



A STUDY ON THE IMPACT OF EXCHANGE RATE FLUCTUATIONS AND DUTY DRAWBACK EFFECTS IN TIRUPPUR TEXTILE AND GARMENT EXPORTS

Mrs. L. Prabha	M.Com.,M.Phil.,MBA.,PGDCA, Assistant Professor, Department Of B.Com Professional Accounting, PSGR Krishnammal College For Women.
S. Shobika	Department Of B.Com Professional Accounting, PSGR Krishnammal College For Women.
B. Subbiksha	Department Of B.Com Professional Accounting, PSGR Krishnammal College For Women.
Suganya Rajalakshmi. A	Department Of B.Com Professional Accounting, PSGR Krishnammal College For Women.

ABSTRACT Currency fluctuations are a natural outcome of the exchange rate system that is the norm for most major economies. So it is very obvious that whenever there will be fluctuation in currency it will bring some impact on various sector of India especially in garment and textile export sector. Duty Drawback has been one of the popular and principal methods of encouraging export. The study aims at analyzing the problems faced by exporters of Tiruppur textile and garment industry due to fluctuations in foreign exchange rate and duty drawback.

KEYWORDS : Exchange rate, Currency Fluctuations, Duty drawback, Textile Industry, Exports, GDP

INTRODUCTION

An export means an international trade where the goods produced in one country are sold to another country for future sale or trade. The sale of such goods adds to the producing nation's gross output. India's textile sector is one of the oldest industries in Indian economy dating back several countries. India's overall textile exports during financial year 2017-18 stood at US\$ 39.2 billion. A currency's level has a direct impact on the merchandise trade which refers to a nation's international trade, or its exports and imports. Duty drawback is a kind of refund obtained when an import fee is already paid for the good which is subsequently exported.

STATEMENT OF PROBLEM

The term export means transferring goods or services from one country to another country. Export is very necessary because it helps in growth of national economies and expands the global market. A healthy economy is one where the exports are growing, which indicates the economic strength of a country and sustainable trade surplus or deficit. Export plays a major role in contributing to country's Gross Domestic Product (GDP) as it brings foreign currency into the country. Indian textile industry contributes to 7 per cent of industrial output in terms of value, 2 per cent of India's GDP and to 15 per cent of country's export earnings. India's overall textile exports during the financial year 2017-18 stood at US\$ 39.2 billion. Tiruppur garments and textile industry is one of the leading garments and textile industry in India. Tiruppur knitwear hub contributes about 90% of total cotton knitwear exports from India. It have shrunk by 8% to Rs.24,000 crores in 2017-18. Though there are many advantages through exports, the exporters face various problems in exports. Among the various problems faced by exporters, the fluctuation in exchange rate and duty drawback plays a major role. It is very obvious that the fluctuation in foreign exchange rate and duty drawback will bring major impact on garment and textile sector of Tiruppur. The study aims at drawing a view of problems faced by exporters of Tiruppur textile and garment industry due to fluctuations in foreign exchange rate and duty drawback.

OBJECTIVES

- To analyze the impact of foreign exchange market fluctuations in textile industry.
- To analyze the effects of duty drawback in textile industry
- To analyze the satisfactory level of the exporters in case of factors which support exports at foreign exchange rate fluctuations

Research Methodology

Methods Used For Data Collection

- Primary Data
- Secondary Data

Tools Used For Analysis

- Percentage Analysis
- Chi-square test

LIMITATIONS

- The Primary data collection in Foreign Exchange Rate Fluctuations and Duty Drawback is limited due to Time restriction.
- This study is subjected to human bias.

REVIEW OF LITERATURE

Dr.Vijay Gondaliya and Mr. Paresh Dave (2015) in their examines the impact of India's exports and imports on exchange rates using the data from January 2006 to October 2015. In the study, it is observed that there is a positive relationship between exports and exchange rate, but negative relationship between imports and exchange rate.

Sherzod Shadikhodjaev (2013) says that the nature of the international trade has changed dramatically global value chains increase the importance of duty drawback- a common practice of refunding duties on imported inputs either incorporated in finished goods for export or re-exported in the same state. He concludes that the no-drawback rule contained in many RTAs can have negative implications for non-parties, lacks justification under WTO's rules, and needs to be liberalized.

Yoganandan. G and Jaganathan A. T, Saravanan. R, Senthil kumar.V (2013) reviewed the researches on the factors affecting the export performance of textile industry. The study found that most of the researchers found a positive relationship between the determinants (ie., GDP, exchange rate, labour, foreign direct investment and technology with export performance of textile industry) and textile exports.

PROFILE OF THE STUDY

Exports

Exports are the goods and services produced in one country and purchased by residents of another country. It doesn't matter what the good or service is. It doesn't matter how it is sent. It can be shipped, sent by email, or carried in personal luggage on a plane. If it is produced domestically and sold to someone in a foreign country, it is an export.

Most countries want to increase their exports. Their companies want to sell more. If they've sold all they can to their own country's population, then they want to sell overseas as well. The more they export, the greater their competitive advantage. They gain expertise in producing the goods and services. They also gain knowledge about how to sell to foreign markets.

Exchange rate fluctuations

Currency fluctuations are a natural outcome of the floating exchange rate system that is the norm for most major economies. The exchange rate of one currency versus the other is influenced by numerous fundamental and technical factors. These include relative supply and demand of the two currencies, economic performance, outlook for inflation, interest rate differentials, capital flows, technical support and resistance levels, and so on. As these factors are generally in a state of perpetual flux, currency values fluctuate from one moment to the next.

There are two types of exchange rate:

- Fixed exchange rate system
- Floating exchange rate system

Meaning of duty drawback

Duty Drawback has been one of the popular and principal methods of encouraging export. It is a relief by way of refund/ recoupment of custom and excise duties paid on inputs or raw materials and service tax paid on the input services used in the manufacture of export goods. Duty drawback provisions are given under section 74 and 75 of the Customs Act, 1962. Section 74 allows duty drawback on re-export of duty paid goods. Whereas section 75 allows drawback on imported goods used in the manufacture of export goods. In order to facilitate the drawback procedures, the Central Government is empowered to make rules. Pursuant to such power, the Central Government has issued two rules, i.e., Re-export of Imported goods (Drawback of Custom Duties) Rules, 1995 and Customs and Central Excise Duties and Service Tax Drawback Rules, 1995. Drawback on re-export of duty paid goods under Section-74.

TIRUPPUR CITY

Tiruppur is a city located in the Indian state of Tamil Nadu. The total population of the city as per the 2011 census is 444,352. Tiruppur is a part of the Tiruppur constituency that elects its member of parliament. Tiruppur is also known as the knitwear capital of India, accounting for 90% of India's cotton knitwear export. It has spurred up the textile industry in India for the past three decades. It contributes to a huge

amount of foreign exchange in India. In the Fiscal year 2013, exports were 17,500. The city provides employment to around 400,000 workers, with the average salary per worker being around 9,000 per month.

ANALYSIS AND INTERPRETATION

PERCENTAGE ANALYSIS

Exchange fluctuations affecting profits of the export organization			
S.No	Exchange fluctuations affecting profits	No of respondents	Percentage
1	Less than 10%	27	36%
2	10%-15%	27	36%
3	15%-20%	14	19%
4	More than 20%	7	9%
Total		75	

INTERPRETATION

The impact of exchange rate fluctuations affecting profits is "less than 10%" and "10-15%", both being 36%. Thus the effect of exchange rate affecting profits mostly falls between 0-15%.

Effect of Reduction in duty drawback			
S.No	Reduction in duty drawback	No of respondents	Percentage
1	Highly affected	31	41%
2	Unaffected	13	18%
3	Highly unaffected	9	12%
4	Neutral	22	29%
Total		75	

INTERPRETATION

From the table it is very clear that the respondents are highly affected when there is a reduction in duty drawback with 41%. Thus the recent reduction in duty drawback has affected the profit of the export organization

Satisfaction Level								
Factors Which Support the Exports at Time of Fluctuations in Foreign Exchange Rate								
Factors	Strongly agree		Agree		Neutral		Disagree	
	No of respondents	Percentage	No of respondents	Percentage	No of respondents	Percentage	No of respondents	Percentage
EXIM Bank	28	37%	25	33%	19	26%	3	4%
Govt. Export Policy	18	24%	33	44%	15	20%	9	12%
Commercial Banks	17	23%	34	45%	18	24%	6	8%
Creditors	15	20%	27	36%	22	29%	11	15%
Customers	19	25%	19	25%	22	29%	15	21%
Exporters' Association	33	44%	26	35%	10	13%	6	8%

INTERPRETATION

- In the 1st factor - EXIM bank, mostly the respondents strongly agree that they are satisfied by the support given to them at the time of fluctuations in foreign exchange rate which is 64% overall.
- In the 2nd factor - Export policy, mostly the respondents strongly agree that they are satisfied by the support given to them at the time of fluctuations in foreign exchange rate which is 56%.
- In the 3rd factor - Commercial banks the respondents are scattered. There exists all type of satisfaction level with same weight age.
- In the 4th factor - Creditors, respondents are strongly agreeing that they are supported by their creditors.
- In the 5th factor - customers, stands neutral in supporting the respondents them at the time of fluctuations in foreign exchange rate.
- In the sixth factor- exporters association, is very helpful to the respondents at the time of fluctuations in foreign exchange rate.

STATISTICAL ANALYSIS

CHI-SQUARE TEST

TYPE OF ORGANISATION & EXPORT ASSOCIATION

CHI-SQUARE TEST

	Calculated	Table	Degree of	Significant
Factors	Value	Value	Freedom	Value
Type Of Organisation	8.16	12.59	6	5%

INTERPRETATION

Since the calculated value is less than the table value, the H₀ Hypothesis is accepted and H₁ hypothesis is rejected and the result is significant at 5% level. It can be concluded that type of organization and export association are independent

EXPERIENCE IN THE FIELD WITH EXPORT ASSOCIATION

CHI-SQUARE TEST

	Calculated	Table	Degree of	Significant
Factors	Value	Value	Freedom	Value
Experience In The Field	5.94	16.92	9	5%

INTERPRETATION

Since the calculated value is less than the table value, the H₀ Hypothesis is accepted and H₁ hypothesis is rejected and the result is significant at 5% level. It can be concluded that experience in the field and export association are independent.

EXPORT TURNOVER WITH EXPORT ASSOCIATION

CHI-SQUARE TEST

	Calculated	Table	Degree of	Significant
Factors	Value	Value	Freedom	Value
Export Turnover	7.25	16.92	9	5%

INTERPRETATION

Since the calculated value is less than the table value, the H₀ Hypothesis is accepted and H₁ hypothesis is rejected and the result is significant at 5% level. It can be concluded that export turnover and export association policy are independent.

FINDINGS OF THE STUDY

PERCENTAGE ANALYSIS.

- Around 10-15% and 10% of the profits (36%) are generally affected by Exchange rate fluctuations thus showing that exchange rate plays an important role in affecting profits of a Business

organization.

- The reduction in duty drawback rates has high impact on the exporters as 41% of the respondents have opted for that the reduction has highly affected them.

CHI-SQUARE TEST

- We can identify that the sole proprietor's satisfaction level is totally disagreeable with the exporters association in receiving support from them during foreign exchange fluctuations but partnership firms and Companies strongly agree that exporters association are very helpful during foreign exchange fluctuations.
- The respondents with 10 – 15 years experience disagree that the export association is not so supportive at the time of exchange rate fluctuations. It is around 50% of the respondents from 10 – 15 years who say so. Whereas the respondents who have 5 – 10 years experience and above 15 years experience stands neutral in case of export association's support during fluctuation period
- The respondents with export turnover less than 50 lakhs and turnover between 1 crore to 2.5 crore disagree that export association is not supportive whereas export turnover with 50 lakhs to 1 crore remain neutral and turnover above 2.5 crore agree that they are supportive

SUGGESTIONS:

- The exporters feel that the reduction of duty drawback has a higher impact. Therefore, government can give higher duty drawback can be given to the exporters.
- As most of the exporter's use borrowed funds as their source of finance, interest rates charged by Commercial banks can also be decreased as the Exporter's outflow will reduce.
- Applicability of Translation exposure can be bought to the knowledge of all the Exporters by which the exporters can get awareness about the prevailing techniques.

CONCLUSION

The Exchange rate has a strong impact on a country's export development as it is one of the essential indicators of economy's international competitiveness. There were many ups and downs in textile industry exports periodically due to rupee fluctuations. The fluctuation in exchange rate is due to differentials in inflations, differentials in interest rates, current account deficits, public debts, terms of trade and political stability. In the study it is found that the way of handling rupee fluctuation is different for big and small garment exporters. In this analysis it is found that there is a positive relationship between exchange rate and textile exports and the recent reduction in duty drawback has a major impact on the profits of Tiruppur textile exporters.

REFERENCES

1. Dr. Vijay Gondaliya and Mr. Paresh Dave (july-december 2015), "the impact of exports and imports on exchange rates in India", international journal of banking, finance and digital marketing, ISSN: 2455-MUZZ, volume 1, issue 1, pp-01-08
2. Sherzod Shadikhodjaev (2013), "Duty Drawback and Regional Trade Agreements: Foes or Friends?", Journal of International Economic Law, Volume 16, Issue 3, 1 September 2013, Pages 587–611
3. Yoganandan. G and Jaganathan A. T, Saravanan. R, Senthil kumar.V (august 2013), "factors affecting the export performance of textile industry in developing countries- a review of literature", IRACST – international journal of commerce, business and management (IJCBM), ISSN: 2319- 2828, volume 2, no.4