Chapter 2

CHANGES IN THE ECONOMIC GEOGRAPHY OF INTERNATIONAL TRADE

2.1 Changes in production patterns

One of the most important features of the modern economy is the emergence of many different kinds of low-technology, labor-intensive industries as engines of growth, development, and trade, both in developed and developing countries, where wages were significantly different. Increased economic activity was seen in regions other than the northern hemisphere. This was manifested through one of the most direct and dramatic indices of the increasing economic integration marking the post war world - foreign trade. In 1960, total world merchandise exports represented just 5.8% of world GDP and merchandise imports represented 6.1%. By 1993 these figures were 15.8% and 15.4% respectively- in absolute terms a six-fold real increase in growth in world merchandise trade between 1960 and the early 1990s (Scott, 1998).

Messner (2004) described that earlier the global economy could be viewed as the sum total of national economies, some of which occupied center stage and others peripheries, but the new world economy is marked by competition and interaction between local clusters (Nadvi /Schmitz 1999, global cities (Sassen 2000),

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global city regions (Scott 2001) and global value chains (Gereffi, 1999) that are no longer territorial in organization. Politically separated and geographical boundaries as territorial limits no longer form external borders for the flow/transfer of goods, money, technology and knowledge.

Hassler (2005) opines that the exclusion of production as a core business obviates the need for economies of scale to achieve profitability and instead allows a focus on economies of scope as a business strategy. This enables quick responses to market changes and the service of different market spaces to their own requirements with a unique branded product. Therefore, core profits are realized in design, retailing and marketing, based on property rights such as brand-name owners rather than by manufacturers.

Sturgeon (2008) speaks of the global economy having entered a new phase of deeper, more immediate integration that is exposing national and local economies to tremors of economic change as never before. These tremors can either be immensely beneficial to domestic firms and industries lifting them up, they may also get flattened by the relentless onslaught of competition or perhaps even worse, economically driven opportunities of global trade may bypass them entirely.

According to him the present trends of a globalized production system is best described by the geographer Peter Dicken. Dicken (1994) argues that it is the ‘functional integration’ of internationally dispersed activities that differentiates the current era of ‘globalization’ from an earlier era of ‘internationalization,’ which was characterized by the simple geographic spread of economic activities across national boundaries. This need for functional integration has put developing country firms face to face with the reality of tighter coordination and conditions to be fulfilled within an expanding set of multinational firms (Zanfei, 2000) which are themselves at the mercy of rampant customers to whom loyalty and brand equity are strangers.
Customers are constantly looking for variety and customization in ever-increasing degrees. This has led to the rise of firms in the West- retailers and branded merchandisers with little or no internal production (Gereffi, 1994; Feenstra and Hamilton, 2006) and de-verticalizing “manufacturers” - that have shed internal capacity and have come to rely on an emergent set of global and East Asian regional contract manufacturers for production (Borrus, Dieter & Stephen, 2000; Sturgeon, 2002 cited in Sturgeon, 2008)

A key feature of globalization is that its economic and organizational glue is increasingly associated with complex networks of suppliers who produce in globally dispersed locations in accordance with the demands of lead firms. The vast majority of manufactured commodities used by households and workplaces in the world over from clothing to electronic products to furniture to automobiles and increasing proportions of the fruit, vegetable, meat and fish consumed in the ‘global North’ are produced and delivered by and through these networks (Henderson, 2005).

Examinining the changing structure of factory production, McCormick & Schmitz (2002) describes how earlier manufacturing was focused on raw materials entering the factory, and finished products left the factory after a whole range of operations. Design, production, marketing, inventory and finishing were done in large factory sites or within close proximity to each other. This was true in the 1950s and 1960s, even after the emergence of the MNC. In the 1970s a strong focus towards rationalizing operations, caused firms to restructure their operations. Labour intensive activities got shifted to LDCs and developing countries. In the 1980s and 1990s, further breaking up of the production process occurred, with advances in transport and communication.

Scott (1998) is of the opinion that, post the Second World War, when large-scale mass production moved decisively to the leading edges of economic expansion, sectors like these were often seen as being rather archaic hangovers from an earlier era of capitalism. Few, if any, analysts in any part of the world
were prepared to advocate the virtues of these sectors as instruments of positive economic change, and in less-developed countries where growth-pole and import-substitution policies reigned in one form or another, they were for the most part simply ignored.

Despite this, it is a fact that in the globalizing economy of today, many low value, and commodity based sectors are achieving what would at an earlier stage have been considered to be surprising levels of performance in terms of job growth and foreign earnings capacity (Scott, 1998). Even if it is true that they are often marked by low wages, unskilled work, and sweatshop conditions of employment, they have seen growth in vastly different social and economic backgrounds of country and region and have begun to wield their influence in fashion-oriented segments, where rigidity of timing and delivery is higher.

2.1.1 Factors fueling this increase

Attributing the increase in trade to any single reason is impractical, given that many factors were in place to bring about this increase. This economic effervescence in the international sphere has been facilitated by continuous lowering of tariff barriers and institutional impediments to trade as well as by dramatic improvements in transportation and communication technology.

Significant among these was the increased transport possibilities and speeds with which people and goods could be moved across countries. Large scale container transport by land and sea, inexpensive air transport, electronic communications etc has rendered velocity of circulation of goods, people and services and information increasing exponentially, while the cost of transacting has fallen drastically (Scott, 1998). Enabling information flows back and forth through electronic means, by itself has changed the structure of the supply chains.

Most often these have involved producers in developing countries and lesser developed economies ensconced in supply relationships with buyers in final consumer markets, where they are sold. These chains have become shorter,
decreasing stock turnover time and inventory lead times at the point of the buyer. Aiding this is the role of and spread of international monetary transactions. These have been spiraling uncontrollably upwards in recent years. Enormous amount of liquid capital now move from country to country in a fraction of a second in response to subtle global shifts in economic trends in different countries.

Sturgeon (2008b) describes that globalization of production has happened because of two recent developments that are enabling even greater functional integration in the global economy:

a) Rapidly increasing industrial capabilities in developing countries, especially in China and India.

b) New computer-mediated approaches to real-time integration of distant activities. This has enabled distant firms to become constant communicators and associates due to the plethora of devices directed towards harmonizing differences, in distances, business methods, transactions and commerce.

Sturgeon (2008b) describes the above two factors as facilitating international trade in many intermediate goods and services that have not previously been sent across borders. As a result, opportunities have opened up for firms to engage with the global economy - as buyers, suppliers, sellers, distributors, contractors, and service providers - in ways that were impossible even a few years ago.

These changes have created new challenges and risks, as well as opportunities. Because activities are being integrated in the global economy at a very granular level, pressure has increased for firms and individual workers that may have been insulated from global competition in the past. The result is accelerating change and an increased sense of economic insecurity, even among the “winners” in the global economy (Sturgeon, 2008a, 2008b).
2.1.2 Shifting Governance Structures

The world economy of the past was once viewed as the sum total of national economies and conceived in categories of periphery and centre. But now distinctions of territory are losing relevance. The economy is in part breaking its links with territorially and spatially constituted entities and creating agglomeration spaces of its own. External borders of national governments have ceased to constitute crucial boundaries to the transfer of money, goods, technology and knowledge (Messner, 2004). As these borders constantly erode, different governance measures are being put into place to deal with this mounting problem. According to him classical international organizations like the International Stability Forum, other globally operating firms organizing transactional production and trade networks, international NGOs negotiating with MNCs over social and ecological standards and multi-member organizations are growing in significance.

A complex and largely uncoordinated structure of international regimes in the form of conventions and tacit agreements or special purpose regulatory bodies and intergovernmental commissions exist to exert some control over the multiplicity of organizations having contradicting goals and outcomes. More prominent among them have been the G-7 meetings, the World Bank, the FAO, ILO, IMF, OECD, UNCTAD and the WTO and many other smaller or regional players – covering a wide gamut of interests and activities like international health and welfare, gender issues, the environment, economic development, etc (Scott, 1998). Despite their civil status, they often play important roles in governance issues of global scale.

As the geography of trade changes, the world’s governance patterns are likewise in the midst of a process of change. How do global governance mechanisms determine local development? Do local actors have the autonomy and resources to deal with the global economy or are they passive adapters to global
conditions? This remains a pressing issue with India, which is an important sourcing hub for many multinational corporations, in varied industries.

2.1.3 Explanations for changing trade patterns

Some of the earliest views are centered on the comparative advantage of firms- which sought to explain trade between nations as a result of differences in factors of production. The theory of comparative advantage is used to describe outcomes of this model, complemented by Hecksler and Ohlins’s factor-proportions extension which is based on the premise that gains accrue from specialization driven economies of scale.

Since the 1950s there have been several notable efforts to explain these sorts of variation among regions and their expression in the geography of development and trade. The roots of the core-periphery model go back to the writings of Myrdal and Hirschman in the late 1950s. These theorists tried to explain stark within-country regional differences pronounced in North America and Western Europe. The explanations characterized by the use of ‘backwash’ or polarisation which is described as a tendency for major industrial regions to grow by their own ability to draw in people and resources from distant locations and ‘spread’ or trickle-down, signifying the countervailing flow of growth effects from more developed to less developed regions via increased spending in core regions on the products of the periphery and the governmental efforts to raise incomes and opportunity levels in that periphery (Scott, 1998).

In the 1970s, Amin and Frank linked the core-periphery model with theories of colonial and neocolonial exploitation at the world scale. In 1972 it was argued that the mechanisms behind unequal development- was found in the logic of international trade and that third world countries were essentially subsidizing the first world whenever the low wage, labour intensive products of the former were exchanged for the high wage capital intensive products of the latter (Scott, 1998).
One of the earliest approaches guiding economic placement of industry was the neo classical industrial location theory that viewed location choices as a function of the cost of inputs, transportation and other transaction costs (the cost of doing business across geographical space, and maintaining relationships between buyers and sellers (Williamson 1971, 1981 cited in Weiller, 2003).

Once production becomes separated into different geographic spaces the organisation of this production becomes achievable by the explanation of transaction cost economics. (Williamson, 1975 cited in Gereffi, Humphrey & Sturgeon, 2005) The greater the asset specificity the more the transaction costs. Companies try to reduce this by outsourcing standardized products, to reduce coordination costs: and can be made by a variety of suppliers and bought by a variety of customers (Gereffi, et al, 2005).

A group of German researchers at the beginning of the 1970s suggested the theory of a New International Division of Labour (NIDL) with more economically advanced countries concentrating on the high end administrative, research and productive activities in the skilled labour economies of north America, Western Europe and Japan while the routine assembly functions were allocated to the low wage countries particularly Asia and Latin America (Scott, 1998). The New International Division of Labour was a labour process theory that has been a useful tool for understanding configuration of global garment production (Froebel, Heinrichs & Kreye,1980 cited in Weiller, 2003) It emphasizes factor price differences and exploitation of national inequalities as they vertically disintegrate production and relocate labour intensive tasks to low wage sites. It is simultaneously an explanation of the de-industrialization of old industrial regions and an explanation of the industrialization of newly industrialized economies of South Asia (NIEs). It however oversimplifies complexities of industrial location in garment industries with its preoccupation with labour cost control and productivity (Weiller, 2003). This was particularly observable in the case of large, fordist style multinationals employing huge
number of assembly workers in routine low grade jobs, with branch plants being pushed out into the world periphery by cost competition.

Penrose (1959) has furthered the resource view of the firm. According to him, how and why firms can capture value depend on the generation and retention of competencies that are difficult to replicate - if an input (an important one) is infrequently required it will likely be acquired externally - it is about scale economies. It is seen that literature on firm capabilities and learning centers around the time and effort of achieving some competencies which may be prohibitive, time consuming and difficult. The firm may be better off concentrating on their areas of competence and rely on complimentary competencies of other firms.

Gereffi et al (2005) has mentioned the concept of fragmentation put forward by Arndt and Kierzkowski (2001)) to describe the physical separation of different parts of a production process. Fragmentation has led to the development of cross border production which can be within or between firms. Feenstra (1998) in Gereffi et al (2005) goes further to connect the integration of trade with the disintegration of production. Companies prefer to outsource and increasing share of their non-core marketing and service activities.

The Global Value Chain approach has its roots in world systems theory and dependency theory (see Wallerstein, 1974) – and was promoted ‘to develop a unified theoretical framework which can identify appropriate production and marketing strategies and key points for upgrading firms, within particular types of commodity chains in order to change existing power relations within the chain’ (DFID,2004). Gereffi (1994) linked Global Commodity Chain (GCC) analysis explicitly to power relations, for which he used the term global chain governance and defined this as ‘the authority and power relationship that determine how financial, material and human resources are allocated and flow within the chain’ (Gereffi,1994: 97 cited in Weiller, 2003).
The Global Production Networks (GPN) model focuses on the nature of the relationships within networks of firms. These may be not only market based or hierarchy transactions between and within these firms, or indeed to trust based reciprocations between senior managers (as in Chinese business networks, but also to those between firms and national governments, trade unions, NGOs etc and where relevant, international regulatory agencies have a role (Henderson, Dicken, Hess, Coe & Yeung, 2002).

Attention is focused not only on the nature of input output linkages but where and under what circumstance value is generated and captured. The GPN framework throws analytic and policy attention on the circumstances under which local firms absorbed into the GPNs of foreign companies or lead companies might be upgradable in terms of process, product or value generation and thus contribute more effectively to a country’s economic, development, prosperity and prospects for reducing poverty (Henderson et al, 2002).

The use of transaction costs to explain cross border organizational flows and coordination mechanisms has been offset by the work of network theorists-(Jarillo, 1988, Lorenz, 1988, Powell 1990, Thorelli, 1986 cited in Gereffi et al, 2005), who argued that trust, reputation and mutual dependence dampen opportunistic behaviour and enable even more complex inter firm divisions of labour and interdependence, that goes beyond just monetary benefits or outcomes. Granovetter’s (1985) contribution to economic geography has focused on the social relationships that may arise or are hinged on the close interactions of actors through “dense networks”. Granovetter’s (1985) seminal work on embeddedness is focused on the social structure or economic activity and outcomes (Granovetter, 2005). It is seen that internationalization of networks is an important characteristic of contemporary capitalism (Bair, 2008). Several frameworks exist to analyse global economic organization- among them embedded networks and value chain constructs that emphasize the connectedness of actors and activities across space. The discussion on network paradigms has varied from what they are defined as
and what they are understood to do. Scholarship focuses on the speed of technology transfers through networks or as structured flows of information, capital goods, etc (Bair, 2008). There is also a scholarly emphasis on place bound nature of networks – embedded as they are in particular geographic, political or institutional contexts.

The concept of ‘business and social networks’ has appeared in recent literature on international trade under the guise of ‘coalitions’ (Greof 1989, 1993) ‘immigrant links’ of Gould (1994), Head and Ries (1998) and the ‘Keiretsu’ studied by Fung (1991)- these networks described cover both domestic and international focus. Rauch (1999) is concerned with the role of networks in transmission of information regarding business opportunities. He distinguishes trade between homogenous and differentiated commodities. He believes that network formation and maintenance require personal contact and past colonial relationships. The social embeddedness enables trust to happen and this leads to business relationships.

A review of the frameworks seems necessary to observe the factors which have been highlighted as most important to the internationalization phenomenon, and to understand how the importance of these factors have evolved according to the emphasis given to them by scholarship. A cursory observation would reveal that these factors that have been given emphasis move from comparative advantage of factors to transaction costs of these factors, to location theory, international division of labour to achieve scale, fragmentation to achieve efficiency and the importance of social relationships and ‘embeddedness’.

Gereffi’s (1999) Global Commodity Chain (GCC) approach is especially relevant to the study as it view international trade as being governed by ‘lead firms’ in developed countries, which exert a definite influence on the producers in (usually) developing countries. Global Value Chain Analysis (GVC) has evolved from the GCC approach, when it became important to include product groups or
categories that were not ‘commodities’ in the true sense of the word. As this is particularly important for our purpose- it will be elaborated upon.

2.2 Theorizations about the Changing Geography of Trade

Sturgeon (2008) states that the multiplicity of explanations regarding the nature of trade flows, the changing geography, and the regionalization of trade despite differences in the economic backgrounds of the countries linked to global trade, has led to policymakers responding to the pressures of global integration, desperate for conceptual frameworks and theoretical constructs that can help to guide their work, which often includes making difficult trade-offs in the context of extremely complex and rapidly changing situations.

The commonly cited intergovernmentalist view was built on the so-called “Washington Consensus,” the view that countries simply need to get their macroeconomic house in order and be open to international trade and investment to advance in the global economy. This has failed to provide guidance to policymakers and non-governmental activists dealing with the concerns of workers, communities, and industries that are in the midst of wrenching change or which remain completely severed from the global economy. More so now than before is the need for theoretically rooted yet empirically justifiable means of explanation, that are characterized by simplicity, easy applicability in the face of variety, and resonance with real world situations (Sturgeon, 2008).

As the geography of global trade becomes increasingly convoluted, it becomes important to use specific methods to examine these relationships that take into account the cross national segmentation and separation of all economic processes and actors surrounding the production and consumption of a specific product. Hassler (2004) is of the opinion that this need for explanations, and understanding has led to the evolution of a number of approaches to international production. These traditions are centered on the theorization of networks or chains that link these different firms, countries and economic entities. The explanations vary from
a) The use of the business linkages within firms and countries explained by Porter’s management approaches (Porter, 1985, 1990a, b).


2.2.1 Porter’s management approaches

Porter (1990 a, b) has described the value chain in terms as upstream and downstream activities, which are concerned with raw material and component supply. The primary activities of the firm may be with actual production of goods and downstream activities are supportive activities used for conduct of sales to the final buyer. These are with intermediaries, transport companies and customer sales or support. The approach splits up the functions of organizations into core activities and support activities, so as to understand where additional value can be added, to make the entire process better.

2.2.2 Filière Approach

Raikes, Jensen & Ponte (2000) state that the filière approach was influenced by studies of US agriculture of the 1950s and 1960s. These studies sought to go beyond the analysis of farm level production in the recognition that increasing shares of value added was created by processors of these commodities or farm goods and distributors. The French filière approach is a loosely-knit set of studies with the common characteristic that they use the filière (or chain) of activities and exchanges, as a tool and to delimit the scope of their analysis. The approach is thus less a theory than a ‘meso-level’ field of analysis. It is also one seen by its practitioners as a neutral, practical tool of analysis for use in ‘down-to-earth’ applied research.

The French filière approach was started by studying contract farming and vertical integration in French agriculture in the 1960s. It was soon applied to the
analysis of developing country agriculture, where it fitted well to the requirements of French (post)colonial policy. During and since colonial times, French agricultural policy for its dependencies focused on developing selected export commodities like rubber, cotton, coffee and cocoa as huge plantations in its different colonies. This required a commodity-focused analysis for which the filière approach was well-suited. Filière studies dealt initially with local production systems and consumption, while areas such as international trade and processing were largely overlooked until the 1980s. Studies of trade were seen as largely superfluous since these areas were controlled by state institutions which undertook all transport and marketing of commodities at prices set by the central administration. Filière analysts have borrowed from different theories and methodologies, including systems analysis, industrial organisation, institutional economics (old and new), management science and Marxist ideologies (Raikes et al, 2000).

2.2.3 The Global Commodity Chain (GCC) Approach

Hassler (2004) opines that it is the debate on global commodity chains (GCCs) that has produced a comprehensive contribution to this conceptual development of frameworks to theorize international trade.

The starting point of GCC analysis is to focus on the dynamics of contemporary changes in the global industries and their corporate strategies. It aims to link structural changes at the global, macroeconomic level with contemporary firm-specific, microeconomic organizations of production and distribution (Gereffi 1994, p. 95) and goes beyond the sole examination of the spatial extension of the commodity flow (Hassler, 2004).

According to him the importance of individual countries and the systems of localization within countries, firms and households is an important aspect of the GCC Approach. When the commodity chain geographically ‘touches down ‘in a local context’, what are the effects on households and firms within (Appelbaum & Gereffi 1994; Leslie & Reimer 1999 cited in Hassler, 2005)?
A particular point of attention in commodity chain literature has been to the way in which production and trade networks are controlled or specified by parties, firms or organizations, which may either be part of these chains or operate external to it. The term governance has been identified as the ‘authority and power relationships between firms that determines how financial, material, and human resources are allocated and flow within a chain’ (Gereffi, 1995, p. 96).

2.2.4 Types of Global Commodity Chains

An offshoot of the effects of governance was the demarcation of chains or networks as driven or governed by end-of-chain intermediaries like retailers and brand-owners or by industrial capital of producers (Gereffi 1994, 1999). Therefore, a dual distinction of buyer- and producer-driven commodity chains evolved. Buyer-driven commodity chains have been identified as trade-based horizontal networks which are coordinated by retailers, trading houses and brand-name companies (Gereffi, 1999).

The GCC concept was first developed by Hopkins and Wallerstein (1977, 1986) who highlighted the power of the state in shaping global production systems, exercised in large part in the form of tariffs and local content rules effected at the point where goods crossed borders (Sturgeon, 2008)

2.2.5 The role of governance in GCCs

It was Gereffi (1994) who revived the GCC concept by refocusing it on the strategies and actions of firms, in part because of the restricted ability of states to set tariffs and local content rules in the context of trade liberalization. He recognized that countries openness to trade does not in itself create industrial capabilities. Liberalization has enabled the growth of international trade, but without the push from advanced-economy firms seeking to tap capabilities and markets in developing countries, the cross-border flows of goods and services would surely be more modest, in terms of both total volume and technological content, than they are today. Because firms from advanced economies have done so much to create capabilities in
developing countries, they continue to control and guide many of the key industrial resources in the global economy, even those they do not own.

Henderson (2005) stated that although the analysis of the links between globalization, economic development and poverty have largely utilized macro level data, the implications of globalization ‘on the ground’ – with the resultant asymmetries for industries, firms, workers and communities, are sufficiently attended to meso (industries, and sectors, or ‘branches’) and micro (firms, workers and households) is required to identify policy responses appropriate to the particular country, sector or industry.

2.2.6 The GPN Approach

GPN Analysis primarily promoted by Henderson et al (2002), focuses more on relationships within networks. This may encompass not only market or hierarchical transactions between firms but also trust based reciprocations (see Redding 1990, Gomez & Hsiao 2000 cited in Henderson et al., 2002) and interactions between governments, NGOs and trade Unions when relevant.

It focuses on understanding whether link of developing countries to these networks lead to upgrading into higher value added areas (thus improving competitive advantage with the skill enhancements knowledge transfers associated with this. It promotes what the ILO refers to as “sustainable development through decent work” (Palpacuer and Parisotto 2003:115)

2.3 Evolution of the GCC Approach

Further studies by Sturgeon et al (2005) and others began to focus on an evolved understanding of the GCC Approach. The buyer- and producer-driven GCC typology were based on a static, empirically situated view of technology and barriers to entry, but both are dynamic because of technological change and firm- and industry-level learning (Henderson et al, 2002; Ponte and Gibbon, 2005). Two other aspects that came through was that there was clear shift away from the vertically integrated, producer-driven variant in a range of industries, and that the
buyer-driven type could not characterize all of the network types being observed in the field.

It is during this phase of evolving terminology that the term “commodity” got replaced with the word “value” because of popular connotations of the word “commodity” with undifferentiated products, especially primary products such as crude oil and bulk agricultural goods, and because the term “value” captured both the concept of “value added,” which fit well with the chain metaphor and focused attention on the main source of economic development: the application of human effort, often amplified by machines, to generate returns on invested capital (Sturgeon, 2008).

2.3.1 Emergence of the Global Value Chain (GVC) Approach

GVCs are “sets of inter-firm networks which connect manufacturers, suppliers and sub-contractors in global industries, to each other” (Bair, 2005 p: 156). GVCs are characterized by socially defined and shifting boundaries, different degrees of monopolization, variations in geographical extensions, different property arrangements and different modes of labour control (Fold and Larsen, 2008). As a development-oriented tool, GVC analysis largely deals with examining “the diversity of insertion of developing countries in international trade and seeks to identify the opportunities they offer” (Daviron and Ponte 2005 cited in Werth, 2008)

2.3.2 Effects of the GVC approach on developing country firms

a) Growing Inequality of Trade

Raphael Kaplinksy of the Institute of Development Studies (IDS), Sussex mentions a paradoxical situation where globalization of economic activity was increasingly associated with growing inequality within and between countries and increasing impoverishment because the returns of this increased globalization was skewed towards consumers with good incomes. The returns of economic activity were rarely globalised but limited to few firms, or buyers. Producers rarely had
access to corresponding returns. They were instead faced with increased wages of skilled people and lower wages of unskilled workers.

b) Immiserization of Growth.

Manufacturing industries have had traditionally higher real wages and less volatile prices than primary or agricultural sectors, but globalization of manufacturing is making the terms of trade for developing countries worse, causing wages to rise, while unskilled wages remained low. This is called immiserizing growth. This means that despite more economic activity, lower returns or incomes occur. This may be because the manufactured products are similarly being produced elsewhere or the cycle is cost intensive, or quality regulations are raising final product costs beyond what is feasible for producers. Though the reasons for immiserization of growth may be many, companies are forced to continually search for new markets, develop new products, reduce manufacturing time and emphasize continuous learning. Originally it was seen in primary and agricultural producers. Now it is seen in manufacturing of technically intensive goods as well. In East Asia, for example, during the early 1990's, many developing countries entered the DRAM semiconductor market. In the process, the price of DRAM chips fell to US$2 from $50. The only way they could compete in the world economy was to continually lower their prices, contributing to the financial meltdown (Kaplinsky & Morris, 2001).

c) Effects on Local firms.

Local firms in developing countries often lack specific knowledge about what affects their outcomes. How their profits are influenced for example, by increased concentration in the retail sectors in the US or UK, what are the needs of these markets, etc, is not easily understood. Learning about how their performance, in terms of costs, quality, flexibility and speed – compares with that of competitors in other regions or countries helps understand how their skills and incomes can be improved. Globalization of product markets has caused workers and enterprises to be linked across national and international boundaries (McCormick & Schmitz, 2002).
d) Global Sourcing and the ‘Stickiness’ Of Markets to Supplier Hubs

The relatively new aspects that make globalization different from earlier stages is the international division of labor, i.e. the ability of producers to slice up the value chain. That is, breaking up the production process into many geographically separated steps (Krugman, 1995). A good is produced in a number of stages adding value at each stage. Producers locate the different stages such that it improves access to resources and capabilities and facilitates penetration of newly expanding markets. The process of slicing up the value chain provides greater room for developing countries to specialize in the labor intensive stages of the manufacturing process of a commodity which as a whole might be capital intensive. This increases opportunities for developing countries to participate and gain from trade. In the apparel industry, globalization and production activities has meant that a garment can be designed in New York, produced by fabric made in the Republic of Korea, cut in Hong Kong and assembled in China for eventual distribution in the UK or US (Weller, 2003; Hassler, 2005).

e) Allocation of differentiated competencies

World economy has changed significantly over the past several decades, especially in the areas of international trade and industrial organization. The new economy is characterized by the globalization of production and trade. This in itself has enabled industrial capability building in many developing countries (Gereffi et al, 2005). Another significant feature of the global new industrialization has been the vertical disintegration of transnational corporations which have reoriented their business models to keep core and high value adding activities on often intangible competencies while reducing direct ownership over non core functions such as generic processes and volume based functions (Gereffi, 2011).

2.3.3 Problems faced by supply side firms

Value chain analysis is still at an early stage, and research is on to strengthen concepts, to develop useful taxonomies and research tools and to identify leverage points for action. There has been a strong need among activists
and practitioners, and researchers for a methodology manual to increase robustness of the research and to aid in collection and interpretation of location specific information. Informally the goal of value chain research is to identify ‘winners’ and losers’ and how the gains of globalization can reach local firms (McCormick & Schmitz, 2002).

2.3.4 Benefits of global value chain analysis

Value chain analysis is useful at a conceptual and a practical level. Conceptually it shows the process by which value is created. This value that is added to products is not accrued only through the production process but through the combination of activities all of which contribute to its final value. In many cases the value that is added through the processes such as designing, the production of certain key components, is higher than the value of final assembly operations. This has important implications for workers, and more so if they are within developing country firms which often undertake assembly, production or lower value added activities (McCormick, 2002)

For firms in developing countries, the positions that they usually are in within the global value chain are in activities that are less beneficial or less income generating. They may also be dealing in primary products or land based commodities or dealing with mass or assembly based activities, which require less skill or knowledge components. This is crucial especially when developing countries’ trade policy is increasingly directed towards acquiring a greater share of world trade.

McCormick (2002) has identified the benefits of value chain analysis as:

a) Understanding Problems of Market Access

Though firms may decrease barriers to trade through the elimination of tariffs, or preferential agreements, this alone may not enable producing firms to increase their volume of export. In many ways the ability to increase export volume is related to gaining access to ‘lead’ or controlling firms, large multinationals or retail giants, or technically superior producers which very often
control these networks or chains. Larger firms and those with international connections rather than smaller producers are more likely to gain access into these networks. In this regard, understanding the kind of chain in which firms operate is important, to understand the avenues of growth open to such firms in an international marketplace.

b) Acquiring Production Capability

When firms become part of networks, they are required to upgrade or increase their capabilities in terms of reducing cost, increasing quality and increasing speed. They are also supposed to make these changes in short durations, causing the developing country firms to be faced with challenges to meet these needs. They are aided, very often by these very same firms, through transmission of best practices, hands on advice on how to raise production flows and raise workers skill. This combination of high support and high demands on the firms has shown to yield benefits to firms ensconced in relatively underdeveloped regions.

c) Understanding the Distribution of Gains along the Chains

How do firms gain from being part of value chains? This is related to the activities they perform, and the extent to which they are involved in decision making related to the output of the chain. Competencies such as design, branding and marketing commands high returns but are difficult for developing country firms to acquire. On the other hand, production centered activities are directed towards manufacturing to specifications, which many supplying firms are capable of, and in which the competition is intense and returns are low.

d) Finding Leverage Points for Policy and Organizing Initiatives

By using value chain analysis, it becomes possible for policy makers to understand the points where the gains can be improved for the producing firms. Which firms control flows of information and crucial knowledge? How can producers gain access to such flows, which may in the long run, benefit the firm,
because of the higher value that accrues to such higher order activities? It also becomes possible to exert leverage on these ‘lead’ firms to ensure that labour and environmental standards are not short changed in the continuous run for profit.

e) **Identifying funnels for technical assistance**

Multilateral and bilateral donor agencies wanting to provide effective technical assistance to developing country producers are looking towards value chains as a way of reaching out to small and medium producers. Though still in a nascent stage, this is a means of ensuring that immiserisation of growth does not happen for smaller firms in producing countries.

### 2.4 India’s Textile and Apparel Trade

#### 2.4.1 The Indian Textile Scenario

It may be said that the structure of the Indian textiles and clothing industry has been deeply affected by decades of warped policy actions that emphasized self reliance or non-dependent manufacture of goods or production possibilities as a necessary outcome of the independence struggle. The government’s licensing and reservation policy (reserving portions of the supply chain for small firms) has kept the industry small in scale with a few large companies other than in the spinning mill sector. The garment sector was reserved for small firms till 2000. Unlike China, large scale has never been the defining feature of the Indian garment industry. India’s history of small batch production driven in part by its domestic licensing regime and its policy of reserving apparel production for small firms as well as its mixed cost advantages have pushed the Indian apparel and textile industry towards an upgrading path that is different from several of its competitors (Tewari, 2001)

This upgrading path has involved learning how to manage variability and quality within small batch (quasi specialized production rather than shifting towards streamlined full package volume production through a majority of firms emphasize the importance of scaling up.
Given the emphasis on export growth performance it is especially important to understand the nature of global production systems that shape the insertion of third world countries like India into the international economy. The textile and apparel complex, despite its status as a declining sector in developed countries represents the leading edge of economic globalization for many third world countries, including India even as technology change, asset formation, skill premiums and productivity increases shift resources towards more dynamic sectors of a modernizing economy.

The textile and apparel industry has remained a crucial manufacturing sector in many industrial economies and is often one of the leading employees (Tewari, 2001). The main factors which have contributed to the globalization of world apparel industry are the labour intensive nature of apparel production technology, the loss of comparative cost advantages of developed countries, drastic decline in transport and communication costs, search for production sites with lower labour costs and the shift in apparel exports form more restricted to less restricted among the developing countries due to discriminatory nature of the restrictions imposed by the MFA.

2.4.2 Emphasis on Small Scale Production

India’s history of small batch production driven in part by its domestic licensing regime and its policy of reserving apparel production for small firms, as well as its mixed cost advantages (low cost have been undercut by relatively low productivity ) have pushed the Indian apparel and textile industry towards an upgrading path that is different from several of its competitors. This upgrading path has involved learning how to manage variability, cost and quality within small batch (quasi specialized) production, rather than shifting towards streamlined full package volume production though a majority of firms emphasize the importance of scaling up (Tewari, 2001).

These upgrading strategies are occurring not only within and through the global value chains that the literature has shown govern much of the trade in...
textiles but frequently outside of them even if in interaction with them. Despite the dominant role that lead industrialized country buyers play in coordinating market access, there are circumstances under which firms that are not part of powerful value chains can upgrade themselves and penetrate global markets.

Alternative bundles of comparative advantage can provide firms access to niches outside of chains controlled by mega buyers. Firms that are adjusting successfully are drawing on new sources of learning and developing a global strategy that builds on comparative advantages other than cheap labour, namely on their capabilities to manage and distribute labour intensive goods produced in short runs and small batches and variable designs and demand (Tewari, 1999).

An emerging economy like India must be subject to intense competition from other countries as it confers most favoured nation status to its other trading partners as a member of the WTO. In the rush to remain relevant in global trade networks, must a sacrifice be made by the smaller producers and craft/skill based producers whose very weakness is their individual oriented skill or craft?

2.4.3 The Kannur home furnishing industry

The Kannur home furnishing industry is located in and around Kannur district in the North of Kerala. It has one of the largest concentrations of looms in Kerala, along with Kozhikode districts and has a distinctive product range that includes furnishing oriented hand-woven linen for bedrooms, bathrooms and kitchen. These two districts generate greater than 85% of the total textile exports from Kerala and is a cluster that is entirely export oriented in its product range. It has been catering to international tastes from as far back as in the 1950s, when the first exports of bed sheets and body coverings (‘mundu’) left the country. It has survived several radically different governments, a vast labour force in the form of traditional handloom weavers who have plied their trade from the 1940s. It is a cluster that has been surprisingly remote, located in the northern part of Kerala, and devoid of any real infrastructural investment for several decades. In spite of
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this it continues to win the hearts of buyers abroad, and has further extended its product range into higher value added segments. What has been the driving force behind its continued existence? What has been the enablers of this cluster that achieved the prestigious status of ‘Town of Export Excellence’ in 2006, one of nine towns in India, and the first in Kerala to achieve this, as a recognition of its contribution to the export trade, in the face of nonexistent infrastructural support.

Kannur handloom furnishings have a history that goes back to the 1800s, and is interspersed with the independence struggle, the missionary work of the early Christian movements and the setting up of handloom weaving factories on the lines of German looms from Mangalore to Calicut, to provide employment to converts.

Handloom exports started in the early 1950s with the strong entrepreneurial skills of the Kannur handloom mill owners. It is notable that export happened only from Kannur despite handlooms, as a cottage industry existing throughout the state. The following is the recorded volume of exports from Kannur as specified by the KTEO (Kannur Textile Exporter’s Association).

2003-04 : Rs.260 Crores
2004-05 : Rs.270 Crores
2005-06 : Rs.280 Crores
2006-07 : Rs.310 Crores
2007-08 : Rs.325 Crores
2008-09 : Rs.290 Crores
2009-10 : Rs.225 Crores

(Discussion with Secretary, KTEO, 25/10/2010)

It can be seen that the global recession has had a debilitating effect on the Industry’s fortunes. Added to this has been the negative effect of the raw material price increases, especially of cotton bales. The weakening dollar has also put
pressure on exporter’s margins, as prices would have been fixed six months in advance, but the currency fluctuation added to the woes of this sector.

Out of fifty two leading handloom exporters in India eight are based in Kannur. In 2005 it was given the recognition as ‘Town Of Export Excellence, one among nine such towns to be awarded this recognition in India, and that too without the government led infrastructure required for exports.

2.4.4 Using the VC approach to study cluster advantages

In a cluster like Kannur, in the business of exports for decades, individual efficiency is less important than how these firms get access to lead firms controlling the value chain and how these supplying companies can suit their specifications. This often negatively affects the smaller producers and supply side participants negatively. Understanding how employment intensive traditional sectors can restructure to compete in a global environment is therefore important from the perspective of helping such industries adjust in the short run and from the perspective of strengthening their contribution to the region’s employment and productivity in the long run.

Knowing about how such producer clusters can face up to global competition without being immiserised is the need among policy circles. This is especially true in developing country clusters which have a dual role of providing employment to semi skilled workforce as well as to reap the benefits of clustering as has been shown in other clusters like the knitwear cluster of Tirupur, the woolen garments cluster of Ludhiana, the surgical instruments cluster of Sialkot and the leather shoe cluster of Agra, - all successfully holding out against developed economies, and providing world class products.

A number of studies have focused on the contribution of clusters of industries and how they are inserted into value chains. The Sinos valley shoe cluster of Brazil (Schmitz,1995) and the surgical instrument cluster of Sialkot, Pakistan (Nadvi, 1999) are instances where the collection or group of firms were
able to get access into value chains linked to developed countries with success. In this study though the Kannur based industries are located in a region or district, the aspect of clustering is studied as a rival theory. Can the combined actions of firms or the effects of the support organisations in the region be responsible for the continued export success and access to developed country markets? The firms are taken as the unit of analysis and not the cluster because it would be necessary to compare the cluster with other home furnishing clusters like Karur and Panipat and that is beyond the scope of this study.

2.5 Background of the Study

2.5.1 Historical linkages of the region

The North of Kerala, particularly the districts of Kozhikode and Kannur have a historical background within which the very history of the nation unfolds. Kozhikode was the first landing place of the Portuguese discoverer Vasco-de-Gama and later the Arabs, the Chinese and the Dutch also reached the shores of Kerala for trade (Trade Enquiry Directory, 2002).

Kannur is bound by the Western Ghats on its East- beyond which the hilly terrains of Kodagu and Coorg begin- with the districts of Kozhikode and Wayanad on the South, the Lakshadweep Sea in the West and the Kasargod district in the North. The beaches of Kannur resonate with a replescendent history of trade. Trade in some of the choicest commodities of ancient times like spices, gold, timber and medicinal plants was done from its shores. The arrival of Arabs, Chinese, Dutch and the Romans has exerted their influence on the land and its people (Trade Enquiry Directory, 2002).

Proof of this can be seen in the historical buildings and religious monuments built as a testimony to the patronage of countless visitors on the coastline of North Kerala primarily Kozhikode and Kannur. Mosques, temples, churches and centers of learning dot the landscape of Kannur, built by the visitors to this coast at different time periods. They speak of the presence of Europeans, the
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Chinese, and the Arabs. The Holy Rosary Church is the oldest Catholic Church in Kerala. As early as the 7th century Malik Bin Dina built the first mosque at Madaayi (It was built in the 12th century with white marble from Arabia). Odathil Mosque at Dharmaputnam is over 200 years old. The Sree Rama temple at Tellichery can be traced back to a millennium or more (Trade Enquiry Directory, 2002)

Historical records indicate that the great explorer visited Marco Polo visited the area circa 1250 A.D. Kannur finds mention as ‘Naura’ in the Greek work ‘Periplaeus of the Eritrean Sea’. Fahin, the Buddhist pilgrim and Ibn Batuta, writer and historian of Tangiers have been visitors to this region, thanks to its unique coastline (Mahdi, 1976)

The European maritime powers mainly the Portuguese, followed by the Dutch and the English have left their mark in the form of architectural monuments and stone structures. Fort St. Angelo was built by the Portuguese. So was the seaside fortress of Bekal. Legend goes so far as to say that the ships of Solomon anchored along the coastline of this beautiful seascape to collect timber to build ‘the temple of the Lord.’ Romans send regular fleets from the Red Sea to trade for spices like Black Pepper, Turmeric and Cinnamon. This vast demand for spices prompted the Portuguese to discover the direct sea route to India in 1498.

2.5.2 The Role of the Basel Evangelical Mission in Kannur

The Kerala District Gazetteer (1965) has described in detail the administrative and social progress of the district in the 19th century. The administrative system of the British government centered on the Cannanore district for the Malabar province. Malabar was a province of Madras state under the British rule consisting of three districts, viz; Palghat, Calicut and Cannanore (Weavers Service Center, 2005). In the early 1800s the district saw the establishment of a Civil Sessions Court. The provincial court was converted to a Zillah court and later both these were abolished. In 1875 a Civil and Sessions court was established.
Economic and social well being began to diffuse into all areas of the district with the support not just of a governmental mechanism to maintain law and order but by the role of private bodies as well.

The Basel Evangelical Mission was a religious missionary establishment based in Germany and engaged in missionary work or the spread of Christianity to the ‘heathen’, traditional natives of the then unexplored continents of Asia, Africa and the various islands. Though originated in Germany it had many working stations located in distant continents like Asia and Africa and was established on the philosophy of spreading the gospel (Jayachandran, 2000; Weavers Service Center, 2005; Kurup, 2009).

They entered into India through Karnataka, when the ratification of the East India Company’s charter by the British Parliament in 1833 permitted entry to all Europeans into India (Trade enquiry directory, 2002). The workers of the Basel Evangelical Mission entered Kerala through South Kanana and Coorg and established themselves in Cannanore and further down, in the district of Kozhikode or ‘Kalikut’ as it was then called in 1834. They established their living and working quarters in the northern provinces of Malabar in Kozhikode and Kannur (Thoppian, 2005).

The records speak of the entry of three young men from the Basel mission College, Germany to land in India at Calicut in 1834. They covered the area form Calicut to Mangalore preaching and conversion being their primary duties (Weavers service center, 2002).

It was in 1844 the Basel Mission started a small hand loom weaving factory in Mangalore. Mr. Heller, a trained specialist in weaving came to India from Germany who introduced the first fly shuttle frame loom in 1851. It is said that he introduced the process of dyeing to colour the yarns and the famous Khaki dye was introduced by him. It was prepared out of the rind of cashewnut tree and the extract of the heartwood of the catechu tree (Acacia catechu). This was appreciated by the Superintendent of Police of Mangalore, who found it ideal for using it for the uniforms, because it
blended with nature. It was recommended as the uniform. Another indigenous product was the ‘shikhari’ cloth introduced in the Mangalore weaving unit. It was a big success as the cloth became used for uniforms and other clothing needs. The success of the factory made the mission to start more units in mission stations like Cannanore in 1852 and Calicut in 1859. In 1859 the first weaving factory at Calicut was started. It was a landmark of the handloom industry and was known as the Common Wealth Trust (India) Ltd (Weavers Service Center, 2002).

Trained carpenters from Germany were summoned to make the frame looms locally. The fly shuttle frame looms began to be used over the entire belt of Malabar that enabled weavers to shift to heavier furnishings, dress materials.

The dhotis woven in the mission factories were called ‘mission mundu’. Items like check shirting, suiting, bed spreads, towels, satin cloth etc bean to be produced by these factories (Weavers Service Center, 2005).

2.5.3 Objectives of the Basel Mission

The objectives of the mission was

a) To provide employment to the unemployed and hungry people of south India.

b) To finance missionary stations for the sales of manufactured products.

c) To convert willing persons to Christian faith.

As the activity of conversion undertaken by the mission progressed, more of the native Keralites became ostracized by their communities. They were deprived by their traditional jobs or employment and rejected by the traditional community (Kurup, 2009).

The Basel Evangelical Mission opened weaving mills in Cannanore even in the 19th century and this helped to quicken the pace of industrial development in the district. The mission had a significant role in building up the educational and social
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spheres of the district. They were the pioneers of Western education in the Malabar region and their influence can be felt up to Mangalore and coastal Karnataka where they had a number of industrial and social service establishments (Menon, 1965).

The first English school in North Malabar was opened at Thalassery on the first of March, 1856. It was called the Brennen school, Tellichery which later became Government Brennen College. It was started by Edward Brennen, Master attendant of Tellichery in 1862 with his donation of eight thousand nine hundred rupees. Hermann Gundert who wrote the first dictionary in Malayalam was also one of the founders of the BEM and was the first Government Inspector of schools for Malabar and South Canara (Kerala district Gazetteer, 1965).

2.5.4 Historical origin of handlooms in Kannur

From the 18th century, up to the middle of the 19th century, the system of attire was only to cover the lower half of the body for both males and females, with upper castes of women having the privilege to cover themselves reasonably. Despite a historical limitation on the use of fabric as clothing for their bodies, records of literature like the Greek work ‘Periplus of the Eritrean Sea’ speak of silk cloth being exported from the port of Kodungaloor (the Muziris) in the 1st century A.D. The origin of the cloth has not been mentioned but one can say that in Kerala textile production was carried out about 2000 years back (Trade enquiry directory, 2002).

Handloom textile manufacturing is a craft that has developed in step with human civilization itself. Handloom weaving and cloth making has been prevalent in India as a traditional cottage industry in almost all states, which accounts for India’s strong regional specialization of weaving and craft development. Even within a small state like Kerala regional changes of looms used, pre and post loom activities and allotment of work is specifically followed. Organization of work, design and product development and marketing practices or clientele preferring those products are well designated. This is also specific to castes which have carried out the trade as well as practice or occupation of weaving taken up by birth.
The princely states in Kerala had families in the traditions of royalty who followed the practice of bringing traditional weavers into the region. The ‘saliyas’ or ‘chaliyas’ traditionally took up spinning and weaving as they were caste based activities. They were brought from the neighboring states of Karnataka and Tamil Nadu to meet the clothing needs of royalty. The Rajas of Chirakkal were one among many of the ruling families who brought in these community weavers and they were allotted land and living quarters in the form of streets or ‘therus’ in particular localities or regions, which are even now, concentrated living spaces of the Saliya caste in Kannur. This were a form of community living where family members were assigned specific roles and gender based demarcation of duties was evident with many pre loom activities and preparatory activities like warping, weft winding, sizing involving many family members with different skill levels. They carried out the related activities people- were carried out in the community on a continuous basis (Jayachandran, 2005; Barathan, 2005). These settlements or ‘therus’ where Saliyas lived and worked is a feature of Kannur as well. Their origin is from different states of south India and their community ties strong.

2.5.5 Early forms of weaving

The Saliya community used the traditional pit loom for weaving. This was a pit about 2 feet wide, 3 feet in length and 2 ½ feet depth. The loom or weaving implements was made of branches of wood, sticks or bamboo which was mounted over these pits. Though it was primitive even the first silk saris of Kanchipuram was made with these system. It was predominant during the 16th and 17th centuries over many parts of India and this was the traditional cloth weaving method followed by weaver based castes.

2.5.6 Origin of the frame loom

As the missionary work progressed one of the necessities was to establish trades or employable practices that could be taught to the community, and thus enable the financing of these mission. As part of their philosophy and economic well being, they needed to establish trades that would yield profit and attract
others to the mission. It became the responsibility of the mission to provide employment for converts. As the entire administrative framework of missionaries was based on the use of manufactured or finished products to finance their missionary stations they had a strong focus on innovations. Among the missionaries were experts in lithographic printing, photography, watch and clock making and tile or brick making. Missionaries proficient in weaving were also many. Their philosophy was to try and establish a trade or practice that could be taught without much difficulty to the illiterate (in western subjects and practices), could use locally available materials and would generate enough volumes of finished products that would be bought or traded in the community for currency or other services. They focused on the making of technological or product changes enabling the local population to be employed and to earn enough to survive. They introduced tile making and cloth weaving as income generating trades (Kurup, 2009).

History indicates that it was the Basel mission who introduced the ‘frame’ loom in 1836, in the form it is found today. Called the ‘Maggham’, these first looms were imported from Germany, according to the directives of Herman Hesse a weaving expert. The first concentration of looms in Malabar was located in Nettur and Chombala in the suburbs of Thalassery and Badagara. The frame loom was developed as a product alternative to the use of the kuzhithari or pit loom. Instead of pits over which wooden planks were put, looms with a wooden frame erected on four wooden stands were arranged with comfortable seating. The advantage was that a weaver could peddle the loom with his feet. The ‘shuttle’ could be thrown by beating of the shutter by hand rather than placing it through the yarns (Thoppian, 2005; Jayachandran, 2005).

In 1844, the Basel mission started a weaving factory on a small scale in Mangalore. In the year 1851, Mr. Heller, an expert in weaving arrived from Germany. A technical expert, he introduced the fly wheel shuttle that was being
made in Germany. Even now it is being used in the Malabar area. Basel mission established weaving factories in Kannur and Calicut in 1852 and 1859.

2.5.7 Initial products and commercialization

It is interesting to note that the initial products were the ‘mundu’ or dhothi, called mission mundu, because of the role of the Basel Evangelical Mission. The products received wide acceptance in the community as these products were preferred for important functions. ‘Mission shop’ in the local parlance of the time referred to factories of the Mission. ‘Mission mundu’ was prestigious attire at functions in the locality.

‘Khaki’ cloth was an innovation of the Mission, at that time, where coarse cloth was dyed with a dark vegetable based pigment prepared from boiling the cashew, and applied to yarn which was soaked in water for 1-2 days. They acquired a dark brown coloring and the rough fabric woven out of this yarn became a preferred item for defense and police force. The colour ‘khaki’ originated from Mission activities at Mangalore.

Further development came in the use of new practices which enabled weaving of check shirts- criss crossing of singe yarn on the weft sheet done by the application of starch, making it stiff and able to be passed through the weft with the help of the fly wheel shuttle. Woven designs of more intricacy became possible by using more number of treadles, installation of jacquards etc into the frame loom. Bed sheets of colored yarn began to be a favored product. By 1859 export of handloom textile, through agents from the north of India was in full swing. This was mainly to neighboring countries of Burma, Bangladesh and Sri Lanka.

2.6 Initial Export initiatives

Though introduced by the Basel mission as a means of subsistence, handloom weaving began to be taken up by others in the community as a preferred trade. From a cottage industry it shifted to a factory system. Family members came in as laborers or weaving staff, with a division of labor among these
members. It may be said that this became possible by the ties of the community to the art of weaving. The Saliyas, who were weaver castes brought into the region at an earlier period, and whose community and family organization into ‘therus’ was to aid the establishment of weaving - thus took to weaving on frame looms with little difficulty.

The Mission itself began to commercialize their weaving operations – with the construction of single storied halls- where women and men worked side by side, on the hand spinning and handloom units. As the interest among the natives grew, they started similar weaving centers at Chovva and Chombala. The Missionary William Peter Schoenthal who came to Kannur in 1874 through an advertisement for a weaving expert in south India, by the BEM in Germany was instrumental in driving the initial commercialization of the industry. He seems to have played a key role in setting up of factories in different areas of Kannur and Calicut and later in giving loans to farmers to grow cotton, desirous of greater supplies of cotton fibre to increase factory production. It may be said that a backward integration was considered important even at that time (Kurup, 2009).

As the handloom and spinning factory flourished an additional factory to accommodate more employees was built by him after much effort to obtain additional funds from Germany. This housed an electrically operated spinning machine, made in Torrington, England in 1896 that enabled the production of a fine quality of woven satin cotton. The satin cotton bed sheet produced by the region, and hugely popular among domestic and export buyers especially of the weaver cooperatives of the region is a hallmark of the region even today.

During the World War I the German missionaries had to leave behind their social educational and commercial contributions, a legacy that was imbibed by the local people of the region, and who carried forward their values of organized and demarcated work, German precision and attention to detail and a strong commitment to the systematic processes that they emphasized on, in the creation of a final, superior product.
2.6.1 Evolution of the export trade

It can be said from the discussion of the historical background of the roots of the industry that the Basel mission had a central role to play in developing the district as a handloom textile center. Slowly it began to attract budding entrepreneurs. One of the pioneers was Samuel Santhosh- a Christian convert from a Thiyya community. He started a small factory in 1890. Choorakkadan Aaron, another convert also started a small weaving factory. He married Emma, the daughter of Samuel and the two companies were amalgamated.

They had a son in 1894, C. Samuel Aaron, who by his early forties became a major industrialist. In 1936 he started the Aaron Spinning and Weaving Mills Ltd at Pappinassery in Kannur. A visionary, he started an industrial training center at Kulappuram and purchased huge tracts of land for setting up large scale factories with power looms. He took over the large factory established by the missionaries in 1852 under the “Commonwealth Trust” which was the first registered company under the Companies Act. He disposed of it in the 1960s – the premise changed hands many times and later came to be known as the Thiruvepathy Mills Pvt Ltd (Jayachandran, 2005, Thoppian, 2005, Weavers Service Center, 2005).

Shri Samuel Aaron recognized the need of catering to market needs. One such need was for fabric finishing to smoothen the woven fabric. The Cannanore Dyeing and Finishing now called Malabar Dyeing Ltd was established by him. It housed the first cloth calendaring machine which enabled smoothening of the finished fabric and made possible product categories like shirting, dress materials and finishing cloth (Kurup, 2009).

2.6.2 Community building through the handloom enterprise

The next two decades saw the entry of many entrepreneurs – who were either, converts belonging to the Saliya community, or people from the Ezhava or Thiyya community. The social reform movement of Sree Narayana Guru and his
follower Kumaran Asan was to convert the traditional trades or caste trades of the Thiyyas, which was toddy tapping, to other socially and morally uplifting occupations. This drive towards changing the social degradation of the Ezhavas was started just as the handloom weaving industry began to take root. This resulted in many Ezhavas and Thiyyas looking to handloom weaving as an occupation of choice to enable them to live with dignity and uplift them from poverty.

Shri A. K. Nair, an “industrialist, spiritualist and philanthropist” was another pioneer establishing large weaving factories. He established the Raja Rajeshwari Weaving Mills in 1927 which even now continue to export products to first generation buyers, most of whom have a thirty year relationship with the firm. Shri. C. M. Sekharan was another giant of the weaving industry- a traditional Saliya Weaver; he developed his own mills in 1930 and later acquired the huge factory established by Shri Samuel Aaron at Kolapuram. The Mascot Weaving Company was started by him in 1935.

In the post independence period, the handloom industry localized at Kannur and Calicut was thriving due to the establishment of many private weaving factories. In the Kerala District Gazetteer of Kannur (1965) it is mentioned that the most important large scale organized industries of the district were handloom and cotton textiles, timber and plywood, fiber foam, splints and veneers, bricks and tiles, beedi and cigarettes. A census of the distribution of factories in 1964 list 194 cotton textile mills providing employment to 7605 workers- clearly the legacy of the Basel Mission to provide decent, financially rewarding work (Menon, 1965).

By the onset of the 1960s the cooperative movement got underway and the cooperative societies became established where workers were once assured of consistent work and reasonable wages. In 1964 there were 35 primary weavers’ cooperatives and 5 factory weavers’ industrial cooperatives.
2.6.3 Unique Organization of work

A unique feature of the region evolved in the nature of work flows among the different establishment in the region. After the second world war during which many factories closed, a few were transformed into cooperative societies to enable continuous work. Further during 1950s traditional markets of Ceylon, Burma, Bangladesh and Singapore tapered down due to deterioration in country relationships. In the 1950s and 1960s a three tier structure of work organization characterized the industry. Factories in the private sector, cooperative societies and single loom owners who did not belong to other groups worked together. The cooperative societies and the single loom owners serving the larger factories, and all three benefited. The larger factories produced quality textiles for export (trade journal) they also produced for large scale textile brands in India. Cooperative societies used to produce products for larger firms and also for domestic market. They had access to markets in the north of the country. These were through commission agents from the major markets in the north (Trade Enquiry Directory, 2002).

The three factors which characterized products from Kannur were quality, texture and design- maintained by a tradition of weaving masters, expert weavers and dyeing masters- in all likelihood trained by missionaries themselves. A remarkable aspect was the ability to procure good quality shirting and lungies. Cheaper items needed for local population as well as high class varieties of bed spreads, window curtains, and Turkish towels. Factory owners and laborers have said to have maintained close relationships to enable the sector to benefit (Kurup, 2009).