

## 4 Brief Review of the Literature

There exists a vast literature on regional integration in south Asia through trade. However, very few studies identify the potential supply chains in the region. The benefits of regional co-operation in textiles and clothing have been discussed by ADB and UNCTAD (2008), Robbani (2004), USITC (2004) and Tewari (2008).

ADB and UNCTAD (2008) point out the growing intra-industry trade in the textiles and clothing sector within south Asia and the potential to increase it further. The study estimates the bilateral Grubel Lloyd index for the years 1991 and 2004 and finds that IIT increased for some T&C sectors. These are spinning, weaving and finished textiles; knitting mills; and manufactures of textiles not elsewhere classified. The study also estimates the gains to all countries in south Asia in the T&C sector made by the lowering of tariffs in SAFTA.

Robbani (2004) underlines the importance of enhancing the collective export competitiveness of south Asian countries through co-operation rather than competition. According to the study, the hourly compensation rate in all four south Asian countries is among the lowest in the world. A recent US study shows that a plentiful supply of low-cost labour is the primary reason for sourcing by US companies from the four south Asian countries (USITC, 2004). Apart from the low cost of labour, the region as a whole has some other competitive advantages. The main one is the availability of raw materials. Although Bangladesh and Sri Lanka import 70 per cent and 80 per cent of their inputs, respectively, India and Pakistan are net exporters of raw materials. Textiles yarn and fabrics constitute 49.5 per cent of the total exports of Pakistan (Gereffi, 2003), which has the third largest installed capacity of short-staple spindles for spun yarn in the world, after China and India. India is also the third largest cotton producer in the world, after China and the USA. The availability of (cheap) raw material in the region has given a competitive advantage to

the clothing industries not only of India and Pakistan, but also of Bangladesh, Nepal and Sri Lanka.

Given the heterogeneity of the T&C sub-sectors across the region, there might be some scope for regional co-operation. The T&C sub-sectors in Bangladesh, India, Pakistan and Sri Lanka exhibit different degrees of specialisation. While firms in Pakistan specialise in cotton textiles intermediate goods (yarn and grey fabrics), firms in Bangladesh and Sri Lanka remain export-oriented apparel producers, dependent on imported inputs such as yarn and fabric. India has developed a highly complex sector, covering the entire value and production chain from fibre production to garment manufacture and packaging. India has certain unique advantages, such as a wide range of fibres, both natural and man-made, production capacities from spinning right up to apparel manufacture and cheap skilled labour.

Generally, firms in south Asia are not vertically integrated and are, for the most part, independent, privately-owned and medium-sized (USITC, 2004). To make huge long-term investment feasible, or to attract foreign direct investment (FDI) into the sector, the region needs to be integrated in order to achieve greater economies of scale. At least three things are necessary for large investment in modernisation of the textiles sub-sector: (a) a guaranteed supply of raw material inputs with competitive prices; (b) the institutional support necessary to integrate the entire regional market; and (c) a guaranteed sizeable demand for the final output. The supply of raw material could be ensured by India and Pakistan and demand for the final output could be ensured by Bangladesh and Sri Lanka. This heterogeneity of resource endowment, the differences in expertise and ensured reciprocal demand and supply indicate that there is scope for benefit through mutual co-operation.

Tewari (2008) discusses the need for regional integration through production networks in south Asia in the T&C sector. On the basis of analysis of trade data at the aggregate level and structured interviews, Tewari brings out the complementarities between countries in the region and the possibility of forming

a production network in the region in this sector. Das (2004) argues that the region as a whole could meet the challenge collectively if it pursued horizontal integration, i.e. co-operation in the same or similar lines of production and exports. Such a south Asian strategy envisages a particular south Asian country that has gained export specialisation in certain T&C product lines acting as a host for relocated plants from other south Asian countries. In this way, the T&C sector can become a regionally integrated sector, as countries vacate certain lines of production and gain in other lines according to their relative competitive advantage in the global market. Such restructuring would promote intra-south Asian investment flows that would be trade-creating vis-à-vis the global and regional markets. Vertical integration from one stage of processing to another according to comparative advantage could be considered in the subsequent phase. The study concludes that south Asia would thus not lose out in the value-added chain.

In a study on T&C exports and their costs to LDCs, Knappe (2005) suggests that firms and countries should accelerate South–South co-operation to tap markets in other developing countries. Moreover, increased intra-regional trade in intermediate products improves competitiveness in exploiting traditional markets in the North and participating in global production chains. Developing South–South trade has three dimensions: selling to developing country markets; sourcing intermediate products for exports to developed markets; and building relations with foreign investors. LDC businesses and governments should consider them all. Intermediary products – fibres, fabrics and trims – are available on world markets, but sourcing them from nearby countries can provide shorter delivery times. Jointly responding to market requirements for the final product needs to be the central theme of such co-operation. As it is unrealistic to assume that individual LDCs will become vertically integrated at the national level, they could look at developing regional, and even inter-regional, value chains to exploit complementarities. The study concludes that trade in intermediate products provides considerable scope for

co-operation between developing countries.

Magder (2005) highlights that while exporting through international supply chains was a successful way for east Asian countries to develop their textiles and apparel industries in the 1970s and 1980s, it is a less clear route for countries like Egypt trying to compete today. The challenge is particularly acute given the strength of competitors such as China, and even more so in the post-MFA era. Using a supply chain model shows that shortening lead times can have an impact on profits, but the effect is not substantial, being in the range of a 0.3 to 0.9 per cent increase in profits for every week of improvement in lead times. Magder concludes by exploring to what extent geography, trade preferences and local production factors could help Egypt's textiles and apparel industry carve out a role for itself in global supply chains and provide an engine to drive industrial upgrading throughout the country.

Gereffi (2002) uses the global commodity chains framework to explain the transformations in production and trade networks, as well as corporate strategies, which have altered the global apparel industry over the past decades and changed the prospects for developing countries to enter and move up these chains. The apparel industry is identified as a buyer-driven commodity chain that contains three types of lead firms: retailers, marketers and branded manufacturers. As apparel production became globally dispersed and competition between these firms intensified, each type of lead firm developed extensive global sourcing capabilities. While 'de-verticalising' out of production, they have fortified their activities in the high value-added design and marketing segments of the apparel chain. In Asia, some manufacturers are integrating forward from specification contracting to developing and selling their own brands (the own brands model (OBM) role). The possibilities for integrated local industrial development are greater in the OBM, where Asian manufacturers have developed an important form of social capital in the guise of multifaceted and dense networks utilised in full-package supply. In the outward-processing or production-sharing 'assembly' pattern,

production networks are anchored in low-cost countries and do not foster the kinds of local linkages and knowledge transfers that are needed for successful upgrading strategies.

Apart from the above studies, country-specific studies have also been undertaken which extensively discuss this issue. Kelegama (2005) emphasises that the challenge for Sri Lanka's textiles industry lies in improving its competitiveness. One strategy is to reposition the Sri Lankan garment industry from a south Asian context and increase competitiveness by increasing vertical integration, capturing economies of scale, focusing on horizontal specialisation, incorporating innovative designs and building a stake in global marketing networks.

Razzaque and Raihan (2007) highlight that an important factor influencing the competitiveness of Bangladesh is the relative cost of labour. There is an overwhelming consensus that the cost of labour in Bangladesh's apparel industry is one of the lowest in the world. Cross-country data on average wages of workers support this consensus view.

Mahmood (2009) discusses the global value chain of the EU25 in the T&C sector and points out that the availability of GSP-plus advantage was a catalyst for Pakistan's export flows to the EU27 during 2003 and 2004. However, the year 2005, being the first non-quota year, exposed the intrinsic strengths and weaknesses of the T&C industry. The most competitive sectors – spinning, weaving, bed linen and towels – demonstrated resilience, but the apparel sectors of knitwear and woven goods could not sustain their growth.

The competitiveness of the four south Asian countries in different stages of the production supply chain in the T&C sector, as brought out in the literature, is reported in Table 4.1.

Though some studies debate and discuss the benefits of developing production supply chains in the T&C sector in south Asia, none have as yet identified at the 6-digit product level the supply chains that could be formed within the region, highlighting which inputs can be imported by a country and what outputs can be exported. This study attempts to use a product level input–output matrix and identify what final

products could be exported by the four major countries of south Asia, and what inputs could be imported from which country so as to improve the cost competitiveness of exports of the final product.

**Table 4.1. Competitiveness of south Asian countries in textiles and clothing as shown in the literature**

Country	Product/level of value addition where the country is competitive	Literature
India	Cotton	Chatterjee and Mohan (1993); Roy (1996); Ramaswamy and Gereffi (1998); Bhide (1998); Verma (2002); Chandra (1999)
	Textile raw material	Gereffi (2003), Robbani (2004)
	Spun yarn	Robbani (2004); Bhide (1998)
	Short and long staple spindles, open-ended rotors	Robbani (2004)
	Yarns, made-ups and some categories of garments	Verma (2002)
	Low end and low value added items	Ghosh (2004)
Pakistan	Spun yarn and fabrics	Gereffi (2003)
	Textile raw material	Gereffi (2003); Robbani (2004)
Bangladesh	Knit fabrics	Robbani (2004)
	Apparel making	Robbani (2004)
Sri Lanka	Garments	Kelegama (2005)
	Apparel making	Robbani (2004)