

GLOBALIZATION OF THE APPAREL INDUSTRY: A STUDY OF PROSPECTS OF INDIAN INDUSTRY IN WTO ERA

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ABSTRACT

The textile and clothing constitute one of the largest industrial sectors in India and is a leading foreign exchange earner in Indian economy. Abolition of licensing controls on the Indian industry and the Uruguay round negotiations resulting in a ten year phase out of textile & clothing export quotas under ATC posed a great opportunity and challenge to India in global fashion industry. The phased removal of quotas since 1995 is catapulting Indian export firms into a new competitive environment in global fashion industry. India has emerged as one of the main textile and clothing exporting country in world but low and stagnant market share in the world trade, comparatively lower unit value realization, lack of presence in high value segment and aggressive performance of China, Turkey, Bangladesh, Mexico, Korea and other Asian countries has made study of competitiveness to assume much importance than ever.

In the context of the competitive position of India, arrived at through empirical analysis of production, imports, growth rates and India's overall export performance and production; this study purports to examine and identify the perceptions of garment exporters and buying houses, fabric manufacturers on various elements related to competitiveness of textile and clothing sector to reveal the sources of competitive advantage for Indian apparel exporters in quota free world.

The study reveals that Indian apparel export industry has high potential to upgrade its inherent comparative advantages and move towards sustainable competitive advantage especially to prepare for the competitive scenario in the post-MFA world trade. The strategic planning for targeting to segments offering higher realization with product innovation and differentiation in higher value segments is required with building up comparative advantage of backward value chain.

1. INTRODUCTION

The textile and apparel industry is one of the largest industrial sectors in India and a leading foreign exchange earner. Industrial liberalization in the domestic economy since 1991 has been followed by changes in the global environment. The phased removal of textile quotas since 1995 has catapulted Indian export firms in to a new competitive environment.

The textiles and apparel is the largest manufacturing sector in India, accounting for around 14% of India's industrial output and a work force of 35 million persons. The sector also accounts for 27% of India's exports. World trade in textile has increased from US\$ 104.33 (1990) to US\$ 195(2004) while India's textile exports has increased from US\$ bn 2.18 to US\$ bn 6.85 in year 2004(Table 1). The percentage share of India in world textile trade has increased from 2.09 percent to 4 percent

Table I. India's position in world's textile trade (value US\$ bn)

Year	World textiles	India's textile trade	%Share
1990	104.33	2.18	2.09
1995	151.58	4.35	2.88
1999	146.23	5.08	3.47
2000	154.74	5.89	3.82
2001	146.98	5.37	3.67
2002	152	5.38	3.53
2003	169	6.51	3.85
2004	195	6.85	4.0

Source: Compiled from Textile Asia, Nov. 2003, business world 2004

Table II indicates that the percentage share of India in world apparel trade has marginally increased from 2.34 percent to 2.8 percent while in absolute terms it has increased around 100 percent but in the year 2000 share of India in the world apparel has increased to 3.13 percent and in value terms to US\$ bn. 6.17.

The international trade in textile and apparel has a share of 5.1 percent in world merchandise trade in year 2004. The textile and apparel trade has registered a positive growth in last two decades. It also reflects more contribution of apparel in increasing share of textile and apparel in world trade. World apparel trade has increased from US\$ bn 108.10 (year 1990) to US\$ bn 258 (year 2004) showing a growth 138 percent while the growth of India's trade is from US \$ bn 2.53 to US \$ bn 6.62 during the same period is 161.66 percent.

Table II. India's apparel trade in world's trade (Value US\$ bn)

Year	World apparel trade	India's apparel trade	% Share
1990	108.10	2.53	2.34
1995	158.30	4.11	2.5
1999	184.60	5.15	2.78
2000	196.78	6.17	3.13
2001	195.03	5.48	2.81
2002	201	5.6	2.78
2003	226	6.46	2.85
2004	258	6.62	2.80

Source: Compiled from Textile Asia, Nov. 2003, business world 2004

It reflects that although India's apparel trade has increased in value terms but share in world market has not increased. In other terms, India's competitive position in textile trade has improved while in apparel trade it is stagnant.

The average UVR of exports of apparel from India is US\$ 4.01 in year 2004. It remained almost stagnant in last one decade as the UVR in 1993 was US\$ 3.82, which has witnessed a marginal change but remained below US\$ 4 from 1993-2004. European Union is largest destination market for export from India i.e. it constitutes 52.04 percent share of our total exports of apparel while USA is single largest market with share of 40.16 percent in total exports from India. Besides it non-quota countries (UAE, Japan, Australia and Switzerland etc.) constitutes 4.16 percent of India's total exports. The average UVR from exports to non-quota countries is US\$ 3.75 (2004), which is lesser than US\$ 5.06 (1994). USA is single largest market with highest average UVR in last one decade followed by European Union (in terms of volume) and non-quota countries (in terms of value). This also indicates India's target of exports of apparel is primarily low-end customer and share of value added items contributing more in average UVR is rather negligible.

The exports of Indian textiles and apparel have grown under the environment of MFA quotas for over two decades. The international textile and apparel trade was conducted in a unique regulatory environment that restricted exports from specific countries and of specific products. There has been considerable speculation and divergence of opinion among industry and government circles on how Indian exports may be affected with removal of MFA quotas. The Indian textile and apparel sector is very critical to the Indian economy - as this sector accounts for around 8 % of GDP, contributes 14% of the value addition in the manufacturing sector and more than 30 % of the export earnings of the country. Besides, it is the single-largest employer with an estimated workforce of 35 million.

Though India has emerged as one of the main textile and apparel exporting countries, low and stagnant market share in the world textile and apparel trade, comparatively lower unit value realization, lack of presence in high value segment and aggressive competitor performance has made it necessary for Indian textile and apparel industry to understand the expectation and satisfaction levels of apparel exporters and buying houses representing buyers in destination market towards the availability and source of raw material i.e. fabric. The import of fabric particular synthetics or blends has increased significantly leading to affect Indian textiles (fabric) sector. India is sourcing raw material for apparel i.e. fabric and trims from countries i.e. china leading to becoming non-competitive in apparel trade. At the same time, due to lack of orders the fabric sector has also got affected which is affecting performance and focus of textile sector in India.

The issue of competitiveness has been assuming far greater importance than ever as factor advantages are not proving to be of much help in a number of product categories. The differences are possible in total cost through efficient sourcing of indigenous materials at differential advantage, cost effective processes, productivity, range of services and intangibles like brand, quality and other non-price dimensions. Thus in a situation where quotas are no more controlling the supply mechanism, assessment of export capability and competitiveness achieve considerable importance.

2. RESEARCH DESIGN

Desk research has been carried out to identify the India's position in world textile and clothing trade, target market & key competitors. A SWOT analysis has been conducted to understand India's competitive position in world textile and clothing trade. Primary data collection was done through response of garment exporters, fabric manufacturers and buying houses using structured questionnaires. Convenience & Judgmental sampling was the method used in all the three cases. This study is based on primary data collection through survey of garment exporters, fabric manufacturers and buying houses.

For analysis of all three-questionnaire(s); frequencies, weighted average performance and importance rankings are used to meet the specific objectives of the research. All the frequencies are converted into percentage of respondents and expressed upto two places of decimals and diagrammatically represented by line graph and radar diagram etc. The respondents were asked to indicate the importance or preference of parameters on a 5-point scale ranging from 1 (extremely low / least preferred) to 5 (extremely high/ most preferred). The weighted average scores are computed and expressed upto two places of decimals; the perceptual distances are then graphically represented through radar diagrams.

3. KEY RESEARCH FINDINGS

3.1 Level of preference of various fabric sources

The apparel exporters and / or buying houses have a choice to source the fabric from organized, unorganized or imported source of fabric. The response of apparel exporters as well as buying houses has been taken against various parameters playing an important role in sourcing decision for the fabrics.

3.1.1 Response of Apparel Exporters

Table III shows that the response of apparel exporters indicate the preference for imported fabric on account of lower price, availability of wider width of fabric, consistency in quality, required quality of finishing, consistency in lot/roll quantity, lot / roll quantity availability and the availability of counts and construction as per requirement. The fabric from organized sector is perceived to be preferred while sourcing fabric with target of high order quantity and minimum lead-time. Required quality of processing and physical properties is also perceived to be superior in organized sector fabric as indicated by apparel exporters. The fabric from un-organized sector is only perceived to be preferred on account of low sampling cost.

Table III. Level of preference of various fabric sources - response of apparel exporters

Parameters	Organised	Unorganised	Imported
High order quantity	4.13	2.71	3.93
Lower price	3.92	3.54	3.96

Wider width of fabric	4.00	2.68	4.07
Minimum lead time	4.05	3.34	3.85
Consistency in quality	4.16	2.78	4.52
Required quality of processing	4.27	2.88	4.18
Required quality of finishing	4.14	2.85	4.23
Consistency in lot/roll quantity	3.97	2.61	4.61
Lot/roll quantity availability	3.88	2.63	4.16
Count and construction availability	3.96	3.00	4.23
Low sampling cost	3.48	3.79	2.71
Required physical properties	4.12	3.06	4.07

3.1.2 Response of Buying Houses

The response of buying houses indicate that imported fabric is perceived to be superior to other source of fabric i.e. unorganized & organized mills, while considering various parameters for making sourcing decision regarding fabrics for apparel items being sourced from India. Table IV shows that the fabric from un-organized sector is perceived to be better than fabric from organized sector and preferred while considering lower price and low sampling cost as decision making criteria for sourcing decision.

In all other respects, response of buying houses indicate that the performance of fabric from organized sector is preferable than fabric from unorganized sector. However, there is an overall perception of best performance of imported fabric. Since in many cases buying houses recommend or play an important role in selection of fabric sources for raw material for apparel exporter, their view are critical and to be considered while planning action plan for making Indian fabric industry competitive in world in post-MFA period.

Table IV: Level of preference of various fabric sources - response of buying houses

Parameters	Organised	Unorganised	Imported
High order quantity	3.90	1.81	4.68
Lower price	3.26	3.43	4.35
Wider width of fabric	3.52	1.70	4.70
Minimum lead time	3.45	2.89	4.03
Consistency in quality	3.66	1.97	4.73
Required quality of processing	3.36	2.07	4.69
Required quality of finishing	3.44	1.50	4.72
Consistency in lot	3.65	2.00	4.71
Lot quantity available	3.72	2.44	4.55
Count and construction availability	3.84	2.56	4.61
Low sampling cost	3.13	3.31	3.43
Required physical properties	3.61	1.68	4.59

3.2 Reasons for Lesser focus on manufacturing high value fabrics

The opinion of fabric manufacturers was taken to ascertain the reasons for their lack of focus on high value fabrics. The response indicate high cost of manufacturing and limited R&D facility as the key reasons behind manufacturers not manufacturing high value fabric, lack of awareness about new international standards / innovations, higher competition and lack of understanding of market requirement, less profit margin and limited finishing facilities available for high value fabrics are the other reasons behind lesser focus of fabric manufacturers on high value items .The response of fabric manufacturers are shown in Table V High cost of manufacturing for targeting to upper end of the market associated with limited R&D facility and perceived high competition in high quality fabrics are the key reasons leading to lesser focus on manufacturing of high quality fabric in India.

Table V. Opinion regarding lesser focus on manufacturing of high quality fabrics in India

Statements	Average
Reqd. design skills are not available	2.20
Reqd. quality raw material is not available	2.16
Workers are not skilled enough to produce quality product	2.36
Production capacity is not enough	2.44
Requisite technology is not available	2.57
Lack of understanding of market requirement	3.63
Lesser demand in the market	2.92
Less profit margin	3.71
Limited finishing facilities	3.52
Limited R&D facility	4.02
Lack of awareness about new international innovations/standards	3.89
High cost of manufacturing	4.15
Higher competition	3.88

Statistical Analysis

The response of fabric manufacturers is analyzed with factor analysis. Factor analysis using ‘Principal Component Analysis’ (PCA) was carried out on the data collected, in order to bring out the salient features of the fabric manufacturer’s response towards lesser focus on high value items. Table VI. indicates factor loadings for various parameters under group 1, 2. The variables alongwith high factor loadings in group 1 include workers are not skilled enough to produce quality product (0.866), required quality raw material is not available (0.834), required design skills are not available (0.773), production capacity is not enough (0.772) and requisite technology is not available (0.694). The variables with high factor loading in-group 2 include limited R&D facility

(0.859), lack of awareness about new international innovations/standards (0.845), limited finishing facilities (0.716) and lack of understanding of market requirement (0.682)

Table VI. Factor groups for reasons of lesser focus on manufacturing high quality fabrics.

Parameters	Group 1	Group 2
Reqd. design skills are not available	.773	.322
Reqd. quality raw material is not available	.834	.245
Workers are not skilled enough to produce quality product	.866	.204
Production capacity is not enough	.772	.335
Requisite technology is not available	.694	.417
Lack of understanding of market requirement	.419	.682
Lesser demand in the market	.438	.564
Less profit margin	.419	.515
Limited finishing facilities	.302	.716
Limited R&D facility	.139	.859
Lack of awareness about new international innovations/standards	.195	.845
High cost of manufacturing	.384	.536
Higher competition	.381	.490

The total variance attributable to the first factor group is 52.99 percent. The total variance for factor group II is 62.60 percent. The output indicate that the variables termed under market and R & D functions (Table VII) are highly inter correlated and constitute the key background of lesser focus on manufacturing of high quality fabric. The variables, lack of awareness about new international innovations (Factor loading 0.859) and high cost of manufacturing (Factor loading 0.845) with high factor loading indicates more importance of these in lesser focus on manufacturing of high quality fabrics.

Table VII. Reasons for Lesser focus on manufacturing of high quality fabrics.

Variables	Factor loading	Factor group title
Lack of awareness about new international innovations/standards	0.859	Market and R & D functions
High cost of manufacturing	0.845	
Limited R&D facility	0.716	
Lack of understanding of market requirement	0.682	

The other variables with high factor loading are Limited R&D facility (Factor loading 0.716) and Lack of understanding of market requirement (Factor loading 0.682). Table VIII indicate that the variables; availability of skilled workers to produce quality product (Factor loading 0.866) and availability of required quality raw material (Factor loading 0.834) with high factor loading indicates more importance of these in lesser focus on manufacturing of high quality fabrics. The other variables with high factor loading are availability of required design skills (Factor loading 0.773), enough production capacity

(Factor loading 0.772) and availability of required technology (Factor loading 0.694) indicates that Indian industry has a strength in these variables as perceived by fabric manufacturers but due to market and R & D related functions as explained above there is lesser focus on manufacturing of high quality fabric.

Table VIII. Reasons for lesser focus on manufacturing of high quality fabrics.

Variables	Factor Loading	Factor Group Title
Availability of skilled workers to produce quality product	0.866	Production and quality functions
Availability of reqd. quality raw material	0.834	
Availability of reqd. design skills	0.773	
Enough production capacity	0.772	
Availability of required technology	0.694	

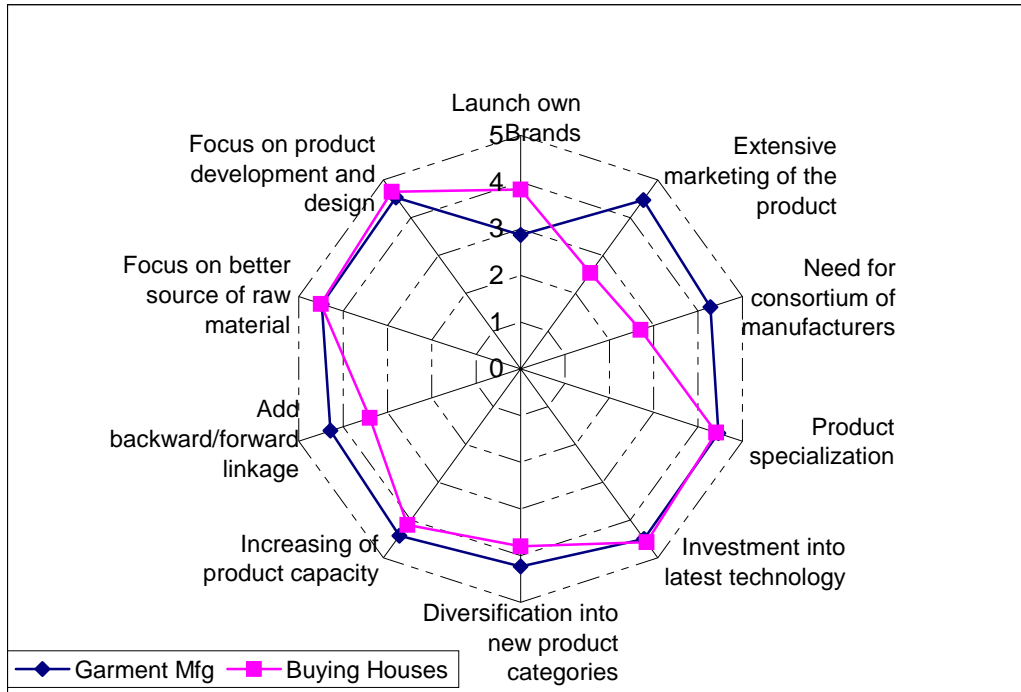
3.4 Initiatives to be taken for WTO era

A comparison of responses as received from garment exporters and buying houses is shown in (Table IX & Exhibit 1) which indicate focus on product development and design skills, investment in to latest technology as important step followed by focus on better source of raw material, product specialization as important step to be taken by clothing firms to be competitive in world market. Diversifications in to new product categories, addition of backward/forward linkage is also important initiative in this direction to be taken by garment exporters. There is lesser requirement of launching own brand, need for consortium of manufacturers while exporters felt requirement of extensive marketing along with need for having a consortium of manufacturers.

Table IX: Perception gap between garment exporters and buying houses

Parameters	Garment exporters	Buying houses
Launch own Brands	2.87	3.84
Extensive marketing of the product	4.47	2.54
Need for consortium of manufacturers	4.28	2.70
Product specialization	4.46	4.41
Investment into latest technology	4.50	4.59
Diversification into new product categories	4.23	3.80
Increasing of product capacity	4.42	4.13
Add backward/forward linkage	4.29	3.40
Focus on better source of raw material	4.48	4.50
Focus on product development and design	4.54	4.69

Exhibit I: Perception gap between garment exporters and buying houses



4.CONCLUSIONS

The present study reveals that Indian textile and apparel exports has high potential to upgrade its inherent comparative advantages and more towards sustainable competitive advantage especially to prepare for the competitive scenario in the post-MFA world textile and apparel trade.

As World textile and apparel trade is shifting to apparel. The textile and apparel industry of a country can remain competitive in quota free world with competitive advantages in each element of value chain of manufacturing. The apparel industry is increasingly becoming dependent upon fabric from imported origin due to perception of better performance on various parameters including lower cost, availability of wider width fabric, consistency in quality, processing & moreover minimum lead time. The fabric from organized sector is perceived to prefer by manufacturers for higher quantity requirement, lower sampling cost. The fabric form unorganized sector which contributes 95 percent of India’s production, is only preferred for low sampling cost. It indicates that India’s textile (fabric) sector needs to become competitive by investment in latest technology in weaving and processing, research and development and offering product with proper understanding of market requirement.

Indian fabric is preferred for 100% cotton while for synthetics China, Taiwan & Korea are becoming sourcing base for Indian apparel exporters due to cheaper price and superior quality. Indian textile (fabric) industry needs to offer merchandise as per latest international trends. The requirement of apparel industry is for consistency in quality and quantity, wider width and cost competitiveness. The Indian government needs to

encourage investment by organized sector to have large set up in weaving & processing. The effort should be on making good quality Indian fabric available at competitive price to apparel manufacturers. The integrated effort of textile (fabric) and apparel industry shall boost all segments of textile and apparel industry. The government is also required to provide infrastructural support and policies, which can attract investment in this sector so as to develop all segments of industry. Competitiveness of Indian textile and apparel industry can be increased by strengthening elements of value chain in textile and apparel industry by developing competitive advantage of each of the segment and having its contribution for value addition in further stages of production. The strategic planning for targeting to segments offering higher realization due to product innovation and differentiation in higher value segments is required with building up comparative advantage of having strength in backward value chain.

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ABBREVIATIONS

AEPC	Apparel Export Promotion Council
ATC	Agreement on Textiles and Clothing
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
MFA	Multi-Fibre Arrangement
MMF	Man Made Fibres
NIFT	National Institute of Fashion Technology

R & D	Research and Development
UVR	Unit Value Realization
WTO	World Trade Organization

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