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The Potential for Indian Garment Export

Theory and Practice of International Trade

THOMAS TIMBERG

Some insights into the prospects of the Indian garment industry in terms of opportunities for a larger share of the world export trade and whether it would create many more jobs.

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At a panel discussing Modinomics in Washington, someone raised the question of the opportunities for India to get a larger share of the world garment export trade as Chinese wages rise. Several panellists seemed to think that appropriate policy reform was the critical missing element, which would encourage investors and importers/exporters to engage in more garment manufacture.

The ensuing discussion revealed a basic incompatibility between how economists characteristically think about international trade and how it is conducted. One of the most basic concepts of theoretical economics is that of comparative advantage—and indeed as an abstract and logical theory it is hard to argue against. Nonetheless, a lot of theories and concepts have presented how and why deviations from comparative advantage are possible and present either to improve overall bargaining positions, exploit market imperfections, including competitive advantage, or to achieve other goals. Some deviations focus on a redefinition of the conditions in which markets actually operate such as the Stolper–Samuelson theorem or the Balassa–Samuelson effect.

Economists believe that if you can produce something more cheaply, you can sell it more easily and there is undoubtedly a tendency to that effect. But in business, transactions occur when a willing seller meets a willing customer and why they are willing is often complex. Business transactions are essentially opportunistic and the opportunities are frequently linked to existing industry value chains. The auto parts and diamond sectors seem to be joining in such chains. Whether the Indian garment industry could do much more than it does at present is the issue.

To be specific, until 1945 most garments were manufactured (if we use the word stitched it would make the point clearer) in the same country in which they were consumed. Until the 19th century most stitched or knitted garments were manufactured to order by local suppliers. This was even the case where the fabric was imported from another country. There were exceptions; somebody like Motilal Nehru who was alleged to have laundered his clothes in London, might have got them stitched there as well.

In the 19th century and into the 20th century there developed a ready-made clothing industry manufacturing clothes in factories. In the United States (US) and the United Kingdom these factories were mostly located in the big cities. Because of unionisation and other relatively high costs, the American factories began to shift to the Southern US where cheap non-union labour was available and this process accelerated after 1945. Then some imaginative firms even moved their factories or those they bought from to Japan, Taiwan and Korea. Some export began to occur from India as well. In reaction, various protectionist measures were introduced to protect domestic American and European producers. These culminated in the Multi-Fibre Arrangement (MFA) (1974–2004) under which quotas for various types of garments were assigned to different exporting countries. For a considerable period these quotas were only applied to major exporters, so exporters searched for new countries in which to manufacture until these newer exporting countries too were brought in under the quota system.

Over time various domestic entrepreneurs in the new exporting countries in the garment business improved their positions and increased their role in the garment manufacturing value chain.

After the introduction of the MFA, importers to the American market, now including connected Indian, Taiwanese, and Korean firms, opened up operations

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in Bangladesh, Jordan, Lesotho and even Nepal and Myanmar. Their representatives were scurrying around, arranging what was necessary such as technical assistance to ensure quality, financing, and government approvals. As these newly producing countries expanded their exports they were assigned quotas one after another and had to cope with their allocations.

When the MFA came to an end in 2004 it was feared that the industries in every country would collapse in the face of Chinese competition. This happened in some cases but not all. In fact, in some cases China's competitors gained a market share. They had frequently acquired what skills and institutions were required, and they and their citizens emerged as participants in the value chain.

What emerges from this experience are several generalisable propositions:

(i) Established positions in export markets are hard to dislodge. They often require a shock to the value chain, like the MFA quota system.

(ii) Changes to existing value chains are frequently driven by importers with existing positions. The present movement of garment units to Ethiopia to the extent it is occurring is driven by Chinese firms among others.

Despite this fact, new exports have been developed by producers, especially of niche products. Someone developed the export of celery seed from Amritsar, cognac from Armenia and even cadavers from Kolkata and there are accounts of those processes. The development of the larger diamond trade might be seen similarly. But these are exceptional cases. The more common experience is extensive expenditure on export promotion creating little added trade flow.

(iii) There is a small review of literature that suggests that public and industry-wide promotional efforts work best at establishing initial tentative export connections. It is then that the problems of quality control, logistics, enabling regulation and institutions for financing and technical support become critical. They are critical for sustaining and expanding an export flow.

(iv) At that point the relative importance of infrastructure, finance, technology, and regulation becomes an issue. I did notice with interest the following sentence in Govinda Rao and Arvind Panagariya (2015) in favourably reviewing Andhra Pradesh's policy reforms: "Industries that depend on the infrastructure and external finance and those characterised by high-labour intensity did not benefit much from these reforms."

Since garment manufacture is still labour intensive, at least until robots take over, the need for policy reform in the normal case is not what is required in the case of garments, so much as locating and negotiating with incumbent holders of market share. Of course, another possibility would be convincing the present makers to use Indian fabrics and inputs, but this would presume someone could deal with their alternative sources and logistics.

Major Garment Exporter

None of this detracts from the fact that India is already a major garment exporter and the volume and share of these exports have increased steadily over the years. India exported $15.7 billion of garments in 2012–13, up from $12.9 billion in 2011–12. Readymade garment exports constituted 3.7% of global exports in 2013. India is also a major textile exporter accounting for 5.2% of global textile exports and in 2013 its exports grew more rapidly than China's or Bangladesh's (DNA 2014). There is no reason to think that those exports will not expand. The level of Indian garment exports is, of course, only one-tenth of the Chinese level.

Industry spokespersons are generally optimistic. Perhaps accepting overall regulation as a given, the obstacles they focus on are much more specific—import of "specialised fabrics" is one that is mentioned. The spokesperson explicitly addressed declining export incentives to explain constrained exports in the first half of 2015 (*Financial Express* 2015). The cited advantages of the Indian industry are higher wages in China and Bangladesh's "compliance" problems—a euphemism for less effective regulation of safety and health issues and probably more generally the inadequate working conditions of labour. There is no indication of Chinese traders moving their operations to India, though perhaps that may be taking place.

Nonetheless there is obviously, with or without labour market reform, a good prospect for expanding garment exports and those would increase the numbers of jobs available and every new job helps. But given the size of India's growing labour force, new jobs in garment export seem unlikely to add more than a small portion of what is needed. Even if we extend our scope to look at all low- wage manufacturing for export, the numbers are relatively small. By contrast an expansion in staffing in the police, early primary education and support jobs in health services—in all of which India is well below the norms—could generate a lot of jobs.

To give perspective, at a 20% increase a year, Indian exports would reach the present level of Chinese exports in roughly eight years. Reasonable growth in the Indian garment industry is already in sight even without a policy change—but such growth in itself will not solve India's employment challenges. Perhaps some addition would stem from more general policy reform. But the mapping of general policy changes onto the impact of international trade flows in a chaotic and uncertain matter.

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