

**Comparative Advantages of the Indian and Chinese Apparel Industries:
An Analysis of the Global Value Chain**

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Background and Purpose: After elimination of Multi Fiber Arrangement in 2005, the global apparel industry has been under major reconstruction. Though a number of studies examined comparative advantages of the national apparel industries in developing and developed countries (Gereffi & Memedovic, 2003), no research contrasted comparative advantages of the Indian and Chinese industries. Each of these industries has its own strengths and weaknesses due to historical and institutional conditions, and the competitions between the two have important implications for the future development of the global apparel sector (Tewari, 2005). It is the purpose of this study to investigate comparative advantages of the Indian and Chinese apparel industries.

Theoretical Framework: The study applies the global value chain (GVC) framework to explain comparative advantages of China and India's apparel industry. GVC includes raw material/fabric supply, manufacturing, transportation and logistics services, and marketing and retail (Gereffi & Memedovic, 2003). The framework implies functional integration between internationally dispersed activities pertaining to a specific product, including productions, trade, and consumption, with each activity being carried out wherever the necessary skills and materials are available at a competitive cost (Gereffi & Memedovic, 2003). Comparative advantages refer to the competing advantage a country possesses in a particular industry relative to other competing countries (Porter, 1998). Because each activity in the apparel GVC generates different value-added and market power, countries' competing advantages vary depending on their participation in different activities. This study's assumptions are: (a) higher-value-added activities in a national industry lead to greater comparative advantage (Porter, 1998) and (b) countries can enhance comparative advantages through industrial upgrading by gearing towards higher-value-added activities (Palpacuer, Gibbon & Thomsen, 2006).

Design/methodology/approach: Secondary data for each country, China and India, were collected and analyzed separately for each component of the apparel global value chain, i.e., raw material supply, manufacturing, transportation and logistics services, and marketing. In particular, three broad groups of data sources were consulted: (a) industrial and official websites from India, China, and international organizations, (b) existing literature and publications, and (c) relevant news websites.

Findings: Comparative advantages of the Indian and Chinese apparel industries were identified as the result of analyses of GVC components. It was found that India had comparative advantages in higher-value-added activities such as specialization in small-order manufacturing, product design and development, and establishing domestic brands. In contrast, China has comparative advantages in higher-value-added activities such as high-tech fabric production, economy of scale, vertically integrated production, and efficient logistic. In addition, India has comparative advantage in lower than China labor cost. However, this advantage is off-set by lower level productivity in comparison to China and inefficient labor system in India.

Based on each industry's comparative advantages, upgrading opportunities for the Indian and Chinese apparel industries were identified. Improving full package services was identified as one of key areas for both industries to upgrade. On top of that, for India, it is vital to take its advantages in product



development and specialized manufacturing such as embroidery and hand-sewing, and fully exploit the opportunities of establishing world-leading niche markets. The Indian apparel industry should focus on reducing production cost, such as by employing technology and improving productivity. On the other hand, due to its diminishing competitiveness in low labor cost, it is unavoidable for China to upgrade its apparel industry by engaging a higher degree of high-value-added GVC activities, such as developing original brand manufacturing. In particular, the Chinese apparel industry needs to fill the gap in the areas of designing and marketing.

Significance/Implications: The study is the first attempt to comparatively examine the Indian and Chinese apparel industries. The analysis of comparative advantages based on the global value chain framework allowed to contrast strengths and weaknesses of the two major producers and exporters in the global apparel market. The findings of this study can help the Indian and Chinese governments to form apparel industry upgrading policies, as well as provide guidance to individual companies for moving up the value chain.

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