CHAPTER – VII

IMPACT OF WTO ON SELECTED INDUSTRY: TEXTILE AND CLOTHING INDUSTRY
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In this chapter an attempt is made to analyse the various Agreements and Instruments concluded by the WTO concerning the Textile Industry and the policies of the Government of India initiated to meet these Agreements and Instruments. The features and growth of Textile Industry in India, the impact of WTO Agreements on this Industry particularly, on the imports and exports of Textile products and so on are discussed in this chapter.

Besides agriculture, textiles and clothing is the other industry, which has separate and independent Agreements multi-laterally negotiated, under the aegis of WTO. This is hardly surprising, considering the significant share of textiles and clothing in the international trade basket of several developing countries. The international trade in textile and clothing is being transformed significantly owing to the phasing out of the Multi-fibre Arrangement (MFA) era, and ushering in of the era of quota-free trade. This has changed the entire pattern of global trade which suddenly became busy preparing its own national strategy for competitiveness in the new scheme of global trade. The Agreements in the textiles and clothing remains the principal driver of such a mammoth economic earthquake in this sector.
BRIEF HISTORICAL BACKDROP

International trade in textiles and clothing is a classic exception to the objective of GATT all along its history. After the end of the Second World War, restrictions on cotton textiles began to be applied under the Voluntary Export Restraints Provision of the GATT. At a GATT Ministerial meeting held in November 1959, the US pointed out that sharp increases in imports over a brief period of time could have serious economic, social and political repercussions in the importing country. It was at the behest of the US that the Short Term Cotton Arrangement (STA) came in 1961. Textiles came to be acknowledged by the GATT as a "Special Case". The STA was followed by a Long Term Arrangement (LTA) which was in force from 1962 to 1973, which in turn, was followed by the Arrangement Regarding International Trade in Textiles, better known as Multi-fibre Arrangement. This remained in force from January 1, 1974 to December 31, 1994. These arrangements set aside for the sector, the rules and disciplines of Articles XI (General Elimination of Quantitative Restrictions) XIII (Non-Discriminatory Administration of Quantitative Restrictions) and XIX (Emergency Action on Imports of Particular Products). The principle of Most Favoured Nation (MFN) treatment was thrown out of the window.2

Thus, if meaningful liberalization to trade was to be achieved at the Uruguay Round (UR), the MFA had to go, and the rules applying to industrial

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goods had to be extended to textiles and clothing. It is against this backdrop that the Agreements in Textiles and Clothing (ATC) assume significance. Specifically, ATC presents some definitive advantages over the MTA era, viz.,

- It puts an end to the long life of MFA;
- it brings textiles and clothing at par with all other industrial products, and the sector ceases to be a "special case"; and
- it is self-destructive, since it definitively extinguishes itself on December 31, 2004.

Immediately after the advent of WTO, the imports of textiles have grown remarkably. However, what is perhaps not well known is that the growth rate of import of textiles into India has been more rapid before WTO came into existence than after India’s commitments to reduce its import tariffs into effect. It is not correct to blame WTO for such import surges in textiles in recent times. Undoubtedly, the exchange rate devaluation in 1991, and the consequent depreciation of the Indian Rupee played a role in increased import value reported in Rupee terms in Table. However, data on total textile imports in US $ terms do reflect a different story. Unfortunately, on disaggregated data on import of textiles is not readily available in order to arrive at a reasoned judgement.³

Perhaps, the hue and cry being raised by the domestic industry owes itself to the perception that India’s commitments to WTO, and its bi-lateral
Agreement with the USA and EU relating to removal of QRs and reduction in bound and applied tariff rates, is the chief culprit for the rising import values. That certainly is not the case.

Integration of textile and clothing into GATT 1994, according to the plan laid out in the ATC, would definitely increase the magnitude of global textile and clothing trade. That clothing would be the engine of growth of such massive trade also appears to be quite clear. Market access to WTO member countries would become more predictable (with bound tariffs) and transparent (owing to Trade Policy Review Mechanism of GATT 1994). Moreover, with progressive reduction in tariffs themselves, the world is likely to see its massive price effect on trading volumes.4

However, all this came along with the greater and global nature of competition. Internationalisation of operations in order to realize most cost-effective overall operations led to a borderless world. No firm remained unaffected by the globalisation that is well under way. And all firms are required to match their operational effectiveness to that of best global competitor. In the emerging world of unfettered capitalism firms would have to run in order to stand where they are Textile and clothing is no exception to this rule.5

Notwithstanding the wind of globalisation that is sweeping the international trading landscape, the counter-force of protectionism is already
rearing its head among the developed countries in textile and clothing sector. For, in this sector, comparative advantage particularly, in clothing certainly lies with the relatively low labour costs in Asian Countries. With most over projectionist weapons having been prohibited under the WTO regime, newer forms of protectionism under the umbrella term of NTBs are emerging. And the developing countries need to guard against such tendencies. The guarding may better ensue quickly.\(^6\)

Indian textile and clothing industry contributes nearly 4 per cent of national product, earns 35 per cent of national foreign exchange, and supports over 6.5 million persons directly and indirectly. It is therefore, of paramount importance that the changing trends in the global trading system should be studied carefully, and industry’s competitiveness be ensured immediately. It is time for the industry to understand the nuances of WTO Agreements, and widen its scope to reach global frontiers of knowledge if the industry is to survive in the mounting competition that has already set and it ultimately depends upon an effective combination of national circumstances and trade strategies. The existing conditions in a nation may create an environment in which firms attain international competitive advantage but it is upto the company to seize the opportunity.\(^7\)

**COTTON AND TEXTILE INDUSTRY IN INDIA – A BRIEF NOTE**

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The Cotton and Textile Industry is the oldest Industry in India, having made its impact some 150 years back when the cotton spinning was introduced in the organized sector. This was the period when production of yarn was shifted from professional skills of the individuals to mechanical machines. Some textiles units were established in Maharashtra and Gujarat. Although it was considered as a threat to the manual workers engaged in spinning of yarn, this industry had a steady growth. This growth was further accelerated after 1950 and today textile and clothing industry contributes to 25 percent of industrial production of the country.

The textile and cotton industry of India has witnessed a revolution that has gone virtually unsung and unheralded. Overcoming long periods of chronic short supply due to low level of harvest, accompanied by considerable instability from year to year, the country has achieved a qualitative and quantitative breakthrough. Presently, the production is well above the 100 lakhs bale mark and embraces a wide range of varieties with spinning values from 2 counts to 120 counts a feat no other country can match. Because of this transition the units based on cotton reign supreme in our textile industry and production of yarn has increased by leaps and bounds and cotton yarn has emerged as a major foreign exchange earner. The fortunes of spinning mills are also looking up with both, the number of spindles installed and also the order of their utilization showing a very encouraging trend in recent years. 8
In recent past, the Textile and Clothing Industry is undergoing rapid restructuring globally as well as in India. Being labour intensive, the industry is showing shift from industrialized countries to developing countries. As a result, global trade in Textile and Clothing is increasing at a fast pace. The global trade in Textile and Clothing was placed at $ 350 billion in 1997, the Indian share being $ 10 billion (2.8%).

In India, the Textile Industry contributes 7% of the GDP and 17% of the value added in the manufacturing sector. It is the largest employer of industrial work force totaling 27 million workers. The Textile Industry is the single largest foreign exchange earner accounting for 32% share in the country's exports amounting to over Rs. 35,000 crores. The exports have been growing at over 20% for the last 5 years. The industry has significant advantage in terms of the availability of wide variety of cotton, low cost labour and a large domestic market. The export potential of clothing and textile Industry alone is estimated by various experts from $25 billion to $40 billion by 2010.

Though agro-based, the growth prospects of the cotton and textile industry are closely linked with the entire industrial sector, trade and exports. In the race to meet the clothing needs of the people, it has been left behind by the opening synthetic fibre industry. The textile industry has a high weightage of over 20 per cent in the national industrial production index. It provides direct employment to over 15 million persons in the mills, powerlooms and handlooms units. Annual textile exports ranging between
Rs.16000 and Rs.17000 crores account for nearly 30 per cent of country's total exports.

The per capita cotton availability was just 10.5 meters in 1991-92 compared with around 13.5 meters in 1985-96 and nearly 15 meters a three decade ago. The decline per capita cotton cloth has been mainly because of the growing shift towards the man-made and blended cloth as also due to national constraints faced in stepping up the availability of the basic raw material and cotton.

At the turn of eighties (1981-82) out of the total cloth production of 10981 million meters mills sector accounted for 34.7 percent, power looms 41.4 percent and handlooms 23.9 percent. By 1985-86, these proportions were 20.6 percent, 55.4 per cent and 24.0 percent respectively of the total cloth output of 17213 million square meters. In 1992-93 share of the mills output in the total cloth production of 23140 million sq. mts. Further, reduced to 9.7 percent, the power looms however, enhanced their share to almost 72 per cent while that of the handlooms stood at 18.4 percent.

These changes are also reflected in the fluctuation of spun yarn production over the years. While the total yarn output rose by an annual average of 3.34 percent from 12.98 lakh tonnes in 1980-81 to 18-19 lakh tonnes in 1992-93, that of cotton yarn increased by 3.55 per annum from 10.67 lakh tonnes to 15.23 lakh tonnes during the same period.

During this period, the output of mixed and 100 percent non-cotton yarn increased from 2.31 lakh tonnes to 3.72 lakh tonnes. In fact the step
Increase in the annual production of cotton fair monsoons and Government policies have contributed for this increase in the growth of Textile Industry in India over a period of time can be seen from the following Tables.

Table VII:1
CLOTH AND SPUN YARN PRODUCTION IN INDIA CLOTH PRODUCTION
('000 Tonnes)

<table>
<thead>
<tr>
<th>Year</th>
<th>Mills</th>
<th>Powerlooms</th>
<th>Handlooms</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>3544</td>
<td>9534</td>
<td>4135</td>
<td>17213</td>
</tr>
<tr>
<td></td>
<td>(20.6)</td>
<td>(55.4)</td>
<td>(24.0)</td>
<td>(100.0)</td>
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<tr>
<td>1986-87</td>
<td>3483</td>
<td>10149</td>
<td>4305</td>
<td>17937</td>
</tr>
<tr>
<td></td>
<td>(20.2)</td>
<td>(58.9)</td>
<td>(24.9)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>1987-88</td>
<td>3178</td>
<td>10429</td>
<td>4370</td>
<td>17977</td>
</tr>
<tr>
<td></td>
<td>(17.7)</td>
<td>(58.0)</td>
<td>(24.3)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>1988-89</td>
<td>2902</td>
<td>13123</td>
<td>3993</td>
<td>20018</td>
</tr>
<tr>
<td></td>
<td>(14.5)</td>
<td>(65.6)</td>
<td>(19.9)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>1989-90</td>
<td>2667</td>
<td>14007</td>
<td>3924</td>
<td>20598</td>
</tr>
<tr>
<td></td>
<td>(12.9)</td>
<td>(68.0)</td>
<td>(19.1)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>1990-91</td>
<td>2589</td>
<td>16044</td>
<td>4295</td>
<td>22928</td>
</tr>
<tr>
<td></td>
<td>(11.3)</td>
<td>(70.0)</td>
<td>(18.7)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>1991-92</td>
<td>2376</td>
<td>16089</td>
<td>4123</td>
<td>22588</td>
</tr>
<tr>
<td></td>
<td>(10.5)</td>
<td>(71.2)</td>
<td>(18.3)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>1992-93</td>
<td>2255</td>
<td>16630</td>
<td>4255</td>
<td>23140</td>
</tr>
<tr>
<td></td>
<td>(9.7)</td>
<td>(71.9)</td>
<td>(18.4)</td>
<td>(100.0)</td>
</tr>
</tbody>
</table>


Note: Figures given in the brackets indicates percentage to the total.
<table>
<thead>
<tr>
<th>Year</th>
<th>Cotton 100%</th>
<th>Blend/Mix Non-Cotton</th>
<th>Total</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>1067 (82.2)</td>
<td>231 (17.8)</td>
<td>1298 (100.0)</td>
<td></td>
</tr>
<tr>
<td>1984-85</td>
<td>1183 (85.6)</td>
<td>199 (14.4)</td>
<td>1382 (100.0)</td>
<td></td>
</tr>
<tr>
<td>1985-86</td>
<td>1253 (86.2)</td>
<td>201 (13.8)</td>
<td>1454 (100.0)</td>
<td></td>
</tr>
<tr>
<td>1986-87</td>
<td>1302 (85.3)</td>
<td>224 (14.7)</td>
<td>1526 (100.0)</td>
<td></td>
</tr>
<tr>
<td>1987-88</td>
<td>1321 (85.0)</td>
<td>234 (15.0)</td>
<td>1555 (100.0)</td>
<td></td>
</tr>
<tr>
<td>1988-89</td>
<td>1310 (82.5)</td>
<td>277 (17.5)</td>
<td>1587 (100.0)</td>
<td></td>
</tr>
<tr>
<td>1989-90</td>
<td>1372 (83.1)</td>
<td>280 (16.9)</td>
<td>1652 (100.0)</td>
<td></td>
</tr>
<tr>
<td>1990-91</td>
<td>1510 (82.8)</td>
<td>314 (17.2)</td>
<td>1824 (100.0)</td>
<td></td>
</tr>
<tr>
<td>1991-92</td>
<td>1450 (80.3)</td>
<td>356 (19.7)</td>
<td>1806 (100.0)</td>
<td></td>
</tr>
<tr>
<td>1992-93</td>
<td>1523 (80.4)</td>
<td>372 (19.6)</td>
<td>1895 (100.0)</td>
<td></td>
</tr>
</tbody>
</table>

Note: Figures in brackets indicate percent share to the total

SOURCE: Reports of National Institute of Fashion Technology (NIFT), New Delhi, 1997.
India's exports of textiles, including handlooms, touched Rs 41,829 crore at the end of 1996-97, showing 17.7 percent growth in terms of rupees and 10.6 percent in dollar terms. Of the total exports of the country textiles were to the tune of Rs 35,476 crore with ready-made garments accounting for 50 percent of it standing at Rs 10,329 crore during the same period.11

EXIM POLICY 1997-2002

The Government of India introduced the Exim Policy in 1997 to meet the requirements of the Industry emerged as a consequence of globalisation. The major feature of this Policy is the abolition of two special value-based advanced license schemes (V.B.A.L) meant exclusively for the garment sector.

The Industry desired that the import of fabrics for exports should be made duty free, the ready-made garment markets have pleaded that they be allowed additional import of 50 per cent over and above the entitlement. The Commerce Ministry has supported this, the Textiles Ministry was silent, while the Finance Ministry has rejected it.

The Textile Industry's contention is that the fabric it use must be of high international quality for export to withstand global competition and hence the need for importing fabrics. The Government has to ensure that the fabric available to the Industry is of high quality, through imports or by upgrading the quality of domestic fabrics.13
The new policy not only simplifies procedures and ensures greater transparency but encourages higher value units realization for quota items.

**PRODUCTION OF YARN**

The total yarn production in India increased at a rate of 5.19 per cent per annum from 1382 million kgs. in 1985 to 2808 million kgs. in 1999. Production of blended yarn grew up over the 15 years at the rate of 11.54 per cent per annum, which is larger than the rate of growth (3.90 per cent) in cotton yarn production. Further, the share of cotton yarn output fell from 86 per cent in 1985 to 72 per cent in 1999. The outputs of blended and 100 per cent non-cotton yarn have increased their respective shares marginally to 21 per cent and 7 per cent, respectively, from 9 per cent and 5 per cent in 1985. Production of yarn of all kinds has declined to 2808 million kgs. in 1999 from 2973 million kgs. in the year 1998.¹⁴

**SECTOR-WISE FABRIC PRODUCTION**

The handloom and powerloom sectors are the major producers of fabric. Their share in total output is 23 and 71 per cent, respectively, as compared to 6 per cent for the mill sector in 1999. The production of fabrics in the cotton textiles industry increases at a rate of 5.66 per cent annum.

The share of mills in the production of fabrics fell from around 27 per cent in the year 1985 to about 6 per cent in 1999, while the powerloom
output grew from 47 per cent to 71 per cent over the same period. The upward trend in the production of powerloom sector is mainly due to its decentralized operations, which have contributed to keep production costs less compared to the mill sector. The downward trend in production of the mill sector is due to decline in the off-take of mill-made cloth, the virtual freezing of mill capacity to encourage powerloom sector, and sharp rise in the ideal looms in the mill sector.\textsuperscript{15}

**VARIETY-WISE FABRIC PRODUCTION**

The fabric production has recorded an increasing trend over the years, excepting a marginal setback in 1999. The total fabric production in 1999 at 35,543 million square metres was higher by 195.8 per cent than the production in 1985. The Cotton-based fabrics accounted for 50 per cent of the total output in 1999, a fall from 75 per cent in 1985. The share of non-cotton cloth increased from 14 per cent in the 1985 to 34 per cent in 1999. The shift in production in favour of 100 per cent non-cotton cloth has occurred principally as a result of certain advantages that man-made fibre fabrics have over cotton cloth and changing consumer preferences.\textsuperscript{16}

The sector-wise production of Fabrics during the last 6 years is presented in the following Table [Table 3]
TABLE VII:3

SECTOR – WISE PRODUCTION OF FABRICS IN INDIA

(Million sq. mtrs)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mills</td>
<td>1,948</td>
<td>1,785</td>
<td>1,714</td>
<td>1,670</td>
<td>1,546</td>
<td>1,498</td>
<td>1,425</td>
</tr>
<tr>
<td>Powerlooms</td>
<td>27,345</td>
<td>26,966</td>
<td>29,561</td>
<td>30,499</td>
<td>32,259</td>
<td>33,835</td>
<td>34,586</td>
</tr>
<tr>
<td>(incl.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hosiery)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Handlooms</td>
<td>7,603</td>
<td>6,792</td>
<td>7,352</td>
<td>7,506</td>
<td>7,585</td>
<td>5,980</td>
<td>5,536</td>
</tr>
<tr>
<td>Others</td>
<td>545</td>
<td>584</td>
<td>581</td>
<td>558</td>
<td>644</td>
<td>662</td>
<td>662</td>
</tr>
<tr>
<td>Total</td>
<td>37,441</td>
<td>36,127</td>
<td>39,208</td>
<td>40,233</td>
<td>42,034</td>
<td>41,973</td>
<td>42,209</td>
</tr>
</tbody>
</table>

SOURCE: Reports of DGCIS, New Delhi.

TEXTILE EXPORTS – WTO’s IMPACT

The exports of textiles increased from Rs.1918 crore in 1985 to Rs.44,738 crore in 1999. Foreign exchange earnings through the export of textile grew by more than 23.33 times during this period. The annual growth of these exports is to the tune 25.23 per cent. The total exports of the Textile exports increased from 16.39 percent in 1985 to 31.59 per cent in 1999. But the percentage of textile exports in the total exports of the country declined from 32.47 per cent in 1998 to 31.59 per cent in 1999.

The profitability in the cotton and textile industry is generally lower when compared to other major industries. It can be seen that during the period between 1985 and 1998, the profitability of cotton textile industry in
terms of gross profit to sales (8.63 per cent) was less than the average of all industries (11.14 percent).

It has to be noted that there is a phenomenal growth during the past five decades in the number cotton/man-made textile mills in the organized sector. They have increased five times from 378 mills in 1951 to 1824 mills in March 1999. At the same time, closing rate of textile mill increased from 70 mills in 1985 to 313 mills in March 1999.17

At present, India is second only to China in the World in terms of the capacity of spindles installed. Its spinning share of the world’s spinning capacity increased from 17 per cent in 1985 to 19 percent in March 1999. The number of spindles in installed capacity grew from 25.57 millions in 1985 to 34.72 million in 1999. But, at the same time, the number of looms in installed capacity declined from 210,000 in 1985 to 123,000 in 1999.

The area under cotton cultivation increased from 25 per cent to 28 per cent of the world’s cotton cultivation area in 1998-99. In terms of total volume of production of raw cotton, India ranks third in the world, while the yield per hectare is the lowest among the important cotton-producing countries. The production of spun-yarn increased at a rate of 5.19 per cent per annum from 1382 million kg in 1984-85 to 2808 million kg in 1998-99.18

EXPANSION OF THE TEXTILE INDUSTRY
There are three sectors in the textile industry—mill sector, powerloom sector and handloom sector. The latter two are jointly considered under the heading ‘decentralized sector’. Over the years, the Government has granted many concessions and incentives to the decentralized sector with the result that the share of this sector in total production has increased considerably. For example, while the share of the mill sector in total fabric production was 76 per cent in 1950-51, it fell to 38 per cent in 1980-81 and further to 5.0 per cent in 1998-99. The share of the decentralized sector correspondingly rose from 24 per cent in 1950-51 to 95 per cent in 1998-99. Of the total out of 36,102 million square metres in respect of fabrics in 1998-99, the share of the mill sector was only 1,785 million square metres—the rest 34,317 million square meters being contributed by the decentralized sector. In respect of blended fabrics too; the organized (mill) sector accounted for only 607 million square metres out of a total of 4,888 million square meters in 1996-97. Thus the organized sector contributed only 12.4 per cent of total production of blended fabrics in 1996-97, the balance 87.6 per cent being the share of the decentralized sector.

Of the two sub-sectors—handlooms and powerlooms in the decentralized sector, it is the powerlooms sub-sector that has grown at a faster pace. For instance, in 1998-99, the share of powerlooms in total fabric production was as large as 74.7 per cent, while handlooms contributed 18.8 per cent. There are many reasons for the fast development of the powerloom
sub-sector: (i) Government's favourable policies on synthetic fabric industry; (ii) ability of this sub-sector to introduce flexibility in the product mix in line with the market situation; (iii) low labour costs achieved indirectly through the flexible use of labour itself resulting in lower cost of production, and providing an edge in the market; and (iv) increase in exports from the powerloom sub-sector. There are about 6.5 million employees working in the powerloom sub-sector. As noted above, handloom sub-sector now accounts for about 18.8 per cent total production of fabric. This sub-sector provides employment to about 3 million weavers in households and 12.4 million in complexes and thus total of 15.4 million.

As a result of the policy initiatives Government of India so far, the textile industry has been growing steadily in recent years with the organized sector concentrating mainly on the manufacture of fabrics for export and also the of denim fabric has great demand in the domestic as well as the overseas markets. The increases in quantities of yarn required by all sectors are being provided by the spinning mills while many composite mills have also their spinning units. Purely spinning mills have come up in different States with many large-sized units being promoted for catering exclusively to overseas buyers. There has been almost an 'unconscious division' of work amongst the different sectors of the industry. The organized sector is concentrating on high quality fabrics intended for export and also fabrics based on synthetic
fibres, the powerloom sector is growing phenomenally in stature while the handloom weavers are turning out products with special design. 20

TEXTILE INDUSTRY : PRE – WTO ERA REGULATIONS

The textile and clothing industry liberalization has been built up over a span of more than 30 years, beginning with the Short-Term Arrangement Regarding International Trade in Textiles of 1961. This was followed by a Long-Term Arrangement from 1962 to 1974 and several cycles of the Multi-Fibre Arrangement (MFA) thereafter. The developing countries have widely perceived these restrictions through the quotas as constraints to export growth and their phasing out was a priority in the Uruguay Round. In fact, excepting Japan, no developed economy has an export interest in textiles and clothing is a major export earner. For example GATT estimates for 1993 are that 22 percent of exports of manufactured goods from developing countries consisted of textiles and clothing. Being labour intensive, textiles and clothing are also perceived to be a natural first step towards industrialization in many developing countries. 21

However, there are several concerns that developing countries continue to have about the textiles and clothing liberalization. These can be stated at a general level, although they do vary from country to country. The textiles and clothing sector is one where the interests of Individual developing
countries often conflict. The liberalization of Policies has affected the textile and clothing industry in different countries in the following way.\textsuperscript{22}

First, the liberalization only extends to quantitative restrictions, it does not include tariffs. For example, before the Uruguay Round the average tariff that textiles and clothing faced in developed countries markets was 15.5 per cent. After the Uruguay Round, the tariffs on the Textile exports were reduced to 12.1 per cent. However, several developed countries imports of textiles and clothing continue to be subjected to tariffs of over 15 per cent.

Second, the liberalization is back loaded; most of the liberalization is concentrated in later years. This is the concern articulated by countries like India, Pakistan and Bangladesh. All these countries are low-cost suppliers and are relatively new entrants in the MFA process. Therefore, they possess relatively smaller baseline MFA quotas and would have liked the liberalization to be faster. In contrast, countries like Korea, Hong Kong and Taiwan were early entrants and tend to have higher baseline quotas. They have also been concerned about high wages eroding export profitability and displacements in exports taking place from low cost suppliers. Such countries have therefore not been very insistent in demanding a faster pace of liberalization.

Third, protection could resurface through alternate means, such as anti-dumping or countervailing duties.
Fourth, there are developing countries that perceive themselves to be uncompetitive suppliers of textiles and clothing and erosion in market share is therefore possible. This is not a concern that is felt only in India. The Brazilian textile industry has also voiced similar apprehensions.

Fifth, there is provision of temporary selective safeguards, as was mentioned in the last section. This could nullify many benefits of the liberalization. And such concerns exist despite restrictions being placed on the use of transitional safeguards. An example of such a safeguard measure being used is the imposition of quota restrictions on exports of gents jackets, ladies jackets, ladies, blouses and gents shirts from India to the United States. The US argued that the American woolen industry was injured as the result of a surge in imports from India. Several consultations on this issue were held between India and the United States. And since the consultations were unsatisfactory, the US has decided to impose quotas. Once this happens, India will have to take this before the TMB for redress.

Rather paradoxically, many welfare gains from the textiles and clothing liberalization accrue to developed countries, not to developing countries. In a protected regime, there are welfare losses to the consumers because of higher prices that have to be paid. Correspondingly, there are welfare gains to the producers because of the protection. When there is compensation for the welfare losses to the producers, there is welfare gains for the economy as a whole. Quantitative exercises done on the effects of the textiles and
clothing liberalization show that the largest global welfare gains accrue to developed countries because of the lower prices that consumers have to pay in those countries. In contrast, welfare gains that accrue to producers in developing countries are not all that much.

**WTO's AGREEMENT ON TEXTILES AND CLOTHING (ATC)**

The Agreements on Textiles and Clothing (ATC) as part of the WTO came into effect from January 1, 2005. The WTO Agreements follow two routes for the liberalization of trade in textile and clothing industry sector. First through abolition of quotas on specified products after the transition period of 10 years. This abolition will be 16 per cent of the total volume of imports into quota countries in 1990 on the date of the commencement of the agreement i.e., January 1, 1995 for three years, 17 per cent after another three years, 18 per cent after four years and the remaining 40 per cent on the final day of the transition period. Secondly, through “growth factors” of 16 per cent, 25 per cent and 27 per cent applied to the normal growth rates of the existing bi-lateral arrangements at the aforementioned three stages of the implementation period for the products that continue to remain under quota.23

The Textile and Clothing Trade is governed by Multi-Fibre Agreement (MFA), which came into force on January 1, 1974 replacing short-term and long-term arrangements of 1960s, which protected US textile producers from
booming Japanese textiles exports. Later, it was extended to many developing countries like India, South Korea, Hong Kong etc. which had acquired a comparative advantage in textiles. Currently, India has concluded bilateral arrangements under the MFA with USA, Canada, Australia, countries of the European Commission etc. Under the MFA, foreign trade is subject to relatively high tariffs and export quotas restricting India's increased penetration into this market. Accordingly, the Indian Government wanted to take necessary measures during the early phase of MFA the Uruguay of Negotiations but this did not happen because of the reluctance of developed countries like USA and European Community textile markets to the third world imports because of high labour costs. Exports of textiles have now to cope with new challenges in the form of growing non-tariff/ non-trade barriers such as growing regionalisation of trade between blocks of nations. Child labour, anti-dumping duties etc: Nevertheless, the dismantling of MFA as required under the provisions of WTO can present increased export opportunities to India in years to come provided we are able to upgrade our technology and prepare effectively to take on some of our competitors in the international market in the years to come especially China, Hong Kong, Taiwan, South Korea, Pakistan etc.24

Towards this end, the Government of India has proposed two major initiatives, viz., Cotton Technology Mission (CTM) and Technology Upgradation Fund (TUF). The CTM has several mini-missions, with two of
them dealing with improving the productivity and quality of production and
the others dealing with the provision of necessary facilities. The TUF came
into effect on April 1, 1999. This Scheme provides for reimbursement of five
percentage points on the interest charged by lending agencies on projects of
technology upgradation. A new Quota Policy was also announced for the
textiles sector, for the period January 1, 2000 to December 31, 2004. The
Policy seeks to maintain continuity and stability in exports and prepare the
exporters for facing the challenges of the post-quota regime beginning from
January 2005.25

The phasing out of the MFA by 2005 will benefit India as the exports of
textiles and clothings will increase. While the developed countries have
demanded a 15 years period, the developing countries (including India)
insisted on a 10-year period. Acceptance of the developing countries demand
in the Uruguay Round has been enthusiastically received in these countries.
However, the problem here is that the phasing out schedule favours the
developed countries as a major proportion of quota regime to the extent of
49 per cent is going to be removed only during the tenth year, i.e. by 2005.
Thus the Uruguay Round does not provide an immediate market access for
the Third World textile exports. By the time the MFA is completely phased out
in 10 years, the developed countries could gear themselves to effect
improvement in quality efficiency and competitiveness. Countries like
Portugal, Greece and Spain in the European Community and Mexico in the
NAFTA block are going to strengthen their textile industry in the phase-out period. Towards this end, Portugal has recently been extended a grant of $1 million by the European Union to modernize its textile industry.26.

When quotas are removed, they will be eliminated not only for India, but also for everyone else. There will therefore be considerable competition from China, Vietnam, Pakistan, Bangladesh, Indonesia and Malaysia. The question thus basically boils down to evaluating the competitiveness of India’s garment exports. In this respect, India does not fare well vis-a-vis its competitors. There are a number of supply side constraints like higher costs and prices, poor quality and unreliability of the end product. As per the Textile Export Promotion Council (Texprocil) statement in its April 2001 monthly report says “On the Export side there is widespread belief that China is likely to perform well and this performance will be related to the extent of worldwide economic growth. The fact that China is the world’s largest exporter of textile possessing about 12 to 13% of the World’s Market Share”. Further, the Report says that China’s total trade in the textiles during the months of January and February, 2001 amounted to around 8.6 billion, an increase of 4% over the corresponding period in the previous year. While exports were around 6.90 billion, imports accounted for around 1.78 billion. Texprocil said the figures indicated a drop in imports by 5% and an increase in exports of around 2%. India on the other hand has been witnessing decline in its fibre, fabric and yarn production since Dec, 2000.27
By adopting the Agreement on the Textiles and Clothing (ATC) the member countries have agreed to phase out restrictions maintained under the Multi-Fibre Arrangement within a period of 10 years i.e., by 1st January, 2005. The world trade in textiles and clothing has been subject to an increasing array of bi-lateral quota arrangements over the past three decades. The range of products covered by quotas expanded from cotton textiles under the Short-Term and Long-Term Arrangements of the early 1960s and early 1970s to an ever increasing list of textile products fashioned from natural and man made fibres under five extensions of the Multi-Fibre Arrangements (MFA).\textsuperscript{28}

At the end of 1994 when the MFA was terminated it had a membership of 39 countries. Eight of these were developed countries and were designated as importers. The remaining 31 developing countries were considered exporters. MFA encouraged exporting and importing countries to enter into bilateral arrangement requiring exporting countries to restrain their exports of either all or certain categories of textiles and clothing. In entering such bilateral agreements, the countries were expected to adhere strictly to MFA rules for the determination of quotas and categories; for restraint levels; and for the inclusions of such provisions as annual growth rates, carry over of unutilized quotas from the previous years and carry forward of part of current year's quota for use in the following year.\textsuperscript{29}

After the Agreement on Textiles and Clothing came into effect several importing countries/areas (US, Canada, EU, Norway, Finland and Australia)
had a total of 90 bilateral restraint agreements with exporting countries. In addition, there were 29 non-MFA agreements or unilateral measures that imposed restrictions on imports of textiles.

**INTEGRATING TRADE IN TEXTILES INTO GATT**

From the strictly legal point of view, the maintenance of these restrictions was not consistent with the GATT rules. However, MFA provided a legal cover for deregulation from the GATT discipline. The basic aim of this Agreement on Textile and Clothing is to integrate the trade in textiles into the GATT by requiring the member countries maintaining the restrictions to phase them out over a period of 10 years. After the expiry of 10 years period i.e., from January, 2005 it will not be possible for any member country to maintain restriction on imports of textiles unless it can justify them under the safeguard provisions of the Agreement on Safeguards. In other words, an importing country can impose restrictions only when, after carrying out investigations it can establish that increased imports are causing its domestic textile industry serious injury. Further more, such restrictions will have to be applied to imports from all sources and not on discriminatory basis to imports from one or two countries as is the case with MFA type restrictions.30
METHODODOLOGY FOR INTEGRATION (AGREEMENT ON TEXTILES AND COTTON)

The methodological base for integrating the textile trade into GATT is the list of textile products contained in the Annexure to the Agreement. The list covers all textile products, whether or not they are subject to restrictions. The integration process is to be carried out in four stages. At each stage, product amounting to a certain minimum percentage of the volume of the country's imports in 1990 are to be included in the integration process. These percentages are:

16% of the products on the list, on the date of entry into force of the Agreement (1st January, 1995); 17% at the end of 3rd Year (1st January, 1998); 18% at the end of 7 years (1st January, 2002); and 19% at the end of the 10th Year (1st January, 2005).

In assimilating products into the integration process, countries are under no obligation to limit themselves to products subject to restrictions. The only constraint the Agreement places is that they include products from each of the four segments namely, tops and yarn, fabrics, made up textile products and clothing.

In the case of US and EU, in 1990 the percentage of imports of products not covered by restrictions was around 34% and 37% respectively. For other
countries maintaining restrictions the percentage was much higher. Therefore, it may be possible for these major restraining countries to meet their obligations to integrate the textile trade in the first two stages without significantly removing restrictions. That they may in practice do so is borne by the fact that both the US and EU refrain from including any restricted textile products and clothing in the first integrated measures taken on 1st January 1995. Hence there were apprehensions among the developing countries that serious steps to remove restrictions will be taken only when the third stage begins in 2002, and that bulk of the restrictions will be removed on the last day of 10 years transitional period.32

The Agreement, however, tries to provide improved and large access for textile products that may continue to be restricted during the transitional period. It seeks this by requiring that growth factors provided for annual increases in the quota fixed for each category of textile products under bilateral agreements should be increased as per the escalated rates. Thus, if the annual growth rate for a rise in quota for textile products (say shirts) is fixed under a bilateral agreement by 3%, it will have to be increased by: 16% per year in the first three years; 25% per year in the next four years; and 27% in the next three years. This will raise the growth rate to 5.52% in the 10th year. If the size of the quota is 100 tonnes at the beginning of the transitional period it will more than double to around 204 tonnes in the 10th year.33
INTEGRATION OF NON-MFA RESTRICTIONS (ATC ARTICLES)

The Agreement on Textiles and Clothing also requires countries applying non-MFA restrictions to phase them out in a period of 10 years. The programme for the gradual phasing out of such restrictions is to be prepared by the importing countries and presented to the Textile Monitoring Body (TMB). The Body has been established under the Agreement for the surveillance of its operations.

TRANSITIONAL SAFEGUARD MEASURES

It is interesting to note that even though the aim of the Agreement is to facilitate the removal of restrictions on Textiles, it permits countries to take safeguard actions during the transition period. Such transitional safeguard actions can be taken only in respect of textile products that are not integrated into GATT and if the importing country determines that: The products are being imported in such increased quantities as to cause serious damage or actual threat thereof to the domestic industry producing the like products; and there is a casual link between such serious damage to the domestic industry and sharp and substantial increase in imports from the exporting country or countries whose exports are to be restrained.

Such restrictions can ordinarily be imposed only after consultations and after reaching agreements with the exporting countries on the level of imports. However, the agreement permits countries to impose restrictions
even in the absence of an agreement provided the matter is referred to Textiles Monitoring Body. The importing country is expected to abide by the TMB decision.

**THE ENFORCEMENT OF THE AGREEMENT**

The Agreement on Textiles and Clothing (ATC) is a 10 year agreement with a four stage integration programme. Commencing from Jan 1, 1995, the ATC will completely integrate clothing and textile products by 2005. At the commencement of the first stage in 1995 products which accounted for 16 per cent of the total volume of imports in 1990 (of the products covered by the agreement) were to be integrated. The percentage of integration at the commencement of the second and third stages in 1998 and 2002 were 17 and 18 per cent respectively. The remaining 49 per cent would be integrated at the end of the phase-out period i.e., in 2005. The Textiles Monitoring Body (TMB) is the forum within the WTO which has been entrusted with the job of supervising and implementing the ATC. This implies that the benefits to developing countries like India will not occur in the short-term. Thus, we see that the textile agreement is 'back loaded'.
observed that Indian products, which are highly competitive in the USA and EU markets will be mostly liberalised only at the end of the transition period as integration offered by the USA and EU does not cover the items exported by India.

Additional restraints can be placed on products which are so far not covered by the restraints, but these will be restricted to product lines, which have not been integrated into the WTO. The guidelines on such additional restraints called 'safety measures' and by and large similar to the provisions on MFA restraints.35

The WTO Textiles Agreement says that this sector will be integrated into the GATT 1994 in four stages. In January 1995, the member countries of WTO were required to integrate no less than 16 per cent of the total volume of 1990 imports; on 1 January 1998 a further 17 per cent will be integrated, followed by 18 per cent on 1 January 2002 and the remainder (maximum 49 per cent) when the agreement on Textiles and Clothing itself is to disappear, on 1 January 2005. Each member chooses what products to integrate, provided they cover at least one product of each of the four groups of cotton and yarns, fabrics and other types of clothing. As products are integrated into GATT, any quotas imposed on them will be removed. Through the staged integration process, the textiles and clothing products covered by the provisions of the Agreement on Textiles and Clothing will progressively shrink,
shrink, and the number of quotas will diminish, until the Agreement on Textiles and Clothing comes to an end on 1 January, 2005.

The task of overseeing the implementation of the WTO Agreements is entrusted to the Textiles Monitoring Body (TMB), consisting of a chairman and 10 members. The WTO members agreed in January 1995 on a formula for appointing 10 members among whom four members are from the four major importers (Canada, Japan, the EC and the US), while five members from the major exporting countries, including members of the Association of Southeast Asian Nations (ASEAN), Pakistan, India, Hong Kong, Korea, Macau, Egypt, Morocco, Tunisia and Latin American and Caribbean Countries, and the remaining members one from any of these Countries Norway, Turkey, Czech Republic, Hungary, Poland, Romania, Slovak Republic, and Switzerland. Once appointed, the TMB members are expected to serve in their personal capacities, not as representatives of their countries. The objectives of this agreement is to secure the integration of the textiles and clothing sector where much of the trade is currently subject to bilateral quota negotiations under the MFA into the main stream of WTO. The integration however, will take place in stages. All the MFA restrictions which came into force on 31st December 1994 would be carried over into the Final Act and maintained until such time as the restrictions are removed or the produces integrated into the WTO. The integration stages are as follows:
On 1st January 1995, each party integrated from the specific list in the agreement products accounting for not less than 16% of its total value of textiles and clothing imports in 1990. On 1st January 1998, products accounting for not less than a further 17% of 1990 imports will be integrated. On 1st January 2002, products accounting for not less than a further 18% of 1990 imports will be integrated. On 1st January 2005, all remaining products will be integrated.

The new functions fundamentally alter the trade regime that has governed the textile and clothing sector for several decades, characterized by managed trade, to a market-based system. The mechanism to achieve this objective is anchored in the Agreement and basically follows a dual approach, i.e., the integration of products into the GATT rules under a fixed timetable, and the increased growth rates of quota levels for products that remain under restrictions. This gradual integration foreseen under the Agreement implies that after seven years of operation and until the end of the transaction period, only 51% of total textiles and clothing trade will be integrated into GATT 1994. The remaining 49% will be integrated in one move at the very end of the life span of the Agreement. This is referred to as 'back loading' where much of the integration is deferred to a later stage. The back loading thus appears to create some imbalance, and could imply that the adjustment process of textiles and clothing in the importing countries is
effectively delayed. However, the developing countries could not acquire the benefits from their comparative advantages within the fixed time.36

The Agreement on Textile and Clothing aims to remove both the non-tariff and tariff barriers. The reduction of tariff barriers is less satisfactory than the non-tariff barriers. The ad volorem tariffs for textiles and clothing is 12% which is more than three times higher than the ad volorem average tariffs. However, the textile and clothing goods tariffs in the developed countries remains above 10%. For more than one quarter of goods tariffs will be charged 15.35% and only 4% of the textile and clothing trade will be duty free, after the implementation of the reduction commitment.43 The major benefit accruing from this is that the provision relating to exceptional tarrification of textiles and clothing products will come to halt and all the industrial products will be treated with equality.

The scope of the application of safeguard measures has been tested by the WTO Dispute Settlement Body in the case of US Measures Affecting Imports of Woven Wool Shirts and Blouses from India and in the case of US – Restrictions on the import of Cotton and Man-made Fibre Underwears. In both these cases an important jurisprudence is laid down on the issue of safeguard measures. From the consequences of these two cases of the Textile and Clothing Industries after the advent of WTO, it can be presumed that it boosted up the participatory capability of developing countries on one side and brought out the textile and clothing industry from
the grip of protectionism and also the rule based multilateral system on the other side. This undoubtedly yielded several benefits to the developing and least developing countries.

**IMPLICATIONS OF WTO ON THE TEXTILE AND CLOTHING INDUSTRY IN INDIA:**

It is important to realize that low labour costs do not necessarily lead to price competitiveness. Labour costs are only one component of total inputs costs. Higher capital and energy costs can very easily nullify the advantage of low wages. In addition, if raw materials are not available at international prices, a labour advantage does not translate into price competitiveness. This, for example, characterizes India exports of garments made from man-made fibres. It is true that duty-free imports are available through advance licenses, but the procedures are extremely complicated. And the time required to obtain advance licenses does not allow instantaneous reactions to changes in market conditions. In a more general vein, duty-free imports of trimmings and embellishments also constitute a hurdle. This should not be taken to mean that there has been no liberalization since 1991.

Nothing would be further off the mark. No licenses are now required for setting up powerlooms, knitting units, ring frames, rotor spinning units and units for producing synthetic fibres and Fibre Intermediates like PTA, DMT of caprolactum. The import duty on capital goods has been brought down to 25 per cent. Under the Export Promotion Capital Goods (EPCG) Scheme, beyond certain limits the capital goods can also be imported duty free. As the
statistical data provided by the Government reveals the import duties have also been brought down on the textile fibres, yarns, fibre intermediates and raw materials and basic building blocks. As the economic reforms continue, the duties on about 25 percent of the man-made fibres and the 15% to 20% duties on the fibre, Intermediate goods and around 10 per cent duties the on basic building blocks and raw materials have come down by the end of 1997-98.

However, it has to be noted that the costs of production of textile products had not gone up because of an inefficient indirect tax structure manifested through the excise duties and sales tax. The Interest rates in India also tend to be on the high-side. The reform blueprint does, however suggested that these problems should be taken care of by the Government. But the problems relating to the supply-side seem to be essentially of non-price nature. In the field of textiles and garments quick response is be extremely important and India does not seem to compare very favourably on this issue. There are perennial complaints about the quality and reliability of the Textile products in this country. The strength and count variability of the Indian Textile products is far below the international standards. Globally, the demand is for the automatically woven and electronically spliced yarn in the standard packages that have a predetermined length. But seed contents and the percentages of short fibres are high in India. There is unevenness in spinning and the supply of spliced yarn for knitting. Such quality complaints
also occur for fabrics. For example, shrinkage, rates are above international standards. The shrinkage fading of colours, stitching defects and poor finish are also reported in the case of Indian Garments. Further, the delivery schedules have hardly adhered to because of the administrative and procedural bottlenecks. Further, the underdeveloped infrastructure, like poor communications and transport facilities, also contribute to the non-adherence to the delivery schedules.37

FURTHER IMPLICATIONS OF ATC OF WTO ON INDIAN TEXTILE INDUSTRY:

India and other developing countries are likely to face two-fold problems based on the ATC of the WTO. First, the product coverage for the phasing out of MFA is inflated. Even then, the entire universe of textiles and clothing items is covered, under the ATC which means that even those items that are not covered today by quota are included in it. This would imply, for example in the case of USA, no phasing out of quota items or only marginal phasing out till the end of the transition period, and the items of export will get integrated into the WTO only on the last day of the termination period i.e., January 1, 2005. Secondly, as much as 49 per cent of the textiles and clothing sector will get integrated into WTO on the last day of 10 years transition period which lacks credibility, and pressure might be mounted to extend the transition period. It must be stated that the "growth factors" of 16 per cent, 25 per cent, and 27 per cent will mitigate to a certain extent the disadvantage of the inflated product coverage. The normal growth rates in
the case of US vary between 6 and 7 per cent and they will increase for the items which are still under quota. For example, a quota item with a growth rate of 6 per cent will have a growth rate of 7.14 per cent in the first year 9.52 per cent from the third year and 13.05 per cent from the seventh year till quotas are abolished on the last day of the transition period. With EU, however, the normal growth rates in India are low, viz., in the range of 2 per cent, 2.5 per cent, 3.5 per cent only.

It must be noted that only India, Pakistan and Indonesia are pushing for faster liberalization. Other exporters like Hong Kong, Taiwan, and South Korea are not so keen because of their enjoying big quotas under MFA. Faster liberalization is not acceptable to countries like Sri Lanka, Bangladesh and Jamaica, because of their apprehension that they may not be able to compete like India, Pakistan and Indonesia. It was also criticized for its restrictive towards approach to the textile and clothing imports into the country and the country’s tariffs are also comparatively high. It is also important to realize that low labour costs do not necessarily lead to price competitiveness. Labour costs are only one component of total input costs, higher capital and energy costs can very easily and nullify the advantage of low wages. In addition, if raw materials are not available at the international prices, the labour advantage will be lost.

The ATC will provide the Indian companies quota free access to the major markets in the World. Under its impact, these companies, which are
now dependent on the quota, will be badly affected. An extremely important area to be affected by the ATC is cotton imports, as the cotton yarn is an important commodity for export. In a globalised market, this sector, which contributes to about 32 per cent of the total exports would fail to capture bigger markets. For this, many yarn manufacturers may move towards importing the superior Egyptian cotton. India is not adequately prepared to take advantage of the increased global trade opportunities arising from the total abolition of quota restrictions in textiles and clothing from January 1, 2005. The quota free regime ushered in by WTO will increase the value of the global trade to $350 billion, in clothing and $240 billion in textiles by 2005, from their corresponding level of 1997 of $194 billion and $164 billion respectively.38

AN ASSESSMENT ON THE WTO IMPLICATIONS ON THE INDIAN TEXTILE AND CLOTHING INDUSTRY:

The Textile and Clothing industry in India has a complex and varied structure. At one end of this spectrum is traditional hand woven sector which is located mostly in the rural areas and on the other hand is largely urban, sophisticated capital-intensive high speed machine sector. There is also sprawling intermediate segment consisting of decentralized small-scale power loom units disbursed mostly in rural and semi-urban areas all over the country. Besides this, the hosiery and garments industry has made phenomenal growth and has set new target for export. In recent years, sea changes and competition has grabbed the Indian textile industry. With the
Multi-Fibre Agreement wound up under the WTO the Indian exporters are now tied up with companies from all over the world to upgrade their manufacturing technology and improving their products. In the light of its growing significance, an attempt has been made in the present study with regard to the evolution of WTO, its implications on the textile industry and safeguard actions available to protect the domestic industry within the WTO Agreement.

The presence of Indian textile Industry's in the International trade is already very low and it is predominantly cotton based, while the trend all over the World is shifting towards the synthetics, woollen and blends material. Besides, the unit price realization of Indian exports is one of the lowest. It is well-known that a majority of the Indian textile machinery across spinning, weaving and processing is obsolete. In the midst of all the above, an overall implications of WTO on the Indian Textile and Clothing Industry after January 2005 can be summarized as follows.39

Exports of textile products will be quota-free and will only be based on the market considerations, such as product attributes, pricing, advertising, brand building and other sales promotion techniques, physical distribution cost and logistics decisions, and so on. The market will be highly competitive which may result in: (a) receding prices in the absence of quota premium, rent and floor prices, (b) better price quality match; (c) quick decision making and (d) higher levels of service.
It may be unlikely that the developed countries will open their doors after MFA phase out. The restrictions to import into those countries may come in the form of non-tariff barriers such as based on environmental issues, child labour and so on.

The WTO Agreement on Textiles is aimed to reduce the levels of subsidies. The present export incentives and the subsidies on farm inputs and agricultural produce such as cotton will be reduced, which would escalate the cost of production. Export of handloom fabrics will suffer a setback due to lower or no subsidies and hence, its competitive advantage will be in its unique design capabilities. Due to reduction in import tariffs and increased set access, textile imports from West and other cost-producing countries into India may affect domestic production. However, there are certain safeguard actions necessary for the individual countries to protect the domestic industry even after emergence of the WTO. India has had traditional comparative advantages in the textile sector. In more recent years, there has also been a boon to the exports of garments. Such exports have been constrained by the extensive protection of domestic textile and clothing industries by industrialized countries through import quotas imposed under the Multi-Fiber Arrangement (MFA). The large number of people employed in the textile and clothing sector in these countries has meant that quotas could continue for many decades despite recognition of the inefficiency of such protection.
India naturally stands to gain by phasing out of MFA. However, the gains are constituted by the specific mechanics of the phasing out process and the products specified in the Uruguay Round of agreement is currently not covered in MFA. Thus, currently, a substantial part in Indian exports to the EC and USA do not attract quotas. Indian textile and clothing exports to the EC are to the time of 27% and certain product categories fall outside like MFA restrictions. Furthermore, 39% of EC imports are also unrestricted in the sense that they can be brought under control through “trigger mechanism” only if exports exceed a certain level. In the USA about 25% of Indian garment exports do not face restriction. The inclusion of non-MFA products in the second round, combined with the fact that about half of the textile products would be removed from the ambit of quotas only during the last three years of the phasing out process of MFA.

The overall impact of WTO Agreement on Indian Textile Industry can be estimated by analyzing the latest trends in the exporting of Textile products during the period between 2001-2002 and 2003-2004 which are presented in the following Table.
## TABLE VII:4

VOLUME OF EXPORTS OF TEXTILE AND CLOTHING PRODUCTS [2001 – 2004]

(In US$ million)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Item</th>
<th>2001-02 (April-Feb)</th>
<th>2002-03 (April-Feb)</th>
<th>2003-04 Provisional</th>
<th>Percent Variation 2003-04 April-Feb</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Textiles (i-v)</td>
<td>9515.2</td>
<td>10367.8</td>
<td>9621.75</td>
<td>10100.87</td>
</tr>
<tr>
<td>(i) Ready made Garment</td>
<td>4618.7</td>
<td>5031.5</td>
<td>4702.34</td>
<td>4759.21</td>
<td>1.21</td>
</tr>
<tr>
<td>(ii) Cotton Textiles</td>
<td>3081.9</td>
<td>3281.0</td>
<td>3005.38</td>
<td>2989.1</td>
<td>-0.54</td>
</tr>
<tr>
<td>(iii) Wool &amp; Woolen Textiles</td>
<td>289.1</td>
<td>266.4</td>
<td>248.32</td>
<td>316.26</td>
<td>27.36</td>
</tr>
<tr>
<td>(iv) Silk</td>
<td>437.0</td>
<td>428.8</td>
<td>407.82</td>
<td>464.46</td>
<td>13.89</td>
</tr>
<tr>
<td>2</td>
<td>Others @</td>
<td>1249.6</td>
<td>1474.4</td>
<td>1417.02</td>
<td>1154.15</td>
</tr>
<tr>
<td>Total (1+2)</td>
<td>10764.8</td>
<td>11842.2</td>
<td>11038.71</td>
<td>11255.03</td>
<td>1.96</td>
</tr>
</tbody>
</table>

@: Includes Handicrafts, Coir & Coir Manufactures and Jute Goods

Source: DGCIS, New Delhi.

It is also necessary to recognize that such a long phasing out period presents other types of opportunities and threats for the Indian textile and apparel industry sector. For example, the time period offers a breathing period which may be utilized by domestic textile sector in the industrialized countries to shore up their competitiveness. Similarly, some of the developing
nations like India could time for gearing their Textile Industry for increasing the exports.

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5. Ibid., pp.251-255.
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