CHAPTER-1

THE CHALLENGES AND STRATEGY FOR GROWTH OF THE INDIAN TEXTILE INDUSTRY

INTRODUCTION:

1.1 The Indian textile industry is in a stronger position now than it was in the last six decades. The industry which was growing at 3 – 4 percent during the last six decades has now accelerated to an annual growth rate of 9 – 10 percent. There is a sense of optimism in the industry and textiles sector has now become a '**sunrise**' sector.

1.2 The catalysts which have placed the industry on this trajectory of exponential growth are a buoyant domestic economy, a substantial increase in cotton production, the conducive policy environment provided by the Government, and the expiration of the Multi Fibre Agreement (MFA) on 31st December'2004.

1.3 The buoyant Indian economy, growing at the rate of 8 percent, has resulted in higher disposable income levels. The disposable income of Indian consumers has increased steadily. The proportion of the major consuming class (population that has an annual income of more than US$ 2000) has risen from 20 percent in 1995-96 to 28 percent in 2001-02. This is expected to move up to 35 percent by 2005-06, and to 48 percent by 2009-10. This translates into a growth of 9.3 percent over the next 8 years, and will result in higher spending capacity, manifesting itself in the greater consumption of textiles.

1.4 The Indian textile industry consumes a diverse range of fibres and yarn, but is predominantly cotton based. A significant increase in cotton production during the last two – three years has increased the availability of raw cotton to the domestic textiles industry at competitive prices, providing it with a competitive edge in the global market.

1.5 The Government has also provided industry a conducive policy environment and initiated schemes which have facilitated the growth of the industry. The Technology Mission on Cotton has increased cotton production and reduced contamination levels. The Technology Upgradation Fund Scheme (TUFS) has facilitated the installation of the state-of-the-art / near state-of-the-art machinery at competitive capital cost. The rationalization of fiscal duties has provided a level playing field to all segments, resulting in the holistic growth of the industry.

1.6 Quotas which have restrained the export growth of the Indian textile industry for over four decades were eliminated with effect from 01.01.2005. This has unshackled Indian exports, and this is evident from the growth registered in the quota markets. Apparel exports to USA during 2005 have increased by 34.2 percent, while textiles exports have increased by 16 percent. Similarly, in Europe, apparel exports have increased by 30.6 percent and textiles exports by 2.2 percent, during the corresponding period. In 2006 also the export growth in these two markets is continuing with the same trend. This increasing trend in exports is expected to continue as major global players are not inclined to source exclusively from China. India is considered as the second most preferred destination for major global retailers due to its strength of vertical and horizontal integration.

1.7 At this juncture, a strong foundation for industry has been laid on which world class manufacturing units can realize their full potential and make a mark in the international economy.

PLANNING COMMISISON GUIDELINES ON THE APPROACH TO THE ELEVENTH PLAN

1.8 The Approach Paper of the Planning Commission has targeted **faster and more inclusive growth** during the Eleventh Five Year Plan. The Approach Paper has mentioned that the private sector, small enterprises and the corporate sector have a critical role to play in achieving the objectives of faster and more inclusive growth, and has laid emphasis on policies aimed at creating an environment in which entrepreneurship can flourish. The Planning Commission has targeted a growth of 8.5 percent for GDP. To achieve this growth, it is imperative that the manufacturing grow by 12 percent during the Eleventh Five Year Plan.

RECOMMENDATIONS OF NATIONAL MANUFACTURING COMPETITIVE COUNCIL (NMCC)

1.9 The document on National Strategy for Manufacturing from the National Manufacturing Competitive Council (NMCC) has stated that the decade 2006-2015 is the decade of manufacturing for India, and a minimum average growth rate of 12-14 percent in respect of manufacturing should be aimed at. The NMCC has also mentioned that policies of Government should focus on the growth of the labour intensive sector which also enjoys competitive advantage, to reach higher level of employment elasticity, and has focused on the textiles and garment as one such sector.

OBJECTIVES OF THE TEXTILES SECTOR IN THE ELEVENTH PLAN

1.10 The objective of the Eleventh Plan is to –

- Build up world class state-of-the-art manufacturing capacities to attain and sustain predominant global standing in manufacture and export of textiles and clothing.
- Facilitate Indian textile industry to grow at the rate of 16 percent in value terms to reach level of US$ 115 billion (comprising of US$ 55 billion of exports and US$ 60 billion of domestic market).
- Attain the 7 percent share in global textile trade by the terminal year of the Plan period.

PLANNING FOR GROWTH

1.11 At the outset, the Working Group decided to carry out a SWOT analysis of the textiles industry to examine issues in a proper perspective and make appropriate recommendations.

SWOT analysis of the textile industry

Strengths	Weaknesses
• ***Strong and diverse raw material base*** ▪ Third largest producer of cotton ▪ Fifth largest producer of man-made fibre and yarn • ***Vertical and horizontal integrated textile value chain*** • ***Strong presence in entire textile value chain from raw material to finished goods*** • ***Globally competitive spinning industry*** ▪ Average cotton yarn spinning cost at US$ 2.5 per kg. Which is lower than all the countries including China.	• ***Structural weaknesses in weaving and processing*** ▪ 2 percent of shuttleless looms as percentage of total looms as against world average of 16 percent and China, Pakistan and Indonesia 15 percent, 9 percent and 10 percent respectively. • ***Highly fragmented and technology backward textile processing sector*** • ***Highly fragmented garment industry*** • ***Except spinning, all other segments are predominantly in decentralized sector.***

the countries including China • ***Low wages:*** rate at 0.75 US$ per operator hour as compared to US$ 1 of China and US$ 3 of Turkey • ***Unique strength in traditional handlooms and handicrafts*** • ***Flexible production system*** • ***Diverse design base***	• ***The rigid labour laws:*** proving a bottleneck particularly to the garment sector. Large seasonal orders cannot be taken because the labour strength cannot be reduced during the slack season. • ***Inadequate capacity of the domestic textile machinery manufacturing sector.*** • ***Big demand and supply gap in the training facilities in textile sector.*** • ***Infrastructural bottlenecks in terms of power, utility, road transport etc.***
Opportunities	**Threats**
• ***Quota phase out*** – pushing the export growth to the level of 22 percent in 2005-06. • ***Buoyant domestic economy*** ▪ Increasing disposable income levels. ▪ **Increasing working female population**: The propensity to spend in the case of working women is higher by 1.3 times as compared to a house wife. • ***Increased usage of credit cards and availability of cheap finance would also provide fillip to impulsive apparel purchases.*** • ***The revolution in organized retailing would increase the consumption of apparel and made-ups.***	• ***Possibility of a global recession triggered by a weakening dollar.*** • ***Higher competition specially after 2008 when China cannot be restrained under WTO.*** • ***Non-availability of indigenous textile machinery.*** • ***Lack of domestic capital and absence of appetite of domestic industries to invest in the quantities envisaged for 12 percent growth target.***

GROWTH TARGETS

1.12 The growth rates adopted by the Working Group in their projections are given below:

- The textiles industry is targeted to grow at the rate of 16 percent in value terms to reach the level of US$ 115 billion (exports US$ 55 billion; domestic market US$ 60 billion) by the terminal year of the Eleventh Five Year Plan.
- Cloth production is expected to grow at the rate of 12 percent in volume terms.

- Clothing and apparel are expected to grow at the rate of 16 percent in volume terms and 21 percent in value terms.
- Exports are expected to grow at the rate of 22 percent in value terms.

Reasons for 12 percent growth target in volume terms in cloth production:

1.13 Before deciding on the growth rate to be adopted for production of cloth, the following three parameters were examined:

Cloth production based on demand for fabric

1.13.1 The demand for cloth arises from three different segments of the market, i.e., household demand, non-household demand and demand for exports. Considering the cloth demand from these three segments, cloth production was estimated at 92.56 billion sq. mtrs. by the terminal year of the Eleventh Plan. (Please see **Appendix– 1.2**).

Cloth production based on past trends

1.13.2 Cloth production registered a growth of 8.6 percent during the Eighth Plan, 4.15 percent during the Ninth Plan, and 4.15 percent during the first four years of the Tenth Plan. Based on these figures, the scenario for textile growth during Eleventh Five Year Plan would not have been more than 6 percent. Yet, a stretched optimistic target of 12 percent has been fixed after detailed consultation with industry. This optimism is based on -

(a) performance during the last 2 years;

(b) expectation that new machinery installed due to encouragement from TUFS, would show results from next year onwards;

(c) expectation of higher FDI in the textiles value chain;

(d) Increased space in external markets due to the phasing out of the quota regime, and the initial performance of Indian textiles exports.

Cloth production based on the estimates of growth in the Approach Paper of Planning Commission and NMCC

1.13.3 The Approach Paper of the Planning Commission for the Eleventh Five Year Plan has mentioned that to achieve a GDP growth of 8.5 percent, the manufacturing sector should grow at minimum 12 percent. NMCC also envisages a 12 percent growth rate for manufacturing sector. Keeping these projections in view, the cloth production has been estimated at 94.6 billion sq. mtr.

1.14 After examining these above three parameters, it was decided to target cloth production at 12 percent (94.6 billion sq. mtrs.) at the end of Plan period, as this was almost at par with the demand for fabric (92.56 billion sq. mtrs) by the terminal year of the Eleventh Five Year Plan, though it should be recognised that this is significantly higher considering the past trend of the last 15 years - post liberalisation.

Growth rates of apparel & clothing:

1.15 For fabric production, though the growth adopted is 12 percent but for apparel and clothing, which is growing at the higher rate, a 16 percent growth rate in volume terms and 21 percent in value terms has been adopted.

Market size of the textile industry by the end of the Eleventh Five Year Plan:

1.16 Based on the above growth rates, the textile industry is expected to reach a market size of US$ 115 billion, comprising of US$ 55 billion of exports and US$ 60 billion of domestic market. Thus, in value terms, the textile industry is expected to grow at the rate of 16 percent.

STRATEGIES TO ACHIEVE GROWTH TARGET

1.17 The Working Group has critically examined the SWOT analysis, and made recommendations, which will facilitate the growth process in the industry.

Consolidating our raw material base

Cotton

1.18 In order to consolidate the strength in raw material especially the cotton sector and to remove contamination, the Government had set up the Technology Mission on Cotton (TMC) on 20th February 2000. The Mission, consisting of four Mini-Missions, was intended to run for a 5-year term, commencing from 1999-2000. It has since been extended by 3 years to cover the entire Tenth Plan period, ending with 2006-07 (31.03.2007).

1.19 TMC has contributed to an increase in productivity, and reduced the contamination of the cotton. 90% of the targets for MM- III and IV under TMC, for which Ministry of Textiles is responsible, are expected to be achieved by end of Tenth Plan. As against target of 250 market yards, 211 market yards have already been sanctioned and it is estimated that by the end of Tenth Plan, the approval for a total of 225 APMCs will be accorded. Similarly, against the target of 1000 Ginning & Pressing units, 725 projects have already been approved. Another 175 G & P units are expected to be approved by the end of Tenth Plan, thus making a total of 900 G & P units.

1.20 The proposals which are being sanctioned during 2006-07 may take a period of 1 – 2 years from their date of approval to complete the project work and aquire eligibility to receive their share of TMC fund. Further, the remaining 25 market yards, and 100 G & P factories can be sanctioned during 2007-08. Therefore, the **Working Group recommends that the TMC may be extended for a period of two years, i.e., upto 31.03.2009** to enable APMCs and G & P units to complete their projects, and get their subsidy reimbursed. This will ensure the sanctions for the development of the remaining 25 APMCs, and the modernization of 100 G & P units.

Man-made fibres/yarns

1.21 The second most important raw material for the textile industry is man-made fibres / yarns. This segment also needs to be strengthened in terms of a rational, equitable and growth oriented fiscal policy regime. Synthetic fibres / yarn should be under the purview of TUFS to encourage the installation of the additional capacities, which are required to meet the targets of the Eleventh Plan.

Jute

1.22 The Jute Technology Mission (JTM) should be launched during the Eleventh Five Year Plan for the holistic improvement of this sector. The Jute Technology Mission will be operationalised through four Mini Missions on lines similar to the Technology Mission on Cotton during the Eleventh Five Year Plan.

Wool

1.23 For integrated development and growth of wool and woollen fabrics, a Technology Mission on Wool with four Mini Missions on lines similar to the

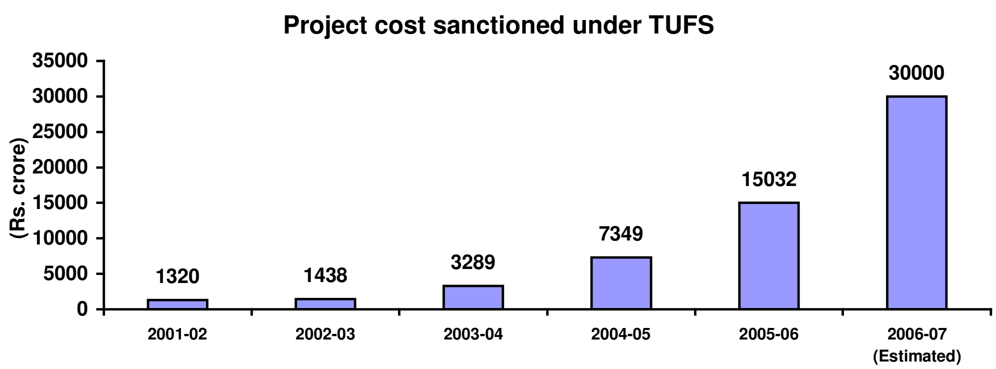
Technology Mission on Cotton should be implemented during the Eleventh Five Year Plan.

Silk

1.24 To strengthen our position in silk production, the productivity and quality of silk will be improved through the transfer of technology and modernizing various sub-sectors of the industry. The full potential of sericulture would be exploited through the cluster development approach and large scale private participation. Private investment would be encouraged to promote the silk industry. The productivity of silk per unit area of land would be improved, and the quality of silk would be enhanced at an economically viable cost to substitute the import of raw silk.

Continuation of modernisation and technological upgradation of different segments of textile industry

1.25 To continue the growing investment trend in the textiles sector and to achieve a growth of 16 percent in value terms, it is proposed to continue with the Technology Upgrdation Fund Scheme (TUFS), which has proved to be highly successful in increasing investment in the textiles sector.



1.26 As on 31.07.2006, projects worth Rs.44,686 crore were sanctioned under TUFS. The growth of the TUFS has been significant during the last two years, registering a growth of 123 percent and 127 percent over the previous years. In order to maintain the pace of investment that has come in during the last 2 – 3 years, it is essential to continue the Technology Upgradation Fund Scheme (TUFS) in its present form until the end of Eleventh Five Year Plan. The Working Group is of the view that even a slight modification in TUFS at this juncture may have an adverse psychological impact, disrupting the investment plans of the industry and also may result in distortion which will not be conducive for the long term growth of the industry.

1.27 Even with the capacities envisaged for the terminal year of the Eleventh Five Year Plan, India will be significantly behind China in all the segments, especially spinning, weaving, processing and garmenting. Currently, over 20 percent of the total production of cotton in the country is being exported as raw cotton. Export of cotton yarn has been simultaneously declining. Obviously, there is significant scope to convert the raw cotton currently being exported into yarn, both for the export market and for domestic consumption. Investments in the downstream segments of weaving and processing is necessary to ensure that the maximum quantity of yarn produced in the country is domestically converted into finished products, in order to meet the increasing requirements of the garment industry. Sufficient supply of yarn and fabrics internally will reduce the dependence of the garment industry on imported yarn and fabrics. In short, if the country aims to move up the value chain in textiles, increasing investment is a must. TUFS has emerged as a successful instrument in leveraging investment in the private sector.

1.28 In China, Pakistan, Spain and several other competing countries, policy support to the textiles and clothing industry and targets for growth in the sector have been announced by the Government. China has proposed substantial expansion during the next five years from its present capacities, which already are about 5 times that of India. In order to remain competitive in the international market and to withstand increasing competition in the domestic market, it is necessary to ensure the large investment in modernization and expansion as envisaged in this report. This will be possible only if the TUFS continues in its present form.

1.29 The interest rates currently applicable to the textiles and clothing industries of major competing countries are substantially lower than the present Primary Lending Rate (PLR) in India. Interest rates are increasing in the country and the PLR may continue to increase during the Eleventh Plan period. Interest rates applicable to term loans in some of the competing countries are given below:

(i)	South Korea	4.50 percent p.a.
(ii)	Malaysia	3.50 percent p.a.
(iii)	Taiwan	2.50 percent p.a.
(iv)	Thailand	5.00 percent p.a.

As against this, the current PLR in India is around 11.00 percent p.a.

1.30 The Working Group has aimed at 12 percent growth in production and 22 percent in exports. To achieve this growth, incremental production facilities would have to be set up. It is estimated that the requirement of funds for setting up these incremental facilities will be approximately Rs.1,50,600 crore during the Eleventh Plan period. This investment will not come without support from Government in the form of the extension of TUFS.

1.31 The financial outlay during the Eleventh Plan for TUFS may appear to be high at Rs.11,315 crore, but considering the contribution of the industry in terms of exports and employment it is negligible.

Creating textiles specific infrastructure

1.32 The Scheme for Integrated Textile Parks (SITP) was launched in 2005 to neutralize the weakness of fragmentation in the various sub-sectors of textiles value chain, and the non-availability of quality infrastructure. The aim was to consolidate individual units in a cluster, and also to provide the industry with world class infrastructure facilities on a public private partnership (PPP) model to set up their textile units. From initial indications, the scheme has been a huge success. A total of 26 parks have already been approved, and are expected to be developed by March, 2008. These parks would incorporate facilities for spinning, sizing, texturising, weaving, processing, apparels and embellishments. The estimated project cost (for common infrastructure and common facilities) is Rs.2428.33 crore of which Government of India assistance under the scheme would be Rs.866 crore (The estimated investment in these parks would be Rs.13, 445 crore, and the estimated annual production would be Rs.19, 200 crore). A total of 2219 entrepreneurs will put up their units in these parks. Estimated employment generation would be around 5 lakhs (direct / indirect).

1.33 There has been an overwhelming response to the scheme from State Governments, entrepreneurs, and various industry associations. In addition, State Governments, industry groups and entrepreneurs are asking for the continuation of the scheme in the Eleventh Five Year Plan. Considering the growth potential of the textiles industry, the progress of implementation, and response of entrepreneurs, the scheme should be continued in the Eleventh Five Year Plan to cover an additional 50 textile parks. Certain modifications in the scheme are also proposed as detailed below:

1.33.1 **Special Category States** – To encourage development of parks in North-Eastern States and Jammu & Kashmir, the Scheme may incorporate following modifications:

- At least 2 parks to be earmarked for North Eastern States and 2 parks for Jammu & Kashmir.
- Government of India (GOI) grant may be increased to 70 percent of the project cost as against 40 percent grant. The upper limit may however continue to be Rs.40 crore. This special dispensation is needed considering the limited ability of local industry in contributing to the project cost.

1.33.2 **Special emphasis on Handlooms and Handicrafts Parks** – It has been seen that the projects for handicrafts and handlooms are not viable unless the assistance is increased from the present level of 40 percent of the project cost. To encourage the development of such parks and improve their viability, it is proposed that Government of India support may be increased to 60 percent of the project cost for Handlooms and Handicrafts Parks, as against 40 percent grant for other Textile Parks under the existing scheme. The upper limit may however continue to be Rs.40 crore.

1.33.3 Capacity Building Assistance

- It has been observed that the SME predominant textiles industry, particularly the powerlooms, handlooms and handicrafts sectors, have a weak entrepreneurial base and, therefore, SPVs of these Parks may not be able to invest on Business Development Services (BDS), such as skill development, certification, standardization, brand building and market linkages, which are essential to sustain a park of this nature.
- Therefore, the expenditure incurred by SPVs, in such capacity building initiatives, may also be treated as an additional eligible cost component, to the extent of 5 percent of the project cost, without increasing the upper limit of GOI grant of Rs. 40 crore.

1.34 In view of the above, an outlay of Rs.3000 crore (Rs.1000 crore for ongoing sanctioned projects, and Rs.2000 crore for new projects) may be provided in the Eleventh Five Year Plan to implement the Scheme for Integrated Textile Parks (SITP).

Human Resources Development

1.35 The non-availability of quality manpower is a dampener to growth in many textile clusters. It is not only a weakness of the sector, but is fast emerging as a major threat to the growth which has been envisaged.

1.36 The Working Group has estimated the incremental manpower requirement at 17.37 million, comprising of 12.02 million direct and 5.35 million indirect in the ancillary industry. The maximum requirement is estimated in the clothing and apparel sector.

1.37 The current training infrastructure in the country consists of engineering colleges, polytechnics, IITs, and agencies like Apparel Training & Development Centers (ATDCs), Powerlooms Service Centers (PSCs), Weaving Service Centers (WSCs), Textiles Research Associations (TRAs), ITIs, Private Vocational Training institutes etc.

1.38 It is estimated that the output of trainees from the entire existing training infrastructure is not even adequate to meet existing requirements. One of the critical factors which would impact adversely on the growth process of the textiles industry is the inadequacy of training facilities in the country. To meet the incremental requirement for training, the Working Group suggests the following measures:-

(i) **Infrastructure upgradation in the existing ITIs and Polytechnics –**

a) The ITIs and Polytechnics will have to play a central role in the entire HRD exercise of the textile industry. The number of ITIs targeted specifically at the garment sector needs to be increased significantly. The Centres of Excellence (COE) scheme should be leveraged to increase the number of those ITIs that are either specifically targeted at the garment sector, or those that include a substantial number of textiles related trades in their curriculum.

b) The ITIs and Polytechnics situated near “catchment” areas for the textiles work force should immediately include textile/garment related trades in their regimen. If necessary, new ITIs should be set-up in those areas from where, traditionally, workers migrate to places where the textile industry is located. New ITIs under the COE scheme will have drawing power for these workers.

(ii) Setting up training centres on Public Private Partnership (PPP) mode –

A) Readymade Garment Sector

A PPP based approach would be adopted to set up training centres. The private sector, manufacturers with in-house training facilities, or trainers, will be encouraged to setup training institutes for the ready-made garment sector. The Government support would be limited to one time capital grant of 30 percent with a ceiling of Rs. 20 lakh.

B) Processing Sector

A PPP based approach would be adopted for setting up training centres for high-end processing. Government support would be limited to one time capital grant of 50 percent with a ceiling of Rs. 10 crore.

(iii) **Permanent Training-cum-Monitoring Council –** This may be established under the Chairmanship of Secretary (Textiles), to approve proposals and the review and monitor the progress of such cases. This Council should also play a pro-active role in constantly developing course content in the textiles and garment sectors according to the needs of the industry.

<u>Increasing availability of textiles machinery</u>

1.39 The domestic textiles machinery manufacturing industry is projected to triple its capacity during the Eleventh Five Year Plan with adequate support from the Government. However, even with enhanced capacity, the indigenous textiles machinery industry would not be able to meet the demands of the textile industry. For example, during the Eleventh Plan, the incremental spindle requirement is 29.25 million (21 million incremental + 8.25 million for replacement), at the rate of 5.85 million spindles per annum. However, the indigenous textiles machinery industry has projected a capacity of 3.85 million spindles per annum by the end of Eleventh Plan. Similarly, an incremental 1.09 lakh shuttleless looms are required to be installed by the industry (20,000 by the organized sector + 88,851 by powerloom sector). Against this requirement, the textiles machinery industry has projected a capacity of 20,000 shuttleless looms by the terminal year of the Eleventh Plan. Further, the indigenous textiles machinery industry does not produce knitting and garmenting machinery. The Working Group has critically examined this issue and has suggested the following three-pronged strategy –

(i) ***Transfer of textile machinery industry from the Ministry of Heavy Industries to the Ministry of Textiles*** – This will help to provide adequate support to domestic textiles machinery manufacturing industry in the implementation of a time-bound action plan to increase the availability of indigenous machinery to meet the demand from different segments of the textiles industry. A scheme on the lines of TUFS should be initiated, with 5 percent interest reimbursement and 10 percent capital subsidy to encourage modernization.

(ii) ***Aggressive wooing of the Foreign Direct Investment (FDI) in the textiles machinery sector*** - To attract reputed manufactures of textiles machinery - spinning, weaving and processing – and invite them to set up facilities in India to meet the growing requirements of Indian industry. One of the biggest factors that has triggered the growth of the Chinese industry is the domestic availability of the textiles machinery. Globally reputed textiles machinery manufacturers have set up units in China, and have developed models which are suitable to the Chinese industry. We should also encourage the global manufacturers to set up similar units in India to meet the requirement of the Indian textile industry. To increase the FDI, the Working Group recommends that Government may consider FDI proposals from textiles machinery manufacturers on a selective basis, independent of laid down stipulations in the Press Note No. 18.

(iii) ***A critical relook at importing second hand machinery*** – Permission to import recent vintage (technologically comparable, and with a significant residual life) may be given to importers along with benefits at par with those given to the import of new machinery. Sufficient care will have to be taken that while accepting such machinery, India should not become a technology junk yard.

Labour reforms

1.40 Rigid labour laws are now emerging as a constraint to the growth of the industry, particularly the clothing and apparel segment. There is need to liberalise labour laws on the following lines:

1.40.1 ***Permit use of contract labour in Export Oriented Units (EOUs)***: The export business is seasonal and contractual in nature. Excess labour during lean periods or during the initial stages of developing an export market(s), when the uncertainty of orders is high, can lead to financial difficulties. Section 10 of the Contract Labour (Regulation and Abolition) Act, 1970 needs to be amended. The section should exclude textile units engaged in export related activity (where exports / deemed exports comprising 50 percent or more of their sales) to facilitate outsourcing of activities without any restriction, as well as to offer contract appointments. Protection of the rights of these labour will be ensured in terms of their health, safety, welfare, social security, etc. For example, countries such as China, Bangladesh and Sri Lanka have allowed contract labour in the textiles sector.

1.40.2 ***Permitting firms to adjust their workforce*:** Units employing over 100 people currently fall under the purview of Industrial Disputes Act, 1956. The Act stipulates that employers must obtain necessary approvals for lay-offs. This proves to be a hindrance, especially for medium sized enterprises. There is need to relax the norms of the Industrial Disputes Act (Chapter VB), by keeping units employing up to 500 people (presently 100) outside its purview. For example, Malaysia regards the right to hire, assign work, reward, transfer, promote and adjust the workforce as managerial rights. Workforce adjustment (ILO Convention on Termination of Employment) at the instance of employer due to structural and other changes should be permitted.

1.40.3 ***Extending work hours:*** The Government also needs to consider the demand of labour intensive sections of the textiles industry such as made-ups and garmenting industry to increase the hours in a shift from nine at present to twelve, and also increase the working hours in a week from forty eight to sixty, in order to cater to the peak season requirements of customers, and to compensate for lower labour productivity.

Aggressive wooing of FDI

1.41 Despite TUFS, there is reason to believe that domestic investment may not be sufficient to achieve the targets and there is a need to attract FDI in the textiles sector. FDI benefit does not accrue only in monetary terms, but significant attendant benefits follow. These include technology transfers, import of latest technical know-how; latest manufacturing practices and processes, financial and marketing support, latest trend of fashion designs and styles, overall quality enhancement according to the world standards and the creation of mega facilities like processing plants with large scale capacities, etc.

1.42 The success of China in emerging as the fastest growing economy in the world is due to a great extent because of large scale FDI flowing into the country in all sectors, including in textiles. Currently, India is the 2nd largest textiles economy in world after China, but the gap between the two economies is huge. In order to reduce this gap, and sustain the position of being the second largest textile economy, India needs to attract FDI in the textiles sector.

1.43 The total FDI in India during 2005 was only US$ 4.36 billion compared to US$ 65 billion in China of this, FDI in the textiles and clothing sector was only 1.80 percent (US$ 78.99 million), whereas in China the figure was 8.3 percent (US$ 5.4 billion).

Specific areas needing FDI

1.44 The following segments need FDI to a significant extent:

1.44.1 **Textiles machinery manufacturing sector** – The need for FDI in this sector has already been discussed in para 1.39 (ii).

1.44.2 **Apparel manufacturers** – Large scale apparel units have been set up through FDI in China. Such entrepreneurs are also looking for alternative manufacturing bases and can be attracted to India to set up their manufacturing facilities.

1.44.3 **Synthetic fabrics** – Synthetic fabrics, 85-90 percent of which are produced in the decentralised sector, are not able to meet the demand of the readymade garment exporters for specialised kind of fabrics. Therefore, vendors from Taiwan and Korea can set up weaving facilities for synthetic fabrics in the country.

1.44.4 **Technical textiles** – This is a knowledge-based industry which is at a nascent stage in the country and offers tremendous opportunities for joint ventures and FDI.

1.45 In a report published by ATKearney, a leading management consulting firm in 2005, India has been ranked the second most attractive destination for FDI. The attractiveness of India will continue as long as the Government maintains its focus on reforms, circumscribe narrow business interest, and continues to address the country's infrastructure, logistics,` and regulatory barriers.

1.46 The Working Group proposes that the hurdles in the way of obtaining FDI may be examined by the Government to remove them and consider FDI proposals on a selective basis, independent of the stipulations of Press Note 18.

1.47 A FDI Cell has been set up in the Ministry of Textiles to attract foreign direct investment in textiles, clothing and machinery. The Action Plan to attract FDI consists of i) identification of countries, which are strong in certain product segments and technically capable foreign firms/ investors looking to invest abroad, who could be targeted in order to showcase India as an investment destination for textiles and clothing; ii) preparing a document outlining the advantages of investing in India and the nature of infrastructure, policy, institutional, financial and other support structure available in India; iii) preparing a targeted communication strategy and making representations to potential investors. This would include organization of National summits in India, International summits abroad, and Reverse International summits in India. Delegations will be sent to prospective investing countries and overseas firms can be engaged in a dialogue to invest either by forging alliances with Indian companies or investing in fresh capacities in India; and iv) addressing operational problems, infrastructure (the inadequacy of transport and energy), and simplifying administrative procedures for approval from local Governments, etc.

Brand promotion

1.48 Brands, in today's consumer oriented market, play an important role in terms of market penetration and higher unit value realization. Brands assure consumers that products are of a certain quality, durability, and conform to several social, environmental, and quality standards. The markets of USA and Europe, which account for more than 90 percent of Indian Apparel Exports, are entirely dominated by various global brands, and Indian exporters are merely suppliers to such brands.

1.49 It is estimated that the final retail value of an apparel product sold to consumers in export markets is 5-10 times higher than its ex-factory price. As a result, the country is losing a significant amount of export earnings.

1.50 Brand development, therefore, will deepen the market share and acceptability of Indian apparel, thereby leading to increased export earnings. However, brand promotion is not only an expensive proposition, but also requires very carefully designed multi-stakeholder strategy, on a sustainable basis. The capacity of Indian industry, by virtue of being SME oriented, fragmented and decentralized, to design and launch brand promotion efforts on its own is limited. Therefore, a Public-Private

Partnership (PPP) approach is the appropriate strategy to develop globally acceptable Indian apparel brands.

1.51 The Indian apparel industry will be encouraged to create a Special Purpose Vehicle (SPV) for the purpose of brand creation and promotion. The role of the SPV will include need assessment, mobilization of resources, assistance to enterprises to design and launch the brands in selected markets, to forge linkages with key stake holders, and other hand-holding support. The SPV will be a Corporate body with the majority stake being held by user apparel industry enterprises through associations / councils. The SPV, in consultation with the Government, would develop detailed guidelines and strategy for brand promotion.

Textilpolis

1.52 Looking to the unique position of India in textiles which have sizable growth potential in both domestic and export markets, there is a need for an all encompassing trade facilitation centre for Indian image branding and R&D. It is in this background, that the proposal for setting up a "TEXTILPOLIS" has been conceptualized. This will help create a strong growth impulse at the macro level.

1.53 The proposed Textile Hub would operate on two broad concepts, namely, (i) Exhibitions and Buyer-Seller Interaction, and (ii) Common Data Resource Centre, as outlined below:

(i) Exhibition & Buyer-Seller Interaction: Such a Centre would have the facility of a business centre to provide a window for consultancy in each segment of the textiles sector in areas of R&D and quality in manufacturing. It will serve as a business promotion office, a platform for buyer / seller meets; an organization to administer branding and image building; an international exhibition mart; fashion shows desk; commercial centre for all importers / exporters, and Institutions connected with the trade.

(ii) Common Data Resource Centre: It would provide updated and comprehensive Information, directory of services/ products. The services would be provided to web-based "members only" and paid information directory. The management of the Resource centre can be outsourced to a body like NIC managed enterprise.

1.54 The project will be implemented on Public Private Partnership model. A Special Purpose Vehicle (SPV) of Apex Industry Associations shall be the main promoter of the Hub. Government's contribution shall be in the form of one time grant to meet the cost of land, and the remaining amount shall be raised by the industry participants. The recurring and maintenance costs shall be borne by the stakeholders through the levy of suitable user charges. The Government of India contribution is estimated to be of the order of Rs. 300 crore.

Handloom Mark

1.55 The Handloom Mark has been introduced w.e.f. 28th June, 2006. The Handloom Mark will distinguish handlooms products from powerlooms and mill products. The Handloom Mark will be used not only to popularize hand woven products, but also to serve as a guarantee to the buyer that the product being purchased is genuinely hand woven, and will help to promote the sale of handlooms products. It will not only popularize Indian handlooms, but also improve price realization by handlooms products in domestic and international markets and also improve the earnings of the handloom weavers for their hard work and skill. The Scheme will be operational throughout the country. Individual weavers, Weavers Cooperative Societies, Master Weavers, Retailers and Exporters are entitled to participate in the scheme and avail of its benefits. The Handloom Mark logo was developed by the National Institute of Design, Ahmedabad. In the Eleventh Plan, intensive promotion of the Handloom Mark will be undertaken.

Silk Mark

1.56 The "Silk Mark" Scheme was introduced in June 2004. Silk Mark labels can be affixed to primary, intermediate and finished products of silk, including yarn, fabric, sarees, made-ups, garments, carpets, etc. The scheme is aimed at protecting the interests of the users and connoisseurs of silk, and for the generic promotion of silk, and also to build the brand-equity of Indian Silk internationally. Over 450 members have joined the organisation, of whom, 360 are authorized users. During two years of its operation, nearly 16 lakh Silk Mark labels have reached the market. The objectives are to i) familiarize the logo as a "hall mark" for the purity of silk, ii) create awareness among various sections of customers and stakeholders, and iii) build brand-equity for Indian Silk internationally by networking various global players.

Support for design quality and compliances

1.57 The inability of the Indian textiles and clothing industry to meet the stringent quality standards and compliance to other conditions related to environmental standards, etc., continue to adversely impact its global competitiveness. Lack of product diversification, due to limited investments in designing efforts, has also been adversely affecting the competitiveness of Indian industry. The fact that majority of Indian enterprises belong to the SME category makes the problem more complex in view of the fragmentation and limited capacity of the industry to meet emerging requirements. The distinction between export standards and domestic market standards is no longer valid in view of globalization of markets where product diversification, quality, and compliance are the key to survival and market expansion.

1.58 Considering the importance of assisting the industry in improving its capacity in meeting the emerging requirements related to design, quality and standards, the following strategy / approach will be adopted during the Eleventh Five Year Plan:

1.58.1 The strategy will have two major components: (i) to make available testing and designing services at the doorstep of the industry, which will help improve the quality of products, and (ii) to assist the industry in obtaining internationally accredited quality, environmental and social standard certifications.

1.58.2 **The testing and design support -** The testing and designing facilities are proposed to be developed on a Public Private Partnership (PPP) basis with the objective of deepening the testing and design culture on a wider scale in the industry, and providing a greater sense of ownership and involvement to the user industry. The industry associations, SPVs of textiles parks, cluster level industry bodies, and other user industry driven organizations like Textiles Research Associations and the Textiles Committee, will be provided one time assistance by the Government to establish internationally accredited testing and design centers. The Government will provide required plant & machinery, while the user industry group will be responsible for land, building, and infrastructure, apart from meeting the entire O&M costs. A framework will be developed under which the industry group intending to develop the testing and design facility will enter into an agreement with the Government to provide stipulated services to user enterprises. The industry group is expected to run the testing and design centers on a commercially sustainable basis in the larger interest of member enterprises. At least 50 such design centres should be developed during the Eleventh Plan in the country.

1.58.3 **Accreditation / Certification support -** An independent and third party accreditation / certification of product, process and systems is emerging to be key requirement for global competitiveness of Indian textile and clothing industry. These requirements are largely related to environmental standards, quality standards and social compliance. The objective is to assist the small and medium enterprises in obtaining such internationally accredited certification, and establishing systems, which will enable them to meet environmental and social standards more effectively. The cost on account of obtaining / establishing such standards and systems includes expenses on hard as well as soft activities such as the creation / modification of infrastructure at the work place, training, certification fee, publicity, etc. An individual or a group of enterprises will be eligible to avail of assistance under this initiative.

Support to Technical textiles

1.59 Technical textiles are high-tech textiles which represent a multi-disciplinary field with numerous end use applications. The manufacture of technical textiles is a major activity in industrialized countries. In India, technical textiles are still at a nascent industry, but with huge potential for growth. With an increase in disposable incomes, the consumption of technical textiles is expected to increase and, in case indigenous production does not take place, import will become inevitable , resulting in large scale foreign exchange outgo and a loss of employment opportunities.

1.60 The Working Group has considered this industry as a thrust industry during the Eleventh Five Year Plan, and has proposed fiscal policy support, modification in TUFS to incorporate a special dispensation for this industry, and infrastructure support in terms of setting up of centres of excellence. A regulatory framework for the use of technical textiles, particularly in the case geotextiles, flame retardant fabrics in public places, nonwoven disposable healthcare items in hospitals, nonwoven gauze, sponges and dressings in hospitals, and airbags in automotives, is proposed on account of the inherent advantages of using such products.

Support for the development of decentralized Powerlooms Sector

1.61 The decentralized powerlooms sector is not only a labour intensive sector, but also plays a critical role in meeting the clothing needs of the country. The support for the powerlooms sector will include the following areas:

- Focus on induction of improved technology for the modernization of powerlooms sector through the Technology Upgradation Fund Scheme (TUFS).
- Promotion of value added textiles through improved designs and technical textiles.
- Strengthening of existing infrastructure facilities and the creation of new Powerlooms Service Centres and Computer Aided Design centers.
- Easy access to credit input in a conducive environment.
- Consolidation of the powerlooms sector through the modernized workshed scheme in existing and new clusters.

Support for the development of the Handlooms, Handicrafts and Sericulture sectors

1.62 Handlooms, handicrafts and sericulture are important segments of the textiles industry, and offer the highest employment opportunities to farmers, weavers, rural artisans and craftsman. Activities in these sectors are concentrated mostly in the rural areas and, particularly, the backward regions of the country. A large number of women are also earning their livelihood in these sectors. Considering the importance of these sectors for the vulnerable sections of the society, new schemes to promote the development of these sectors are needed.

Handlooms

1.63 The Handloom sector is the second highest employment generator, after agriculture, employing 6.5 million weavers and allied workers. Handlooms are famous for their exquisite weaves and workmanship which are not always possible to create on machines. Since it is a widely dispersed sector, the cluster approach will be followed for the all round development of this sector. By this method, all the shortcomings of the cluster will be met, and design input and marketing support given to help them compete in the post-MFA era. Special emphasis will be placed on design and diversification of products to cater to what the market requires.

1.64 Schemes of the handlooms sector have been mainly implemented through the co-operative sector. This only accounts for hardly 15 percent of the total number of weavers. It is proposed to cover Master Weavers, Self Help Groups and others so that the full benefits of schemes percolate to the maximum possible number of beneficiaries. The Handloom Mark, recently launched, will help to create a brand identity for handloom products, both within the country and abroad, and a vigorous promotional campaign will be taken up in the next Plan.

1.65 Welfare schemes such as the Health Insurance Scheme and the Mahatma Gandhi Bunkar Bima Yojana, launched recently with insurance companies, will be further expanded to cover all weavers by the end of the Eleventh Plan.

Sericulture

1.66 The strategy in the sericulture sector is to increase the production, productivity and quality of silk through the transfer of technology and modernizing various sections of the industry. The full potential of silk will be exploited by developing linkages through the cluster approach. The major schemes in the sector would include research and development, transfer of technology, technical assistance, and a focused cluster based programme on bi-voltine sericulture development.

Handicrafts

1.67 The special focus areas in handicrafts sector include - promoting the brand image for Indian handicrafts in the world market; introducing a health insurance scheme for artisans; protection of crafts under the Intellectual Property Rights (IPR) Act; technology upgradation; and the creation of a reliable database to facilitate the formulation of appropriate policies. The strategy to achieve this objective include: cluster based and artisan centric interventions for the integrated development of the sector; growth of the private sector; increased and easy availability of credit, etc.

North Eastern Region:

1.68 Handlooms, handicrafts and sericulture including silk textiles are the three most important textiles related activities in the North Eastern Region. Schemes for the development of these sectors have been specifically formulated by the Ministry of Textiles. Institutional support in terms of Weavers Service Centres (WSCs), training institutes, etc., have also been set up by the Ministry of Textiles in this region.

1.69 Taking into consideration the critical importance of these three sectors to the economy of the North- East, and in order to integrate all the related activities in the region, an integrated Office of the Development Commissioner for Handlooms and Handicrafts for the Northeastern region is being set up. This office will ensure that appropriate linkages are established properly, overlappings avoided, programmes closely monitored, and market access ensured.

GREATER OUTLAY FOR THE TEXTILES SECTOR:

1.70 The Plan outlay for textiles has been rather small vis-à-vis the significance of this industry to the Indian economy in terms of exports and its capacity for employment generation. At this juncture, the textiles industry is in very strong position and is capable of exploiting the growing opportunities in the domestic and export markets.

1.71 The documents of the National Strategy for Manufacturing prepared by National Manufacturing Competitive Council (NMCC) has indicated that 2006-2015 is the decade of Manufacturing for India with the aim of an average growth rate of 12 – 14 percent in manufacturing. It has also been suggested that the policies of Government should focus on the growth of labour intensive sectors (like textiles and clothing), which also enjoy competitive advantage. To provide impetus to the growth of this industry, there is a need for substantial augmentation in the overall plan allocation for the textiles sector. Accordingly, the Working Group has recommended a Plan outlay, which is significantly higher than for previous Plans.