CHAPTER V

SHORTCOMINGS
Indian textile exports suffered from a stock of odds. Some of them offshooted from internal circumstances, particularly generated from industry's structural deficiencies, and some of them stemmed from the policies adopted by foreign countries. The UNIDS observed that the textile industry in the developing countries (and Indian textile industry is not an exception) was working under unfavourable circumstances. Low productivity, excessive size of labour force, paucity of funds, low integration and inadequate production and marketing management were some of the main limiting factors.

Even in the years of good cotton crop and subdued prices, our export performance did not present improvements. This means, besides price factor, there were other factors responsible for the erosion of our exports. It was felt during the study that lack of marketing efforts unadherence to quality, irregular and interrupted deliveries and sometimes defective packaging also equally worked as checks to our export efforts.

**Growth of import-substituting cotton textile industries**

The sluggish trend in exports of Indian cotton textiles
until mid-sixties was largely attributed to the growth of import-substituting cotton textile industries in the net-importing countries after the Second World War. During late forties and fifties, the Afro-Asian countries followed the policy of import substitution in order to attain the self-sufficiency in cotton textiles as the technology required for the industry is not very intricate. Moreover, this tendency was inspired with the fact they were cotton producing countries also. During this period countries like Egypt, Turkey and Pakistan not only became self-sufficient but also stepped into the international market. Dr. Manmohan Singh in his work 'India's Export Trends' has rightly observed - "cotton textile is an industry which tends itself most easily to import substitution. Its requirements of are much more modest than those of many other modern industries. Its demands for expensive technical skills are also not very rigorous, and in any case many countries have a tradition of handloom weaving, so that the leaning of new techniques is not difficult to process. . . . It is an industry when development is often not contingent on the creation of fresh demand by simply replacing imports. . . . No wonder that cotton textiles are an early favourite in programme of industrial development in most under-developed countries." The levels of self-sufficiency (and thereafter exports) in cotton textiles in a particular country could be gauged by the quantum of cotton consumed by the mills in that country. Ratios of consumption of cotton by
mills to the availability of cotton manufactures for home for 1953 and 1962 given below show heavy increases:

<table>
<thead>
<tr>
<th>Country</th>
<th>1953 (Percentage)</th>
<th>1962 (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>491</td>
<td>1095</td>
</tr>
<tr>
<td>Taiwan</td>
<td>82</td>
<td>171</td>
</tr>
<tr>
<td>Korea Republic</td>
<td>87</td>
<td>103</td>
</tr>
<tr>
<td>Iran</td>
<td>66</td>
<td>92</td>
</tr>
<tr>
<td>Phillipines</td>
<td>7</td>
<td>53</td>
</tr>
</tbody>
</table>

During the same period, similar trends were observed in the UAR, Guatemala, Ethiopia and many other countries.*

Such development affected major changes in the field of production of cotton textile and its trade. "The textile industry is a typical example of the consequences of changing pattern of industrial development. Historically, the industry was a forerunner of industrialization in the developed countries and it has also been a favoured area of development for the


latecomers to industrialization. As a result of the latter
tendency, the share of the developed countries in world textile
production had been declining.¹ The fifteen industrial
countries' share in world output fell from 73.9 per cent in
1950 to 70.5 per cent in 1960. If Japan's share is excluded,
the decline seems sharp, from 71.6 per cent to 63.8 per cent.
Statistics released by the International Textile Industry
Conference, 1952 expounded that despite increase in the world
production from 45,000 million yards to 49,000 million yards
in twenty years, world trade in textiles shrank to 5480 million
yards from 6750 million yards. The imports of cotton textiles
into traditional net importing countries registered fall by
2.2 per cent between 1948-50 and 1958-60. This fall would have
more if imports into traditional net importing West European
countries and Canada had not increased. The imports into
industrial net importing countries rose by 36 per cent whereas
a decline to the tune of 7 per cent was there in the case of
primary producers. In the USA and the UK, the net exporting
countries, the imports were double during the same period.²
"In the UK, imports of cotton textiles were equivalent to 40
per cent of domestic consumption. In the United States, import
of cotton textiles rose rapidly during the nineteen fifties

¹ UN, Department of Economic and Social Affairs, World
² FAO: Per Capita Fibre Consumption Levels 1948-58 Supplement,
Monthly Bulletin of Agricultural Economics and Statistics,
January 1962.
from a negligible proportion of domestic production at the beginning of the period to about 7 per cent in 1960.\(^1\)

This can be reviewed in an Indian context. Till the mid-sixties our exports of cotton textiles were mainly composed of course and medium varieties and had traditional ready markets in Middle-East and South-East Asian and East African countries. Most of these countries, producing cotton, conveniently started producing these varieties and soon became self-sufficient. As a measure of protection, they either prohibited the imports or raised tariff (as by Malaysia) in order to restrict the imports of these varieties. Sometimes imports of cotton yarn under PL 480 facilitated. Even in sixties there was great emphasis on the development of textile industry in most of the countries particularly in East Africa and South-East Asia. Consequently, local supplies were increasing\(^2\) causing decline in the exports of cotton textiles (coarse and medium varieties) to these countries from India.

**Emergence of man-made textiles**

The increasing share of man-made fibres

in the total consumption of non-industrial textiles

\(^1\) UN, op. cit.

caused for feeble growth in world trade in cotton textiles as other natural fibres like wool and silk played almost passive role. By 1956, all man-made fibre substitutes accounted for one-third (rayon 18 per cent and synthetic 15 per cent) of the total fibre consumption against 20 per cent in 1955.\textsuperscript{1} According to FAO, per capita consumption of all fibres rose from 5.2 kgs. to 6 kgs. between 1960 and 1969 whereas the per capita consumption of cotton declined to 3.2 kgs. from 3.4 kgs. during the same period. Contrarily, per capita consumption of synthetics increased seventeen-fold in sixteen years; i.e., 0.07 kg. in 1954, 0.28 kg. in 1961 and 1.2 kgs. in 1969.\textsuperscript{2}

The developed countries, particularly of Europe, vigorously increased the production and consumption of cellulosic and non-cellulosic fibres. "The changing pattern of demand for textiles and competition among different fibres are also affected in production trend for the fibres. In the case of yarn, man-made fibres increased their share in production in developed market economy countries from 28.7


per cent in 1960 to 50.2 per cent in 1970 and in the case of fabrics from 20.0 per cent to 35.7 per cent. In fact, cellulosics did not pose a severe threat to cotton but with the emergence of synthetic, cotton started losing its prominent position as a textile fibre.

Synthetic has been able to reduce the usage of cotton not only in the field of wearables but also in other fields significantly. The change in proportion of fibres in different end-uses in the two leading free economies, the USA and the EEC, can be seen in the following table:

<table>
<thead>
<tr>
<th></th>
<th>Clothing</th>
<th>Household</th>
<th>Industrial</th>
</tr>
</thead>
<tbody>
<tr>
<td>US:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Synthetic</td>
<td>14</td>
<td>38</td>
<td>56</td>
</tr>
<tr>
<td>Cotton</td>
<td>62</td>
<td>41</td>
<td>35</td>
</tr>
<tr>
<td>Cellulosic</td>
<td>12</td>
<td>14</td>
<td>6</td>
</tr>
<tr>
<td>Wool</td>
<td>12</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>EEC:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Synthetic</td>
<td>12</td>
<td>33</td>
<td>47</td>
</tr>
<tr>
<td>Cotton</td>
<td>44</td>
<td>35</td>
<td>26</td>
</tr>
<tr>
<td>Cellulosic</td>
<td>23</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>Wool</td>
<td>21</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

@ Excluding Ireland, the UK and Denmark in 1961-63 and 1970.


During mid-sixties, according to the GATT study in textiles, the textile realm witnessed phenomenal growth of non-cellulosic textiles undermining the role of cellulosic textiles even in the developing countries. Between 1960 and 1970, the output of non-cellulosic (synthetic) fibres and yarns registered marked growth from a very low level of 702 million kgs. to 4700 million kgs. The production of cellulosic fibres and yarn presented only 32 per cent increase from 2607 million kgs. to 3436 million kgs. Similarly there was phenomenal growth in the production of spun yarn. According to the GATT study, the production of spun yarn spurted from a small figure of 19.204 million kgs. to 402.669 million kgs. Synthetics which proved to be better compared to cellulosics and cotton became indispensable for the countries which were intending to do substantial in the field of garment export. The production of blended spun yarn also expanded. Simultaneously, synthetic-cotton blended fabrics for apparel manufacturing maintained enlarging their field. Despite weaving, developed techniques of knitting also accelerated the expansion. However, blending of man-made fibres with cotton arrested the further deterioration in the demand for cotton.

The developing countries, including those which were contributing significantly in the world trade of textiles, thought it better to set up plants for production of synthetic fibres as the imports were costlier and affecting their balance of payment adversely. Consequently, the Latin American countries
started producing synthetics indigenously. Later on in sixties, Japanese manufacturers came forward to establish plants in Asian countries and other countries. India and South Korea emerged as major producers and subsequently in seventies Pakistan, Philippines, Indonesia and Thailand became significant producers of man-made fibres.

According to ILO, man-made fibre and textile machine technological developments together were mainly responsible for the rapid change in consumer preference in favour of man-made fibres, for example, continuous development in knitting technology and reducing costs and prices of polyester and acrylic yarns accelerated the use of knitting techniques for surface textiles and fully fashioned apparel. Actually, seeing the steady rise in consumer expenditure on clothing in advanced countries and in many developing countries, the developed countries made considerable investments in generating and augmenting knitting capacity during sixties. The ILO Survey further said that expenditures on textiles and clothing in developed countries rose by 56 per cent and 55 per cent at constant prices in 1960 over 1950.*

In the subsequent decade too synthetic fibres continued to encroach increasingly the field of textiles. The UN Industrial Development Organisation viewed that the world

* Poddar, R.P.: op. cit., p. 98.
consumption of the main apparel fibres would rise from 11.80 million kgs. in 1965 to nearly 20.00 million kgs. in 1980, changing their (cotton, artificial fibres and synthetic fibres) proportion from 60.3:21:18.7 in 1966 to 43:16:41 in 1980.

According to UNIDO,* synthetics have depressed cotton textiles through providing new products, developing new properties in existing products and generating new processes. Stability in price and surety of availability compared to cotton coupled with expensive and extensive promotion campaign have strengthened the position of synthetics. Once the production of markets advancement, the question of withdrawal is not easy as it involves capital and labour problems.

The fast displacement of cotton by man-made fibres, particularly chemical fibres, is also ascribed to oligopolistic nature of the chemical fibre production which has been highly concentrated in few firms (12), producing about 75 per cent of the world's chemical fibres and trading 80 to 90 per cent of the world trade in these fibres. These chemical giants spend billions of dollars on R & D against widely scattered production activities of cotton and their small resources for research. UNCTAD Study said, "In contrast to the fragmental state of the world cotton economy and its relatively tiny annual research funds of around $ 55-65 million, billions of

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* UNIDO: Monographs on Appropriate Industrial Technology for Textiles, 1979, p. 5.
dollars are spent on efforts to widen the application and to lower the cost of existing chemical fibres and to create new ones.\(^1\) and consequently, "they continue to erode cotton's share in the end-use of fibres."\(^2\) Whatever the competitive position of cotton exists is largely due to low-level wage.\(^3\) On the other hand, synthetic fibre textiles could cost two or three-fold of textiles made of cotton in the developing countries.\(^4\) It is further stated that a worker in a synthetic fibre plant displaces up to 33 persons associated with cotton production.\(^5\)

The world textile scenario is largely dominated by only 35 to 40 transnational corporations in developed and more industrialised countries and many of them are petro-chemical combines, having multi-commodity (chemical, petro-chemical, oil and textile engineering) trading interest. Their interest in the field of textiles is naturally predominantly in favour of chemical fibres and least in favour of natural fibre - cotton. Moreover, being high concentration and multi-trade interest have enabled them to manipulate the textile trade in multiplying the gains. UNCTAD said, ". . . oligopolistic concentration has become much tighter at the whole-selling and

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2 Ibid, p. 22.
4 UNIDO, Monographs, op cit., p. 5.
5 Ibid.
retailing level. Wholesale and retail gross margins now absorb as much as half the retail price of textile product. . . . Because of their strategic location in the marketing chain, the big wholesale/retail firms are often able to control the discounts granted by suppliers and to play off national against non-national producers, however, such state does not exist in the garment industry and is extensively dispersed but recent technical innovations have developed the possibility of concentration. In some countries like the UK where the textiles and garments both have come under one control. These large integrations have established their interest in more industrialised developing countries and are responsible to shift their textile output and exports from developed countries to select group of developing countries.

Increasing number of exporting countries

In the early fifties, Japan and the UK were main competitors in terms of quality and fine finish fabrics and prices and therefore, they could secure a good chunk of world trade in textiles. During the course of time, Japan switched over to the production of textiles of superior quality including

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1 UNCTAD: "Fibres and Textiles", op. cit., p. 21.
2 Ibid, p. 166.
those of man-made fibres and blends. The field of coarse and medium quality fabrics left so by Japan was largely occupied by Hong Kong, South Korea, Taiwan, China, Spain and Portugal but India could not follow suit. In the meantime, the UK could withstand competition offered by these countries and her exports of cotton textiles started declining. During the same period, India also began to witness competition from developing as well as from developed countries though the severity of competition from later was losing sharpness. Despite the countries mentioned above Pakistan also emerged as a stiff competitor in Asia and Mexico and Brazil in Latin America. All these countries have strong export oriented units.

Further, during seventies a good number of other countries entered into the world market as significant suppliers. These were Macao, Singapore, Thailand, Malaysia, Sri Lanka, Indonesia, Philippines, Argentina, Poland, Hungary and Romania. All these countries turned to developed countries, being big potential markets for fabrics and garments. It will be relevant to mention here that Egypt, Greece, Israel, Portugal, Spain and Turkey enjoy special preferences under the agreements entered with the EEC, the world's largest market for textiles. The textile units of these countries are technologically efficient being latest set up. Moreover, these countries are trying hard to increase their currency reserve, required for
economic development, by exporting as much as possible.

In recent years Brazil has significantly expanded exports and has emerged as a strong competitor in the traditional markets. "Over a period of eight years, its growth has been phenomenal so much so that Brazil accounts for 42,000 tons of cotton yarn and 20,000 tons of piecegoods marketed overseas in 1978-79 in 1978-79 and is inveterate competitor of India in all our traditional textile outlets abroad. In \$EC alone Brazilian cotton textile imports registered a jump to 20,000 tonnes in 1978-79 from a mere 6020 tonnes in 1972."* The US textile industry has also suddenly re-emerged as strong competitor and the impact of which is being felt by the established exporters of Asia and Europe. In 1979 alone the USA increased her exports of textiles by 45 per cent. Cheaper products (due to increased productivity) with specialised constructions found outlets easily in the weaker dollar condition. In the atmosphere of rising wage costs and implementation of environmental standards, the US textile industry seems to continue to offer good stand.

The situation is further aggravated due to the fact that the demand for textiles has been lagging behind the growth in per capita income in developed countries, as the income *TEXPROCIL, Market Report Series - 6, Latin American Market for Cotton Textiles, p. 1.
elasticities of textiles, being consumer items, are low.*

When the world trade in cotton textiles is sluggish, the countries which could change their industries and marketing pattern, befitting to the circumstances, naturally fared well, leaving less to others. India could avail the balance so left and that is too becoming feeble year after year.

Formation of trading blocs

There has been a tendency of forming trading blocs in different continents to abolish or rationalise the tariff barriers among member-countries as well as augment trade within the member-countries at the expense of non-member trading countries. Some of the well known communities are - ASA (Association of South-East Asia), EAC (East African Economic Community), OCAM (Organisation Commune Africaine Et Malgache), EFTA (European Free Trade Association), LAFTA (Latin American Free Trade Association), CARIFTA (Caribbean Free Trade Association), CACM (Central American Common Market) and the most important EEC (European Economic Community). Of these, the constitution of the EEC gave crucial impact on the export trade in textiles and garments.

* Texprocil, Cottons India, A Silver Jubilee Publication, p. 77.
Portugal, being a member of EFTA, enjoys duty free imports into the EEC and therefore, offers stiff competition to India. Likewise, growing influence of MNC's in the economic field of Latin American countries led them to form a single economic zone. The countries are offered favoured nation's treatment and concession in order to keep intact the interest of exploiting their abundant natural resources, of which much is still untapped. These MNCs with the help of their treaties with Latin American countries could manipulate the demand and supply with the region. It means that to cover-up the deficiencies in a country, they import from other countries within the region.¹ Such sort of practices have limited the export outlets. The EEC's textile export trade accounted for 72.4 per cent of the world trade in textiles, amounting to 29.68 billion dollar in 1977. Of this trade, 51.7 per cent was among the member-countries,² reducing the offtakes from developing countries.

China's entry into the EEC and the US markets

China's new equations with West European countries and the USA have caused further deterioration. She has already grabbed a considerable share of coarse and medium quality cotton

1 TEXPROCIL, Market Report No. 6, op. cit., pp. 3-4.
fabric markets. The situation has gone from bad to worse on the face of stiff competition offered by Hong Kong, South Korea and Japan which provide support to their shippers in different forms like tax rebate, cash assistance, low interest rate loan, credit facilities etc. All these incentives would work out to 20 to 22 per cent of the f.o.b. value.

It is true that China does not enjoy superiority over India in terms of technology but she has an edge-over in different ways. Over the years, she is receiving the "most favoured nation's treatment" in the West European countries, the USA and Canada as these countries find China as a potential market for their finished products. For China, being a closed economy, production cost is not only the criteria to fix the selling price and, therefore, China can easily outbid the competitors by offering the products at unfairly low prices. Moreover, she can supply cloth in 117 metre length which India cannot. She can also offer better dyed cloth. The things became more adverse when she was assured of the cheapest cotton from India in 1979 and 1980. This was definitely concerning to India in the light of her readiness to penetrate the EEC market in a big way. She got comparatively fair treatment in respect of quota break-up. In the second half of 1979, the EEC sanctioned a quota of 40,000 tonnes of textiles to China and a good portion of it consisted of piecegoods. India was also allotted the equal quota but it was divided into sub-quotas
viz. fabrics, garments and yarn. It is a well known fact that India hardly exported yarn to the EEC and utilised about half the quota allotted for fabrics. Consequently, industrial countries' trade deficit in textiles with China increased from $280 million in 1978 to $550 million in 1979.¹

China was also trying hard to get a good bit of the US textile market. She had been selling cotton and polyester print cloth at drastically low prices, almost in the way of dumping, even affecting the US producers, as observed by the US International Trade Commission in 1982. China's exports of textiles, mentioned above, amounted to $15.6 million in 1981.

China has also made substantial inroads into South-East Asian markets and Japan by meeting the demand exactly for fabrics meant for manufacturing garments. Because of her proximity to these markets, China is capable of getting easily all the market informations. The people of Chinese origin living there are an additional advantage to China. It was rightly observed that "...Peking is more extrovert in the international forum. Certainly India cannot ignore this development."²

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² Pravin Chandra V. Gandhi, President IC of C & I, Sino-Indian Economic Trade Relations: A New Dimension, Major Industries of India Annual, 1978, p. 17.
Restrictive trade practices: the so-called saga of textile arrangements

Since the World War II, there has been a rapid growth of cotton textile industry in developing countries and in some industrialised and semi-industrialised countries, as said before. In the short-run, the cotton textile industry of these countries successfully developed to provide substitutes for imports from industrialised countries but to export a sizeable volume. The exports of cotton textiles mainly from Asian countries had been taken as an injury by the developed countries for their cotton textile industries, particularly by the West European countries, as the industries in these countries already facing competition from locally produced substitutes and hence, special rules were needed for the regulation of international trade in cotton textiles.

It is true that both the USA and the UK were initially reluctant to impose formal quantitative and discriminatory import restrictions but the resentment were so grave in these importing countries that they took first step* to persuade the exporters to limit the quantities of their shipments of textiles, resulting into agreements without legal obligation.

*The most important agreement of this type is voluntary undertaking given by the Hong Kong textile industry to the UK

Cotton Board in 1958 limiting Hong Kong's shipments of certain types of cotton textile exports to the UK. Similar agreements were concluded by the UK with India and Pakistan, fixing the exports limits of 175 million and 38 million yards respectively in January, 1960.¹ These agreements primarily aimed at restricting the imports from Commonwealth countries. The US had also concluded an agreement with Japan in 1956.² In 1961 it appeared that quantitative and often discriminatory restrictions on imports from Asia were particularly severe in France and West Germany.³

Ultimately, these agreements brought the GATT principles of free trade into jeopardy. Opposition from textile industry of developed countries, under the pretext of disruption of their markets and causing unemployment in the textile sector, led concerning governments to pressurise a few low-cost exporting countries for arriving at mutually agreed bilateral agreements. This sort of voluntary undertakings too did not prove good on the face of imports from unrestricted sources (like Spain, Portugal, Formosa etc., countries other than agreeing parties), particularly into the UK and she could not avail the advantage of modernisation and rehabilitation programme of her industry.

² Ibid.
³ Ibid, p. 77.
in spite of restricting duty free imports of textiles from Commonwealth countries. Hence, the need for an international agreement, covering all substantially interested exporting and importing countries was felt. Consequently, a one-year short-term agreement (STA) was drawn up in July 1961 (effective from October 1, 1961) under the auspices of GATT. This development was considered one of the significant features of world trade in cotton textiles. Hong Kong, Japan, India and Pakistan were the main exporting countries to join the agreement. The agreement provided for the restriction of imports of cotton textiles to the level of the twelve-month period ending on June 30, 1961, whenever imports of particular variety of cotton textiles cause or threaten to cause market disruption in the importing country. On this basis the STA was converted into a five-year long-term agreement (LTA), having 23 countries as signatories in the beginning under the aegis of GATT and expiring at the end of September, 1967. This agreement was renewed twice for every three years, covering cotton textiles and textiles containing more than 50 per cent cotton. Under the first extended LTA (October, 1967 to September, 1970), bilateral agreements were finalised and developing countries believed that their exports of textiles would increase. India also entered bilateral agreements with the EEC, Austria, the UK and the USA. The UK continued to import handloom fabrics beyond the purview of the agreement. Moreover, a multilateral agreement concluded on 30th June, 1967
between 49 countries as per Kennedy Round Negotiations (1964) which provided the reductions in import duties on textiles though such reductions were moderate compared to relief granted to other products imported from developing countries. It was hoped that textiles would find easier access into developed countries but in vain. These countries applied non-tariff barriers as well as LTA mechanism to limit the imports.

The LTA was further extended for three years ending September 30, 1973 without any modification on the plea of the developing countries and remained in the clutches of LTA provisions and restrained themselves from going to worse. The developed countries argued that LTA provided the stability in the world market and justice to all exporting countries. So-called undertaking acceded by the importing countries to relax restrictions progressively each year with a view to eliminate them as early as possible remained fake. It proved merely a plan on paper discussed actively and this happened when, "throughout the period 1962-70 the developed market economy countries had a slight surplus in textiles and clothing with the developing countries; their export to these countries amounted to $ 2.5 billion and their imports from them to $ 2.4 billion."* According to the same source, the tariff cuts undertaken within the framework of the Kennedy Round were modest for textiles, compared with industrial products that are traded.

principally among developed countries. Moreover, even these modest reductions were conditional upon and undertaken by developed countries to renew the LTA.*

Actual implementation of bilateral agreements proved damaging in a number of cases against the spirit. Under the provisions of STA, the USA claimed a condition of market disruption and it restricted imports of certain cotton goods from Hong Kong, China and Taiwan. The UK accepted LTA with a reservation (in accordance with an escape clause in the agreement), keeping itself free from any obligation to admit increasing imports. The reduction in duties were practically of little benefit as the reductions announced were on items in which the developing countries had very small export potentiality. Very marginal relief was granted on cotton textile products of partial interest to developing countries like India. Contrarily, trade in cotton textiles within the EEC and EFTA remained quota and duty free. There were no quotas and only tariff duties on imports from other developed market economy countries like Japan.

In continuation, India's exports (being from Commonwealth country enjoyed duty free imports) to the UK suffered the most. Despite strong joint representation of ICMF and TEXPROCIL and persuasion of the high level delegation of the Central

Government, the UK made textile imports subject to quota and 15 per cent duty (while the British Textile Council Report, 1969 suggested to abolish quota and to impose 15 per cent import duty on imports from Commonwealth countries) from January 1, 1972 for the first time while imports from EFTA member countries like Portugal and Austria continued tariff and quota free, reducing competitive ability of Indian textiles in the UK market. Thus, the UK, importing nearly 35 per cent of Indian cotton textiles' export and was the largest market, terminated all previous affirmation granted in favour of Commonwealth countries under which these countries were assured of duty free imports of textiles into the UK. Indeed it was a case of protectionism with discrimination.

All these clauses, reservations and restrictions were inconsistent with the GATT provisions to which the industrial countries undertook to abide for the free trade. The developed countries used LTA as a media to impose restrictions. As was expected, unprincipled restraints on cotton textile trade led to two developments* - one, the textile and garment industries began to spring up in the countries which had escaped from the net of quota restrictions and two, of restrained countries those which were capable of doing so, expanded the production of man-mades, keeping in view the emergence of new pattern of

demand. In the early seventies, there was clear evidence of over-capacity in the synthetic sector, leading to tough competition even between the industrialised countries themselves.

UNCTAD's publication* elaborated the failure of the LTA and pleaded for safeguarding the interests of textile and clothing exporting (developing) countries but of no use. It is clear that developed market economy countries did not heed the suggestions put forward. "From the point of view of developing countries the failure of the LTA consists in the following: (a) it has not led to a substantial increase in their exports of textiles; (b) a more liberal import regime in developed market economy countries for the textiles of developing countries has not been attained; (c) the LTA has not been the temporary feature of international trade that was intended; (d) it has not been confined textiles, in so far as bilateral arrangements have been concluded in some cases to cover man-made and other fibres also. Bilateral arrangements have been made by certain developed market economy countries which cover both man-made fibres and wool, and now efforts are currently being made to bring these arrangements within the purview of LTA by broadening its coverage to include fibres other than cotton; (e) the developed market economy countries have not undertaken the type of adjustment envisaged by the

* UNCTAD, International Trade in Cotton Textiles and the Developing Countries - Problems and Prospects, 1974, pp. XV-XVII.
Agreement; and (f) the administration of quota levels much to be desired particularly regarding such matters as their subdivision, specific country quotas in AGC; the unfilled balances of which cannot be used by other members of the Community and the absence of liberal swing provisions."

The same source further opined that shift of consumption in favour of man-made fibres, "alone is bound to have adverse implications for the export prospects of cotton textile from developing countries, but taken in conjunction with the restrictive trade policies pursued by developed market economy countries, the prospects become more serious."*

**Increasing protectionism: The plots behind MFAs**

During sixties the developing countries, except India, adopted an open-door policy in respect of transnational corporations, allowing them to set up textile industries. In the Asian zone, large investment came from Japan which was shifting from labour-intensive industry to capital-intensive sophisticated industries due to acute shortage of man-power. Republic of Korea, Hong Kong, Singapore, Malaysia, Thailand and Indonesia availed the opportunity and induced the multinational corporations to invest into their textile industries for the production of man-made fibres and filaments

and initially promoted cotton textiles' field began to divert to man-made fibres and textiles. Latin American countries also availed the opportunity. Even in African countries like Egypt and Sudan, the major cotton growers, large investments were made in their industries to make good dent in the export market.

Such huge foreign investment led to rapid upliftment of textile technology in these countries. The South-East Asian countries successfully established highly competitive export oriented textile industries, no less than the sector developed in Western countries. Such phenomenal development induct ed competition between developed and these developing countries, so-called low-cost suppliers, effecting adversely the interest of developed countries in terms of their textile industries and their exports. "The capture of international market in textiles by South-East Asian textiles manufacturers of whom many were equipped with modern equipment of high technology, had its own reaction on the textile industries of the developed countries."* In return, the developed countries tended to concentrate on the production of more sophisticated and high value products. For the purpose, big enterprises brought into existence through amalgamations, take overs etc. Such structural change increased the production as well as led to

* Poddar, R.P.: op. cit., p. 69.
development of new man-made fibres, giving textile realm a
shape of multi-fibre one,* but affected adversely the employment
potential in the textile industries. Naturally, workers
resentment in these countries against the imports from
developing countries inflated, though it was the act of penalising
one for no fault. The situation aggravated following the
measures taken by the USA and other developed countries in 1971.
The inflationary trend was forging ahead in advanced countries
since 1969 and in 1971 the US economy was badly in its grip,
bringing the international monetary system into crisis as
dollar is considered to be an international currency. Therefore,
in order to give strength to dollar and ensure sound exchange
position, the US government imposed 10 per cent surcharge on
all imports subject to duty and quota, suspended the
convertibility of dollar into gold and urged for the reform
of international monetary system. These steps created uncertainty
in the world exchange market and several countries left their
currencies to float freely. Subsequently, the US authorities
realised the state of fact and devalued their currency by 7.9
per cent in relation to gold on December 18, 1971 and withdrew
the surcharge imposed earlier. Following the devaluation
other developing countries also re-set par values of
their currencies in terms of gold. However, such actions
exceeded the requirement for arresting inflation and affected
the economic growth in these countries. The annual growth
rate declined to 4.7 per cent between 1969 and 1973 from

6.5 per cent during 1960 to 1969. Such adversity intensified the unemployment problem, particularly in textile sector of industrialised countries of Western Europe and Japan with greater degree. In the later months of 1973, the oil crisis began striking violently the world economy.

Thus, phenomenal growth in the production of man-made fibres and blends during LTA's operations also visualised the need for major changes in agreements, covering trade in non-cotton fibres as well. The European countries were afraid of the large scale diversion of imports into their markets as some countries, notably the US, had concluded bilateral agreements with their suppliers covering not only cotton, but also man-made fibres and wool.*

It was under these pressures, the first Multi-fibre Arrangement (MFA) was negotiated and the attitude of the developed countries was stiff. The MFA came into force from January 1974 and was valid upto the end of 1977 but was extended upto December, 1981 following the prolonged and difficult negotiations. MFA third has come into effect from January, 1982 for four years and seven months and will expire on July 31, 1986. The seven-months' extension has been accepted.

keeping in view the Pakistan's financial year which is July to June. MFA sets rules for bringing selective restraints to particular textile product from particular source under certain prescribed circumstances as well as specified levels, growths and variations in quota rates to which exporting countries can export without running into procedural and/or other restrictions.

During negotiations the developing countries fought jointly for the first time on the ground that arrangements block their access to industrialised countries but negotiations concluded in the more restrictive form under increasing protectionist attitude as much as the industrial countries wanted. Under such circumstances the developing countries had to think that it would be better to have predictable restrictions to which plans could be made than to risk having unknown type of restraints in future. They were also opened to threat of harsher unilateral trade restraints against them and, therefore, the developing countries accepted MFA as a lesser evil. In fact, MFA facilitates a legal basis for bilateral accords between importers and exporters which again gives favour to the importers in the sense that they conclude bilateral agreements on the terms to suit them discriminating between different exports. The exporters too do not come together as every one of them expected to be treated favourably in forthcoming bilateral agreements.
This Arrangement, like its predecessors, was conveniently used by the importing countries for safeguarding the interest of their domestic producers under some pretext or other. There were occasions when the provisions of the Arrangement were unilaterally set aside on the grounds of excessive market penetration* and ultimately developing countries did not receive the treatment they expected. Their decision to cut down the annual growth of imports from 6 per cent to marginal levels proved damaging to exporting countries. Their protectionist attitude became more stiff following the oil crisis.

In the beginning the deliberate cut in production and supply of oil aimed at the USA, a staunch supporter of Israel but subsequently oil producing countries began to exploit the situation by raising the oil prices exorbitantly as they found oil an absolute necessary source of energy. Consequently, the world over the price level went up unusually high. Oil crisis and hike in the prices disturbed the economies of developed countries as well as caused strain on developing economies. Their import bills vigorously inflated and had to reduce the imports despite enlarged external borrowings and assistance. Between 1973-76, the industrial production (as well as of textiles and clothing) in developed countries remained

almost stagnant but employment in the industries declined on an average 2 per cent annually but total employment fell by only 0.6 per cent per year.* On the contrary, the production in the developing countries continued to increase and the exports also showed an upward trend. Their exports of textiles and clothing expanded by 39 and 45 per cent respectively in 1976 over 1975 (Table 80). The production of textiles as well as clothing and consumer expenditure on those in developed countries showed substantial increase.

After recovery in world economy in 1976, the economic growth decelerated in 1977. According to World Economic Survey, the real gross domestic product of the developed market economies increased by only 3.7 per cent in 1977 as against 5.2 per cent in 1976. The centrally planned countries also witnessed the same trend. In fact, deteriorating economic condition of developed market economies since 1974 generated the depression in demand as a whole in the world. The developed countries which became more particular about unemployment problem, therefore, finalised the MFA second with enlarged non-tariff barriers to restrict imports. The governments of the importing countries were also pressurised for the same by the strong trade unions. According to World Economic Survey, 1977 increasing unemployment, idle and unused industrial capacity

<table>
<thead>
<tr>
<th>Region and Item</th>
<th>Textiles</th>
<th></th>
<th></th>
<th></th>
<th>Clothing</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All de-</td>
<td>Western</td>
<td>West</td>
<td>South &amp;</td>
<td>All de-</td>
<td>Western</td>
<td>West</td>
</tr>
<tr>
<td></td>
<td>veloping</td>
<td>Africa</td>
<td>South &amp;</td>
<td>East Asia</td>
<td>veloping</td>
<td>Africa</td>
<td>South &amp;</td>
</tr>
<tr>
<td></td>
<td>countries</td>
<td>Hemispa-</td>
<td>Asia</td>
<td></td>
<td>countries</td>
<td>Hemispa-</td>
<td>Asia</td>
</tr>
<tr>
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<td>re</td>
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<td></td>
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<td>re</td>
<td></td>
</tr>
<tr>
<td>Developed Market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Economies:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports in 1973</td>
<td>2628</td>
<td>323</td>
<td>117</td>
<td>393</td>
<td>1796</td>
<td>3474</td>
<td>244</td>
</tr>
<tr>
<td>% increase from</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>preceding year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>20</td>
<td>59</td>
<td>44</td>
<td>1</td>
<td>16</td>
<td>30</td>
<td>55</td>
</tr>
<tr>
<td>1975</td>
<td>-26</td>
<td>-24</td>
<td>-22</td>
<td>-6</td>
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<td>10</td>
<td>7</td>
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<tr>
<td>1976</td>
<td>39</td>
<td>12</td>
<td>40</td>
<td>41</td>
<td>46</td>
<td>45</td>
<td>28</td>
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<td>North America:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Imports in 1973</td>
<td>660</td>
<td>142</td>
<td>15</td>
<td>23</td>
<td>480</td>
<td>1611</td>
<td>202</td>
</tr>
<tr>
<td>% increase from</td>
<td></td>
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<td></td>
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<tr>
<td>preceding year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>33</td>
<td>67</td>
<td>96</td>
<td>1</td>
<td>23</td>
<td>18</td>
<td>54</td>
</tr>
<tr>
<td>1975</td>
<td>-34</td>
<td>-36</td>
<td>-58</td>
<td>-13</td>
<td>33</td>
<td>18</td>
<td>3</td>
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<td>1976</td>
<td>47</td>
<td>17</td>
<td>32</td>
<td>33</td>
<td>58</td>
<td>49</td>
<td>26</td>
</tr>
<tr>
<td>Western &amp; Southern</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports in 1973</td>
<td>1189</td>
<td>142</td>
<td>100</td>
<td>367</td>
<td>581</td>
<td>1376</td>
<td>40</td>
</tr>
</tbody>
</table>

Contd....
Table 80 Contd....

<table>
<thead>
<tr>
<th>Region and Item</th>
<th>Textiles</th>
<th>Clothing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All developing countries</td>
<td>Western Africa</td>
</tr>
<tr>
<td>% increase from preceding year:</td>
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<td>Hemisphere</td>
</tr>
<tr>
<td>1974</td>
<td>30</td>
<td>67</td>
</tr>
<tr>
<td>1975</td>
<td>-6</td>
<td>-2</td>
</tr>
<tr>
<td>1976</td>
<td>31</td>
<td>4</td>
</tr>
<tr>
<td>Japan:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports in 1973</td>
<td>559</td>
<td>34</td>
</tr>
<tr>
<td>% increase from preceding year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>74</td>
<td>-32</td>
</tr>
<tr>
<td>1976</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Centre for Development Planning, Projections and Policies of the UN Secretariat, based on data supplied by the Statistical of the UN (quoted by R.P. Poddar, op. cit., p. 119).
and balance of payment difficulties were the main reasons.

**Departure clause: an unreasonable pressure**

At the time of renewal of MFA second the EEC which was negotiating a number of bilateral textile agreements with the exporting countries insisted on the introduction of a clause in the Arrangement, "jointly agreed reasonable departure from particular elements in particular cases." The clause in practice meant more rigidity regarding base levels of quota growth rates, flexibilities and criterion for introducing fresh restraints by mutual agreement and if failed the EEC would be able to fix a quota probably at the level of trigger point than what was provided for in the MFA First. This clause had to be accepted by developing countries as there was a fear of break-down of talks on renewal. At last, a moderate clause was added, "such departure would be temporary." The most of agreements contained this departure clause. Actually, this incorporation conferred blanket authorities on the importing countries to impose restrictions on a whole range of elements mentioned above. "As the list of the quota restrictions in trade and industry published reveals, textiles as a result of agreements reached by the EEC with low-cost supplying countries now operates within a tighter overall framework of controls than any other major industry. The EEC agreements under MFA mean that no fewer than 133 products ranging from shirts and trousers to tents and net curtains are
now under quota control or could be restricted if the need arises. About 30 low-cost countries which already are, or potentially could be, major suppliers fall within the net. Products brought under control were grouped in 133 categories instead of around 60, reducing the flexibilities to suppliers."

No doubt, developing countries got special concession of quota free exports of hand-made cottage industry textile products or made-ups, handloom products, traditional folklore handicrafts and traditional textile items but fixing quotas for other items on the basis of past performance was not favourable to those countries whose past performance were poor by one or some other reason. The basis was also unjust to India as till 1974, India's exports of synthetic garments were almost negligible whereas other countries were doing well in this field. Resultantly, India got lower quotas for countries like France, Denmark, Italy and the BENELUX. After 1974, India's exports rose due to development in demand for garments made from natural fibre cotton. Moreover, exports were subject to global ceiling on 14 types of garments and these constituted major portion of export quantum from India as well as from other countries.

World export trade in textiles and clothing expanded by about 20 per cent in terms of dollar and around 5 per cent in

terms of volume in 1978 mainly due to increase in the consumer expenditure on clothing in industrial countries. The benefit of such expansion was availed largely by the EEC and Japan and also by Hong Kong and Korea. According to the GATT Annual Report 1979, the growth in exports of textiles from developing countries was higher compared to world exports but in the case of clothing it was almost the same. After witnessing a decline in 1977, the share of developing countries in world exports of textiles rose to 20 per cent in 1978, reaching to the highest level attained in 1976. In the field of clothing, the share of developing countries in world exports remained almost steady at 37 per cent in 1978, slightly below the highest level gained in 1976. The exports of textiles and clothing from Hong Kong rose by 7 and 14 per cent in terms of value and 7 and 6 per cent in terms of volume. The exports to the EEC and North America, importing nearly three-fourth of Hong Kong's exports of textiles and clothing rose by 21 and 13 per cent. The exports from Korea increased by 31 per cent in 1978. The exports to North America and Japan significantly bettered by 21 and 63 per cent while to the EEC rose by 14 per cent.

In 1979 also the exports of textiles and clothing from developing countries continued to increase, resulting into increased trade deficit in these two categories jointly of industrial countries. Such deficit made industrial countries uneasy and they resorted to most stringent restrictions to
cushion their industries. World Bank's 'World Development Report 1979' pointed out that, "in textile products, where high US protection was until recently the envy of European producing interests, stringent new quotas introduced by the European Community have encouraged the US industries to raise their rights in turn. These industries are demanding and apparently obtaining even more non-tariff protection as a condition for supporting legislation needed to complete the multilateral negotiations."

### TABLE 81
Industrial Countries' Trade in Manufactures With the Non-oil Developing Countries
(billion dollars f.o.b.)

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th></th>
<th></th>
<th>Imports</th>
<th></th>
<th></th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>All manufactures</td>
<td>40.2</td>
<td>96.0</td>
<td>120.3</td>
<td>15.1</td>
<td>40.7</td>
<td>51.0</td>
<td>25.1</td>
</tr>
<tr>
<td>- of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iran &amp; steel</td>
<td>3.6</td>
<td>7.1</td>
<td>9.2</td>
<td>0.5</td>
<td>1.1</td>
<td>1.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Chemicals</td>
<td>6.6</td>
<td>15.5</td>
<td>20.3</td>
<td>0.8</td>
<td>2.5</td>
<td>2.9</td>
<td>5.8</td>
</tr>
<tr>
<td>Other Semi-mfrels</td>
<td>2.7</td>
<td>6.8</td>
<td>8.0</td>
<td>2.5</td>
<td>5.5</td>
<td>6.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Engineering products</td>
<td>23.1</td>
<td>58.3</td>
<td>72.6</td>
<td>3.6</td>
<td>11.9</td>
<td>16.2</td>
<td>19.5</td>
</tr>
<tr>
<td>Textiles &amp; clothing</td>
<td>2.9</td>
<td>4.7</td>
<td>5.6</td>
<td>5.3</td>
<td>12.7</td>
<td>15.2</td>
<td>-2.4</td>
</tr>
<tr>
<td>Other finished consumer goods</td>
<td>1.4</td>
<td>3.7</td>
<td>4.7</td>
<td>2.4</td>
<td>7.2</td>
<td>8.6</td>
<td>-1.0</td>
</tr>
</tbody>
</table>

Note: (1) Excluding textiles
(2) Excluding passenger cars and other engineering consumer goods
Sometimes the pressure tactics were also exercised by the developed countries. In October, 1977 a petition was filed by the Amalgamated Clothing and Textile Workers' Union of America alleging that Indian Government was granting bounties and grants on textile products as well as men's and boys' apparels. On this basis, the US Government decided to impose countervailing duties on textiles on September 9, 1980 despite India's strong resentment to the allegations. The Government of India expressed severe concern over these impositions and subsequently after consultations, the US Government withdrew the step. No doubt, the decision came in favour of India but such tactics caused a declining trend in our exports. It was reported that in 1980, the US economy suffered from recessionary effect and textile sector's activities were dull, affecting the man-made fibre industry adversely.

Thus, this pact too, an accord among 51 nations, was supposed to provide orderly world trade in textiles and garments made of cotton, synthetics and wool, expired at the end of 1981 with the eruption of one of the oldest and bitterest world trade disputes over its renewal.

The existing MFA

The current MFA which governs 80 per cent of the world textile trade, in all, can be acknowledged as a success on
the hardfaced industrialised countries against developing countries. Since industrial countries have the markets for the products of the exporting countries, importers always could get what they wanted. The EEC's warning, "EEC reserves the right to stay out of the accord" if bilateral agreements are not satisfactory drove the talks to fail. Only developing countries' low-toned attitude, consoling at low gains, saved the accord from breaking down.

One of the more restrictive aspects of the new protocol is the severe cut-backs in quota levels of dominant suppliers. An accord signed by the USA and Hong Kong in March, 1982 severely limited the growth. Likewise, in an agreement concluded with South Korea, the US has reserved the right of deducting South Korea's excess exports in 1981 to the USA over the next three years in instalments.

The new arrangement is also against exporting countries in the sense of lower growth rates, reduced flexibility provisions and anti-surge mechanism. Para 10 of the new protocol lays that the importing countries has to accept restraints on their exports if there were sharp and substantial increase in imports. This may be highly injurious if in the initial years steady under-utilised quotas would result into larger exports in the subsequent year. The exporting countries would work under recession provision for quota cut-backs but nothing has been laid down about boom time increase
on the similar lines. Moreover, the developing countries console with the reduced growth rate in export along with an absolute reduction in the export of sensitive items. Thus, the accord gives importers the right to prevent sharp and potentially damaging increase in imports of sensitive items. This Arrangement also permits industrial countries to seek agreements under which exports will be required to transfer items from one quota to another, to carry over the portion of the current year's quota to the next coming year and to carry back the portion of the future year's quota to the current year. They are allowed to reserve portions of certain import quotas for outwardly processed reimported items that were earlier exported to another nation for processing.

In all, with every revision of MFA the developed countries' commitments to GATT for free trade have progressively reduced for their own sake, however, an international accord is better than the law of jungle. It is feared that the so-called umbrella, the MFA, may expand arena to cover all textiles, not just those made of cotton, synthetics or wool but others too in its following renewal.

Following are some of the main salient features of the MFA third:

(1) Among exporting participating countries Hong Kong, South Korea, Taiwan and Macao are identified as predominating exporters of textile products in all
three fibres covered by the Arrangement and have agreed to larger restraints over their export quota levels.

(2) The importing countries have to prove market disruption, supported by specific factual information to avoid misunderstanding. Previously, any developed country could unilaterally impose ban.

(3) Market disruption in the developed country shall be viewed with reference to (i) fall in the rate of growth per capita consumption of textiles and clothing; (ii) changes in consumer preference; (iii) technological changes; and (iv) sharp and substantial increase in imports.

(4) Where such significant difficulties stem from consistently under-utilised larger restraints levels and cause or threaten serious and tangible damage to domestic industry, exporting countries may agree to mutually satisfactory solutions or arrangements. Such solutions and arrangements shall provide for equitable compensation to the exporting participants agreed by both the parties concerned and not unilaterally.

(5) GATT's Textile Committee and Textile Surveillance Committee will continue to work as before. The role
of TSB has been emphasised and made more definite.

(6) Restraints on imports from small suppliers and new entrants should normally be avoided. For the purpose, shares in imports of textiles and clothing may be considered separately. In respect of wool tops the same policy will be applied.

(7) The exports of cotton textiles from cotton producing exporting countries will be given special favourable consideration in terms of quotas, growth rates and flexibility provisions.

(8) The quota levels will be fixed on the basis of access right for 1982, giving up fixing quota levels on actual export.

(9) There is no "reasonable departure" clause and there is no possibility of unilateral protocol.

In Indian context, some provisions seem favourable. She is not treated as dominant supplier and therefore, her quotas will not be subject to cut back. She will also avail the special considerations, being cotton growing country. It will be favourable in respect of woollen and synthetic fabrics as restraints over exports from small suppliers will normally be avoided.

However, negotiations between India and the EEC and the
USA for new textile agreements were difficult because of their stiff attitude as well as different interpretations of key provisions of the MFA. The US authorities were adamant to restrict the entry of handloom garments into the country on the plea that not more than a needle and thread be used for the fabrication of such products while India maintained that hand or foot operated machines can be used. Thus, the USA insisted upon putting restraints on three or four items viz. blouses and shirts, ladies' blouses and pants and trousers. The EEC's attitude was more rigid. The different between India and the EEC was mainly related to a clause proposed by the later regarding handloom products and three quotas. India was of the opinion that proposed text would allow the Community to act more in a protectionist way, arbitrary as well as unilaterally. Apparently, India maintained that it would prefer a consultative clause under which any dispute or problem raised by either side could be discussed casewise and in the event of disagreement, the dispute be referred to the Textile Surveillance Body. Additionally, India wanted all handloom products' entry duty-free into the EEC. The EEC officials opined that India had failed to apply correctly the existing certification (and blouses, shirts and dresses being sensitive items could not be allowed duty-free). India asked the EEC to furnish factual evidence. India also challenged the practice of dividing quota among member countries as community signed the MFA and not the member countries.
India also demanded growth rates conforming to the MFA. The EEC declined India's plea and claimed that their demands were against the MFA. India, despite its leading role among developing countries, could not succeed in curbing the unreasonable attitude of the community.

Finalisation of agreements with India

The four-year pact with the USA, effective from January 1, 1983, is less divergent to the MFA. Some of the unaccommodating clause of the previous agreement like designated consultation levels and minimum consultation levels are not added to new one. Moreover, an improvement is observed in quota administration such as the USA cannot debit our quota without prior consultation. The overall quota for Indian garments (including handloom garments) has been stipulated at 100 million square yards for 1983 with a growth rate of 7 per cent per annum. This level is higher against the quota level of 46 million square yards equivalent for garments and made-ups for 1982. Fabrics and made-ups, including traditional 'India' items (excluding terry-towels) are allowed to enter the USA market freely. However, handloom garments are put to quota restraints. Specific limits for terry-towels and other six sensitive items are fixed as under:
<table>
<thead>
<tr>
<th>Item</th>
<th>Initial quota for 1983</th>
<th>Annual growth rate up to 1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terry towels pcs.</td>
<td>1,50,00,000</td>
<td>7 per cent</td>
</tr>
<tr>
<td>Women jackets dozen pcs.</td>
<td>1,30,000</td>
<td>6 per cent</td>
</tr>
<tr>
<td>Women shirts</td>
<td>3,10,866</td>
<td>6 per cent</td>
</tr>
<tr>
<td>Dress trousers</td>
<td>2,35,895</td>
<td>7 per cent</td>
</tr>
<tr>
<td>Shirts (including T shirts)</td>
<td>10,65,780</td>
<td>3 per cent</td>
</tr>
<tr>
<td>Blouses</td>
<td>23,32,595</td>
<td>3 per cent</td>
</tr>
</tbody>
</table>

Out of these six items, women's shirts and women's jackets were quota free in the previous agreements. Shirts and blouses, which have been the major items of exports, are given lower rate of growth compared to 1982. However, under the new accord inter-category transfer of garments are allowed to the extent of 5 to 7 per cent. There is also a provision of carry overs to the extent of 11 per cent and carry forwards 6 per cent. Besides, the consultation clause guarantees minimum levels in the case of those items which will cause difficulties in the US market and both the countries do not find any solution within 90 days.

The USA's decision of allowing cotton fabrics and made-ups (except terry towels) free entry during 1983 is properly calculated on the fact that India would not be able to step-up exports observing the poor shipments during early years.
The new textile agreement (1983-86) with the EEC has covered fourteen items under quota restraints. In the previous pact the same number of items were kept under restraint but the new arrangement removes two items, yarn and ladies' undergarments of previous agreement and brings two new items, trousers and gents' jackets, under its purview. Handloom fabrics, made-ups and Indian (folklore) items are again permitted quota-free entry. It was believed that because of quota alignment among member nations of the Community, the inter-community transfer of quotas would be minimum and India can utilise the quota in a better way. There is good increase in quotas in certain categories for instance, shirts 20 per cent, ladies coordinate suits 24 per cent, gents jackets 33 per cent and trousers 54 per cent. These items are of high value.

Finland, comparatively a small importer of Indian textile has allowed traditional Indian folklore textiles duty-free but has put some new items under quantitative restraints like ankle socks, T-shirts for the year 1983. The new agreement (1983-86) provides for composite categories shirts and blouses, socks and knitted T-shirts. The quota for handloom fabrics is clubbed with shirts and blouses but bed linen is kept out of restraint.

The agreement with Sweden which was due to expire on December 31, 1982 was extended for four months with a fair increase.
In the absence of agreement, Canada exercised unilateral restrictions on imports of fabrics and garments but after entering into bilateral agreement India could sell more to this market. This agreement was extended for a year which expired in 1982. There was no quota restraint on handloom items. Under the new agreement valid for four calendar years (1983-86), a group has been fixed for three items. The growth rate and the flexibility provisions such as swing, carry over and carry forward have placed India in a better position.*

Nordic countries enjoy some amount of protection under the umbrella of the MFA. They are reckoned as Minimum Viable Production and are allowed to protect their domestic industry by restricting imports of textiles from other countries.

**Generalised System of Preference (GSP)**

Another attempt after Kennedy Round, was made in UNCTAD's second meeting held in New Delhi in February-March 1968 in which a resolution was passed for non-reciprocal and non-discriminating generalised system of preference favouring the exports from developing countries and consequently, a scheme was drafted and finalised in 1970. This is the scheme which is popularly known as GSP. Following are the main features of this scheme:

(i) The scheme provides reduced rates of duty on imports of manufactured and semi-manufactured goods from developing countries. Among these to whom the tariff concession will be provided and to what extent will be decided by the importing countries.

(ii) The developing countries getting such concession are not required to reciprocate the concession to the developed country which made imports earlier.

(iii) Such concession are accorded without any discretion to any individual developing country.

(iv) The importing developed countries have the right to classify the products into 'sensitive' and 'non-sensitive'. 'Sensitive' goods do not attract any preferential treatment. The USA, the EEC and some other countries have classified some of the textile products as sensitive.

The EEC was the first to provide tariff concession on imports of textiles under this system with effect from January 1, 1971 initially for ten years and now has been extended for another ten years. Subsequently, Japan, Canada, New Zealand, Nordic countries, Switzerland, Sweden and Norway extended the benefit of GSP to textiles. The concessions offered by these countries, except the EEC, are of the least significance to India. The benefits available from the EEC to
some extent are worth mentioning though they are marginal because of the angularities in the scheme. From the very beginning, the scheme was viciated by the classification of items into 'sensitive' and 'non-sensitive' by importing countries themselves. Moreover, "Though scheme was to be non-discriminatory in actual practice, the importing developed countries also came to acquire the right of choosing the beneficiary developing countries for the grant of concessionary treatment and also the extent of tariff concession."¹

The imports permitted under GSP are subject to quota based on the EEC imports in 1968 when they were at a very low level and is subdivided into 149 number of categories and is distributed memberwise. Moreover, such concession, that is duty-free import, is provided on a first-cum-first served basis making the exporters uncertain about getting the benefit until the goods are reached to destination because there is no way of knowing the remaining quota under GSP before shipment. Further, there are many strong competing developing countries²; against them India could not derive the benefits of GSP substantially. "India's GSP exports continue to be at low ebb and have not been able to grow as fast as those of other co-developing countries like Taiwan,

¹ Poddar, R.P.: op. cit., p. 94.
Korea, Hong Kong and Brazil." According to UNCTAD's study, the general benefit to the developing countries of the GSP has been reduced to the extent that cotton textiles are excluded from the various schemes or are subject to certain conditions including maximum amount limitations. However, exports of textiles under GSP was the main products among the goods shipped from Indian ports. A product-wise analysis reveals that the textiles and textile articles have been the single most important export item under the GSP scheme - accounting about 36 per cent of India's total GSP exports in 1978. More particularly, cotton piecegoods was the most important item. As per data available, India utilised, rather over-utilised, the GSP quota in 1980 in respect of items covered under the bilateral agreement with the EEC under MFA. Non-restricted items quota utilisation also gained the same performance level. However, in respect of some items like cotton yarn, handkerchiefs, narrow woven fabrics, net and netting made of twine and cordage or rope quota utilisation was not satisfactory.

The share of GSP quota to bilateral quota in respect of EEC member countries varied widely. In the year 1982, the UK,

1 Sanjay Kumar Jain, GSP: India, Economic Times, March 24, 1981, Delhi Ed.
2 UNCTAD: 1974, op. cit., p. xii.
3 Sanjay Kumar Jain, Ibid.
however, despite having the largest quota under the Indo-EEC bilateral agreement, the GSP quota given by the UK was the smallest in respect of all items. Such small quota was fully utilised by mid-April 1982. Similarly, GSP quota for bed linen in respect of West Germany was also poor. Cases with Denmark, France and Benelux were also not different. Hence, there was need to increase the GSP quota, particularly for bed linen otherwise real benefit cannot be derived by the developing countries.* There was also need to devise a scheme enabling the Indian exporters to participate at par in GSP scheme.

Japan also provides GSP scheme facilities on first-cum-first served basis but the quota fixed were very low. Cotton yarn and cotton fabrics did not come under the scheme envisaged by Japan and was extended to 110 countries and 28 territories. Hence, the Japanese GSP scheme was of marginal use to Indian textiles. There was no information about quota utilisation hence, effectiveness of the scheme could not be assessed.

Despite the problems discussed above, the manufacturing and exports sectors suffered from several impediments at-home. Even after a long spell, the problems do exist though in different nature with different intensity.

Raw material constraint

The availability of raw cotton in abundance facilitated the textile industry to grow to the position of second on the world scenario but after partition the shortage of cotton, as large cotton growing area went to Pakistan, worked as a major constraint on the growth of textile production and ultimately affected the exports. However, the shortage was subdued by imports from Pakistan but devaluation of Indian rupee made Pakistani cotton by 44 per cent and moreover, Pakistan's attitude was not cooperative. It was possible to exchange textiles with cotton but in vain. Therefore, purchases of long staple varieties were affected from other sources though they were costlier. In the meantime, in order to achieve a reasonable degree of self-sufficiency in the shortest possible time the government adopted a sound price policy with increased floor and ceiling limits in order to make cotton growing more attractive than foodgrains. "Grow More Cotton" campaign could give a fair success and helped in reducing dependence on imported cotton consumed by mills in 1956-57. The country did not have a single large staple cotton variety in 1947-48, now produces extra-long staple cotton and among one of the eight countries in the world. By the end of the First Five Year Plan, the country was almost self-sufficient in respect of cotton upto $1 \frac{1}{16}$ inches staple but India had to continue the imports of long staple
varieties. The efforts could not be diversified in the wake of our striving for self-sufficiency in food-grain. Subsequently, in order to improve the availability of cotton, its quality and productivity, Central and State governments initiated a number of cotton development schemes since 1961-62. Several crash and package programmes were started throughout the country. Demonstration plot system was initiated on the regional basis. Technical advice, required inputs and pesticides were made available to the cotton growers on subsidised basis but dependence on the uncertain monsoon and scanty irrigation facility available did not encourage farmers to adopt mass plant protection scheme. Moreover, outmoded methods of cultivation did not allow them to give proper response. It was also observed that necessary and proper inputs and technical guidance were not provided to them in time.*

Under the "All India Coordinated Cotton Project 1967 Scheme" launched by Indian Council of Agricultural Research, a number of new varieties/hybrids (57 varieties/hybrids between 1967-81) has been developed, suiting to different regions and to achieve higher productivity and better quality. Another scheme "Incentive Area Development Scheme" had been launched by the Centre for boosting cotton production in selected

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* Dr. H.C. Sainy, India's Foreign Trade, Its Nature and Problems, 1979, p.*49.
areas. But, "it has been pointed out in this context that two major problems still exist in the implementation of the scheme. These relate to increased supply of credit facilities by commercial banks with the adoption of a specific agronomic and management technology."\(^1\) In order to overcome all these problems a comprehensive programme "Intensive Cotton Programme" was launched by the Centre in 1971-72 and has ensured increase in production to a greater extent. This programme incorporates the latest technology with new high yielding varieties/hybrids and covers all nine major cotton growing states entirely viz. Maharashtra, Punjab, Harayana, Madhya Pradesh, Rajasthan, Andhra Pradesh, Gujrat, Karnataka and Tamil Nadu.

The concerted efforts increased cotton production to mitigate, to a greater extent, the requirements of the mills from indigenous source. The production of all varieties of cotton marked growth from 69.5 lakh bales in cotton year 1971-72 to 78.3 lakh bales in 1981-82. An additional point to stress is that the production of long staple varieties of cotton doubled to 22.91 lakh bales in 1978-79 against 11.92 lakh bales in 1971-72\(^2\) but this achievement was clearly at the expense of medium and short-staple varieties.

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1 Dr. H.C. Sainy, op. cit., p. 50.
2 Directorate of Cotton Development, Govt. of India.
The use of high yielding hybrid-4 and Varalaxmi revolutionized cotton production, having finer quality potential of 60 to 80 counts. Since last few years, India is growing the extra long staple variety 'Suvin' which is compared with the best known Egyptian variety like Gaza-45. This variety can spin above 100 count. All these varieties which are suitable for blending with polyester, helped the country to eliminate the imports of Egyptian cotton for such purpose. Obviously, these varieties need special attention.

Production fluctuation

The production of cotton in India has largely fluctuated mainly due to varying weather conditions. On the other hand, the spinning capacity of the industry has steadily increased, inflating the requirement of cotton to 71 lakh bales and above. During slack crop season more quantities of cotton were imported though with the success of cotton development programmes imports minimised. During cotton years 1973-74 to 1975-76 less than 2 lakh bales (of 170 kgs. each) were imported but in 1976-77 and 1977-78 quantities imported exceeded 6 lakh bales owing to slack crop in 1976-77 in the country. Since 1978-79 to 1980-81 no imports of cotton were made because of comfortable supply position, except as a spill-over in 1978-79 of the previous year's contract. In 1981-82, the imports were of 0.50 lakh bales.
During cotton season 1980-81 and 1981-82 the productions of cotton were of 70.1 lakh bales and 78.3 lakh bales against the target fixed by the Planning Commission at 81 and 84 lakh bales respectively. The target for the Sixth Plan was fixed at 92 lakh bales.

Cotton with new problems

The nation-wide drive for import-substitution encouraged the cultivation of long staple and extra-long staple varieties in the country with the expectations of bumper crop and higher return to the farmers but between 1977-78 and 1979-80 they lost in the prices though monopoly procurement in Maharashtra shared, to some extent, the woes of growers of long-staple cotton and others. Because of consistent annual crops of cotton above 70 lakh bales had generated a surplus plateau. This had harmed the producers and market alike and discouraged cotton production in 1980-81. But in all, inadequate improvement in cotton production to industry's requirements led to increase in the prices of cotton.

After the laudable gains on farm front, the problem of maintaining proper balance among the productions of different varieties of cotton has risen. It was estimated that we needed only 12 lakh bales of long-staple varieties, whereas we were growing double the requirements. Recently, there was pressure on coarse and medium staple varieties partly due to
TABLE 82

Index Number of Wholesale Prices of Raw Cotton, Cotton Yarn and Mill Cotton Cloth
(Base: 1970-71 = 100)

<table>
<thead>
<tr>
<th>Period (Average of weeks)</th>
<th>Raw Cotton</th>
<th>Cotton Yarn</th>
<th>Cotton Cloth (Mill)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-72</td>
<td>108</td>
<td>118</td>
<td>111</td>
</tr>
<tr>
<td>1972-73</td>
<td>92</td>
<td>123</td>
<td>115</td>
</tr>
<tr>
<td>1973-74</td>
<td>138</td>
<td>152</td>
<td>134</td>
</tr>
<tr>
<td>1974-75</td>
<td>169</td>
<td>178</td>
<td>173</td>
</tr>
<tr>
<td>1975-76</td>
<td>136</td>
<td>141</td>
<td>162</td>
</tr>
<tr>
<td>1976-77</td>
<td>198</td>
<td>178</td>
<td>166</td>
</tr>
<tr>
<td>1977-78</td>
<td>193</td>
<td>197</td>
<td>179</td>
</tr>
<tr>
<td>1978-79</td>
<td>169</td>
<td>200</td>
<td>184</td>
</tr>
<tr>
<td>1979-80</td>
<td>164</td>
<td>222</td>
<td>193</td>
</tr>
<tr>
<td>1980-81</td>
<td>183</td>
<td>237</td>
<td>209</td>
</tr>
<tr>
<td>1981-82</td>
<td>227</td>
<td>251</td>
<td>231</td>
</tr>
</tbody>
</table>

Source: Govt. of India, Economic Survey, 1982-83, p. 126.

binding on mills to produce cloth for the masses and partly due to irrational excise duty structure which forbade the mills from using long-staple cotton. This caused adverse effect on the exports of blended fabrics. The duty rate was 18 per cent as the yarn count crossed 40 against 4 to 6 per cent previously. The solution could be found in two ways,
one, by way of exporting long staple cotton as much as we can and two, by creating the condition of larger consumption of such cotton in the country by restructuring the duty rates. Here, the government has to realize that the consumption of finer varieties of cotton and blended fabrics are now not restricted to affluent society alone. Imposition of excise duty based on traditional concept has kept away the consumers from purchasing finer varieties, being costlier. The reduction in excise duty would bring down the pressure on short and medium varieties of cotton and the prices of these would be at normal levels, helping the country in exporting the fabrics of low counts. This will also help in correcting the varietal imbalance. In June 1982, the Government has reduced the duty, the effect of which was yet to assess.

In all, availability of cotton can be presumed as a significant limiting factor for the expansion of output in the textile industry in two ways; cotton crop tended to fall short of requirements either in the total production due to excessive dependence on monsoon or in certain varieties in demand. Moreover, the prices of cotton fluctuated, non-conforming with that of world trend and caused to drive gradually the Indian cotton textiles, particularly cotton piecegoods, out of world market where sartorial habits have changed very rapidly. The low quality of cotton domestically produced also worked as a big constraint for increasing exports.
Generally, cotton prices varied with its availability but there seemed no definite and direct impact of cotton prices on its final products. The fall in prices of cotton would ultimately have reflected the decrease in the cost of production of yarn and cloth as cotton constitutes about 45 per cent of the total cost of production of fabric. But the relation appeared negative. The prices of cotton declined between 1977-78 and 1979-80 but the prices of cotton yarn and cloth tended to increase. This sort of relation cannot be said in favour of exports as Indian textiles are already suffering from price incompatitiveness in the world market.

Problem of low yield

Between 1951-52 to 1981-82, the area under cotton cultivation rose from 6.56 million hectares to 7.99 million hectares, an increase of 21.8 per cent while the production increased from 32.77 lakh bales to 78.26 lakh bales, accounting for an increase of 139 per cent during the same period. Clearly there was increase in productivity per unit of land. It rose from 85 kgs. per hectare to 167 kgs. per hectare. The increase in cotton production during seventies was largely attributed to the rise in the productivity.

However, the attainment in productivity is still not commendable as the world average has been 425 kgs. per hectare between 1978-79 and 1980-81 and in certain developing
countries the yields per hectares were much impressive. Area under cotton cultivation in the country is very large and comes after China and the USA but ranks fourth among cotton producing countries. The incomplete knowledge of scientific method of cotton cultivation on the part of the growers, lack of genuine hybrid seeds, shortage of fertilizers, insufficient irrigation facilities and uncertain weather were the main the foremost reasons for low productivity.

About one-fourth of the area under cotton is irrigated and the rest is exposed to gamble of monsoon. Uncertain and untimely rains, a recurring feature in India, ruins every effort of the farmers as well as of the government. Hence, there is immediate need to expand irrigation facilities with definite plan. States having irrigation facilities are characterised with higher yields and vice-versa. In Punjab where 98 per cent of the area under cotton was irrigated, the yield per hectare was the highest at 345 kgs. and in Maharashtra where only 3.2 per cent area was irrigated, suffered from low productivity. It was 98 kgs. per hectare on the progressive cultivators' farms.

Possibilities of bringing more land under cotton cultivation is almost over hence, there is imperative need to lay more stress on implementing and materialising the higher productivity cotton cultivation schemes in India, particularly in the areas/states of low productivity, accompanied with improved
technology without delay. Whatever remedial or developmental measures are applied, they should be concentrated on increasing the yield per hectare than the acreage. "An increase in acreage must be regarded an economic and financial wisdom."* There is also need of low cost production technology.

Different agencies, department and universities involved in cotton development programmes can narrow the gap between the potential yield and actual yield by demonstrations and educating the farmers. The farmers are ought to be made acquainted with the scientific application of inputs and plant protection devices, befitting the particular variety and this is to be treated as national programme. The farmers are also be assured of unadulterated and genuine inputs like seeds, pesticides and chemical fertilisers. Rainfed areas should be cared properly and then only the possibilities of improving the productivity will turn to reality. The actual realised average yields in different stakes were much more below the average yields obtained on research forms.

TABLE 83  
Cotton: Average Yields and Best Average Realisation Realised on Research Farms and on the Progressive Cultivators' Fields  
(Lint kg./hectare)

<table>
<thead>
<tr>
<th>State</th>
<th>State Average</th>
<th>Best Average</th>
<th>Gap</th>
<th>Percentage to state average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punjab</td>
<td>345</td>
<td>650</td>
<td>305</td>
<td>84</td>
</tr>
<tr>
<td>Haryana</td>
<td>337</td>
<td>505</td>
<td>268</td>
<td>79</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>241</td>
<td>519</td>
<td>278</td>
<td>115</td>
</tr>
<tr>
<td>M.P.</td>
<td>83</td>
<td>362</td>
<td>179</td>
<td>213</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>98</td>
<td>324</td>
<td>226</td>
<td>240</td>
</tr>
<tr>
<td>Gujrat</td>
<td>187</td>
<td>405</td>
<td>218</td>
<td>117</td>
</tr>
<tr>
<td>A.P.</td>
<td>170</td>
<td>489</td>
<td>319</td>
<td>188</td>
</tr>
<tr>
<td>Karnataka</td>
<td>128</td>
<td>410</td>
<td>282</td>
<td>220</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>278</td>
<td>470</td>
<td>192</td>
<td>71</td>
</tr>
</tbody>
</table>


Varietal imbalance

There was excess availability of long staple varieties of cotton by nearly 10 lakh bales over requirement. On the contrary, India was short of medium staple varieties almost equal to this excess. This anomaly needs correction. A team of scientists of Central Institute of Cotton Research has
identified a high yielding medium staple variety LRA-5166 suitable for cultivation in both rainfed and irrigated areas. It was believed that this variety would be helpful in rectifying such imbalance to some extent. The ICMF also pleaded for correcting the varietal imbalance, however, there has been change in crop pattern from Bengal Deshi to J34 and similar short staples in Punjab and Haryana.* The decision of Maharashtra Government to discourage the production of Varalaxmi, a superior long staple variety, due to higher cost of production but lower price and its non-suitability in spinning of yarns above 40s is a right course to modify the crop pattern. In fact, keeping in view the trends in cotton consumption in India and abroad, there is need of reviewing the existing cotton crop pattern and of introducing a plan befitting the circumstances.

A good number of varieties of cotton are being produced in the country and some new ones are being invented but it is experienced by the trade and industry that such multiplication did not help in maintaining or increasing quality standard of the fibre. During ginning different varieties get mixed. It was pointed out that cotton required for coarse and medium up to 30s was deteriorating in the sense of increasing non-suitability for printing of fabrics made

therefrom. It is, therefore, necessary to enforce strict control on ginning and processing as well as to reduce the number of varieties to those which are useful to the textile industry as a whole.

Indian cotton suffers from the defect of 'floats' can be seen in woven cotton cloth. Such defect restricts mills to produce the dyeable quality of cotton cloth of world standard. The Indian cotton scientist and technologist should make concerted efforts in solving this problem in the shortest possible period. The government should chalk out a special programme for such efforts.

During last few years purchases affected by Cotton Corporation of India and Maharashtra State Cotton Marketing Federation amounted to around one-third of the cotton crop in the country. It means, private sectoral trade in cotton (except where there is monopoly procurement) still influences much the prices by way of speculative trading. Simultaneously, uncertain foreign supplies and unpredictable crop in the country (due to uncertain weather conditions) cause hectic movements in cotton prices, affecting adversely both the textile industry as well as growers. Therefore, the working of CCI should be streamlined to make it more active and efficient organisation as cotton being a cash crop, several complexities do exist in its trade from fields to mills. The Corporation has yet to ensure reasonable return to cotton growers in a concrete way. Dagli Committee's (May, 1979)
recommendations in this regard should be viewed.

Additionally, man-made fibres should be liberally allowed to supplement cotton to diversify raw material base. The recent decision of the government to import vicose staple fibre for distribution among the cotton mills at parity prices with medium staple varieties of cotton was the right step.

In India, cotton is roller-ginned whereas in other countries it is saw-ginned. According to the TEXPROCIL, there is necessity of converting ginning machinery to saw-ginning which will help in improving the quality of cotton. The TEXPROCIL was of the opinion that ginning factory owned by the CCI and Maharastra Cotton Scheme should be converted into saw-ginning factories.

Cost escalation

The most important cost constituent is cotton which accounts for 45 per cent of the total cost of cloth and 65 per cent of yarn. Upto 1951, the Centre controlled the prices of raw cotton and tried to maintain approximately 30 per cent below than that prevailing in the international market which gave India strength for competing. By 1960-61, the prices of cotton in the country were almost steady. In the meantime, the USA started subsidising its exports to the extent of 25 to 30 per cent. This brought down the average
price of cotton (except Egyptian) to 33.1 cents per lb. to 31.6 cents per lb. between 1956 and 1966. In the following years, the prices of cotton fell significantly, particularly in American market, a major supplier of cotton in the world, to 22.9 cent in 1968. Such trend severely limited our competitive advantage. In India the prices rose by 122 per cent in 1971-72 over 1961-62 whereas in the main supplying countries like the UAR, Pakistan, Brazil and Mexico the prices of cotton rose modestly after 1966. In the next decade also, the prices of cotton in the country steeply rose by 374 per cent in 1981-82 against 1961-62 (or 127 per cent over 1970-71 levels). This sharp rise, a combined effect of several factors, further deteriorated our competitive ability in the markets abroad. Only in 1975-76, the prices of cotton in the country considerably fell but again registered sharp rise in 1976-77 in the country as well as in the world market due to fall in the production of cotton in the major producing countries, keeping the competitive ability in favour of India. On account of this the Indian cotton textiles fared well in the foreign markets in 1976-77.

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2 Govt. of India, Economic Survey 1972-73.
4 Govt. of India, Economic Survey 1982-83.
India also imported fibres/yarns, other than cotton, in good quantities every year and additional plants were being set up in the country to increase the availability but here again the textile industry found difficulties because of sharp rise in the prices of man-made fibres in the country and they were prohibitive. Mr. Sudhir R. Thackersey, Chairman TEXPROCIL, in his speech at 27th Annual General meeting held on November 25, 1981 said, "A very important contributory came for our poor export performance has been the abnormally high prices which prevailed in respect of our raw materials, both natural and man-made fibres. Prices of cotton in the 1980-81 season ruled higher by 30 to 70 per cent, the worst affected being the short and medium staple cotton required for export production."

**Wages**

The second important element of cost is wages paid to workers. Previously, it constituted 28 to 32 per cent of total cost which reduced to 21.5 per cent in 1980. In fact, comparative higher increase in the prices of power, fuel and cotton were responsible for the fall in the wage-proportion.

If increase in wages leads to increase in productivity, it does not cause cost escalation but in India the wages exceeded to the productivity levels. The average wage per worker rose by 5 per cent per annum against 2.6 per cent
average labour productivity increase per annum.\(^1\) Wage cost per unit of output was higher by 30 per cent in India as compared to Japan.\(^2\) As an element of cost, wage constituted 25 per cent of the value in India while in South-East Asian countries, it was not more than 15 per cent.\(^3\)

Despite provisions regarding provident fund and gratuity, the payment of dearness allowance was made subject to automatic rise in consumer price index. Moreover, the industry's payments to workers hiked under different rules and regulations framed by the Centre and states. Additionally, the industry was to pay compulsory bonus of 4 per cent of annual earnings. The rate subsequently increased to 8.33 per cent.

It is true that the labour cost per unit of product was lower in India compared to other developed countries but the advantage was offset by the low productivity and the higher cost of other factors applied. Such incompetitiveness, in terms of cost, had sharply become grave since mid-seventies.

In absolute term, there was increase in the labour productivity in India in both spinning and weaving over 1956. The productivity study conducted by South India Textile Research Association gave the following results.

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2 Ibid.
3 The Indian Textile Journal, April, 1963, p. 46.
TABLE 84
Labour Productivity in Indian Textile Industry
(Base: 1956)

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual production of yarn per worker</th>
<th>Annual production of cloth (kg.) per worker</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>1961</td>
<td>116.94</td>
<td>108.48</td>
</tr>
<tr>
<td>1966</td>
<td>125.79</td>
<td>108.05</td>
</tr>
<tr>
<td>1971</td>
<td>139.72</td>
<td>110.42</td>
</tr>
<tr>
<td>1972</td>
<td>144.60</td>
<td>115.01</td>
</tr>
<tr>
<td>1973</td>
<td>147.53</td>
<td>112.06</td>
</tr>
</tbody>
</table>

This improvement might be attributed to the improvement in the machinery set-up. Such rise was marginal in the context of vast technological advancement occurred in the foreign countries. Even in early years, labour productivity in Indian textile industry was very low. The Table 85 indicate the fact.

Low productivity

The UNIDO Secretariate "Monograph on Appropriate Industrial Technology No. 6"* pointed out that in the developing countries the levels of labour and machine

* UNIDO, Appropriate Industrial Technology for Textiles, 1979, pp. 3-4.
TABLE 85
Labour Productivity in the Cotton Textile Industry in Certain Countries

(A) Man-hours Required for the Production of 100 lb. of Yarn:

<table>
<thead>
<tr>
<th>Yarn</th>
<th>USA</th>
<th>Japan</th>
<th>UK</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>21s</td>
<td>6.59</td>
<td>13.70</td>
<td>15.99</td>
<td>24.00</td>
</tr>
<tr>
<td>45s</td>
<td>12.02</td>
<td>34.93</td>
<td>32.02</td>
<td>51.83</td>
</tr>
</tbody>
</table>

Source: Dr. H. C. Sainy, op. cit., p. 56.

(B) Annual Production per Worker in the Cotton Textile Industry in Certain Countries: 1964
(USA = 100)

<table>
<thead>
<tr>
<th>Country</th>
<th>Spinning</th>
<th>Weaving</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Finland</td>
<td>49</td>
<td>89</td>
</tr>
<tr>
<td>France</td>
<td>39</td>
<td>70</td>
</tr>
<tr>
<td>UK</td>
<td>29</td>
<td>68</td>
</tr>
<tr>
<td>Italy</td>
<td>25</td>
<td>44</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>33</td>
<td>48</td>
</tr>
<tr>
<td>Israel</td>
<td>25</td>
<td>41</td>
</tr>
<tr>
<td>India</td>
<td>17</td>
<td>35</td>
</tr>
</tbody>
</table>

Source: GATT.
productivity in mill sector were low due to shortage of raw material, power cuts and labour unrest. These productivity levels were estimated to be between one-third and one-half of that achieved in developed countries. In the developing countries the average annual production per spindle for 20s was 0.25 kgs. compared to 200 kgs. in the developed countries largely because of under utilisation of spindles. The study observed that out of the total installed spindles in the developing countries, only 80 per cent were utilised against accessible level of 96 per cent. Moreover, the spindles in developing countries were on an average operated 22.5 hours daily for 300 days a year. On the contrary, the textile mills in developed countries worked throughout the day. Even if the spindle utilisation is increased to maximum level, the average annual production per spindle would move up to only 125 kgs. leaving a gap of 75 kgs. The productivity levels in weaving were also much low due to lower levels of productivity of labour as well as machines. The same source said that, "The contribution of labour productivity to the overall productivity gap is likely to be more than that of machine productivity." According to the study, the textile industry were operating under unfavourable condition.

"Productivity is very low, the density of workers is high, integration is low, management skill in production and in marketing are inadequate, and there is a shortage of finance." All these were contributing to inflate the cost of production. The productivity level of Indian textile industry was very
low in relation to not only developed countries but also to other developing countries like Hong Kong.

According to Warner Management Consultant (Fortune, May 5, 1980), the US textile industry had the highest productivity in the world whereas in the case of West Germany, France and the UK it was around 73 per cent, 57 per cent and less than 50 per cent respectively.*

The productivity study conducted by SITRA confirmed that average capital productivity for spinning and weaving separately in Indian cotton mills declined between 1956 and 1973.

**TABLE 86**

**Machine Productivity in Indian Cotton Mills**

( Base : 1956 )

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual production of yarn per thousand spindles installed</th>
<th>Annual prod. of yarn per thousand spindles hours actually worked</th>
<th>Annual prod. of cloth (kgs.) per loom installed</th>
<th>Annual prod. of cloth (kgs.) per thousand loom hours worked</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>1961</td>
<td>100.38</td>
<td>93.33</td>
<td>105.85</td>
<td>104.02</td>
</tr>
<tr>
<td>1966</td>
<td>88.84</td>
<td>83.86</td>
<td>95.06</td>
<td>94.01</td>
</tr>
<tr>
<td>1971</td>
<td>78.37</td>
<td>77.99</td>
<td>86.77</td>
<td>94.83</td>
</tr>
<tr>
<td>1972</td>
<td>85.32</td>
<td>82.04</td>
<td>95.88</td>
<td>92.81</td>
</tr>
<tr>
<td>1973</td>
<td>86.22</td>
<td>83.71</td>
<td>97.69</td>
<td>89.60</td>
</tr>
</tbody>
</table>

Production per spindle declined at a trend rate of nearly 0.5 per cent per annum while production per thousand spindle hour actually worked decreased at a trend rate of about 0.6 per cent between 1956 and 1973. In the case of weaving, cloth output per loom installed went down at a trend rate of about 0.23 per cent and that of cloth output per thousand looms actually worked declined at a trend rate of about 0.35 per cent.¹

Cost escalation in India was more steep during 1980-81. Between September, 1980 and August 1981, the cost of production of cloth rose by 25 per cent and that of yarn by 30 per cent (Table 87). "Between November 1980 and November 1981, for instance, the average increase in the cost of production of mill-made cotton cloth was as high as 20 per cent while the average increase in its price was hardly 11 per cent. In the case of cotton yarn, the respective figures were 22 per cent and 13 per cent."² Spurt in cost of production was mainly due to acute supply position of raw cotton. Without proper assessment of exports to the tune of 6.63 lakh bales of cotton aggravated the situation. Wholesale price index of cotton rose from 345 in 1979-80 to 451 in 1980-81, taking 1961-62 as base.³ On account of cotton alone the cost of production

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### TABLE 87

(A) Index Number of Wholesale Prices

<table>
<thead>
<tr>
<th>Item</th>
<th>September, 1960</th>
<th>Last week of August, 1981</th>
<th>Per cent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw cotton</td>
<td>170.3</td>
<td>236.9</td>
<td>39.11</td>
</tr>
<tr>
<td>Power, Fuel, Lubricant</td>
<td>355.7</td>
<td>437.5</td>
<td>23.00</td>
</tr>
<tr>
<td>Dyestuff &amp; Chemical</td>
<td>257.0</td>
<td>264.4</td>
<td>2.88</td>
</tr>
<tr>
<td>Textile Machinery</td>
<td>326.8</td>
<td>375.0</td>
<td>14.75</td>
</tr>
<tr>
<td><strong>Minimum Wages:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bombay</td>
<td>579.38</td>
<td>664.41</td>
<td>14.68</td>
</tr>
<tr>
<td>Ahmedabad</td>
<td>532.18</td>
<td>600.76</td>
<td>12.89</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>600.68</td>
<td>712.64</td>
<td>18.68</td>
</tr>
<tr>
<td>Cotton Yarn</td>
<td>229.1</td>
<td>249.0</td>
<td>8.69</td>
</tr>
<tr>
<td>Cotton Cloth</td>
<td>207.9</td>
<td>227.2</td>
<td>9.49</td>
</tr>
</tbody>
</table>

(B) Increase in Cost of Production: Cotton Cloth and Yarn
(as per wholesale price index shown above)

<table>
<thead>
<tr>
<th>Item</th>
<th>Percentage share in cost of production</th>
<th>Percentage increase in cost of production</th>
<th>Resultant percentage increase in cost of production</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cloth</td>
<td>Yarn</td>
<td></td>
</tr>
<tr>
<td>Cotton</td>
<td>45.0</td>
<td>65.0</td>
<td>39.11</td>
</tr>
<tr>
<td>Wages</td>
<td>21.5</td>
<td>15.0</td>
<td>15.07</td>
</tr>
<tr>
<td>Power/Fuel</td>
<td>10.5</td>
<td>5.0</td>
<td>23.00</td>
</tr>
<tr>
<td>Dyes &amp; Chemicals</td>
<td>4.5</td>
<td></td>
<td>23.98</td>
</tr>
<tr>
<td>Stores &amp; Spares</td>
<td>8.0</td>
<td>3.5</td>
<td>14.75</td>
</tr>
<tr>
<td>Interest</td>
<td>4.0</td>
<td>3.5</td>
<td>8.33</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2.5</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>Overhead</td>
<td>4.5</td>
<td>5.5</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>24.78</td>
</tr>
</tbody>
</table>

Source: Economic Times (Delhi ed.), October 27, 1981.
of cloth rose by 14.76 per cent in 1981 over 1980 and the industry could not switch over to a substitute as the prices of man-made fibres were prohibitive.\(^1\) Increase in wages and rise in power/fuel cost were also significant. The increasing burden of taxes and levies, particularly excise duty and sales tax, also contributed to inflating the cost during the last few years. "The recent World Bank Study has pointed out that Indian textile mills are paying higher prices for their raw materials than other competing countries."\(^2\)

Whatever statistics relating to cost are available in the country, they are of mill sector and that too are not perfectly reliable as the system of costing in textile industry is considered confidential. Moreover, data on the cost of production in various "strategy groups" of the industry, such as composite mills, powerlooms, processing houses and handlooms are lacking. Dr. Paul Samuel, former Director, IIM (Ahmedabad) pointed out at the All-India Seminar, "The Challenge of Sickness in the Textile Industry" held in March, 1983 that the real sickness of the industry is the lack of any reliable data. Hence, competitiveness is generally ascertained in terms of price quoted in the foreign market for particular quality product. In this context our products were priced out in most of the major markets by 15 to 20

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2 Federation of Indian Chamber of Commerce and Industry, New Delhi, Export Plan 1983-84, p. 48.
per cent. The experts of low construction sheetings to
the US market was diminishing due to competition from
Pakistan and Egypt. Pakistan had a price advantage of 20 per
cent over Indian product due to exchange crisis while Egypt
offered good quality goods at lower prices. 2

Outmoded machinery

There have been continuous technological improvements
in the field of textiles and they were simultaneously
incorporated by the industry abroad even in developing countries
but not very successfully in India. Resultantly, Indian
industry is much more lagging behind in modernising their
weaving equipments. Whatever has been done to modernise is
marginal, and India could not retain the markets for coarse
and medium varieties of cotton cloth whereas other co-
developing countries like Taiwan, Pakistan etc. competently
made severe inroads in this field.

More than 60 per cent of spindles and 80 per cent of looms
in the mills were 16 year-old and were in the state of
absolescence, as assessed recently. According to a study
conducted by Organisation for Economic Cooperation and
Development (OECD), about 65 per cent of machinery and equipments

1 TAPROBIL, Chairman's speech at the 20th Annual General
Meeting held on December 7, 1983.
2 TAPROBIL, Market Report - USA Market for Cotton Fabrics,
1980, pp. 3-4.
in Japan and France were less than 10-year old; 80 per cent of spindles in France were less than 10-year old and in the case of UK, major portion of machinery was modernised in the last decade and in the USA, 75 per cent of the spindles placed in 1964 were replaced.

In order to protect the labour-intensive technology and to encourage the decentralised sector in the country the work of installing automatic looms, shuttleless looms high speed ring spindles, open-end spinning etc. was being assessed with extra care and caution and therefore, the progress in this direction remained insignificant for several years. Whatever progress was witnessed, it was after 1958 when the Textile Enquiry Committee pleaded the imperative need for installing automatic looms to produce better quality fabrics for overseas markets. By this time, Japan and China had equipped themselves and were at an advantage against India.¹ Such technological state of disrepair and dilapidation had hampered the overall efficiency of the industry causing high cost of production and low profitability.²

Even today, the number of automatic looms installed in the Indian mills is the lowest in the world, having 22 per cent of total looms installed against 100 per cent in the USA, Hong Kong, South Korea, Malaysia, Philippines and Columbia, 82 per cent in Pakistan and Taiwan, 78 per cent in the UK and so on.

¹ Govt. of India, Report of the Textile Enquiry Committee, 1958, p. 25.
The R.S. Mehra Study Team which visited the USA in 1980, observed that since 1977 the US textile industry imported textile machineries - spindles, looms and winding machineries, valuing more than $2 billion from Japan. With the phenomenal growth in exports, the industry, (it was estimated by the Study Team), would invest $2 billion per year during eighties on new machines and equipments of the latest technology. The US Low Cotton Dust Level regulations have also necessitated the mills to install the best spinning machinery, producing yarn suited for weaving at higher speed. Therefore, latest high speed shuttleless looms were also imported from Europe and Japan. The US textile industry also incorporated high speed, automatic and electronically controlled equipments and devices in different processes. All these have contributed in improving production, productivity and quality of the final products in a refined way. The Team also drew the attention that the US textile industry was further prone to higher concentration in few concerns.

Dr. Herwig M. Strolz, Director of ITME presented a paper in 1980 titled "World Textile Machinery Investments in the Seventies" at a meeting arranged by the ICMF. In this paper he pointed out that Western Europe made huge investment in the textile industry for modernisation on high technological lines during last six years to the extent of giving startling effect. The paper contained that, "the countries comprising this area received during the review period 3,44,000 rotors, more than
double the US investment level in this machinery category and
42,500 shuttleless looms, double the number shipped to the
United States, four times that to East Asia and five times that to
Japan. "Western Europe's overall modernisation rate in spinning
stands at 18 per cent and in weaving at 22 per cent, it has a
high technology level of 15 per cent almost double the rate
of the United States." The investments were simultaneously
made with scrapping of the largest number of old machines,
23 and 47 per cent ring spindle capacity and weaving capacity
of 1973 respectively. Out of first ten weaving industries,
seven were in Western Europe, however, the premier position
was held by Taiwan followed by Switzerland. There were having
26 and 21 per cent for modernisation and high technology
investment. In respect of the USA, the paper said that,
"with an overall modernisation rate of 5 per cent in spinning
and 11 per cent in weaving, and a high technology level of
8 per cent, the United States has a rather differential
investment picture." Modernisation in ring spindle sector
was the lowest but was the second largest investor in high
weaving technology.

Under-utilisation of capacity

There is no criterion for assessing the magnitude of the
utilisation (or under-utilisation) of capacity of the
decentralised sector, particularly handloom part of it, as in
the case of organised sector. However, on certain assumptions,
the under-utilisation in the handloom sector was the highest at 65 per cent followed by powerloom with 35 per cent whereas the mill sector had only 15 per cent in 1977.* In the mill sector, power cut had been the main reason for under-utilisation of spindles and looms. The different reasons responsible for under-utilisation of capacity are set forth in the following table.

**Table 88**  
Reasons for Under-utilisation of Spindles and Looms

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage of under-utilisation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Spindles</td>
</tr>
<tr>
<td>1. Power cut</td>
<td>9.0</td>
</tr>
<tr>
<td>2. Labour troubles</td>
<td>1.5</td>
</tr>
<tr>
<td>3. Financial difficulties</td>
<td>2.0</td>
</tr>
<tr>
<td>4. Demand recession, high cost of raw materials, low profitability and obsolescence of machinery</td>
<td>13.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25.5</strong></td>
</tr>
</tbody>
</table>

Note: Items 1 to 3 are based on notifications issued by electricity Boards and data collected from textile sources. Item 4 is arrived at on residual value.


* K. Kutty Krishanan, op. cit.
Non-adherence of basic quality standards

The Indian textiles were poor in weaving, finishing and printing. The products also suffered from uneven colour reflection due to improper absorption. They also varied in lengths and widths. Sometimes the cloth supplied was not according to the samples and specifications and/or lacked maintaining the quality during the supply. In fact, the mills did not give due emphasis on firm quality control even in the existing set up. This is to be borne in mind that quality includes style and design combination also and which is the weakest aspect of our products. Sometimes, there had been unwillingness to manufacture products in accordance with the importer's need. The lesser reliance on quality caused little shares of foreign markets at low margin of profit. The affliction of producing the quality products, therefore, conforming to the world standards in vogue explains it away in the light of outmoded machinery as well as poor quality of cotton. The question of inadequate make-up of products was also there.

Assured domestic market

The assured and protected domestic market for medium and coarse varieties, being essential for millions of people in the country, contributed to vacillating export vigour. They preferred local sales on account of little higher price and
sought for markets abroad only when there was crisis in demand at home. In fact the industry lacked the export culture. The industry rarely manufactures goods for export market. Anything could be sold in the domestic market and not in the markets abroad where every supplier kept an edge over others. Of late, improvement in the standard of living in the country attracted the manufacturers to sellix more the synthetic and blended fabrics in the home than to export.

The diminishing value realisation on mill cloth and lack of adequate and certain export incentives to make foreign market remunerative than local were also equally responsible for obstructing diversion of output of the mills from domestic market and increased the apathy to boost exports. Even the obligatory measures imposed as back as in 1962 had been largely failure in the country whereas in Pakistan they were successful. "In India the Cotton Mills Federation, backed by the Government, introduced a scheme for penalising any mill that fails to export 12.5 per cent of its cloth output and 3 per cent of its yarn output, and Pakistan has a similar scheme for a compulsory export of 80 million yards of cotton cloth." Since November, 1972 the Government made obligatory the textile mills to export at least 15 per cent of the production of exportable varieties of cloth. Later on, the obligation was raised to 30 per cent, considering the output

of controlled cloth. The industry voluntarily accepted to export 16 per cent of production. In 1975, the mills were relieved of specific obligation and were provided with cash assistance varying from 5 to 25 per cent, depending on the destination and the varieties to be shipped.

Since mid-seventies, the inflationary condition gave sharp rise to unit value realisation. In 1978-79 and afterwards a part of increase was attributed to a marginal shift in favour of exports of more value added piecegoods like finished fabrics and higher-priced fabrics like denims and drills, twills and satin, flannelette, domestics and canvas. Such shift could be seen more particularly in 1981-82 when exports of greys were at a very low ebb.

Here, one cannot deny a fair degree of dependence on domestic market as it serves as a cushion in the event of set back in demand in foreign market due to any reason but it is equally true that over dependence on domestic market has inculcated the tendency of neglecting the export trade.
### TABLE 89

*Average Annual Unit Value Realisation on Export of Mill-made Cloth (1951-52 to 1981-82)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Rs. (per sq. metre)</th>
<th>Year</th>
<th>Rs. (per sq. metre)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-52/53-54 (av.)</td>
<td>0.99</td>
<td>1974-75</td>
<td>3.50</td>
</tr>
<tr>
<td>1955-56</td>
<td>0.77</td>
<td>1975-76</td>
<td>2.88</td>
</tr>
<tr>
<td>1960-61</td>
<td>0.87</td>
<td>1976-77</td>
<td>3.57</td>
</tr>
<tr>
<td>1965-66</td>
<td>0.94</td>
<td>1977-78</td>
<td>4.04</td>
</tr>
<tr>
<td>1970-71</td>
<td>1.63*</td>
<td>1978-79</td>
<td>4.32</td>
</tr>
<tr>
<td>1971-72</td>
<td>1.74</td>
<td>1979-80</td>
<td>4.76</td>
</tr>
<tr>
<td>1972-73</td>
<td>1.88</td>
<td>1980-81</td>
<td>5.18</td>
</tr>
<tr>
<td>1973-74</td>
<td>2.48</td>
<td>1981-82(P)</td>
<td>6.95</td>
</tr>
</tbody>
</table>

* Rs. 1.02 on pre-devaluation term.

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**Lack of changes in accordance with world trend**

Being over-dependent on internal market, the industry did not attune to the fast changing requirements of foreign markets, particularly the USA and the West European countries, the world’s biggest markets for textiles. Their requirements changed to better varieties of cloth and the mills in India took little trouble to affect the changes accordingly. Actually, it took as long time to clear off the image of India as an exporter of only coarse and medium varieties of cloth.
The Committee on Cotton Textile Export Promotion (1965) also gave the same opinion. "The main fact, nevertheless, remains that of offering more of the same things to the same people, who no longer want more of them, lies at the basis of a remarkably poor performance in the export trade over the last three decades." It will be of no irrelevance to add two decades to the period mentioned above to clarify the continuance of status-quo in the textiles.*

The requirements have changed from cotton to blended as well as to wider widths and larger lengths, suiting to processors and convertors operating automatic and electronically controlled machines. World's leading exporting countries' textile industry such as Hong Kong, Taiwan, South Korea and Pakistan have fully attuned to the changing requirements of the sophisticated markets in terms of quality, designs and finishing standards and fibres. For the purpose they have installed automatic looms and sophisticated machinery. They are also freely allowed to import better quality of raw materials. All these enable them to produce superior quality fabrics at lower costs. The textile industries in the developed countries are re-equipped and re-structured on the latest technology and they are multi-fibre in true sense, as viewed earlier. They produce exactly what the consumers require and provide them open chance to select the best between the

indigenous and imported, and therefore, they keep themselves excellent in terms of price, quality and standard by continuous innovation and application of latest technology. Indian textile industry is different from these. It is neither exposed to competition from imports nor its survival is dependant on exports, being presence of domestic market at instant. Moreover, industry's excessive reliance on single fibre cotton fabrics meant for exports caused very late entry into the field of blends and our main competitors' early start in this direction put us lopsided.

For ouclass of Indian textiles in price, quality standard, diversity and modernity of constructions internal policies were no less responsible. It was rightly observed that, "The decline in India's relative share and her ability to expand as Japan strikingly did during the decade are to be explained with reference to internal policies... explicit governmental policies which hampered the expansion and modernisation and led to the poor and stagnant quality of textiles in a market when improving quality from rival suppliers was a major competitive force."

The policy of ceiling the loomage in the mill sector also caused inadequate availability of cloth for export and limited exportable surplus. "The cloth equivalent of the goods delivered for export for all purposes (i.e., to fulfil the

quotas of fabrics and made-ups to the quota countries, for exports of handloom cloth and handloom made-ups and supply of cloth needed by the garment industry for export around 1150 million metres of cotton cloth were needed) was a little over 800 million metres in 1978, 875 million metres in 1979 and about 840 million metres in 1980. Such a shortfall of some 300 million metres was the result of the inadequate loomage capacity and partly of our quality not being produced up to international standards.**

Non-conformity of Indian textile policy

Indian textile policy was never, since independence, turned to changes occurred in the world textile realm. The textile industries in the different corners of the globe became in big sizes, incorporating latest technology through structural changes as said earlier. By contrast, the textile industry in India continued to comprise of un-economic, small sized units both in organised and decentralised sectors due to absence of integrated sound economic policy in general and textile policy in particular.

From the very first step of economic planning in 1951, stress was given on the establishment of heavy and basic capital intensive industries in the public sector and consumer

* TEXPROCIL, Chairman's speech at 27th Annual General Meeting held on November 25, 1981.
goods industries were left to limited internal economic sources to expand. In the case of textile industry, the government emphasised on the decentralised sector, the capabilities of which were unassessed, instead of mills. In the second step of economic planning, the government realised that unless the decentralised sector properly geared-up and organised, it would not play the role so desired. Such changed outlook obstructed developing the integrated textile policy and kept both the sectors ill. The mill sector which became almost junk during the War, expected from the government for renovation attuned to international textile developments but in vain. Despite the tragic state of units acknowledged in the First Plan and recommendations regarding early rehabilitation and modernisation given by the C. Ramaswamy Mudaliar Committee, the problem remained unheeded. Contrarily, mill sector's weaving capacity was practically frozen in order to offer enlarged field to handlooms. In persuasion of recommendations of Kanungo Committee (1954), the government planned to replace handlooms by 35,000 powerlooms and to grant excise duty exemption for units, having four looms or less. This was in view of the changes occurred in the textile technology abroad. The Karve Committee (1955) opined differently and suggested that additional demand should be met by the handloom sector, supported by subsidies. This sector, despite protection and subsidies, did not come up to the level of expectation.
Simultaneously, the powerloom sector uninterruptly continued to expand. Within ten years, the number of powerloom increased by six-fold to nearly 1.46 lakhs. The excise exemption also gave rise to a big number of unauthorised powerloom units. Soon after, Ashok Mehta Committee went into the gamut of powerlooms and affirmed the existence of unauthorised units. The Committee recommended for not only regularising these powerlooms but also suggested to install additional 1,10,000 looms, commending its employment potentiality. Such expansion, the result of the deliberate policy of the government, brought stagnation in the mill sector. This activated the powerloom sector further to unwieldy growth, offering unfair competition to the mills and bringing their economic viability at stake and intensified the imbalanced technology set-up in the industry. It was also pointed out that this sector was engaged in producing reserve varieties of cotton manufactures on large scale as units of four looms were treated at par with that handloom. The powerloom sector, thus, had overtaken the handloom sector by offering unfair competition.

Unlike the integrated multi-fibre approach acknowledged in major textile exporting countries, Indian textile industry was segregated into compartments of fibres viz. cotton, man-made fibres, silk and wool and hence, a textile unit could not move to man-made fibres' division unless it obtained a licence from the centre. Such approach acted in restricting
the industry to diversify its base in accordance with the changes occurred in foreign countries. It is definitely surprising that in spite of realising the declining share of pure cotton cloth in the world export, the policy did not accentuate any of the measures to mobilise the mill sector, except granting a small relaxation in expansion of capacity of the mills for export purpose.

Weak profitability of the textile mill industry

After attaining independence, the diversified interest of the managing agency system did nothing to modernise the industry by mobilising internal sources of their own even in the years of good profitability. Subsequently, the industry fell into the clutches of higher cost inputs; "there had consequently been rise in the cost of production of cotton textile industry of the order of 325 per cent between 1951-52 and 1976-77, the wholesale price index number of cotton fabrics had moved up during the same period from 64 to 222, registering an increase of only 174 per cent. This was the crux of the worsening problem of costs and prices in the textile industry, the gap between the two having gradually narrowed to drive the industry to the wall."* The controlled cloth policy and heavy levies also squeezed the profits of the mills. The problem was severe in the event of mounting unsold stock of

cloth and/or yarn due to weak internal and/or external demand. The unsold stocks of cotton cloth were alarming in some years like 1957-58, 1963-64, 1968-69 and 1981-82. In 1981, the stock of cotton cloth with mills exceeded by 14 per cent over the previous year. The mills, therefore, suffered heavy cash losses and scurried to heavy borrowings. Over the years their profit diminished.

During eleven years from 1968-69 to 1978-79 gross profits (before depreciation) were only 8.5 per cent to sales whereas almost double of this is the minimum level for the firms for just to operate. Poor profitability made mills reluctant to invest heavy sums on fixed assets* and punctuated the tempo of rehabilitation programmes. The institutional finance facilities also proved a little without a sound and viable plan for modernisation.

There was no specific financing scheme for the production of textile items meant for export, providing loans at lower rate of interest for raising the working capital. The manufacturers and the exporters of main developing countries were provided adequate capital at concessional rates for the same purpose by their respective governments.

Problems of handloom sector

Despite unauthorised encroachment by powerlooms,

preshipment difficulties and cumbersome export procedure, handloom exports suffered from many difficulties. The main difficulty was the non-availability of quality yarn, particularly blended yarn, at reasonable prices. The problem used to become grave in the light of weak financial position of handloom societies and individual weavers. They found themselves unable to adjust with the fluctuating prices of yarn, intensifying their difficulty to withstand against mill and powerloom products on the basis of price. Because of feeble financial position of the weavers' societies, many craftsmen were in the grip of master weavers and were deprived of their due and reasonable shares.

It was pointed out that the number of individuals engaged in the exports of handloom textiles was not big and hence, different exporters quoted different rates to the foreign buyers for the same thing of equal quality. It was also realised that there had been less programmes for bringing the designers, exporters, importers, converters and departmental stores in close contact with the aim of promoting handloom export. The inadequate supervision relating to adherence of quality standards was also one of the weaknesses. There were complaints of manipulating powerloom fabrics as handloom.