Apparel Industry Export Competitiveness in India and Challenges

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Abstract: ***One of the most promising sectors and one of the biggest exporting segments in India is the Apparel industry. Although India has been the most sought after exporter of textile and readymade apparel after China, this status has taken a beating of late by the rise of alternative low cost destinations like Bangladesh, Turkey and Mexico. This paper attempts to identify the reasons for India's competitiveness in the world exports market for apparel and the challenges that the industry faces. Although, the sector holds a lot of promise and has the capacity to thrust India to top of the chart, it is dogged by archaic governmental policies, lack of vision and slowness in adapting to latest trends. The top industry leaders voice similar opinions that village labor force should be utilized for supplementing manufacturing and adoption of latest technology should be promoted by the government.***

Keywords: Apparel, exports, textile, government, trends

1. Introduction

The apparel industry in India is the second largest job provider, employing nearly 70 lakh people in India. Although helped by the rising demand in the US, India's apparel exports [1] had increased by a whopping 24 per cent in February 2011 year on year, apparel exports fell 7.2 per cent to $989 million in August, for the April-August period; these plunged 12.16 per cent to $5.26 billion. This decline [2] was, however, in tandem with the decline in total exports, which fell 6.79 per cent to $143.6 billion in the April-September period.

2. Problems and Solutions

According to Mr. A. Sakthivel, Chairman, Apparel [3] Export Promotion Council, "The global financial crisis emanating, inter alia, from sub-prime mortgages [4] and unregulated credit default swaps is behind us. However, the sovereign debt crisis in the Euro zone followed immediately thereafter. The weak recover in that region and the US has reduced the purchasing power of the people in these markets [5], leading to a shortfall in the overall demand. I request the government to ink the India-EU FTA (free trade agreement) soon, because EU is our biggest market [6] and the textile sector would benefit from this."

Cheaper production rates [8] in countries like Bangladesh, Mexico, Indonesia, Turkey and Vietnam are leading to loss of business [9] for India ahead of the Christmas and New Year season apart from longer delivery time and delay in adapting to trends [10]. While countries like Indonesia, Bangladesh and Vietnam receive preferential treatment due to the low cost of manufacturing [11], Turkey and Mexico are quickly adapting [12] to new trends.

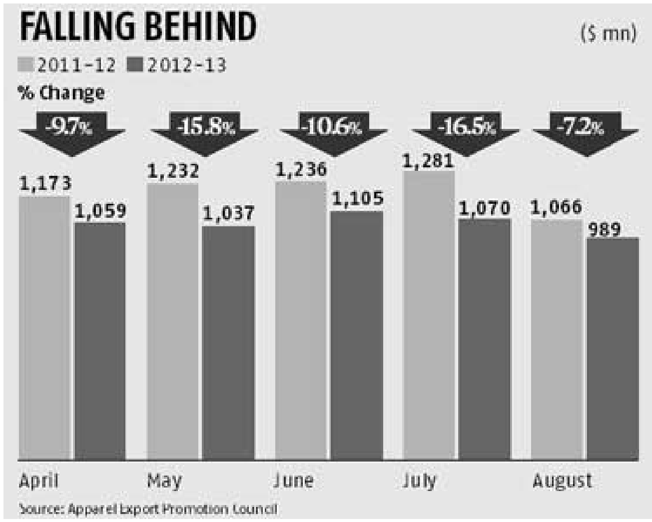

Figure 1: Performance during 2011 to 2013
Source: Apparel Export Promotion Council

As a counter measure, Indian exporters [13] are also targeting new destinations like China, Latin America, Norway, South Korea and Russia. However, as the US and European markets are high margin export destinations, they would be hard to substitute. Earlier, Indian exporters focused on knitwear and woollen wear. However, in the last couple of months, they have started offering other products such as trousers, kids wear, pullovers and jackets in their portfolios.

The government thinks India has the potential to increase its textile and apparel share [14] in the world trade from the current level of 4.5 per cent to 8 per cent and reach $80 billion by 2020. India has the highest number of looms – 1.8 million shuttle looms (at 45 per cent of global capacity) and 2, 00,000 shuttle-less looms (at 3 per cent of global capacity).

We also have 3.9 million hand looms (at 85 per cent of global capacity) and the second highest number of spindles at 23 per cent of global capacity.

The important question at this juncture is can India sustain the growth? Since costs are rising in China, the medium to long term business will migrate to countries like India that can provide viable alternatives and are socially and economically stable.

Manufacturing garments is a labour intensive process as a single unit can employ as much as 50,000 people whereas in the inflation ridden economy of India, there is a constant and justified demand for raising wages for the workers. But the industry cannot afford this if it is to remain globally competitive. "Worldwide and even in Asian manufacturing destinations like Vietnam, Sri Lanka, China and Thailand, manufacturing takes place in villages where cheap labour is available in plenty. Only in India the industry got concentrated in cities like Mumbai, Bangalore, Ludhiana and so on. So the only way for the future is to go to the villages," said Shahi Exports Private Limited Director Subhash Tiwari.

Other countries are not sitting idle either. According to Sangam India Limited Executive Director V K Sodani, Global giants such as Wal-Mart, VF Corporation, GAP and H&M have begun flocking India to source fabric as China, the largest supplier, is slowly retreating from denim production due to cotton crunch. "India has a golden opportunity to grab a share in the world denim market. This is because the Chinese government has reduced cotton acreage. Instead of being a mass supplier, China is trying to be a value supplier," Sodani said.

India has a better and longer history of textiles compared to any other country but still our roots are not known in global business. Since garments exports do not have large profit margins, investments from private entrepreneurs are low and this is why this industry has not grown much in India compared to many countries.

Governmental intervention is of prime importance. As margins for readymade apparel remain substantially higher than yarn or fabric, the government can facilitate the former which in turn shall increase exports and provide employment. Free Trade Agreements (FTA) should be focussed on as apparel industry will gain by enlarging bi-lateral trade and bringing stability in the region. Asian region is developing and is becoming a developed force for economic growth because of cheap labour and big local market due to large domestic consumption.

The production structure of the Indian apparel industry is fairly segmented, with the majority of apparel production occurring in very small firms with manually operated sewing machines. The unregistered sector is by far the most significant production sector, contributing more than 90 per cent of value added. But the most flexible (and arguably the most productive) firms in the garment industry are the powerloom factories. Powerlooms have the very significant advantage of short lead time, which is very important for manufacturers who are supplying to niche markets. But in general, Indian firms have had a problem with the procurement of standardized fabrics for the production of standardized garments. This challenge has been addressed of late by the organized sector and has aided in bringing orders that would have gone elsewhere. Another problem in the production process is the lack of availability of good quality trimmings such as lace, buttons, zip fasteners, thread interlinings and packaging materials. This problem may be alleviated by the abolition of the reservation policy, as these products were previously reserved only for small scale production. The lack of availability of up-to-date machinery is another weak link in the production chain. According to Ramaswamy and Gereffi (1999), certain trends in retail behavior are worth noting in terms of maintaining competitiveness in export markets. Retailers appear to have increasing leverage over suppliers in terms of determining prices and product lines. This also increases pressure on suppliers to adopt new technology such as automated working environment, that enable suppliers to fill orders rapidly, efficiently and flexibly. Suppliers are penalized for incorrect orders and suffer harsh consequences if orders are delayed. Retailers are also offering greater variety of apparel products in order to increase their market share which has led to demand uncertainty. Retailers now prefer to give small orders and continue ordering as the season progresses for which suppliers need to develop capabilities accordingly. Another trend worth noting is the rise of triangle manufacturing. This is a process whereby buyers place their orders with manufacturers, who in turn source some or all of the order from affiliated offshore factories in low-wage countries like China, India, Indonesia or Bangladesh. The triangle is completed when the finished goods are shipped directly to overseas buyers by the low-wage country, using its allocated quota.

3. Conclusions and Policy Implications

India has successfully undertaken policy reforms in order to improve efficiency and competitiveness. While the country has great capabilities, the apparel industry needs to deliberate on the long term goals and break it into achievable steps. The strength of India's heritage and manufacturing capability in the villages needs to be recognized and showcased. The government needs to focus on the following areas; integration of informal sector production into the mainstream economy, investment in much-needed infrastructure, competitive positioning for the post-MFA trade environment and a long term movement towards higher-value added, efficient production.

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Ankita Pandey is working in the ITES sector and is a research scholar. She has worked for companies like ICICI, Avitech, etc. after completing MBA from the Department of Business Administration, Lucknow University in 2003. She enjoys writing children's fiction and is an avid enthusiast of Milan Kundera's works.