ENHANCING THE COMPETITIVENESS OF TEXTILE INDUSTRY IN AN EMERGING ECONOMY : THE ROLE OF MSME

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ABSTRACT

Globalization and trade liberalization has ushered in new opportunities in Emerging Economies (EE) as well as challenges for MSMEs. EE and their enterprises face major challenges in strengthening their human and institutional capacities to take advantage of trade and investment opportunities. Presently, only a small part of the MSME sector is able to identify and exploit these opportunities and deal with the challenges competitively. India has over 26 million MSMEs producing a diverse range of products from very basic to highly sophisticated products. MSMEs contribute 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of our exports. They provide the largest share of employment after agriculture. They are the nurseries for entrepreneurship and innovation. They are widely dispersed across the country and produce a diverse range of products to meet the needs of the local markets, the global market and the national and international value chains. The Indian textile industry is one the largest and oldest sectors in the country and among the most important in the economy in terms of output, investment, and employment. With direct linkages to the rural economy and the agriculture sector, it has been estimated that one of every six households in the country depends on this sector, either directly or indirectly, for its livelihood. Despite being such an important industry, at the global level India's textile exports account for just 4.72% of global textile and clothing exports.

As MSMEs are expected to play a critical role in the growth of EE, the paper analyses the current trends, challenges, competitive dynamics and the future outlook for the segment. It aims to recommend the policy measures to harness their undoubted competitive edge to avail the unfolding opportunities and introduce the best elements of industrial competitiveness to the MSMEs.

Keywords: Emerging Economy, MSMEs, Textile Industry, Competitiveness, India

1. INTRODUCTION

Micro, Small- and medium-scale enterprises (MSMEs) occupy an important and strategic place in economic growth and equitable development in all countries. They are considered engines for economic growth, not only in India but all over the world. Constituting as high as 90% of enterprises in most countries worldwide, MSMEs are the driving force behind a large number of innovations and contribute to the growth of the national economy through employment creation, investments and exports. Their contribution to poverty reduction and wider distribution of wealth in developing economies cannot be underrated.

MSMEs play a key role in transition and emerging economies. Globalization and trade liberalization have ushered in new opportunities as well as challenges for MSMEs. Presently, only a small part of the MSME sector is able to identify and exploit these opportunities and deal with the challenges. The majority of MSMEs in developing and transition countries, however, has been less able or unable to exploit the benefits of globalization and, to add to the situation, are frequently under pressure on the local or domestic markets from cheaper imports and foreign competition. The potential of MSMEs is often not realized because of problems commonly related to size, isolation, market opportunities, standards/quality, supply chains, logistics and technology innovation. To preserve their narrow profit margins, small-scale entrepreneurs in developing countries do not opt to innovate products and processes and resort to tactics that deters their growth in the long run.

The textile industry is among the MSME intensive sectors in India, largely an outcome of government policies during the early years of Independence. Focusing on promoting domestic employment, large-scale production in the textile industry was curtailed through restrictions on total capacity and level of mechanisation. Several textile items were reserved for the small scale segment. These policies promoted the extensive growth of small scale textile enterprises that were highly labour intensive, though it eroded the competitiveness of the industry and acted as a disincentive for capital investment. De-reservation of textile products has been a priority area for the government since 1997, which was believed to be the most effective way to foster productivity and efficiency within the sector.

MSMEs however in India, which constitutes more than 80% of the total number of industrial enterprises and forms the backbone of industrial development, even now are not export competitive and contribute only about 34% of exports. It is this feature of the MSMEs that make it an ideal target to realize its potential and become competitive. It is observed that to be competitive, MSMEs should have clarity of mission and should proactively develop their human resources and competencies to meet fast changing customer requirements.

2. LITERATURE REVIEW

2.1. DEFINING MSMES

The Micro, Small and Medium Enterprises Development Act, 2006, which came into effect from October 2, 2006, define MSMEs on the basis of investments in plant and machinery.

For enterprises engaged in the manufacture of goods:

- Micro - Investment in plant and machinery less than Rs 2.5 mn
- Small - Investment in plant and machinery over Rs 2.5 mn but not exceeding Rs 50 mn
- Medium – Investment in plant and machinery in excess of SSI limit but less than Rs 100 mn

For enterprises engaged in providing or rendering of services:

- Micro - Investment in equipment not exceeding Rs 1 mn
- Small - Investment in equipment over Rs 1 mn but not exceeding Rs 20 mn
- Medium – Investment in equipment is in excess of SSI limit but less than Rs 50 mn

The size and scale of India's MSME sector as per the new MSMED Act 2006 is a matter of guesswork, ranging from 7.8 million to 13 million in number; the share in GDP of MSMEs may be more than 80% and if the global trend is true for India, more than 90% of all the enterprises are MSMEs. Also every enterprise in its infant years is an MSME.

MSMES: THE INDIAN SCENARIO

In India with the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked a special role for small-scale industries (SSI) and medium scale industries in the Indian economy. Due protection was accorded to both sectors, and particularly for small-scale industries from 1951 to 1991, till the nation adopted a policy of liberalization and globalization.

MSMEs always represent the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for import of capital goods and inputs, labour intensive mode of production, employment generation, non-concentration of diffusion of economic power in the hands of few (as in the case of big houses), discouraging monopolistic practices of production and marketing, and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations. This sector of the Indian economy encompasses in itself almost all of the products (including a large number of services) produced by the Indian industries within the economy. Most of the times the products produced by MSME comprise of the intermediary products produced by the large-scale industries. They also include semi processing units and processing units, which are an important link between exports and re-exports. Thus, MSMEs act both as a backward and forward linkage to the overall industrial sector of the Indian economy. Interestingly, the segment plays a crucial role in spreading the benefits of economic growth among the masses by drawing surplus workforce from the farm.

MSMEs exist in almost all-major sectors in the Indian industry such as Food Processing, Agricultural Inputs, Chemicals & Pharmaceuticals, Electrical & Electronics, Medical & surgical equipment, Textiles and Garments, Gems and Jewellery, Leather and leather goods, Meat products, Bio-engineering, Sports goods, Plastics products, Computer software etc.

Despite being such an vital and integral part of the economy, SMES in India are basically characterized by the following factors

- Labor Intensive
- Short gestation period
- Lowest Administrative cost
- Uncompetitive products and services
- Maximum potential for employment generation
- Assist decentralization of power
- Induce growth of industrially backward regions ensuring balanced regional development

Recognising the importance of SMEs in the industrial development of the country, the Government has initiated a range of programmes in diverse areas, viz. financing, technology, innovation, market information, technical training and developmental assistance so as the Indian SMEs can be globally competitive an can achieve the following objectives.

1. High contribution to domestic production
2. Significant export earnings
3. Low investment requirements
4. Operational flexibility
5. Low intensive imports
6. Capacity to develop appropriate indigenous technology
7. Import substitution
8. Technology-oriented industries
9. Competitiveness in domestic and export markets

2.2. EMERGING ECONOMY DEFINED

In 1981, the International Finance Corporation of the World Bank coined the term, ‘‘emerging economy’’ to denote middle-to-higher income economies in the developing world. Since then, the term has been broadened to include almost all developing countries with Gross National Income (GNI) per capita of $9265 or less. It is estimated that approximately 80% of the world’s population live in emerging economies representing about 20% of the world’s economies.

Emerging markets generally do not have the level of market efficiency and strict standards in accounting and securities regulation to be on par with advanced economies (such as the United Stated, Europe and Japan), but emerging markets will typically have a physical financial infrastructure including banks, a stock exchange and a unified currency.

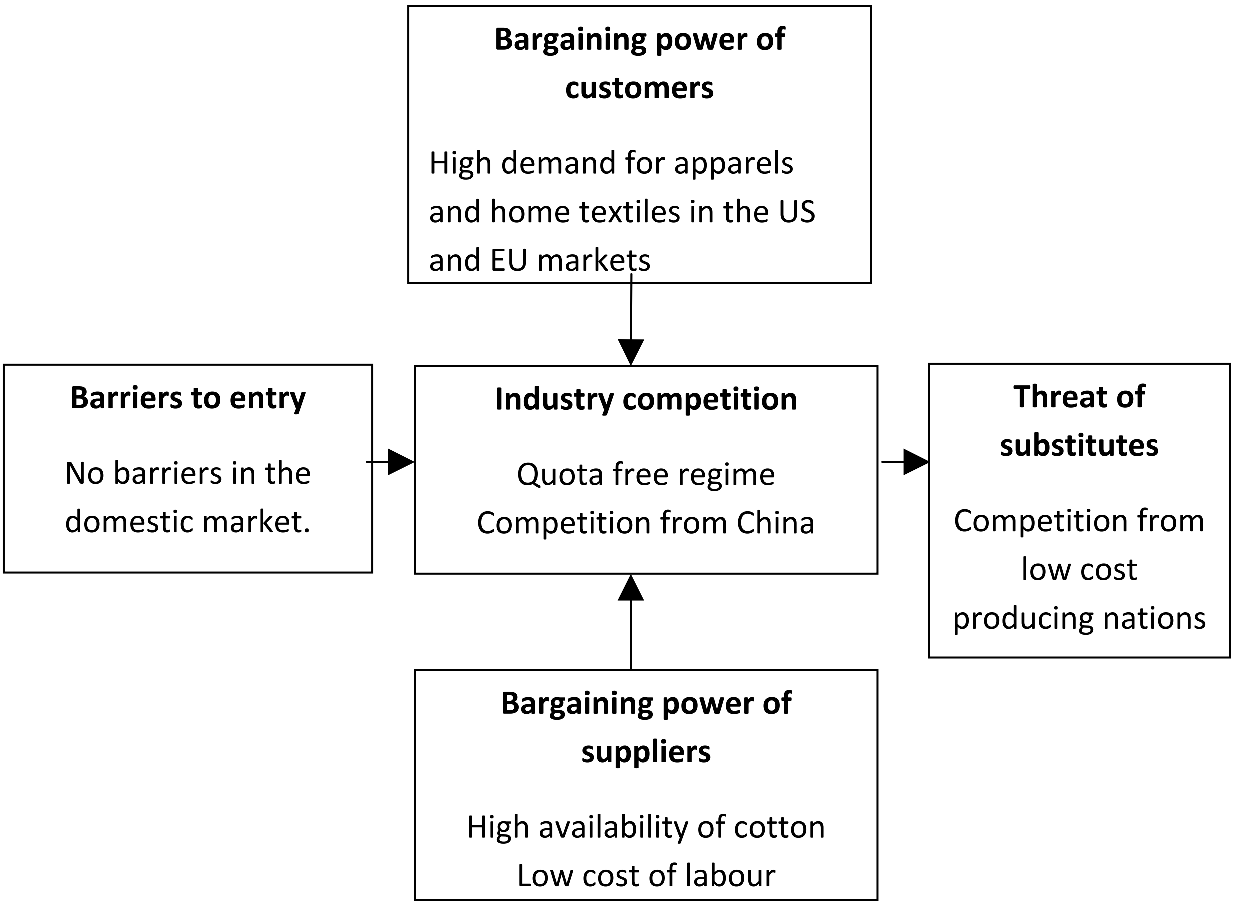
Investopedia explains Emerging Economies as economies those are sought by investors for the prospect of high returns, as they often experience faster economic growth as measured by GDP. Investments in emerging economy come with much greater risk due to political instability, domestic infrastructure problems, currency volatility and limited equity opportunities (many large companies may still be "state-run" or private). Also, local stock exchanges may not offer liquid markets for outside investors.

2.3. COMPETITIVENESS DEFINED

Michael Porter says that “Competitiveness is defined by the productivity with which a nation utilizes its human, capital and natural resources. To understand competitiveness, the starting point must be a nation’s underlying sources of prosperity. A country’s standard of living is determined by the productivity of its economy, which is measured by the value of goods and services produced per unit of its resources. Productivity depends both on the value of a nation’s products and services – measured by the prices they can command in open markets – and by the efficiency with which they can be produced. Productivity is also dependent on the ability of an economy to mobilize its available human resources.

True competitiveness, then, is measured by productivity. Productivity allows a nation to support high wages, attractive returns to capital, a strong currency – and with them, a high standard of living. What matters most are not exports per se or whether firms are domestic or foreign-owned, but the nature and productivity of the business activities taking place in a particular country. Purely local industries also count for competitiveness, because their productivity not only sets their wages but also has a major influence on the cost of doing business and the cost of living in the country”.

Almost everything matters for competitiveness. A nation’s circumstances are deeply rooted in a nation’s institutions, people and culture thus these also contribute to competitiveness. This makes improving competitiveness a special challenge, because there is no single policy or grand step that can create competitiveness, only many improvements in individual areas that inevitably take time to accomplish. Improving competitiveness is a marathon, not a sprint. How to sustain momentum in improving competitiveness over time is among the greatest challenges facing countries.



3. THE INDIAN TEXTILE INDUSTRY

The Indian textile industry is one the largest and oldest sectors in the country and among the most important in the economy in terms of output, investment, and employment. The sector employs nearly 35 million people and after agriculture, is the second-highest employer in the country. Its importance is underlined by the fact that it accounts for around 4% of Gross Domestic Product, 14% of industrial production, 9% of excise collections, and 18% of employment in the industrial sector, and 16% of the country’s total exports earnings. With direct linkages to the rural economy and the agriculture sector, it has been estimated that one of every six households in the country depends on this sector, either directly or indirectly, for its livelihood.

Indian Textile Industry accounts for 22 per cent of the world’s installed capacity of spindles and is one of the largest exporters of yarn in international market. Indian industry contributes about 25 per cent share in the world trade of cotton yarn. It has second highest spindleage in the world after China. Indian textile has the highest loomage (including handlooms) in the world and contributes about 61 per cent to the world loomage. The contribution of India is about 12 per cent of the world production of textile fibres and yarns (including jute). India is the largest producer of jute, second largest producer of silk, third largest producer of cotton and cellulose fibre/yarn and fifth largest producer of synthetic fibres/yarns. The textile sector also has a direct link with the rural economy and performance of major fibre crops and crafts such as cotton, wool, silk, handicrafts, and handlooms, which employ millions of farmers and crafts persons in rural and semi-urban areas. India produces a variety of textiles and clothing items.

India's traditional workers are adept at value-adding tasks, which gives Indian companies significant margin advantage. India has the largest area under cotton cultivation and is the third largest production of cotton in the world after China and U.S. a key raw material in the textile and garment industry, accounts for about 30% of the fabric cost and 13% of the garment cost. India has an abundant supply of locally grown long staple cotton, which lends it a cost advantage in the home textile and apparels segments.

The textile industry is among the MSME intensive sectors in India, largely an outcome of government policies during the early years of Independence. Focusing on promoting domestic employment, large-scale production in the textile industry was curtailed through restrictions on total capacity and level of mechanization. A strong raw material production base, a vast pool of skilled and unskilled personnel, cheap labour, good export potential and low import content are some of the salient features of the Indian textile industry. This is a traditional, robust, well-established industry, enjoying considerable demand in the domestic as well as global markets.

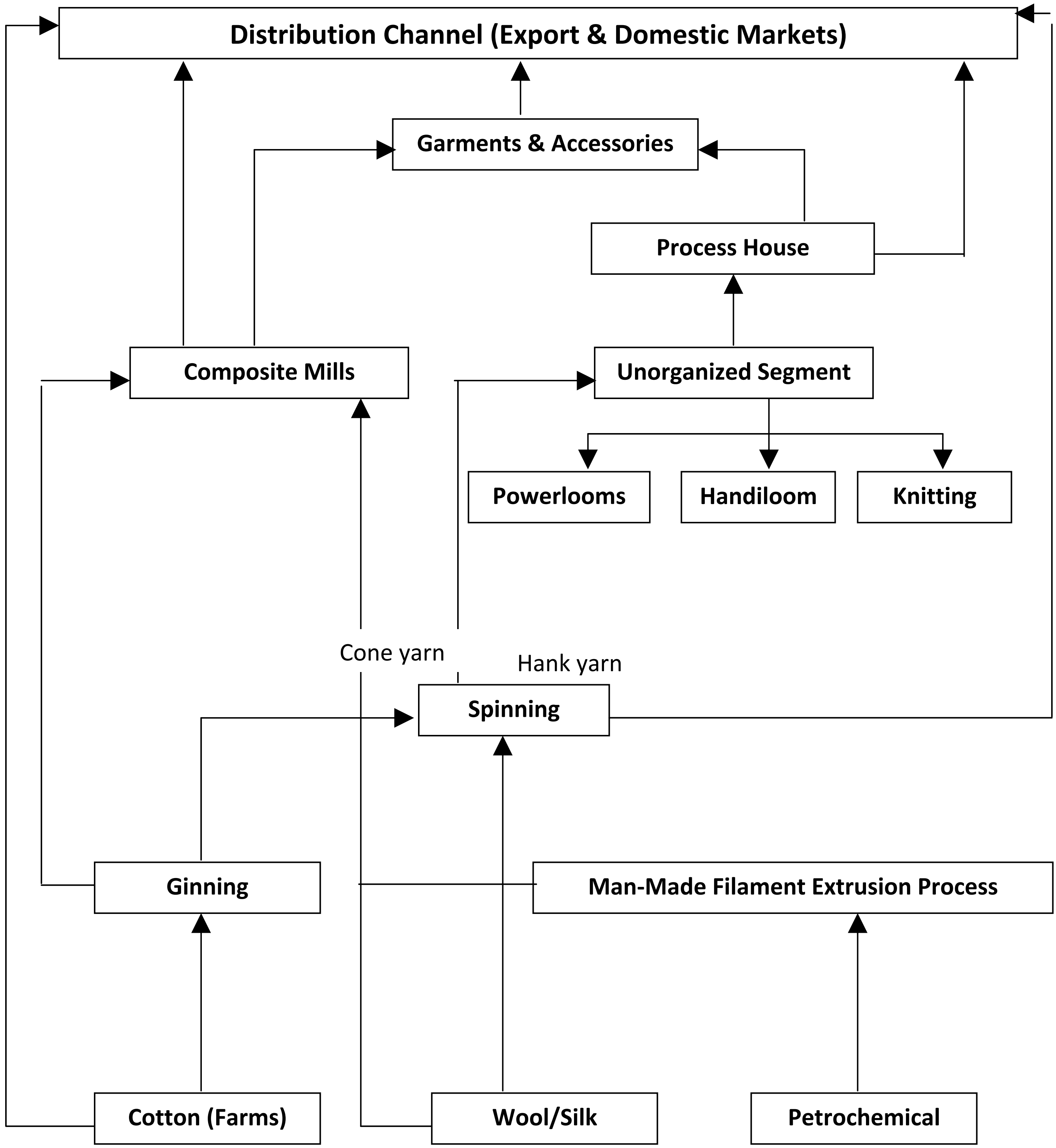
India's Textile Industry Structure

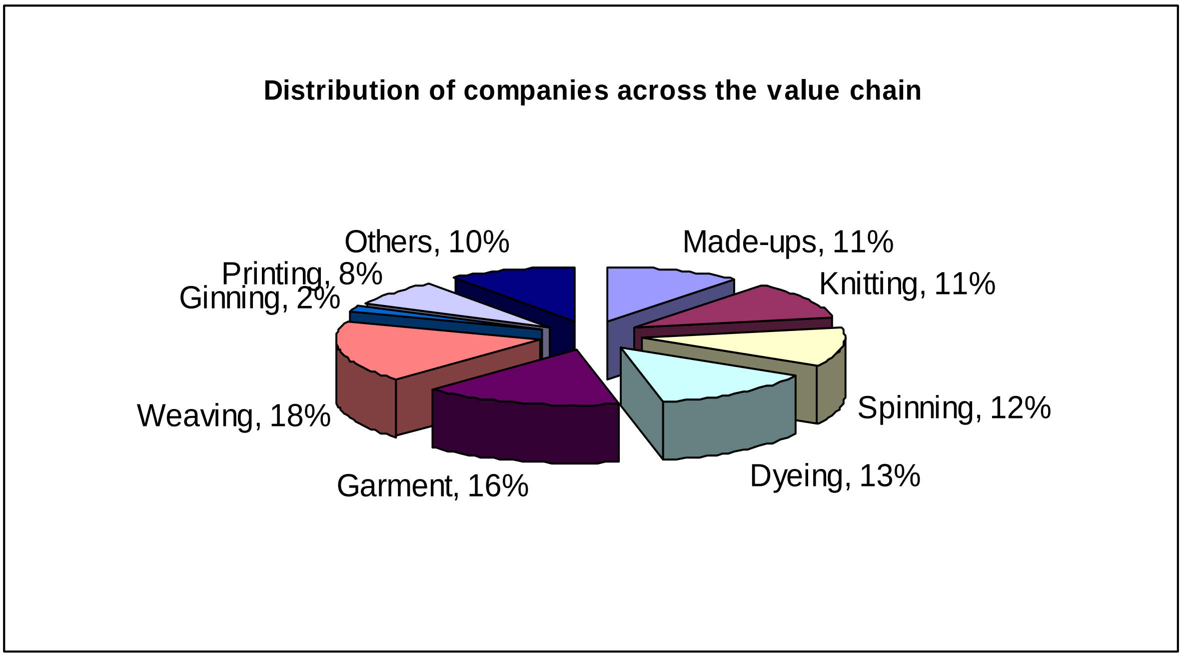
Cotton textiles continue to form the predominant base of the Indian textile industry, though other types of fabric have gained share in recent years.

In 1995-96, the share of cotton and manmade fabric was 60% and 27% respectively. More recently, cotton fabrics accounted for 46% of the total fabric produced in 2005-06, while man-made fibres held a share of 41%. This represents a clear shift in consumer preferences towards man-made fabric.

The industry structure is fully vertically integrated across the value chain, extending from fibre to fabric garments. At the same time, it is a highly fragmented sector, and comprises small-scale, non-integrated spinning, weaving, finishing, and apparel-making enterprises. The unorganised sector forms the bulk of the industry, comprising handlooms, powerlooms, hosiery and knitting, and also readymade garments, khadi and carpet manufacturing units. The organised mill sector consists of spinning mills involved only in spinning activities and composite mills where spinning, weaving and processing activities are carried out under a single roof. With 47 Million Spindles and 0.75 Mn Open-End Rotors, India has the world's second largest spinning capacity, commanding a share of the global Cotton Yarn market – currently producing over 4700 Mn.Kgs of spun yarn of which over 3,400 Mn.Kgs is cotton yarn. Cotton Yarn accoaunts for nearly 73% of total spun yarn production. Indian Spinning Industry is the most modern and efficient in the world. India produces a comprehensive range of yarns for every conveyable end use – non-spun or open-end; combed or carded, basic, compact, mélange or fancy. India's 1943 spinning mills produce them all for requirements ranging from a fine 200 count to a coarse 2 count

Figure 2. Distribution of Companies across Value Chain


Distribution Channel (Export & Domestic Markets)
Garments & Accessories
Process House
Composite Mills
Unorganized Segment
Powerlooms
Handiloom
Knitting
Cone yarn
Hank yarn
Spinning
Ginning
Man-Made Filament Extrusion Process
Cotton (Farms)
Wool/Silk
Petrochemical



Trade Scenario

According to the provisional DGCI&S data, textile exports during fiscal 2005- 06 stood at around US$17 billion, recording a 22% growth year-on-year. Except for man-made textiles, all segments in the textile industry, including handicraft carpets, wool and silk, have recorded a growth in exports during 2005-06 -- the first year since the phasing out of the quota system in the global market. Major export destinations for India's textile and apparel products are the US and EU, which together accounted for over 75% of demand. Exports to the US have further increased nearly 27% higher than in the corresponding period in 2004-05, post the termination of the MFA.

Exports

India's textiles and clothing industry is one of the mainstays of the national economy. It is also one of the largest contributing sectors of India's exports worldwide. The report of the Working Group constituted by the Planning Commission on boosting India's manufacturing exports during 12th Five Year Plan (2012-17), envisages India's exports of Textiles and Clothing at US$ 64.41 billion by the end of March, 2017. The textiles industry accounts for 14% of industrial production, which is 4% of GDP; employs 45 million people and accounts for 12% share of the country's total exports basket. India is major exporting country as far as textile sector is concerned and not dependent on import. Majority of import takes place for re-export or special requirement. In the global exports of clothing, India ranked as the ninth largest exporter as per WTO data – 2012, with China, EU and Hong Kong occupying first three slots. In the global exports of Textiles, India ranked as the third largest exporter, trailing China and EU.

The Export and Import of Textile and Clothing during 2013-14 was as under

Export	2012-13		2013-14*		Growth in percentage	
	Crore	US$ Mn	₹ Crore	US$ Mn	₹ Crore	US$
Total Textile & Clothing	171970.53	31625.15	214918.45	35425.97	25%	12%
Handicrafts (EPCH Data)	17970.12	3304.90	23504.42	3884.91	31%	18%
Total T&C including Handicrafts	189940.65	34930.05	238422.87	39310.88	26%	13%
% Textile Exports of overall exports	11.63%	11.63%	12.59%	12.58%		
India's overall exports	1633634.81	300400.68	1894181.95	312610.30		

Source: DGCI&S

Note: DGCIS data takes into account only a limited handicrafts items (24 items) whereas the Export Promotion Council for Handicrafts (EPCH) considers comprehensive Handicrafts items (about 200 items).

*Provisional

Import	April - December, 2014 (as per DoC data)
Total Textile and Clothing Import	US$ 4075.19 million

Source: DGCI&S

India's share in World Textile Trade

Overall, India's share in the US$ 685 billion world textile and clothing market, though small is rising steadily. India's textile export share increased from 3.27% in 1996 to 3.96%in 2007. Similarly, India's export share in clothing increased from 2.57% in 1996 to2.79% in 2007.

Cotton Exports in India 1996-97 onwards

Year	Quantity in lakh bales of 170 kgs	Value in Rs/Crores
1996-97	16.82	1655.00
1997-98	3.50	313.62
1998-99	1.01	86.72
1999-00	0.65	52.15
2000-01	0.60	51.43
2001-02	0.50	44.40
2002-03	0.84	66.31
2003-04	12.11	1089.15
2004-05	9.14	657.34
2005-06	47.00	3951.35
2006-07	58.00	5267.08
2007-08	88.50	8365.98
2008-09	35.00	3837.13
2009-10	83.00	10270.21
2010-11	76.50	N.A.
2011-12	129.57	N.A.
2012-13	101.43	
Note: Value figures are estimated	Source: Cotton Advisory Board for Quantity figures	
NA: Not applicable	(A): Anticipated	

Government Initiatives

The new Textile Policy of 2000 set the ball rolling for policy reforms in the textile sector, dealing with removal of raw material price distortions, cluster approach for powerlooms, pragmatic exit of idle mills, modernization of outdated technology etc. The year 2000 was also marked by initiatives of setting up apparel parks; 2002 and 2003 saw a gradual reduction in excise duties for most types of fabrics while 2004 offered the CENVAT system on an optional basis. The Union Budget of 2005-2006 announced competitive progressive policies, whose salient features included:

- A major boost to the 1999-established Technology Upgradation Fund Scheme for its longevity through a Rs 4.35 bn allocation with 10% capital subsidies for the textile processing sector
- Initiation of cluster development for handloom sector
- Availability of health insurance package to 0.2 mn weavers from 0.02 mn initially
- Reduction in customs duty from 20% to 15% for fibres, yarns, intermediates, fabrics and garments; from 20% to 10% on textile machinery and from 24% to 16% in excise duty for polyester oriented yarn/polyester yarn
- Reduction in corporate tax rate from 35% to 30% with 10% surcharge
- Reduction in depreciation rate on plant and machinery from 25% to 15%
- Inclusion of polyester texturisers under the optimal CENVAT rate of 8%

FUTURE OF INDIAN TEXTILE MSME

Expectations are high, prospects are bright, but competitively capitalizing on the new emerging opportunities is a challenge for textile companies. Some prerequisites to be included in the globally competing textile industry are:

- Imbibing global best and innovative practices
- Adopting rapidly changing technologies and efficient processes
- Networking and better supply chain management
- Ability to link up to global value chains.

The Indian textiles industry has established its supremacy in cotton based products, especially in the readymade garments and home furnishings segment. The readymade garment segment is the principal driver of growth even in the domestic industry. The changing preferences of Indian consumers -- from buying cloth to readymade garments -- have prompted several companies to move up the value chain into the finished products segment.

CHALLENGES FACED BY TEXTILE MSME

High cost of credit: Access to adequate and timely credit at a reasonable cost is the most critical problem faced by this sector. The major reason for this has been the high risk perception among the banks about this sector and the high transaction costs for loan appraisal. While the quantum of advances from the public sector banks (PSBs) to the MSEs has increased over the years in absolute terms, from Rs.46, 045 Crores in March 2000 to Rs.1, 85,208 Crores in March 2009, the share of the credit to the MSME sector in the Net Bank Credit (NBC) has declined from 12.5 percent to 10.9 percent during the same period.

Collateral requirements: Players in MSME sector are not in a position to provide collateral in order to avail loans from banks and hence denied access to credit.

Limited access to equity capital: This is common challenge faced by this sector in spite of the fact that overall capital inflows have witnessed significant increase in the recent years. Absence of equity capital may pose a serious challenge to development of knowledge based industries, particularly those that are sought to be promoted by the first-generation entrepreneurs with the requisite expertise and knowledge.

Problems in supply to government departments and agencies: Majority of government tenders prescribe high eligibility criteria such as annual turnover, past experience etc which deters entity to MSME sector

Procurement of raw materials at a competitive cost: This is a growing challenge faced by this sector as procurement for raw materials is carried out within local territory due to their financial constraints and procurements are much smaller in scale as compared to industry at large.

Problems of storage, designing, packaging and product display: MSMEs face problems of storage, display and designs for their products. Non availability of selling outlets for their products is a serious constraint. In addition, MSEs also face problem of inadequate infrastructure for marketing of their products to interior/ remote parts of the country.

Lack of access to global markets: With the liberalization and globalization of the Indian economy, the small enterprises in India have unprecedented opportunities on the one hand, and face serious challenges, on the other. While access to global market has offered a host of business opportunities in the form of new target markets, possibilities to exploit technological advantage, etc., the challenges in this process have flowed mainly from their scale of operation, technological obsolescence, and inability to access institutional credit and intense competition in marketing.

Inadequate infrastructure facilities, including power, water, roads, etc: To ensure competitiveness of the MSMEs, it is essential that the availability of infrastructure, technology and skilled manpower are in tune with the global trends. MSMEs are either located in industrial estates set up many decades ago or are functioning within urban areas or have come up in an unorganized manner in rural areas. The state of infrastructure, including power, water, roads, etc. in such areas is poor and unreliable.

Low technology levels and lack of access to modern technology: The MSME sector in India, with some exceptions, is characterized by low technology levels, which acts as a handicap in the emerging global market. As a result, the sustainability of a large number of MSMEs will be in jeopardy in the face of competition from imports.

Lack of skilled manpower for manufacturing, services, marketing, etc.: Although India has the advantage of a large pool of human resources, the industry continues to face deficit in manpower with skills set required for manufacturing, marketing, servicing, etc. Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily; and

Branding and Marketing: Due to very high cost of business acquisition, Low media budget, non participation in International events, the MSME branding and visibility is extremely poor.

3. GLOBAL TEXTILES INDUSTRY

Textile and garments sector occupies significant position in total volume of merchandise trade across countries. World trade in textiles and clothing amounts to US $ 400 billion and is growing constantly. Developing countries are the major exporters and they account for little over two-third of world exports in textiles and clothing. The global textile and clothing industry is one of those sectors that were integrated to the multilateral trading system in 2005. The integration has been possible with the removal of the Multi-Fibre Agreement (MFA) through the Agreement on Textile and Clothing (ATC). The Multi-Fibre Agreement (MFA), that governed the extent of textile trade between nations since 1974, expired on 1 January 2005. The MFA enabled developed nations, mainly USA, European Union and Canada to restrict imports from developing countries through a system of quotas.

The ATC mandated progressive phase out of import quotas established under MFA, and the integration of textiles and clothing into the multilateral trading system before January 2005. ATC was a transitory regime between the MFA and the integration of trading in textiles and clothing in the multilateral trading system. The ATC provided for a stage-wise integration process to be completed within a period of ten years (1995-2004).

A study by McKinsey suggests that by the year 2010 the volume of global textile trade will grow to US $ 650 billion (www.euitymaster.com). India is now a fast emerging market with more than 250 million middle income population with good purchasing power. All these factors are good for the Indian textile industry in the long run. Even though the global economic crisis has already affected the export oriented sector such as textiles & clothing, as long as Indian economy is growing, textile industry would grow provided it takes competition and innovation seriously.

Recent trends in competing countries, particularly China, in the area of mass and labour intensive areas such as Textiles and Garments, Leather etc., show that due to the wage increases as well as other policy changes in those countries the investors are looking for alternate locations (NMCC 2008). This development provides an excellent opportunity for India to attract companies which are looking for alternate source.

3. **SWOT Analysis of Indian Textile MSMEs**

Strengths	**Weaknesses**
• Independent & Self-Reliant industry • Manufacturing flexibility • Abundance of raw material production • Design expertise • Availability of Low Cost and Skilled Manpower • Growing Economy, Export and domestic market expansion • Progressive reforms • Generating employment and Vitalizing Indian brand to the world • Regional Development • Technological Innovation • Contribution to National Economic Growth	• Highly fragmented Industry • High dependence on cotton • Lower productivity • Declining mill segment • Technological obsolescence • Infrastructural Bottlenecks and Efficiency • Non-participants in trade agreements • Poor adaptability to changing trade trends • Lack of funds • Lack of management skills • Non-availability of technically trained human resources • Inadequate exposure to international environment • Inability to face impact of WTO regime • Inadequate R & D and lack of professionalism • Desire to avoid risk • Emphasis on production and not on production costs • Isolation from technology hubs
Opportunities	**Threats**
• Growth rate of Domestic Textile Industry is 6-8% per annum • WTO regime • Elimination of quota regime • Bilateral & Multilateral trade agreements • Enhanced credit support • Support for technological up-gradation • Shift in domestic market to branded readymade garments • Increased disposable income • Emerging mall culture and retail expansion • Growing competitiveness in domestic and international market • Marketing assistance and international markets • High contribution to domestic production • Low intensive imports and Import substitution • Low investment requirements • Operational flexibility and location wise mobility • Contribution towards defence production • Technology - oriented industries	• Continuous Quality Improvement • Dumping from developed countries • Distrust between MSMEs and Financial Institutions • Stiff competition from developing countries; especially China • Poor incentives structures for entrepreneurs • Virtual absence of Enterprise Education • Non-tariff barriers from developed countries • Slow improvement in quality to meet the international standards • Pricing pressure • Geographical disadvantage • International labour and environmental laws • To balance the demand and supply. • To make balance between price and quality.

4. RECOMMENDATIONS

Specific recommendations to enhance the competitiveness and productivity of Textile SMES in India include:

- It has been found that one of the major cost components in the production is the energy consumed during the production process that offsets the competitiveness of SMEs in the sector. It is therefore suggested that the option of subsidizing unit rates of power or encourage the use of other viable options such as non conventional energy sources.
- Establishment of Innovation Centre for MSMEs for the expansion of entrepreneurship by optimizing the role of existing institutions.
- Setting up Textile Industries oriented Special Economic Zone's.
- Liberalized labour laws, tax and other benefits of a SEZ need to be implemented.
- Enhancement of possible market for MSMEs product.
- Granting tax incentives for MSMEs.
- Embed strategies toward the private sector and MSMEs in countries' broader national development and poverty reduction programmes.
- Strengthen SME capacities to improve their competitiveness in domestic, regional and global markets. Promote policy coherence at regional, national and international level.
- Maximise the spillover of management skills and knowledge from multi-national enterprises to local SMEs.
- Enhancing women's ability to participate in SME development should be taken into account at every level, as women account for an important share of private sector activity and contribute most to poverty reduction.
- Dialogue and partnerships between the stakeholders (public sector, private sector and civil society) fosters ownership of these strategies, engenders them more implementable (by better addressing SME needs), making them politically credible, and sustainable.
- Access and integration into local, national, and global markets require substantial investments in sustainable institutional and physical infrastructure development and service delivery to SMEs in all areas, including those that are rural and/or remote.
- Vocational training through ITIs, Textile Design & Management Institutions specially in the area of Apparel Manufacturing, Quality Control and Designing needs to be encouraged so that skilled work force is available for the SMEs.
- Inter-state tax regime should be simplified for textile goods movement to avoid additional costs and burden to the buyer/ consumer and making the SMEs more competitive.
- Quality and cost of production are the key factors for sustaining competitiveness in the sector., Modernization of the units and up gradation of technology is imperative for the SMEs.
- Since SMEs are working on thinly spread margins and the cash flow is a major constraint for majority of the manufacturing units, there is need to work out time bound refund mechanisms from Technology Up gradation Fund (TUF) provided by Government for the modernization of the units.
- In order to offset the loss of international competitiveness of the Indian Textile and garments sector due to the exchange rate fluctuations, Government needs to carry on with reimbursement schemes such as duty drawback, market development assistance etc., on a continuous basis.
- Existing support measures available to textile garments manufacturers and traders for attending, showcasing and publicizing Indian textile and garments at the international trade fares and exhibitions needs to be strengthened specially for SMEs .
- Regulatory function of the concerned government Ministries, Departments, State Government need to be focused on controlling raw material exports with a view to ensure stable yarn prices in the country and to make the SMEs in the sector more competitive and productive.
- Since design is a critical ingredient in the fast changing textile fashion technology, the existing textile design centers need to be strengthened and more such institutes need to be opened, especially for the support of textiles and garments sector.
- Government should promote and encourage lean manufacturing and cost reduction

measures in the textile and garments manufacturing.

- Export taxes are hindering the export of textile products. There is need for improving the export tax structure for making SMEs of the sector more competitive.

5. CONCLUSION

The Indian SME sector plays a pivotal role in the overall industrial economy of the country. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession. Indian SMEs have moved up the value chain from manufacture of simple goods to manufacture of sophisticated products like electronic control systems, medical equipment and microwave components. In line with the overall growth in Indian economy, SMEs have entered the services sector as well. Government of India and State Governments has adopted a cluster approach to development of SMEs. Clusters are defined as sectoral and geographical concentration of enterprises, particularly, small and medium enterprises, faced with common opportunities and threats which give rise to external economies. Clustering and networking has helped the small and medium enterprises in boosting their competitiveness. In an effort to maintain their competitiveness Indian SMEs are looking to adopting information and communication technologies in a big way. New generation IT models including Software as a Service (Saas) and Infrastructure as a Service (IaaS) are helping SMEs overcoming the technological divide by through innovative IT delivery and pricing models. While the extent of IT penetration in small enterprises is low, many medium sized enterprises have adopted technology in a big way to differentiate themselves from their competitors.

Financing for SMEs continues to be an area for improvement notwithstanding the increased options available to SMEs today to fund their growth. New products available from the banking system for working capital loans as well as availability of risk capital through private equity / venture capital have enabled SMEs to reach higher levels of growth.

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