Employment Growth in Indian Textile Industry during Pre and Post Liberalization Period

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Textile industry holds a significant status in the Indian Economy. It provides one of the most fundamental necessities of man namely clothing. It is an independent industry, from the basic requirement of raw materials to the final products, with huge value-addition at every stage of processing. Today textile sector accounts for nearly 14 percent of the total industrial output, and it contributes about 30 percent of the total exports.

There is a sense of optimism and confidence prevailing in the industry and is projected to grow at the rate of 16 percent in value terms in the next five years. Investment has increased significantly in the textile sector and it is expected to touch Rs. 1, 85,600 crore by 2014. This enhanced investment will generate 17.37 million jobs (comprising 12.02 million direct and 5.35 million indirect jobs) by 2015. Today, the industry is increasingly embracing modern technology and work process, becoming more globally competitive, building strong brand equity for its products, and consistently achieving higher growth rates than ever in its long history. It has been noticed that the Government is committed to address the domestic and international challenges confronting this sunrise sector, keeping in view the possibilities of quantitative transformation. The strong and diverse raw material base, cheap labour, ever-growing domestic market and better technologies relative to other developing countries are the basic strengths of the Indian textile sector which have given a place of prominence to the industry, in the industrial map of the country. Development of modern textiles in India had gained momentum owing to the availability of indigenous cotton and British machinery and a well-developed mercantile tradition in colonial India.

Indian textile sector was predominantly unorganized, but the scenario started changing after the economic liberalization. The Indian Textile Policy of 1985 completely protected this sector whereas the process of liberalization culminated in the textile policy of 2000. The

Multi-Fiber Agreement (MFA) of 1974 exempted the textile and garments trade from General Agreements on Tariff and Trade (GATT) disciplines, allowing industrial countries to place bilateral quota on imports of various textile and garment product categories. This was meant to protect producers to restructure to compete with cheaper imports. During the Uruguay Round of trade negotiations, it was agreed to phase out of MFA gradually through the implementation of the Agreement on Textile and Clothing (ATC) on January 1, 2005. The MFA was fully phased out and hence the trade in textiles and garments will no longer be subject to quotas (Hashim, 2005).

Structure of India's Textile Industry

The industry today is divided into three segments:
1. Cotton Textiles
2. Synthetic Textiles
3. Other product like Wool, Jute, Silk etc.

All segments have their own place but even today cotton textiles continue to dominate with 73 percent share. The structure of the textile industry is extremely complex with the modern, sophisticated and highly mechanized mill sector on the one hand and hand spinning and hand weaving (handloom sector) on the other. In intermediate range, falls the decentralized small scale power loom sector.

Unlike other major textile-producing countries, Indian textile industry is comprised mostly of small-scale, nonintegrated spinning, weaving, finishing, and apparel-making enterprises. This unique industry structure is primarily a legacy of government policies that have promoted labor-intensive, small-scale operations and discriminated against larger scale firms. Relatively large-scale mills that integrate spinning, weaving and sometime fabric finishing are common in other major textile-producing countries. In India, however, these types of mills account only 3 percent of output in the textile sector. About 276 composite mills presently operating in India are owned by the public sector located mostly in Gujarat and Maharashtra.

Spinning: Spinning sector is technology intensive and productivity is affected by the quality of cotton and the cleaning process used during ginning. Spinning is the process of converting cotton or manmade fiber into yarn to be used for weaving and knitting. These mills are chiefly located in North India. It is the most consolidated and technically efficient sector in India's textile industry. In 2002-03, India's spinning sector consisted of about 1,146 small-scale independent firms and 1,599 larger scale independent units.

Weaving and Knitting: The weaving and knits sector lies at the heart of the industry. In 2004-05, of the total production 46 percent was cotton cloth, 41 percent was non-cotton including khadi, wool and silk and 13 percent was blended cloth. Three distinctive technologies used in the sector are handlooms, power looms and knitting machines. Weaving and knitting converts cotton, manmade, or blended yarns into woven or knitted fabrics. India's weaving and knitting sector remains highly fragmented, small-scale, and labour-intensive. This sector consists of about 3.9 million handlooms, 1.7 millions powers loom and just 137,000 looms in the various composite mills.Fabric finishing is another major industry activity, which includes dyeing, printing, and other cloth preparation prior to the manufacture of clothing, is also dominated by a large number of independent, small-scale enterprises. A total of 2300 units comprising 2100 independent units and 200 integrated units of spinning, weaving and knitting is currently operating in the country.

Apparel is produced by about 77,000 small-scale units classified as domestic manufacturers, manufacturer exporters, and fabricators (subcontractors). The industry is expected reach the level of US $ 115 billion by 2012. The clothing and apparel sub-sector is expected to grow at a rate of 16 percent in volume terms and 21 percent in value terms, and textiles exports are expected to grow at a rate of 22 percent in value terms, by 2012 of

Major problems

The cotton textile industry is reeling under manifold problems. The major problems are sickness which is widespread in the cotton textile industry. After the Engineering industry, the Cotton textile industry has the highest incidence of sickness due to acute power cuts and labour shortage . As many as 125 sick units have been taken over by the Central Government in recent past. The sickness is attributed mainly to the obsolete power cuts and labour shortage, Government regulation, low yield and fluctuating output level, competition for man-made fibers from within and abroad, labour problem, stock planning and finally ancillary factors such as power cuts, lack of finance, exorbitant rise in raw material prices and production cost etc.

Textile exports play a crucial role in the overall exports from India. Textile exports increased substantially from US$ 5.07 billion in 1991-92 to US$ 12.10 billion during 2000-01. The world textile trade has risen to 3.1 percent in 1999-2000 as against 1.80 percent in Z``early nineties. Indian textile exports have grown at an average of 11 percent per annum over the last few years, while world textile trade has grown only about 5.4 per cent per annum in the same period. During the year 2000-01 India's textile export was US$ 12014.4 million. It has increased to US$ 13038.64 million in 2004-05. The share of textile exports (including handicrafts, jute, and coir) was 24.6 percent of total exports in 2001-2002, however this percentage decreased to 16.24 percent during 2004-2005. The textile exports recorded a growth of 15.3 percent in 2002-2003 and 8.7 percent in 2003-2004. In 2004-05 textile exports were US$ 13,039.00 million, recording a decline of 3.4 percent as compared to the corresponding period of previous year. Against a target of US$ 15,160 million during 2004-05, the textile exports were only of US$13039 million, registering a shortfall of 14 percent against the target. The overall export target for 2005-06 has been fixed at US$ 15,565 million. In 2005 textile and garments accounted for about 16 percent of export earnings. India's textile exports to the US have shown a good rise of 29.5 percent between January and June 2005.

Need for the Study

Existing literature on Textile Industry is proliferous. However, at the disaggregate level; there are important analytical gaps that need to be filled. They address to Inter-product group and Intra-product group studies, studies focusing on post-MFA scenario, studies on partial factor productivity, studies of technology and technical progress and studies on sources of productivity growth. Many studies published contradicting results on the impact of trade liberalization brought about by the phasing out of quotas on the growth, partial factor productivity and sources of productivity growth in textile industry in India was not categorical. Hence, there is a need to re-examine credibility of the data base and precision of results. The present study examined exhaustively on Employment Growth in Indian textile industry during pre and post-liberlisation perio.

Objective of the Study

The specific objectives of the study are;

1. To study inter and intra-product group employment growth in the pre and post-reform and post-MFA regime..

2. To suggest development employment strategies for the textile product manufacturing industry in India.

Data and Methodology: The study is based on secondary data, collected from the various issues of Annual Survey of Industries (ASI) published by Central Statistical Organization (CSO) Government of India.

The study covers the period from1980-81 to 2009-2010. All the textile manufacturing units covered by Annual Survey of Industries (ASI) have been included for the purpose of analysis. For the purpose of inter product group analysis, the product groups are classified as per 3 and 4 digits level of NIC (National Industrial Classification) code 1987, 1998 and data pertaining to all these units for the financial year from 1980-81 to 2009-10 have been collected. The entire period is divided into three phases as pre- liberalization period (1980-81 to 1991-92) post-liberalization period (1992-93 to 2005-06) and post MFA regime (2005-06 to 2009-10). There are 9 product groups as per three and four digits classification of NIC For the purpose of analysis, the collected data have been classified product group wise (3 and 4 digits classification of NIC code 1987 and 1998), over different years. The data in monetary terms are adjusted through suitable price indices to neutralize the price variations.

Employment Growth

There is unanimity amongst the scholars that the organized manufacturing sector registered "jobless growth" during the period from1980-81 to 1990-91. While the average annual rate of growth of gross value added during this period was about 8.66 percent the corresponding average annual employment growth was merely 0.53 percent. The resultant employment elasticity was 0.06 (Kannan and Raveendran, 2009). The employment stagnation in the 1980s was also confirmed by the studies of World Bank (1989), Fallon and Lucas (1993), Papola (1994), Ghose (1994), Nagaraj (1994), Kannan (1994) Bhalotra (1998), Dutta Roy (1998) and Goldar (2000).

The growth of employment in the organized manufacturing sector during the 1990's has also been analyzed by a number of researchers and the general consensus has been that employment growth picked up considerably during the first half of the 1990s. Goldar (2000) showed that employment in the organized manufacturing sector registered an impressive growth of 4.03 percent during the period from 1990-91 to 1995-96 comparing favorably with the growth rate achieved in the 1970s (3.8 per cent). Kannan and Raveendran, (2009) again argue that for the period as a whole as well as for two separate periods – the pre and post reform phases – the picture that emerges is one of "jobless growth". One set of industries was characterized by employment creating growth while another set by employment displacing growth. Over this period there has been acceleration in capital intensity at the expense of employment generation.

Many studies argued that the effects of economic reforms on the employment situation in India have been pessimistic in the post-reform period also (Mundle 1992, 1993; Deshpande 1992; Bhattacharya and Mitra 1993, Agarwal and Goldar 1995; Kundu 1997). The impression that one would gather from these studies about the prospects of employment growth in manufacturing in the post-reform period is proven to be wrong by the marked acceleration that has taken place in employment growth in organized manufacturing in the 1990s. This is the background against which this section examines the employment implications of growth performance in terms of growth in employment so as to further probe the "jobless growth" phenomenon reported for earlier but shorter periods and to subject the examination of the growth and employment performance in terms of product groups to find if there are any discernible patterns in Indian textile industry.

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Employment Growth in Pre- Liberalization Period

Table 1 presents the employment (total number of persons engaged) in the 9 textile product manufacturing industry in India during the pre-liberalization period.The Compound Growth Rate (CGR) has been computed by the World Bank Using Least Squares Method.

Year / NIC	140	1711	1712	1721	1722	1723	1729	1730	1810	Textile Sector
1980-81	-	-		-	-	-	-	-	-	-
1981-82	175782	1382312	79614	5472	14852	9198	8301	14829	49514	1739874
1982-83	164354	1243298	86807	5239	16998	8117	7548	16994	49108	1598463
1983-84	177633	1305169	90841	5453	15161	7947	7513	17213	50020	1676950
1984-85	124212	1323029	90605	5081	16810	8657	7522	20408	52760	1649084
1985-86	116141	1317595	88845	4464	17384	10577	6810	18194	58391	1638401
1986-87	134766	1140331	103210	4734	11660	10528	7069	20408	60303	1493009
1987-88	133522	1147526	97240	4028	9396	9026	6048	19075	59141	1485002
1988-89	115480	1136836	100872	5356	9733	11033	8089	26463	70790	1484652
1989-90	117091	1088444	89945	6210	8168	10991	6675	20704	84200	1432428
1990-91	134853	1127639	103939	6638	13328	13019	7764	30307	94832	1532319
1991-92	124824	1105508	100480	5711	8459	16906	7477	33699	103375	1506439
Total	1518658	13317687	1032398	58386	141949	115999	80816	238294	732434	17236621
CGR %)	-2.93	-2.06	1.8	1.41	-6.41	6.47	-0.43	7.35	8.06	1.47

Table:1 Employment growth during Pre-Liberalization Period

Source: Calculated from ASI data

It is clear from the table 1 that there are wide fluctuations across the product group and year wise. The aggregate employment in terms of total number of persons engaged is 1739874 in 1981-82 which is the maximum and the minimum number of persons engaged is 1432428 in 1989-90. Among the product group the maximum number of persons engaged is 13317687 in the product group of the Manufacturing of Cotton Spinning and

Processing other than in Mills (1711) and minimum number of person engaged is 58386 for the product group of Manufacturing of Fabrics or Plastic Sheeting, Manufacture of made up Textile Articles (1721). The Compound Growth Rate in the number of people engaged during the pre-liberalization period isestimated tobe

Employment in Post- Liberalization Period

Table 2 provides the employment (total number of persons' engaged) in the 9 textile product manufacturing industry in India during the post-liberalization period

Year / NIC	0140	1711	1712	1721	1722	1723	1729	1730	1810	Textile Sector
1992-93	114668	1072389	96716	6931	5906	13107	9281	31859	115509	1466366
1993-94	135943	1083866	107220	8823	5270	11849	7555	36805	133909	1531240
1994-95	139582	1062669	134639	9758	10832	13949	8703	48677	190489	1619298
1995-96	129087	1075586	115915	9685	9156	17647	10112	50919	229878	1647985
1996-97	152828	1231939	124207	8677	9334	16820	9616	51771	250805	1855997
1997-98	159248	1145709	117731	9411	8362	20588	10944	59105	253036	1784134
1998-99	166776	1129759	144027	9928	10114	23208	11258	45531	273210	1813811
1999-00	115626	1061454	147168	13911	13335	16514	18929	58226	275540	1720703
2000-01	142967	966790	170959	21979	11517	30491	18912	62577	294746	1720938
2001-02	123528	936597	176155	26086	18562	24696	18985	87566	329401	1741576
2002-03	103568	881312	138218	23600	16635	20436	21116	80806	316223	1601914
2003-04	105357	844770	155801	20622	21068	26702	19031	90525	335050	1618926
2004-05	91979	803913	163758	33257	24712	26946	20449	137349	378542	1680905
Total	1789237	14099202	1977756	244849	189569	287378	206036	1002846	3825289	23622162
CGR (%)	-2.46	-2.8	4.16	13.95	11.73	6.06	9.05	10.98	8.76	6.61

Table:2 Employment Growth during Post- Liberalization Period

Source: calculated from ASI data

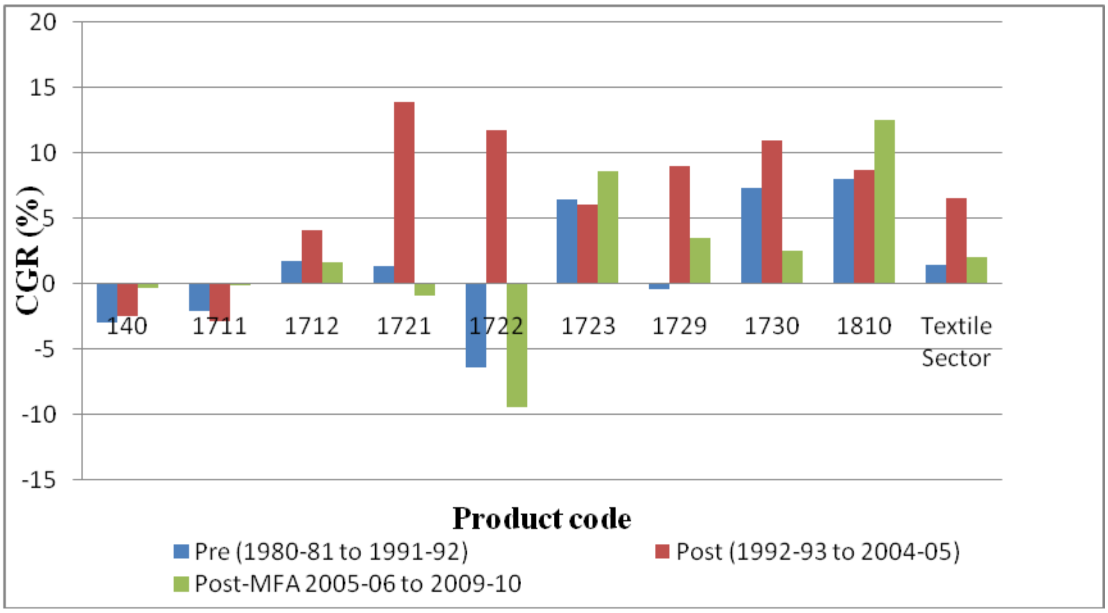
Year / NIC	0140	1711	1712	1721	1722	1723	1729	1730	1810	Textile Sector
2005-06	108080	802449	185242	42181	24766	24425	21145	161130	448951	1818369
2006-07	111895	859538	177272	28609	14385	29788	20466	127293	536445	1905691
2007-08	110584	844264	183067	31165	14563	31431	21557	139331	594877	1970839
2008-09	109288	829261	189051	33948	14743	33163	22706	152508	659673	2044341
2009-10	108007	814525	195230	36980	14925	34992	23917	166931	731527	2127034

Total	547854	4150037	929862	172883	83382	153799	109791	747193	2971473	9866274
CGR(%)	-0.25	-0.06	1.71	-0.92	-9.41	8.61	3.56	2.55	12.56	2.04

The table 2 shows that there are wide fluctuations across the product group and in different years during the post-liberalization period. The aggregate employment in terms of total number Persons engaged among the years, maximum number of persons engaged is 1855997 in 1996-97 and minimum number of persons engaged is 1466366 in 1992-93. Among the product group the maximum number of persons engaged is 14099202 in the product group of Manufacturing of Cotton Spinning, Processing other than in Mills (1711) and minimum number of person engaged is 189569 for the product group of Manufacturing of Fabrics or Plastic Sheeting, Manufacturing of Making of Blankets and Shawls (1722). The Compound Growth Rate in the number of persons engaged during the post-liberalization period is estimated to be 6.61 percent.

Figure: 1

Growth Rate in Employment in Indian Textile industry in the Pre-Liberalization, Post-Liberalization and Post-MFA regime



Source: Growth rate (%) from table No 4.7, 4.8 and 4.9

The analysis of growth rate in employment for the pre- liberalization (1980-81 to 1991-92), post-liberalization (1991-92 to 2004-05) and post-MFA regime (2005-06 to 2009-10) shows that they are 1.47 percent and 6.67 percent and 20.04 percent respectively

Conclusion and Recommendations

In the case of employment growth, the post-liberization scenario of the industry is surprisingly better with 6.61 annual average growths than the pre-reform period. The annual average growth rate was 2.04 percent during post-MFA regime; we noted here that the negative growth in employment is due to the labour saving technological advancement in the Indian textiles industry.

Even after the implementation of various textile policies in India, Textile sector is facing increased competition from the multinational companies and survival of the fittest has been the buzz-word against the backdrop and in the light of the present study, the following strategies are recommended promotion of the textile sector in India.

There is also a need to encourage large-scale production, particularly in man-made and garment sectors, flexible labour laws, easy entry exit norms for the firms are some of the basic policy measures which would help the Indian textile and garment industry become more cost effective. Further, it would be prudent to focus on selected states having comparative advantage in a specific industry. Such measures could help convert the post MFA challenges into an opportunity rather than a threat.The study reveals that competition has improved the performance of the industry. In a competitive environment the share of labour input is higher in most of the product groups followed by capital, Therefore the results emphasize the importance of skilled labour component for the industry. The problem of shortage of power is wide spread throughout the country and the textile units are hit hard by this. The government should take care of this and assure uninterrupted power supply as provided to the large scale units.

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