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IMPACT OF GLOBAL FINANCIAL CRISIS ON INDIAN TEXTILE EXPORTERS

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ABSTRACT

The history of world economic system cannot be completed without the mentioning of the Financial Crises. It has irremovable presence in the economic system at any point of time. The recent financial crisis was caused by the boom in the housing sector of United States affected all corners of the world without any partiality. This research paper concentrates on the impacts of this crisis on Indian Textile Exporters. It considers the portfolio of the textile sector collectively. It analysis various factors that determine the status of textile sector such as Production, Subsidies granted, Flow of Foreign Direct Investment etc,. The analysis of the above enables to conclude that the Indian textile sector have suffered a considerable impact due to the financial crisis. It concludes that there should be increase in the provision of subsidies and rigid rules should be framed for the withdrawal of FDI to safeguard the textile sector from the clutches of financial crisis in the future.

Keywords: FDI, Textile exports, Global Financial Crisis and India

INTRODUCTION

Exports are not only important for the firms but also play a vital role in the development of the country's economy. It acts as the guiding light towards stabilizing the foreign trade results in the prosperity in the economic structure of the economy. It aims both at favorable balance of trade and creating self-sufficiency in the country.

Exports acts as one of the main source for earning foreign exchange reserves. It provides the immunity for the economy from the pressures of the Balance Of Payments (BOP). These exporters help to energize the economy of the country. Exporters play the role of regulatory authority in promoting the welfare of the economy. They tend to work actively towards unaware removal of the negative forces that affects the country. The exports mainly depend on the working of the global forces. It acts as an insurgence towards the negative forces that deteriorate the country's financial position. This provides the strong base for the efficient financial system.

Every country in the world is mainly based on the foreign trade for their economic growth. When a country reaps favorable balance of trade consistently it signifies that the country is in the transformation stage from developing to developed country. It provides the economy with the stability to withstand the external pressures of the global economy. This provides the country with the extra cushion in the state of emergency. It also helps to grow in stature financially which in return provoke the government in promoting steps for the benefits of exporters.

These exporters also aim at the process of self development with the distant view of improving social responsibility to the society it exists. On a whole, exporters are not only an influential figure that constitutes the economy but also a striking force that works actively towards the well being of the country. In this context the following explains the working and growth of the Indian textile sector.

Indian Export Sector (2002-03 to 2008-09)

The Indian economy excelled in the field of exports with constant rise which is clearly revealed by the following table:

Table 1. Exports

Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Rs in cr.	2,55,137	2,93,367	3,75,340	4,56,418	5,71,779	6,55,864	7,66,935
In US $	52,719	63,843	83,535	1,03,092	1,26,361	1,62,904	1,68,704

Source: Economic survey (2008-09)

The total export of the country had risen from 2, 55,137 crores in the year 2002-2003 to 7, 66,935 crores in the year 2008-2009 which have significant increase of above three hundred percent. The export performance of the country implies that it has major share in the total exports of the world.

Indian Textile Exports

The Indian textile export consists of various types of classification such as cotton, blended, pure cotton. Khadi, wool, silk and technical textiles. It shows the diversity of the textile field in India. The following enlist the production of the textiles until the year preceding the financial crisis. The production in different fields of textile sector from the year 2002-03 to 2005-06 is stated in the table 2. It clearly elucidates the rate of the growth the textile sector has obtained during these four years.

Table 2. Production in Different Fields of Textiles

(In million sq meters)

Particulars	2002-03	2003-04	2004-05	2005-06
Cotton	19300	18040	20655	23855
Blended	5876	6066	6032	6251
100% cotton	16135	17813	17996	18743
Total	41311	41721	44685	48849
Khadi, Wool & silk	662	662	693	693
Grand total	41973	42383	45378	49542
Growth percentage	-	0.97	7.06	9.17

Source: Textile Ministry, Annual Report (2008-09)

The growth of the textile sector growth has drastically improved from 0.97% in the year 2002-03 to 9.17% in the year 2005-06. The textile sector has made the growth really surging forward during these four years. Even though the production of textiles augurs well for its development the period succeeding it was unexpected which was the period of financial crisis. In relation to the above the following research framework is constructed to analyze the impact of global financial crisis on Indian textile exporters.

SIGNIFICANCE OF THE STUDY

The textile sector acts as the backbone to the export sector of the Indian economy. It currently contributes 14 percent towards the industrial production of the country. The employment opportunities provided by the textile sector accounts up to 35 million people. In terms of the earnings it yields 17 percent of the country's total export earnings. The Gross Domestic Product (GDP) of this sector is around 4 percent. The country's total export has 12 percent of textile exports. As the above suggests clearly that the textile sector plays a vital role in the economic development of the country. This study is an attempt to identify whether the recent financial crisis has made any impact on the working of this sector.

STATEMENT OF THE PROBLEM

There has been less effort implemented to know these effects on the lifestyle of the exporters on a whole as well as textile exporters in particular. These types of major impact bearing events on the textile exporters are to be considered with greater care. The sector that provides the major share in the exports of the country has to be checked that did it suffer any damage during the global financial crisis. There has been less focus on finding precautionary measures that will minimize the effects of the crisis which helps to improve the performance or else to go through the time period without incurring huge losses that may prove fatal for the textile exporters in the end. Hence to address the above problems this study is considered essential.

OBJECTIVES OF THE STUDY

The following are the objectives of the study:

1. To examine the effect of recent global economic crisis on Indian textile exporters.
2. To review the flow of Foreign Direct Investment (FDI) in the textile sector during the global financial crisis.
3. To identify the measures that can reduce of effect of the financial crisis in the future.

METHODOLOGY

The data used in the study comprises of secondary data. The secondary data was collected from various journals and annual reports of textile ministry. Descriptive analysis has been used for statistical analysis.

LIMITATIONS

This study is related only to textile exporters and not to any other field. This is mainly related to the impact of the crisis that was resulted due to Lehman brothers' bankruptcy and cannot be generalized to other crisis.

Impact of Financial Crisis on Textiles Sector

This financial crisis made major impact on the all the textile exporting countries. The International Textile Garment and Leather Workers' Federation (ITGLWF) survey of its national affiliates found that around 8,000 textile, clothing and footwear production units in emerging economies have closed since June 2008, with more than 11 million jobs lost and a further 3 million workers on short-time, out of a globally estimated apparel and textiles workforce of 60 million. An estimated 1.6 to 2.5 million jobs are under threat, a likely understatement due to exclusion of the informal part of the industry[1]. Estimates of job losses and jobs under threat by industry groups and manufacturers associations are often even higher than the trade union estimates. The following Chart explains the impact it made on the people employed in the textiles related industry.

The textile sector in India is one of the sectors which felt the impact of spillover of this financial crisis in India

Chart 1

Source: ITGLWF

The chart above clearly states that the nearly 4, 00,000 people got their job lost in the midst of the financial crisis[2]. Until the end of 2009 the job lost due to the global economic recession would be 5, 00,000 in the textile sector. On the verge of revival period the total amount of the job lost would account up to 1.5 million. The exporting companies have reduced working hours. These companies would work for 6 days in a week but now it has been reduced to 5 days a week which resulted in reduced income levels of workers. Tirupur Exporters Association (the initiator of Knitwear technology Mission) too found out that the slowdown may lead to a decline of 30% in orders resulting in job losses. As per the survey done by APEC cluster shows 84% units register fall in export orders and employment. The survey did during the month of March 2009 within the 50 units[3]. The findings are as follows.

There were 9084 workers employed; 1258 jobs were lost; 13.84% extent the functioning was layoff and 25% reduction in order booked during the same period.

The cotton textiles and the handicrafts were the two most affected textile products during the financial crisis which shows negative trend even though other products show marginal improvement. The table 3 provides detailed comparison of the textile exports to the total exports of the country. It brings out an increase of total exports of textiles but when compared to the whole exports made by the country the textiles share does not show an encouraging trend rather it depletes from 15.16% in the year 2006-07 to 11.47% in the year 2008-09.

Table 3. Textiles exports during 2006-07 to 2008-09

(Rs in crore)

S.No	Item	2006-07	2007-08	2008-09	% Variation
1	Cotton textiles	25197.20	27599.81	21808.20	-20.98
2	Manmade textiles	10863.39	12785.02	15088.11	18.01
3	Silk textiles	3196.89	2646.75	3106.98	17.39
4	Wool and woolen textiles	1919.36	1783.13	2199.50	23.35
5	Readymade garments	37506.16	36497.79	47110.00	29.08
	Total textiles	78683.00	81312.50	89312.79	9.84
6	Handicrafts	6181.00	5844.12	4939.56	-15.84
7	Jute	1178.39	1319.36	1375.80	4.28
8	Coir manufacturer	660.25	644.87	680.89	5.59
	Grand total textiles exports	**86702.24**	**89120.85**	**96309.04**	**8.07**
	Total exports	**571779.29**	**655863.52**	**83977.96**	**28.07**
	% Textile exports to total exports	**15.16**	**13.59**	**11.47**	

Source: Textiles ministry

The textile exports of the country increased only by 2.8% in the year 2007-08 during the crisis period which is considered to be below par performance compared to the previous years before the financial crisis. Even though it looks like recovering the lost ground in the following year 2008-09 with a growth of 8.07% it is due to the low rate of growth in the previous year. The graphical presentation of the above table is presented below.

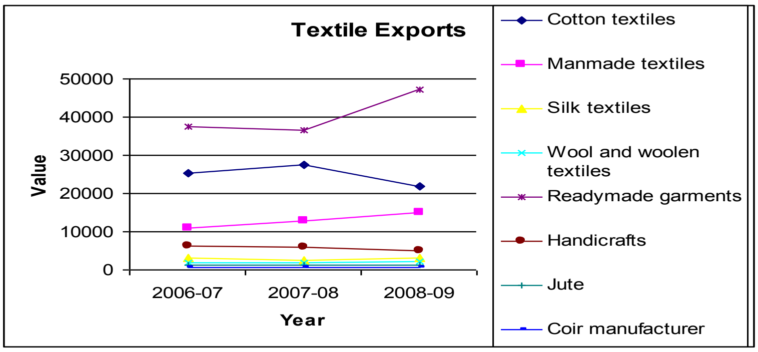

Chart 2

Table 4. Textile exports to top ten countries during 2007-08 and 2008-09

S. No	Country	Rs in crore				% share 2007-08	% share 2008-09
		2007-08	2008-09 (p)	% growth	% growth in us $		
1	USA	18608.76	19632.03	5.50	-7.70	20.88	20.38
2	UK	6694.64	7806.65	16.61	2.03	7.51	8.11
3	UAE	5463.92	7468.23	36.68	19.59	6.31	7.75
4	Germany	5500.27	7392.66	34.41	17.60	6.17	7.68
5	France	3563.03	4297.67	20.62	5.53	4.00	4.46
6	Italy	3429.23	3597.28	4.90	-8.22	3.85	3.74
7	Japan	2329.58	2969.05	27.45	11.51	2.61	3.08
8	Netherlands	1940.88	2473.38	27.44	11.50	2.18	2.57
9	Bangladesh	2900.89	2340.35	-19.32	-29.41	3.26	2.43
10	China	4557.58	2026.07	-55.55	-61.40	5.11	2.10
	Total (top ten)	**54988.78**	**60003.37**	**9.12**	**-4.53**	**61.70**	**62.30**
	Others	**34132.07**	**36305.67**	**6.37**	**-6.94**	**38.30**	**37.70**
	Total textiles	**89120.85**	**96309.04**	**8.07**	**-5.45**		

Source: Textiles Ministry, Annual Report (2008-09)

The main reason for the exports of the goods is to earn foreign exchange. The table 4 depicts the top ten importers of the Indian origin textiles. This state there is only a minimum amount of decline in the exports. The growth in other forms of textiles is absorbed by negative trend in the cotton textiles and handicrafts in this diversified textile portfolio which is also the reason behind the decline in growth rate. The table also brings out the export transactions made to different countries in the calculated value of US Dollars.

It clearly illustrate that the sector accounted to unfavorable balance of payments to the effect of 5.45% during the crisis period. It helps to understand the effect made by the financial crisis in terms of foreign exchange earnings.

Table 5. A. Foreign Direct Investment and Foreign Technology Cases (FTC) approved by Government of India before Financial Crisis

(Amount in Billion)

Year (Jan- Dec)	Total number of cases	Amount approved
2001	36	0.29
2002	34	0.66
2003	47	0.38
2004	23	1.10
2005	10	2.97
TOTAL	**150**	**5.40**

Source: Textiles ministry, Annual Report (2008-09)

The Foreign Direct Investment started to fall at the beginning of financial crisis. It proved to be a hindrance in the revival of the textile sector during the period of the financial crisis. Compared to the other fields of export the flow of FDI for this sector is not looking bright from the beginning.

It also affected the flow of FDI into the country. The above table details the amount of FDI that had flew into the country during 2001-05. From the year 2001 to 2003 it showed marginal improvement but after that it improve drastically from 0.38 billion in the year 2003 to 2.97 billion in the year 2005 even though the number of cases approved were declining.

Table 5. B. Foreign Direct Investment and Foreign Technology Cases (FTC) approved by Government of India During and After Financial Crisis

(Amount in Billion)

Year	Total number of cases	Amount approved
2006	7	0.65
2007	1	0.01
2008	4	0.21
2009	2	0.28
TOTAL	**13**	**6.55**

Source: Textiles ministry, Annual Report (2008-09)

In 2005 the amount approved was 2.97 billion which came down to 0.65 billion at the beginning of the crisis period which is clearly indicated in the above table. It also give that the textile sector would have done better if it had got more FDI like other leading field of exports in the country.

It clearly states that during the 2008 there has been sharp decline in the flow of FDI which had resulted due to the financial crisis. The number of cases for which the FDI has been granted is reduced to two from four when compared to the previous year.

Table 6. Production in Different Fields of Textiles

(In million sq meters)

Particulars	2006-07	2007-08	2008-09
Cotton	26328	27196	26898
Blended	6882	6868	6766
100% cotton	19545	21173	20534
Total	**52665**	**55257**	**54198**
Khadi, Wool & silk	724	768	768
Grand total	**53389**	**56025**	**54966**
Growth percentage	**7.77**	**4.94**	**-1.09**

Source: Textiles ministry, Annual Report (2008-09)

The production in different fields of textile sector shows a decrease during the year 2008-09. It is due to the financial crisis that affected the production at that period of time. The actual production shows a reduction by 1.09% of the total production during the crisis period when compared to the previous year. The impact of the crisis has significantly reduced the production by causing fear in the minds of exporters.

The table 7 describes the distribution of subsidy provided by the government during the past six years. This states the amount of subsidy granted to this sector by the government for its welfare in order to take some burden from the exporters as they contribute towards the development of the country.

Table 7. Subsidy granted by the Government

(Rs in Lakhs)

S.No	Year	No of Units	Amount of Subsidy released
1	2003-2004	4	10.00
2	2004-2005	150	600.00
3	2005-2006	368	2300.00
4	2006-2007	958	6889.36
5	2007-2008	436	3592.00
6	2008-2009	404	3248.00
	Total	**2320**	**16639.36**

Source: Textiles ministry, Annual Report (2008-09)

In the year 2003-04 it was 10.00 lakhs from which it increased to 6889.36 lakhs in the year 2006-07 until it was on increasing trend. But from the year 2007-2008 it started to decline to 3592.00 lakhs and in the year 2008-2009 it was 3248.00 lakhs. The number of export units that was provided subsidy also declined to 404 in the year 2008-09 from 958 in the year 2006-07 which also joined hands with the financial crisis to destruct the field to its present stature of declining growth rate.

MAJOR FINDINGS OF THE STUDY

- The production during the crisis period went down at a negative rate due to the low amount of subsidy granted by the government during the crisis period which didn't support their revival.
- Even though the textile exports of the country showed marginal improvement but when it is compared to the total exports of the country it showed a declining trend.
- The major area of concern is the subsidy granted by the government which is surprisingly low during the financial crisis period for the textile sector.
- The Foreign Direct Investment (FDI) also looks an area of concern as there is very low amount of FDI approved in this sector when compared to the leading export sector of the country.
- The main aim of the export is the foreign exchange reserves but when we consider the top ten countries that holds 62.3 percent of textile exports from our country the growth of the exports in US dollar is -5.45 percent during the financial crisis.

SUGGESTIONS

- The government should take efficient steps forward to attract more Foreign Direct Investment and the rules regarding withdrawal of Foreign Direct Investment (FDI) should be made rigid during the crisis period.
- The government should make a paradigm shift in sharing the trade with upcoming market rather not heavily depending up on the developed nations like United States of America and United Kingdom.
- The government should take note of the subsidies provided should be at ascending trend during these critical period.

CONCLUSION

The recent Global financial crisis had severe impact on the working of the Indian textile sector. This diversified textile portfolio is in the hands of heavy bilateral relationship with the developed nations. The government should take steps to join hands with the upcoming nations. In future the effect of financial crisis can be minimized if the government would provide some shock absorbers in the form rigid Foreign Direct Investment withdrawal and marginal improvement in the provision of Subsidies.

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