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Global value chain and the Labour intensive Industry: A case study of Indian Textile, Leather and footwear Industry.

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1 Introduction

Globalization is a multi-dimensional and contested process of integration of economy, trade, finance, communication, culture etc. One important aspect of globalization is the increasing disintegration and disaggregation and spatial dispersion of production processes and value addition processes and rise of new organizational form. A large amount of trade is conducted through a system of linkage in the form of outsourcing and contract arrangement. Thus, economic activities today are both international in scope and global in organization[1]. Various researches have tried to conceptualize this aspect in different ways in the existing literature.

One such theory that has conceptualized this new production processes and organization is the theory of global value chain. This new approach has changed the organization and coordination of the production process. It has questioned the traditional trade theories like Comparative advantage and Heckscher-Ohlin model[2]. Now, Countries instead of having comparative advantages in the product they create comparative advantage in some production process and thus specialize in that production process. Therefore, now multinational firms don't focus on the ownership of internationally based assets, but on power to coordinate and control international operations.(Dicken, 2007).

2 Rise of Global Value Chain

GVC is an effective way of analyzing the complex integration. It focuses on the whole range of production processes from designing to marketing and after sale. It also analyzes how chains are organized and managed and helps in finding the ultimate winners and losers in the whole process. Thus, understanding these value chains is very crucial for developing countries firms, workforce and policy makers. The GVC analysis allows to analyze the coordination and

integration of the internationally dispersed value adding processes in varieties of inter- firm networks.(Coe et al., 2008; Gereffi et al., 2001, 2005; Henderson et al., 2002). GVC focuses on the vertical integration of the value creating activities.(Gereffi, 1999; Sturgeon, 2002).

Global value chain was present before 1980s also, but in the last 2-3 decades its scale and scope has increased tremendously. Main reasons for such an increase is because of the reduction in trade cost due to the advancement of transportation, internet, insurance costs, tariffs and duties and other non-tariff measures. This integration of the production activities in the global economy allows the developing countries and the firm to learn and upgrade skill, technological capabilities, knowledge diffusion, information exchange, managerial assistance.

Gereffi (1991) have identified that in the labour intensive industry, the global value chain present is the Buyer's driven. Under which, buyers are at the apex of the value chain. In other words, large retailers, branded manufacturers and marketers play the most important part in controlling the chain. Such type of value chains are mostly found in labour intensive sectors like garments, footwear, handicrafts, toys, consumer electronics, etc. Here production network is such that the developing countries supply finished goods to the foreign buyers who generally set the standard of the product.

3 Literature review

Various studies have captured the textile industry in the global trade. Grunsen and Smakman (2001) studied the East Asian Apparel industry and found that the less developed countries industrializes though adopting certain strategies like wage depression strategy i.e. compete on the basis of low wages through use of foreign labours and shifting production or international subcontracting. Samar Verma(2003) have found a divergent trend in the supply chain in India, while the modern technology has increased the trend towards 'slicing of the value chain' and fragmentation of manufacturing processes, traditional management practices have led the business towards integration of the value and development of a holistic perspective. Further he has found a shift in the Indian textile industry from traditional textile supply chain to garment supply chain. Su, Gargeya and Richter (2005) studied the global shifting of source of US textile and apparel industry. They argued that the trade agreement like NAFTA, CBI has led to an increase in global sourcing to countries that could provide low cost, good quality, fast and flexible delivery. Palpaceur, Gibbon and Thomsen (2005) studied the apparel import patterns and

sourcing pattern of the major retailers in France, UK and other major European countries. Global buyers are sourcing from different countries and regions and that have helped the suppliers in upgrading their production networks. Pankaj Chandra(2006) have found in recent years large retailers have emerged in the textile industry and as a result varieties and volume have increased. Also, there is a strong presence of 'agents' who secure and consolidate orders for producers. Different value chains are present in different sectors like weaving and knitting sectors, spinning sectors, processing sectors. India is one of the few countries that own the complete supply chain in close proximity from diverse fibers to a large market. Tewari (2006) have argued that price, volume and cost competitiveness play a major role in deciding the export success of textile and garments producer in a MFA scenario but they are not the only factors, non price and institutional factors also affect the producers' ability to quality, variety and timely delivery. Gereffi(2007) studied the economy of India, China and Mexico through global value chain and production networks analysis. He argues that the textile and apparel industry shows the consolidation trend mainly because of the shift in the international regulations especially after 2005. Lemoine and Unal-Kesenci (2008) studied the Chinese and Indian Textile industry and observed economic and demographic advantage of these countries have facilitated an international division of labour. They have created and maintained specialization in textiles with new technologies, quality up gradation, taking advantage of off shoring and outsourcing, have developed outward oriented sectors. Wysokinska (2009) analyzed the modern textile and garment market and found that there has been a growing demand for decorative cloth and textiles wallpapers, carpets and textiles floor covering, decorative designs etc. in European countries and that have affected the competitive positions of different products mainly for the East Asian countries like India, China and Bangladesh. Goto, Natsuda and Thoburn (2011) found China had the dominant share in the global trade of the textile industry and since its entry into WTO, she has been able to produce advanced products and able to add high value to the value chain. However, they have experienced an increase in competition from Vietnam who have successfully reorganized their production network and upgraded their technologies. Sophie et al. (2012) found that export of Indian goods is concentrated in labour intensive products. This finding is in contrast with the findings of Razen Sally (2011) and C Veeramani (2013) who argued that Indian export is shifting to capital and skill intensive products and thus India is not

fully exploiting its abundant labour in which it has a comparative advantages.

The value chain governance in the footwear Industry is similar to those in garment industry. (Schmitz and Knorringa, 2000, Schitz, 2006) found that during 1980s and 90s number of global producers were decreasing but more and more producers were engaging in contract manufacturing from Brazil, China and India and captive relationship became more prevalent. Bazan and Navas-Aleman (2004) analysed the Brazilian footwear producers and found that wide variation in the governance relationship. With USA brazil had a captive chain, with European buyers also there was captive relation but somewhat less, for Latin American countries it was more market based and some manufacturers have managed to operate simultaneously in different kinds of chains. Memedovic, O. and Mattila, H. (2008) argued that the leather industry require high dependence for chemical industry, manufacturing skills, design know-how, computer-aided design systems, branding and marketing, Environmental policy instruments with respect to process standards. Therefore initially this acted as a burden for the developing countries but also provides an opportunity for upgrading of firms in the GVCs like done by China.

However, there are limited studies on the trade from the value chain perspective. The OECD-TiVA database has opened new avenues to analyze the trade and this paper focus of this aspect. This database provides data for the Textile, Leather and Footwear Industry together, so we will analyze these industries together. Both are labour intensive industry and are governed by the same value chain i.e. the Buyer's driven value chain. In buyers driven value chain, buyers are at the apex of the value chain. In other words, large retailers, branded manufacturers and marketers play the most important part in controlling the chain. Such type of value chains are mostly found in labour intensive sectors like garments, footwear, handicrafts, toys, consumer electronics, etc. Here production network is such that the developing countries supply finished goods to the foreign buyers who generally set the standard of the product.

4 Data source and Methodology-

This study is mainly focused on the OECD-TiVA database.[3] It is developed by OECD in

[3] Construction of the database is based on the 'official' statistics from the regional, national and international organizations. For harmonizing data significant reconciliation exercise are done to correct the differences in national and international bilateral trade statistics, various national input-output table

partnership with WTO and provides data for seven years and various indicators like trade in value added terms, domestic and foreign contents of export, forward and backward linkages etc that helps in better understanding of the nature and integration of trade. There is growing consensus among economists that analyzing trade data only at gross export is not adequate and can give us misleading information about the trade & position of the country and makes it difficult to study the value chain (Banga, 2013). OECD-WTO Trade in Value Added(TiVA) database has opened new avenues for the analysis of trade and therefore this study uses this database for the study.

5 Global Value Chain Analysis of the Indian Textile, Leather and Footwear Industry

5.1 Gross Export and Import share and Domestic value added in gross export of Indian Textile, Leather and Footwear Industry in the World Trade.

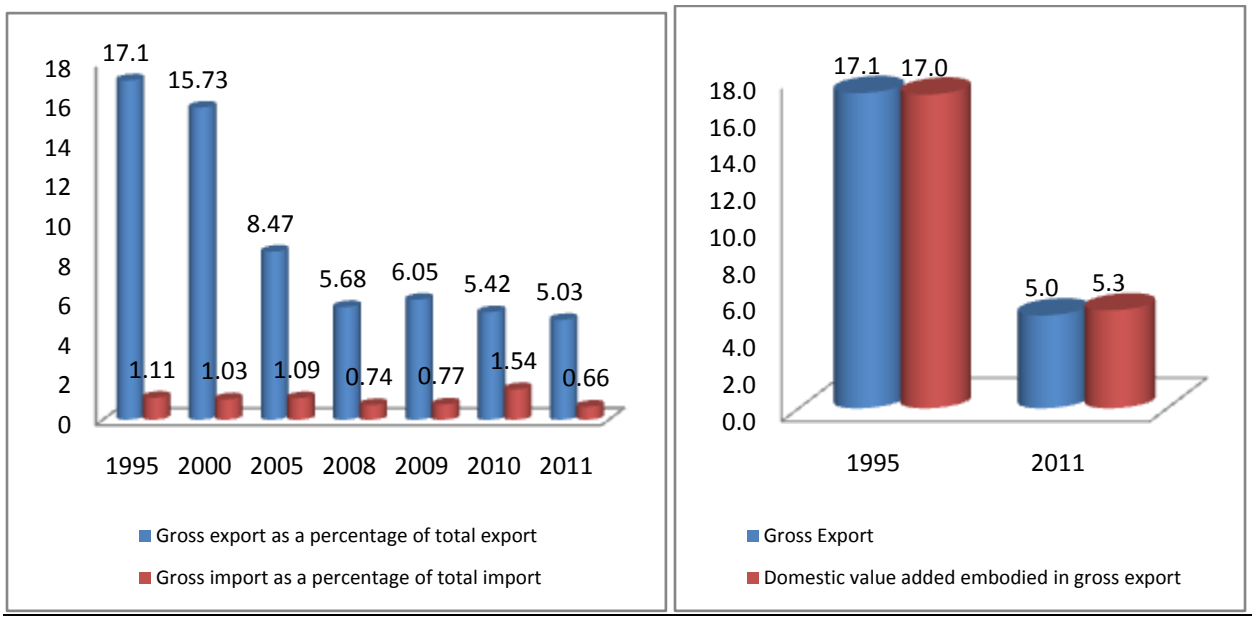

Figure 1: Export and Import Share of Indian Textile, Leather and Footwear Industry as a percentage of World's export and export share in Gross terms and Domestic value embodied in Gross export.
Source- OECD-TiVA Database

In this section we will discuss the export and import share of Indian Textile, Leather and Footwear Industry in the World Trade. As shown in the above Figure 1, the export share of

and other National Account statistics. For defining value added 'value added' (in basic price), it uses the 1993 System of National Accounts (SNA93). It is calculated as the difference between the output and sum of different intermediate inputs (in purchase price). The definition of Basic price, purchasers prices are also derived from SNA93.

Indian Textile, Leather and Footwear Industry has declined from 17.1% in 1995 to around 5% in 2011. The fall has been rapid in the period 1995 to 2005 and then its share has been moderated at around 5-6%. Import share was around 1.1% in 1995 which has declined to 0.6% in 2011. It has mostly remained below 1%. Thus, India had a large share in the world share but its share has declined in recent years whereas she imports less from the world.

Conventionally Gross export is used to measure the position of countries in the world trade but as discussed earlier they are less meaningful in capturing the performance of countries as it can give misleading results. In such a scenario, domestic value added embodied in gross export represents a more accurate picture of the countries' competitiveness in the global world. In right side of the figure, both gross export and domestic value embodied in gross export is used to show the change in the export share. During the period 1995 to 2011, the share of Textile, Leather and Footwear Industry in world export has declined from 17.1% to around 5%. In 1995, there has not much been much difference between export in gross terms and domestic value added terms but in 2011 the difference between the two terms is quite visible. For Textile, Leather and Footwear Industry export in terms of domestic value addition is greater than that of simple gross terms. Therefore there is a greater domestic value addition in the industry.

5.2 Export Share in terms of intermediate and Final Goods

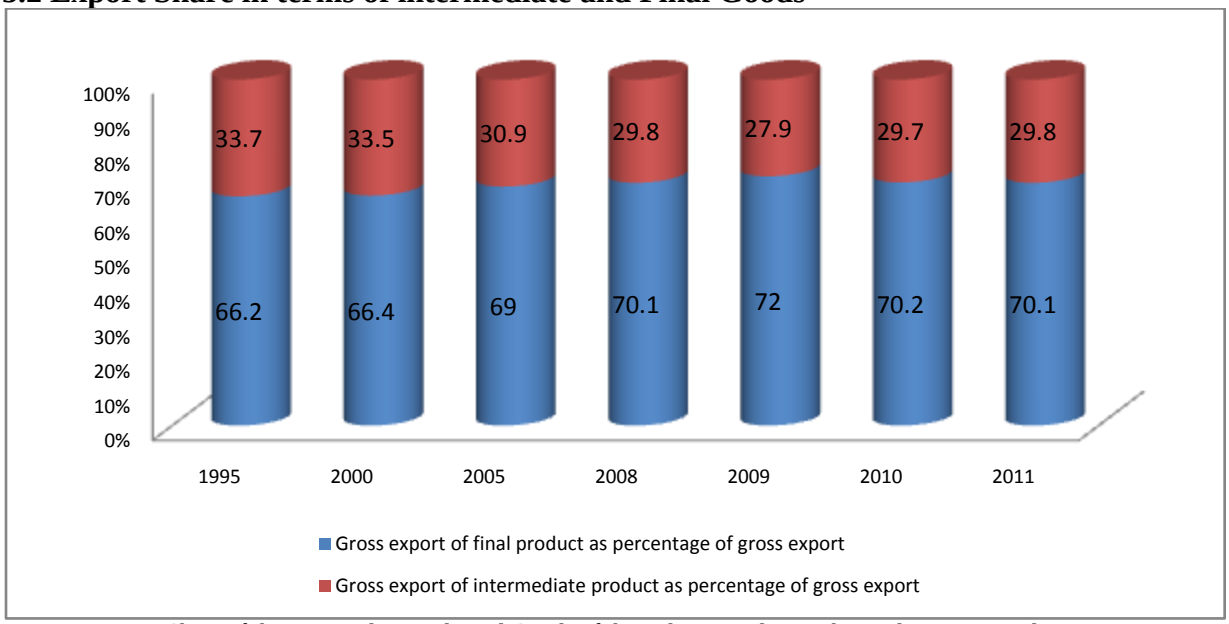

Figure 2: Export Share of the Intermediate and Final Goods of the Indian Textile, Leather and Footwear Industry
Source- OECD-TiVA Database

As discussed earlier in the fragmented production system trade of intermediate goods has increased to take advantage of the low cost of production. Thus, breaking down the gross export into export of intermediate goods and final goods gives a better understanding of the nature of the export in the industry. For the Textile, Leather and Footwear Industry the share of gross export of final goods is more than the share of intermediate goods. Gross export of final goods stood at $4466.5 million in 1995 and it rose to $16124.67 million in 2011. However if we look at its share in percentage terms, it has increased from 66.2% in 1995 to 72% in 2009 and thereafter fell slightly to 70.1% in 2011. Whereas gross export of intermediate good was $2274 million in 1995 and rose to $6877.4 million in 2011. In percentage terms its share has declined. Its share in 1995 was 33.7% and it decreased to 29.8% in 2011. Thus India exports more of the final goods of the textile, leather and Footwear industry.

5.3 Domestic and Foreign Value added share of the gross export

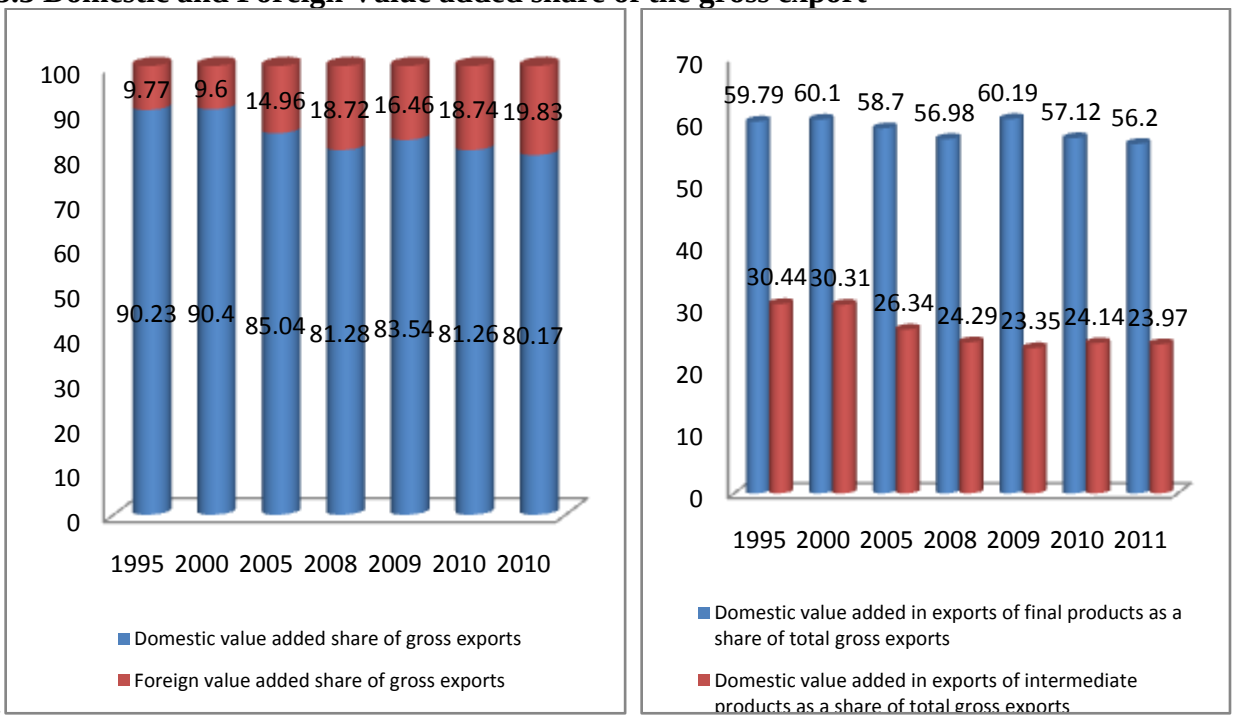

Figure 3: Domestic and Foreign value added share of the gross export of the Indian Textile, Leather and Footwear Industry.
Source- OECD-TiVA Database

Domestic value addition is used to analyze the expected gains from export to the domestic producers and exporters. A rise in the domestic value added share in more beneficial for the country. For the Textile, Leather and Footwear Industry the share of domestic value added in gross export is very high which shows that Indian domestic industry is adding more value to the

export of the product. However, its share has been under constant decline during the period analyzed. Its share in 1995 was 90.2% which declined to 85.04% in 2005 and stood at 80.17% in 2011. This decline in domestic value shows loss of gain to Indian producer and consumer. Whereas the share of foreign value added has increased significantly, its share was 9.7% in 1995 and increased to 14.9% in 2005 and further increased to 19.8% in 2011. Thus, globalization has led to the rise in the foreign value addition in form of raw materials, technology, expertise etc.

Further we looked at the share of this domestic value addition in final and intermediate goods. In 1995 out of 90.23% domestic value addition, 59.79% went in the value addition in final product and 30.44% went in the value addition of intermediate goods. Similarly in 2011 out of 80.17% the share of domestic value added in the production of final products was 56.2% and share in the production of intermediate goods was 23.9%. Thus domestic value addition is more in final product compared to the intermediate goods and share of both are declining.

5.5 Re-exported intermediate imports as % of intermediate imports

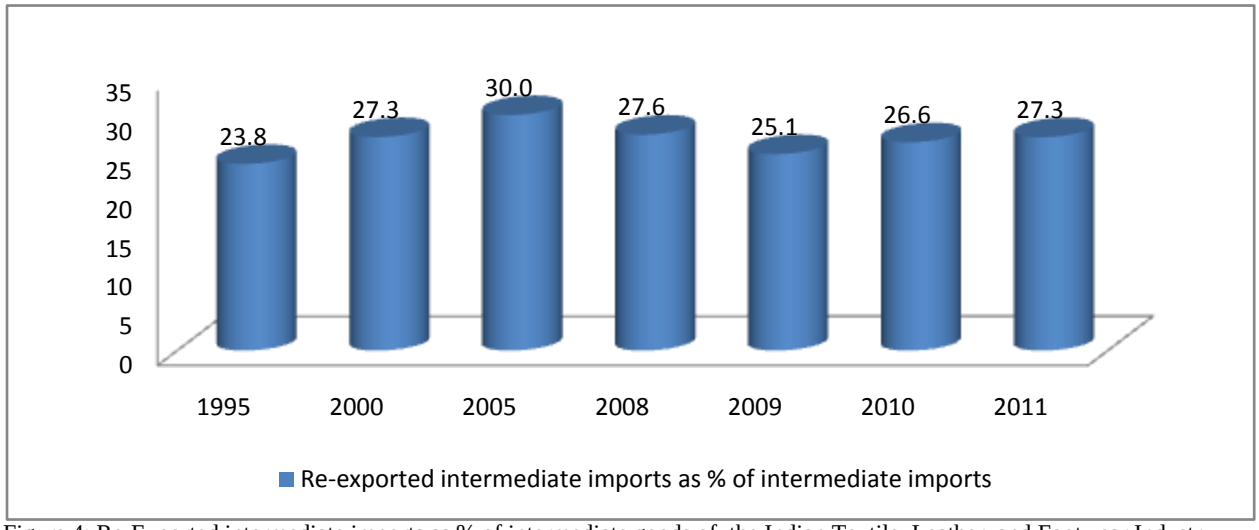

Figure 4: Re-Exported intermediate imports as % of intermediate goods of the Indian Textile, Leather and Footwear Industry. Source- OECD-TiVA Database

It shows how foreign intermediate goods are used in the domestic industry. A large share shows that foreign intermediate goods are not used in the domestic production and is exported without much domestic value addition. In textile, leather industry India was re-exporting intermediate import. In 1995, this figure was $52.26 million which accounted for 23.85% of total intermediate import. It reached its maximum in year 2010 where it stood at $693.18 million or 26.61 % of total intermediate import. In 2011, it was $363.56 million or 27.27% of total intermediate import.

5.6 Domestic value added embodied in foreign exports as a share of gross export-

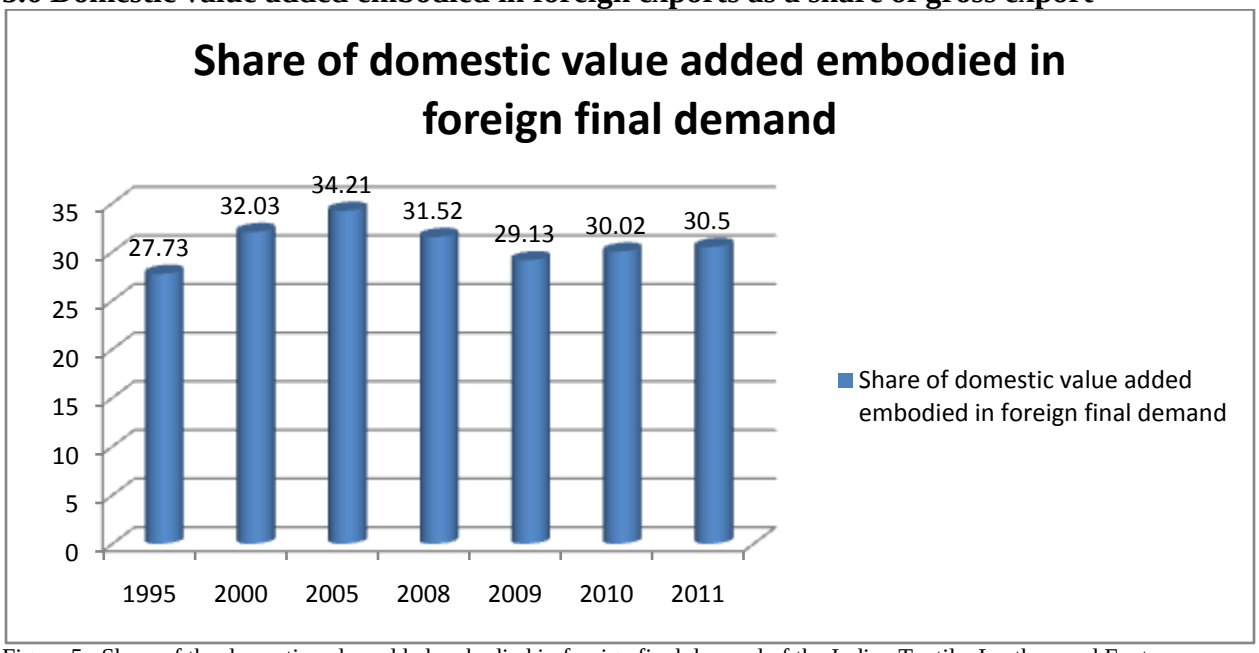

Figure 5: Share of the domestic value added embodied in foreign final demand of the Indian Textile, Leather and Footwear Industry
Source- OECD-TiVA Database

This is an important measure of the nature and quality of domestic production. A large domestic value addition in foreign goods means that the country is producing high quality product are the internationally demanded and therefore is at the upper end of the value chain. The above figure shows that the in textile and leather industry this figure was 27.7% in 1995 which increased to 34.2% in 2005, thereafter it has declined to 29.1% in 2009 and finally at 30.5% in 2011. Thus, India has high competitiveness, producing a high quality product at low cost that are used in the production of the final product in the foreign country and is therefore beneficial for domestic producer.

6 Conclusion

Thus the case study of the Indian labour intensive industry ie Textile, leather and footwear industry in global value chain gives a very interesting picture. While the share of the industry in export has declined in the period analyzed, there is not much difference between export share in gross terms and domestic value added terms for the industry. Further export share of final goods is more than the intermediate goods and its share has further increased. The domestic value added share of gross export is more than the foreign value added share, but this share has declined in the period of analysis. Also, domestic value addition is more in the final goods as

compared to the intermediate goods. Also, we re-exported around one-third of the intermediate imports. Also there is one-third share of domestic value added embodied in foreign final demand, showing India's competitiveness and benefits for the domestic producers and consumers.

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