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Impact of Liberalisation on Textile Industry

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Abstract – Textile & Clothing is the only other industry to have a multilaterally negotiated agreement under the auspices of the WTO. When you consider how important textiles and clothing are to many nations' international trade baskets, especially developing ones, this comes as no surprise

About 4% of India's GDP is generated by the textile and clothing sector, while 14% of industrial production and 20% of manufacturing value are added by this industry. It also generates 35% of India's foreign money and directly and indirectly employs over 35 million people. After agriculture, it's India's most significant industry. Everything from fibre to clothing, the greatest value-added completed product, is produced by this business alone, making it unique. As a result, the expansion and profitability of this sector affects the whole Indian economy.

Textile and clothing trade has seen a substantial transformation since the Multifibre Arrangement (MFA) period ended and the quota-free trading era began. Every country is now occupied with developing its own national plan for competitiveness in the new global trade system after years of backing was abruptly removed.

The Agreement in Textiles and clothing (ATC) remains the principal driver of such a mammoth economic earthquake in this sector. According to the ATC, all Textiles and Clothing items previously subject to MFA-quotas will be absorbed into the WTO during a ten-year period commencing on January 1, 1995. When the quota system is abolished, there will be both an opportunity and a threat. Because the market will no longer be controlled, this presents both an opportunity and a threat. As a result of this impending reality, it's critical to know how competitive Indian textile and clothing manufacturers are in order to predict where the industry will be in 2005 and beyond.

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METHOD

Descriptive Studying the influence of numerous variables utilised in the process of economic liberalisation on India's international trade has been used to create forecasts for the future. The research was carried out mostly by secondary data analysis, with some Primary data obtained as well. Indices, abstracts, directories, search engines, and other readily available resources were utilised for the collecting of secondary data. The librarian at the Indian Institute of Foreign Trade in New Delhi has also helped locate the data needed for the study.

Textile industry gearing up to face post MFA challenges-initiatives and approaches.

A number of measures were taken to prepare the Indian textile and clothing sector for the post-quota period, but the new opportunities have not materialised fully due to the reservation of certain items for small-scale sector until recently, lack of labour market flexibility and an effective exit policy that has prevented the development of scale economies, longer lead times, and infrastructural and administrative bottlenecks, including delays at customs.. Major textile importers like the EU and the US investing more FDI in the T&C sector might help the industry take off. The productivity of the old economy sector must also be increased, and the progress made in new economy sectors like IT must be applied to this old economy sector, as well as the problem of sluggish growth in the synthetic segment, where global demand is high but India's output of fibres and fabrics has decreased in the current year.

India's textile sector is gearing itself for the increased competition that will come with the end of the MFA era. With a recent favourable Exim Policy and many other schemes announced through Budget announcements, the government is making an effort to assist the sector in meeting the current tyre shortages. Because raw materials for export manufacturing are so difficult to come by, the government has lately developed a programme that allows exporters to continue importing their inputs throughout the year while still exporting finished garments manufactured from those inputs. This plan will speed up transactions and save garment exporters money so they can focus on creating and shipping their goods. The sector has been permitted to import a wide range of trimmings and decorations without the need for a licence or paying import duties. Most of the textiles are now allowed to be imported without a visa. As part of the arrangements, policy actions are being worked out so that garment producers have access to high-quality textiles produced in India's mill industry.

State governments will be tasked with establishing Apparel Parks near existing garment production centres, as well as fabric trading or manufacturing industries, so that garment exporters can set up and relocate their manufacturing facilities to locations with lower labour costs and lower operating costs. This plan is currently being worked on. As a result of this approach to cluster growth, the Apparel Parks may be utilised as a tool to guide technological advancement and export culture.

The Technology Upgradation Fund Scheme was launched in April 1999 with the goal of making the Indian textile industry globally competitive and bringing in the desired level of investment for the textile sector's technological upgradation, which includes spinning, weaving, processing, and tyre garment manufacturing.

FDI, ports, electricity (both availability and pricing), roads, and telecommunications are the most pressing concerns for textiles when it comes to infrastructure development. Ports (on a build-operate-transfer mode), electricity generation and distribution, among other divisions, have seen initiatives implemented to attract private investment. Both governmental and private initiatives, including FDIs, are needed to speed up infrastructure investment in export-related industries. The Ministry of Textiles plans to provide better infrastructure in textile and garment industry clusters with increased financial assistance.

SSI sector garment and knitting reservation might be loosened to provide the Indian industry an equal playing field to fight against imported garment and knitted items and confront the post-quota regime after 2005.. In addition to efficient use of the Textile Upgradation Fund Scheme, this will assist attract foreign direct investment and joint partnerships.

The domestic textile industry's competitiveness must be boosted in order to counteract rising textile imports. A comprehensive assessment of domestic textile industry concerns such as excise and other duties applicable to raw materials, infrastructure challenges and interest rates must be carried out for upgrading in order to improve domestic textile industry competitiveness.[1]

Provides in-depth information on the impact of WTO policies on India as a whole. An unique international treaty was signed by India's government at the end of the Uruguay Round (LIR) of negotiations: the Marakesh Treaty. Instead of signing treaties with foreign governments or development organisations, the member nations of the World Trade Organization are required under the Markakesh Treaty to give up some of their sovereign rights.

The World Trade Organization (WTO) stands alone as a global organisation. Member nations of the World Bank and the International Monetary Fund (IMF) were free to conduct internal operations without external pressure. The institutions insisted on certain conditions for granting a member nation short-term, medium-term, or long-term loans. It was essentially up to the government of the country in question whether or not to accept or reject the loan because of the conditions. If the nation refused the loan, the issue was closed and the member country had no further obligations. However, the WTO's rules are meant to be followed in all situations by all member nations. In the WTO, the legal structure is vastly different. Members of the organisation signed on to a treaty before it was formed. To put it another way, the teary provides clear provisions that go much beyond just managing the country's foreign commerce. To give a few examples (i) It has put in place a system to govern the domestic policies of member countries as well.; (ii) With the many articles to which member nations have signed, the WTO is authorised to set policies and prescriptions impacting manufacturing processes and distribution within countries, as well as the countries themselves (iii) It has the right to demand a say in the fiscal and monetary policy of a member country. (iv) can voice an opinion on the pricing and marketing of goods, as well as on taxes and subsidies related to production as well as distribution, which should be respected by the country's administration; and (v) For example, it might assert that tariffs and other limitations imposed on certain goods are within its authority. As a result of joining this new international organisation, a country's sovereign rights are weakened. To advocate for the extension of international free trade is to argue against state limits on sovereignty, which are important for maximising global economic progress.[2]

Because of India's choice to remain in the WTO, the government must also take steps to improve its administrative infrastructure in order to cope with WTO-related concerns. The United States

[1] Altura, B (1996) "India poised to become a true open market" ITS Textile Leader.

[2] Chadha, Rajesh (2000), Understanding the WTO Regime, Economic and Political Weekly, March 25.

and members of the European Union exert enormous influence on the World Trade Organization. As with the global body's functions, multinational and transnational corporations have a lot of influence. These are tough realities, and the Indian government must be vigilant at all times.[3]

In my opinion, the trend of liberalisation cannot be halted or restricted to a single place or circumstance. Prior to liberalising our industrial policy, trade policy, and investment policy, India had a tightly regulated economy. This changed dramatically in the 1980s when we began a slow but steady process of opening up our economy. People in July 1991, when major changes to the policy regime were introduced, believed that they were only required to overcome the balance of payment crisis and not that we were resorting to policy measures that were necessary for corrective action in light of the changing situation not only in our country but around the world.

People assumed that former policies could be reinstated if the environment improved, whether structural adjustments were made or the fiscal balance was restored or the BOP situation was improved. Many people failed to see that the country's worsening economic position necessitated taking remedial action. In addition, the collapse of the Soviet Union and the rise of information technology had drastically altered the global scenario. The situation has evolved in tandem with the passage of time. Not only is liberalisation required to address specific short-term issues, it is also necessary to address long-term issues. We must educate ourselves on the benefits and drawbacks of the liberalisation process so that we can properly frame the problems for the general public. Many changes in our system are required as a result of the liberalisation process. For lack of time and money it has only been possible to focus on the economic components of India's foreign trade reform.

SUGGESTIONS AND DISCUSSION

India's Current Account Deficit Vis-A-Vis Leading South East Asian Economies

India's current account deficit has widened, raising the question of whether it's in line with BOP patterns seen elsewhere in emerging Asia. The following table displays the current account deficits of certain Asian economies as a percentage of GDP:

There have been persistent surpluses in China's current account but also rising surpluses in Japan and Singapore in the past. With the exception of India and Thailand, other nations' current account balances have either turned positive (such as Korea, Malaysia, and the Philippines) or gone into deficit, resulting in a decline in GDP as a percentage (e.g. Indonesia and Vietnam). Only India and Thailand have reduced their current account surpluses.

The nations afflicted by the East Asian crisis prior to 1997 and India in subsequent years differ significantly. Before 1997, crisis-affected nations used short-term loan capital to fund their massive current account deficits. Large resources were mobilised through short-term portfolio movements and invested in risky assets in these economies under capital account liberalisation regimes. The financial system collapsed as a result of severe declines in exchange rates and withdrawals of capital, making these assets non-performing. India's fast capital account growth appears to have limited disruptive effects because of the calibrated capital account liberalisation policy and the non-debt nature of the capital flows. There may be a need to continue monitoring the quality of capital flows funding India's current account deficit notwithstanding this significant gap between its current account performance and that of most other regional countries.

Remittances from Overseas Workers into India

The inflows of foreign currency from abroad Indians have been a reliable source of income for the government in recent years. Indians received $21.7 billion in remittances from abroad in 2004. With this, India surpassed China as the world's top remittance recipient country ($21.3 billion), followed by Mexico ($18.1 billion) and France ($12.7 billion). India accounted for over ten percent of the US$225.8 billion in total worldwide remittances received in 2004. (Global Economic Prospects, 2006; World Bank).[4]

Increased remittance flow into an economy is dependent on a high degree of migration. Since the dawn of the information technology revolution in the 1990s, the number of Indian employees migrating to the United States has constantly increased. While historically the majority of migration from India was towards the Persian Gulf, Indian labourers have increasingly moved to the United States and Canada in recent years. Indians working in the United States send home roughly half of all remittances to India. The skill sets of the earlier and more recent migrants varied significantly as well. Comparatively speaking, Indian employees going to the US and other affluent nations in recent years have highly developed technical abilities, notably in information technology (IT). Because of the skills gap, recent migrants have seen an increase in their average income and, as a result, a rise in the number of remittances sent home.

Significant factors of remittances, aside from large migration, are substantial incentives for sending

[3] Finger, J. Michael & Philip Schuler (1999), Implications on Uruguay Round Commitments: The Development Challenge

[4] Global Economic Prospects, 2006; World Bank

money back home and simple processes for doing so. With India's strong macroeconomic foundations and rapid economic growth, it has become a popular place for expatriates to bring their cash home again. At the same time, more banks and post offices are offering faster and more cost-effective money transfer options, which has made it easier for money to move. Two initiatives, namely the Money Transfer Service Scheme (MTSS) and the Rupee Drawing Arrangements (RDA), which provide advantages of easier and faster operations, have helped to increase the reach of remittances to remote parts of the country apart from the usual availability of channels of banking.

Project Exports from India: Performance and Potential

In the late 1970s, project exports began modestly, but today they reflect the country's technological maturity and industrial capabilities, as well as the visibility they provide for Indian technical expertise and project execution capability. They also provide entry points for other Indian firms looking to export supplies, consulting services, and manpower. From US$629 million in 1998-1999 to US$ 911 million in 2004-2005, exports of projects and services, including construction and industrial turnkey projects and consultant services, more than doubled, reaching US$956 million between April and October of that year.

There was a shift in project export destinations between 1999-2000 and 2004-2005, with a rise in the share of West Asia (primarily Oman, UAE and Iraq) from 28.4% to 63.9 percent, a decrease in North Africa (primarily Sudan) from 9.1% to 28.5%, and decreases in South Asia (from 41.5 percent to 5.7 percent) and South East Asia (from 15.8 percent to 0.9 percent) from. Constructing contracts accounted for 36.4% of all contracts in 2004-2005, while consultancy contracts accounted for the remaining 14.6%. (6.4 percent)

India's competence in hydropower, irrigation, transportation, and water supply systems is increasingly recognised throughout Asia and Africa as better relevant for their project demands. India's exporters must tap into the reviving economies of West Asia, such as those in Iraq and Libya. There is a pressing need to secure a significant share of all SAARC-funded projects through aggressive marketing; to form strategic alliances with leading European companies to target multilaterally funded projects in the Commonwealth of Independent States (CIS) and with Latin American companies to participate in IADB-funded projects; to utilise the Comprehensive Economic Cooperation

Agreements to encourage such exports and to gain sub-contracts from large European, American, and Japanese firms (CECAs) to boost exports

The challenges for Indian project exports include: relatively lower ability to compete with many other countries, including developed ones and China, in the absence of competitive credit; lack of experience in handling barter deals and counter-trade practices; and low levels of effective and strategic tie-ups with reputed international consultancy firms and quality accreditation. Some important initiatives have been taken to promote project exports.

Textile Sector in the Post-Quota Era

The textile and garment (T&C) business in India is the country's largest employer, employing 35 million people directly and generating 12 to 16 percent of the country's total export revenue. Indian textile and garment exports account for just 5% of world totals, whereas China's account for 18% and 35% of global totals.

Because of this, the Uruguay Round of trade talks, which resulted in the Agreement on Textiles and Clothing, set a 10-year deadline for the sector's incorporation into GATT. India and China were to gain the most from quota abolition, according to a study we conducted during the integration phase. In the end, China has done far better than India in textiles and clothing exports, accounting for approximately a sixth of global exports overall. Indian exports to the US climbed 25.17% from January to September 2005, higher than Pakistan's 10.86% and Bangladesh's 19.81%, but lower than China's 18.81% over the same time (58.60 percent). To put this in perspective, between January and May of this year China's textile and clothing exports to the EU increased by 80 percent, compared to India's meagre 10.5 percent. Similarly, figures from the United States for the first six months of 2005 indicate a 242 percent increase in China's textile and clothing exports.

In some areas, such as girls skirts, women/girls shorts and blouses, and men's shirts, the devaluation of the Chinese Yuan by roughly 2.05 percent has helped India become price competitive with China, although the impact has been limited. China has a significant edge in the textile industry because to its large capacity, flexible labour regulations, low-cost electricity, low credit rates, efficient and solid infrastructure, and cluster-oriented integrated industrial structures. China also has a competitive advantage in the apparel industry. While Pakistan and Bangladesh have implemented fiscal policy efforts such as duty-free imports of capital goods and flexible labour regulations, they are also competitive emerging countries. The Least Developed Country (LDC) classification of Bangladesh is also helping the country (LDC).

T&C sector in India has been prepared for post-quota period with a number of steps. However opportunity has not materialised fully because reservation of certain items for small-scale sector until recently, absence of labour market flexibility and an effective exit policy has prevented development of scale economies and longer lead time and infrastructural and administrative bottlenecks including delays at customs.. In the Textiles and Clothing industry, greater FDI from major textile importers such as the EU and U.S. As well as increasing productivity, the new economy sectors like IT must be applied to this old-economy industry, and a solution must be found to the problem of slow development in the synthetic segment, where global demand is strong and Indian fibre and fabric output has declined in the current year.

Wavs of Promoting Services

- Facilitation to become known suppliers of quality services
- Providing relevant export market information
- Providing appropriate export financing with reduced transaction costs by reviewing the common practice of collateral backing.
- Good marketing of services by energizing Indian embassies and industry associations.
- Anchoring brand ambassadors for promoting services
- Leveraging the country's potential services purchasing power in multilateral and bilateral negotiations and in the Comprehensive Economic Cooperation Agreement (CECA).

India's It Sector Performance and Prospects

IT industry investment in India has surged from US$5 billion in 1997-98 to roughly $ 20 billion in 2003-2004, according to the research, with software exports reaching US$17.2 billion in 2004-2005. Between 1999-2000 and 2003-2004, employment in the industry increased by 30.1% annually. According to estimates, the industry will account for 35% of total exports by 2008, up from 4% of GDP in 2004-2005. The "hands off" stance of the federal government has been credited with much of this achievement.

In 2004-2005, India accounted for 65% of the worldwide offshore IT services industry and 46% of the global BPO market. All nations together have barely used 10% of the total market, therefore room for expansion still exists. These two can create US$60 billion in export sales by 2010 with yearly growth rates of around 25%. Traditional outsourcing service lines-such as hardware and software maintenance, network administration and help desk services-are expected to grow the fastest, rather than newer ones like application development and management (ADM) and R&D services, which have penetration rates of 30 to 35 percent already.

Improving the performance of the global software export industry will necessitate long-term innovation in multiple dimensions, such as business model innovation; concentrating efforts on new service lines, such as offshore outsourcing of infrastructure; developing IP-based solutions; improving technology and research capabilities; and so on. Documenting processes and setting performance goals are a few of the important problems that must be faced, as well as resolving data security concerns, enhancing the quality and capabilities of the workforce, and consistently expanding new service lines while improving operational excellence.

IT hardware has trailed behind the software and service sectors in the IT industry. Insufficient investment in IT industry is due in part to hardware's poor development. As of April 2005, no tariffs are imposed on ITA 1 goods, making the hardware market more competitive on a global scale. There must be a combination of concentration on integrated hardware-software industry and domestic sector coupled with exports in IT production development

Services, Gats and Strategies for India

Trade in services has expanded at a faster rate than trade in goods since 1985, with services accounting for more than 60% of global GDP. With a 0.8 percent stake in global product exports in 2004, India had a 1.9 percent share in global commercial services. In 2005-06, services accounted for 54.1% of India's GDP, making it a crucial industry for the country.

GATS talks at WTO have stalled since most nations' proposals don't give major new trade opportunities, particularly in sectors that are important to poor countries. India has made attempts to get binding commitments in cross-border service provision (Mode 1) and natural person mobility due to its competitive advantage in IT and ITES and the competency of its personnel (Mode 4). When it comes to Mode 4, India wants the term of stay to be specified clearly and the Economic Needs Test to be eliminated (ENT). A lot of work needs to be done quickly and thoroughly in order to examine the comprehensive requests and offers in order to come up with actual proposals in all 12 major service categories, as well as the 156 subcategories within each of those categories.

The export potential of many other professional services, such as super-specialty hospitals; satellite mapping; printing and publishing; accounting, auditing and bookkeeping services, extends beyond the software sector where India has already made a mark. The National Health Service Systems in European nations, such as the

UK, practically prevent market access. Lack of coverage by US medical insurance companies for medical expenses expended overseas. Need-based quantitative constraints. Need to be natural people. And accreditation regulations. Similarly, in nations like the US, market access limits for accounting, auditing, and bookkeeping services must be addressed. These constraints often take the form of licence, accreditation, in-state residence, and state level restrictions. WTO discussions must address the stiff horizontal entry restrictions on speciality vocations, which negate some liberal promises by developed nations in specific sectors.

India Millennium Deposits (IMDs)

The rise in crude oil prices in early 2000 increased India's import bill and caused the Reserve Bank of India to lose almost US$3 billion in foreign currency assets between April and October of that year. India Millennium Deposits (IMD) scheme was launched by the State Bank of India (SBI) with approval from the Government of India and title RBI during the last quarter of 2000 for non-resident Indians (NRIs) to cope with international oil price volatility and to ensure a measure of comfort of foreign exchange reserves providing stability to India's overall balance of payments position. Additionally, the plan aimed to provide long-term fixed income investment opportunities for NRIs. IMDs had a five-year maturity, and they came in US dollar, British pound sterling, and euro denominations with the option of compounding or not. For example, as part of the guarantee, the government agreed to assume a cumulative foreign exchange risk exceeding 1 percent per annum on the whole pool of foreign currency deposits created under the plan, as well as to provide tax benefits to deposit holders. Amounts raised and interest rates offered were as follows:

This money was invested in Government Securities by SBI, loaned to collecting banks as agreed, and used for infrastructure projects and other loans by the banks. On December 29th, 2005, the IMDs reached full maturity. An outlay of $7,080 million in foreign exchange was necessary to cover all of the redemption costs, and this was done by RBI by selling equal rupees worth of foreign exchange reserves to SBI as part of the deal. Between the years 2000 and 2005, the Indian Rupee rose by roughly 5%, and as a result, the government had no exchange loss to bear. The RBI and SBI agreements provided a smooth redemption procedure with no impact on the money, securities, or foreign currency markets. As a result, these IMDs can provide further support for India's foreign exchange reserves and overall balance of payments situation.

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