CHAPTER - 14

EXPORTS

INTRODUCTION

14.1 The Indian textile industry is an export intensive industry and about one third of its total production is exported in same form or the other. Through export friendly Government policies and positive efforts by the exporting community, textiles exports have increased from US$ 12.45 billion in 2002-03 to US$ 17.08 billion in 2005-06 with an annual rate of growth of 12 percent. Clothing is the biggest segment in India's textiles export basket contributing about 49 percent to total textiles exports. The import intensity of this industry is very low, constituting about 15 percent of the total textiles exports and about 5 percent of total textiles market.

14.2 Though textiles continue to be a major component of the India's export basket, their share in total export of the Indian economy has been steadily declining. It has declined from 29 percent in 1998-99 to 17 percent in 2005-06 due to the emergence and growth of new export oriented segments in the economy like I. T., gems and jewellery, and auto components. With increased opportunities subsequent to the phasing out quotas, textiles are expected to regain their share in the India's export basket during the Eleventh Plan period.

14.3 India's share in the international textiles trade was 3.83 percent in textiles and 2.43 percent in clothing with an overall share of 3.04 percent during 2004. In fact, in 1950 India had 11 percent share in global textiles trade which steadily declined to 1.80 percent in early nineties, but recovered again and reached the level of 3.04 percent in 2004.

14.4 Exports of cotton based items continue to predominate in our international trade which is natural in view of India's competitive advantage in cotton. However, the global trade in textiles is mainly based on man made / blended fabric. This could be one of the reasons for the low share of India in the global textiles trade.

14.5 With the quota phase out, India's export in quota based countries has increased significantly and it appears that Indian textiles industry has been able to face successfully the competitive scenario and increase its market share in quota countries.

PERFORMANCE DURING THE TENTH PLAN PERIOD

14.6 The export of textiles registered a growth of 12 percent in dollar terms during the first four years of the Tenth Plan. The highest growth was recorded by man-made textiles followed by the clothing sector. The exports from different segments of the industry and the annualized growth rate are given in the table below.

Table 14.1

Segment wise Export of the textiles and clothing industry during Tenth Plan period

Value in Million US $

Items	2001-02	2002-03	2003-04	2004-05	2005-06	Annualised rate of growth (%)
Cotton textiles	**3092**	3370	3609	3543	4493	9.79
Man made textiles	**1092**	1421	1826	2050	2000	16.33
Silk textiles	**287**	315	381	405	430	10.64
Woollen textiles	**52**	51	58	70	84	12.74
Clothing	**5024**	5705	6248	6559	8403	13.72
Total	**9547**	**10862**	**12122**	**12627**	**15410**	**12.72**
Jute, Coir & Handicrafts	**1254**	1583	1409	1394	1668	7.39
Grand Total	***10801***	***12445***	***13531***	***14021***	***17078***	***12.14***
% growth		***+15.22 %***	***+8.73 %***	***+3.62 %***	***+21.80 %***	

14.7 The exports of textiles and clothing during the first three years of the Tenth plan have not grown significantly. However, exports in the penultimate year i.e. 2005-06 of the current Five Year Plan have registered a sharp growth of 22 percent over the previous year. This sharp rise in exports was possible due to the elimination of trade quotas in the global textiles and clothing trade after over four decades of restrictions.

14.8 Growth in the year 2005-06 was mainly driven by a sharp increase in export of apparel and cotton textiles products (by more than 28 percent and 26 percent, respectively). In the coming years, too, a similar trend is expected to continue with growth coming from garment and home textiles. These two sectors together have contributed almost 75 percent to the total textiles and clothing exports in the year 2005-06. Their combined share increases even further, to 84 percent, if Handicrafts, Jute and Coir are excluded from total exports.

14.9 Subsequent to the quota phase out, India has improved its export performance in the quota countries as per details given in Table 14.2.

Table 14.2

Year on year growth in textiles export in Quota Countries

(In percent)

Country	2005	Jan – May, 2006
USA		
Apparel	34.2	19.54
Textiles	16.43	13.29
EU		
	2005	**Jan – March, 2006**
Apparel	30.6	25.8
Textiles	2.2	2.4

14.10 The increasing trend in export is expected to continue on account of India's intrinsic strength in the production of textiles and clothing in terms of vertical and horizontal integration. The major global players are not inclined to source exclusively from China and, therefore, India is the 2nd most preferred destination for major global retailers, due to its strength of vertical & horizontal integration.

APPROACH TO THE ELEVENTH PLAN

14.11 The approach to the Eleventh Plan is to facilitate textiles and clothing to attain and sustain their pre-eminent global standing in the manufacture and exports of textiles, and attain 7 percent share in global textiles trade by the end of the Eleventh Plan.

PROJECTIONS FOR THE ELEVENTH PLAN

14.12 In view of the export performance of the industry, subsequent to the abolition of quotas, coupled with increased flow of funds to augment capacities in the entire textile value chain, the textile exports have been projected to grow at a rate of 22 percent during the Eleventh Five Year Plan to reach the figure of US$ 55 billion and attain a share of 7 percent in the global textile trade by the end of the Eleventh Five Year Plan. The segment wise projections are discussed in chapter - 2.

RECOMMENDATIONS

14.13 The following measures need to be initiated to enable the textiles industry to attain the export target of US$ 55 billion by 2011-12:

Labour Reforms

14.14 Rigid labour laws are adversely affecting the competitiveness of the industry. There is a need to liberalize these laws on the following lines:

14.14.1 ***Permitting use of contract labour in export oriented units (EOUs)***: The exports business is seasonal and contractual in nature. Excess labour during lean periods or during initial stages of developing an export market(s), when order uncertainty 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 textiles units engaged in exports related activity (exports / deemed exports comprising 50 percent or more of their sales) to facilitate outsourcing of activities without any restrictions as well as to offer contract appointments, at the same time ensuring protection of the rights of these laborers 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.

14.14.2 ***Permitting firms to adjust their workforce*****:** Units employing over 100 people currently fall under the purview of the Industrial Disputes Act, 1947. 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 right to hire, assign work, reward, transfer, promote and adjust work – force 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.

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

14.14.4 ***Need for special focus on SEZs:*** With the passing of the SEZ Act, 2005, respective State Governments may delegate the power of the Labour Commissioner to the Development Commissioner of the SEZ. States with large textiles manufacturing clusters should adopt flexible labour policies to compete with their counterparts in Chinese SEZs. States with significant opportunities in the textiles and machinery sector should be encouraged to implement flexible labour policies in their respective SEZs. e.g.: Andhra Pradesh, Maharashtra, Karnataka, Uttar Pradesh, Madhya Pradesh, Gujarat have implemented the reforms. Increased labour flexibility would enable companies to drive productivity and become competitive.

14.14.5 The textiles and clothing sector be used extensively for implementation of the National Employment Guarantee Act, 2005, as this sector can provide 100 days assured employment at an average rate of Rs. 60 per day. Since sophisticated technical skills are not required, it can provide employment to rural persons also.

Brand Promotion

14.15 With the dismantling of quotas from January, 2005 international trade in textiles and clothing has become globalised in the true sense. Leading importers, departmental stores, retailers are now sourcing their requirements from select countries while emphasizing the need for verticalisation of production systems, supply chain management and customer relationships. Diversified product mix, efficient logistics, ability to provide one stop window for goods and service are increasingly defining the preference of buyers, world-wide. Given the scenario, the time has come to seriously work upon a strategy, which promotes India as a BRAND for sourcing all type of textiles and clothing items, irrespective of fibre base.

14.15.1 Brands, in today's consumer oriented market, play important role in terms of market penetration and higher unit value realization. Brands assure the consumers that the products are of certain quality, durability and compliant 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.

14.15.2 It is estimated that the final retail value of an apparel product sold to the consumer in export markets is 5-10 times higher than the ex-factory price of the product depending on various factors. As a result, country is loosing significant amount of export earnings.

14.15.3 Brand development, therefore, will deepen the market share and acceptability of Indian apparels 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, fragmented and decentralized, is not in a position to design and launch brand promotion efforts on its own. Therefore, a Public-Private Partnership (PPP) approach is the appropriate strategy to develop globally acceptable Indian apparel brands.

14.15.4 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 such SPV would include need assessment, mobilization of resources, assisting the enterprises in designing and launching the brands in selected markets, forging linkages with key stake holders and other hand holding support. The SPV would be a corporate body with 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.

14.15.5 Another tool which would be deployed would be to synergize the disjointed and disparate export promotion efforts of the Ten Export Promotion Councils, JMDC, Coir Board and the bodies like HHEC, ACASH for focused export promotion and holistic development of Brand India image abroad. Therefore, an Integrated Textile Promotion would be carried out in prospective markets identified on the basis of in-depth product-country potential analysis as follows:

- Analysis of World Trade data for identification of top/potential markets & products at the 4/6 digit HS Code level for pinpointing specific items & markets for stepping up India's export of textile articles.
- To step up India's Textile exports & facilitate export diversification in select product and focus markets on the basis of trade data for items in identified 33 textile product groups.

- Compare competitiveness of India by means of data on India's share and competitor supplier Countries for select products in select markets.
- The promotional effort should be in terms of generic promotion for "BRAND INDIA" and the individual companies could take advantage of this generic promotion effort by stepping up their own brand promotional efforts in tandem. This would also create a favourable climate for attracting FDI in textiles and clothing sector.

14.15.6 The requirement of Plan Funds as Government of India share would be approximately Rs. 150 crores in next 5 years.

Textilpolis

14.16 The Indian Textile Industry is poised for exponential growth on account of favourable demographic, rising consumption, retail credit facilities and penetration of brand India image in more than 100 countries of the world. India's export of textile and clothing is on the threshold of marked shift on account of the existence of quota free market with the manufacturing cost advantage. The quota free trade era has positioned India among the chief suppliers of textile and clothing in the world, improving its position to third in US market and retaining the same position in EU.

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

14.16.2 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 window for consultancy in each segment of textiles in areas of R&D and quality in manufactures, business promotion office, platform for buyer / seller meet; an organization to administer branding and image building; a platform for international exhibition mart; fashion shows desk; commercial centres for all importer / exporters and the 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.

14.16.3 The complex would be a superb international trading center featuring a mix of showrooms, trade offices, and information resources that provide both international and domestic buyers and sellers first class facilities and services. It would comprise three main buildings: the Expo, Mart, and the Office Tower.

I. Expo

14.16.4 This section would comprise state-of-the-art facility of exhibition space and multi-function convention facilities. It would hold international and domestic short-term exhibitions and large-scale conferences would be held here annually, allowing exhibitors and visitors the additional benefit of interacting with the permanent showrooms. Temporary exhibition space and conference rooms would be created to complement expos, exhibitions and conferences.

14.16.5 The expositions would be operated on strategic managerial partnership model to attract international and domestic buyers through an overseas buyer resources network and jointly developed effective marketing events.

II. Mart

14.16.6 It is proposed to have a mart in the proposed TEXPOLIS for providing the global buyers access to our entrepreneurs, buyers, fabric suppliers, fashion designers, technical experts in the field of textile and apparels; and all other service providers like freight forwarders, airlines, various research associations

14.16.7 This leading marketplace would contain permanent showrooms to display products and conduct business.

14.16.8 The mart would provide a myriad of products including Apparel & Textiles, Gift & Home Decor, as well as the opportunity for the buyers to source product and exchange trading information in these industries.

III. Office Tower

14.16.9 This would be a First-class Office Building providing high-quality and modern office space for:

(1) **Global procurement centers** for professional buyers and leading global retailers.

(2) **International Merchandising Center and an International Procurement Center**, where international procurement events would be held annually bringing buyers and suppliers together to create face-to-face business interaction.

(3) **One-stop services** covering custom clearance, bonded warehouse, freight forwarding, quality testing facility etc.

(4) **Merchandising Learning Center for** organizing trade seminars and related professional skill training services.

(5) Ancillary and allied services including Customer service, Business center, Underground parking lot, Catering service, Bank service, Post office, 24-hour convenience store, Courier service etc.

(6) **Central Brand organization** to administer branding and image building;

(7) **Fashion shows desk**;

(8) Website Enabling E-commerce and Resource Centre:

- exclusively offering global buyers data plus import and export trade information;
- online electronic mart for global buyers to browse, make inquiries and conduct transactions
- comprehensive information center for listing marketing events, buyer's meetings and exhibition information

14.16.10 The project shall be implemented on Public Private Partnership model. A Special Purpose Vehicle (SPV) of Apex Industry Association 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 balance amount shall be raised by the industry participants. The recurring and maintenance costs shall be borne by the stakeholders through levy of suitable user charges. The Government of India contribution is estimated to be of the order of Rs. 300 crore.

Stable Policy Regime:

14.17 Due to the inherent peculiarities of the textiles and clothing industry, it is greatly dependent on various policy support measures extended by the Government through the Budget, Exim Policy and Duty Drawback Scheme for boosting exports. The Government from time to time keeps announcing various policies for the industry. The frequent changes made in the policies of the Government makes it difficult for the exporters to adopt a uniform pattern of trading. A stable and predictable policy regime is necessary for growth.

Involvement of the State Governments:

14.18 There is an urgent need to actively involve the State Governments in export promotion efforts in order to facilitate complete export competitiveness for Indian products. The federal structure of the Government allows the States to create revenue generation models independent of the Central government. Often the taxes levied by the State Governments nullify the efforts made by the Union Government for export promotion. The lack of a clear export promotion policy at the State level has resulted in the negligence of the areas such as infrastructure, system of taxes, etc., which adversely affect the export promotion measures of the Government of India under the fiscal/trade policies, etc.

Neutralisation of inefficiencies in the system

14.19 The total incidence of transaction costs being incurred by exporters at various levels is still very high in India and it is adding to the cost of export products, affecting competitiveness.

14.20 As per the Report of the Task Force on Transaction Costs headed by DGFT, the cost disability suffered by Indian manufacturers vis-à-vis competitors, ranges between 19 and 22 per cent of FOB value of exports. This includes about 10 per cent towards transaction costs arising due to poor infrastructure, delays at ports, customs, banking, licensing etc. The inordinately high transaction costs should be included in the Duty Drawback Rates or some other means of compensating exporters for the high transaction cost should be devised.

14.21 The numerous State and local bodies levy taxes on textiles products which not only add on to the cost of the final product, but also involve procedural delays. Although this is not specific to textiles, it has severe impact on value added exportable textiles products. A procedure for neutralizing these taxes through refund should be introduced to avoid export of such costs.

Roadmap for future Preferential Trade Agreements (PTAs) and Free Trade Agreements (FTAs)

14.22 The global trade has increasingly been routed through FTAs and PTAs. US and EU, the most important textiles trade destinations for India and its competing countries, have been sourcing textiles products under special agreements. India does not have any FTA with them, and there are constraints to any such agreement in the near future. India will also have to be very judicious and careful about the PTAs being entered into and the concessions being given by the country. The industry Chambers should be consulted in advance to asses the impact of individual agreements and give feedback on the industry's perception of the cost-benefit of such agreements and the feasibility and desirability of proceeding with the agreements.

14.23 While negotiating FTAs, proper safeguard mechanisms and enforcement of rules of origin should be ensured. Since India has a huge industry and market for textiles & clothing products, these should be kept out of tariff concessions, to the extent possible.

Issues relating to Foreign Trade Policy

Delink Export Obligation from average level of exports

14.24 The exporters are facing difficulties due to the stipulation in the Foreign Trade Policy, (under para 5.4 (i) of FTP) that the exporter should maintain the average level of exports made in the preceding three licensing years for fulfillment of Export obligation for import of capital goods, spares under the Export Promotion Capital Goods (EPCG) Scheme. This stipulation may not be enforced on those exporters who export at least 75 percent of their production.

Notify a single authority for monitoring Export Obligation

14.25 The present system of monitoring export obligation under EPCG Scheme by both Customs and Directorate General of Foreign Trade (DGFT) authorities is resulting in increasing the transaction costs. Monitoring by a single authority would bring about a substantial saving in time and cost of the exporters. An Electronic Data Interchange (EDI) system should be made operative at all the ports / offices of the

DGFT alongwith online connectivity among various ports. Thereafter, one single document can be provided by Customs to close the EPCG licence.

Exempt Capital Goods under EPCG Scheme from Terminal Excise Duty

14.26 Presently terminal excise duty is to be paid on Capital goods procured against an EPCG license. This duty is subsequently refunded by DGFT. However, such refunds take quite a long time. Currently, terminal excise duty amounting to crore of rupees on capital goods procured under the EPCG scheme remains pending to be refunded. To overcome this problem, a suitable Bond procedure may be devised to allow those units, which are registered with the Central Excise department to procure capital goods against EPCG licenses without payment of terminal excise duty.

Notify the List of Markets /Countries for exports eligible for the benefit under "Focus Market Scheme"

14.27 In the annual Supplement to The Foreign Trade Policy 2006-2007, in order to offset the high freight cost and other disabilities being faced by the exporters in accessing and increasing exports to select Focus Markets, a new scheme called "Focus Market Scheme" was notified vide Para 3.9 of Foreign Trade Policy. It is stated that all products exported to the countries notified in Appendix 37-C of Handbook of Procedures are entitled to duty free scrip equivalent to 2.5 percent of FOB value of exports made, w.e.f. 01-04-2006. However, the list of Focus Markets / countries has not yet been notified. The list of Focus Markets should be finalised and notified immediately in order to enable the exporters to draw up their export strategies.

Anti-dumping / Anti-subsidy cases – funding support:

14.28 Anti-dumping/anti-subsidy investigations on exports of textiles are increasing gradually. Defending such cases which are highly technical, legal and procedural, imposes a heavy financial burden on the concerned industry / industry associations / Export Promotion Councils. While, in some cases, the EPCs' collect funds from member-exporters, such amounts generated are not sufficient to cover all related expenses. Support from the Government is also limited as the Market Development Assistance (MDA) funds generally grant no more than Rs. 10 lakh for the purpose In view of this, it is necessary to provide funding support to such efforts so that the costs incurred in effectively fighting anti-dumping/ anti subsidy cases can be fully met and the country is able to benefit from the best of the legal/technical advice available in the world on the subject. Accordingly, an amount of at least Rs.25 crore should be provided under the nomenclature '**Export Market Support Scheme**' for contesting anti-dumping/anti-subsidy cases in the Eleventh Five year Plan, with a consensual formulation for cost-sharing by the associations.

14.29 A nodal agency with experts from the legal / costing fields, export promotion councils and trade associations should be formed to defend the dumping and subsidy cases and to advise the Government on initiating such cases in respect of products being dumped in India. The nodal agency should also monitor the tariffs or non-tariff barriers faced by Indian products in target markets.

Export Promotion Studies:

14.30 Specific studies relating to steps and strategies required for increasing exports for increasing competitiveness, etc., are taken care of on a project to project basis. This is a continuing scheme. During Eleventh Five Year Plan Rs. 20 crore is proposed.

Proposed Plan Outlay

Brand promotion	Rs.300 crore
Export Market Support Scheme	Rs.25 crore
Export Promotion Studies	Rs.20 crore
Textilpolis	Rs.150 crore
Total	**Rs.495 crore**