

Stitching up employment

indianexpress.com/article/opinion/columns/arun-jaitley-textile-sector-apparel-sector-apparel-sector-employment-2869907/

6/23/2016

Written by [Arvind Subramanian](#) , [Rashmi Verma](#) | Published: June 23, 2016 12:02 am



Union Minister for Finance, Arun Jaitley

Top News

India needs to generate jobs that are formal and productive, provide bang-for-buck in terms of jobs created relative to investment, have the potential for broader social transformation, and can generate exports and growth. The apparel (or garment) sector meets all these criteria, making it an excellent vehicle for an employment creation strategy. The Union cabinet approval on Wednesday for a number of measures to boost the apparel sector is, therefore, a significant policy initiative.

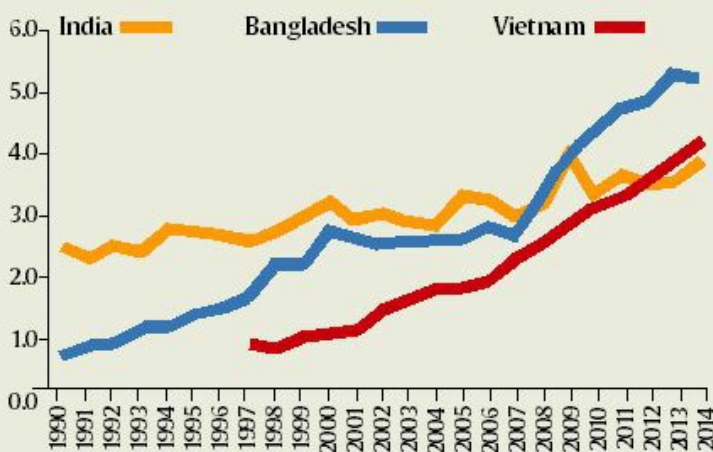
Nearly every successful economic growth take-off in post-war history in East Asia has been associated with rapid expansion in apparel exports in the early stages. During their growth booms that averaged between 7 and 10 per cent growth, countries registered apparel export growth in excess of 20 per cent per year, sometimes closer to 50 per cent (**Table 1**).

APPAREL EXPORT PERFORMANCE DURING GROWTH TAKE-OFFS

Country	Year of Growth Take Off	Annual Average Export Growth1 (%)	Annual Average Economic Growth 1(%)
Indonesia	1967	1148.4	7
Korea	1962	61	9
Thailand	1960	53.5	7.5
Malaysia	1970	33.4	6.9
Bangladesh	1985	19.1	5.2
China	1978	18.6	9.8
Vietnam	1985	17.6	6.6
India	1980	11.5	5.6

Source: WTS database, SITC Code 84. 1/Over 20 years following take-off

SHARE IN GLOBAL APPAREL EXPORTS (%)



Source: WTO, SITC Code 84

LABOUR-CAPITAL INTENSITY OF SELECT SECTORS

	Investment (Rscore)*	Job (lakh)	Ratio of Jobs to Investment**
Apparel	3,149	9.8	31.1
Autos	30,503	7.9	2.6
Steel	67,237	6.8	1.0

*Gross fixed capital formation;

**Number per million investment

Source: Annual Survey of Industries, 2013-14

AVERAGE APPAREL TARIFFS IN TWO MAJOR IMPORT MARKETS (%)

	European Union	USA
India	9.2	10.2
Bangladesh	0	10.2
Ethiopia	0	0
Vietnam	0*	0**

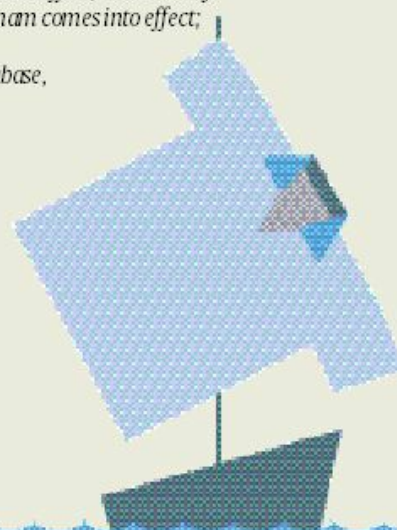
*When TPP comes into effect; 9% currently

**0 when EU- Vietnam comes into effect;

10.4% currently

Source: WTO Database,

HS Codes 61&62



Given their high labour intensity — the highest in any manufacturing sector — apparel also have the greatest potential for employment growth. For example, as Table 2 shows, every unit of investment in clothing generates 12 times as many jobs as that in autos and nearly 30 times that in steel. Drawing upon the World Bank employment elasticities, we estimate that rapid export growth could generate about half a million additional direct jobs every year.

Most significantly, from a social transformation perspective, apparel generate large number of jobs for women, substantially more than in any other sector. On a visit to one of India's top textile exporters, women workers spoke about the agency they had gained on financial decisions. The agency also extended to husbands starting to helping with household chores, including chopping vegetables and making tea! In Bangladesh, female education, total fertility rates, and women's labour force participation moved positively due to the expansion of the apparel sector. India's low and declining female labour force participation could be similarly boosted by this initiative.

India has an opportunity to promote the apparel industry because of rising wage levels in China that has resulted in China losing market share. India is well positioned to take advantage of China's deteriorating competitiveness because wage costs in most Indian states are significantly lower than in China.

Alas, this is not happening, or at least, not enough. The space vacated by China is being filled by Bangladesh and Vietnam, which have overtaken Indian apparel exports (as Figure 1 shows). Indeed, Indian apparel firms are

relocating to Bangladesh, Vietnam, Myanmar, and even Ethiopia. The window of opportunity is narrowing and India needs to act fast if it is to regain competitiveness and market share in apparel. Hence the urgency.

But why is India losing out? Several factors play a role.

First, as Table 3 shows, India's competitors enjoy better market access by way of zero or lower tariffs to the two major importing markets, namely the US and Europe.

Table 3 shows the average tariffs faced by India and its competitors in the US and EU. In the EU, Bangladesh's exports enter mostly duty free while Indian exports face an average tariff of 9.2 per cent. If the EU-Vietnam deal goes through, a similar disadvantage will arise for India vis-à-vis Vietnam. In the US, when Trans-Pacific Partnership goes through, Vietnam will enjoy duty-free access and India will be disadvantaged in that market too.

Second, in addition, to the external disadvantage, Indian exporting firms face a number of domestic challenges — logistics and de facto labour costs — that render them less competitive than their peers in competitor countries.

On logistics, India is handicapped relative to competitors in a number of ways. The costs and time involved in getting goods from factory to destination are greater than those for other countries. Further, few large containers come to Indian ports to take cargo. So all exports have to be trans-shipped through Colombo, which adds to travel costs and hence reduces the flexibility for manufacturers.

Labour costs, which is perhaps one of India's only source of comparative advantage in this sector, also seems not to work in India's favour. The problems are well-known: Regulations on minimum overtime pay; onerous contributions that become de facto taxes for low paid workers (documented in Chapter 10 of Vol. 1 of the Economic Survey 2015-16); lack of flexibility in part-time work; and high minimum wages in some cases. One symptom of labour market problems is that Indian apparel firms are smaller compared to firms in say China and Bangladesh. For example, an estimated 78 per cent of firms in India employ less than 50 workers with 10 per cent employing more than 500 workers. In China, the comparable numbers are about 15 and 28, per cent respectively.

Another challenge is that the world demand is increasingly shifting toward clothing based on man-made fibres while Indian domestic tax policy favours cotton-based production and the tariff policy shields an inefficient man-made fibre sector. These factors undermine the clothing industry's competitiveness.

Several measures form part of the package approved by the Union cabinet. But their rationale is to address the challenges described above. The policies suggested do not address all the challenges highlighted above but will definitely go a long way in strengthening India's apparel industry. Apparel exporters will be provided relief to offset the impact of state taxes embedded in exports, which could be as high as about 5 per cent of the exports. This is not a subsidy but really a drawback scheme that should be WTO-consistent because it offsets taxes on exports.

Next, firms will be provided a subsidy for increasing employment. This will take the form of government contributing the employers' 12 per cent contribution to the EPF. The government is already committed to contributing 8.3 per cent, so the new measure will be additional to that.

Third, the government is taking very seriously the impact of Indian exporters being disadvantaged in foreign markets. India will still need to carefully weigh the benefits and costs of negotiating new free trade agreements. But in this calculus, the impact on export- and job-creating sectors such as apparel, compared to other sectors that do not share these characteristics (luxury cars, for example), will receive high priority.

All industrial policy aimed at promoting particular sectors is not without risks. But the externality-generating attributes — employment, exports, social transformation — of the apparel sector, India's potential comparative advantage in it, and the narrow window of opportunity, make the risk worth taking. That is why Wednesday's decision is important, bold, and very timely.

For all the latest [Opinion News](#), download [Indian Express App](#)

More Top News

- [Solar Eclipse 2017: NASA live stream timing, how to watch, safety tips and more](#)
- [Photos: Nia Sharma, Mouni Roy to Ankita Lokhande, television divas rule Instagram with their posts](#)

