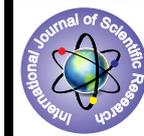


An Analytical Study On Apparel Retail Marketing In India Post Reform Period



Management

KEYWORDS :

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Introduction

Indian demand for textile machinery may increase following the GOI's establishment in 1999 of the Technology Upgradation Fund (TUF), which provides medium- and long-term loans to textile units for upgrading technology at interest rates that are 5 percentage points lower than those normally charged by financial institutions (see chapter 3 for more information on TUF). Indian industry sources expect that the lower interest rates will improve the viability of at least some of the modernization schemes that the mills have been postponing because of high capital costs and low profits.

Because of India's high capital costs, small firms in the weaving and processing sectors generally opt for less expensive machines supplied by small local firms. Most large mills, especially the EOUs, import their weaving and processing equipment because of the low technology of Indian-made shuttleless looms. Producers of textile processing machinery are small in size and cater primarily to the low end of the markets that is still being served by imports of used machines from Europe, the United States, Japan, Korea, and Taiwan, in the case of spinning equipment, India has shown significant advances. Lakshmi Machinery Works maintained global standards even after parting from its collaborator Reiter. Trutzschler's Indian venture, Trumac, has found excellent acceptance in spinning preparatory machines. Suessen and Toyoda have set up spinning machinery units recently in India. However, Indian demand for spinning equipment has declined because of spinning overcapacity, the newer spindles in use (nearly 40 percent of spindles in place are less than 10 years old), and growing demand for imports of the highly productive OE spinning equipment.

India has historically protected its textile and apparel industry from foreign competition through high tariffs and quantitative restrictions. India claimed virtually all its quantitative restrictions under the balance-of-payments (BOP) provisions of the General Agreement on Tariffs and Trade (GATT) Article XVIII B for over 50 years. Although India has been reducing tariffs and liberalizing trade barriers, its import restraints, high customs duties, additional taxes, and burdensome clearance formalities at customs continue to be major impediments to U.S. textile and apparel exports. India also provides export incentives for textiles and apparel. These include tariff incentives and export promotion measures such as duty exemptions or concessional tariffs on raw material and capital inputs, access to special import licenses for restricted inputs, exemption from income taxes on export earnings, and pre- and post-shipment financing. This chapter discusses GOI trade and nontrade policies and their impact on India's textile and apparel industry. Trade Policies Tariff Barriers

The United States and India reached agreement on reciprocal market access commitments for textiles and apparel in connection with the negotiation of the WTO Agreement on Textiles and Clothing, which provides for the phaseout of textile and apparel quotas by January 1, 2005. Under the United States-India Textile Agreement of January 1, 1995, India agreed to reduce tariffs on textiles and apparel and remove all import restrictions on these products. India agreed to bind tariffs at 20 percent ad valorem for yarns, fibers, industrial fabrics, and home furnishings, 35 percent for most apparel fabrics, and 40 percent for apparel goods by January 1, 2000 (see table 3-1 for current Indian tariffs on major textile items). Effective on April 1, 2000, the GOI reduced tariffs on manmade fibers and filament yarns from 35 percent to 20 percent ad valorem; cotton yarn, from 25 percent to 20 percent; and spun, blended, and woolen yarn, from 40 percent to 20 percent. On September 15, 2000, the

United States and India announced a tariff binding commitment agreement under which India will bind its tariffs on 265 textile and apparel products such as textured yarns of nylon and polyester, filament fabrics, sportswear, and home textiles. Although India has significantly reduced its textile and apparel tariffs, these tariffs still rank among the highest in the world, especially on products that can be domestically substituted. Additionally, domestic taxes and levies, which are applied to both imported and domestic goods, make the effective tariff rates much higher. Table 3-2 illustrates the effective duties on selected textile items.

Apparel products are not subject to excise duties and most other miscellaneous taxes, but are categorized as restricted imports.

The GOI rationalized the excise duty structure by converging 11 ad valorem rates into three rates—namely 8, 16, and 24 percent. Excise duties on most yarns and fabrics were reduced to either 8 percent or 16 percent (see table 3-3).⁵⁶ However, the GOI increased the excise duty on fabrics having an ex-factory value of less than \$0.70 (Rs30) per square meter from 13 percent to 16 percent. For other fabrics except wool, India maintained the 16 percent duty.

According to textile industry and government sources in India, the additional taxes and levies on imports of textile products are intended to offset excise taxes levied on domestically produced like products. However, because these taxes are applied on an ad valorem basis over custom duties that have already been applied, the cumulative additional taxes on imports exceed the excise taxes that are applied to domestic goods. Both the United States and the EU assert that the aggregate value of basic customs duties and additional duties exceed India's WTO bound rate commitment for a significant number of tariff headings.

Non-tariff Barriers Import Licensing

India has liberalized its import licensing regime for textiles and apparel, but still limits market access for U.S. apparel. Currently, unrestricted importation applies to items such as yarns and fabrics intended for further processing. Apparel and made-up textile goods

The GOI first took action to eliminate its market access barriers with the implementation of the United States-India Textile Agreement of January 1, 1995, by providing immediate market access for fibers, yarns, and industrial fabrics. On March 31, 1999, the GOI revised its Export-Import (EXIM) policy by eliminating import licensing requirements for 894 items of consumer goods, agriculture products, and textiles, compared to 600 items required under its WTO commitments. India also removed another 414 items from the "restricted list", allowing these to be imported against a SIL.

On December 28, 1999, the United States and India reached agreement on a timetable to lift quantitative restrictions on imports of 1,429 agricultural, textile, and consumer products, including apparel. This agreement followed a WTO ruling that these restrictions were no longer justified under the BOP provisions of GATT Article XVIII B. India removed restrictions on 715 tariff items as of April 1, 2000, and agreed to remove restrictions on the remainder by April 1, 2001. Once the restrictions are lifted, India will allow, without restriction, imports of apparel and other made-up textile goods. Customs Procedures

Trade sources in India claim that the country has cumbersome customs procedures that are regarded as highly bureaucratic and time-consuming. Documentation requirements are extensive and

delays frequent. Reportedly, imports are often misclassified and improperly valued for assessment of duties and procedures are not consistent among different ports of entry. One problem cited is that imports of missing components of kits are often assessed duties twice, once when the kit is originally imported and again, when the missing component is separately imported (despite a "no charge" notation on the invoice). Similar difficulties and bureaucratic delays with the export and reimport of capital goods for repairs are also cited.

Marking, Labeling, and Packaging Requirements

Marking, labeling, and packaging requirements applicable to textile and apparel products are technically complex and difficult to fulfill. Textiles Regulation 1988, which is designed to protect consumers, imposes strict safety and marking guidelines on fabrics and other textile products that are sold in the home market. This regulation originally applied only to domestic products; however, on July 22, 1998, the GOI extended the regulation to cover imported textile products. The regulation requires all tops, yarns, and fabrics to have the statutory markings prescribed in the government notification and states that such markings should in no way mislead consumers. Cloth, for example, must be marked with the name and address of the manufacturer, a description of the cloth, sort number, length in meters and width in centimeters, and washing instructions. Man-made fiber cloth must also indicate whether the cloth was made from spun or filament yarn, the month and year of packing, and the exact composition of the cloth. The marking must appear on the face plait of each piece of cloth and on every alternate meter of the cloth at a height not exceeding 2.5 centimeters from the selvege. Word and letter markings must be made in Hindi, Devanagari script, and English (in capital letters) with international numerals. The height of characters must not be more than 0.5 centimeter for tops, yarn, and cloth; 0.25 centimeter for packed yarn, and 3 centimeters for bales or cases.

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, as discussed below.

Duty Entitlement Passbook Scheme (DEPS)

DEPS is available to Indian export companies and traders on a pre- and post-export basis. The pre-export credit requires that the beneficiary firm has exported during the preceding 3-year period. The post-export credit is a transferable credit that exporters of finished goods can use to pay or offset customs duties on subsequent imports of any unrestricted products.

Export Promotion Capital Goods (EPCG) Scheme

The EPCG scheme is available to export companies and traders who provide the GOI with information on the type and value of capital goods they are importing and the exports they expect to produce using those imports. Depending upon the level of the export commitment at the time of import of goods, the GOI provides exporters with a license allowing them to import capital goods duty-free or at preferential rates of duty. In an effort to enable producers to afford small-scale modernization, on April 1, 1999, the GOI lowered the threshold limit for its duty-free EPCG scheme from \$4.6 million (Rs200 million) to \$230,000 (Rs10 million) for the chemicals, plastics, and textile sectors. Whereas imports of secondhand capital goods were previously allowed under the EPCG scheme, only imports of new capital goods are now permitted under the EPCG scheme. Textile firms importing machinery and equipment under the EPCG scheme must export at least six times the c.i.f. value of imported goods within 6 years. This scheme provides a benefit to Indian exporters of forgone cost of duty.

Pre- and Post-Shipment Financing

The Reserve Bank of India (RBI) provides Indian exporters with pre-shipment financing through commercial banks that may be used to purchase raw materials and packing materials by presenting a confirmed order or letter of credit. RBI also provides post-shipment financing through commercial banks at preferential rates (including bank discounting of foreign customer receivables) to Indian exporters presenting export documents. These programs

make a financial contribution to Indian firms to the extent of the difference between benchmark short-term interest rates and the preferential interest rates.

Export Processing and Special Economic Zones

The EXIM policy provides for the establishment of export processing zones (EPZs) and special economic zones (SEZs). Units in the EPZs that export all of their output can import industrial inputs free of customs duty. A 5-year tax holiday is allowed to any industrial unit in a EPZ and all profits of 100-percent EOUs are exempted from income tax. Units that are not considered 100-percent EOUs receive tax exemptions only on their export earnings. To attract investment, the GOI allows 100-percent foreign ownership of units in the EPZs as well as the SEZs. The SEZs were created recently, with the conversion of four EPZs into SEZs. The GOI treats SEZs as foreign territory for trade and tariff purposes. Units in SEZs may engage in manufacturing, trading, and services; are exempt from routine examination of exports by customs; and can sell in the domestic market on payment of duty as applicable to imported goods.

Nontrade Policies

Technology Upgradation Fund

The GOI has set up a Technology Upgradation Fund (TUF) to alleviate the problem of high capital costs in India and to encourage modernization of the textile and apparel industry. The \$6 billion fund, which was made available for a 5-year period beginning on April 1, 1999, is expected to address the industry's technology needs, especially in the weaving, processing, and apparel sectors, and enhance its global competitiveness. India's National Institute of Fashion Technology is assisting the apparel sector to improve its technology under the TUF scheme to help cater to the growing needs of India's fashion industry.

High capital costs in India have discouraged capital investment in the textile and apparel industry, thereby limiting its product range, export opportunities, and chances for reaching economies of scale. Under the TUF scheme, textile and apparel units may be eligible to receive medium- and long-term loans from the Industrial Development Bank of India (IDBI), the Small Industries Development Bank of India (SIDBI), and the Industrial Finance Corporation of India at interest rates that are 5 percentage points lower than the normal lending rates of these institutions. These financial institutions will use their normal lending criteria to identify textile units that are eligible for loans. According to GOI officials, the GOI-subsidized interest rate reduction brings the capital cost for modernization closer to international costs.

The TUF restricts loans to selected machinery items, captive power plants, and pollution control equipment. The program also covers information technology and research and development (R&D) facilities for product development or diversification; however, it does not provide loans for working capital. Financial norms also require that promoters contribute 20 percent of the cost of the modernization.

According to government and industry sources, the textile industry response to TUF has been disappointing so far. As of February 29, 2000, the GOI received 304 applications and sanctioned 201 projects amounting to an outlay of about \$385 million (Rs16,689 million). The GOI has disbursed \$115 million (Rs5,014 million) to 94 applicants. The largest recipients of these loans were the composite mills and spinning units

Conclusion

The GOI has set up a Cotton Technology Mission to increase research on improving productivity and quality of Indian cotton and bringing about improvements in the marketing infrastructure and the raw cotton processing sector. A goal of the GOI, as specified in the National Textile Policy 2000 (discussed later in this chapter), is to increase cotton production by 50 percent and improve both the quality and productivity of cotton through the Cotton Technology Mission. The Ministries of Agriculture and Textiles fund and oversee the project. The Ministry of Textiles will contribute 25 percent of the total estimated project cost of \$16-\$19 million and the Ministry of Agriculture will provide the balance. Hank Yarn Obligation