INTERNATIONAL MARKETING OF GARMENTS IN THE WTO REGIME: A COMPARATIVE STUDY OF INDONESIA AND INDIA

by

MUCHSIN

Department of Management Studies

Submitted

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CERTIFICATE

The thesis entitled **"International Marketing of Garments in the WTO Regime: A Comparative Study of Indonesia and India"** being submitted by Mr. Muchsin to the Indian Institute of Technology, Delhi for the award of the degree of Doctor of Philosophy is a record bonafide research work carried out by him, under my guidance and supervision. He has fulfilled the requirements for the submission of the thesis that has attained the standard required for a Ph.D. degree of the Institute. The research findings presented in this thesis have not been submitted anywhere else for the award of any other degree or diploma.

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Muchsin

ABSTRACT

The textile industry is age-old whereas the clothing or garments industry has developed rapidly during the past some decades and has contributed to the economic growth of many nations. This industry is important for the developing as well as developed countries as it contributes significantly to the employment generation and economic growth. The multi-fiber arrangement (MFA) provided a protected market to a large number of developing countries for exports of their garments and this significantly contributed to their foreign exchange earnings.

However, due to MFA's undesirable features such as market discrimination, market disruption etc., it was decided to phase out MFA during the Uruguay Round of GATT Negotiations that concluded in 1994. A period of 10 years has been decided for the complete phase out of the MFA. Thus, the textiles and clothing trade will soon integrate under the umbrella of World Trade Organization (WTO) rules and disciplines. It means that barriers in international trade in textiles and clothing such as tariffs and quota system will be totally eliminated from 2005. This will bring opportunities to highly competitive and proactive garment exporting countries whereas the challenges will be faced more by the less competitive countries. Indonesia and India emerged as major garment exporting countries during the past two decades, but since the beginning of the MFA phase out, their growth rates have started declining. The phase-out of MFA may bring difficult time for Indonesia and India. This is indicated by the stagnancy of market shares in major markets as compared to China, Mexico and some other competing countries. In addition, the Unit Value Realization (UVR) has been found to be declining in both the countries. This situation calls for an in-depth analysis. The present study is an attempt in this direction.

The broad objective of this research study is to examine the garment exporters' response towards the emerging issues related to environmental and social compliance, value addition, time value, IT and automation and labor productivity, and in turn suggests the strategies for the future. The study also analyzes the importers' perceptions towards the emerging issues and compares

the same with the perceptions of the exporters so as to identify the gaps for improvement. Thus, the main objectives of the present research study are:

- to analyze the development and prospects of garments export industry of Indonesia and India
- to analyze Indonesia's and India's garment exports performance and competitiveness w.r.t. major importing countries
- to assess the understanding and responses of the garment exporters in Indonesia and India with respect to the issues related to environmental and social compliance , IT and automation, value addition, time value etc.
- to analyze the perceptions of the importers of garments from Indonesia and India on these emerging issues
- to compare the perceptions of garment exporters of Indonesia and India as well as those of importers of garments from these two countries on the said emerging issues

The present study is based on secondary data as well as primary data. The secondary data have been collected from well-know sources like WTO Annual Reports, UNIDO, Apparel Export Promotion Council (AEPC) Annual Reports, Asosiasi Pertekstilan Indonesia (API) etc. For primary data collection, two separate questionnaires have been developed for the exporters and importers. The samples have been selected from the Directories of largest exporters and major importers. With reminders and persuasion, the final number of useable responses has been 115 Indonesian garment exporters, 125 Indian garment exporters, and 89 importers of Indian garments and 78 importers of Indonesian garments. The factor analysis has been applied to the data collected from the respondents to identify the factor loadings of the emerging issues. In addition, factors of competitiveness, strategic initiatives and the strategies adopted by the exporters have been analyzed.

As per the factors of competitiveness, it has been found that Indonesia and India both are quite comparable and their strength on the level of competitiveness has been between low and medium. It has also been found that exporters in both the countries are quite aware of the emerging issues. However, the importers' expectations in terms of importance of those factors have been higher than that of the exporters. Thus, there is need for the exporters to match the expectations of the importers on factors related to 'environment and social compliance issues, 'time value', 'IT and automation', 'labor productivity', 'service', and 'value addition'. It has also been found that both the countries have been perceived less satisfying on several factors as compared to the largest supplier countries. The analysis of the findings suggests that the exporters of both the countries would need to adopt strategic choices rapidly if they want to remain competitive.

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