The Relative Success of Asian Textile and Garment Industry

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Abstract

In this paper, the researcher explores the development of the Asian textile and garment industry in historical perspective in an attempt to assess and explain the factors that generated the phenomenal economic growth in this region. He examines how each individual country adopted flexible and dynamic approaches to enhance their exports and to counter possible setbacks. He also highlights the collaboration among East Asian countries to maintain the high growth rate of this industry. The presentation is amply supported by statistics and comparisons with other industries within the region as well as competitors in the West. Finally, the researcher presents an economic analysis of the industry integrating related opinions of the world's leading economists.

Introduction

The purpose of this paper is to explain the success and growth as well as the decline and retrogression of the textile and garment industry in specific countries of Asia. Starting with a historical perspective, it attempts to investigate the causes of diminution and failure in certain countries and then to present the global outlook. Some references will be made regarding the condition of textile industry in Europe. Moreover, other similarly successful sectors of industry in Asia will be reviewed to assess the commonality of the success, timing of the strategies and changing comparative advantage over time. Finally, macro economic analysis will be presented based on the prevailing conditions in these countries.

Japan's Success and Adaptation

To start with Japan, which became a member of the elite G-7 club, the textile industry there has reached its peak even before the Second World War. During the period between 1868 and 1912, successive Meiji governments transplanted old factories and promoted modern industries. At the same time the private sector grew with the emergence of the "zaibatsu". A zaibatsu refers to a group of diversified businesses owned exclusively by a single family or extended family. Since that time the economic growth of Japan was the result of a successful partnership between government and private sectors. According to Takeshi Yuzawa ("Japanese Business Strategies in Perspective"), the private sector led the industrialization process, concentrating on the export of goods such as textiles supported by abundant cheap labor. In 1974, Ashi Nakamura ranked the major companies in the mining and manufacturing sector on the basis of their assets and found that textile firms, especially spinning firms, dominated the top-ranking companies in 1896. Of the top fifty companies twenty-six firms were in cotton spinning and nine other firms were involved in textile business such as weaving, silk spinning and hemp. Toyoda company which then manufactured only weaving looms had done so well that it diversified into automotive production by setting up Toyota Motor Company. Although the importance of cotton spinning firms declined after the second World War, synthetic fiber industry grew in Japan in the 1960s and 1970s. With cheap textiles produced in many countries, Japan could not sustain its edge for long and it resorted to licensing of new technology from the West. Later, with its own research and development, it achieved world standards and competed with industries in the U.S. The synthetic fiber industry was protected and fostered by the Ministry of Commerce and Industry, the predecessor of the now powerful MITI. The high rate of economic growth at that time boosted expansion and production of the textile goods sector as a whole, but the development of the synthetic fiber industry proceeded at a more rapid pace. However, due to the oil crises of 1973 and 1979, the prices of raw materials and energy increased resulting in reduced demand for synthetic fiber.

Starting from 1980, the year in which Japan's textile and clothing external trade still played a dominant role, the country's competitive edge declined, yet up to 1986 it maintained a surplus position. However, in the late 1980s, Japan became a net importing country in this sector. This can be seen in the following statistics extracted from July 1992 report of the Economist Intelligence Unit.

(US$ billion)

Year	Textile & Clothing Export	Import	Trade balance
1980	5.61	3.20	2.41
1987	6.24	7.67	-1.43
1988	6.12	10.67	-4.56
1989	6.10	13.32	-7.22
1990	6.43	12.84	-6.42

In fact although Japan still maintained a trade surplus in textiles its clothing exports were minimal while clothing imports rose to a high of US$ 8,97 billion in 1989 so that it became a net importing country.

To adapt to the changing situation, MITI guided the textile firms to exit out of the industry and encouraged general trading firms to import from cheaper countries. Thus among Asian countries, Japan was the first to succeed in textile production as well as the first to edge away from this industry. In view of this shift in strategy, Roy Hofheinz, Jr. and Kent E. Calder ("The EastAsia Edge") were constrained to observe that Japan had sought to export labor-intensive industries.

South Korean Push for Exports

Between 1963 and 1987, the share of trading in manufactured goods in South Korea nearly doubled, from 46.6 percent to 91.9 percent. Within this volume, textiles, apparel and leather goods had the largest share (14.8 percent) in 1963. This share peaked at 40.0 percent in early 1970s before declining to 31.7 percent in 1987 ("Pacific Basin Developing Countries", P.48). The success was due to cheap and disciplined labor as well as the administration and coordination of an export push by the Korean Government in a way similar to the monitoring of a military campaign in time of war (Rodrik, NBER working paper#4567). Another factor was that exporters had access to a package of subsidies during that period, including import license and wastage allowance which were also available to indirect exporters. The World Bank designated the period (1961-73) as the "export take-off span" starting from the administration of President Park Chung-hee. Korean policy makers exercised close control over trade, exchange and financial policy (The East Asian Miracle,P.127). The government encouraged and supported the biggest conglomerates (chaebols) like Samsung and Daewoo which had their own textile divisions.

South Korea's export of textiles from 1980 to 1990 is shown below.

(US$ billion)

Year	Textiles exports	Clothing exports	Total exports
1980	2.21	2.95	5.16
1987	4.08	7.54	11.62
1988	4.85	8.69	13.54
1989	5.37	9.10	14.47
1990	6.18	7.88	14.06

(Extracted from EIU report)

However, the success of textile sector in South Korea slowed down with the shift of emphasis to Heavy and Chemical Industries. Even then the strong industrial groups like Daewoo Corporation continued to conduct garment business in less developing countries on a consignment basis or joint-venture basis. Burma (later called as Myanmar) is one of the countries which entered into garment contracts with Daewoo Corporation. Daewoo technicians had demonstrated their skill to improve the garment productivity by using simple gadgets on the sewing machine. South Korea is thus moving along the same track as Japan to export labor intensive industries ("The EastAsia Edge", P.209).

In spite of the slowdown in the production of textile and clothing, exports in 1991 reached a total of US$ 15.5 bn. surpassing the target of US$ 15.3 bn., which meant an increase of 5.5 percent over 1990. The success was mainly due to fabric exports which resulted in offsetting the fall in exports of apparel. There was a slight increase in textile activity but it was slower than the growth of previous years. In preparation for the future, the main manufacturers are continuing to raise their level of Foreign Direct Investments. For example, fiber manufacturers are interested in Southeast Asia and Latin America, whereas spinners are setting up overseas production plants, particularly in Sri Lanka, Indonesia and Vietnam.

Taiwan's Textile Strategy

During 1950s, massive infusion of US aid into Taiwan accounted for 5 percent to 7 percent of GNP and 40 percent of investment ("Pacific Basin Developing Countries", P.30). In the import-substituting industrialization period (1953-57), the government subsidized some light industries, particularly textiles, to take advantage of abundant labor. But later, during the export promotion period (1958-73) and at the advice of Stanford Research

Institute, plastics, synthetic fibers and electronics along with apparels were promoted to take comparative advantage of low-cost labor and existing technical capabilities ("The East Asian Miracle", Pp.131-132).

According to Tibor Scitovsky ("Economic Development in Taiwan and South Korea,1965-1981"), the high interest-rate policy of Taiwan government encouraged the adoption of labor-intensive production methods, thus raising employment and reducing income inequality. Being traditionally important in Taiwan, the textiles, apparel, and footwear industries increased their combined share of exports from 9.3 percent in 1963 to 22.9 percent in 1988.

Although there was a setback in late 1980s especially in clothing exports, textile and clothing industries in Taiwan resurged even stronger than originally envisaged. Despite a strengthening of the New Taiwanese Dollar and the recessionary conditions in Taiwan's major markets, the export earnings from this sector turned out to be $11.98 bn., up 16.7 percent from 1990. Yarn sales were the mainstay of the performance and Hong Kong provided the largest market according to the statistics extracted from the Economist Intelligence Unit report shown below.

However, as a result of rising wage rates, Taiwan began to accept immigrant workers for their labor intensive manufacturing activities such as textiles and apparel. Since this strategy could not sustain for long, Taiwan's investment outflow (FDI) to ASEAN-4 mainly in textiles increased substantially. ("Pacific Basin Developing Countries")

Hong Kong and the Chinese Connection

Many of today's overseas Chinese in Hong Kong came from Shanghai and elsewhere as they were escaping the imposition of Chinese rule. The flood of people put the colony under immense strain. In 1945 its population was 600,000. By 1950, it was over 2.2 million, creating an ocean of cheap labor. The Shanghai textile managers who fled to Hong Kong with their machinery and factory foremen in the

(US$ billion)

Year	Textile exports	Clothing exports	Total exports
1980	1.78	2.43	4.21
1987	4.09	4.99	9.08
1988	4.55	4.71	9.25
1989	5.44	4.74	10.18
1990	6.28	4.15	10.43

early 1950s quickly created a boom in the colony's textile exports within a decade. ("Asia Rising") The government in Hong Kong adopted a policy of free trade in the world economy. The government owns no manufacturing establishments, there are few business regulations, and there are no restrictions whatever on international trade.

According to GATT statistics, the position of textile and apparel (including leather) exports were as follows.

1963	47.8% of total exports
1988	39.6% of total exports

Although labor-intensive "textiles" was still the biggest item in Hong Kong's exports, the decline in its export share is clearly visible. Marcus Norland observes that in clothing industry there have been shifts away from undergarments and products made from man-made fibers to high-value-added goods such as multi-fiber outerwear garments, especially those made of cotton and silk.

The success of Hong Kong textiles had induced rich countries to curb their imports with trade barriers. Irene Trela and John Whalley (1988) ("Do Developing Countries Lose from the MFA?") have estimated that if these quotas were abolished, Hong Kong's textiles and apparel exports would rise by approximately 25 percent. If all tariffs on textiles and apparel were removed as well, Hong Kong's textiles and apparel exports would rise by 46 percent. In response to these barriers Hong Kong's textile magnates swiftly switched to plastics, especially toys, whose exports rose from HK$100 million in 1960 to HK$ 3 billion in 1977.

Hong Kong's exports in textiles and clothing during 1980-1990 are shown below.

According to the Economic Intelligence Unit (July,1992), textile and clothing industry in Hong Kong performed poorly in 1990, but it achieved a respectable 5.1 percent increase in domestic exports in 1991, reaching HK$ 93.58 bn.. Clothing sales were more buoyant than textiles, and the success in the apparel sector was largely due to exports made to Europe. Hong Kong had shifted production facilities to South China and its textile sector has been finding increasingly

(US$ billion)

Year	Textiles exports	Clothing exports	Total exports
1980	1.77	4.98	6.75
1987	5.67	10.72	16.39
1988	6.37	11.79	18.16
1989	7.57	13.99	21.57
1990	8.21*	15.41*	23.62*

(*includes re-exports) (Source: EIU)

difficult to maintain appropriate levels of capacity utilization.

With this decline in comparative advantage, Hong Kong has become a major investor in the surrounding economies, most of which has labor-intensive industries such as footwear and toys. For example, Hong Kong entrepreneurs set up clothing factories in Mauritius, a small island in the Indian Ocean. They were encouraged to come by the elimination of tariffs on import of capital goods, unrestricted profit repatriation, a ten-year tax holiday, etc..

According to John Whally, an economist at the University of Warwick, Hong Kong would be a relative loser during a 10-year transition period leading to the complete phase-out of the Multi-Fibre Agreement in 2005. In the same conference sponsored by Asian Development Bank, Hermenegildo Zayeo, the president of the Textile Mills Association of the Philippines, said that Hong Kong, with its high labor costs, will just be a base for finishing garments that originate from China during that phase-out period. (Bangkok Post, September 6,1995)

On June 17, 1996, the United States announced a decision to impose new "country of origin" rules under which five items from Hong Kong and Macau - night wear, under wear, skirts, dresses and men's and boys' suits - must carry imports documents certifying that they were actually produced inside their countries. (The Nation, July 18,1996) It is likely that Hong Kong will be the hardest hit by the new regulation.

Thailand's Top Export Item

According to the Board of Investment, textiles was the biggest sector (17.7%) in terms of percentage of distribution of promoted projects by types of activities during 1960-76. Bangkok Post reported in July 1965 that for textile and paper manufacturers, two rapidly growing industries, 75% of the required textile yarn and pulp was imported. In 1965, although manufactured goods accounted for only 2% of the total exports, textiles (primarily silk) accounted for 21.7% of total manufactured goods exports, being the biggest item among them.

Elliott Kulick & Dick Wilson ("Thailand's Turn") states that textiles is a mainstay for Thai manufacturers, drawing on expertise, technology, and capital from Taiwan, Hong Kong, Korea and Japan. Since Thailand's labor cost remained lower and its reservoir of unskilled labor higher than in NICs during 1980s, (and still is), many companies from those NICs relocated their production in Thailand in that period. However, working conditions in many Thai factories are below an acceptable level. A research study for the Asian Productivity Organization in Tokyo in 1988 concluded that conditions in small Thai textile factories were universally less than fair. The

working environments were dim, dusty, noisy and hot. The ergonomics of work station, neatness, work position and welfare facilities were ignored, neglected and abused. Yarn production and garment production of textile industry from 1988 to 1991 are shown below.

During this period, textile industry has been extensively developed to become one of Thailand's largest industries, with workers around 1.2 million in 1991. Roughly, 80% of the workers are in the garment sector. After a lengthy and laborious negotiation with the U.S, textile agreements between the two countries were formalized and made effective from January 1, 1991.

Garment manufacture is the largest sector in the textile industry accounting for 70% of the industry's total exports. This sector also enjoys promotion by authorities including incentives to exporters of apparel to Japan and Eastern Europe, particularly Poland. By 1992, there were an estimated 2,000 garment factories equipped with roughly 700,000 sewing machines and manned by about one million workers, making the sector highly labor-intensive. These factories together have a combined production capacity of around 2,600 million pieces.

Success in garment production and export requires constant development and improvement of quality and design. The manufacturers must always keep abreast of tastes and fashions, as well as seasonal requirements particularly in leading international markets.

Local consumption of garments also increased as follows.

Year	Million pieces
1990	1190.49
1991	1335.19
1992	1442.23

The famous garment markets in Bangkok are Pratunum and Bobe. All sorts of garments are available at bargain prices both retail and wholesale. Within the market area and even above the shops, upper floors are used for general production and living quarters for sweatshop workers who migrated from the provinces. Since the market demand for each type of design of the

Year	Yarn (tons)	Garments (million pieces)	Woven and knitted fabrics (million sq. yards)
1988	393,580	1,417.9	3,507.5
1989	423,492	1,673.1	3,939.6
1990	437,340	1,930.0	4,377.0
1991	534,373	2,246.3	5,077.7

(Source: Bangkok Post Mid-year Review,1992)

garment is easily sensed by the shop owners, the feed back is relayed to the upper floor for overnight change in production according to market demand. These garments are supplied not only to Thai consumers but also to markets in neighboring countries.

The current problem of the garment sector is a shortage of skilled designers. Local factories mostly produce garments for export by making use of the designs given to them by foreign importers. Sometimes, design drawings are sent by mail and factories often encounter delays due to examination by customs authorities. Impatient importers diverted their drawings to other countries which have no such hindrances. Moreover, the rapid expansion of the garment manufacturing sector has led to a shortage of workers.

Due to the permission given by the Industry to operators to expand spinning, weaving and knitting facilities or put up new ones, the spinning, weaving and knitting sector expanded in 1991 and the following years. By 1992, more synthetic-fiber manufacturing factories were in operation in Thailand, supplying the market with six principal varieties of synthetic-fiber products.

In spite of its success, Thailand's textile and garment industry has the following problems.

a. Domestic production of raw cotton is far short of requirements while its quality is generally poor.
b. Raw materials for the manufacture of synthetic-fiber are not sufficiently available in the country necessitating imports.
c. A large portion of the machinery in use has low efficiency while dependence on foreign technology is great.
d. There is a shortage of highly skilled workers.
e. The quality of dyeing and finishing remains below international standards.
f. Protectionism is rampant and competition is increasingly keen in the global market, with negative repercussion on Thai textile exports.

Among Thailand's merchandise exports over the last decade except 1995, "garments" is the largest foreign exchange earner for the country. The following table shows its position compared with its nearest rival "computers and parts".

Exports (Billion Baht)

Year	Garments	Computers and parts
1991	86.7	48.4
1992	86.8	57.7
1993	89.6	65.3
1994	100.7	94.6
1995	102.0	131.2

(Source: Bangkok Post Mid-year Economic Review,1996)

The figures indicate that Thailand's competitive edge in

"garments" is starting to lose ground to the less developing countries such as Bangladesh and Vietnam. Yearly rise in the minimum wage of workers erodes Thailand's competitiveness resulting in the replacement of modern technology in this industry. Now Thailand is negotiating with the U.S. to delay the new "rule of origin" regulation under which the control of the quotas goes to the U.S. Customs Department. On the eastern side of the Atlantic, European Union is using anti-dumping measure as a trade barrier. The EU announced a dumping investigation of Thai cotton fabric and bed linen in January 1994, but has not yet announced results because its local industries have been unable to prove the accusation.

Protective measures like quotas usually limit a country's ability to expand its exports to the United States, Europe and some other developed markets. But, these barriers could also be a blessing in disguise because they also raise prices when potential demand in the importing markets can not be met. The higher prices represent higher income for the industry creating "quota rent". Thailand is more concerned with the World Trade Organization's textile agreement under which the quotas would be removed in three stages: 1995-97, 1998-2001, and 2002-4. At the end of the last stage, for some categories, Thailand could become a net loser from liberalisation. It is because importing countries are allowed to choose which categories will be liberalized in each of the three stages, and most countries plan to postpone liberalizing the most sensitive products until the last stage.(Bangkok Post, July 30, 1996)

There is a growing concern inside the textile and garment industry in Thailand that it is now regarded as one of the "sunset" industries in the country. An ESCAP study finds it to be unfounded on the ground that for many countries possessing a large and unskilled labor force, there is a long way to go before the industry goes into the doldrums. However, this study accepts the necessity of introducing new technologies but not necessarily hardware. Software technologies inclusive of quality control, marketing experience, better management and entrepreneurship would be more important.

This view was supported by Dr.Teera Ashakul of Industrial Finance Corporation's research department who denied that the industry was in danger of becoming a sunset industry. He proposed the following steps to regain the competitive advantage.

1. Local textile and garment industry must increase production efficiency.
2. The government must support the private sector in many ways including the establishment of a textile institute.
3. The cost of capital should be reduced to lure the private sector to invest in modern machinery.

Thai Garment Manufacturers Association vice-president Dej

Pattanasetpong supported the proposal for provision of soft loans, and commented on the higher costs for the imports of raw materials and the export of goods due to extensive government red tape. (Bangkok Post, Business Section, September 25, 1996)

Indonesia

Being a resource-rich country, Indonesia is primarily interested in exploiting its resources and establishing related industries. Now, it is developing the textile industry due to its diversion strategy from oil exploration and in view of its relatively cheap labor, and the attractiveness of its designs. During 1982-85, textiles together with plywood emerged as important exports although overall manufacturing growth slowed. According to "The East Asia Miracle" (p.139), after 1986 textiles remained one of the largest manufactured export items like plywood. Textile was the late comer yet the sector received the highest rate of protection (49%) in 1987. In that year, the system of textile quota allocation was reorganized. It aimed to reduce cost and administrative discretion and to increase the vitality of the textile export sector. Although quotas are still based on previous allocations, unused quotas can be transferred, and non-fulfillment of a quota allocation by a firm will result in the reduction of its quota in the following year. The growth of textile industry can be seen in the following index of production.

Although Indonesia benefited from the relocation of production away from quota-constrained countries, the MFA reduced Indonesia's exports. Trela and Whalley (1988) had estimated that removal of the quotas would cause textile and apparel exports to grow by 275%, whereas total elimination of both tariffs and quotas would lead to an increase of 409 percent.

According to the Economist Intelligence Unit, the textile and clothing industry in Indonesia had a somewhat disappointing year in 1991. In April 1992, less than one third of the 38 categories of items subject to quota were more than 75 percent full. Sales to the USA in 1991 had been particularly poor, with sales to EU only merely surpassing those of 1990.

In Indonesia, labor costs are lower compared to Thailand and Malaysia. In spite of Indonesia's priority in other

	1975	1982	1983	1984(1/2 year)
Yarn and Thread	100	121	114	125
Weaving (excluding Jute)	100	130	121	125
Batik	100	110	105	122

(Source: Asia Economic Handbook)

sectors, the country is stepping up the development of its garment industry and has of late enjoyed increased investment in this industry from Hong Kong, Taiwan and South Korea. In 1992, more than 500 garment factories were operative in Indonesia, with a combined production capacity of 104 million dozens. Its exports of garments rose by 106.6% in 3 years, from $ 796.7 million in 1988 to $ 1646.5 million in 1990. (Bangkok Post, Mid-year Economic Review, 1992).

Position of Textile Industry in NICs and LDCs.

Since 1978, Singapore has promoted the development of high-technology industries. The measures included fiscal incentives for plant expansion, automation, computerization and research and development. Lastly, the authorities have actively encouraged the relocation of low-wage activities to neighboring countries, to support their development and to ensure Singaporean manufacturers of access to low-cost intermediate products, ("Trade, Employment and Industrialization in Singapore"). The importance of textiles, apparel, and leather as percentage of total exports and imports can be guaged from the following table.

Year	% of exports	% of imports
1963	5.9	9.4
1988	5.2	5.4

(source: GATT & WB)

In comparison, engineering products constitute 51.7% of total exports and 49.3% of total imports in 1988. It has already made some headway in the electronics and chemical industries. Regarding exports and imports of textiles and clothing Singapore has had yearly negative trade balance for over a decade. Surplus in clothing trade could not offset the textile trade sector which could be used as inputs for the former. The combined statistics are as follows.

(US $ billion)

	Textiles & Clothing		
Year	Exports	Imports	Trade balance
1980	0.79	1.00	-0.20
1987	1.63	1.88	-0.25
1988	1.93	2.07	-0.14
1989	2.19	2.29	-0.09
1990	2.49	2.70	-0.21

(Source: EIU)

Philippines

The Philippines exports mainly tropical agricultural commodities such as coconuts and sugar, and basic minerals such as copper ore and gold. The 10 principal exports remained unchanged and accounted for 75 percent to 85 percent of exports between 1950 and 1970. Since 1970, the importance of nontraditional manufactured exports

mostly garments and electronic components grew. The country has a fairly strong light manufacturing industry producing textiles and electronics on behalf of foreign companies. The production figures of textiles, clothing and footwear, in millions of peso at current prices are as follows.

Year	Textile	Clothing/footwear
1980	4,622	3,657
1981	5,161	4,567
1982	5,261	4,983
1983	5,794	5,852

(Source: Asia Economic Handbook)

The progress was very slow and the importance was also minor as compared to other exports. From 1963 to 1988, the exports of textiles, apparel, and leather as a percentage of total exports increased from 0.4% to 8.2%. In fact, the garment industry was based on highly labor-intensive assembly without backward linkages to the rest of the economy. Most of the firms are foreign-owned, operating on consignment basis. Thus spin-off benefits such as entrepreneurial development and technological development are minimal. Although domestic textile industry could presumably supply inputs, garment exporters have sourced their entire input needs on a duty-free basis from abroad, consequently textiles and garment industries are not integrated. In 1985, the government allowed direct and indirect exporters quick recovery of taxes and duties paid on raw materials and intermediate inputs. Simultaneously, the government converted quantitative restrictions on both textiles and inputs to tariffs with a limit of 50% for textiles and 10% for inputs. Since then investment in textiles and apparel has picked up. Garment manufacturers who enter the developed country markets on a preferential basis under the GSP, are subject to quotas, import licensing arrangements, and voluntary export restraints. In some cases, quantitative restrictions on Philippines exports are non-binding. However, quotas on garment exports to the US and other quota countries have not been filled. Marcus Noland points out that the domestic practice of allocating quota rights largely on a fixed basis of established firms retards competitiveness. According to EIU report, the Philippines textile industry suffered from sluggish sales in its major markets during 1991: By mid-October 1991 sales to US were down by 9 percent and this decline was not sufficiently compensated by increased demand from EC.

China

The textiles and clothing trade performance of China over a decade is shown below.

The quadruple growth in trade during a decade is tremendous. China's trade surplus in the sector climbed to $11.4 billion in 1990 from $10.5 billion a year earlier enabling it to narrow the trade gap with South Korea. It means

US$ Billion

Year	Textile Exports	Clothing Exports	Total exports
1980	2.54	1.63	4.17
1987	6.49	5.79	12.28
1988	6.98	6.99	13.97
1989	7.22	8.17	15.38
1990	7.22	9.67	16.89

that China is fast catching up. Consequently China has been suffering from a shortage of raw materials to feed its rapidly expanding clothing industry. China imports increasing quantities of finished textiles, through Hong Kong, a large part of which was previously exported in unfinished form.

University of Warwick economist John Whally stated at an ADB sponsored trade conference that China (with India and Pakistan) would be the "clear gainers" of the phase-out of the Multi-Fibre Agreement. There is still a speculation that "China could rapidly become the dominant supplier in the global textile and apparel market". (Bangkok Post, June 9,1995)

Sri Lanka, Bangladesh and India

In 1992, Sri Lanka was estimated to earn SLRs 35 billion compared with the SLRs 24.9 billion achieved in 1990, an increase of 40 percent in local currency. In volume terms, the increase is put at 13 percent, rising to 240 million pieces, indicating the success of recent efforts to upgrade quality. However, the exports could be affected by internal security problems in the ongoing conflict with Tamil Tiger rebels.

Bangladesh is also another country with very cheap and abundant labor. In 1991, it was still able to achieve sizable growth in spite of the damage caused to the industry by typhoons in that year. In the year to August 1991, clothing exports were up 49 percent to TK 32.2 billion. However, its effort to boost the industry was hampered by political disturbances, yearly typhoons and floods.

There are almost 2,000 garment factories in Bangladesh many of which face a shortage of fabrics domestically. Garment industry in Bangladesh is a major export earner netting U.S $ 2 billion annually. Unlike the garment sector, the textile industry has witnessed only marginal growth, the main reason being that Bangladesh is not a cotton-growing country.(Bangkok Post, April 5,1994)

In 1991, the textile and clothing

industry in India had suffered from the recession in the West as well as its loss of sales to the former Soviet Union. However, in fiscal year 1991-1992, its export reached $5.41 billion surpassing the target, mainly due to the textile sector.

Transforming the Economy of Myanmar

Myanmar's processing and manufacturing sector is less than 7% of Gross Domestic Product at current producers' price in 1994-95(or 9.4% at 1985-86 constant producers' prices). These include mainly of agriculture based production such as rice, sugar and fish paste etc.. Textiles and clothing industry constitute a small fraction in this sector. The progress of production in clothing and apparel sector can be seen in the following indexes.

Year	Index
1985-86 base year	100.0
1991-92	74.9
1992-93	97.0
1993-94 provisional actual	92.0
1994-95 provisional	124.3

(Source: Review of the financial, economic and social conditions for 1994-1995)

The review states that textile industries are being operated on a consignment basis (like Philippines) with foreign and local private entrepreneurs to enable full capacity utilization of mills and factories. In the exports list, the quantity and value of textile or clothing is not specified as a separate item because these are not significant exports of the country.

In fact, Myanmar is not even self-sufficient in textile and clothing sector. Since independence in 1948, the then government established textile spinning and weaving mills and at the same time encouraged the industrialization of the private sector. Most of the private sector used textile yarn as raw material both for industrial weaving looms and hand-looms. By the time of take over of the country by the military in 1962, the private textile sector had achieved certain quality products, and especially in the hosiery (vest) sector the country was self sufficient. Under the early years of socialism raw materials were rationed to the private sector and some mills operated on a consignment basis with Trade Ministry, i.e. getting raw materials and delivering finished goods at fixed processing rates. In late 1968, private textile mills and factories were nationalized and subsequently placed under the Ministry of Industry. With available foreign exchange, government allowed some imports of raw materials such as cotton, yarns and dyes, yet it was not sufficient to run the factories at full capacity. Local cotton with domestic gene could be used to produce coarse fabrics such as blankets. Fine count cotton is grown in the middle part of the country but the production is unstable because of the problem of unexpected rains, cotton pest and low fertility. Pesticides and fertilizers were

not sufficient resulting in rationing based on their delivery of crop to State depots which were monopoly buyers. Both cotton prices and textile prices were fixed (actually depressed at less than equilibrium prices) by the government at the highest level, i.e., Ministry of Planning. This procedure resulted in inefficient rationing and malpractices among various echelons of administrative personnel.

By 1962, a handful of private garment manufacturers were starting to export to Hong Kong although the volume was not significant. With the lack of raw materials which could not be obtained locally their innovation was disrupted. By the early 1980s, the Ministry of Industry established new garment factories to attract foreign garment firms to operate on consignment basis. From time to time one or two garment dealers came but they could not continue more than one year due to the inconveniences encountered. The local workforce was fairly educated (most of them studied up to secondary school level) and easily trained. However, because of the prevailing monopolistic system of the government, shipment to and from the country was usually delayed at the risk of the loss of their contracts. Customs Department was somewhat cooperative but it clung to the old rules of the British era, taxing all imported goods and reluctantly making refunds later after checking that all the garments under consignment had been shipped back. Sometimes the delay was so inordinate that the dealers had to ship to the US by plane, in order not to break the contract and incur penalties. When these merchandisers backed out, Daewoo Corporation came in to contract with the newly established factories to start operations. They came and supervised with their technicians to boost the productivity with considerable success. When the new government took power in 1988 and opened up the economy, Daewoo converted their business into a joint-venture with the government. Even then the garment business did not grow because of lack of capital in the hands of local entrepreneurs, insufficient electricity and high transaction costs.

Lao PDR

Even the Lao PDR, a landlocked country, has a truly execrable record of textile and garment exports as follows:

Year :	1989	1990	1991	1992	1993
Exports in US$ Million:	4.0	7.0	15.1	27.3	37.0
Index (1988 =100) :	100	175	377	682	925

(Extracts from "Transitional Economy of the Lao PDR")

Chanthavong Saignasith and Panon Lathouly (1995) commented as follows. "The big improvement of exports in 1992, and 1993 was due to the increased export of garments, logs, and motor cycles as well as re-export of

motor vehicles." In contrast to Myanmar, electricity used to be the largest export commodity of Laos until 1991.

Other Successful Industries in Asia

The progress of textiles and the garment industry does not necessarily mean that other sectors were less successful. In some countries, other industrial enterprises were more successful than this industry. We have also observed that the optimum performence of this particular industry could be sustained only at a certain stage of the economy when the labor is comparatively cheap.

Japan has been overwhelmingly successful in the production and export of the automobiles. During 1980s, Japanese autos flooded into US ports at an incredible rate of 5,200 a day. This success in auto exports emanated not from any single competitive edge but from a complex combination of advantages such as steel, electronics, robotics and quality control. Moreover, Japan has been remarkably successful in ship-building and watch-making industries. With their mastery of microelectronics, Japan introduced integrated circuits, the liquid crystal display and the quartz crystal diode in watch-making. Due to their high labor cost, Japanese manufacturers assembled watches in other East Asian countries such as Taiwan, South Korea and Hong Kong.

South Korea's exports of engineering products during 1963 to 1987 was much faster than those of textiles and apparel. In 1963 engineering products represented 5.7% of total exports whereas in 1987 it rose to a whopping to 41.9%. The following figures of the value of major industrial products reveal the strong position of successful industries in South Korea during 1980.

Firm	**Major Business**	**Sales Turnovers (US$ Billion)**
Hyundai	-Ship building -Industrial equipment -Motor vehicles	5,540
Lucky Group	-Petroleum -Electronics	4,452
Samsung Group	-Appliances -Food -Textiles	3,798

In similar ways, Taiwan did well in plastics, chemicals and electronics while, Singapore outperformed others in motor vehicles, shipping, mechinery and electronics.

Resource-rich Malaysia's economy was shaped almost entirely by tin mines and rubber plantations.("Asian Rising") With the successful combination of import-substitution and export promotion, foreign investment poured into the country. By early 1990s, the output of electronics products was already large, accounting for over half

of all manufactured exports and it rose by more than 30 percent a year. It is the world's third largest exporter of integrated circuits.

Conditions in Europe

There is need for caution among Asians and they cannot afford to be smug or complacent. Some countries in Europe are also doing superbly in textiles and garments. There was a staggering growth of 77.5 percent in Turkey's clothing exports in 1987, followed by modest increases of 8 percent in 1988, and 18 percent in 1989.

In fact, Italy is the king of textiles and clothing in Europe even comparable to China and South Korea. It is stronger in clothing being the home of famous international firms like "Benneton".

For several years the world's biggest trade surplus in textiles and clothing was claimed not by a low-cost Asian country but by Italy, a member of the European Union. In 1988 and 1989, it lost its crown to South Korea but regained its supremacy in 1990 when its surplus rose to $12.6 billion.

Another unheralded performer is West Germany where trade in textiles and clothing is highly concentrated. Exports of its textiles are more highly concentrated than exports of clothing. However, textiles imports are much less concentrated than clothing imports. West Germany is a net exporter of textiles but net importer of clothing. Germany's external trade performance is compared with that of Italy in the following statistics.

According to the report of the Economist Intelligence Unit, July 1992, West Germany continued to be the world's biggest exporter with 12 percent of the world trade, followed by Italy with 9 percent. For the world as a whole, there was a polarization between textiles and clothing, with the leading developed countries strengthening their share of world trade in textiles and the developing countries increasing theirs in clothing.

Mr.Viroj, the president of the

(US$ billion)

Textile and clothing

	Italy			Germany		
Year	Exports	Imports	Trade Balance	Exports	Imports	Trade Balance
1980	8.74	3.42	5.32	9.18	15.2	-6.02
1987	16.31	6.08	10.23	14.71	22.16	-7.45
1988	16.51	6.69	9.82	15.94	23.18	-7.23
1989	17.33	7.26	10.07	16.71	23.66	-6.95
1990	21.33	8.71	12.62	20.38	31.55	-11.17

National Federation of Textile Industries, Thailand, said in 1996 that Germany, the second biggest buyer of textiles and garments in the world, faced declining purchasing power. The country is tending to purchase medium and low-end products, in which Thailand is not in a position to compete with countries like China and Vietnam. (Bangkok Post, June 18, 1996)

An Attempt at Economic Aanalysis

After observing the performance of these countries for two or more decades it could be postulated that for the low-wage countries the conditions in textile and clothing industry tend to cause gradual increase in wage-level up to a certain point, after which the high wage-level leads to decline in total production. In basic economic terms, high wage-level leads to higher marginal cost that exceeds marginal revenue resulting in decrease of output share.

To increase the output an individual firm has two options: (1) To improve the technology to increase the productivity or quality of the product, or/and (2) to outsource the production offshore. The first option will raise the capital/labor ratio. For an individual firm, improved technology will lift the maximum profit level at higher output. Thomas F. Dernburg, in his "Macroeconomics: Concepts, Theories, and Policies" proves that technical process offsets diminishing returns to capital and permits the capital stock to grow more rapidlyly than the labor force.(p.333). At the macro level, new investment necessitates savings which in turn demands an increase in interest-rate. An increase in interest-rate will tend to reduce the marginal propensity to consume, and it is important to maintain this rate at a certain level specially in countries with obvious inflation rate.

Offshore outsourcing option is possible only on the assumption tht there are still poorer countries which could catch up with the opportunity given by the neighboring rich countries. The basic condition for catching up in the garment industry is adequate electricity (power) and appropriate infrastructure such as port facilities and telecommunication. Of course, political stability and credible government policy would also be prerequisites.

The garment industry is a business which could be started on a small scale as a cottage industry. Recently, Asian Development Bank has given priority to garment cooperatives in Bangladesh on the ground that the prosperity of this sector gives women an opportunity to become bread-earners resulting in an enhancement of their status in relation to men. As the industry could be established in any location if electricity and transportation are available, the growth of this industry narrows the income inequality gap between rich and poor, man and woman and town and village.

As the Asian countries have

proved, the competitive edge of low-wage labor cannot be sustained for more than two decades depending on the rate of development of an individual country. But, that kind of development must enjoin the equitable distribution of income; otherwise, the poor people will remain poor and their wage may still be depressed. With the gradual loss of this competitive edge, the rich countries transfer this sector to poor neighbors in the region resulting in more Foreign Direct Investment, transfer of technology and employment. That transfer must not be a mere spill-over if it is to score as the steam for the locomotive engine of development of poor countries.

In this respect and in the light of Asia's success we should consider Robert E. Lucas, Jr.'s question, "Why doesn't capital flow from rich to poor countries?" Looking at Japan, South Korea and Taiwan, that are investing in China, Malaysia, Indochina and Thailand. We are not in a position to deny that capital does flow at least to a certain extent, if not on a massive scale. They would have repatriated part of their profits but, instead, reinvesting retained earnings for expansion in host country is more profitable than bringing back the profits home. The host country is even uplifted to become a production base or regional distribution hub of the investing country. These multinationals may own the companies in host countries or may change paper ownership among them but they could not take out the physical capital or technology or the skill they have helped develop. The capital flow will definitely come if the host country has minimal "political risk" and credible government.

Professor Paul Krugman commented in late 1994 that Asian growth was not a miracle but a mere outcome of investment by Western countries. Looking at Singapore and Philippines, it is undeniable that Western investments played a considerable part, however it depends on favorable conditions and effective use of these investments and loans. Without an acceptable economic policy and a credible government these investments would not have flowed in. There were many cases in other spheres of the world where foreign investments failed. Of course, short term capital flows would be able to boost an economy at least for the short run but these could endanger the stock exchanges and foreign reserves of the host coumntries when they pull out suddenly, not because of that country's internal condition but because of their manouvering on global markets.

Another factor for an individual Asian country's success was due to American involvement at the early stage. At that particular period, American aid and support was critically important for the recuperation of their economy. The Japanese learnt American management techniques during the occupation especially Dr. William Edward Deming's statistical quality control. Even the imposition by the MacArthur administration became life-

time employment policy of the Japanese multinationals. Jim Rohwer ("Asia Rising") points out that the massive influx of American foreign aid into Taiwan and South Korea in the 1950s came at a crucial time when those nations were struggling to generate capital for growth. American aid to Taiwan in the 1950s and 1960s clearly helped the island to become essentially self-supporting in the 1970s especially by financing infrastructure. American intervention in the Vietnam war brought future NICs roughly a decade of breathing space, and that was enough to save them. To quote his words, "In economic terms,by the mid-1970s all these countries had entrenched the policies which over the following generation were to bring them such extraordinary success. They were given an immense fiscal boost to start with by the heavy spending that America's Vietnam war effort brought to the whole region;.....". In this way, Japan and Taiwan benefited during Korean war whereas Thailand and Singapore benefited during Vietnam war. But what is more important is that at the time of removal of American support which could have overshadowed their respective economies most of the Asian countries had prepared for that day and chosen respective corrective paths in the aftermath of America's long shadow.

However, before the historicity of the performance by the so called Asian tigers and dragons could be established irrevocably a number of countries in the region were engulfed in crises of tremendous proportions. In Thailand it originated in the property sector where supply outstripped demand. The default of the property sector hit hard the finance firms that used to take advantage of international banking facilities and Eurobond market. International hedge funds and speculators that noticed the excessive borrowing of Thailand attacked the Thai baht massively in spot and forward markets resulting in a vigorous defence by the Bank of Thailand but without success. The same fate also fell upon Malaysia, Indonesia and Philippines that were also plagued with superfluous property developments and speculative financing by banks and other credit agencies.

One possible factor is that with the recovery of the US economy, foreign investors rushed to invest in fixed-income securities creating huge capital inflow into the US market. Consequently, foreign net purchase of long-term US government and corporate bonds jumped dramatically diverting the funds from Asian countries. The financial markets in Asian economies were so fragile that they could not bear the burden of such a massive drain.

It would be too early to conclude that Asian economies are going under because their basic fundamentally are still strong. For example, Thailand's export for the first nine months(January to September,1997) was 15% higher than that of the corresponding period in 1996. During that period, Thai garment exports improved substaintially and are also expected to increase by 15% in

1998. With rescue packages from IMF, and internal financial reforms, Asian economies are expected to crank up their respective growth engines in the not too distant future.

The final question to be tabled is whether the Asian countries can catch up and converge with the Western advanced economies in the forseeable future. To this question, the best answer would be "yes", "no" and "don't know". It could be "yes" for the countries like Japan and Singapore, but a question mark for countries like South Korea and Taiwan, while "no" to currently transforming countries like Cambodia, Laos and Myanmar and other South Asian countries. In this respect, Lant Pritchett, a senior economist in the Poverty and Human Resources Division of the Policy Research Department of the World Bank, in his article, "Forget Convergence: Divergence Past, Present and Future" (Finance & Development, June 1996), gives the following reasons.

1. More than half of the developing countries had negative growth during 1980-93.
2. Four-fifths of the developing countries which had a positive growth rate in the same period could not exceed the average (2.2 percent) registered by the high-income countries.
3. Since 1980, only 10 developing countries have had growth rates that were more than 1 percentage point higher than the average for high-income countries.

He argues that the examples of Japan and Korea, if anything, demonstrate the possibility of "policy-conditional" convergence. According to him, rapid growth is not the result of being poor – it is the result of creating a set of policies that facilitate rapid growth. The Asian region, which is the focus of this paper, has its network of trade, investment, finance and communication in such a sophisticated way that some scholars designate it as "Asia Inc.". Since these countries are planning to build an Asian highway as well as cyber-highways it would not be too optimistic to state that convergence might start from the Asian region.

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