SJIF 2016 : 4.44
ISSN: 2348-3083
An International Peer Reviewed & Referred
SCHOLARLY RESEARCH JOURNAL FOR HUMANITY SCIENCE & ENGLISH LANGUAGE

CHANGING VICISSITUDES OF THE COTTON TEXTILE INDUSTRY IN INDIA

Devangana Jha

The textile industry in India, especially cotton textiles, has come to be hailed by neo-liberal economists as an arch example of the benefits that the post-1991 Liberalisation has bestowed upon Indian economy: 'Given its scale and the nature of the change, the industry represents the most important example of structural transformation in industry induced by the reforms'[1]. Two major phases are identified in the trajectory of the industry in post-Independence India, the pre-reform phase before the Liberalisation and the post-reform one after it. Reforms were hesitatingly and haltingly begun in 1985, but really caught on during 1992-96, when 'reforms affected the textile industry more deeply than in 1985- 90, though the broad direction of policy was similar in both period'.

The pre-reform phase of the textile industry is said to be one of steady decline (in relative terms) from 1950 onwards both at home and abroad, thanks to 'a policy regime that relatively insulated textiles from world trade and investment, and regulated choice of techniques [at home]', and these 'restrictions on choice of techniques … crippled the integrated spinning-cum-weaving mills in a number of ways'. It was in the post-reform phase that exports came to be encouraged by the government, implicitly for the first time, while 'deregulation removed barriers to expansion and restructuring of mills and powerlooms', thus freeing the mills from the ailments of the previous regime. The conclusion is this: 'The textile industry in India, especially cotton textiles, has been going through a major transition since the 1992 round of trade and regulatory policy reforms.'[2]

This ongoing celebration of the effect of the reforms on Indian textile industry, especially cotton textiles, is based on a rather simplistic, and therefore misleading, impression of the performance of the industry in the pre-reform phase. A closer look at the trajectories of the cotton textile industry corrects the neo-liberal claim doubly, first by showing that the

[1] Roy 1998.
[2] Ibid.

government did encourage and the industry did prosper in pre-reforms times too, and second, by demonstrating through a proper differentiation of the highly uneven character of the growth, that there has been a striking *convergence* rather than the claimed *divergence* of trends between the two phases. Before we go on to describe the actual complex ways in which cotton textile industry in India has been *shown* by economists to have functioned (and which are hardly ever taken into account in the recent market-friendly arguments), we may briefly see how naïve it is to suppose that the government was uniformly opposed to encouraging exports. It was only during the early fifties that 'the government imposed export quotas for a few years'[3], in the 1960s policies of export promotion were actively pursued by the government of which the industry did not take the full advantage for its own reasons[4], and stagnation in textile exports was overcome, probably more dramatically than in the post-Reform phase, after 1972-73 when 'exports rose sharply to reach record levels in the late seventies'[5].

For a proper analysis of the performance of the cotton textile industry in the pre-reform phase, it is useful to distinguish an early period of growth from the subsequent one of crisis and decline. During the 1950s and till about the mid-1960s, the cotton industry registered an impressive growth,[6] and it was only from about the mid-1960s that it began to 'ail' and underwent a prolonged period of 'sickness' for the next two decades or so, which witnessed, along with the closure of a large numbers of firms, an overall deceleration in the output growth and investment. Generally speaking, the reasons behind the crisis were not only slackening demand (related to the structure of the markets) but also technical obsolescence: by 1977-78, to give one example, 143 firms had been declared technically unviable because of the obsolescence of their equipment.

However, a most remarkable feature of this crisis of the cotton industry was its highly uneven distribution. For example, as against the general slowdown marked by slackening demand and technical obsolescence, 14 cotton firms (together with the industrial giants in the other sectors) continued to lead the country's industrial progress in 1976-77, the growth of sales of one of which (Calico Mills) was indeed among the fastest ten in Indian industries.

---

[3] Chandrasekhar 1984: PE34.

[4] Ibid: PE35.

[5] Ibid: PE34. *Contra* Roy 1998 (p. 2174): 'What was left of export was choked by regulation and adverse trade-policy after the 1960s.'

[6] This was part of the overall 'creditable performance' of the industrial sector during 1950-1965, see Chandrasekhar 1988.

The overall deceleration in the growth of output of the textile industry in the period after the mid-1960s is explained by the interplay of a number of factors. To begin with, there was the deceleration in the rate of growth of per capita real income. However, this would not wholly explain the deceleration in the growth of cloth output, for the per capita availability of cloth which, having moved in step with trends in per capita real income till the mid-sixties, betrayed a significant deviation later on, with per capita availability falling despite increases in per capita real income. Second, as a high rate of inflation since the mid-sixties brought about a significant shift in the distribution of income, the average level of per capita consumption tended to be pushed down in the net. Though the fact of income redistribution is doubted sometimes, a variety of data, including the evidence from the CSO National Income Statistics, does suggest a shift in income distribution in favour of the upper classes. The effects of both these factors were augmented by the increase in the availability of more durable cloth. After the mid-sixties, there was an increase in the per capita availability of the longer-lasting pure and blended synthetic fabrics and an increase in the durability of cotton cloth itself as a result of an improvement in quality. Additionally, features of synthetic fabrics such as their wash-and-wear properties would bring down per capita consumption regardless of durability.

The mill sector of Indian textile industry constitutes a peculiar exception to the general trends in the industry as a whole. 'Mills' in official classification refer to the composite cotton spinning-weaving mills and also spinning mills, and are distinguished from ‘Handlooms’, ‘Powerlooms’, and ‘Hosiery’. As compared to these sectors, the contribution of the mill sector has been declining from the outset, and, in absolute terms as well since the mid-sixties. From 78.6 per cent of the total cloth output in 1951 its share fell to 46.7 per cent by 1977. But it would be hasty to explain it entirely in terms of the government restrictions on the expansion of loomage in that sector, for even in the fifties and sixties the mills did not produce as much as they could, thus making the government restrictions irrelevant in this respect. The irrelevance is further ‘supported by the fact that even in periods when the government did *liberalise* its policy towards the installation of additional loomage as in October 1963, the opportunity was not availed by the industry.’[7]

As to the big question why the mill industry in India did not go in for the comprehensive technical changes that were taking place all over the world and thereby meet the competition

[7] Chandrasekhar 1984: PE28 (italics added).

from the decentralised sector effectively, one general answer is that most of the new technology, having been designed for a situation of relative labour scarcity, rising labour costs and expanding market, was labour-saving in nature. This in turn created difficulties for their general adoption in India. Not only there was a labour surplus and a near-stagnant market here, but also a militant trade union movement opposed to any policy of labour retrenchment and laws that favoured such a stance. To give one example, the agreement arrived at the 15th Indian Labour Conference in 1957 explicitly laid down that in any scheme of modernisation, there should be no retrenchment or loss of earning of the existing employees, i c, the existing complement should be maintained barring cases of natural separation or wastage.

And yet, for all the hiccups and the slow rate of diffusion of techniques, the evidence also indicates that new techniques have been adopted to some extent in some sections of the industry. In trying to answer why some firms did opt for technical changes as against the majority, we approach the issue of differentials in technical and economic performance. At the heart of this phenomenon is the fact of product differentiation and its implication that investment in new techniques was profitable and therefore made good business sense only for a few while for the large majority of firms it did not. Product differentiation consisted not only in the variety of cotton cloths and their quality, but also in the production of synthetic blends on the cotton weaving system. The weaving sector may thus be viewed as one catering to different market segments, with each segment having its own characteristics in terms of quality, finish, price, elasticity of demand, etc., and broadly two market segments may be identified: (a) market for ordinary textiles, where quality commands less of a premium and price elasticities can be expected to be high, and (b) market for sophisticated and costly fabrics, in which product characteristics like quality, design and finish and the extent of sales promotion, rather than price per se, are crucial in determining the level of demand. This would correspond to the structure of income distribution in the country.

One is thus led on to two distinct substantial markets, one for sophisticated fabrics, and another for less sophisticated and cheaper varieties. For a variety of reasons, the market for the first is open only to a limited number of producers, who constitute an oligopolistic group and control this market. Without having to compete either with the decentralised sector or with the other mills, these producers (such as Bombay Dyeing, Arvind Mills, etc.) are able to ensure and perpetuate their oligopolistic positions through appropriate price policies. Then there is the large majority of non-oligopolistic weaving firms catering to the demand for cheaper, coarser fabrics. For a number of reasons (e.g. an expanding processing sector, ability to charge higher prices from the customers, etc.), the oligopolistic group can afford investment in modern equipment without problems from the labour side (e.g. by absorbing them in the expanding processing sector or discharging them through attractive retirement bonuses). The other group can hardly afford any or all of this. And there is also the fact that investment in new techniques is profitable for a few while it is neither feasible nor profitable for the large majority. The upshot of all this was the emergence of a differentiated structure within the textile industry with a few firms operating in the modern high productivity sectors within and outside textiles, while the majority, characterised by low productivity, continued to remain in the field of traditional textiles.

Coming now to the question of the performance of the textile sector in the Liberalisation era, one may begin with the continued protection of the backward sectors, e.g. powerlooms and handlooms. While the implications of their survival for the average level of productivity and technical change in the industry has to be noted, we can equally ill afford to neglect their importance from the point of view of sustaining employment opportunities in the economy as a whole.

As to the downhill performance of the mills, it is widely acknowledged that Liberalisation has done little to alleviate their predicament. The share of the mills in cloth production continues to decline. It is noted that 'there is no difference in this respect between pre- and post-reform periods'[8], from which we need to draw the further conclusion that their previous plight was totally unrelated to the regulatory regime.

Finally, a major new trend has been the phenomenal growth in the demand for, and a corresponding output growth of, manmade fibres, helped of course by the rise in per capita income. During 1990-2001, per capita demand for manmade and blended fabrics grew 6.8 percent annually, compared with negligible growth in demand for 100 percent cotton fabrics. As a result of this rapid growth, manmade and blended fabrics now account for the bulk of household cloth purchases. Between 1991 and 2003, the share of manmade and blended products in household cloth purchases rose from about 38 percent to 54 percent. The fastest growth has been in use of 100 percent manmade, as opposed to blended, fabrics. However, despite the rapid growth in use of manmade fibres, cotton continues to account for a

[8] Roy 1998: 2175.

relatively large share of total consumption in India, compared with other developing countries, as well as with developed and transition economies [9]

Bibliography

Chandrasekhar, CP 1984: 'Growth and Technical Change in Indian Cotton-Mill Industry', Economic and Political Weekly, Vol. 19, No. 4 (Jan. 28, 1984), pp. PE22-PE39.

Chandrasekhar, CP 1988: 'Aspects of Growth and Structural Change in Indian Industry', Economic and Political Weekly, Vol. 23, No. 45/47, Special No. (Nov. 1988), pp. 2359-2363, 2365-2367, 2369-2370.

Landes, Maurice, et al 2005: 'Growth Prospects for India's Cotton and Textile Industries', Electronic Outlook Report from the Economic Research Service, the United States, Dept. of Agriculture.

Mariappan, V. and Chidambaram, K 2003: 'Public Sector Textile Mills: Productivity Performance', Economic and Political Weekly, vol. 38, No. 16 (April 19-25, 2003), pp. 1551-1554.

Roy, Tirthankar 1998: 'Economic Reforms and Textile Industry in India', Economic and Political Weekly, Vol. 33, No. 32 (Aug. 8-14, 1998), pp. 2173-2182.

Thomas, Jayan J. 2003: 'Economies of Scale, Technical Progress, and Regional Growth Disparity: Indian Industry, 1959-1998', Presented at the Conference on the Economics for the Future, organized by Cambridge Journal of Economics, UK.

[9] Landes et al 2005: 5-6.