Chapter I

Introduction
1.1. INTRODUCTION

Economic growth in any economy is generally viewed in terms of the pace and pattern of industrialization. 'Industrialization' is essentially meant to foster economic change in which a society is transformed from a pre-industrialized society where productive capital invested in per capita terms is low, vis-a-vis an industrialized nation. This process is closely connected with 'technological innovation'. The process results in the expansion of productive capital which enables the manufacturing sector to operate at higher and efficient levels of production frontiers. Chang\(^1\) has observed that during the period of industrialization, changes of a series of strategic production functions take place. It alters the techno-economic relationship between factor inputs, productivity level, and economies of scale of operation. Industrialization is inseparable to secure sustained economic development. Thus it becomes both a consequence of higher income and employment generation and a means of ensuring higher productivity.

Murray D. Byrce\(^2\) while explaining the relationship between industrialization, and economic development observes that, 'the underdeveloped regions have long been mainly producers, of raw materials and importers of manufactured goods.' Historically the prices of raw materials have tended to fluctuate more than the prices of the manufactured goods in the world market. There is enough empirical evidence that the development of the manufacturing and non agricultural sectors held the key to achieve economic development. The studies of UNIDO\(^3\) reveals that the most significant structural change results in increasing the level of per capita income which is accompanied by a decline in the share of agriculture and a rise in the share of manufacturing in the GNP of a nation.
Chenery and Tylore also have found a statistically significant relationship existing between per capita income and the degree of industrialization. A consensus has been arrived among the development theorists and planners that for most countries, economic development must be viewed primarily in terms of industrialization.

### 1.2. INDUSTRIALIZATION IN INDIA

The development of India into a modern industrialized country is a slow but continuing process. Pre industrialized India was characterized by extreme levels of unorganized industrial base. Export orientation has been limited to only traditional agricultural products. Under the colonial rule, as with most other developing countries, the economic system was based on a non-industrial mode of production. The British government in India provided discriminating protection to some selected industries. As a result, the Indian industrial structure reflected a pattern of lop-sided development. This type of model was curbing the process and progress in laying a strong foundation in ushering industrial development. The first Prime Minister, Pt. Jawaharlal Lal Nehru, believed in a nation with centrally planned economy for fostering in industrial progress. He saw the industrialization as the key to alleviating poverty. Nehru believed a powerful state with a centralized planned economy to be essential if the country was to industrialize rapidly. For that purpose the Industries Development and Regulation Act (IRDA) was founded in the year 1948.

India thus was guided by the Industrial Policy Resolutions of 1948 and was implemented through the five year plans. Over the last fifty five years, industrial production reached a phenomenal growth with well diversified base in terms of heavy and basic industries on one side and durable and non-durable industries on the other.

### 1.3. INDUSTRIAL POLICIES AND GROWTH IN INDIA

The industrial pattern in India on the eve of planning was marked by low capital intensity, limited development of medium sized factory enterprises and imbalances between consumer goods and capital goods industries. After
independence, the 1948 Industrial Policy Resolution gave importance in securing a continuous increase in manufactured output as well as its equitable distribution. Industrial policy resolution, 1956 provided a framework of industrial policy in India, and it was subsequently modified in 1973, 1977, 1980 and in 1991.

The Industrial Policy Resolution 1956 visualized accelerating economic growth and the speeding up the process in setting up a heavy industrial base. The system of industrial licensing was adapted during the plan period and gave primary importance to the public sector industries for achieving economic development. The industrial policy statement gave priority to large and heavy industries.

The 1977 industrial policy was focused on decentralization of the small scale, tiny and cottage industries and was given importance. Attention was given to promote competition in the domestic market, technological upgradation and modernization, in the 1980 Industrial Policy Resolution. This policy encouraged large foreign investments in India.

The new industrial policy of July 1991, has reviewed the role of private and public sector. According to this plan, the privat sector should play a much greater role in the process of development. The basic philosophy of the new industrial policy has been summarized as continuity with change. The policy seeks to achieve the objectives viz, to consolidate the strengths built up during the last four decades of economic planning and to build on the gains already made, secondly, to correct the distortions or weaknesses that may have crept in the industrial structure as it has developed over the last four decades. Thirdly to maintain a sustained growth in the productivity and gainful employment and finally to attain international competitiveness. To meet these objectives, government made policies in the following areas like 1) industrial licensing policy 2) foreign investment 3) foreign technology agreement 4) public sector policy and 5) MRTP act.
The new industrial policy has overnight altered the industrial scenario in India.

1.4. INDUSTRIAL GROWTH AND STRUCTURAL TRANSFORMATION

A study of structural transformation of the Indian industries reveals that there was a clear shift in favor of basic and capital goods sector. It accounted for about 50.00 percent of productive capital in 1959-60 while in 1991-92, its share in productive capital rose to nearly 79.00 percent. In total employment, its share rose from 25.00 percent to 52.00 percent between 1959-60 and 1991-92. Similarly, value added improved from 37.00 percent to 56.00 percent during this period. Basic industries that include iron and steel, fertilizers, chemicals, cement, non-ferrous metals have improved their positions significantly during the era of industrialization. In India, several capital goods industries hitherto unknown have been brought into existence. Also during the same period, the share of consumer goods industries such as textiles, sugar, paper, tobacco etc. have declined in terms of their relative impotence in productive capital, employment and value added.

The progress India has made in the field of industrialization is clearly reflected in the commodity composition of India’s foreign trade, where the share of primary goods declined, and the export of industrial goods like engineering goods increased. India has attained self sufficiency in almost all consumer goods, and has been making rapid growth in industrialization with poor resources. India can now sustain the future growth of vital sectors of economy primarily through domestic effort and only with marginal imports.

Industrial growth has not been uniform since 1951. After a steady growth of about eight per cent in the initial period (1951-1965) there has been a fluctuating trend during the 70’s. Even during 1980-85, industrial production was around 5.5 per cent per annum. The rate of industrial growth has been slowing down during the late 80’s. During the seventh plan (1985-90) the growth rate stood at an average of 8.0 percent per annum and in the eight plans it again declined into 7.3 per cent per annum and in the eighth plans it again
increased to 7.3 per cent per annum. The progress of industrialization during this four decade, since 1951, has, thus, been the striking feature of India’s development. The industrial structure has been widely diversified, covering broadly the entire range of consumer, intermediate and capital goods.

A study of structural transformation on the basis of 19 major Indian industries which account for about 94 per cent of productive capital, 86 per cent of total employment, and 90 per cent of value added reveals that there was a clear shift in favor of basic and capital goods sector. In 1970, its share in productive capital rose nearly to 79 per cent.

In this context, a study by Raj has revealed that in India, consumer durables have gone to satisfy the wants of the richer sections of the community, while the consumer non durable like sugar, tea, cotton, cloth etc. enter into mass consumption.

The average growth rate of industry in the post reform period (1993-99) was around 8.3 per cent. The transformation phase of Indian industry has entered into a comprehensive zone of second generation economic reform. Real GDP growth originating from industry registered a slow growth from the first quarter of 2000-01.

1.5 INDIAN COTTON INDUSTRIES

The organized cotton textile industry is one of the India’s oldest and most firmly established major industries. For India, cotton manufacture is ancient glory, past and presents tribulation, but always hope. This statement proves the fact that Indian cotton textiles had a glorious past in the field of industrialization. The performance of cotton industries in India can be presented as the following, the past performance as ancient glory, and the present performance as tribulations and the future prospectus as the hope.

The emergence of the inter-organic sea-routes in the sixteenth century, linking the continents of the old and the new world by water transport changed the entire set up of trade, commerce, economic organization of the world. The
Indian of this period, well-unified politically under the rule of its great mugal emperors like Akber, Jahangir, and Shahjahan, was enjoying great economic prosperity, and was highly developed in industrial manufacturers. India was a workshop for the world. Her supreme textile fabrics, of cotton and silk and other industrial goods like indigo etc. were covered by all the nations of Asia, Africa, and Europe. More than 200 varieties of cotton and other fabrics were exported. The exports of cotton cloth from India in the 17th centuries were estimated at more than 60 million quare yards annually. Europe was a customer for Indian manufactures during these centuries.

The main industry was the textile handicrafts and among these cotton industries was the most important and wildly spread. The story of Indian handicrafts began to fade towards the end of the 18th century, and in the middle of 19th century.

The first successful mill was started in Bombay in 1853 and the industry continued to grow round that center. In the year 1874-75 there was a rapid increase in the number of mills. It was 19 in 1874, and it rose to 36 in 1875.

Leaving aside the spinning and weaving industry, a considerable number of persons were employed in the ginning and pressing factories. Mr. J.N Tata started the famous express mill in Nagpur in 1887 and it was followed by the erection of many more mills. And many more cotton mills came into more cities in India like Ahmadabad, Sholapur, Madras, Coimbatore, and Madurai.

The Indian cotton mill industry enjoyed prosperity since the World War II broke out. It has doubled when Japan made an entry into the war in 1941. Indian cotton industry enjoyed a monopolistic position. The increasing volume of war orders, combined with the domestic requirements reached the level to 48,706 million yard in 1943-44. In 1948, Government decided to control the price, and the industry, which ultimately resulted into wide spread black market activity.
Around 1950, the country's economy turned the corner and industrial revolution set in, and after the end of the world war, in 1945 and the advent of independence in 1947, the Government of India took several steps to spread the process of industrialization.

Table: 1.1 The production of cloth and yarn during the first five year plan 1951-56

<table>
<thead>
<tr>
<th>Year</th>
<th>Yarn (in million pound)</th>
<th>Mill cloth (in million yards)</th>
<th>Handloom cloth (in million yards)</th>
<th>Power loom cloth (in million yards)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>1,174</td>
<td>3,665</td>
<td>805</td>
<td>148</td>
</tr>
<tr>
<td>1951</td>
<td>1,304</td>
<td>4,076</td>
<td>850</td>
<td>157</td>
</tr>
<tr>
<td>1952</td>
<td>1,440</td>
<td>4,599</td>
<td>1,109</td>
<td>204</td>
</tr>
<tr>
<td>1953</td>
<td>1,505</td>
<td>4,779</td>
<td>1,200</td>
<td>221</td>
</tr>
<tr>
<td>1954</td>
<td>1,561</td>
<td>4,998</td>
<td>1,318</td>
<td>243</td>
</tr>
<tr>
<td>1955</td>
<td>1,630</td>
<td>5,094</td>
<td>1,480</td>
<td>273</td>
</tr>
</tbody>
</table>

Source: Programmes industrial development, 1956-61 p.340

1.6 COTTON TEXTILE INDUSTRY: PRESENT SCENARIO:

The textile industry occupies a unique place in India. As the oldest industry in India, it accounts for about 14 per cent of the total industrial production, contributes to nearly 30 per cent of the total export earnings. The textile sector is the second largest provider of employment after agriculture and provides employment to about 35 million people. There are about 1,100 mills in the country (900 spinning mills and 200 composite mills) with 28 million spindles and two lakh looms. The structure of the textile industry is extremely complex, with the modern sophisticated and highly mechanized mill sector on the one hand and the hand spinning and hand weaving (handloom) sector on the other, in between, falls the decentralized small scale power loom sector. With all these three sectors, the cotton and synthetic textile industry in India is the largest industry in the country.

The Indian textile industry is predominantly cotton based with 65 per cent of the cloth production. Production of raw cotton varies from year to year depending upon rainfall and weather conditions. After 1956, the mill sector has
been losing its place to the decentralized sector (consist of power looms and handlooms) both in absolute and relative terms.

The share of mill sector which stood at 79 per cent in 1950-51 come down to three per cent in 2003-04 and that of decentralized sector including handlooms rose from 21per cent to 97per cent during the same period. Now India is a leading exporter of cotton textile fabrics and apparel (readymade garments). In 1960-61 export of textile yarn and fabrics came to a modest level of Rs. 65 crores. The value was Rs. 4,000 crores in 2003-04. Now ready made garments of all types are the second largest item of India's exports.

Developing countries with both textile and clothing capacity may be able to prosper in the new competitive environment after the textile quota regime of quantitative import restrictions, under the Multi-Fiber Arrangement (MFA) which come to an end on 1st January, 2005 under the World Trade Organization (WTO) agreement on textiles and clothing. As a result, the textile industry in developed countries will face intensified competition in both their export and domestic markets.

The textile industry is undergoing a major reorientation towards non clothing applications of textiles, known as technical textiles, which are growing roughly at twice rate of textiles for clothing applications and now account for more than half of the total textile production. The processes involved in producing technical textiles require expensive equipments and skilled workers and are, concentrated in developed countries. India must take adequate measures for capturing its market by promoting research and development in this sector.

The mood in the textile industry given the phase out of the quota regime of the Multi-Fiber Arrangement (MFA) is upbeat with new investment flowing in. It increased orders for the industry as a result of which capacities are fully booked up to April 2005. As a result of various policy initiatives taken by the Government of India, there has been new investment of Rs. 50,000 crores in the textile industry in the last five years. Nine textile majors invested Rs. 6,400
crore and plan to invest another Rs. 6,400 crore. Further, India’s cotton production increased by 57 per cent over the last five years, and three million additional spindles and 30,000 shuttles less looms were installed.

The industry expects investments in the tune of Rs. 1, 40,000 crore in this sector in the post MFA phase. A vision 2010 for textiles formulated by the Government after intensive interaction with the industry and Export Promotion Councils, to capitalize on the upbeat mood aims to increase India’s share in World’s textile trade from the current 4.0 per cent to 8.0 per cent by 2010 and to achieve export value of US $50 billion by 2010. Vision 2010 for textiles envisages growth in Indian textile economy from the current US$ 37 billion to $85 billion by 2010; creation of 12 million new jobs in the textile sector; and modernization and consolidation for creating a globally competitive textile industry.

There will be opportunities as well as challenges for the Indian textile industry in the post MFA-era. But India has natural advantage which can be capitalized on strong raw material base-cotton-, man made fibers, jute, silk; large production capacity (spinning-21 percent of world capacity and weaving 33 percent of world capacity but of low technology) vast pool of skilled manpower, entrepreneurship, flexibility in production process, and long experience with US/EU (European union). At the same time, there are constraints relating to fragmented industry, constraints of processing, quality of cotton, concerns over power cost, labour reforms and other infrastructural constraints and bottlenecks.

1.7 TEXTILE PRODUCTION IN INDIA

As per the survey of India 2005-06, budgetary concessions, rationalizations of the duty structure and assistance under the technology up gradation fund scheme (TUFS) started playing dividend in the textile industry. A moderate turnaround in the performance of this sector has now become visible in increased production.
### Table 1.2 Production of fabrics

<table>
<thead>
<tr>
<th>Sector</th>
<th>1999-2000</th>
<th>2000-01</th>
<th>01-02</th>
<th>02-03</th>
<th>03-04</th>
<th>04-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mill</td>
<td>1714 (4.4)</td>
<td>1670 (4.2)</td>
<td>1546 (3.7)</td>
<td>1496 (3.6)</td>
<td>1434 (3.4)</td>
<td>1526 (3.3)</td>
</tr>
<tr>
<td>Powerlooms (inc. heisory)</td>
<td>29561 (75.3)</td>
<td>30499 (75.7)</td>
<td>32259 (76.8)</td>
<td>33835 (80.6)</td>
<td>34794 (82.0)</td>
<td>37437 (82.5)</td>
</tr>
<tr>
<td>handlooms</td>
<td>7352 (18.8)</td>
<td>7506 (18.7)</td>
<td>7585 (18.0)</td>
<td>5980 (14.2)</td>
<td>5493 (13.0)</td>
<td>5722 (12.6)</td>
</tr>
<tr>
<td>Others</td>
<td>581 (1.5)</td>
<td>558 (1.4)</td>
<td>644 (1.5)</td>
<td>662 (1.6)</td>
<td>662 (1.6)</td>
<td>693 (1.5)</td>
</tr>
<tr>
<td>Total</td>
<td>39208</td>
<td>40233</td>
<td>42034</td>
<td>41973</td>
<td>42383</td>
<td>45378</td>
</tr>
</tbody>
</table>

Figures in parenthesis indicates share in output
Source: office of the textile commissioner

### 1.8 TEXTILE POLICIES OF GOVERNMENT OF INDIA

Textile industry occupies a unique position in the Indian economy and psyche. The fate of rural economy and the fortune of major fiber crops and crafts- cotton, wool, silk, handicrafts and handlooms, which employs millions of farmers, craft persons, in rural and semi-urban area's, depends on textile industry. Textile is not mere a commodity, its wraps and woof reflects our trials and tribulations. The spinning wheel- the visual symbol of our freedom struggle has inspired legions of our country man, and filled our heart with noble emotions.

Textile industry is providing one of the most basic needs of the people and the holds importance; maintaining sustained growth for improving quality of life. Although the development of textile sector was earlier taking place in terms of general policies, in recognition of the importance of this sector, for the first time a separate policy statement was made in 1985, in regard to development of the sector.

In June 1985, the Government of India announced a new textile policy with the main objective to increase the production of cloth of acceptable quality at reasonable prices, to meet the clothing requirements of population.
It proposed a restructured framework. The power looms in the organized mill sector and in the unorganized power loom sector were treated at par and allowed to compete on the basis of their inherent strength and capabilities.

The 1985 textile policy made an elaborate statement on takeover and revival of sick units in the case of potentially viable units, a rehabilitation package comprising of provision of balancing equipment, replacement of existing machinery, change of product mix, better marketing strategy etc. was worked out.

The national textile policy was announced on November 2\textsuperscript{nd}, 2000. The basic objectives of the policy to take care of the challenges and opportunities presented by the challenging global environment to the domestic textile industry. The main aim of the NTP of 2000 is to introduce the concept of three-tier model of the industry, viz mills, power looms, and handlooms, in an organized and integrated manner. The goal of the policy is to strengthen the industry to increase production. The main aim of the policy is to achieve an increase in cotton productivity by at least 50 percent by upgrading quality to global standards.

1.9 TEXTILE EXPORTS

During the last ten years of cotton textiles (including Yarn, Made-up, and fabrics) and garments have registered highest rates of growth in exports. The exports of cotton textiles have grown to Rs. 13,028 crore in 1997 as compared to Rs. 60 crores in 1961. The significant point to be observed is that the share of fabrics in total textile exports during 1938 was around 60 per cent which has declined to 30.77 per cent in 1997.

Exports of all textiles have shown an increase over the last five years from Rs. 22268 crores in 1994-95 to Rs. 37219 crores in 1998-99. During 1999-2000, exports of all textiles amounted to Rs. 42581 crores. Reflecting 14.4 per cent. Major share in the field of apparel, and cotton textile.
The USA and Bangladesh continue to be the largest markets of Indian cotton textiles with a share of over 10 per cent in total exports the rapidly increasing number of cotton and man made fiber textile mills has led to the expansion of the spinning sector. Forty percent i.e. 1.2 million of the over 3.4 million spindles installed world wide in 1994were installed in India.

India is a leading exporter of cotton textile fabrics, and wearing apparels. Readymade garments export account for approximately 44.0 per cent of the countries total textile exports. It recorded a growth of 15.5 per cent in 2002-03 and 8.5 per cent in 2003-04. Cotton textile i.e. yarn, fabrics, and made ups (mill made power loom / handlooms) constitute more than 2/3rd of India’s export of all fibers / yarns / makeup’s. In 2005 the cotton textile exports were to the tune of US$2.3 billion, recording the growth of 4.1 percent as compared to the corresponding period of 2004-05. In man made textile it was US$ 1.94 billion, recording a growth of 6.8 percent as compared to 2003-04.

Trade barriers are increasingly falling and scope of expansion is increasing, thus, promising a better export scenario for India. The abundance of cheap labour, proximity of raw material, i.e. cotton especially of the medium and long staple varieties and high capital utilization gives a cost advantage to Indian textile industry.

Table.1.3 Growth in Cotton Textile exports (value in Rs crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Fabric</th>
<th>Made-ups</th>
<th>Yarn</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>622.66</td>
<td>172.47</td>
<td>236.64</td>
<td>1031.77</td>
</tr>
<tr>
<td>1989</td>
<td>765.40</td>
<td>248.49</td>
<td>314.71</td>
<td>1328.60</td>
</tr>
<tr>
<td>1990</td>
<td>997.98</td>
<td>423.09</td>
<td>478.91</td>
<td>1849.98</td>
</tr>
<tr>
<td>1991</td>
<td>1411.28</td>
<td>573.18</td>
<td>863.40</td>
<td>2847.86</td>
</tr>
<tr>
<td>1992</td>
<td>1778.70</td>
<td>850.24</td>
<td>1112.42</td>
<td>3741.36</td>
</tr>
<tr>
<td>1993</td>
<td>2001.88</td>
<td>1157.06</td>
<td>1466.60</td>
<td>4624.34</td>
</tr>
<tr>
<td>1994</td>
<td>2610.65</td>
<td>1605.44</td>
<td>2300.77</td>
<td>6516.86</td>
</tr>
<tr>
<td>1995</td>
<td>3263.88</td>
<td>2004.61</td>
<td>3131.21</td>
<td>8399.70</td>
</tr>
<tr>
<td>1996</td>
<td>3859.13</td>
<td>2420.27</td>
<td>4765.68</td>
<td>11045.39</td>
</tr>
<tr>
<td>1997</td>
<td>4008.81</td>
<td>2949.23</td>
<td>6070.15</td>
<td>13028.20</td>
</tr>
</tbody>
</table>

Source: www.indiamart.com
Over the last two decades India has emerged a major exporter of textiles and clothing. The value of India’s textile exports increased from Rs. 1,335.70 crores in 1981-82 to Rs. 8,250.90 crores in 1990-91 or by more than six times. In the next eight year period (1990-91 to 1997-98), it further increased to Rs. 39,160.36 crores or by more than four and a half times. In dollar terms, in the next seven years 1991-92 to 1997-98, the textile exports increased from US$ 4,880.71 million to US$ 10,501 million or by 115.14 percent.

The production of manmade fibre and yarn has increased significantly from 207 million kg in 1981-82 to 1,824 million kg in 2000-01. The production of fabrics registered an annual growth rate of 2.7 per cent from 39,208 million square meters in 1999-2000 to 40,256 million sq in 2000-2010. The share of the mill sector in fabric production remained at 4.1 percent in 2000-01. While that of power looms (including Hosiery) has remained at 75.8 per cent. During the year 2001-02 (April-Oct.) production of fabrics has increased by 3.6 percent as compared to the previous year.

### 1.4 Export of textiles

<table>
<thead>
<tr>
<th>Item</th>
<th>2002-03</th>
<th>03-04</th>
<th>04-05</th>
<th>04-05 (April-Nov)</th>
<th>05-06 (April-Nov)</th>
<th>Per cent variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Readymade garment</td>
<td>5689.91</td>
<td>6231.47</td>
<td>6026.36</td>
<td>3519.00</td>
<td>4185.18</td>
<td>18.93</td>
</tr>
<tr>
<td>Cotton textiles</td>
<td>3361.44</td>
<td>3599.95</td>
<td>3283.61</td>
<td>2222.94</td>
<td>2311.20</td>
<td>3.97</td>
</tr>
<tr>
<td>Wool &amp; Woolen textiles</td>
<td>50.92</td>
<td>58.28</td>
<td>66.44</td>
<td>295.13</td>
<td>289.88</td>
<td>-1.78</td>
</tr>
<tr>
<td>Manmade textiles</td>
<td>1417.48</td>
<td>1821.24</td>
<td>1944.75</td>
<td>1308.80</td>
<td>1140.91</td>
<td>-12.83</td>
</tr>
<tr>
<td>Silk</td>
<td>314.10</td>
<td>379.82</td>
<td>405.99</td>
<td>370.65</td>
<td>397.80</td>
<td>7.32</td>
</tr>
<tr>
<td>handicrafts</td>
<td>1317.92</td>
<td>1085.36</td>
<td>939.81</td>
<td>647.95</td>
<td>723.45</td>
<td>11.65</td>
</tr>
<tr>
<td>Coir &amp; Coir manufacture</td>
<td>73.36</td>
<td>77.77</td>
<td>101.57</td>
<td>65.16</td>
<td>78.40</td>
<td>20.32</td>
</tr>
<tr>
<td>Jute goods</td>
<td>187.57</td>
<td>242.43</td>
<td>270.09</td>
<td>173.70</td>
<td>182.99</td>
<td>5.35</td>
</tr>
<tr>
<td>Total</td>
<td>12412.71</td>
<td>13496.31</td>
<td>13038.64</td>
<td>8603.33</td>
<td>9309.81</td>
<td>8.21</td>
</tr>
</tbody>
</table>

Source: Foreign trade statistics on India (Principle commodities & countries) DGCI&S, Kolkata
1.10 PROBLEM FACED BY THE COTTON TEXTILE INDUSTRY

The cotton textile industry is faced with a number of short run and long run problems like, shortage of raw materials, liquidity problems, due to poor sales, accumulation of stocks, slow pace of modernization of age old plants and machinery, sickness, outdated technologies etc.

In the past, cotton mill industry suffered from incompetent and selfish management, agents and directors who were more interested on their profits. They did not take sufficient interest in accumulating financial reserves or in proper maintenance of machinery and modernization. If management of textile units had been selfish and exploitive, the role of trade unions in the industry has not been helpful either.

At present the industry is passing through very critical problems. There are many problems related to labour and restructuring of industry. New textile policy has failed to address some of these issues.

Problems are there in the export side too. The total textile exports account for about 36.0 per cent of all exports from the country. Almost 70.0 per cent of the cotton woven fabrics exported from India are in the grey form. It indicates the lack of capability in the Indian processing units to supply the items in the international markets. The bulk of Indian exports was restricted quota’s, imposed by the WTO. There is no guarantee that the quotas will be removed, it will restrict India to export the textile items to export to more efficient countries.

1.11 POLICY INITIATIVES

The Government of India has formulated a national textile policy (NTP 2005) with the objective of facilitating the industry to attain and sustain a pre-eminent global standing in the manufacture and export of clothing. Through this policy Government would endeavor to achieve the target of textile and apparel export from the present level of US$ 11 billion to US $50 billion by 2010.
As per the present policy of FDI of Government of India, 100 percent FDI is freely allowed in spinning, weaving, processing, garments and knitting sector under the automatic route for both new ventures, and existing companies, except in cases where, industrial license is required on account of location of such units falling in a locationally restricted area.

The government has provided significant incentives in the last six years for modernization that includes TUFS (technology upgrading fund scheme) and several fiscal policy measures aimed at boosting competitiveness of the sector. The union budget for 2006-07 has carried forward the process and continuation of TUFS, integrated textile parks and decline in customs duty on capital inputs are aimed at improving competitiveness of Indian textile industry.

With the removal of the protectionist bias in favor of the small-scale sector, the long-term impact of the reforms on the industry is expected to be significantly positive. With textiles trading coming under the ambit of the world Trade Organization (WTO), an inefficient weaving sector could have posed a serious problem for the Indian textile industry. The policies drawn up to encourage investment in installing modern weaving machinery as well as the removal of policy measures that have hitherto protected the decentralized sector, are expected to provide a boost to the textile sector as a whole.

The Indian textile industry is an enormous complex entity. There is organized sector, de-centralized sector, and down the line weavers, artisans, as well as the farmers. The spectrum of the technology is widespread right from handmade to semi-mechanical, mechanical and highly sophisticated information based technology and micro processor based technology. Endowed with largest loomge in the world, the second highest spindlage, next only to China, a strong multi-fiber –raw material base, a vast pool of skilled workers, flexible production system, a dynamic entrepreneurship together with vibrant design creativity, have contributed to create a vibrant textile industry that has long been the main stay of the Indian economy.
1.12 OBJECTIVES OF THE STUDY

1) To estimate the sources of output growth viz., factor productivity levels, scale of returns and factor substitution coefficients for the Indian textile industries (including wearing apparels) during 1980-81 to 1997-98. Using econometric models viz., Cobb-Douglas CES, VES production functions. In these processes, an attempt is made to study the nature of elasticity of factor substitution under two different conditions. One, without considering technical progress as factor influencing factor substitution, and two, by incorporating Hick’s neutral technical change as a factor affecting the elasticity of factor substitution.

2) To study the nature of technical progress influencing output growth in the textile industry during the reference period. To facilitate this, estimates of Hick’s neutral Technical Progress will be arrived at by fitting Cobb-Douglas production Function, CES production function and VES production function by incorporating the relevant time variable.

3) To estimate the labour demand functions for analyzing the factors determining employment growth, with and without time lag value for the industry during the study period. It also estimates the employment elasticities with respect to real wages and output in short run and long run for the same industry.

4) To study the yearly trends characterizing total factor productivity growth by estimating the indices based on Solow’s, Kendrick’s and Divisia methodology for the industry.

5) To estimate price-cost margin for the Indian textile industries and analyze the time pattern of growth in the short-run and long-run profitability for the period of 1980-81 to 1997-98.

6) To estimate the factors determine price-cost margin profitability in the Indian textile industries.
1.13 SOURCES OF DATA

The present study is based on the ASI data published by the Central Statistical organization for the factory sector in India. It covers the period from 1980-81 to 1997-98.

1.14 METHODOLOGY OF THE STUDY

Mathematical and statistical tools like simple ratios, percentage, compound growth rate, mean etc. are appropriately used for the purpose of analyzing the data and examine the objectives proposed in the study. Simple and multiple regression models based on the principles of Ordinary Least Square (OLS), in both leanier and non linear forms are employed for the purpose of estimating the coefficients of the various economic models used in this study .for the purpose of understanding the statistical significance of the estimated coefficients relevant test statistics like t' F and DW are computed.

1.15 PLAN OF THE STUDY

The present study is organized in five chapters,

Chapter first introduces the concepts like, industrialization, growth and structural transformation, brief study of Indian cotton industries, textile production in India, textile policies of government of India, export, growth in export, problems faced by the industry, and the policy initiatives. It also spread lights on the objectives of the study, sources of data, methodology, tools used and the limitations of the present study.

Second chapter deals with the theory of production function and a brief review of selected studies and methods used in estimating the relevant regression coefficients. The Cobb-Douglas, CES, VES production functions with and without Hicks neutral technical progress has been used. The estimated production function coefficients are discussed with a view to develop a deeper insight on the sources of output growth by analyzing factor productivity, scale of returns, elasticity of factor substitution and Hicks measure of technical progress for the industry.
Third chapter examines the nature and characteristics of the factors determining the employment growth and analyses the short run and long run employment elasticities both in regard to real wages and output in the Indian textile industry (including wearing apparels). For the period of 1980-81 to 1997-98, by employing two types of labour demand functions derived from CES production function.

Chapter four is denoted to present a detailed discussion on the importance of measuring total factor productivity growth and their practical utility in applied research. This chapter presented a discussion of the economic significance characterizing the total factor productivity growth from the empirical estimates obtained from using Solow’s Kendrick and Divisia methodology for the study period.

Chapter five is an outline of the theoretical significance of the principle of price-cost margin. The behavioral trends in the estimated short-run and long run price cost margin measuring the profitability of the three-digit industries constituting the textile industry has been examined in detail. Guided by the neo-classical theoretical foundation an econometric model has been fit to study the factors determining the price-cost margin and the emerging results of the fit regression model has been critically examined.

The final chapter, chapter six, presented a summery and conclusion of the entire study.

1.16 LIMITATIONS OF THE STUDY

The study is based on the ASI data published by the CSO for the factory sector. All limitations that applied to ASI data do apply to the data used in the present study. The data used for the study is limited to the period of 1980-81 to 1997-98. The NIC classification after 1998 is different from the NIC classification before 1997-98, there for the study finds it difficult to compare these two sets of classifications before and after 1997-98. More over the present study is more analytical in nature. The study does not concentrate on the diagnosis of the reasons behind the results finds in the study.
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