

# BRIEFING PAPER

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## Review of National Textile Policy 2000 *Short on Prognosis and far short of Results*

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### Background

Indian textile and clothing (T&C) industry contributes about 4 percent of gross domestic product (GDP) and 14 percent of industrial output and is the second largest employer after agriculture. It is estimated that T&C industry provides direct employment to 35 million people including substantial segments of weaker sections of the society. With a very low import-intensity of about 1.5 percent, it is the largest net foreign exchange earner in India, earning almost 35 percent of foreign exchange.

Indian textile industry is diverse, ranging from handloom production to modern mills, including entire chains of production related to different fibres such as cotton, polyester, jute, silk and wool etc.

After 1995, the government initiated serious efforts to restructure the textile industry in anticipation of growth through exports, as promised by the trade negotiations at global level and the Agreement on T&C. The challenge as seen then was to raise productivity through gains in efficiency that would still allow the industry to compete at home and abroad in the face of higher cotton prices resulting from policy adjustment to WTO rules and demand pressures. Given the various linkages to the industry from cotton production, technology, labour and investment aspects, the government appointed a Committee of Experts to recommend the best possible course for Indian textile industry. Based on the report submitted by this Committee in 1999, a National Textile Policy (NTP) was announced in 2000. While this document remains the basic premise of the policy, a number of policy announcements have added to the direction of the Indian textile policy in the subsequent years. The report of the Committee of Experts was itself based on a World Bank study on Indian textile industry published in 1997.

### National Textile Policy 2000

The NTP 2000 aims at facilitating the Indian Textile Industry to attain and sustain a pre-eminent global standing in the manufacture and export of clothing by withstanding pressures of import penetration and maintain a dominant presence in the domestic market. The overall objective is to liberalise controls and regulations so that the different segments of the textile industry are enabled to perform in a greater competitive environment.

Given the competition over fibres, the policy has the objective of developing a strong multi-fibre base with thrust on product upgradation and diversification.

Following such a trend of thinking, NTP 2000 has identified the thrust areas, which include: technological upgradation; enhancement of productivity; quality consciousness; strengthening of the raw material base; product diversification; increase in exports and innovative marketing strategies; financing arrangements; maximising employment opportunities; and integrated human resource development.

A number of new schemes such as apparel and textile parks, technology upgradation funds, credit schemes, and decrease in tax structures were announced.

### Issues in Indian Textile sector and the NTP 2000

NTP 2000 was brought out six years ago when India signed the Agreement on T&C. This policy looked towards energising the Indian textile sector in the next five years, i.e. by 2005, in order for it to face the free global textile trade and its consequences.

### Lack of competition

Under rationalisation of textile policy and textile industry structure in India, which is supposed to 'strengthen the entire sector' to face the international competition in the quota-free market in 2005, the government has brought in policies to withdraw welfare schemes, and reduce budget allocations and active promotion of capital-intensive sectors. At the same time, the government is shying away from saying this boldly. Every assessment shows that handloom sector is ridden with crisis because of unfair practices of power looms and mill sector, lax enforcement machinery, governmental interference in cooperative societies and corruption.

There is a deliberate attempt to blur the differentiation between power loom and handloom products by resorting to improper labelling of other products as handloom products. While there is a general eulogisation of the tradition, skill and the finery of the handloom products, nothing is being done to protect them from cheap imitations and false claims.

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### Box: Suicidal Policy and Weaver Suicides

Parallel to these macro-developments, there have been a number of suicides by handloom weavers across the country. In Andhra Pradesh, in the period between 1997-99, more than 100 weavers had committed suicides. In 2005-06, Centre for Handloom Information and Policy Advocacy (CHIP), Chirala, Andhra Pradesh, recorded suicides of more than 400 weavers in Andhra Pradesh alone. Many more families are living on meagre incomes. A five-member family is facing precarious situation in Eethamukkkala village, Kothapatnam revenue mandal in Prakasam district of Andhra Pradesh. This village is known for handloom industry. Venkatasubbaiah used to work for 12 hours a day to weave plain cloth of 25 yards, which takes about five days and pre-loom processing consumes another couple of days. For this, he gets paid Rs.280. Thus, he would earn Rs.1020 per month, which works out to Rs 34 per day.

This was bare enough to sustain the family needs. Adilakshmi, Venkatasubbaiah's wife, was forced to seek work as agricultural labour to earn Rs 25 per day. Yet they could not provide sufficient food to their children. Adilakshmi used to forego her dinner to feed the children, without the knowledge of her husband. Her elder son did notice that and understood the problem of food scarcity. He decided not to attend the school. Eventually, lack of food impacted on her health.

The third child did not get proper nutrition because of Adilakshmi's burden of work and emaciated condition and was always 'sick'. This became a burden on the family. As the agricultural labour work was not available all the time, Adilakshmi could not earn on a regular basis.

The family decided to migrate to Chirala in pursuit of better employment prospects. The eldest son was employed at the age of 12 years in a hardware shop to earn Rs 400 per month. This income was used to repay loans. They paid Rs 200 for house rent, Rs 150 for electricity and Rs 50 to clear the loans, out of a total income of Rs 1500. The balance was not sufficient to cater to the food and clothing needs of the family, leave alone the emergencies. This kind of perennial problems led families to suicides.

### ***Big is beautiful, small out of fashion***

In the era of liberalisation and globalisation, there is a general thinking among the bureaucrats and policy makers that some sectors, which have been given primacy in the previous years of governance, should not be given any more policy benefits. The justification given is that subsidy to unorganised sector had not helped the growth of Indian economy, and its continuation in future would not help in gaining benefits from the integration of domestic economy with the global economy.

While the NTP 2000 appears to have developed a balanced objective, it has created a *race for policy sops* among the competitors within the Indian textile industry. Presently, the power loom lobby, which was vociferous about liberalisation, is demanding that import tariffs should not be reduced, lest the competition from imports wrecks them. Competition has become a convenient tool to be used, and the losers in this game are people who are competitive and do not understand the need for policy support to be competitive.

### ***Preparation for the free textile trade***

One of the objectives of the NTP 2000 is to prepare the Indian textile industry for the global competition. Knowledge is the key to prepare for competition. But, there is not even a minimum programme of information sharing with the industry. A large number of people involved in the Indian textile sector are not aware of the provisions of the Agreement on T&C. No assessment has been done, on the implications of WTO-related T&C Agreements.

It is expected that both developed and some developing economies might increasingly resort to defensive trade strategies, notably anti-dumping

measures, which unfortunately takes time to get implemented, and which are likely to be significantly modified in the medium term. But there is no platform in India for such issues.

Imperfect competition is a major concern. Not much work has been done on how competitiveness of a sub-sector of Indian textile sector would affect the other sub-sector. Also, strategies are yet to be developed on how Indian textile industry can maintain a dominant domestic presence, given cheap competition from imports.

### ***Competitiveness and competition***

Quite aside from some of the state-led changes, in the global marketplace, retailers are becoming stronger. It means that suppliers not only need to increase their variety but also are price competitive. In order to grow, Indian firms need to acquire new tools, skill sets and strategies to sustain their business. This still remains a challenge.

National policy measures are necessary to improve the competitiveness of Indian T&C industries. However, many of the distortions that reduce the efficiency of the sector are quite complex, and assessments of their impact require detailed studies of the sectors.

However, recommendations to 'westernise' the sector brings in pitfalls and problems arising out of such 'alien' system of production. The success of South Asian countries, even in industrial products, shows that assembly-line production can be avoided. There are many ways and methods in India, which can help to meet the demands of the market in post-2005 scenario. Current public policies would destroy the Indian textile sector, and wipe out its advantages and enable dumping of western textiles.

## ***Productivity and efficiency***

Though small scale sector is better suited to meet the changing demands of the global fashion garments market but the 'consistency' in capabilities of the employees in textile industry impedes its ability to meet these requirements. Firm level analysis carried out within Indian T&C sector also reveals that higher wages rates are one of the determinants of better export performance of Indian garment units. India is one of lowest wage labour paying countries in the world.

The relative lower quality of the technical workforce and the operators is directly linked with low investment in training by Indian firms. On the average, Chinese textile firms give 70 hours of training each year to an experienced worker as opposed to 32 hours in Canada and 10 hours in India. Studies have attributed that higher wage rates would lead to better and indispensable skills of designers, pattern makers and craftsmen, as well as to better-trained cutters and tailors employed by exporting firms.

Competitiveness in Indian textile sector is comparatively low. Sometimes what is perceived as a weakness is also a strength. Low wages are considered as advantageous. In fact, most global analyses attribute favourable trade atmosphere to China and India because of this factor. But, studies show that low wages are not directly linked to low skills. Secondly, a weakness at the firm level cannot be the issue of the policy.

Productivity and efficiency at the firm level is generally made out to be a policy issue, particularly in a liberal state. A government that wants the market to decide on many issues can at best encourage firms to be more efficient and productive. Productivity at a sectoral level means various issues and cannot be limited to per unit of output. NTP 2000 fails to differentiate this and tries to 'own up' objectives, which are essentially tilted towards firms.

In principle, NTP 2000 is lopsided, not merely because it discriminates against the handloom sector, but it is destroying the strengths of the Indian textile sector, and at the same time weakening the 'immune system' of the sector to withstand international economic fluctuations.

T&C was and is a labour intensive sector. But it has increasingly become capital intensive over the last few decades as a result of which there have been dramatic falls in employment levels worldwide. Even in China, around 3 million people have left the sector since mid-1990s constituting a 50 percent reduction in the size of the workforce.

During the past 20 years, the distribution of T&C production has undergone a radical change. While EU output dropped by 32.4 percent over the period, the outputs of Asia and the US increased by 97.7 percent and 76.3 percent respectively. Figures show that Europe's share of world output fell from 53 percent in 1980 to 29 percent in 1995 (ILO, 2000). With reduced production comes an inevitable decline in employment.

The European industry now faces the challenge of maintaining and improving its position in the market *vis-à-vis* increasing international competition.

By 2005-06, Indian performance on the export front has been marginal, albeit there are predictions that this would rise. Secondly, even after five years of heavy investment of more than Rs 10,000 crores (US\$2.2bn) in various forms, employment has not risen commensurately. However, because of this policy, livelihoods are at stake, creating unemployment in rural and semi-urban areas.

Given the complexities involved in the textile sector and preponderant role of the government and its policies, there have been conflicts across different segments of the sector. Presently, the unevenness in the playing field has shifted to modern sectors.

In 2005, these neo-liberal sectors have started feeling the heat of price pressure. The imminent prospect of reduction in import custom duties and tariffs is being opposed by these sectors, though they continue to carry the slogan of 'growth through liberalisation'. This is not strange – just that the history is repeated. Indian corporates have been and continue to be dependent on the 'crutches of government support'.

As a corollary to competition, knitwear, garment and hosiery sectors have started importing fabric for their sectors, leaving their erstwhile suppliers high and dry. Mill and power loom sectors are worried about this shift. Textile machinery sector is troubled with lowering of tariffs; imports of second-hand machinery, which have affected their business. Further, on the strength of the so-called 'rationalisation' sops, the segment of man-made fibres (MMF) has strengthened itself.

Presently, with mounting price pressure and related responses, lobbying for 'biased' policies have increased. Leaders of textile sector who championed liberalisation and rationalisation currently find themselves asking for firm-level favourable policies and sectoral policy tilt. However, neither these leaders nor the government seem to recognise the strengths of diversity and the difference between 'fragmented' policies and policies that enable competition.

## ***Drawbacks of NTP 2000***

NTP 2000 is silent on this issue, and this is where a prognosis would have been helpful. But, most studies, analyses and opinions on which this policy seems to have based have been led on the wrong path. There has been no neutral, national interest oriented study to properly plan for the growth of Indian textile sector. NTP 2000 completely ignores the domestic markets and how Indian textile sector needs to respond to domestic demands, imports and sectoral conflicts.

While there is an estimate on the investment needed to achieve this growth in exports, about Rs1,94,000 crores (US\$43.2bn), there are no commensurate estimates of how much fibre, machinery, and human resources are required. There is no estimation on the intensive usage of energy required for this investment, and how that will be provided for. Cotton being the main fibre for Indian textile sector, there is no estimate on the how much cotton is required to achieve these targets. It includes lack of any

estimation with regard to number of acres required, investment on agricultural inputs, infrastructural investments (transport and processing) and the human resources required for supporting such export-led growth.

NTP 2000 has failed to integrate itself into the overall growth and development policies. Appallingly, both the 10<sup>th</sup> and 11<sup>th</sup> Plans do not seem to be of any consequence here.

NTP 2000 became a tool for convenient policy measures. It has failed to weave the interests and needs of the handloom, silk, jute and woollen sectors into the Indian textile sector growth. It is discriminatory liberalisation in practice and the schemes and strategies that have flown out re-emphasise the primacy given to corporate interests. Because of this policy, suicides among handloom weavers (See Box) have increased and they are likely to increase in the coming years as well.

Measures with regard to streamlining of transport, shipping and customs clearance, including the aspect of trade facilitation have not been integrated into NTP 2000.

Because of this policy, livelihoods are at stake, creating unemployment in rural and semi-urban areas. Labour market implications of the NTP 2000 in general and its effects on access to employment, in particular, have been neglected completely. This includes the gender composition of the workforce and how the NTP 2000 would impact on this composition.

The NTP 2000 and the corporate thinking are similar, leaving out small-scale, non-corporate entities and unorganised sector. NTP 2000 has failed to understand and bring in issues concerning these sectors. Though it mentions all the sub-sectors, the effort is not commensurate. Thus, there is discrimination in the policy. The principles are also applied selectively. Liberalisation of the state functions is not done across the board. Government through various means has merely shifted its focus – from declared subsidies based on social growth approach to indirect subsidies based on export growth.

## Conclusions and Recommendations

**N**TP 2000 needs to be reviewed. It needs to incorporate the following recommendations:

- It is known that Indian textile growth is predicated on increasing access to the EU and the US markets. For this to happen, principally, it has to contend with competition from China and other countries, discriminatory policies of the US and the EU (in the

form of FTAs, RTAs, WTO provisos such as environmental and labour standards, GSP schemes, etc.), weaknesses and deficiencies in Indian textile sector, and competition in domestic market.

- India needs a proper textile policymaking body that takes care of country interests and a policy, which maximises the strengths and rectifies the weaknesses. Maintaining diversity is the key to the growth of Indian textile sector.
- Developing countries such as India have the advantage of low labour costs, but eventually developed countries gain by externalising the environmental costs. This relative advantage may not last long, if the western industry starts insisting on sanitary and phytosanitary (SPS) measures, as well as strict implementation of environmental laws in developing countries. Export-led growth is possible only when environmental issues become an essential part of textile growth policies.
- In India, an integrated approach has not been undertaken before on environmental impacts of textile manufacturing and has never previously been associated with textile production and use. A comprehensive analysis of the environmental impact of textile manufacturing activity should be done, which includes an analysis of the degradation by air, wind, water and other pollution.
- A complete survey of how developments in the textile industry and consumers of its products have affected the environment in the past needs to be taken up. This should also cover the most recent solutions adopted by the industry to alleviate the problems. This is important given the high textile production targets post 2005, and the ways in which the industry is responding to the environmental challenge. It will help the national textile policy and the growth of textile industry as well.
- For Indian textile sector, the main drivers for environmentally benign growth can be:
  - ♦ Growth of handloom sector;
  - ♦ Competition;
  - ♦ Pressure exerted down the supply chain by the consumer;
  - ♦ Reducing production costs; and
  - ♦ Meeting current and anticipated legislative requirements.
- Concern for the global and local environment.

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