

Garment Export Industry of India - A Comparison of Pre and Post Liberalization Performance

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Abstract

Garment industry developed in India, in real sense, from 1970 onwards. From a modest beginning in the '70s, it has grown into a gigantic industry spread over the entire country. It contributes significantly to employment generation and export earnings; besides meeting the domestic demand for clothing. The Indian Garment Export Industry's competitive strength was restricted by multi-Fiber Arrangement (MFA) Quotas.

Economic reforms were initiated in India in the year 1991, commencing the process of de-licensing, de-bureaucratization and de-reservation. The far-reaching changes initiated were expected to be reflected in increased exports of all the commodities and more specifically in the rise in the growth rate of Readymade Garments (RMGs), the subject of this study.

The present study is exploratory in nature. An attempt has been made in this study to analyze the industry's export performance during the study period (1981-82 to 2000-01). As it is possible to divide this period conveniently into pre and post-liberalization periods (1981-82 to 1990-91 and 1990-91 to 2000-01) respectively, an attempt is made to compare the export performance of the industry during these two sub-periods.

An analysis of the performance of the industry as attempted in this study indicated that the expected improvement of its performance did not materialize in the post-liberalization period. This has been obvious from the fact that, while the growth rate of export of RMGs had declined in post-liberalization period, the rise in the share of export of RMGs in textile exports had also not been very significant.

Keywords: Garment export; Liberalization; Textiles and clothing; International competitors

Introduction

Apparel is one of the most important items in Indian export basket. Export of this sector, which was to the tune of Rs 6.69.8 billion in 1982, increased to Rs 46.39 billion in 1992 and to Rs 23.78 billion in 2002, constituting 8.59%, 14.26 % and 11.38% of total exports of the country during 1982, 1992 and 2002, respectively.

India's exports of textiles and apparel were governed by Multi-Fiber Arrangement (MFA) Quota, which was settled under the multilateral framework. The MFA was a trade regulatory measure adopted by the developed countries in the interest of their own textile industry. The agreement, it is observed, had the effect of limiting the growth of exports of many items in which developing countries had economic strength.

Restrictions on exports of textiles and clothing from developing countries were imposed right from the Short-term Arrangement (STA) agreed upon in 1962. STA was the first institutionalized measure, supposedly collectively decided, by the developed countries in July, 1961 for controlling imports of cotton textiles from the developing countries. STA was not implemented and was soon replaced by the Long-Term Arrangement (LTA) in February, 1962. Both STA and LTA were concluded at the insistence of USA on the argument of injury to her domestic textile market.

Critics have observed in this connection that, through MFA, the textile and garment industries of the developing countries had been successfully shielded from external competition. Thus, while the textile trade among the developed countries was free, these countries had put stringent restrictions on textile imports from developing countries and prevented international competition from emerging.

As per the textile agreement, MFA has been phased out on January 1, 2005 and the textiles and garment sector now stands integrated into GATT (General Agreement on Tariffs Trade)/WTO (World Trade Organization), with all restrictions under this agreement having been eliminated. India, in the emerging scenario, is expected to get substantial benefits from the emergence of a level playing field in the markets of the developed countries.

Few studies have been conducted on the present and future status of the Indian garment exports. A study, focusing on the future prospects of the garment export industry based on the analysis of the past trends of export of RMGs, along with the opinions of various industry insiders, independent researchers, exporters, office-bearers of export associations etc. is essential to analyze the industry's performance in various dimensions, namely, the present status of garment export industry, its competitiveness vis-à-vis present and emerging competitors, problems faced by it, measures taken by the government to help the industry and measures called for to enable the industry to achieve its goal etc. These precisely are the reasons behind choosing this topic for the present study.

Nature of the Study

The study is exploratory in nature.

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Received January 05, 2015; Accepted July 15, 2015; Published July 20, 2015

Citation: Deshpande P (2015) Garment Export Industry of India - A Comparison of Pre and Post Liberalization Performance. Arts Social Sci J 6: 108. doi:10.4172/2151-6200.1000108

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Objectives of the Study

The focus of the present study had been to study the export performance of the RMG(Readymade Garments) export industry of India during the reference period which can be conveniently divided into pre-liberalization period (1981-82 to 1990-91) and post-liberalization period (1991-92 to 2000-01) respectively. Specifically, it intended to study the status of garment export industry of India, an important segment of the export consignment of the country and an important contributor to the export earnings of the country during the period under study.

Rationale of the Study

Garment Industry developed in India, in real sense, from 1970 onwards. From a modest beginning in the '70s, it has now grown into a gigantic industry spread over the entire country. It contributes significantly to employment generation and export earnings, besides meeting the domestic demand for clothing.

The (Multi-Fiber Arrangement) MFA Quotas had restricted garment export industry's competitive strength. The phase-out and liberalization and the emerging competition would now compel India to innovate, improve and compete in a world, which is no longer ready to give concession and relief in any form.

India, it has been observed, has the components of a vital and internationally competitive garment industry and is expected to emerge as one of the greatest beneficiaries of the phasing out of the MFA and subsequent opening up of the world trade on January 1, 2005, next only to China.

These expectations are primarily based on India's comparative advantage reflected in cheap labor and raw materials. However, at present Indian Industry is characterized by low quality, low productivity, poor infrastructure, obsolete machinery and surplus labor force. Also, with the MFA quota completely dismantled, Sri Lanka, Bangladesh and Pakistan have emerged as India's major competitors because of proximity in geographical conditions and lower wage rates than in India.

India's competitiveness in the international market, therefore, has to be viewed from an angle different from the availability of cheap labor and raw materials. Rather than low wage competitiveness, it has to be higher productivity competitiveness, with greater emphasis on quality improvement and improved productivity through creation of a modern, efficient, better organized and competitive industry in place of a traditional one.

Keeping in mind these observations, the present study intends to assess the impact of the phasing out of MFA, followed by the opening up of the world trade in textiles in general and in garments in particular, on the exports of garments from India.

Review of the Related Literature

A review of studies conducted on the topic of the study by researchers threw ample light on the current status of the industry as also on steps needed to be taken to reap maximum benefit out of the favorable situation emerging post-MFA. The researchers highlighted the following:

Bhattacharya [1], highlighting major supply side constraints of Indian textile industry, such as, low quality, low productivity, poor infrastructure, obsolete machinery and surplus labor force, advocated change in the entire set up of the domestic production system through

changes in technology, product-mix, vertical integration, horizontal integration and the marketing network.

India has the components of a vital and internationally competitive apparel industry and a strong and efficient garment manufacturing base with ability to offer scale, flexibility, service and a full range of apparels is able to secure a much larger share in the global market. However, to achieve this vision, India needs to:

a) Establish a system by which Indian textile manufacturers might benchmark quality and performance against one another and eventually against international competitors;

b) Set up an agency that can integrate the respective talents of small and large firms.

Also, the industry needs to develop a service orientation.

Liberalization of textiles and garments does not only mean that the rest of the world only opens, but also implies opening up on India's part, reciprocity being a part of the agreement on textiles and garments.

Also that, new international environmental standards in the US and Europe will constitute a challenge unless investments are undertaken to manufacture eco-friendly textiles and garments,

He also stresses the need for investments and strategic alliances to move on to higher value segments and expresses the need to get rid of old mindset and shackles.

In competitive positioning of Indian garment exports, only abundant labor and plentiful cotton is not enough to achieve competitive advantage, as without quality and timely delivery, cost leadership has no meaning. The positioning, therefore, should be aimed at moving from comparative advantage to competitive advantage, where, fabrics, delivery speed, quality of fabrics in garments, productivity of labor and competitive prices will become the elements of the value chain to match that of the importers, leading to sustainable competitive advantage.

Re-organization of the textile sector at firm level as also at the industry level and strategic thinking to improve the competitiveness of the sector requiring new industry policies, more investment in workforce education and technology on a continuous basis, improvement of manufacturing practices in plants, better linkages between various entities that form the supply chain and continuous investment in process and product R&D [2].

Dismantling of the quota regime represents an opportunity as well as a threat, an opportunity because markets will no longer be restricted: a threat because markets will no longer be guaranteed by quotas and even the domestic market will be open to competition.

To take advantage of the opportunities of opening up, they advocate adoption of an assembly-line, factory type system of production to take exports beyond the current levels by catering to the demand for mass market for clothing which demands good and consistent quality across large volumes of a single item of clothing.

Focusing on the ongoing debate on the enactment of labor laws in India, he advocates industry friendly labor laws to enable the textile industry to face emerging world competition. He cites the example of Chinese dual labor policy in this regard where there are two sets of labor laws, one for old companies and the other for the new ones.

The quota restrictions had the effect of curbing the enterprise of the Indian exporters, while continuously eroding the product base of garments at the will of the developed countries.

Advocating outsourcing on wider scale, as many of the functions as possible to improve and move faster, underlines the need for the industry to invest in building business processes, improving competencies and skills of people and upgrading technologies by modernizing, with focus on cost reduction. He also stresses the need to develop products and their mix on 'consumer understanding', keeping both domestic and export market preferences in view.

Pointing out that, output generated per unit if 'capital and labor' is the key for long-term competitiveness, he observes that so far there had been inadequate focus on building world class manufacturing facilities, quality of inputs and technology deployed and upgraded. In his opinion, industry therefore needs to take some real and hard decisions and do some out of the box thinking to be able to take full advantage of the emerging opportunities [3].

Importance of the Study

Garment export industry is an important component of the export industry of India. It offers employment to around four million people and is ranked second, next only to Railways in this respect. It is an important foreign exchange earner for the country. In terms of contribution to exports, it stood next only to gems and jewelry with a share of 11.38% in the total exports of the country in 2002. It is considered to be having a great potential, capable of securing a greater share of world trade of Garments post-2004, after phase-out of the MFA Quotas.

Being an important contributor to foreign exchange earnings of the country, it can be expected to help the economy substantially in solving the problem of recurrent deficit in balance of payments faced by her. Further, being an important employer of people, it can also be expected to contribute substantially to employment generation in the economy, helping in the process, the poverty alleviation program of the government.

Methodology and Tools and Techniques of Data Analysis

The present study is exploratory in nature. It intends to study the present status of the garment export industry of India, an important segment of the export consignment of country and an important contributor to the export earnings of the country. It also intends to study the likely status of the industry during the post-2004 situation, in view of the predictions made by observers, country probably emerging as a major beneficiary in the post-MFA situation after January, 2005.

An attempt accordingly is made to study its export performance during the study period (1981-82 to 2000-001) in the first instance. It being possible to divide the period under study conveniently into pre and post-liberalization periods (1981-82 to 1990-91 and 1991-92 to 2000-2001), respectively, an attempt is also made to compare the export performance of the industry during these two sub-periods.

Furthermore, an attempt is made to ascertain the share of readymade garments (RMGs) in the export of textiles as also in EAC (Export of all commodities) and also of textiles in export of all commodities (EAC).

A comparison of the share of RMGs in textile exports and in the EAC and, of textile exports in export of all commodities during pre and post-liberalization periods has also been attempted.

A trend analysis has been carried out to project garment exports of the country at the time of phasing out of MFA.

For carrying out this analysis, the data have been obtained from the official publications of the Apparel Export Promotion Council (AEPCC).

Analysis of the Data

Data in the present study have been analyzed using statistical techniques, such as, time-series analysis, t-test and critical ratio for comparison of percentages. Data have also been presented using graphical techniques, such as, line graphs and bar-diagrams.

Along with the statistical analysis of the secondary data, an attempt has been made to contact a cross-section of the garment exporting community to get a feel of the ground realities, as regards the awareness of the changing circumstances and the impending changes in the world trade in garments post 2004, the attitudinal and procedural changes in the government agencies noticed by them and called for, as also their assessment of the post-2004 situation at the unit and industry level.

An extensive survey of literature comprising various magazines and journals devoted to textile and garment industry has been carried out to assess the opinions of researchers, exporters, office-bearers of export-associations, etc., contributing regularly to these.

Expectations from AEPCC in its new role, expressed by the exporters/industry associations are also included.

Findings of the Study

Major findings of the study are summarized below:

Growth rate of export of RMGs

An analysis of the export performance of the RMGs during the period under study, i.e. 1981-82 to 2000-01, after adjusting for inflation, indicates that, these have increased in rupee terms from Rs 6.69 billion in 1982 to Rs 240 billion in 2000-01 approximately. Over the period, therefore, these have increased at an average rate of 21.54 per cent.

A t-test carried out comparing the growth rate of export of RMGs during pre and post-liberalization periods, after adjusting for inflation, however, indicates that the growth rate of export of RMGs has declined significantly in the post-liberalization period.

Share of RMGs in textile exports and EAC

The average share of RMGs in textile exports during the period under study turns out to be 50.79 per cent, while the average share of RMGs in EAC during the same period turns out to be 12.59 per cent.

A comparison of the share of the RMGs in textile exports during pre and post-liberalization periods indicates a percentage decrease of 4.19 percent over the pre-liberalization period, whereas, a comparison of the share of the RMGs in EAC during the pre and post-liberalization periods indicates an increase of 41.85 per cent over the pre-liberalization period.

A t-test carried out comparing the share of the export of RMGs in textile exports during pre and post-liberalization periods, indicates that, there is no significant rise in the share of RMGs as a proportion of the export of textiles and the indicated variation might be because of chance. On the other hand, a t-test carried out comparing the share of the export of RMGs in EAC during the pre and post-liberalization periods, indicates that the share of RMGs as a proportion of EAC has increased substantially after liberalization.

It is obvious from the above analysis that although export of RMGs has shown an increase in absolute terms over the period under study, i.e. 1981-82 to 2000-2001, increasing at an average rate of 21.54 per cent, the growth rate of RMG exports has declined significantly in the post-liberalization period.

It is also obvious that, along with the fall in the growth rate of RMG exports during the post-liberalization period, the share of RMG exports as a proportion of textiles has also not increased significantly during the post-liberalization period, although the share of RMG exports as a proportion of EAC has increased substantially during the post-liberalization period.

There is, therefore, a consistency in the findings on both the fronts, that is, fall in the growth rate of The RMG exports during the post-liberalization period and a non-significant increase in the share of the export of RMGs as a proportion of the export of textiles during the post-liberalization period.

This however is a disturbing trend, which indicates that, reform measures taken since 1991 have not had the expected effect on the export of RMGs. Economic reforms were initiated in the year 1991, commencing the process of de-licensing, de-bureaucratization and de-reservation. The far-reaching changes initiated were, therefore, expected to be reflected in increased exports of all the commodities and more specifically in the rise in the growth rate of RMGs, the subject of this study. This has, however, not happened as is obvious from the findings of the study.

Suggestions and Recommendations

Various suggestions and recommendations offered, based on the observations of researchers, exporters, officials of export associations etc. for Industry and the government to enable the country to derive maximum benefit from the favorable post-MFA situation, include:

For industry

- 1) Should focus on winning parameters, such as, responsiveness, timeliness, consistency, flexibility, communication and understanding of buyers' perspective.
- 2) Realize that the role of the manufacturer has changed from that of a product supplier to that of one providing service and capacity, and change it self accordingly.
- 3) Make efforts to reach out to new markets beyond the existing ones and be prepared to spend on product development, promotion, advertising, trade show participation and on every form of communication in the international markets, keeping with today's standards of technology, quality and sophistication.
- 4) Should additionally focus on supply chain and management, brand creation and consumer focus, the matters that are likely to assume great importance in times to come.
- 5) Should focus on continuous investment in more advanced technology and shifting of focus from manufacturing driven issues to marketing, value addition, product development and global alliances.

For government

- 1) Make available basic raw material, that is, fabrics and sewing threads of all fibers at international prices.
- 2) Establish a system by which Indian garment manufacturers might benchmark quality and performance against one-another and eventually against international competitors.
- 3) Develop a service orientation by setting up designated Centers and Institutes throughout the country.
- 4) Set up an agency that can integrate the respective talents of India's small and large firms.

5) Launch a skill up gradation program to take care of the paucity of well-trained pattern makers and cutters and upgrading the skills of stitching operators to enable them to handle new types of machinery.

6) Declare long-term export policy so that exporters know for sure the parameters within which they have to work and survive.

7) Simplify the export procedures so that an exporter can spend more time and energy on production and for getting export orders.

8) Explore and identify new markets.

9) Use the platform of tourism to popularize Indian garments.

10) Make efforts in conjunction with industry to improve India's image abroad.

11) Ensure favorable and consistent policies, modified labor laws compatible to compliance with WTO norms and have a second hard look at taxation laws for encouraging exports.

12) Provide basic requirements of infrastructure, such as, improvement of roads, port facilities and power availability, which will help in cutting down lead-time and improving efficiency and productivity of individual exporters.

13) Provide one port exclusively for apparel industry, treating it on par with perishable items, since delivery time is very important in both the cases.

Postscript

The study was conducted keeping in mind the situation prevailing in India. The suggestions and recommendations are also therefore primarily applicable to Indian conditions. However, keeping in mind that similar conditions obtain in other countries also, particularly, the developing countries, it is felt, the study can offer valuable guidance to these countries.

The world trade conditions with respect to garment exports since have changed over the period post-MFA, with Bangladesh emerging as the leading exporter of RMGs. In fact, there is noticed an increased export of cotton and yarn from India to Bangladesh. Also, China has emerged as the biggest importer of cotton from India. This naturally calls for further study beyond the year 2000-01, the last year covered in this study.

Conclusion

In this paper study was led keeping as a primary concern the circumstance prevailing in India. Set up a framework by which Indian article of clothing producers may benchmark quality and execution against each other and in the long run against worldwide contenders. The world exchange conditions as for piece of clothing fares since have changed over the period. The present study is exploratory in nature; an endeavor has been made in this study to investigate the business' fare execution.

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