CHAPTER I

Introduction
INTRODUCTION

Cotton (Gossypium spp), the white gold is one of the most important cash crops in the world, having profound influence on men and matters. Cotton is cultivated over 33 million hectares across seventy-eight countries and the average annual global production is 19 million tonnes. The share of cotton in the world textile production is 50 per cent and its production, processing and marketing sustain more than 250 million people through employment generation.

1.1 COTTON STATUS IN WORLD, INDIA AND KARNATAKA

Cotton and cotton textiles have been traded nationally and internationally since ages. In the beginning, trading was mostly in cotton textiles whereby the cotton produced in each centre was spun and woven into textiles. Indian cotton textile products have been admired globally. During the periods of industrial revolution in the west in the later half of 18th century and the British colonization of India, Indian cotton textile industry suffered immensely. From being an exporter of finished goods, India was forced to be a supplier of raw cotton to the industrially advancing countries. This shift triggered related changes in Indian cotton cultivation and trading sectors. Indian economic history is now identified with economics of raw cotton and trade, particularly in the Mumbai region. Historically, merchants have played a commendable role, in the
development of cotton trade in India, in spite of inadequate and archaic market system.

In many countries, particularly the developing ones, cotton is an important agricultural commodity, adding significantly to the farm income and export earnings. For example, African countries earned more than $15 billion by cotton exports, representing about 9.2 per cent of their total agricultural export earnings during 1997. In Asia, cotton is relatively less important but still generated US$ 7.16 billion by export revenues in 1997.

Cotton is an important fibre crop in India, contributing substantially to both agriculture and industry in terms of farm income, employment and export earnings. The cotton textile industry is the largest industry in India, accounting for five per cent of the total value of production in the organized manufacturing sector and for about 10 per cent of the country’s total export earnings. Cotton crop engages 60 million people in the country in various sectors including cultivation, trade and processing. India, today has 1,569 textile mills comprising 1,295 spinning and 274 composite mills. Textile industry generates direct employment for about 1.2 million people and sustains nearly 21 million people in the supporting industries. Employment generation for a large number of skilled, semi-skilled and unskilled persons, particularly for low-income groups at the rural and semi-urban levels is the major strength of this industry. Handloom weaving units alone create employment for more than three million weaver households accounting for 12.9 million number of
weavers. Cotton farming provides sustainable income and offers 200 mandays of employment per hectare.

In India, cotton is grown all over the country but its production is concentrated mainly in nine states, namely, Punjab, Haryana, Rajasthan, Gujarat, Madhya Pradesh, Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu. These states together account for more than 99 per cent of India's total area under cotton. On the basis of agro-climatic conditions, the country is divided into three major cotton growing zones:

- **The northern**: Punjab, Haryana and Rajasthan
- **The central**: Gujarat, Madhya Pradesh and Maharashtra
- **The southern**: Andhra Pradesh, Karnataka and Tamil Nadu

Karnataka is one of the important cotton producing states of the country. Cotton is currently cultivated in the state over 5.20 lakh hectares and the annual output is 6 lakh quintals. This accounts for about 6 per cent of the national output.

Cotton is a major input in the well known handloom sector of the state and an important natural fibre used in the textile sector. DCH-32, an extra long staple cotton is grown in the state but finds limited consumption locally. The spinning sector which is predominantly cotton based is vulnerable to the vagaries of volatile cotton and yarn markets. The state houses 203 ginning units, 60 pressing units and 42 textile mills.
with an installed capacity of 7.84 lakh spindles. The number of permanent employees in these mills is 17,000. However, the mills have been facing sickness and in order to stand competition arising from the delicensed spinning sector, there is need for modernisation and technology upgradation.

Though, India is a world leader in terms of area under cotton, its average cotton yield per hectare is one of the lowest being. With an average of 223 kg of cotton per hectare as against the world’s 800 kg per hectare, India ranks 58th among the seventy eight cotton growing countries in terms of productivity. The main causes for such low productivity are, that only 34 per cent of the cotton area is under irrigation and hardly 40 per cent is under hybrids.

More than 90 varieties of cotton are being grown in India alone. In the recent years, coloured cotton varieties are being tested and developed and genetically modified varieties are also gaining significance. Generally, cotton is categorized into five groups on the basis of its staple length namely, short staple (19 mm and below), medium staple (20 mm to 21.5 mm), superior medium staple (22 mm to 24 mm), long staple (24.5 mm to 26 mm) and extra long staple (27 mm and above).

1.2 ROLE OF COTTON IN INDIA

Cotton has multiple roles and significant impact on India’s economy and employment status. It is important:
Cotton marketing is a state subject in India. Compulsory sale of raw cotton through regulated markets in almost all the states and monopoly procurement in Maharashtra have been in force for the last several decades.

Trade in cotton, both domestic and international, has been subject to several Government interventions. For example, the Government not only imposes quota restrictions on the exports of cotton but also stipulates the minimum export price. Interestingly, the government releases the export quota in installments over the cotton year. It also allocates and releases quota amongst various exporting agencies like the Cotton Corporation of India (CCI), Maharashtra State Co-operative Cotton Growers Marketing Federation (MSCCGMF), Gujarat State Co-operative Cotton Federation (GSCCF) and private trade.

In domestic cotton market, government intervention starts with the fixation of support price for seed cotton. With the objective of
safeguarding the interests of cotton growers and millers, the Ministry of Agriculture, Government of India announces Minimum Support Price (MSP) for various grades of cotton. Followed by this, the cotton procurement is done either in the open market through CCI or on monopoly procurement basis as in Maharashtra. The Government also processes raw cotton into lint and distributes to many textile mills, especially those owned by National Textile Corporation. The degree of state intervention in the domestic markets is about 30 per cent and exceeds 80 per cent in the export market.

The export and import policies of cotton remain a matter of contention amongst the cotton growers, millers and traders due to their ad-hoc nature. As cotton exports, both in direct and indirect forms constitute roughly 35 per cent of the total production (ICMF, 1997) decision on quota on exports and imports of cotton often contributes significantly to wide fluctuations in exports and imports of cotton, yarn and fabrics. Cotton growers and millers have had divergent views on export policy of cotton. While the cotton growers demand larger export quota, the millers lobby for smaller proportion of export, complete restriction on the export of quality cotton and larger import quota of cotton (ICMF, 1997). Obviously in the overall interest of the country’s cotton industry, the Government is always called upon to reconcile the competing demands of the growers and millers.
With regard to yarn, the government fixes quota and places restriction on its production and export in order to ensure adequate supply of yarn to decentralized units, particularly, handlooms.

India is the second largest exporter of cotton yarn, after Pakistan, in the world. In the past, the textile and clothing trade in international market was done under the aegis of the Multi-Fibre Agreement (MFA) and other arrangements. As per the Uruguay Round Agreement, textile quotas are to be phased out over a ten-year transition period ending December 31, 2004. The Agreement on Textile and Clothing (ATC) stipulates that the specified percentage of textile products will be freed from the quantitative restriction in four stages. The trading of textile and clothing under the new regime of quota free world would be effective from January 1, 2005.

1.4 PRACTICAL SIGNIFICANCE OF THE PRESENT STUDY

In a developing economy, the growth of agricultural sector is critical for the development of other sectors like industry and services. Irrefutably, the rate of growth of agriculture is the cumulative effect of growth rates in its component sub-activities. In India, agricultural sector accounts for 28 per cent of the Gross Domestic Product (GDP) and serves 62 per cent of its population’s livelihood. Cotton, being one of the principle cash crops of the country, accounts for about 2.5 per cent of the agricultural output (valued at more than Rs. 20,000 crore), which is the focus of the present study along specific dimensions. Recent report of
Food and Agriculture Organization (FAO) revealed that India ranks third in area next to China and United States of America. It was also reported that the growth rates in area, production and productivity vary across major growers resulting in fickle ranking between the economies from year to year. Within the country also, disparities in area, production and yield have been common phenomena.

(India was thirteenth largest textile exporter in the world accounting for 2.79 per cent of global textile exports in 1995.) Textiles and clothing in India were the single largest foreign exchange earner during 1996-97 and earned the highest net foreign exchange due to its low import intensity. There has been a substantial increase in the export of textile/fabrics during the last decade. The share of textiles and clothing was 29.8 per cent of total export during 1996-97.

The quota free regime which will come into operation from 1.1.2005 will usher in trade liberalization in the textile and clothing sector by dismantling discriminatory quantitative restrictions built over a span of more than 30 years, beginning with the International Trade in Textiles of 1961. This was followed by the long-term agreement from 1972 to 74 and several cycles of Multi-Fibres Agreements (MFA) thereafter. Developing countries, including India considered these restrictions through quotas, as constraints to export growth. The phasing out of MFA should provide India opportunities for enhanced rate of export growth in this sector. However, it calls simultaneously for reduction in costs, improvement in
quality and efficiency in delivery at all stages of cotton industry beginning with its production.

Markets for cotton will become more competitive especially after the MFA ceases to exist with effect from 1.1.2005. There will, therefore, be considerable competition from China, Vietnam, Pakistan, Bangladesh, Indonesia, Malaysia and other exporters. In this context the issue boils down to examination of the competitiveness of India's cotton and textiles exports. There is not much empirical evidence to show that India is equipped to face the challenges in the wake of liberalized trade regime. Further, the export market is exposed to high degree of risk because of complex and continuously changing marketing environment. Demand and supply trends vary over the years due to technological and industrial development in the target markets, development of substitutes and new uses, changes in customer tastes and preferences and also due to changes in the marketing capabilities of competing sources of supplies across the world. Further, production of cotton itself is dynamic in nature over time and space. Inter-crop competition leading to shifts in crop areas arising from cost of production and net return concerns is relevant to the arrival of cotton in the markets. In order to improve India's trade in cotton exports, it is imperative to study the production direction, market opportunities and evolve an appropriate policy framework based on long term needs and adopt effective packages of production and marketing
strategies. This however requires complete knowledge of domestic and export market for cotton including aspects such as export competitiveness, price relationship and direction of trade and other related issues. Results of the study would be of value in formulating production and marketing (relating to both domestic and export) policies as well as those concerning textile industry. It is in this context that, the overall objectives of the study have been set relating to the growth and instability in cotton production and the pattern of its prices in market and marketing efficiency of cotton in Karnataka.

1.5 OBJECTIVES OF THE STUDY

1. To analyse the pattern of growth in area, productivity and production of cotton

2. To study the instability in cotton production

3. To study the pattern of direction in the production of cotton vis-à-vis other competing crops

4. To analyse the seasonal indices of arrivals and prices of cotton

5. To examine the extent of short run market integration among the selected markets of Karnataka

6. To identify and evaluate long run market integration between the domestic and international markets
1.6 HYPOTHESES

1. There is high growth and instability in area, production and productivity of cotton in Karnataka

2. The pattern of direction in cotton production is stable vis-à-vis other competing crop enterprises in the state

3. There is distinct seasonality in arrivals and prices of cotton

4. There is high degree of integration among major cotton markets in Karnataka

5. Domestic and international markets are not integrated