INTRODUCTION

I

The impact of Globalization on Indian industry started with the emergence of industrial policy statement of 1973 when foreign investment was allowed in specific industries. Globalization in India is generally taken to mean integrating the economy of the country with the world economy. The real thrust to the globalization process was provided by the new economic policy introduced by the Government of India in July, 1991 at the behest of IMF and the World Bank. Momentum to the process of globalization occurred in the recent years as a consequence of speedy progress especially in communications, transport and computer technology. Impact of globalization on Indian Industry started to appear apparently when Government of India modified its economic policy in 1991, by which it allowed direct foreign investments in the country. The prime intention behind this initiation was that the government wanted to break down the chronic bottlenecks that stopped efficiency and competitiveness, so that it would provide the impetus to economic growth.

Globalization is the process of integrating various economies of the world without creating any hindrances in the free flow of goods and services, technology, capital and even labour or human capital. Small scale and cottage industries sector has emerged as an engine of growth in several developing and developed economies of the world. In India also, they have emerged as a vibrant and dynamic sector of Indian economy by virtue of their significant contribution to GDP, industrial production and exports (Kumar & Gugloth, 2012).

The decade of the 1990s was an eventful one in terms of policy changes, nationally as well as internationally. Since the beginning of the 1990s, policy changes have been taking place at three different levels – global, national and sectoral – which have implications for small industry functioning and performance in India. According to Stiglitz (2002), globalization is closer integration of countries and people of the world, which has been brought about by the enormous reduction of costs of transportation and
communication and the breaking down of artificial barriers to the flow of goods, services, capital, knowledge and people across borders. However, the developments that have been taking place since early 1991 are mostly with reference to free movement of only one of the factor inputs – capital, commonly known as FDI (Foreign Direct Investment) and free movement of goods, particularly from developed to developing countries (Subrahmanya, 2004).

The roots of newly emerging forces of globalization existed in specific economic and political development in the late 1980s and early 1990s. In the ten years from 1988 to 1998, almost all nations of the world regardless of ideology reduced their economic activities while private sector expanded and thus gradually replaced government as major economic agent from the world scene. All this has created new market like services: consumer and financial; new agents like MNCs (Multi National Corporations) and WTO (World Trade Organization); Regional Blocks and policy co-ordination groups like G-77, G-10, G-22 and OECD (Organization For Economic Cooperation And Development); news norms and policy as individualized, liberalism, democracy, human rights, consensus on global environment and peace, multilateral agreements etc (UNDP 1999), (Gaur and Pandey, 2004).

In early 1991, Indian economy faced several economic crises like fiscal imbalances, mounting inflationary pressures and severe balance of payments crisis. The Congress government, which assumed office at the end of June 1991, responded quickly to these problems. As a result, the policy of Structural Adjustment Programmes (SAPs) was introduced in July 1991. Apart from other regulatory measures, the main aim was to correct the prevailing distortions in the Indian economy and the broad approach was to initiate reforms in the external sector (ibid).

The term globalization has therefore, four parameters:

1. Reduction of trade barriers to permit free flow of goods and services among nation-states;
2. Creation of environment in which free flow of capital can take place among nation-states;
3. Creation of environment, permitting free flow of technology; and
4. Creation of environment in which free movement of labour can take place in different countries of the world (Sonia and Kansal, 2009).

Foreign trade is helpful to both the developed as well as developing countries. For the developed, it provides production inputs through cheap imports, wider market, increase in investment opportunities and international goodwill; for the developing countries, it fulfills the needs for development, maintenance of essential supplies and inflation control, etc. Because the different countries of the world are differently endowed, therefore, they can help each other through trade to attain the common goal of socio-economic development (Srivastva, 1986(Nanda 1998).

India, the world’s third-largest producer of cotton and second-largest producer of cotton yarns and textiles, is poised to play an increasingly important role in global cotton and textile markets as a result of domestic and multilateral policy reform. Liberalization of industrial and trade policies in the early 1990s increased the competitiveness of much of India’s industry and service sectors, sparking robust growth in output and consumer demand. There have been modest reforms in agriculture which is the economy’s major employer, and in the textile sector which is the leading industrial employer. Further reforms in these heavily regulated sectors could have significant impact on the structure and competitiveness of the textile sector and on India’s supply, demand, and trade-off between cotton and textile products (Landes et.al, 2005).

The textile industry has witnessed different policy setups after independence. From the controlled regime up to 1980, it experienced deregulation during 1980s and further doses of liberalization in 1991 and onwards. During 1980s, deregulation was carried out especially following the announcement of 1982 as the productivity year. Liberalization of industrial controls gathered further momentum during 1985 and 1986 and textile industry was no exception. The government needed, due to prolonged textile strike (1981-83), to see the reasons and reexamine its textile policy. Towards this end, it was also motivated by the consolidation of their respective position in the international market by Taiwan, Hongkong, South Korea etc. as quality cloth competitors of Indian products. Modernization of textile industry became a key goal of post 1985 textile policies. Towards this end, textile modernization fund got created in 1986 by IDBI
(Industrial Development Bank of India) and later in 1991; a National Renewable fund got created in the national budget to handle the voluntary retirement and redeployment of redundant labour of sick mills. Consequently, emphasis got laid on quality of the product. Even in case of cloth production meant for poor section of the society, a minimum quality was laid down. To encourage moves towards product quality improvement, steps towards relative liberalization and deregulation were initiated during 1985 and later in 1991, when the industry was delicensed. In fact, after 1991, except the locational clearance requirement in case of power looms and mills; no other clearance from government was required to set up textile units (Kumar, 2002).

- The Indian textile industry was valued at US$35 billion with exports totaling US$17.6 bn in 2005-06 and US$ 26.8 billion in 2009-10. At the global level, India has the potential to increase its textile and apparel share in the world trade from the current level of 4.5 percent to 8 percent and reach US$ 80 billion by 2020. The export basket includes a wide range of items including cotton yarn and fabrics, manmade yarn and fabrics, wool and silk fabrics, made-ups and variety of garments. India’s presence in the international market is significant in the areas of fabrics and yarn. (Dun & Bradstreet, 2006).

- India is the largest exporter of yarn in the international market and has a share of 25% in world cotton yarn exports.

- India accounts for 12% of the world’s production of textile fibers and yarn.

- In terms of spindleage, the Indian textile industry ranks second after China and accounts for 23% of the world’s spindle capacity.

- Around 6% of global Rotor capacity is in India.

- The country has the highest loom capacity, including handlooms, with a share of 61% in world loomage(ibid).

The textile industry is usually more capital intensive than the clothing industry and it is highly automated, particularly in developed countries. It consists of spinning, weaving and finishing and the three functions are often undertaken in integrated plants. Traditionally, and in many markets, it is still the case that lead time in the textile sector is
quite long and the capital intensity of the industry results in relatively large minimum orders. The textile industry is therefore less flexible in terms of adjusting to consumer tastes during a season than the clothing and retail sectors. The textile sector is thus in many ways the bottleneck in the supply chain. (Nordas, 2004)

The clothing industry is labour intensive and it offers entry-level jobs for unskilled labour in developed as well as developing countries. Job creation in the sector has been particularly strong for women in poor countries, who previously had no income opportunities other than the household or the informal sector. Moreover, it is a sector where relatively modern technology can be adopted even in poor countries at relatively low investment costs. These technological features of the industry have made it suitable as the first rung on the industrialization ladder in poor countries, some of which have experienced a very high output growth rate in the sector (e.g. Bangladesh, Sri Lanka, Vietnam and Mauritius). These characteristics, however, have also made it a footloose industry that is able to adjust to changing market conditions quickly. (ibid)

The role of exports in economic growth assumes importance, which is corroborated by several studies [Emery (1967); Balassa (1978,1985), Williamson (1978), Fajana (1979), Salvatore (1983), Ram (1985), Rana (1988), Rana & Dowling (1990), and Fosu (1990) [Gaur and Pandey,2004]. Textile exports are significant because they generate employment, have high domestic value addition and are historically areas of strength in export markets (Department of Commerce, Government of India, 2011).There are many countries which have made significant progress only on account of exports like Singapore, Hongkong etc. Export Promotion Strategy, apart from promoting economic growth, entails various benefits to countries in the form of greater utilization of plant capacity, specialization in commodities of comparative advantage, increase in efficiency, economics of scale, widening of market, incentives of technology improvements, training of higher quality labour and internally competitive management. Exports increase social marginal productivities and hence increase employment. In fact, expansion of exports may well be described as an integral part of the development process, neglect of which can only be at the peril of development itself. (Nanda, 1998)
The Small Scale Industry (SSI) occupies a place of strategic importance in the economic structure due to its considerable contribution in terms of output, exports and employment. SSI plays a key role in the industrialization and development of any country. This is because SSI provides large scale employment, ensures a more equitable distribution of national income and facilitates an effective mobilization of resources, capital and skills which otherwise might remain underutilized. It is possible to determine the concept of SSI in accordance with two measures: the size of the labour force employed and the amount of capital invested in this industry (Lozi, 2008).

There are many policy changes which have altered the functioning of SSI in India and these changes have occurred at national and international level. Now the impact of globalization on SSI is to a considerable extent. In early 1950s, the need was felt to increase the competitive strength of SSI and for this SIDO (Small Industries Development Organization), NSIC (National Small Industries Corporation) and SISI (Small Industries Services Institutes) were set up. The benefits of technology should be focused keeping in view the global competition and the knowledge can be passed on through seminars and workshops.

Small scale industry in India has found itself in an intensely competitive environment since 1991 due to globalization, domestic economic liberalization and dilution of sector specific protective measures. As a result, its growth in terms of units, employment, output and exports have come down. This has resulted in a less impressive growth in its contribution to national income and exports, though not in terms of employment, in the 1990. Lack of reliable and stable economic infrastructure, reduced growth of credit inflow and technological obsolescence have led to inferior quality and low productivity and are the major bane of small industry in India (Subrahmanya, 2004).

Industrial development is more inter complementary and has more forward and backward linkages. It leads to production of large range of goods and increases economic flexibility in the economy. Further, industrial development is generally much faster than agricultural development which suffers from natural handicaps.

The Indian Textile Industry is broadly classified into the following segments.
Introduction

Structure of Textile Industry in India

The organized sector consists of some of the most modern & sophisticated textile manufacturing plants. The decentralized sector is differentiated from mill made industry on account of its fragmentation and decentralization. This segment operates with lower overheads and has lower levels of technological sophistication.

In industrialized and newly industrializing countries, there is significant number of small and medium enterprises flourishing in modern activities, often exporting significant amounts. However, the proportion of modern small and medium enterprises differ considerably between different countries, most are found in the newly industrializing countries with strong entrepreneurial bases, vibrant export sectors and a large base of educated and technical man power. There is no single uniformly acceptable, definition of small firm, the statistical definition of small enterprises varies from country to country and is usually based on the numbers of employees or the value of assets. The lower limit for small scale enterprises is usually set at 5 to 10 workers (Hallberg, 2000).
The Industrial Policy Statement of 1980 marked a significant milestone in the policy of development of small enterprises in India. The emphasis was on the strengthening of mutually complementary relationships between the large and small scale sectors in order to ensure integrated growth of industrial sector in the country for the production with lower costs and higher efficiency. The Industrial Policy Statement of 1990 emphasized on the need of modernization and technology upgradation to meet the twin objectives of employment generation and dispersal of industry in the rural areas and to enhance the contribution of small scale industries to exports (Kumar, 2001).

SSI in India has been confronted with an increasingly competitive environment due to (i) liberalization of the investment regime in the 1990s, favoring FDI at the international level, particularly in socialist and developing countries; (ii) the formation of WTO in 1995, forcing its member countries (including India) to drastically scale down quantitative and non-quantitative restrictions on imports and (iii) domestic economic reforms. The commutative impact of all these developments is a remarkable transformation of the economic environment in which small industry operates, implying that the sector has no option but to ‘compete’ (Subrahmanya, 2004). To compete in the international market, the Indian government announced a separate industrial Policy for Small, Tiny and Village industries on 6th August, 1991 known as “New Small Enterprise Policy” (Sonia & Kansal, 2009). Following are the path breaking measures introduced by ‘New Small Enterprise Policy’ for boosting the growth of this sector:

- Enlargement in the scope of small scale sector with inclusion of ‘Small Scale Industry Related Service and Business Enterprises’.
- Equity participation up to 24 percent by other undertakings irrespective of their character.
- Introduction of new legal form of organization of business, namely restricted or limited ‘partnership’
- Recognition of the involvement of non-government and industry association in implementation of government policies.
- Shift from protection and regulation of quality, technology and efficiency.
- Substantial deregulation and simplification of rules and procedures (Kaur, 2006).
On the whole, the New Small Enterprise Policy (1991) outlined development, deregulatory and de-bureaucratic measures and underscored the need to shift from subsidized / cheap credit (except for specific targeted tiny and village industries) to a system which would ensure adequate flow of credit on timely and normative basis to this sector.(ibid).

THE NEW INDUSTRIAL POLICY – 1999

The emerging economic scenario in the changed liberalized and competitive economic environment necessitated structural and fundamental changes in the policy framework put in place for the development of SSI. The main objective of the Industrial Policy, 1999 was to create congenial environment for the small industrial units to cope with the emerging challenges of globalization. To focus fully on the promotion and development of small industrial units, a separate Ministry of Small Industrial Units and Agro and Rural industries was created. The policy initiatives were:

1. The annual turnover limit for calculation of working capital limit for small industrial units was raised to Rs. 5 crores from Rs.4 crores.
2. The maximum ceiling limit for Composite Loan Scheme was increased to Rs.5 lakhs.
3. To increase flow of credit to small industrial units, a new credit insurance scheme was launched.
4. Special emphasis was given for the units which have high export potential (Kumar and Gugloth, 2012).

The Ninth Five Year Plan (1997-2002) also chalked the strategy for development of small scale sector, in tune with the requirements of liberalization process. The plan proposed (a) review of list of reserved items (b) motivation to financial institutions to offer services to small enterprises (c) special attention for technology upgradation and modernization programme (d) enlargement in the coverage of Prime Minister Rozgar Yojana for creating new self employment opportunities. Besides this, emphasis has been put on giving easy credit to the sector and promote production and productivity through technology upgradation (Kaur, 2006)

The world is getting smaller every day with advanced means of travel, including air, sea, road etc. The communication media i.e. internet, video conferencing, phones,
fax, e-mails, etc are all helping the business industry and commerce a great deal with the help of government policies for promoting export industries in Punjab and garment industry, in particular, which is growing at a very fast pace. The advancement of the technological up gradation involves import of machinery, technology and inputs.

Earlier in India, the exports were controlled by large multinational companies and small industries had no access to the global market. With the liberalization policy, globalization of the small scale industry has occurred. Now, the small scale sector is giving its due share to the global exports. The balance of payments equilibrium can also be maintained with the share of exports of the small scale sector. The government is making all efforts to promote the exports which include large number of incentives and benefits. The Reserve Bank of India (RBI) is also providing due support and other financial institutions are also following RBI’s directions. The exports have resulted in huge turnover and consequent generation of work and resultant change in the economic scene for better. The exporters are gaining benefits of exports and increased production has consequently resulted in passing benefits of exports to the masses. The employment generation, circulation of money and resultant indirect and direct payment of taxes have increased the arena of business to a considerable extent (Benjamin and Raikhy, 2007).

Firms in India must develop global vision, reorient their export policies and programmes and design appropriate strategies to make their presence felt in the global markets. This is possible only when they develop their products which meet international standards.

This study, therefore, will examine the textile export performance of India during the last few years. It will evaluate the proposition whether India has been able to gain from quota removal on textiles or it has continued to be a smaller player in the world market for textiles as compared to other countries e.g. China. Besides, the study will explore the possible strategic options available to India to become a major player in the leading export market. The textile industry is undergoing a major reorientation towards non-clothing applications of textiles, known as technical textiles, which are growing roughly at twice rate of textiles for clothing applications and now account for more than half of total textile production. The processes involved in producing technical textiles require expensive equipments and skilled workers and are, for the moment, concentrated
in developed countries. Technical textiles have many applications including bed sheets, filtration and abrasive materials; furniture and health care upholstery; thermal protections and blood absorbing materials; seat belts; adhesive tape and multiple other specialized products and applications (TexProcil, 2009).

On January 1, 2005, developed countries removed import quotas on textile products previously sanctioned by the 1974 Multifibre Arrangement (MFA). This change provided a major opportunity for India to expand production and exports of textiles and apparel to developed country markets. The elimination of MFA quotas induced Indian policy makers to relax investment restrictions and to adopt market liberalization measures in the textile sector, although these reforms have been slower than developments in some other key countries, most notably China. However, the opportunity created by the elimination of MFA quotas, together with India’s rapid economic growth and demonstrated comparative advantage in production of both raw cotton and textiles, increase the likelihood that India would continue to adopt policies aimed at expanding its capacity to produce and export cotton and textiles (Landes et al., 2005).

In the post-MFA era, developments in India and other developing countries that export textiles will have important implications for the United States and other cotton-exporting countries. India has already emerged as a small but growing market for U.S. cotton in recent years, driven by the price and quality consciousness of export-oriented mills and garment makers. India has, historically, been a competitive producer of raw cotton and mostly self-sufficient. It is not clear, however, if domestic producers will be able to meet the quantity and quality demands of a rapidly expanding textile sector that, according to government targets, aims to more than triple its exports by 2010. (ibid)

II

Punjab has recorded spectacular progress in agricultural sector since the introduction of new farm technology in the mid-sixties. Punjab also benefited from specialization and comparative advantage in the context of a constrained open economy. Demand and supply constraints did not operate with the same rigor as would have been the case in a small closed economy. The state received large grants from the center.
Since the state generated large surpluses in agricultural production, these were increasingly invested in the rest of India (Bhalla, 1995).

During the post independence period, farmers in Punjab were helped by a large inflow of resources from the national government for both rehabilitation and infrastructural investment. India assigned the public sector a crucial role in the development of rural and urban infrastructure. This enabled Punjab to make substantial investments in infrastructure, primarily in irrigation, power, roads and communication. These investments were financed by central plan transfers and internal resources of the state. With a well developed infrastructure, Punjab was able to adapt the Mexican seed fertilizer technology to local conditions, whereupon it spread rapidly and was successfully exploited by Punjab farmers. Furthermore, administered prices for most crops ensured the profitability of the new technology, which encouraged farmers to invest heavily in their operation (ibid).

However, the development of the state remains lopsided as primary sector continues to be predominant sector and share of industrial sector is grossly inadequate. Agricultural sector in the state has reached a plateau, as no new breakthrough in farm technology has occurred and it was realized that the economy of the state needs orientation towards industrialization. Whatever industrial development has taken place in the state is lopsided in many respects.

As a result of reorganization of the state in 1966, Punjab got 56 percent of the population and 46 percent of the area of erstwhile Punjab. Whatever mineral and forest resources were available in Kangra went to Himachal Pradesh and major large scale industrial centers like Ambala, Faridabad, Yamunanagar and Sonepat went to Haryana. Reorganized Punjab was left with only small scale industries. The state made a spectacular progress in the agricultural sector after re-organization and per capita income in the state is about 75 percent higher than of the country as a whole. But the structure of state economy has remained traditional due to predominance of the agricultural sector. Agricultural sector in the state is highly developed and strong linkages can be created between agriculture and industry (Bawa and Raikhy, 2000).

Punjab’s economy experienced accelerated economic growth and steadily rising per capita income compared to the growth experience of the Indian economy in general
and other states in particular during the early green revolution period. This remarkable achievement has been essentially attributed to the planned development strategy adopted in Punjab. However, the development strategy has had inherent weaknesses and visibly imposed constraints on the economic growth of Punjab economy to realize its full potential. It was a widely held belief that in the post-economic reform era in India, not only its past performance and the lead of Punjab would continue but also, it would get a big-push towards the road to economic prosperity. However, the trends in the Punjab economy have reversed in the post reform period while the performance of the Indian economy in general and of some of the states like Maharashtra in particular, which has overtaken Punjab, as far as per capita income is concerned, has improved. The post-reform period economic growth has further exposed the weaknesses in the pattern of growth in Punjab (Singh and Singh, 2002).

In 1970-71, the small scale sector in Punjab contributed 62 percent of industrial output, while large and medium sector contributed only 38 percent. In 1990-91, the share of small scale sector increased to 66 percent and that of large and medium sector to 34 percent. In 2009-10, the share of small scale sector decreased to 58 percent and that of large and medium sector increased to 42 percent. In spite of this, the small scale sector still constitutes an important part of industrial economy of the state and wool, silk, synthetic fiber and cotton textiles are its important industries.

Entrepreneurs did not want to invest in the industry of such a state which had border with Pakistan. However, the small scale industries rehabilitated but Chinese war in 1962 and Indo-Pak aggression in 1965 gave a great set back to industry in the state. This resulted in the flight of capital from Punjab. As a result, there was a lot of damage to the Punjab economy and development of industries in the state suffered a setback. Once the condition stabilized, the state achieved a discernible growth in the industrial sector. The growth was however, restricted mainly to small-scale sector. In 1973-74, more than three-fourth of the total industrial production was accounted for by small-scale sector as against two-fifth at all India level. The small scale industry developed because there was existence of vast number of entrepreneurs who were enterprising in the field of industry but were constrained by finance. The active participation of banks in large industrial ventures was also absent. The circumstances were not much encouraging for
the development of large industries and it was only small scale industries that could survive in this situation

In 2010, India’s total exports were Rs. 845125.27 crore and Punjab’s total exports were Rs. 15972.48 crore which is roughly 2 percent of India’s exports. In the same year, India’s textile exports were Rs. 104795.53 crore and Punjab’s textile exports were Rs. 6154.84 crore which is roughly 6 percent of total textile exports of India (Official Indian Textile Statistics, 2010).

NEED OF THE PRESENT STUDY

Textile industry has been facing many challenges due to liberalization in the investment policy in 1990s which favored FDI (Foreign Direct Investment) especially in developing countries. Formation of WTO (World Trade Organization) in 1995 compelled the member countries to cut down quantitative and non quantitative import restrictions and bring about domestic changes in economic policies. All these developments brought about a significant change and competitive environment in the textile industry of India. Nevertheless, after partition, the industry of Punjab became weak. Economic activities decreased, transport system collapsed and skilled labour migrated to other states. Since the textile goods are nationally distributed consumer goods and Punjab has been one of the major centers of production and exports of textile goods, especially in the small scale sector; therefore there is greater need to study and examine the exports and its changing trends in the textile industries of Punjab in the era of globalization. Studies on exports of textile goods with focus on impact of globalization are scanty, so an attempt has been made in this direction especially in the case of Punjab.

OBJECTIVES OF THE STUDY

The present study aims to

1. examine the development of small scale textile industry in Punjab;
2. analyze the growth of textile export sector since liberalization in Punjab;
3. analyze the factors determining exports from small scale textile industry in Punjab as well as for sample units;
4. evaluate the technical efficiency of sample units of textile industry in Punjab and
5. examine various problems relating to exports of small scale textile industry in the era of Pre and Post Multifibre Agreement (MFA) and Agreement on Textiles and Clothing (ATC) and to suggest measures to promote its exports in Punjab.

**CHAPTER SCHEME**

- The study is organized into nine chapters.
  1. Introduction.
  2. Review of Literature.
  3. Data base, concepts and Methodology.
  5. Characteristics of Sample Units.
  7. Exports of Textile Industry in Amritsar and Ludhiana
  8. Problems of sample textile firms.

First chapter introduces the problem, bringing out the impact of globalization on export prospects, importance and objectives of the study.

Second chapter reviews the literature relating to the study. It aims to broaden the base for the present study.

Third chapter deals with data base, concepts and methodology used in the present study. The study is based on both primary and secondary data. For primary data, the time period of study is 2002-2010 and for secondary data, it is 1991-2010.

Fourth chapter describes the trends in textile export sector since liberalization with special reference to Punjab.

Fifth chapter describes various characteristics and profile of the sample units both in Amritsar and Ludhiana.

Sixth chapter evaluates the technical efficiency of sample units of textile industry in Punjab by making use of DEA.

Seventh chapter empirically deals with exports of textile industry in Amritsar and Ludhiana in which comparative analysis of determinants of exports of the sample units from both the districts has been done.
Eighth chapter investigates the problems of the sample textile firms and their solutions. It also describes various initiatives and policies taken by the Government for promoting the textile industry.

Ninth chapter describes major findings and policy implications of the study.