

**EXPORT COMPETITIVENESS AND THE MARKET FOR
TEXTILES: a summary of research**

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This paper looks at the dynamics of textile production and export in India. It summarizes available research and discusses policy options as outlined by the leading researchers in this area.

Section I: Textile Production in India

This section outlines the major structural features of production in the textile sector in India. It summarizes the work of T. Roy and other researchers as well as press reports.

India's garment exports have grown in the past couple of decades but there is great scope for further expansion. India's share of world exports of clothing was 2.6 percent in 1994, up from 1.5 percent in 1980. However, India's share of world clothing exports has not improved since 1994 and declined marginally to 2.3 percent in 1997. The value of garment exports was \$3.8 billion in 1997-98 with a growth rate of 0.6 percent.

India's garments exports are dominated by cotton. Cotton garments constitute 71 percent of total garment exports. Synthetic garments were 28 percent of total exports in 1992. Garment exports are composed of a few items only. Women's outerwear had a share of 40.8 percent in 1991; this declined to 38 percent in 1994. Men's shirts had a share of 17.8 percent in 1994. These two items contribute to more than 50 percent of exports. Since 1983, the US and the EU have been India's principal markets. The combined share of these two markets is 71 percent, the share of restricted countries is 76 percent and the non-quota countries share the remaining 24 per cent.

In recent years, India has fully utilized its quota levels for textiles. India has more than a 50 percent share for women's outerwear in the U.S. market. In 1993, India exported more

than a billion-dollars worth of women's outerwear; more than half of it was to the United States. Women's outerwear (non-knit) has a share of 38 percent and Men's outerwear (shirt non-knit) has a share of 29 percent in EU imports of apparel from India.

India and several other countries are leading suppliers to US in 17 product categories. No single country dominates any given product category. However, China and Hong Kong together are the largest suppliers in 8 of the 17 categories. This indicates their higher level of production capability to supply a variety of products to penetrate global markets. We will return to a discussion of China later in this paper.

Producers in developing countries face volume restrictions on their exports. They can enlarge the value of their sales by moving up the market segments into higher quality lines in their product categories eg. from cotton to blends. The classic case has been that of Hong Kong whose sales have risen while quantity sold has declined. From the evidence available, it appears quality and design become increasingly important versus low cost/high volume production. Product quality is measured as absence of defects and the degree to which a garment conforms to specifications. Production cost, quality and design content together determine value.

According to existing research, the price received by Hong Kong for cotton apparel, is at the top of the distribution followed by China and Indonesia. High prices received by Hong Kong producers indicate specialization, design content and quality of fabrics used. Chinese prices reflect networking with Hong Kong traders who provide the marketing expertise. The unit value of apparel exports from Bangladesh and Pakistan appears to be the lowest for all products for all years. India is in the middle of this distribution.

According to industry observers, Indian apparel products do show an improvement in unit values for their products, except in cotton women's shirts. In 1996, excluding cotton women's shirts, Indian prices were above average. (They were below average in 1993). Different countries dominate different parts of the market. India is a large supplier of casual shirts, but not formal/business shirts. This is reflected in the difference in unit prices between India and Hong Kong in the shirts market.

Large differences in consumption patterns have separated domestic and export markets for apparel as well. The consumption of traditional tailor-made garments i.e. consumption of piece lengths later converted into garments by the neighbourhood tailor, predominate the domestic market. The domestic market is fairly price sensitive and also fairly insensitive to quality variations. In recent years, the demand for modern casual-wear readymade garments appears to be increasing. Industry reports indicate a rapidly emerging market for branded quality-sensitive apparel, namely jeans/trousers, printed shirts and T-shirts, and the entry of several large established companies into readymade garment manufacturing. However, export-oriented apparel production is very separate from domestic production and signs of change are very recent.

The manufacturing sector in India can be divided into two segments based on the criterion of employment namely, registered and unregistered. The registered sector consists of factories registered under the Factories Act of 1948 and covers those factories employing 10 or more workers if power is used, and those employing 20 or more workers if no power is used. All other factories constitute the unregistered sector and are outside the scope of industrial and labour legislation.

Until very recently, a policy of small-scale reservation was in effect where only small-scale units could undertake production of reserved products. Large factories could not

manufacture these products unless they committed themselves to meet certain export obligations. This policy was recently scrapped, thereby drastically increasing the degree of competition in the marketplace.

The production structure of the Indian apparel industry is segmented into two distinct categories--the "sweatshop" supplier, who sells to local merchant exporters and the factory-based manufacturer-exporter. The bulk of the apparel production takes place in small units with manually operated sewing machines. The unregistered sector contributes more than 90 per cent of the value added of the garment sector. The share of factories with more than 200 workers is only 25 per cent within registered manufacturing. Large units are found only in the export processing zones or as 100 percent Export Oriented Units). This is a consequence of reservation policies; the dismantling of these policies may result in compositional changes within the sector.

The small-scale nature of Indian production has resulted in greater flexibility. It can handle a wide range of orders, even as low as 500 pieces. Small-scale producer demand for specific fabrics is largely met by the powerloom sector. Powerlooms have the advantage of shorter lead-time in the delivery of fabrics, which is critical for apparel manufacturers supplying largely to fashion-oriented niche markets. However, as the industry attempted to produce standardized garments based on standardized cloth, it faced severe problems of quality. The procurement of certain types of heavy cotton fabrics, and fabrics in required counts and wide widths has been difficult. Apparel producers have difficulty importing these fabrics due to quantitative restrictions and high tariffs. The nominal tariff rate on synthetic and cotton fabric was as high as 156 per cent and 129 per cent respectively in 1989-90. In the 1990s, the tariff rates have been progressively lowered.

The system of duty-free imports of textile fabrics, components, and accessories for export production has required special import licenses and has been cumbersome to the industry. The value of goods that can be imported duty free is determined either on the basis of FOB value of exports of the exporter (the value-based license) or the physical quantity of inputs required per unit of output (the quantity-based license). In the latter case, detailed input-output norms have been specified for obtaining duty exemptions for the imported items. Licensing always causes time delays, a crucial factor for an industry specializing in seasonal garments.

Another constraint often emphasized is the availability of good quality trimmings and embellishments such as laces, buttons, zip fasteners, thread interlinings and packaging materials. All these products were reserved for the small-scale industry in the past. The license requirement for the import of these items was abolished in April 1996; current reforms will also help to increase availability of trimmings to all firms. Trimmings and accessories add value to the final product. Leading exporting countries of garments are typically also large importers of trimmings and accessories.

There are four types of producers in India-- mills, handlooms, powerlooms, and hosiery manufacturers. Mills comprise of cotton spinning-weaving mills and spinning mills. Handlooms include those in factories or households. Hosiery manufacturing comprises factories making knitted goods. Powerlooms can be described as weaving factories. They weave a higher share of manmade cloth than of cotton. They have no "organizational homogeneity." Many powerloom manufacturers survive on low wages and obsolete looms, and are unregistered as factories. But a fair number have plants with 100-200 looms, and cloth-finishing processes.

The share of mills in cloth production is steadily declining. Mills consist mainly of bankrupt and obsolete factories. They do produce and export a certain quantity of yarn, though the main supply of yarn comes from specialized spinning mills of relatively recent origin. Integrated mills make generic cloth, which have no demand either at home or abroad, and they make them at far higher cost than powerlooms. The reason why the mills continue at all is the dominance of the public sector-owned National Textile Corporation. Almost all textile exports from mills are accounted for by 10-12 private composite mills, which account for about 10 per cent of capacity but well over half of production.

Interestingly enough, recent expansion in demand has been met largely by relatively unorganized producers i.e. by powerlooms and knitting factories. Exports of knitted garments have grown recently. Powerlooms have increased their share of exports as well. The standard argument explaining powerloom growth is that the wage-differential between formal and informal sectors is advantageous to powerlooms. It is also alleged that the informal sector routinely evades taxes, which gives them the edge in terms of profitability. Neither of these hypotheses is confirmed by the available empirical evidence. Rather it appears that powerlooms have a competitive edge, particularly with respect to manmades, and are more productive than handlooms and mills. The evidence indicates also that smaller-scale, labor-intensive firms are the most productive in the textile sector.

Section II: Apparel Exports and Competition from China

This section summarizes a paper by K.V. Ramaswamy and Gary Gereffi entitled “India’s Apparel Exports: The Challenge of Global Markets,” as well as various press reports.

According to Ramaswamy and Gereffi, globalization of production means that a garment could be designed in New York, with fabric made in South Korea, cut in Hong Kong, and assembled in China for distribution in Europe or North America. The main factors determining this pattern of production are the labor-intensiveness of apparel production, the loss of comparative advantage of developed countries, the dramatic decline in transport and communication costs, the search for production sites with lower labor costs, and the shift in apparel exports to countries less restricted by quotas. It is reported that about half of the total production capacity in the apparel industry has shifted from developed countries to less developed countries over the past three decades. The fundamental factor driving production is the difference in wage-levels between countries.

The value of world apparel exports was estimated to be \$166 billion in 1996 (WTO, 1998). Until the end of the 1980s, the top four garment exporters were Hong Kong, Italy, South Korea and Taiwan. China emerged as a leading exporter in the second -half of the 1980's and today occupies the number one position in the world.

The quota system enforced by the MFA is to be phased out under the Uruguay Round agreement in four stages by the end of 2005. The ATC (Agreement on Textiles and Clothing) specifies the phase-out (1995-2005), during which trade in textiles and clothing will be gradually be integrated into the new WTO framework. At the start of each phase of integration, importing countries must integrate a specified fraction of their textile and garment imports. This would be based on total trade volume in 1990, for the items listed

in the agreement, and provide for a progressive relaxation of quotas for products remaining under a quota system.

A number of changes are taking place in the Indian textile sector. A few weeks ago, the Indian government abolished the small-scale reservation system, which favored small-scale producers over others. The abolition of this system means that firms are now in a much more competitive environment. In September 1999, textile exports with the EU became easier as India agreed to WTO rules. Textile exports to the EU are expected to increase significantly in the years ahead.

However, there is a general fear that market share will be lost in the post-MFA world. Attempts are being made to modernize the industry through a Technology Upgradation Fund, but producers believe that this Fund may not adequately address the concerns of large firms. To meet its target of 5 percent of world trade, India will have to increase its exports to \$25 billion annually (trade is at 2 percent of world totals now). Large investments need to be made in the textile sector to improve weaving and processing.

There are other questions about India's export potential. The lack of well-defined policies on agricultural exports, a fairly limited range of exports, and the inability to penetrate new markets are all problems that need to be addressed. North America, Western Europe and Japan remain the largest importers; not much progress has been made in exploring new markets in Latin America or elsewhere. These are issues that must be addressed, particularly because the threat of competition from China looms large.

China is emerging as a very powerful competitor, ready to compete in the post-MFA world. The Chinese government has picked the textile industry to make breakthroughs in reversing the losses of state-owned enterprises. It has achieved some of its goals a year

ahead of schedule. From January to November 1999, the industry as a whole turned out net profits of 116m yuan, according to press reports. The value-added of Chinese industry in total reached 3,485 billion yuan, up 8.8 percent over the previous year. Chinese exports are expected to grow by 6 percent in the coming year to 195 billion US dollars. Government investment remains a major force in China. the Chinese government has issued 160 billion yuan worth of treasury bonds to finance infrastructure construction and technological upgrading. Total investment in 1999 was 2,200 bn yuan, up 7.8 percent from 1998.

China's entry into the WTO will also help to raise textile exports. Although the Chinese government downplays this, analysts believe that WTO entry will lead to a massive boost for the sector's exports (over 60 percent between now and 2005). China is the world's biggest producer and exporter of both textiles and garments, with overseas shipments from the two sectors totally 43.2 billion dollars in 1997 (almost a quarter of the country's total exports). The WTO entry would increase jobs by 5.4 million by 2005, and textile production would increase by 23 percent while garment production would go up by a whopping 74 percent. However, there is not total agreement on this. Some experts believe that China will face competitive pressures that could dampen these numbers quite significantly.

Still, China should not be taken lightly. Zhejiang, the third largest textile giant in China, produces 35 percent of the country's garment exports and increased its revenues by 8.5 percent in 1999. One ministry official says that textile exports will increase by 50 million dollars annually between now and 2005. The EU is also lifting some of its quotas on Chinese textiles.

On Dec 23, 1999, the Exim Bank of China signed a major loan agreement with a leading textile firm to finance a large cotton factory in Mexico. The US \$78 million deal will let the China WorldBest Group Co Ltd activate a giant 100,000 spindle cotton textile plant in Mexico. The loan will be used to buy garment-making equipment, some of the cotton and other production facilities before production starts in Mexico at the end of next year. This is very welcome to Chinese facilities which are stretched to capacity. The Mexico plant will be the largest ever to be operated by a Chinese company overseas.

The China Daily reported on Dec 24, 1999 that Shanghai will get investments worth more than 5 billion yuan (US \$600 million) that will be dispersed over 57 new projects. This money will be used for the manufacture of high-grade apparel fabrics to bolster industry-wide restructuring. The Shanghai Textile Holding Group Corporation plans to increase textile exports to Europe and Africa instead of focusing on Southeast Asia. However, the head of the corporation was also worried about increased competition from Southeast Asia in the post-MFA environment.

Conclusions and Policy Implications

India has successfully undertaken policy reforms in order to improve efficiency and competitiveness. However, India's share of world apparel exports has not risen since 1994. In the short term, the decline in the import growth of India's major markets, namely the US and the EU, is the main reason for this trend. But in the longer term, it is clear that the apparel industry has not benefited a great deal from the industrial reforms of the 1990s. The Indian apparel industry must be restructured to meet the competitive challenge of the new trading environment.

In a bold move, the government decided to completely de-reserve the garments sector in November 2000. The cap on foreign investment has also been changed, from the current 24 percent to 100 percent. The idea behind the new textile policy is to increase India's export potential five-fold in the next ten years from \$11 billion today to \$50 billion. Half of this target is to be met by garment exports. The de-reservation decision will open up the garment sector to large investors, local and foreign, thereby providing much needed investment in the latest, most efficient production technologies. The government needs to take steps toward resolving the problem of excess labor in the garment sector, particularly employment in mills. Alternatives in terms of employment and training must be provided for garment sector employees who will find themselves unemployed in the new, more competitive environment.

In the next decade, the pattern of textile exports will change drastically due to liberalization of world trade. India stands to gain from these changes due to its relatively low costs of production. The relaxation of quotas will inevitably result in a decline of exports from conventional suppliers favored by the current trade regime.

The Indian textile industry has several strengths including a supply of cheap cotton, low wages, a good knowledge of production techniques and possible emergence as a competitive supplier of manmades. But, there are serious problems as well. The high cost and lack of efficiency of infrastructure, from fuel to transport to ports to communications to delivery, are all problematic. A large group of uncompetitive firms within the industry will continue to drain resources. The government needs to focus on the following areas—integration of informal sector production into the mainstream economy, investment in much-needed infrastructure, competitive positioning for the post-MFA trade environment, and a long-term movement towards higher value added, efficient production.

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Tables

Textile Production in India

Table 1: Consumption and Export of Cloth Per Capita
(metres)

	Consumption			Export			Final Demand			Export-share in Final Demand (%)
	Cotton	Man made	Total	Cotton	Man made	Total	Cotton	Man made	Total	
1985-6	14.18	6.16	20.33	2.42	0.16	2.59	16.60	6.32	22.92	11.3
1986-7	13.40	6.45	19.85	3.19	0.34	3.53	16.59	6.79	23.39	15.1
1987-8	12.07	6.32	18.39	4.04	0.51	4.54	16.10	6.83	22.93	19.8
1988-9	13.14	7.41	20.55	3.93	0.54	4.48	17.07	7.95	25.02	17.9
1989-90	12.50	7.14	19.64	4.56	1.01	5.57	17.06	8.15	25.21	22.1
1990-1	13.93	7.55	21.48	4.55	1.43	5.98	18.48	8.98	27.46	21.8
1991-2	12.00	7.57	19.57	5.19	1.75	6.94	17.19	9.32	26.51	26.2
1992-3	12.81	8.23	21.04	6.02	1.79	7.81	18.83	10.03	28.85	27.1
1993-4	13.04	8.93	21.98	7.08	2.02	9.10	20.12	10.95	31.08	29.3
1994-5	11.48	9.70	21.18	7.43	2.70	10.13	18.91	12.40	31.31	32.3
1995-6	13.62	11.08	24.70	7.01	2.63	9.64	20.63	13.71	34.34	28.1

Source: T.Roy, 1998

Note: Please refer to T.Roy, 1998 for variable definition for Tables 1-4

Table 2: Aggregate Production of Cloth

	Quantity (b sq metres)			Value (Rs b)		Expressed as ratio of GNP (%)	
	Cotton	Man made	Total	Total Price.1	Total Price.2	Price.1	Price.2
1985-6	12.47	4.75	17.21	167.96	300.51	7.23	12.93
1986-7	12.73	5.21	17.21	156.58	327.39	6.06	12.68
1987-8	12.63	5.35	17.98	153.23	343.98	5.24	11.77
1988-9	13.66	6.36	20.02	201.18	420.73	5.78	12.08
1989-90	13.94	6.66	20.60	239.85	478.13	5.95	11.87
1990-1	15.43	7.50	22.93	293.54	552.41	6.24	11.75
1991-2	14.65	7.94	22.59	341.03	610.18	6.28	11.24
1992-3	16.34	8.70	25.05	443.98	758.84	7.18	12.27
1993-4	17.79	9.68	27.47	522.34	887.82	7.37	12.53
1994-5	17.02	11.16	28.18	576.91	1016.56	6.87	12.11
1995-6	18.90	12.56	31.46	720.31	1297.99	7.44	13.41

Source: T.Roy, 1998

Table 3: Price-ratios (1985-6 = 100)

	Cotton-manmade (Price.1)	Cotton-CPI (Price.1)	Manmade-CPI (Price.1)
1985-6	100.0	100.0	100.0
1986-7	117.5	84.45	71.9
1987-8	154.3	82.6	53.5
1988-9	132.4	84.35	63.7
1989-90	123.8	89.0	71.9
1990-1	123.4	85.9	69.6
1991-2	143.8	93.9	65.35
1992-3	146.8	105.0	71.5
1993-4	148.6	102.8	69.2
1994-5	162.75	104.0	63.9
1995-6	164.6	107.2	65.2

Source: T.Roy, 1998

Table 4: Sector-shares in Production
(percentage of value)

	Cotton			Manmade			Total		
	Mill	Powerloom	Handloom	Mill	Powerloom	Handloom	Mill	Powerloom	Handloom
1985-6	18.1	63.2	18.7	17.4	80.4	2.1	17.8	69.7	12.4
1986-7	16.0	65.5	18.3	17.1	80.8	2.1	16.5	70.7	12.8
1987-8	15.5	64.3	20.2	15.5	82.3	2.2	15.5	69.5	14.9
1988-9	13.3	70.2	16.4	12.6	86.1	1.3	13.1	75.6	11.3
1989-90	11.6	72.1	16.2	10.7	88.0	1.3	11.3	77.7	11.0
1990-1	10.0	75.7	14.4	9.7	89.5	0.8	9.9	80.4	9.7
1991-2	9.4	75.8	14.8	9.1	90.1	0.7	9.3	80.5	10.1
1992-3	6.6	79.3	14.1	6.8	87.1	6.1	6.7	81.7	11.7
1993-4	6.2	80.3	13.5	6.5	87.2	6.3	6.3	82.3	11.3
1994-5	6.2	78.7	15.1	9.0	84.2	6.7	7.1	80.5	12.4
1995-6	5.7	77.9	16.4	6.8	85.5	7.7	6.1	80.4	13.5

Source: T.Roy, 1998

Table 5: Sector-shares in Exports
(percentage of value)

	Cotton			Total		
	Mill	Powerloom	Handloom	Mill	Powerloom	Handloom
1985-6	58.5	33.5	8.0	52.4	40.4	7.2
1986-7	50.2	43.9	5.9	44.0	50.8	5.2
1987-8	43.7	51.0	5.3	39.0	56.3	4.8
1988-9	38.1	56.5	5.4	33.1	62.2	4.7
1989-90	38.3	57.3	4.4	30.5	66.0	3.5
1990-1	38.2	58.6	3.2	28.6	69.0	2.4
1991-2	28.5	68.2	3.2	22.1	75.4	2.5
1992-3	25.2	71.5	3.3	20.4	76.9	2.7
1993-4	23.6	73.9	2.5	19.6	78.3	2.1
1994-5	21.0	76.9	2.0	17.1	81.2	1.6
1995-6	22.9	75.5	1.6	18.5	80.3	1.3

Source: T.Roy, 1998

Apparel Exports

Table-1: International Labour cost differences: 1981-1993

(\$US per Hour)

Country	1981	1990*	1993*
USA	7.03	6.56	8.13
Mexico	3.06	0.92	1.08
Germany	8.17	7.23	17.22
Hong Kong	1.42	3.05	3.85
Taiwan	1.32	3.41	4.61
South Korea	1.35	2.46	2.71
China	1.35	0.26	0.25
Indonesia	0.63	0.16	0.28
India	0.69	0.33	0.27

Source: Extracted from Toyne (1984) and ILO (1995), in Ramaswamy and Gereffi, 1999

Note: * wage costs +social security contribution

Table 2: Growth of World Trade in Clothing
(Average Annual Percentage Change)

	1980-85	1985-90
World	4	17
	1980-93	1990-94
India	15	10
China	21	25
Indonesia	32	18
Thailand	24	13
South Korea	6	-8
Pakistan	NA	12

Source: WTO, 1996 in Ramaswamy and Gereffi, 1999

Table-3: US Apparel Imports by Major Suppliersⁱ
(\$US Millions)

Country/ Region	1983		1990		1996	
	Value	Share	Value	Share	Value	Share
China		7.8	3439	13.5	6340	15.2
	759					
Big Three	5734	58.9	9807	38.4	7595	18.2
Hong Kong	2249	23.1	3976	15.6	3998	9.6
Taiwan	1800	18.5	2489	9.8	2066	4.9
S. Korea	1685	17.3	3342	13.1	1531	3.7
South-East Asia	806	8.4	3436	13.5	5886.	14.1
South Asia	385	3.9	1716	6.7	4175	10.0
Of which						
India	220	2.3	636	2.59	1350	3.2
Central America	389	4.0	1985	7.8	6076	14.6
Mexico	199	2.0	709	2.8	3850	9.2
Others	1328	14	4009	16	6996	17
Total	9731	100	25518	100	41679	100

Source: Ramaswamy and Gereffi (1999), estimates based on the official statistics of the US Department of Commerce, US Imports for Consumption, customs value. Columns do to add up exactly due to round-off errors.