

Recession and the garments sector

► The global supply chain is such that Indian producers and workers get only a small share of the final price.

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In the language of global outsourcing business, the term "Bangalored" conjures up images of glass and chrome office buildings of the IT sector, with well-paid white collar employees representing the aspirations of middle-class urban Indian youth. What it conceals is the underbelly of outsourcing—the manufacture of ready-made garments under conditions of sweated labour.

Across the country, in Bangalore, Tiruppur, Chennai, Delhi and NCR, and Ludhiana among other cities, over 20 lakh workers find employment in the industry, manufacturing garments for the export market. Garments employ significantly larger numbers than the IT sector.

OUTSOURCING IN GARMENTS

What is the nature of this global garments supply chain? The broad structure is simple, following the logic of outsourcing, seeking production centres with low labour cost. Around 50 per cent of global garment trade is fed from low-cost manufacturing centres in Asia, for sale in the OECD countries of USA, EU and Japan. The gains to the consumer in the OECD are enormous from this structuring of the industry.

As a thumb rule, labour costs constitute around 12-15 per cent of total sales value for the Indian garment manufacturer. At the same time, the price the Indian manufacturer gets for his product—say, a pair of jeans—is around 25 per cent of the final price to the consumer in the OECD.

What this actually implies is that the labour cost as a ratio of the final price in garments along the global supply chain is only approximately 3-4 per



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cent—an extremely low value for a labour-intensive product. The ratios are roughly the same for other Asian garment export manufacturing centres in China, Bangladesh, Sri Lanka, Thailand, Vietnam and other countries.

Wages in the industry are very low, accompanied by high work intensity. Wage in the sector in India is typically governed by the statutory minimum wage. These vary widely, ranging from Rs178 per day for an unskilled worker in the garment sector in the NCR, to Rs 157 per day in Bangalore, to Rs108 for Chennai.

The wages bear no relation to the relative consumer price index (CPI) in the cities, or actual living costs. The minimum wage in Bangalore barely covers half the monthly expenditure of a typical family of a garment worker. In real terms, based on CPI, the current minimum wage of a tailor in the city is approximately the same as the Rs18 per day she earned in 1985.

However, any demands for wage increase or enhanced benefits in the sector is met with protests from manufacturers of economic downturn,

and falling returns from the industry.

EXCHANGE RATE FACTOR

The claims of economic downturn and profitability must be examined from different angles. Projections seem to indicate falling global demand for garments.

However, the demand contraction will not be uniform for all categories of garment manufacture. Indications are that the mass consumer segment would be less affected than the high-end and luxury segments. The bulk of Asian manufacturing addresses the mass consumer segment in garments.

The changing demand pattern would also trigger restructuring of the industry. Industry projections indicate that with a stable currency and rising worker aspirations, China would become too expensive for garment manufacturing and the global supply chain would have to seek alternative manufacturing centres. India would be one of the beneficiaries of this.

The competitiveness along the global supply chain is very dependent on exchange rate fluctuations. For example, the

Indian rupee strengthened by 10 per cent during 2007-08, as against a stable Chinese Yuan, thus reducing the competitiveness of Indian exports.

From 2008 to 2009, the rupee weakened significantly by 17 per cent, while the Yuan strengthened against the dollar by 6 per cent. This gave the Indian manufacturer a significant price advantage, to partially offset the effect of the recession.

It is another matter that most exporters in 2008, following the currency pattern for the previous year, and expecting the Indian rupee to continue to strengthen against the dollar, hedged their contracts against dollar devaluation, and would therefore not have been able to take full advantage of the weakening rupee. Today, compared with 2009 values, the Indian rupee has furthered weakened by around 10 per cent, while for the same period the Yuan has strengthened by 10 per cent.

The cumulative advantage on exchange terms to the Indian garment exporter from 2007 levels is around 30 per cent, while for the same period the Chinese exporter has lost by around 15 per cent. While cur-

rency patterns during the global economic downturn might have benefited Indian manufacturers, how valid are their claims of declining competitiveness and profitability? As the financial results of two of India's largest garment manufacturers, both Bangalore-based, reveal, the jury is still out on this.

IMPACT ON PRODUCERS

In the case of Bombay Rayon Fashions Limited, the company turnover went up continuously, from Rs 927 crore in 2007-08 to Rs 2254 crore in 2010-11. Its profit after tax also increased steadily during that period from Rs 122 crore to Rs 226 crore.

The turnover for Gokaldas Exports, on the other hand, remained steady, from Rs 1056 crore in 2007-08 to Rs 1135 crore in 2010-11, the company's profitability, declined in this period from a net profit of Rs 47 crore in 2007-08, to a net loss of Rs 88 crore in 2010-11.

Clearly, supply-chain models across the industry must be more rigorously analysed to understand why some companies posted losses during the same period that others raked in record profits.

Today, with foreign direct investment in retail under active consideration, the Indian urban markets for branded products in garments seem poised for huge expansion.

The question that remains is whether this expansion in the domestic markets will benefit Indian garment manufacturing, in terms of increased turnover and profits, or would the logic of the supply chain dominate, with the international brands continuing to determine prices and order sizes?

This is a vital matter of government policy, which will in turn determine the extent to which benefits of economic development will accrue to Indian business, and in turn, further trickle down to the very large workforce employed in this sector.

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