

India's Textiles & Clothing Trade

Moving from Big Hopes & Small Gains to Big Hopes & Big Gains

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In this paper we examine the textiles and clothing export performance of India and China during the ATC and post-MFA period, with focus on the two leading consumer markets, viz. the European Union (EU) and USA. We evaluate the proposition that in comparison with China, India has not been able to gain significantly in these markets from the quota-removal on textiles and clothing, and that India has continued to be a smaller player in the world market for textiles and clothing as compared to China. Further, we analyze the implications of the trade trends of the US and EU textiles and clothing markets for the future textiles and clothing export success of India. Besides, we explore the possible strategic options available to India to become a major player in the leading export markets of textiles and clothing despite the competition and competitors. The results reported in the paper support our proposition that India's gains in textiles and clothing trade in the ATC and post-MFA era have not been commensurate with its hopes. The paper suggests various reasons for this unsatisfactory outcome and outlines some measures to ensure better gains for India in future.

Introduction

TEXTILES and clothing have been considered to be among the major gainers under the WTO agreements. The Agreement on Textiles and Clothing set the time and pace for dismantling the restrictive Multi Fibre Arrangement (MFA) that the textiles and clothing importing developed countries had set upon the textiles and clothing exporting developing countries since 1974. The textiles and clothing

The author wishes to thank the AIT, Bangkok for providing the facilities and support in preparation of first draft of the paper.

quotas were dismantled in a staggered manner under the 10-year transition period since 1 January 1995. The process of the removal of quota got completed on 31 December 2004, and on the first of January 2005, the trading world witnessed an MFA-free textiles and clothing trading era.

As textiles and clothing exports from the developing countries were restricted under the quota system, the gradual removal of quotas has been expected to accelerate textiles and clothing trade in general and the textiles and clothing exports from the developing countries in particular. In fact, India had great hopes of achieving a rapid growth in textiles and clothing exports as quotas disappeared. While this expectation is partly realistic, an evaluation of India's performance in textiles and clothing exports in recent years would only reveal its actual ground results. However, the benefits of quota removal in the first three phases could not have fully manifested as real gains, because the strategy of back-loading by developed countries (Rameshan, 2004) had resulted in many important items of textiles and clothing remaining for quota removal in the last phase of the staggered quota removal, scheduled for the end of 2004. As a result, after the final removal of quotas by 31 December 2004, a significant export surge in textiles and clothing to the developed markets such as USA and European Union (EU) was expected from the quota-constrained countries like China and India.

Thus, in the initial phase of the post-MFA era since 1 January 2005, the textiles and clothing exports of China and India should have grown much faster than what earlier happened under the transition period since 1 January 2004, despite any WTO-consistent import curb measures that the affected developed countries would likely institute. At the same time, the actual growth of the textiles and clothing exports from these countries would have been dependent on how far these countries could manage their own export capabilities and competitiveness (Hashim, 2005) and to what extent they were successful in identifying and exploiting the opportunities. The Indians have been euphoric about the emerging opportunities; but, India's trade past is not an encouraging indicator of its ability to corner available trade gains for itself (see Gherzi Report, 2003; NIFT, 1999). China presumed to be a better bet.

To understand India and China's success in textiles and clothing exports in the ATC implementation and post-MFA eras (since 1 January 1995), it would be appropriate to analyze their performance in the largest

two textiles and clothing export markets, EU and the USA. In this paper, therefore, we will examine the textiles and clothing export performance of India and China in the US and EU markets during the last few years. We will evaluate the proposition that in comparison with China India has not been able to gain significantly in these markets from the quota-removal on textiles and clothing (this sentiment has been echoed elsewhere too; see Dhar, 2005), and that India has continued to be a smaller player in the world market for textiles and clothing as compared to China (despite the supposed advantages in clothing; Verma, 2002). We will, further, evaluate the implications of the trade trends of the US and EU textiles and clothing markets for the future textiles and clothing export success of India. Besides, we will explore the possible strategic options available to India to become a major player in the leading export markets of textiles and clothing despite the competition and competitors.

The rest of the paper has been structured in the following manner. In Section I, we will look at the trends in the overall merchandise trade and trade in textiles and clothing during 1993-2005. In Section II, evaluate the changes in the world textiles and clothing market structure since 1980. Section III discusses the aspect of the competition that India faces in the textiles and clothing markets. The possible future course of actions available to India for improving its performance in textiles and clothing trade in future is examined in Section IV. The paper ends with some concluding observations presented in the last section, ie Section V.

SECTION I

TRADE TRENDS

Merchandise Exports & Imports

To appreciate the progress in the textiles and clothing trade in the world, it would be a good idea to look at the volume and growth of the merchandise trade under the WTO system. Table 1 presents some relevant data for a few selected regions. As seen from Table 1, world merchandise exports and imports had nearly doubled during 1993-2003 and exceeded \$7,500 billion by 2003. The fact that India's imports grew faster than its exports and China's exports grew faster than its imports highlights the contrast between India, with a large trade deficit, and China, with a very large trade surplus. As a matter of fact, India continued to be quite incomparable to China in merchandise trade volume, with its exports as a ratio of China's exports declining from

about 10 per cent in 1993 to just about 8.5 per cent in 2003 and its imports rising from just 9.5 per cent of China's in 1993 to about 11 per cent in 2003. Table 1 also reveals that the Rest of Europe (the non-EU, central and eastern European countries) had achieved a faster merchandise trade growth during 1993-2003 than India.

TABLE 1
GROWTH OF MERCHANDISE EXPORTS & IMPORTS, 1993-2003

(US\$ billion)

Region/Country	Exports			Imports		
	1993	2003	Index*	1993	2003	Index*
Asia	1,065	2,111	198	985	1,948	198
China	227	667	294	245	646	264
EU	1,489	2,901	195	1,488	2,920	196
India	22	56	259	23	71	310
Rest of Europe	107	401	375	110	379	345
USA	465	724	156	603	1,303	216
World	3,777	7,503	199	3,874	7,778	201

* (2003/1993) x 100

Source: Based on *International Trade Statistics*, WTO.

Textiles & Clothing Trade

World textiles and clothing exports grew much slower in comparison with merchandise trade. This is clear from Tables 2 and 3. Despite this, China's textiles exports nearly doubled and clothing exports more than doubled during this period. While, both India's textiles and clothing exports rose by just half the rate of China's during 1995-2003. [This fits well with the earlier findings of lower productivity and higher cost of India vs. China (Hashim, 2005; McKinsey, 2001; Verma, 2002)]. Significantly, in the case of EU, the largest exporter and importer of textiles and clothing, both exports and imports of textiles fell during 1995-2003 whereas both exports and imports of clothing showed some increases. This probably gives a hint at the changing priorities of EU whereby it is looking for greater market access to higher value added products, for itself elsewhere as well as for other exporting countries in its own markets. In the case of USA, only clothing exports showed declines during 1995-2003 while textiles exports and imports and clothing imports experienced considerable growth during the same period. The US imports of both textiles and clothing have grown faster than its textiles exports, thereby suggesting that USA's dependence on imports of textiles and clothing is growing rapidly.

TABLE 2
GROWTH OF TEXTILES EXPORTS & IMPORTS, 1995-2003

Region/ Country	(US\$ billion)					
	Exports			Imports		
	1995	2003	Index*	1995	2003	Index*
China	14	27	193	11	14	127
EU	62	59	95	57	53	93
India	4.4	6.5	148	-	-	-
USA	7.4	11	149	10	18	180
World	152	169	111	-	-	-

* (2003/1995) x 100

Source: Based on *International Trade Statistics*, WTO.

TABLE 3
GROWTH OF CLOTHING EXPORTS & IMPORTS 1995-2003

Region/Country	(US\$ billion)					
	Exports			Imports		
	1995	2003	Index*	1995	2003	Index*
China	24	52	217	1	1.4	140
EU	48	60	125	74	101	136
India	4.1	6.5	159	-	-	-
USA	6.7	5.5	82	41	71	173
World	158	226	143	-	-	-

*(2003/1995) x 100

Source: Based on *International Trade Statistics*, WTO.

To get a fairer view of the relative export and import position of India and China in textiles and clothing, we report in Tables 4 and 5 the ratios of textiles and clothing export and import of India and China to that of each other and the selected trading partners. Obviously, India's performance in textiles and clothing with reference to EU and the US markets was substantially inferior in comparison with China. India accounted for less than 4 per cent of total world exports in textiles in 2003 and in clothing its share was lower than 3 per cent. This gives us the first indication that the Indian euphoria about the WTO-era did not percolate to the ground of actual textiles and clothing exports. This development paints a dismal picture about India's textiles and clothing scenario when we compare it with China's world exports whose share in 2003 was 16 per cent in textiles and 23 per cent in clothing.

TABLE 4
RELATIVE CHANGE IN TEXTILES EXPORTS: INDIA & CHINA, 1995-2003

Region/Country	India*		China**	
	1995	2003	1995	2003
(1)	(2)	(3)	(4)	(5)
India	1.000	1.000	3.182	4.154
China	0.314	0.241	1.000	1.000
EU	0.071	0.110	0.226	0.458
USA	0.595	0.591	1.892	2.455
World	0.029	0.038	0.092	0.160

* India's exports as ratio of exports of entities in column (1).

** China's exports as ratio of exports of entities in column (1).

Source: Based on *International Trade Statistics*, WTO.

TABLE 5
RELATIVE CHANGE IN CLOTHING EXPORTS: INDIA & CHINA 1995-2003

Region/Country	India*		China**	
	1995	2003	1995	2003
(1)	(2)	(3)	(4)	(5)
India	1.000	1.000	5.854	8.000
China	0.171	0.125	1.000	1.000
EU	0.085	0.108	0.500	0.867
USA	0.612	1.182	3.582	9.455
World	0.026	0.029	0.152	0.230

* India's exports as ratio of exports of entities in column (1).

** China's exports as ratio of exports of entities in column (1).

Source: Based on *International Trade Statistics*, WTO.

Tables 6 and 7 may provide a better insight into the relative positions of India and China in textiles and clothing exports especially with reference to their ability to cover the import needs of the EU and USA in textiles and clothing. The values given in the tables are the exports of India and China expressed as ratios of the imports of EU and USA. As per the tables, if India sends all its textiles and clothing exports to EU or to USA, India could have met a larger part of the textiles and clothing demand of EU in 2003 than in 1995 and of USA in 1995 than in 2003. Needless to say, India's performance in a more prospective year of 2003 was worse off against USA, the worst quota-restricted country in textiles and clothing under the MFA. China, in comparison, could have covered a larger part of the textiles and clothing requirements of both USA and EU by 2003. In fact, China's ability to cover, in 2003, the import needs of EU was more than 50 per cent in both textiles and clothing as

compared to the much lower coverage levels in 1995, and of USA was in excess of its needs in textiles and about three-fourth in clothing. This shows that China, unlike India, was able to improve its performance substantially as sources of textiles and clothing exports during the ATC-era and thereby translate the opportunities into useful achievements as generally expected.

TABLE 6
TEXTILES: EXPORTS OF INDIA & CHINA VS. IMPORTS OF EU & USA, 1995-2003

Region/Country	India*		China**	
	1995	2003	1995	2003
(1)	(2)	(3)	(4)	(5)
EU	0.077	0.123	0.246	0.509
USA	0.440	0.361	1.400	1.500

* India's exports as ratio of imports of entities in column (1).

** China's exports as ratio of imports of entities in column (1).

Source: Based on *International Trade Statistics*, WTO.

TABLE 7
CLOTHING: EXPORTS OF INDIA & CHINA VS. IMPORTS OF EU & USA, 1995-2003

Region/Country	India*		China**	
	1995	2003	1995	2003
(1)	(2)	(3)	(4)	(5)
EU	0.055	0.064	0.324	0.515
USA	0.100	0.092	0.585	0.732

* India's exports as ratio of imports of entities in column (1)

** China's exports as ratio of imports of entities in column (1)

Source: Based on *International Trade Statistics*, WTO

Post-MFA Textiles Exports

Such superior performance of China (or inferior performance of India) seems to have continued even after the expiry of the MFA by the end of 2004. To throw sufficient light on this argument we do not have comparable data. However, we have some data on the textiles exports of selected nations, including India and China, to USA during the January-May period of 2004 and 2005. These data are given in Table 8. During the January-May period, India's textiles trade grew by 30 per cent between 2004 and 2005, from US\$1.51 billion to US\$1.96 billion, while China's increased by 61.6 per cent (more than double that of India), from US\$5.05 billion to US\$8.16 billion. Even the 30 per cent growth of India loses some of its sheen when we notice that Bangladesh

too had registered a growth of nearly 24 per cent in its textiles exports to USA. It is equally noteworthy that both of USA's NAFTA partners, Canada and Mexico, have experienced declines in their textiles exports to USA. The table indicates some substitution of markets by the US buyers of textiles products (shifting from NAFTA to Asia). Finally, the much higher growth of textiles exports of China also lowered the relative position of Indian exports *vis-a-vis* China from about 0.3 in January-May 2004 to 0.24 by January-May 2005.

TABLE 8
TEXTILES EXPORTS TO USA

Country	(US\$ million)		
	Jan.-May 2004	Jan.-May 2005	% Growth*
(1)	(2)	(3)	(4)
China	5,051	8,163	61.6
Mexico	3,077	2,947	-4.2
India	1,509	1,962	30.0
Canada	1,335	1,247	-6.6
Pakistan	963	1,082	12.4
Bangladesh	731	904	23.7
Brazil	19	19.6	3.2

* Calculated from columns (2) & (3).

India to China ratios are 0.299 & 0.240 for the two periods.

Source: Based on *The Economic Times*, 26 July 2005.

SECTION II

WORLD TEXTILES & CLOTHING MARKET STRUCTURE

The discussion of the previous section demonstrates an inadequate match between the expectations of India on textiles and clothing exports under the ATC and disappearing quotas, and the actual achievements of India in textiles and clothing trade. Often, India's expectations of a strong performance in post-quota textiles and clothing exports appears to build on an implicit premise that India is a strong contender in the international trade of textiles and clothing and that India is better positioned in the US and EU markets to offer competition to China. Both these imports do not carry, by evidence, much water. To substantiate this proposition, we will examine in this section the structure of the world markets for textiles and clothing exports and imports. We do this by referring to the ten leading exporters and importers of textiles and clothing in the world.

Table 9 provides statistics on the shares of the 10 leading exporters of textiles in 2003 as well as in selected earlier years. The table reflects several features of the global textiles export market. *First*, EU continues to be the leader in textiles exports. However, its share has been consistently declining over the years, except for the small gain in 2003 over 2000. *Second*, Japan is relegated from the second position in 1980 to a much lower position by 2003. *Third*, the USA had a second position in 1980; it lost this position and moved down in subsequent years before coming back to the third position, behind China, by 2003. *Fourth*, China emerged as a major challenger to EU as well as other prospective exporters of textiles, moved to the second leading position by 1990 and continued in that position in 2000 and 2003. There are only two other countries in Table 9 which along with China registered consistent increases in their share in textile exports - these are Pakistan and Turkey, and India is not one of them. In fact, neither India's textiles export share nor its relative position among the nations mentioned in the table has been stable, with India's share dropping in 2003 to be behind even countries like South Korea and Taiwan, apart from China and USA.

TABLE 9
PER CENT SHARE OF TEN LEADING TEXTILES EXPORTERS OF THE WORLD

Country	1980	1990	2000	2003	
				Share	Value*
EU Total	49.4	48.7	34.3	34.8	58.9
Intra-EU	34.4	34.2	20.3	19.2	32.5
China	4.6	6.9	10.5	15.9	26.9
USA	6.8	4.8	7.1	6.4	10.9
Korea	4.0	5.8	8.2	6.0	10.1
Taiwan	3.2	5.9	7.7	5.5	9.3
India	2.4	2.1	3.9	3.8	6.5
Japan	9.3	5.6	4.5	3.8	6.4
Pakistan	1.6	2.6	2.9	3.4	5.8
Turkey	0.6	1.4	2.4	3.1	5.2
Indonesia	0.1	1.2	2.3	1.7	2.9

* US\$ billion

Source: Based on *International Trade Statistics*, WTO.

TABLE 10
PER CENT SHARE OF TEN LEADING CLOTHING EXPORTERS OF THE WORLD

Country	1980	1990	2000	2003	
				Share	Value*
EU Total	42.0	37.7	24.1	26.5	60.0
Intra-EU	31.6	27.2	16.7	18.1	40.9
China	4.0	8.9	18.3	23.0	52.1
Turkey	0.3	3.1	3.3	4.4	9.9
Mexico	0	0.5	4.4	3.2	7.3
India	1.7	2.3	3.1	2.9	6.5
USA	3.1	2.4	4.4	2.5	5.5
Bangladesh	0	0.6	2.1	1.9	4.4
Indonesia	0.2	1.5	2.4	1.8	4.1
Romania	-	0.3	1.2	1.8	4.1
Thailand	0.7	2.6	1.9	1.6	3.6

* US\$ billion

Source: Based on *International Trade Statistics*, WTO.

The corresponding picture in global clothing exports is given in Table 10. In clothing exports, the EU share has fallen dramatically by 2000 before recovering a bit by 2003. China became a close challenger to the EU by 2003 while Turkey emerged as a distant third with continuous gains in its share during 1980-2003. Despite a fall in the share of Mexico by 2003, the position of India was even behind Mexico, as India's share also had shown decline in 2003. By 2003, countries like Romania have been gaining share thereby posing considerable competitive threat to India. India seemed to fight either little or for positions in the lower half of the leading 10, rather than offering competition to China or Turkey, the other leading developing countries exporting clothing. The only solace for India may be that its share in 2003 slightly exceeded that of USA, which in any case is not a significant player in world clothing exports anymore.

In textiles imports, as evident from Table 11, the EU remained as the world's leading textiles importer, but its prominence had considerably declined by 2003. It is also important to note that close to two-thirds of the EU textiles imports in 2003 are coming from the member countries. The USA's share improved continuously. Surprisingly, China has emerged as the third leading importer of textiles; but, as evidence from elsewhere shows, China uses its imported textiles mostly for value

TABLE 11
PER CENT SHARE OF TEN LEADING TEXTILES IMPORTERS OF THE WORLD

Country	1980	1990	2000	2003	
				Share	Value*
EU Total	46.5	46.7	29.9	29.3	52.5
Intra-EU	32.5	33.5	19.2	18.1	32.5
USA	4.5	6.2	9.8	10.2	18.3
China	1.9	4.9	7.9	7.9	14.2
Mexico	0.2	0.9	3.6	3.1	5.5
Japan	2.9	3.8	3.0	2.8	5.0
Canada	2.3	2.2	2.5	2.2	3.9
Turkey	0.1	0.5	1.3	1.9	3.4
Poland	0.5	0.2	1.5	1.7	3.0
Korea	0.7	1.8	2.1	1.6	2.9
Romania	-	0.1	1.1	1.6	2.9

* US\$ billion

Source: Based on *International Trade Statistics*, WTO.

addition and re-exports. As we find India nowhere in the table, it appears that India has not considered the Chinese strategy of making large-scale textiles imports for value-added re-exports as a worthwhile tool to enhance its world position.

The EU and USA together accounted for about 73 per cent of the world clothing imports in 2003 (Table 12). About three-fifths of the clothing needs of EU in 2003 have been met from outside EU as compared to the lower proportions earlier. Similarly, given the figures of Table 10, Table 12 helps to conclude that only less than a fifth of the US needs of clothing were met in 2003 from imports from its NAFTA partners Canada and Mexico and rest of the US imports were sourced outside North America. Hence, there were plenty of opportunities for India, as well as for China and other clothing exporting countries, to prosper its clothing trade through investing adequately in developing the capabilities for exploiting those markets. Regrettably, however, India could not convert these opportunities into benefits as we have seen from our discussions so far. When India could not tap these ready markets, it was also natural that it could not have explored properly such other prospective markets as the Rest of Europe and the East Asia that the Chinese merrily looked at or occupied.

TABLE 12
PER CENT SHARE OF TEN LEADING CLOTHING IMPORTERS OF THE WORLD

Country	1980	1990	2000	2003	
				Share	Value*
EU Total	54.3	50.6	38.7	42.9	101.3
Intra-EU	31.3	25.4	15.8	17.3	40.9
USA	16.4	24.0	32.4	30.2	71.3
Japan	3.6	7.8	9.5	8.3	19.5
Canada	1.7	2.1	1.8	1.9	4.5
Switzerland	3.4	3.1	1.6	1.7	3.9
Russian Fed	-	-	1.3	1.6	3.7
Mexico	0.3	0.5	1.7	1.3	3.0
Korea	0	0.1	0.6	1.1	2.5
Australia	0.8	0.6	0.9	0.9	2.2
Singapore	0.3	0.8	0.9	0.8	1.9

* US\$ billion

Source: Based on *International Trade Statistics*, WTO.

SECTION III

COMPETITION IN TEXTILES & CLOTHING

The analysis in the preceding section makes it amply clear that despite the hype and euphoria about India's role in the world markets for textiles and clothing in the ATC and post-MFA era, India's actual role continues to be rather small in contrast to China. One argument often coming up in the context of India's inabilities on textiles and clothing exports is that of competition from China, as stated elsewhere in this paper. We have already seen, however, that there is no comparison between India and China given the huge differences in their recent market shares in world textiles and clothing exports. In fact, China is less of a competitor to India than to the largest player the EU itself. Further, other smaller players in the textiles and clothing export market seem to be the real competitors to India. To buttress this argument, we take a look first at China's trade activities more closely and then at the current status of other close competitors to India in textiles and clothing trade.

Table 13 provides a distribution of China's merchandise trade among its six leading trade partners. As one can see, in 2003, the USA, Hong

Kong, the EU and Japan accounted for over 75 per cent of China's merchandise exports, with each of them having a double-digit share. In contrast, as given in Table 14, China's textiles exports in 2003 were dominated by Hong Kong with a fourth share while the other five partners having single-digit shares. The total share of the six partners in textiles exports of China was only 57.7 per cent (as compared to 75% in merchandise trade) thereby indicating clearly that China's textiles exports are more dispersed and less dependent on these six countries, more prominently on the two leading importers, the EU and USA. In the case of clothing exports of China (Table 15), while the total accounted for by the six partners is about 71 per cent, about two-fifths of the exports are shared between Japan

TABLE 13
CHINA'S MERCHANDISE TRADE 2001-2003 (%)

Region/Country	Exports to			Imports from		
	2001	2002	2003	2001	2002	2003
USA	20.43	21.51	21.14	10.77	9.24	8.22
Hong Kong SAR	17.49	17.95	17.41	3.87	3.64	2.69
EU (15)	15.39	14.82	16.46	14.66	13.05	12.85
Japan	16.89	14.87	13.56	17.57	18.11	17.96
S. Korea	4.70	4.77	4.58	9.60	9.68	10.45
Taiwan	1.88	2.02	2.05	11.23	12.89	11.96
Share of Six	76.78	75.94	75.20	67.70	66.61	64.13

Source: Based on *International Trade Statistics*, WTO.

TABLE 14
CHINA'S TEXTILES TRADE 2001-2003 (%)

Region/Country	Exports to			Imports from		
	2001	2002	2003	2001	2002	2003
USA	7.25	8.46	9.41	1.35	1.53	1.83
Hong Kong SAR	29.11	28.26	25.54	10.18	10.26	9.35
EU (15)	9.03	8.80	9.07	3.34	3.68	3.80
Japan	11.23	9.48	8.40	21.72	19.60	20.39
S. Korea	6.36	5.69	4.54	19.89	17.84	17.16
Taiwan	0.59	0.78	0.74	22.91	23.66	22.36
Share of Six	63.57	61.47	57.70	79.39	76.57	74.89

Source: Based on *International Trade Statistics*, WTO.

and Hong Kong rather than the EU and USA. The proportion of China's textiles and clothing trade as well as its merchandise trade contributed by its six leading partners has been on the decline over the years mentioned in Table 14. Thus, China definitely is not dependent overwhelmingly on the EU and USA for textiles and clothing exports as India is, and, hence, the pressure due to China in the EU and US markets on India is much less than what would have been the case if China was overly dependent on these markets for its textiles and clothing exports.

TABLE 15
CHINA'S CLOTHING TRADE 2001-2003 (%)

Region/Country	Exports to			Imports from		
	2001	2002	2003	2001	2002	2003
USA	13.40	12.88	12.60	0.79	0.74	0.70
Hong Kong SAR	15.91	17.14	16.31	52.76	50.00	47.18
EU (15)	10.20	11.31	12.06	4.72	5.15	7.04
Japan	32.41	27.12	24.05	21.26	18.38	15.49
S. Korea	4.37	5.45	4.99	5.51	7.35	7.04
Taiwan	0.68	0.58	0.54	3.15	2.94	2.82
Share of Six	76.97	74.48	70.55	88.19	84.56	80.27

Source: Based on *International Trade Statistics*, WTO.

In Tables 16(a) and 16(b) we examine the growth in the textiles and clothing imports of the EU and USA during 1999 and 2003 and then see to what extent China has benefited from this. The purpose is to see the level of dominance of China in the growing textiles and clothing needs of the EU and USA and whether there was any room left by China in these markets for other export players such as India. As per the table, the portion of the EU textiles and clothing market supplied by China was 7.1 and 9.8 per cent respectively during 1999 and 2003, while China could cover only 28.2 per cent of the growth in the textiles and clothing demand in EU during 1999-2003. In the same manner, China catered to respectively 12.9 and 17.5 per cent of the US demand for textiles and clothing imports in 1999 and 2003, and only 37.7 per cent of the growth in the US demand for textiles and clothing imports during 1999-2003 has gone to China. Thus, in the case of both the EU and USA, China had left adequate room for other players to prosper if the latter had the wherewithal to do so. It is to be remembered here

TABLE 16 (A)
GROWTH OF TEXTILES & CLOTHING IMPORTS OF EU: CHINA'S SHARE

<i>Items</i>	(US\$ billion)		
	<i>1999</i>	<i>2003</i>	<i>Change</i>
EU textiles imports	51.0	52.5	1.5
EU clothing imports	82.2	101.0	18.8
EU total imports	133.2	153.5	20.3
China's exports to EU			
Textiles	1.51	2.76	1.25
Clothing	7.89	12.36	4.47
Total	9.40	15.12	5.72
China's total as % of EU imports	7.1	9.8	28.2

Source: Based on *International Trade Statistics*, WTO.

TABLE 16 (B)
GROWTH OF TEXTILES & CLOTHING IMPORTS OF USA: CHINA'S SHARE

<i>Items</i>	(US\$ billion)		
	<i>1999</i>	<i>2003</i>	<i>Change</i>
US textiles imports	14.3	18.3	4.0
US clothing imports	58.8	71.3	12.5
US total imports	73.1	89.6	16.5
China's exports to USA			
Textiles	1.69	3.63	1.94
Clothing	7.74	12.02	4.28
Total	9.43	15.65	6.22
China's total as % of US imports	12.9	17.5	37.7

Source: Based on *International Trade Statistics*, WTO.

that the total textiles and clothing export of India in 2003 was only of US\$13 billion, which is just 64 per cent of the (textiles and clothing) growth component (of 2003 over 1999) of the EU alone. Therefore, strictly speaking, India cannot be complaining about Chinese exports crowding it out in the textiles and clothing markets of EU and USA or of even China being its competitor.

Table 17 presents a more comprehensive picture of the competitive landscape of India in the textiles and clothing markets of the EU and USA. From Table 17 it follows that India faces competition in the EU and US textiles and clothing markets not just from China, but from a host of countries. The foremost players are, of course, EU and China in both the EU and US markets. At the same time, currently (2003), Turkey in the EU textiles market, Canada and Mexico in the US textiles market,

TABLE 17
TEXTILES & CLOTHING: INDIA'S CLOSE COMPETITORS, 2003

<i>EU Textiles Imports</i>	<i>US Textiles Imports</i>
A. Presently greater share	A. Presently greater share
EU	China
China	EU
Turkey	Canada
	Mexico
B. Presently lower share	B. Presently lower share
Pakistan	Pakistan
Czech Republic (2.2%)	S. Korea
Switzerland (2.1%)	Taiwan
<i>EU Clothing Imports</i>	<i>US Clothing Imports</i>
A. Presently greater share	A. Presently greater share
EU	China
China	Mexico
Turkey	EU
Romania	Honduras
Bangladesh	Vietnam
B. Presently same share	Indonesia
Tunisia	B. Presently lower share
C. Presently lower share	Thailand
Morocco	Dominican Rep.
	S. Korea
	Philippines
	Bangladesh
	Guatemala
	Taiwan
	El Salvador
	Sri Lanka

Source: Based on International Trade Statistics, WTO.

Turkey, Romania and Bangladesh in the EU clothing market and Mexico, Honduras, Vietnam and Indonesia in the US clothing market have greater share than India. In addition, a number of developing countries, including Pakistan, are closely following India in both the EU and US textiles and clothing markets.

As India's share in textiles and clothing exports to EU and USA are much closer to non-EU, non-China exporters than to EU and China itself, actually, the non-EU, non-China exporters are fitting as India's

real competitors, as different from what India wanted to believe. It is doubtful, given India's level of participation in the textiles and clothing trade in the world as seen from Table 17 and various other tables earlier, whether the Chinese have ever felt India as any serious threat to its global textiles and clothing business. The greater possibility is that they have not.

SECTION IV

POSSIBLE COURSE OF ACTION

The discussions of the preceding sections are meant, basically, to underline the gap between India's hopes of gains under the ATC and post-MFA era and its actual performance during this period in exports of textiles and clothing both with respect to the major markets (EU and USA) and *vis-a-vis* other major exporters. Having found the continued smaller role of India in the world trade in textiles and clothing, it is imperative to explore the possible strategic recourses available to India to improve its profile in world textiles and clothing trade, particularly in exports, commensurate with its expectations about a quota-free world. Our major focus here will be on ways of exploiting the EU and US markets further in the first place and then on identifying other possibilities.

To begin our discussion, we take a look at the comparative trade profiles of India, EU and USA in 2003, as provided in Table 18. We find that India has a higher trade to GDP ratio (30.7%) than EU or USA (23.3%). Still, India's per capita trade is just a tiny fraction (1-3%) of that of EU or USA. Definitely, trade itself is not at fault given the large trade to GDP ratio; the size of GDP is to get the blame. If the size of Indian economy (its GDP) grows substantially and the trade keeps pace with that, the per capita trade should also grow commensurately. Extrapolating from the above observations, since the textiles and clothing sector cannot grow totally disproportionately to the economy and GDP, so long as the size of India's GDP does not grow to much larger levels, there will be severe constraints for the textiles and clothing sector in raising its export contributions (from current 3-4% of world exports) to scales large enough to even think of matching that of China or any other worthy players (say 10-20%). On the contrary, any argument of textiles and clothing fuelling rapid GDP growth may be too much to expect, to say the least, given its current role.

By Table 18, the per cent of manufactured goods in India's imports has been much lower than that of EU or USA. Although partly this has been due to import-restrictive measures still in force (such as higher tariff as obvious from Table 18), this also represents an opportunity to leverage further on foreign processed industrial raw materials and technology goods. By exploiting this, India could boost its textiles and clothing trade: by importing more of advanced textile inputs and textiles for re-processing and exporting as clothing especially where its clothing export ability is impaired due to non-availability of adequate domestic quantities of quality textiles. Remember that China imports a large quantity of textiles (Table 2) and, possibly, it may also have been importing other inputs, including machinery, for the textiles and clothing industry. At least considering China's huge textiles imports used mostly

TABLE 18
TRADE PROFILES OF INDIA, EU & USA 2003

<i>Parameter</i>	<i>India</i>	<i>EU</i>	<i>USA</i>
Population (million)	1,064	380	291
GDP (PPP) (US\$ billion)	3,096	10,130	10,871
Current A/C balance (US\$ billion)	4.7	59.3	-530.7
Trade per capita (\$)*	143	6,188	8,427
Trade to GDP (%)*	30.7	29	23.3
Merchandise exports (US\$ billion)	56.0	1,105	724
Merchandise imports (US\$ billion)	70.7	1,119	1,303
Merchandise export rank	21	1	2
Merchandise import rank	16	2	1
% of manufacturing in exports	76.1	86.6	81.1
% of manufacturing in imports	49.7	69.9	76.0
Commercial services exports (US\$ billion)	25.0	361.5	287.7
Commercial services imports (US\$ billion)	21.6	336.4	228.5
Top merchandise export destination	EU (21.9%) USA (20.7%)	USA (22%)	Canada (23.4%) EU (20.8%)
Top merchandise import origin	EU (20.4%)	USA (15.4%)	EU (19.3%)
Average applied ad valorem duty rates			
Agricultural (%)	36.9	5.9	5.1
Non-agricultural (%)	27.7	4.0	3.7
Number of ad measures**	216	165	293

* 2000-2002 for India and EU; and 2001-2003 for USA.

** Anti-dumping investigations as on 30 June 2004.

Source: Based on various sources.

for re-processing and exporting as clothing, India should not have great difficulty in furthering its clothing trade gains through this route.

We now take a look at the pattern of sourcing of textiles and clothing imports by EU and USA. The purpose is to identify any shifts in the pattern of their imports that can be used to enhance the effectiveness of the strategic efforts of India in strengthening its interests in those markets. We do this with reference to Tables 19 and 20. In Table 19, the percentage-wise distribution of textiles and clothing imports of the EU from different sources during 1999-2003 is given. Table 20 presents similar data for USA. By Table 19, the EU imports of textiles and clothing from the developed world, the North America and Western Europe, in general and from regions and countries like the EU, USA, and Japan in particular have declined in proportion during 1999-2003. At the same time, the same showed clear increases from the Rest of Europe and Asia. Within Asia, China was a clear winner, with its share in EU's imports of textiles and clothing showing a larger growth than the total gains of Asia. India might have lost some of its share due to its much slower growth in the textiles and clothing exports as compared to China (Tables 4-8) although in value terms India did gain. As a matter of fact,

TABLE 19
EU IMPORTS OF TEXTILES & CLOTHING: % DISTRIBUTION

<i>Region/Country</i>	<i>Textiles</i>		<i>Clothing</i>	
	<i>1999</i>	<i>2003</i>	<i>1999</i>	<i>2003</i>
World (US\$billion)	51.04	52.53	82.20	101.29
North America	3.02	2.06	0.71	0.43
Latin America	0.45	0.56	0.36	0.37
Western Europe	73.35	69.76	51.89	50.77
Rest of Europe	4.64	7.53	10.27	11.16
Africa	1.31	1.55	7.42	7.00
Middle East	1.45	1.25	0.90	0.49
Asia	15.66	17.29	28.36	29.76
EU	61.25	55.26	70.89	68.23
USA	2.82	1.95	0.61	0.34
Switzerland	2.39	2.05	0.49	0.65
Japan	1.47	1.00	0.17	0.11
China	2.96	5.26	9.60	12.21

Source: Based on *International Trade Statistics*, WTO.

TABLE 20
US IMPORTS OF TEXTILES & CLOTHING: % DISTRIBUTION

<i>Region/Country</i>	<i>Textiles</i>		<i>Clothing</i>	
	<i>1999</i>	<i>2003</i>	<i>1999</i>	<i>2003</i>
World (\$ billion)	14.30	18.29	58.78	71.89
North America	12.45	10.65	2.99	2.46
Latin America	11.89	11.86	30.32	25.97
Western Europe	21.68	18.85	6.02	5.84
Rest of Europe	1.33	1.19	0.95	1.66
Africa	0.98	1.11	1.85	3.00
Middle East	1.68	2.75	2.06	2.50
Asia	50.00	53.59	55.82	58.55
EU	18.18	15.36	4.22	3.74
Canada	12.45	10.65	2.99	2.46
Mexico	9.37	8.64	13.46	10.18
Japan	4.13	2.92	0.17	0.37
China	11.82	19.83	13.17	16.86
South Korea	6.36	5.51	4.05	2.86

Source: Based on International Trade Statistics, WTO.

India's possible loss of share in the imports of EU has less to do with Chinese competition than with India's own inability to cope with the growing requirements of its export markets. The validity of this point is in our earlier observation that China could supply only a fraction of the growth in the EU and US imports (Table 16) and in the following other facts from Table 19: (a) the Rest of Europe has gained in textiles more than China itself; and (b) the Chinese gain of share in clothing is just equal to the loss of EU while EU's other partners like North America, Africa and Middle East have also lost some of their shares by 2003.

In the case of USA, the loss of share in imports of textiles and clothing occurred not only to the North America and Western Europe regions, but also to its other major traditional importing source, Latin America. On the other hand, in US imports, the share of Africa, Middle East and Asia in textiles and clothing and the Rest of Europe in clothing showed perceptible gains during 1999-2003. Among blocs and countries, EU, Canada, Mexico and South Korea in textiles and clothing and Japan in textiles clearly lost out. India is also most likely to have lost some of its shares. Here too, India's possible loss is less attributable to Chinese competition than to India's own coping up problems, given that Indian

exports of textiles and clothing have indeed been growing, but only at a lower rate than that of China. Further, in respect of US imports of clothing, the Chinese gains in share are almost equal to the loss of Mexico. This is amply proved in Figure 1. At the same time, other regions (the EU, Canada, South Korea, etc.) have also lost their shares. So, if India was sufficiently alert and capable, it should have captured the lost shares of these countries like China did. Instead, India missed the opportunity, which was capitalized by the other Asian exporters some of which are mentioned in Table 17 (interestingly, as per data available for 2004-05, the Indian textiles exports to USA grew slower than the US textiles exports to India (*The Economic Times*, 3 June 2005, p. 17)).



Thus, the discussions of Table 19 and 20 reveal that there is a clear trend in the imports of textiles and clothing of EU and USA and that the trend is clearly in favour of the non-Latin American developing countries. This trend is probably in recognition of the comparative advantage that the developed regions (EU and USA) have discovered in the non-Latin American developing countries particularly in Asia, parts of the Rest of Europe and some parts of Africa. As widely believed, India should have been in a comfortable position to benefit from such a discovery and trend if India was indeed capable in its resources and strategic in its moves. But, the very fact that India did not gain much implies that India had only big hopes, and it was unable to garner necessary resources and make proper strategic moves as China did.

What can be done now? It is fairly accepted that China's advantages in textiles and clothing are its low prices with reasonably good quality. That combination gave China better advantage over all other developing textiles and clothing exporters. This is exactly the advantage that India should develop, but it could not do it in the past. China has been utilizing its township and village enterprises (TVEs) to achieve its export goals in textiles, toys, etc. Why can't India do the same? The past shows Indians are not successful even in importing western raw materials and technology in textiles in large scale and in doing re-processing and re-exporting that China enthusiastically does. So, how much we can expect on this front is not certain. However, we should note the tendency of EU and USA to import from developing world, and recognize the fact that they still have a number of successful textiles and clothing enterprises having advanced knowledge and technologies, but looking for profitable sources of outsourcing their requirements. They have been tapping China for quite some time. Perhaps, the trend had started prominently with Nike's outsourcing efforts in sports gears. It is obvious that many of them continue to be enthusiastic about China. If India makes moves that are shrewd enough, even now we could explore whether those EU and US companies can be enticed to set up their operations in India, use their own technologies and quality standards and produce clothes meeting requirements of their own markets while leveraging on the lower labour cost and other advantages offered by India. Otherwise, if we depend only on India's own domestic textiles and clothing enterprises and export houses to grow our textiles and clothing exports, it is doubtful whether by any reasonable time in future India would be able to rise to a stature in textiles and clothing comparable in any manner to that of China.

Finally, when we look at the export market structure of some of the leading textiles and clothing exporters of the developing world we will understand that the EU and US markets are not the only place on this earth to sell textiles and clothing products. To understand this, see Table 21. It depicts the export destinations of three of the leading textiles and clothing exporting non-western entities – Hong Kong SAR, China and Mexico. It can be instantly recognized that Mexico is predominantly US-dependent. Mexico has been paying heavily for this because, as USA moved to China more and more for sourcing its requirements, it was Mexico that bore the negative substitution effect the most, as we saw in Figure 1.

TABLE 21
EXPORT DESTINATIONS OF INDIA'S SELECT COMPETITORS
IN TEXTILES & CLOTHING, 2003

<i>Destination</i>	(US\$ billion)					
	<i>Textiles</i>			<i>Clothing</i>		
	<i>Hong Kong SAR</i>	<i>China</i>	<i>Mexico</i>	<i>Hong Kong SAR</i>	<i>China</i>	<i>Mexico</i>
North America	0.39	2.82	1.93	9.24	7.45	7.12
Latin America	0.26	1.42	0.09	0.56	1.79	0.16
Western Europe	0.24	2.86	0.04	6.77	7.13	0.04
Rest of Europe	0.01	0.95	0	0.11	5.09	0
Africa	0.34	1.85	0	0.17	1.10	0
Middle East	0.22	2.03	0	0.25	1.96	0
Asia	11.63	14.98	0.03	6.05	27.55	0.02

Source: Based on *International Trade Statistics*, WTO.

On the other hand, the main market of China and Hong Kong SAR is neither EU nor USA, but Asia. For both of them, EU and USA together accounted for much less than what they supplied to different Asian markets including Japan. So, why is it that India is nostalgic about the EU and the US markets? Is it just a legacy of the past and due to their associated comforts? Do the Indians really lack necessary capabilities and entrepreneurial talent to explore new markets? Now that India is making conscious efforts to develop and strengthen its ties with East Asia, it would be a profitable approach to understand the needs and preferences of the textiles and clothing markets of East Asia and to cater to them with choice products of quality and competitive price. With all our expatriates, at least the Middle East markets should already have been a gold mine for Indian textiles and clothing. Since it is better late than never, efforts could come now to convert the Middle East into our textiles and clothing playfield through nurturing and by combining quality and competitive price to realize ambitious volume goals.

To play a big game in international markets, Indian textiles and clothing enterprises need to attain a big size for themselves. In India at present there are only a handful of companies that are of some reasonable size by at least Indian standards. Through substantial investments and consolidation, existing Indian export market players need to grow bigger enough. Recently, some companies have been making efforts at synergizing their operations with other players by forming strategic alliances in textiles (*The Economic Times*, 26 July 2005). But, only small steps have been taken so far. The issue of greater concern,

however, is the China-phobia or the losing confidence of Indian textiles and clothing businesses in export markets. The problem is so much that there is a talk even of turning away from the international markets and withdrawing for a second time (the first being during the pre-1991 era) to the domestic shell for business volumes (see *The Economic Times*, 10 May 2005, p.15).

In contrast, it is heartening to see the Chinese advances in textiles and clothing trade after the recent complete dismantling of quotas and the way it is shaking the leading international markets. China made both the EU and USA worried over the huge surge in Chinese exports into those markets. China is also resisting any EU or US attempts to erect barriers to Chinese exports in those markets (*The Economic Times*, 27 April; 20 May; 30 May 2005). The US trade authorities are making efforts to resolve the issue amicably. Reminding the voluntary restraint efforts forced on Japan during the Japanese ascendance in the world competitive arena, a similar restraint is likely to be handed down to China on its exports of textiles and clothing to the EU and US markets (see also Reinert, 2000). This in itself is recognition to the Chinese dominance of the leading export markets of textiles and clothing. Yet, it is disappointing that the Indian companies have not tried to learn the Chinese strategies and offer competition on the China's own terms. The Indians do not seem to have understood even the increasing Chinese focus on value added exports by slowly moving away from the export of some of the traditional textile products (see *The Economic Times*, 19 April 2005).

SECTION V

CONCLUDING REMARKS

Analysis of the available data shows that Indian gains in world textiles and clothing trade in the ATC and post-MFA era have not been commensurate with its expectations by any reasonable yardstick. Several factors are responsible for this. These include:

- (a) India's inability to rise up to the occasion,
- (b) its poor capabilities and resources that inhibited it from moving beyond the level of other competing developing countries and attaining a stature comparable to China's,
- (c) the myopic vision of Indian textiles and clothing enterprises about the post-quota gains whereby they expected the gains to accrue

to them even as they did very little to ensure the arrival of those gains,

- (d) the lack of strategic orientation of Indian textiles and clothing companies due to which there was hardly any effort to understand the strategies and the underlying success factors of the Chinese and to respond to competition by leveraging on the same strategies and factors, and
- (e) the limited size of the Indian companies due to which they had neither the resources and capabilities to respond to the global market requirements nor the orientation to strategize with a long run view, to develop new geographical or product markets and to sustain competitive efforts in spite of initial market difficulties.

So, clearly, there are several issues to be addressed to ensure deserving success in future. The following is a summary of certain essential requirements, which should complement what some earlier studies (e.g., Hashim, 2005) have already echoed - modernization of textile mills, improving efficiency and productivity, and strong government support.

- (a) Given our large, current trade to GDP ratio, for the textiles and clothing sector and its trade to grow substantially, the size of our economy needs to fatten fast enough.
- (b) Clothing exports can grow further on applying the gems and jewellery model to textiles and clothing at a much larger scale than at present, i.e., by importing textiles, re-processing them into value added clothing products and then re-exporting them as the Chinese do.
- (c) To ensure the availability, for the growth of Indian textiles and clothing trade, of advanced technologies and inputs satisfying the western environmental and health standards, the EU and US companies holding them need to be enticed to set up processing units in India to cater to their own markets while availing of the labour cost and other advantages here.
- (d) To get sizes that help Indian textiles and clothing companies to tackle international competition successfully and to become leading players in international markets, they need to invest more and consolidate through mergers and alliances, and spend adequate funds on new design, product and process developments.

- (e) To disperse the competitive pressure in India's existing export markets, India needs to develop alternative markets instead of depending overly on EU and USA.
- (f) To get the right international competitive orientation, Indian companies need to stop being Chinese-centric and falling to Chinese-phobia and remember that (i) other developing nations, not China, are closer to India in competition, (ii) the world textiles and clothing market growth is more than the growth of Chinese supplies, and (iii) if the Chinese can compete, there is no reason why the Indians cannot if proper efforts are made.
- (g) To succeed like China, the Indians need to study the Chinese strategies and the factors behind Chinese success carefully, and cultivate the same or better factors and practice the same or better strategies to get similar or better results for themselves.

The last point above deserves to receive top priority in any future research on India's global textiles and clothing trade strategies, while the rest of the points need to get immediate corporate and policy attention.

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