

EXIM BANK: RESEARCH BRIEF

Textiles Exports: Post MFA Scenario Opportunities and Challenges



February 2005

EXPORT-IMPORT BANK OF INDIA

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No.11

Introduction

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

The Agreement on Textiles and Clothing

ATC is a transitory regime between the MFA and the integration of trading in textiles and clothing in the multilateral trading system. The ATC provided for a stage-wise integration process to be completed within a period of ten years (1995-2004), divided into four stages starting with the implementation of the agreement in 1995. The product groups from which products were to be integrated at each stage of the integration included (i) tops and yarns; (ii) fabrics; (iii) made-up textile products; and (iv) clothing.

The ATC mandated that importing countries must integrate a specified minimum portion of their textile and garment exports based on total volume of trade in 1990, at the start of each

phase of integration. In the first stage, each country was required to integrate 16 percent of the total volume of imports of 1990, followed by a further 17 percent at the end of first three year and another 18 percent at the end of third stage. The fourth stage would see the final integration of the remaining 49 percent of trade.

Global Trade in Textile and Clothing

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

Import Trends in USA

In 1990, restrained or MFA countries contributed as much as 87 percent (US \$ 29.3 bn) of total US textile and clothing imports, whereas Caribbean Basin Initiative (CBI), North American Free Trade Area (NAFTA), Africa Growth and Opportunity Act (AGOA) and ANDEAN countries together contributed 13 percent (US \$ 4.4 bn). Thereafter, there has been a decline in exports by restrained countries; the share of preferential regions more than doubled to reach 30 percent

(US \$ 26.9 bn) of total imports by USA.

The composition of imports of clothing and textiles by USA in 2003 was 80 percent (US \$ 71 bn) and 20 percent (US \$ 18 bn), respectively. Asia was the principal sourcing region for imports of both textiles and clothing by USA. Latin American region stood at second position with a share of 12 percent (US \$ 2.2 bn) and 26 percent (US \$ 18.5 bn), respectively, for textiles and clothing imports, by USA.

In most of the quota products imported by USA, India was one of the leading suppliers of readymade garments in USA. Though China is a biggest competitor, the unit prices of China for most of these product groups were high and thus provide opportunities for Indian business.

Import Trends in EU

EU overtook USA as the world's largest market for textiles and clothing. Intra-EU trade accounted for about 40 percent (US \$ 40 bn) of total clothing imports and 62 percent (US \$ 32.5 bn) of total textile imports by EU. Asia dominates EU market in both clothing and textiles, with 30 percent (US \$ 30 bn) and 17 percent (US \$ 8 bn) share, respectively. Central and East European countries hold a market share of 11 percent (US \$ 11.3 bn) in clothing and 7.5 percent (US \$ 4 bn) in textiles imports of EU.

As regards preferential suppliers, the growth of trade between EU and Mediterranean countries, especially

Egypt and Turkey, was highest in 2003. As regards individual countries, China accounted for little over 5 percent (US \$ 2.8 bn) of EU's imports of textiles and over 12 percent (US \$ 12.4 bn) of clothing imports.

In the EU market also, India is a leading supplier for many of the textile products. It is estimated that Turkey would emerge as a biggest competitor for both India and China. However, with regard to unit prices, India appears to be lower than both Turkey and China in many of the categories.

Import Trends in Canada

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

Potential Gains

It may be noted that clothing sector would offer higher gains than the textile sector, in the post MFA regime. Countries like Mexico, CBI countries, many of the African countries emerged as exporters of readymade garments without having much of textile base, utilizing the preferential tariff arrangement under the quota regime. Besides, countries like Bangladesh, Sri Lanka, Cambodia emerged as garment exporters due to cost factors, in addition to the quota benefits. Thus, it may be concluded that these countries are likely to lose their market share in the future scenario.

It may be said that countries like China, USA, India, Pakistan, Uzbekistan and Turkey have resource based advantages in cotton; China, India, Vietnam and Brazil have resource based advantages in silk; Australia, China, New Zealand and India have resource based advantages in wool; China, India, Indonesia, Taiwan, Turkey, USA, Korea and few CIS countries have resource based

advantages in manmade fibres. In addition, China, India, Pakistan, USA, Indonesia have capacity based advantages in the textile spinning and weaving.

China is cost competitive with regard to manufacture of textured yarn, knitted yarn fabric and woven textured fabric. Brazil is cost competitive with regard to manufacture of woven ring yarn. India is cost competitive with regard to manufacture of ring-yarn, O-E yarn, woven O-E yarn fabric, knitted ring yarn fabric and knitted O-E yarn fabric. According to Werner Management Consultants, USA, the hourly wage costs in textile industry is very high for many of the developed countries. Even in developing economies like Argentina, Brazil, Mexico, Turkey and Mauritius, the hourly wage is higher as compared to India, China, Pakistan and Indonesia.

From the above analysis, it may be concluded that China, India, Pakistan, Taiwan, Hong Kong, Brazil, Indonesia, Turkey and Egypt would emerge as winners in the post quota regime. The market losers in the short term (1-2 years) would include CBI countries, many of the sub-Saharan African countries, Asian countries like Bangladesh and Sri Lanka.

delivery. In the long run, there are possibilities of contraction in intra-EU trade in textile and garments, reduction of market share of Turkey in EU and market share of Mexico and Canada in USA, and thus provide more opportunities for developing countries like India.

It is estimated that in the short term, both China and India would gain additional market share proportionate to their current market share. In the medium term, however, India and China would have a cumulative market share of 50 percent, in both textiles and garment imports by USA. It is estimated that India would have a market share of 13.5 percent in textiles and 8 percent in garments in the USA market. With regard to EU, it is estimated that the benefits are mainly in the garments sector, with China taking a major share of 30 percent and India gaining a market share of 8 percent. The potential gain in the textile sector is limited in the EU market considering the proposed further enlargement of EU. It is estimated that India would have a market share of 8 percent in EU textiles market as against the China's market share of 12 percent.

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

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

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

Review of Indian Textiles and Clothing Industry

The textiles and garments industry is one of the largest and most prominent sectors of Indian economy, in terms of output, foreign exchange earnings and employment generation. Indian textile industry is multi-fibre based, using

cotton, jute, wool, silk and man-made and synthetic fibres. In the spinning segment, India has an installed capacity of around 40 million spindles (23% of world), 0.5 million rotors (6% of world). In the weaving segment, India is equipped with 1.80 million shuttle looms (45% of world), 0.02 million shuttle less looms (3% of world) and 3.90 million handlooms (85% of world).

The organised mill (spinning) sector recorded a significant growth during the last decade, with the number of spinning mills increasing from 873 to 1564 by end March 2004. The organised sector accounts for production of almost all of spun yarn, but only around 4 percent of total fabric production. In other words, there are little over 200 composite mills in India leaving the production of fabric and processing to the decentralised small weaving and processing firms. The Indian apparel sector is estimated to have over 25000 domestic manufacturers, 48000 fabricators and around 4000 manufacturer-exporters. Cotton apparel accounts for the majority of Indian apparel exports.

Textiles and Garments Exports from India

The share of textiles and garments exports in India's total exports in the year 2003-04 stood at about 20 percent, amounting to US \$ 12.5 billion. The quota countries, USA, EU and Canada accounted for nearly 70 percent of India's garments exports and 44 percent of India's textile exports. Amongst non-quota countries, UAE is the largest market for Indian textiles and garments; UAE accounted for 7 percent of India's total textile exports and 10 percent of India's garments exports.

In terms of products, cotton yarn, fabrics and made-ups are the leading export items in the textile category. In the clothing category, the major item of exports was cotton readymade garments and accessories. However, in terms of share in total imports by EU and USA from India, these products hold

relatively lesser share than products made of other fibres, thus showing the restraint in this category.

Critical Factors that Need Attention

Though India is one of the major producers of cotton yarn and fabric, the productivity of cotton as measured by yield has been found to be lower than many countries. The level of productivity in China, Turkey and Brazil is over 1 tonne / ha., while in India it is only about 0.3 tonne / ha. In the manmade fibre sector, India is ranked at fifth position in terms of capacity. However, the capacity and technology infusion in this sector need to be further enhanced in view of the changing fibre consumption in the world. It may be mentioned that the share of cotton in world fibre demand declined from around 50 percent (14.7 mn tons) in 1982 to around 38 percent (20.12 mn tons) in 2003, while the share of manmade fibre has increased from 44 percent (13.10 mn tons) to around 60 percent (31.76 mn tons) over the same period.

Apart from low cost labour, other factors that are having impact on final consumer cost are relative interest cost, power tariff, structural anomalies and productivity level (affected by technological obsolescence). A study by International Textile Manufacturers Federation, revealed high power costs in India as compared to other countries like Brazil, China, Italy, Korea, Turkey and USA. Percentage share of power in total cost of production in spinning, weaving and knitting of ring and O-E yarn for India ranged from 10 percent to 17 percent, which is also higher than that of countries like Brazil, Korea and China. Percentage share of capital cost in total production cost in India was also higher ranging from 20 percent to 29 percent as compared to a range of 12 to 26 percent in China.

In India, very few exporters have gone in for integrated production facility. It is noted that countries that would emerge as globally competitive would have

significantly consolidated supply chain. For instance, competitor countries like Korea, China, Turkey, Pakistan and Mexico have a consolidated supply chain. In contrast, apart from spinning, the rest of the activities like weaving, processing, made-ups and garmenting are all found to be fragmented in India. Besides, the level of technology in the Indian weaving sector is low compared to other countries of the world. The share of shuttle less looms to total loomage in India is 1.8% as compared to Indonesia (10%), Bangladesh (10%), Sri Lanka (12%), China (14%) and Mexico (29%).

The supply chain in this industry is not only highly fragmented but is beset with bottlenecks that could very well slow down the growth of this sector. As a result the average delivery lead times (from procurement to fabrication and shipment of garments) still takes about 45-60 days. With international lead delivery times coming down to 30-35 days, India needs to cut down the production cycle time substantially to stay in the market. Besides, erratic supply of power and water, availability of adequate road connectivity, inadequacies in port facilities and other export infrastructure have been adversely affecting the competitiveness of Indian textiles sector.

Conclusions

It is believed the quota regime has frozen the market share, providing export opportunities even for high cost producers. Thus, in the free trade regime, the pattern of imports in the quota countries would undergo changes. The issues that would govern the market share in the post quota regime would eventually be productivity, raw material base, quality, cost of inputs, including labour, design skills and operation of economies of scale.

It is believed that quotas, by limiting the supply of goods have kept export prices artificially high. Thus, it is estimated that there would be price war in the post quota regime, with competitive price cuts. The price and quantity effects would depend on the efficiency in production process, supply chain

management and the price elasticity of demand.

Due to the expected fall in prices, developing countries with high production cost have little choice but to compete head-on with the biggest low cost suppliers. In this process, it is presumed that there would be better resource reallocation in these economies.

It is assumed that quota restrictions would continue beyond 2005 in various forms. It is also widely recognized that removal of quota may not directly provide easy and unrestricted access to developed country markets. There would be non-tariff barriers as well. Standards related to health, safety, environment, quality of work life and child labour would gain further momentum in international trade in textiles and clothing.

Strategies and Recommendations

Cost competitiveness in Indian garments sector has been restrained by limited scale operations, obsolete technology and reservation under SSI policies. While retaining its traditional cost advantages of home grown cotton and low cost labour, India needs to sharpen its competitive edge by lowering the cost of operations through efficient use of production inputs and scale operations. Besides, there are needs for rationalization of charges, levies related to usage of export logistics to remain cost competitive.

As fallout to the quota regime, there would be consolidation of production and restriction on supplying countries, which would necessarily mean improved scale operations. Indian players should also integrate to achieve operating leverage and demonstrate high bargaining power.

It is reported that Chinese textile firms have already invested heavily to expand and grab huge market share in the quota free world. In India, organised players in this sector, would require huge

investments to remain competitive in the quota free world. These players need to expand and integrate vertically to achieve scale operations and introduce new technologies. It is estimated that the industry would require Rs. 1.5 trillion (US \$ 35 billion) new capital investment in the next ten years (by 2014) to lap the potential export opportunities of US \$ 70 billion. It is estimated that USA and EU together would offer a market of US \$ 42 billion for Indian textiles and garments in 2014.

Technology would play a lead role in the weaving and processing, which would improve quality and productivity levels. Innovations would also be happening in this sector, as many developed countries would innovate new generation machineries that are likely to have low manual interface and power cost. Indian textile industry should also turn into high technology mode to reap the benefits of scale operations and quality. Foreign investments coupled with foreign technology transfer would help the industry to turn into high-tech mode.

Internationally, trading in textile and garment sector is concentrated in the hands of large retail firms. Majority of them are looking for few vendors with bulk orders and hence opting for vertically integrated companies. Thus, there is need for integrating the operations in India also, from spinning to garment making, to gain their attention. This would also bring down the turn around time and improve quality. Indian players should also improve upon their soft skills, viz., design capabilities, textile technology, management and negotiating skills.

Garment manufacturing business is order driven. It would be difficult for the players to keep the workforce full time, even in lean season. This calls for changes in contract labour laws.

Logistics and supply chain would also play a crucial role as timely delivery would be an important requirement for success in international trade. The

logistics and supply chain management of Indian textile firms are relatively weak and needs improvement and efficiency.

China has already created a world class export infrastructure. Given the volume of projections for exports by India, it may be necessary to create additional export infrastructure, especially investment for modernization of ports. In addition, India needs to invest for creating brand equity, supply chain management and apparel industry education.

To sum up, the ability of Indian textile industry to take advantage of quota phase-out would depend upon their ability to enhance overall competitiveness through exploitation of economies of scale in manufacturing and supply chain. The need of the hour therefore is to evolve a well chalked out strategy, aimed at improvement in the levels of productivity and efficiency, quality control, faster product innovation, quick response to changes in consumer preferences and the ability to move up in the value chain by building brand names and acquiring channels of distribution so as to outweigh the advantages of competitors in the long run.

The contents of the publication are based on information available with Export-Import Bank of India and primary desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information.

Note: Indian Rupees are referred in crore and lakhs:

1 crore : 10 million

1 lakh : 100 thousand

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