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Impact of WTO on Textile Industry of Haryana

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ABSTRACT

Textile industry is one of the major contributors to the total output of the fast growing Indian industrial sector. It is going through a major change in its outlook after the expiry of Multifibre Arrangement (MFA) and dismantlement of Quota system in the year 2005. The agreement on textiles and clothing (ATC) provided the phasing out of import quotas on textiles and clothing by the end of the transition period. The main objective of this paper is to find out the impact of environmental factors and WTO's agreements on textile industry. The result of this paper reveals that this industry has an urgent need of modernization, technical change, restructuring, financial support and has to move fast in innovation, manufacturing and promotion to compete successfully in the rapidly changing scenario.

KEYWORDS : WTO, MFA, ATC, Quota and Textile

INTRODUCTION

Indian textile industry is mostly dependent on cotton industry. In India, the first modernized cotton cloth mill was established in 1888 at fort Gloatser near Kolkata but this meal was not successful. The second mill named 'Bombay Spinning and Weaving Company' was established in 1854 at Bombay by KGN Daber. This mill actually laid down the foundation stone of modern cotton industry in India. Since then, the number of cotton mill has been rapidly increasing. India is the world's third largest cotton producer after China. India's five year plans proved a boom to textile industry. During planning period this industry not only made remarkable development but also established mile stone in international market.

Textile industry is one of the major contributors to the total output of the fast growing Indian industrial sector. The textile sector's contribution to the GDP of India is also significant which currently amounts to 4%. Indian textile industry is also a major source of foreign exchange earnings for India. The benefits of economic growth have trickled down to people of the India that can be observed from the rising per capita income of people. Major demand that is being generated by a new class of people actually started from the booming of IT-BPO sector. This sector has generated huge demand for fashionable dresses. Therefore, the demand for textile and clothing has been increased. It enhanced the scope of Indian textile industry. Consequently share of this industry in total production has recorded at substantial increase.

At present, there are three sectors in the textile industry viz., power loom sector, mill sector and handloom sector. With the aim of developing these three sectors of the industry in an integrated manner, the government announced a new textile policy in June 1985. The key objective of this policy was to enable the industry to increase the production of good quality cloth at reasonable prices for the large poor population of the country and exports also. Another important measure in the form of de licensing of the textile industry has been taken as per the Textile Development and Regulation Order 1993.

On the other hand, we have to see that, in a free trade of quota regime under WTO, India have to face the stiff competition from other Asian countries like China, South Korea, Philippines, Indonesia, Thailand, Bangladesh and Sri Lanka. WTO being an international institution sets the rules and regulation regarding the trade and tariff of all member countries. It came into existence on 1st January, 1995 with many agreements; among them first is agreement on agriculture (AOA) and second is agreement on textiles and clothing (ATC). The agreement on textiles and clothing provided the phasing out of import quotas on textiles and clothing by the end of the transition period on January 1, 2005. Indian textile industry is going through a major change in its outlook after the expiry of Multifibre Arrangement (MFA) and dismantlement of Quota system in the year 2005. Textiles and clothing both are important export oriented industries for the developing countries. As a result of all these policy initiatives, the textile industry has been growing steadily in recent years.

REVIEW OF LITERATURE

This is a topic with very little work carried out and most of the work done is also of very recent origin. Some reviews are as follows:

Dubey (1996) lucidly and critically analyzed the Uruguay Round of trade negotiations that led to the establishment of the World Trade Organization. As the title of this book 'An Unequal Treaty: World Trading Order after GATT', itself suggests, the author argued that the treaty was unequal and it was a biased treaty in favour of developed and against developing countries.

Nayyar (1997) outlined the changes in the perceptions about foreign trade in the planning process in India and discussed the possible impact of the foreign trade sector on the economy as a whole and on the process of industrialization as well as highlighted the implications and consequences of developments in the national economy for the foreign trade sector and tried to place foreign trade in the larger context of strategic issues in planning for industrialization.

Mehta (1997) revealed in his study that the liberalization process has led to a significant decline in the protection of Indian industry. However, there has been no change in the composition of trade. There was no sign of improvement in external competitiveness after the reform period and the most of the increase in India's exports was explained by a shift in our markets towards Asian Countries.

OBJECTIVES OF THE STUDY

This study has been carried out to assess the effect on textiles, clothing and exports of Haryana state in India arising out of WTO provisions. The key objectives of this paper are as follows:

- To find out the impact of macro and micro environmental factors on textile industry.
- To study the impact of WTO's agreements on textile industry.

RESEARCH METHODOLOGY

The research objectives include an in depth examination of impact of World Trade Organization on textile industry with the help of sample units of textile exporters. Hence a descriptive survey research method has been adopted in this study.

(1) Sampling Design: In this study target population of 400 units listing the textile export units have been identified for the purpose of drawing the sample. Out of 400 units the samples of 40 units have been taken on a selective basis.
(2) Sources of data Collection: This paper is mainly based on primary data sources, collected through a pre-tested structured questionnaire. During the course of random selection of the sample, the convenience method has been adopted. Apart from the primary data, the secondary data have also been obtained from both published and unpublished sources.
(3) Statistical tools: Under this study different techniques have been

used for the analysis of data named as average, percentage and ranking, S.D. and S.E.

ANALYSIS AND INTERPRETATION

The productivity of any business depends on micro environment as well as macro environment. Although there are so many micro and macro environmental factors but for the sake of convenience only four important factors of micro environment and four of macro environment have been taken under this study. The impact of macro-environmental factors as perceived by exporters of textile industry is reported in below table as follows:

- **Impact of Macro-Environmental factors**

Table 1 depicts that the interest rate and cost of capital are perceived least important factor (4th rank) with mean value 2.22, S. D. =0.72. Changes in Government policies with mean value 2.25, S.D. =1.07 secured third rank. The rate of national savings and investment with mean value 2.50, S.D. =1.28 obtained second rank. The technological changes obtained first rank with mean value 3.02, S.D. =1.13 considered the most important factor of the macro environment.

Factors	N	Mean	Rank	S.D.	S.E.	C.V.
Rate of National savings and investment	40	2.5	II	1.28	.20	51.38
Technological changes	40	3.02	I	1.13	.18	37.32
Interest rates and the cost of capital	40	2.22	IV	.72	.11	32.55
Changes in government policies	40	2.25	III	1.07	.17	47.40

Table:1
Source: Primary Data

- **Impact of Micro-Environmental factors**

Table 2 shows the result of survey with regard to impact of micro environmental factors on textile industry. It depicts that distribution policy ranked fifth position with mean value 2.35, S.D. =1.74. Promotional tool with mean value 2.90, S.D. =1.14 secured fourth position while product quality with mean value 3.07, S.D. =0.08 obtained third position. Designing of product with mean value 3.17, S.D. =1.02 secured second position and the price of product obtained first rank with mean value 3.42, S.D. =1.82 which is considered the most important factor of micro environmental factors.

TABLE – 2

Factors	N	Mean	Rank	S.D.	S.E.	C.V.
Product price	40	3.42	I	1.82	.28	52.99
Product Quality	40	3.07	III	.88	.14	28.52
Designing of Product	40	3.17	II	1.02	.16	32.18
Promotion Tools	40	2.90	IV	1.14	.18	39.16
Distribution Policy	40	2.35	V	1.74	.27	74.04

Source: Primary Data

- **Impact of WTO on Textile Firms**

Table: 3 revealed that the abolition of quotas mostly i.e. 50% affected the medium size firms and there is almost the same effect i.e. 25% on large and small size firms. Increase in International competition, mostly effected the large size firms 60% followed the effect on medium size firms 25% and on small size firms is that 15%. Patenting procedure mostly affected the small firms 50%. However this factor has affected only 37.5% the medium size firms and 12.5% the large size firms. Availability of modern technologies mostly affected the medium size firms 62.5% followed the effect on large firms 22.5% and small size firms 15%. Due to more participation of foreign capital, medium size firms are mostly affected 77.5%. However, large size firms and small size firms are affected only 12.5% and 10% respectively due to more participation of foreign capital.

TABLE – 3

Factors	Large	Medium	Small	Mean	Rank	S.D
Abolition of Quotas	10(25%)	20(50%)	10(25%)	2.00	IV	.707
Increase in International Competition	24(60%)	10(25%)	6(15%)	2.45	I	.740
Patenting	5(12.5%)	15(37.5%)	20(50%)	1.60	V	.700
Availability of modern technologies	9(22.5%)	25(62.5%)	6(15%)	2.07	II	.608
More participation of Foreign Capital	5(12.5%)	31(77.5%)	4(10%)	2.02	III	.474

Source: Primary Data

Table 3 also depicts that increase in international competition ranked first with mean value 2.45, S.D. =.740 followed by availability of modern technologies with mean value 2.07, S.D.= 0.608 and more participation of foreign capital with mean value of 4.02, S.D.= 0.474. Abolition of Quotas obtained fourth rank with mean value 2 and S.D. = .707. Patenting secured fifth rank with mean value 1.6, S.D. = .700 which do not seem to influence much the textile firms.

CONCLUSION

Finally, it is found in this paper that the business environment will be intensely more competitive in future. That's why Indian textile industry needs to invest more amounts in research and development to develop new products, reduce transaction cost, reduce per unit cost and finally improve its raw material base**.** Indian textile industry will have to be reorganized and revert also. The industry has also an urgent need of modernization, technical change, restructuring and financial support and has to move fast in innovation, manufacturing and promotion to compete successfully in the rapidly changing scenario. The government also needs to make policy changes like de reserving the small sectors etc.

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