5 Knitting it Together: India and the MFA Phase-out

Pramod Dev

Background: the Indian economy

After almost 200 years of colonisation, India in 1947 remained a poor, agrarian economy and supplier of natural resources. The independence period witnessed the emergence of a mixed economy with pronounced socialist leanings that was trying to grow on all fronts simultaneously. Economic development was envisaged through a centralised and controlled planning process, with the Government as the most important provider of services and employment. An import substitution model was preferred to open trading, and restrictions on imports and private and foreign investment were imposed. High tariff walls were the norm and economic reforms were largely absent. By the late 1980s, the lack of incentives for individual initiative, combined with population growth, had resulted in increasing poverty and an underperforming economy.

There were sporadic efforts at liberalisation in the 1980s; however, they remained largely confined to specific sectors. Major reforms were initiated in 1991 as the economy was under severe strain from low growth and mounting foreign debt. Though liberalisation has been a cautious, phased-in process that is still not complete, increasing exports was adopted as an important strategy and has arguably resulted in considerably reducing poverty, even though the size of the population means that a large proportion of the populace is still poor. Economic growth has not been distributed evenly but has deepened the dual nature of society, with high levels of affluence and poverty existing side by side.

The textiles and clothing sector

Trade in textiles and clothing

The textiles and clothing sector became subject to the general rules of the GATT from 1 January 2005. The Multifibre Arrangement and its successor, the Agreement on Textiles and Clothing, had until then tied import markets to a system of quotas that were distributed among different exporting countries. The quota regime ensured that many of the traditional textiles-

producing nations continued to export, despite being inefficient compared to major producers such as China and India. Purportedly, textiles and clothing was one of the prominent sectors where developing countries had the most to gain from multilateral trade liberalisation under the WTO. In fact, the prospect of liberalisation of the textiles and clothing sectors was one of the reasons why developing countries accepted the inclusion of contentious issues such as services and intellectual property rights in the WTO Uruguay Round negotiations (Nordås, 2004).

The textiles and clothing industry in India

The textiles and clothing sector is the second largest provider of employment in India after agriculture. It provides direct employment to almost 35 million people, including a substantial number from the socially excluded classes and women. It contributes approximately 14 per cent to the country's industrial production, 4 per cent to its GDP and 16 per cent to its total export earnings (Adhikari and Weeratunge, 2006). India's share in the global textiles and clothing trade was 4.3 per cent in textiles and 3.3 per cent in clothing during 2006, while its rank in world trade was seventh in textiles and fifth in clothing (Ministry of Textiles, 2008).

There is a well-developed textiles and clothing value chain and a strong domestic market, valued at over US$25 billion. All the major components of the production chain are present in the domestic economy. The industry is also extremely varied in terms of the levels of technology and sophistication, with the hand-spun and hand-woven sector at one end of the spectrum and the capital-intensive, sophisticated mill sector at the other. Major sectors include the organised cotton/ man-made fibre textile mills, man-made fibre/ filament yarns, decentralised powerlooms, woollen textiles, silk, handlooms, handicrafts, jute and textiles exports. The export basket includes a wide range of items: cotton yarn and fabrics, synthetic yarn and fabrics, wool and silk fabrics, made-up articles and a variety of garments. Decentralised powerloom/hosiery and knitting are the largest sectors.

In the period immediately following the phase-out of the MFA, considerable increase in trade was registered. One estimate suggests that exports grew at a rate close to 17 per cent in 2005, while imports grew at about 30 per cent. However, high growth of exports to the major markets of the EU and USA was at the cost of exports to the Asian countries, which fell by 12 per cent. Meanwhile, imports from Asia increased to the tune of 45 per cent in the same year (Dev, 2006).

Exports are concentrated on a few products and markets, with more than 50 per cent being garment and clothing products. Europe and America

accounted for almost 70 per cent of export earnings in 2005 and their share in the top five export items, all apparel and clothing products, was more than 75 per cent (ibid.).

However, volatility of export demand and appreciation of the Indian rupee in the following year resulted in export growth being reduced to about 7 per cent. The latest report from the Ministry of Textiles (2008) shows that export growth has further decelerated in the recent period. India has not fared well in the post-MFA phase as compared to its main competitor, China, despite the quota restrictions imposed on the latter in the US market. One major factor responsible for the Indian textiles and clothing sector's inability to optimally utilise market access opportunities is the lack of economies of scale. Small and cottage units that employ fewer than 11 workers constitute 80 per cent of the industry; medium units, employing between 21 and 49 workers, account for 14 per cent; while only 6 per cent of units employ more than 49 workers (Adhikari and Weeratunge, 2006). This prevents firms from gaining competitive strength in the international market.

Impacts on women of changes in trade policy

Economic impact

In the post-MFA period the textiles and clothing export sector became highly price elastic. International competition, mainly with China, resulted in wafer-thin profit margins. This means that to achieve economies of scale, maximum output must be produced at the lowest cost. Since the fixed cost components could not be reduced, the variable cost of wages was targeted by employers. Further casualisation of the workforce and increasing instances of piece rate employment and home-based work have been reported.

The first year of the post-MFA period witnessed increasing demand for women workers in most Indian textiles centres, especially in many garment manufacturing units where low-skilled labour was employed in large numbers. Male workers were rendered unemployed in many parts as companies preferred female workers who were offered lower wages. There are reports of women workers being recruited to keep the core issues of right to freedom of association and collective bargaining out of the textiles sector, as well as to deny legally entitled benefits and keep wages down. Moreover, adolescent, unmarried young women aged 18–25 have been recruited who receive no bonuses and are denied the provident fund, state insurance or other payments to which they are entitled.

Though women earned wages and thus found a level of economic independence, they were often the only members of the family who were earning

and thus were forced to take up increased responsibility for looking after the family. Since they worked the late shifts when the demand for workers was higher and overtime was a good source of income, the women often faced social stigma and insecurity as the provision of late night transport was increasingly compromised. In addition, the period of higher employment for women, namely 2005–2006, was also a period of high inflation. This, coupled with job losses by the male family members, meant that the overall income effect was negative and welfare for women workers was lower.

Reduction in export demand due to appreciation of the rupee in 2006 resulted in further reductions in prices and margins. This has accelerated the decentralisation of garment manufacturing. It has become difficult for companies to maintain a large permanent workforce as they did in the pre-MFA period. Workers have been off-loaded on a large scale or employed as daily workers according to need in the factories, making job security almost non-existent in the sector.

In some cases, increasing decentralisation and casualisation of work has resulted in workers being forced to sign under different names in the company registers in order to enable the employers to circumvent the statutory regulations on paying health and employment benefits. These changes have also resulted in the emergence of contractors who recruit and supply labourers according to demand and sometimes switch them on a regular basis from one factory to another. This has enabled the companies to avoid any legal obligation to their workers.

Interviews with workers reveal that employers have resorted to practices such as deducting contributions to provident funds and health insurance premiums from monthly wages of casual and daily wage workers. These workers are not covered by the funds or health insurance, and such deductions are illegal practices employed by the firms or the contractors.

Social and cultural impact

In some cases employers have exploited and reinstated social ills such as the practice of paying a dowry, which remain prevalent in India. In the Tirupur area of Tamil Nadu, for example, many girls are recruited under the *sumangali* (married woman) scheme. Poor unmarried women from far off areas are recruited as contract labour with an assurance to their families of good wages and a lump sum at the end of the tenure to enable them to pay their dowry. They have to work for three years without much contact with the outside world or their families. They face exploitative working conditions and low wages, long hours of work, and physical and verbal abuse. Such workers do not fall under the purview of the provident fund or state insurance

coverage. Often the promised lump sum is not paid, as the employers terminate contracts on flimsy grounds.

Discernible human development implications are emerging in the post-quota regime in the textiles and clothing sector. Working conditions have generally deteriorated and occupational hazards and diseases are on the rise. In the New Delhi region, for instance, garment companies have introduced a token system to limit the use of toilets during working hours and have reduced the duration of lunch and evening breaks in order to improve productivity. Moreover, as noted above, female workers are made to work the night shifts, which was not the practice earlier.

The change in patterns of demand in export markets also has a bearing on the human development of the stakeholders. In the case of the branded clothing segment, fashions and designs change frequently, in some cases every two weeks. The new styles are more complex and time-consuming to learn and make. Workers are expected to learn the new styles quickly and produce the same or more output (with minimum defective pieces) than they did with the old designs, compounding their problems with adapting to the new requirements.

Most women who are employed in the textiles and clothing sector have jobs that require low skills, and the opportunities for learning new skills have become limited with the decentralisation of the sector. This not only makes them dispensable but also excludes opportunities for personal development. Many older women workers, who were perceived to be slow, also lost their jobs together with the men, due to the emphasis on efficiency and output. These women did not have the necessary skills to find other jobs and have ended up in menial jobs, remained unemployed or have been lured into prostitution.

A major cultural impact of developments in the post-MFA period is the reinforcement of gender roles in communities, where women are seen as only fit for lesser roles.

Measures taken to help women deal with policy changes

National level

The Government has devised various support and incentive schemes for the textiles and clothing sector due to its importance in export earnings. There is a wide range of legal provisions in both central and state legislation. Stringent labour and factory laws are in place to ensure minimum wages and basic working conditions. However, in practice these laws are applied only to the organised sector and their implementation has been ineffective due to problems with monitoring and the increasing casualisation of employment.

Most schemes are aimed at supporting firms directly by providing funds for technological upgrading, cheaper credit and duty drawback. In sectors such as handloom, handicrafts and sericulture, where the number of women workers is high, budget outlays on development schemes are earmarked especially for women. In the handloom sector, for example, 30 per cent of the budget is set aside for activities to help women weavers. In the handicrafts sector, 10 per cent of the budget is earmarked for women artisans. These schemes include provision of training, employment generation, marketing and publicity, input support, modernisation and upgrading of technology, infrastructure support and welfare measures. In the sericulture sector, subsidy and training schemes are operational and two other schemes – health insurance and the creation of crèches and toilets in the cocoon markets – are in the pipeline (Ministry of Textiles, 2008).

For workers in the organised sector there are provisions for provident funds, health care and basic facilities at the workplace. A rehabilitation fund for textiles workers provides interim relief to those unemployed due to the closure of units. In the unorganised handloom sector, weavers associated with co-operatives and self-help groups are provided with cheaper credit and an option for health insurance. The Government has also tried to implement credit, individual and group life insurance schemes and training schemes for handicrafts artisans through the involvement of NGOs and co-operatives (Ministry of Textiles, n.d.).

NGOs and private initiatives, such as the Self Employed Women's Association (SEWA) and FabIndia, have developed sustained product chains from the artisans to the showrooms. These provide workers and artisans in the unorganised sector with livelihood security and markets. The spread and popularity of these chains have helped in reviving specific skills and traditional crafts by opening up urban and export markets. Since the traditional crafts usually involve manual labour and are home-based, the whole family participates and benefits from sustained demand. Women form an important component of this home-based production. Initiatives like SEWA's emphasise women's empowerment through local collectives and providing markets. The success of such initiatives has inspired the second-tier competitors who have further expanded the market for traditional items. However, while profit margins in these activities are very high at retail level, it is not clear if the increased demand and prices translate into a proportional increase in the revenue of the primary producer.

In the private sector, which is organised and mostly unionised, the laws on basic amenities are generally implemented. However, there is an increasing trend of casualisation and erosion of collective bargaining that usually makes women more vulnerable to shifts in demand for exports. On the other

hand, there are specific instances of private companies voluntarily adhering to corporate social responsibility agendas and setting norms on the welfare of workers. In isolated instances, the demands of and monitoring by foreign buyers around adherence to social standards have also resulted in firms providing better facilities on the factory premises for their female workforce.

International level

Most activities of the international community in the textiles and clothing sector have been focused on general welfare aspects such as working conditions and labour standards. International campaigns such as the Clean Clothes Campaign, Ethical Trading Initiative and Jobs with Justice, which emphasise labour standards and working and living conditions, are currently running in India.

The efforts of international organisations such as the International Labour Organization (ILO), United Nations Conference on Trade and Development (UNCTAD) have been mostly concentrated on research to influence policy on the linkages between trade and gender.

Lessons learned

Devising effective support measures to counter the increasing vulnerability of women to changes in the sector is a challenge. Such measures have become all the more necessary in the post-MFA trade regime. Better understanding of the issues is required, and at the moment women's problems are not adequately highlighted in the policy arena.

Lessons for local organisations

- Illegal practices in the sector should be effectively documented and reported to bring visibility to the problems faced by women.
- Impetus should be given to collective bargaining and better advocacy at government level.

Lessons for government

- Effective implementation of health and occupational laws and social security measures is needed.
- Consultation with primary stakeholders and women in particular should be improved to customise support measures.

- The focus in trade policy-making is often limited to the problems faced by the firms, therefore the support measures seldom reach the workers.
- Training and skills enhancement programmes should be initiated and effectively implemented targeting women working in the textiles and clothing sector.
- The low-value product chains are at the heart of the problems faced by the sector. There is a need to encourage upgrading of products through policy and support measures.

Lessons for international agencies

- Advocacy is needed at national government level to improve the condition of women in particular and upgrade the sector as a whole.
- Local organisations should be supported and encouraged to carry out the task of documenting and reporting the practices in the sector.
- The Government should be supported in its efforts around training of workers and technological upgrading of the sector.

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