



Problems and prospects of readymade garment exports from India to the United Arab Emirates

Ram Gopal Saha¹, Dr. MK Purushothama²

¹ Research Scholar, Research and Development Centre, Rayalaseema University, Kurnool, Andhra Pradesh, India

² Professor, Vivekananda Degree College of Arts, Science, Commerce, Management and Post Graduate Students, Andhra Pradesh, India

Abstract

Readymade garment industry developed in India from 1970. From a modest beginning in the 70s, it has grown into a gigantic industry spread over the entire country. Readymade garment contributes significantly to employment generation and export earnings. Besides meeting the domestic demand for clothing, the Indian Garment Export Industry's competitive strength was restricted by multi-Fiber Arrangement (MFA) Quotas.

Economic reforms were initiated in India in the year 1991, commencing the process of de-licensing, de-bureaucratization and de-reservation. The far-reaching changes initiated were expected to be reflected in increased exports of all the commodities and more specifically in the rise in the growth rate of Readymade Garments (RMGs), the subject of this study.

The present revision is exploratory in nature. An attempt has been made in this study to analyze the industry's export performance during the study period (1981-82 to 2010-15). As it is possible to divide this period conveniently into pre and post-liberalization periods (1981-82 to 1990-91 and 1990-91 to 2000-01, 2010-2015) respectively. An attempt is made to compare the export performance of the industry during these two sub-periods.

An analysis of the performance of the industry as attempted in this study indicated that the expected improvement of its performance did not materialize in the post-liberalization period.

This has been obvious from the fact that, while the growth rate of export of RMGs had declined in post-liberalization period, the rise in the share of export of RMGs in textile exports had also not been very significant.

Keywords: garment export, liberalization, textiles and clothing, international competitors

1. Introduction

Apparel is one of the most important items in Indian export basket. Export of this sector was to the tune of Rs 6.69.8 billion in 1982, increased to Rs 46.39 billion in 1992 and to Rs 23.78 billion in 2002, constituting 8.59%, 14.26 % and 11.38% of total exports of the country during 1982, 1992 and 2002, respectively.

India's exports of textiles and apparel were governed by Multi-Fiber Arrangement (MFA) Quota, which was settled under the multilateral framework. The MFA was a trade regulatory measure adopted by the developed countries in the interest of their own textile industry. The agreement, it is observed, had the effect of limiting the growth of exports of many items in which developing countries had economic strength.

Restrictions on exports of textiles and clothing from developing countries were imposed right from the Short-term Arrangement (STA) agreed upon in 1962. STA was the first institutionalized measure, supposedly collectively decided, by the developed countries in July, 1961 for controlling imports of cotton textiles from the developing countries. STA was not implemented and was soon replaced by the Long-Term Arrangement (LTA) in February, 1962. Both STA and LTA were concluded at the insistence of USA on the argument of injury to domestic textile market.

The critics have observed in this connection that, through MFA, the textile and garment industries of the developing countries had been successfully shielded from external

competition. Thus, while the textile trade among the developed countries was free, these countries had put stringent restrictions on textile imports from developing countries and prevented international competition from emerging.

As per the textile agreement, MFA has been phased out on January 1, 2005 and the textiles and garment sector now stands integrated into GATT- General Agreement on Tariffs Trade/ (World Trade Organization), with all restrictions under this agreement having been eliminated. India, in the emerging scenario, is expected to get substantial benefits from the emergence of a level playing field in the markets of the developed countries.

Few studies have been conducted on the present and future status of the Indian garment exports. A study, focusing on the future prospects of the garment export industry based on the analysis of the past trends of export of RMGs, along with the opinions of various industry insiders, independent researchers, exporters, office-bearers of export associations etc. is essential to analyze the industry performance in various dimensions, namely, the present status of garment export industry, its competitiveness vis-à-vis present and emerging competitors, problems faced by it, measures taken by the government to help the industry and measures called for to enable the industry to achieve its goal etc. These precisely are the reasons behind choosing this topic for the present study.

2. Nature of the Study

The study is exploratory and descriptive in nature.

3. Objectives of the Study

- To focus on the present study had been to study the export performance of the RMG (Readymade Garments) export industry of India wrt UAE during the reference period which can be conveniently divided into pre-liberalization period (1981-82 to 1990-91) and post liberalization period (1991-92 to 2000-01) respectively.
- To find out the problems of RMG (Readymade Garments) export industry of India wrt UAE.
- To study the status of garment export industry of India, an important segment of the export consignment of the country and an important contributor to the export earnings of the country general and wrt UAE during the period under study.

4. Rationale of the Study

1. Garment Industry developed in India, in real sense, from 1970 onwards. From a modest beginning in the 70s, it has now grown into a gigantic industry spread over the entire country.
2. It contributes significantly to employment generation and export earnings, besides meeting the domestic demand for clothing.
3. The (Multi-Fibre Arrangement) MFA Quotas had restricted garment export industry competitive strength. The phase-out and liberalization and the emerging competition would now compel India to innovate, improve and compete in a world, which is no longer ready to give concession and relief in any form.
4. India, it has been observed, has the components of a vital and internationally competitive garment industry and is expected to emerge as one of the greatest beneficiaries of the phasing out of the MFA and subsequent opening up of the world trade on January 1, 2005, next only to China.
5. These expectations are primarily based on India's comparative advantage reflected in cheap labour and raw materials. However, at present Indian Industry is characterized by low quality, low productivity, poor infrastructure, obsolete machinery and surplus labour force. Also, with the MFA quota completely dismantled, Sri Lanka, UAE and Pakistan have emerged as India's major competitors because of proximity in geographical conditions and lower wage rates than in India.
6. India's competitiveness in the international market, therefore, has to be viewed from an angle different from the availability of cheap labour and raw materials. Rather than low wage competitiveness, it has to be higher productivity competitiveness, with greater emphasis on quality improvement and improved productivity through creation of a modern, efficient, better organized and competitive industry in place of a traditional one.
7. Keeping in mind these observations, the present study intends to assess the impact of the phasing out of MFA, followed by the opening up of the world trade in textiles in general and in garments in particular, on the exports of garments from India.

5. Review of Literature

A review of studies conducted on the topic of the study by researchers threw ample light on the current status of the

industry as also on steps needed to be taken to reap maximum benefit out of the favorable situation emerging post-MFA. The researchers highlighted the following:

Bhattacharya, highlighting major supply side constraints of Indian textile industry, such as, low quality, low productivity, poor infrastructure, obsolete machinery and surplus labour force, advocated change in the entire set up of the domestic production system through changes in technology, product-mix, vertical integration, horizontal integration and the marketing network.

India has the components of a vital and internationally competitive apparel industry and a strong and efficient garment manufacturing base with ability to offer scale, flexibility, service and a full range of apparels is able to secure a much larger share in the global market. However, to achieve this vision, India needs to:

- a. Establish a system by which Indian textile manufacturers might benchmark quality and performance against one another and eventually against international competitors,
- b. Set up an agency that can integrate the respective talents of small and large firms.

Also, the industry needs to develop a service orientation.

Liberalization of textiles and garments does not only mean that the rest of the world only opens, but also implies opening up on India's part, reciprocity being a part of the agreement on textiles and garments.

Also that, new international environmental standards in the US and Europe will constitute a challenge unless investments are undertaken to manufacture eco-friendly textiles and garments,

The study also stresses the need for investments and strategic alliances to move on to higher value segments and expresses the need to get rid of old mindset and shackles.

In competitive positioning of Indian garment exports, only abundant labour and plentiful cotton is not enough to achieve competitive advantage, as without quality and timely delivery, cost leadership has no meaning. The positioning, therefore, should be aimed at moving from comparative advantage to competitive advantage, where, fabrics, delivery speed, quality of fabrics in garments, productivity of labour and competitive prices will become the elements of the value chain to match that of the importers, leading to sustainable competitive advantage.

Re-organization of the textile sector at firm level as also at the industry level and strategic thinking to improve the competitiveness of the sector requiring new industry policies, more investment in workforce education and technology on a continuous basis, improvement of manufacturing practices in plants, better linkages between various entities that form the supply chain and continuous investment in process and product R&D.

Dismantling of the quota regime represents an opportunity as well as a threat, an opportunity because markets will no longer be restricted: a threat because markets will no longer be guaranteed by quotas and even the domestic market will be open to competition. To take advantage of the opportunities of opening up, they advocate adoption of an assembly-line, factory type system of production to take exports beyond the current levels by catering to the demand for mass market for

clothing which demands good and consistent quality across large volumes of a single item of clothing.

Focusing on the ongoing debate on the enactment of labour laws in India, he advocates industry friendly labour laws to enable the textile industry to face emerging world competition. He cites the example of Chinese dual labour policy in this regard where there are two sets of labour laws, one for old companies and the other for the new ones.

The quota restrictions had the effect of curbing the enterprise of the Indian exporters, while continuously eroding the product base of garments at the will of the developed countries. Advocating outsourcing on wider scale, as many of the functions as possible to improve and move faster, underlines the need for the industry to invest in building business processes, improving competencies and skills of people and upgrading technologies by modernizing, with focus on cost reduction. He also stresses the need to develop products and their mix on consumer understanding, keeping both domestic and export market preferences in view.

Pointing out that, output generated per unit of capital and labour is the key for long-term competitiveness, he observes that so far there had been inadequate focus on building world class manufacturing facilities, quality of inputs and technology deployed and upgraded. In his opinion, industry therefore needs to take some real and hard decisions and do some out of the box thinking to be able to take full advantage of the emerging opportunities.

It is a tedious task for an exporter to survey the potential market and draw effective conclusions on that basis. The slightest error on the exporters part could lead to the failure of the garment item to survive in the new market. Market Research is the study and in-depth understanding about an area or country which is partially or completely unknown to the person conducting the research. There have been many cases where the exporter has suffered terrible losses in the prospective market in spite of conducting a preliminary market study/ research, the only reason being faulty or incomplete and hurried method of conducting the research. Any kind of research involves time. Proper time has to be allocated for market research apart from

observation of the market trend, statistical analysis, conversations with the buyers and working out a suitable price keeping in mind the purchasing capacity and economic standard of the buyers and consumers. Exporters can conduct the research themselves or can avail the services of a research agency.

Problems related to the Readymade Garment Exports from India to the United Arab Emirates

In today's competitive market, it is very difficult for an exporter create a niche in the market without encountering difficulties and problems. Difficulties arise in various areas of trade like arrangement of finance, recovery of debts, rejection of a consignment, change in government policies, labour unrest and many such unexpected situations. They could be of personal or professional in nature.

The percentage trend of the importance of marketing research to the readymade garment exporters. 24.5% out of the 50% readymade garment manufacturer exporters conduct in-depth research when targeting a potential market whereas 16.7 %

conduct partial research. 8.8 % do not conduct any kind of market research as they feel its not necessary. Out of the 34.3% merchant exporters interviewed, 11.8% of them conduct an in depth market research, whereas majority of them i.e 17.6% conduct a partial market research. Amongst the sub-contracting agents, 4.9% of the exporters opt for an in-depth research in order to penetrate and capture the foreign market whereas an equal number of them conduct a partial market research. The sub-contracting agents do not take the concept of marketing research very seriously since they get all the specifications and design patterns from their international source. Out of 3% of the indenting agents approached, 2% of them opted for in-depth research since they need to keep themselves updated on the latest market trends in order to facilitate better trade leads. It is observed that the concept of Market Research is still not very popular amongst the readymade garment Indian exporters.

Quality Control refers to the stringent quality check levels adopted by various export firms on the basis of the fabric used (strength, contents and colour), the stitching neatness, the cleanliness and the label/ tag requirements ISO certification is a renowned method of ensuring the buyer about the quality of the garment item. ISO certification still has to capture the psyche of the Indian garment exporter as most of them stick to stringent quality checks rather than any acclaimed title of certification.

Table 2 illustrates the percentage trend of the importance of Quality Control to the readymade garment exporters. Merely 31.4% of the respondents (garment exporters) from Mumbai followed stringent Quality Control and were ISO certified or accredited with another title ensuring the buyers of the product quality. 47% of the garment exporters did not opt for any external quality control certification.

6.8% of the garment exporters did not find it necessary to conduct any kind of quality check on their finished item of produce whereas 14.8% conducted a preliminary check on their finished garments.

6. Result and Analysis

This is one of the most undesirable problems an exporter could encounter. When the political environment in a country is unstable, the exporters operations come to a halt. Any amount of planning tends to fail in such an environment. It is best to carefully analyze the situation and then decide on the next plan of action. Unstable political environment could imply revolution or civil disturbances, government actions which could delay or block payments, speculation of cancellation of trade licenses or either making void some important policies and schemes benefiting the traders. Most of the Gulf countries including the United Arab Emirates bear this risk since these countries represent Sheikdoms which are governed by the Arab Rulers or Sheikhs and their heirs.

Commercial risks refer to insolvency of the buyer leading to inability to make payments to the exporter, rejection of goods by the buyer subject to certain conditions and all other such problems which lead to any kind of commercial loss to the exporter. The commercial risks pertaining to any country mostly depend on the terms of trade and the method of payment approved. 25.5% of the exporters interviewed, claimed to have had to bear a loss at some point of their trade

career for bearing such a risk and thus are extremely careful as far as contracts related to UAE are concerned.

The garment design is the deciding factor for an exporters success scale. If the garment design does not suit a particular market the exporter is likely to suffer losses for example exporting bold garments such as minis and micro minis to a conservative country or a country which follows a strict dress code would eventually be a loss to the exporter. Thus, market research helps an exporter to avoid such a situation along with the exporter's ethical understanding and foresight. 70.6 % of the respondents concentrated on the product design prior to exports. The remaining 29.4% exported whatever has been in vogue in other parts of the world irrespective of the design trends that would suit the UAE market.

The more complicated the documentation procedure is, the more blunders and errors are likely to happen. It is very important for the exporter to carefully read and then fill in all the forms pertaining to the export procedure. Even a small error in the documentation can give rise to a number of problems leading to the delay in the shipment of the consignment. Garment Exporters must check and make sure that the packing list related to every consignment to be exported, is accurately filled in as per the contents of the package. All documents pertaining to exports need thorough verification before reaching the customs and port authorities. 67.6% of the respondents have revealed that the documentation process is not simple and clear. It still is complicated and vague and hence lot of time is wasted in rectifying and verifying the documents.

This is one of the most common problems a garment exporter faces in the export business. Garment production is extremely labour intensive hence it is necessary for the exporter to strive in order to achieve maximum labour productivity. With most of the Indian garment manufacturers and exporters upgrading their machinery and production technology under the TUFS introduced by the government, the proportion of labour (mostly unskilled) tends to reduce but due to the rigid labour laws in India, it gets very difficult for the firms to cut down the work force whenever necessary. Availability of additional skilled workers at the time of increased production is very difficult. When time is a deciding factor, it is of no use employing unskilled workers for the job which requires skill and experience as it will only lead to increased wastage and additional costs to be borne by the exporter. It is very important to keep the workers under vigilant control but, at the same time, motivated and professionally happy as it is the employees who are the binding strength of the export firm. Their grievances should be attended to and effectively sorted out as soon as it is brought to the notice or else petty problems develop into major problems which invariably effect the functioning of the export firm.

Another problem pertaining to the workers is their safety while using the different garment manufacturing machinery and suitable, healthy work atmosphere. The garment manufacturer exporters should pay due attention to the seating arrangement of the workers / tailors (especially in line assembly), the lighting effect, the use of protective gadgets while using any machine known to be dangerous and recommended to be handled with utmost caution, the placement of the electric boards and generators and many such

things, the negligence of which can have fatal results leading to large scale loss for the firm.

Labour issues are one of the major problems faced not only by the export organizations but by all business organizations at the national as well as international level. The garment industry constitutes of skilled, semi-skilled and unskilled employees. Unionization is a trend which is catching up amongst the employees and labourers. If the labour are not happy with the work or pay scale of the organization, it doesn't take time for them to collectively join some union and express their demands in a more aggressive manner. And once that is done, production for exports take a back seat thus hampering the flow of orders.

89.2% of the respondents (readymade garment exporters) said that Labour problem is a very crucial affair to deal with. It calls for utmost patience, understanding, convincing ability and leadership skills on the part of the exporter.

Infrastructure is an important element influencing the foreign trade of a country. In India, one of the major problems related to developmental growth is that of poor infrastructure which includes transport facilities, roads, freight costs, power and water supply as well as waste and disaster management facilities. The transport facilities and roads are still not at par with the major competing countries. Due to the heavy monsoon and very hot and humid summer experienced in Mumbai and other parts of the country, the roads get damaged frequently which in turn acts as a major hindrance to the flow of trade. Accessories, trims and fabric sourced from a local/national or international market does not reach the exporter on time facing a delay in production and the delivery of the consignment, in extreme cases the order is cancelled altogether. The freight rates also are expensive as compared to the competitors elsewhere. The seaports and airports are the backbone of India's exports. However, the services offered by the ports are inadequate and infrequent moreover they are ill equipped to handle the mega sized cargo ships efficiently. Out of the exporters approached, 22.5% attributed poor infrastructure as one of the major constraints in the free flow of garment exports.

The Government of India puts in a lot of effort to boost up the country's exports. However it is observed that the incentives provided to the readymade garment exporters either do not reach them at all or are delayed to such an extent that the advantage of the incentive gets nullified.¹ There are incidents wherein the incentives reach the wrong hands whereas genuine garment exporters face undue harassment.² Such situations should be avoided and the incentives must reach the needy garment exporters which can enable them to contribute towards the promotion of India's readymade garment exports.³ Strict Action is taken against the crooked garment exporters whose heinous tricks are brought to the governments notice. Such faulty exporters are exposed and blacklisted thus ostracizing them from the garment exporters community. However, the deeds of such corrupt exporters seldom come to light. Corruption in the government system thrives on a large scale which again is another problem faced by the garment exporters.

81.4% of the garment exporters expressed that corruption prevailed at all stages of the export process, while 18.6% of them felt that the system has changed for the better. Exporters

have expressed mixed views in this regard. Some of the entrepreneurs strongly believe that it is upon the Government of India to boost up and encourage the garment industry to gain leviathan growth in the economic scenario. Only then will India be in a position to compete with China. The exporters have suggested the strong support of the government authorities as in the case of China.

The foreign exchange rates fluctuate inevitably. When the exchange rates fluctuate variably, it directly affects the international trade transactions and the return on investments for the exporter. Trade partners can protect themselves from the loss due to fluctuations in the exchange rate by a contract stating the payment terms and conditions in a very clear and concise manner. Devaluation and Revaluation of currency is another problem the exporters have to reckon with. Devaluation is the deliberate downward adjustment in the official exchange rate which reduces the currency's value while revaluation is an upward change in the currency's value. Under a fixed exchange rate system, devaluation and revaluation are official changes in the value of a country's currency relative to other currencies. Under a floating exchange rate system, market forces generate changes in the value of the currency, known as currency depreciation or appreciation.

59.8% of the exporters have stated that they have borne losses at some point of time during their entrepreneurial career, due to steep fluctuations in the exchange rates. The remaining of them either received reduced returns on sales or have been neutral to any kind of change.

Production cost implies the cost of input that goes into manufacturing a piece

of garment. India is considered to be a country with cheap manpower and enormous resources related to the raw materials. Unfortunately, the picture isn't as rosy as it seems to be. The heavy burden of direct and indirect taxes, the high cost of finances and raw materials seem to be one of the major constraints to export trade. Garment exports to the UAE depend on the quality of the finished piece. India is renowned for its high value readymade garments in the UAE. Being a major hub for re-exports, UAE has gained tremendous importance pertaining to its trade basket. The production costs need to be reasonable in order to attract more buyers from the UAE. The various taxes imposed by the government need to be revised and given due consideration in order to keep the garment exporters' price at par with its competitors from other countries or else the Indian exporters won't be able to penetrate the UAE market on a mega scale.

Global competition is an uncontrollable and unavoidable phenomenon faced by all foreign traders. Global competition acts as the driving force to excel in foreign trade. Countries that have the wholehearted support of their government tend to be forerunners of the global game, for example, China. The Indian Government wholeheartedly supports the exporters and importers by introducing various incentives and schemes, but at the same time dis-regards its support when it comes to the imposition of various taxes and duties be it direct or indirect. Global competition benefits the ultimate consumers as they are offered garments of international quality and design at the most competitive price. In short, global competition is the motivational force for the Indian garment exporters to manage

their costs and returns on investment in a manner that would ensure their presence in the international trade arena.

84.3% of the exporters stated that China was the major competitor in the field of readymade garment exports to the United Arab Emirates. Apart from China, readymade garments from South Korea, UAE, Indonesia and USA too are a major concern for Indian exporters. These garments are not only reasonably priced but also are of very good patterns, cuts and designs. The major reason cited for these garments being so reasonably priced are the benefits of reaping economies of scale in production.

7. Suggestions and Recommendations

Various suggestions and recommendations offered, based on the observations of researchers, exporters, officials of export associations etc. for Industry and the government to enable the country to derive maximum benefit from the favorable post-MFA situation, include:

For industry

1. Should focus on winning parameters, such as, responsiveness, timeliness, consistency, flexibility, communication and understanding of buyers' perspective.
2. Realize that the role of the manufacturer has changed from that of a product supplier to that of one providing service and capacity, and change it self accordingly.
3. Make efforts to reach out to new markets beyond the existing ones and be prepared to spend on product development, promotion, advertising, trade show participation and on every form of communication in the international markets, keeping with today's standards of technology, quality and sophistication.
4. Should additionally focus on supply chain and management, brand creation and consumer focus, the matters that are likely to assume great importance in times to come.
5. Should focus on continuous investment in more advanced technology and shifting of focus from manufacturing driven issues to marketing, value addition, product development and global alliances.

For government

1. Make available basic raw material, that is, fabrics and sewing threads of all fibers at international prices.
2. Establish a system by which Indian garment manufacturers might benchmark quality and performance against one-another and eventually against international competitors.
3. Develop a service orientation by setting up designated Centers and Institutes throughout the country.
4. Set up an agency that can integrate the respective talents of India's small and large firms.
5. Launch a skill up gradation program to take care of the paucity of well-trained pattern makers and cutters and upgrading the skills of stitching operators to enable them to handle new types of machinery.
6. Declare long-term export policy so that exporters know for sure the parameters within which they have to work and survive.
7. Simplify the export procedures so that an exporter can

spend more time and energy on production and for getting export orders.

8. Explore and identify new markets.
9. Use the platform of tourism to popularize Indian garments.
10. Make efforts in conjunction with industry to improve India's image abroad.
11. Ensure favorable and consistent policies, modified labor laws compatible to compliance with WTO norms and have a second hard look at taxation laws for encouraging exports.
12. Provide basic requirements of infrastructure, such as, improvement of roads, port facilities and power availability, which will help in cutting down lead-time and improving efficiency and productivity of individual exporters.
13. Provide one port exclusively for apparel industry, treating it on par with perishable items, since delivery time is very important in both the cases.

8. Conclusion

In this paper study was led keeping as a primary concern the circumstance prevailing in India. Set up a framework by which Indian article of clothing producers may benchmark quality and execution against each other and in the long run against worldwide contenders.

The world exchange conditions as for piece of clothing fares since have changed over the period. The present study is exploratory in nature, an endeavor has been made in this study to investigate the business' fare execution.

9. References

1. Bhattacharya Swapan K, Gupta KR. Transition from MFA to WTO: Prospects for Indian Exports of Textiles and garments in World Trade. Atlantic Publishers and Distributors, New Delhi, 1995, pp. 240-311.
2. ChowdhryNK, AggarwalJC. Textiles and Clothing in Dunkel Proposals- The Final Act 1994 Significance for India and the World Trade. Shipra Publications, Delhi. 1994; 2:73-90.
3. Bhandari S. Agreement on Textiles and Clothing in the Chapter. Developing Countries: Globalization and WTO, in World Trade Organization (WTO) and developing Countries. Deep and Deep Publications Pvt. Ltd, New Delhi, 1998, pp. 324-330.