Research Paper

Volume : 5 | Issue : 5 | May 2016 • ISSN No 2277 - 8179 | IF : 3.508 | IC Value : 69.48

Growth and Recession in Small-Scale Industry a Study of Tamil Nadu Powerlooms

Management

KEYWORDS :

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ABSTRACT

The powerloom industry has done exceptionally well in India, in the long run and especially during an export boom after trade liberalisation in the late 1980s. Its growth illustrates several intuitions of recent international literature on small firm dynamics. An export recession in 1996-98, however, showed that the growth had happened without basic changes in the technological and organisational capability of the industry. Using the example of an export-oriented weaving region, the paper describes the origin and presents conditions of the industry, its major handicaps, how it tries to address its handicaps, and what kind of policy initiatives may be needed to deal with them. The paper also suggests that some recent changes in organisation and technology in the industry can be seen as attempts to deal with these weaknesses

Introduction

This paper has two main objectives. First, it tries to create a descriptive database on the small-scale weaving factories, better known as the 'powerlooms', in Tamil Nadu. And second, it points out potential uses of this material in answering questions about the role of small-scale industry in economic development. In particular, it is suggested that a study of Tamil Nadu powerlooms can illustrate two general propositions: that small firms constitute the most competitive segment in Indian industry after the recent trade reforms, and that decentralised production has strengths as well as serious weaknesses

Present Structure and History

Tamil Nadu contains about a quarter of the powerlooms in India, and possibly over half of the looms engaged in cotton. The industry had a late start here, but grew steadily, and very rapidly in the 1990s .The looms are distributed in five major urban-rural clusters. Usually, nodal towns with well-developed markets and input production facility contract with looms spread out over a large semi-urban hinterland. Five such clusters are especially important. The two largest can be called, after the nodal towns, the Coimbatore and Erode clusters respectively. The former contains the towns Palladam, Tiruppur, Somanur and Avanashi, whereas the major locations in the latter cluster are Bhavani, Komarapalayam, Pallipalayam and Chennimalai. Each of these two clusters probably contains about 1,50,000 looms. The three smaller clusters are around the towns Karur, Salem, and in the south ofthe state, Rajapalayam, each containing 30-50,000 looms. This informed conjecture puts the total powerlooms in Tamil Nadu in the mid-1990s at 400-4,50,000

Tamil Nadu powerlooms began with cotton greys, but from the late-1960s diversified into a major form of traditional apparel, the coloured 'lungy'. The colour stripes, woven on the plain loom, were at first broad and crude. The drop-box loom was introduced in the 1960s. With its local manufacture, usage of the loom spread quickly. The drop-box enabled thinner stripes or more attractive and congested designs. The loom, thus, meant higher value-added as well as easier work for the weaver. By the 1990s, south India was the acknowledged master of woven checks and stripes. According to a recent unpublished survey done by the South Indian Textile Research Association (SITRA), grey cotton employs about 38 per cent of the looms, and coloured cotton the remaining 62 per cent. Of this 62 per cent, the main divisions are: coloured plain cloth (20), checked lungies using drop-box (15), loose-woven or 'honey-comb' towels and shirting cloth using dobby (15), lungy and shirting cloth using both dobby and dropbox (7), and jacquard bedsheets (5). The Coimbatore cluster produces mainly greys. The Erode cluster produces mainly coloured goods. Practically every lungy or towel sold anywhere in India is likely to carry the stamp of an Erode firm.

Growth and Reorganisation

When export of cotton cloth surged in the early 1990s, there were two types of effects on Tamil Nadu. In the case of indirect exports, which consisted mainly of greys processed out-of-state, the effect was an expansion of loomage without much qualitative changes in organisation or technology. But, in the case of direct exports, which consist of both grey and coloured cloth of non-traditional types, there have been technological and organisational changes. For some examples of technological changes, looms have been imported in the Erode cluster, and in the exportable gauze cloth weaving in Rajapalayam area. Computer-aided-designing has been started in Karur. In the Kappalur industrial estate outside Madurai, there are about 50 units each with 4-8 new automatic shuttle or second-hand imported looms. There is at least one firm near Salem with airjet looms.

Recession and Structural Problems

While these changes were going on, market orders from north India dropped suddenly from the middle of 1996. The normal scale of export trade from Tamil Nadu, placed by one source at 10 container loads daily, came down to 3-4 by the end of 1997. Fresh loans dried up. Co-operative banks and the state-owned Tamil Nadu Industrial Investment Corporation, which had financed some of the earlier expansion, demanded repayment causing panic if not actual bankruptcy. Real interest rates increased, supply of funds was curtailed, and even the larger producers had to resort to the unorganised money markets for working capital at over 30 per cent interest rates. Hours of work came down. In 1995, there used to be a sixmonth waiting period for a new loom. In November 1997, something like 30-40 per cent of the looms were at work. All on a sudden, international competition began to bite hard. Pakistan's fabrics as well as Indonesia's, made of better quality and uncontaminated cotton, drove Indian goods out of similar markets.

Conclusion

Two sets of general lessons can be drawn from this study. One concerns the future of the Taml Nadu powerlooms. And the other concerns the role of small firms in industrialisation in developing countries. Let us consider these in turn. The descriptive outline of the industry focused a great deal on the post-reform trade-induced growth and recession in the industry. It suggested that two conditions of the industry, hidden from view when the market was good, worsened the effects of the recession. First, asymmetric information between buyers and producers made

quality control a problem. And second, poor technological capability of the average firm as well as the industrial complexes as a whole again affected quality of products. The technological problem, in turn, reveals (a) the scarcity of cheap intermediate technical options in weaving; (b) the financial constraints under which the average small firm has to operate; and (c) the weak nature of institutions within the industry that might provide common solutions to these problems. What lies ahead? If these handicaps did not prevent the Tamil Nadu powerloom firms from being successful exporters in the early 1990s, they may not rule out a recovery either. Recovery in that case is primarily a question of the right kind ofmacro-economic policy and environment. However, the handicaps did make and continue to make coping with recession stressful. Also, in the presence of these handicaps, a crash can lead to adverse path dependence. That is, only a certain proportion of those buyers who left the market may return to it eventually. And finally, the recession-induced paralysis in large segments of the industry makes the task of building new organisations much more difficult than in normal times. Above all, they suffer from India's long isolation from the world market, which made small firms start out in the export business in the late 1980s with little experience and inadequate equipment. Some of these features are specific to the Indian context, but some others Indian powerlooms may share with small firms in other developing countries where globalisation happened rather late.

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