

Trade Liberalization and its Impact on the Indian Textile Industry's Export Performance vis-à-vis Other Competing Countries

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Abstract

This paper outlines the effect of phasing out of quotas on textiles trade in 2005 on textile exports from India and its competing countries. Phasing out of quotas led to increased trade in textiles. The paper outlines the trends in trade in the textile industry, share of India and other competing countries in textile and clothing imports of USA and EU - the two major textile and clothing importers of the world and issues facing the Indian textile sector. This paper concludes with some policy measures to make the Indian textiles industry globally competitive for enhancing the exports of textiles and clothing from our country.

Keywords : phasing out of quotas, trends in trade, imports, textile and clothing

JEL Classification: F140, F430, F620

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Trade liberalization (TL) is regarded as freeing of trade barriers, both tariff and non- tariff barriers, for exchange of goods and services to enhance trade among different parts of the world. TL is believed to be beneficial for all the parties involved as they specialize in production of goods of their comparative advantage and make use of their respective abundant resources efficiently. Less developed countries provide low cost and abundant labor, while developed countries supply technical knowhow and financial resources. The whole process is believed to be beneficial for consumers of different parts of the world as well as they are offered higher variety of goods at lower prices (Viswaprakash & Sentamilselvan, 2012).

World trade in textiles and clothing (T&C) was governed by the rules of Multi Fibre Agreement (MFA) from January 1974 to 1994. The MFA allowed for the application of selective quantitative restrictions when rise in imports of certain products resulted in, or were expected to result in, serious damage to the industry of the importing country. On January 1, 1995, it was replaced by the WTO Agreement on Textiles and Clothing (ATC), which set out a transitional process for eventual removal of these quotas in three stages over a 10 year period, that is, by 2005. Under the Agreement, WTO members had committed to do away with the quotas by January 1, 2005 by integrating the sector fully into GATT rules. The expiry of the 10-year transition period of ATC implied that trade in textiles would be no longer subject to quotas under a special regime, but would be governed by the general rules and disciplines laid down in the multilateral trading system (WTO, n.d.).

The Textile Industry in India

Textiles play a pivotal role in meeting the basic needs of human beings. India has an overwhelming presence in the textiles sector - from fibre to the garments stage, the sector's importance in the economy can be seen from its

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Table 1. Growth of the Textile Sector

Year	Growth rate (%)
2005-06	10.1
2006-07	11.7
2007-08	7.5
2008-09	-5.7
2009-10	4.8
2010-11	5.8
2011-12	-3.6
2012-13	7.3

Source: Ministry of Statistics and Programme Implementation, Government of India. (2005-06 to 2012-13). Quick estimates of index of industrial production and use- based index for the month of August, 2013 [press release]. Retrieved from http://mospi.nic.in/Mospi_New/upload/t2_new_11oct13.pdf

contribution to the GDP, industrial production, export earnings, and employment. The sector contributes about 14% to the country's industrial production, 4% to the GDP, 11% to country's export earnings, and employs 45 million people in various activities (Ministry of Textiles, 2013).

In the last 8 years, the sector has shown an average growth of almost 5%. In 2005-06, after the end of the quota regime, the textile sector in India grew by 10%. In 2008-09, the sector registered a de-growth of 5.7% owing to weak global demand. Thereafter, the sector started recovering and registered a positive growth in the next 2 years due to the stimulus provided by the Government of India. Though the growth of 7% in 2012-13 was the highest in the last 5 years, but manmade filament yarn production registered a fall of 6% during 2012-13. Cotton yarn production grew by 14%, and man-made fibre production by a minuscule 2% in 2012-13. These trends are depicted in the Table 1.

The present paper focuses on the impact of freeing of world textiles trade in 2005 on India's textiles and clothing exports to top two importers of textiles and clothing in the world, namely the USA and European Union (EU). The paper also compares the shares of various competing countries in USA and EU textiles and clothing imports vis-à-vis India. The present article would help in understanding the position of India with regards to the imports of textiles and clothing over the years to USA and the European Union (EU) vis-à-vis competing countries. The article also suggests some policy measures required to boost the growth and exports of India's textile and clothing sector.

Trends In Trade

World merchandise exports in the last 12 years have almost trebled from \$ 6459 billion in 2000 to \$ 18401 billion in 2012. Also, world exports of textiles and clothing more than doubled between the 12 year period - from \$ 352 billion in 2000 to \$ 708 billion in 2012 (WTO, 1994- 2013). After the phasing out of quotas in 2005, world exports of T&C grew by a compound annual growth rate (CAGR) of 5.7% (during 2005-2012) vis-à-vis a CAGR of 4.3% during the last decade (1995-2004) (WTO 1994-2012). After the phasing out of quotas in 2005, all the textiles producing nations took advantage of the opportunity at hand and joined the league of top exporting countries for textiles and clothing.

EU and USA are the two major importers of textiles in the world. But over the years, India's competing countries have gained a comparative advantage in textiles and clothing products and have improved their shares in exports to top two importers of textiles and clothing (T & C), that is, USA and EU. This aspect is discussed in the following two sections.

➤ **Share of India vis-à-vis Competing Countries in Textile and Clothing Exports to the U.S. :** The U.S. was the world's second largest importer of textiles and clothing in 2012. USA imported \$ 114 billion worth of textiles and clothing constituting 16% of world total textile and clothing imports. The share of different countries in U.S. textiles and clothing imports is given below :

➤ The share of Bangladesh in imports of textiles and clothing by the U.S. was 2.6% in 2002 ; it rose to 4.4% in 2012. This reflects a gradual increase over the period from 2002-2012, except for slight fall in 2003-04 (Table 2).

➤ China's share trebled over the 10 year period (from 2002-12). It rose consistently every year from 2002 (12.9%) to 2012 (38.1%). There was a fall in 2011, which was due to a fall in the share of clothing. Significant increase in share came in 2005, from 17.4% to 24.5%, and in 2009, from 33% to 37% (Table 2). In case of China, this can be attributed equally to textiles and clothing sectors, both of which were rising during this period.

➤ India's share in the exports to the U.S. increased from 4.4% in 2002 to 6% in 2012. The share crossed 5% in 2005, reached 6% in 2010, and was 6.1% in 2012 (Table 2). India's share in both textiles and clothing imports by USA increased during 2002-2012, from 6.2% to 8.8% and from 4.1% to 5.6% respectively.

➤ Pakistan's share increased slightly from 2.7% in 2002 to 3% in 2012. It first touched 3% in 2004. From 2004, it increased slightly till 2006 (3.4%), but then fell in 2007 and remained almost the same thereafter till 2011. It dropped back to 3% in 2012 (Table 2). Looking at textiles and clothing separately, U.S. textile imports from Pakistan declined sharply during this period (4.9% to 1.7%), while clothing imports increased slightly (2.3% to 3.1%) in terms of share.

➤ Vietnam's share in U.S. textiles and clothing imports showed a major increase since 2002. The share was 1.2% in 2002 and it reached 7.1% in 2012. The major rise came in 2003, when it went from 1.2% to 3%. It maintained this level until 2005, when it began showing an increasing trend. This trend continued till 2012 (Table 2). From

Table 2. Share (%) of Different Countries in USA's Textile and Clothing Imports

Year	Bangladesh	China	India	Pakistan	Vietnam
2002	2.6	12.9	4.4	2.7	1.2
2003	2.4	15.1	4.4	2.8	3
2004	2.3	17.4	4.6	3	3
2005	2.6	24.5	5.5	3.2	3
2006	3.1	27.7	5.7	3.4	3.4
2007	3.2	31.7	5.6	3.2	4.4
2008	3.7	33	5.7	3.2	5.5
2009	4.2	37.3	5.9	3.3	6.2
2010	4.3	39	6	3.2	6.4
2011	4.4	37.9	6.1	3.3	6.6
2012	4.4	38.1	6.1	3	7.1

Source: UN Comtrade. (2002-2012) . Data bank. Retrieved from <http://comtrade.un.org/db/dqQuickQuery.aspx>

2002 to 2012, U.S. textile imports from Vietnam increased from 0.1% to 1.7%. On the other hand, the share in clothing imports registered a remarkable rise, from 1.4% in 2002 to 7.9% in 2012.

➡ Vietnam, which had much lower share than India in U.S. textile and clothing imports in 2002 (1.2%), has continuously improved its performance and managed to beat India in 2009 in U.S. textile and clothing imports.

➡ **Share of India and Its Major Competitors in EU-27 Textile and Clothing Imports :** European Union (EU 27) was the top importer of textiles and clothing in 2012. EU imported \$ 244 billion worth of textiles and clothing constituting 34% of world total textile and clothing imports. The share of different countries in EU textiles and clothing imports is as follows :

➡ Bangladesh's share in EU's textiles and clothing imports has doubled in the 10- year period from 2002. In 2002, the share was 4.7% and reached 9.7% in 2012. The period from 2007 to 2012 is significant in terms of registering continuous growth, from 5.8% in 2007 to 9.7% in 2012 despite recessionary conditions in 2008/09 (Table 3). Throughout the period, from 2002-2012, the share of textile imports was negligible, while the clothing imports increased their share remarkably from 6.2% in 2002 to 11.8% in 2012.

➡ China's share increased during this period, and like Bangladesh, managed to double. In 2002, China's share was 21.5% and by 2012, it had reached a figure of 39%. It increased continuously from 2002 to 2010 (44%), but fell in 2011 and 2012 (Table 3). While China's share of both textiles (19.5% to 27.5%) and clothing (22.2% to 41.8%) increased over this period in EU, the rise had been much more rapid in clothing.

➡ India's share increased slightly over this period. It started with 6.8% in 2002 and stayed almost the same until 2004. It touched 8% in 2009, but fell again in 2010 (Table 3). During the period, from 2002-2012, India's share in textile imports of EU fluctuated between 8.4% and 8.9%, while that of clothing imports fluctuated between 6.2% and 6.7%.

➡ The share of Pakistan in EU's textiles and clothing imports remained almost stagnant from 2002 to 2012. It started with 3.3% in 2002 and was 3.2% in 2012 (Table 3). In most of the years, the share stayed at 3%, with the share of textile imports varying from 4% to 4.2% between 2002 and 2012, and the share of clothing imports remained at 3% during the 10 year period.

Table 3. Share (%) of Different Countries in EU-27 Textile and Clothing Imports

Year	Bangladesh	China	India	Pakistan	Sri Lanka	Vietnam
2002	4.7	21.5	6.8	3.3	1.3	1.2
2003	5.3	23.5	6.8	3.5	1.2	1
2004	6	24.8	6.9	3.6	1.3	1.1
2005	5.4	32.4	7.7	3	1.2	1.1
2006	6.3	33.1	7.8	3	1.3	1.5
2007	5.8	35.9	7.8	3.1	1.4	1.6
2008	6.2	39.8	7.6	3	1.5	1.7
2009	7.2	42.7	8	3	1.6	1.8
2010	7.3	43.8	7.7	3.1	1.5	1.8
2011	8.5	42.1	7.9	3.5	1.4	2.1
2012	9.7	39.2	7.1	3.2	1.6	2.2

Source: UN Comtrade. (2002-2012) . Data bank. Retrieved from <http://comtrade.un.org/db/dqQuickQuery.aspx>

➤ Sri Lanka's share remained stable and has improved marginally in recent years. From 2002 to 2006, its share varied between 1.2% and 1.3%. From 2007 to 2012 (Table 3), the share hovered between 1.4% to 1.6%, in which the share of textile imports hardly showed any change from 0.2%. The share of clothing also showed a marginal increase in 2008-2012 from 1.7% to 1.9%.

➤ Vietnam's share has, on the whole, been increasing during this period. It was stagnant from 2002 to 2005, at around 1.1%. Thereafter, it began increasing consistently until 2012, when it reached 2.2% (Table 3). In textile imports, Vietnam's share was largely negligible from 2002 to 2005. Since then, its share increased very slowly and reached 0.7% in 2012. Share of clothing imports increased from 1.6% in 2002 to 2.6% in 2012.

➤ Bangladesh, which started from a much lower share in EU textile and clothing imports in 2002 than India, increased exports significantly after the phasing out of the quota regime in 2005 and moved its share ahead of India in 2011. India's share remained almost the same in EU textile and clothing imports over the period.

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Need for Reforms

The discussion shows there is a dire need to support the domestic textiles and clothing industry to make it globally competitive by easing the regulatory burden, removing infrastructural bottlenecks, providing adequate and skilled labor, and supporting exports. The National Textiles Policy 2000 could not achieve its objective of raising exports to \$ 50 billion by 2010. The Indian government is currently reviewing the policy and is formulating a new policy for the sector. The policy needs to support the sector in overcoming its weaknesses to make it globally competitive. The following bottlenecks are worth mentioning and require immediate attention:

➤ **Compliance and Regulatory Burden:** According to the National Manufacturing Policy, a manufacturing unit needs to comply with around 70 laws and regulations (Department of Industrial Policy and Promotion (DIPP), 2011). Also, India is ranked 134 out of the 189 countries in ease of Doing Business Report 2013 of The World Bank vis-à-vis its 131 position in 2012 (The World Bank, 2012, 2013). A lot more needs to be done to ease the process of doing business in India to attract new investments in the sector, as the younger generation, which could become entrepreneurs, are discouraged to take up entrepreneurship because of the huge compliance burden.

➤ **Fibre Neutrality in India :** Manmade fibres have been discriminated against natural fibre cotton in levy of excise duty. Currently, synthetic fibres attract an excise duty of 12%, with duty being nil on cotton (Budget Document, Government of India, 2013). Excise duty on synthetic fibres was raised in December 2008, when it stood at 4% (Budget Document, Government of India, 2009). As per the working group on man made fibre (Ministry of Textiles) constituted for the National Fibre Policy, in competing countries like China, Indonesia, and Thailand, there is no difference in excise duty between cotton and manmade fibres/ filament yarns and India should be no exception to this (Ministry of Textiles, Government of India, 2011). The excise duty structure on fibre and yarns needs to be revisited, and duties on man-made fibres /filament yarn should be brought down at par with cotton to bring fibre neutrality in the sector.

➤ **Labor Laws:** The following amendments, as passed by the Karnataka Legislative Assembly, if approved by the Hon'ble President of India, can go a long way in helping the ailing sector (Department of Factories, Boilers, Industrial Safety and Health, Government of Karnataka, 2011):

➤ To increase the working of the day from present 9 hours to 10 hours in a day.

➤ To increase the spread over time, that is, the working hours inclusive of the intervals for rest from the current 10.5 hours to 11.5 hours in a day.

➤ To increase the cap on total number of hours worked during a week including overtime to 70 hours from the current 60 hours.

➤ To increase the total number of hours worked during a quarter to 120 hours from the current 75 hours. Also, it should be provided that the Director of any organization, with the approval of the state government, may further enhance the total number of hours of overtime work in any quarter to 150 hours in exigencies.

➤ **Shortage in Availability of Skilled Labor :** The sector currently employs 45 million people in its various activities (Ministry of Textiles, 2013). The sector is facing acute shortage of workers. As per the report of National Skill Development Corporation (NSDC), by 2022, the sector would require an additional 15 million skilled people by 2022 – to bridge this gap, training of 1 million persons per year would be required (NSDC, 2009). Also, shortage of skilled as well un-skilled workers is faced by the industry due to National Rural Employment Guarantee Act (NREGA), as the scheme has made employment opportunities available in rural areas. Workers are content with whatever they earn in their villages and are willing to stay in their villages and are not keen to migrate like before. It allows them to stay together with their families. Also, the cost of living in villages is cheaper compared to the high cost of living in urban areas (Thomas, 2012).

➤ **Non- Availability of Power :** Erratic and limited power supply is amongst the most pressing issues faced by the sector. Due to frequent power cuts and inadequate availability of power, most of the textile firms are dependent on captive power plants and generator sets. However, small units do not have the capital to invest in captive plants or purchase generator sets, which affects production levels and employment severely. Also, the cost of power generated through gensets comes out to be very high vis-à-vis the power purchased from the state electricity distribution companies. To boost textile exports and to make the industry globally competitive, textile producers in the whole textile chain need to be provided with adequate and uninterrupted supply of power.

➤ **Common Effluent Treatment Plants :** A major issue faced by the sector is effluent treatment as the sector releases waste water during the dyeing / bleaching stage. The Indian textiles industry has faced a lot of problems due to waste water discharge. A number of dyeing and bleaching units were closed in Tamil Nadu following the Madras High Court order in 2011. There is a need to set up common effluent treatment plants in each and every cluster through government support as individual units are unable to set up such plants due to the high cost involved.

➤ **Technical Textiles – The Sunshine Sector :** Technical textiles are textile materials, which are known for their functional properties and performance rather than their aesthetic or decorative characteristics (ICRA Management Consulting Services Limited, 2009). But in India, the sector is at a nascent stage and the country is dependent on imports for majority of its requirements. There is a need to give push to such specialized areas to give boost to exports.

➤ **Need for HS Codes :** In India, these specialized products are not identified separately. It is important that technical textiles items are identified properly and are distinguished from the conventional items. Many conventional items are still being considered technical textiles. This identification in terms of HS Codes is important for targeted incentives for this industry and a proper roadmap for the sector.

➤ India needs to have latest standards in place for the technical textiles industry. For some products, the standards are not available and most of the standards available are outdated and need to be reviewed.

➤ A long pending issue restricting the growth of this industry has been lack of regulatory environment for certain segments of technical textiles. So far, there has been little success on that front. Worldwide, various regulations have been framed for health and safety reasons, which have simultaneously encouraged the use of the functional textiles. This basic framework is lacking in India, and the government needs to bring out regulations for medical textiles and protective textiles, in particular, in view of the health and safety of the personnel.

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Conclusion

Vietnam and Bangladesh have surpassed India in U.S. and EU textiles import markets respectively, even though they started with lower shares than India. The Indian government needs to help the industry through lowering the compliance burden, providing proper infrastructure like power and effluent treatment plants, adopting fibre neutrality, liberalizing the labor laws, and providing skilled labor for the sector to make the sector achieve its true potential. Furthermore, attention needs to be given to high value added segments like technical textiles, which would be the areas for future growth.

Limitations of the Study and Scope for Further Research

Due to limited time and resources, the study has been restricted to few Asian countries only. Furthermore, the study does not talk about the initiatives taken by various textile exporting countries to boost their exports of textiles and clothing. Future studies can analyze the exports of all the textile exporting countries and their performance over the years. Also, there is a scope to study various policy measures taken by textiles exporting countries to enhance their exports.

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