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# A Synoptic Look On Retail Trade Inapparel Industries In India Under Globalisation

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**INTRODUCTION**

The textile and apparel industry plays a vital role in the Indian economy and is the single-largest source of foreign exchange earnings for India. Currently the industry accounts for 4 percent of GDP, 20 percent of industrial production, and slightly more than 30 percent of export earnings. About 38 million people are employed in the Indian industry, making it the single-largest source of industrial jobs and the second-largest overall (after agriculture).

India is the world's third-largest producer of cotton and has the largest cotton acreage in the world. India also has an established and expanding polyester fiber and filament yarn industry. It is the world's second-largest textile producer after China, accounting for about 15 percent of world production of cotton textiles. India is also the world's largest exporter of cotton yarn with 20 percent of the total, and accounts for about 7 percent of world trade in fabrics.

The Indian textile and apparel industry is diversified and has the capacity to provide a wide variety of textiles to meet different market needs. It has access to a large pool of skilled labor as well as trained and skilled technical and managerial personnel. Nevertheless, India's textile and apparel industry faces several structural problems. Foremost, the slow pace of modernization, particularly in the weaving, dyeing and finishing, and apparel sectors, have hampered the growth and competitiveness of the industry. Other structural problems include a restricted fabric base, dependence on cotton, limited product mix, low productivity, multiple and discriminatory tax policies, and high infrastructure costs. Import restraints and market access barriers have fostered industry inefficiency and limited growth.

As India reduces tariffs and dismantles trade barriers under its WTO commitments, and as WTO countries phase out textile and apparel quotas established under the MFA by January 1, 2005, India is likely to face intense competition both domestically and internationally from other low-cost exporting countries that also largely depend on the performance of their textile and apparel sector for economic growth. In recognition of these factors, the GOI has taken measures to enhance the competitiveness of the Indian textile and apparel industry, as provided for in the NTP 2000 and

other GOI policies. These measures include plans to (1) remove industry structural anomalies, (2) enhance the level of technology, (3) improve the quality and productivity of the cotton sector, (4) reduce textile tariffs and eliminate market access barriers, and (5) provide incentives to potential investors and exporters to promote trade and investment in the industry. As a result of the GOI initiatives, many Indian textile and apparel firms have modernized and expanded their operations in an effort to improve their competitiveness in markets both at home and abroad. Furthermore, some large Indian firms, lacking capital and marketing expertise, have sought joint ventures or other arrangements with foreign firms to enhance their competitiveness in the global market.

**Overview of India's Economy**

In the early 1990s, India incurred high budget deficits (8 percent of GDP), acute balance-of-payment (BOP) problems due to a deteriorating fiscal position, structural imbalances caused by a high degree of government planning and regulation, and declining external reserves caused by an increase in external debt and a sharp decline in remittances from Indian workers in the Middle East. Faced with these difficulties, the GOI initiated economic reforms in 1991 after signing a standby arrangement with the International Monetary Fund (IMF) to undertake fiscal and structural reforms.5 These economic reforms initially centered on (1) liberalizing procedures for industrial licensing and investment, (2) reducing the role of the public sector in the nation's economy, (3) lowering import duties, (4) easing import licensing requirements, (5) relaxing controls on foreign direct and portfolio investment, and (6) improving operations of capital markets. The GOI subsequently introduced additional reforms during the 1990s by lowering import duties further and removing import restraints and other market access barriers.

GOI economic reforms have led to stronger economic growth, higher foreign investment inflows, and expanded trade. In terms of GDP, India's economic growth accelerated from 5.9 percent per year during 1980-90 to 6.7 percent per year during 1992-96, and then slowed to 5.8 percent per year during 1997-99. Real per-capita GDP grew from 3.8 percent per year during 1980-90 to 4.7 percent per year during 1992-96, slowing to 4.1 percent per year during 1997-99. In terms of producer prices, inflation declined from almost 14 percent in the early 1990s to 6 percent in 1996-97 and has remained at or below 6 percent since then. Foreign exchange reserves increased to $32 billion in 1999, from $1 billion in 1990. India's total external debt of $95.2 billion at the end of March 1999 represented

approximately 25 percent of the GDP, down from 38 percent in fiscal year (FY) 1991-92 (India's fiscal year begins on April 1 and ends on March 31 of the following year). The debt service ratio of debt payments to export earnings also declined from 30 percent in FY 1991-92 to 25 percent in FY 1998-99. India's short-term debt accounted for only 3.7 percent of total external debt in FY 1998-99, whereas nearly 40 percent of India's longer-term debt is concessional. However, high interest rates (averaging 13 to 16 percent during 1996-99), a large government fiscal deficit (7 percent of GDP in FY 1998-99), and an inadequate infrastructure have continued to hamper economic growth.

Although India has made progress in trade policy reforms recently under its WTO commitments, some observers claim that the reform pace has been slow and inadequate. According to data published by the United Nations Economic and Social Commission for Asia and Pacific (ESCAP), India reduced its average customs duties from 125 percent in 1990 to 29 percent in 1999 and removed most of its quantitative restrictions on imports. However, India's average tariff rates on imports are still among the highest in the world and its trade regime remains complex, with a variety of exemptions and some quantitative restrictions on imports.10 India's trade deficit grew to $8.6 billion in FY 1999-2000, from $8.3 billion in FY 1998-

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99 and $6.4 billion in FY 1997-98, as its currency remained stable against a backdrop of higher oil prices, increased expenditures on imports of intermediate goods and inputs, and a global slowdown in trade.

The 1991 IMF-led economic reforms provided for automatic clearance for foreign direct investment (FDI) in many sectors, and helped spur foreign investment in India, A total of 10,239 proposals involving FDI of roughly $60 billion (Rs2,096.63 billion) were approved from August 1991 to December 1999.12 Between 1997 and 1999, a total of 6,335 proposals involving FDI of $29 billion (Rsl,140 billion) were approved in all sectors. However, FDI approvals declined from $15.1 billion in 1997 to $6.6 billion in 1999, largely as a result of the financial crisis in Asia. The cumulative FDI inflows from August 1991 to Decem-

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ber 1999 were nearly $19.2 billion, or about one-third of the approved FDI.13

Average annual FDI flows to India expanded six fold from $470 million in 1991-94 to $2.7 billion in 1995-98, according to data of the United Nations Conference on Trade and Development (UNCTAD). India's share of total FDI inflows to Asia and the Pacific region during 1991-99 tripled from 1.1 percent to 3.3 percent, while FDI inflows to Asia and the Pacific region decreased in that period. U.S. FDI in India is concentrated

largely in the banking, manufacturing, and financial services sectors. However, a substantial portion of new investment approvals are in infrastructure projects. ESCAP projected that India's economy would grow 7 percent annually between 2000 and 2002, based on the continuation of economic reform and no major internal and external shocks.15 The World Bank has projected that India could potentially achieve annual economic growth of 7.5 percent or more, which would be close to the growth levels achieved by such East Asian tigers as Hong Kong, South Korea, Malaysia, and China and could lead to a significant decrease in poverty. The World Bank cautioned, however, that this growth will be achieved only if India implements economic reforms at both the central and state government levels and reduces its fiscal deficit. The World Bank recommended that India cut subsidies and privatize power and irrigation to reduce the fiscal deficit and thereby free up funds for social and infrastructure spending.

The textile and apparel industry plays a major role in India, ranking among the country's largest sources of economic activity, foreign exchange, and employment. As such, the global competitiveness of the industry is of critical concern to India. The industry benefits from low wage rates and access to a huge domestic market, an abundant supply of skilled labor, and a large production base for raw materials and intermediate inputs. However,

low productivity and product quality, limited product diversification and differentiation, high energy and. capital costs, and an underdeveloped infrastructure, especially as it relates to weaving and finishing fabrics, undermine the industry's competitiveness. In addition, sources in India claim that the industry's competitiveness is harmed by GOI tax, labor, and trade policies that favor the small production units relative to the larger ones, which have discouraged investments in large-scale manufacturing technologies, and limited large-scale manufacturing. As India carries out its WTO commitments to open its markets to import competition, and as WTO countries phase out their import quotas on textiles and apparel by January 1, 2005, the Indian industry will face increasingly intense competition in markets both at home and abroad, especially from other exporting developing countries. This chapter highlights recent initiatives adopted by the GOI and the Indian textile and apparel industry to meet the competitive challenges facing the industry in a liberalized trade environment, and identifies potential growth areas in India for U.S. exports and investment.

**GOI INITIATIVES**

The GOI has introduced several initiatives in recent years to liberalize trade and investment policies, promote investment in new technologies,

deregulate segments of the industry, and encourage restructuring and consolidation. On April 1, 1999, the GOI implemented the Technology Upgradation Fund (TUF) to spur investment in new textile and apparel technologies. Under the 5-year $6 billion program, eligible textile and apparel firms can receive loans for upgrading their technology at interest rates that are 5 percentage points lower than the normal lending rates of specified financial institutions in India. According to GOI officials, this interest rate incentive is intended to bring the cost of capital in India closer to international costs. GOI officials claim that the industry response to the TUF scheme has been relatively low so far, and that the principal loan recipients have been the large vertically-integrated composite mills and the independent spinning mills.

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. In an effort to spur investment in the textile

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industry, on April 1, 1999, the GOI reduced the amount to $230,000 and eliminated preferential treatment for imports of. secondhand equipment under the EPCG scheme.

On November 2, 2000, the GOI unveiled the National Textile Policy (NTP) 2000, which incorporated many of the recommendations of the S.R. Satyam Expert Committee (SEC) to enhance the competitiveness of the Indian textile and apparel industry. Chief among the SEC recommendations included in the NTP 2000 was the removal of readymade apparel articles from the list of items reserved for the small-scale industry (SSI) sector. As a result, foreign firms may now invest up to 100 percent in the apparel sector without any export obligation. The GOI also agreed to establish a $1.2 billion (Rs50 billion) fund to help small apparel units in the SSI sector invest in new technology and obtain credit guarantees. The GOI is reviewing the SEC proposal to dereserve the knitting mills, but has ruled out the dereservation of the handloom sector, fearing a loss of millions of jobs in this cottage industry.

**Conclusion**

The NTP 2000 calls for India's textile and apparel industry to achieve annual exports of $50 billion by 2010, which would effectively expand the country's share of world textile and apparel exports to 10 percent from the current 3-percent level. Indian sources claim that India has the potential to attain this export goal, provided that the GOI swiftly implements the programs outlined in the NTP 2000 and acts on other SEC proposals. For example, the Confederation of Indian Industry (CII) recommends that the GOI should reduce domestic taxes for the organized mill sector and introduce long-term measures to convert the core competence of the textile industry to high-value-added production.137 Currently, India's exports of textiles and apparel compete mainly on price, which Indian officials believe is not sustainable in the long run. Indian trade sources contend that India may have difficulty competing in the U.S. and EU markets because exports of many countries benefit from duty-free access to these markets, an advantage that India lacks.