FACTORS AFFECTING THE EXPORT PERFORMANCE OF TEXTILE INDUSTRY IN DEVELOPING COUNTRIES – A REVIEW OF LITERATURE

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Abstract

The present study aims at reviewing researches conducted in the area of determinants of and factors affecting the export performance of textile industry. The tools used by the various researchers and their findings are studied in order to establish the academic contributions made by these studies to the existing body of knowledge, new models developed and also to highlight method adopted or suggested by researchers for conducting researches in the area of export performance of manufacturing industries with special focus on textile sector in developing countries. The article analyzed researches carried out in China, India, Sri Lanka, Bangladesh and Pakistan. These economies are the dominant textile exporters in the international trade. The review highlights that most of the studies have been carried out on establishing the relationship between GDP, exchange rate, labor, capital (FDI) and technology with export performance of textile industry. Most of the researchers found a positive relationship between the above said variables and textile exports.

Keywords- export performance, textile industry, developing countries, review of literature.

I. INTRODUCTION

Export is an activity in which products are made or grown domestically but shipped and sold abroad (Griffin & Ebert, 1995). Export is an activity of sending goods to another country for sale (Dictionary). The firms can consider export under the circumstances like when the cost of production in the foreign market is high, the volume of sales in the foreign market is not enough to break even, the foreign market is not a long term market, the product may not have enough life to justify huge direct investments and the political factors are not conducive (Cherunilam, 2005). The present study aims at reviewing researches conducted in the area of determinants of and factors affecting the export performance of textile industries in developing countries.

II. METHODOLOGY

Various research literatures in the area of export performance textile industry in developing countries are studied. Based on the reviews finding, suggestion for future research was given. This is purely an attempt based on the available (secondary data and information) literatures in the above field of study. The following chapter discusses the various factors influenced the export performance of textile industry in developing countries.

III. EXCHANGE RATE

The exchange rate is the rate at which one currency purchases other currency. In other words it is the purchasing power of one currency in terms of another currency. It is also the external value of one currency. The rise in exchange rate against another currency is called as appreciation and the fall is called as depreciation. The appreciation of exchange rate has negative impact on the exports as it erodes the profitability of the exporter. Not only the appreciation but also the fluctuating exchange has impact on the export business decisions. During the year 2008, the exchange rate fluctuated widely against US dollar which has negatively affected the trade performance of India (Mehtha, Deosthali, & Metha, 2012). The appreciating rupee against the US dollar in 2007-08 played the spoil sport for the textiles and clothing exports industry in India. Many researchers suggested that the Reserve Bank of India (RBI) should intervene in the Foreign exchange market to curtail the exorbitant fluctuations in the
exchange rate volatility was negatively and significantly associated with exports in select ASEAN countries (Mohamad, Nair, & Jusoff, 2009); the study found by applying the model developed by Sekkat and Varoudakis (2000) that incorporated more variables to control the impact of the exchange rate variables on export trends in the selected ASEAN economies. Few researchers have used the exchange rate regimes or change in exchange rate regimes to find out the impact of exchange rate regimes (fluctuations) in export performance of textile industries. Studies have been carried out on the export performance of textile industry on the impact of exchange rate on exports in the managed exchange rate system after the Bangladesh government adopted managed exchange rate regime in 1979 abandoning fixed exchange rate regime (Paul, 2011).

IV. GDP GROWTH RATE [AND GLOBAL RECESSION]

The income of a country can be measured in a number of ways. GDP stand for Gross Domestic Product is one such measurement of indicator of country’s wealth denoted the value of goods and services produced by an economy (irrespective of nationality) during a particular period of wealth. The GDP growth rate cannot be just taken as an indicator since; it impacts the business confidence positively or negatively. According to Merry Linch (Global Investment Bank) recession is the negative sign (de-growth or negative growth) in economic development for two or more consecutive quarter of the year. International Monetary Fund (IMF) defines a Global recession as the period when the global economic growth rate moves below 3%. The export supply is positively related with GDP growth rate but its contribution in increasing export supply is very low (Moniruzzaman, Toy, & Hasan, 2011).

The Indian export performance was affected by the global slowdown during 2008, has lead to default in payment or delayed realization for exports resulting in cash flow difficulties for the exporters, hardship in executing orders and difficulty in getting export risk cover for high risk countries (Mehta, Deosthali, & Mehta, 2012). The developed world has thrown many negative surprises to Indian textile by the way of US led sub-prime crisis which lead to global recession. Today, the global economy is facing the heat of an extended recession and the major markets like US, EU and Japan are facing financial crisis contributing to socio-economic and political crises in these and other world markets (Chaudhary, 2011). The slowdown in garment exports from India started in the mid-2008 when retail orders from advanced economies in North America and Europe began to feel the pinch of the most devastating economic meltdown worldwide causing a widespread of unemployment and altering consumer spending behavior. Exports of readymade garments from India tumbled 6.59 per cent in September over the same period last year as a direct consequence of global economic slowdown (Aziz, 2011).

A study conducted in China used the Trade Gravity Model on China's textile exports highlight that factors like Gross Domestic Product (GDP), population and the degree of dependence on foreign trade affected negatively the export performance of textile firms in China (Liping, 2010). In yet another study conducted in Bangladesh found strong evidence between export and growth (export-led growth) of economy particularly in the short-run while in the long-run the contribution of export to economic growth (GDP) is not very robust (Paul, 2011).

V. FOREIGN DIRECT INVESTMENT (FDI) AND CAPITAL

Fast growing economies may not be able to support the fast growth with domestic capital alone and there is a strong need to attract Foreign Direct Investment (FDI) particularly those sectors that contribute maximum to the economic growth like the textile sector because the domestic capital may not be sufficient to enhance the production capacity and modernize the entire system (Chaudhary, 2011). Developing countries like India can be complacent with attracting and absorbing FDI, and especially in the textile sector, as the need for modern machinery is very well founded (Sharma, Manisha, Prashaant, & Anu, 2009). The gross capital formation appears as the most important determinant of the export supply of Bangladesh. So the enhancement of export supply of Bangladesh is largely depended of gross capital formation meaning that more investment in exportable sector could significantly contribute in this sector. (Moniruzzaman, Toy, & Hasan, 2011).

There are a strong and substantiate evidence that highlights the view that imports of investment in capital goods, basic capabilities, and perhaps some strategic interventions to resolve market failures are important for successful export-orientation (Mohamad, Nair, & Jusoff, 2009). Another study has used Johnson's cointegration methodology to examine the relationship between domestic investment, export and economic growth in India during 1970-71 to 2007-08 and found that all the variables under study, that is, gross domestic capital formation and exports are found to have a positive relation with economic growth (Sultan & Haque, 2011). A study conducted in Sri Lanka highlights that foreign ownership, the acquisition of technological capabilities and learning from buyers are positive and significantly correlated with the probability of exporting in Chinese and Sri Lankan clothing firms (Wignaraja, 2008). All the studies conducted assessing the relationship between gross capital formation (domestic and Foreign Direct Investment) and export performance.

VI. PHASING OUT OF QUOTA SYSTEM/ MULTI FIBRE AGREEMENT/ FREE TRADE AGREEMENT

A study on the textile sector in Bangladesh highlights the fact that the big textile companies are the most benefited from the MFA phase out as they have the capacity whereas, the medium and small firms are more vulnerable as they are finding it difficult in survive in the tough competition
(Chaudhary, 2011). In India, the pre-Multi Fibre Agreement (MFA) era, the year on year percentage growth of exports shows the increase at a decreasing rate. However, in the year 2005-06, a drastic increase in the export performance was witnessed immediately after the abolition of MFA (Sharma, Manisha, Prashaant, & Anu, 2009).

Regarding the effects of Free Trade Agreement (FTA) on intra-industry trade in the case of Textile Sector in Turkey, it is found that Turkey’s Free Trade Agreement (FTA) has had a positive impact on the Intra-Industry trade. Further, the study confirms that Turkey showing a high performance in textile export. Importantly, it could be observed that the agreements had a positive effect especially in textile imports (Guler, Erdal, Erdal, & Cicik, 2006). Garment industry in Sri Lanka has become Sri Lanka’s largest export industry since 1986. It is also the country’s largest net foreign exchange earner since 1992. One of the studies highlights the following key findings viz., phasing out of quotas will close down nearly fifty per cent of existing garment factories, as they loss that protection. However, some of the medium and large scale factories are expected to survive exploiting opportunities in the free market (Dheerasinghe, 2003).

VII. LABOUR

Labor cost and labor issues (Taneja, 2012; Lal, 1999) played an important role in augmenting the export intensity of textile industry. The uncertainty of future on the eve of phasing out of quota and allowing open international competition has negatively influenced the Sri Lanka’s garment industry, in the short-run there will be an adverse impact on employment (Dheerasinghe, 2003). In the case of India, the textile industry benefits from low wage rates and access to a huge domestic market, an abundant supply of skilled labor, and a large production base for raw materials and intermediate inputs. However, low productivity and product quality, limited product diversification and differentiation, high energy and capital costs, and an underdeveloped infrastructure, especially as it relates to weaving and finishing fabrics, undermine the textile export industry’s competitiveness (Shetty, 2011). A study on labor productivity and exports found that domestic firms are more export oriented than foreign firms, and that private firms are more export oriented than public firms. Regarding the determinants of labor productivity at firm level, firm size and raw material intensity are found to be two significant determinants in this regard while the ownership status of the firms has no role here. (Deshmukh & Pyne, 2013).

VII. RAW MATERIAL: COST AND QUALITY

The important contributor to the final cost of most of the products is the raw material cost. The firms usually face the quandary of cost or quality. It is well known that the cost and quality has direct relationship but inverse relationship to value addition. The value of products can be enhanced by either reducing the price or increasing the cost. Sometimes the cost and availability of raw material (Lal, 1999) is very much affected by the price and availability of substitutes. Taiwan’s polyester fiber textile industry confronts a situation of price instability due to increased competition. The export of polyester are affected not only by the weather, but also by other causes such as the output of cotton, the price of petroleum, and market demand (Li, Yeh, & Li, 2008).

IX. TECHNOLOGY

The quality of final product is determined by various factors especially two factors that contribute maximum are raw material and machine (technology). Especially in the case of exports, the firms’ competitiveness depends on the ability to pay the cost of technology and access to technology (Taneja, 2012). A study conducted in Lao pointed innovations (product and production process innovations) are important factors in determining export performance and hence, firm profitability (Kongmanilaa & Takahashi, 2009). Information technology also has impact on the export performance. There is positive relationship between information technology and firms ability to achieve greater flexibility in garment designs and to manufacture international quality products. The intensity of adoption of Information Technology (IT) was the most significant variable that influenced the export performance of firms (Lal, 1999). Contrary to many of the findings one research study found that capital and technology based factors did not have any effect on the export performance of Indian firms in the international market, supporting the view that the Indian Textile and clothing industry focused more on cheap products than premium product category (Abraham & Sasikumar, 2011).

X. TARIFF AND NON TARIFF BARRIERS

Tariff barriers are considered a straight and visible barrier where as nontariff barriers are more elusive and non visible. Export industries in developing countries are mostly affected by nontariff measures of developed economies in international trade. For example, China is facing a serious of problems in the international market for its exports. The tariff barriers is the primary irritant to Chinese exports as the main textiles importing countries from China for instance, import tariff on textiles is four times than average tariff in USA, 10% in EU and 8.5% in Japan with tariff escalation, which hinders export of manufactured products. The nontariff barriers in the form of anti-dumping duty, import quota, green trade barriers and other protectionist measures also discourage China’s exports (Ma & Yang, 2010). In another study on the Indian textile and clothing industry, it is found that more than 60% of export value was affected by the Nontariff Measures (NTMs) in USA, EU-25 and Canada at various points in time (Saini, 2009).

XI. DIRECTION FOR FUTURE RESEARCH

There are many studies in the area of factors contributing or influencing the export performance. Most of the studies have focused on Labor, Gross Domestic Product, Exchange rate, Foreign Direct Investments, Inflation, imports, technology and raw material. Yet few researchers have...
attempted to study new relationship, for example, one such research focused on relationship between past export performance satisfaction and export performance. The study found past performance satisfaction is positively correlated expected short-term export performance and it is the only indicator that is associated significantly to short-term export performance improvement in textile sector of Pakistan (Subhani, Osman, & Habib, 2010).

In the future researchers could focus on other variables that are not studied. The factors like geographic factors, political environment factors, and legal environmental factors shall also be taken for this kind of study. The studies can also look into other sectors which are not to that extend export oriented like textiles, for example steel industry, cement industry, sugar industry, fertilizer industry etc.

XII. CONCLUSION

The article aimed at reviewing researches conducted on the factors influencing the export performance of Textile industry. The article analyzed researches carried out in China, India, Sri Lanka, Bangladesh and Pakistan. These economies are the dominant textile exporters in the international trade. The review highlights that most of the studies have been carried out on establishing the relationship between GDP, exchange rate, labor, capital (FDI) and technology with export performance of textile industry. Most of the researchers found a positive relationship between the above said variables and textile exports. Based on the review, it is suggested that future researches can be done analyzing impact of these factors on less export oriented industries so that possibly such results may be compared and new theories could be established.

REFERENCES


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