Chapter 2

The Progress of Import Substitution in Textiles

The principle of Indian foreign trade policies has been inclined towards import substitution. The textile industry also has followed the strategy. As mentioned in the first chapter, the Indian textile industry has been supplying most of production for the domestic market. Its development has largely depended on the conditions of the domestic market. Besides, textiles have been important wage goods as well. It is estimated, therefore, the trends of demand for textiles are affected by the growth rates of per capita real income and the trends of distribution of income. On the other hand, an appearance of man-made fibre has caused the shift of consumer preference from cotton cloth to man-made and blended fabrics in the international market. In India, import substitution of man-made fibre has been progressing under the regulation of industrial policies such as industrial licensing and the imposition of high excise duties. This chapter examines the development of domestic market of textiles in India and makes explicit the irresistible impact of import substitution strategy on the textile industry.

1 The Development of the Indian Cotton Textile Industry before Independence

Import substitution of cotton textiles started from the mid-19th century. At the end of 19th century, hand-spinning suffered a rapid decline. The Indian cotton spinning mills grew up primarily in order to supply the
demand for coarse yarn on the part of handloom weavers in India and China. The higher counts of yarn were supplied by Lancashire. India had a decided advantage over Lancashire in the spinning of 20s counts with cheaper Indian cotton. There was thus little direct competition between Indian mills and Lancashire in respect of yarns below 24s. On the other hand, the weaving mills had to compete not only with imports from the UK but also with handlooms which remained widely all over India. At the end of 19th century, India could compete equally with imported cloth in the case of drills. But, the in case of bleached, dyed or printed cloth, India had to depend on imports because of the complete absence of bleaching facilities.¹

In 1896, the import duty of 3.5% was imposed on imported cotton piecegoods. But, at the same time, the countervailing excise duty of same rate was levied on Indian mill-made cloth. Since the excise duty was not levied on handloom cloth, handlooms had 3.5% price advantage over mills. Moreover, handlooms enjoyed certain advantages at the beginning of the century from the viewpoint of profitability. Coarse handloom cloth was considered by the average Indian villager to be more durable than mill-made cloth. Handlooms produced multi-coloured sarees which Indian mills could not imitate, at least before the First World War. Although the weaving mills expanded their production much faster than did handlooms during the eighteen years from 1896 to the outbreak of the First World War, handlooms experienced a slow growth.² During the period, the total Indian mill output of yarn of counts

² Ibid., p.220.
Table 2.1 The Rates of Domestic Cotton Piecegoods Production in Domestic Availability (Million Yards)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Imports (1)</th>
<th>Domestic Production (2)</th>
<th>Domestic Availability (3)=(1)+(2)</th>
<th>Rate (%) (\frac{(2)}{(3)})</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900-01</td>
<td>1875</td>
<td>1067</td>
<td>2942</td>
<td>63.7</td>
</tr>
<tr>
<td>1905-06</td>
<td>2335</td>
<td>1726</td>
<td>4061</td>
<td>57.5</td>
</tr>
<tr>
<td>1910-11</td>
<td>2162</td>
<td>1910</td>
<td>4072</td>
<td>53.1</td>
</tr>
<tr>
<td>1915-16</td>
<td>2019</td>
<td>2439</td>
<td>4458</td>
<td>45.3</td>
</tr>
<tr>
<td>1920-21</td>
<td>1405</td>
<td>2494</td>
<td>3899</td>
<td>36.0</td>
</tr>
<tr>
<td>1925-26</td>
<td>1529</td>
<td>2853</td>
<td>4382</td>
<td>34.9</td>
</tr>
<tr>
<td>1930-31</td>
<td>873</td>
<td>3738</td>
<td>4611</td>
<td>18.9</td>
</tr>
<tr>
<td>1935-36</td>
<td>937</td>
<td>4691</td>
<td>5628</td>
<td>20.0</td>
</tr>
<tr>
<td>1938-39</td>
<td>631</td>
<td>5609</td>
<td>6240</td>
<td>10.1</td>
</tr>
</tbody>
</table>


up to 20s, from 21s to 30s, and from 31s to 40s, expanded much faster than the imports of corresponding ranges of counts of yarn. Besides, the Indian mill output of grey, figured and coloured goods each expanded faster than the imports of the corresponding category of cotton piecegoods. Thus the relative substitution of imports by Indian mill production occurred over a broad front. The rates of net import of piecegoods in availability for home consumption fell even before the First World War (Table 2.1). After a temporary boom in yarn exports to China between 1901 and 1906 was over due to displacement by Japanese mills, exports of yarn declined by a large percentage. The result of the decline in yarn exports was reflected in a drastic decline in the profitability of purely spinning mills and a marked improvement in the relative profitability of weaving mills. The large weaving mills of Bombay started to establish their own bleaching and dyeing facilities. However, the
bulk of the needs for finer varieties of cloth continued to be satisfied by imports.³

The First World War brought boom to Indian mills due to the curtailment of imports from the UK. Their production expanded rapidly and at the end of war the Indian producers made substantial gains from which even renewed British competition and the vigorous attack by Japan could not dislodge them.⁴ In 1917 the import duty on cotton piecegoods was raised from 3.5% to 7.5%. As the excise duty on cotton piecegoods remained unchanged at 3.5%, Indian mills received tariff protection. During the War, the import of yarn, on which handlooms depended, fell. As a result, imports of piecegoods and yarn and the output of handlooms went down, while the output of cotton piecegoods by mills came up. The war also led to the invasion of the India's market by Japanese textiles. Japanese mills were overtaking and surpassing the Indian ones in efficiency. Further, overvaluation of the rupee during the 1920s affected Indian mills. Japan sold the coarser kinds of cloth in which Indian mills specialised before 1930. Therefore, Japan became a far more serious competition of Indian mills than Lancashire.⁵

Protective duty was raised to 11% in 1921 and imports of cotton yarn were subjected to a duty of 5%. Moreover, the excise duty on cotton piecegoods was suspended in 1925 and replaced in 1926. However, the severity of competition from Japan was not abated by these measures. In 1930 when

³ Ibid., pp.231-34.
budgetary difficulties became apparent, the duty on cotton piecegoods was raised from 11% to 15%. Although import duty on cotton piecegoods were further enhanced in 1931, the devaluation of the Japanese yen in 1932 made possible increased imports of Japanese piecegoods. After the duty on imports of cotton piecegoods from non-British sources were raised to 75% \textit{ad valorem} with a minimum specific duty on plain grey goods of 6.75 annas per lb. in 1933, Japan in reply boycotted imports of Indian raw cotton. In July 1934, a trade agreement was concluded between India and Japan. While this agreement imposed a quantitative restriction on imports of piecegoods from Japan, India reduced import duties to 50% \textit{ad valorem} with a minimum specific duty on plain grey goods of 5.25 annas per lb. At the end of 1933 an agreement was concluded between the British Textile Mission and the representatives of the mill-owners of Bombay. The Indian representatives agreed to accept a reduction in import duties on yarns. In return provision were made for Indian mills to share in British quotas of exports to other counties when India did not have independent quotas.\(^6\) As a result, import substitution of cotton textiles progressed at all aspects including bleached and printed cloth during the 1930s. However, the domestic production of cotton textiles was not sufficient. As imports reduced dramatically during the Second World War, the supply of textiles was short and hence their prices rose rapidly.\(^7\)

Another important feature of the production trend of the 1930s was the growth in powerlooms, mainly based on the purchase of secondhand machinery

\(^6\) \textit{Ibid.}, pp.239-42.
\(^7\) S.D.Mehta, \textit{op. cit.}, p.195.
from mills. By the end of 1930s, more than 6,000 such looms were known to exist. 8

2 The Progress of Import Substitution of Raw Material

(1) Raw Cotton

After independence, import substitution of cotton textiles progressed further. The import tariff was so high that there was no possibility of foreign cloth offering any effective competition to the indigenous piecegoods. 9 However, the progress of import substitution induced the increase in imports of raw cotton. Moreover, India lost big cotton growing areas at the partition. While imports of cotton piecegoods fell from 101 lakh metres in 1956 to 40 lakh metres in 1960, imports of raw cotton rose from 7 lakh bales and 11 lakh bales during the same period. 10

S.Kumrasundaram compared foreign exchange earnings from exports of cotton piecegoods, cotton yarn, cotton hosiery and waste cotton with foreign exchange outlays on imports of raw cotton, twist and yarn, textile machinery, dyes, chemicals and fuel oil in order to examine the foreign exchange implications of cotton textile production. Table 2.2 shows that the cotton textile industry had not been a net earner of foreign exchange in the second half of 1950s. The same phenomenon can be seen in the first half of 1960s.

8 Ibid., p.186.
10 Govt. of India, Indian Textile Industry, Annual Number, 1964, pp.89-90.
Table 2.2 Foreign Exchange Earnings and Payments of the Textile Industry

<table>
<thead>
<tr>
<th></th>
<th>1956</th>
<th>1957</th>
<th>1958</th>
<th>1959</th>
<th>1960</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foreign Exchange Earnings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from Exports of:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton Piecegoods</td>
<td>57.0</td>
<td>64.5</td>
<td>48.5</td>
<td>61.3</td>
<td>59.7</td>
</tr>
<tr>
<td>Cotton Yarn</td>
<td>2.5</td>
<td>3.4</td>
<td>6.2</td>
<td>4.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Cotton Hoisery</td>
<td>0.4</td>
<td>0.5</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Waste Cotton</td>
<td>7.6</td>
<td>5.8</td>
<td>6.0</td>
<td>5.1</td>
<td>2.6</td>
</tr>
<tr>
<td>Total Receipts</td>
<td>67.5</td>
<td>74.2</td>
<td>59.2</td>
<td>71.6</td>
<td>67.1</td>
</tr>
<tr>
<td><strong>Foreign Exchange Outlays on:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw Cotton</td>
<td>53.6</td>
<td>48.5</td>
<td>30.8</td>
<td>34.7</td>
<td>73.0</td>
</tr>
<tr>
<td>Twist and Yarn</td>
<td>2.7</td>
<td>3.3</td>
<td>1.7</td>
<td>0.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Textile Machinery</td>
<td>16.2</td>
<td>23.3</td>
<td>13.3</td>
<td>12.3</td>
<td>18.5</td>
</tr>
<tr>
<td>Deys</td>
<td>11.3</td>
<td>11.8</td>
<td>10.1</td>
<td>8.9</td>
<td>8.5</td>
</tr>
<tr>
<td>Chemicals</td>
<td>3.5</td>
<td>3.5</td>
<td>4.0</td>
<td>5.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Fuel Oil and Lubricants</td>
<td>4.3</td>
<td>4.5</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Total Payments</td>
<td>91.6</td>
<td>94.9</td>
<td>94.7</td>
<td>66.7</td>
<td>111.3</td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td>-24.1</td>
<td>-20.7</td>
<td>-5.5</td>
<td>4.9</td>
<td>-44.2</td>
</tr>
</tbody>
</table>


also.\(^{11}\) Imports of raw cotton caused huge outflow of foreign exchange. Raw cotton was the "Achilles' heel" of the Indian cotton textile industry.\(^{12}\)

On the other hand, production of man-made fibre such as viscose filament yarns, viscose staple fibre and acetate filament yarn started since the early 1950s. Therefore, switch from cotton to man-made fibre was possible in the 1960s. D.Kumar pointed out that if the switch was done, it might save foreign

exchange more effectively. Since the import costs of raw cotton alone were much larger than the total import costs of any of the man-made yarns, even if a large proportion of machinery were produced in India for cotton than for the other yarns, the latter would still be cheaper in terms of foreign exchange (Table 2.3). 13 However, the government took the restrictive policies for the

<table>
<thead>
<tr>
<th></th>
<th>30s/150D</th>
<th>50s/100D</th>
<th>60s/90D</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cotton</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw Cotton</td>
<td>17.60</td>
<td>20.50</td>
<td>20.50</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1.27</td>
<td>2.25</td>
<td>2.79</td>
</tr>
<tr>
<td>Spares</td>
<td>0.10</td>
<td>0.20</td>
<td>0.20</td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td>1.45</td>
<td>2.60</td>
<td>3.22</td>
</tr>
<tr>
<td>Cotton</td>
<td>0.03</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td>Total</td>
<td>20.45</td>
<td>25.58</td>
<td>26.74</td>
</tr>
<tr>
<td><strong>Viscose Staple Fibre</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staple Fibre</td>
<td>4.03-7.05</td>
<td>4.03-7.05</td>
<td>4.03-7.05</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1.27</td>
<td>2.25</td>
<td>2.79</td>
</tr>
<tr>
<td>Spares</td>
<td>0.10</td>
<td>0.20</td>
<td>0.20</td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td>1.45</td>
<td>2.60</td>
<td>3.22</td>
</tr>
<tr>
<td>Total</td>
<td>6.41-9.87</td>
<td>9.08-12.10</td>
<td>10.24-13.26</td>
</tr>
<tr>
<td><strong>Viscose Filament</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pulp</td>
<td>1.68-4.50</td>
<td>1.68-4.50</td>
<td>1.68-4.50</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.81</td>
<td>0.81</td>
<td>0.81</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3.14</td>
<td>4.08</td>
<td>4.39</td>
</tr>
<tr>
<td>Spares</td>
<td>0.78</td>
<td>1.02</td>
<td>1.10</td>
</tr>
<tr>
<td>Know-How</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
</tr>
<tr>
<td>Interest</td>
<td>1.80-1.96</td>
<td>2.44-2.52</td>
<td>2.63-2.71</td>
</tr>
</tbody>
</table>


development of man-made fibres rather than the promotive policies. Use of artificial silk yarns by composite mills in the warp of any cloth other than yarn spun by themselves had been prohibited up to 1985. The net outcome was that cotton composite mills could not use filament yarn in the warp. The motivation for this policy was not only to ensure the availability of viscose filament yarn to the handloom sector but also to protect the agricultural sector producing cotton. The government which thought much of the linkage with agriculture chose the way of import substitution of raw cotton rather than promotion of man-made fibre industry. Moreover, the high excise duties have been imposed on man-made fibres and yarns.

Soon after independence, the Indian textile industry faced severe shortage of raw cotton due to the Second World War and the partition. During the war time, considerable acreage under cotton cultivation was lost due to the absence of demand for Indian cotton abroad and the need to grow more food at home. Moreover, the best cotton growing areas where a major portion of the medium and long staple cotton was produced belonged to Pakistan after the partition. In order to secure a large output, it was necessary to recover the acreage lost by cotton during the war time. Restoring purity to a number of varieties that had got mixed up and to produce in increased quantities the medium and long staple cottons lost to Pakistan were also required.

16 V.B.Kulkarni, *op. cit.*, p.239.
The Government of India removed all legislative and executive curbs imposed on cotton cultivation during the war time in order to recover the acreage. Further, the government gave financial assistance to the State Governments to implement the Cotton Extensive Schemes. Additional areas brought under cotton during 1950-51 were granted remission of land revenue. Consequently, acreage recovered rapidly from 10.66 million acres in 1947-48 to 16.2 million acres in 1951-52. 17 But total area under cotton cultivation has not increased after 1956-57. Therefore, greater attention was given to securing higher acre yields. Since the First Plan, the measures such as provision of hybrid seed, multiplication and distribution of improved seed, grant of loans to cultivators for the purchase of seed and fertilizer have been undertaken for the cotton development. 18 Cotton yield per hectare has risen owing to the measures, so that domestic production of cotton has grown from 48.50 lakh bales in 1961-62 to 87.27 lakh bales in 1985-86. 19 As a result, imports of raw cotton have fallen. Moreover, exports of cotton exceeded imports of cotton since the late 1970s (Table 2.4).

At the same time, it was urgent to increase output of the long staple cotton. In the second half of 1950s, there was substantial dependence on imports of better quality raw cotton. Consequently, the earlier heavy imports of cotton textiles in past years, which had been undergoing a continuous change in their composition towards better qualities, came to be replaced by

17 Ibid., p.240.
18 Govt. of India, The Second Five Year Plan, 1956, p.263.
Table 2.4 India's Imports and Exports of Cotton (lakh bales of 170 kgs.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956-57</td>
<td>6.37</td>
<td>3.12</td>
<td>1974-75</td>
<td>1.15</td>
<td>0.97</td>
</tr>
<tr>
<td>1960-61</td>
<td>11.65</td>
<td>3.07</td>
<td>1975-76</td>
<td>1.66</td>
<td>4.27</td>
</tr>
<tr>
<td>1961-62</td>
<td>8.56</td>
<td>3.48</td>
<td>1976-71</td>
<td>5.78</td>
<td>0.39</td>
</tr>
<tr>
<td>1962-63</td>
<td>9.12</td>
<td>3.49</td>
<td>1977-78</td>
<td>6.61</td>
<td>0.10</td>
</tr>
<tr>
<td>1963-64</td>
<td>8.86</td>
<td>2.85</td>
<td>1978-79</td>
<td>0.27</td>
<td>1.77</td>
</tr>
<tr>
<td>1964-65</td>
<td>9.82</td>
<td>2.53</td>
<td>1979-80</td>
<td>—</td>
<td>5.52</td>
</tr>
<tr>
<td>1965-66</td>
<td>5.57</td>
<td>1.93</td>
<td>1980-81</td>
<td>—</td>
<td>6.98</td>
</tr>
<tr>
<td>1966-67</td>
<td>8.28</td>
<td>2.59</td>
<td>1981-82</td>
<td>0.50</td>
<td>3.78</td>
</tr>
<tr>
<td>1967-68</td>
<td>8.24</td>
<td>2.44</td>
<td>1982-83</td>
<td>—</td>
<td>6.81</td>
</tr>
<tr>
<td>1968-69</td>
<td>4.54</td>
<td>2.01</td>
<td>1983-84</td>
<td>—</td>
<td>3.54</td>
</tr>
<tr>
<td>1969-70</td>
<td>9.64</td>
<td>2.19</td>
<td>1984-85</td>
<td>0.75</td>
<td>1.79</td>
</tr>
<tr>
<td>1970-71</td>
<td>9.10</td>
<td>2.00</td>
<td>1985-86</td>
<td>—</td>
<td>4.50</td>
</tr>
<tr>
<td>1972-73</td>
<td>4.68</td>
<td>1.84</td>
<td>1987-88</td>
<td>3.00</td>
<td>0.43</td>
</tr>
<tr>
<td>1973-74</td>
<td>1.88</td>
<td>3.66</td>
<td>1988-89</td>
<td>2.32</td>
<td>2.00</td>
</tr>
</tbody>
</table>


continued heavy imports of raw cotton of long staple to feed the growing domestic demand for fine and superfine varieties of cloth. 20 Therefore, the Third Plan proposed to provide necessary support for increasing the production of long staple varieties of cotton. 21 Research in raising the yield per hectare of cotton of the long and extra long staple varieties has been successful, with the result that India has emerged as an exporter from being an importer of these varieties of cotton. 22

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21 Govt. of India, *The Third Five Year Plan, 1961*, p.319.
However, the increase in production of these varieties has not been reflected in the composition of cotton yarn production. Although average count of cotton yarn spun rose from 25.64 in 1961 to 29.84 in 1981, production of cotton yarn of count of above 40s did not come up rapidly (Table 2.13). The change mainly occurred within the middle count from 21-30s to 31-40s. Table 2.5 shows that the yarn output pattern did move towards higher counts, but not nearly so much as the shift in the staple composition would have permitted. Evidently, a surplus production of long and superior long staple cottons were being used to produce medium counts. \(^{23}\) The reason for this was clearly related to the demand pattern for cloth.

There are four reasons of the phenomenon. Firstly, the domestic demand for fine and superfine cloth is limited. Low income groups cannot buy such kind of cloth. The domestic demand is restricted by the structure of income distribution. Secondly, the demand of high income groups shifts in favour of non-cotton and blended cloth earlier than other income groups. \(^{24}\) The demand for fine and superfine cloth is replaced by non-cotton and blended cloth. Thirdly, there is a phenomenon of downward rigidity of prices in the market of fine and superfine cloth. If a firm producing coarse and medium cloth wants to enter the market of fine cloth, it will demand large investment. Better technique to ensure high quality needs modification of


Table 2.5 Staple Length Composition of Mills' Cotton Consumption and Count Composition of Yarn

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Cotton Consumption (Hundred tons)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Superior Long Staple (27 mm and above)</td>
<td>241.1</td>
<td>1337.7</td>
<td>2287.3</td>
<td>2685.9</td>
<td>1375.7</td>
</tr>
<tr>
<td>(3.7) (21.9) (30.0) (31.7) (21.4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long Staple (24.5 mm to 26 mm)</td>
<td>1359.5</td>
<td>374.4</td>
<td>695.5</td>
<td>1384.6</td>
<td>964.8</td>
</tr>
<tr>
<td>(20.8) (6.1) (9.1) (16.4) (15.0)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Superior Medium Staple (22 mm to 24 mm)</td>
<td>2781.9</td>
<td>2670.0</td>
<td>3272.3</td>
<td>3131.0</td>
<td>3367.0</td>
</tr>
<tr>
<td>(42.6) (43.8) (43.0) (37.0) (52.3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium Staple (20 mm to 21.5 mm)</td>
<td>1183.3</td>
<td>840.3</td>
<td>591.6</td>
<td>754.2</td>
<td>112.8</td>
</tr>
<tr>
<td>(18.2) (13.8) (7.8) (8.9) (1.8)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short Staple (19 mm and below)</td>
<td>960.6</td>
<td>878.2</td>
<td>768.4</td>
<td>509.1</td>
<td>611.8</td>
</tr>
<tr>
<td>(14.7) (14.4) (10.1) (6.0) (9.5)</td>
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<table>
<thead>
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<th>Year</th>
<th>1971</th>
<th>1975</th>
<th>1979</th>
<th>1984</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Yarn Output (Million Kg.)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>61 and above</td>
<td>50</td>
<td>47</td>
<td>41</td>
<td>78</td>
<td>81</td>
</tr>
<tr>
<td>(5.7) (4.8) (4.4) (6.8) (6.1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>41-60 Count</td>
<td>74</td>
<td>76</td>
<td>60</td>
<td>112</td>
<td>104</td>
</tr>
<tr>
<td>(8.4) (7.7) (6.3) (9.7) (7.7)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31-40 Count</td>
<td>177</td>
<td>192</td>
<td>203</td>
<td>298</td>
<td>351</td>
</tr>
<tr>
<td>(20.1) (19.4) (21.3) (25.9) (26.0)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21-30 Count</td>
<td>253</td>
<td>271</td>
<td>260</td>
<td>249</td>
<td>316</td>
</tr>
<tr>
<td>(28.7) (27.4) (27.3) (21.6) (23.4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-20 Count</td>
<td>307</td>
<td>403</td>
<td>388</td>
<td>414</td>
<td>496</td>
</tr>
<tr>
<td>(37.1) (40.7) (40.7) (36.0) (36.8)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


existing equipment and foreign collaboration. The substantial advertising expenses also are necessary to establish a brand image. As a result, a few firms can enter the market. Prices of fine and superfine cloth are kept high under the oligopolistic market. Preference for high quality cloth has risen.

even among middle income groups. However, high prices of fine and superfine cloth prevent shift of consumer preference. Finally, high excise duties are imposed on fine and superfine cloth. Consequently, spinning mills have produced coarser yarn than they could have produced with the available cotton because there has not been sufficient demand for fine cloth at the relative higher post-duty cloth prices.

(2) Viscose Fibre

In spite of the restrictive policies, the man-made fibre industry has developed dramatically because man-made and blended fabrics have enjoyed a consumer preference. Table 2.6 expresses the growth of production of man-made fibres and yarns. Man-made fibre and yarns consist of viscoses and synthetics.

| Table 2.6 Production of Man-Made Fibre and Filament Yarns (Hundred kgs.) |
|-----------------|----------|--------|--------|--------|--------|
| **Staple Fibre**|          |        |        |        |        |
| Viscose        | —        | 26061  | 60740  | 94204  | 142319 |
| Acetate        | —        | —      | —      | 328    | 298    |
| Polyester      | —        | —      | 5729   | 26754  | 131570 |
| Acrylic        | —        | —      | —      | 13234  | 27098  |
| **Total**      | —        | 26061  | 66797  | 134490 | 302187 |
| **Filament Yarn**|        |        |        |        |        |
| Viscose        | 2461     | 21436  | 36819  | 40191  | 48034  |
| Acetate        | —        | 2032   | 1622   | 1540   | —      |
| Nylon          | —        | —      | 10342  | 21690  | 36071  |
| Polyester      | —        | —      | 532    | 15140  | 145167 |
| **Total**      | 2461     | 23468  | 49315  | 78561  | 231072 |

The first commercial production of viscose filament yarn and viscose staple fibre started in 1950 and 1954 respectively. Viscose filament yarn was consumed by powerlooms and viscose staple by cotton weaving mills. While the production of viscose staple fibre has grown rapidly, the production of viscose filament yarn has decelerated since 1971. Because viscose staple fibre is a close substitute for cotton yarn in textiles, demand for it is large. Hence there is a limited scope for viscose filament yarn as compared to staple fibres. Due to increase in production, their rates of domestic production in availability had been kept high in the 1960s and the first half of 1970s (Table 2.7). But this does not mean that their supplies met their demands. There had been sporadic imports of man-made fibres and yarns up to 1978 to protect domestic producers of man-made fibres, namely to promote their import substitution. In 1976 multi-fibre policy was evolved to overcome cotton shortage. After their imports were categorised under OGL and quantitative restrictions of imports were withdrawn, imports of viscose filament yarn and viscose staple fibre increased suddenly. It is after 1981-82 onward that their imports decreased.

In addition to quantitative restrictions, custom duties have been imposed on viscose filament yarn and viscose staple fibre to protect not only the domestic viscose fibre industry but also cotton cultivation. After custom duties had been removed between 1976 and 1979, their effective rates rose again up to 40% in 1983. Naturally, these policies raised domestic prices of

---

Table 2.7 Rates of Domestic Production of Total Availability

Viscose Filament Yarn

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Production (M.Tonnes)</th>
<th>Imports (M.Tonnes)</th>
<th>Rates of Domestic Production of Availability (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965-66</td>
<td>35966</td>
<td>3584</td>
<td>90.9</td>
</tr>
<tr>
<td>1967-68</td>
<td>35375</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td>1969-70</td>
<td>36713</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td>1971-73</td>
<td>37542</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td>1973-74</td>
<td>36923</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td>1975-76</td>
<td>35337</td>
<td>232</td>
<td>99.3</td>
</tr>
<tr>
<td>1977-78</td>
<td>41602</td>
<td>1083</td>
<td>97.5</td>
</tr>
<tr>
<td>1979-80</td>
<td>41205</td>
<td>3300</td>
<td>92.6</td>
</tr>
<tr>
<td>1981-82</td>
<td>41053</td>
<td>2404</td>
<td>94.5</td>
</tr>
<tr>
<td>1983-84</td>
<td>35415</td>
<td>5551</td>
<td>88.4</td>
</tr>
<tr>
<td>1985-86</td>
<td>42041</td>
<td>3571</td>
<td>92.2</td>
</tr>
<tr>
<td>1987-88</td>
<td>45933</td>
<td>148</td>
<td>99.7</td>
</tr>
</tbody>
</table>

Viscose Staple Fibre

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Production (M.Tonnes)</th>
<th>Imports (M.Tonnes)</th>
<th>Rates of Domestic Production of Availability (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965-66</td>
<td>38307</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td>1967-68</td>
<td>54789</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td>1969-70</td>
<td>60401</td>
<td>Nil</td>
<td>100</td>
</tr>
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<td>1971-73</td>
<td>62370</td>
<td>3181</td>
<td>95.1</td>
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<td>1973-74</td>
<td>72646</td>
<td>367</td>
<td>99.5</td>
</tr>
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<td>1975-76</td>
<td>67589</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td>1977-78</td>
<td>84732</td>
<td>69809</td>
<td>54.8</td>
</tr>
<tr>
<td>1979-80</td>
<td>77692</td>
<td>50626</td>
<td>60.5</td>
</tr>
<tr>
<td>1981-82</td>
<td>76826</td>
<td>78922</td>
<td>49.3</td>
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<td>1983-84</td>
<td>77173</td>
<td>17171</td>
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<tr>
<td>1985-86</td>
<td>88659</td>
<td>11233</td>
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<tr>
<td>1987-88</td>
<td>114598</td>
<td>1335</td>
<td>88.8</td>
</tr>
</tbody>
</table>

viscoses above international prices. 27 In 1985 the domestic price of viscose staple fibre was 1.8 times as high as the c.i.f. international price. 28

(3) Synthetic Fibre

The production of nylon filament yarn, polyester staple fibre and polyester filament yarn started since 1962, 1965 and 1967 respectively. Their rates of domestic production in total supply also went down after the introduction of the multi-fibre policy in 1976 (Table 2.8). In the 1980s, the rates improved again.

The development of import substitution of synthetic fibres and yarns under the protective policies has created problems. In the first place, prices of domestic products are much higher than international prices. Domestic prices of polyester filament yarn and polyester staple fibre were 4.3 and 5.5 times as high as the c.i.f. international prices. 29

The four factors can be thought as the reasons of the high prices of synthetics. 30 Firstly, the indigenous costs of production of intermediate inputs are high. Import substitution of not only synthetics but also their raw material has progressed. The production of D.M.T. as raw material of polyester, caprolactam as raw material of nylon started in 1973 and 1975

29 Ibid., p.28.
30 Ibid., p.28
Table 2.8 Rates of Domestic Production of Total Availability

**Polyester Filament Yarn**

<table>
<thead>
<tr>
<th></th>
<th>Domestic Production (M. Tonnes)</th>
<th>Imports (M. Tonnes)</th>
<th>Rates of Domestic Production of Availability (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969-70</td>
<td>303</td>
<td>91</td>
<td>76.9</td>
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<tr>
<td>1971-73</td>
<td>487</td>
<td>207</td>
<td>70.2</td>
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<tr>
<td>1973-74</td>
<td>1074</td>
<td>684</td>
<td>74.8</td>
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<td>1975-76</td>
<td>2551</td>
<td>2159</td>
<td>54.2</td>
</tr>
<tr>
<td>1977-78</td>
<td>4433</td>
<td>2009</td>
<td>68.8</td>
</tr>
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<td>1979-80</td>
<td>8928</td>
<td>8754</td>
<td>50.5</td>
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<tr>
<td>1981-82</td>
<td>15527</td>
<td>19620</td>
<td>44.2</td>
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<td>1983-84</td>
<td>47929</td>
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<tr>
<td>1985-86</td>
<td>67415</td>
<td>7748</td>
<td>89.7</td>
</tr>
<tr>
<td>1987-88</td>
<td>111466</td>
<td>8954</td>
<td>92.6</td>
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**Polyester Staple Fibre**

<table>
<thead>
<tr>
<th></th>
<th>Domestic Production (M. Tonnes)</th>
<th>Imports (M. Tonnes)</th>
<th>Rates of Domestic Production of Availability (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965-66</td>
<td>1824</td>
<td>1074</td>
<td>62.9</td>
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<tr>
<td>1967-68</td>
<td>3491</td>
<td>27</td>
<td>99.2</td>
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<tr>
<td>1969-70</td>
<td>6152</td>
<td>1223</td>
<td>83.4</td>
</tr>
<tr>
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<td>5668</td>
<td>3028</td>
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<td>1973-74</td>
<td>10571</td>
<td>637</td>
<td>94.3</td>
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<tr>
<td>1975-76</td>
<td>16039</td>
<td>541</td>
<td>96.7</td>
</tr>
<tr>
<td>1977-78</td>
<td>23193</td>
<td>8224</td>
<td>73.8</td>
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<tr>
<td>1979-80</td>
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<td>9422</td>
<td>71.5</td>
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<td>2570</td>
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<td>28882</td>
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<td>66.5</td>
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<td>42842</td>
<td>14359</td>
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<tr>
<td>1987-88</td>
<td>79434</td>
<td>7549</td>
<td>81.3</td>
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### Nylon Filament Yarn

<table>
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<th>Imports (M. Tonnes)</th>
<th>Rates of Domestic Production of Availability (%)</th>
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<tr>
<td>1965-66</td>
<td>1546</td>
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<tr>
<td>1967-68</td>
<td>2663</td>
<td>1456</td>
<td>64.7</td>
</tr>
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<td>1969-70</td>
<td>8372</td>
<td>390</td>
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<tr>
<td>1971-73</td>
<td>10758</td>
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<td>1973-74</td>
<td>10213</td>
<td>N.A.</td>
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<td>14057</td>
<td>1540</td>
<td>90.1</td>
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<tr>
<td>1977-78</td>
<td>16480</td>
<td>1379</td>
<td>92.3</td>
</tr>
<tr>
<td>1979-80</td>
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</tr>
<tr>
<td>1981-82</td>
<td>23136</td>
<td>4464</td>
<td>83.8</td>
</tr>
<tr>
<td>1983-84</td>
<td>30402</td>
<td>4607</td>
<td>86.8</td>
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<td>1985-86</td>
<td>39530</td>
<td>2138</td>
<td>94.9</td>
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<tr>
<td>1987-88</td>
<td>34087</td>
<td>713</td>
<td>98.0</td>
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</table>

### Acrylic Staple Fibre

<table>
<thead>
<tr>
<th></th>
<th>Domestic Production (M. Tonnes)</th>
<th>Imports (M. Tonnes)</th>
<th>Rates of Domestic Production of Availability (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979-80</td>
<td>3641</td>
<td>2378</td>
<td>60.5</td>
</tr>
<tr>
<td>1981-82</td>
<td>13606</td>
<td>123</td>
<td>99.1</td>
</tr>
<tr>
<td>1983-84</td>
<td>16589</td>
<td>705</td>
<td>95.9</td>
</tr>
<tr>
<td>1985-86</td>
<td>21820</td>
<td>1597</td>
<td>93.2</td>
</tr>
<tr>
<td>1987-88</td>
<td>22093</td>
<td>4465</td>
<td>83.2</td>
</tr>
</tbody>
</table>

respectively. Since six gigantic multi-national companies monopolise technology of synthetic fibre industry, developing countries must buy the technology needed to set up a chemical fibre sector at extremely high costs. The higher capital costs necessarily lead to high costs of production than the international standard. Secondly, high import duty has been imposed on imports of intermediate inputs in order to protect the domestic infant industry. But, since domestic production of intermediate inputs has not been sufficient, the indigenous availability has had to be supplemented by imports. In the case of D.M.T., total duty including auxiliary duty has been 75-190%. In the case of caprolactam, it has been 25-120%. Thirdly, because synthetics are regarded as luxurious goods, high excise duties have been levied. Effective rates of excise duties of polyester staple fibre and polyester filament yarn (less 750 denier) have been 10.2-45 rupees per kg. and 18.75-103.75 rupees per kg. respectively after 1970 onward. Finally, manufacture costs of synthetics and their raw materials are high on account of lack of economies of scale. As mentioned above, higher amount of investment to construct equipment is needed in developing countries than developed countries. These high capital costs not only raised costs of production directly, but also restricted the size of plants established within the country below the minimum viable level. Although the market of synthetic fibres and yarns is expanding, it is narrow. Since enormous investment for a small domestic market is risky, most of firms chose to obtain licences for relatively small sized plants

31 ASFI, op. cit., p.F5.
spontaneously. As most of Indian synthetic fibre producers are part of large business groups, it is not difficult to raise fund in order to set up viable units. In fact, the investment amount has not been too large for them to finance it. The asset value of plant and machinery in the five leading companies manufacturing nylon and polyester filament yarn grew from Rs 25 crore in 1969 to Rs 109.74 crore in 1978. However, this investment was not specialised in any one capacity, but was shared across a number of related areas in the synthetic field which are well protected. The strategy of these companies is adopted to distribute risks and to ensure that the decline in income associated with any one unsuccessful venture is small relative to the income from total entrepreneurial capital. Further, the government tries to grant licences to as many companies as possible to avoid monopolistic situation. Consequently, the industry from its initial stages consists of a number of units, each with a relatively small share of total capacity. 33

Table 2.9 shows the average production capacity of synthetics and their raw materials in each countries. The average production capacity in India is much lower than Japan and South Korea. Besides, as the minimum viable capacities of polyester staple fibre and polyester filament yarn are defined as 30,000 tonnes per annum and 15,000 tonnes per annum by the government, it is clear that these sizes are uneconomic. 34 It is noteworthy, moreover, that South Korea does not have any plant to produce D.M.T. and depends on imports.

34 Ibid., p.AN68.
Table 2.9 Average Production Capacity of Synthetic Fibres as Intermediate Inputs in 1989-90

(1000 Tonnes/Annually)

<table>
<thead>
<tr>
<th></th>
<th>Number of Companies</th>
<th>Total Capacity</th>
<th>Average Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Polyester Filament Yarn</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>17</td>
<td>114.66</td>
<td>6.74</td>
</tr>
<tr>
<td>Japan</td>
<td>10</td>
<td>463.08</td>
<td>46.31</td>
</tr>
<tr>
<td>South Korea</td>
<td>10</td>
<td>438.77</td>
<td>43.88</td>
</tr>
<tr>
<td><strong>Polyester Staple Fibre</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>10</td>
<td>231.06</td>
<td>23.11</td>
</tr>
<tr>
<td>Japan</td>
<td>6</td>
<td>385.40</td>
<td>60.90</td>
</tr>
<tr>
<td>South Korea</td>
<td>5</td>
<td>374.49</td>
<td>74.90</td>
</tr>
<tr>
<td><strong>Nylon 6 Filament Yarn</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>14</td>
<td>95.97</td>
<td>6.86</td>
</tr>
<tr>
<td>Japan</td>
<td>7</td>
<td>323.50</td>
<td>46.21</td>
</tr>
<tr>
<td>South Korea</td>
<td>4</td>
<td>188.85</td>
<td>47.21</td>
</tr>
<tr>
<td><strong>Caprolactam</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>1</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Japan</td>
<td>6</td>
<td>475</td>
<td>79.17</td>
</tr>
<tr>
<td>South Korea</td>
<td>1</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td><strong>D.M.T.</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>3</td>
<td>135</td>
<td>45</td>
</tr>
<tr>
<td>Japan</td>
<td>4</td>
<td>275</td>
<td>68.75</td>
</tr>
<tr>
<td>South Korea</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


In India, import substitution of synthetic fibres and yarns has developed in order to cater for the domestic market. Producers of synthetics have been able to get enough profit from expanding domestic market without running a risk. But import substitution at a small size does not enable Indian producers to enjoy economies of scale. On the other hand, in South Korea import
substitution strategy has been taken in order to cater for export markets from beginning. Therefore, producers had to consider comparative costs of production of intermediate inputs to compete in the international market.

Secondly, oligopolistic structure has been created in the process of import substitution of synthetic fibres and yarns and their intermediate inputs. In the international market, synthetic fibre producers are facing severe competition. Therefore, they have to improve the technology rapidly to survive in the international market. On the other hand, Indian producers have been protected by high import duty and their capacity becomes obsolete. Besides, monopoly profits are accruing to indigenous manufacturers of synthetics. Table 2.10 expresses effective rates of custom duties on synthetics. High custom duties have been levied on synthetics. Particularly after quantitative restrictions on imports were abolished in 1976, total custom duties were risen.

Finally, import substitution of synthetic fibres and yarns has induced increase in imports of raw material. Imports of caprolactam and D.M.T. have come up (Table 2.11).

Table 2.10  Effective Rates of Custom Duties on Synthetic Fibres

<table>
<thead>
<tr>
<th></th>
<th>Custom Duty</th>
<th>Auxiliary Duty</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nylon Filament Yarn</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966-81</td>
<td>100</td>
<td>Nil-20</td>
<td>100-120</td>
</tr>
<tr>
<td>1981-88</td>
<td>100</td>
<td>24-45</td>
<td>125-145</td>
</tr>
<tr>
<td>1988-90</td>
<td>55-85</td>
<td>45</td>
<td>100-130</td>
</tr>
<tr>
<td>Polyester Filament Yarn</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966-78</td>
<td>100</td>
<td>Nil-20</td>
<td>100-120</td>
</tr>
<tr>
<td>1978-82</td>
<td>200</td>
<td>Nil-10</td>
<td>200-210</td>
</tr>
<tr>
<td>1982-86</td>
<td>200</td>
<td>10-25</td>
<td>210+Rs 15 per kg.</td>
</tr>
<tr>
<td></td>
<td>+Rs 15 per kg.</td>
<td></td>
<td>-225+Rs 15 per kg.</td>
</tr>
<tr>
<td>Polyester Staple Fibre</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966-71</td>
<td>25</td>
<td>Nil-10</td>
<td>25-35</td>
</tr>
<tr>
<td>1971-77</td>
<td>100</td>
<td>Nil-20</td>
<td>100-120</td>
</tr>
<tr>
<td>1977-83</td>
<td>140</td>
<td>20-30</td>
<td>160-170</td>
</tr>
<tr>
<td>1983-88</td>
<td>145</td>
<td>25-45</td>
<td>170+Rs 9 per kg.</td>
</tr>
<tr>
<td>1988-90</td>
<td>135</td>
<td>45</td>
<td>180+Rs 7 per kg.</td>
</tr>
</tbody>
</table>


Table 2.11  Imports of Intermediate Inputs of Synthetic Fibres

<table>
<thead>
<tr>
<th></th>
<th>Caprolactam</th>
<th>D.M.T.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity</td>
<td>Value</td>
<td>Quantity</td>
</tr>
<tr>
<td>1969-70</td>
<td>935</td>
<td>32</td>
</tr>
<tr>
<td>1971-72</td>
<td>3148</td>
<td>131</td>
</tr>
<tr>
<td>1973-74</td>
<td>2950</td>
<td>191</td>
</tr>
<tr>
<td>1975-76</td>
<td>1985</td>
<td>200</td>
</tr>
<tr>
<td>1977-78</td>
<td>5928</td>
<td>575</td>
</tr>
<tr>
<td>1979-80</td>
<td>11836</td>
<td>1616</td>
</tr>
<tr>
<td>1981-82</td>
<td>16108</td>
<td>3471</td>
</tr>
<tr>
<td>1983-84</td>
<td>28332</td>
<td>3942</td>
</tr>
<tr>
<td>1985-86</td>
<td>18045</td>
<td>3294</td>
</tr>
<tr>
<td>1987-88</td>
<td>39375</td>
<td>8276</td>
</tr>
</tbody>
</table>

3 The Development of the Domestic Textile Market

In sharp contrast to such a rapid growth of man-made fibre industry, cotton textile mills have been afflicted by 'sickness' and the growth of demand for cotton cloth has decelerated since the mid-1960s. Per capita availability of cotton cloth in quantitative terms has declined. As cotton is playing a pre-eminent role as the main raw material of textiles, total per capita availability of woven cloth decreased from 16.44 metres in 1965 to 13.94 metres in 1989 (Table 2.12). Namely, the increase in per capita availability of blended and man-made fabrics could not compensate for the decrease in per capita availability of cotton cloth. The phenomenon does not necessarily mean the decline of per capita purchasing power. Since synthetic fabrics have more durability than cotton cloth, if a shift in preference of consumer from cotton cloth to synthetic fabrics, the phenomenon may occur. Moreover, the durability of cotton cloth has increased as a result of improvement in quality. Table 2.13 shows that production of yarn of count 31s to 40s and above 40s has increased and their share in total production of cotton yarn came up. This means that quality of cloth has improved. The fall in per capita consumption for cotton cloth in quantitative terms restricted its production. As a result, the growth of cotton cloth production stagnated in the second half of 1960s and 1970s (Table 2.14). Although growth rate of production slightly recovered in the 1980s, the annual growth rate between 1956 and 1989 was only 1.1% per annum. The cause of long-term stagnation of production in the cotton textile industry should be found out not in
<table>
<thead>
<tr>
<th>Year</th>
<th>Cotton Cloths</th>
<th>Blended Fabrics</th>
<th>Man-Made Fabrics</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>10.99</td>
<td></td>
<td></td>
<td>10.99</td>
</tr>
<tr>
<td>1952</td>
<td>13.46</td>
<td></td>
<td></td>
<td>13.46</td>
</tr>
<tr>
<td>1953</td>
<td>14.03</td>
<td></td>
<td></td>
<td>14.03</td>
</tr>
<tr>
<td>1954</td>
<td>13.83</td>
<td></td>
<td></td>
<td>13.83</td>
</tr>
<tr>
<td>1955</td>
<td>14.35</td>
<td></td>
<td></td>
<td>14.35</td>
</tr>
<tr>
<td>1956</td>
<td>14.72</td>
<td></td>
<td></td>
<td>14.72</td>
</tr>
<tr>
<td>1957</td>
<td>14.50</td>
<td></td>
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<td>14.50</td>
</tr>
<tr>
<td>1958</td>
<td>14.28</td>
<td>0.92</td>
<td></td>
<td>15.20</td>
</tr>
<tr>
<td>1959</td>
<td>13.72</td>
<td>1.15</td>
<td></td>
<td>14.87</td>
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<tr>
<td>1960</td>
<td>13.80</td>
<td>1.20</td>
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<td>15.00</td>
</tr>
<tr>
<td>1961</td>
<td>14.76</td>
<td>1.15</td>
<td></td>
<td>15.91</td>
</tr>
<tr>
<td>1962</td>
<td>14.35</td>
<td>1.17</td>
<td></td>
<td>15.52</td>
</tr>
<tr>
<td>1963</td>
<td>14.69</td>
<td>1.24</td>
<td></td>
<td>15.93</td>
</tr>
<tr>
<td>1964</td>
<td>15.22</td>
<td>1.63</td>
<td></td>
<td>16.85</td>
</tr>
<tr>
<td>1965</td>
<td>14.71</td>
<td>N.A.</td>
<td>1.73</td>
<td>16.44</td>
</tr>
<tr>
<td>1966</td>
<td>13.94</td>
<td>N.A.</td>
<td>1.65</td>
<td>15.59</td>
</tr>
<tr>
<td>1967</td>
<td>13.55</td>
<td>N.A.</td>
<td>1.74</td>
<td>15.29</td>
</tr>
<tr>
<td>1968</td>
<td>14.36</td>
<td>N.A.</td>
<td>1.89</td>
<td>16.25</td>
</tr>
<tr>
<td>1969</td>
<td>13.60</td>
<td>0.20</td>
<td>1.79</td>
<td>15.59</td>
</tr>
<tr>
<td>1970</td>
<td>13.55</td>
<td>0.28</td>
<td>1.71</td>
<td>15.54</td>
</tr>
<tr>
<td>1971</td>
<td>12.38</td>
<td>0.45</td>
<td>1.72</td>
<td>14.55</td>
</tr>
<tr>
<td>1972</td>
<td>13.14</td>
<td>0.35</td>
<td>1.59</td>
<td>15.08</td>
</tr>
<tr>
<td>1973</td>
<td>12.00</td>
<td>0.43</td>
<td>1.45</td>
<td>13.88</td>
</tr>
<tr>
<td>1974</td>
<td>12.80</td>
<td>0.36</td>
<td>1.35</td>
<td>14.51</td>
</tr>
<tr>
<td>1975</td>
<td>12.47</td>
<td>0.61</td>
<td>1.36</td>
<td>14.44</td>
</tr>
<tr>
<td>1976</td>
<td>11.22</td>
<td>0.96</td>
<td>1.56</td>
<td>13.74</td>
</tr>
<tr>
<td>1977</td>
<td>9.49</td>
<td>2.30</td>
<td>1.84</td>
<td>13.63</td>
</tr>
<tr>
<td>1978</td>
<td>10.09</td>
<td>2.69</td>
<td>2.25</td>
<td>15.03</td>
</tr>
<tr>
<td>1979</td>
<td>10.08</td>
<td>2.52</td>
<td>1.96</td>
<td>14.56</td>
</tr>
<tr>
<td>1980</td>
<td>11.05</td>
<td>1.82</td>
<td>1.94</td>
<td>14.81</td>
</tr>
<tr>
<td>1981</td>
<td>10.53</td>
<td>2.25</td>
<td>2.05</td>
<td>14.83</td>
</tr>
<tr>
<td>1982</td>
<td>10.06</td>
<td>1.79</td>
<td>1.90</td>
<td>13.75</td>
</tr>
<tr>
<td>1983</td>
<td>10.85</td>
<td>1.85</td>
<td>2.12</td>
<td>14.82</td>
</tr>
<tr>
<td>1984</td>
<td>10.53</td>
<td>1.70</td>
<td>2.31</td>
<td>14.54</td>
</tr>
<tr>
<td>1985</td>
<td>10.98</td>
<td>1.65</td>
<td>2.40</td>
<td>15.03</td>
</tr>
<tr>
<td>1986</td>
<td>10.70</td>
<td>1.86</td>
<td>2.54</td>
<td>15.10</td>
</tr>
<tr>
<td>1987</td>
<td>10.49</td>
<td>1.70</td>
<td>2.54</td>
<td>14.73</td>
</tr>
<tr>
<td>1988</td>
<td>9.48</td>
<td>1.67</td>
<td>3.19</td>
<td>14.34</td>
</tr>
<tr>
<td>1989</td>
<td>9.29</td>
<td>1.41</td>
<td>3.24</td>
<td>13.94</td>
</tr>
</tbody>
</table>

Table 2.13 Production of Cotton Yarn by Mills According to Count Groups
(In million kgs.)

<table>
<thead>
<tr>
<th></th>
<th>1s to 10s</th>
<th>11s to 20s</th>
<th>21s to 30s</th>
<th>31s to 40s</th>
<th>Above 40s</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>42 (7.1)</td>
<td>284 (48.0)</td>
<td>205 (34.7)</td>
<td>(—)</td>
<td>60 (10.2)</td>
</tr>
<tr>
<td>1956</td>
<td>77 (10.1)</td>
<td>325 (42.9)</td>
<td>211 (27.8)</td>
<td>99 (13.1)</td>
<td>46 (6.1)</td>
</tr>
<tr>
<td>1961</td>
<td>87 (10.1)</td>
<td>296 (34.3)</td>
<td>274 (31.8)</td>
<td>146 (16.9)</td>
<td>59 (6.9)</td>
</tr>
<tr>
<td>1966</td>
<td>103 (11.4)</td>
<td>274 (30.4)</td>
<td>284 (29.3)</td>
<td>139 (17.7)</td>
<td>101 (11.2)</td>
</tr>
<tr>
<td>1970</td>
<td>115 (11.9)</td>
<td>284 (27.4)</td>
<td>284 (29.4)</td>
<td>182 (18.9)</td>
<td>120 (12.4)</td>
</tr>
<tr>
<td>1971</td>
<td>103 (11.7)</td>
<td>224 (25.4)</td>
<td>253 (28.7)</td>
<td>177 (20.1)</td>
<td>124 (14.1)</td>
</tr>
<tr>
<td>1972</td>
<td>116 (11.9)</td>
<td>264 (27.2)</td>
<td>290 (29.8)</td>
<td>185 (19.0)</td>
<td>117 (12.1)</td>
</tr>
<tr>
<td>1973</td>
<td>123 (12.3)</td>
<td>296 (29.7)</td>
<td>268 (29.9)</td>
<td>191 (19.1)</td>
<td>120 (12.0)</td>
</tr>
<tr>
<td>1974</td>
<td>104 (10.3)</td>
<td>277 (27.5)</td>
<td>312 (31.0)</td>
<td>204 (20.3)</td>
<td>110 (10.9)</td>
</tr>
<tr>
<td>1975</td>
<td>107 (10.8)</td>
<td>296 (29.9)</td>
<td>271 (27.4)</td>
<td>192 (19.4)</td>
<td>123 (12.5)</td>
</tr>
<tr>
<td>1976</td>
<td>113 (11.2)</td>
<td>322 (32.0)</td>
<td>257 (25.5)</td>
<td>194 (19.3)</td>
<td>120 (12.0)</td>
</tr>
<tr>
<td>1977</td>
<td>129 (10.8)</td>
<td>247 (29.2)</td>
<td>219 (25.9)</td>
<td>190 (22.5)</td>
<td>99 (11.6)</td>
</tr>
<tr>
<td>1978</td>
<td>103 (11.3)</td>
<td>272 (29.8)</td>
<td>223 (24.4)</td>
<td>206 (22.6)</td>
<td>108 (11.9)</td>
</tr>
<tr>
<td>1979</td>
<td>106 (11.1)</td>
<td>282 (29.6)</td>
<td>260 (27.3)</td>
<td>203 (21.3)</td>
<td>101 (10.7)</td>
</tr>
<tr>
<td>1980</td>
<td>117 (11.1)</td>
<td>298 (28.2)</td>
<td>289 (27.3)</td>
<td>239 (22.6)</td>
<td>115 (10.8)</td>
</tr>
<tr>
<td>1981</td>
<td>109 (10.7)</td>
<td>265 (26.1)</td>
<td>288 (26.4)</td>
<td>250 (24.6)</td>
<td>123 (12.2)</td>
</tr>
<tr>
<td>1982</td>
<td>109 (11.4)</td>
<td>247 (25.8)</td>
<td>236 (24.6)</td>
<td>240 (25.1)</td>
<td>128 (13.1)</td>
</tr>
<tr>
<td>1983</td>
<td>118 (10.8)</td>
<td>288 (26.4)</td>
<td>257 (23.8)</td>
<td>282 (25.8)</td>
<td>147 (13.4)</td>
</tr>
<tr>
<td>1984</td>
<td>123 (10.7)</td>
<td>291 (25.3)</td>
<td>249 (21.6)</td>
<td>298 (25.9)</td>
<td>190 (16.5)</td>
</tr>
<tr>
<td>1985</td>
<td>132 (10.5)</td>
<td>332 (26.3)</td>
<td>295 (23.4)</td>
<td>328 (26.0)</td>
<td>174 (13.8)</td>
</tr>
<tr>
<td>1986</td>
<td>132 (10.5)</td>
<td>331 (26.3)</td>
<td>294 (23.4)</td>
<td>327 (26.0)</td>
<td>173 (13.7)</td>
</tr>
<tr>
<td>1987</td>
<td>141 (10.5)</td>
<td>355 (26.3)</td>
<td>316 (23.4)</td>
<td>351 (26.0)</td>
<td>185 (13.8)</td>
</tr>
<tr>
<td>1988</td>
<td>117 (9.0)</td>
<td>315 (24.3)</td>
<td>216 (16.7)</td>
<td>392 (30.2)</td>
<td>257 (19.8)</td>
</tr>
<tr>
<td>1989</td>
<td>120 (9.0)</td>
<td>325 (24.3)</td>
<td>223 (16.7)</td>
<td>404 (30.2)</td>
<td>265 (19.8)</td>
</tr>
</tbody>
</table>

Source: Same as in Table 2.6

Table 2.14 Annual Growth Rates of Cotton Cloth Output

<table>
<thead>
<tr>
<th></th>
<th>1956-65</th>
<th>1966-80</th>
<th>1981-89</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956-65</td>
<td>2.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966-80</td>
<td>0.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1981-89</td>
<td>1.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1956-89</td>
<td>1.1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Govt. of India, Indian Textile Bulletin, Annual Number, (various issues).
supply side but in demand because it is easy to expand or construct production capacity in the long term.

There seems to be three main reasons behind the fall in per capita consumption for cloth. In the first place, the stagnation of economic growth can be considered as a reason. The growth of Indian economy had decelerated since the mid-1960s. When the compound growth rates are calculated in Table 2.15, the years of 1965-66 and 1966-67, which experienced exceptionally bad drought conditions are excluded. Table 2.15 shows that the growth rates of NNP at 1980-81 prices went down between the mid-1960s and the mid-1970s. The deceleration of growth of NNP caused the decrease in per capita private final consumption expenditure (PFCE) at 1980-81 prices. The growth rates of per capita PFCE between 1968-69 and 1973-74 fell from 1.2% during the Third Plan to 0.3%. Under the circumstances, the per capita consumption of cloth

Table 2.15 Growth Rates of Net National Product and Per Capita Private Final Consumption Expenditure at 1980-81 Prices (%)

<table>
<thead>
<tr>
<th>Years</th>
<th>Net National Product (1)</th>
<th>Per Capita Private Final Consumption Expenditure (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-56</td>
<td>3.6</td>
<td>2.0</td>
</tr>
<tr>
<td>1956-61</td>
<td>3.9</td>
<td>1.4</td>
</tr>
<tr>
<td>1961-65</td>
<td>4.1</td>
<td>1.2</td>
</tr>
<tr>
<td>1968-74</td>
<td>3.1</td>
<td>0.3</td>
</tr>
<tr>
<td>1974-79</td>
<td>4.9</td>
<td>2.2</td>
</tr>
<tr>
<td>1980-85</td>
<td>5.3</td>
<td>3.2</td>
</tr>
</tbody>
</table>

decreased. However, in spite of recovery of the economic growth since the mid-1970s, the per capita consumption of cloth did not grow. The growth rate of per capita PPCE rose from 0.3% to 2.2% during the years 1968-74 to 1974-79. The stagnation of economic growth cannot explain the trends of per capita consumption for cloth since the mid-1970s.

Secondly, a change in the distribution of income may have affected the rate of growth of demand. Both minimum support prices and procurement prices of agricultural commodities have been repeatedly pushed upwards since 1964-65, irrespective of the size of the crop and of other conditions. Although the policy of minimum support prices and procurement prices has not played a significant role at the operational level, the increase in the level of official procurement prices by a certain proportion has acted as a signal for a spurt in open market prices by a similar proportion. As a result, the terms of trade had shifted perceptibly in favour of agricultural products since the mid-1960s. The prices of manufactured products as per cent of the prices of agricultural commodities had dramatically declined in the 1960s and early 1970s (Table 2.16). The terms of trade shifted in favour of agricultural products again in the 1980s. Each shift in the terms of trade in favour of agricultural products contributed to the holding power of surplus farmers and traders, enabling them to bid for still higher prices in the subsequent

36 There are many arguments about trends of income distribution. It is very difficult to argue whether income distribution has improved or deteriorated due to lack of statistics. P.K. Bardhan, The Pattern of Income Distribution in India, (P.K. Bardhan and T.N. Srinivasan ed), Poverty and Income Distribution in India, Calcutta, Indian Statistical Institute, 1974, pp.125-28.
Table 2.16 Index Numbers of Wholesale Prices —— Relative Prices of Manufactured and Agricultural Products

Average of Months
(1961-62=100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Index for Manufactured Products</th>
<th>Index for Agricultural Commodities</th>
<th>Prices of Manufactured as per cent of the Prices of Agricultural Commodities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962-63</td>
<td>103.2</td>
<td>102.3</td>
<td>100.9</td>
</tr>
<tr>
<td>1964-65</td>
<td>109.4</td>
<td>130.9</td>
<td>83.6</td>
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<tr>
<td>1966-67</td>
<td>125.3</td>
<td>166.6</td>
<td>75.2</td>
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<tr>
<td>1968-69</td>
<td>132.8</td>
<td>179.4</td>
<td>74.0</td>
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<td>149.7</td>
<td>201.4</td>
<td>74.3</td>
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<td>1972-73</td>
<td>168.8</td>
<td>219.7</td>
<td>76.8</td>
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<td>1974-75</td>
<td>240.7</td>
<td>350.8</td>
<td>69.5</td>
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</table>

(1970-71=100)

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<th>Year</th>
<th>Index for Manufactured Products</th>
<th>Index for Agricultural Commodities</th>
<th>Prices of Manufactured as per cent of the Prices of Agricultural Commodities</th>
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<tr>
<td>1972-73</td>
<td>121.9</td>
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<td>168.8</td>
<td>169.9</td>
<td>99.4</td>
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<td>1976-77</td>
<td>175.2</td>
<td>158.5</td>
<td>110.5</td>
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<td>179.5</td>
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<td>257.3</td>
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<td>122.2</td>
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(1981-82=100)

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<th>Year</th>
<th>Index for Manufactured Products</th>
<th>Index for Agricultural Commodities</th>
<th>Prices of Manufactured as per cent of the Prices of Agricultural Commodities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982-83</td>
<td>103.5</td>
<td>107.3</td>
<td>96.4</td>
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<td>1984-85</td>
<td>117.5</td>
<td>129.2</td>
<td>91.0</td>
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<tr>
<td>1986-87</td>
<td>129.2</td>
<td>142.8</td>
<td>90.5</td>
</tr>
<tr>
<td>1988-89</td>
<td>151.6</td>
<td>170.9</td>
<td>88.7</td>
</tr>
<tr>
<td>1990-91</td>
<td>182.8</td>
<td>198.3</td>
<td>92.2</td>
</tr>
</tbody>
</table>

Source: Govt. of India, Economic Survey, (various issues).

season. The shift in the terms of trade in favour of agricultural products should lead to a shift in income distribution in favour of the relatively richer farmers. Since landless agricultural labourers as well as small farmers purchase foodgrains in open market, they are compelled to make a larger
monetary outlay on foodgrains.\textsuperscript{37} Besides, the shift in the terms of trade against industry affects industrial labourers and the middle-class employees who are getting fixed salary. Although the terms of trade had shifted in favour of industry in the 1970s, it does not seem that the equality of income distribution improved. While output of goods catering to the requirements of the general masses registered either an absolute reduction or very moderate increase in the 1970s, that of elite-oriented products experienced astronomical increase.\textsuperscript{38}

It is expected that a shift in the distribution of income against the low income groups might result in a fall in the demand for textiles of a large section of the population. On the other hand, the upper income group segment which benefited from the distributional shift could get additional income. But the groups would not increase its demand for textiles in proportion to a rise in their income because of the higher marginal propensity to save and the distribution of additional income to consumption of other luxuries except textiles. Hence, a shift in the distribution of income in favour of upper income groups might cause a fall in the consumption of cloth.\textsuperscript{39} According to this hypothesis, it can be surmised that the fall in demand might be reflected in the trends of the consumption of textiles since the nature of demand in the upper and lower income groups is different. Table 2.17 shows

\textsuperscript{37} A.Mitra, \textit{op. cit.}, pp.108-110.
Table 2.17: Per Capita Household Consumption of Fabrics at Different Income Levels at 1970-71 Prices (Rs)

<table>
<thead>
<tr>
<th>Annual Household Income</th>
<th>Cotton Cloth</th>
<th>Non-Cotton and Mixed Fabrics</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Less than Rs1,500</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1974</td>
<td>16.95 (77.0)</td>
<td>5.06 (23.0)</td>
<td>22.01 (100)</td>
</tr>
<tr>
<td>1975</td>
<td>18.40 (82.7)</td>
<td>3.85 (17.3)</td>
<td>22.25 (100)</td>
</tr>
<tr>
<td>1976</td>
<td>17.59 (84.8)</td>
<td>3.16 (15.2)</td>
<td>20.75 (100)</td>
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<tr>
<td>1977</td>
<td>23.63 (83.3)</td>
<td>4.74 (16.7)</td>
<td>28.37 (100)</td>
</tr>
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<td>1978</td>
<td>22.98 (78.5)</td>
<td>6.30 (21.5)</td>
<td>29.28 (100)</td>
</tr>
<tr>
<td>1979</td>
<td>24.32 (81.3)</td>
<td>5.59 (18.7)</td>
<td>29.91 (100)</td>
</tr>
<tr>
<td>1980</td>
<td>25.04 (81.4)</td>
<td>5.72 (18.6)</td>
<td>30.76 (100)</td>
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<tr>
<td><strong>Rs1,500 to Rs2,999</strong></td>
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<tr>
<td>1974</td>
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<td>35.09 (100)</td>
</tr>
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<td>1975</td>
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<td>36.47 (100)</td>
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<td>31.00 (100)</td>
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<td>1977</td>
<td>23.52 (78.5)</td>
<td>7.01 (21.5)</td>
<td>30.53 (100)</td>
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<td>1978</td>
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<td>7.77 (22.0)</td>
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<td>7.91 (22.5)</td>
<td>35.23 (100)</td>
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<tr>
<td>1980</td>
<td>24.79 (72.2)</td>
<td>9.54 (27.8)</td>
<td>34.33 (100)</td>
</tr>
<tr>
<td><strong>Rs3,000 to Rs5,999</strong></td>
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<tr>
<td>1974</td>
<td>39.89 (69.1)</td>
<td>17.83 (30.9)</td>
<td>57.72 (100)</td>
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<tr>
<td>1975</td>
<td>46.57 (68.3)</td>
<td>21.61 (31.7)</td>
<td>68.18 (100)</td>
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<td>52.43 (100)</td>
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<td>35.75 (64.6)</td>
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<td>1979</td>
<td>31.87 (62.4)</td>
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<td>1980</td>
<td>32.95 (61.1)</td>
<td>21.02 (38.9)</td>
<td>53.97 (100)</td>
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<tr>
<td><strong>Rs6,000 to Rs9,999</strong></td>
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<td></td>
<td></td>
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<tr>
<td>1974</td>
<td>46.60 (62.1)</td>
<td>28.44 (37.9)</td>
<td>75.04 (100)</td>
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<tr>
<td>1975</td>
<td>56.32 (60.6)</td>
<td>36.58 (39.4)</td>
<td>92.90 (100)</td>
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<tr>
<td>1976</td>
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<td>36.95 (39.5)</td>
<td>93.56 (100)</td>
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<td>1980</td>
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<td>1980</td>
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<td>N.A.</td>
<td>N.A.</td>
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<td>1975</td>
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<td>1978</td>
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<td>1980</td>
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<td>162.58 (100)</td>
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</table>

Source: Govt. of India, *Consumer Purchases of Textiles*, (various issues).
Table 2.18 Per Capita Household Consumption of Fabrics at Different Income Levels at 1970-71 Prices

<table>
<thead>
<tr>
<th>Annual Household Income</th>
<th>Cotton cloth</th>
<th>Non-Cotton and Mixed Fabrics</th>
<th>Total (Rs)</th>
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<td>36.04 (100)</td>
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<td>88.44 (100)</td>
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<td>105.11 (100)</td>
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<td>Rs20,000 to Rs39,999</td>
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<td>48.08 (34.0)</td>
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<td>106.41 (69.6)</td>
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<td>N.A.</td>
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<td>148.86 (72.4)</td>
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<td>1985</td>
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<td>230.41 (77.7)</td>
<td>296.35 (100)</td>
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<tr>
<td>1986</td>
<td>81.55 (27.3)</td>
<td>217.33 (72.7)</td>
<td>298.88 (100)</td>
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</tbody>
</table>

Source: Ibid., (various issues).
that while the consumption of the middle income groups dropped in the second half of 1970s, the consumption of the income group of less than Rs 1,500 did not fall and consumption of the income groups of Rs 20,000 and above did not rise. Moreover, Table 2.18 expresses that all income groups increased their per capita consumption in the first half of 1980s. While per capita consumption of the income groups of less than Rs 1,500 and Rs 3,000 to Rs 5,999 grew by 5.9% and 9.4% respectively, that of groups of Rs 10,000 to Rs 19,999 and Rs 20,000 to Rs 39,999 came up only by 3.8% and 2.6% respectively. Therefore, we cannot recognise that a shift in the distribution of income was reflected in the trends in the composition of consumption of textiles during the 1970s and 1980s.

Thirdly, a shift in preference of consumer from cotton cloth to man-made and blended fabrics can be thought as the third reason. The share in total amount of textiles purchased by household has shifted in favour of non-cotton and blended fabrics after 1976. In fact, the per capita availability of non-cotton and blended fabrics came up since the late 1970s. Among man-made fabrics, the consumption of only synthetic fabrics increased. Viscose fabrics have registered a drop in the consumption over the years. Viscose fabrics have less durability than cotton cloth and do not retain dimensional stability, although they have got good lustre and dyeability. Conversely,

40 This point is emphasised at the following paper: O. Goswami, Sickness and Growth of India's Textile Industry, Economic and Political Weekly, Nov. 3 and 10, 1990.
Table 2.19  Estimated Per Capita Consumption of Textiles at Average of All Income Groups

(Quantity : Metre)
(Value in 1970-71 Price : Rs)

<table>
<thead>
<tr>
<th></th>
<th>Cotton</th>
<th>Non-Cotton and Mixed</th>
<th>Total</th>
</tr>
</thead>
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<td>1984</td>
<td>9.93</td>
<td>36.70</td>
<td>13.83</td>
</tr>
<tr>
<td>1985</td>
<td>10.79</td>
<td>40.74</td>
<td>15.45</td>
</tr>
<tr>
<td>1986</td>
<td>10.71</td>
<td>43.87</td>
<td>15.79</td>
</tr>
<tr>
<td>1987</td>
<td>9.17</td>
<td>30.29</td>
<td>14.87</td>
</tr>
</tbody>
</table>

Source: same with Table 2.16

Use of raw fibres like nylon, polyester etc. meets the need of more than equal metrecage of cotton due to their higher durability, but synthetic and blended fabrics are three and a half to four times more expensive than comparable cotton cloth. Therefore, the increase in consumption of synthetic and blended fabrics is not reflected in quantitative terms, but in value terms. Table 2.19 shows that per capita consumption of total textiles at the average of all income groups did not increase clearly in quantitative terms, while it rose rapidly in terms of real value in the first half of 1980s. The trends in

per capita consumption at 1970-71 prices from 1974 to 1986 are calculated by means of least square method and the equation is given below:

\[ Y = 42.322307 + 4.7905494t \quad R^2 = 0.886260 \]

The phenomenon expresses a shift of consumer preference from cotton cloth to synthetic and blended fabrics. Generally, synthetic and blended fabrics are looked as luxurious goods for the upper income groups. As a matter of fact, the higher the income group, the larger is its consumption. In the first half of 1980s, however, per capita consumption of non-cotton and blended fabrics grew even in the lowest income group. We look at Table 2.17 and 2.18 in detail in order to analyse a shift of preference of consumers in each income group. Consumer preference shifted clearly at the four highest income groups in the second half of 1970s. It is noteworthy that per capita consumption of non-cotton and blended fabrics did not increase at the lowest two income groups. At the same time, per capita consumption of cotton cloth decreased at the income groups of Rs 1,500 to Rs 2,999, Rs 3,000 to Rs 5,999 and Rs 6,000 to Rs 9,999 and Rs 10,000 to Rs 19,999. That is, in the four groups total consumption of fabrics dropped since the household in the middle income groups which suffered from higher inflation curtailed consumption of cotton cloth. Reversely, in the first half of 1980s per capita consumption of non-cotton and blended fabrics has risen and consumer preference shifted clearly at all income groups. However, per capita consumption of cotton cloth has not fallen at any income groups except the income group of Rs 20,000 to Rs 39,999. In other words, the share of cotton cloth in total consumption is dropped
relatively since the per capita consumption of non-cotton and blended fabrics grew under the circumstances of relatively higher increase in private final consumption expenditure. It can be estimated, therefore, that although consumer preference is shifting from cotton to non-cotton and blended fabrics, there is still a room of growth of consumption of cotton cloth under the circumstances of higher increase in private final consumption expenditure. To conclude, the stagnation of economic growth had affected per capita consumption of cloth until the mid-1970s and a shift in consumer preference from cotton cloth to man-made and blended fabrics has affected per capita consumption of fabrics in quantitative terms since the mid-1970s.

Along with the long-term causes, a short-term cause restricted per capita consumption of fabrics. The drought in the mid-1960s caused an abnormal rise in the price of essential consumer goods, especially of foodgrains. The growth rates of index numbers of wholesale prices of all commodities and food grains rose by 7.4% and 8.5% per annum respectively between 1964-65 and 1970-71. The inflationary pressure compelled the consumer to divert his purchasing power from cloth to food. Moreover, in the 1970s, although the growth rates of prices of food articles fell to 7.6%, the wholesale prices grew up to 9.9%.44 Estimated per capita consumption of total fabrics at average of all income groups stagnated in the second half of 1970s in quantitative terms. Per capita consumption of total fabrics at 1970-71 prices hardly increased from Rs 61.80 in 1975 to Rs 66.11 in 1979. Per capita

Consumption of non-cotton and blended fabrics at 1970-71 prices slightly grew from Rs 17.23 in 1974 to Rs 29.81 in 1979. Reversely, in the first half of 1980s, per capita consumption of total fabrics at 1970-71 prices rose more rapidly than in the 1970s because of the increase in consumption of non-cotton and blended fabrics. The trends in per capita consumption of total fabrics at 1970-71 prices from 1974 to 1980 and from 1980 to 1986 are calculated separately by means of least squares method and the equations are given below:

from 1974 to 1980

\[ Y = 47.637142 + 3.5060716t \]

\[ R^2 = 0.690446 \]

from 1980 to 1986

\[ Y = 28.946423 + 6.1375005t \]

\[ R^2 = 0.785492 \]

It is clear from the equations that the growth rates of per capita consumption of total fabrics accelerated in the first half of 1980s. However, in 1987 per capita consumption of total fabrics decreased in the terms of both quantity and value under the high inflation. Index of wholesales prices of all commodities increased by 7.6% in 1987-88.

We look at estimated per capita consumption at different incomes groups in order to examine the effect of inflation on different income groups. Table 2.17 shows that per capita consumption of total fabrics decreased clearly after 1975 in the income groups of Rs 1,500 to Rs 2,999, Rs 3,000 to Rs 5,999, Rs 6,000 to Rs 9,999 and Rs 10,000 to Rs 19,999. Further, in these income groups, per capita consumption of non-cotton and blended fabrics stagnated or declined. This phenomenon coincides with the expectation that inflation affected most severely the middle class who is getting fixed income.
The inflation rates fell from 9.9% in the 1970s to 6.6% in the period between 1980-81 and 1986-87. Under the lower inflation, per capita consumption of fabrics grew in the first half of 1980s. While per capita availability in quantitative terms did not rise clearly, we can see the rapid increase in per capita consumption in value terms. Moreover, Table 2.18 expresses that per capita consumption at 1970-71 prices rose at all income groups in the first half of 1980s.

4 Import Substitution of Man-made Fibre Textiles

The man-made textile industry came into existence in 1925. The industry started production of man-made fabrics by weaving imported man-made fibres into fabrics. It is estimated that in 1939 there were only about 2,000 powerlooms engaged in the manufacture of man-made fabrics. After independence the government has restricted imports of man-made fibres and fabrics to a bare minimum by granting very small import quotas. But man-made fabrics get popularity and consumer preference is shifting from cotton cloth to man-made fabrics. The man-made textile industry has developed rapidly, catering to the expanding domestic market.

In the 1960s, the indigenous production of man-made fibres was not keeping pace with the increase in the demand. Since imports of man-made fibres had to be restricted due to the shortage of foreign exchange, its imports were linked with export performance of each unit by import entitlement licences.

45 Govt. of India, Report of the Powerloom Enquiry Committee, op. cit., p.97.
Although the landed cost of imported yarn was very much lower than the prices of indigenous yarn, exporting units could import yarn at the international price by the licence and export their products at less prices than domestic wholesale one. Moreover, they could get premium by selling licences obtained by exporting man-made fabrics. Because the pressure of demand for man-made fabrics was increasing, the scope to obtain higher margins by selling licences was being enlarged. As a result, more and more powerlooms came into the field to get higher margins. In other words, export incentive schemes contributed to the increase in the number of powerlooms. Afterwards import substitution of man-made fibre has progressed and exports of man-made fabrics are growing rapidly. Although the share of exports of man-made fabrics in total exports was merely 0.5% in 1984-85, their exports have increased steadily from Rs 7.42 crore in 1970-71 to Rs 60.92 crore in 1984-85 (Table 2.20).

In the 1980s, 98% and about 40% of total production of 100% non-cotton and blended fabrics respectively have been produced in the decentralised sector (Table 2.21). The handloom sector as well as the powerloom sectors are producing man-made and blended fabrics. The handloom sector is playing more important role than the mill sector in the production of 100% non-cotton fabrics. The monopoly of the decentralised sector in the production of 100% non-cotton fabrics had been promoted by the government. The government strictly regulated use of artificial silk yarn by composite mills in the warp up to 1985.

46 Ibid., p.100.
Table 2.20 Exports of Man-Made Fibre Fabrics

<table>
<thead>
<tr>
<th>Year</th>
<th>Fabrics</th>
<th>Garments and Made-ups</th>
<th>Hosery and Knitwear</th>
<th>Tyre Code/Yarn Miscellaneous Items</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71</td>
<td>5.24</td>
<td>0.89</td>
<td>0.11</td>
<td>1.28</td>
<td>7.42</td>
</tr>
<tr>
<td>1972-73</td>
<td>9.61</td>
<td>0.39</td>
<td>0.08</td>
<td>0.83</td>
<td>10.91</td>
</tr>
<tr>
<td>1973-74</td>
<td>27.92</td>
<td>0.90</td>
<td>0.30</td>
<td>4.12</td>
<td>33.24</td>
</tr>
<tr>
<td>1974-75</td>
<td>18.30</td>
<td>0.79</td>
<td>0.46</td>
<td>1.05</td>
<td>20.60</td>
</tr>
<tr>
<td>1975-76</td>
<td>15.14</td>
<td>0.66</td>
<td>1.02</td>
<td>0.86</td>
<td>17.68</td>
</tr>
<tr>
<td>1976-77</td>
<td>31.49</td>
<td>2.48</td>
<td>1.90</td>
<td>3.36</td>
<td>38.52</td>
</tr>
<tr>
<td>1977-78</td>
<td>26.41</td>
<td>3.50</td>
<td>0.31</td>
<td>2.10</td>
<td>32.32</td>
</tr>
<tr>
<td>1978-79</td>
<td>29.99</td>
<td>8.24</td>
<td>0.65</td>
<td>2.92</td>
<td>41.80</td>
</tr>
<tr>
<td>1979-80</td>
<td>19.16</td>
<td>9.45</td>
<td>0.15</td>
<td>2.24</td>
<td>31.00</td>
</tr>
<tr>
<td>1980-81</td>
<td>29.82</td>
<td>5.83*</td>
<td>0.75</td>
<td>3.44</td>
<td>38.84</td>
</tr>
<tr>
<td>1981-82</td>
<td>20.85</td>
<td>12.28*</td>
<td>2.89</td>
<td>4.29</td>
<td>40.31</td>
</tr>
<tr>
<td>1982-83</td>
<td>19.33</td>
<td>33.06*</td>
<td>2.50</td>
<td>2.80</td>
<td>57.69</td>
</tr>
<tr>
<td>1983-84</td>
<td>19.27</td>
<td>23.66*</td>
<td>5.51</td>
<td>8.58</td>
<td>57.02</td>
</tr>
<tr>
<td>1984-85</td>
<td>32.76</td>
<td>15.84*</td>
<td>6.90</td>
<td>5.42</td>
<td>60.92</td>
</tr>
<tr>
<td>1985-86</td>
<td>32.22</td>
<td>14.41*</td>
<td>4.00</td>
<td>3.29</td>
<td>53.92</td>
</tr>
</tbody>
</table>

* does not include garment


The decentralised sector in the man-made textile industry which is producing 100% non-cotton and blended fabrics is afflicted with under-utilisation of capacity. A survey was done at the four centres: Bombay, Bhiwandi, Surat, and Amritsar-Ludhiana in 1978 by Man-Made Textile Research Foundation. According to the survey, when the operation of looms on three shift basis was regarded as 100%, the average utilisation rates of all looms: more than 20 looms as well as less than 20 looms at all centres were
Table 2.21 Production of Non-Cotton and Blended Textiles

<table>
<thead>
<tr>
<th>Year</th>
<th>100% Non-Cotton (Million Metres)</th>
<th>Blended (Million Metres)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mill</td>
<td>Powerloom</td>
</tr>
<tr>
<td>1981-82</td>
<td>8 (0.5)</td>
<td>1429 (97.7)</td>
</tr>
<tr>
<td>1982-83</td>
<td>6 (0.4)</td>
<td>1344 (98.3)</td>
</tr>
<tr>
<td>1983-84</td>
<td>4 (0.2)</td>
<td>1721 (98.2)</td>
</tr>
<tr>
<td>1984-85</td>
<td>5 (0.3)</td>
<td>1665 (98.2)</td>
</tr>
<tr>
<td>1985-86</td>
<td>6 (0.3)</td>
<td>1942 (97.9)</td>
</tr>
<tr>
<td>1986-87</td>
<td>9 (0.4)</td>
<td>2033 (97.9)</td>
</tr>
<tr>
<td>1987-88</td>
<td>5 (0.2)</td>
<td>2217 (98.4)</td>
</tr>
</tbody>
</table>


Table 2.22 Machine Utilisation Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>1977</th>
<th>1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Centres</td>
<td>67.7</td>
<td>67.7</td>
</tr>
<tr>
<td>(More and less than 20 looms)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All centres</td>
<td>62</td>
<td>62.7</td>
</tr>
<tr>
<td>(More than 20 looms)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All centres</td>
<td>73.7</td>
<td>73</td>
</tr>
<tr>
<td>(Less than 20 looms)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bombay</td>
<td>67</td>
<td>68.7</td>
</tr>
<tr>
<td>Surat</td>
<td>65.7</td>
<td>64.3</td>
</tr>
</tbody>
</table>

All centres are including Bombay, Surat, Bhiwandi and Amritsar & Ludhiana.

67.7% in 1977 and 1978 (Table 2.22). The causes of under-utilisation were mainly due to the supply-side bottleneck. Although the surveyed units had number of problems in operating efficiently the weaving establishment, main reasons were because of high interest of bank loans and high and unstable prices of raw material. In the case of units with more than 20 looms in all centres, 22.3% and 31.8% of the total units required bank loans at a lower rate of interest and supply of raw material at cheaper and stable prices respectively for their increased level of capacity utilisation (Table 2.23). In the case of units with less than 20 looms, 29.4% and 12.9% of total units required bank loans at a lower rate of interest and supply of raw material at reasonable rate respectively (Table 2.24). Since powerlooms have financial weakness, high prices and fluctuation of raw material prices cause under-utilisation to them. On the other hand, most of units did not have the demand-side bottleneck. In fact, 26 units had plans to increase their production substantially in view of the assured market for the products, while more than 75% of the units did not have any intent to increase the current level of production for the next two years. Since consumer preference has been shifting from cotton cloth to man-made and blended fabrics since the 1970s, it seems that producers of man-made fabrics have good prospect to find out outlet of products. In principle, there is division of labour between the

47 These utilisation rates are underestimated. Firstly, three shift is not common in powerlooms. Secondly, as the calculation of utilisation rates is based on physical capacity, it includes obsolete and unutilised machine which should be scraped. Thirdly, third shift cannot reach 100% even in the best mill.
Table 2.23 Facilities Essential to Achieve Increased Level of Production/Capacity Utilisation: All Centres (Units with more than 20 looms)

<table>
<thead>
<tr>
<th>Facility</th>
<th>Number of Units Requiring Facility</th>
<th>Percentage of Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Loans on Machinery, Goods etc. at a Lower Rate of interest</td>
<td>57</td>
<td>22.3</td>
</tr>
<tr>
<td>Supply of Cheaper Raw Materials</td>
<td>27</td>
<td>10.6</td>
</tr>
<tr>
<td>Supply of Adequate Quantity of Raw Material</td>
<td>15</td>
<td>5.9</td>
</tr>
<tr>
<td>Stability in the Prices of Raw Materials</td>
<td>54</td>
<td>21.2</td>
</tr>
<tr>
<td>Favourable Government Policies</td>
<td>17</td>
<td>6.7</td>
</tr>
<tr>
<td>Availability of Trained and Skilled Workers</td>
<td>27</td>
<td>10.6</td>
</tr>
<tr>
<td>Financial Help to Repair Old Looms and to Switch over to Automatic Looms</td>
<td>10</td>
<td>3.9</td>
</tr>
<tr>
<td>Creating Ready Market for the Products Manufactured</td>
<td>9</td>
<td>3.5</td>
</tr>
<tr>
<td>Regular Power Supply</td>
<td>11</td>
<td>4.3</td>
</tr>
<tr>
<td>Others</td>
<td>20</td>
<td>11.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>255</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Table 2.24 Facilities Essential to Achieve Increased Level of Production/Capacity Utilisation: All Centres (Units with less than 20 looms)

<table>
<thead>
<tr>
<th>Facility</th>
<th>Number of Units Requiring Facility</th>
<th>Percentage of Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Loans on Machinery, Goods etc. at a Lower Rate of Interest</td>
<td>48</td>
<td>29.4</td>
</tr>
<tr>
<td>Supply of Raw Material at Reasonable Rates</td>
<td>21</td>
<td>12.9</td>
</tr>
<tr>
<td>Better Quality of Raw Material</td>
<td>6</td>
<td>3.7</td>
</tr>
<tr>
<td>Steady Supply of Raw Materials in Adequate Quantity</td>
<td>28</td>
<td>17.2</td>
</tr>
<tr>
<td>Regular Power Supply</td>
<td>21</td>
<td>12.9</td>
</tr>
<tr>
<td>Availability of Trained and Skilled Workers and Their Co-operation in Increasing Production</td>
<td>20</td>
<td>12.3</td>
</tr>
<tr>
<td>Others</td>
<td>19</td>
<td>11.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>163</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


Organised sector which produces man-made fibres and the decentralised sector which weaves fibres into fabrics. However, the supply of raw material at high prices has caused under-utilisation of capacity in the decentralised sector. Some powerlooms are completely under control of companies producing man-made fibres through sub-contracting. Companies, which had been regulated to produce 100% non-cotton fabrics, want to take advantage of low wage labour, enjoy tax concession and avoid labour and factory laws by sub-contracting with powerlooms.
In the 1970s and 1980s, exports of man-made fabrics are increasing in spite of higher prices of indigenous man-made fibres. The competitiveness of the Indian man-made textile industry in the international market may be attributed to two reasons. In the first place, as the man-made textile industry is mainly depending on the decentralised sector, it can take advantage of low wage labour. Secondly, exporting units can get replenishment (REP) licences in proportion to their export performance. Therefore, they can not only import man-made fibres at the international price but also earn premium by selling the licences. The REP licence system has promoted export of man-made fabrics. On the other hand, as long as the gap of production costs between indigenous and imported man-made fibre exists, exporters have to depend on cheaper imported man-made fibres. Namely, the development of import substitution of man-made fibres has not effectively contributed to the increase in exports of man-made fabrics.

5 Import Substitution of Ready-Made Garments

A strong domestic preference for traditional non-stitched apparel such as saries, dhoties has constrained the expansion of domestic demand for ready-made garments. Besides, a preference for tailor-made garments is still strong particularly in rural area. Ready-made garment maker has been competing with tailor. Ready-made garments are not always cheaper than tailor-made ones in India. The garments maker can buy his fabrics at some discount because of bulk buying and make more economic use of them by bulk-cutting techniques. Further, his stitching costs are mostly less than
the tailors’. In other words, he can enjoy the economies of mass production. On the other hand, he must bear the overhead costs, the packing charges, and the freight and insurance. Moreover, the distribution costs which are not imposed on the tailored article, are added to ex-factory prices at retail level. Therefore, the garment maker has to pass the economies of mass production to consumer in order to compete with the tailors’ articles. 49

As western culture has spread over India and consumer preference has changed during last three decades, the domestic market of garment has expanded. In the 1960s, the cities gradually became important centres for the purchase of garments with growing industrialisation and increasing urban purchasing power. Most of the established textile mills with reputation entered the expanding market of garments. These mills came in as the margin of profit in the industry seemed attractive. Entry into the industry offered the mills an opportunity to get over the compulsion of having to sell certain fabrics at controlled rates, if sold as fabrics. In theory, the mills should have had an advantage over the independent units in that they can depend on their own sources of raw materials at favourable prices. However, many mills manufacture only a limited range of fabrics, so that if they wish to produce a wide variety of garments, they have to buy fabrics from other mills. In that case, their position may be no better than that of the independent units. Mills which set up their garments division in the mid-1960s came to grief between 1966 and 1968. Their troubles started from accumulation of stocks and

49 M. Narayanaswamy and V. Sri Ram, The Garment Industry in India, Delhi, Economic and Science Research Foundation, 1972, pp.95-96.
failure to displace established suppliers of garments. Moreover, general recessionary condition shrank the domestic market and the abolition of export incentives at the time of devaluation made Indian exporter lose their competitiveness in the international market.\(^{50}\) Consequently, many mills gave up production of garments. Although garment manufacturers were mainly catering for the domestic market in the 1960s, the increase in domestic demand was relatively very sluggish, compared with the growth of exports. During 1965-70, while domestic sales plus stock of ready-made garments grew up by 4.0\% per annum in real prices, exports rose by 25.4\% per annum.\(^{51}\)

Influence of western cloth prevailed even among middle and low income groups in the 1970s. Production of cheap garments for them started. The entrepreneur assembles the necessary capital for the purchase of fabrics. He buys small pieces which are sold by mills by weight at very low prices. He then sorts out these pieces and roughly works out what can be produced out of each piece or by patching pieces which match. A contractor gets the work from the entrepreneur. A contractor collects these pieces and promises delivery of finished garments within a stipulated time on a mutually agreed basis. He parcels out work among his tailors, either after cutting the fabrics according to instructions or even leaving this job also to the tailor. He makes arrangements for collecting the finished garment and handing it over to the entrepreneur. Some entrepreneurs centralise the work involved in stitching buttons, making button holes etc., depending on the economies of

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50 Ibid., p.41.
51 Ibid., p.102.
scale. At the entrepreneur's end, the garments received are made more presentable through ironing, packing and generally preparing the goods for the market. The entrepreneur has his own sales outlets, generally merchants from the place of manufacturer or outside, depending upon the reputation built up. 52

The domestic market has been expanding in proportion to the spread of western cloth. The domestic market developed rapidly in the 1980s. The value-term increase in the domestic market in the years from 1980 to 1988 was estimated at an annual compound growth rate of 22.1% in current price (Table 2.24). Even after rise of prices is taken into consideration, the growth rate

<table>
<thead>
<tr>
<th></th>
<th>Rural Consumption</th>
<th>Urban Consumption</th>
<th>Domestic Consumption</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>195</td>
<td>332</td>
<td>337</td>
<td>395</td>
</tr>
<tr>
<td>1981</td>
<td>221</td>
<td>415</td>
<td>411</td>
<td>509</td>
</tr>
<tr>
<td>1982</td>
<td>238</td>
<td>497</td>
<td>539</td>
<td>705</td>
</tr>
<tr>
<td>1983</td>
<td>221</td>
<td>528</td>
<td>602</td>
<td>853</td>
</tr>
<tr>
<td>1984</td>
<td>224</td>
<td>590</td>
<td>621</td>
<td>921</td>
</tr>
<tr>
<td>1985</td>
<td>339</td>
<td>893</td>
<td>815</td>
<td>1403</td>
</tr>
<tr>
<td>1986</td>
<td>378</td>
<td>1117</td>
<td>810</td>
<td>1452</td>
</tr>
<tr>
<td>1987</td>
<td>575</td>
<td>1719</td>
<td>871</td>
<td>1649</td>
</tr>
<tr>
<td>1988</td>
<td>566</td>
<td>1838</td>
<td>752</td>
<td>1760</td>
</tr>
</tbody>
</table>

Source: Govt. of India, *Consumer Purchases of Textiles*, (various issues).

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is remarkable. It is noteworthy that the rural market was growing by the rate more than 20.5% in value terms. There seems to be a vast untapped market for cheap garments in the rural and urban sector, low in value but high in volume terms. As tailoring costs are rising, tailor-made garments are gradually losing their competitiveness against ready-made garments. 53 Exports increased by 22.1% per annum from 1980 to 1988, namely, the domestic market grew at the same rate with the export market. While export production was restricted by the MFA, the production for the domestic market rose due to expansion of domestic demand. Moreover, brand names have begun to command wide acceptance. In fact, there is of late a shift in teenage fashions from the traditional to the international types cultivated by the products through careful advertisements. 54 Besides, some large exporters started production for the domestic market. The domestic market is more easily manageable commercially since the demand is not as unstable as in the export market. Therefore, the risk of obsolescence, rejects, surplus and heavy inventories are minimised in the domestic market. 55

At present, the retail outlets can be separated into three categories. First category is boutiques with exclusive designer collections for the style-conscious upper classes where volume is low but value is high, with high profit margins but also high risks of obsolescence. New designs have to be

54 Ibid., p.33.
55 Ibid., p.15.
introduced more frequently to keep a hold on the clientele. Second category is retail shops or counters in department stores, which may vary from collections for the middle to upper classes. The accent is on good quality and presentability of garments rather than their exclusiveness. The brand name culture is fast catching the domestic market right from infants and children's wear to night-wear. There is a faster turnover than the boutiques. This is brought about with a high volume and lower prices. Margins are low but turnover is high. The risk of obsolescence is also low because items are standard. Third category is the pavement bazzars which have mushroomed in most urban areas, either in the open or in makeshift stalls for the common masses. Margins depend entirely on the salesmanship of the seller. These bazzars include products which are made specifically for this market, unsold stocks from the other outlets, and export surpluses and rejects. The fashion revolution that has become all pervading in India first emerged in a small way on the pavement sales of export leftovers. The Indian ready-made garment industry has developed, supplying for the domestic and the export markets. However, the linkage of both markets has been weak. Since fashion trends, consumer preference and distribution system are different, most of exporters concentrate on exports. In other words, the export and the domestic production sectors have developed separately.

Both the export and the domestic production sectors procure cloth from the domestic market. The export sector has linkage with the domestic industry at the level of raw material. In the mid-1960s and the mid-1970s, there were

56 Ibid., pp.27-28.
booms for handloom garments in the export market. After the mid-1970s the share of handloom garments has declined and only an estimated 1.5-3% of the needs of the garment industry are sourced from the handloom sector. In the 1990s nearly 80% of the fabric needs of the garment industry are supplied from the powerloom sector. Powerlooms have advantages over mills at three points. Firstly, powerloom cloth is cheaper than mill-made cloth. Secondly, powerlooms can meet smaller orders. There are many mills especially in Bombay who now specialise in producing faultless wide-width fabrics. However, mills need larger minimum initial order per sort to make the production economically viable. Thirdly, powerlooms enjoy an advantage of a much smaller lead time. Faster deliveries made on schedule are very important to respond to a market where a substantial segment caters to a fashion.57

The Indian garment industry has an advantage of development of domestic textile industry over other export countries. However, garment export units have faced difficulty to secure appropriate raw material at the aspect of quality, quantity and price. Firstly, there has been particular shortage of certain types of fabrics required for the garment export industry. Most of heavy cotton fabrics such as drills, ducks, corduroys have not been available in the required counts and wide widths. It is very difficult for garment producers to procure fabrics of 45 inches width and above, which have been known to result in saving in the cost of production by nearly 3.0-4.5%. Since the lengths offered by mills and powerlooms are too short, garment producers cannot use automatic layer-cutting. Besides, since domestic demand for fabrics

57 Ibid., pp.21-25.
has been high, demand from the ready-made garment industry has not been so much important for the textile industry. Garment products want a small quantity of fabrics with particular colour and a specified quality standard. Further, fabric makers must supply products up to a given delivery schedule. On the other hand, the domestic fabric market in contrast does not insist much upon quality and delivery schedules. Therefore, fabric makers prefer the domestic fabric market. Secondly, as indigenous fabrics have been flawed at intervals and there have been various shade even on the same blot, garment makers have not been able to use bulk-cutting process. Thirdly, Indian fabrics, particularly in the case of synthetic fabrics, have been costlier than foreign fabrics.\(^5\) Although garment export units can import fabrics by REP licences, it means outflow of foreign exchange. Because exports of ready-made garments to developed countries face restriction, widespread use of imported material is not efficient way to maximise net foreign exchange earnings. Therefore, supply of high quality fabrics at cheaper prices by domestic makers is necessary in order that the garment export industry may increase exports without outflow of foreign exchange. Namely, the Indian textile industry is pressed to undergo modernisation and diversification of its capacity in order to play an important role as supplier of raw material.

The Indian garment industry has moulded fragmented production structure in the export and domestic production sectors. Since the industry can take advantage of low wage labour under the structure, it has made Indian garment exporters keep competitive with foreign makers. But the Indian garment

industry lost economies of mass production by building up the structure. In addition, the reservation of garment manufacturing for small-scale producers in the domestic market worsens the situation. Therefore, the garment makers do not have competitiveness against tailor-made articles. On the other hand, the fragmented production structure has protected small-scale producers and tailors. If garment factories were catering to the domestic market at cheap prices, taking advantage of economies of mass production, workers of small-scale units and tailors would lose their job. Therefore, the government is forced to reserve the domestic market for small-scale units, as the handloom sector is protected in the textile industry. The ready-made garment industry also is facing the dilemma between protection of the decentralised sector and modernisation.

Summary

The First World War brought boom to Indian mills due to the curtailment of imports from the U.K. Their production expanded rapidly and at the end of war they had made substantial gains. Under the tariff production since 1917, they developed further. Before independence, the Indian textile industry consolidated its foundation.

Since independence, the industrial policy for the textile industry consists of two pillars: priority of cotton textiles and import substitution of man-made fibres. The Government of India has consistently attached priority to cotton textiles rather than man-made textiles because it has thought much
of linkage with cotton cultivation. By the promotion policy, self-sufficiency of raw cotton was accomplished. At the same time, import substitution of man-made fibres has also progresses. But import substitution under protection created an inefficient and high cost industry. Producers of synthetic fibres have not set up viable units in order to ensure that the decline in income associated with any one unsuccessful venture is small relative to the income from total entreprenurial capital. On the other hand, they are enjoying monopoly profits.

Per capita availability of woven fabrics in quantitative terms has stagnated since the mid-1960s. Two factors have hindered its growth. The stagnation of economic growth had affected per capita consumption of fabrics until the mid-1970s. Consumer preference has shifted from cotton cloth to man-made and blended fabrics from the mid-1970s. As a result, although per capita consumption of fabrics in quantitative terms has stagnated, per capita consumption of fabrics in value terms has rose.

Synthetic and cotton-synthetic blended fabrics are getting popularity due to their durability and easy care properties. However, powerlooms which are main producers of non-cotton textiles, are suffering from under-utilisation. Since powerlooms have financial weakness, high prices of synthetic fibres and fluctuation of their prices cause under-utilisation to them.
As western culture has spread over India and consumer preference has changed during last three decades, the domestic market of garments has expanded. At present, ready-made garments are competing with cheap tailor-made garments. There seems to be a vast untapped market for cheap garments in the rural and urban sectors, low in value but high in volume terms. Therefore, the garment makers have to pass the economies of mass production to consumer in order to compete with tailor's articles. The garment industry has moulded fragmented production structure and lost economies of mass production by building up the structure. In other countries also, the garment industry has fragmented production structure. However, it get an advantage over tailors due to its relatively cheaper production costs.