



## CONTRIBUTION AND STATUS OF INDIAN TEXTILE INDUSTRY IN POST MFA PERIOD

Dinesh Kumar<sup>1</sup>, Km. Monika<sup>2</sup>, Raviraj Singh<sup>3</sup>

<sup>1</sup>Professor, Department of Economics, Chaudhary Charan Singh University Meerut

<sup>2</sup>Assistant Professor, Department of Economics, INMPG, College Meerut

<sup>3</sup>Assistant Professor, Department of Economics, Kisan P. G. College Simbhaoli, Hapur

### ABSTRACT

DOI No: 10.36713/epra13598

Article DOI: <https://doi.org/10.36713/epra13598>

*With the advent of economic reforms and phase out of Multi Fibre Agreement (MFA), it was expected that the textile industry contribution and status will improve. The present paper has analysed the contribution and status of textile industry in post MFA period. For the analysis Economic Outlook of the Centre for Monitoring Indian Economy (CMIE), database have been used. The paper found improving contribution and status of textile industry in manufacturing and industrial GDP. While as percentage of GDP it is declining. The increase in high value segment of factories in comparison to traditional textile sector has limited the contribution and status in Indian economy. The absolute decline of factories in footwear sector should be reversed.*

Indian textile industry is contributing in various ways. This industry contributes in the manufacturing, industrial, gross domestic product (GDP), etc. During late 17<sup>th</sup> century India was contributing 25 percent of world textile trade. The colonialism has destroyed the textile industry to petty partner in world economy. This was followed by the license raj, reserve list for manufacturers, and forced small scale in textile industry after the independence. The tariff and quota restrictions have been imposed for the revival of the industry. This industry remains largely insulated from the heavy industrialisation underway the 2<sup>nd</sup> five-year plan (FYP). Following this insulated and restrictive policy regimes, Indian textile industry was marred with declining contribution in manufacturing sector, industry, and GDP of the country. This has incentivised some deregulation of textile industry in the last quarter of 20 the century.

The slow deregulation of textile industry was started during 1980s. The opening up of the economy for foreign competition has allowed the foreign

technology, machinery, foreign direct investment (FDI), and reduced tariff and quota restrictions. Although, some barriers were there for protecting industry from foreign competition. Following the emergence of World Trade Organisation (WTO) in 1995 and phase out of Multi Fibre Agreements (MFA) on 31 December 2004 has opened the gates of textile industry for the fierce competition.

### LITERATURE SURVEY

The CAGR (compound annual growth rate) of unregistered textile sector was 5.8 percent in 1986-87, as compare to 3.3 percent in registered textile sector. The CAGR for manufacturing sector was 4.6 percent in 1986-87 (Nagaraj, 1989). Chandra (1999), expecting the phase out of MFA will increase the demand for cotton and man-made fibres. This in turn will increase the contribution of industry in economy. The increase in consumer demand caused by demand generation through increase in export demand (Landes *et al.*, 2005). The various studies about the growth of textile industries were undertaken like Nagaraj (2008),

Sasidaran and Shanmugam (2008), Kathuriya and Bahrdwaj (1998).

Porter (1992) has highlighted the Indian garment sector's competitiveness in non- MFA regime. He cautioned too the tough international competition from various countries larger economies of scale and better tech know how. Burang (1999)'s study found that high growth in fixed capital textile industry in Maharashtra resulted in decrease in employment during 1979-80 to 1994-95. The capital intensive production induced the substitution of capital for labour. This resulted in reduced output growth rates, value addition to textile industry. The recession in export region of Tamil Nadu's textile sector was observed, because the growth happened without basic changes in organisational capability and techniques of production (Ray, 1999).

Uchikawa (1999) said that the gross value added (GVA) is an indicator of the health of the economy. The GVA and GCFC of textile industry increased in 1980s and 1990s. Uchikawa (2001)'s multiplicative dummy model confirmed the acceleration in investment during reform period at 5 percent significance level. Panagariya (2004), said that liberalisation in India cannot be solely credited with the higher growth in reform period. As growth already surpassed the 5 percent during 1980s, prior to economic reforms. Kaur (2007), said that reforms started in a new era of economic growth and development. Kannan and Raveendran (2009), that manufacturing industries have done well in terms of output growth in reform period.

## RESEARCH GAP

There are very few studies on status and contribution of textile industry in post reform period. This scarcity increases towards the studies on post MFA period. After the MFA period most of the studies covers up to the 2012-13. This paper tries to fill this gap.

## OBJECTIVE OF THE STUDY

The objective of the present study to evaluate the status contribution of Indian textile industry in post MFA period. The status and contributions of the

textile industry to be examined from the importance of the industry in Indian economy.

## RESEARCH METHODOLOGY AND DATABASE

The authors have analysed the industry level and its component level status and contribution in economy. We have relied on the descriptive statistics for the analysis of study. The Compound Annual Growth Rate (CAGR) in percentage term is estimated as follows;

$$CAGR = \{ \text{antilog}(b)-1 \} * 100$$

This is an important indicator for the development of the industry over the time.

The data has been taken from the Economic Outlook of the Centre for Monitoring Indian Economy (CMIE), database.

## Contribution of Textile Industry (2005-06 TO 2020-21)

The table 1 shows textile industry's contribution in India's industrial GDP was 6.55 percent in 2005-06. Following the contraction, this gone up to 7.97 percent in 2015-16. After that textile industry's contribution to industrial was on almost same level and noted at 7.21 percent in 2019-20. The last year of the study was affected by Covid-19. Although it was above the average in the final year of study. The textile industry has contributed 12.12 percent to manufacturing sector in 2005-06. This reduced to 10.05 percent of manufacturing sector in 2007-08. After the 2013-14 the textile industry's contribution to manufacturing sector almost constant except covid-19 year. The above variables have shown some improvement during the post MFA period. The Indian textile industry has a share of 2.11 percent of Indian GDP in 2005-06. The contribution textile industry has come down to 1.85 percent of GDP in 2007-08. After that the contribution of textile sector shows upward and downward movement. And it was reached at 2.39 percent of GDP in 2015-16. This was not the year in which textile contributed maximum to the manufacturing and industrial sectors of India. Following the 2015-16, the contribution to GDP has declined to 1.94 percent in 2019-20.

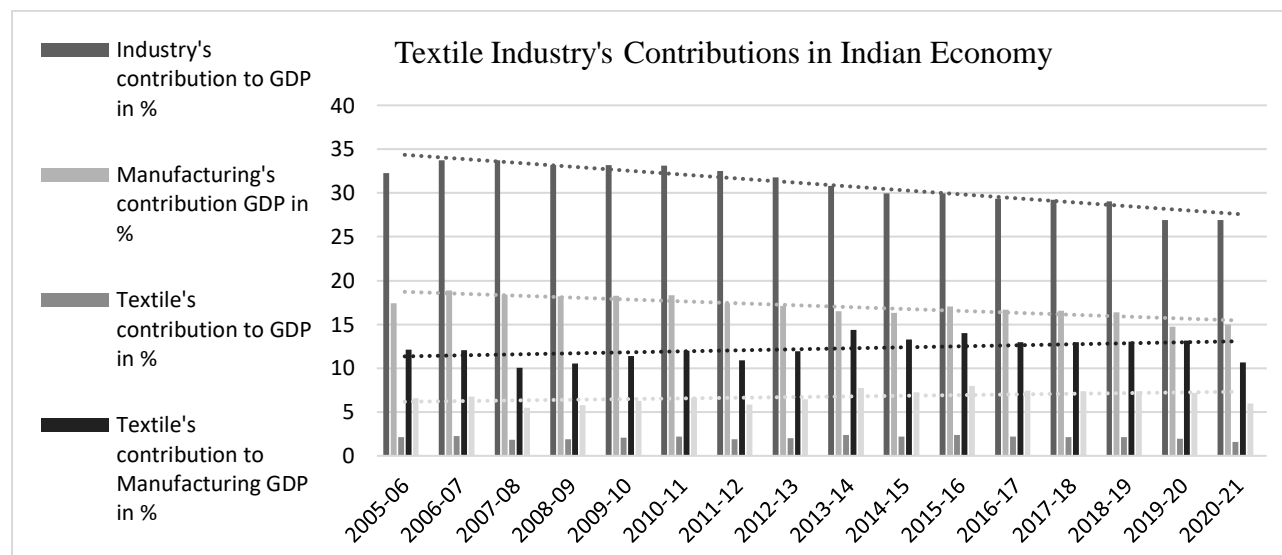
**Table 1: Contribution of Textile Industry in Indian Economy from 2005-06 to 2020-21 (in percentage)**

Years	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Industry's contribution to GDP in %	32.24	33.7	33.71	33.19	33.16	33.11	32.5	31.77	30.79	29.97	29.95	29.34	29.21	29.06	26.9	26.9
Manufacturing's contribution GDP in %	17.44	18.85	18.4	18.23	18.27	18.35	17.39	17.09	16.53	16.33	17.07	16.71	16.55	16.38	14.74	15
Textile's contribution to GDP in %	2.11	2.27	1.85	1.92	2.08	2.2	1.89	2.04	2.38	2.17	2.39	2.17	2.14	2.13	1.94	1.6
Textile's contribution to Manufacturing GDP in %	12.12	12.05	10.05	10.54	11.38	11.98	10.87	11.95	14.38	13.29	13.99	12.99	12.95	13.02	13.17	10.68
Textile's contribution to Industrial GDP in %	6.55	6.74	5.48	5.79	6.27	6.64	5.82	6.43	7.72	7.24	7.97	7.4	7.34	7.34	7.21	5.96

Source: Author's Calculations Based on CMIE, Database

The table 1 shows manufacturing and industrial sector's contribution to Indian GDP. Manufacturing's contribution to GDP was 17.44 percent in 2005-06. In 2006-07, the manufacturing's contribution has increased to 18.85 percent of GDP. This year has shown highest contribution. After that, manufacturing's contribution to GDP with some fluctuations has been noticed on decline. This variable's contribution to Indian GDP reached at 14.74 percent in 2019-20. The industrial sector was

contributing 32.24 percent GDP in 2005-06. Indian industrial sector has contributed at 33.71 percent of GDP in 2007-08. This was highest contribution. This contribution has coincided with the highest economic growth year in Indian economy. But in the following years industrial contribution has declined. Further, in 2019-20 this increased to 26.9 percent of industrial sector's contribution to GDP. The following graph 1 verifies the declining trend lines of manufacturing and industrial GDP Indian GDP.



Source: Author's Calculations Based on CMIE, Database

**Growth of Textile Factories**

The growth in factories has been an important indicator of the development and status of the industry. The abolition of licensing, tariff and quota removal after the phase out of MFA were expected to increase in number of factories. This increase in factories is good indicator of industrial development.

But this variable under study has following limitations like- irrespective of asset value, capital size, employment and output each firm has an equal weightage. The survey shows category wise and year wise fluctuations in the number of factories.

**Growth of Textile Factories (2005-06 to 2019-20)**

<b>Table 2: CAGR of Factories in Indian Textile Industry</b>	
	<b>CAGR 2005-06 to 2019-20</b>
Manu. of other text.	2.34
Manu. of made up of text. Articles	1.90
Manu. of luggage and handbags	6.90
Manu. of leather and leather related products	8.46
Manu. of knitted and croached fabrics	5.69
Manu. of footwear	-5.06
Manu. of carpet and rugs	6.15
Manu. of wearing apparel except fur	3.62
Manu. of knitted and croached apparel	5.62
Textile Industries Total	3.16

Source: Author's Calculations Based on CMIE, Database

The table 2 shows the comparative picture of CAGR during 2005-06 to 2019-20. The factories in manufacturer of other textiles were increasing at 2.34 percent CAGR. The number of factories in footwear has declined at the -5.06 percent CAGR. This was the only sector who was destroyed in post MFA period. The factories in made up of textile articles has grown at 1.9 percent CAGR in post MFA period. The factories in wearing apparel except fur was increasing at 3.62 percent CAGR. The CAGR of manufacturer of luggage and handbags has been growing at 6.90 percent in post MFA period. The factories in leather and leather related products has been setting up at the 8.46 percent CAGR during the same period. The factories in knitted and croached fabrics and carpet and rugs was increasing at 5.69 and 6.15 percent respectively in post MFA period. The overall textile factories were increasing at 3.16 percent CAGR from 2005-06 to 2019-20.

Our analysis show that the leather and leather manufacturers' has been increasing at significant pace in post MFA period. The factories in knitted and croached fabrics has improved significantly in post MFA period. The carpet and rugs, knitted and coached apparel fall in the same category. The huge declined in factories was observed in foot wear segment. This sector did not able to stand the competition of an open market. The factories in traditional textile sector like made up of textiles, other textiles, were increasing at slower pace. This combined with the footwear segment is drawing our textile industry behind its potential. While other sectors are increasing it towards its potential.

**CONCLUSION**

Indian textile industry's contribution in Indian GDP was declining in non MFA period. The industrial sector's contribution has also declined in this period. The same fate was followed by the manufacturing's contribution to Indian GDP in the same period. While at the same time the contributions the textile industry's contribution to manufacturing and industrial GDP

were increasing during the study period. The increasing pace of new factories in high value segment is driving the industry. But till the footwear and large traditional sector be revived, the textile industry's status and contribution shall be limited in Indian economy. This should be revived. The decline in textile contribution to Indian GDP and increasing contribution in manufacturing and industrial GDP show that this industry is gaining its space in manufacturing and industrial GDP of India. While in total GDP it is still struggling. Although the status and contribution of textile industry is increasing but it still miles to go.

**REFERENCES**

1. Burang L. G., (1999), 'Industrial Growth and Structure Manufacturing Sector in Maharastra', *Economic and Political Weekly*, Vol. 34, No. 9, pp. 739-748.
2. Chandra, P., (1999), 'Competing through Capabilities: Strategies for Global Competitiveness of Indian Textile Industry', *Economic and Political Weekly*, Vol. 34, No. 9, pp. M17-M24.
3. Landes M., S. MacDonald, S. K. Singh, and T. Vollrath, (2005), 'Growth Prospects for India's Cotton and Textile Industries', *United States Department of Agriculture (USDA)*.
4. Nagaraj R., (1989), 'Growth in Manufacturing in Output Since 1980: Some Preliminary Findings', *Economic and Political Weekly*, Vol. 24, No. 26, pp. 1481-1484.
5. Nagaraj R., (2008), 'India's Recent Economic Growth: A Closer Look', *Economic and Political Weekly*, Vol. 43, No. 15, pp. 55-61.
6. Sasidaran G., and K. R. Shanmugan, (2008), 'Impact of Trade Liberalisation on the Efficiency of Textile Firms in India', *Institute of South Asian Studies, Working Paper no. 52*.
7. Kannan K. P., and G. Raveendran, (2009), 'Growth Sans Employment: A Quarter Century of Jobless Growth in India's Organised Manufacturing', *Economic and Political Weekly*, Vol. 40, No. 10, pp. 80-91.
8. Kathuria S., and A. Bhardwaj, (1998), 'Export Quota and Policy Constraints in the Indian Textile Garment

- Industries', The World Bank Development Research Group-Trade, Policy research, Working Paper 2012.*
9. Kaur P., (2007), 'Growth Acceleration in India' *Economic and Political Weekly*, Vol. 42, No. 15, pp. 1380-1386.
  10. Panagariya A., (2004), 'Growth and Reforms During the 1980s and 1990s', *Economic and Political Weekly*, Vol. 39, No. 25, pp. 2581-2594.
  11. Uchikawa S., (1999), 'Economic Reforms and Foreign Trade Policies: Case Study of Apparel and Machine Tools Industry', *Economic and Political Weekly*, Vol. 34.
  12. Uchikawa S., (2001), 'Investment Boom and Understanding of Capacity in the 1990s', *Economic and Political Weekly*, Vol. 36, No. 34, pp. 3247-3254.