INTRODUCTION

The world economy has changed in significant ways during the past several decades. One of the areas where this change has been profound is in the area of international trade and industrial organization. The globalization of production and trade is especially significant, when one considers its effect on the growth and development of industrial capabilities in a number of developing countries, and how large transnational corporations are increasingly reducing direct ownership over non core functions such as generic services and volume based production (Sturgeon, 2008). Functional integration has been the result of this vertical fragmentation. Globalization, with its effects on the mobility of information, capital and talent affects the nature of work and business in the contemporary world economy.

The international debate today is directed towards how globalization, in its transformative influence affects firms and workers particularly in the developing economies. The result has been the significant growths of capability building by firms in developing countries who find themselves engaged through planned action or through gradual improvements in taking up more specialized or value
enhancing processes or activities. These firms engage in the provision of intermediate inputs or services used in or for final processes of the retail ready item. This has affected not only their fortunes but the industries they are entrenched in, and the regions where they have located their industries, causing a multiplier effect on the participants in those supply relationships, either intentionally or by chance.

1.1 Background of the Study

The textile and apparel complex is one of the oldest and most global export industries in the world, which was traditionally used by countries entering the era of the industrial revolution to quick start their industrialization process through the benefits of ample work, employment opportunities, inelastic demand for clothing and easy entry into export oriented growth. India’s textile industry is one of the economy’s largest. India’s textile industry is also significant in a global context, ranking second to China in the production of both cotton yarn and fabric and fifth in the production of synthetic fibers and yarns. Though it was a major predicted gainer from the end of the MFA, the recession in major buyer markets affected demand and led to intensive losses of jobs in 2008 and 2009 (Thoburn, 2010)

The SME Influence

India’s textile sector is characterized by mostly small-scale, nonintegrated spinning, weaving, cloth finishing, and apparel enterprises, many of which use outdated technology. Some, mostly larger firms operate in the ‘organized’ sector where firms must comply with numerous government labor and tax regulations. Most firms, however, operate in the small and medium enterprise size with smaller scales of production, commonly called the ‘unorganized’ sector where regulations are less stringent and more easily evaded. The unique structure of the Indian textile industry is due to the legacy of tax, labor, and other regulatory policies that have favored small-scale, labor intensive enterprises, while discriminating against larger scale, more capital intensive operations. The structure is also due to the historical orientation towards meeting the needs of India’s predominantly low-income
domestic consumers, rather than the world market. Policy reforms, which began in the 1980s and continued into the 1990s, have led to significant gains in technical efficiency and international competitiveness, particularly in the spinning sector. However, broad scope remains for additional reforms that could enhance the efficiency and competitiveness of India’s weaving, fabric finishing, and apparel sectors (Landes, MacDonald, Singh and Volrath, 2005). A strong and weak point of Indian textiles is that it is spread across the country, with pockets of concentration coming up in different areas according to raw material availability (Chandy, 2011).

The Kannur Home Textile Industry

The export oriented home furnishing industry based at Kannur has a history that goes way back to 1844, when the first frame loom weaving factories were set up by the Basel missionaries of Germany. The first handloom factory was set up in 1852 in Kannur and in Calicut in 1859. This was later converted into a factory called The Commonwealth Trust. In the early 1950s the first exports from the region started. In the 1980s the home furnishing and upholstery products gained popularity and this continues even today. By 2004 exports touched Rs. 265 crores of rupees and in 2008, Rs. 330 crores of rupees (Jayachandran, 2005). In the financial year 2009-10 it had fallen to Rs. 229 crores. This drastic drop was as a result of the recession and economic slump of that time, coupled with the combined effect of unprecedented increase in cotton yarn prices and currency value fluctuations (The Hindu, December, 2010). It was approved as a ‘Town of Export Excellence’ by the Central Ministry of Commerce in 2005 to recognize the contribution of smaller towns and regions that grew on their own strength to contribute to the national exports even without basic government infrastructure. Tirupur, Ludhiana and Panipat were other textile clusters to be awarded this title.

1.2 Statement of the Problem

Immiserising growth is defined as an outcome when overall economic activity increases, but the returns to this economic activity falls. This can happen when export prices fall faster than export volumes increase, Here, the firm may be
worse off even though economic activity is increased. This has happened to five countries exporting wooden furniture to the EU in the decade 1987-1996. When wages fall, as production increases, in reality workers do not gain. In Brazil’s shoe exporting sector, between 1970 and 1980 average real wages were stagnant, and during the 1990s they fell by approximately 40 percent in real terms. It is seen that despite high economic integration, firms do not gain from globalization (Kaplinsky & Morris, 2001). Between 1997 and 2001, the UNCTAD combined price index of all commodities in US dollars fell by 53 per cent in real terms. That is, commodities lost more than half of their purchasing power in terms of manufactured goods: African commodity exporters would have had to double their export volumes to maintain their foreign exchange incomes at previous levels (UNECA, 2002). This pattern of exports growth-- increasing volume growth to sustain the same level of incomes--is characteristic of immiserising growth, a pattern whereby growing output can, in theory, lead to lower incomes and rising poverty. The inequality remains despite global integration and firms in developing countries like India may not be engaging in activities that truly benefit them, in the process of their integration with global supply chains.

The study attempts to examine the Kannur home textile value chain to understand whether immiserising growth is a threat in the long term. Have firms in the cluster gained from their association with global buyers over this extended period, and in what ways? Has high road growth been possible by this continued integration into the value chains of retailers and branded manufacturers for decades, or has there been a slow redundancy in the importance of their functions and benefits? An attempt is made to evaluate these aspects through the use of the ‘value chain framework’ suggested by Kaplinsky and Morris (2001) in their manual titled ‘A Handbook for Value Chain Research’. This uses the constructs of Schumpeterian rents, governance and upgrading to finally evaluate the type of value chain relationship prevalent among the firms in the cluster and to examine how this affects their prospects for development in the long run.
1.3 **Key Research Questions**

- *What is the type of the value chain relationship that manufacturing export firms of home textiles have with their buyers?*
- *What are the capabilities within and between firms in the home textile global value chain that enable sustained competitiveness?*
- *How and what are the methods by which manufacturing exporters are controlled, directed or coordinated in the value chain, and how has it influenced their upgradation?*
- *What are their preferred buyer segments and key product lines?*
- *What are the critical success factors of the industry?*
- *Do firms in the cluster gain or lose from linkages to global buyers?*

1.4 **Objectives of the Study**

a) To examine the various sources of **Schumpeterian rents** which exist in the relationship of the manufacturing export firm with the value chain.

b) To examine the **sources and effects of governance** which influence the relations between firms in the chain?

c) To isolate the **sources and types of upgradation and** its effect on manufacturing firm prospects.

d) To understand the **final buyer segments** and the **key success factors** required to perform in these segments.

e) To attempt to contribute to the literature on value chain theory by observing and classifying the **type of value chain within the cluster.**

In the light of the exploratory nature of the study and the broad scope of the study the following propositions are put forward to be examined using a mixed
method research framework. A triangulation of results is attempted by using a sequential exploratory mixed method design with an initial strand of case study research of multiple case studies and a second part that involved a descriptive attitudinal survey research. The objective was to corroborate the evidence and to strengthen the findings by complementary results.

1.5 Propositions of the Study

a) Firm, relational and resource based rents are significant to export firm in the cluster.

b) Legislative governance is more significant to firms than judicial or executive governance.

c) Product and process upgrading are carried out by export firms.

d) KSFs have shifted from product based to process based factors.

e) High value low volume retail buyers is the most important customer group.

f) The typology of the value chain is quasi-hierarchical.

1.6 Potential contributions of the study

At the national level

The national textile policy aims towards promotion of artisanal and traditional populations through the use of cluster based promotional methods. This involves activities directed towards increasing competitiveness. This was by greater investments, higher standards of quality and by reacting faster to global developments. An export target of 50 billion dollars by 2010 had been targeted in the textiles and clothing industry in the budget of the Union Government in 2004-05. The post MFA era was a disappointment to the industry since diversification of production occurred and key markets like the USA, Canada had created production sharing arrangements with a number of developing countries in their vicinity and were benefiting from the buyback arrangements with these countries. India had a disadvantage of distance from these markets and inherent structural
weaknesses which have prevented the industry from reaching its true potential. Added to this has been the effect of the global recession which began in the latter half of 2007 leading to falling demand and loss of jobs across all sectors and particularly in the textile and apparel industry.

Policy makers should recognize that the measures provided to firms in the sector will bear fruit only if the linkages, with key markets are sustained. These linkages are through different players that take up the buying function like the importer wholesaler, the importer distributor, the branded retailer, or the mass marketer. Understanding the key success factors required to perform in these markets is necessary to direct policy related steps to provide these needs. The upgrading that firms need to take up, in the form of increased price competitiveness, technology improvements, providing valued benefits like adherence to socially relevant or ethical standards, increased importance to evolving product and process standards and firm specific standards offers Indian suppliers direct entry into valued and beneficial buyer driven chains. This can be directly taken up in policy measures at the central level, which need to be customized at the cluster or regional level, due to the vast diversity in small and medium enterprises in the country that have access to export markets. In a reservation biased industrial policy, where smaller companies are encouraged at the expense of bigger firms, drastic changes to reverse this will not happen overnight. Identifying methods to make the existing smaller players link with bigger producers or directly to export markets through providing specific benefits or capabilities or sources of rent, carrying out firm or technology upgrading, and increasing bargaining power of suppliers goes a long way towards ensuring high road growth.

At the state level

Despite having a history of exports that go back to the 1950s, and linkages with highly quality conscious European and British buyers since those times, a state level thrust on the export industry of home textiles has not been significant.
A significant body has been the exporter’s association of the region, lobbying for national recognition, and infrastructure needs like textile parks, institutions like NIFT, and skill development courses. Their actions have been independent of or rarely in tandem with government based actions, but due to the region being a recognized handloom weaving cluster, the cooperatives and smaller handloom weaving establishments organized as quasi governmental establishments have received enormous support in the form of subsidies, rebate sales, workers insurance and wage support, write-off of bad debts and improving the competence of weavers by cluster development initiatives of the Handloom cluster development programme in the Integrated Handloom Development Scheme (IHDS). This kind of support and need specific investments has been absent in the initial years of export development of the private sector companies of the region. The study will suggest areas of acute weaknesses in the region, and where dissipation of capabilities is seen. How can a combined approach where the private enterprise association aims at developing or enhancing cluster strengths in combination with the government support mechanisms for smaller producers, benefit the region as a whole? The study will examine broad areas where the export linkages of the private sector enterprise have been used to enhance and develop the region as a whole, through filtering of orders to the other producers, using region specific skills and abilities, hand holding for smaller establishments and private-public partnerships for regional infrastructure and support industry development.

At the firm level

By examining the initial and present key success factors of firms, as well as their important product groups and key markets, it becomes clear what should be the practices that they should take up to enhance their offering and upgrade their abilities. This may be centered not only on specific firms but on the regional strengths or resource specific benefits, which firms, in toto, must work towards. The study examines which are the redundant practices that no longer benefit firms and in which areas further investment is called for to ensure high road growth.
1.7 Scope and limitations of the Study

The literature on the involvement of developing countries in trade has focused on the effects of different aspects of globalization on firms, regions and countries. The study attempts to examine how an export based industry, locally embedded and originated on the basis of regional strengths has been inserted into the global trade framework. Though the unit of analysis is the manufacturing export firm in the region of Kannur, it represents the entire home textile export industry from the state of Kerala, as close to 90% of fabric exports in home furnishing material, textiles for upholstery and decoration and stitched or fused, and branded made ups are from the region. From a global perspective, how developing countries face newer trade restrictions and overcome non quota barriers by firm and region specific activities within a value chain framework is a major research area, which has already contributions from the Ludhiana woolen cluster (Tewari, 1999) and the Tirupur cluster in India (Cawthorne, 1995). The study contributes to the value chain literature by examining the governance and upgrading as well as how firms benefit from linkages. India has a number of export oriented agglomerations or regions where firms have been serving export markets for many years. In many cases it is no longer the supply side policy actions that determine how they are able to penetrate new markets or expand existing market share. Based on this study it becomes possible to understand how the global value chain operates in these different industries to examine whether there is a danger of immiserisation of growth or low road growth.

Limitations of the study

a) The use of a holistic case study research requires cases or firms, in this case to be studied as a whole, considering the constructs of rent, governance and upgrading, as specified by the theoretical framework. It does not study each firm, department wise, or look at their operations in the form of a sectoral or industry study.
b) Though domestic sales may occur, for unsold items, rejects or defective goods or off-season excess stock, how these items enter the domestic value chain, and are distributed in the local market has not been explored. Export linkages are the subject of study.

c) In the case study research, access to individual item or product category based change in value from one level to the next was impossible to attain because of the large variety of products within and across categories. For each case an approximate change in value at each level, was stated by the firm’s respondent as representative of the firm.

d) A better representation of the value chain linkages of the home textiles industry in the country could have been achieved had the study compared results or activities across two or three home textiles agglomerations like Karur and Panipat. Due to the constraints of time and money as well as the extended data collection process of case study research, this could not be done.

1.8 Chapterisation

The study is divided into two parts. The Part 1 deals with the introduction, review of literature and research design, while the second part consists of the analysis of data, generation of Meta inferences, discussion of the propositions and the findings and recommendations.

Chapter one was the brief introduction to the study explaining the background of the study and statement of the problem. It provides an introduction to the research problem and lists the objectives of the study. The propositions to be examined were stated.

Chapter two examines the changing geography of international trade, and examines in detail about changing production patterns, shifting governing patterns and the explanations put forward by literature. It examines the approaches to the
global trade phenomenon, ending with a review of the global commodity chain approach, and its offshoot, value chain analysis. In this connection a general examination of the Indian textile & clothing sector, and the historical background of the home furnishing industry of Kerala localized in Kannur is described.

Chapter three is the review of the literature which is examined under five heads. The world trading scenario in textiles and apparel is examined first. The commodity chain and value chain literature is viewed in the light of its effects on developing countries. The emerging trends in trade is viewed to find out what are the current scenario. The Multifiber agreement is summarized and the the Indian textiles and clothing industry’s historical background, reforms and policy measures and initiatives in the post MFA era are examined next. The predominance of the small scale and medium scale industry in the sector is expanded upon. The role of clusters in value chains is examined with the help of a few studies.

Chapter four describes the theoretical framework of the study. The value chain as a tool for analysis, with the descriptions of the key constructs of rents, governance and upgrading, is carried out next. The need for examining the critical success factors for the industry and use of radar charts is stated.

Chapter five specifies the design of the study, highlighting the benefits of a mixed method research strategy, and the need for a sequential design in this study. The two strands of the study, case study research and the survey research are laid out describing the rationale and the criteria for selection of cases and the parts of the survey design. In designing the case study the research paradigms and philosophical orientation of the qualitative data analysis process used to analyze the case study, is discussed.

Chapter six starts the data analysis part of the study with the analysis of strand 1: the Case Study Research. This follows the qualitative data analysis process of developing transcripts of interviews, coding of transcripts and
developing of researcher memos, to aid analysis. The identification of apriori and emergent codes is then followed by individual case analysis of the three case study firms. Inferences are drawn from individual case analysis. Cross case analysis occurs in the next section to cross-examine the evidence and identify similarities and differences and analyze the sources of rent, the sources and effects of governance, and the analysis of the types of upgrading. The analyses of the critical success factors specified by firms, and aspects of the buying function like key buyer segments, key product categories and destination of sales is then done.

Chapter seven is the analysis of strand II- the Descriptive Attitudinal Survey. Classifications of firms, the comparisons of important categories, and factors affecting export development are described. The product and process standards and the kinds of upgrading activities undertaken are analyzed.

Chapter eight develops the Meta-inferences- a process of combining the evidence and the findings from the case study research and the survey research. The evidence is integrated and the propositions are discussed in the light of this analysis.

Chapter nine puts forward the findings, recommendations and conclusion. What are the findings from the study and the areas in which action is required. The need to improve firm outcomes is discussed through the recommendations of the study. The study concludes by bringing out the areas for future research.

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