



EXPORT STATUS OF INDIAN TEXTILE INDUSTRY DURING PRE AND POST MULTI FIBRE AGREEMENT REGIME

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Abstract

Textile Industry has an overwhelming presence in the economic life of the country. According to the economic survey 2008-09, textile sector contributes 14 percent to the industrial production, 4 percent to Gross Domestic Product and 10 percent of country's export earnings. It provides direct employment to over 35 million people, which includes substantial number of economically weaker sections of the society. The Indian textile industry managed to penetrate its roots deep in the international market but that was in the era when Multi-Fiber Agreement (MFA) was in existence, but now, since 1 January 2005, the Multi-fiber Agreement has phased out and India needs to strive harder to sustain its past achievement. MFA is an agreement through which developing countries of the world were restricted to export their textile products beyond a certain level to the markets of developed nations. Dismantling the quota regime represents both an opportunity for developing countries to expand exports and a threat because quotas will no longer guarantee markets and even the domestic market will be open to competition. With the view of this an attempted has been made to analyse the relation of Pre and Post MFA in Indian textile exports.

From the overall analysis it is evident that among the 12 countries only three countries namely Bangladesh, Thailand and Indonesia have recorded the increasing growth rate from 4.03 per cent to 9.18 per cent, 3.25 per cent to 7.26 per cent and 4.71 per cent to 6.79 per cent respectively. Eventhough the countries Vietnam (14.93 per cent), China (7.44 per cent), Combodia (4.03 per cent) and India (2.76 per cent) have achieved positive growth rates they are having growth trends. And remaining five countries have registered negative growth rates. From the analysis it is evident that the post Multi Fibre Agreement environment is not favour to most of the nations including India in the world.

To effectively tackle the situation India needs to invest in research and development to develop new products, reduce transaction costs, reduce per unit costs, and finally, improve its raw material base. India needs to move from the lower-end markets to middle level value-for-money markets and export high value-added products of international standard. Thus the industry should diversify in design to ensure quality output and technological advancement. The business environment of the future will be intensely competitive. Countries will want their own interests to be safeguarded. This will demand a new mindset to eliminate wastes, delays, and avoidable transaction costs. Effective entrepreneur-friendly institutional support will need to be extended by the Government, business and umbrella organizations.

Introduction

Indian Textile Industry is one of the leading textile industries in the world. The opening up of liberalized economy gave the much-needed thrust to the Indian textile industry, which has now successfully become one of the largest in the world. Textile Industry has an overwhelming presence in the economic life of the country. According to the economic survey 2008-09, textile sector contributes 14 percent to the industrial production, 4 percent to Gross Domestic Product and 10 percent of country's export earnings. It provides direct employment to over 35 million people, which includes substantial number of economically weaker sections of the society. Textile industry has a strong base as it is vertically integrated, from producing raw-material to provide value-added products. India is the world's third largest producer of cotton and cellulose fiber and yarn, the second largest producer of silk, and the fifth largest producer of synthetic fiber and yarn. Indian textile industry is bestowed with many factors of production like raw-material, skilled and unskilled labour, vertical integration, growing domestic market, institutions for textile designing like the National Institute of Fashion Technology (NIFT) support by government in the form of Technology Upgradation Fund, etc. The industry has a complex structure because it has various independent units which individually form different micro firms like the spinning mills, the weaving and knitting firms, the Indian fabric processing firms, and the garment (apparel) manufacturing sector as well. There exist a large number of players in each sector but none of these is large enough to stimulate the demand for its textile products in the global market. So far international trade in textile and clothing has been managed through forced consensus. Textile trade between developing and developed countries, that is the exporting and importing countries, had been the hardest fought trade issue.

India's Textile Exports

The Textiles Exports basket consists of Ready-made garments, Cotton textiles, Textiles made from man-made fiber, Wool and Woolen goods, Silk, Handicrafts, Coir, and Jute. Further, the export basket consists of variety of items: cotton yarn and



fabrics, wool and silk fabrics, man-made yarn and fabrics, jute industry etc. Textile exports play dominant role in the total exports of the country. Indian textile industry is the second largest in the world. It has the largest cotton acreage 9 million hectares. It ranks fourth in terms of staple fiber production and sixth among filament yarn production. The country accounts for about one fourth of global trade in cotton yarn Indian textile and clothing industry was generally inward looking till 1980s. The Textile Policy of 1985 heralded a new beginning for the textile industry by focusing on the deep rooted structural weaknesses. The reforms initiated in 1990 further boosted the textile industry. The textile industry was delicensed and reforms on fiscal and external front were pursued. As a result exports of textiles and clothing products from India have increased steadily over the last few years, particularly after 2004. The period 2010-11, the textiles & clothing exports grew by 19.66 percent to USD 26.82 billion as against USD 22.41 billion. During April-November 2011, textiles and clothing exports recorded at USD 19.78 billion, higher by 24.73 percent against USD 15.86 billion. In respect of global exports of clothing, India ranked sixth largest exporters as per the World Trade Organization (WTO), railing Turkey, Bangladesh, Hong Kong, EU-27 and China. In respect of global exports of textiles, India ranked third trailing EU-27 and China. Indian textiles and clothing exports is facing various constraints of infrastructure, high power and transaction cost, incidence of state level cess and duties, lack of state-of-the-art technology.

The Indian textile industry managed to penetrate its roots deep in the international market but that was in the era when Multi-Fiber Agreement (MFA) was in existence, but now, since 1st January 2005, the Multi-fiber Agreement has phased out and India needs to strive harder to sustain its past achievement. MFA is an agreement through which developing countries of the world were restricted to export their textile products beyond a certain level to the markets of developed nations. Dismantling the quota regime represents both an opportunity for developing countries to expand exports and a threat because quotas will no longer guarantee markets and even the domestic market will be open to competition. With the view of this an attempted has been made to analyse the relation of Pre and Post MFA in Indian textile exports.

Table-1 presents data on the export details of textile industry during the period of before Multi-Fibre Agreement from 1997 to 2004. In the beginning of the period China achieved maximum export (\$ 85,21,076) followed by Mexico (\$ 66,18,174) and Hong Kong (\$ 41,70,923). In the year 1997 India's export was \$ 22,11,469 and it has increased over the years and reached to \$ 40,74,260 in 2004, thus recorded a growth rate of 8.42 percent. In the end of the period, maximum export was noticed in China (\$1,93,07,069) and minimum export was witnessed in Cambodia (\$14,42,409). The average export for the analysis period explains that highest was experienced in China (\$1, 14,89,740) followed by Mexico (\$89,95,247) and Hong Kong (\$43,29,769). All countries except 2 countries i.e. Taiwan (-4.53 percent), and Hong Kong (-1.80 percent) have recorded positive growth in textile exports. Country-wise highest growth rate was found in Vietnam (144.97 per cent) followed by Cambodia (37.76 per cent) and China (12.05 per cent). During the before Multi-Fibre Agreement regime India was in a fourth position with the growth rate of 8.42 percent.

Table-2 presents data on the export details of textile industry during the period of post Multi-Fibre Agreement from 2005 to 2012. In the initial period maximum export was achieved in China (\$ 2,76,28,600) and followed by Mexico (\$82,28,960) and India (\$51,29,722). In the year 2005 India's export was \$51,29,722 and it has increased over the years and reached to \$63,67,161 in 2012, thus recorded a growth rate of 2.76 percent. In the end of the period maximum export was noticed in China (\$4,69,19,162) and minimum export was witnessed in Hong Kong (\$2,09,317). The average export for the analysis period explains that highest was experienced in China (\$3,89,84,049) followed by Mexico (\$62,47,988) and India (\$56,76,505). Out of 12 textile exporting countries 6 countries recorded positive growth rates and remaining 6 countries noticed negative sign growth rates. Country-wise highest growth rate was found in Vietnam (14.93 per cent) followed by Bangladesh (9.18 per cent) and China (7.44 per cent). During the phase out of quota system period, India was in the sixth position in textile exports.

Table-3,Comparative Growth Analysis of Textile Export during Pre and Post MFA

| Sl. No. | Country | Pre MFA | | Post MFA | |
|---------|------------|----------|---------|----------|---------|
| | | Mean | CGR (%) | Mean | CGR (%) |
| 1 | India | 3034094 | 8.42 | 5676505 | 2.76 |
| 2 | China | 11489740 | 12.05 | 38984049 | 7.44 |
| 3 | Bangladesh | 1943494 | 4.03 | 3671182 | 9.18 |
| 4 | Cambodia | 821478 | 37.76 | 2255143 | 4.03 |



| | | | | | |
|----|-------------|---------|--------|---------|--------|
| 5 | Vietnam | 799548 | 114.97 | 5435159 | 14.93 |
| 6 | Mexico | 8995246 | 2.87 | 6247988 | -5.29 |
| 7 | Hong Kong | 4329769 | -1.8 | 1434297 | -38.45 |
| 8 | Indonesia | 2291633 | 4.71 | 4405518 | 6.79 |
| 9 | Thailand | 2217538 | 3.25 | 1868324 | 7.26 |
| 10 | South Korea | 3071633 | 0.79 | 1519525 | -9.06 |
| 11 | Taiwan | 2740277 | -4.53 | 1369648 | -8.13 |
| 12 | Philippines | 2104525 | 0.04 | 1514607 | -8.36 |

Table-3 presents the comparative analysis of different countries' exports during pre Multi Fibre Agreement period (1997 to 2004) and post Multi Fibre Agreement period (2005 to 2012). Among the 12 countries only three countries namely Bangladesh, Thailand and Indonesia have recorded the increasing growth rate from 4.03 per cent to 9.18 per cent, 3.25 per cent to 7.26 per cent and 4.71 per cent to 6.79 per cent respectively. Eventhough the countries Vietnam (14.93 per cent), China (7.44 per cent), Combodia (4.03 per cent) and India (2.76 per cent) have achieved positive growth rates they are having growth trends. And remaining five countries have registered negative growth rates. From the analysis it is evident that the post Multi Fibre Agreement environment is not favour to most of the nations including India in the world.

Conclusion

From the analysis, India needs to invest in research and development to develop new products, reduce transaction costs, reduce per unit costs, and finally, improve its raw material base to effectively tackle the situation. India needs to move from the lower-end markets to middle level value-for-money markets and export high value-added products of international standard. Thus the industry should diversify in design to ensure quality output and technological advancement. The business environment of the future will be intensely competitive. Countries will want their own interests to be safeguarded. New consumer demands and expectations coupled with new techniques in the market will add a new dimension. Effective entrepreneur-friendly institutional support will need to be extended by the Government, business and umbrella organizations.

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Annexure



Table-1 Country wise Exports of Textile Sector in Pre Multi Fibre Agreement

(Values in US \$)

| Sl. No | Country | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | Mean | S.D | C.V | C.G.R (%) |
|--------|-------------|---------|---------|---------|----------|---------|----------|----------|----------|----------|----------|--------|-----------|
| 1 | India | 2211469 | 2491051 | 2614967 | 3049809 | 2917560 | 3307442 | 3606194 | 4074260 | 3034094 | 614708.4 | 20.26 | 8.42 |
| 2 | China | 8521076 | 8492271 | 8851566 | 9713174 | 9945955 | 11746375 | 15340434 | 19307069 | 11489740 | 3896914 | 33.91 | 12.05 |
| 3 | Bangladesh | 1512939 | 1717623 | 1780017 | 2230368 | 2234930 | 2016625 | 1962158 | 2093295 | 1943494 | 255926 | 13.16 | 4.03 |
| 4 | Cambodia | 98730 | 361893 | 586748 | 816104 | 952782 | 1061583 | 1251581 | 1442409 | 821478 | 452634 | 55.09 | 37.76 |
| 5 | Vietnam | 26751 | 29447 | 38137 | 50307 | 50072 | 959036 | 2498407 | 2744228 | 799548 | 1170252 | 146.36 | 114.97 |
| 6 | Mexico | 6618174 | 8221224 | 9396289 | 10574571 | 9889232 | 9524598 | 8971038 | 8766849 | 8995247 | 1197429 | 13.31 | 2.87 |
| 7 | Hong Kong | 4170923 | 4681081 | 4533877 | 4769785 | 4466817 | 4083338 | 3888574 | 4043757 | 4329769 | 325113 | 7.50 | -1.80 |
| 8 | Indonesia | 1895640 | 2000942 | 1992655 | 2422155 | 2591233 | 2366334 | 2410264 | 2653842 | 2291633 | 289912 | 12.65 | 4.71 |
| 9 | Thailand | 1718278 | 2022975 | 2141375 | 2525295 | 2532578 | 2298389 | 2183494 | 2317920 | 2217538 | 268502 | 12.10 | 3.26 |
| 10 | South Korea | 2616031 | 2985835 | 3198911 | 3448533 | 3260791 | 3199150 | 2916005 | 2947811 | 3071633 | 257676 | 8.38 | 0.79 |
| 11 | Taiwan | 3040416 | 3080089 | 2955152 | 3017482 | 2715048 | 2410907 | 2382216 | 2320910 | 2740278 | 325525 | 11.87 | -4.53 |
| 12 | Philippines | 1877023 | 2098488 | 2184628 | 2318687 | 2273714 | 2057708 | 2059578 | 1966379 | 2104526 | 149282 | 7.09 | 0.04 |

Source: U S Department of Commerce, Office of Textile and Apparel

CGR: Compound Growth Rate

Table-2, Country wise Exports of Textile Sector in Post Multi Fibre Agreement

(Values in US \$)

| Sl. No | Country | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Mean | S.D | C.V | C.G.R (%) |
|--------|-------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|-------|-----------|
| 1 | India | 5129722 | 5533739 | 5580846 | 5560448 | 4982203 | 5826929 | 6430992 | 6367161 | 5676505 | 520015 | 9.16 | 2.75 |
| 2 | China | 27628600 | 32397590 | 37996531 | 38421317 | 36732570 | 44484896 | 47291724 | 46919162 | 38984049 | 6978861 | 17.90 | 7.44 |
| 3 | Bangladesh | 2486164 | 3026269 | 3218784 | 3567817 | 3557883 | 4118372 | 4720163 | 4674004 | 3671182 | 788702 | 21.48 | 9.18 |
| 4 | Cambodia | 1727108 | 2151450 | 2436408 | 2386773 | 1890511 | 2244730 | 2626545 | 2577615 | 2255143 | 319541 | 14.17 | 4.03 |
| 5 | Vietnam | 2905578 | 3428404 | 4624632 | 5519850 | 5433210 | 6402229 | 7394062 | 7773304 | 5435159 | 1745583 | 32.11 | 14.93 |
| 6 | Mexico | 8228960 | 7411122 | 6602640 | 5837360 | 5032441 | 5391795 | 5780520 | 5699063 | 6247988 | 1089036 | 17.43 | -5.29 |
| 7 | Hong Kong | 3666389 | 2940344 | 2173271 | 1654446 | 345993 | 253306 | 231307 | 209317 | 1434297 | 1382124 | 96.36 | -38.45 |
| 8 | Indonesia | 3128737 | 3949555 | 4278874 | 4328283 | 4098815 | 4742281 | 5430728 | 5286869 | 4405518 | 745978 | 16.93 | 6.79 |
| 9 | Thailand | 2253604 | 2236944 | 2178281 | 2110336 | 1565650 | 1664166 | 1549442 | 1388167 | 1868324 | 359462 | 19.23 | -7.26 |
| 10 | South Korea | 2302552 | 2013519 | 1692963 | 1449698 | 1021134 | 1142323 | 1234967 | 1299044 | 1519525 | 449186 | 29.56 | -9.06 |
| 11 | Taiwan | 1866562 | 1719838 | 1619303 | 1406910 | 977762 | 1107156 | 1134270 | 1125381 | 1369648 | 331838 | 24.22 | -8.13 |
| 12 | Philippines | 1952029 | 2119929 | 1831098 | 1462584 | 1091139 | 1109178 | 1287135 | 1263761 | 1514607 | 399819 | 26.39 | -8.36 |

Source: U S Department of Commerce, Office of Textile and Apparel

CGR: Compound Growth Rate.