

Indian Carpet Industry after Trade Liberalization. Problems and Prospects

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Abstract *This paper aims to examine the constraints and opportunities emerged for the Micro, small and medium enterprises in carpet industry after trade liberalization. The survey method was selected for this study. A structured questionnaire, containing both close and open ended questions was used for data collection. 65 carpet firms of Bhadohi District of Uttar Pradesh registered with All India Carpet Manufacture Association (AICMA) were surveyed. Liberalization has brought many opportunities for carpet industry apart from challenges. Findings of the present study show that liberalization gave access to new markets and increased demand of products. Increased cost of raw material, difficulty in 'export facilitation' and 'legal-regulatory framework and difficulty in procuring funds from local financial institutions were identified as the major constraints for the carpet industry.*

Key words Carpet industry, trade liberalization, India, Bhadohi

JEL Codes: L69

1. Introduction

The carpet industry is a de-centralized industry and is a generational craft where skills are passed on from one generation to another, (Bowonder *et al.*, 2005). Egypt is recognized as the original home of carpet making from there it spread to other parts of the East. The manufacture of carpets was later taken up at Alexandria, and from Alexandria it was taken into Western India, (DAS *et al* 1992). The Mughal king Akbar is credited with the introduction of pile carpets into India, but Jahangir and Shahjahan brought the art of Indian carpets to its prominence (Juyal, 1993; Saraf, 1986; Waziri, 1986). Many of the carpets produced during the reign of Shahjahan are housed in the Victoria and Albert museum in London and in other museum across the Europe, including a few in the Jaipur museum in India (Saraf, 1986). The carpet industry in India is spread over some specific belts. In the post-British period such indigenous industries started flourishing in different parts of the country.

The traditional carpet manufacturing regions are located in Bhadohi, Mirzapur, and Agra in the state of Uttar Pradesh, Jaipur in the state of Rajasthan and in the Kashmir valley. Other leading carpet manufacturing workshops are located in

Punjab, Andhra Pradesh, and Himachal Pradesh. The Mirzapur-Bhadohi region accounts for about 85 per cent of Indian carpet exports ('Child Labour in the Carpet Industry of India', *The Hindu*, July 16, 1996, p 9). This region is often known as the 'carpet-belt' since the carpet industry is the main industry.

The Indian hand-made carpet industry is an export-oriented industry and is a significant contributor to the country's rural economy, which helps in providing employment. The strength of the industry is the small and medium sized exporters with tremendous export potential and the highly talented crafts persons who have been weaving intricate designs of exclusive floor coverings, (Bowonder *et al.*, 2005). India has made remarkable progress in export market of hand knotted carpets. The production of hand knotted carpets is very labour intensive and time consuming. The demand for hand knotted carpets in the international market has declined due to changes in consumer tastes in favour of cheaper, less durable and modern design carpets, rather than more costly, longer lasting and traditional design carpets, (Venkateswarlu *et al.*, 2006).

Iran, China, India and Nepal are the key players in the global carpet trade. Other significant exporters include Turkey, Afghanistan, and Pakistan. America and Europe are the chief importers. But the new markets like Turkey, South Africa, Latin America, Japan and Australia are also emerging for export.

2. Literature review

Rudiger, (1992) argue that beyond the general benefit of exposure to an advanced, competitive world market, the act of trade liberalization also carries the potential of dynamic benefits. An open trading environment is also associated with a transfer of know-how. Free trade leads to a more economically rational market structure. Gains from liberalization also result from scale economies and economies of scope that arise in wider markets. Uchikawa (1999) claimed that Indian industry was unable to capitalize on the opportunities of opening up because they stuck to low ends of their markets, and any 'forced' modernization and up gradation of quality and production management did not occur. Trade Liberalization becomes essential when an industry reaches a certain level of maturity provided it is undertaken selectively and gradually (Shafaeddin, 2005).

According to Singh (1979) many Indian handicrafts succumbed to the challenges of technological modernisation, the carpet industry, one of the urban handicrafts has not only successfully withstood the onslaught of technological development but has flourished over the years. This is due to the adaptability that the industry has shown to new situations. Darbanhosseiniamirkhiz *et al.* (2011) observed that the hand woven carpet industry is a decentralized industry in which skills and methods have been passed on from one generation to another, mostly without being influenced by new technologies which may bring benefit to the industry. The technology of

manufacturing woven carpets has remained virtually unchanged over the centuries. The Indian carpet industry during the post-independence era has witnessed an export-led growth. The prospect of carpet industry is very much dependent on the exports. Export prospects of carpets basically depend on overseas demand and domestic supply potential (Tyagi, 2011). Pandey (2011) analyzed the impact of recession on carpet industry. Decrease in the export orders of carpets has pushed carpet weavers and business community including sub-contractors, owners of dyeing plants, washing units to close down their businesses. Ray (1995) analyzed the international competitiveness of the Indian hand-knotted carpet industry and pointed that it rests on an arrangement where raw material cost is depressed through an imperfect market which prevents the raw wool producer from recovering his cost of labour and where the social cost of depreciating grazing lands is not reflected in the cost structure.

D' Essence Consulting (2004) observed that carpet industry is presently going through a major change. Traditional markets are getting saturated while new markets are emerging for growth. Modern designs and low end carpets like Hand-tufted carpets are attracting new customer base. Indian carpet industry will find it difficult to compete with Chinese industry in terms of volumes and prices. Venkateswarlu *et al.* (2006) argue that there was a significant decline in the production and exports of hand knotted carpets particularly in the core carpet belt of Mirzapur-Bhadohi. The recent slump has affected all the sections involved in this business. Lack of demand has affected the traditional belt more than other areas.

3. Methodology of Research

3.1. Research Problem

Economic reforms based upon the principle of liberalization, Privatization and Globalization (LPG) and the changes at the international economic scene including the emergence of World Trade Organization (WTO), have brought certain challenges and several new opportunities before the Micro, Small Medium Enterprise of carpet industry. Carpet Industry in India has experienced a major change in recent years. The industry is moving towards the emergence of new market and saturation of old existing market. Chinese industry is emerging as the biggest threat to Indian carpet industry, in terms of pricing and volumes, (APITCO, 2009). The prospect of carpet industry is mainly dependent on the exports. Decrease in the orders for exporters of carpets has pushed carpet weavers and business community including sub-contractors, owners of dyeing plants, washing units to close down their businesses (Pandey 2011).

The present study is an attempt to examine the problems and prospects of carpet industry as emerged from trade liberalization in India.

3.2. Research Questions

The study aims to answer of the following broad questions via gathering information from both primary and secondary sources.

What are the constraints faced by carpet industry after trade liberalization?

1. What are the opportunities emerged after trade liberalisation for carpet industry?
2. What intervention measures are required to address the problems faced by this sector due to trade liberalization?

3.3. Objectives of the Study

To identify the constraints faced by carpet Industry.

1. To identify the opportunities emerged after trade liberalization for carpet industry
2. To suggests the measures to enhance the competitiveness of the industry.

3.4. Methods of Research

In this study all the carpet firms of Bhadohi District registered with All India Carpet Manufacture Association (AICMA) as on May 12, 2012 were included in the sampling frame. 209 firms were in the sampling frame. The survey method was selected for this study. 65 Enterprises were surveyed from the high concentrated areas of Bhadohi district including villages like Ghosia, Khamaria, Gopiganj, Ghatampur, Raj Nagar, and Shivpur incuding Bhadohi city. Primary data was collected with the help of structured questionnaire of multiple choices. Area wise simple random sampling technique was used to collect data. The exploratory cum descriptive research design method is used in the present study. Descriptive statistics is used for the analysis of data.

4. Data analysis

Out of total 65 carpet organizations, 24 (36.9%) were Proprietor/Owner, 22(33.8%) were Partner and 14 (21.5%) were Managers. Remaining 7.69% respondents were Directors, Merchandiser and Export Executive. Of the 65 respondents that completed the questionnaire, 24 (36.9%) were established before liberalization (1990-91) and remaining 41 (63.1%) were established after liberalization (1990-91). Most of the carpet organizations (70.8) that we investigated were in urban areas of Bhadohi city and remaining 19 (29.2%) were in rural areas.

General Constraints faced by the Carpet Exporters

Liberalization has brought certain challenges and several new opportunities before the carpet sector. To know what kind of problems carpet industry in India is facing, respondents were asked to indicate the challenges they are facing. It may be seen from the figure 1 that getting right price for their product is the major problem faced by 46% carpet organizations. This is because of the fierce competition from China

because it exports machine made carpets at lower prices in international markets. Prices of carpet export are not increasing in the same proportion as the cost of imported raw wool and labor charges have increased. Though Government of India has tried to make export hassle free but exporters are still facing difficulty in 'export facilitation' and 'legal regulatory framework' as pointed out by 30.77% of respondents. 26% exporters indicated that they are facing difficulty in Logistics & Transportation. A few respondents also pointed out during personal interaction that in spite of one Inland Container Terminal at Madhosingh, they face difficulty in Logistics & Transportation as frequency is very low and the schedule of trains is also not suitable to the exporters.

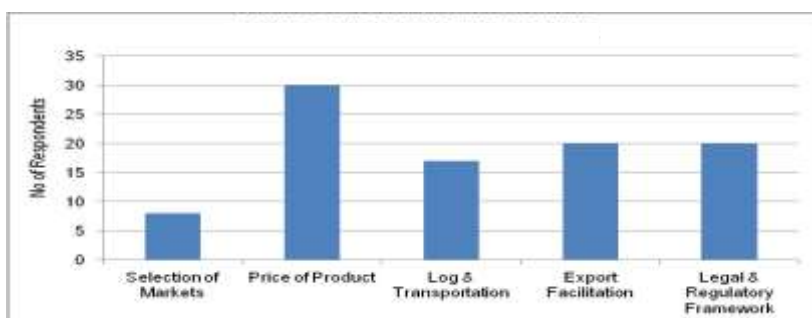


Figure 1. Export related problems

Problems Related to Foreign Exchange and Finance

We have also investigated foreign exchange and financial problems of the exporters and found Volatility of Exchange rate hit the exporters two ways. Firstly, imported wool (raw material) becomes costlier. Secondly, carpet industry being a buyer market on depreciation of local currency, customers ask for lower prices or renegotiate the term when the order is confirmed. Tax burden of the carpet exporters has increased as the income tax has been imposed on the income of exports incidentally after liberalization. High interest rates are also a concern as high interest rates increases the cost of the order ultimately affecting the competitiveness of the industry. 30.77% exporters also indicated that they face problem in procuring funds from local financial institutions (Figure 2).

Problems Related To Production

As shown in Figure 3, majority of respondents (92%) indicated that increased cost of raw material is a major constraint. Lack of infrastructure and lack of the availability

of raw material in the local market are other constraints related to production, as indicated by 76.9% and 46.1% the respondents respectively.

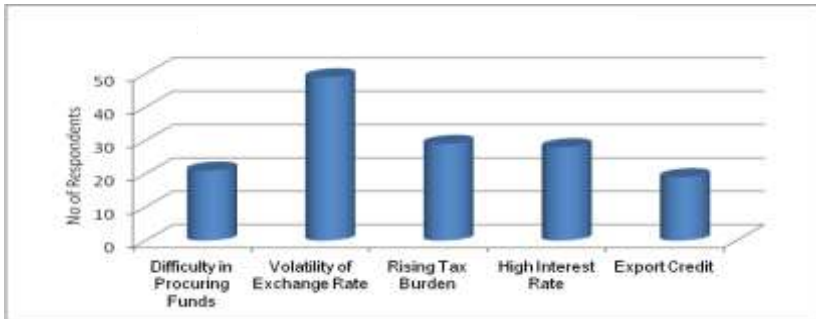


Figure 2. Forex and finance related problems

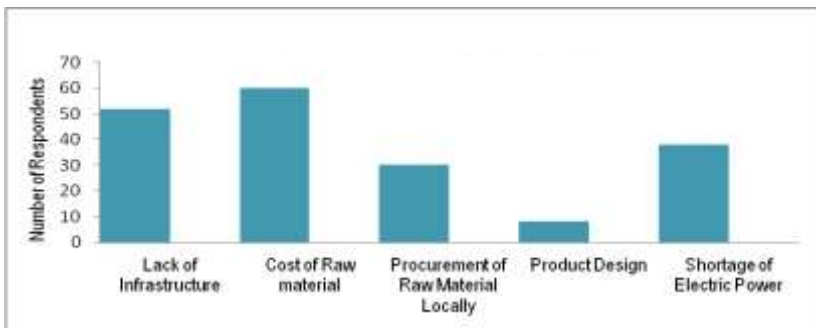


Figure 3. Production related problems

Opportunities emerged after Trade Liberalization

Liberalization has brought many opportunities for micro, small and medium enterprises in the carpet industry apart from challenges. We tried to find out what are the specific benefits or opportunities as emerged from the liberalization to carpet exporters. 77% respondents indicated that it is the positive perception which has emerged towards India from the Liberalization, 69% said liberalization gave access to new markets, followed by increase in demand (45%). There was negligible increase in the prices of carpet export items after liberalization (Figure 4).

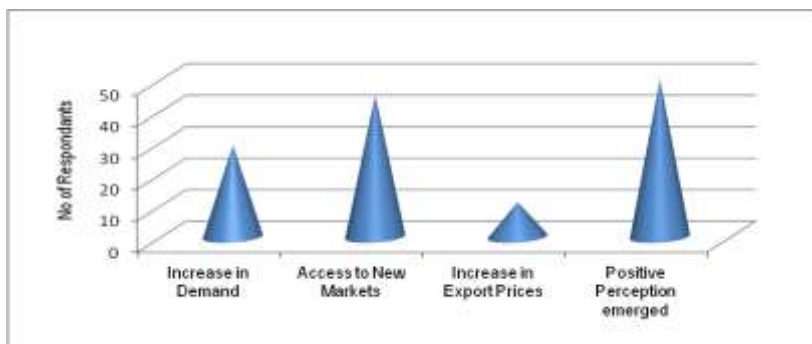


Figure 4. Opportunities

5. Conclusion and Suggestions

Given important contribution of carpet industry to the Indian economy, particularly to that of eastern Uttar Pradesh, policies to support, promote and enhance productive capacity of this sector seem justified. There is a need for simplified legal and regulatory framework and competitive environment. Documentary procedures should be simplified and streamline and single window system needs to be strengthened as it lack the credibility as pointed out by the respondents. Conductive regulatory environment makes trade regime market-friendly, which reduces transaction cost ultimately making export more competitive. Ensuring macroeconomic stability – e.g. controlling inflation and exchange rates – is also important way to allow carpet sector to grow and prosper. RBI should intervene to stabilize the local currency as volatility of exchange rate hit the exporters severely. Volatility of exchange rate brings instability and uncertainties in the international trade. Carpet exporters are particularly hit by volatility as the industry depends on imported raw wool to a large extent which becomes costlier on depreciation of Rupee; otherwise a positive sign for exports. Improving the access to finance to the export enterprises is crucial in fostering entrepreneurship, competition and growth. Financing is necessary to help them set up and expand their operations, develop new products, and invest in new staff or production facilities. Interest rates are a concern as high interest rate unnecessarily increases the cost of export order ultimately making the product uncompetitive in the international markets. Tax burden of the carpet exporters has also increased as the income tax has been imposed on the carpet exporters. Government should remove Income Tax from carpet exports as it will increase the profitability of the exporters which is a concern as of now. Carpet Exporters face difficulty in Logistics & Transportation as Inland Container Terminal at Madho Singh, Bhadohi is virtually defunct. Logistics and

transportation infrastructure should be upgraded to the world level so that delivery of the export orders is timely to the overseas customers and exporters are able to beat competition from other countries especially from China.

The availability of infrastructural facilities is grossly inadequate in the areas of access roads, electricity etc. The industry is also facing pressure in the form of increased labour cost, lack of sales channel, exchange rate fluctuations and competition from low cost and machine made products of other countries especially from China and Turkey. Mechanisation of carpet industry may save Indian carpet industry from fierce competition. The weak infrastructure also acts as a big obstacle for carpet enterprises to exploit the global markets fully. Lack of raw material from the local market or high price and low profit levels are additional constraints facing carpet sector enterprises.

Good quality and sufficient quantity of raw material (wool) is not available in India. The high cost of available raw materials affects the prices of carpets. This not only has adverse effect on the turnover of the enterprise but also on the profitability. To bring the cost of raw material (wool) down, it is advised that domestic sheep industry should be promoted apart from maintaining stable exchange rate. Use of other varieties of raw materials such as jute and cotton which are readily available in domestic market should be increased.

Wool Fiber Industry (Sheep Rearing and Processing) should be promoted. Good breed sheep should be reared to produce high quality of wool to contain high prices of wool in international markets especially of imported wool from Australia and New Zealand. It will save foreign exchange and will also ensure high quality of wool. The positive perception which has emerged towards India after Liberalization has given an opportunity to the carpet exporters to explore the new markets while retaining the old ones.

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