CHAPTER II
(A) OBJECTIVES:

The study defines the following objectives for focus and directions:

- To study the existing pattern of export of readymade garments from India.

- To examine the export scenario of readymade garments to EU and US of certain identified items and to analyze the growth potential in WTO perspective.

- To formulate a suitable marketing strategy for business promotion in the quota free trade regime and to suggest some policy measures in order to sustain as a low income, labour surplus economy.
The study addresses the following issues:

1. The existing characteristics of the Indian garment sector and what niche market segment the Indian merchandise occupies in the world garment industry.

2. The extent to which MFA has deterred trade from the developing nations and the likely impact of the quota free regime on the prospects of garment exports.

3. The impact of WTO Agreements on Indian Textile and Clothing Industry.

4. WTO, environmental and labour standards and India’s textile exports – some implications.
(B) METHODOLOGY:

The study is largely based on secondary literature and published data sources like statistics published by the Apparel Export Promotion Council, by garment industry associations, and by multilateral agencies.

The study has analyzed the existing pattern of the Indian readymade garment industry catering to the export sector. It has also thrown light on India’s competitiveness in the export of some of the ‘identified’ products to the US and EU markets in the post MFA regime. The study has been used to highlight the role of emerging trade policy environment; specifically the role of discriminatory rules of origin in Regional Trading Arrangements (RTAs), tariffs peaks and environmental and labour standard as market access issues relevant to India as one of the developing countries.

For getting a feel of real life situations, some primary information was collected with the help of pre-tested questionnaire and interviews. The information was gathered with some of the leading stakeholders like exporters, manufacturers and
buying agents with the help of questionnaires. The interview sought their views and opinions chiefly in respect of the supply-side bottlenecks that they are facing in India. The supply side framework is based more on opinions shared in the interview than on data/numbers. The inferences about the supply side factors are therefore based on the opinions expressed by exporters of identified products.

The data collected for the study are both quantitative and qualitative in nature. Quantitative data is based on the trade trends of the destination countries as well as the competing countries. Qualitative data in form of non-price factors like adherence of delivery schedule, colorfastness, uses of azoic free dyes etc. has been collected through questionnaires. The secondary data was collected from NIFT, AEPC, FICCI, CII, ICREAR, Government policy issues, magazines, publishers and electronic sources.
(C) LITERATURE REVIEW:

Kale Krishna and Ling Hue Tan have opined that the Multi-Fiber Arrangement (MFA) is among the most important non-tariff trade barriers facing developing countries today. Originating more than twenty years ago, it uses product-specific quotas intended to encourage the expansion of trade, reduce barriers and further the liberalization of world trade in textile products. It has been argued, however, that the MFA may cut off access to major export markets for developing countries, thereby short-circuiting their industrialization process at an early stage.

The authors endeavor is to fill several gaps in the literature on the MFA. First, they more closely examine the various quota implementation rules and their implications by describing how the details of quota implementation differ across countries, modeling some aspects of implementation, and attempting to relate some of the results to actual data. Second, by considering alternative theoretical setups and undertaking some simple econometric tests, they look into the possibility that exporting countries may be receiving less quota rent than suggested by the standard competitive model. A selected number
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in the 1970s to around 2.4 per cent in 1992 (Exim Bank of India 1995) and then to 2.6 per cent by 1994). Economies like Thailand, Indonesia, Bangladesh, Mauritius, Pakistan and Sri Lanka has achieved higher growth rates during this period as compared to that of India (Exim Bank of India, 1996).

Ramaswamy and Gereffi report China, for instance, has more than tripled its share from 4 percent in 1980 to 15.2 percent in 1995. Bangladesh has increased its share to 0.9 percent from near nil exports in the early 1980s.

Tait has revealed that the garment industry in South Asia mainly fall in cotton, semi-fashion, middle price segment with main product category being T-shirts, men’s shirts, ladies’ blouses, ladies’ dresses and skirts. He further provides the distribution of the workforce in the Indian garment industry, which brings out the heterogeneity of the sector but the share of the workforce employed in the export sector is still not very clear. Employment in the ready-made garments industry is around three million, which is only eight per cent of the total workforce in this sector, seen as a segment of the apparel commodity chain.
Singh, Kalpagam, Alam have concluded that time and again, as in many other countries, we observe that labour in the garment industry is subject to harsh working conditions and low wages. Further, given the predominance of ‘informal’ sector activity, legislation with regard to labour markets are less likely to be enforced as compared to other economies.

Frobel, Heinrichs and Kreye are of the view that the characteristics of garment production, as noted earlier, low sunk costs, relative absence of advanced technology and skills, have always induced apparel firms in the advanced capitalist countries to shift labour intensive operations to peripheral economies. Studies supportive of the ‘New International Division of Labour’ hypothesis, in fact, view the process of globalization as a movement from high wage cost regions to low wage cost ones.

Bonacich has observed while in the case of garment manufacture in Europe, shifting of production to low wage regions initially took place mostly within the continent, apparel manufacturers from the United States of America largely initiated movement to other peripheral countries.
reports that the 1980s witnessed the incorporation of other Asian countries with relatively low wage levels like China, Thailand, Indonesia, Sri Lanka, Pakistan, India and Bangladesh into the world garment trade between 1975 and 1990, the share of Third World in the total output of global textiles has increased from 18.6 per cent to 26.1 per cent, and that of clothing from 11.7 per cent to 20.4 per cent. During this period the share of apparel in the exports of the newly industrializing countries (NICs) in fact declined.

observed that garment sector has become a growth pole for economies at lower levels of development like Bangladesh, China, Sri Lanka, Indonesia, India and Thailand.

says the globalization process was paralleled by important changes in organization of the apparel commodity chain. While the initial phase in globalization was dominated by manufacturing capital in the advanced — economies, it was, from the early 1970s, replaced by retail capital. This process was once again facilitated by the requirements of low investment and technology in the industry.

observes the MFA has been revamped thrice since its creation, with each renewal meant to increase the coverage and intensity of the
restrictions. While the MFA sought to impose restrictions on the quantity of different apparel that can be imported from each country, price restrictions were also imposed in the form of duties on other textile products. Discrimination was hierarchical 'Sensitive' products, i.e. items with higher import penetration, met with higher quantitative restrictions. There is a gradation in tariffs imposed as one moves from processed to the final finished garment. The quota system that has evolved under the MFA has exerted considerable influence on the structure of production of apparel. While the main objective of the quota regime is to restrict imports into the European and US markets, it has set in motion a process of quota-imposed economies seeking to avoid the restriction by shifting production to other low wage economies that are yet to face quota restrictions.

Rhee sites that the rise of Bangladesh as a garment exporter is a classic example of the above phenomenon. Many other Asian economies like China, Thailand and Indonesia too benefit from the relocation of manufacturing by firms in NICs to these countries.

Fine and Leopold have opined that fashions have always influenced creation of demand in this industry, especially after the rise of retailers' control of the commodity chain. Given their closeness and greater
understanding of the market than manufacturers, these traders sought to compete through market innovations like new designs and fashion marketing rather than through cost reductions by innovations in production techniques. Here again there are differences across various segments. Women and children's wear is subject to more fashion based design changes as compared to men's wear. Further, socio-economic and related cultural changes have created a general trend in clothing towards more informal and casual wear since the 1970s. Consumption based identities have begun to play a bigger role in marking one's position in the social hierarchy, thereby facilitating the creation of market niches (Underhill 1998). All these factors have led to the rise of distinct segments in the apparel market.

Moody and Wheeler; Hoffman agree that the trend has accentuated in recent years, when it is said that the recession in advanced economies has led to a more skewed distribution of income, creating two distinct market segments. Others point to the rise of post-Fordist life-styles, with consumption being an important marker of one's identity, as responsible for this phenomenon (Underhill 1998; Lash and Urry 1987). The causes notwithstanding, the apparel industry has been divided into two key segments with different characteristics; 1) a vibrant and growing
upmarket fashion segment and ii) a relatively stagnant, low priced and standardized segment.

Rodrik states that global trade and investment patterns tend to privilege capital, especially companies that can move quickly and easily across borders. This is a disadvantage to the labour especially lower-skilled workers that cannot migrate easily or at all to increase their global competitiveness. More and more investors are moving to countries that have low labour costs or shifting to informal employment arrangements.


According to Chatterji and Mohan, India's export begins from 1983/84 and has been marked by a relatively more steady growth. From around Rs.640 crores in 1983/84, it has increased to around Rs.22, 915 crores in 1999 (Exim Bank of India 1995, AEPC, various years)
Chatterji and Mohan have marked that in the initial phases of Indian apparel exports, USSR and Eastern Europe was the biggest importers. Right from the mide-1960s through the mid-1970s, they accounted for roughly over 50 per cent of the market for Indian apparel exports.

Kathuria and Martin quoting Khanna, cite that all successful exporting firms subcontract much less than India. While Indian firms subcontract 74 per cent of their output, countries do not subcontract more than 36 per cent of their output in all other cases.

Maskusen is of the opinion that the sourcing of garments from Japan with still lower wage levels followed the earlier movement of US garment production from the northern part of the country to the less unionized and lower waged southern regions.

Jones has mentioned about the garment industry in Japan subsequent to the economic boom in Japan during this period accompanied by rise in wage rates, manufacturers began to shift production to Hong Kong. From Hong Kong, capital migrated to South Korea and Taiwan to benefit from the lower wages prevalent.
Gereffi has analysed that garment sector has become a growth pole for economies at lower levels of development like Bangladesh.
(D) SWOT ANALYSIS:

Indian garments industry's strength and weaknesses:
Hand - crafted details are very good from India, Madras - checks is an item in high demand and has become a classic and improvement in the basic fabric an strengthen India's position. Dobby weaves, basket weaves, etc. have an endearing quality and this needs to be further strengths. Rayon quality from India is acceptable. India has tremendous strengths in developing samples, and this can be used a substantial extra selling proposition. Printing is extremely good and if basic fabrics and dyes are improved this can be of considerable importance. Casual shirts are of high quality from India. In fashion, price spectrum, India enjoys considerable strength. With creative and innovative fabrics and ideas, India is a major inspiration base for designers. Woven are another strong area for India. Suppliers, sourcing and product development capabilities are major strengths. "Made in India" label has a positive image in the minds of the customers related to casual fashions. Sewing and workmanship are considered acceptable for most of the goods. India's have an urge to do business and they are aggressive marketers. India has some visible strength in young men's fashion. India is good in generating ideas.
To be right the first time and every time is a critical question and here India falters. Response time and quality issue along with delivery from the critical components of fashion business and India is far from satisfactory in these areas. In India, fabric-related problems cause the maximum hurdles owing to weaving defects, less roll length, width variations, etc. Total inspection required of garments is more from India. There is a dearth of aggressive and dedicated agents. The agents do not generally look at market opportunities and are stuck with the same type of garment. Flexibility of Indian production has considerably reduced. Costs are going up and in fabric garments like shirts, orders are moving to other countries like ---- and Bangladesh.

The attitude of Indian exporters is another problem as they are interested to get the shipment out in any manner. The art of giving a straight answer to a straight question is missing in India. The diminishing uniqueness of fabrics and mass production of garments make Indian basic garments look like any other country's thereby killing the unique identity. Vendors in India have an unreliable image. The factories and exporters do not take pride in their work. The need for economies of scale for large factories is pushing India to ask for more quantities and this is resulting in lesser flexibility and commoditization, exerting pressure on price situation. Deliver and communication, which
are essential to success in exports, are given scant attention. Unless the importer works on a whole package programme for India, attractiveness of India as a sourcing base is lost. CMTICMP operations are not feasible as there are too many hassles. Indian machinery is outdated and lack of technological up gradation is stalling the progress. India has not reduced its fabric production time which affects the overall production cycle. Dealing with India requires heavy expenditure on quality control and travel, compared to other countries. A sense of urgency is lacking in India exporters and quality orientation is not sufficient.

Competitor Strength and Weaknesses:

Hong Kong is flexible for die packs in dress-shirts. Chinese sewing quality is extremely good. In countries like China, Indonesia, etc., defective areas in a fabric can be replaced panel-wise before it goes to sewing room. In basic garment pricing, Bangladesh is very strong. In cleanliness compared to India, Philippines, Malaysia & Indonesia are very good. In quality price equation Indonesia is strong. Malaysia is emerging as a quality garment maker especially in knit areas, along with Thailand. They are also good in shirt manufacturing. Philippines is labour intensive and is good in cotton and rayon. Sea – shipment is convenient in Philippines, Bangladesh and Indonesia are not above
delivery problems. Bangladesh and Hong Kong have inflexibility in Production systems. Bangladesh and Indonesia are just manufacturing sources and there is no differentiation or creative scope. Bangladesh is fast till approval stage but production can be slow if not followed up. As piece goods have to be imported, the time can be long. Hong Kong is expensive in product development. Indonesia is burning out faster with increasing prices and less differentiation.

Opportunities:

India can be a major supplier of fabrics to several garment manufacturing countries if the fabric quality can be improved. If the agents are good and are able to portray correct information, there can be substantial improvement. There are many products which start in the Fashion are and become updated basics. Here India has a great chance as these are must have categories in the stock. Woven are becoming important for the budget market and this opens up many new opportunities. Elasticity of product bias is high in the case of basics and lower in the case of fashions. Fashion price spectrum, if worked on, offers possibility of sustained growth. India has developed versatility in mixing ethnic, European and American fashions and this expertise should be effectively used. The Indian label has the potential to be promoted as a fashion label, especially for diffusion lines and better
affordable designer wear. Companies want two deliveries in spring, one – two deliveries in fall and one – two deliveries in holidays season, etc. this brings into focus the need for flexibility, speed and creativity. India has a chance in this scenario. Today value for money is a very important motivation for several consumers groups. 100% cotton knits offer a very attractive product area. In knits, Jacquard designs and fancy knits have a great potential. “Clean fashion” has tremendous scope in the times to come – neat, elegant and simple. 100% cotton/Linen orientation with details and natural and Eco-friendly look have a considerable potential in world markets, especially in the USA and Germany. In small minimums and short lead times, India has opportunities, but countries like Philippines are cutting into this matter.