Problems, Challenges and Prospects
Chapter 6

PROBLEMS, CHALLENGES AND PROSPECTS

Though the textile industry in general and handloom sector in particular has stagnated in Kerala over the years, the introduction of eco-friendly aspects has not worsened the situation further. In terms of employment and the value of export, the performance of the sectors is satisfactory and the growth of the mills that adopted eco-friendly system seems to be better than the expected. Still it suffers from a number of problems. In the new context of globalisation it encounters a number of new challenges too. It will be ideal to see whether the industry is capable of overcoming these problems and challenges and what would be the prospects of this industry in the coming years. The present chapter is an attempt to analyse these aspects. To begin with, the problems faced by the industry can be analysed.

6.1 PROBLEMS

The field survey among the entrepreneurs of textile mills identified the following major problems faced by them.

6.1.1 Small size

Textile units have been set up in the style of cottage and small-scale industry. Considering the scale of operation, the size of textile units in Kerala is very small in terms of number of labourers employed and scale of operations.
when compared to Tamil Nadu. In Tamil Nadu, especially in Madurai the textile units are operating on a large scale. The towel and turkey cloth-manufacturing units of Madurai have their own yarn and spinning division which require huge investment. In fact, one has to consider several factors for determining a unit as small. While some evaluate this aspect on the basis of number of labourers employed, others depend on the size of investment, or scale of operation or the turnover and so on. There is also the practice of following a single variable or a multiple variables for determining whether a unit be small or large. It is made clear that all the textile units at Kannur are small in terms of employment. Same is the case with all other parameters mentioned.

The main problem of the small units is that they cannot achieve cost reduction beyond a certain level because they accept small orders. Compared to the handloom industry of China and other states of India, the average size of the daily order received by the units is very low. Table 6.1 shows the details of orders received by the mills.

**Table 6.1**

<table>
<thead>
<tr>
<th>Size of order</th>
<th>No of mills</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 500 metres</td>
<td>12</td>
<td>67</td>
</tr>
<tr>
<td>500 - 1000 metres</td>
<td>3</td>
<td>16.5</td>
</tr>
<tr>
<td>Above 1000 metres</td>
<td>3</td>
<td>16.5</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey data
It is clear from the above table that the orders accepted by majority of the units fall around 500 meters of fabrics. When we add the units which accept order below 1000 meters it comes 84 per cent which is a sizeable figure. It prevents them from reaping large amount of profit and enjoying economies of scale.

As against the problems mentioned above, there are certain merits for the small units. 'Small firm dynamics' which show the slogan of the day. There are evidences which show that large firms are replaced by small and medium enterprises, with in the so called industrially advanced countries. The only modification required in the area of small enterprises is the attitude to adopt modern technology and to go for innovations. The handloom mills in industry are quickly adopting these measures and hence they are able to face any adverse situation. Above all, the mills are able to adopt eco-friendly system in their environment quickly because of their small size.

6.1.2 Cost of capital

High interest charged by banks and less accessibility to banking finance have been major handicaps of this industry till recently. Pakistan, the major competitor for India in the textile sector, is able to provide finance at free of interest to their manufacturers. Banks are charging only very low service charges, because according to the Muslim law interest is illegal. The textile mills of
Kerala cannot even dream of an interest rate of 3 to 4 per cent, which is the prevailing rate in many developed countries. Though the current interest rate is low compared to earlier days it is yet more than double the rate in developed countries. Consequently, the problem of high cost of capital still persists so that the cost of production becomes higher and competitive advantage is absent.

It is found that 82% of the mills complained against high rate of interest in the country. They mainly argued for a discriminatory interest rate system. Of course, there are subsidy, margin money, priority sector lending etc., they are not the beneficiaries of these types. Most often, they also avail of loans at an interest rate for which loan is availed of by large firms. The mills argue that there should be a policy in all matters treating them as small so that whatever handicaps they face because of its small size should be rectified. The need for a discriminatory industrial policy, where interest rate should be the most important ingredient is stressed by all mills. To them, unless the government addresses this issue urgently, the textile mills cannot be competitive in the international market.

6.1.3 Obsolete methods of production

Old and traditional methods of production are still followed by textile mills, particularly the small handloom units in Kerala. This leads to two major
issues- low production and increase in cost of production. The problems are crucial for handloom sector in Kerala. It has been pointed out that the production of handloom compared to that of power loom is low in Kerala. The production of handlooms in 1991-92 was 55.28 million metres (mm). But for the same period, the production of power loom was 85.85 mm. Over the years the production of power looms increased many fold when compared to that of handloom - 130 mm in power loom as against 74.11 mm in handloom in 1997-98 (Economic Review, 1999). Same is the case of cost of production. It has already been cited that the cost of production is high due to the absence of expected level of interest rate. The use of traditional methods of products add fuel to the fire so that the textile mills have been facing continuously high cost of production. In the handloom sector of Kannur 58 per cent of the mills still depend on traditional methods of production. It is a relief that 42 per cent of the mills has modernised methods of production. Even the mills who have traditional methods of production are not finding difficulty to adopt eco-friendly system. The only disadvantage they face is the fall in profits as compared to others. In this respect, the concerned authorities or government can introduce some measures to replace the traditional methods by modern methods. A variant of venture capital may be ideal for this situation.

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6.1.4 Low productivity

In Kerala, particularly in Kannur, workers are definitely one of the best skilled cadres in the country. It has been emphatically proved that the weavers in southern and central part of the state are not capable of producing design fabrics such as dobbies, jacquards, jala etc. But the weavers in Kannur are skilled craftsmen. Unfortunately they have been greatly influenced by political, geographical and cultural factors resulting in less productivity. Compared to their counterparts in Tamil Nadu, Kerala workers give only 60-70% productivity of their potentiality. The estimates show that the productivity in handlooms is low when compared to that in power looms. The annual productivity per loom in handloom sector is 1050 metres in 1990-91. But for the same period the productivity of power loom was 1830 metres. In 1997-98 it increased to 13000 meters in power loom as against 1212 metres in handloom in 1997-98 (Economic Review, 1999). Invariably all the units in the study expressed their concern over low productivity of labourers. However, as long as there is no scientific estimation we cannot conclude that the low productivity in handloom sector is due to inefficiency of the labour. The present inference is on the basis of discrepancy made with mill authorities. It may be true that the potentiality of labour is not exploited. But the reason for that may be traditional methods of

production or business of the defective organisational and productive system. However, the labour consciousness of the workers at Kannur is very high because of their affiliation to political parties. The defective wage system is also partially responsible for low labour productivity and thereby the low productivity of handloom sector. Hence a discussion need to be made on the wage system prevailing in this sector.

6.1.5 Defective system of high wage rate

The wage system practiced and the way in which labourers are utilized stand in the way of high productivity and smooth development. Wage is determined by a combination of time and piece wage system. Wage is composed of pay and dearness allowance. Whatever may be the quantum of work done by the worker, he is entitled to get pay but labourers are given dearness allowance if one weaves eight meters of cloth per day. After eight meters there is no further inducement for him to work. So he calls it a day. After eight meters even if he weaves another four meters he is not entitled to get dearness allowance but he will get only the pay. In the neighbouring state, Tamil Nadu there is no such system and so workers tend to weave more in a day so that they can earn the maximum. A Tamil Nadu home textile worker works for at least 12 hours a day. Hence in terms of output maximization, Kerala is not able to compete with Tamil Nadu.
It is of interest to note that wages paid to weavers in Kerala are higher compared to those paid to the weavers in neighbouring states (Padmini, 1999).64 On an average, a weaver earns Rs 150 daily in Kerala whereas a weaver in Tamil Nadu earns below Rs. 50 for the same nature of work. It has been pointed out by all mills that they are paying wages as per the Minimum Wages Act applicable to the sector. The strong trade union prevalent among the employees also helps them to get good wage package from the employers. At the same time the workers do not get maximum wage as it is not linked to output of the workers. It is reported that all the mills in Kannur follow the minimum wage system as already mentioned and they are not able to put the workers for long working hours due to the prevalence of strong trade union.

The low productivity and higher wage push up the cost. It is pointed out that the high cost of production is really an offshoot of low working hours and unscientific way of working system practised in the handloom sector. The remedy is that a compromising formula should be evolved out so that both employer and workers are to be benefitted. It is high time to realise the fact that workers cannot survive without protecting the mills and likewise, employer, cannot grow further without taking the confidence of workers. If trade unions change their mind and allow the workers to work more than eight hours provided the employers pay

higher than what they are paying at present, it will be beneficial for both parties. It should be a package where in long run interest of the society should be the concern.

6.1.6 Excessive politicisation and attitude of labour unions

One of the major complaints raised by textile mills is the over politicisation of workers. All mills responded to this issue positively. Because of the excessive politics, workers are bound to work only the stipulated working hours, which is legally allowed. It is low when compared to the working hours in neighbouring states. Owing to the rigid attitude of labour organisations, there are a number of changes in this sector. The main change is that employers successfully adopt certain strategies so as to overcome the difficulty put by the rigid attitude of labour unions. They reduce the number of men workers through replacing them by women workers so that, the number of active units in the organised sector has reduced considerably. It has been reported by 90 percent of the textile units that the number of looms has also come down to 50% in the last 20 years. The ultimate result is that the employers successfully employ the strategy of recruiting women, even in the place of men so that the trade union problem can be minimised. 67 percent of the units remarked that they prefer women to men wherever possible. They pointed out that women, even if they are members of trade union, are not active in the unions. It is reported that unions are also not very much interested in extending the membership to women.
6.1.7 **Lack of comprehensive awareness**

Though the mills have awareness about the relevance of eco-friendly system, they lack a comprehensive understanding about all aspects relating to environmental issues. Eco-friendly system is a sound measure of healthy environmental system, which consists of a number of components. As far as eco-friendly system is concerned, it consists of several ingredients. For instance, one important measure of eco-friendly aspect is waste elimination. It is found that no specific formula has been devised for waste elimination by any mills in the textile sector. The response towards the waste elimination is reported in table 6.2

<table>
<thead>
<tr>
<th>Whether methods of waste elimination are employed</th>
<th>No. of Mills</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>No</td>
<td>17</td>
<td>94</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey method

It is observed from the table that waste elimination has not been implemented. The reason for this is given in table 6.3.
Distribution of mills by waste elimination

<table>
<thead>
<tr>
<th>Reason for not implementing waste elimination</th>
<th>No. of Mills</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expensive</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lack of awareness</td>
<td>16</td>
<td>88</td>
</tr>
<tr>
<td>Non insistence by the authorities</td>
<td>2</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Survey data

It is clear from the table that it is because of lack of awareness that most of the mills are not implementing any methods to eliminate the waste. It is also pointed out that there are no steps to educate the workers in this field about the importance of waste elimination. Same is the case with many measures of eco-friendly system or environmental measures. At present the foreign customers are not seriously bothered about the waste elimination as they insist only on other eco-friendly aspects of the textile product. There can be demand for waste elimination as part of eco-friendly system in the near future so that our mills may be affected adversely. Hence steps should be taken to educate the manufacturers about the importance of waste elimination and other measures to make the system eco-friendly. As a first step, mills may be advocated to adopt waste minimisation programmes. Awareness programmes should be devised and propagated among the mills about the importance of waste minimisation. Gradually, the waste elimination will not be a problem for them.
6.1.8 Cost of production and underutilization of machines

It has already been mentioned that cost of production is high in the sector and one major reason for this is the underutilisation of resources. Having discussed this aspect it is worthwhile to see how far the eco-friendly system influences the cost of production. Only one out of the 18 units has stated that the cost involved due to the implementation of eco-friendly system is meagre whereas seventeen firms have pointed out that the cost of implementation is high. But they were not able to state the exact increase in the cost of production. However, it is pointed out that less degree of machine utilisation is a hurdle for the development of the textile sector. It has already been pointed out that old and obsolete machinery are engaged in the production process. Adding to this there is underutilization of fixed assets. The extent of utilisation is shown in table 6.4.

Table 6.4

Distribution of mills by utilisation of machinery

<table>
<thead>
<tr>
<th>Machinery utilisation</th>
<th>No. of Mills</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>65%</td>
<td>10</td>
<td>55</td>
</tr>
<tr>
<td>70%</td>
<td>6</td>
<td>33</td>
</tr>
<tr>
<td>70-85%</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey data
It is clear from table 6.4 that 55 per cent of firms reported a 65% of capacity utilization whereas 45 per cent fall under the capacity utilization ranging between 70 to 85 per cent. The average capacity utilization is worked out as 68 per cent, which is a satisfactory level. But when compared with the high cost of the machine installed in this sector, particularly in the mills with modern technique of production, it needs to be improved. The manufacturers pointed out that 75 to 80 per cent of capacity utilization of machinery would definitely help them to put in a competitive environment. Naturally the present level of utilisation of machinery accentuates the cost of production of most of the mills and as a result the competitive advantage is lost.

This is really an area of concern, which needs urgent redress because high cost of production is largely attributed to under utilisation of machines.

6.1.9 Infrastructure constraints

Infrastructure is considered as a facilitator of development. It is equally applicable to the economy as well as industrial units. Good roads, transport facilities, effective communication, airport etc. constitute the basic infrastructure. For smooth export, the easy accessibility of an airport is essential.

In the absence of an airport in Kannur the finished products have to be transported through road till the airport, which is far away from Kannur. Table 6.5 shows the response of mills towards the poor infrastructure facilities in Kannur.
Table 6.5

Distribution of mills by infrastructure facilities

<table>
<thead>
<tr>
<th>Nature of infrastructure facilities</th>
<th>No of Mills</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Good</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Poor</td>
<td>17</td>
<td>94</td>
</tr>
</tbody>
</table>

Source: Survey data

Table 6.5 makes it clear that 94 percent of the mills complain about the poor infrastructure facilities at Kannur. The poor road condition and the distance from the airport make it difficult to transport the products in the sophisticated packing, as per the eco-friendly stipulation, without damage. Further it is remarked by all mills that the foreign buyers who visit the manufacturing units are not happy about the condition of the road. The active participation and involvement of many agencies would assure the development of infrastructure in Kannur.

Apart from the problems identified above, the mills are facing some new challenges also, particularly in the context of new economic reforms initiated in the country, which largely rely upon the World Trade Organization (WTO) framework. The ensuing section deals with the challenges of the textile sector.
6.2 NEW CHALLENGES

In the context of free trade regime, it is opined that the textile industry will have a bright future because of its comparative advantage in international scenario. As against this, the opposite view is that there would be new issues and problem in this sector in the context of globalisation era.

The deregulation of the textile sector removed the barriers to expansion and restructuring of mills. It will definitely lead to a number of challenges to the textile mill sector, especially the handloom sector. The following are some of the challenges that are faced by the textile sector. They have been identified through field survey.

6.2.1 Threat to the textile committee

At present exporting to non-quota countries does not require any certification from the Textiles Committee. After liberalization the committee’s role has come down. Even now the trend of placing orders, by avoiding intermediaries, has started; that is, buyers will directly come to exporting units and place orders after having satisfied themselves with many aspects such as the quality of the product, eco-friendly aspects adopted by the units, economic and legal environmental aspects, absence of child labour, total cleanliness of the unit from the reception point till the backyard of the unit etc. Hence the process would definitely bypass the Textile Committee so that their role will come down.
6.2.2 Threat to handloom sector

One of the criticisms levelled against New Economic Reform is that it poses a threat to traditional industries and small enterprises in different ways. Naturally, handloom being a traditional sector, it will be adversely affected. Further, since it consists of small enterprises the adverse effect will be crucial and severe. Moreover from March 2005 onwards, the difference between handloom and power loom has come to an end. In reality handloom items are exported along with other textile items. The area of operation of powerlooms is likely to expand very fast at the expense of handlooms due to deregulation. With the policy change towards liberalization and modernization, emphasis has shifted to automation and robot control system. The shift may ultimately affect the growth of the handloom sector. In this respect, 95 percent of the mills have pointed out that this sector can be promoted by giving some brandname.

6.2.3 Comparative competitive disadvantage

The quota system that prevailed under the Multi Fiber Agreement (MFA) is now lifted. Under the MFA the textile sector of India was enjoying some duty concessions, particularly for some handloom items. As a result the benefit enjoyed by handloom sector is lost hereafter. India will have to face severe competition from such countries especially China due to the lifting of MFA. For instance, China did not enjoy any concession or benefits under MFA and hence the lifting of MFA will not adversely affect it. Naturally, China will be a strong competitor.
for India in the international market. The remedy is that the government should extend the same concessions in some forms to the handloom sector for the time being. However, it should be a short term measure. The long term strategy should be such that the small mills should be made competitive and efficient so that all kinds of concessions can be withdrawn.

6.2.4 Threat to small units

12 mills have raised apprehension about the possible consequences of the lifting of MFA. They argued that big units like Bombay Dyeing and Aravind Mills whose cost of production is comparatively low, might come into the scene to reap the benefits of the lifting of MFA. Nevertheless, the other six manufacturers do not consider it as a problem since they are operating in small scale. The reason is that Indian handloom especially Kannur handloom can manufacture made ups with bright and multi-colour than any other countries. It is a relief that India is the leader in the area of made ups. Likewise, the brandname strategy should also be employed to identify the products. In short, a two pronged strategy will help the mills to overcome the expected problems—concentration on the items (like made ups) where we enjoy comparative advantage and selling the products under a brand name.

6.2.5 Consequences of reactive dyes

Kannur handloom units are using vat dyes with fewer problems. In future demand for bright colours may increase which necessitates the use of reactive dyes. This may result in pollution. In this situation it is essential that water from
dyeing, bleaching, scouring and other processes is to be treated to the correct pH, BOD and COD before discharging outside. Individually it is very expensive. A common effluent treatment plant will be a necessity in places like Kannur. The idea of 'cluster' needs special mention in this context. There is ample scope for setting up a cluster for handloom in Kannur. It should be set up in order to rectify the handicaps of handloom sector. For instance, a common effluent treatment plant, installing of costlier machines etc. can be carried out and all mills should co-operate with one another to share these plants and machines, by which cost of production can be brought down.

6.3 PROSPECTS

Fortunately the textile units have already turned out to overcome the new situation that emerged out of new economic policies. All the 18 mills have pointed out that they have no threat in the export front in respect of eco-friendly and environmental aspects. In the labour front also, Kerala has a strong social accountability base. Here workers are not exploited, as Handloom workers' union is the strongest union in the whole of India. They enjoy all benefits guaranteed by the government. At the same time it cannot brush aside some major problems faced by it. Unless they identify certain crucial areas where they have ample scope for development and take suitable steps to realize it, it cannot survive. The following points offer prospects for the growth of the industry.
6.3.1 Government initiatives

Recognising the increase in demand for (handloom) Kannur textiles among the foreign buyers, the government has decided to establish an apparel park in 150 acres of area at Kannur. Central Government has identified Kannur as one out of 9 centres in India under its Infrastructural Development Scheme and declared Kannur as Town of Excellence. The State Government has sanctioned Rs. 5 crores for this purpose. Recently another 11 crores has been declared under Extra Scheme and another 20 crores by Central Government for Textile Centre Infrastructural Development Scheme (TCIDS) for Kannur alone.

6.3.2 Budget and handloom

The central government has declared some assistance in the last budget so as to lift handloom industries to maintain the same status of the power loom. This would definitely lift the handloom sector in general and Kannur mills in particular.

6.3.3 Focus on special items and areas

Kerala can march towards a higher growth of textiles particularly handloom, by focussing on certain items on which it has comparative skill in the selected areas like Kannur where the availability of labour as well as other factors including raw materials are abundant.
6.3.4 A replicated model incorporating empowerment of women

In the light of the success of mills at Kannur after the introduction of eco-friendly system, it can be argued that the elements of the model can be replicated. The lesson that we derive from the textile mills at Kannur is that smaller units, which accommodate and empower women labour in the background of introduction of eco-friendly system have received the attention of other countries. Hence this model can be extended to other sectors of traditional and small industries. Coir, Cashew and Bamboo are some important traditional sectors which require drastic revitalisation. In the case of coir and cashew, it is known that women labourers heavily depended on them. But they are not empowered through it, but rather get impoverished. The vast propaganda coupled with the introduction of eco-friendly system will definitely boost the demand for coir products all over the world. This would ultimately help the employers to pay high wages to women workers, thereby women can be empowered because economic factor is the base of empowerment of any downtrodden category. No doubt, the model that we noticed in the handloom sector of Kannur can be replicated to a number of other sectors, at least in Kerala.

The above discussion throws light on several aspects like the major problems faced by the mills, the main challenges witnessed by mills particularly in the context of globalisation and the future prospects of the industry. Though small size is considered as a major problem, it is a viable one in the context of the
introduction of eco-friendly system. Likewise even in the context of high cost of capital and thereby high cost of production, the mills are able to reap profit. It is true that the obsolete methods of production followed by some units is a major handicap. The under utilisation of machines aggravates the problem. All these have resulted in low productivity too. In this background, the flexible specialisation adopted in, certain advanced countries among small manufacturers may be practised. The idea of flexible specialisation is that it makes the firms dynamic and persuade them to adopt innovative methods. Along with this, the defective wage rate system prevailing in the sector demands some urgent redress of the issue. No doubt, it is high time to link the wage with productivity of the worker so as to reduce the cost of production. Whenever some changes with respect to wages are made, it must be cautioned that the security of the employment should not be adversely affected. In this context the excessive politicisation and attitude of the labour unions demand thorough modification.

Another area of concern is infrastructure constraints. The interests of different agencies and authorities are essential for rectifying these constraints. Though the government has shown some interests by providing some budget support for the construction of good roads, yet a lot has to be initiated in this area.

Along with the above mentioned positive and negative aspects, the challenges to be faced by the mills in the context of new trade reforms should also be taken into account. The lifting up of quota system under Multi Fibre
Agreement (MFA), the consequences of reactive dyes, the threat to smaller units etc. are to be cautiously evaluated. A comprehensive awareness about all aspects including eco-friendly system is essential among mills to check all these problems and challenges to a great extent. Still the textile mills have a bright future because of the government initiatives and comparative advantages enjoyed by handloom mills, especially in Kanur.