CHAPTER - III

AN ANALYSIS OF GOVERNMENT's TEXTILE POLICY OF 1978 AND 1985

In the previous Chapter, 'Textile Industry in the National Economy' has been discussed in length, as it occupies a key position in the economy of the country. But at the same time, because of the influence of this industry on the economy of the country as a whole, its development and progress should be of great interest to all concerned.

In this Chapter an attempt is made to pinpoint the problems of the Textile Industry as well as to trace out the roots of these problems. Also a detailed discussion has been conducted to find out ways and means to solve these problems.

Prior to the announcement of the First Textile Policy in August 1970, there was no comprehensive Textile Policy as such in the country. Piecemeal Policy Measures on different aspects of the Industry were formulated in accordance with the observations/recommendations of various Committees, Study Groups etc., appointed from time
to time by the Government. The prominent Committees/Study Groups which has gone into the various issues pertaining to the Textile Industry were:

1. A Fact Finding Committee under the Chairmanship of Prof. P.J. Thomas - 1941;

2. Textile Control Board - 1943;

3. Textile Advisory Committee - May 1948;

4. The Textile Enquiry Committee (Kanungo Committee) - 1952;

5. Village and Small Scale Industries Committee (Karve Committee) appointed by Planning Commission;

6. Joshi Committee - 1958;

7. Powerloom Enquiry Committee (Ashok Mehta Committee) - 1964 and


**NEED OF DISCUSSION ON TWO POLICIES (1978 & 1985):**

After independence, the Government of India announced several textile policies from time to time. In this study two policies on Textile Industry have been reviewed viz: the Textile Policy 1978 and the Textile Policy 1985. It is because of the fact that various data relating
to the Textile Industry which have been incorporated in this study easily covers a period of 10 years during which both these Textile Policies were announced by the Government, as such it is considered necessary to discuss both these policies at length.

In the past few years, the development of the Textile Industry has been guided by the policy framework announced in March 1981. While considerable progress has since been achieved in several areas under this policy framework, the objectives of the textile policy outlined in the Textile Policy Statement have not been fully achieved. Thus, the per capita availability and the per capita consumption of cloth, of our growing population, still remain very low level. There is evidence of an increase in the incidence of sickness, particularly in the organized mill sector, reflected in a large number of closed units. There is a large unsatisfied demand for durable synthetic and blended fabrics at cheaper prices which is not being met by indigenous production. The full export potential of textile products remains to be realized.
The Textile Industry has experienced fluctuations in its fortunes in the past also. However, an analysis of the current difficulties faced by the industry reveals that the present crisis of the industry is neither cyclic nor temporary, but suggests deeper structural weaknesses. Therefore, the Government have reviewed the present Textile Policy and after careful consideration, has formulated this new policy for the restructuring of the Textile Industry in India with a longer term perspective.

Firstly, the review of the Textile Policy 1978 has been undertaken and related to its object and salient features. Thereafter the Textile Policy 1985 has been treated in the same manner followed by thread-bare analysis of both the policies pointing out merits and demerits of each of them including a comparison thereof. Critical analysis of the Policy 1978 and the assessment of the impact of 1985 policy shall also follow in this Chapter. And ultimately a conclusion is to be derived in the light of the issues raised above.
TEXTILE POLICY 1978:

According to a statement by the then Minister of Industries, Mr. George Fernandez, (a little before the official announcement of the policy) the Government took into consideration issues like the role and functioning of the NTC, multi-fibre policy, an increased role for Handlooms, role and reorganization of the Cotton Corporation and buffer stock of raw material. The Parliamentary Consultative Committee also went into the policy for the sick mills. A Screening Committee was appointed to recommend the take over of sick mills. A monitoring cell was set up to give early warning of sickness to enable steps to be taken in time.

THE SALIENT FEATURES OF TEXTILE POLICY 1978 were:

1. It was effective from 1st. October, 1978.

2. The pattern of control cloth obligation will be discontinued and mill made controlled cloth will be limited to 400 million square metres. NTC will continue producing 400 million sq. metres and the balance 200 million sq. metres will be imposed on the Handloom sector.

3. More items of controlled cloth will be assigned to the decentralized sector.

4. The ratio of synthetic in production of cloth was to be raised to 25% from the 10%. This will help to keep cotton consumption within control.
5. Steps were to be taken to ensure flow of credit on liberal terms from the soft loan scheme of IDBI.

6. Regularisation of unauthorized looms in the Powerloom and mill sectors, on payment of penalty.

7. No further loomage in the weaving sector except for replacement of old ones.

8. No import of cotton during the year 1977-78.

9. NTC was to take on responsibility of making up any shortfall in the production in the private sector. They were also to be assisted in stepping up their production, particularly of low prices varieties and in improving the quality of fabrics.

10. The distribution system was to be improved, particularly in rural areas.

11. The bulk of textile production was to be from the decentralized sector; power loom capacity was also not to be allowed to increase.

12. New Spindleage was to be encouraged to provide more yarn for the Handloom Sector.

13. Production of cotton was to be improved by various steps and the role of Cotton Corporation was to be widened to make commercial purchase in the market and operate a buffer stock.

14. More liberal imports of wool as well as shoddy was to be allowed and increased use of acrylic fibre was to be encouraged. Domestic wool supply was also to be increased.
15. Steps were to be taken to speed up modernisation in the private sector and a definite time limit was to be fixed for utilizing the loans. Emphasis in modernization was to be on export oriented modernisation.

16. Assistance and facilities were to be provided for promotion of sericulture in the states where there was potential.

TEXTILE POLICY 1985

Objective of the Policy:

The existing Textile Policy sets out a number of objectives. While each of these objectives is important, the multiplicity of objectives has inhibited the achievements of the main task of the Textile Industry, that is to increase the production of cloth of acceptable quality at reasonable prices to meet the clothing requirements of a growing population. Henceforth, the approach to the Textile Industry would be guided by this main objective. In the pursuit of this main objective, the employment and export potential of the industry shall be kept in view. The availability of cloth at affordable prices for the poorer sections of the population shall be augmented.
MARKING A RADICAL change in approach, the Textile Policy 1985 announced by the Government of India (Mr. V.P. Singh, the then Finance Minister) on June 6, 1985, provides the Textile Industry with "full fibre flexibility" in the use of man-made fibres and cotton. The policy also proposes to remove all curbs on expansion or contraction of capacities by the organized mill sector.

The guiding principle behind the new policy is that cloth of acceptable quality should be available to growing population at reasonable prices. To bring this about, the duty structure for synthetics is proposed to be scaled down in consultation with the finance ministry.

THE SALIENT FEATURES OF TEXTILE POLICY 1985:

The new policy statement recognized the role of the unorganized Powerloom Sector which will be treated on par and allowed to compete on the basis of its "inherent strength and capabilities".

1. A series of steps are also proposed to be taken to protect the Handloom Sector. But the most important among these is that by the end of the Seventh Plan Period (1985-90), the responsibility for the entire production of controlled cloth be transferred to this section.
2. Other measures suggested to protect the Handloom Sector include modernisation of looms, augmentation of yarn supply, encouragement of production of mixed and blended fabrics on Handlooms, reservation of articles for exclusive production and improvement of marketing of Handloom products.

3. It is also proposed to introduce suitable fiscal measures to remove the cost handicap of the Handlooms vis-a-vis the Powerloom.

4. Recognising the need for modernisation of the Textile Industry, the policy statement gives the assurance that Government policies would aim to accelerating the pace of modernisation.

5. A National-level Standing Advisory Committee is proposed to be set up for identifying the needs and type of modernization required. In the process of implementing the 'Modernisation Programme' the interests of workers would be adequately protected.

6. The new policy would facilitate the desired restructuring of the Textile Industry. It aims to achieve a harmonious growth of all the sectors of the Textile Industry.

7. A possibility of closure of a few sick mills in the private sector as also under the Government owned NTC cannot be ruled out. According to Times of India, June 7, 1985
there are 145 sick mills in the private sector. In all such cases statutory benefits would be made available to workers and in addition payments would be made from the 'Rehabilitation Fund' for two to three years till they get alternative jobs.

8. Handlooms had to be protected because 7.2 million weavers are employed in this sector. Presently, controlled cloth is being produced by the National Textile Corporation (NTC) mills and Handlooms, but by the end of 1990 the entire responsibility would be transferred to Handloom Sector. With that, the total burden of subsidy on controlled cloth would also increase from the present Rs. 120 crores to Rs. 160 crores.

9. Concessions had to be given to Handloom because of employment considerations.

10. The new policy also paved the way for closure of some of the eight heavily losing NTC mills although a second look would be given to their working to find out if they could be nursed back to health.

11. The Government proposed to increase competition in the Textile Industry by removing curbs on expansion of the organized mill sector as also on the Powerloom Sector.

12. As far as the question of bringing the unorganized Powerloom Sector and the mill sector at par is concerned, when there were two lakh unlicensed Powerlooms, there is provision to get these units registered compulsorily.

13. The new policy statement openly admits that the objectives outlined in the earlier policy statement (i.e. during 1978) had not been fully achieved. Multiplicity of objectives inhibited the achievement of the main task of the industry—to increase production of cloth of acceptable quality at reasonable prices.

14. The earlier policy also inhibited the technology use and production flexibility commensurate with the pattern of consumer demand because the industry was viewed in parts rather than as an integrated whole.

15. The new policy views the industry in terms of stages of its manufacturing process—spinning, weaving and processing.

16. In the spinning sector steps would be taken to ensure optimum utilization of the spinning capacity by increasing the availability of raw materials.

17. In the weaving sector, the distinct and unique role of Handloom Sector shall be preserved, while the unorganized Powerloom sector and the mill sector would be brought at par. Similarly in the processing sector,
the independent power processors and the processing houses in the mills would be treated at par and each would be allowed to operate on the basis of its competitive strength.

18. The pre-eminent role of cotton as the main raw material of the Textile Industry would be maintained. The role and functions of the Cotton Corporation of India (CCI) would be reformulated to include price stabilisation operations.

19. Capacity expansion by existing units and capacity creation by new units would be permitted subject to the general industrial policies including the provision of the MRPT ACT and FERA.

20. The new policy statement also promises encouragement to the expansion of the Khadi Programme through upgradation of the skills of workers and improvement of the production process.

21. With regard to sickness in the Textile Industry, the statement says that a suitable financial package would have to be worked out and a nodal agency would be designated to evolve and manage this package. In cases where the sickness is due to inept management, change of management would be essential if restructuring of capital and liabilities is contemplated. In the process of revival of sick units, the
interests of labour would, however be fully protected.

22. For the purpose of modernisation a textile 'modernisation fund' shall be created. Textile machinery, if not manufactured indigenously, would be allowed to be imported liberally at or near International prices.

23. Similarly, for export production, the framework of policy would ensure that inputs including capital goods are made available around international prices.

24. The new policy also assures that existing controls and regulations would be revised, because may of them have become "irrelevant or unnecessary" with the passage of time.

TEXTILE POLICIES 1978 AND 1985 - A COMPARISON

The Textile Policy 1978 provided that the Government took into consideration only issues like:

a). role and functioning of the NTC,
b). multifibre policy,
c). an increased role for Handlooms,
d). role and re-organization of the Cotton Corporation of India and buffer stock of raw material,
e). The Parliamentary Consultative Committee went into the question of sick mills and a Screening Committee was appointed to recommend to take over the sick mills.
f). a monitoring cell was set up to give early warning of sickness to enable steps to be taken in time,

g). steps to be taken to speed up modernisation in the private sector and a definite time limit will be fixed for utilising the loans. Emphasis in modernization will be an export oriented,

h). assistance and facilities to be provided for promotion of sericulture in the States where there is potential.

It is observed that the programme and provisions made in the Textile Policy 1978 could not be implemented for various reasons. For instance, the implementing agencies could not get a clear direction in the wake of muddled political picture at the Centre. Therefore, the policy remained a mere 'paper tiger'. Artificial segmentation of the Textile Industry into "decentralized" and "controlled sectors" was done without sound economic logic. Handloom Sector received a setback as the policy adopted liberal attitude towards synthetic and other artificial fibre as well as acrylic etc. Liberalisation of imports on these fibres affected the foreign exchange reserves. On these counts the policy had to be reframed. Keeping in mind these short-comings, the Textile Policy 1985 was put on the anvil.
It may be further noted that no policy change could have had as great an impact on the nation's economy as the present one. An evidence of it can be seen under the heading 'RECENT TREND IN EXPORTS' in the earlier Chapter 'TEXTILE INDUSTRY IN THE NATIONAL ECONOMY'.

To appreciate the importance of what the Government has done now, it is necessary to look at what was done in the past in earlier policies. After two decades of growing sickness, it is difficult even to remember that India was once a world leader in Textile manufacture, and posed exactly the same deadly threat to the mills of Lancashire, as the mills of Hong Kong, Korea and Taiwan do now to those of Europe and the U.S. But this was indeed the case. India did not lose its natural advantage in textiles — it threw it away. It did so in 1951 when the Government adopted a three-sector approach, dividing the industry into mill, powerloom and handloom sectors. To give the highly employment-intensive handloom industry a chance to grow, the Government put a ceiling on the number of looms in the mill sector. But over the last thirty five years, it is not the handlooms, but the powerlooms that have reaped the benefits of this interdiction. As if the above restriction
was not enough, in the seventies the mills were then saddled with a host of social obligations like the mandatory production of controlled cloth which further eroded their competitive edge in relation to the powerlooms. And to cap it all, the Government adopted systems of indirect taxation for the mills and the powerloom sector which discriminated heavily against the former. It is, therefore, hardly surprising that the mills have become sick and that India lost its competitive edge in the world market.

The new Textile Policy has done away with the three sector system. Henceforth there will be only two sectors — the Handloom and the Power-driven. While the scope for the former will actually be enlarged, the entire Power-driven sector will be treated on an equal footing.

The New Textile Policy 1985 has been drafted keeping in view:

*a). 7.2 million employment in the Handloom sector,

*b). 3.2 million Powerloom manpower and

*c). one million textile workers in the organized spinning, weaving, processing in the composite and decentralized power sector of the Textile Industry.

As it has been already stated that the Textile Industry is now divided into the "Human Power Sector" and "Motor Power or Energy Driven Sector". This can be said to be an excellent division as the human power sector works through Handloom, hand printing and Khadi and provides jobs to millions of under employed who are under the poverty line. This sector is the source of vast employment for the rural poor. The production of Janta oloth through this sector during the Seventh Plan is a most welcome progressive step which will augment production and employment in rural areas. Let us hope the 7.2 million employment is expanded to 8.2 million in the next five years together with greater productivity and production. Again, housing and limited social security to Handloom weavers and others in this sector has received deserving attention.

In the last three years, closure of textile mills was ignored by authority. This unwritten policy is reflected in the New Textile Policy, 1985. The policy may not avert all the closures but there is a chance for new investors to buy over sick mills or for existing mills to merge sick units if the Government takes a liberal attitude, permitting such units to pay bank debts on reasonable terms.
WHY A NEW POLICY?

The Textile Industry which provides one of the basic necessities of life has a unique place in our economy. The employment provided by it is a source of livelihood for millions of people. Its exports bring substantial foreign exchange.

Though the Textile Industry has made considerable progress, it is afflicted by sickness, particularly in the organized sector. The industry's growth is not sufficient to meet the large demand for durable synthetic and blended fabrics. The per capita availability and per capita consumption of cloth, of our growing population, still remain at a very low level. Besides, the full export potential of textile products remains to be realized.

The present crisis in the industry is neither cyclical nor temporary. There appears to be a deeper structural weakness. Therefore, the Government has formulated a new policy for restructuring the Textile Industry.

In the past, multiplicity of objectives have come in the way of concentrating on the main task. What is the main task of the Textile Industry? It is to increase production of cloth of acceptable quality at
reasonable prices. The industry must meet the clothing requirements of our growing population. Henceforth, the approach to the Textile Industry should be guided by this main objective. At the same time, the employment and the export potential of the industry shall be kept in view.

It was the compartmental outlook that led to structural rigidities. The Textile Industry was viewed in terms of various sectors: organized mills, Powerlooms, Handlooms, or in terms of fibre used as cotton textiles, woolen textiles, man-made textiles and silk textiles. Such a classification inhibits technology use and production flexibility, commensurate with the pattern of consumer demand. This has also resulted in the emergence of special interests on the one hand and use of outdated techniques on the other.

It is proposed to restructure the Textile Industry on three main dimensions.

1. The industry shall be viewed in terms of three stages, namely spinning, weaving, and processing.

2. The industry will have fuller flexibility in the use of various fibres.

3. Creation and contraction of capacities in textile units will be done to increase competition and promote healthy growth.
**THE THREE SECTORS:**

**SPINNING:** Steps will be taken to ensure optimum utilization of spinning capacity. Raw material availability would be augmented and yarn distribution structure would be strengthened. Spinning in Khadi Sector would be encouraged in view of its large employment potential.

**WEAVING:** The unique role of the Handloom Sector shall be preserved. For the purpose of policy, Powerlooms in the organized and in the unorganized sectors will be treated at par, as far as possible. They will be allowed to compete on the basis of their strengths and capabilities.

**PROCESSING:** Independent power processors and the processing houses in mills would be treated at par. Each would be allowed to operate on the basis of its competitive strength. The small hand-processing units with limited output will receive special consideration.

**FULLER FIBRE FLEXIBILITY — WHAT DOES IT MEAN?**

1. Full fibre flexibility as between cotton and man-made fibres or yarn would be provided to the Textile Industry. Greater flexibility in the use of wool shall be provided in a phased manner to units licensed for
cotton and man-made textiles; woollen units shall be given full fibre flexibility.

2. Adequate availability of man-made fibres or yarn at reasonable prices shall be ensured by increased domestic production supplemented as necessary by imports.

3. Setting up new units for production of synthetic fibres and expansion of capacity of existing units would be so determined to realize economies of scale and reduce costs of production.

4. Fiscal levies on man-made fibres and on the intermediates used as inputs for the production of such fibres or yarn shall be progressively reduced to bring down prices.

5. The export window shall be kept open for man-made fibres.

Cotton will, however, remain the main raw material of the Textile Industry. Cotton growers shall always have an assured off-take of their produce at remunerative prices. The functions of the Cotton Corporation of India would be reformulated to include price stabilization operations.
CAPACITY EXPANSION:

Capacity expansion of existing units and capacity creation by new units will be promoted to encourage competition, reduce cost and improve quality.

To check unplanned growth, there shall be compulsory registration of all Powerlooms. Production in Powerloom sector will be guided by the objectives of raising productivity, increasing efficiency, improving worker's welfare and facilitating locational dispersal. Measures would be taken to see that Powerlooms do not encroach upon articles reserved for exclusive production by the Handlooms.

a). Development of Handlooms through Cooperatives and Central or State Level Corporations shall be intensified. Emphasis would be laid on modernization and improving productivity and quality of Handlooms.

b). Special efforts to be made to ensure adequate availability of yarn and other raw materials to the Handloom Sector.

c). Production of mixed and blended fabrics on Handlooms shall be encouraged.

d). Provisions of the Handloom (Reservation of Articles for Production) Act, 1985, reserving articles for exclusive production in Handloom Sector shall be strictly enforced.
e). Steps shall be taken to remove the cost handicap of the Handlooms vis-a-vis Power-looms through suitable fiscal measures.

f). Facilities for marketing Handloom goods will be improved. To improve the working conditions of Handloom Weavers, a Contributory Thrift-Fund Scheme and a Workshed-cum-Housing Scheme would be introduced.

g). The responsibility for the entire production of controlled cloth shall be transferred to the Handloom Sector by the end of the Seventh Plan. The public distribution of controlled cloth would be strengthened and streamlined.

EXPANSION OF KHADI:

All encouragement would be given for the expansion of the Khadi Programme. Steps would be taken to improve the production process, upgrade the skills of workers, raise productivity, diversify the product range and strengthen the marketing arrangements.

TACKLING THE SICK UNITS:

Reasons for sickness in the industry are manifold. They include financial difficulties, managerial incompetence and negligence, obsolete plant and machinery, inadequate maintenance, incorrect product mix, poor marketing, excess labour and poor industrial relations.
The measures for the revival of sick units have to be based on a detailed study. In case of potentially viable units, a rehabilitation package might include:

a). Replacement of existing machinery, change of product mix, better marketing, rationalization of labour and improving work-norms and strengthening management;

b). A suitable financial package also would have to be worked out for this. A nodal agency would be designated to evolve and manage this package.

c). In case of mismanagement, the existing management may have to be changed. Change of management will be essential in cases where restructuring of capital and liabilities is contemplated.

d). Where a unit has no expectation of becoming viable in a reasonable period of time, there may be no alternative but to allow the unit to close, provided the interests of the workers are protected. Takeover by the Government or Nationalization of such sick units does not provide solution to the problems of sickness. The Government would not, as a rule, intervene in such cases.

PROTECTING INTEREST OF LABOUR:

While tackling the sick textile units, the interest of labour shall be fully protected. Rationalization of labour and revision of work-norms would have to be negotiated with labour to arrive at a satisfactory solution.
The funds needed for payment of retrenchment benefit to labour shall be part of the rehabilitation package. Loans needed for such compensation shall be provided on concessional terms.

Displaced workers would be given priority in securing employment in other units under the same management or other industrial units in the same area.

Concessional finance would be made available for providing self-employment opportunities.

Workers shall also be encouraged to take up co-operative ventures. A Rehabilitation Fund would be created to provide relief to textile workers who might be displaced by permanent closure of units. Such a fund shall be financed by a suitable cess on the Textile Industry.

**MODERNISATION:**

a). One of the main reasons for the present difficulties of the Textile Industry is inadequate modernization. Government policies would aim to accelerate the pace of modernization in the industry.
b). Modernization in ginning will receive priority. Concessional finance will be made available for this.

c). Necessary modernization shall be taken up in the spinning, weaving and processing sectors.

d). Adequate funds would be provided for modernization under the soft loan scheme of the IDBI. A "Textile Modernization Fund" shall also be created.

e). A national level Standing Advisory Committee on modernisation of the Textile Industry shall be set up. It will have representatives of management, labour financial institutions and also suitable technical experts.

f). In the modernization process, the interests of workers shall be protected.

g). The indigenous textile machinery manufacturing industry shall be encouraged to reduce costs, upgrade technology and improve quality.

h). Liberal import of textile machinery, not manufactured indigenously, shall be permitted at or near the international prices.

i). Priority will be given for research work for modernising Handlooms.
j). More Powerloom service centres shall be established to enable Powerloom weavers to improve their skills.

k). The Textile Research Associations e.g. ATIRA, BITRA, SITRA etc. would be actively involved with modernization.

FUTURE OF NATIONAL TEXTILE CORPORATION (NTC):

The National Textile Corporation (NTC) will implement programmes of selective modernization, so that as many textile units of the Corporation as possible become profitable. The operation of such units of the Corporation which are incapable of becoming viable may have to be closed down to prevent any further losses. In such cases, the interest of the workers would be adequately protected. With modernisation, NTC would have a stabilising influence on the industry.

The National Textile Corporation contributes significantly to the total production of yarn and fabrics in the organized sector. A number of mills under the NTC are able to eliminate cash losses through a programme of rehabilitation. Greater effort is needed to implement programmes of selective modernisation so that as many units
as possible become profitable. The continued operation of units, which are incapable of becoming viable would mean a continued drain on scarce resources and such units or parts thereof may have to be closed down to prevent any further losses. In such cases, the interest of the workers would be adequately protected. With the implementation of a programme of modernisation of equipment, strengthening and improvement of management, raising productivity of labour and improvement of work-culture, it is expected that NTC would provide a stabilising influence and healthy competition in the Textile Industry.

IMPETUS TO EXPORTS:

Exports from the textile sector contribute a significant portion to the total foreign exchange earnings derived from exports. There are however, certain constraints, both internal and external, which have meant that the full potential of textile exports has not yet been realized. In the international context, the Government shall strive to bring about a liberalisation of world trade in textile which would alleviate the external constraints on our exports. In the domestic sphere, all necessary steps would be taken to exploit our comparative advantage in this sector and to make our exports of textiles more competitive in the world.
market in terms of both quality and prices. For this purpose the framework of policy would ensure that inputs for export production including capital goods, are made available at or near world prices. At the same time it would be necessary to intensify efforts in the area of product and market development, reorient marketing strategy and create capabilities for fashion and design development. Exports of products from the Handloom Sector, including silk products, have considerable potential in the world market. All encouragement would be given to assist in the realisation of this potential. In so far as export production is an integral part of the total production base in the industry, the measures for restructuring and modernisation of the Textile Industry, outlined in the policy shall provide the necessary impetus to exports.

Controls and regulation in the Textile Industry, which have become irrelevant, would be reviewed for elimination, phasing out or modification.

The Government shall strive to strengthen, modernise and develop the knitting and apparel manufacturing sectors. Last but not the least, the existing marketing and distribution system of Textile Industry would be reviewed to make it more efficient. The institutional mechanism for Marketing Research would be strengthened.
PROBLEMS AND PROSPECTS OF
1985 POLICY

PROBLEMS:

The reality is that the Textile Industry has been passing through a deep crisis for the last few years. Instability in prices and supply of raw materials, high incidence of indirect taxes, structural imbalances between the organized and the decentralized sectors, obsolete and excess capacity, crippling controls and cyclical changes in demand had lot to continued losses and wide spread sickness in the industry.

The Government appointed an Expert Committee\(^2\) in October 1984 to formulate comprehensive measures for the development and growth of all sectors of the Textile Industry. On June 6, 1985, the new Textile Policy 1985 was announced to synchronise with a number of hopeful signs in the economy.

The cotton seasons 1984-85 and 1985-86 witnessed two years of bumper production which brought in their wake abundant supplies and price stability at lower levels. The

\(^2\) Indian Cotton Mill's Federation, Bombay.
industrial relations remained satisfactory and disruption of production due to power shortages and infrastructural deficiencies was minimal. Thus the circumstances were propitious to launch a new policy framework for textile development.

The Expert Committee had realised that the short-term palliatives had failed to revive the industry and that bold, unconventional therapy was called for. Hence the New Textile Policy of June 1985 made a bold departure from the earlier textile policies. The most important features of the New Textile Policy 1985 are:

Restructuring the industry horizontally in terms of the stages of manufacture, namely, spinning, weaving and processing;

Full fibre flexibility to units with a view to removing the structural rigidity in the use of cotton and man-made fibres and yarns;

Freedom for units to shed obsolete and uneconomic capacity and readjust their sizes to ensure optimum productivity;
Measures to tackle backlog of modernization through continuation of the soft loans scheme, establishment of modernisation fund etc. and

A realistic view on closure of non-viable units and rehabilitation of displaced labour.

Close on the heels of the New Textile Policy 1985, the Government initiated a series of measures to give effect to the pronouncements contained in the Textile Policy document. These included permission for mills for full fibre flexibility in raw material use, free endorsement of processing capacity for finished fabrics, fiscal changes to encourage increased use of polyester fabrics, broadbanding production of synthetic fibres and filament yarns to augment indigenous production, removal of a few obsolete controls on the industry and so on.

Against this background the performance of the industry in 1985 is reviewed. The installed spindleage in the industry reached about 24.50 million* and the capacity utilization improved. The consumption of cotton and man-made fibres went up. In the case of cotton, consumption improved from 1,371 tonnes in 1984 to 1,500 tonnes* in 1985. The

* Source: Indian Cotton Mills' Federation, Bombay.
production of yarn improved by about 7% to 1,441 million Kg. in 1985. In the case of cloth, against a decline of 4.6% in 1984, there was a positive growth of 1.4% at 2,666 million metres*. These figures are borne out from the following table:

<table>
<thead>
<tr>
<th>PRODUCTION, CONSUMPTION OF YARN AND CLOTH</th>
<th>1983</th>
<th>1984</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average installed spindles (million)</td>
<td>23.36</td>
<td>24.29</td>
<td>24.50</td>
</tr>
<tr>
<td>Yarn Production (Million Kg.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton yarn</td>
<td>1,092.3</td>
<td>1,151.0</td>
<td>1,258.0</td>
</tr>
<tr>
<td>Blended and 100% man-made fibre yarn</td>
<td>216.4</td>
<td>198.3</td>
<td>183.1</td>
</tr>
<tr>
<td>Total spun yarn</td>
<td>1,308.7</td>
<td>1,349.3</td>
<td>1,441.1</td>
</tr>
<tr>
<td>Mill-made cloth production (million metres)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton cloth</td>
<td>2,705</td>
<td>2,573</td>
<td>2,666</td>
</tr>
<tr>
<td>Blended &amp; 100% man-made cloth</td>
<td>823</td>
<td>792</td>
<td>746</td>
</tr>
<tr>
<td>Total mill-made cloth</td>
<td>3,528</td>
<td>3,365</td>
<td>3,412</td>
</tr>
<tr>
<td>Cloth produced in decentralised sector (million metres)</td>
<td>8,006</td>
<td>9,270</td>
<td>10,295</td>
</tr>
<tr>
<td>Total cloth production (million metres)</td>
<td>11,534</td>
<td>12,635</td>
<td>13,707</td>
</tr>
<tr>
<td>Consumption of fibres (000 tonnes)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton</td>
<td>1,341</td>
<td>1,371</td>
<td>1,500</td>
</tr>
<tr>
<td>Viscose and modified viscose staple fibre</td>
<td>151</td>
<td>116</td>
<td>105</td>
</tr>
<tr>
<td>Polyester staple fibre</td>
<td>39</td>
<td>40</td>
<td>45</td>
</tr>
<tr>
<td>Acrylic staple fibre</td>
<td>12</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>Other miscellaneous fibres</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>All Fibres</td>
<td>1,518</td>
<td>1,547</td>
<td>1,672</td>
</tr>
</tbody>
</table>

*Source: Indian Cotton Mills' Federation: Bombay. (Table - 3.1)
The drop in production of blended and 100% man-made fibre yarn is due to a cut in production of cotton viscose blends and 100% viscose spun yarn by mills. So far as yarn of synthetic blends with polyester and acrylic fibres is concerned, it is estimated that production of such yarn has steadily increased from 100 million Kg. in 1983 to 108 million Kg. in 1984 and further to 122 million Kg. in 1985. It is expected that the fiscal reliefs announced in August 1985 on polyester and acrylic fibres would give further boost to the production of yarn from these fibres.

As in the case of blended yarn, production of blended cloth also declined after 1983 due to a progressive shift away by mills from cloth of cotton viscose blends. It is estimated that the production of polyester blended cloth by mills which was about 500 million metres in 1983 went up to about 700 million metres in 1985.

At the beginning of the Sixth Plan period the breakup of cloth production among different sectors was mill-made 4,168* million metres, handloom 2,680* million metres and powerloom 4,140* million metres. In the aggregate cloth supplies, the shares of different sectors were:

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*Source: Indian Cotton Mills' Federation, Bombay.*
mill-made 38%, powerloom 38% and handlooms 24%. In the terminal year of the Sixth Plan, the trend got changed as: mill-made 29%, powerlooms 45% and handlooms 26%. It was obvious that the handlooms stagnated, mill production dropped and the loss was made good in the powerloom sector. The New Policy 1985 sought to correct the chronic structural imbalance in the industry.

Apart from horizontal restructuring, the new policy laid emphasis on acceleration of the pace of modernisation. A need based modernisation model for technological upgradation of plant and machinery in mills involves a financial outlay of about Rs. 2,800* crores at current prices. Textile modernisation in India has not caught up with the technological changes abroad due to a combination of inhibiting factors such as cyclical and low profitability, high capital cost and interest rate, control on production and prices of textiles and constraints from fiscal policies.

The New Policy 1985 states that "in the case of potentially viable units a rehabilitation package might, inter alia, consist of provision of additional balancing equipment, replacement of existing machinery, change of

* Source: Indian Cotton Mills' Federation, Bombay.
product-mix, better marketing strategy, rationalisation of labour including improvement of work norms, strengthening of management and organisation and adjustment of capacity in the different stages of manufacturing".

Though over an year has so far passed since the announcement of the New Textile Policy 1985, no worthwhile action has been initiated in this area. A nodal agency is to be designated to evolve and manage the rehabilitation package for weak units. The Textile Minister announced in the Parliament that the Industrial Development Bank of India (IDBI) would the nodal agency for the purpose. But precious little has been done in regard to evaluation of the sick units and formulation of the package for rehabilitating them.

**PROSPECTS AND IMPACT OF POLICY 1985:**

The bright aspect of the New Policy 1985 as planned and announced, promises and outlines many measures for restructuring and modernisation of the Textile Industry, which will provide the necessary impetus for creating an appropriate frame-work for rejuvenating the textile industry without further loss of time. Under the guidance and vigilance of dedicated persons at the helm of affairs, the industry is bound to do well soon.
It must, however, be realized that for Indian textile industry, because of its various handicaps, export at present, is only a marginal activity, as hardly 10% of the production is exported. It is necessary to inculcate export culture in the Indian textile industry, by providing to it the necessary infrastructure which will enable it to export a higher percentage.

The primary need for this purpose, apart from other things would be to enable the industry to modernize at a fast pace which will bring us two fold gains:

a). Qualitative improvements;
b). Cost reduction.

These two advantages namely - reduction in cost and improvement in realisation will, by themselves reduce our reliance on 'subsidies and cash incentives'.

To help modernization, imports of textile machines have to be permitted on a duty free basis for the concerned units accepting an obligation to earn in five years three times the foreign exchange spent on imports. Liberal

* Source: Cotton Textile Export Promotion Council, Bombay.
loans also need to be granted at very low rates of interest for financing modernisation.

It should be our aim to hold our own in the international markets on our own strength. This aim can be achieved, if and only if, we can secure all our requirements viz. raw materials, colour chemicals, power etc. for export production at international prices. Furthermore, our labour cost should also to be brought down at or near our competitors's level by improving the productivity of machines and labour to international standards.

Till such time as we attain parity with international costs in all these matters, export aid in the form of CCS and REP will have to be continued, and in fact, will have to be raised to bring our export prices to a level which is not only acceptable to foreign buyers but is also enough to compensate them for our quality deficiency - which will remain till modernization is attained. This is re-emphasised and it must be regarded as a stop gap measure till we attain parity with international costs.

Till then exports must be made a profitable activity through grant of liberal CCS. It has to be atleast 15%* for grey fabrics, 20%* for processed fabrics and 23%*

* Source: Cotton Textile Export Promotion Council, Bombay.
for made-ups. Yarn exports must be fostered by dropping all quantitative limits and extending CCS of 15%.

Keeping in view, the in-roads already made by Pakistan and China in our Overseas Market by liberally giving CCS and export credit, it is suggested that packing credit for 180 days be allowed to Indian Exporters at concessional rate of interest.

The 100% Export Oriented Scheme (EOS) has to be made workable by permitting sale of 25% of production in the home market without any conditions. The permission given to sell it to people holding valid import licences and that too on paying 100% import duty applicable to textile imports is a nullity. CSS (Cash Compensatory Support) has also to be extended to 100% Export Oriented Units to compensate for unrebated internal taxes borne by raw materials etc. going into the production of goods for exports.

It has very rightly been emphasized in the New Textile Policy that top priority has to be given to modernisation of ginning to enable us to manufacture fabrics suitable for purposes of dyeing, which are in demand in the international markets.

*. Source: Cotton Textile Export Promotion Council, Bombay.
The Scheme of Registration of contracts has to be made applicable to textile exports, which alone have been denied this facility.

Cotton Corporation of India (CCI) should be equipped to be in a position to supply cotton to exporting units at steady prices, as rightly suggested in the Textile Policy Statement.

Cotton should be allowed to be imported against EAPORTS of cotton products as REE, and to assure exporters that on those rare occasions when Indian cotton prices go far in excess of international parity, the exporter who usually makes long term contracts, can fall back on imports.

The New Textile Policy 1985 attaches considerable importance to the removal of external as well as internal constraints in tapping the full potential of textile exports. The policy goes on to declare that the Government will 'alleviate external constraints' by striving to bring about liberalisation of world trade in textiles. In domestic sector 'all necessary steps would be taken to exploit our comparative advantage' and 'to make our exports of textile more competitive in the world market in terms of both quality and price'.
The emphasis on attaining export capability by means of cost-efficiency is most welcome because export-led growth has benefited both the developed and the developing countries all over the world. The efficacy of this strategy can be seen from the fantastic growth accomplished by KOREA and TAIWAN, which started virtually from the scratch some 20 years ago and have now reached the pre-eminent position of being major global suppliers. It can also be seen from the success accomplished by INDONESIA, THAILAND and TURKEY within a short span of a couple of years.

Another welcome feature of the New Textile Policy, 1985 is that it aims at re-vitalising the Textile Industry by dealing with successive stages of production such as spinning, weaving and processing. In order to bring down the cost and to accelerate the pace of overdue modernisation, the Government has accepted the principle of allowing the industry to import sophisticated machinery at near international prices. Pending the announcement of the reduction of duty on a wide range of textile machinery, the Government has extended the Scheme introduced in 1983 for import of certain specified textile machinery at concessional rate of duty. But the Scheme has not worked satisfactorily because of the onerous conditions attached to 'import of machinery' under
that scheme. Moreover in these days of acute financial stringency, the cost of modernisation will have to be reduced in every possible manner, so that the huge backlog can be cleared expeditiously. Duty-free import of sophisticated machinery and equipment and provision of finance for their import at a very low rate of interest are very necessary as is being done in many countries with excellent results. To know these results, the chapter 'Problems and Prospects of the Textile Industry' may be seen separately.

In order to inculcate export outlook, the Government may tie up duty-free import of machinery with some workable export obligation such as a stipulation that the importer of duty-free machinery should export, within a period of five years, goods worth three times the value of machinery.

The cost of modernisation on account of duty waiver and supply of finance at a low rate of interest appears rather high, as the backlog is 'too huge' and it has got to be cleared expeditiously, because delay would certainly defeat the basic objective.

It has been roughly estimated that the re-equipment programme would call for an annual outlay of Rs.250 crores

for a period of ten years. After taking credit for internal
generation and soft loan assistance from the financial insti­
tutions, the annual gap in resources is estimated at around
₹60 crores to ₹70 crores. When the industry has been
forced to supply cloth to the community at regulated prices
over three decades, it is only proper that the Government
should come to its rescue by agreeing to give back to the
industry a portion of the excise collections or pre-tax
profits earned in years of better working, to bridge the
gap in resources. This is exactly what has been asked for
by the Indian Cotton Mills' Federation, Bombay (ICMF) in
its scheme of modernisation. The Government should come
forward with a favourable decision on this without any more
delay.

But in the long-run the costs so incurred will be
much less than the real and unavoidable costs of delayed or
lopsided modernisation. Unless modernisation proceeds
simultaneously in all sectors of the industry optimum
results will not accrue, because a modern weaving sector
without equally modern ginning, spinning and processing
sectors will not be of much use. On the other hand
modernisation at a slow pace would further accentuate cost
disparity which in turn would further vitiate the industry's
export potential. If we lose the battle on the export market encroachment upon the domestic market is inevitable.

The 'Policy Framework' enunciated in the new Textile Policy 1985 is thus well conceived, and the strategy spelled out is also basically sound if it is fully materialized. At this stage, let us not falter or procrastinate in its implementation. Let us also act with a sense of urgency and be prepared to devise imaginative measures keeping in mind the realities of the market place. Delayed action, or a vain search for the better and the best is bound to land us in difficulty.

Until the long-term measures begin to fructify we will have to devise a package of pragmatically conceived measures. In the short-term our objective should be to bridge price disparity in the international market. It is reported, among other things, that the prices of most of our textile goods are higher by about 20%\(^4\) and unless something is done immediately to offset the disadvantage there is hardly any hope of retrieving the lost ground. Serious consideration has to be given to stabilising the prices of cotton which accounts for the bulk of the cost of fabric in

4. 31st. Annual General Meeting held on December 23, 1985, Cotton Textiles Export Promotion Council, Bombay, p.6
international markets. Hence the role assigned to the Cotton Corporation of India in the New Textile Policy 1985 as the central agency, as stated in earlier pages of this Chapter, to ensure smooth supply of cotton at reasonable and stable prices is a step in the right direction. It is suggested that the Government should promptly vest the CCI with all the necessary authorities and resources. Cotton textiles should also be included in APPENDIX 19 of the Import Policy as has already been done in the case of other sectors of the textile industry.

Another measure capable of yielding immediate results is the adjustment in the cash compensatory support (CCS). The complexity and the cascading effect of the complicated structure of taxation in our country make it virtually impossible to establish precisely the incidence of duties and taxes in all cases. It is a common experience, therefore, that the current rates of CCS support do not fully neutralise the burden of taxes and duties as it happens readily under the 'VAS' (Value Added System) of taxation.

Moreover, countries like CHINA and PAKISTAN are using CCS as a device to enable their exporters to lower their quotations in order to capture larger share of the market. According to a report submitted by Mr. Eric Gonsalves 5

the Indian Ambassador to EEC, Pakistan has been able to capture a larger share of the EEC market largely by liberalising the CCS which is as high as 19% for grey fabrics, 24% for processed fabrics and 28% for bed linen. Obviously Pakistan's rates of CCS are based on market expenditures. It is also reported that China gives 40% CCS. Unless these aggressive measures of the Governments of our competitors are countered effectively by our Government, there is hardly any hope of blocking further inroads or of retrieving the lost ground.

It is also appreciated and is a matter of great hope that the Government of India has announced 'Yarn Export Policy' for the years 1986 to 1988. Under the new policy quantitative ceilings for exports have been raised to 20 million kgs. per year for both count groups i.e. for counts upto 40 and counts 41 to 60 and there will be no quantitative ceiling on exports of yarn of counts 61 and above. This is pragmatic measure for which Government's action is highly appreciable for being remarkably prompt in understanding the difficulties of the exporters and in meeting this long standing need of the industry. Now that the Government has reassured the overseas buyers that India means business and

that the India could be considered as a stable supplier of cotton yarn. It is also urged that the Government should concede the equally reasonable need of the industry for encouraging 'yarn exports' by allowing CCS so that there would be no difficulty in exporting about 50 million kgs. of cotton yarn worth about $200 crores in the near future.

CONCLUSION

Though it is too early to assess fully the implications of the new policy, the available indicators point towards a positive revival of the industry if it is fully implemented. The output of cloth and yarn, consumption of cotton and man-made fibres and utilization of capacity have all improved in the last few months, in the light of the statistics issued by various agencies of the industry. Stocks of cloth and yarn though higher, do not pose serious discomfort as it would have been, had the higher production been not absorbed by the market.

The new policy of allowing liberalized exports of cotton yarn and the rising trend in exports of garments and made-ups are propitious, as has been discussed in Chapter - II "Textile Industry in the National Economy". What is important is the monitoring and close appraisal
of the policy every quarter for ensuring stability in supply and prices of raw materials, revival of demand, supply of quality cloth to consumers at reasonable prices, accelerated tempo of modernisation and boosting of exports.

It is very much encouraging to note that the Textile Policy 1985 is now bearing fruits towards an important aspect of the modernization of the textile industry. The Industrial Development Bank of India, Bombay (IDBI) announced its 'Textile Modernization Fund Scheme' on July 22, 1986 which states that IDBI along with other financial institutions has been providing assistance for modernization of cotton textile industry at concessional rates over the past 10 years under its 'Soft Loan Scheme' and some good results have already been achieved. The Textile Policy 1985 announced by the Government of India laid stress on modernisation of textile industry. In the recent past, there have been further advances in commercial application of newer technologies to spinning, weaving and processing. The need for upgradation of products and improvement in productivity has become more urgent.

It is anticipated that with the measures initiated so far and the schemes for rehabilitation, modernization, fiscal changes etc. the industry will move forward with vigour and optimism.