Export Management of Garments

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Introduction

The Indian garment export industry is at the threshold of dramatic and far reaching changes. Garments are one of the most important value added production the export basket of India. From the point of view of employment generation and net foreign exchange earnings, there are very few parallels for the garment export industry. However there have been various phases of growth, the garment export industry had experienced the pangs and anxieties of transition before the phase out of multi fiber agreement (MFA).

But now in the days ahead we are going to face increased competition, erosion of margins, lack of expertise in global sourcing, pressures on lead time and quality which are going to affect growth and profitability. The garment export industry as a whole now need for a paradigm shift in attitude, concepts, concerns and product marketing strategies.

The Indian garment export industry is viewed as a highly disparate group of small-scale units, located mainly in metropolitan cities and few other cities, with outdated technology and production systems. The small-scale industries again dependent on the disorganized power loom sector for the supply of fabrics, the raw material for garments. Further the processing of fabrics and washing of garments and many other significant activities are carried out in several small units with obsolete technology. Many other value-adding activities like embroidery, appliqué and sequin work are also done in rather non-descript and tiny units. Besides, there are infrastructural problems. The task ahead, therefore is to transform such an industry into a world-class competitor so as to compete in this quota free era of garment trade. This in turn will lead to the building up of better market share and positive image.

Historical Perspective

The latter half of 19^{th} century saw the emergence of the readymade garments industry in the world. The department stores set up in the US and Western Europe during the years 1840-80, increased the consumers accessibility to the readymade garments, which helped the initial growth of readymade garment production and consumption. After World War I, the manufacturing facilities set up for army uniforms were converted to readymade garment manufacturing units. This resulted in the growth of ready to wear garment industry.

The year 1920 is considered as the year in which the modern readymade garment industry began its rapid climb to prominence. The factory made clothing gained worldwide consumer acceptance and retailers recognized its business potential. The years following World War II saw further growth of mass production and marketing of garments. Imports to the developed markets also began to grow.

Now tracing the history of Indian garment industry, it can be seen that in pre independent India, the clothing styles were dictated by the dynasties that ruled different parts of India from time to time. The long years of British rule in India also had a great influence on clothing pattern of India. The decentralization of the textile industry witnessed the growth of power loom and small-scale industries in India. Mass production in India started as an aftermath of World War II.The growing settlement of Indians in UK and US during late 1960's and 1970's acted as importers of Indian cotton garments. Also the social, political and cultural events led to the proliferation of several small-scale units .The cotton and small scale sector nature of the garment Industry acquired during this period continues to exert its influence on the growth pattern of the industry today also.

1.1 Milestones In The Growth Of Garment Industry

Various milestones in the growth of Garment Industry are :-

- Stages of development of the textile industry and its constituents over the last three decades.
- Spurt in the growth of garment export from India during the 1970s.
- Setting up of Apparel Export Promotion Council (APEC).
- Accelerated growth in the late 1980s and early 1990s.
- Introduction of long term quota distribution policies.

1.2 Garment Export Under Quota Regimes

During the early 1950s, the penetration of Japanese cotton textiles into the US market became intensive. In order to regulate he inflow of these textiles, the US administration persuaded Japan to accept Voluntary Export Restraints (VERs**)**.The US-Japan VERs dealt with cotton textile exports from Japan, which represented a departure from the rules laid down by General Agreement on Tariffs and Trade (GATT). Similar restrictions were placed by UK administration also on textile exports from Hong kong, India and Pakistan for three years from 1959 to 1962. This prompted West Germany and Canada to seek similar VERs. The VERs were then legalized and an international agreement under sponsorship of GATT through the Short Term Agreement (STA) regarding Trade in Cotton Textiles , which covered the period from Sep 1961 to Aug 1962 came into existence (Sung,1995). This was for avoidance of "market disruption" (Cline,1990). The sixth round of GATT negotiations call the "Kennedy Round" held in 1962, with 62 countries attending ,brought in the Long Term Agreement

(LTA)regarding Trade in Cotton Textiles. This LTA lasted for 12 years from 1962 to 1974 . As the imports of other fibres based textiles and garments started increasing by the early 1970s, the LTA was replaced by the MultiFibre Agreement (MFA) .The MFA –I (1974-1977), MFA-II (1978-1981), MFA –III(1982-1985) & MFA – IV (1986-1994) regulated the world trade in textiles and clothing through quantitative restrictions (quotas)till the implementation of GATT'94 with effect from Jan1 1995. The departure of textile and garment trade from the rules of free trade and multi-lateral framework of GATT has lasted for 34 years, with another 10 years for its phase-out (Sung ,1995).The Uruguay round of negotiations began in 1986, and the negotiations on textiles commenced in 1987. by the mid-term review in Dec1988,an agreement had been reached to phase-out the MFA, based on "strengthened GATT rules and discipline" (Khanna,1994). As the differences in approach over how the textiles and clothing sector should be integrated into GATT persisted , the negotiations protected and finally concluded on Dec15,1993,and the treaty was endorsed on Apr 15,1994(GATT 1994). The treaty includes the Agreement on Textiles And Clothing (ATC), which sets out a time frame of 10 years between 1995 A.D. and 2004 AD for the phase out of MFA quotas and integration into the World Trade Organization (WTO), replacing GATT. Under the quota regime, in the past, India too had enjoyed an assured export market for garments, and the comparative advantage which India enjoys in labour, cotton availability etc. remained her underlying strength and guiding principles. With the phase out of MFA now India has to a competitive environment with the best of quality and cheap costs.

2. Phasing Out the Multi Fibre Arrangement

The Agreement on Textile Clothing (ATC) which is an agreement to phase out the Multi Fibre Arrangement by the year 2005 aims to bring trade in textiles and clothing into line with the rules of the newly established Word Trade Organization. This agreement is seen as operating in the interests of developing countries, since it increases their access to the previously protected markets of industrialized countries. Little attention is paid to what the implications are for workers, even though there are likely to be massive changes in the location of the industry. It is important to look at what the ATC will mean in practice not only for different countries, but also for companies and for workers themselves. Now we should gain some information about commonly pronounced MFA but before that we should know about ATC.

2.1 Agreement On Textile Clothing (ATC)

The ATC is a transitional tool that was used in place of the MFA until January 1, 2005. The ATC has a number of defining features.

Some of these are:

a. the product coverage, encompassing yarns, fabrics, made-up textile products

and clothing;
b. a program for the progressive integration of these textile and clothing products into GATT 1994 rules;
c. the liberalization process to progressively enlarge existing quotas (until they are completely removed) by increasing the annual growth rate at each stage and:
d. Establishment of the Textiles Monitoring Body (TMB) to supervise the implementation of the other provisions.

The TMB consists of a chairperson and ten members acting in their personal capacity. It monitors actions taken under the agreement to ensure they are consistent and it in turn reports to the Council on Trade in Goods, which reviews the operations of the agreement before the implementation of each new step in the process. The TMB also deals with disputes arising from the ATC. If these remain unresolved they are forwarded to the WTO's Dispute Settlement Body.

The ten members are appointed by WTO members according to an agreed grouping of WTO members into constituencies. In January 1995 the General Council decided upon the format of the TMB for the first stage of the quota phase out. At the end of 1997, the second stage (1998-2001) with TMB members from the following constituencies:

a. ASEAN member countries;
b. Canada and Norway;
c. Pakistan and China;
d. the EU;
e. Korea and Hong Kong (China);
f. India and Egypt/Morocco/Tunisia;
g. Japan;
h. Latin America and Caribbean
i. the US;
j. Turkey, Switzerland and Bulgaria/ Czech Republic/ Hungary/ Poland/ Romania/ Slovak Republic/ Slovenia.

There are also two non-participating observers from members not already represented, one from Africa and one from Asia. Members of the TMB are expected not to act as representatives or lobbyists for their respective governments.

The abolition of the MFA/ATC has taken place and now we should know about MFA.

2.2 What Was The MFA?

Since 1974 world trade in textiles and garments has been governed by the Multi Fibre Arrangement. This provided the basis on which industrialized countries have been able to restrict imports from developing countries. Every year countries agree quotas - the quantities of specified items which can be traded between them. The exporting country then allocates licenses to firms to export a certain proportion of each quota.

2.3 Why Was The MFA Introduced?

The MFA was brought in as a supposedly short term measure, mainly to give industrialized countries a breathing-space to adjust to competition from imports from developing countries. Special measure were seen as necessary for textiles and garments because the labour intensive nature of the industries meant that it was becoming relatively easy for developing countries to compete in a global market. The MFA does not apply to trade between rich industrialized countries themselves.

2.4 What Has Been The Effect Of MFA?

The MFA has not prevented a massive shift in the production of textiles and garments to developing countries. Asia has become the world's foremost exporter, Initially production was concentrated in the East Asian countries Korea, Hong Kong, Singapore and Taiwan but by the middle of the 1980s other Asian countries were becoming major producers. Clothing exports from Thailand for example increased five-fold between 1980 and 1989. However the shift would have been greater without the continuous restrictions of the MFA. It is estimated that some developing countries have lost billions of dollars of foreign exchange due to the imposition of trade restrictions.

The MFA has also had a marked affect on the distribution of the industries between different developing countries. Quotas have been negotiated on a country-by-country basis and have been established at different levels. This has affected the ability of industries to expand. For example strict quotas generally operate on imports from Korea and Hong Kong, whilst the EU imposes no restrictions on textile and clothing imports from a group of Least Developed Countries. The rapid expansion of the garment industry in Bangladesh during the 1980s was partly due to the fact that as an LDC it was able to establish that exports to the EU should be duty free and unrestricted by the quota system.

The quota system has also increased global restructuring. Outward processing by successful Asian countries, particularly Korea and Hong Kong, has been partly to advantage of unused quotas or the LDC status of other countries. Hong Kong now concentrates on non-quota high quality specialized products, using China as an outward processor to fill its own quotas on basic goods.

Other methods have be used for "engineering" quotas which often makes it difficult to trace the source of finished goods. These include transshipment (making a product in one country, shipping it to another and re-exporting it as a product of the second country), sewing on false "made in" labels or falsifying documents.

2.5 The New Rules Of Trade

At the GATT Uruguay Round it was agreed that a method was needed for integrating trade in textiles and garments into the mainstream rules and procedures of the new World Trade Organization. The new WTO rules were designed to encourage the expansion of international trade through the progressive removal of quotas and tariffs. The protectionist policies of the MFA could not be sustained within this framework. This removal of the MFA was seen by many developing countries as one of the few clear gains from the free trade agenda and was one of the principle reasons for signing up to other agreements in the Uruguay Round.

2.6 The Agreement On Clothing And Trade

The ATC is an agreement to phase out the MFA over a period of ten years. It outlines a programme for the integration of all products into GATT rules by 2005.It applies to all WTO members whether or not they were signatories to the MFA.

2.7 Timetable For Phase Out

The main provision of the agreement is a timetable for the progressive removal of quotas. Complete integration will be achieved at the end of the ten year transition period, i.e. by 2005. The agreement provides a complete list of all the products which need to be integrated.

There are two aspects to this process: -

- **Integration of products**

Integration is required to take place in four stages. Each stage must include products for each of four groups: -

1. Tops and yarns

2. Fabrics

3. Made up textile products

4. Clothing

It is up to the importing country which items are selected within each group.

- **Progressive raising of quotas**

At each of the first three stages of integration there has to be an annual increase in the quota level of those products still under the MFA.

2.8 Other Provisions In The ATC

Several articles in the Agreement have affected implementation of the phase out. They were the result of strong lobbying by the USA and EU and include: -

- **Transitional Safeguard Measures**

Article 6 continues to permit the application of MFA-type safeguard actions . The provisions are intended to prevent a sudden rise in imports of specific products from

causing serious damage to the importers domestic industry. In order to be introduced there has to be evidence of significant damage.

- **Reciprocal market access**

Article 7 links the integration process to increased access to developing countries markets. The EU and USA want greater access to overseas markets for textiles and for up market clothing. This was seen as the price developing countries had to pay for the phase out of the MFA.

- **False origins**

The ATC requires developing countries to demonstrate that they have adopted effective measures to prevent transshipment or false declaration of origin. Importing countries can impose sanctions (e.g. reduce quotas) in the event of evidence of malpractice.

2.9 How Has The ATC Been Implemented So Far?

A well staged phase out of the MFA is potentially beneficial to the economies of many developing countries. However there is strong criticism of the manner in which the ATC is being interpreted. The USA and European countries are seen as deliberately holding back on the process in order to protect their own industries.

- **Limited increase in export opportunity**

The first stage of integration had little impact on developing countries. In the first place both the EU and USA added some minor products to the lists and cut back on under-used quotas in order to raise the starting point. Furthermore the list of products in the schedule of major importers, particularly in the EU, included items such as umbrellas, car seat belts, dolls clothes and parachutes. These fall within the rules but are of no value to developing countries trade. Clothing, the most important export for the poorest developing countries, has hardly been affected.

It is clear that the aim of the US and EU is to "end-load" the process so that most items of significance to developing country suppliers are only integrated in the final stage. Although this is strictly within the rules, developing counties claim that it is not in the spirit of the agreement. There is also concern about the capacity of many countries to respond to what would then be a sudden change in trading opportunities.

- **Use of safeguard procedures**

During the GATT negotiations importing countries claimed that safeguard procedures would be used sparingly and only in situations of "actual damage" to domestic industry, However in the first year of the agreement the US initiated 24 actions against 14 exporting countries

- **Rules of origin**

Developing countries have also complained that increased pressure is being imposed to prove the genuine country of origin. There is also concern about the changes in rules of origin being introduced by the USA. Asian countries claim that such changes breach the WTO rules.

- **Reciprocal market access**

The EU is increasing pressure on developing countries to open up their markets in return for a more sympathetic phase out programme. Both the EU and USA want to take advantage of the expected increase in demand for up market clothing by the growing Asian middle classes. Pressure is mainly directed at India and Pakistan, since most East and Southeast Asian countries and Bangladesh have already lowered their tariffs. Developing countries are refusing to accept these demands, claiming that further tariff cuts are not part of the ATC agreement.

- **Textile Monitoring Body**

The TMB is the WTO body which oversees implementation of the ATC. Concern has been expressed by developing countries about the closed nature of the TMB's operations. Requests have been made for greater openness, particularly in explaining the reasons behind decisions.

2.10 Role Of WTO Meetings

The above concerns have expressed by developing countries in the relevant forums of the WTO. Concern has also been expressed about the situation of small suppliers and LDCs (Least Developed Countries). The WTO regularly states a commitment to the "full and faithful implementation of the provisions of the ATC", with safeguard measures used "as sparingly as possible". It was also stated that the TMB should "achieve transparency in providing rationale for its findings and recommendations." However as yet there is little sign of any change.

2.11 What Are The Implications Of ATC?

It is difficult to predict what the effects of the ATC will be when all quotas are removed at the end of the phase out period. It is not even certain how much market access this will create, since the agreement does not relate to tariff barriers and many are suspicious that importing countries will find alternative means of protectionism. Both the USA and EU will also continue to give preferential treatment to certain less developed countries. Nevertheless it is clear that the removal of quotas will mean changes in the location of the industry. A less controlled system will mean that both countries and companies will be in more direct competition to supply the world market. This will have implications for workers everywhere.

2.11 Implications for Different Countries

Some countries will gain from the ATC whilst others will lose. The general assumption is that there will be an increase in the movement of the garment industry from North to South, i.e. from industrialised in Europe and North America to poorer less industrialised countries. However the situation is more complicated than this and the greatest relocation could be from one relatively poor country to another. The MFA did have the effect of guaranteeing a Northern market to a wide range of poor countries. Without the MFA there will be a more open market and the overall result is likely to be a concentration of the industry in a smaller number of low cost locations. Marginal suppliers are likely to be squeezed out in a more open market the relative competitiveness of countries depends mainly on:-

1 wage costs

2 supply of fabric, yarn and other materials

3 infrastructure for transport and marketing

4 nearness to markets

On this basis the general prediction is as follows:

- **ASIA** will experience the greatest changes in the distribution of production.
- **CHINA** has the highest predicted growth. Not only does China have a huge low cost labour force, it also has its own textile industry and will benefit from Hong Kong's well-established financial and marketing expertise. China is already emerging as a dominant supplier in spite of high quota restrictions. At present China is not a member of the WTO and is therefore not entitled to the liberalising provision of the ATC. However once it does join up it will be entitled to the same treatment as other countries.
- **INDIA AND PAKISTHAN** are predicted to benefit on the basis of low wages costs and access to domestically produced fabrics.
- **KOREA** is also seen as having the advantages of its own (especially synthetic) fabrics, together with high productivity and overall efficiency.
- **BANGLADESH** is expected to lose. Bangladesh is the clearest example of a country which developed a garment industry as a direct result of the MFA and other trade agreements. Bangladesh has had free access to EU markets and the US also gave Bangladesh sizeable quotas so that it became a major supplier to both the American market and European markets. Once quotas are removed Bangladesh is expected to suffer from its lack of textile industry and poorly developed infrastructure.
- **THAILAND SRILANKA AND PHILIPINES** may also loose since they depend on imported fabric and on marketing/buying groups over which they have no control. Some predict that they will be unable to compete with even lower cost producers such as Vietnam.
- **CENTRAL AMERICA AND MEXICO** are well placed to benefit in a more open market. Low wage levels and proximity to the US market mean that the industry is certain to flourish after the end of the phase our period. Haiti will also continue to have the competitive advantage of low wage costs.
- **AFRICA** is not likely to be greatly affected since the clothing is not an important export.
- **MAURITUS** is the exception since it is an example of a quota- related industry lacking any kind of domestic base. It is therefore likely to amongst the losers. However it is already investing in outward processing, notably in Madagascar.
- **TURKEY** is likely to continue as a major supplier to the European market. It has abundant access to cotton and quick turnaround times.
- **GREECE ,PORUGAL** and other poorer countries within the European Union may lose out with the opening up of the European market

- **EASTERN EUROPE** has already gained a substantial share of the European market and is predicted to increase this with the MFA phase out. East European countries have the advantage of low costs and high quality combined with nearness to the market. There are also political reasons for increasing trade within the European continent.

2.12 Implications for Companies

Analysis of the MFA phase out focuses on the implications for countries. However it is also important to look how companies might benefit from changing trade rules.

Industrialised countries first drew up the MFA to protect their own garment producers. At that time most clothing was produced by local manufacturers and sold to local or national retails. Now the industry operates in a very different way. It is mainly controlled by US and European based multinational companies which own no production facilities themselves but manage an international network of suppliers. This includes big retailers such as Walmart and brand based companies like Nike and Adidas. These companies control the industry on a global scale without government protection and have no interest in maintaining quota restrictions.

With the phase out of MFA multinational companies will benefit from an increasingly open market. As poor countries compete to become major suppliers they can source more freely from the most profitable locations. Governments of poor countries are likely to invest public money in attracting overseas investment whilst the main profits will go to these overseas companies. Meanwhile the ATC can be used as a way of persuading poor countries to open up their markets to more products from the North, through the "reciprocal market access" agreement. In other words, the main beneficiaries of the ATC may well be the multinational companies themselves.

The phase out may be in the interests of major business interests in the North but this does not mean it is in the interests of small manufacturers. Small companies are now having to compete even more with international suppliers and many are closing down. Larger manufactures are subcontracting an increasingly percentage of their production

to lower wage economies. Meanwhile for manufacturers in the South the increased global competition means that there will be constant insecurity and increased pressure to reduce costs.

2.13 Implication for Workers

Whatever the specific outcome of the MFA phase out there will be major shifts in the location of garment production over the next decade. In the long run there could be greater stability as the location of garment production becomes determined more by market forces than the arbitrary imposition of quotas. New jobs will be created in some countries and the overall the number of jobs for garment workers in the South will most likely increase.

However the initial impact will be highly disruptive to employment, particularly towards the end of the phase out period. Jobs will be lost not only in Europe and North America but also in some countries in the South. If countries like Bangladesh are no longer be unable to compete in a open market then factories will be closed overnight. Thousands of jobs are at stake, particularly for women who make up the majority of garment workers. Most workers have migrated from rural areas and it will be very difficult for them to return to their villages.

There are also likely to be negative implications for workers rights. The increase in competition at a global, national and local level is resulting in downward pressure on working conditions. With no quota restrictions labour costs will be an even more significant factor. The main shifts being predicted are to low wage economies where workers often lack basic labour rights. The notable example is China where comparative advantage is clearly linked to poverty and lack of workers' and women's rights.

Increased competition generally causes increased work intensity as labour costs are pushed to a minimum. More work is subcontracted to women and children at home or in small production units where there is no worker protection. These trends are universal, effecting workers in the industrialised North as much as those in the South.

Developing country leaders rightly claim that the MFA has unfairly restricted exports vital to their development. However development cannot be measured in only in terms of increased export earnings. It also has to be reflected in an improvement in the working and living conditions of garment workers themselves This will not be achieved simply through the removal of trade barriers. On the contrary, the increase in global competition associated with trade liberalisation is causing widespread insecurity and downward pressure on working conditions. Trade agreements such as the ATC have direct implications for people's lives and it is essential that any such agreements be accompanied by policies which support the rights of workers at an international level.

2.14 Summary

Some of the recommended steps are:

- Commitment to full and fair implementation of the ATC, with appropriate provision for poorest producers

- Education and training for workers on what the ATC means for them

- Recognition of the levels of job displacement associated with the ATC and provision of appropriate compensation or alternative employment

- Promotion of appropriate strategies to support the rights of workers at an international level

3. International Trade

The Multi-Fibre Arrangement (MFA) has governed international trade in textiles and clothing since 1974. The MFA enabled developed nations, mainly the USA, European Union and Canada to restrict imports from developing countries through a system of quotas. The Agreement on Textiles and Clothing (ATC) to abolish MFA quotas marked a significant turnaround in the global textile trade. The ATC mandated progressive phase out of import quotas established under MFA, and the integration of textiles and clothing into the multilateral trading system before January 2005.

3.1 Global Trade in Textiles and Clothing

World trade in textiles and clothing amounted to US $ 385 billion in 2003, of which textiles accounted for 43 percent (US $ 169 bn) and the remaining 57 percent (US $ 226 bn) for clothing. Developed countries Accounted for little over one-third of world exports in textiles and clothing. The shares of developed countries in textiles and clothing trade were estimated to be 47 percent (US $ 79 bn) and 29 percent, (US $ 61 bn) respectively.

3.2 Import Trends in US

In 1990, restrained or MFA countries contributed as much as 87 percent (US $ 29.3 bn) of total US textile and clothing imports, whereas Caribbean Basin Initiative (CBI), North American Free Trade Area (NAFTA), Africa Growth and Opportunity Act (AGOA) and ANDEAN countries together contributed 13 percent (US $ 4.4 bn). Thereafter, there has been a decline in exports by restrained countries; The share of preferential regions more than doubled to reach 30 percent (US $ 26.9 bn) of total imports by USA. The composition of imports of clothing and textiles by USA in 2003 was 80 percent (US $ 71 bn) and 20 percent (US $ 18 bn), respectively. Asia was the principal sourcing region for imports of both textiles and clothing by USA. Latin American region stood at second position with a share of 12 percent (US $ 2.2 bn) and 26 percent (US $ 18.5 bn), respectively, for textiles and clothing imports, by USA. In most of the quota products imported by USA, India was one of the leading suppliers of readymade garments in USA. Though China is a biggest competitor, the unit prices of China for most of these product groups were high and thus provide opportunities for Indian business.

3.3 Import Trends in EU

EU overtook USA as the world's largest market for textiles and clothing. Intra-EU trade accounted for about 40 percent (US $ 40 bn) of total clothing imports and 62 percent (US $ 32.5 bn) of total textile imports by EU. Asia dominates EU market in both clothing and textiles, with 30 percent (US $ 30 bn) and 17 percent (US $ 8 bn) share, respectively. Central and East European countries hold a market share of 11 percent (US $ 11.3 bn) in clothing and 7.5 percent (US $ 4 bn) in textiles imports of EU. As regards preferential suppliers, the growth of trade between EU and Mediterranean countries, especially Egypt and Turkey, was highest in 2003. As regards individual countries, China accounted for little over 5 percent (US $ 2.8 bn) of EU's imports of textiles and over 12 percent (US $ 12.4 bn) of clothing imports. In the EU market also, India is a leading supplier for many of the textile products. It is estimated that Turkey would emerge as a biggest competitor for both India and China. However, with regard to unit prices, India appears to be lower than both Turkey and China in many of the categories.

3.4 Import Trends in Canada

Amongst the leading suppliers of textiles and clothing to Canada, USA had the highest share of over 31 percent (US $ 8.4 bn), followed by China (21% - US $ 1.8 bn) and EU (8% - US $ 0.6 bn). India was ranked at fourth position and was ahead of other exporters like Mexico, Bangladesh and Turkey, with a market share of 5.2 percent (US $ 0.45 bn).

3.5 Potential Gains

It may be noted that clothing sector would offer higher gains than the textile sector, in the post MFA regime. Countries like Mexico, CBI countries, many of the African countries emerged as exporters of readymade garments without having much of textile base, utilizing the preferential tariff arrangement under the quota regime. Besides, countries like Bangladesh, Sri Lanka, Cambodia emerged as garment exporters due to cost factors, in addition to the quota benefits. Thus, it may be concluded that these countries are likely to lose their market share in the future scenario. It may be said that countries like China, USA, India, Pakistan, Uzbekistan and Turkey have resource based advantages in cotton; China, India, Vietnam and Brazil have resource based advantages in silk; Australia, China, New Zealand and India have resource based advantages in wool; China, India, Indonesia, Taiwan, Turkey, USA, Korea and few CIS countries have resource based delivery. In the long run, there are possibilities of contraction in intra-EU trade in textile and garments, reduction of market share of Turkey in EU and market share of Mexico and Canada in USA, and thus provide more opportunities for developing countries like India. It is estimated that in the short term, both China and India would gain additional market share proportionate to their current market share. In the medium term, however, India and China would have a cumulative market share of 50 percent, in both textiles and garment imports by USA. It is estimated that India would have a market share of 13.5 percent in textiles and 8 percent in garments in the USA market. With regard to EU, it is estimated that the benefits are mainly in the garments sector, with China taking a major share of 30 percent and India gaining a market share of 8 percent. The potential gain in the textile sector is limited in the EU market considering the proposed further enlargement of EU. It is estimated that India would have a market share of 8 percent in EU textiles market as against the China's market share of 12 percent. Advantages in manmade fibers. In addition, China, India, Pakistan, USA, Indonesia have capacity based advantages in the textile spinning and weaving. China is cost competitive with regard to manufacture of textured yarn, knitted yarn fabric and woven textured fabric. Brazil is cost competitive with regard to manufacture of woven ring yarn. India is cost competitive with regard to manufacture of ring-yarn, O-E yarn, woven O-E yarn fabric, knitted ring yarn fabric and knitted O-E yarn fabric. According to Werner Management Consultants, USA, the hourly wage costs in textile industry is very high for many of the developed countries. Even in developing economies like Argentina, Brazil, Mexico, Turkey and Mauritius, the hourly wage is higher as compared to India, China, Pakistan and Indonesia. From the above analysis, it may be concluded that China, India, Pakistan, Taiwan, Hong Kong, Brazil, Indonesia, Turkey and Egypt would emerge as winners in the post quota regime. The market losers in the short term (1-2 years) would include CBI countries, many of the sub-Saharan African countries, Asian countries like Bangladesh and Sri Lanka.

3.6 Textiles and Garment Exports from India

The share of textiles and garments exports in India's total exports in the year 2003-04 stood at about 20 percent, amounting to US $ 12.5 billion. The quota countries, USA, EU and Canada accounted for nearly 70 percent of India's garments exports and 44 percent of India's textile exports. Amongst non-quota countries, UAE is the largest market for Indian textiles and garments; UAE accounted for 7 percent of India's total textile exports and 10 percent of India's garments exports. In terms of products, cotton yarn, fabrics and made-ups are the leading export items in the textile category. In the clothing category, the major item of exports was cotton readymade garments and accessories. However, in terms of share in total imports by EU and USA from India, these products hold relatively lesser share than products made of other fibers, thus showing the restrain in this category.

3.7 Factors Affecting Garment Exports

There are many aspects affecting the exports of garment, individual exporters could control some, where as other need the help and cooperation of government and macro-environment.

Internal factors

It includes such factors which can be controlled and improved by individual exporters and which will contribute to developing the industry's competitive advantage as a whole and bring about better satisfaction levels for buyers, prompting them to allocate higher budgets for trading with India .

- Fabric and apparel development
- Planning and merchandising
- Delivery and service
- Marketing and cost control
- Creativity and design

External factors

The garment export is not just exporters game but it needs to focus on such aspects too which will make a material difference to the overall performance of garment exports, enabling value chain match of exporters and different segments of overseas importers. Some such aspects are:

- Business policies and ethics
- Import- export policies
- Foreign exchange regulations
- Infrastructure

Competitive forces in an industry

Satisfying buyer needs may be a prerequisite for industry profitability but in itself is not sufficient. Capturing of value depends on industry structure also.

- Bargaining power of buyers
- Bargaining power of suppliers
- Threats of new entrants
- Threats of substitute product or services
- Rivalry among existing competitors

4. Quality Issues In Garments

The perceived quality of a garment is the result of a no. of aspect, which together help achieve the desire level of satisfaction for the customer. Quality has to be also defining in term of a particular cost frame work. The international quality requirement is expressed in many ways as ISO 9000 series.

In the apparel industry fashion detect the market place and there are multitudes of variable in term of raw material, manufacturing process, system & techniques. In this case, monitoring & controlling of quality assume considerable significance. The textile industry consistence which produce the raw material of fashion namely fabrics, consider product quality from the point of view of fiber, yarn, fabric construction, colour fastness, surface design & finishing properties etc. Quality control in the garment industries extends from the prefabric stage to the finished garments. Quality is defined as fitness for use. Garvin examine the multidimensional aspects of quality, which are relevant for understanding quality aspects affecting the value chain.

Quality expectation depend on the type of customer segments and retail outlets. In the case of Indian exports, the quality aspects are determined by the buyers directly to the exporters. Some fabric properties relevant to garment manufacturing are:

1. Overall appearance
2. Feel and Fall properties
3. Correct construction
4. Physical properties
5. colour fastness properties
6. Special finish properties and presentation

Many of the problems of quality and garments exports relate to product performance features, reliability, conformance, durability, serviceability, aesthetics, and fabric related aspects . Some of the major problem faced in the fabric for garments are explored here.

4.1 Functional Quality Aspects of Garments

Certain important functional quality problems affecting garment performance are listed below to facilitate understanding of the different variables of quality

Sewing defects

- Open seams
- Weak seams
- Raw edges
- Puckering
- Wavy, crooked, irregular or uneven stitching
- Incorrect stitch type
- Skipped stitches
- Different shades of threads used on the same garment
- Wrong thread tension
- Problems resulting from wrong threads

Sizing defects

- Garment measurement out of tolerance
- Incorrect grading
- Some parts of body not matching the size of other parts

Color defects

- Colors do not match approved samples
- Wrong color threads or component parts like snaps, zippers and buttons
- Mismatched dye lots within a hem or between pieces or panels composing a set

Garment defects

- Fabric colors mismatched
- Defective snaps
- Defective zippers
- Exposed zippers tapes
- Raw edges
- Loose buttons
- Defective buttonholes
- Pressing defects
- Misaligned parts
- Missing parts
- Uneven hem
- Improper trimming

4.2 Quality as a Multi Dimensional Construct

The various intrinsic and extrinsic aspects of quality, which help in building competitive advantage, can be dealt by examining the different aspects of quality as a multi dimensional construct, drawing from the framework developed by Fawsi
(1992). These are discussed under sub themes to facilitate understanding of different dimensions of quality.

Quality of design

- Not to the requirements
- Too expensive
- Difficult to produce
- Serviceability
- Not thoroughly tested
- Requirements not well specified

- Materials availability
- Choice and suitability of materials
- Safety
- Influence on the environment in production, in use and after use

Quality of production

- Quality of labour and machinery
- Incoming inspection
- In process quality control
- Systems and practices
- Final inspection

Quality of purchasing function

- Suppliers reliability and standards
- Materials used by suppliers
- Cost of materials
- Quantity and assortment
- Stocks held by suppliers
- Delivery time
- Adherence to specifications
- Material planning and administration
- Non confirming materials
- Supplier's adherence to environmental and other standards

Quality of production: In process control

- Quality control systems
- Supervisors and inspectors
- Instructions and manual
- Control charts
- Organization
- Machinery and equipment
- Training
- Motivation
- Quality research
- Quality documentation and various analysis

Quality of production: Final inspection

- Sampling
- Acceptable quality limits
- Treatment of rejected products
- Reworking and alterations
- Documentation
- Lighting and other standards

Quality of sales

- Pricing of products
- Delivery times and outbound logistics
- Packing and packaging
- Reliable supply systems
- Customer relations
- Information on products
- Styled sheets and commercial information
- Instruction for use and wash care labels
- Guarantees and warranties

Quality of marketing

- International marketing research
- Understanding of channels
- Level of quality awareness and competitor values
- Ability to deliver differentiation
- Competent sales negotiation
- Consistent performance

4.3 Summary

The concept of quality form the value chain itself and the concepts have been elaborated by providing the details of quality issues in garment sectors as well as how quality transform as a multidimensional construct . The framework of value system and value chain provides a power to for revealing the sources of competitive advantages while comparing India with largest supplier countries {LSC's}.

5. SWOT Analysis of Indian Garments

The SWOT analysis carried out in this chapter reveal the current status and provides the context for examining the exporter's perception revealed through the research.

SWOT analysis is an analysis of Strengths (S) and Weaknesses (W) pertaining to the garment industry as a whole, and opportunities (O) and threats (T) relating to the environment will form an important basis for assessing the strategic fit between the competencies of India and the opportunities

5.1 Strengths

India has enjoyed comparative advantage in the production of textile and garments mainly because of the abundant availability of cotton and inexpensive labour. The major strengths, which have helped India in achieving the current position, are now explored.

Raw material advantages
India has the largest harvested area under cotton cultivation of around 7.6 million hectares, which is nearly twice that of US and about one fourth of the total world cotton growing area. India grows around 23 varieties of cotton and the general perception is that India has very competitively priced cotton. The yield from the rain fed and irrigated cotton cultivated area vary widely and planned irrigation can considerably improve Indian yield and availability of cotton. With this cotton advantage India has inherent strengths in cotton garments.

Labour cost advantage
As per Werner hourly labour cost comparison India ranks 43^{rd}, and the countries with lower ranks include China, Indonesia, Pakistan, Zambia, Srilanka, Kenya, Vietnam and Bangladesh. The labour advantage, which India has, is a very significant aspect.

India's rich cultural heritage & immense diversity
These provide vibrant inspiration for designers across the world.

The flexibility in factories under SSI
The smaller factories are more flexible and can produce smaller quantities .The industry takes advantage of low labour cost and the fact that different value addition activities are done in different units, leading to diffusion of labour cotent.

India's capability in product development
Through the stages of fabric, design adaptation and sourcing, prototype developments, etc. at very competitive costs. India's capability in product development provides it considerable edge.

5.2 Weaknesses

The inherent weaknesses of country have had a bearing on the performance of garment exports from India over the years. The main weakness is the single fiber orientation (cotton) and the small-scale nature of the industry, which prevented expansion and further technological up gradation. The weaknesses are detailed as follows

Raw material and Infrastructure

- Indian garment exports depend heavily on cotton fabric production from the unorganized and technologically backward power loom sector.
- The infrastructural problems related to roads, ports and communications contribute to considerable delays. There is a significantly lower utilization of capacity in the garment sector because of lower productivity and poor planning systems.

- Small-scale industries leading to inconsistent quality, excessive handling of fabrics and garments and lack of economies of scale severely affect the garment quality and cost competitiveness.
- Being far away from destination markets adversely affects lead time.
- The system of fabric production and processing in the country contribute to delays in delivery.

Investment and technology

- No proper use of relevant technology and skills of labour.
- The textile processing area lags behind in technology and is under utilized with too much capacity.
- Lack of technical human resources to effectively support optimal investment and technology.
- Low productivity and limited use of incentive systems.

5.3 Opportunities

This post MFA scenario opens up immense opportunities as the quota constraints are completely removed. More over the following share of the industrialize countries
{like Korea,Taiwan& Hongkong }have help India to have further expanding opportunities which are :

- The following import market share of the newly industrialized countries opens up new avenues for export especially for synthetic garment
- The MFA phase out provides opportunities for unrestrained export efforts with long term perspective of investment & strategic focus
- Backward integrated garment production especially in the knitwear sector opens up many opportunities
- Dissatisfaction with China in many respect is mounting in the USA & even in the EU
- Indian domestic market leverage provides opportunities for accelerated export effort as well
- Climbing wage rates of many ASEAN & ASIAN countries offer considerable opportunity for India to expand her market share in the area of structured garment & outer wear

5.4 Threats

As the prediction of bilateral quota system is removed, it is likely that they will be intensified competition & pressure on prices no. of countries , for instance , whose share in world export was much lower than India by 1990 , have increase their garment exports at a faster pace. The threats Indian garment exports had to face are:

- The MFA phase out may result in considerable price pressure for Indian garments exports, which may lead to a decline in UVR

- The emergence of production centers like Vietnam, Srilanka & others such new garment production centers may offer considerable competition apart from growing OPT arrangements
- India’s lake of presence in formal wear & winter garments restricts market expansion
- India’s unbalance investment in the spinning weaving, processing & garment sectors may lead to imbalances in the Textile complex.
- The market penetrations through a large no. Of imports hampers market dominance & share
- The main threat emanates from the nature of the industries especially from the point of view of striking a balance between ‘ big & small ‘ in garment export production

5.5 Summary

The SWOT analysis clearly brings out the comparative advantages which have help India to achieve growth in garment exports, as well as the weaknesses that have contributed to the country being only a marginal player in world garment exports. The declining of market shares of newly industrialized countries {NIC} is opening up major opportunity for India as garment-exporting countries prepare for Quota free garment export. The small-scale nature of industry, to a productivity level & the lack of technical up gradation of fabric sectors etc. are major retardants. The poor unit value realization, over dependence on cotton garment export, dependence on export of Quota items etc. are explained through the analysis.

6. Conclusion

The clothing and textile industry in India is the largest manufacturing industry in the country, accounting for nearly 20% of India's industrial output. For many years, India has produced textiles, having the largest cotton acreage in the world. Since the 1970s has India developed a large-scale clothing manufacturing industry. Prior to this, the manufacturing of clothing was considered a cottage industry. Initial markets were Africa and the Soviet Union. These markets expanded into both the EU and US. By 1987, over 50% of India's garment exports went to Europe.

During the course of the first and second MFA in the 1970s, Indian exporting companies enjoyed significant growth. The quantities exported rarely reached the quotas. However, during the third MFA, the quotas began to have an effect on Indian exports. Many Indian exporters were unhappy because they felt that they could not mass-produce garments and enjoy the benefits of an economy of scale.

India hence began to expand its markets to non-quota markets such as Australia, Japan and the Middle East.

By the end of the 1986 1994 Uruguay round negotiations, although generally Indian industry was pleased that the garment and textiles industries would come under GATT, it argued that it was "disingenuous to expect that developing countries need to pay for this integration and are obliged to offer reciprocal market access."

6.1 Review of Indian Textile Industry

The textiles and garments industry is one of the largest and most prominent sectors of Indian economy, in terms of output, foreign exchange earnings and employment generation. Indian textile industry is multi-fiber based, using Brief on New Publications Textiles Exports: Post MFA Scenario Exim Bank: Research Brief No. 11 February 2005 3 cotton, jute, wool, silk and mane made and synthetic fibers. In the spinning segment, India has an installed capacity of around 40 million spindles (23% of world), 0.5 million rotors (6% of world). In the weaving segment, India is equipped with 1.80 million shuttle looms (45% of world), 0.02 million shuttle less looms (3% of world) and 3.90 million handlooms (85% of world). The organized mill (spinning) sector recorded a significant growth during the last decade, with the number of spinning mills increasing from 873 to 1564 by end March 2004. The organized sector accounts for production of almost all of spun yarn, but only around 4 percent of total fabric production. In other words, there are little over 200 composite mills in India leaving the production of fabric and processing to the decentralized small weaving and processing firms. The Indian apparel sector is estimated to have over 25000 domestic manufacturers, 48000 fabricators and around 4000 manufacturer-exporters. Cotton apparel accounts for the majority of Indian apparel exports.

6.2 Factors That Need Attention

Though India is one of the major producers of cotton yarn and fabric, the productivity of cotton as measured by yield has been found to be lower than many countries. The level of productivity in China, Turkey and Brazil is over 1 tonne / ha., while in India it is only about 0.3 tonne / ha. In the manmade fiber sector, India is ranked at fifth position in terms of capacity. However, the capacity and technology infusion in this sector need to be further enhanced in view of the changing fiber consumption in the world. It may be mentioned that the share of cotton in world fiber demand declined from around 50 percent (14.7 mn tons) in 1982 to around 38 percent (20.12 mn tons) in 2003, while the share of manmade fiber has increased from 44 percent (13.10 mn tons) to around 60 percent (31.76 mn tons) over the same period. Apart from low cost labour, other factors that are having impact on final, consumer cost are relative interest cost, power tariff, structural anomalies and productivity level (affected by technological obsolescence). A study by International Textile Manufacturers Federation, revealed high power costs in India as compared to other countries like Brazil, China, Italy, Korea, Turkey and USA. Percentage share of power in total cost of production in spinning, weaving and knitting of ring and Open-Ends yarn for India ranged from 10 percent to 17 percent, which is also higher than that of countries like Brazil, Korea and China. Percentage share of capital cost in total production cost in India was also higher ranging from 20 percent to 29 percent as compared to a range of 12 to 26 percent in China. In India, very few exporters have gone in for integrated production facility. It is noted that countries that would emerge as globally competitive would have significantly consolidated supply chain. For instance, competitor countries like Korea, China, Turkey, Pakistan and Mexico have a consolidated supply chain. In contrast, apart from spinning, the rest of the activities like weaving, processing, made-ups and garmenting are all found to be fragmented in India. Besides, the level of technology in the Indian weaving sector is low compared to other countries of the world. The share of shuttle less looms to total loomage in India is 1.8% as compared to Indonesia (10%), Bangladesh (10%), Sri Lanka (12%), China (14%) and Mexico (29%). The supply chain in this industry is not only highly fragmented but is beset with bottlenecks that could very well slow down the growth of this sector. As a result the average delivery lead times (from procurement to fabrication and shipment of garments) still takes about 45-60 days. With international lead delivery times coming down to 30-35 days, India needs to cut down the production cycle time substantially to stay in the market. Besides, erratic supply of power and water, availability of adequate road connectivity, inadequacies in port facilities and other export infrastructure have been adversely affecting the competitiveness of Indian textiles sector.

Source: Exim Estimates
(Figures in parameters represent share (%) in total market).

Estimated Gains in USA and EU For China and India (US $ Billion)										
Markets	Textiles				Clothing				Total	
	Present (2003)		Future (2014)		Present (2003)		Future (2014)		2014	
Gains in	China	India	China	India	China	India	China	India	China	India
USA	3.6 (20)	1.5 (8.4)	13.0 (32)	5.0 (13.5)	12.0 (16.9)	2.3 (3.2)	67 (42)	13 (8)	80 (40)	18 (9)
EU	2.8 (5.3)	1.9 (3.2)	12 (12)	8 (8)	12.3 (12.2)	3.0 (3.0)	60 (30)	16 (8)	72 (24)	24 (8)

The market losers in the long term (by 2014) would include high cost producers, like EU, USA, Canada, Mexico, Japan and many east Asian countries. The determinants of increase / decrease in market share in the medium term would however depend upon the cost, quality and timely.

6.3 Review of Garment Industry

The garments industry in India is one of the best in the world. An extremely well organized sector, garment manufacturers, exporters, suppliers, stockists and wholesalers are the gateway to an extremely enterprising clothing and apparel industry in India. There are numerous garments exporters, garments manufacturers, readymade garments exporters etc. both in the small scale as well as large scale.

During April-December 1999-2000, textile exports were recorded as US $ 9735.2 million (Rs.440179.4 million), of which ready made garments comprised nearly 40%. Interestingly, almost ¼ of India's total exports goes to the USA.

Indian readymade garments and textiles are extremely popular the world over. In fact, exports of readymade garments registered a 6.4% increase in dollar terms and an 11.6% increase in rupee terms during the period April-December 1999-2000, despite a sluggish growth in income both at home and abroad. Indian Garment export growth during April-June 1998 for woolen ready made garments was a phenomenal 150%, for ready made garments made of silk it was 58%, and for other ready made garments it was 39%, in dollar terms.

Today, garments exports from India have made inroads into the international market for their durability, quality and beauty. One of the reasons for the economical pricing of India's ready made garments and apparels is the availability of highly skilled, cheap labor in the country. The superiority of India's Garment Industry has been acknowledged in the National Textile Policy (NTP) of India 2000. Having realized the tremendous growth potential of this sector there is a proposal in the NTP for taking the Indian Garment Industry out of the SSI reservation list.

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