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INDIAN GARMENTS INDUSTRY IN THE POST-MFA PERIOD

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FOREWORD

Readymade garments feature among the top foreign exchange earners in India's export commodity basket. Currently, these account for more than 50 per cent of the total textile exports from India. The export performance of the item has shown a consistent upward trend over the years, rising from a little over Rs 1,000 crore in 1985-86 to Rs 8,821 crore in 1992-93 and Rs 11,648 crore in 1993-94. India's excellent performance in this sector is attributed to such factors as its strong cotton base, relatively inexpensive labour and flexible production system which have given it the necessary adaptability to cater to large number of small orders from overseas importers. Decentralization of production operations has also reduced the Indian industry's overheads, giving it a measure of competitive strength to operate effectively in foreign markets.

Despite such impressive achievements in this sector, it is a fact that India's exports constitute a mere 2 per cent of the present world trade for clothing. India's export trade in garments has hitherto been primarily confined to cotton garments, whereas a major proportion of the international trade of the item comprises polyester-cotton and other blends, in which India has not made much headway. A lot more, therefore, needs to be done if India is to grow and take a larger slice of the international market.

The monograph focuses on the following issues:

(i) appraisal of the strengths and limitations of the Indian garments industry;

(ii) identification of product/commodity portfolio which command high unit values in the overseas markets; and

(iii) suggesting a suitable action plan for the industry to compete effectively in international markets.

The monograph, which is largely based on the research study conducted for the Ministry of Textiles, has identified certain measures that need to be adopted by the Indian garments industry to compete effectively in the quota-free environment. Modernization of the industry has already begun, but several limitations have come in the way of exploiting full growth of the industry. The monograph analyzes in detail these factors.

I trust that this monograph will catalyze greater interest and provide research pertaining to the Garments Sector which is one of the high growth sectors in India.

Dr. P.L. SANJEEV REDDY
DIRECTOR GENERAL

New Delhi
February 1997

Indian Garments Industry in the Post-MFA Period*

Satinder Bhatia

Introduction

WORLD trade in textiles and clothing has had a long history of managed trade. It has been subject to regulation in one form or another for more than 55 years. Since the first voluntary export quota was negotiated by the USA on Japanese textiles exports in 1935, there has been a plethora of national, bilateral and international rules governing the trade in textiles and clothing culminating in 1974 in the Arrangement Regarding International Trade in Textiles, commonly known as the Multi-Fibre Arrangement (MFA), negotiated within the framework of the General Agreement on Tariffs and Trade (GATT). The MFA was intended to operate within a multilateral framework and its fundamental objective had been the expansion and progressive liberalization of trade in textiles, while avoiding the disruption of individual markets and individual lines of production in both importing and exporting countries. In practice, the trade in textiles is broadly defined and is subject to the provisions of bilateral agreements, which restrict specific products, usually by means of quotas (officially, quantitative restrictions or restraints).

With the World Trade Organization (WTO) coming into force from 1 January 1995, the MFA has ceased to exist and the Agreement on Textiles and Clothing (ATC), which is part of the Final Act of the Uruguay Round of Multilateral Trade Negotiations of the GATT, has taken its place. The ATC envisages complete integration of the entire textiles sector into the multilateral

* This paper is based on the Study on "Export and Management Capabilities of the Indian Garments Industry" conducted by the Institute during January-July 1996.

framework, viz. the GATT at the end of a ten-year transition period. In other words, the quota system in the textiles sector will completely disappear at the end of the ten years and international trade in textiles and clothing will be conducted on a non-discriminatory basis as it happens to be the case in respect of all other goods.

While existing MFA restrictions are being phased out, new restrictions of the MFA variety, i.e. of a discriminatory nature, are permitted under the provision of "transitional safeguards". This is to be applied to products which are still under MFA restrictions. There is an increasing evidence of developed countries resorting to these safeguards. Almost simultaneously with the announcement of the integration of unrestricted products on 1 January 1995, the USA called on the exporting countries to exercise voluntary restraints on their exports considered sensitive by the USA, failing which they would be subject to the US quotas. During WTO's short span of existence, the USA has already initiated 20 actions to institute new quotas. Japan which never used the MFA is now considering the application of transitional safeguards.

It is quite certain that the removal of MFA protection does not imply that the industries concerned will be deprived of all protection. Tariffs were the main protection tool for the industrialized world's textile and apparel sectors until the introduction of Voluntary Export Restraints (VERs) and the MFA system. Thus, the permanence of tariffs at high levels in developed countries, in part, is adding significantly to the protection of their markets.

Since each importing country will unilaterally select the products to be integrated into GATT, it is difficult to foresee which of the MFA restrictions will be phased out in the early stages, although it can be expected that the most sensitive products in which the growth rates are the lowest and quota levels consistently filled, will be left to be liberalized at the final stage. Developing-exporting countries should not, therefore, expect to benefit from meaningful trade liberalization in textiles in the immediate future. The transition period, nonetheless, should be used to identify the strengths and weaknesses in the production base. It should be a period for carrying out structural adjustments in the industries.

Readymade Garments Industry in India

The Indian textiles have carved out a niche for themselves in international market by overcoming various hurdles, including attempts by the local industry to undermine its success. Not only has it become a major foreign exchange earner, it is also one of the thrust items in the Indian export basket. This is reflected by the surge in the export of textiles for the financial year 1994-95, with a growth of over 27 per cent amounting to US$ 9.9 billion against US$9 billion in the previous year. Almost all sectors of textiles performed well and exceeded their targets set up by the industry Export Promotion Councils for the third successive year, an encouraging signal as it has been achieved against several obstacles. Liberalization of the Indian economy and delicensing of the textiles industry, one of the largest sources of employment with a share of about 37 per cent of total exports, have helped to strengthen the sector in recent years.

The readymade garments industry in India has come a long way to reach the present stage where it enjoys the status of being the largest net foreign exchange earner for the country and the fifth largest gross forex earner. From only a small number of units two decades back, there is now a proliferation of garment units. Readymade garments are poised to be a major contributor to India's total exports of textiles which are expected to exceed US$ 20,000 by the turn of the century.

The trend of India's exports is shown in Tables 1 and 2. The tables clearly show that garment exports from India have been experiencing robust growth rates since the early eighties. The growth rate had crossed 40 per cent in rupee terms as early as 1987 and in dollar terms had averaged 36.3 per cent during the same year. The year 1992 exhibited the peak growth rate of 48.5 per cent in rupee terms. However, there have been some lean years too. A prominent example is that of the year 1991 when garment exports registered a negative growth rate of 3.8 per cent in dollar terms. However, although there have been fluctuations over the short term, the long-term trend has been a healthy one due to which there has been a rapid expansion in the number of people entering this trade. The long-term growth rate over the period 1985-1994 averaged approximately 33 per cent in rupee terms and 20 per cent in dollar terms. Most of this growth has occurred in India's major markets, viz. the European Union (EU) and the USA. Of the non-quota countries, the top four have been the UAE, Japan, Switzerland and Russia (Table 2).

However, this growth has occurred mainly through the contribution of the powerloom sector. A comparative analysis of different sectors in India in terms of production of fabrics given in Table 3 shows the importance of the powerloom and the handloom sectors in fabric production in India. During 1988-89 to 1993-94, while the powerloom and the handloom sectors registered growth rates of approximately 20 per cent and 10 per cent respectively, the mill sector showed a decline. On account of this factor, the share of the mill sector in total production of fabrics also fell from 14.5 per cent in 1988-89 to 9.1 per cent in 1993-94. Greater attention has been paid in India to the knitted sector which has increased its share in quantity terms from 39.13 per cent in 1990 to 42.77 per cent in 1994 and in value terms from 22.52 per cent to 25.38 per cent during the same period (Table 4).

Specific Advantages of the Indian Garments Industry

There are tremendous possibilities for future growth in exports of readymade garments. The Indian readymade garments industry has many advantages over its counterparts in other countries. India has the second largest labour force in the world to feed labour-intensive garments industry. Its basic raw material, namely fabric, is mainly indigenous. Unlike Bangladesh, which is a relatively new entrant in international trade, India is one of the well established exporting countries. In developing world, it became the largest exporter after the World War-II. Although it has lost its primacy to others, it has continued to expand its trade, diversify its markets and change the product mix of its exports. It is still a leading exporter. Its trade mostly consists of products made out of domestically produced cotton. Its trade a few decades ago was mostly of cotton yarn and fabrics. Presently, it has developed a very sizeable base of exports of clothing from a very small one a decade or so ago.

Ecological considerations are becoming important factors in the marketing of consumer goods, including textiles, all over the world. Quality requirements for textiles and clothing sold on the European market are evolving rapidly, as competition in this sector increases and consumer concerns for environmental, health and safety factors gain momentum. A large number of developing countries supply these goods in various forms, either as readymade garments, textiles for specialized uses such as home furnishings or construction applications, or simply fabrics sold in general retail outlets. Garment exporters using such materials should follow the changes underway closely, if they wish to maintain and expand their share in this lucrative trade. Some of the recent developments in the quality requirements for textile and textile goods marketed in the EU include the ban first instituted by Germany owing to the heightened environmental consciousness on garments dyed with azo, benzidine and other similar amines. Slowly, other European countries such as Sweden, Switzerland, etc. are also adopting this route. There is a likelihood that the USA and Canada may also follow suit. Hence, the Indian garment manufacturers should get themselves ready to face such an eventuality. Exporters of textiles goods must, therefore, be in a position to adapt their products and processing techniques to comply with new environmental regulations being introduced to their products and processing techniques. The Indian dye industry is stepping up investment in plant and machinery to meet these new challenges. The Government of India is providing the necessary support to both producers and exporters in meeting their market requirements.

The Cotton Advantage

Besides the clear labour advantage, the industry is now fully geared to undertake production and export of all types of readymade garments made of all varieties of fibre. There is a growing trend abroad favouring cotton fabric as compared to synthetics. International market studies indicate that the textiles industry is shifting to Asia and in the years to come, India will have a competitive advantage in the textiles sector due to the availability of cotton, synthetic fibre, etc. Indian cotton fabric and garments made from them are very popular because of the texture and comfort. Cotton cloth is locally available and all the other necessary materials for production of readymade garments are also available locally. The industry has been able to locate new items which it can sell to totally new markets and this is how the Indian garments will get an opportunity to enter into new markets.

History shows that from ancient times India has the reputation of having used natural textile dyes and known for its eco-friendly textiles. It is no denying the fact that the preparation of the fibres, spinning, warping and mounting on the loom, weaving, bleaching and dyeing with natural colours became a habit with our weavers. Such varied skills with an associated level of manual dexterity were passed from generation to generation and acquired and developed through long practice besides the natural aptitude very much necessary, especially in a system in which all different processes of production were based on empirical knowledge.

The Drive Towards Modernization

Government policies have played an important role in accelerating the export of readymade garments. The Government has identified readymade garments as a thrust area and is providing the support required to boost exports from this sector. Most of the machines required for garment projects can be procured easily. Machines can also be imported under open general licence. Besides, foreign machinery manufacturers are already well established in India through their agents. The industry is now well equipped to combat the tides of changes that take place continuously in the fashion world.

There, indeed, has occurred a vast improvement in the latest technologies and systems adopted in the Indian garments industry. Modernization is expected to help in both product and market diversification as well as better price realization for various categories of garments. All this is very different from the situation

prevailed some years ago when the industry, with its large base of low wage workers, had little incentive to adopt the impressive technological breakthroughs that cut lead times, improve productivity and reduce labour requirements. Even modern cutting and sewing machines that could speed production and improve garment quality were not widely used. Today, a majority of units are employing imported machinery. The technological status of the industry is given in Tables 5 and 6.

As is clear from these tables, in the case of stitching machines, indigenously made ordinary slow speed sewing machines used for stitching of garments take up approximately 79 per cent share while the share of high speed machines (of which 65% are indigenous) is only 20 per cent. Multi-needle, chain stitch machines and zig zag stitching machines are having a small share. In case of specialized machines, the share of slow speed overlock machines is 29 per cent, high speed overlock machines 19 per cent, multi-needle overlock machines 4 per cent, button holing machines 12 per cent and embroidery machines 19 per cent. In the case of processing machines, indigenous machines are having a predominance and the share of indigenous machines in this category is more than 90 per cent.

Thus, there exists a need to modernize specific sectors of this industry. The sewing sector, in particular, does not seem to be getting due importance. Today, modern multipurpose sewing machines are available, which could easily be installed for multipurpose activity. Approximately, 72 per cent of sewing machines are employed by fabricators, only 8 per cent are employed by manufacturer-exporters and the remaining 20 per cent are employed in domestic units. Modern multi-head embroidery machines with microprocessor aided designing facility are also required to be installed in place of ordinary slow speed, single headed embroidery machines to improve the aesthetic of the garment by developing attractive embroidery work, which could be an attractive proposition to foreign buyers. Both computer aided design and pattern making machines are new introductions to this industry. Both are now becoming essential to develop new products and new designs with different colour combinations and shades. This also saves time and enables quick delivery to customers.

With respect to modern management practices, adoption of flexible manufacturing, quick response and productivity improvement techniques, modern sampling and trend forecasting methods, and improved logistics planning will become absolutely essential in the next few years if manufacturers are to respond positively to the shifting demands of Western markets. The Indian garments industry today has no source of such know-how. The likes of Hong Kong's Productivity Council and Demonstration Centre and equivalent institutes and councils in other countries are entirely lacking. Fortunately for India, the concentration of the garments industry in relatively few clusters — in Mumbai, Delhi, Bangalore, Tirupur, and Chennai—may facilitate the promulgation of solutions to its problems.

Improvements in Communication Technology

Garment exporters are adopting long-term strategies that exploit information to achieve greater sophistication in planning and flexibility in operations to respond quickly to market shifts. The objective is to abbreviate lead times, reduce inventory levels, increase inventory turns and avoid stockouts and markdowns. Garment exporters are now establishing their production schedules closer to the selling season based on quick response strategy that links apparel retailing and manufacturing operations to make available the right product at the right time. The domestic sector is also rapidly changing its structure vastly because of the changing taste of urban people who have now shifted to readymade garments. The Indian clothing industry has started combining the prevailing technology with flexibility to cater to the market demand and with changing fashions and short production runs. Communication from the vendor is particularly crucial at the start of production. It is incumbent on vendors, even if production is proceeding on schedule, to keep merchandisers and production staff apprised of progress. Because distance often precludes frequent on-site visits by the buying office, communication founded on trust is important at all levels. As production nears completion, preparations must be made for quality control audits. Merchandisers expect production problems to be resolved prior to shipment. Internally, a merchandiser/ production staff is viewed negatively for production problems. For retailers which accept customer returns at any time, quality issues are extremely important and can delay shipments.

The earlier method of relatively slow communication could work because business volumes were small. But now that people are dealing with buyers in far flung places like Japan or Frankfurt, they cannot afford to waste time. Any delay might result in the buyer finding another exporter from India or another country. Hence, there exists a need for people who are trained to make quick decisions.

Establishment of Training Centres in India

It is to meet this demand that institutes are being set up all over the country which train students on all the processes that go into making garments—from fabric selection to designing and tailoring, as well as selling. The National Institute of Fashion Technology (NIFT) was quoted by many responding units as a useful institute providing training in all aspects of garment-making. That is why, there was deep appreciation of the Government's move to set up more branches of this Institute in other prominent exporting centres. Training centres are also being set up by the Government at other places in the country such as Chennai, Jodhpur, Jaipur, Delhi, Noida, Gurgaon, Ludhiana, Tirupur, Bangalore and Mumbai. These centres conduct a variety of courses including pattern making, fashion technology, clothing technology, apparel merchandising, garment production management, fashion design, textile buying, garment buying and export, machine maintenance, etc. There are 70 institutes nation-wide that teach people intricacies of garments trade. Calcutta and Hyderabad centres are also under consideration. While most of the garment units outside Delhi have so far managed with inhouse designing capability, especially that of the owner, it was felt that the need to induct professionals will increase manifold in an industry characterized by constant fashion and style changes. With orders for high fashion garments picking up, demand for professionals is spiralling. A more slick and professionally managed operation is required to produce "haute couture" for exclusive boutiques at home and abroad.

Another related step in this direction has been the setting up of computer-aided design (CAD) centres at Coimbatore, Hyderabad and Bangalore by the Government. It has been realized that it will not be possible to continue with manual designs in the coming times. CAD machines will have to be employed to introduce greater flexibility in production. Garment exporters have to keep up with designers of the West. Now, they are no longer just CMT (cut, make and trim) garment makers—where the designs are given by foreign buyers and the manufacturing is done in India—but are also creatively involved in garment merchandising and branding. However, the high cost of CAD machines (going up to Rs 2 crore as against Rs 7 lakh for a fabric-making machine) was seen as a serious constraint by many units. Some units also felt that in certain segments, for example, knitwears, CADs were not necessary. Unfortunately, there were also some well-to-do small scale units that did not even realize the importance of employing CAD machines in production. Obviously, the full impact of MFA withdrawal has not been understood fully in the industry.

Unit Value Realization for Indian Garments

Partly on account of inadequate modernization, India has not been able to fetch a good price for its textiles products in international markets. Even in the low value segment, it is outcompeted by other Asian countries including China, Sri Lanka and Bangladesh. A profile of export of garments from Asian countries given in Table 7 reveals the leading positions held by China and Hong Kong in all garment categories except men's suits in which Korea has held the top position. Between China and Hong Kong, Hong Kong has been ahead in the export of jersies, pullovers, men's shirts and women's dresses made of cotton. The table also shows that men's cotton shirts which is a major garment item for India also happens to be an important item for Malaysia, Pakistan, Singapore and Turkey. Thus, within Asia itself, India faces a lot of competition, implying the need to move up-market which can give it both higher unit value realization and higher market share.

Further, from the unit value realizations given in Table 8, India's dependence on the US market to fetch high unit value realization for its products is also obvious. As against the average unit value realization of \$4.43 for India's exports of garments in 1994 for all countries taken together, the unit value realization for the Indian products was \$4.71 in restrained (quota) countries and \$6.42 in the USA. The position has been a similar one in other years also. Hence, it is necessary for the industry to improve upon its products, diversify product range and adopt aggressive market develolpment tactics to be in the race for future prosperity and growth.

India has, for too long, depended on quota countries for its exports. Table 8 shows that the USA alone accounted for 38.32 per cent of the total market share of all quota countries in India's exports in 1994. And, quota countries themselves accounted for approximately 76 per cent of India's total exports of garments. Perhaps, on account of this reason, India has been way behind the leading exporters like Germany and Italy.

The Problem of Floor Prices

Many exporters complain of the unrealistic floor prices set by the Government from time to time for various categories of garments in the face of a literal price war in international markets. China, in particular, has been offering its products at prices 20-25 per cent less than those of India, and, thereby, outcompetes it in all major markets on the price front. Products from Bangladesh also feed the bottom end of the market. Low prices have enabled these countries to capture large market shares. Nevertheless, in the new environment free of quotas, it would be essential to improve the price realizations of the products. It is, therefore, necessary for the Indian producers to upgrade the quality of clothing production and its finishing by making available the latest technology and equipment to keep up to the changing market demand. It would not only improve the price realizations but also help in maintaining the competitive position. India must capitalize on its large and better range of fabrics to create a niche in overseas markets. China is beating India mainly in casual wears; not in the high quality segment. India must also develop the institutional and industrial segments which offer scope for standardization and assembly line production.

Problems of Quota Policy

Unlike the other Asian countries, the Indian clothing exports have not yet entered the area of large-scale retailing in foreign markets. It is still on the periphery of mass retailing. This situation has occurred because the industry is not yet capable of volume production required for mass retailing. Sri Lanka, on the other hand, is already an established sourcing centre for a wide range of high quality apparel for some of the highest buyers in the USA, Europe and the Far East. India has lost much of its business to neighbouring countries like Sri Lanka, Bangladesh and Mauritius where manufacturing facilities have been largely set up by the Indians themselves to avoid quota restrictions. Besides, the administration of quotas has been far from satisfactory. Often, the quota policy has been changed even before its scheduled term expired. This has entailed heavy costs on the exporters investing in quotas. Further, agents corner quotas at the time of auctioning and later dispose them off at a high premium. There was a time when quota premiums touched a high of 120 per cent in 1994. Quotas may have been the main reason for the garments industry to remain under the domain of the small entrepreneur for a long time.

The problems of the quota policy, it seems, have been largely due to a lack of understanding of the nature of the industry. As the industry is labour-oriented, it calls for greater involvement on the part of the management. Some large units assert that the feeling that only small entrepreneurs can handle quotas has been at the root of the industry's problems. Even Sri Lanka, our small neighbour, is way ahead of us in the administration of quotas as it follows a much simpler policy. The Textiles Quota Board there allots quotas on the basis of setting up units in backward areas.

The Investment Policy Governing Garment Production

Till date, the smaller players had an upper hand—with larger houses being deterred by a complicated quota system, and the industry being reserved for the small scale sector. It is only now that there is some priority access for exporters with minimum investment of Rs 50 lakh under the first-cum-first-served (FCFS) stipulation. Large groups generally have a captive source for raw materials, financial capacity and marketing expertise, which the small operators fail to match. And large players may go beyond producing only the mass produced items. Small units, on the other hand, mostly get the products manufactured from third parties on job basis as against large firms which have totally integrated facilities or even the medium units which produce from the cloth stage onwards.

The general consensus in the industry has been that reservation for the small-scale sector should be lifted. In line with liberalization, it is time for the industry to open up, irrespective of the scale of operations in order that the best survives. With modernization needs having gone up substantially, the limits as specified are, no doubt, a constraint for setting up economically viable units. Hence, large business houses are finding a way out by setting up several small units under different names. It does create problems for them, but may be the only route open as of now. While India has natural advantages in the form of trained labour and low labour costs to become a major sourcing centre for garments on the lines of Sri Lanka and Bangladesh, investment restrictions may be acting as a big hurdle.

Importance of Establishing Brands in International Markets

Besides, there are not many Indian exporters who have established brands overseas, although the realization has begun to dawn that branding overseas will help enhance market share and bring in good returns due to higher value addition. Dogged by financing problems, investing in brands is still not a preferred activity for the majority of garment exporters. Therefore, some exporters are adopting the other route. They are trying to bring in value addition through outsourcing or by using the brands of their international collaborators. Others, however, fear that they may have to compete with their existing buyers if they go in for branding their products. Yet, in the long run, it is important that Indian exporters develop their own brands to improve their margins and retain capability to compete in international markets. Outside India, outsourcing is common but it is impelled by the need for specialization. Companies owning the brands specialize in the marketing of goods while others concentrate their attention on best practices in manufacturing of garments.

Interest in Joint Ventures

Many garment exporting firms have also shown interest in entering into joint ventures with international garment majors, mainly for support in marketing the goods overseas. Most of them said that they were looking for technical expertise only in the high-value segment. In other segments, the general feeling was that domestic production matches the best in the world. Some garment exporters are, therefore, getting into technical tie-ups to produce for the upper end of the market. With such joint ventures, India could earn the reputation of being a base for sophisticated garment manufacturing from being a low value products supplier of only unbranded products.

One very strong reason for most garment units to desire to be totally export-oriented pertains to the high distribution costs in the domestic market. Garment manufacturers contend that distribution costs are lower in international markets as large departmental houses with their wide network manage all distribution work. The domestic network in India, on the other hand, is rather poor on account of which sales volumes are much smaller as compared with volumes that are possible with orders from international buying houses.

Need for Increased Finance for Infrastructural Improvements

Most exporters feel that it has become necessary for them to set up their own testing facilities to meet quality requirements of international buyers. But lack of adequate finance seems to be a major constraint for setting up these and other in-house facilities. Therefore, it is pointed out that there is need for subsidized financing by the Government. Industry opinion further indicates that the Exim Bank could be the nodal authority to locate/arrange fund sources and decide on loaning agencies. Institutional financing by way of loan to the extent of 75 per cent to support the import cost as well as for purchase of domestically produced garment machinery is a long-standing demand of the industry. The eligibility criterion by way of minimum export performance preceding the year of application and after modernization, though, may be laid down.

There is, in addition, a serious shortage of modern processing houses in the country, partly on account of the expense involved (which may exceed Rs 250 lakh), due to which many exporters regularly process fabric in neighbouring countries such as Bangladesh, Sri Lanka, Nepal and Dubai through their own manufacturing facilities set up there. Such arrangements, while successfully circumventing the quota system under the MFA, create serious fabric shortage in the domestic market. The industry is of the opinion that it is not viable for everyone to start a processing unit since it would involve a huge investment and the returns may not be good enough. It may not be also possible to establish small-size processing units to meet the requirement of individual exporters; hence, some incentive or cost reduction facilities may be needed.

Over-Emphasis on Powerlooms

When India began to export readymade garments in early seventies, it was the so-called "India look" of the handloom garments which caught the fancy for American and European markets. By eighties, handloom garments were almost totally replaced in the fashion world by millmade garments, including powerlooms-based ones. The recent trend is a declining one for handloom garments as there are complications in its use relating particularly to dyes and colours. Export of handloom garments fell nearly 15 to 20 per cent in the latter part of the eighties, largely due to the uneven fabric quality. The export of millmade garments have continually increased their share and now account for nearly 72 per cent of total exports. The large part of cotton fabrics used by the garments industry has come from the powerlooms sector. Although the powerlooms sector, at present, meets the fabric requirement of garment units in a major way, it itself is in need of massive restructuring. About 82 per cent of the looms are more than 15 years old. Besides, the fabric produced by these looms is not very cost-competitive. That is why, it has been represented time and again that the excise duty on powerloom and mill fabrics should be reduced to enhance their export capability. Besides, while most of the well-established mills have been modernizing over the past five years, the progress has been slow in the rest of the sector. The industry, therefore, feels that the import of fabrics should be allowed under OGL to enable garment exporters to get fabrics of international standard at reasonable prices from other sources.

Need for Revision in Exim Policy Provisions Governing Garments Industry

(i) *Restrictions on Imports of Fabric*

(a) *Shortage of High-Quality Fabrics*

Garment manufacturers import some blended, and certain printed fabrics, as domestic production may be either too costly or may not be able to satisfy time constraints. There certainly is need to ease import licensing procedures to increase availability of fabric and accessories for the apparel industry to increase its product variety. Most of the world trade in apparel products is of synthetic and blended fabrics whereas India's main fabric base is cotton. Hence, in order to earn more foreign exchange through higher price realization, we have to shift to more of synthetic/MMF fabric based garments. As was seen in Tables 3 and 4, the contribution of the mill sector which alone can produce synthetic fabric has been gradually declining over the years. Further, the indigenous mills like to export their fabric rather than giving them to garment exporters, because it is more lucrative for them to do so. For example, certain specialized quality fabrics such as Denim, Corduroy, Twills, Rayons, Coated Fabrics, etc. are not available in sufficient quantum in the country and, hence, the exporters are losing orders of garments made out of such fabrics to the other competitors. Besides, the cost of some fabrics, for example linen, is quite prohibitive. Exporters feel that if they are allowed to import flax yarn for weaving it into linen fabric for ultimate conversion into garments, they could be more competitive in international markets. At present, the only route open is the Special Import Licence (SIL) route for which they have to pay a high premium which unduly increases the cost of production. Exporters, therefore, suggest that in the Scheme of Back-to-Back Letter of Credit wherein import of specified fabrics and trimmings is permitted, import of specialized yarns such as flax and other synthetic fabrics may also be allowed for import by garment exporters. There is also considerable demend for reduction of duties on imports of fabric.

(b) *Problems relating to Development of Samples*

In addition, exporters say that development of samples out of specialized fabrics is also difficult as import of fabrics is not allowed without export obligations. Exporters would, therefore, prefer to be allowed to import fabrics for the preparation of samples at least to the extent of 2 per cent of f.o.b. value of their exports or up to 10 per cent of past performance. The Exim Policy has a provision for imports of prototype only, which means garment samples can be imported but not the fabric or the raw material.

The situation may ease out, however, due to the bilateral agreements that India has entered into with the EU and the USA. Under the agreements, India has agreed to give a phased tariff liberalization schedule for import of textile/clothing items at varying rates for periods commencing from 3 to 7 years. This should enable the Indian manufacturers to get important raw materials at close to international prices. Indian exporters will also be able to take part in the growing Outward Processing Trade (OPT) with the EU. Presently, the main beneficiaries of OPT are clothing manufacturers in North Africa and Central Europe who make garments from fabrics supplied by European firms. This would provide for additional 10 per cent quantities for the Indian apparel export over and above the restraints currently applicable. Besides, according to the mechanism worked out jointly under this agreement, entry of low priced and poor quality textile products into India will be discouraged. This should ensure, amongst other things, availability of high quality fabric for the Indian producers. Although similar facility has not been provided for any apparel item, imports are permitted against special import licences.

(ii) ***Inadequate Availability of Accessories***

The domestic accessories industry is also not developed. Exporters are dependent on imports even for small items such as zips and fixtures for which they have to pay a high import duty going up to 65 per cent in some cases. The high-fashion segment of the garments industry faces greater problems as the use of accessories is larger there. The quality of accessories locally produced has not been found to meet international standards. Some exporters cite cases of huge compensation paid to buyers whenever domestic accessories were used in garments. Hence, industry demands that there should be a substantial reduction in duties payable on imports of both fabric and accessories. There are other demands relating to the deletion of or at least new additions to the list of trimmings and embellishments provided for under the Export-Import Policy. Exporters feel that there should be no restriction on the type of accessories allowed to be imported and the import of accessories should be delinked from the import of fabric. Further, the industry is also of the view that there should be no list of trimmings permissible for imports and that trimmings should not attract a higher import duty than that leviable on fabric.

(iii) *Problems Relating to Issue of Value Based Advance Licences (VABAL)*

Barring EOUs, all other units must obtain licences in advance of import. Because these licences are issued against exports with previously fixed input/output norms and changing garment designs may often demand higher fabric consumption, manufacturers must frequently apply for special norms. The time required to issue an advance licence which may be as long as two to three months, together with the clearance time at the port involving additional 8-15 days puts tremendous pressure on available production time.

(iv) *Problems Relating to Pass Book Scheme*

Then again, many exporters contend that the benefits of the Pass Book Scheme are not available to them. According to the Policy, the Pass Book Scheme can be availed of only by manufacturer-exporters or exporters who have been granted the status of Export House/Trading House/Star Trading House/ Super Star Trading House. Besides, the scheme can only be utilized for items not falling within the negative list/sensitive list and for which standard input/output norms have been published. Hence, exporters of synthetic textiles and garments cannot make use of this facility as synthetic yarn and fibre are included in the sensitive list. Exporters are of the view that extension of the Pass Book facility will make them more competitive as they could then avoid payment of additional customs duty. Exporters contend that the Pass Book facility is specially suited to garments trade as exports are largely effected before imports of raw materials and the incidence of duty is also very high.

Conclusions

Within a span of less than a year, dynamic changes have taken place in international textiles scene. If all these changes are analyzed collectively, it points out to the need for a planned and concerted effort by the industry to fight the tough competition lurking ahead. As the world moves speedily towards quota-free markets and the country opens up to foreign competition, the key success factors for garment makers in India would be providing efficient services which include responsiveness, consistency, flexibility, communication abilities and understanding the perspectives of foreign buyers. Price and quality would be mere qualifiers as the future competition in world trade is likely to concentrate on rendering effective service. If India has to achieve a dominant role in a world undergoing major changes such as the dismantling of MFA, expansion of membership in the EU (Sweden, Austria and Finland — being the new entrants), restrictions on imports of garments dyed with certain azo based chemicals, EU's new GSP scheme and formation of trade blocs (NAFTA, EFTA, MERCOSUR, etc.), it has to continue to grow at a rate that exceeds the overall growth rate of world trade in garments.

The Indian garments industry, backed by a strong textile base, has some special advantages over its competitors. Yet, it has not been able to retain its full potential due to the numerous problems facing this industry. The problems range from lack of good infrastructure including port-handling facilities, processing houses, training centres and distribution network, non-availability of adequate finance, restrictions on expansion of capacity, prevalence of antiquated management practices, inadequate availability of fabric and accessories and manipulations in the administration of quotas. Any quantum growth in exports will now require tackling these problems in a systematic manner.

There is no doubt that garment manufacturers will have to modernize as both quality and cost efficiency are vitally linked to the quality of productive machines used in manufacturing operations. They will have to go in for new machines, improve production, improve productivity and produce products which are internationally acceptable. Simultaneously, steps will have to be taken to improve unit value realization, which is presently very low compared to what our competitors like Hong Kong, Taiwan and Korea are getting. Now, Sri Lanka and Bangladesh are also emerging as competitors with their highly sophisticated factories.

It is necessary that the Indian exporters should concentrate on production of non-quota items and exports to non-quota countries. Currently, 75 to 80 per cent of India's exports relate to quota items. A stage has now reached where the quotas have been fully utilized and, therefore, the future growth of the industry depends to a large extent on seeking new destinations and developing new product lines. The industry's export efforts have, therefore, to be designed against this background. The emphasis has to be on diversification and shifting to exports of non-quota items to quota countries and quota items to non-quota countries. Apparel trade is under restraint in only sixteen countries. The other countries of free world are wide open for export of garments. India is still relying heavily on the USA and the EU for its exports of garments as against Japan and Hong Kong in the case of China. There are several non-quota markets like Australia, New Zealand, Japan, West Asian countries, Africa, Latin America, East European countries, Switzerland, etc. Though these countries offer an extremely good market for export of garments, these markets have not been properly tapped.

The Government of India, on its part, has come forward and taken initiatives for the smooth growth of the industry. Government sponsored research organizations, technical institutes, R&D institutes and other promotional agencies are being invited to render technical consultancy and services for the fast growth of this industry. Industry should now readjust, reorganize and reorient itself to meet the impending challenges through well-designed innovative strategies.

TABLE 1

EXPORTS OF GARMENTS FROM INDIA
(1985-1994)

Year	*Million pieces*	*Rs million*	*US$ million*	*Qty.*	*Rate of growth (%)* (Rs)	*Rate of growth (%)* (US$)
1985	255.9	10,676.5	866	11.0	25.6	15.0
1986	300.8	13,231.2	1055	17.5	23.9	21.8
1987	384.2	18,574.3	1438	27.7	40.4	36.3
1988	396.7	21,486.4	1552	03.3	15.7	7.9
1989	494.1	30,909.6	1913	24.6	43.9	23.3
1990	602.7	43,775.6	2495	22.0	41.6	30.4
1991	664.8	53,580.8	2401	10.3	22.4	-3.8
1992	758.5	79,545.7	2883	14.1	48.5	20.1
1993	905.2	106,680.6	3466.6	19.34	34.10	20.24
1994	995.6	138,025.0	4416.8	10.00	29.38	27.41

Source: Apparel Export Promotion Council, New Delhi.

TABLE 2

INDIA'S MAJOR NON-QUOTA MARKETS FOR GARMENTS (1994-95)

Market	*Exports (US$ lakh)*	*% share in total exports*
UAE	1,304	2.92
Japan	1,493	3.34
Switzerland	1,062	2.40
USSR	1,880	4.21
Australia	573	1.30
Panama	422	0.94
Saudi Arabia	220	0.50
Kuwait	124	0.30
Singapore	289	0.64
New Zealand	145	0.32
Hong Kong	210	0.50
Mexico	478	1.10

Source: Apparel Export Promotion Council, New Delhi.

TABLE 3

TRENDS IN PRODUCTION OF FABRICS IN INDIA (1988-89 TO 1993-94)

(Million sq. metres)

	1988-89	*1992-93*	*1993-94*
1. Mills	2,902 (14.5)	2,050 (9.08)	2,358 (9.1)
2. Powerloom & hosiery	13,123 (65.56)	16,437 (72.79)	18,932 (72.8)
3. Handloom & khadi	3,993 (19.93)	4,095 (18.13)	4,710 (18.1)

Note: Figures in parentheses indicate per cent of total production.

Source: Apparel Export Promotion Council, New Delhi.

TABLE 4

SECTORWISE GARMENTS EXPORTS FROM INDIA
(1990-1994)

Quantity (Q) : Per cent
Value (V) : Per cent

Year	*Knitted*		*Handloom*		*Mill-made*	
	Q	*V*	*Q*	*V*	Q	V
1990	39.13	22.52	0.32	0.27	60.55	77.21
1991	37.42	22.74	0.43	0.3	61.61	76.96
1992	41.27	26.05	0.59	0.69	58.14	73.27
1993	47.86	30.37	0.54	0.7	51.6	68.93
1994	42.77	25.38	0.6	0.75	56.59	73.86

Source: Apparel Export Promotion Council, New Delhi.

TABLE 5

TYPES OF MACHINERY USED IN THE INDIAN GARMENTS INDUSTRY

Type of machines	*No. of machines installed*
Cutting machines	20.00
Pre-cutting machines	0.02
Processing machines	4.00
Sewing machines	86.98
Specialized machines	7.00

Source: Apparel Export Promotion Council, New Delhi.

TABLE 6

TECHNOLOGICAL STATUS OF THE INDIAN GARMENTS INDUSTRY

Category/Machines	*No. of machines employed (1990-91)*	
	Indigenous	*Imported*
Cutting machines	**1,427**	**19,426**
Straight knife (73%)	1,211	14,011
Band knife (14%)	-	2,912
Round knife (4%)	66	768
Others (9%)	149	1,727
Sewing machines	**872,147**	**61,283**
Slow speed machines (79%)	737,410	-
High speed machines (20%)	131,451	55,235
Multineedle machines (0.5%)	0	4,667
Chain stitch machines (0.2%)	1,315	-
Zig Zag machines (0.3%)	1,972	829
Specialized machines	**53,593**	**23,652**
Low speed overlock machines (29%)	22,401	-
High speed overlock machines (19%)	10,045	4,632
Multineedle overlock machines (4%)	2,115	975
Button holing machines (12%)	-	9,269
Embroidery machines (19%)	10,045	4,632
Others (17%)	8,988	4,144
Processing machines	**38,135**	**3,450**
Electric iron (55%)	22,872	-
Steam iron (1%)	1,696	383
Steam generator (91%)	339	77
Vacuum ironing table (1%)	339	77
Others (38%)	12,889	2,913

Note: Figures in brackets show per cent of machines employed in respective category.

Source: Apparel Export Promotion Council, New Delhi.

TABLE 7

RELATIVE IMPORTANCE OF ASIAN DEVELOPING COUNTRIES IN WORLD EXPORTS OF GARMENTS
(Average Figures: 1991-1993)

(US$ million)

Product	*World export*	*India*	*China*	*Korea Republic*	*Hong Kong*	*Indo-nesia*
Suits	1,617	6 (0.37)	179 (11.06)	113 (6.98)	60 (3.71)	39 (2.41)
Trousers	9,480	38 (0.40)	1,036 (10.92)	94 (0.99)	1,275 (13.44)	186 (1.96)
Jackets, blazers, etc.	3,359	21 (0.62)	673 (20.03)	199 (5.92)	600 (17.86)	57 (01.69)
Coats & jackets	5,235	54 (1.03)	825 (1'5.75)	295 (5.63)	797 (15.22)	92 (1.75)
Dresses	2,453	225 (9.17)	195 (7.94)	124 (5.05)	346 (14.10)	130 (5.29)
Skirts	2,633	128 (4.86)	230 (8.73)	78 (2.96)	357 (13.55)	47 (1.78)
Blouses	6,381	590 (9.24)	861 (13.49)	267 (4.18)	4,462 (69.92)	210 (3.29)
Men's shirts	7,822	451 (5.76)	1,094 (13.98)	548 (7.00)	1,436 (18.35)	195 (2.49)
— of cotton	4,428	373 (8.42)	333 (7.52)	236 (5.32)	844 (19.06)	104 (2.34)
— of synthetic	3,135	78 (2.48)	617 (19.68)	312 (9.95)	467 (14.89)	91 (2.90)
Jersies, pullovers, etc.	14,637	135 (0.92)	1,330 (9.08)	835 (5.70)	3,517 (24.02)	223 (1.52)
Women's dresses, etc.	2,156	41 (1.90)	198 (9.18)	60 (2.78)	307 (14.23)	82 (3.80)
—of cotton non-elastic	10,083	172 (1.70)	1,287 (12.76)	257 (2.54)	1,478 (14.65)	203 (2.01)
Clothing accessories, etc. knit	2,345	4 (0.17)	262 (11.17)	299 (12.75)	125 (5.33)	37 (1.57)
Total	72,845	2,162 (2.96)	7,837 (10.75)	3,547 (4.86)	12,223 (16.77)	1,617 (2.21)

Notes: (1) Figures in parentheses indicate share in total world exports.
(2) Asian countries have contributed approximately 50.39 per cent of world exports of garments during 1991-1993.

(US$ million)

Malaysia	*Pakistan*	*Thailand*	*Turkey*	*Singapore*	*Philippines*	*Japan*	*Bangladesh*	*Sri Lanka*
5 0.30	16 (0.98)	17 (1.05)	7 (0.43)	6 (0.37)	4 (0.24)	5 (0.30)	2 (0.12)	2 (0.12)
80 (0.84)	99 (1.04)	513 (5.41)	130 (1.37)	114 (1.20)	94 (0.99)	83 (0.87)	64 (0.67)	81 (0.85)
30 (0.89)	32 (0.95)	121 (3.60)	19 (0.56)	48 (1.42)	44 (1.30)	9 (0.26)	18 (0.53)	64 (1.9243)
26 (0.49)	9 (0.17)	126 (2.40)	78 (1.78)	26 (0.49)	52 (0.99)	22 (0.42)	9 (0.17)	54 (1.03)
15 (0.61)	32 (1.30)	156 (6.35)	37 (1.50)	17 (0.69)	30 (1.22)	4 (0.16)	7 (0.28)	40 (1.63)
19 (0.72)	5 (0.18)	61 (2.31)	44 (1.67)	22 (0.83)	16 (0.60)	15 (0.56)	5 (0.18)	37 (1.40)
107 (1.67)	43 (0.67)	158 (2.47)	132 (2.06)	65 (1.01)	32 (0.50)	0 (0.00)	80 (1.25)	158 (2.47)
167 (2.13)	95 (1.21)	266 (3.40)	161 (2.05)	151 (1.93)	41 (0.52)	36 (0.46)	259 (3.31)	106 (1.35)
148 (3.34)	52 (1.17)	150 (3.38)	124 (2.80)	131 (2.95)	9 (0.20)	5 (0.11)	158 (3.56)	77 (1.73)
19 (0.60)	11 (0.35)	116 (3.70)	38 (1.21)	20 (0.63)	4 (0.12)	32 (1.02)	101 (3.22)	26 (0.82)
90 (0.61)	0 (0.00)	261 (1.78)	514 (3.51)	185 (1.26)	65 (0.44)	16 (0.10)	52 (0.35)	55 (0.37)
81 (3.75)	23 (1.06)	47 (2.17)	167 (7.74)	97 (4.49)	29 (1.34)	3 (0.13)	8 (0.37)	18 (0.83)
113 (1.12)	66 (0.65)	370 (3.66)	710 (7.04)	223 (2.21)	139 (1.37)	19 (0.18)	132 (1.30)	49 (0.48)
26 (1.10)	62 (2.64)	45 (1.91)	87 (3.71)	4 (0.17)	21 (0.89)	35 (1.49)	3 (0.12)	31 (1.32)
855 (1.17)	542 (0.74)	2,301 (3.15)	2,186 (3.00)	1,059 (1.45)	582 (0.79)	283 (0.38)	759 (1.04)	751 (1.03)

Source: UN, *International Trade Yearbook*, 1993.

TABLE 8

EXPORTS OF READYMADE GARMENTS FROM INDIA
(1990-1994)

Quantity (Q) : lakh pieces
Value (V) : lakh US$

Year	USA		EU		ORC		TRC		OBAC		TOTAL	
	Q	V	Q	V	Q	V	Q	V	Q	V	Q	V
1990	1,118	6,399 (5.72)	2,759	10,793 (3.91)	367	1,603 (4.36)	4,244	18,795 (4.42)	1,783	6,150 (3.44)	6,027	24,945 (4.13)
1991	1,242	5,953 (4.79)	2,904	10,536 (3.62)	328	1,320 (4.02)	4,474	17,809 (3.98)	2,174	6,206 (2.85)	6,648	24,015 (3.61)
1992	1,501	7,811 (5.20)	3,139	12,210 (3.88)	437	1,656 (3.78)	5,077	21,677 (4.26)	2,508	7,154 (0.33)	7,585	28,831 (3.80)
1993	1,516	8,917 (5.88)	4,026	14,652 (3.63)	568	1,956 (3.44)	6,110	25,525 (4.17)	2,942	9,141 (3.10)	9,052	34,666 (3.82)
1994	2,000	12,841 (6.42)	4,424	17,944 (4.05)	689	2,727 (3.95)	7,113	33,512 (4.71)	2,847	10,707 (3.76)	9,960	44,219 (4.43)

Note : Figures in parentheses indicate unit value prices
ORC : Other Restrained Countries (excluding USA & EU)
TRC : Total Restrained Countries
OBAC : Bilateral Agreement Countries (countries other than ACP countries and OPT countries)
ACP countries are African, Caribbean and Pacific.
OPT countries are Tunisia, Morocco, Romania, Poland and Czechoslovakia Republic.
Source : Apparel Export Promotion Council, New Delhi.

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