

READY-MADE GARMENTS EXPORTS

While competition grows more intense among producers more protectionist and other barriers appear

The rapid expansion in the exports of the established ready-made garments manufacturers of the Asian region has become a cause of concern for the existing industries in the US and many Western European countries and possibly a cause for anxiety among the Asian producers themselves. The International Multi-Fibre Agreement which came up for renewal in 1977 gave the E.E.C. and Nordic countries, the USA, Canada, Japan and Australia the opportunity to bring in various restrictions on the more popular apparel export items of the Asian suppliers. In recent times the cry for greater protectionism has been raised in many of the developed country markets. Meanwhile, big exporters were exhausting their annual quotas before the year's end and looking for various means of taking advantage of conditions in those developing countries which had entered the race comparatively late. Among such Asian countries were Sri Lanka, Bangladesh, Indonesia, Pakistan and the Philippines. The outlook in the long-run is by no means encouraging for the Asian exporters, especially countries like Sri Lanka which are now setting up enormous capacities to feed a restricted international market. An overview of the current situation among some of the Asian producers and in the developed country markets will explain why.

A recent study published by the Overseas Development Institute in London has warned that the countries of the Indian sub-continent—India, Pakistan, Bangladesh and Sri Lanka—must expect EEC trade barriers to continue or get worse. According to the study reduction in tariffs has rapidly been overtaken by the emergence of the numerous non-tariff barriers to trade and, in particular, quantitative restrictions on products such as textiles where the countries in the sub-continent are likely to be worse hit than the newly industrialising countries like South Korea.

The study adds that if the Multi-Fibre Agreement (MFA) is retained more or less in its present form, South Asian producers will suffer most in the long-run.

The most recent OECD forecast also expresses fears of a growing protectionism. Energy and inflation were two of the major constraints now facing the 24 developed market economy nations of the Organisation and OECD experts believe that prevailing constraints are so serious that member-governments will have to deal with them before hoping to return to higher economic growth and hence lower unemployment. The OECD Secretary-General has warned that slower growth was breeding protectionism in various forms and expressed the hope that ministers will renew the "trade pledge" under which member-countries refrain from taking unilateral defensive measures to the detriment of others. The US government too was meeting with strong pressures at home; and with growing predictions that the US economy was entering a recessionary period there was every possibility that restrictions on imports into US would continue.

China

On the other hand, a potential threat to established exporters and smaller exporting countries in Asia is that posed by the massive production capacities of China. In her outward thrust China is likely to enter the export market on a sizeable scale. Cheap labour and generally low production costs have created a demand for Chinese products in the US market. The United States has applied import quotas on China's apparel exports, as it has done in the case of most garment-producer countries. These quotas were applied to cotton work gloves, cotton trousers, cotton shirts for men and boys, women's cotton knit blouses and for synthetic fibre sweaters, though there were no quotas for cotton print and other textiles. But both countries were hoping to negotiate appa-

rel agreements and until such time as agreement is reached the existing restrictions would continue.

Negotiations are underway between US and China for an overall trade agreement. The comprehensive trade pact being negotiated includes provision for "most favoured nation" status for China, which would give it a lower tariff schedule and access to certain trade credit. If the trade agreement is approved US and China trade which totalled about \$1 billion in 1978 is expected to rise to \$2 billion this year and reach \$5 billion a year by 1985, and textiles and ready-made garments exports would therefore be expected to go up proportionately.

Hong Kong, Taiwan, South Korea

The big three Asian exporters (Hong Kong, Taiwan and South Korea) are now beginning to feel the competition from newcomers such as China. Taiwanese officials noted that in the US market textile exports from two of these exporters fell sharply in the first quarter of 1979. In March, for instance, the volume of Taiwan's textile exports to the U.S. fell 32 per cent from a year before, according to U.S. statistics. Meanwhile, South Korean exports dropped 24 per cent, and Japan's 41 per cent. The cutback in exports was caused in part by lower demand in the U.S. market, they said, and also by competition from such newcomers as China. One concrete example was that exports of Taiwan's synthetic fibre sweaters had declined sharply this year at the expense of the Chinese competition. In the first quarter, Taiwan's shipments of women's synthetic sweaters to the U.S. fell 51 per cent to 211,000 dozen, while at the same time, China's shipments of women's sweaters surged 949 per cent to 203,000 dozen.

US negotiators are due to begin a second round of textile talks for the year with the three major textile exporters—Hong Kong, South Korea, and Taiwan—in July this year. Officials from these countries expect the talks to result in the creation of more restrictions as the U.S. government is under pressure from domestic textile manufacturers and Congress to restrict imports in order to protect the American textile industry. The US textile makers' demand

for relief has been building lately because of the proposed tariff cuts on textile imports reached in the Multilateral Trade Negotiations. To placate them the U.S. government has agreed to restrict Chinese textile imports. And these curbs may be extended to Taiwan, Hong Kong and South Korea as well.

Despite the quota restrictions on Hong Kong's apparel exports she has recorded a 30 percent increase in the value of her exports in the first quarter of 1979. Hong Kong has moved over to using more expensive, better quality fabrics and turning out garments outside quota control.

The Philippines

Among the comparatively recent ready-made garment manufacturers to enter the export market was the Philippines. But while production capacities of Philippine's manufacturers have grown heavily over the last two years, restricted markets were upsetting their calculations. There is no doubt that Philippine's exports have continued to grow. For instance, garments and textiles, which are registered as a non-traditional export, have recorded a 25 to 30 per cent increase in exports since 1975. Estimates for 1978 exports varied between US \$ 338 million and \$ 358 million as compared with US \$ 250 million in the previous year. In 1970 the Philippine's exported only some US \$ 40 million worth of garments and textiles, but since 1975 rapid increases have been realised. The Philippines authorities estimate that exports in 1979 would match those of the last year and the industry is now moving into an aggressive promotion and sales drive and has set up an advanced Exports Garments Technology Terminal in Manila in which 1,200 managers are to be trained annually in a simulated garment factory. This industry has now become the leading non-traditional exporter of the Philippines and is also the nation's biggest employer, outside the government, employing more than one million workers.

The Philippines, however, like many other Asian producers are facing the problems from import quotas being applied in many traditional developed country markets. Philippine's exports have reached quota limits in many categories of

products and by February this year an appeal was made to the US to review its classifications of Philippine garments exports which had led to an embargo of 1.6 million pieces. The Philippine's situation was one that could become typical for many of the new producer countries in the market. Philippine's exporters were running into problems of restricting their production and exports to the quotas allocated to them by the officials of the country's Garments and Textile Export Board. Philippine's garments exports for the first quarter of 1979 were 116 per cent above that of a year earlier; recording an earning of \$ 70 million with both exports and foreign orders continuing to rise. Fearing the danger of only some producers taking up the country's allocations the Government brought in restrictions.

The main complaint from Philippines exporters is about regulations that have slashed their 1979 quotas to 70 per cent for each quota item. But some exporters have already contracted to sell the quotas their companies had received before these rate changes were announced. They were now in a quandary as to how they could possibly keep their commitments. The General Manager of the Philippine's leading garment exporter, Levi Strauss (Phil.) Inc., said his company lost sales of more than 100,000 pairs of pants this year because of gyrations in government policy. In Britain, alone his company's 1979 quotas of 128,000 pairs has been slashed to 76,000 he said.

The Manager of another firm, M. Greenfield Inc. said his firm has promised its previous 1979 quota of blouses to such prestige U.S. Department stores as Bloomingdale's and Lord & Taylor. He said the stores are currently printing their Christmas catalogues, and he could not deliver the goods that they were advertising with his quota brought down. "I cannot tell them that a government regulation says 'no' for this year, he said, "No other country does this".

The Philippine's garment manufacturers are also asking ASEAN to help in negotiations with countries imposing quotas on these products. Textile and garment makers in the ASEAN group of countries have begun working towards negotiating on a regional basis with countries that impose import quotas on

their products. One of the most concrete steps taken so far is that the ASEAN manufacturers have agreed to hold a joint apparel show in Manila next January. In the face of growing restrictions and competition the five ASEAN countries would resort to closer collaboration as the one practical way of meeting the situation, which may once again have an impact on all other Asian garment exporting nations.

Countries in the South Asian region such as Pakistan, India, Bangladesh and Sri Lanka would also have to contend with such a situation. They all are having their problems, yet they all appear to be expanding their capacities and are pushing more aggressively in their search for markets for their textiles and ready-made garments.

India

In India, for instance, the cotton textile industry is finding it extremely difficult to push up its exports because of the protectionist policy pursued by the developed countries and most affected has been the performance of India's handloom sector. The export statistics released by India's Handloom Export Promotion Council indicate that exports of cotton handloom goods at Rs. 221.37 crores recorded a fall of Rs. 4.19 crores in 1978-79. Authoritative sources commented that on the face of it, the decline is marginal. But the itemwise figures show that the decline took place despite a handsome rise of about Rs. 31 crores in exports of cotton handloom ready-made garments. In other words, the gain in garments was more than offset by the decline of Rs. 27 crores in exports of cotton handloom fabrics and Rs. 8 crores in those of cotton handloom made-ups.

A fact that emerges here is that India has experienced an unprecedented expansion in her ready-made garments industry, over the past five years and now had markets in over 100 countries, the major outlets being the United States and Western Europe. In February, it was reported that India was making a strong bid to gain a foothold in the Japanese market with her first-ever apparel exhibition opened in Japan last month. Indian government spokesmen announced on the

occasion that the Japanese market has not been effectively exploited by the Indian industry so far. For example, while the present annual exports of Indian garments to the U.S. was of the order of \$ 160 million (Rs. 120 crores) and that to the U.K. \$ 50 million (Rs. 40 crores) Japan's share last year was a mere \$ 8 million, they said. India hopes to achieve a target of \$ 1,000 million (Rs. 800 crores) annually for garment exports.

Pakistan

Pakistan too is placing new hope in its textiles and ready-made garments sector. Pakistan's textile industry which had been depressed over the past five years was showing signs of bouncing back, according to a government spokesman. Statistics for the September 1978 to February 1979 period showed that the total value of yarn exports alone rose 27 percent in the period, partly because of the larger volume exported, and partly because of improved international prices.

Pakistan's exports of ready-made garments, towels and hosiery also continued to show a healthy trend, the government spokesman said. According to him the value of these items rose 13.9 percent in the period to \$ 22.1 million from the year earlier. The Economic Co-ordination Committee of the Cabinet of Ministers, expressed hope that "if the present stable conditions continue the role of cotton and cotton products in the economy of Pakistan will soon be restored to its original status". Before 1972, cotton and cotton products were Pakistan's biggest export.

The protectionism in the developed country markets has brought with it a system of quotas for the products of each exporter country. The more established exporter nations have felt it more severely though the not-so-well established garment producers like Bangladesh and Sri Lanka were also given set quotas. These latter countries, however, were not geared to fulfilling their entire quotas. The established producers were therefore moving in to these countries with the hope of making the best of the situation.

Bangladesh

Bangladesh in its drive to attract foreign investments into the country

has emphasised that one of its significant attractions was that in an era of rising protectionism there were minimum western restrictions on Bangladesh products. The recent restoration of US government-backed overseas investment insurance has encouraged American investors to think in terms of expanding their existing pharmaceutical and garments units and moving into several other industries as well. Reports also indicate that South Korea's investors have already set up a garment factory, while various Hong Kong and Singapore garment producers were now seriously considering joint ventures. Furthermore, Bangladesh exports were growing and responding to the country's new concessional export programme, with ready-made garments ranking high among the non-traditional items of export?

Some of the established Asian producers have also resorted to various measures to beat quota restrictions and other forms of regulation on their exports. In February this year American officials began investigating allegations that textile products from Taiwan and Hong Kong were being shipped through Indonesia and Sri Lanka, in order to get around US textile and apparel import quota restrictions. Imports from Indonesia and Sri Lanka were not regulated by quotas and the chief US textile negotiator visited both Sri Lanka and Indonesia to look into these charges. Subsequent reports stated that the US intended fixing quotas on the exports of these two countries as well.

Where does Sri Lanka stand in the light of this situation?

Sri Lanka

Current estimates indicate that the proportion of Sri Lanka's share of the market in the developed market economies would gradually diminish between 1980 and 1982. Production capacities, on the other hand, are well beyond the projected marketability of 18 million pieces of quota items that Sri Lanka could sell in its restricted international markets by 1982. Sri Lanka's position will be discussed, in our next issue, through a study which maintains that there is heavy overcapacity in the industry as it now stands.