The Growth of Indian Textile Industry Fuelled by The Indian Trade Policy

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Abstract

The Indian textiles industry has significantly contributed to the economic life of the country. Liberalization in India and the scrapping of quotas in world trade of textiles and clothing has bolstered growth for the sector. In the post quota period, the industry size has expanded from US$ 37 billion in 2004-05 to US$ 49 billion in 2006-07. In this period, while the domestic market increased from US$ 23 billion to US$ 30 billion, exports increased from around US$ 14 billion to US$ 19 billion.

As a leading sector in the Indian economy, textiles contribute 14% to industrial production, 4% to the GDP and around 17% to the total export earnings. It is, in fact, the largest foreign exchange earning sector in the country. In addition, it provides direct employment to over 35 million people. And with continuing growth momentum, its role in the Indian economy is bound to increase.

This article demonstrates the role of Indian Trade Policy in textile sector, and analyzes the impact of government support and incentives. Further it also explores the contributions of textile industry towards the economic development of the nation through export trade.

INDIAN TEXTILE INDUSTRY

Indian textile industry contributes a unique place in Indian economy. The Textile sector is the largest employer after agriculture and its importance in India's economy is recognized for its contribution to industrial production and export earnings. Indian textile industry is a self-reliant industry, from the production of raw materials to the delivery of finished products, with substantial value-addition at each stage of processing; it contributes much to the country's economy. The industry is composed of handlooms, power looms and mills.

From the total of Indian exports 20% are from textile sector and it provides direct employment opportunities to nearly 35 million Indians primarily the weaker sections. It contributes about 4% of GDP and14% of industrial output including substantial segments of

Weaker sections of society. With a very low import-intensity of about 1.5% only, it is the largest *net* foreign exchange earner in India, earning almost 35% of foreign exchange. This is the only industry that is self-sufficient and complete in cotton value chain- producing everything from fibers to the highest value added finished product of garments. The world's No.1 exporter of the textiles, China, has a share of more than 10 per cent followed by Korea with 8.1 per cent; India's share covers at 3.5-4 per cent. In clothing exports, China holds a share of 18.5 per cent followed by Italy (6.7 per cent) and India (3 per cent). It reflects the competitiveness of Indian textile industry and emphasis the need for a comprehensive trade policy to fill the gap.

Role of Trade Policy

Trade policy instruments are measures taken by government to influence the direction and pattern of trade development. The application of these instruments in India will be guided by the need to stimulate domestic production, promote exports, safeguard domestic industry against dumping practices and protect consumers. India will exercise trade policy options in line with its International obligations. Although the development of textile sector was earlier taking place in terms of general policies, in recognition of the importance of this sector, for the first time a separate Policy Statement was made in 1985 in regard to development of textile sector.

The main objective of the textile policy 2000 is to provide cloth of acceptable quality at reasonable prices for the vast majority of the population of the country, to increasingly contribute to the provision for employment and the economic growth of the nation; and to compete with confidence for an increasing share of the global market .During a presentation made to the Prime Minister Mr.Vajpayee on 23rd October, 2001, the importance of the textile sector in the national economy and the need to take urgent, time bound steps to attract investment and encourage growth in the textile sector was emphasized and a high Powered Steering Group with Prime Minister's approval was set up under the Chairmanship of Shri N.K Singh, Member, Planning Commission to examine all issues concerning investment and growth in the textile industry and to suggest an action plan for growth. In view of the urgency of reforms required to attract investment in this sector, the Steering Group submitted an interim report on fiscal policy for textile industry in January, 2002 and a final report in December, 2002 to enable the Government to consider fiscal policy changes and a "Textile Package" in the Budget 2003-04. Majority of the recommendations of the Steering Group with regard to fiscal policy were accepted and incorporated in the Budget 2003-04.

The Multi Fibre Arrangement (MFA) that came to an end on January 1, 2005 has opened up a plethora of opportunities for the Indian textile industry. The phasing-out of MFA has ensured that quota restrictions in US, European Union and Canada which restricted textile and apparel exports from India to these regions have been removed. India and China are the two countries poised to derive the maximum benefit from the MFA. The Indian Government is trying exports to create an environment to attract an investment of Rs1,400 billion in the Eleventh Plan period (2007-2012) when the textiles and garment are expected to rise from the US$14 billion to US$40 billion. Global trade in textiles is increased to US$ 600 billion by 2010 from US$ 356 billion in 2003. Indian government is turning its attention towards the ever growth of Indian textile sector and also to remove the bottlenecks that hinder its growth

Government Incentives and Support

The textile industry, being one of the most significant sectors in the Indian economy, has been a key focus area for the Government of India. A number of policies have been introduced by the government of India for the betterment of this sector.

The Technology Up gradation Fund Scheme

Recognizing that technology is the key to being competitive in the global market, the Government of India established the Technology Up gradation Fund Scheme (TUFS) on April 1, 1999 to enable firms to access low-interest loans for technology up gradation. Under this scheme, the Government reimburses 5 per cent of the interest rates charged by the banks and financial institutions, thereby ensuring credit availability for up gradation of the technology at global rates. In consonance with the industry, the TUF Scheme has been continued during the Eleventh Plan (2007-2012). Allocation for TUF has been raised from Rs.5.35 billion in 2006-07, to Rs.9.11 billion in 2007-08. Handlooms will now be covered under the TUF scheme. Provision for RS. 3000 crores were implemented in the current budget 2011.

Integrated Textile Parks Scheme

Manufacturing is a thrust area for the government, as Indian industry and the government see foreign companies more as partners in building domestic manufacturing capabilities rather than a threat to Indian businesses. Following this through, the Central Government as well as various States has executed Schemes such as, Schemes for Integrated Textile and Apparel Parks. Under the Scheme for Integrated Textiles Parks

(SITP), more than 30 parks were sanctioned. The Budget provision for these parks has been increased from Rs.1.89 billion in 2006-07 to Rs.4.25 billion in 2007-08

Excise Duty Scheme

The excise duty of yarn has increased from 4% to 5% in the current budget 2011. The Mandatory excise duty of 10% imposed on branded readymade garments and made-ups would not only have serious adverse impact to these highly labour intensive segments but would also have significant operational problems at the level of implementation. since most of the inputs for these segments would be coming through optional excise duty regime, there will be very little duty credit to be utilized for payment of excise duty .The reduction of excise duty on 40 specified textile machinery from 10 % to 5% were implemented in the current budget 2011 will be an added advantage to the industry.

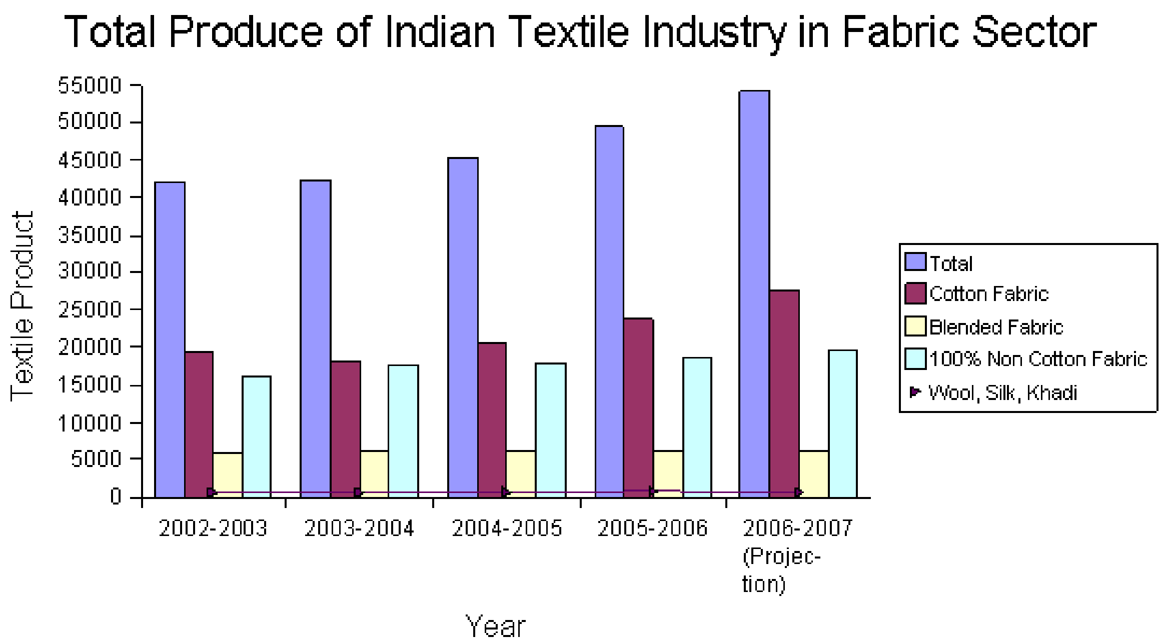
Foreign Direct Investment (FDI) Policy

100 per cent FDI is allowed in the textile sector under the automatic route. FDI in sectors to the extent permitted under automatic route does not require any prior approval either by the Government of India or Reserve Bank of India (RBI). The investors are only required to notify the Regional Office concerned of RBI within 30 days of receipt of in word remittance. Ministry of Textiles has set up FDI Cell to attract FDI in the textile sector in the country. The FDI cell has the objectives like provide assistance and advisory support, Assist foreign companies in finding out joint venture partners, sort out operational problems, Maintenance and monitoring of data pertaining to domestic and international trade.

Other Provisions

The Government had announced change from the value-based drawback rate hitherto followed to a weight-based structure for textile exports that will discourage raw material by Boosting exports and also curtail the scope for misusing the drawback claims invoice value of Exports. Government of India jointly with NCDEX has adopted a policy for increasing the future growth contract of silk.

Ministry of finance has added 165 new textile products under duty drawback schedule. The new products included wool tops, cotton yarn, acrylic yarn, viscose yarn, various blended yarn/fabrics, fishing nets etc. Further, the existing entries in the drawback schedule relating to garments have been expanded to create separate entries of garments made up of (1) cotton; (2) manmade fiber blend and (3) MMF. Separate rates have been prescribed for these categories of garments on the basis of composition of textiles.



CONCLUSION

India is a country of contrasts, marrying huge potential with profound and chronic

Challenges. Its recent high economic growth rates have improved the prospects that the world's second most populous country will be able to raise incomes broadly for its 1.1 billion people and contribute to global economic stability and growth. And yet India remains the largest reservoir of poverty in the world, with 300 million poor people, according to the national poverty line, and more than 800 million People surviving on less than $2 per day, international measure poverty. Almost two-thirds of Indians still live in rural areas and well over half of the population works in the agricultural sector, where growth has stagnated at less than 3 percent for the last decade. By contrast, India's world renowned high-technology textile sector has grown strongly in recent years. As textile sector plays a vital role in Indian economy next to agriculture sector a special attention is needed in order to further up gradation.

The key risk identified in this sector is foreign exchange losses due to the volatility in the rupee against the US dollar as well as higher interest costs; large portion of the processing capacity is obsolete. Further state of the art integrated mills exist majority of the capacity lies currently with the power loom sector this has also resulted in low value addition in the industry and also Indian textile industries need to increase focus on product development. The key strengths identified in Indian textile sector are abundant availability of raw materials, low cost skilled labours and also growing domestic markets. So the Government of India must take some effort in the forth coming years towards the optimum utilization of all the key strengths and also the government should minimize the risk by means of increasing the support and incentives. The effort taken by the government towards the growth of this sector would leads to face the macro economic challenges strongly and also helps to improve the economic growth. Expert has found that 2011 so far has been reasonably good for the Indian textile industry as the export demand from the US and Europe have shown an uptick and realizations have been better for the larger players due to vendor consolidation.