EXPORT PERFORMANCE OF MSME: A QUANTITATIVE ANALYSIS OF THE INDIAN HANDLOOM INDUSTRY

Abstract

The potential of the handloom industry to adapt to the constantly changing requirements of the marketplace makes it one of its strongest attributes. This industry has managed to position itself against the hard-core challenges of the power textile industry by generating 19% of the country's overall textile production and notably boosting export revenue. Seeing the economic significance of handloom exports, this research seeks to evaluate the trade movements and export competitiveness of handloom categories in the global market by adopting the Revealed Comparative Advantage Index. The study applied a quantitative method to evaluate the RCA indices by applying the Balassa index. The handloom products with Harmonized System (HS) codes that are used for export trade were examined by taking the export data for the year 2012 to 2021. Additionally, the official websites of handloom and journals were taken for study. The calculated value shows that cotton, carpets and other textile floor coverings have a high index score which indicates that the country has an extensive range of specialized skills in the production of cotton and other textile floor coverings in addition to possessing a substantial competitive advantage.

Keywords: MSME, Handloom Industry, Export Performance, Revealed Comparative Advantage (RCA), Balassa Index.

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I. INTRODUCTION

A key driver in the expansion of the Indian economy activity is the Micro, Small, and Medium Enterprises (MSME) sector, which is categorized as a meager investment business having good flexibility in its operations. It promotes economic equilibrium and aids in export revenue, thereby contributing to the GDP growth of India (Khatri, 2019). The report of the Trade Promotion Council of India depicts that MSME contributed 33% GDP of the country and 42.67% of the country's total exports in 2022. The Reserve Bank of India classifies small-scale manufacturing enterprises to be informal enterprises having capital investments of not more than one crore for plant and machinery that operate in small regions all over the nation and include activities like handloom, sericulture, woodwork, and numerous other handicrafts (Kumar & Nanda, 2023; Mohanty, 2018). The MSME generates employment at a lesser investment expense in contrast to large enterprises and encourages industrial development in rural regions with an intent to minimize regional disparities by fair allocation of financial resources in the country. It overall promotes the effective function of logistic networks and facilitates revenue creation by expanding the domestic market internationally (Sharma & Rai, 2023).

The unstructured handloom industry which is recognized as part of MSME remains the oldest and most prominent cottage industry in India. A substantial proportion of households are employed in this industry forming an essential aspect of the rural Indian economy. The core of the handloom industry is its aesthetic skills and ancestral knowledge, neither of which can be replaced by sophisticated technology. The potential of this industry to adapt to the constantly changing requirements of the marketplace makes it one of its strongest attributes. The handloom industry has been supported and encouraged by the Indian government by organizing various campaigns and schemes ever since the country attained independence and the efforts of the government have witnessed positive growth as a result of different policy initiatives and scheme interventions such as social welfare efforts, strong marketing campaigns, and cluster approaches (Vyshnavi & Suja, 2017). Lee & Habte-Giorgis (2004) to strengthen the pillars of any specific industry, exporting is the most crucial approach to stepping into international markets due to its ability to generate foreign reserves and boost national income. The government endeavoured to promote the handloom industry by implementing an abundance of export aid campaigns to make exports easier. Through Market Access Initiative (MAI) programme, the government emphasized on supporting exporters to obtain monetary aid and upgrade their export capacity on specific products. The National Handloom Development Programme (NHDP) was initiated to supervise the clusters as well as render opportunities for entering foreign market space (Singh & Gautam, 2021). This industry has managed to position itself against the hard-core challenges of the power textile industry by generating 19% of the country's overall textile production and notably boosting export revenue. Considering the economic significance of handloom exports, this research frames the objectives as stated below:

1. To examine the competitiveness of export in handloom products by using the Revealed Comparative Advantage Index;
2. To scrutinize the export movements and current position of the Indian handloom industry.

II. LITERATURE REVIEW

1. **The Export Scenario of the Handloom Industry:** The fact that Indian handlooms are now a significant export product shows how traditional production methods can satisfy both current and future demands. These handlooms are the most sustainable and environmentally friendly products when considering upcoming needs and trends (Anand & Sekhri, 2022). Khatoon (2016) stated that regardless of being the oldest and most significant portion of the Indian textile sector, the handloom industry has struggled to remain viable. The "Make in India" campaign has provided the Indian handloom industry a new dynamism. The Indian handloom market currently operates as an avenue to exhibit to the world its exquisite craftsmanship and dominance. The Indian handloom industry has the potential to bring in international customers through the implementation of the "Make in India" initiative as a platform. This will boost its revenue from exports and help minimize the prevailing shortfall of the handloom enterprises. Bhavani & Anirutha (2019) studied the way that Indian handloom performed in terms of exports to the rest of the globe. The researchers stated that the Indian government through the Handloom Export Promotion Council, aims to advance the handloom sector and create new opportunities. The Indian handloom industry has improved and regained its position in the export market, where 95% of all fabrics sold worldwide are made in India. Singh & Gautam (2019) found that some handloom products have a large competitive advantage and do exceptionally well overseas, while others require their conditions to improve. Singh & Gautam (2021) suggested that an initiative towards export assistance through monetary aid is additionally crucial because handloom enterprises rely heavily on governing bodies for accurate information regarding potential customers and their needs.

2. **Revealed Comparative Advantage (RCA):** The first use of RCA was proposed in Bela Balassa's pioneering article dated 1965. The indices have since been applied in a huge number of surveys and research articles (Laursen, 2015). The RCA index is often derived from trade flows and, in certain instances, GDP statistics to calculate comparative advantages (Stellian & Danna-Buitrago, 2022). This method has a special appeal due to the fact that it is simple to quantify and can be used as an index for various types of sector and nation comparisons. The percentage of a specific industry in total exports of the country compared to the percentage of that industry in all global manufacturing exports has traditionally been used to determine a country's revealed comparative edge in trade. The country is considered to be positioned at a competitive disadvantage in the international trade of the commodity if this index falls below one. The country is considered to achieve a revealed comparative advantage in the industry if the RCA indices exceed more than one (Yeats, 1985).

III. RESEARCH METHODOLOGY

The present study adopted a quantitative method by relying on secondary data pertaining to time series that has been obtained from government sources including UN Comtrade and ITC trade map for evaluating the competitive advantage of handloom exports. Additionally, the official websites of handloom and journals were taken for study. The researchers adopted the Balassa index for measuring the Revealed Comparative Advantage (RCA) of handloom exports from the year 2012 to 2021.

The formula for calculating the Balassa index is:

$RCA_{ij} = [X_{ij}/X_i] / [X_{wj}/X_w]$

Here, RCA_{ij} indicates that j^{th} industry in i^{th} country has a Revealed Comparative Advantage

    X_{ij} indicates product exports of jth industry by i^{th} country

    X_i indicates overall product exports of ith country

    X_{wj} indicates worldwide exports of jth industry

    X_w indicates world exports of overall products

If the index score is higher than one, it implies that country i has proven a comparative advantage in product j whereas if the index score is smaller than one, it implies that country i has exhibited a competitive disadvantage in product j (De Benedictis & Tamberi, 2001).

In order to assess a country's performance against other nations, the Balassa index serves as an indication of the comparative strength of that nation's export products. It is crucial to determine the exchange rate when comparing different nations at different historical periods because the outcome from countries having different parameters and growth scales can make it difficult to interpret (Cooper, 2006). According to Balassa (1977), the observable trade patterns particularly large export market shares reflect comparative advantage.

IV. RESULTS

1. **Evaluation of Revealed Comparative Advantage:** For measuring the competitive edge of handloom items, the Balassa RCA index was used which is the most prevalent and preferred option among experts from worldwide countries. This index measured the performance of handloom products by selecting the Harmonized System (HS) code of particular handloom categories. To calculate comparative advantage, the export trade data was gathered from the websites of UN Comtrade and ITC trade map that has global trade statistics of various products of different countries.

Table 1: Revealed Comparative Advantage of India's Handloom Export

HS Code	Handloom Products	RCA Index									
		Year									
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
50	Silk	3.30	2.94	2.90	2.89	2.54	2.19	2.28	2.45	4.19	4.32
51	Wool	0.81	0.63	0.73	0.85	0.77	0.72	0.77	0.83	0.74	0.59
52	Cotton	8.05	8.79	8.23	8.24	7.25	7.19	8.03	6.20	7.77	8.96
57	Carpets and other textile floor coverings	5.59	5.92	6.36	7.02	7.04	6.52	6.37	6.27	7.09	6.87

58	Other woven fabrics	1.29	1.66	1.77	1.80	1.83	1.82	1.73	1.90	2.03	1.64
62	Apparel and clothing accessories	2.45	2.35	2.31	2.65	2.56	2.35	2.05	2.07	1.88	1.76
63	Other textile items	4.45	4.23	4.13	4.69	4.61	4.63	4.69	4.48	2.46	4.09

Source: Authors' calculation

Table 1 depicts the RCA index of handloom product categories calculated for the time period of 10 years from 2012 to 2021. A total of 7 handloom categories were recognized through an individual HS code that include cotton, silk, wool, carpets and other textile floor coverings, other woven fabrics, apparel and clothing accessories, and other textile items. A product has a competitive advantage if the RCA index score stands above one and if it shows less than 1, then it lacks a comparative edge. It means that the product with a higher RCA tends to be more competitive than the rest of the products.
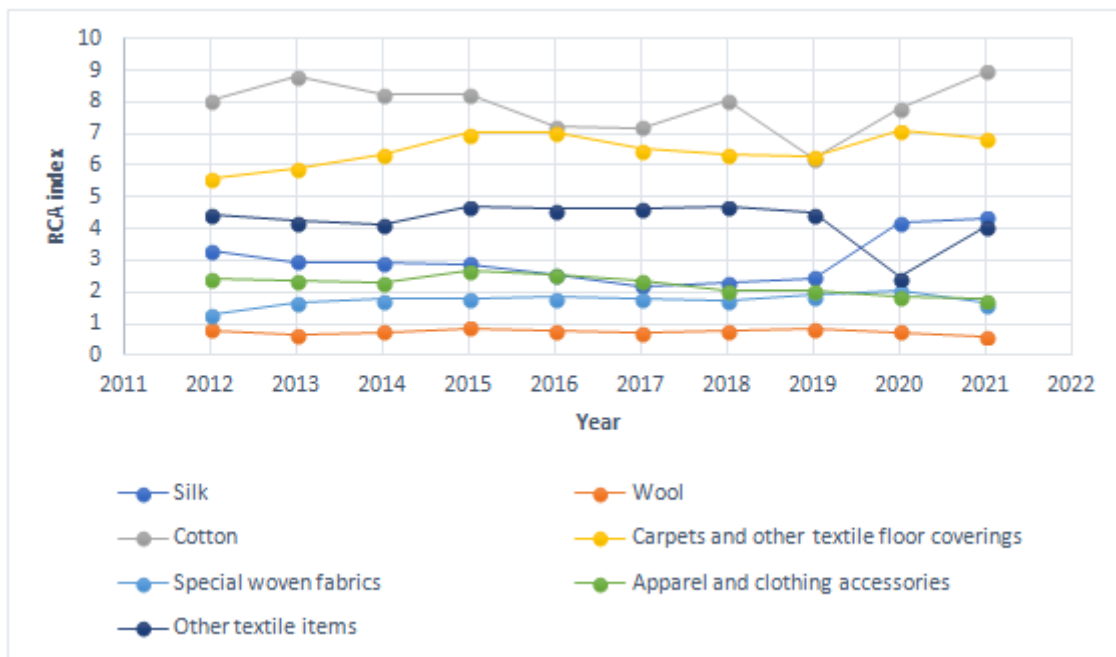

Figure 1: Export Competitiveness through the RCA Index
Source: Authors' compilation

Figure 1 shows that handloom products such as carpets and other textile floor coverings, cotton, and silk are more competitive in terms of exports than other handloom product categories. Cotton is among the highest export sales with an index of 8.96 in 2021 following carpets and other textile floor coverings with a 6.87 index value. The lowest score among all categories is wool with a 0.59 value having a low comparative advantage.

Table 2: Export trends of Indian handloom products

Year	Export value (in US$ million)
2016-17	357.2
2017-18	353.9
2018-19	343.4
2019-20	315.6
2020-21	222.7
2021-22	266.9

Source: Authors' compilation from the Handloom Export Promotion Council

Table 2. shows that the handloom industry has experienced an immense fall in export figures during the period of 2020-21, but managed to regain its market position in the year 2021-22. Yet, the diminishing export figure throughout the year cannot be ignored. There may be flaws within the marketing strategies that require to be examined for the gradually declining handloom exports.
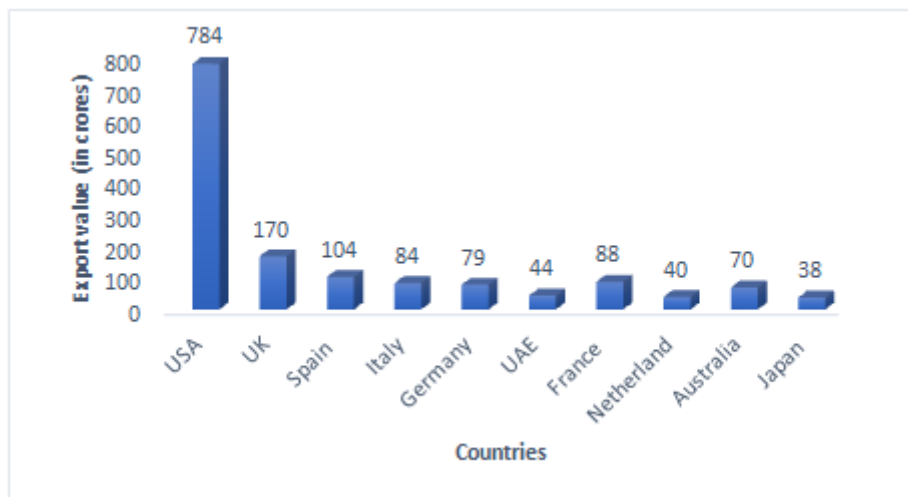

Figure 2: Export movements of Indian Handloom Products in the Year 2021-22
Source: Authors' compilation from the Handloom Export Promotion Council

Figure 2 shows the export movements of handloom products in different countries during the year 2021-22. The top countries where handloom products are exported include the USA, UK, Spain, Italy, Germany, UAE, France, Netherland, Australia, and Japan. The USA was amongst the top export countries for handloom products with a value of 784 crores followed by the UK with 170 crores, Spain with 104 crores, France (88 crores), and Italy (84 crores). The countries with the least export value were Germany (79 crores), Australia (70 crores), UAE (44 crores), Netherland (40 crores), and Japan (38 crores). The chart shows that the USA is a prime export destination for handloom products with significant export value.

V. DISCUSSION

The calculated value confirms that cotton, carpets and other textile floor coverings have a high index positive score, which indicates that the country has an extensive range of specialized skills in the production of cotton and other textile floor coverings in addition to possessing a substantial competitive advantage. Wool and other woven fabrics are among the lowest index values showing low specialization for export sales. The other textile items (HS 63) also have a significant export contribution which shows a constant index value from 2012 to 2019 but fell drastically in the year 2020. Although cotton shows the highest score as compared to other handloom categories, there have been notable fluctuations in its export sales from 2018 to 2021 but managed to retain its position in 2021.

According to the report of the Indian Trade Portal, India exported 1,693 crores worth of handloom products in the year 2021-22. India is the top exporter of handloom products and more than 20 countries import handloom items to their countries. The US has been the top importer of handloom products for the subsequent eight years. The UK which is the second top importer of handloom has increased its import value by 9.7% in 2020-21. Belgium, Canada, Denmark, Brazil, Greece, Chile, Thailand, and Sri Lanka are a few additional countries that import handloom from India. The overall handloom exports in 2020-21 contributed to 8.6% from these countries which was worth around 141 crores.

Export businesses strengthen balanced trade, produce employment opportunities, and generate earnings. Therefore, it performs an imperative function in the advancement of trade worldwide (Manthri et al., 2015). The implications of export aid campaigns in supporting export operations to accomplish higher margins in global marketplaces have drawn increasing interest among the industries (Carr et al., 2000). It is essential to pinpoint the aspects of export performance that influence the handloom industry.

VI. CONCLUSION

This study provides statistical data on export performance and competitiveness of handloom products traded worldwide. The data showed handloom product categories having different export performances. The Balassa Index was adopted to examine the comparative advantage of a particular handloom category for export sales by taking the export data from the years 2012 to 2021. The handloom items with low export competitiveness need to be strategized to stand out in the market by scrutinizing the demand prospects of that product in a specific country because every product item cannot be prominent in one particular country due to their different usage patterns, and consumption habits. The innovative design creation that complies with the needs of the global market would serve the purpose of handloom export sales. The figured handloom items are required to be taken into account by the export policymakers to proportionality distribute assistance schemes in order to better comprehend the way schemes can be used in accordance with their needs. The competitiveness of exports in handloom products should be evaluated periodically to ensure an edge over competitors in the market.

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