ABSTRACT

Implications of WTO on Cotton Textile Industry

(A) Focus of the Study

1. The study examines developments in foreign trade of the Indian textile industry, in relation to cotton and non-cotton segments for low value added and high value added product groups, in the backdrop of the trends and policies of the overall foreign trade of India in recent years from 1994. The Agreement on Textiles and Clothing (ATC) of the World Trade Organisation (WTO) was in operation from January 1995 to December 2004. The implementation of ATC as part of WTO agreements resulted in phasing out of quantitative restrictions (QRs) on imports of textiles and clothing. The textiles sector has been integrated with the provisions of General Agreement on Tariffs and Trade (GATT) of WTO from January 2005. Thereafter the sector does not have any differential treatment in global trade as distinct from other sectors. In the analysis attempted in the study, ATC period and post-ATC period are important landmarks. ATC period has also been divided into two phases of five years each.

(B) Implications of Post-ATC Scenario on India and Other Asian Developing Countries

2. Quota free regime of international trade from January 2005 has made a positive impact on the Indian textile and clothing (T&C) exports, as well as on the overall exports of the country. Share of cotton T&C exports in total T&C exports has increased to around 63% in recent years, and has been steadily increasing, while that of non-cotton T&C exports has come down to around 37%. The trade has been shifting towards higher value added products, namely, readymade garments and made-ups from the earlier stage of exporting raw materials and intermediate products (fibre, yarn and fabrics). Non-cotton textile imports accounted for 75 to 83 per cent in recent years, and cotton textile imports remained around 17 to 20 per cent. Non-cotton imports is, thus, dominant in T&C imports. The imports largely consist of extra long staple cotton. In case of all textile imports, China continues to be the leading source country. This is followed distantly by USA and Australia. The share of China and other developing countries has increased, and of developed countries declined over years. In case of raw cotton, USA continues to be the leading source country, followed by Egypt and Burkina Faso.
3. India has been a beneficiary of liberalisation in the T&C trade in the post-ATC era, increasing its share in global T&C exports from 2.2% in 1990 to 3.36% in 2000, and 3.58% in 2006. In 2009, it is estimated to have reached 4.5%; and is targeted to reach 8% by 2020. China has increased its share from 8% in 1990 to 14.6% in 2000, and 27.2% in 2006. Five Asian suppliers emerged in the list of top ten suppliers indicating the dominance of Asia in the world T&C exports. The share of USA in world T&C exports has declined. During the post-quota period, a few developing countries which were not significant in T&C exports earlier, have emerged stronger.

4. Although quotas have now ended, tariffs established within the ornate system of bilateral apparel and textile agreements between countries continue to shape the map of global textile trade. On account of full or partial relief from their partners’ standard tariff rates, the trading partners enjoy a substantial competitive advantage over competitors excluded from such agreements, including India. While the developed countries enjoy a more liberalised trading regime, the growing non-tariff barriers (NTBs) have been severely affecting the exports of developing countries. Ironically, the developed countries are increasing protectionism while the developing countries are liberalising their trade,

(C) Global Scenario in T&C Exports, Emerging Trends, and Growth Opportunities

5. The trend of global T&C exports is as follows. During the first three years of post-quota period (2005-2007), global T&C trade recorded an accelerated growth as compared to the quota period, indicating that liberalisation of T&C trade has helped global textile industry. In 2008, the trade in T&C has slowed down largely because of recession in developed countries, resulting in lower demand for T&C products. In recent years, clothing as per cent of T&C exports accounts for more than 60%, and also recorded higher CAGR compared to textile exports other than clothing (7.9% and 5.1%, respectively). T&C production is continuing its shift towards low cost producing developing countries such as China; and India, Bangladesh, Pakistan, and Sri Lanka in South Asia.

6. The process of adjustment in the post-quota-trade continues unabatedly, and it is somewhat early to assess the full impact of post-quota factors on the global textile sector. However, some emerging trends can be discerned as follows.

- Rise of “Fast Fashion, increased consolidation and vertical integration of manufacturing facilities”.
• Higher emphasis on “full package solutions” rather than just “cut – sew - assembly” operations.
• Greater linkages amongst production systems of exporters from different countries leading to proliferation of regional supply networks.
• Increasing demand for corporate social responsibility, ethical trade, and compliance with labour and environmental standards.
• Another interesting feature of the post-quota world is the fact that the global trade is shifting towards value added textile goods such as clothing in greater measure.

(D) Direction of Indian T&C Exports

7. Highlights of analysis of the direction of Indian T&C exports are as follows. USA continues to be the leading market with a share of 20.4% in 2008-09 followed by UK and German Federal Republic with 7.9% and 7.6%, respectively. EU of 27 countries accounted for 36.6%. The combined share of EU and USA is 57%. The Middle East countries – UAE and Saudi Arabia -, and Bangladesh have become preferred destination in the post-quota period. The emergence of Middle East countries as preferred destination has given a new dimension to the Indian T&C export trends. Performance of T&C exports is better in the post-quota era in UAE, Bangladesh, China, Sri Lanka, Pakistan, and Afghanistan compared to earlier years, against a decreased market share in USA, Canada, Japan, etc.

8. The direction of RMG exports reveals that USA is the leading market with a share of 24.8% followed by UK and German Federal Republic with 11.8% and 10.3%, respectively in 2008-09. Canada, UAE, and Saudi Arabia are in the top 10 countries, apart from a few countries of EU. The competition is fierce in clothing sector compared to textiles. India’s performance in Middle East countries has increased in recent years for clothing exports. In respect of textiles other than RMG, major countries of imports from India are EU and USA (combined share 47%), followed by UAE, Bangladesh, Sri Lanka, Pakistan, Saudi Arabia, Korea Republic, etc. In the post-quota period, specialisation and addition in value chain have become important for T&C exporters.

(E) Major Challenges for Indian T&C Exports and Perspectives

9. In the external market, Indian textiles industry will continue to face two major challenges. First, competition from other developing countries which have taken to outward orientation much earlier than India, and have thereby enhanced their international competitiveness. Second, from non-tariff barriers in industrial countries in the guise of environmental, health, safety, and technical standards. Competition can be
expected from the whole spectrum of goods from the lowest quality to the highest quality. Indian Government is already taking a number of measures to protect and develop the Indian cotton textiles trade. However, our efforts are not sufficient to meet the global required standards as small countries like Vietnam have been showing better results in the growth of cotton textiles exports.

10. The focus and priority in future years has to be on increasing production, and exports of high value added products, and bringing about technological upgradation and modernisation, and diversification and vertical integration of the product range in the entire value chain of textiles. Development of organic cotton and focus on technical textiles are important directions for the future. India will have better prospects to contribute to the major share of global cotton textiles trade, in view of its highest acreage advantage in the world, and availability of human resources, if we improve our technological skills in all aspects at a faster pace, and facilitate integrated value chain in the industry. Only then Indian cotton textiles industry can compete and operate efficiently. The Indian T&C exports have the resilience and strength to face the challenges and continue to grow in the competitive environment.