

The rattan-based industry in Kerala, India in the wake of globalization

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Abstract: A change in the policy approach of the Indian government from providing protection to capacity enhancement as a consequence of globalization since 1991 has left its mark on all sectors in the economy. The rattan-based industry in Kerala, India which was initially the prerogative of the indigenous people has become more organised and market-oriented. A comparison of selected variables namely, the structure of capital, profitability, value addition, and marketing of the products before and after 1991 has revealed some interesting trends. The study highlighted the inefficiency of the cooperative sector during globalization because of its inability to withstand competition within the industry and to mobilise capital and also to overcome administrative weakness. The globalization process brought about change in the ownership pattern in the private sector. The cost of production indicated a reduction in the percentage share of raw materials and electricity due to lay-off. It also showed only a marginal increase in the percentage share of labour cost. In the marketing front, the industry has witnessed significant changes. Before 1991, the marketing of rattan products was mostly confined to within Kerala. But, at present about 55 per cent units export their products to other states, of which 20 per cent of them export to other countries also, aiming to get a higher price for the products. In addition, product diversification, sales promotion activities, like publicity through the print and electronic media, and quality control are being undertaken to capture the market. While globalization opens up new opportunities for the rattan industrialists, it has had an adverse impact on the livelihood security of the workers.

Key words: Rattan-based industry, globalization, private sector, profitability, value addition, marketing.

INTRODUCTION

There has been a paradigm shift in the National Economic Policy in India since 1991 towards liberalization and globalization and consequently, a change in the policy approach from protection towards capability enhancement in the industrial sector (Subrahmanian, 2004). Globalization refers to integrating economies around the world, particularly through trade and financial flows (IMF, 2000). More specifically, it narrows down geographic distance and also leads to interaction and integration of not only the different segments of the economy, but also economies of the other countries

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through international trade, exchange of labour and technology, capital flow, among others. Rattan-based industry in Kerala State of India is engaged mainly in the production of furniture and handicrafts including baskets, the former accounting for 95 per cent (Muraleedharan *et al.*, 2002). This industry was a part of the feudal system that existed in Kerala till the second half of the twentieth century. Since then commercialization occurred slowly and production in the industry has become more organized and market-oriented. Further, some units attempted to diversify the production, adopted quality control and sales promotion activities to capture the opportunities in foreign markets, thus reaping the benefits of globalization. It is generally said that globalization affects all sectors in the economy either negatively or positively. In this paper, an attempt has been made to trace the changes that have occurred in the rattan-based industry during the globalization period, by comparing some selected variables such as the structure of capital, profitability, value addition, and marketing of products before and after 1991.

METHODS

Rattan resources in India are mainly distributed in the southern region, northeastern region and the Andaman and Nicobar Islands. Kerala, lying between 8° 18' and 12° 48' North latitudes and between 74° 52' and 77° 22' East longitudes, is one of the southern states in India, where rattan-based industry is concentrated. Of the total geographical area of 38,863 km², natural forests in the state occupy an area of 7870 km². Rattan is found mostly in the natural forests, particularly in evergreen and semi-evergreen forests.

In the past, the Kerala Forest Research Institute had conducted studies on socio-economic aspects of rattan-based industry in Kerala for which detailed surveys were conducted during 1989-'90 and 1993-'94. To understand the nature of changes in the structure, marketing and profitability of the industry in the recent period, two socio-economic surveys were also carried out in 2000-'01 and 2004-'05. During 1989-'90 and 1993-'94, socio-economic data were collected from 25 private and 10 co-operative rattan processing (furniture) units which were randomly selected from units located in different districts in the state.

In the latest survey during 2004-'05, it was found that none of the selected co-operative units was operating properly and thus data were collected from private units which existed during earlier surveys. Data collected were also supplemented with the information collected from forest officials, rattan traders, and workers. To understand the changes during globalization period, data collected during 1989-'90 and 2004-'05 were compared.

RATTAN-BASED INDUSTRY

The origin of rattan-based industry in Kerala can be traced back to many centuries. In the past, processing was done exclusively by indigenous people dwelling in the forests, with basketry as the main occupation. The rattan workers were, in most cases, bonded labourers attached to some landlords. Until the 1950s, rattan was available in large quantities in the natural forests; the rattan workers, with the collected rattan, visited customers at their houses and made furniture according to their requirement (Renuka, 1986).

The first organised rattan processing unit was established during the Second Five Year Plan (1955-60) period (Muraleedharan and Shankar, 1994). But later on when the state government offered incentives by way of grants, training and subsidised raw materials, a large number of units were established in the state. Another significant development of the sector was the formation of co-operative societies. There were about 25 co-operative societies fully or partially engaged in rattan processing in 1984. A remarkable growth in private sector was recorded, *i.e.* from three units in 1955-'56 to 175 units in 1983-'84 (Muraleedharan, 1995). Due to shortage of raw materials since 1983-'84, there has been a gradual decline in the growth of the industry and several units suffered a setback. This grave situation got aggravated further with the Forest Department imposing a curb on harvesting rattan during 1983-'90. The number of units fell down to 10 co-operative and 50 private units in 1988-'89, of which most were working below production capacity. This situation changed for the better when some traders started importing raw materials from northeastern region of the country and the Andaman Islands coupled with the commencement of rattan harvesting in the state during 1990s, resulting in establishment of new units. There are about 75 industrial units functioning in the state of which a majority are working far below capacity due to a variety of reasons such as non-availability of adequate raw materials and skilled workers.

The household level and the cottage industry level production were two major systems that existed in the rattan-based industry in Kerala before 1991. Generally, while handicrafts including baskets were produced in households, furniture making took place exclusively in cottage industry. The latest survey (2004-'05) highlighted that there was shrinkage of activities in the household sector and basket production was also taken to the cottage industry. Because of availability of substitutes and increasing prices of rattan, baskets in small quantity are produced with unused/waste materials in the furniture units.

The rattan-based industry in Kerala has some distinct features: Tiny private units carry out processing and give employment to socially and economically weaker sections; these units employ labour intensive methods of production and low mechanisation. The rattan-based industry is grouped under the unorganized sector and is one of the worst-affected due to low availability of raw materials.

Raw material supply

The natural forests, sacred groves and imports are the three sources from which raw materials are obtained to the industrial units/artisans. Kerala State Scheduled Caste Scheduled Tribe Development Co-operative Federation (Federation) is the authorised agency for collection of rattan from forests. Federation, being an apex body of Scheduled Caste and Scheduled Tribe Service Co-operative Societies (co-operative societies) in the state, supplies rattan collected from the forests to the societies at a subsidised price. In Kerala, rattan is collected from the forests only in certain years owing to poor growing stock. For instance, in 1991-'92 and 1992-'93, there was extraction in some Forest Ranges in the state, but the next extraction took place only in 1997-'98 and 2000-2001. Further, the total number of rattan extracted also showed variations; for instance, a total of 203,690 and 249,992 numbers in 1991-'92 and 1992-'93 respectively which dwindled to 29,078 in 1997-'98 and further to 10,548 in 2000-2001 and after that there was no rattan extraction from the forests by the Forest Department in the state.

The sacred groves are another source from where artisans collect rattan for their use. But supply from this source is very meager (Mohanan and Muraleedharan, 1988). Import, particularly from Assam and Arunachal Pradesh, two northeastern states in the country, is the main source of raw material. There are about 10 rattan traders in Kerala of whom six import rattan regularly. Totally, they import nearly 160-200 truck loads of rattan per year. Each truck load contains about 400 bundles of rattan, consisting of 20 numbers each in a bundle (3.6 m long poles). The import price of one truck load of rattan during 1988-'89 was estimated as Indian Rupees (Rs.) 150,000 (1US \$ = Rs.45), which increased to Rs. 250,000 in 2000-'01 and Rs. 350,000 in 2004-'05.

A rattan furniture unit generally requires rattan species with different diameters: thick (> 2.5 cm) for frames, medium (1.5-2.5 cm) for support, small (0.6-1.5 cm) and split rattan for weaving. A look at the average prices of different varieties of rattan (standard length of 3.6 m) charged by rattan traders in Kerala in different periods (Table 1), indicated a manifold increase in the price during the period 1989-'90 to 2004-'05. This increase is probably due to low availability of rattan from Kerala, high demand, increased tax at collection centres and transportation charges, among others.

Ownership pattern

During 1989-'90, proprietorship was the major form of business organisation in all units in the private sector in which the owner took decisions regarding all aspects of business. Another feature of the private units during this period was that a number of owners were craftsmen who actively participated in the production. However, during the 2004-'05 survey, about 40 per cent of the private units were found to be partnership firms, aiming to enhance the capability by mobilizing capital and only very few owners were craftsmen. In the context of liberalization and globalization, co-operative units

have become more inactive partly due to their inability to withstand competition within the industry and partly due to their inability to mobilize capital and procure adequate raw material at low price and other administrative weaknesses. Further, governmental support too reduced.

Structure and composition of productive capital

Structure and composition of productive capital determine the viability of a unit. Two major components of productive capital are the fixed capital and the working capital. In the processing units, the fixed capital constitutes land, building, including furniture and machinery. Total fixed capital employed per unit amounted to Rs. 16,550 and Rs. 119,650 in 1989-'90 and 2004-'05 respectively, whereas working capital constituted Rs. 39,800 and Rs. 103,250 in the above periods respectively. Investment in machinery increased moderately from Rs. 270 during 1989-'90 to Rs. 15,650 during 2004-'05. The productive capital amounted to Rs. 56,300 and Rs. 222,900 during 1989-'90 and 2004-'05 respectively (Table 2). In 2004-'05 period, both fixed and working capital registered significant rise due to increase of prices of land and raw materials.

Table 1. Average price (Rs.) of four varieties of rattan in Kerala

Items	1989-'90	1993-'94	2000-'01	2004-'05
Thick rattan(1bundle-20 nos.)	142	460	700	900
Medium size(1bundle-20 nos.)	117	280	600	700
Thin size (1 bundle-100 nos.)	172	350	1200	1400
Split rattaus(1bundles-200 nos.)	122	290	700	800

(1 US\$ = Rs. 45)

Table 2. Productive capital (Rs.) employed per unit

Items	1989-'90	2004-'05
Fixed capital		
Land	12264 (74)	56000 (47)*
Building	3996 (24)	48000 (40)
Machinery	290 (2)	15650 (13)
Sub total	16550 (100)	119650 (100)
Working capital		
Raw material	34862 (88)	92000 (89)
Electricity	600 (1)	1350 (1)
Wages	730 (2)	3800 (4)
Salary	-	-
Non-wage benefits	250 (1)	750 (1)
Net balance of assets and liabilities	1235 (3)	1850 (2)
Miscellaneous	2100 (5)	3500 (3)
Sub total	39777 (100)	103250 (100)
Productive capital (fixed plus working)	56327	222900

Figures in parentheses are percentages to total: US\$ = Rs. 45.

Table 3. Total cost (Rs.) incurred per unit

Items	1989-'90	2004-'05
Raw material and electricity	35462 (75.03)	93350 (62.96)
Wages, salary, non-wage benefits	980 (2.07)	4550 (3.07)
Interest	1850 (3.91)	17050 (11.50)
Depreciation	210 (0.44)	800 (0.54)
Rent	1200 (2.54)	4500 (3.04)
Net profit	7560 (16.00)	28000 (18.89)
Total	47262 (100)	148250 (100)

* Figures in parentheses are percentages to total.

Table 4. Constituents of Gross Output (Rs.) per unit

Items	1989-'90	2004-'05
Inputs (raw material and electricity)	35462 (73.77)	93350 (62.93)*
Wages, salary and non-wage benefits	981 (2.03)	4550 (3.07)
Rent	1200 (2.50)	4500 (3.03)
Gross Profit	10430 (21.70)	45930 (30.97)
Total	48073 (100)	148330 (100)

* Figures in parentheses are percentages to total.

Profitability

Costs of production incurred per unit during 1989-'90 and 2004-'05 are presented in Table 3. Except cost of raw material and electricity, all other items showed an increasing trend. The reduction in the cost of raw material and electricity was due to frequent lay-off of some of the units as a result of shortage of raw material and labour. Another trend is that while gross profit increased significantly, the percentage share of cost on labour increased only marginally, which is an indication of poor condition of workers in the industry (Table 4).

This is further corroborated by the value added by manufacture (it is the difference between the cost of goods purchased by an enterprise and value of the products it sells and is worked out by deducting the value of raw materials, fuel and depreciation from gross value of output). For instance, the share of labour in the value added was not only low, but also showed a marginal decline during 2004-'05 (Table 5). The net profit declined to 56 per cent during 2004-'05 from 73 per cent during 1989-'90 because of disproportionate increase of cost of production and sale prices of the products.

Marketing

Marketing of rattan products takes place mainly: (i) within the state, (ii) other states and (iii) export to other countries. Before 1991, 80 per cent of the units marketed

their products within the state and the remaining units both within and outside the state, whereas these were 45 and 55 per cent respectively during 2004-'05. Of the exporting units, 20 per cent exported to other countries also, aiming to get a higher price for their products.

Another interesting aspect is that most exporting units have gone for product diversification and quality control which are essential for getting bulk orders. A recent trend in the industry is sales promotion through advertisement, participation in exhibitions, public relations, *etc.* The exporting units have their own web sites and export licenses. All these lead to escalation of the cost of production over a period of time. However, due to high competition, price received has been only marginally higher than that of cost of production which caused reduction of net profit during 2004-'05 over 1989-'90 (Table 6).

Although the percentage of net profit has declined, a reasonable profit is achieved through marketing (including in other countries) and exploitation of labour. It is true that market promotes efficiency and profitability through competition and division of labour and global markets offer greater opportunity to tap it. But markets do not necessarily ensure that the benefits of increased efficiency are shared by all, particularly the workers in the industry (IMF, 2000). This is evident in the rattan-based industry in the study area. The owners are often reluctant to employ permanent workers, but resort to 'hire and fire' method as and when required, aiming to reduce non-wage benefits and also to implement piece rate system of wages. This is beneficial to the owners and disadvantageous to the workers. As a result, the percentage share of income of the workers increased only marginally during the analysis period. One negative impact of this policy is that some workers migrate from one unit to another seeking

Table 5. Value (Rs.) added by manufacture per unit

Year	Labour	Interest	Net profit	Total
1989-2'90	980 (9.44)	1850 (17.80)	7560 (72.76)	10390 (100)*
2004-2'05	4586 (9.24)	17050 (34.35)	27999 (56.41)	49636 (100)

* Figures in parentheses are percentages to total.

Table 6. Average cost of production and sale price (Rs.) of selected finished rattan products in Kerala

Products	1989-'90		1992-'93		2000-'01		2004-'05	
	Cost	Price	Cost	Price	Cost	Price	Cost	Price
Teapoy	105	170	170	328	350	400	450	460
Easy Chair	235	325	284	431	1100	1150	1200	1250
Dining Chair	145	205	278	417	675	680	750	775
Deluxe Chair	195	265	201	284	690	720	750	800
Round Chair	105	140	239	328	410	425	450	475

better remuneration and this often leads to shortage of labour and lay-off in certain units.

CONCLUSIONS

Taking advantages of liberalization and globalization, the rattan-based industry in Kerala is in a take-off stage. The production has become more organised and market-oriented and now more units attempt to export the products either to other states or to other countries. The awareness of the entrepreneurs about production methods, management techniques and export market has increased. As part of this, many units resort to product diversification, sales promotion and quality control which give better products to the consumers and fetch higher price to the owners. On the contrary, the government has reduced protection measures such as subsidy and supply of raw materials at concessional prices which were offered to the small and co-operative units until recently. This has significantly reduced their ability to face competition in the industry. Because of the globalization, the workers in the industry are worst affected and their livelihood has been threatened.

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