the largest industries in the world. Indian textile and clothing industry is the second largest employer after agriculture, it is estimated that industry provides direct employment to 35 million people including substantial segments of weaker sections of society with a very low important intensity of about 1.5 percent only, it is the largest net foreign exchange earner in India, earning almost 35 percent of foreign exchange.
SPINNING AND TEXTILE INDUSTRY

One of the oldest industries in India is the cotton textile industry. The word “textile” is derived from the Latin word “Texere” meaning to weave and originally applied only to woven fabrics. Then it expanded to mean fibers, and fabrics produced by interlacing or any other construction method. Thuks, threads, cords, ropes braids, lace embroidery, nets and fabrics made by weaving, knitting, bonding, felting, or Tuffing are included in Textiles. An organized cotton textile industry is one of the oldest and most firmly established major large scale industries in the world².

India has been well known for her textile goods since very ancient times. The traditional textile industry of India was virtually decayed during the colonial regime. However, the modern textile industry took birth in India in the early nineteenth century when the first textile mill in the country was established at fort gloster near Calcutta in 1818. The cotton textile industry, however, made its real beginning in Bombay, in 1850s. The first cotton textile mill of Bombay was established in 1854 by a Parsi cotton merchant then engaged in overseas and internal trade. Indeed, the vast majority of the early mills were the handiwork of Parsi merchants engaged in yarn and cloth trade at home and Chinese and African markets.

The first cotton mill in Ahmedabad, which was eventually to emerge as a rival centre to Bombay, was established in 1861. The spread of the textile industry to Ahmedabad was largely due to the Gujarati trading class.

The cotton textile industry made rapid progress in the second half of the nineteenth century and by the end of the century there were 178 cotton textile mills; but during the year 1900 the cotton textile industry was in bad state due to the great famine and a number of mills in Bombay and Ahmedabad were to be closed down for long periods.

The two world War and the Swadeshi movement provided great stimulus to the Indian cotton textile industry. However, during the period 1922 to 1937 the industry was in doldrums and during this period a number of the Bombay mills changed hands. The second World War, during which
textile import from Japan completely stopped, however, brought about an unprecedented growth of this industry. The number of mills increased from 178 with 4.05 lakh looms in 1901 to 249 mills with 13.35 lakh looms in 1921 and further to 396 mills with over 20 lakh looms in 1941. By 1945 there were 417 mills employing 5.10 lakh workers.

The cotton textile industry is rightly described as a Swadeshi industry because it was developed with indigenous entrepreneurship and capital and in the pre-independence era the Swadeshi movement stimulated demand for Indian textile in the country.

The partition of the country at the time of independence affected the cotton textile industry also. The Indian union got 409 out of the 423 textiles mills of the undivided India. 14 mills and 22 percent of the land under cotton cultivation went to Pakistan. Some mills were closed down for some time. For a number of years since independence, Indian mills had to import cotton from Pakistan and other countries.

After independence, the cotton textile industry made rapid strides under the Plans. Between 1951 and 1982 the total number of spindles doubled from 11 million to 22 million. It increased further to well over 26 million by 1989-1990.

From early times India has been noted for its fine cotton fabrics. The Calicos of Calicut and Muslins of Dacca - now in Pakistan - were celebrated all over the world for their fine texture and embroidery. Cotton spinning and weaving were highly developed in India even 2,000 years ago. Indian handlooms produced fabrics of rare quality, including embroideries, silk, carpets and chintz.

Even after the introduction of power-driven machinery in England Indian yarns were imported into the U.K. The large quantities of cheap and graceful Calicos, Muslins and Chintz that were imported into the U.K. by the East India Company at the end of the 17th century became rivals to Lancashire fabrics. This alarmed the woollen and silk manufacturers so that the use of the Indian Calicos and cotton goods in dress or furniture
was prohibited in Britain for some time. The English cotton manufacturing
industry was revolutionized with the application of steam and power loom
so that cotton piece goods in the U.K. were produced at a very cheap
rate. Lancashire goods began to pour into India and became great rivals to
the handloom product produced by the weavers in this country.
Lancashire gained prominence while the Indian cotton textile industry
decayed.

From its inception the industry passed through vicissitudes of
fortune till it reached its present status. As the industry grew up the yarn
trade with China fetched it good profit. The Indian market was not initially
favourable, because of competition with Lancashire goods but the natural
advantages of humid climate, raw materials and an external market
helped the growth of the industry considerably. During the latter part of
the last century Japan became a rival to India in yarn trade with China and
the Far Eastern Asia. During the first World War (1914-1918) Japan
obtained better opportunities for marketing her yarn to China.

India was dependent considerably on the U.K. for the supply of
machinery, caustic soda, bleaching powder, etc., for her cotton mills. The
home market was not favourable to the industry because of competition
with Lancashire fabrics which poured into India in huge quantities.
Production of yarn was more profitable than the production of cloth
because the yarn could be marketed outside. Railway freight charges in
India for transporting coal to the cotton mills were high as the coals had
to be obtained from the Damodar Valley, the only important coal producing
area in the country. It was, therefore, more profitable to import coal
from South Africa by sea route for the cotton mills of India. This situation
continued till water power was developed in Bombay and other areas in
the early part of the 20th century. Such were the many problems of the
cotton mill industry in the early days of its development.

After the First World War the condition of the industry improved
slightly. The Tariff policy adopted in 1927 and pacts with Great Britain
and Japan to restrict imports helped to improve the condition of the
industry immediately before the Second World War. The internal market became favourable and the spinning and the weaving sections of the industry made considerable progress. Cloths could also be exported outside.

During the Second World War the industry made great progress since the demand for cloths in the country increased partly due to import difficulties and partly due to the increasing requirements of cloths for the Army. The cotton mills began to work for three shifts a day instead of two shifts. Cloth, however, was not available in good quantities for civilian consumption so that in 1943 the supply of cloth to civilians was restricted to by the Government and cloth control order was made effective\(^5\). The standard cloth scheme was launched on and from 1\(^{st}\) April 1944. Bengal, in the grip of a food famine at that time, also buffed from cloth famine.

The textile industries began to appear and there were 294,000 acres of land in the district of Tirunelveli under cotton cultivation. Three large spinning-mills, thirteen ginning-factories, and six steam-presses were employed in the treatment of the product. In addition to these, there were numerous hand-gins (manual), worked either by cotton-growers on their own account or owned and controlled by small capitalists\(^6\).

Hand-spinning as a serious industry has long been extinct, the few spindles which had survived the competition of imported machine-made yarn having fallen into almost complete disuse with the establishment in the district of the spinning factories, first at Papanasam and later at Tuticorin and Kovilpatti\(^7\).
STRUCTURE OF TEXTILE INDUSTRY

The industry is made up of two sectors namely well organized (i.e., textile mills) and unorganized or decentralized sector.

The textile sector in India is one of the largest sector in the world. The textile industry today is divided into three segments:

1. Cotton Textiles
2. Synthetic Textiles
3. Wool, Jute, Silk etc.

All segments have their own place but even today cotton textiles continue to dominate with 73 percent share. The structure of cotton textile industry is very complex with co-existence of oldest technologies of hand spinning and hand weaving with the most sophisticated automatic spindles and loom. The structure of the textile industry is extremely complex with the modern, sophisticated and highly mechanized mill sector on the one hand and hand spinning and hand weaving (handloom sector) on the other in between falls the decentralised small scale powerloom sector.

Unlike other major textile-producing countries, India's textile industry is comprised mostly of small-scale, non-integrated spinning, weaving, finishing, and apparel-making enterprises. This unique industry structure is primarily a legacy of government policies that have promoted labour-intensive, small-scale operations and discriminated against larger scale firms:
COMPOSITE MILLS

Relatively large-scale mills that integrate spinning, weaving and, sometimes, fabric finishing are common in other major textile-producing countries. In India, however, these types of mills now account for about only 3 percent of output in the textile sector. About 276 composite mills are now operating in India, most owned by the public sector and many deemed financially “sick.” In 2003-2004 composite mills that produced 1434 m.sq mts of cloth. Most of these mills are located in Gujarat and Maharashtra.

SPINNING

Spinning is the process of converting cotton or manmade fiber into yarn to be used for weaving and knitting. This mills chiefly located in North India. Spinning sector is technology intensive and productivity is affected by the quality of cotton and the cleaning process used during ginning. Largely due to deregulation beginning in the mid 1980s, spinning is the most consolidated and technically efficient sector in India’s textile industry. Average plant size remains small, however, and technology outdated, relative to other major producers. In 2002-03, India’s spinning sector consisted of about 1,146 small-scale independent firms and 1,599 larger scale independent units.

WEAVING AND KNITTING

The weaving and knits sector lies at the heart of the industry. In 2004-05, of the total production from the weaving sector, about 46 percent was cotton cloth, 41 percent was 100 percent non-cotton including khadi, wool and silk and 13 percent was blended cloth. Three distinctive technologies are used in the sector – handlooms, powerlooms and knitting machines. Weaving and knitting converts cotton, manmade, or blended yarns into woven or knitted fabrics. India’s weaving and knitting sector remains highly fragmented, small-scale, and labour-intensive. This sector consists of about 3.9 million handlooms, 380,000 “powerloom” enterprises that operate about 1.7 million looms, and just 137,000 looms in the various composite mills. “Powerlooms” are small firms, with an average loom
capacity of four to five owned by independent entrepreneurs or weavers. Modern shuttleless looms account for less than 1 percent of loom capacity.

**FABRIC FINISHING**

Fabric finishing (also referred to as processing), which includes dyeing, printing, and other cloth preparation prior to the manufacture of clothing, is also dominated by a large number of independent, small-scale enterprises. Overall, about 2,300 processors are operating in India, including about 2,100 independent units and 200 units that are integrated with spinning, weaving, or knitting units.

**CLOTHING**

Apparel is produced by about 77,000 small-scale units classified as domestic manufacturers, manufacturer exporters, and fabricators (subcontractors).³

**PERFORMANCE OF THE SPINNING AND TEXTILE INDUSTRY**

The Indian spinning and textile industry is in a stronger position than it was in the last six decades. The industry which was growing at 3-4 percent during the last six decades has now accelerated to annual growth rate of 9-10 percent but various factors have effecting annual growth rate of Textile Industry, Global recession is one of them. The impact of the global and domestic economic slowdown directly affect the performance of the industry. While cost of raw materials and inputs remain in competitive in comparison with competing countries, the output and profitability of the industry have taken a nose dive in recent months.
Percentage growth in textile is given in table 3.1.1:

Table 3.1.1
PERCENTAGE GROWTH IN TEXTILES

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton textiles</td>
<td>8.5</td>
<td>14.8</td>
<td>4.3</td>
<td>-1.9</td>
<td>5.5</td>
</tr>
<tr>
<td>Wool, silk &amp; MMF Textiles</td>
<td>0.0</td>
<td>7.8</td>
<td>4.8</td>
<td>0.0</td>
<td>8.2</td>
</tr>
<tr>
<td>Textile products (including Garment)</td>
<td>16.3</td>
<td>11.5</td>
<td>3.7</td>
<td>5.8</td>
<td>8.5</td>
</tr>
<tr>
<td>Vegetable fiber textiles (Expect Cotton)</td>
<td>0.5</td>
<td>-15.8</td>
<td>33.1</td>
<td>-10.0</td>
<td>-24.4</td>
</tr>
<tr>
<td>Total textile section</td>
<td>6.7</td>
<td>7.0</td>
<td>7.5</td>
<td>0.2</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Source: Ministry of Textile Website

AREA PRODUCTION AND YIELD

Over the years, country has achieved significant quantitative increase in cotton production. Till 1970s, country used to import massive quantities of cotton in the range of 8.00 to 9.00 lakh bales per annum. However, after Government launched special schemes like intensive cotton production programmes through successive five-year plans, that cotton production received the necessary impetus through increase in area and sowing of Hybrid varieties around mid 70s. Since then country has become self-sufficient in cotton production barring few years in the late 90s and early 20s when large quantities of cotton had to be imported due to lower crop production and increasing cotton requirements of the domestic textile industry.

Since launch of "Technology Mission on Cotton" by Government of India in February 2000 significant achievements have been made in increasing yield and production through development of high yielding varieties, appropriate transfer of technology, better farm management practices, increased area under cultivation of Bt cotton hybrids etc. All these
developments have resulted into a turn around in cotton production in the country since last 6/7 years. The yield per hectare which was stagnant at about 300 kg/ha for more than 10 years, has increased substantially and reached a level of 554 kg/ha in cotton season 2007-08.

The fundamental changes that taking place in the realm of cotton cultivation in the country, are having the potential to take the current productivity level near to the world average cotton production per hectare in the near future. Apart from meeting the increased cotton consumption by domestic textile industry, country may have sufficient surplus cotton to meet the cotton requirements of importing countries.

State wise Progress with regard to area, production and yield in the country is enumerated in table 3.1.2:
COTTON CONSUMPTION

The domestic textile industry is one of the largest industries in the country and has witnessed a phenomenal growth in the last two decades in terms of installed spindlage and yarn production. The significant features of this growth include installation of open-end rotors and setting up of export oriented units. Technology-wise, Indian spinning industry has been able to keep pace with the international technology trends to a fair degree and this pace of modernization received a fillip after launching of "Technology Upgradation Fund" by the Government of India in April 1999.

The mushroom growth of spinning industry and its modernization has led to sustained growth in cotton consumption specially during the years when country harvested good crop production. After achieving a sustained growth in cotton consumption during 10th Plan period, domestic cotton consumption in last few years barring 2008-09 has been increasing steadily.

Trends in cotton consumption by the textile industry in table 3.1.3:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cotton Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>154.05</td>
</tr>
<tr>
<td>2003-04</td>
<td>163.39</td>
</tr>
<tr>
<td>2004-05</td>
<td>180.55</td>
</tr>
<tr>
<td>2005-06</td>
<td>199.00</td>
</tr>
<tr>
<td>2006-07</td>
<td>216.15</td>
</tr>
<tr>
<td>2007-08</td>
<td>217.75</td>
</tr>
<tr>
<td>2008-09</td>
<td>210.00</td>
</tr>
<tr>
<td>2009-10</td>
<td>242.00</td>
</tr>
<tr>
<td>2010-11</td>
<td>236.00</td>
</tr>
<tr>
<td>2011-12</td>
<td>230.00</td>
</tr>
</tbody>
</table>

Source: Cotton Advisory Board
Supply and demand of cotton is given in table 3.1.4:

Table 3.1.4

COTTON BALANCE SHEET

(Quantity in lakh bales of 170 kgs)

<table>
<thead>
<tr>
<th>Item</th>
<th>01-02</th>
<th>02-03</th>
<th>03-04</th>
<th>04-05</th>
<th>05-06</th>
<th>06-07</th>
<th>07-08</th>
<th>08-09</th>
<th>09-10</th>
<th>10-11</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SUPPLY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening stock</td>
<td>29.00</td>
<td>40.00</td>
<td>24.00</td>
<td>21.00</td>
<td>72.00</td>
<td>52.00</td>
<td>47.50</td>
<td>35.50</td>
<td>71.50</td>
<td>40.50</td>
</tr>
<tr>
<td>Crop size</td>
<td>158.00</td>
<td>136.00</td>
<td>179.00</td>
<td>243.00</td>
<td>241.00</td>
<td>280.00</td>
<td>307.00</td>
<td>290.00</td>
<td>305.00</td>
<td>339.00</td>
</tr>
<tr>
<td>Imports</td>
<td>25.26</td>
<td>17.67</td>
<td>7.21</td>
<td>12.17</td>
<td>5.00</td>
<td>5.53</td>
<td>6.38</td>
<td>10.00</td>
<td>6.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Availability</td>
<td>212.26</td>
<td>193.67</td>
<td>210.21</td>
<td>276.17</td>
<td>318.00</td>
<td>337.53</td>
<td>360.88</td>
<td>335.50</td>
<td>382.50</td>
<td>384.50</td>
</tr>
<tr>
<td><strong>DEMAND</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mill consumption</td>
<td>147.00</td>
<td>142.42</td>
<td>150.39</td>
<td>163.98</td>
<td>180.00</td>
<td>194.89</td>
<td>195.67</td>
<td>190.00</td>
<td>219.00</td>
<td>220.70</td>
</tr>
<tr>
<td>Small Mill consumption</td>
<td>11.70</td>
<td>11.63</td>
<td>13.00</td>
<td>16.57</td>
<td>19.00</td>
<td>21.26</td>
<td>22.08</td>
<td>20.00</td>
<td>23.00</td>
<td>24.70</td>
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<tr>
<td>Non-Mill consumption</td>
<td>13.06</td>
<td>14.78</td>
<td>13.71</td>
<td>14.48</td>
<td>20.00</td>
<td>15.88</td>
<td>19.13</td>
<td>19.00</td>
<td>17.00</td>
<td>22.00</td>
</tr>
<tr>
<td>Total consumption</td>
<td>171.76</td>
<td>168.83</td>
<td>177.10</td>
<td>195.03</td>
<td>219.00</td>
<td>232.03</td>
<td>236.88</td>
<td>229.00</td>
<td>259.00</td>
<td>267.40</td>
</tr>
<tr>
<td>Export</td>
<td>0.50</td>
<td>0.84</td>
<td>12.11</td>
<td>9.14</td>
<td>47.00</td>
<td>58.00</td>
<td>88.50</td>
<td>35.00</td>
<td>83.00</td>
<td>68.80</td>
</tr>
<tr>
<td>Total disappearance</td>
<td>172.26</td>
<td>169.67</td>
<td>189.21</td>
<td>204.17</td>
<td>266.00</td>
<td>290.03</td>
<td>325.38</td>
<td>264.00</td>
<td>342.00</td>
<td>336.20</td>
</tr>
<tr>
<td>Carry forward</td>
<td>40.00</td>
<td>24.00</td>
<td>21.00</td>
<td>72.00</td>
<td>52.00</td>
<td>47.50</td>
<td>35.50</td>
<td>71.50</td>
<td>40.50</td>
<td>48.30</td>
</tr>
</tbody>
</table>

Source: Cotton Advisory Board
CURRENT SCENARIO

Indian spinning and textile industry is one of the leading industries in the world. Currently it is estimated to be around US $52 billion and is also projected to be around US $115 billion by the year 2012. The current domestic market of textile in India is expected to be increased to US $60 billion by 2012 from the current US $34.6 billion. The textile export of the country was around US $19.14 billion in 2006-07, which saw a stiff rise to reach US $22.13 in 2007-08. The share of exports is also expected to increase from 4 percent to 7 percent within 2012.

EXORT OF TEXTILES AND ECONOMIC DEVELOPMENT

A steady inflow of foreign exchange is one of the dominant features of the economic contribution of the textile trade. Successive government policies have consistently encouraged measures to exploit our comparative advantages to increase exports. The exclusivity of our handlooms, the uniqueness of silk, the flare of our fashion designers, the delicacy of our carpets and the cost competitiveness of our power loom cotton fabrics have kept up a steady interest in Indian textiles and made the task comparatively easy for an exporter.

The textile trade over the last decade has increased considerably from US $5 billion to US $14 billion. The textile exports also contribute to about 16 percent of the India’s total exports. In the global textile trade also our share has increased from 1.85 percent in 1985 to 3.13 percent last year. However, it is still lower than our share of 11 percent in 1951. Further, our exports have grown at an average of seven percent per annum in dollar terms over the last five years, while world textile trade has grown only about four percent annum in the same period.

- Man-made textiles 13 percent
- Cotton textiles 27 percent
- Readymade garments 46 percent
- Others 14 percent
The National Textile Policy – 2000 has envisaged textile exports at US $50 billion with the share of garments at US $25 billion by 2010. The Government has initiated appropriate schemes to provide the necessary thrust for achieving the export targets of US $50 billion by 2010. The world trade is expected to increase at the rate of eight percent. By 2010 it will be about US $660 billion accordingly, the US $50 billion. Target would mean global share of seven percent as against 3.13 percent currently. The World Bank has estimated that Indian clothing industry would benefit from abolition of quota as its quota levels are always fully utilized. The recent measures taken by the Government in the form of TMC, TUFS, Cluster development plan, SITP are also bound to reflect in strengthening the fundamentals of the textile industry enabling it to market its products aggressively in the global market.

The Indian Spinning and Textiles Industry is an export intensive industry and about one third of its total production is exported in some form or the other, through export friendly government policies and positive effort by the exporting community. The 50 percent exports of the entire textile are the readymade garments, most of which is cotton, readymade garments and accessories. This is followed by handicrafts, Silk Products, Woolen Textile, Jute and Coir. The exports of textiles and clothing till 2004-05 have grown at a moderate pace. However there was registered sharp growth in 2005-06.

Till 31st December 2004, export were regulated by a Quota an agreement a foreign country would give a quota saying that they would by a particular amount of textile from India on 1st January, 2005 (Post Multi Fibre Agreement) provision of free trade was made. Now all doors are open, opportunities are numerous and the product should be sent to any country that is willing to trade. The volumes went up in the financial year 2005-06 and from the next financial year the volume of India rupee was devalued. Due to this amount of foreign exchange has been reduced in India. There was further loss of 15 percent to 20 percent due to recession that struck the world in the year 2008. After recession period, textile export
increased from in US $153018.22 million in 2008-09 to US $178751.43 million 2009-10. A textile export is given in table 3.1.6:

Table 3.1.6

<table>
<thead>
<tr>
<th>FINANCIAL YEAR</th>
<th>TEXTILE EXPORT US$ MILLIONS</th>
<th>TOTAL EXPORTS US$ MILLIONS</th>
<th>PERCENTAGE OF TEXTILE EXPORTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>14026.72</td>
<td>83535.95</td>
<td>16.79</td>
</tr>
<tr>
<td>2005-06</td>
<td>17520.07</td>
<td>103090.53</td>
<td>16.99</td>
</tr>
<tr>
<td>2006-07</td>
<td>19146.04</td>
<td>126262.68</td>
<td>15.16</td>
</tr>
<tr>
<td>2007-08</td>
<td>19558.53</td>
<td>143567.86</td>
<td>13.62</td>
</tr>
<tr>
<td>2008-03</td>
<td>18519.96</td>
<td>153018.22</td>
<td>12.10</td>
</tr>
<tr>
<td>2009-10</td>
<td>22418.00</td>
<td>178751.43</td>
<td>12.54</td>
</tr>
</tbody>
</table>

Source: Department of Commerce NIC & DGCI & S, Kolkata.

FUTURE PROSPECTS

The future outlook for the industry looks promising, rising income levels in both urban and rural markets will ensure a rising market for the cotton fabrics considered a basic need in the realm of new economic reforms (NER) proper attention has been given to the development of the textiles industry in the Tenth plan. Total outlay on the development of textile industry as envisaged in the tenth plan is fixed at Rs.1980 crore. The production targets envisaged in the terminal year of the Tenth plan are 45,500 million sq metres of cloth 4,150 million kg of spun yarn and 1,450 million kg of man made filament yarn. The per capita availability of cloth would be 28.00 sq meters by 2006-2007 as compared to 23.19 sq meters in 2000-01 showing a growth of 3.19 percent. The export target of textiles and apparel is placed at $32 billion by 2006-2007 and $50 billion by 2010.
VISION INDIA 2012 FOR TEXTILES

- Spinning and Textile economy to grow to $85 billion by 2012.
- Creation of 12 million new jobs in Textile Sector.
- To increase India’s share in world trade to 6 percent by 2012.
- Achieve export value of $40 Billion by 2012.
- Modernisation and consolidation for creating a globally competitive industry.

INDIA’S MAJOR COMPETITORS IN THE WORLD

To understand India’s position among other textile producing the industry contributes 9 percent of GDP and 35 percent of foreign exchange earning, India’s share in global exports is only 3 percent compared to China’s 13.75 percent percent. In addition to China, other developing countries are emerging as serious competitive threats to India. Looking at export shares, Korea (6 percent) and Taiwan (5.5 percent) are ahead of India, while Turkey (2.9 percent) has already caught up and others like Thailand (2.3 percent) and Indonesia (2 percent) 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.

PROBLEMS FACED BY THE SPINNING AND TEXTILE INDUSTRY IN INDIA

The cotton textile industry is reeling under manifold problems. The major problems are the following:

SICKNESS

Sickness is widespread in the cotton textile industry. After the engineering industry, the cotton textile industry has the highest incidence of sickness. As many as 125 sick units have been taken over by the Central Government. Sickness is caused by various reasons like the problems mentioned below.
OBSELESCENCE

The plant and machinery and technology employed by a number of units are obsolete. The need today is to make the industry technologically up-to-date rather than expand capacity as such. This need was foreseen quite sometime back and schemes for modernisation of textile industry had been introduced. The soft loan scheme was introduced a few years back and some units were able to take advantage of the scheme and modernise their equipment. However, the problem has not been fully tackled and it is of utmost importance that the whole industry is technologically updated. Not many companies would be able to find resources internally and will have to depend on financial institutions and other sources.

GOVERNMENT REGULATIONS

Government regulations like the obligation to produced controlled cloth are against the interest of the industry. “During the last two decades the excessive regulations exercised by the government on the mill sector has promoted inefficiency in both production and management. This has also resulted in a colossal waste of raw materials and productive facilities. For example, the mills are not allowed to use filament yarn in warp in order to protect the interest of art silk and powerloom sector which use this yarn to cater to the affluent section of society”.

LOW YIELD AND FLUCTUATION OF COTTON OUTPUT

The cotton yield per hectare of land is very low in India. This results in high cost and price. Further, being largely dependent on the climatic factors, the total raw cotton production is subject to wide fluctuation causing serious problems for the mills in respect of the supply of this vital raw material.

COMPETITION FROM MAN-MADE FIBRES

One of the serious challenges facing the cotton textile industry is the competition from the man-made fibres and synthetics. These textures are gradually replacing cotton textiles. This substitution has in fact been
supported by a number of people on the ground that it is not possible to increase substantially the raw cotton production without affecting other crops particularly food crops.

COMPETITION FROM OTHER COUNTRIES

In the international market, India has been facing severe competition from other countries like Taiwan, South Korea, China and Japan. The high cost of production of the Indian industry is a serious adverse factor.

LABOUR PROBLEMS

The cotton textile industry is frequently plagued by labour problems. The very long strike of the textile workers of Bombay caused losses amounting to millions of rupees not only to the workers and industry but also to the nation in terms of excise and other taxes and exports.

ACCUMULATION OF STOCK

At times the industry faces the problems of very low off-take of stocks resulting in accumulation of huge stocks. The situation leads to price cuts and the like leading to loss or low profits.

MISCELLANEOUS

The industry faces a number of other problems like power cuts, infrastructural problems, lack of finance, exorbitant rise in raw material prices and production costs etc.

INVESTMENT IN SPINNING AND COTTON TEXTILE SECTOR

The textile exports are projected to reach a level of US $50 billion (\textdollar176000 crores annually) from the present level of about 12 billion US$. This, would however, call for massive investments in the textile sector. As per the vision statement for the textile sector prepared by CRISIL investments of \textdollar140000 crores will be needed not only to modernize the existing capacities but also to create fresh capacity. The largest investment need will be in the processing sector, which is a critical segment in the value chain that determines the quality of the fabrics / apparels. An investment of
`64,900 crores is required to set up world-class process houses in the country. A broad break up of investments of `1,75,259 crores is given in the table 3.1.7.

**Table 3.1.7**

INVESTMENT IN SPINNING, TEXTILE AND GARMENT INDUSTRY

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>INVESTMENTS (` in Cr.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spinning</td>
<td>42,655</td>
</tr>
<tr>
<td>Weaving</td>
<td>31,034</td>
</tr>
<tr>
<td>Knitting</td>
<td>5,670</td>
</tr>
<tr>
<td>Processing</td>
<td>64,900</td>
</tr>
<tr>
<td>Garmenting</td>
<td>31,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,75,259</td>
</tr>
</tbody>
</table>

Source: CRISIL

The inherent strengths of the cotton textile industry have seen the textile industry through rough days and hard times. There have been many periods of adversity, when growth charts have dipped and it has appeared that misfortune will overtake. But like phoenix the textile industry has risen each time from the ashes. Tremendous resilience and creative genius in India will achieve the due to this country. Today, rapid changes in the world trading system have endangered the stability of the textile-garment industry and created an atmosphere of uncertainty and turbulence in the industry. But it is also a fact that turbulence is necessary for any change in the system. In a world that is fast losing its traditional boundaries and borders are becoming invisible, there is need to bring about technological improvement, structural changes, and liberalization from controls and regulations, increased productivities of labour and machine and reliable quality assurance systems. If there is insecurity inherent in the globalised economy, there is also opportunity – opening up of vast markets to Indian textiles and Indian clothing that were earlier closed or regulated and Indian textile industry is
ready to take up this opportunity of free trade and secure its well deserved position in the international textile arena.

INTERNATIONAL ECONOMIC NETWORK OR GLOBALISATION

In global capitalism, economic activity is international in scope and global in organization. “Internationalization” refers to the geographic spread of economic activities across national boundaries. As such, it is not a new phenomenon. It has been a prominent feature of the world economy since at least the seventeenth century when colonial powers began to carve up the world in search of raw materials and new markets. “Globalization” is more recent, implying functional integration between internationally dispersed activities.

Industrial and commercial firms have both promoted globalization, establishing two types of international economic networks. One is “producer driven” and the other “buyer-driven”. In producer-driven value chains, large, usually transnational, manufacturers play the central roles in coordinating production networks (including their backward and forward linkages). This is typical of capital- and technology-intensive industries such as automobiles, aircraft, computers, semiconductors and heavy machinery. Buyer-driven value chains are those in which large retailers, marketers and branded manufacturers play the pivotal roles in setting up decentralized production networks in a variety of exporting countries, typically located in developing countries. This pattern of trade-led industrialization has become common in labour-intensive, consumer goods industries such as garments, footwear, toys, handicrafts and consumer electronics. Tiered networks of third-world contractors that make finished goods for foreign buyers carry out production. Large retailers or marketers that order the goods supply the specifications. Firms that fit the buyer-driven model, including retailers like Wal Mart, Sears and JC Penney, athletic footwear companies like Nike and Reebok, and fashion-oriented apparel companies like Liz Claiborne, Gap and The Limited Inc., generally design and market - but do not make - the branded products they order. They are “manufacturers without factories”, with the physical production of goods separated from the design and marketing. Unlike
producer driven chains, where profits come from scale, volume and technological advances, in buyer-driven chains profits come from combinations of high value research, design, sales, marketing and financial services that allow the retailers, designers and marketers to act as strategic brokers in linking overseas factories and traders with product niches in their main consumer markets. Profitability is greatest in the concentrated parts of global value chains that have high entry barriers for new firms. In producer driven chains, manufacturers of advanced products like aircraft, automobiles and computers are the key economic agents both in terms of their earnings and their ability to exert control over backward linkages with raw material and component suppliers, and forward linkages into distribution and retailing. The lead firms in producer driven chains usually belong to international oligopolies. Buyer-driven value chains, by contrast, are characterized by highly competitive and globally decentralized factory systems with low entry barriers. The companies that develop and sell brand named products have considerable control over how, when and where manufacturing will take place, and how much profit accrues at each stage.

GOVERNMENT POLICIES, SCHEMES AND CORPORATIONS FOR PROMOTING SPINNING AND TEXTILE INDUSTRY IN INDIA:

THE MULTI-FIBRE AGREEMENT (MFA)

The Multi-Fibre Agreement (MFA), that had governed the extent of textile trade between nations since 1962, expired on 1st January 2005. It is expected that, post-MFA, most tariff distortions would gradually disappear and firms with robust capabilities will gain in the global trade of textile and apparel. The prize is the $360 billion market which is expected to grow to about $600 billion by the year 2010 – barely five years after the expiry of MFA.

NATIONAL TEXTILE POLICY 2000

Faced with new challenges and opportunities in a changing global trade environment, the GOI unveiled its National Textile Policy 2000 (NTP 2000) on November 2, 2000. The National Textile Policy 2000 aims to
improve the competitiveness of the Indian textile industry in order to attain $50 billion per year in textile and apparel exports by 2010. The NTP 2000 opens the country's apparel sector to large firms and allows up to 100 percent FDI in the sector without any export obligation.

**EXPORT PROMOTION OF CAPITAL GOODS (EPCG) SCHEME**

To promote modernization of Indian industry, the GOI set up the Export Promotion Capital Goods (EPCG) scheme, which permits a firm importing new or Secondhand capital goods for production of articles for export to enter the capital goods at preferential tariffs, provided that the firm exports at least six times the c.i.f. value of the imported capital goods within 6 years. Any textile firm planning to modernize its operations had to import at least $4.6 million worth of equipment to qualify for duty-free treatment under the EPCG scheme.

**EXPORT – IMPORT POLICY**

The GOI’s EXIM policy provides for a variety of largely export-related assistance to firms engaged in the manufacture and trade of textile products. This policy includes fiscal and other trade and investment incentives contained in various programs.

**FISCAL RATIONALIZATION**

Budget of 2006 shows that the excise duty on all manmade fibers and yarns was reduced from 16 percentages to 8 percentages. 2007’s budget carried it forward by reducing the custom duties on polyester fibers and yarns from 10 percent to 7.5 percent.

The Indian spinning and textile industry is currently one of the largest and most important sector in the economy in terms of output foreign exchange earnings and employment in India. The Textile industry has the potential to scale new height in the globalized economy. The spinning and textile industry in India has gone through significant changes in anticipation of increased international competition.
The Budget 2011-12 maintained the rate of excise duty on Polyester fibers and yarns and its raw material Purified Terephthalic Acid. (PTA) and Mono Ethylene Glycol (MEG) to 10 percent. FICCI in its pre-budget memorandum has said that the industry hopes it is not the intention of the government to increase the cost of fabric predominantly used by the common man.

Since any increase in the production cost at the initial stage of fiber and yarn itself will have a cascading and far reaching effect on the entire value chain, FICCI has requested that this matter be re-visited and the duties on fibers along with their raw materials be brought down to 4 percent as before. Needless to mention this would benefit fiber manufacturers and downstream users, texturisers and weavers.

Parity in excise duty between Cotton and Polyester: The duty differential between cotton and synthetics continues. Fiber neutral duty structure should be introduced and all the competing fibers natural and manmade should be treated at par.

Textile companies setting up small capacity power plants to augment their power requirements should be encouraged, since same also leads to lessen burden on the national grid. Power forms a significant production cost for textile sector, hence excise and customs duties on plant and machinery for power projects up to 100 MW should be abolished. This will encourage and add up new capacities in the sector and surplus if any can be sold to the grid. This will encourage and support Capital Goods industry.