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Analysis of Government Policies, A Critical Study with Special Reference to Indian Textile Industry Post GATT

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Abstract

Indian Textile Industry has for long been crippled with problems like fragmentation, lack of modernization, lack of infrastructure making its product internationally less competitive. However, with GATT coming into force, the international business has become extremely competitive, as quantitative restrictions are removed for all member nations of WTO. At the time it was enforced in 2005, it was expected that with abundance of raw material, Indian Textile Industry shows significant improvement in its global presence. Government's supportive policy was the need of the hour for this industry to make its presence felt in the international market. Analysis of Government policies since 2005 done in this paper finds that Government has indeed been very supportive to make Indian textile industry competent in terms of cost, efficient in terms of value chain, creation of job opportunities with special focus on Small and Medium Enterprises.

Keywords: Indian textile industry, GATT, government policies

Introduction

Indian Textile Industry which caters to one of the basic necessities of mankind has been struggling for a long time now. Fragmentation of the industry has led to denial in economies of scale to this industry. This has resulted in this industry losing out to the competitors in the global market as regards the price. In spite of being low cost nation, availability of raw material in abundance, its export performance has been a lacklustre.

Review of various literatures has brought out few major reasons for this lacklustre. Foremost of these reasons being the protective Government policies (Kataria, 1996, Pandey, 2004, Eckhard c, 2009) [1, 3, 4] less investment in modern technology (Kataria, 1996) [1], lack of basic infrastructure like continuous power supply and good storage capacities, non-availability of continuous supply of raw material coupled with their volatile prices.

With the dismantling of quota system which was there under MFA paved a way for greater export opportunities and be a global leader. This led the researcher to study and evaluate the Government policies for the Textile Industry especially after 2005. The objective is to understand whether, the Government has risen to the occasion and have become more supportive than protective. This study will help in fixing future government policies by relating the current ones with the problems faced by this Industry.

Advent of GATT

Till 1st January, 1995, exports had quantitative restrictions under Multi Fibre Agreement (MFA) from importing countries. Firms could not export more than the quota assigned by the importing countries. Government on its part had entered into bilateral agreements with US, Canada and European Union for removal of quotas as they were the major textile importing destinations. However, after 1995, quotas were removed in a phased manner and by 2005 entire quota system were superseded by GATT. Under GATT, free trade among nations was encouraged. Nations were expected to have standardization alongside the International level. Nations were allowed to adopt appropriate level protectionism but overall trade without boundaries was basic premise of GATT. This was done to ensure that even developing nations get a fair share in the international trade. Thus the key for higher exports shifter from the country being a good negotiator to a competitive company that can deliver quality products at a competitive price at set time. Thus with implementation of GATT, global trade became more competitive with all nations getting equal chance of survival. This increase in competition forced the economies to change their financial strategies. Role of Government thus became equally important for providing conducive environment to the industries for carrying out trade so that the industries can make maximum use of their core competency and derive maximum benefits. Thus with removal of quota barriers, each country started preparing itself to fit into the new scheme of global trade. Changing the national strategies for competitiveness became the essence of all the nations (Verma, 2001) [2].

Literature Review

Above analysis show that Government policies indeed play an important role in development of any industry and textile in particular which has had a laggard performance. Indian government recognised the need to make textile industry viable. Government came up with The National Textile Policy in 1985. This policy showed the government's intent to remove inadequacies prevalent in the Industry by relaxing regulatory burden by eliminating the quantitative ceiling on expansion of composite mill loom capacity and also treating

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composite mills, power loom and independent processing units on equal footing for taxation (Zala, 2010) [5]. Though government eased out the restrictions in 1985, due to financial inability to invest, they could not revive the industry. Indian government also shown its pro-activeness when the quota was uplifted. Though the restrictions were to be removed by 2005, the government started the initiative of modernizing the technology by 1999 itself. Though Government was seen to be proactive, the effective implementation of it needed to be analysed. The paper seeks answer to this very question in the light of removal of quota and subsequent intended increase in exports.

Analysis of Various Government Schemes.

1. Technology Up-gradation Scheme (TUFS)

This scheme was designed and was made operational from 1.4.1999 for textile, jute and cotton ginning and pressing industries which subsequently got extended to 31st March; 2007. Though this scheme was initially introduced up to 31st March, 2007, it was extended further up to 28.06.2010 and then further up to the year 2013-14. The idea of this scheme was to reduce fragmentation and concentrating on forward integration, to focus on MSME sectors and also by encouraging hire purchase financing model in weaving sector. This scheme did receive notable response from the stakeholders over its span of 14 years. However, it was also observed that, non-small scale industries proved to be major beneficiaries of the scheme than Micro and small scale industries. Further, according to the report of Ministry of Textiles, an independent audit carried out by M/s. CRISIL revealed that the scheme facilitated an increase in productivity; reduction in cost and waste; and improved quality across the value chain. It however, flagged one lacuna in the scheme and that was in the processing and power loom sectors.

Based on the findings of this study, Government decided to restructure the Scheme and it was decided to channelize investments in low investment segments to facilitate a balanced growth across the value chain; and to have a cap on the subsidy outgo. Based on this the modified TUFS was stopped in 2010 and a new restructured scheme was launched in 2011 valid up to 2012 with a cap on subsidy and was further extended to 2013 up to 2017. Under the revised restructured scheme, focus was given to MSMEs, spinning sector and power loom sector. Following were the highlights of the scheme-

a) A cap for funding was introduced so that each sector get the funding. Spinning sector will have a cap of 26%, weaving 13%, processing 21%, 8% for garments and 32% others
b) 10% of the approved outlay was to be set aside for Micro, Small and Medium enterprises.
c) i-TUFS was introduced to issue UID
d) Machinery purchased under the scheme would have Machine Identification Code (MIC). Also, all such machines will now be physically verified by a team led by Textile Commissioner. This new provision was introduced in the Amendment to the Revised Restructured TUFS in 2016.
e) It also included some more items under the list of eligible machinery like design studio, factory building, preliminary, pre-operative expenses, Margin money required for working capital (should be specifically required for technology upgradation).

The scheme got further amendment in the light of new vision set by the Government that of “Make in India and Zero effect and Zero defect manufacturing to promote exports in the year 2016 and was further extended to 2022. Under this new amendment, only companies registered under Companies Act except MSMEs (who will be guided by instructions of Ministry of MSMEs) will be eligible to get benefits under this scheme. Moreover, individual entity will be eligible only for one time Capital Subsidy. Thus, Government has taken huge steps to modernize the processing of the units so as to make them more competitive in the world markets.

2. SITP-Scheme of Integrated Textile Parks

SITP was set up during 11th five year plan with an idea to provide textile industry with world-class infrastructure facilities to set up their units. This was done in the year 2005 so that Indian firms will be able to match up with the international, environmental and social standards [7] and parks were set up as potential growth centres with an intention of promoting exports. A special purpose vehicle was to be created jointly by local industry, financial institutions, State and Central Government under Companies Act, 1956. This SPV was to give common infrastructure, buildings for production and support activities, plant and machinery. Thereafter, sites would be allocated to the units and user charges for availing the facilities will be charged from these units. This scheme was further continued from 2017 till 2020. The amendments included a mandatory clause of having minimum 3 segments of textile value chain from the list viz; Spinning, Weaving, Knitting, Processing, garmenting etc.

Amendments done in the year 2017 included:

A clause stating the promoter to have a minimum net worth of Rs. 1.5 times of his total equity was included.

Each integrated unit now to have 25 units instead of 50 in the earlier scheme. Moreover, minimum requirement of land being 25 acres or leased land of 30 years was included.

Further a clause of maintaining project cost to investment ratio was 1:10 for a proposal of 8 promoters. For a proposal of more than 8 promoters, it would be 1:6.

In the year 2021, Indian government issued a notification to set 7 mega textile parks with an additional intention of creating one lakh direct and two lakh indirect jobs. It was under “Atmanirbhar Bharat” scheme of the Government that it wanted to attract FDI, indigenous investment with cutting edge technology. The intention of the Government is thus very clear. It intends to boost up the industry and make it competitive at the global level. It intends to arm the industry with the entire infrastructure so as to face stiff international competition especially from countries like Vietnam and Bangladesh.

Analysis of above schemes shows Government’s intent to make textile products of world standards by providing end to end infrastructural facilities across the value chain, subsidized modern technology, special focus on Micro, Small and Medium Enterprises, having cap on funding one particular sub-sector just to name a few.

Apart from these schemes, PLI (Production linked incentive) scheme was introduced in the year 2021. It is to remain operational from 24th September, 2021 to 31st March, 2030. Its primary focus was to promote production of MMF Apparel and Fabrics as well as Technical textile products. The objective was to match up to the global competition and also create employment opportunities. This performance linked incentive was to be given for 5 years only. The scheme is divided into two sub-schemes. Companies can choose either of them. Each of the schemes has minimum threshold of investments and turnover which is Investment of Rs. 300 crores with a turnover of Rs. 600 crores as its first year of performance or investment of Rs. 100 crores with a turnover of Rs. 200 crores in its first year. Companies achieving this threshold will be considered to be eligible for the incentives. If the companies are unable to achieve the performance in its first year then the incentive will start from the year it achieves the threshold performance assuming that year to be the first year.

Findings

A critical study of all the above schemes show the efforts of the Government in the direction of making Indian textile industry competent in terms of cost, efficient in terms of value chain in the wake of GATT. It also aims at creating job opportunities for direct and indirect labour. Enough schemes have been launched specifically for this industry to provide right kind of infrastructure, to encourage them to install modern technology. Big focus and thrust has been given to small and medium size industry so that they can take advantage of economies of scale by allowing them to install modern technology by giving them soft loans. This will surely help MSMEs to take advantage of barrier free trade by offering competitive product. All the analysed schemes will empower the industry to rebuild itself and make its presence felt in the world trade.

This analysis gives the researcher further scope to do quantitative analysis of the implications of Government schemes.

Conclusion

It will be worthwhile to study the effect of these schemes has resulted in two things one increase in global presence in terms of exports and two has the firms more technologically updated which has further made it possible for them to produce cost competitive product. As revealed earlier, the benefits of these schemes were taken up by big firms, while small and medium firms failed to get the benefits thereby not able to survive the onslaught of tough competition. It will thus be interesting to analyse whether small and medium scale companies were able to avail the schemes and make its presence felt in the international markets. This will also reveal the efficacy of these Government policies. Following studies can be carried out-

1. Impact of change in Government policies on Exports.
2. Impact of change in Government policies on use of Modern Technology
3. Performance of Big v/s Small companies with respect to use of Modern Technology and Exports.
4. Compare and Contrast studies between various sub-categories viz; man-made fibres, cotton, jute, silk, technical textiles.

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