Chapter 7

Policy Environment for India's and Pakistan's Textiles in the European Union

Introduction

EU is the largest importer and exporter of T&C in the world. Its share in world exports in textiles was 34.4 percent in 2001 while the share of textiles in EU's total merchandise trade was mere 2.2 percent. EU's share in world export of clothing was 24.1 percent in the same year. It exported textiles and clothing worth of $50.54 billion and $47.09 billion respectively in 2001. EU's share in world import of textiles and clothing was 29.2 percent and 38.7 percent respectively in the same year. It is also a large market for developing countries' T&C exports including the countries of south Asian region. EU was the destination of 36.8 percent of India's and 31.6 percent of Pakistan's total T&C exports in 2000. However, these countries' share in EU's global imports of T&C is insignificant (India's share was 4.2 percent and Pakistan's 1.9 percent in 2000).

The import policy of EU in T&C has been very complex and highly restrictive as it always had a policy of placing quota restrictions on its imports of textiles and clothing from Asian developing countries. The imports of T&C into EU are governed by a special arrangement called Multi-Fibre Arrangement (MFA). This system of the Community consists of series of bilateral agreements which define ceilings to the quantities that may be exported by each country.

The trading environment in T&C between India and EU and Pakistan and EU has undergone significant changes during 1990s. India and Pakistan initiated and revamped the process of economic reforms during 1990s which led to liberalisation of import policy. Also India and Pakistan have provided increased market access to EU exporters of T&C to these markets under the Memorandum of Understanding (MoU) signed between India and EU and between Pakistan and EU in 1994 which so far had been highly protected. The EU has also witnessed changes during 1990s which also affected its imports from

---

2 In 1999, India faced EC-wide quantitative restrictions for 17 products categories and exports from Pakistan faced quantitative restrictions on 19 product categories.
developing Asian countries. For example, the creation of Single European Market (SEM) in 1992 which required all the trade restrictions to be applied at Community level has already started affecting these country's exports to EU. This implies that the member state level quotas, which had been characteristics of the Community's trade in this sector with many suppliers including India and Pakistan, gave way to Community level measures. For the same reasoning the Generalised System of Preferences (GSP) quotas or ceilings also had to be specified only for the Community as a whole and not allocated to member states.

All the above changes have been sidestepped by the GATT/WTO Agreement on Textiles and Clothing (ATC), which was formalised at the conclusion of Uruguay Round (UR) negotiations and came into effect on January 1, 1995. The ATC is designed to remove progressively, the MFA quotas over a period of 10 years ending on December 31, 2004 (starting with the establishment of the WTO on January 1, 1995). It expressly prescribes that this agreement can't be extended and will expire on the due date. The Punta del Este Ministerial Declaration stated, "Negotiations in the areas of Textiles and Clothing shall aim to formulate modalities that would permit the eventual integration of this sector into GATT on the basis of strengthened GATT rules and disciplines thereby also contributing to the objectives of further liberalisation of trade".

The ATC is heavily "back-loaded" and is designed in such a way to delay the opening up of the developed industrialised market to imports from developing countries to the last day of the Agreement of the 10 year transitional period. This period can be used by both sides (developed importing countries and developing exporting countries) to adjust to the changing trading environment in T&C. But after the transition period is over, it is likely to enhance India's and Pakistan's T&C exports to the EU on account of the increased market access and elimination of quota restrictions. On the other hand it will also increase competition from other developing countries [specially Southeast Asian countries and Newly Industrialising Economies (NIEs)]. Also, EU is increasingly using non-tariff barriers such as anti-dumping and countervailing actions on imports of T&C from India and Pakistan. All these developments will shape the future of T&C exports from India and Pakistan to EU. The most important question is to see how well placed India and

---


5 Article VI of the GATT 94 permits the imposition of anti-dumping duties against dumped goods, equal to the difference between their price and normal value, if dumping causes injury to producers of competing products in the importing country. India and Pakistan have one of the largest numbers of anti-dumping investigations initiated against them and India is even more prone to these actions.

6 Countervailing Actions: Actions taken by the importing country, usually in the form of increased duties, measures to offset subsidies given to the producers or exporters in the exporting country.
Pakistan are in EU market to take advantage of the opportunities created for expansion of their exports and to face the challenges posed by these developments.

This chapter is aimed at examining the EU's changing commercial policy on imports of T&C from India and Pakistan and the implications of these changes on India's and Pakistan's T&C exports to EU. This chapter is divided into two broad sections, besides a brief introduction. Section I analyses the evolution and working of EU's import policy in T&C in the context of MFA. It also examines the basic features of ATC, and the implementation of ATC provisions by the EU in its first and second phase. Section II assesses the consequences for India and Pakistan of changing trading environment in T&C in EU. It also highlights the new restrictions used by EU and their implications for India and Pakistan.

7.1. Commercial Policy of EU in T&C

The textile and clothing imports into EU have to pass through a series of regulations before reaching the EU consumers. The T&C products are divided into 114 MFA categories. The restrictive measures are implemented per MFA category. MFA quotas present the first barrier to entry. The number of Indian T&C products under MFA quotas were 13 in 1989 (and these products were of high export potential) and the export of products restricted under MFA constituted 75 percent of total Indian T&C exports to the EU. While the number of quota items increased to 17 in 1999 and the share of quota items in (T&C) exports in total T&C exports declined. Presently around 60-65 percent of India's and Pakistan's total T&C exports to EU are subjected to quantitative restrictions (QRs). Therefore, in terms of growth potential the non-quota items have shown considerable scope.

Most of the T&C imports into EU remain under some form of surveillance or the other. The T&C products which do not fall under the restrictive MFA quotas are called the "basket products" and may be subjected to what is known as the "basket exit procedure". It means that if the exports from a given country reach a specified percentage of the total imports of all the products into the EC in the previous year, the EC can call for consultations so as to arrive at an agreed quota level. In the absence of an agreement, a quota may be imposed unilaterally. The procedure can also be applied for single member state if the imports reach a prescribed share in the total imports. Basket products are divided into three categories according to the sensitivity i.e. the threat they present to the domestic T&C industry. The three categories are (i) most sensitive (ii) sensitive (iii) least sensitive. Quoting the bilateral agreement with India:
When the Community according to the scheme of administrative surveillance has established that the level of import of products originating from India in a (non-quota) category in comparison to the total import into the Community of products of that category of any origin during the former year exceed the following percentages: 1 percent for the categories of group I, 5 percent for the categories of group II, 10 percent for the categories of group VI, the EC may request negotiations in order to come to an arrangement for a suitable level of restriction for the respective category.

(Official Journal of the European Communities, nr. 301/87, Article 8, Paragraph 2, 30 October 1990)

Article 8, Paragraph 4 of the same agreement further states that:

If the parties cannot come to a mutually satisfactory conclusion within the term as specified in Article 16 of this Agreement the EC may introduce a definitive quantitative restriction, on an annual level not lower than that defined by the formula stated in paragraph 2, or 106 percent of the level of import during the calendar year before this measure is instigated.

The third stage contains the EU's MFN tariffs, reduced by the GSP. Under the GSP, tariffs for T&C products are zero. But it depends on the sensitivity of the product concerned, to which extent the MFN tariffs are reduced. The sensitive products are subjected to tariff quotas, which were also distributed among the member states until 1992. Less sensitive products are subjected to tariff ceilings. In the case of tariff quotas, the Common Commercial Tariff (CCT) rate is automatically reinstated as the import limit is reached, once the tariff-free quota is used up, it will no longer be possible to circumvent the CCT. In the case of tariff ceilings: "As soon as the Community level ceilings are reached, tariffs may be reinstated", when an individual EU member state makes a request to do so. The quotas and ceilings work on annual basis.

The GSP tariff quotas and ceilings cover only a fraction of India's and Pakistan's total T&C exports to EU. Thus most of the T&C exports to EU are subjected to the normal MFN tariffs\(^7\) which are given in the table below. In case of T&C, these tariff rates are relatively higher than those for other manufactures. Tariffs on clothing, in turn, are considerably higher than those on textiles. Table 7.1 gives the nominal rates of import tariffs in some of the major economies.

<table>
<thead>
<tr>
<th>Countries/Economies</th>
<th>Textiles</th>
<th>Clothing</th>
<th>Other Manufactures</th>
<th>Agriculture</th>
<th>Minerals</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD members, of which,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>12.0</td>
<td>21.0</td>
<td>10.0</td>
<td>11.8</td>
<td>0.6</td>
</tr>
<tr>
<td>European Union</td>
<td>11.7</td>
<td>13.2</td>
<td>8.6</td>
<td>38.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Japan</td>
<td>7.2</td>
<td>14.0</td>
<td>4.4</td>
<td>79.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Australia and New Zealand</td>
<td>15.4</td>
<td>21.0</td>
<td>18.7</td>
<td>7.4</td>
<td>0.3</td>
</tr>
</tbody>
</table>

\(^7\) MFN Tariffs are the common tariffs which do not discriminate between the goods on the basis of the basis of their origin or destination.
The above table clearly shows that the T&C draw comparatively higher tariffs than other product groups. Among OECD members, EU has the lowest tariff rates. In south Asian countries also it is the most severely protected sector (for other countries agriculture has the highest tariffs), but is still lower than the average for the rest of the world. Except for Hong Kong, Taiwan, and Singapore, all the economies impose higher tariffs than south Asian countries on imports of textiles and clothing into their economies (tariff rates on clothing are much higher than textiles). In the EU market also, clothing attracts higher tariffs. Table 7.2 gives the peak tariff rates\(^8\) for different categories of T&C. The average tariff rate is relatively low, but it has been noticed that tariff rates are higher in T&C\(^9\).

### Table 7.2: Peak Tariff Rates on T&C Commodities in the EU

<table>
<thead>
<tr>
<th>HS - Code</th>
<th>Description</th>
<th>Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>51</td>
<td>Wool, fine or coarse animal hair, horse hair, yarn and woven fabrics</td>
<td>11-13%</td>
</tr>
<tr>
<td>53</td>
<td>Other vegetable textile fibres; paper yarn</td>
<td>12%</td>
</tr>
<tr>
<td>54</td>
<td>Man-made filaments</td>
<td>10%</td>
</tr>
<tr>
<td>55</td>
<td>Man-made staple fibres</td>
<td>10%</td>
</tr>
<tr>
<td>56</td>
<td>Wadding, felt and non-wovens; special yarns; twine, cordage</td>
<td>10-12%</td>
</tr>
<tr>
<td>57</td>
<td>Carpets and other textile floor coverings</td>
<td>12%</td>
</tr>
<tr>
<td>58</td>
<td>Special woven fabrics, tufted textile fabrics; lace; tapestries</td>
<td>10-12%</td>
</tr>
<tr>
<td>59</td>
<td>Impregnated, coated, covered or laminated textile fabrics</td>
<td>10-12%</td>
</tr>
<tr>
<td>60</td>
<td>Knitted or Crocheted Fabrics</td>
<td>10%</td>
</tr>
<tr>
<td>61</td>
<td>Articles of Apparel and clothing accessories, knitted or crocheted</td>
<td>12-13%</td>
</tr>
<tr>
<td>62</td>
<td>Articles of Apparel and clothing accessories, not-knitted or crocheted</td>
<td>10-13%</td>
</tr>
<tr>
<td>63</td>
<td>Other made-up textile articles; sets; worn clothing and worn textiles</td>
<td>12-13%</td>
</tr>
</tbody>
</table>


The table shows that the tariff rates on items under HS chapters 51 to 63 vary

---

\(^8\) Tariff Peaks: Relatively high tariffs, usually on "sensitive" products, amidst generally low tariffs.

from 11 percent on certain items to 13 percent on others. It can also be observed that the rates on clothing/apparel are higher than textiles in EU.

Summarizing, nearly all textile and clothing products imported into EU from India and Pakistan and other developing countries are subjected to some restrictions or the other. These restrictions are imposed either by means of quotas or via the "basket exit" and "anti-surge" procedures. There is an evidence of increasing use of "basket exit" and "anti-surge" procedures, which resulted in fixing country specific quotas. The "anti-surge" procedures have not been invoked. The other form of restrictions/barriers used by EU to restrict import of T&C from India and Pakistan, in addition to the above mentioned restrictions include technical standards, labour standards, environmental regulations, anti-dumping and countervailing duties etc. Now we analyse the evolution and functioning of the MFA system in EU. An attempt is also made to gauge the restrictiveness of MFA quotas on the exports of T&C from India and Pakistan.

7.1.1.1 Evolution and Working of the MFA Regime in EU

Broadly speaking, three general regimes apply to imports of textiles and clothing products into EU depending on the products, and the countries in which they originate. These are (1) the MFA regime, (2) the preferential regimes for a number of Mediterranean countries and the partners in the association of Lome, and finally (3) the autonomous EC regime on imports which applies to textile products not covered by the MFA regime or the preferential regime. The division of power between the Community and the member states in respect of these import regimes on textile products was unclear till the Single European Market (SEM) came into being in 1992. It required all the powers on import regimes to be vested at the Community level. The MFA regime has been entirely operated by the EC institutions, either the council or commission.

As defined earlier also, MFA is a framework agreement which sets out the regulations for trade in textile and clothing products. Individual importing countries and exporting countries negotiate bilateral agreements for voluntary export restraint. India's latest comprehensive agreement on trade with EU has been in operation since 1986 and Pakistan's agreement with EU which governs its trade with EU has been in operation since 1987. Under these agreements quotas are allocated to exporting countries on the products.

10 The anti-surge procedure is applied to regulate the level of imports in previously under-utilised quotas for highly sensitive products in such a manner that sharp and substantial increases in the imports are
under restrictions. This section seeks to examine the evolution and working of MFA regime in EU and its implications for India and Pakistan specially during 1990s.

**A Background to MFA:** The MFA\(^{11}\) did not become effective until 1974, but quantitative restrictions on T&C started in the 1930s when USA negotiated with Japan a Voluntary Export Restraint (VER)\(^{12}\) to restrict the imports of cotton textiles from Japan. In the 1930s, some European countries, including Britain and France imposed similar restrictions on Japanese exports after World War II. Then in the late 1950s, export restraints were expanded through bilateral agreements with other countries including Hong Kong, India and Pakistan. These bilateral agreements paved the way for a broader range of trade restraints which turned into the Short Term Agreement (STA) of 1960-61 on international trade in cotton textiles and clothing, then into the Long Term Agreement (LTA) of 1962-74 and finally into the Multi-Fibre Agreement (MFA) in 1974 which lasted for 20 years till WTO came into being.

However, in the course of the 1960's and particularly into the early 1970s (i.e. before MFA came into force) as numerous Asian countries began to develop their textile and clothing industries, it became quite obvious to the respective governments in the importing countries that it was "necessary" to design a more all encompassing package of restraints. This was deemed essential to effectively regulate the rapidly expanding spectrum of T&C products emerging from the developing countries and "threatening" the T&C industry in industrialised countries. The position of the European Economic Community (EEC) was stated as follows:

"The common commercial policy pursues the two fold objective of progressive liberalisation of trade... while avoiding any market disruption in the Community... The maintenance of certain restrictions on international trade in textiles and clothing is primarily attributable to the fact that... the Community cannot eliminate these restrictions as along as the conditions of competition prevailing in the world trade remain abnormal... while healthy competition no doubt plays an essential incentive role in the adjustment of enterprises... it is likewise true that excessive pressure on selling prices, because of imports (at abnormally low prices) can jeopardize any adjustment that is in progress..."\(^{13}\).

Most European countries have a long history of textile restrictions. Moreover,

---

11 For detailed review on how the MFA came into being, see D. Keesing and M. Wolf (1981) "Textile Quotas Against the Developing Countries", *Thomas Essay* 23, Trade Policy Research Centre, London

12 VER (Voluntary Restraint Arrangement) is a bilateral arrangement whereby on exporting country (government or industry) agrees to reduce or restrict exports without the importing country having to make use of quotas, tariffs or other import controls.

European integration contributed to a rapidly growing intra-Community trade in textiles. This differentiated EEC in the 1950s from the more open economies of Britain, USA, and Scandinavia, which accepted largely, unrestricted imports. Following restrictions imposed by the USA, and in 1959, the 'voluntary' restrictions on commonwealth Asian cotton textiles exports to UK, an international agreement the Long Term Agreement (LTA) - was evolved under GATT for cotton products which, with extensions, lasted from 1962 to 1973. It tried to meet the two objectives, in words of the Agreement to "secure (for developing countries) a substantial increase in their export earnings from textile products and to provide scope for a greater share for them in world trade' ... and 'avoidance of disruptive effects in individual markets and on individual lines of production."\textsuperscript{14} Subject to a minimum annual growth rate for imports of 5 percent, import controls could be imposed or export restrictions agreed, for particular products from particular sources (India and Pakistan) under bilateral agreements.

The main effects of the LTA (1962-73) for India and Pakistan were better access to EEC-6 as it provided for higher export growth, but it extended the coverage of textile fibres to wool, man-made fibres, rayon as well as silk, but Germany and Italy resorted to additional controls, under 'safeguard' clauses. Further, Indian and Pakistani exports were severely affected because of an EEC agreement which was signed between India and EEC and Pakistan and EEC. Under the agreement grey cloth imported from the EEC could not be processed and re-exported to the EEC. Another trend which also emerged during the same period was growing protectionism in the UK market with the global quota permitting 1 percent per annum textile import growth (after 1966) as well as specific Indian and Hong Kong 'Voluntary' quotas.

After 1969, even more severe system of import restrictions came into effect. Pakistan, however, managed to increase its share of global quota and for India, the UK quota did 'not appear to have been operative constraint towards the end of the decade\textsuperscript{15}. In both the countries, there was a dominance of cotton over synthetics and the trend of EU imports was moving towards the latter. India's and Pakistan's main concern was to preserve its quota as a protection against (a) more competitive developing countries and (b) from synthetics. Though this kind of restraint was resented by both India and Pakistan, the exporters in these countries regarded this situation as better and more acceptable than

\textsuperscript{14} Quoted in Vincent Cable and Ann Weston (1979) \textit{South Asian Exports to the EEC: Opportunities and Challenges}, Overseas Development Institute: London.

\textsuperscript{15} Ibid.
the most likely alternative which was bilateral controls, anarchic in nature.

The restrictions on T&C imports from developing countries, in general and from India and Pakistan, in particular, were imposed because the T&C have been in the traditional sector in the EU with high labour intensity. Due to high raw material and labour costs, the EU's products are non-competitive in its domestic markets. To protect the ailing domestic sector, and to encourage production, the EC and other industrial countries put restrictions on the T&C imports from developing countries (who had a comparative advantage owing to its low labour costs and natural resource endowments). These restrictions became more severe with the passage of time. The system applies to both the sectors of textiles and clothing. Though the restrictions on clothing were more severe, the developing countries' exports of clothing items increased at a higher rate than of textiles. The first Multi-Fibre Arrangement was signed on 20th December 1974 in order for it to come into effect from 1st January 1974 for duration of four years (Article 16). After its expiry, it has been renewed three times and extended for another three. The renewals were not carried out automatically but rather after previously accepting the contents of each part, fundamentally due to changes introduced by the Textile Committee in the respective extensions through additional protocols.

The MFA I (1974-78): The first Multi-fibre Arrangement, was negotiated multilaterally in 1974 under GATT auspices. This arrangement was said to have many attractive features for India and Pakistan than the earlier ones. India and Pakistan were mainly cotton product exporters and these products were covered under LTA (i.e. the previous arrangement) whereas the exports of synthetic products were not included in the restrictive list. The MFA of 1974 included synthetics also under the restrictive list which meant that the cotton exporters of India and Pakistan would no longer be competing with

16 A distinction is made between renewals and extensions because the first included modification to the system while the second constituted a simple extension of the temporary validity of the text of the MFA IV while the Uruguay Round brought to close.


18 Dean Spinanger of Kiel Institute of World Economics, UK refers to MFA as the "dirty deal" struck between the industrialised importing countries and the developing exporting countries. The following section is quoted from his article. "...it was 'dirty deal' because it was cut outside the GATT legal framework by 'selling' to exporting countries the right to continue to export given amounts of T&C products to importing, that is industrialised. The selling point was simple and to-the-point: The exporting countries had the opportunity to capture the rents ensuing from restricting supplies...It was also 'dirty' because it was carried out under the veil of being 'temporary', that is, just long enough to permit to the necessary structural adjustment to occur in the industrialised countries. In essence, however, the restrictions proved to be relatively perpetual...and it was 'dirtier' in light of what could not have been fully realised at that time, namely the purveyors of the deal maintained the option to apply contingent protection measures (e.g. Anti-dumping proceedings) if grew by too fast."
the unlimited supplies of synthetics. The 6 percent per annum permitted growth rate in volume of LDCs import under each of the bilateral agreement was also an improvement. Finally a Textile Surveillance Board (TSB) was set to monitor the implementation of MFA and review new restraints multilaterally. Its findings, however, were not to be legally binding\(^19\).

Within the general framework of MFA, bilateral agreements were negotiated between individual suppliers and importers (represented by nine member states of EEC). In 1975, India and Pakistan reached the agreements and became the first developing countries to do so. In addition to the above mentioned positive features, there were also certain drawbacks to the agreements\(^20\).

Some of the drawbacks of MFA -1974 were (a) there was a higher degree of specification of products under restraint than under LTA. Initially, four categories for India and three categories for Pakistan were selected for restraint (though the list was extended later). This, in effect limited the diversification of India's and Pakistan's export basket\(^21\). (b) there was a built-in-arrangement of "burden-sharing" in the Community's bilateral agreements to ensure that each importing country (of EEC) took a fairer share and so a fairer 'burden' of importing each product. Shares among the member states of the Community were allocated on the basis of GNP which resulted in redistribution of greater share of EEC textile imports away from Britain\(^22\). Since Britain was the main destination for India's and Pakistan's textile exports, it restricted these countries's effectiveness to utilise the full quota. (c) The safeguard procedures presented the most serious problem. Under Article 3 of the MFA, "when an importing country suffered 'disruption' it could ask for consultations with the exporter and if the agreement was not reached within 60 days, it could impose restrictions for 12 months in the EEC, these could be either at national or Community level"\(^23\). 'Market disruption' was vaguely defined and was based upon the existence or the 'threat of serious damage' measured by 'sharp and substantial or imminent (measurable) increase' in imports or prices 'substantially below' those of goods of

\(^19\) Vincent Cable and Ann Weston (1979). op.cit. 149
\(^20\) ibid.
\(^21\) It was justified by the EEC on the grounds that it cuts the protective element in the MFA, as the protection would be confined to these products where disturbance was concentrated and not aggregated into bigger global categories.
\(^22\) It was due to the fact that Britain’s GNP was lower than that of France, Italy and Germany and it therefore got a lower share of 'burden' (i.e. textile imports)
\(^23\) Quoted in Vincent Cable and Ann Weston (1979) op.cit.
comparable quality marketed in the importing country.\textsuperscript{24}

In general, the MFA of 1974 left a lot to be desired as EEC had taken unilateral action to restrict imports from India and Pakistan without consultation or compensation, and there had been hardly any surveillance by multilateral authorities.

**The MFA II (1978-82):** This MFA was more restrictive than the previous one. EC signed an agreement with India and Pakistan which had specific quantitative limits. These agreements had features which were highly restrictive as the Community negotiator observed "all this amounts to a greater degree of protection going far beyond anything the clothing and textile industries have enjoyed in the past. For almost all our negotiating objectives were achieved"\textsuperscript{25}.

Some of the significant features of MFA II were (a) the overall rate of import growth was reduced by fixing negligible growth levels – between as little as 0.5 percent and 4 percent per annum – for the eight super sensitive or Group I items\textsuperscript{26}, which constituted bulk of India's and Pakistan's T&C exports to the EEC. For another 23 significant items of Group II, accounting for 18 percent of UK's imports, the growth rates were held at 4 percent on average\textsuperscript{27}. For the other four Groups, there were no predetermined limits but a mechanism was set up to ensure that the overall average annual growth of imports in these Groups shall not exceed 6 percent; (b) the number of items under the restrained list increased from the previous 60 to 127 which reduced these countries' scope to diversify into unrestricted categories (c) flexibility in terms of carry-over and swing provisions\textsuperscript{28} was also reduced considerably and was disallowed on many occasions. The burden sharing formulae which divided quotas between the EEC member countries also became more restrictive so that when an importing country's share has been exceeded it can introduce import controls unilaterally even when the Community has not fixed an overall ceiling for that item (d) it introduced more elaborate system of surveillance which was reinforced by the system of double checking. Exporters also had to obtain (from their Governments) an export license and certificate of origin for products.

\textsuperscript{24} ibid.
\textsuperscript{25} ibid. p.154
\textsuperscript{26} These Group I items were: cotton yarn (0.5%), woven cotton fabrics (0.5%), woven synthetic fabrics (0.5%), knitted underwear - shirts and T-shirts (4%), knitted outerwear- jerseys and pullovers (5%), trousers (3.5%), ladies' knitted or woven shirts and blouses (1.5%), mens' knitted or woven shirts (1%). Figures in brackets denote the annual growth rate of quotas.
\textsuperscript{27} Some of the Group II items included dresses, coats, knitted pyjamas, woven women's underwear, bedlinen, and cotton toweling.
\textsuperscript{28} Carrying over of quota means carrying forward the unused quota of an year into another year. Swing provision means the transfer of unused quota from one product category to another.
subject to specific quotas. These documents were then to be used by importers to obtain import licenses. The earlier agreements also had a double-checking procedure but for a much smaller number of items; (e) the handloom products continued to face quotas as there was no means to make distinction between handloom and the mill made cloth.

**The MFA III (1982-86):** The MFA - III was even more restrictive. In the first few months of 1981 alone, the EEC brought in over thirty-three restrictions following the triggering off a device known as the 'basket extractor mechanism'\(^{29}\). Seven of these restrictions concerned China, while three concerned India. The severity of these restrictions in MFA-III had led to exporters in many exporting countries (developing) whose quotas had been exhausted to reroute their exports through third countries or under different product categories. It was mainly in the MFA-III, that the India’s and Pakistan's bilateral agreement with EEC became even more restrictive in their scope and coverage. These agreements incorporated rigid features on category ceilings, growth rates, carryover, carry forward and swing provisions. Even for products which were not under the restrained categories, it provided for the consultations and freezing of exports.

**The MFA-IV (1986-90):** It was still more restrictive and more complicated and continued to have the features which the earlier MFA's already had and these features worsened in MFA-IV. These included discrimination (against 'low cost' suppliers from the developing countries), low price principle (low priced imports was identified as the main cause of 'serious damage' to the domestic T&C industry in EU), unjustified consumer burden in developed countries (as the rising import prices result in higher retail prices) and restriction intensifier (reduced flexibility and increased coverage on products under restricted list). For example the further breakdown of exporting country quotas for fine product categories further intensified the restrictive effect of quotas. Like, in case of India and Pakistan, each category is divided into smaller categories (like "knitted" and "woven", "woolen" and "non-woolen").

Thus MFA IV was more restrictive as its coverage was extended not only to textile and clothing products of cotton, wool and man-made fibres, but also to vegetable fibres and blended fibres containing silk. However, some attempts were also made to ease the

\(^{29}\) The EEC policy includes a 'basket extractor mechanism' based on the concept of cumulative market disruption where there is an absolute limit on market penetration from 'low cost' sources. Under this mechanism when non-restrained imports reach a certain percentage of EEC imports in the preceding year from all the sources in that category, a trigger in mechanism goes off. The EEC can make consultation calls and fix a quota even for a non-quota category. Under Article 8 of the Indo-EC Agreement of 1986, the mechanism triggers off when Indian exports of non-restrained category to EEC reach a level of 1 percent of global import in the case of Group I (ultra-sensitive) products, 5 percent for Group II (sensitive products) and 10 percent in Group III (non-sensitive products).
restrictive effects, for example, measures were provided for larger inter-country and inter-quota flexibility. These flexibilities were increased to 40 percent of quotas for the year 1992\(^3\).

Now, if we apply this framework to Indian and Pakistan's export of T&C to the EU, it is observed that the flexibility with respect to member state quotas and with respect to product quotas, it is found by Atul Sarma et al (1997) that these flexibilities have reduced the restrictiveness of the quotas. The protective and restrictive effect of quotas will be put to analysis in the next few paragraphs.

7.1.1.2. Protective Effect of MFA

It is difficult to measure the extent to which the MFA has restricted India's and Pakistan's T&C exports to EU. The obvious reason for this is the intricacies and non-transparency of the system. In this section an attempt will be made to find out if the MFA quotas have been restrictive for India's and Pakistan's exports of T&C to EU. The MFAs restrictive effect will be considered on the basis of the trade coverage and quota utilisation rates indicating the degree to which the MFA has actually acted as a restraint on these countries' exports to EU. There is another way of measuring the MFA's restrictive effect and that is the tariff equivalents, but this study would focus on the first method, i.e. of trade coverage and quota utilisation\(^3\).

7.1.1.2.1. Trade Coverage and Quota Utilisation of India in the EU

The figures for trade coverage refer to the potential influence of the textile policy. They represent the share of those products, which are potentially regulated by the MFA in textile and clothing imports, irrespective of their origin. In value terms this share was around 73 percent in 1977 and it increased to 87 percent in 1983 and in volume terms this share was around 73 percent both in 1977 as well as 1983. Out of this trade around 75 percent, in volume terms came from MFA suppliers in 1983, with the textiles' share (under quotas) slightly below (70 percent) and clothing share slightly above (90 percent), i.e. share originated in MFA countries. Limiting this analysis to the most sensitive products for the EC, groups I and II, their share in MFA-products imports, from all sources,


increased between 1977-83, from 43 percent to 48 percent for textiles and 85 percent to 92 percent for clothing in value terms. In India’s T&C exports to the EU, MFA items contributed 86.7 percent of total value (61.9 percent by volume) in 1995.

About half of the world's trade in textiles and clothing has been subjected to the MFA quotas. Although the share of quota countries in India's exports is declining, quota countries still account for about 3/4th of total Indian T&C exports. The share of quota markets in India's total T&C exports has fallen from 87 percent in 1983 to 75 percent in 1994. Among the fibre groups around 80-85 percent of India's total cotton exports, 10-12 percent of synthetic and 2-3 percent of woolen are directed toward quota markets. The share of quota markets in Pakistan's total T&C exports has also fallen. In 1983 47 percent of its total T&C exports were directed towards quota markets and remaining 53 percent to non-quota markets. The share of quota and non-quota markets in Pakistan's total exports of T&C fell to 35 and 65 percent respectively in 1993. Only 5 percent of Pakistan's total exports of textile yarn and 28 percent of textile fabrics go to the quota markets. In case of made ups, however, the share of quota markets is as high as 71 percent. In case of India also around 75 percent of total clothing exports are directed to quota countries.

Within the quota countries, the share of quota exports in total T&C exports tends to be fairly high. In US, 96 percent of total T&C imports are covered under the quota. But, in European Union, the share is comparatively lower. Around 65-70 percent of India's and Pakistan's total T&C exports to EU are covered by quotas. As the number of products under restricted list has been increasing in EU, the share of quota exports to total T&C

32 KSA (2000) Implications of the Phase out of MFA on Indian Exports of Textile and Apparel, Study done for FICCI and the Ministry of Textiles, p.83

33 According to a study done by Kurt Salmon Associates (KSA) for FICCI and the Ministry of Textiles, Implications of the Phase out of MFA on Indian Exports of Textile and Apparel in 2000, during 1991-98, Indian exports to non-quota countries increased at an average annual compound growth rate of 15.5 percent and to EU it increased at 13.2 percent. During sub-period 1991-94, the CARG to non-quota market was 15.5 percent and to EU, it was 24 percent. In the later sub-period, i.e. 1994-98, the CARG to non-quota countries was as 11.9 percent and to EU, it was only 5.7 percent. This implies that during 1994-98 (i.e. after implementation of ATC) there was a general fall in the growth rate of Indian T&C exports. The decline was more in the EU market as the Indian exports of T&C grew at mere 5.7 percent during 1994-98. This is partly due to slow consumption growth in EU as well as increase in sourcing from within EU and also because of growing protectionism by means of non-tariff barriers imposed on imports of T&C from India.

34 Rajiv Kumar and Sri Ram Khanna, (1990) "India, the Multi-fibre Arrangement and the Uruguay Round" in C. Hamilton (ed.) Textile Trade and the Developing Countries: Eliminating the Multi-fibre Arrangement in the 1990s, World Bank: Washington D.C. p.191

35 Non-quota countries include UAE, Japan, Switzerland, Russia, Sweden, Saudi Arabia and Australia.


exports has been declining. For example, in 1983 there were 13 items in EU's list of restricted imports from India and their share was more than 75 percent in EU's total T&C imports from India. The number of items under restriction (for India) increased to 19 in 1999 and their share in total EU imports of T&C from India fell to around 65 percent. This implies that the MFA quotas were restrictive in nature for India's and Pakistan's exports of T&C to EU. For India, they were more restrictive as the share of quota exports in total T&C exports has come down significantly.

Another method of analysing the restrictiveness of quotas is the level of quota utilisation. The average quota utilisation in T&C has not been 100 percent. A GATT study showed this to be the case even with the major exporting countries like Hong Kong, which in 1983 had the average quota utilisation rate of 89 percent and the number of countries realising 100 percent quota utilisation are also falling. For example, in 1978 Hong Kong and Korea were the only ones having 100 percent quota utilisation. Surprisingly, Pakistan and Peru were the only countries to have had achieved 100 percent quota utilisation in 1983. Generally speaking, the quota utilisation rates in EC market has also been less than 100 percent. The utilisation rates are much higher in US. For example the aggregate quota utilisation rates were above 100 percent in the US market during 1983-87 and even in the years after that, but in the EC market the utilisation rates have been low and only once during 1980-87, it had the utilisation rate of 100 percent (in 1987). In 1982, India (69.6 percent) and Pakistan (89.4 percent) had higher utilisation rates in the EU market than Indonesia (78.1 percent), Malaysia (59.2 percent), Singapore (61.9 percent) and Poland (35.0 percent) etc.

**Quota Utilisation of India in the EU**

The quota utilisation rate of 80 percent or more is considered to have restrictive effect on a country's exports. The utilisation rates improved for India and Pakistan during 1990s as against 1980s. In 1991 and 1992, the quota utilisation rate of India in EU market was 78 percent. The T-shirts (cat. 4) was the only category in which India realised 100 percent quota. In 1992, two categories, namely, T-shirts (cat.4) and Ladies Dresses (cat.26) realised full quota. In 1991 and 1992, the number of categories realising the quota

---

39 Rajiv Kumar and Sri Ram Khanna (1990) op.cit. pp.181-214
utilisation of 80 percent or more were 7 (out of 13) and 8 (out of 14) respectively\(^4\). In 1993, the average quota utilisation rate was 74 percent, but in increased in the later years and was more than 90 percent in 1995. It declined, however, to 83 percent in 2002. Another way of looking at the average quota utilisation is by calculating average utilisation rate per product instead of per year. Application of this type of calculation shows that 13 out of 21 product groups under quota had average quota utilisation of more than 90 percent during 1993-2002. Table 7.3 gives the quota utilisation of Indian textiles and clothing exports to EU during 1993-2002.

As can be seen from table 7.3 that Indian firms suffer from binding constraints in the categories in which they are competitive. The utilisation rates have also been volatile during this period. Summarising the above figures for India, it can be said that a very substantial amount of textile and clothing trade in the EU is under potential or actual impact of the MFA.

Table 7.3: Quota Utilisation Rates of India's Textile and Clothing Exports to the EU 1993-2002 (Based on Quota Level in Percentages)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Cotton yarn</td>
<td>104.85</td>
<td>98.14</td>
<td>102.43</td>
<td>101.84</td>
<td>99.34</td>
<td>99.79</td>
<td>82.15</td>
<td>101.1</td>
<td>92.59</td>
<td>81.16</td>
<td>96.34</td>
</tr>
<tr>
<td>2 Cotton fabrics</td>
<td>105.03</td>
<td>105.46</td>
<td>104.93</td>
<td>105.64</td>
<td>96.78</td>
<td>95.05</td>
<td>83.9</td>
<td>94.67</td>
<td>101</td>
<td>58.72</td>
<td>95.12</td>
</tr>
<tr>
<td>2A Cotton fabrics other than unbleached or bleached</td>
<td>42.03</td>
<td>37.55</td>
<td>61.34</td>
<td>66.43</td>
<td>60.47</td>
<td>73.82</td>
<td>47.41</td>
<td>68.01</td>
<td>118.4</td>
<td>58.49</td>
<td>63.40</td>
</tr>
<tr>
<td>3 Blended fabrics</td>
<td>84.58</td>
<td>105.98</td>
<td>103.18</td>
<td>93.75</td>
<td>99.72</td>
<td>96.23</td>
<td>78.93</td>
<td>51.39</td>
<td>19.23</td>
<td>76.67</td>
<td>96.70</td>
</tr>
<tr>
<td>3A Processed Fabrics</td>
<td>12.56</td>
<td>18.97</td>
<td>34.26</td>
<td>40.38</td>
<td>53.48</td>
<td>47.14</td>
<td>56.64</td>
<td>52.68</td>
<td>45.17</td>
<td>72.65</td>
<td>39.39</td>
</tr>
<tr>
<td>4 Knitted shirts, T-shirts</td>
<td>102.15</td>
<td>99.68</td>
<td>114.05</td>
<td>105.84</td>
<td>105.2</td>
<td>113.35</td>
<td>104.7</td>
<td>121.9</td>
<td>142.8</td>
<td>105.5</td>
<td>113.81</td>
</tr>
<tr>
<td>4C Knitted shirts, T-shirts for children</td>
<td>59.37</td>
<td>141.55</td>
<td>108.71</td>
<td>130.17</td>
<td>122.9</td>
<td>82.22</td>
<td>75.55</td>
<td>74.34</td>
<td>82.79</td>
<td>89.23</td>
<td>96.70</td>
</tr>
<tr>
<td>5 Knitted jerseys, pullovers etc.</td>
<td>102.22</td>
<td>80.17</td>
<td>81.37</td>
<td>102.72</td>
<td>106.7</td>
<td>98.03</td>
<td>108.2</td>
<td>103.7</td>
<td>103.7</td>
<td>82.48</td>
<td>96.93</td>
</tr>
<tr>
<td>6 Woven shorts/trousers</td>
<td>90.89</td>
<td>93.42</td>
<td>107.48</td>
<td>106.79</td>
<td>105.2</td>
<td>113.35</td>
<td>104.7</td>
<td>132.8</td>
<td>164.5</td>
<td>120</td>
<td>113.91</td>
</tr>
<tr>
<td>6C Woven shorts/trousers for children</td>
<td>10.19</td>
<td>63.26</td>
<td>63.53</td>
<td>20.73</td>
<td>56.74</td>
<td>91.33</td>
<td>92.71</td>
<td>82.93</td>
<td>86.62</td>
<td>89.61</td>
<td>65.77</td>
</tr>
<tr>
<td>7 Ladies Shirts</td>
<td>100.48</td>
<td>97.84</td>
<td>99.51</td>
<td>103.68</td>
<td>99.59</td>
<td>83.02</td>
<td>82.12</td>
<td>82.34</td>
<td>77.48</td>
<td>86.54</td>
<td>91.26</td>
</tr>
<tr>
<td>8 Woven men's or boy's shirts</td>
<td>103.65</td>
<td>108.27</td>
<td>128.27</td>
<td>124.24</td>
<td>103.3</td>
<td>94.78</td>
<td>82.16</td>
<td>86.8</td>
<td>98.79</td>
<td>74.5</td>
<td>100.47</td>
</tr>
<tr>
<td>9 Terry toilet line</td>
<td>66.5</td>
<td>102.87</td>
<td>115.15</td>
<td>107.88</td>
<td>98.24</td>
<td>84.41</td>
<td>76.15</td>
<td>75.66</td>
<td>76.01</td>
<td>46.94</td>
<td>84.98</td>
</tr>
<tr>
<td>15 Ladies Jackets</td>
<td>19.8</td>
<td>24.95</td>
<td>18.18</td>
<td>14.22</td>
<td>15.77</td>
<td>16.17</td>
<td>15.9</td>
<td>19.3</td>
<td>26.08</td>
<td>14.27</td>
<td>18.46</td>
</tr>
<tr>
<td>20 Bed linen</td>
<td>104.34</td>
<td>105.84</td>
<td>102.32</td>
<td>109.74</td>
<td>103.9</td>
<td>95.32</td>
<td>88.36</td>
<td>89.92</td>
<td>73.79</td>
<td>46.17</td>
<td>91.97</td>
</tr>
<tr>
<td>23 Man-made fabric Yarn</td>
<td>--</td>
<td>79.03</td>
<td>80.62</td>
<td>57.63</td>
<td>80.63</td>
<td>52.22</td>
<td>52.62</td>
<td>84.34</td>
<td>70.63</td>
<td>69.51</td>
<td>63.02</td>
</tr>
<tr>
<td>24 Gents' or Ladies Nightwear</td>
<td>--</td>
<td>95.56</td>
<td>64.46</td>
<td>74.27</td>
<td>79.19</td>
<td>66.08</td>
<td>73</td>
<td>78.88</td>
<td>64.04</td>
<td>80.51</td>
<td>68.10</td>
</tr>
<tr>
<td>26 Dresses</td>
<td>98.37</td>
<td>106.09</td>
<td>154.31</td>
<td>146.51</td>
<td>133.2</td>
<td>119</td>
<td>104.4</td>
<td>103.5</td>
<td>107.6</td>
<td>28.19</td>
<td>110.12</td>
</tr>
</tbody>
</table>

27 Skirts  93.39  110.38  125.66  85.98  76.28  83.88  78.49  89.54  77.32  66.4  88.73
29 Ladies Suits  45.44  51.23  59.63  49.1  36.38  29.37  47.31  50.55  40.33  28.19  43.75
39 Woven table toilet & kitchen linen other than terry towels  60.73  77.04  73.87  99.41  99.41  115.93  84.76  98.77  94.41  66.4  87.09
Average: 74.041  85.87  90.631  88.771  87.57  83.48  77.36  83  84.7  70.78  82.62

Source: www.sigl.cec.eu.int

It is also observed that although a considerable amount of trade is covered by the higher utilised quotas, the figures reveal a surprising amount of under-utilisation of quotas in certain categories. There are number of reasons for under-utilisation of quotas. First, quotas may be redundant, e.g. because of demand recession in the EU, supply bottlenecks or other reasons. Also, quotas available in individual categories cannot be utilised once the overall ceiling is reached (which is reached soon because of full utilisation in the categories in which India is competitive). Secondly, there may be mismatch between the demand conditions in EU and the supply e.g. if quotas are negotiated in order to secure future access to EU or because of change in tastes of consumers in EU (change in fashion etc.). Thirdly, the quotas may lead to reduced competitiveness of Indian and Pakistani suppliers, e.g., by offering disincentives for investment or because of administrative inexperience in quota allocation. Fourthly quotas may also remain unfulfilled if the system doesn't provide enough flexibility (swing, carry-forward, carry-over) for suppliers to enter into new product markets to exploit emerging fashion trends. Finally, it may also be possible for the importing countries to evade the quotas.

It is difficult to say whether the quotas are binding or not only on the basis of quota utilization. Trela and Whalley argue that if the exporting country can have a growth in their exports which is substantially above 6 percent or as specified in their MFA quotas, how can these restrictions be binding? To find an answer to this, we need to look into the annual growth rates of quotas, which is presented in table 7.4.

42 The conclusions on the similar lines can be found in the GATT (1984) Textile and Clothing in the World Economy, Geneva.

43 Sri Ram Khanna and Rajiv Kumar (1990) hold this factor as the main reason of under-utilisation of Indian quotas in EU market during 1970s and 1980s.

44 In EU, before SEM came into existence, the quotas had to be distributed among member countries, which in effect meant 12 sub-quotas for each quota. This may also lead to under-utilisation of quota at Community level. This reason has lost its relevance after the SEM came into being which required all the quotas to be administered at Community level.
Table 7.4: Annual Growth Rates of the Quotas (under MFA) Allocated to India in the EU

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Cotton yarn</td>
<td>2.00</td>
<td>4.83</td>
<td>2.32</td>
<td>2.32</td>
<td>2.90</td>
<td>2.90</td>
<td>2.90</td>
<td>2.90</td>
<td>3.68</td>
<td>2.97</td>
</tr>
<tr>
<td>2 Cotton fabrics</td>
<td>1.75</td>
<td>6.32</td>
<td>2.03</td>
<td>2.03</td>
<td>2.54</td>
<td>2.54</td>
<td>2.54</td>
<td>2.54</td>
<td>3.22</td>
<td>2.83</td>
</tr>
<tr>
<td>2A Cotton fabrics other than unbleached or bleached</td>
<td>5.99</td>
<td>14.97</td>
<td>6.96</td>
<td>6.96</td>
<td>8.70</td>
<td>8.70</td>
<td>8.70</td>
<td>8.70</td>
<td>11.05</td>
<td>8.94</td>
</tr>
<tr>
<td>3 Blended fabrics</td>
<td>4.00</td>
<td>5.03</td>
<td>4.64</td>
<td>4.64</td>
<td>5.80</td>
<td>5.80</td>
<td>5.80</td>
<td>5.80</td>
<td>7.37</td>
<td>5.43</td>
</tr>
<tr>
<td>3A Processed Fabrics</td>
<td>3.98</td>
<td>5.34</td>
<td>4.65</td>
<td>4.63</td>
<td>5.81</td>
<td>5.80</td>
<td>5.80</td>
<td>5.79</td>
<td>7.37</td>
<td>5.46</td>
</tr>
<tr>
<td>4 Knitted shirts, T-shirts</td>
<td>4.30</td>
<td>37.57</td>
<td>5.22</td>
<td>5.22</td>
<td>6.52</td>
<td>6.53</td>
<td>6.52</td>
<td>6.53</td>
<td>8.29</td>
<td>9.26</td>
</tr>
<tr>
<td>4C Knitted shirts, T-shirts for children</td>
<td>4.50</td>
<td>129.29</td>
<td>5.22</td>
<td>0.00</td>
<td>0.00</td>
<td>6.53</td>
<td>6.52</td>
<td>6.53</td>
<td>8.29</td>
<td>15.64</td>
</tr>
<tr>
<td>5 Woven shorts/trousers</td>
<td>5.00</td>
<td>12.84</td>
<td>5.80</td>
<td>5.80</td>
<td>7.25</td>
<td>7.25</td>
<td>7.25</td>
<td>7.25</td>
<td>9.21</td>
<td>7.49</td>
</tr>
<tr>
<td>6C Woven shorts/trousers for children</td>
<td>-89.50</td>
<td>1982.5</td>
<td>962.3</td>
<td>0.00</td>
<td>13.4</td>
<td>7.25</td>
<td>7.25</td>
<td>7.25</td>
<td>9.20</td>
<td>48.68</td>
</tr>
<tr>
<td>7 Ladies Shirts</td>
<td>2.50</td>
<td>11.31</td>
<td>2.90</td>
<td>2.90</td>
<td>3.62</td>
<td>3.63</td>
<td>3.63</td>
<td>3.62</td>
<td>4.60</td>
<td>4.27</td>
</tr>
<tr>
<td>9 Terry toilet line</td>
<td>5.01</td>
<td>8.04</td>
<td>5.81</td>
<td>5.79</td>
<td>7.25</td>
<td>7.26</td>
<td>7.25</td>
<td>7.25</td>
<td>9.21</td>
<td>6.98</td>
</tr>
<tr>
<td>15 Ladies Jackets</td>
<td>6.02</td>
<td>11.83</td>
<td>6.96</td>
<td>6.97</td>
<td>8.68</td>
<td>8.71</td>
<td>8.70</td>
<td>8.70</td>
<td>11.05</td>
<td>8.61</td>
</tr>
<tr>
<td>20 Bed linen</td>
<td>5.00</td>
<td>19.59</td>
<td>5.80</td>
<td>5.80</td>
<td>7.25</td>
<td>7.25</td>
<td>7.25</td>
<td>7.25</td>
<td>9.21</td>
<td>8.19</td>
</tr>
<tr>
<td>23 Man-made fabric Yarn</td>
<td>--</td>
<td>667.30</td>
<td>6.96</td>
<td>6.96</td>
<td>8.70</td>
<td>8.70</td>
<td>8.70</td>
<td>8.70</td>
<td>11.05</td>
<td>--</td>
</tr>
<tr>
<td>24 Gents' or Ladies Nightwear</td>
<td>--</td>
<td>767.78</td>
<td>6.96</td>
<td>6.96</td>
<td>8.70</td>
<td>8.70</td>
<td>8.70</td>
<td>8.70</td>
<td>-100.00</td>
<td>--</td>
</tr>
<tr>
<td>26 Dresses</td>
<td>4.00</td>
<td>18.26</td>
<td>4.64</td>
<td>4.64</td>
<td>5.79</td>
<td>5.80</td>
<td>5.80</td>
<td>5.80</td>
<td>7.37</td>
<td>6.83</td>
</tr>
<tr>
<td>27 Skirts</td>
<td>4.00</td>
<td>11.69</td>
<td>4.63</td>
<td>4.64</td>
<td>5.80</td>
<td>5.80</td>
<td>5.80</td>
<td>5.80</td>
<td>-100.00</td>
<td>-100.00</td>
</tr>
<tr>
<td>29 Ladies Suits</td>
<td>5.00</td>
<td>12.03</td>
<td>5.80</td>
<td>5.81</td>
<td>7.24</td>
<td>7.25</td>
<td>7.25</td>
<td>7.25</td>
<td>9.20</td>
<td>7.41</td>
</tr>
<tr>
<td>39 Woven table toilet &amp; kitchen linen other than terry towels</td>
<td>6.01</td>
<td>26.89</td>
<td>6.97</td>
<td>6.95</td>
<td>8.70</td>
<td>8.71</td>
<td>8.69</td>
<td>8.71</td>
<td>11.05</td>
<td>10.14</td>
</tr>
<tr>
<td>Average:</td>
<td>5.85</td>
<td>31.18</td>
<td>4.50</td>
<td>4.48</td>
<td>5.76</td>
<td>5.75</td>
<td>5.79</td>
<td>5.84</td>
<td>-10.44</td>
<td>6.09</td>
</tr>
</tbody>
</table>

Source: Same as Table 7.3.

The table 7.4 clearly shows that the average growth of quotas has been around 6 percent. This average growth is because of high growth rate of certain product categories. The product wise classification shows that the product groups which are of least interest to Indian exporters recorded highest growth rates, for example knitted shirts for children (cat. 4C) and trousers for children (cat 6C) and the categories in which India is competitive, the growth rate has been low. For example in cotton yarn (cat.1), cotton fabrics (cat 2), ladies shirt (cat.7), men's shirt (cat.8), the annual growth rate of quotas have been less than 3 percent. Therefore, it can be safely said that the MFA quotas have been restrictive for Indian T&C exports to EU.

7.1.1.2.2. Trade Coverage and Quota Utilisation of Pakistan in the EU

Now, we examine the restrictiveness of MFA quotas for Pakistan. We have already seen that the trade coverage of Pakistan's exports of T&C under quotas is comparatively less than India as 65 percent of its total T&C products are directed toward

---

49 For more details see Irene Trela and John Whalley (1990), op.cit. pp.18-21
quota markets and its dependence on quota markets is basically for made ups. In the EU also, only 17 (including 6C) products are restricted as against India's 21 and these 16 items constitute around 60 percent of its total T&C exports to EU. As regards the quota utilisation it has been much lower than that of India. In 1993, the average quota utilisation rate was 82.5 percent, but it decreased in the later years and was 75.6 percent in 1995. It increased, however, to 78.97 percent in 1996, but has consistently declined since then. In 2002, the average quota utilisation was as low as 46.72 percent.

Looking at the average quota utilisation by calculating average utilisation rate per product instead of per year, is found that 7 out of 17 product groups under quota had average quota utilisation of more than 90 percent during 1993-2002 and 8 out of 17 products had quota utilisation rate of more than 80 percent. Table 7.5 gives the quota utilisation rate of Pakistan's textiles and clothing exports to EU during 1993-2002.

Table 7.5: Quota Utilisation Rates of Pakistan's Textile and Clothing Exports to the EU 1993-2002 (Based on Quota Level in Percentages)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Cotton yarn</td>
<td>96.17</td>
<td>93.97</td>
<td>98.3</td>
<td>92.11</td>
<td>92.64</td>
<td>83.64</td>
<td>63.69</td>
<td>83.72</td>
<td>67</td>
<td>61.52</td>
<td>83.28</td>
</tr>
<tr>
<td>2 Cotton fabrics</td>
<td>103.88</td>
<td>94.52</td>
<td>107</td>
<td>99.09</td>
<td>106.31</td>
<td>108.86</td>
<td>95.45</td>
<td>102.4</td>
<td>94.66</td>
<td>61.51</td>
<td>97.38</td>
</tr>
<tr>
<td>2A Cotton fabrics other than unbleached or bleached</td>
<td>75.97</td>
<td>66.76</td>
<td>70.2</td>
<td>81.75</td>
<td>89.03</td>
<td>92.19</td>
<td>75.96</td>
<td>87.69</td>
<td>87.81</td>
<td>57.63</td>
<td>78.50</td>
</tr>
<tr>
<td>3 Blended fabrics</td>
<td>103.83</td>
<td>105.3</td>
<td>98.6</td>
<td>107.5</td>
<td>108.83</td>
<td>108.32</td>
<td>102.83</td>
<td>106.9</td>
<td>102.1</td>
<td>65.76</td>
<td>101.00</td>
</tr>
<tr>
<td>4 Knitted shirts, T-shirts</td>
<td>102.29</td>
<td>90.72</td>
<td>100</td>
<td>113.3</td>
<td>97.08</td>
<td>96.77</td>
<td>105.67</td>
<td>103.2</td>
<td>86.16</td>
<td>67.8</td>
<td>96.34</td>
</tr>
<tr>
<td>4C Knitted shirts, T-shirts for children</td>
<td>9.43</td>
<td>3.87</td>
<td>2.21</td>
<td>1.65</td>
<td>6.5</td>
<td>2.61</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2.63</td>
</tr>
<tr>
<td>5 Knitted jerseys, pullovers etc.</td>
<td>92.73</td>
<td>80.91</td>
<td>90</td>
<td>106.2</td>
<td>97.23</td>
<td>95.11</td>
<td>106.42</td>
<td>98.76</td>
<td>98.24</td>
<td>69.65</td>
<td>93.52</td>
</tr>
<tr>
<td>6 Woven shorts/trousers</td>
<td>76.73</td>
<td>74.44</td>
<td>82.5</td>
<td>97.09</td>
<td>98.74</td>
<td>96.05</td>
<td>101.37</td>
<td>115.5</td>
<td>115.5</td>
<td>87.65</td>
<td>94.55</td>
</tr>
<tr>
<td>7 Blouses</td>
<td>35.05</td>
<td>28.44</td>
<td>29.1</td>
<td>31.16</td>
<td>26.23</td>
<td>24.26</td>
<td>15.92</td>
<td>11.32</td>
<td>11.48</td>
<td>17.34</td>
<td>23.03</td>
</tr>
<tr>
<td>8 Woven men's or boy's shirts</td>
<td>100.74</td>
<td>107.8</td>
<td>102</td>
<td>97.35</td>
<td>55.04</td>
<td>46.7</td>
<td>30.2</td>
<td>21.83</td>
<td>18.44</td>
<td>28.01</td>
<td>60.83</td>
</tr>
<tr>
<td>9 Terry toilet line</td>
<td>106.56</td>
<td>94.4</td>
<td>99.8</td>
<td>123.2</td>
<td>126.77</td>
<td>114.54</td>
<td>121.3</td>
<td>123.6</td>
<td>114.6</td>
<td>55.49</td>
<td>111.52</td>
</tr>
<tr>
<td>18 Woven under garments including bathrobes, dressing gowns etc.</td>
<td>71</td>
<td>54.84</td>
<td>50.5</td>
<td>39.29</td>
<td>35.74</td>
<td>31.63</td>
<td>38.28</td>
<td>30.46</td>
<td>23.64</td>
<td>37.53</td>
<td></td>
</tr>
<tr>
<td>20 Bed linen</td>
<td>109.71</td>
<td>104.1</td>
<td>107</td>
<td>106.4</td>
<td>109.25</td>
<td>113.48</td>
<td>116.97</td>
<td>110</td>
<td>102.4</td>
<td>78.73</td>
<td>105.80</td>
</tr>
<tr>
<td>28 Knitted trousers, shorts, bib/brace</td>
<td>50.69</td>
<td>66.5</td>
<td>69.1</td>
<td>51.96</td>
<td>43.87</td>
<td>36.74</td>
<td>33.68</td>
<td>25.18</td>
<td>14.25</td>
<td>39.20</td>
<td></td>
</tr>
<tr>
<td>39 Woven table toilet &amp; kitchen linen other than terry towels</td>
<td>73.98</td>
<td>59.55</td>
<td>65.7</td>
<td>59.18</td>
<td>60.67</td>
<td>72.38</td>
<td>64.52</td>
<td>62.67</td>
<td>50.89</td>
<td>40.87</td>
<td>61.04</td>
</tr>
<tr>
<td>Average</td>
<td>77.353</td>
<td>72.81</td>
<td>75.6</td>
<td>78.97</td>
<td>74.396</td>
<td>71.648</td>
<td>68.096</td>
<td>69.07</td>
<td>63.04</td>
<td>46.72</td>
<td>69.77</td>
</tr>
</tbody>
</table>

Source: Same as Table 7.3.

Summarising the figures for Pakistan, it can be said that not a substantial amount of textile and clothing trade in the EU is under potential or actual impact of the MFA. The categories in which Pakistan has comparative advantage, the utilisation rate has been more than 90 percent, e.g. cotton yarn (cat.1), cotton fabrics (cat.2), blended fabrics (cat.3), T-
shirts (cat.4), men's' shirt (cat.8), terry toilet linen (cat.9), bed linen (cat.20). Although a considerable amount of trade is covered by the higher utilised quotas, there was also under-utilisation of quotas in certain product categories. There are number of reasons for under-utilisation of the quotas which have already been discussed in the section on India. The reasons however, may differ. For example, for India, the main reason for under-utilisation of quotas has been the demand constraint, whereas for Pakistan it has been unambiguously demonstrated that it was the supply rather than demand constraints which were responsible for a slack export performance during 1993-2002. The same view is also expressed by Naheed Zia Khan, a Pakistani economist, who says,

"...there is little doubt that the primary problem behind the poor performance of Pakistan's export performance is an inadequate domestic supply response rather than a lack of export opportunities. In recent years, Pakistan's quota utilisation performance rather lends the support to the argument that a fully utilised quota doesn't always imply that it has been binding"\(^{46}\).

During this period the compound average annual growth rate (CAGR) of more than 10 percent in quotas ceilings in the EU was adequate for T&C exports from Pakistan. It substantiates our view that it were the supply factors, rather than the demand, which restricted Pakistan's exports to EU. Table 7.6 gives the average annual growth rate of Pakistan's quotas in the EU market.

### Table 7.6: Annual Growth Rates of the Quotas (under MFA) Allocated to Pakistan in the EU

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Cotton yarn</td>
<td>2.51</td>
<td>70.64</td>
<td>2.90</td>
<td>2.90</td>
<td>3.63</td>
<td>3.63</td>
<td>3.62</td>
<td>19.17</td>
<td>4.60</td>
<td>11.05</td>
</tr>
<tr>
<td>2 Cotton fabrics</td>
<td>2.50</td>
<td>14.56</td>
<td>2.90</td>
<td>2.90</td>
<td>3.63</td>
<td>3.63</td>
<td>3.62</td>
<td>19.17</td>
<td>4.60</td>
<td>6.24</td>
</tr>
<tr>
<td>2A Cotton fabrics other than bleached</td>
<td>6.00</td>
<td>72.90</td>
<td>6.96</td>
<td>6.96</td>
<td>8.70</td>
<td>8.70</td>
<td>8.70</td>
<td>25.01</td>
<td>11.04</td>
<td>15.78</td>
</tr>
<tr>
<td>3 Blended fabrics</td>
<td>4.00</td>
<td>7.51</td>
<td>4.64</td>
<td>4.64</td>
<td>5.80</td>
<td>5.80</td>
<td>5.80</td>
<td>21.67</td>
<td>7.36</td>
<td>7.35</td>
</tr>
<tr>
<td>4 Knitted shirts, T-shirts</td>
<td>5.00</td>
<td>17.73</td>
<td>5.80</td>
<td>5.80</td>
<td>7.25</td>
<td>7.25</td>
<td>7.25</td>
<td>23.34</td>
<td>9.21</td>
<td>9.69</td>
</tr>
<tr>
<td>4C Knitted shirts, T-shirts for children</td>
<td>-89.50</td>
<td>19442.47</td>
<td>6.22</td>
<td>0.00</td>
<td>13.47</td>
<td>7.25</td>
<td>7.25</td>
<td>23.34</td>
<td>9.21</td>
<td>49.95</td>
</tr>
<tr>
<td>5 Knitted jerseys, pullovers etc.</td>
<td>6.00</td>
<td>19.47</td>
<td>6.97</td>
<td>6.96</td>
<td>8.69</td>
<td>8.71</td>
<td>8.69</td>
<td>25.01</td>
<td>11.05</td>
<td>11.12</td>
</tr>
<tr>
<td>6 Woven shorts/trousers</td>
<td>5.00</td>
<td>8.17</td>
<td>5.80</td>
<td>5.80</td>
<td>7.25</td>
<td>7.25</td>
<td>7.25</td>
<td>23.34</td>
<td>9.21</td>
<td>8.67</td>
</tr>
<tr>
<td>7 Blouses</td>
<td>6.00</td>
<td>8.59</td>
<td>6.96</td>
<td>6.96</td>
<td>8.70</td>
<td>8.70</td>
<td>8.70</td>
<td>25.00</td>
<td>11.05</td>
<td>9.95</td>
</tr>
<tr>
<td>8 Woven men's or boy's shirts</td>
<td>2.99</td>
<td>11.12</td>
<td>3.48</td>
<td>3.48</td>
<td>4.36</td>
<td>4.35</td>
<td>4.34</td>
<td>20.01</td>
<td>5.53</td>
<td>6.51</td>
</tr>
<tr>
<td>9 Terry toilet line</td>
<td>5.99</td>
<td>48.04</td>
<td>6.95</td>
<td>6.97</td>
<td>8.71</td>
<td>8.70</td>
<td>8.70</td>
<td>24.99</td>
<td>11.06</td>
<td>13.80</td>
</tr>
<tr>
<td>18 Woven under garments including bathrobes, dressing gowns etc.</td>
<td>6.00</td>
<td>9.29</td>
<td>6.96</td>
<td>6.96</td>
<td>8.70</td>
<td>8.70</td>
<td>8.70</td>
<td>25.01</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>20 Bed linen</td>
<td>6.50</td>
<td>23.57</td>
<td>7.54</td>
<td>7.54</td>
<td>9.42</td>
<td>9.42</td>
<td>9.42</td>
<td>25.84</td>
<td>11.97</td>
<td>12.16</td>
</tr>
<tr>
<td>26 Dresses</td>
<td>6.00</td>
<td>9.79</td>
<td>6.96</td>
<td>6.97</td>
<td>8.70</td>
<td>8.70</td>
<td>8.70</td>
<td>25.00</td>
<td>11.05</td>
<td>10.08</td>
</tr>
<tr>
<td>28 Knitted trousers, shorts</td>
<td>-</td>
<td>30.91</td>
<td>6.96</td>
<td>6.96</td>
<td>8.70</td>
<td>8.70</td>
<td>8.70</td>
<td>25.01</td>
<td>11.05</td>
<td>-</td>
</tr>
</tbody>
</table>

Therefore we have seen that though the MFA quotas were restrictive for the exports of both the countries, the impact on India has been more than Pakistan.

7.1.2. The WTO Agreement on Textile and Clothing: Prospects for Future

The Uruguay Round (UR) Agreement on Textile and Clothing (ATC) emerged after extensive negotiations with the developed countries on the issue of bringing international trade in textiles and clothing under the normal GATT/WTO rules. The UR Agreement envisages the abolition of decades of discrimination and restrictions in the international trade in textiles and clothing through its integration into the multi-lateral trade discipline under GATT/WTO. At the time of termination of MFA (end of 1994), MFA had membership of 39 countries. Out of these eight were developed and were designated as importers while the remaining 31 developing country members were considered as exporters. The ATC provides a blueprint for the removal of restrictions on textiles imports from developing countries by developed nations.

Since this agreement is a part of WTO Agreement, it is applicable to all the WTO members. This agreement, commonly known as the Agreement on Textiles and Clothing (ATC) is a 10 year transitional agreement with a four-stage integration programme and provides for the migration of all MFA quotas to the ATC and their gradual elimination by January 1, 2005 entered into force on January 1, 1995. By 2005, this sector will come under normal GATT disciplines. In particular quotas will come to an end, meaning importing (buying) countries no longer discriminate between the exporting (seller) countries. The ATC will then become redundant and the market access to any country will depend on competitiveness alone.

The ATC is expected to increase the world trade in T&C through abolition of restraints and by providing better and less restricted trading environment for trade in T&C. But so far, the post WTO period has not witnessed any increase in world trade as well as the demand as the growth rates during 1990-95 (pre MFA Phase out period) are higher

---


48 ibid.
than in the MFA Phase out period (1995-2000)\textsuperscript{49}. It also remains to be seen whether the exports of developing countries have increased in post MFA period or not. It is also important to find out the trend of intra-regional trade as they (EU and US) are expected to start sourcing their imports from suppliers close to their markets and thus reducing their imports from developing countries which are at some distance (geographically).

The main objective of ATC is to encourage exports from developing countries as brought out by the KSA Report by

(a) integrating the trade in textiles and clothing into GATT, and

(b) integration should gradually reduce the overall cost of T&C world-wide by

- by substituting the non-competitive by the most competitive
- removing all protections from trade
- bringing about the efficiencies in the system.

To realise these objectives, the ATC has evolved six core issues, which provide for:

- a four - stage phase-out in a 10 year period
- coverage of all yarns, fabrics, made-ups, textile products and clothing
- liberalisation process which automatically increases the existing quota levels
- a transitional safeguard mechanism to deal with the cases of serious damage to domestic industry that may arise during the transition period
- clauses on circumvention of restrictions
- a Textile Monitoring Body with the task of supervising the implementation of ATC.

Whether these core issues have actually led to any increase in the developing countries' exports of T&C remains to be seen, but some experts find certain flaws in the agreement itself. Though the ATC provides for phasing out of existing restraints under MFA by the way of integrating T&C into GATT/WTO by abolishing restraints and adding growth factors (GRs) to the existing quotas, it also covers a large number of products on which MFA restraints had never operated and it has provided another decade for the developed countries to operate such restraints and has also diluted the conditions for

\textsuperscript{49} The world exports of T&C grew at a compound average growth rate (CAGR) of 7.8 percent during 1990-95 but it declined to 2.6 percent during 1995-2000 according to the WTO (2002) \textit{Annual Report: International Trade Statistics}. The CARG of textiles declined from 7.8 percent during 1990-95 to 0.41 percent during 1995-2000. The CARG of clothing exports has also fallen from 7.9 percent during 1990-95 to 4.4 percent during 1995-2000.

288
introducing restraints on additional products. Therefore, this agreement was a compromise between those who wanted abolition of it (developing exporting countries, particularly India and Pakistan)\textsuperscript{50} and those who wanted retention of it (almost all the developed importing countries, particularly the EU\textsuperscript{51}). Mr. D.K Nair, Secretary General, Indian Cotton Mills Federation (ICMF) also opines that

"...the ATC was sold out to the (developing) exporting countries on two major factors: (i) the phase-out of restraints on a pre-determined schedule and within a stipulated period of 10 years and (ii) an improved, multi-lateral policing of additional restraints and other measures during the phase-out period through the Textile Monitoring Body (TMB) envisaged in the ATC. In both the factors, the operation of ATC has belied the expectation of developing countries..."

This section seeks to analyse the main features of ATC and the opportunities and challenges it holds for T&C exports of India and Pakistan. This section will have special reference to the EU’s response to ATC in terms of its implementation of major provisions of ATC. Though the actual impact of ATC on these countries exports will be known only after 1\textsuperscript{st} January 2005, but this analysis would certainly help in assessing the will and commitment of EU towards the ATC.

7.1.2.1. Liberalisation Under ATC

The process of phasing out of MFA is complex entailing the expansion and elimination of quotas on increasing number products over the transitional period, subject to dual safeguards system. After the expiry of the 10 year transitional period, tariffs will be the only permitted form of protection and it will not be possible for any member country to maintain quantitative restrictions on imports of T&C, unless it can be justified under the safeguard provision of the ‘Agreement on Safeguards’. In other words, an importing country can impose restrictions only when, after carrying out investigations, it can be established that increased imports are causing its domestic industry serious injury. Furthermore, such restrictions will have to be applied on imports from all sources and not on a discriminatory basis to imports from one or two countries as was the case with the MFA.

\textsuperscript{50} Some of the developing countries like Korea were not really interested in the abolition of MFA as they had secured market through quotas and the base level of their quotas, particularly in EU market was higher than other developing countries, like India and Pakistan. For greater details on the stand and position of various countries on abolition of MFA during UR negotiations, see GATT (1994) The Negotiating History of Final Draft of ATC, Geneva

\textsuperscript{51} EU wanted a transitional period of 15 years for the MFA Phase out and also insisted on reciprocity in providing increased market access to EU exports to the markets of developing countries. For details see The Drafting History of the Agreement on Textiles and Clothing (1995) by Raffailli, Marcelo and Tripti Jenkins. ITCB, Geneva
The methodological base for integrating textiles 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 subjected to quota restrictions (under MFA). These products are mentioned in Section XI (textiles and textiles articles) of the Harmonised Commodity Description and Coding (HS) nomenclature. These products are silk (chapter 50); wool, fine or coarse animal hair, horse hair yarn and fabrics (chapter 51); cotton (chapter 52); other vegetable and textile fibres, paper yarn and woven fabrics (chapter 53); man-made filaments (chapter 54); man-made staple fibres (chapter 55); felt and non-woven wadding, yarns, twine and cordage (chapter 56); carpets and other textiles and floor coverings (chapter 57); special woven fabrics, tufted textile fabrics, lace and tapestries (chapter 58); impregnated, coated, cover or laminated textile fabrics (chapter 59); knitted or crocheted fabrics, laminated textile fabrics (chapter 60); articles or apparel clothing accessories, knitted or crocheted (chapter 61); articles or apparel clothing accessories, not knitted or crocheted (chapter 62) and other made-up textile articles, sets and worn clothing (chapter 63). Besides these items, selected products from chapters 30-49 and 64-96 are also included\(^{52}\).

The integration process is to be carried out in four stages. At each stage, products amounting to certain minimum percentage of volume of the country's imports are to be included in the integration process. Article 9 of the Agreement on Textiles and Clothing states in its entirety:

\[\text{This agreement and all restrictions there under shall stand terminated on the first day of the 121st month that the Agreement establishing the WTO is in effect, on which date the textiles and clothing sector shall be fully integrated into the GATT 1994. There shall be no extension to this Agreement.}\]

[Quoted in Suphat Suphachalasai in "Agreement on Textile and Clothing", EDAP Joint Policy Studies, No.7, Korea Development Institute, Korea]

The key element of ATC is the phased elimination of MFA over a ten-year transition period. The elimination proceeds in four phases, starting with the entry into force of the WTO on 1\(^{st}\) January 1995. Importing industrial countries must integrate products accounting for at least 16 percent of the total import volume into the WTO, followed by additional 17 percent and 18 percent respectively, in the fourth and eighth years. The remaining 49 percent is to be integrated on the first day of the eleventh year and at that point no MFA quotas shall remain in force. It is noteworthy that the phased elimination scheme is heavily back-loaded and leaves major part of the liberalisation for

\(^{52}\) Debroy Bibek and Laveesh Bhandari (2001) op.cit. p. 23
the last day of the Agreement and therefore not much liberalisation is expected to take place before 2005.

It may be mentioned here that it is the importing country that will decide about the products that will be integrated at each stage. To mitigate the possibility of delaying the liberalisation of important and "sensitive items" for the later stages of transition, the Agreement requires the developed importing countries to include at least one product from each of the four product groups, namely, (a) tops and yarn; (b) fabrics; (c) made-up textiles; and (d) clothing\(^\text{53}\). However, the Agreement doesn't specify how much from each of the four categories must be liberalised in each stage, and therefore it leaves a substantial room for discretion on the part of industrialised countries to structure their quota liberalisation. The integration scheme for T&C into GATT/WTO is presented in the tabular and graphical form.

\[\text{Table 7.7: Liberalisation and Integration of International Trade in textiles and Clothing as Agreed in the Uruguay Round}\]

<table>
<thead>
<tr>
<th>Stage</th>
<th>Year</th>
<th>Liberalisation as a percentage of 1990 MFA Imports</th>
<th>Annual Growth Difference in remaining Quotas Compared to MFA Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Each Stage</td>
<td>Cumulative</td>
</tr>
<tr>
<td>Stage I</td>
<td>1 January 1995 to 31 December 1997</td>
<td>16</td>
<td>0</td>
</tr>
<tr>
<td>Stage II</td>
<td>1 January 1998 to 31 December 2001</td>
<td>17</td>
<td>33</td>
</tr>
<tr>
<td>Stage III</td>
<td>1 January 2002 to 31 December 2004</td>
<td>18</td>
<td>51</td>
</tr>
<tr>
<td>Stage IV</td>
<td>1 January 2005 Full Integration into GATT</td>
<td>49</td>
<td>100</td>
</tr>
</tbody>
</table>


Regarding the acceleration of quota growth, any bilateral agreements in force 31.12.1994 will remain in force until 31.12.2004 except for those products that have been already integrated into GATT. The Agreement tries to provide improved and enlarged market access for the textile products that may continue to be restricted during the transitional period. It seeks this by requiring that the growth factors provided for annual increases in the quotas fixed for each category of textile products (by MFA) under bilateral agreements should be increased at escalated rates. Therefore, for the products remaining under quotas, growth rates must be increased according to the following formula: at the beginning of Stage 1 rates must be raised by 16 percent over whatever was the pre 1995 growth rate. For example, a 10 percent annual growth becomes 11.6

\[\text{53 Article 2.6 of the Agreement states "The products to be integrated shall encompass products from each of the following four groups: tops and yarns, fabrics, made-up textile products and clothing."}\]
percent. At the beginning of Stage 2 the growth rates must be at least 25 percent higher than those in Stage 1, i.e. an 11.6 percent annual growth becomes 14.5 percent. In Stage 3 growth must be at least 27 percent higher than in Stage 2. Thus a quota which grew at 10 percent under the MFA in 1994 will grow by 18.4 percent between 2002 and 2004. The expected increase in the quota growth rates during the transitional period are given in table 7.8.

Table 7.8: Quota Growth Rates During Transitional Period of ATC as Agreed in the Uruguay Round

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stage</strong></td>
<td>MFA</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Uplift (%)</strong></td>
<td></td>
<td>0</td>
<td>16</td>
<td>0</td>
<td>0</td>
<td>25</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>27</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quota Level</td>
<td>100</td>
<td>108</td>
<td>116</td>
<td>124</td>
<td>136</td>
<td>149</td>
<td>163</td>
<td>178</td>
<td>200</td>
<td>224</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>Growth (%)</td>
<td>6.50</td>
<td>7.54</td>
<td>7.54</td>
<td>7.54</td>
<td>9.43</td>
<td>9.43</td>
<td>9.43</td>
<td>9.43</td>
<td>11.97</td>
<td>11.97</td>
<td>11.97</td>
<td></td>
</tr>
<tr>
<td>Growth (%) *</td>
<td>6.00</td>
<td>6.96</td>
<td>6.96</td>
<td>6.96</td>
<td>8.70</td>
<td>8.70</td>
<td>8.70</td>
<td>8.70</td>
<td>11.05</td>
<td>11.05</td>
<td>11.05</td>
<td></td>
</tr>
<tr>
<td><strong>Pakistan</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quota Level</td>
<td>100</td>
<td>108</td>
<td>117</td>
<td>126</td>
<td>139</td>
<td>153</td>
<td>169</td>
<td>186</td>
<td>210</td>
<td>237</td>
<td>268</td>
<td></td>
</tr>
<tr>
<td>Growth (%)</td>
<td>7.00</td>
<td>8.12</td>
<td>8.12</td>
<td>8.12</td>
<td>10.15</td>
<td>10.15</td>
<td>10.15</td>
<td>10.15</td>
<td>12.89</td>
<td>12.89</td>
<td>12.89</td>
<td></td>
</tr>
<tr>
<td><strong>China</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quota Level</td>
<td>100</td>
<td>103</td>
<td>107</td>
<td>111</td>
<td>116</td>
<td>121</td>
<td>126</td>
<td>131</td>
<td>139</td>
<td>146</td>
<td>154</td>
<td></td>
</tr>
<tr>
<td>Growth (%)</td>
<td>3.00</td>
<td>3.48</td>
<td>3.48</td>
<td>3.48</td>
<td>4.35</td>
<td>4.35</td>
<td>4.35</td>
<td>4.35</td>
<td>5.52</td>
<td>5.52</td>
<td>5.52</td>
<td></td>
</tr>
<tr>
<td><strong>Hong Kong, South Korea</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quota Level</td>
<td>100</td>
<td>103</td>
<td>106</td>
<td>109</td>
<td>113</td>
<td>117</td>
<td>121</td>
<td>126</td>
<td>131</td>
<td>137</td>
<td>144</td>
<td></td>
</tr>
<tr>
<td>Growth (%)</td>
<td>2.50</td>
<td>2.90</td>
<td>2.90</td>
<td>2.90</td>
<td>3.62</td>
<td>3.62</td>
<td>3.62</td>
<td>3.62</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
<td></td>
</tr>
</tbody>
</table>

Note: * is calculated at 6 percent rate of quota growth. It is not included in the original source from where the table is taken.


To illustrate a quota growth rate of 6 percent under the former MFA in 1994 became 7 percent to be applied in each year 1995/1996/1997 and 8.7 percent for 1998/1999/2000/2001. At the beginning of stage on 1st January 2002, the growth rates of all remaining quotas will be further increased a factor of 27 percent. At the conclusion of the transitional period, on 31st December 2004, all quotas will be eliminated. For growth rates which are lower than 6 percent under the former MFA, the increases under ATC by applying these factors will be proportionately lower as shown in the graph below.
The above table and graph shows that the substantial growth advantages have been provided for countries with higher 1994 base growth rates. Therefore Pakistan is expected to gain much more growth in quotas than other countries, including India\textsuperscript{54}. This table shows the growth would be still lower in China, Hong Kong and South Korea mainly on account of their low base rates. Therefore as the KSA report observes, "...the actual implementation has shown that the net increase has been limited primarily because the pre-existing growth rates was lower than MFA prescribed 6\% level". The report also concludes that, "... [the] annual increase in market access in 1995-2001 period has been less than 1.5 percent for EU & US".

Now we analyse the implementation of major provisions by the EU.

7.1.2.1.1 Implementation of Integration Provision by EU

Having analysed the provisions of ATC, an attempt is made in this section to examine the actual progress achieved so far in its implementation. It is clear that as the mid point in the 10 year transitional period has been reached, the integration of products

---

\textsuperscript{54} According to Zafar Mahmood (1998) in "WTO and Pakistan: Opportunities and Policy Challenges", \textit{Pakistan Development Review}, vol. 37, no.4 (winter), p. 689. "... the changes in Pakistan's quota on textiles and clothing exports under the normal growth rates without ATC and with the ATC suggest that between 1994 to 2004 without the ATC, the normal increase in textile quota will be 48.8 per cent in the EU, 82 per cent in the US, and 89.9 per cent in Canada. However, as a result of the ATC, these growth rates will rise to 79.2 per cent, 139.7 per cent, and 156.6 per cent, respectively. In case of clothing, Pakistan's quota would have grown normally without ATC by 70.8 per cent in the EU, 87.7 per cent in the US and 82.6 per cent in Canada. On the other hand, under the ATC, these growth rates will be 118.5 per cent, 150 per cent, and 143.5 per cent, respectively. In sum, for both textiles and clothing, Pakistan will have additional market access with the elimination of MFA to about 62 per cent and 67 per cent respectively."
into WTO rules by the developed importing countries (US, Canada, Norway and particularly EU) has begun with the least sensitive products and with few quotas being removed. Both integration of products and the application of quota growth rate by the US, EC, Canada and Norway has met only the basic requirement of the ATC. In the first stage while correct volume of product were integrated no quotas were eliminated by the four members maintaining restriction except Canada. In the second stage a number of products under quota were integrated in Canada while first few quotas were removed by the EC and the US. None of these affected the quotas these countries maintain with India & Pakistan.

Based on the current situation and if the trend continues along the same lines, it would appear that the T&C products of greatest export interest to developing countries, along with most of the quotas will remain within the ATC up to the end of transition period though with progressive increases in the annual growth rates.

The implementation process in the EU has been highly unsatisfactory with no real liberalisation being achieved in the first five year of its operation. It has been argued that the product integration programme of EU is not commercially meaningful to developing countries, being concentrated on low value added products of little export interest. With regards to the EU's integration list, while the EU has apparently met the 16 percent requirement in volume terms, this is due to the inclusion of some products which were not under MFA (referred to as "ex-items"). In value terms, the products integrated in the first stage by the EU had import value of $3,700 million in 1990, that is 8.7 percent of the EU's total imports of textiles and clothing as defined in the Annex.

---


56 ibid p.9

57 ibid. p.9

58 Although in many cases these ex-items were only a fraction of the HS lines at the 6 digit level, the EU added up the full HS 6 digit volume when computing the amount of imports integrated. However, when these lines are disaggregated at the 8 digit level, it is difficult to identify, in most cases, the sub items of textiles material. Therefore, if only a percentage of the HS 6 digit trade is included, say for example, 50 percent, then the share of trade (the percentage volume) integrated would be less than 16 percent as required by the Agreement. With regard to the category of products included in the EU's list, it should be noted that none of the 10 notified categories were subject to any MFA quota in 1994. Although products of two categories were subject to the EU regional quotas for a few exporting countries in 1990, these quotas were later eliminated with the creation of the EU single market in 1992. In value terms, the products integrated in the first stage by the EU had import value of $3,700 million in 1990, that is 8.7 percent of the EU's total imports of textiles and clothing as defined in the Annex to the Agreement. However, if attentions is limited to Section XI (textiles and textiles articles including clothing) of the HS Code, the products integrated would represent less than 2.3 percent of the EU's textiles and clothing imports.
to the Agreement. However, if attention is limited to Section XI (textiles and textiles articles including clothing) of the HS Code, the products integrated would represent less than 2.3 percent of the EU's textiles and clothing imports. The import value of products integrated by the EU in the first stage represents less than 8 percent of developing countries' exports of textiles and clothing to EU in 1990. Table 7.9 gives the percentage of restrained items freed in EU in the first and second phase.

Table 7.9: Percentage of Restrained Items Freed by EU in Phase I and II

<table>
<thead>
<tr>
<th>Year</th>
<th>In Volume</th>
<th>In Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>4.74</td>
<td>4.28</td>
</tr>
<tr>
<td>1996</td>
<td>4.92</td>
<td>4.34</td>
</tr>
<tr>
<td>1997</td>
<td>4.77</td>
<td>4.18</td>
</tr>
</tbody>
</table>


According to the Report "...No quotas of meaningful interest integrated in Phase I ... the 16 percent of the trade liberalised was never subjected to quotas." The Report further examines that in Phase II also, "low levels of utilisation in the quotas [were] being integrated"59, which means that those products were liberalised in which exporters have supply constraints or are insignificant for the exporting countries.

Table 7.10: Sector Wise Integration after the First Two Stages - 1.1.1995 and 1.1.1998 (Integration as percentage of 1990 imports in Volume)

<table>
<thead>
<tr>
<th>WTO member</th>
<th>Stage</th>
<th>Yarns</th>
<th>Fabrics</th>
<th>Made-ups</th>
<th>Clothing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>1</td>
<td>8.46</td>
<td>1.65</td>
<td>4.19</td>
<td>1.92</td>
<td>16.21</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>8.00</td>
<td>2.51</td>
<td>4.54</td>
<td>1.98</td>
<td>17.03</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>16.46</td>
<td>4.15</td>
<td>8.73</td>
<td>3.90</td>
<td>33.24</td>
</tr>
<tr>
<td>EU</td>
<td>1</td>
<td>5.41</td>
<td>7.22</td>
<td>3.17</td>
<td>0.40</td>
<td>16.20</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>10.64</td>
<td>2.25</td>
<td>2.10</td>
<td>2.13</td>
<td>17.11</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>16.04</td>
<td>9.47</td>
<td>5.27</td>
<td>2.53</td>
<td>33.31</td>
</tr>
<tr>
<td>Canada</td>
<td>1</td>
<td>9.62</td>
<td>4.34</td>
<td>1.28</td>
<td>1.13</td>
<td>16.36</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>0.65</td>
<td>2.10</td>
<td>14.22</td>
<td>1.65</td>
<td>18.61</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>10.27</td>
<td>6.43</td>
<td>15.50</td>
<td>2.78</td>
<td>34.98</td>
</tr>
<tr>
<td>Norway</td>
<td>1</td>
<td>3.65</td>
<td>11.87</td>
<td>10.65</td>
<td>0.15</td>
<td>26.32</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>6.45</td>
<td>2.39</td>
<td>4.01</td>
<td>4.17</td>
<td>17.02</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>10.10</td>
<td>14.26</td>
<td>14.66</td>
<td>4.32</td>
<td>43.34</td>
</tr>
</tbody>
</table>


Only 4 percent of the total items under restraint are liberalised in the first phase of integration. The EU preference for product to liberalise were mainly directed to product such as umbrellas, parachutes, watch straps, safety seat belts and others that are not yet included in the section XI of the HS60. The EU percentage of this kind of

59 KSA (2000) op.cit. p.83
60 The International Textile and Clothing Bureau (ITCB) did propose to remove these products from the
products amount to 58 percent of the product integrated in the first phase. However, since the integration of pure textile categories would be considered as a sign of liberal will, it is necessary to note that EU selected categories 69, 75, 85, 94, 134, 148A, 150 and 153 none of which belong to pure T&C categories between 50 to 63.

With reference to the requirements of the belonging of the integrated products to all the four segments of textile production, the provision in the agreement does not specify in which share and it is left to the discretion of importing countries to decide on which share they want to liberalize these four product categories. Clothing which has highest comparative advantage for India and Pakistan has been involved only marginally. The selection of the integrating products has by no means followed the composition of real flows. On the contrary it seems to have been driven by the desire to further postpone the liberalisation. The liberalisation of this sector in the EU and some other markets in the first and second phase is shown in table 7.10.

The MFA restraining countries have fulfilled their obligation of the first stage to integrate 16 percent of their imports at the level of 1990. Yarns and fabrics account for more than 70 percent of the integrated products and consequently the proportion of clothing is very small. The integration of the first stage did not liberalise any significant restrictions in the EU, Norway and the United States. In Canada it has removed the quotas for working gloves only. The second integration 1.1.1998 also made very little impact on the actual trade since the quota liberalisation planned by the US included babies garments (cat.239), down-filled coats (cat. 353, 354, 653 and 654) and hosiery (cat. 632). As regards the restrained countries the liberalisation of these products is negligible.

EU shows the least attention for clothing if compared to other major markets for India and Pakistan and other developing countries and is more interested in fabrics which is very first step of the textile production chain. This last, more capital intensive product does not worry the producers of EU (higher labour cost countries), with the result that it has been excluded from the benefits of the OPT regime. The fabrics group assumed the significant portion as the EU preferred the inclusion of jute, fabrics,

---

61 From this point of view EU seems to have been more restrictive than North American countries (13.31% for the USA and 12.8% for Canada

62 Because clothing sector is labour intensive and these country have comparative advantage in this sector on account of availability of natural resources and cheap and unlimited supply of labour.
laminated fabrics, and luggage textiles etc. which give no particular damage to the domestic industry. 63

Furthermore, in evaluating how effective has been the first phase of the liberalisation process it has to be noticed that, apart from categories 69 and 75, subject to regional quotas already abolished with the introduction of the Common Market, EU removed only residual restrictions on jute products, umbrellas, parachutes, baggage and watch-straps. None of the liberalised categories were subject to restrictions in the previous years. This means that trade in these categories was already free and that EU only gave up its right to restrain them in the future, even though market disruption may occur.

As expected the products that had never been subject to restriction were "integrated" first, while the integration of more sensitive products in each category is being postponed as long as possible. Therefore, the integration in the first stage does not seem to make any material change in the protection of the domestic industries of the restraining countries. Consequently, it is not likely to entail any need for structural adjustment. It could thus make the process of adjustment more painful in the subsequent stages. In conclusion, choices made by the main importing countries cannot be considered as indexes of concrete will of integration. What is more serious is that, by further postponing the liberalisation, tensions linked to the next steps of the MFA dismantling process can become more and more dangerous.

Therefore, it can be concluded that the "integration" programme of EU may not bring any immediate trade liberalisation. This is mainly due to the fact that the Annex to the ATC contains many HS lines which have never been subjected to restrictions in any country. In order to meet the integration target, which was set in volume terms, the products integrated were high in volume and low in value. On account of the situation indicated above the major restraining countries have fulfilled their obligations under the agreement in the first two stages without touching MFA quotas. Thus a modest dimension of trade opportunities may only become perceptible from the beginning of the third stage i.e. 2002. The comment made by WTO's Council for Trade in Goods projected this situation as (1996: para 16.4): "The first stage of integration had not meaningfully improved access to these markets (i.e. basically those of US, Canada and the EU) There are no indications that the second stage integration would be more

63 The ITCB analysis however, referred to a positive element of the removal of some residual restriction by the EU on jute product luggage, umbrellas, parachute and watchstraps that might benefit some of the developing countries such as India and Bangladesh in terms of jute product. Pakistan may not gain from this, as it is not an important export item for it.
commercially meaningful."\(^{64}\)

Against this background it is clear that the actual removal of the most important quota barriers will only take place during the third and, particularly, fourth stages, that is, from 01.01.2002 and 31.12.2004. The most sensitive quota products, such as T-shirts, men's shirts, ladies' blouses, jeans etc. will most probably be integrated on the last day of the ATC only. In the meanwhile developing country producers will have to continue their preparation for the new market situation in the year 2005.

7.1.2.2. Market Access

As far as the UR tariffs are concerned, across the board tariffs on T&C products remain the highest except for the agriculture sector (table 7.1). They vary between 3 to 5 times the value of tariffs for all industrial goods in industrialised countries. Their percent reduction however ranks one of the lowest among the product categories - a sure sign of sensitivity of this sector to liberalisation. Clothing still attracts higher tariffs rate than textiles and the table also reveals that the clothing products were, generally speaking, subjected to smaller tariff reduction than textiles products. Only in the case of the EFTA countries and Japan were the reduction in line with reduction in textile products. It is also quite apparent that the developed countries still have to decrease tariffs considerably in order to truly improve market access. Since the relative tariff rates did not change much, trade in T&C products was probably not noticeably affected\(^{65}\).

<table>
<thead>
<tr>
<th>Product category</th>
<th>Canada</th>
<th>EU (12)</th>
<th>Japan</th>
<th>USA</th>
<th>LMIE (^{e})</th>
<th>HIE (^{e})</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tariff rate</td>
<td>% Reduction</td>
<td>Tariff rate</td>
<td>% Reduction</td>
<td>Tariff rate</td>
<td>% Reduction</td>
</tr>
<tr>
<td>Agriculture (^{d})</td>
<td>7</td>
<td>15.7</td>
<td>5.9</td>
<td>65.1</td>
<td>36.6</td>
<td>10.8</td>
</tr>
<tr>
<td>Textiles/clothing</td>
<td>14.2</td>
<td>5.7</td>
<td>8.7</td>
<td>2.0</td>
<td>7.2</td>
<td>2.3</td>
</tr>
<tr>
<td>Metals</td>
<td>1.5</td>
<td>5.5</td>
<td>1.0</td>
<td>3.3</td>
<td>0.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Chemicals, Etc (^{e})</td>
<td>2.6</td>
<td>5.9</td>
<td>3.8</td>
<td>3.3</td>
<td>1.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Transportation equip.</td>
<td>3.2</td>
<td>3.0</td>
<td>5.5</td>
<td>2.4</td>
<td>0.0</td>
<td>3.9</td>
</tr>
<tr>
<td>NE machinery (^{f})</td>
<td>1.2</td>
<td>4.1</td>
<td>1.4</td>
<td>3.0</td>
<td>0.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Electric machinery</td>
<td>1.6</td>
<td>5.3</td>
<td>5.4</td>
<td>3.5</td>
<td>0.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Industrial goods</td>
<td>2.6</td>
<td>4.8</td>
<td>2.9</td>
<td>2.9</td>
<td>1.4</td>
<td>2.6</td>
</tr>
<tr>
<td>All merch. Trade</td>
<td>2.4</td>
<td>4.7</td>
<td>4.7</td>
<td>3.1</td>
<td>2.8</td>
<td>2.7</td>
</tr>
</tbody>
</table>

\(^{64}\) In the Report of Textiles Monitoring Board (TMB) it was worded more drastically (WTO/G/L/113,A.16: "... should the pattern of selection of products to be integrated in the second and third stages ... reproduce that of the first stage, the implementation of the integration [of T&C products] on 1 January 2005 ... would prove difficult." This is quoted in the Dean Spinanger (1998) op.cit. p.5

\(^{65}\) Dean Spinanger (1998) op.cit. p.10
As can be seen from the table that textile and clothing still have higher tariff rates and the percent reductions have also been low.

### 7.1.2.3. Dual Safeguard Systems

It is interesting to note that even though the aim of the ATC is to facilitate the removal of restrictions on textiles, it permits countries to take safeguard actions during the transitional period. Two safeguards will be applicable during the phasing out of MFA, one applying to products that have been integrated into the GATT system, the other to products still regulated by MFA quotas.

#### A. Regular Safeguards Measure

Article 2:19 and 20 provide for safeguard measures against imports of a particular integrated product that is causing, or threatening, serious injury to the corresponding industry in the importing country during one year period immediately following the product’s integration into the GATT 94, as interpreted by the UR Agreement on Safeguards. This provides for the restrictions by non-tariff means, to be applied on a non-discriminatory basis. The affecting exporting country shall administer the measure. When restrictions are applied for more than one year, they shall be progressively liberalised at regular intervals, during the applicable period. Under the provisions, exporting countries shall not have the right to trade compensation, to suspend substantially equivalent concessions or obligations- but that is consistent with the Agreement on Safeguards.

Any safeguard action initiated for more than one year after a particular product has been integrated shall be in conformity with the Article XIX of GATT 1994 and the Agreement on Safeguard, without regard for any special provision, meaning that it...
shall be administered by the importing country.

B. Transitional Safeguard Measures

The transitional safeguards can be taken only in respect of T&C products that are not integrated into the GATT 1994. The Article 6 provides for a transitional safeguard measure when a particular product is being imported 'in such increased quantities as to cause serious damage, or actual threat thereof, to the domestic products'. This cause of serious damage must be the imports of the product, not other factors such as technological changes or changes in consumer preference. Such restrictions can be ordinarily imposed only after the consultation and after reaching agreement with the exporting countries on the level of imports. However, the Agreement permits the countries to impose restrictions even in the absence of an agreement provided the matter is referred to the TMB. The importing country is expected to abide by the TMB decision.

Importing countries proposing to take transitional safeguard action are required to initiate consultations with the exporting countries concerned. If it is agreed that the situation calls for restraint on exports of the particular product, the level of restraint shall not be lower than the level of exports (or imports) during the twelve-month period ending two months before the month in which the consultations were requested. This restraint can be applied for up to three years, without extension, or until the product is integrated into the GATT system, whichever comes first.

These safeguards were conceived as exceptional measures during the transitional period on products which remain to be integrated into GATT. It is exceptional because, being selective in nature it is derogation from the MFN system of GATT safeguard. Most of WTO members have retrained the right to use transitional safeguard but ATC (Article 6) cautions them to use it sparingly and in exceptional circumstances. A TMB has been established to oversee the implementation of these changes.

7.1.2.4. The Textile Monitoring Body (TMB)

The TMB is the primary forum within the WTO structure entrusted with the task of supervising the implementation of ATC. Appointed by the Council for Trade in Goods – a part of WTO – it consists of a Chairman and 10 other members who act in a personal capacity to ensure that the measures taken by WTO Members conform to the ATC. Its functions are set out in Article 8 of the ATC and its role is particularly important in overseeing the safeguard measures. The TMB relies essentially on notifications and
information supplied by members under the relevant provisions of the ATC.

The TMB is the only legitimate body within the ATC which can interpret the different provisions of the ATC and ensure that these provisions are properly implemented by the members. But the track record it has created during its brief period of operation is not very encouraging. In the disputes which have already been reviewed by the TMB, certain fundamental issues were raised. One of them was whether a situation of serious damage and a situation of actual threat of serious damage to the domestic producers were two different situations or they were two different stages of the same situation. Arguments were tabled before the TMB that an actual threat should be assessed in terms of imminent developments including imminent and measurable increase in imports whereas a serious damage should be assessed in terms of developments and imports that have already taken place.

The TMB has avoided making any recommendations or even findings on these issues. In the meantime, there are recommendations and findings being issued by the TMB based separately on these two concepts. In fact there are findings in specific disputes, to the effect that situation of serious damage has not been demonstrated but a situation of actual threat of serious damage has been demonstrated. But the TMB refuses to spell out what is the difference between the two. Nor are they prepared to give any guidelines for the members to assess these two situations.

The division of the TMB into two blocks and its tendency to wash its hands off serious disputes has not only eroded its relevance, but has also reduced it to a deal-making body. And in cases where the parties refuse to make or accept a deal, the dispute goes to a WTO Panel. In fact, dispute settlement in the textile sector may become a lot smoother if the disputes are handled directly by the Dispute Settlement Body (DSB) as in the case of other sectors. This will also prevent bilateralism from making a back door entry into the textile trade again.

The ATC is not merely a plan for phasing out of the MFA, but is an integral part of the WTO Agreement. It applies to all WTO members (whether they were MFA signatories or non-MFA signatories), but not to those MFA signatories that are members of WTO. All textile and clothing products are covered by the provisions of the ATC excepting those phased into the GATT, under the integration programme. For products integrated into the GATT, the provisions of GATT 1994 apply. Thus, the membership of the ATC could be over 100 (assuming that all GATT contracting parties would ratify the WTO Agreement) while the MFA had only over 40 signatories. By contrast, the
MFA was only applicable to trade in textiles and clothing among MFA signatories, and thus could only legally be applied against those exporting countries that had agreed to be subject to its provisions, even if they were non-GATT contracting parties (as the membership of the MFA was open to both the GATT contracting parties and non-contracting parties).

The Provisions of the ATC are applicable to:

- all MFA restrictions maintained between GATT 1947 contracting parties on the day before the entry into force of the WTO Agreement (Article 2:1);
- restrictions on textile and clothing products maintained by the members other than those under the MFA or justified under the provisions of GATT 1997 (Article 3); and
- actions taken by any members under the transitional safeguard mechanism to products covered by the Annex excepting those that have already been integrated into GATT 1994 under the integration programme (Article 6:1).

In this regard, the ATC is unlike the MFA which only applied to restrictions imposed by some developed countries on imports of textiles and clothing from certain developing country exporters.

7.2. Changing Regime for T&C Imports into the EU and its Consequences for India and Pakistan

As stated earlier there have been significant changes in the EU import regime of T&C product. Two of the main developments were (a) phasing out of MFA quotas under the ATC (b) elimination of member states national quotas. This section aims to discuss the possible consequences of removing the MFA quotas for India and Pakistan and also to see how these countries will react/respond to the changed situation. It also assesses the impact of abolition of national quotas in EU on these countries T&C exports. The MoU signed between India and EU and Pakistan and EU to secure reciprocal market access for textile would also provide these countries (i.e. India and Pakistan) more opportunities and challenges. This section would also analyse these MoUs. Finally, a brief account is given of the new restrictions that are being used by EU to restrict T&C imports from India and Pakistan.
7.2.1. Agreement on Textile and Clothing: Prospects for India and Pakistan

The MFA phase out envisaged in the ATC has changed the trading environment in T&C. It, on one hand gives opportunity to the low cost developing countries to expand their export which so far has been under severe restrictions. On the other hand it encourages competitions from other more efficient and competitive T&C exporting countries. Many studies carried have been carried out so far to evaluate the impact of MFA phase out on the exports of the developing economies. An ITC Study notes that according to the GATT Secretariat the likely effects of the conclusion of the Uruguay Round will by 2005 be some US$ 500 billion higher than before and based on 1994 trade figures (US$ 129 billion for textiles and US$ 140 billion for garments) the additional potential growth for this sector could be as high as US$ 100 billion.

However, the feeling amongst many developing country producers/exporters about the impact of the ATC is so far rather guarded. Many producers feel that the real impact, i.e. the abolition of the quotas for the most sensitive will be left to the very last moment, i.e. 31.12.2004. In addition to that some of the recent developments in the international trade in textiles and clothing are perhaps not very encouraging from developing countries’ point of view. The U.S Rules of Origin (as of 01 July 1996) and the increasing threat of the EC anti-dumping duties on imports of cotton textiles from a number of developing countries, such as China, Egypt, India, Indonesia and Turkey, may be mentioned as examples.

As regards the overall impact it may be noted that the countries with substantial exports in textiles and clothing will probably gain from the ATC and specifically this will apply to a number of dynamic exporters in Asia. In this connection it may be mentioned that some of the most important producers/exporters of textiles and garments are not yet members of the World Trade Organization, such as Taiwan (Province of China), Viet Nam, Russia etc. Textile and clothing producers in developed countries are looking forward to the gradual opening of potentially vast consumer markets, such as China, India and Indonesia.

Whether this removal of MFA restrictions would have beneficial effects or adverse repercussions will depend upon two basic factors. They are (a) amount of rent

---


67 According to projections by Tata Economic Consultancy Services (TECS 1994), EU imports of ready-made fabrics would double between 1994-2004 as a result of elimination of quotas.
that these countries would lose which these exporting countries get as a result of price increasing effect of MFA in the export market, and (b) gains arising from the larger quantities to be exported. Here only the latter factor would be dealt with in details. Realisation of the gains through higher quantities in turn would be determined by two conditions (a) The import regime in EU after phasing out of the MFA quotas; and (b) India’s and Pakistan ability to supply larger quantities in the post MFA period. The EU’s import regime after the MFA phase out would be discussed later in this section. The implications of changes in market access conditions for export opportunities may vary for India and Pakistan. But developing countries as a group of exporting countries are likely to gain from this liberalisation. The welfare gains from export expansion should off set the loss of quota rents. The potential gains to developing countries have been calculated in various studies using different types of models, and the result vary from US$ 1.8 billion, US$ 3 billion to US$ 8 billion. Whether or not developing countries would gain more also depends on the market structure after liberalisation. Integrating T&C into GATT system will have different effects on three different groups of countries.

V R Panchamukhi divides the textile exporters in developing world into three categories. First group consists of countries such as Korea, Singapore, and China etc. which have already earned their strategic advantages as a result of technological and other structural strengths of the textile industry. Second group is of those countries in which T&C is an important traditional export sector and where technological status and the structural strength of the sector are still of moderate level such as India and Pakistan. Third group consists of those which have gained the status of being textile exporters only as a result of the interest of the other competitive suppliers to take advantage of the former’s unfulfilled quota. Countries like Bangladesh and Sri Lanka fall in this category.

Panchamukhi (1996) further gives the different strategies to be adopted in MFA phase out or during the ten-year period for different group of countries. He suggests that

---

68 Recent study in Pakistan by Dr. Nawab Haider Naqvi of PIDE (Pakistan Institute of Development Economics) and Dr. Akhtar Hussain Khan of National Tariff Commission have made databased assessments of the implications of ATC for Pakistan. Dr. Naqvi projected an annual average compound growth rate of 10.8% in the export of T&C to the year 2004-05, based on normal projection to 2005 adjusted for progressive liberalisation of textile quotas in different phases. Dr. Khan's projection is quite close at 10% annual growth.


70 ibid.

countries of the first group "will have to maintain their competitive edge through appropriate technological upgradations and improvement in designs on continuing basis... This process would automatically safeguard the interests of the third category to a large extent". For the second group of countries in which India and Pakistan fall, he observes that "in view of traditional nature of the textile sector, the tasks of technological upgradation, retraining of the labour, massive organisational and managerial reforms have all been slow if not totally non-existent". Therefore, he suggests that, "...the concerted joint action by the state and the private sector would be essential....there is urgent need for setting up Multi-Disciplinary Textile Promotion Councils at the national and sub-regional levels with the view to identifying the scope and the content of the strategic action required to rejuvenate this sector".

Though both India and Pakistan are cotton-based economies and producing low priced and low quality, low value added products catering to the lower segment of consumers in the new market as we have already discussed in the previous chapter, Pakistan has however, even failed to take full advantage of availability of abundant cotton and cheap labour supply. MFA had provided Pakistan a safety net. It was allocated high quotas in EU market and growth rates in the bilateral quotas were also amongst the highest. But Pakistan was allocated high quotas in up stream categories. The products in these categories have low value addition and the allocation of the quota was on the quantity exported rather than on price realisation. This prompted many producers in Pakistan to sell low quality in large volume at the lower prices. 72

India to a large extent had similar situation but it diversified into garment categories for which demand has been increasing at faster rate. India also enjoys large quotas in garments but the growth rate of quotas has been low. This is more so in the case of Pakistan. Since both India and Pakistan have had relatively high quota growth rates of around 6-7 percent (under former MFA of 1994), their exports should grow substantially. There are many studies to prove that India will gain substantially from the MFA phase out. This is also evident from the high quota utilization in EU market which implies that India does not face supply constraints and MFA restrictions have hindered the export of T&C to EU.

72 India’s production structure evolved partly due to the fact that MFA does not allow rapid upgrading of the industry. The Indian T&C production is also dominated by small industries. The MFA promoted the situation through its bias towards handloom products while the government strongly encouraged the (inherently small scale) handloom sector in order to take advantage of this more favourable treatment. Secondly the inherent uncertainty of the MFA quota system discouraged large firms from productions for export.
Pakistan on the other hand has failed to utilise its quotas in the EU market and its utilisation rates in some of the categories is as low as 20 percent. Generally India has had higher utilisation rates than Pakistan in the EU market. Naheed Zia Khan feels that “....The optimism about Pakistan's enhanced textiles export based on the presumption that quota regime has severely constrained its export performance in the post MFA era is misplaced. And there is little doubt that the primary problem behind the poor performance of Pakistan’s T&C exports is inadequate domestic supply response rather than a lack of export opportunity. In recent years, Pakistan’s quota utilisation performance rather lends support to the argument that a fully utilised quota does not even imply that it has been binding [Erzan et. al (1989)]”

The low quota utilisation rates indicate that Pakistan is facing supply side constraint. In this scenario the extent to which a country can gain from improved market access opportunities crucially hinges on the ability of T&C industries to generate market oriented domestic supply response. This involves a coherent strategy involving both the government and the private sector to revamp the industry to increase its efficiency and competitiveness.

India on the other hand is expected to gain from MFA phase out owning to its strength in raw material and cheap labour. Besides improved market access in the EU, a substantial portion is also expected to be vacated by the South East Asian countries such as Hong Kong, Korea and Taiwan (who account for nearly 25 percent of international trade in textiles). This is because of the rapid increase of wages in these countries that makes labour intensive industries unviable. India can grab a substantial portion of the emerging opportunity, considering the potential of the Indian textile industry. The success India had in traditional non-quota markets and in markets like Sweden and Norway where some of quotas have been abolished during 1996 to 1999 is an indication of India’s potential in this regard.

However, during phase out period and later on when no constraints would apply on India’s and Pakistan’s market access to EU, the regular commercial consideration of

---


74 According to the Ambassador’s Report (1992) on the impact of SEM-92, “there is a good potential for expansion in the T&C sector. India has a competitive advantage in the cotton based exports because it has its own raw cotton supply”.

75 Indian exports of T & C to non-quota markets have increased at a high rate.

76 Sweden abolished all the quotas in 1991.
competitiveness and quality would become more relevant since unrestricted access in the EU market will be matched by unrestricted competition. Therefore in both the countries (India and Pakistan), there is a need for the industry and the government to revamp themselves and make concerted efforts to improve the competitiveness of their T&C products. India and Pakistan also need to diversify their export base of fabrics, which is presently dominated by cotton and cotton blended fabrics, whereas there is predominant and rising share of synthetic fibers in consumption pattern of most of the major industrialised importing countries. For diversifying the fabrics base it would be necessary to ensure the availability of man made fabrics in sufficient quantities and competitive prices, because it is costlier in India and Pakistan than in the international market.

The removal of MFA quota will also bare the gaps in competitive advantage between India and Pakistan and their competitors in the EU market. In order to increase the competitiveness in terms of quality and price these countries will have to improve their production structure. The 10 years transitional period which India and Pakistan accepted unwillingly may prove useful in this respect. These countries are well placed to improve their qualities and quantities as they have advantages in wages/salaries and other non cost factors. The non-cost factors included country risk factors (transportation and customs disruption, communication and infrastructural risk, investment/political risk, and ethical standard risk), product risk factors (quality problems, barriers to production capacity, etc), and service risk factors (barriers to raw material availability, factory lead time, minimum order requirement, risk of delayed delivery).

The market access Memorandum of Understanding (MoU) finalised by the respective Governments of India and Pakistan with EU in 1994 (Ratified in 1996) and the reductions announced by these countries would help in increasing the availability of man made fibres. As the demand for synthetic blends are expected to remain strong in future, it is imperative that production capability of synthetic blends be strengthened in these countries to take advantage of the growing market for man made fibres and synthetics.

---


78 For Details, refer to Kurt Salmon Associates (2000) *op.cit.*
7.2.2. Abolition of National Quotas in EU: Implications for India and Pakistan

Both countries need to move on to more value added products and also to restructure their production/industry accordingly. The objective of high value addition cannot be achieved in T&C industry without creating strong and modern weaving and processing base. The weaving capacity in Pakistan has been static at 10,000 looms whereas the spinning sector has grown much faster. India also needs to have larger and more organised production units. Besides this it also needs to graduate from powerloom sector to mills for sourcing its raw materials and diversify into mass production items such as suits, jackets trousers etc. Processing is the weakest link in the textile chain, particularly in India. It includes processes like dyeing, mercerising, texturing etc which determine quality of the final product. The industry in both the countries needs to improve their processing facilities and techniques.

As far abolition of EC National quotas is concerned, it is expected to have favorable effect on India and Pakistan’s T&C exports to EU. This would help correct the mismatch that existed between some of the individual member countries demand and the quotas allocated to them which resulted in under-utilisation of quotas of many exporting countries including India & Pakistan. The abolition of national quotas would enable exporters to optimize their productions in accordance with the demand in the EU market. Not only would the exporting countries gain from the abolition of national quotas the importers in the EU members states (who import more from MFA importers) will be able to satisfy their demand as their imports would no longer be restricted by the national quotas.

A practice has been followed in EU that member countries having higher protection for specific product were allocated higher quotas. The purpose was to restrict imports from the developing countries. For example, cotton yarn was relatively more protected in the UK and Spain, and these countries were allocated high quotas of cotton yarn. So the quotas remained unutilised. The abolition of the national quotas would make countries like UK and Spain in EU more attractive as the country specific barriers would be removed79.

7.2.3. New Restrictions on Import of T&C from India and Pakistan into EU

The T&C industry has been highly protected in EU in the past and it is unlikely that that abolition of MFA quotas as required by the GATT agreement on textiles and

79 For details see Atul Sarma (1997) op.cit.
clothing and the abolition of national quotas by EU member states would provide increased market access in the EU market. EU is among those industrialised countries interested in having a fresh round of negotiations on ATC. The purpose can be easily understood to be the postponement of ATC so that their domestic industry can enjoy protection for some more time. If efforts for an extension of discriminatory quotas in some form or the other do not succeed then other protectionist measures are likely to be put in place by 2005. Already there is vigour in anti-dumping actions and in finding social, environment and health issues that can be used for initiating effective anti-import measures in T&C sector. More of this kind is expected when quotas are gone and the situation is expected to remain the same. In both the barriers relating to environment and labour conditions there is twin element of genuine concern and protectionism by EU for the benefit of its own industry. The other tools of contingent protectionism are “anti-dumping actions”, “safeguards, including transitional measures” and “rules of origins” which are allowed under the existing GATT regime. Albeit, on actions under these will also have to be justified as necessary and fair. But evidence shows that recent actions are taken under these escape valves are more projectionist than genuine.

Finally, India and Pakistan fear the use of trade measure for non trade purposes such as application of labour standards and the use of environmental regulations to discriminate against their exports. They argue that these measures would be and are being used as form of protection in disguise. According to G.D. Jasuja, editor of New Cloth Market, these have taken the form of “quality specification, insistence on the use of eco-friendly dyes and colours, restrictions based on child labour etc. Indian exporters believe that there is definitive scope for developed countries to exert bilateral pressures or raise new types of non tariff barriers, in the name of safety, national security requirements, deceptive practices, environmental production and that of human, animal or plant life”. For instance the EU has implemented a policy of general preferences for garments that are not made with child labour. Recently EU banned the use of certain chemicals such as Azo dyes. As a result most garments exporters have stopped using these dyes in their fabrics. While EU continues to set high standards, the exporters in India and Pakistan will have to make necessary adjustment to meet these new standards.

The application of transitional safeguards by EU during the phase out period is another means of restricting imports of T&C from India and Pakistan into EU. These transitional safeguards are additional restraints that can be placed on product line that are not covered by current restraint during the phase out period.
Now we move on to analyse the Memorandum of Understanding (MoU) which was signed between the Pakistan and EU and India and EU. In exchange of the MFA quotas being phased out by the EU and US, India and Pakistan were to reciprocate by liberalising their own respective textile imports. The MoU between India and EU and between Pakistan and EU in the area of market access for textile products were initialed on 15th October and 31st December 1994 respectively. Under the GATT framework of market access negotiations it was approved and ratified in 1996. This gave exporters (in India and Pakistan as well as in EU) better access to each others' markets aimed at securing a progressive opening up of their markets to each other. Imports of wool tops, synthetic fibres, textile yarns and some industrial fabrics were freed in early 1995. While products such as selected textile products and apparel items were made eligible to be imported with a new import licence, it was agreed that these would be freed at a future date (in 1998, 2000, and 2002). Though negotiated bilaterally, these reforms apply to all countries exporting to India (i.e. on a most favoured nation basis). In exchange EU promised to allow an additional 7000-8000 tonnes of Indian goods under quotas during 1995-2004, and quotas on towels and all restraints of handloom and cottage industry products are being eliminated.

Different EU member states have different perceptions on the issue of the market access in T&C. While the northern EU states favour integration of clothing items subject to quotas to break into booming middle class market of India, the southern states (and Italy) lobbied against it. For instance, Portugal argued that the agreement represented a threat to its own industry which would face tougher competition from Indian exports. But others disagreed arguing that the up-market, designer label market sector of Indian clothing market would offer great gains to Portugal. The European retail trade is increasingly concerned about the slow pace liberalisation of EU's textile and clothing imports and its going recourse to anti-dumping measures, which, at times, seems to target the strongest EU suppliers.

---

80 "Textile Quotas Fail to Bring Cheers to Indian Exporters", The Economic Times, 2 January 1995; and "New Agreement to Improve Trade with EU", The Economic Times, 3 January 1995.


83 "EU Ratifies Textile Deal with India", The Economic Times, 27 February 1996. Also see Malcolm Subhan "EU Retail Trade Lobbying for Textile Imports Relaxation".
7.2.4.1. MoU Between India and EU

As far as MoU with EU is concerned, Government of India provided market opening via the removal of all quantitative restrictions affecting the items listed in the attachment by the dates indicated therein. Having noted the concerns expressed by the European Community in this regard, the Government of India confirmed that it does not apply any measures which constitute a dual pricing policy for the export of raw cotton from India. The European Community agreed to remove with effect from 1st January 1995 all restrictions currently applicable to India’s exports of handloom product and cottage industry products as referred to an Article 5 of the EC- India agreement on trade in textile products.

As of the date of entry into force of the WTO and for each quota year therefore, the Commission will give favourable consideration to request which the Government of India might introduce for exceptional flexibilities, in addition to the flexibilities applicable under the bilateral textiles agreement, for any or all of the categories under restraint, upto the following amounts for each quota year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>7000 tonnes</td>
</tr>
<tr>
<td>1996</td>
<td>7000 tonnes</td>
</tr>
<tr>
<td>1997</td>
<td>7000 tonnes</td>
</tr>
<tr>
<td>1998</td>
<td>8000 tonnes</td>
</tr>
<tr>
<td>1999</td>
<td>8000 tonnes</td>
</tr>
<tr>
<td>2000</td>
<td>8000 tonnes</td>
</tr>
<tr>
<td>2001</td>
<td>8000 tonnes</td>
</tr>
<tr>
<td>2002</td>
<td>8000 tonnes</td>
</tr>
<tr>
<td>2003</td>
<td>8000 tonnes</td>
</tr>
<tr>
<td>2004</td>
<td>8000 tonnes</td>
</tr>
</tbody>
</table>

The Government of India will invoke such exceptional flexibilities in the order of carry-over, inter category transfer and carry forward, to the extent of the possibilities existing on the basis of the utilisation of quotas. Moreover, in each quota year the total amount of exceptional flexibilities shall not exceed 2500 tonnes for any particular textiles category or 3000 for any particular clothing category.

According to this MoU, India will have to reduce the duties from 65 percent in 1995 to 23-35 percent in 2002 (terminal year) on yarns to made-ups and from 70 percent to 35-40 percent on clothing during the same period. This implies India has to reduce its present duty structure substantially in host of sensitive import items over a period of 3-7 years beginning 1995. In return, India has managed from the EU an exceptional flexibility of 7000 tonnes upto 1997 and another 8000 tonnes for the period 1998-2004 over and above the existing quotas. Official calculations show that this incremental
quota would amount to additional export possibility of Rs. 1100 crore during 1995 and Rs. 10,000 crore by 1998. According to Subhan (1995) the value of extra-exports resulting from this flexibility is estimated to be around Rs. 300 crores per year.

| Table 7.12: Tariff Bindings by India and Pakistan in their respective MoUs with EU |
|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Items                           | Tariff Bindings by India          | Tariff Binding By Pakistan       |
| Applicable to products under chapters 51-59 (Yarn, Thread, Fabrics and Blankets) | 65%     | 40%     | 20-35%  | 20-35%  | 20-35%  | 15-40%  | 10-35%  |
| Applicable to products under chapters 61-63 (Garments)                          | 70%     | 50%     | 35-40%  | 35-40%  | 35-40%  | 50%     | 35%     |

Source: Summarised from OJL, dated 27.6.96, No. L 153/47

The new Agreement worries small Indian manufacturers because this will open the floodgate of imports of wide range of items will result in damaging the domestic textile industry in India. The textile industry in India is going to face increased competition from the world market as our doors are opening up for free imports of staple fibres, industrial/apparel yarns, fabrics, garments, apparels, textiles, etc.

The provisions of Article 7 of the Agreement establish the linkage between the benefits of the economic package of the ATC and some of the obligations under other WTO agreements which include the specific commitments, to achieve improvements in market access, to avoid discrimination against imports of textile and clothing products, etc. Such linkage, particularly as unilaterally interpreted or defined, could give rise to disputes and pose a threat to the effective implementation of the ATC. In this regard, it is important to note that some major importing countries, in their national implementing legislation, have linked the integration process, the increases in growth rates for MFA quotas, the GSP status etc., with further opening of markets by developing countries for their exports of textile and clothing.

There is no increase in quota level because the EC Secretariat is not empowered to discuss this as each member conducts its own negotiations. It can only give concession on flexibility in utilisation. The additional flexibility in quota utilisation of 2000 tonnes will only be considered “favourably” in the respective year. It does not really open up the market as there is no increase in quota as such. The commitment to give 10 percent OPT (Outward Processing Traffic) to India will not help India in practice. OPT envisages import of fabric for conversion into garments on the job work model. The country is at a disadvantage compared to Turkey or East Europe. It takes

---

nearly three months to complete a cycle in India while the neighboring countries of EU can do the job in a week.

According to para 4 of EC Agreement, India has undertaken "not to apply any measure which constitute a dual pricing policy for the export of raw cotton from India". In other words, the Government of India cannot have minimum export price for cotton. It cannot restrict cotton exports in any way. India cannot have the advantage of minimum export price, which improve foreign exchange realisation by strengthening the bargaining power of the cotton exporter and the farmer. Further more, the mechanism will blunt the policy instrument for balancing domestic demand with export.

7.2.4.2. MoU Between EU and Pakistan

The MoU between the EU and India and Pakistan and EU is similar in many respects though the coverage and extent vary. As far as the MoU between EU and Pakistan is concerned, Government of Pakistan also provided market opening via removal of all quantitative restrictions during 1994 on textile products given in the annexure II of the MoU, according to the timetable indicated therein. However, it retains the right under GATT 94 and the WTO to reintroduce after necessary consultations with the European Commission, the quantitative restrictions in case "a critical situation arises in the textiles industry of Pakistan or in relation to the balance of payments situation in Pakistan". This kind of clause/provision is not mentioned in EU's MoU with India.

The Government of Pakistan confirmed that the dual pricing policy for export of raw cotton had been abolished and hoped that this would meet the concerns expressed by the European textile industry in this regard. But it retained its right under the GATT to take action in case a critical situation that might arise in this area. It has been agreed that the Government of India will not apply dual pricing policy for the export of raw cotton from India.

The Government of Pakistan noted that the European tariff offer on T&C products annexed to the WTO Agreement which is summarised as:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fibres and Yarn</td>
<td>4 %</td>
</tr>
<tr>
<td>Yarn put up for retail sale</td>
<td>5 %</td>
</tr>
<tr>
<td>Fabrics</td>
<td>8 %</td>
</tr>
<tr>
<td>Made-ups and Clothing</td>
<td>12 %</td>
</tr>
</tbody>
</table>

Where current duty rates are lower, the lower rates continue to apply.

The Commission committed to initiate immediately the necessary procedures to
remove all the restrictions currently affecting the imports of the handloom and cottage industry products from Pakistan, before entry into force of the WTO, i.e. before 1 January, 1995.

In return, to Pakistan's commitment to achieve effective access to its market in T&C products, the commission agreed to favourable consideration to requests which the Government of Pakistan might introduce in respect of management existing quota restrictions for exceptional flexibility (including carry-over, carry-forward and inter-category transfers) not exceeding for each quota the following amounts

1994: 3000 tonnes
1995: 3000 tonnes
1996: 3000 tonnes
1997: 3000 tonnes
1998: 3000 tonnes
1999: 3000 tonnes
2000: 4000 tonnes
2001: 4000 tonnes
2002: 4000 tonnes
2003: 4000 tonnes
2004: 4000 tonnes

Moreover, in each quota year, the total amount of exceptional flexibilities may not exceed 2000 tonnes for any particular category. The MoU with India is more detailed and comprehensive as it specifies the flexibilities in T&C individually (2500 tonness for textiles and 3000 tonnes for clothing).

According to this MoU, Pakistan has also agreed to open up its market to imports of T&C items ranging from fibres and yarn to clothing. The EC noted that Pakistan has reduced its tariff on all T&C products to a minimum level of 70 percent on 1 July 1994 and will bind this level under the WTO provisions before 31 December 1995. Furthermore, the tariffs will be reduced and bound to the items listed in the annexure II at the levels and according to the timetable indicated.

For textile fibres, yarns and fabrics, the tariff rates would vary from 14-40 percent and for clothing 50 percent in 2000. (India's tariff bindings in 2000 were 20-35 percent of yarn, fibres and fabrics and 35-40 percent in clothing). This shows that India's tariff reductions are more than Pakistan's. India has to reduce its tariff rates by 2002. whereas for Pakistan, the terminal year is 2005. Therefore India's opening of market is deeper and faster (it also contains more products at more disaggregated level).
The protection in Pakistan in effect would continue to be higher than India till June 2005. This implies that these countries will have to reduce the present duty structure substantially in sensitive import items over a period of 5-10 years beginning 1995. For India, the period is shorter (3-7 years). In return, Pakistan has managed from EU an exceptional flexibility of 3000 tonnes up to 1999 and another 4000 tonnes for the period 2000-2004 over and above the existing quotas. This incremental quota would also amount to additional export possibility.

Besides, the Delegation of Pakistan drew the Commission's attention to the importance which the Govt. of Pakistan attached to the early integration into the GATT of certain categories currently under restraint in the EU. The Delegation of Pakistan and EU also recalled that in accordance with the notifications which they would make to their existing bilateral agreements on textile products to be maintained as administrative arrangements under the WTO Agreement the basket exit mechanism would be replaced by the safeguard clause of the WTO textile agreement and the current procedures regarding circumvention would be maintained (i.e. any changes made to quotas after consultations would not exceed the amount of goods in question).

This MoU will cost these countries enormously. Till now, the imports of fabrics and garments were highly restricted. Due to quantitative restrictions, these countries' markets had been insulated from foreign competition. India and Pakistan managed to prevent imports of consumer goods under the coverage of balance of payment situation. Now, the domestic market of India and Pakistan will be flooded by cheaper imports, not only from EU and US but also from other countries. On the other hand, it will also benefit the domestic textile industries in India and Pakistan as the availability/supply of man-made synthetic fibres will also increase (as a result of opening up of these economies) at international prices which would help these countries diversify into synthetic blends the demand for which is clearly increasing. Thus the changes in the policy environment pose challenges as well as offer opportunities to improve the global competitiveness of India's and Pakistan's textiles and clothing exports.
Chapter 8
Conclusion and Recommendations

It is a well-known fact that textiles and clothing industries have historically played a significant role during the early development of many of the industrial giants, the facts predominantly reiterated by Rostow (1960) through his analysis of stages of economic growth. Today textiles and clothing industries have been the keys to their roads to sustainable industrialisation for many developing economies including the economies of south Asia, particularly India, Pakistan, and Bangladesh. The Southeast Asian States (SEAS), particularly China, Thailand, Indonesia etc and Newly Industrialising Economies (NIEs) are also are seen to have comparative advantage.

T&C has been highly protected sector worldwide and India and Pakistan, one of the most discriminated countries in the developed markets. The powerful instrument of trade policy according high protection to industry has prevented it from growing to its full potential. This sector currently accounts for about 4 percent of India’s and 8.5 percent of Pakistan’s total GDP and is estimated to employ 28 percent of India’s, and 24 percent of Pakistan’s total industrial force. It contributes 28 percent to India’s and 73 percent to Pakistan’s total export earnings. Thus this sector is the backbone of the Indian and Pakistan’s economies, and the future of these economies would depend, to a large extent on the performance of this sector. It is high time the Governments wake up to the situation and attempt to eliminate/reduce the inefficiencies of the sector to make them more competitive.

This study has attempted to analyse the dynamics of India’s and Pakistan’s exports of T&C to the European Union. Despite textiles being the largest industry in both the countries, their export potential still remains under-utilised. This necessitates an in-depth evaluation of competitiveness of their T&C products in EU market. The analysis herein examines the present scenario of T&C exports and identifies the products in which potential trade exists for future growth of the economies.

The competitiveness of export is to evolve with development process by changing the composition of trade in accordance with the changing dynamic advantage. For this we have to provide an understanding of the historical forces which gives rise to current pattern of comparative advantage and provide an insight into likely direction of changes in the future of India's and Pakistan T&C exports to EU.
Thus before proceeding to the empirical analysis of comparative advantage of India and Pakistan in T&C exports to EU, the trade structure, composition, growth and export performance of India’s and Pakistan’s T&C products in EU has been examined. Thereafter common commercial policy of EU on imports of T&C from India and Pakistan has been discussed which will determine the future prospects of these countries’ T&C exports to EU. The export performance also depends upon the supply capabilities which are determined by the size and structure of the domestic textile industry in the respective countries. A comparative analysis of the size and structure of domestic textile industry in India and Pakistan is done in chapter 2.

Chapter 1 outlines an overview of south Asian T&C exports to the EU with a brief background on importance of textiles and clothing in the countries of South Asia. It further gives the background to the study, broad objectives and methodology followed besides a brief note on the chapterisation and limitations of the study. This chapter is focused on five major SACs, namely, Bangladesh, India, Nepal, Pakistan and Sri Lanka. It is observed in this chapter that T&C is an important sector/industry in South Asia (SA) as its share in country’s merchandise exports is very high, specially for Pakistan, Bangladesh and Sri Lanka. Though T&C has a large share in these country’s exports, these countries share in world export is marginal. In other words, T&C is an important export item in SACs total exports, but the SACs are marginal players in the world T&C exports.

The share of textile and clothing in the total exports of South Asia has been comparatively higher than most of the T&C exporters in the world. The share of T&C in India’s total exports increased from 26.2 percent in 1990 to 28.1 percent in 2001. The T&C’s share in Pakistan’s total exports increased from 65.5 percent to 72.1 percent during this period. The respective figures for Bangladesh and Sri Lanka were 59 percent and 34.4 percent in 1990 to which increased to 86 percent and 54.3 percent respectively in 2001. Only in case of Nepal, its share in total exports has declined (from 64.8 in 1990 to 48.7 percent in 2001). Though T&C occupy such an important place in the economies of south Asia, these countries’ share in world exports of T&C is negligible. It is encouraging to note that the south Asian exports of textile and clothing has been growing over last two decades at a rate higher than the rate at which world exports of T&C are growing. However, the growth rates have come down during 1990s.

The European Union is an economic giant and an important partner in the world trade, specially in textiles and clothing. It share in world exports of T&C is nearly 59
percent (34.4 percent in textiles and 24.1 percent in clothing) and has a share of 68 percent of world imports in T&C (29.2 percent in textiles and 38.7 percent in clothing). As a matter of fact, the EU is an important trading partner for SACs - and a growing one. The EU provided a market for as much as 25.5 percent of India’s, 27 percent of Pakistan’s, 43 percent for Bangladesh, and around 29 percent of Nepal’s and Sri Lanka’s total exports in 2000. Its share in SACs T&C exports is much higher at 33 percent, 29 percent, 47 percent, 43 percent and 37 percent for India, Pakistan, Bangladesh, Nepal and Sri Lanka respectively. It is interesting to observe that EU sources different products from amongst the SACs. For example while India and Sri Lanka are exporting 39.6 percent and 44 percent of their total textiles fibres to EU, it the destination of 49.7 percent and 85.6 percent of India’s and Sri Lanka’s total textile yarns, threads, fabrics, made-ups etc. EU is a market for around 50 percent of Bangladesh’ clothing, accessories exports.

Textiles is an important export item for south Asian countries’ exports to EU as can be gauged from the fact that it contributes around 90 percent to the total exports of Bangladesh and Nepal. While T&Cs share has increased significantly for Bangladesh, it has remained the same for Nepal during 1990s. In case of Pakistan the share has increased from 58.6 percent to 79 percent during the period under consideration. T&Cs share is comparatively lower for India and Sri Lanka where its share is 36.4 percent and 64.2 percent respectively.

This chapter has clearly brought out the importance of European Union as the major export destination for all the south Asian countries and textile and clothing as one of the most important export item for these countries, both in their global exports as well as their export to EU. T&C is a major sector in all the countries of south Asia. Traditionally, India and Pakistan are the major suppliers of T&C to the world and to EU. During 1990s, Sri Lanka and Bangladesh have also emerged as important exporters of clothing, but India continues to be the largest supplier of clothing products to the world in general, and to EU in particular. Pakistan continues to be the major supplier of textile yarns, threads, fabrics, made-ups etc and India the major supplier of clothing products. In the category of textile yarn and fabrics, the two are competing in most of the categories, specially in the cotton based products.

Chapter 2 looks into the supply dynamics and capabilities of T&C sector in the respective countries of India and Pakistan in terms of the size, structure and growth of textile industry in face of changing global market demand. Cotton has occupied a place
of prominence in India and Pakistan as the textile industry in both the countries is cotton based. Second section of the chapter compares the cotton production and productivity in India and Pakistan. Finally third section analyses the role of respective governments in India and Pakistan in encouraging this sector and the policy initiatives taken by the respective countries to boost the growth of this sector. It also examines the future prospects of T&C products in India and Pakistan at the micro and macro levels. There was a huge gap in the research work carried out earlier related to India. This work will certainly bridge the gap and provide some thought provoking note/comments, for India and Pakistan's point of view.

The role and importance of textile and clothing in the economy is much larger in Pakistan as compared to India. The Pakistani agriculture and manufacturing sector are dominated by the production and export of raw cotton and textiles. The production of chemical/synthetic/man made yarns and fabric has a much smaller role in both economies, but its relative share is much smaller in Pakistan as compared to India. Production for exports is the primary orientation of the T&C sector in Pakistan, whereas the industry is geared to supplying to the domestic market in India. In the recent years the Indian exports of T&C, which are almost, equal have overtaken Pakistani exports of T&C in terms of export earnings. More importantly, while Pakistan relies on low value added exports of yarn and fabrics, the Indian T&C exports have an equal share of textiles and clothing.

The size of Indian industry in terms of number of mills and spindles is close to three times the size in Pakistan. The number of looms in India is about 10 times those in Pakistan. Cotton yarn production is only 50 percent higher. This suggests the textile machinery in Pakistan is more efficient. However, India produces more yarns of higher counts because of the high spinnability of Indian cotton. Cotton cloth production in India is about 6 times that of Pakistan. However, almost 80 percent of the cloth production comes from the powerloom and the handloom sector. India has large and variable supply capabilities in the form of organized mills and decentralised powerloom and handloom sector which provide flexibility to the production structure enabling it to cater to variety of export orders.

During 1990s, the capacity utilisation in the spinning sector increased for both the countries, but in India, the increase was more and in weaving sector, the capacity utilisation fell in India and increased, though marginally in Pakistan. In 2000-01, the capacity utilisation rate in spinning sector was 85 percent for India and 84 percent for
Pakistan. In the same year, the capacity utilisation rate in weaving sector was 47 percent for India and 40 percent for Pakistan. Generally speaking, the utilisation rates are higher in India than in Pakistan.

In both the countries, industrial sickness is wide-spread. The Indian Government has taken over some 130 sick textile mills administered by National Textile Corporation (NTC). In Pakistan, there are about 146 sick mills which the government is trying to revive, if viable, through financial restructuring by the banks. The viability criterion is that spinning mill's cost of conversion of cotton into yarn is not more than Rs.110 per 5.5 kg. The mills that do not measure up to that criterion fit for liquidation. Overt government help can be seen in the explicit subsidisation of textiles in India, particularly of the handloom sector, on the contrary, such subsidisation is absent in Pakistan.

Chapter 3 examines the composition, growth performance and pattern of India's and Pakistan's T&C exports to the world and EU. In dealing with the export performance few indices have been used that measure performances after controlling for various external factors such as the growth of world textile and clothing market, the growth in export basket of the country etc. The key indicators used to assess the export performance in this chapter are (1) World Export Share (WES) which gives the world market shares for given products and World Export Share Growth Index (WESG) which has been calculated by dividing the world export share for current year by the corresponding figure in the base year; (2) Relative Export Competitiveness Index (REC) which is obtained by dividing country's export share in a product by the country's average share in total world exports; and Relative Export Competitiveness Growth Index (RECG) which is obtained by dividing REC for the current year by REC of base year. (3) Export/Import Dominance Index (EID) and Balance of Trade (BOT). EID is obtained by dividing imports by exports for clusters or industries. Ratio greater than one indicates high import dependency and relative competitive weakness. BOT is obtained by subtracting imports from exports for given products.

European Union is an important market for India's and Pakistan's exports and its importance is even more in these countries' export of T&C products. The share of EU has, however declined during 1990-2000 from 27 percent to 25 percent for India and from 32 percent to 27 percent for Pakistan. The decline in T&C is much more for India from around 40 percent to 32 percent than Pakistan (from 29 percent to 28 percent).

\[1\] V Katti and R Venkateshan (1999) op.cit p.110
Broadly speaking, EU is the market for around 40 percent of India’s exports of textiles fibres, 30 percent of textiles yarns and 37 percent of clothing and accessories. The respective shares for Pakistan are 23 percent, 24 percent and 37 percent.

EU’s share in India’s global exports has increased significantly in textiles fibres from around 12 percent during 1990-96 to around 40 percent in 2000 and from around 10 percent during 1990-96 to around 23 percent in 2000 for Pakistan. The share of EU in textiles yarns, threads, fabrics, made-ups etc has decreased from 36 percent in 1990 to 30 percent in 2000 for India while it has increased from 19 percent to 24 percent for Pakistan during the same period. In clothing’s also, EU’s share has fallen significantly from 48 percent to 37 percent for India and from 53 percent to 37 percent for Pakistan during 1990-2000. It may be attributed partly to the growing protectionism in the EU by way of NTBs.

EU is the single largest export market for India’s T&C products. It accounted for over 50 percent of India’s export of cotton; under garments non knit; and headgear, non textile clothing. While EU’s share in India’s export of cotton has increased significantly, its share in other two products has fallen during 1990-2000. Over one-third of India’s export of veg fibre, excl cotton jute; synthetic regenrted fibre; wool and animal hair; knitted, crochet fabrics; lace, ribbons, tulle etc; textile etc products nes; floor cover, tapestry etc; womens outwear non knit; outerwear knit nonelastic; and under garments knitted are exported to EU. It is a market for over 20-33 percent of India’s exports of silk; artificial, man made fibre; waste of textile fabrics; textile yarn and thread; cotton fabrics, woven; fabrics woven; special textile etc products; mens outwear; and mens outwear non knit. Woven textiles, noncotton is the only product in which EU’s share is less than 20 percent. EU is largely a market for India’s export of textiles fibres and yarns and threads as its share in clothing is low. India should reverse the trend from being the exporter of raw material to the exporter of finished high value added goods.

EU is also a large market for Pakistan’s T&C products. It accounted for over 50 percent of Pakistan’s export of wool and animal hair; special textile etc products; and headgear, non-textile clothing. While EU’s share in Pakistan’s export of cotton; synthetic regenerated fibre has increased significantly, its share in several other products has fallen during 1990-2000. Over one-third of Pakistan’s export of woven textile, noncotton; textile etc. product nes; floor cover, tapestry etc.; men’s outwear non-knit; outerwear knit nonelastic and under garments knitted are exported to EU. EU is a market for over 20-33 percent of Pakistan’s exports of woven fabrics; under garments non knit;
waste of textile fabrics; textile yarn and thread; woven cotton fabrics; knitted, crochet fabrics; lace, ribbons, tulle etc. are the such products in which EU’s share is less than 20 percent. EU is largely a market for Pakistan’s export of textiles fibres and yarns and threads as its share in clothing is low.

The structure and composition of India’s T&C exports to EU shows the similar pattern as its global exports. The share of textiles fibres in India’s T&C exports is negligible (less than one percent). Clothing forms bulk of the exports (55.6 percent) and textiles yarns, threads, made-ups etc constitutes the remaining share. The T&C exports are highly concentrated in few products as is also evident from the high CCI values. Textile yarn and thread; textile etc products nes; floor cover, tapestry etc, mens/boys clothing; mens outwear non knit; outerwear knit nonelastic; and headgear, non textile clothing together constitute around 3/4th (around 75 percent) of total T&C exports to EU. There have been wide fluctuations in the share of individual products. The respective shares textile yarn and thread; under garments non knit; under garments knitted etc. has increased marginally whereas shares of textile etc products nes and outerwear knit nonelastic in total T&C exports increased substantially. The share of cotton fabrics woven; mens outwear non knit; headgear, non textile clothing; and mens/boys clothing etc have witnessed dramatic decline during 1990-2000, whereas shares of cotton; woven textiles, noncotton; fabrics woven; womens outwear non knit have declined but marginally. Just like its global T&C exports, India has reduced its dependence on cotton-based products in EU market also.

The changing shares are result of the rate of growth, which the individual T&C products have witnessed during a period. The exports of textiles fibres declined (as is reflected by the negative growth rate) as result of which its share declined from 3.3 percent to less than one percent during 1990-2000. Except for silk; synthetic regenrtd fibre; and wool and animal hair, the exports of all other products in this category declined and therefore saw negative growth rate. The overall growth of all commodities and that of T&C was almost the same during 1990-2000. However, the growth of individual T&C product groups was different. The growth of all product categories under textile fibres fell in the post-WTO regime, except for silk. This is an indicator of India’s gradual shift towards processed products. However, the major export items experienced lower/negative growth in the latter period. For example, the growth of textile yarn and thread fell from 16.3 percent during 1990-96 to -6.3 percent in 1996-2000; cotton fabrics woven (from 4.9 percent to -7.5 percent); special textile etc
products (from 48.3 percent to 4.8 percent); textile etc products nes (from 90.7 percent to 5.5 percent); non-cotton woven textiles (from 7.5 to -3.5); mens/boys clothing (from 10 percent to -9 percent) etc. Yet there are a few products, which have improved the growth rate. The growth of synthetic regenerated fibre (51 percent), artificial, man made fibre (24.2 percent), lace, ribbons, tulle etc (44.2 percent) and under garments knitted (22.3 percent) was phenomenal during post-WTO regime as would also be evident from its market share in total T&C exports to EU market.

An analysis of structure and composition of Pakistan’s T&C exports to EU reveal that textile yarn and thread and cotton woven fabrics have played an important role since 1980 and their shares have also increased over the years. In 1980, they contributed 14.6 percent and 16.3 percent to the total T&C exports, respectively. By 1990, the share of former had gone up to 28.6 percent and that of latter to 17.2 percent. But the cotton fabrics fared better during 1990s with its share constantly rising during 1990-96 but declined in the following period. In 2000, the respective shares of textile yarn and thread and cotton woven fabrics were 17.3 percent and 15.6 percent. The product which has done extremely well is textile etc. products nes, the share of which increased consistently from 1.5 percent to around 20 percent during 1990s. Clothing plays a dominant role in Pakistan’s exports and its share has also increased consistently from 7.1 percent in 1980 to 29 percent in 1990. Though it suffered fluctuations during 1990s, the share remained around 30 percent. The other selected products are not important products for Pakistan, their contribution to total T&C exports being less than two percent, except for floor covering and tapestry (3 percent).

Pakistan’s exports grew at a higher rate than world exports. Pakistan’s total exports and T&C exports grew at 5.2 percent and 7 percent respectively during 1990-2000. The respective figures for the world during the same period were 4.2 percent and 4.8 percent. Exports grew at a higher rate in the pre-WTO period but fell significantly in the following period. During 1990-2000, Pakistan outperformed world exports in the broad categories of yarns, threads, fabrics as well in clothing, accessories etc. In fibres category, the negative growth rate was observed by both. The exports, in general, experienced a slowdown during 1996-2000 as compared to the preceding period. Textiles yarns, threads, fabrics etc witnessed negative growth during 1996-2000 despite their impressive growth rate of 16.2 percent in the preceding period. Clothing exports witnessed a decline in the growth rate from 10.77 percent during 1990-96 to 3.5 percent during 1996-2000. The above analysis has shown that 1996-2000 was a bad period for
Pakistan's T&C exports. The products which have done well in both the periods are fabrics woven; textile etc products nes; and mens/boys clothing; and womens outwear non knit. The growth rates increased for silk; synthetic regenrd fibre; fabrics woven; and under garments non knit.

As far as the export performance of Indian textiles in the EU market is concerned, it is observed that ESG Index is higher for India than world in textiles fibres, yarns and threads and clothing. The product wise analysis shows that ESG for India has improved for jute; veg fibre, excl cotton jute; wool and animal hair; waste of textile fabrics; textile yarn and thread; knitted, crochet fabrics; lace, ribbons, tulle etc; special textile etc products; textile etc products nes; women's outwear non knit; under garments non knit, and under garments knitted. The products in which ESG for world has improved during 1990-2000 are silk; veg fibre, excl cotton jute; special textile etc products; textile etc products nes; womens outwear non knit; under garments non knit; and outerwear knit nonelastic. In all these products, the ESG for India has also improved which implies that EU's import pattern from India matches with that from the world.

ESG index is higher for Pakistan than world in overall T&C products as well as in the broad categories of textiles yarns, threads, fabrics, made-ups etc. and clothing, accessories etc. but is slightly lower in case of textiles fibres. The product wise analysis shows that ESG for Pakistan has improved for waste of textile fabrics; textile yarn and thread; textile etc products nes; mens/boys clothing; women's outwear non knit; outerwear knit nonelastic; under garments knitted; and headgear, non textile clothing. In other words, the shares of these products in EU's total imports from Pakistan have increased during 1990s. There are certain products (specially from clothing, accessories) for which the ESG has improved in both EU's imports from Pakistan as well as world. These products are special textile etc products; textile etc products nes; womens outwear non knit; under garments non knit; and outerwear knit nonelastic.

Analysing the export performance in terms of REC and RECG values for India's T&C products in the EU market it is revealed that while REC value for overall T&C products and for textiles fibres has fluctuated, it has improved for textiles yarns, threads, fabrics, made-ups etc, and has declined for clothing, accessories etc (though the REC value has been greater than one for overall T&C as well as in all the broad categories of T&C except for in textile fibres). The product wise analysis shows that the products which has REC value greater than one and whose REC value has consistently increased
during 1990-2000 are textile yarn and thread; woven textiles, noncotton; textile etc products nes; womens outwear non knit; and under garments non knit. The other commodities having REC value less than one but showing consistent increase are veg fibre, excl cotton jute; and special textile etc products. The commodities having REC value greater than one but showing a declining trend are cotton; mens/boys clothing; mens outwear non knit; and headgear, non textile clothing. The products observing fluctuating trend (though positive in 2000) are silk; jute; synthetic regenrd fibre; cotton fabrics, woven; fabrics woven; knitted, crochet fabrics; lace, ribbons, tulle etc; floor cover, tapestry etc; outerwear knit nonelastic; and under garments knitted.

RECG Index values for India’s T&C products in the EU market during 1996-2000 shows that it has improved for overall T&C products as well as in the broad categories of textiles fibres and textiles yarns, threads, fabrics, made-ups etc whereas it has declined for clothing, accessories etc. The products wise analysis shows a improved performance for most of the products during 1996-2000 except for a few like cotton; jute; waste of textile fabrics; knitted, crochet fabrics; mens/boys clothing; mens outwear non knit; and headgear, non textile clothing.

The similar product wise analysis for Pakistan shows that the products which has REC value greater than one and whose REC value has consistently increased during 1990-2000 are waste of textile fabrics; textile yarn and thread; cotton fabrics woven; woven textiles, noncotton; textile etc. product nes; women’s outwear non knit; outerwear knit nonelastic; under garments knitted; and headgear, non textile clothing. Special textile etc products has shown consistent improvement though the REC value is less than one in all the periods. Under garments non knit, on the contrary has positive but consistently declining REC during 1990-2000. The products observing fluctuating trend during 1990-2000 are cotton; wool and animal hair; knitted, crochet fabrics; lace, ribbons, tulle etc.; floor cover, tapestry etc.; mens/boys clothing; and men’s outwear non knit.

The product wise export performance of Pakistan’s T&C products will be clear from the Relative Export Competitiveness Growth Index (RECG). It is observed that the competitiveness was retained in overall T&C as well as in broad categories of textiles yarns, threads, fabrics, and made ups etc and in clothing accessories during both the periods but declined in 1996-2000 for textiles fibres. The product wise analysis shows that the products for which REC improved in both the periods are waste of textile fabrics; textile yarn and thread; cotton fabrics, woven; woven textile noncotton; special
textile etc. products; textile etc. products nes; men's/boys clothing; women’s outwear non knit; outerwear knit nonelastic; and under garments knitted. In knitted, crochet fabrics, the performance improved during 1990-96 but declined in the following period. In some other products like wool and animal hair; floor cover, tapestry etc; and mens outwear non knit, the lost competitiveness during 1990-96 was regained during post WTO period.

In its trade with EU, India, overall has emerged to be an import dependent country but its T&C sector is export driven as reflected in less than one EID ratio and positive BOT value. In all the broad categories of T&C India is a net gainer in its trade with EU. There are, however, few products in which India’s import from EU exceed its export. These are all from textiles fibre category particularly artificial and synthetic fibres except for cotton. Some of these products are veg fibre, excl cotton jute; artificial, man made fibre; wool and animal hair; and waste of textile fabrics. India is importing these fibres at prices higher than international prices. This combined with high import duties makes the products made with these fibres costly and less price competitiveness.

Thus there is a need to invest in research and development in making ourselves capable of producing these fibres in India. This is more important in view of the fact that there is growing demand for synthetic and artificial fibres.

Unlike India, Pakistan overall has emerged to be an export oriented country and its T&C sector is also export driven as reflected in less than one EID ratio and positive BOT value. In all the broad categories of T&C Pakistan is a net gainer in its trade with EU in yarns, threads, fabrics etc and well as in clothing, accessories. Like India, it is also a net importer of fibre from the European Union. There are, however, few products in which Pakistan’s import from EU exceed its export. These are all from textiles fibre category particularly artificial, man made fibre; and wool and animal hair.

An attempt is made in chapter 4 to measure the competitiveness of India's and Pakistan's T&C products, particularly in EU market. The competitiveness of India, Pakistan and China in T&C in the global and EU market is analysed and explained in terms of (a) comparative advantage of India's and Pakistan's exports to the EU using Balassa's concept of Revealed Comparative Advantage Index (RCA); and (b) Market Share Analysis using Economic Commission for the Latin American and the Caribbean (ECLAC) model. The RCA model has been employed in this chapter in an attempt to identify the extent to which an industry enjoys comparative advantage and to establish
whether the industry has experienced any major shifts in the established patterns of production and trade.

A rigorous analysis of the patterns of comparative advantage however requires cost comparisons across countries. But the data required for such an analysis is rarely available. The export performance index which reflect all types of costs and non-price factors and is based on the empirical data pertaining to trade flows has often been used as an indicator of comparative advantage. Since this is revealed by the observed pattern of trade flows, it is called Revealed Comparative Advantage (RCA). The RCA index has been worked for India, Pakistan and China in T&C with EU at 3 and 4-digit SITC to examine the performance of T&C exports and to identify potential products having comparative advantage in EU market.

The global RCA values shows that at 3-digit SITC, India should specialize in the production and export of silk; jute and other textile bast fibres; and synthetic fibres suitable for spinning from textiles fibres, textile yarn and thread; cotton fabrics, woven; fabrics, woven, of man-made fibres; fabrics woven; tulle, lace, embroidery, and small wares; textile article nes; floor covering and tapestry etc from textiles yarns, threads, fabrics, made-ups etc and mens’ outwear non knit; womens outwear non knit; under garments non knit; outerwear knit nonelastic; under garments knitted; and headgear, non textile clothing from clothing and accessories. As far as dynamic revealed comparative advantage is concerned, India’s advantage exists in cotton fabrics, woven; and mens outwear non knit. These products have displayed a higher (more than 100) index value of dynamic revealed comparative advantage during 1990-2000.

Pakistan can specialise in the production and export of cotton from the category of textiles fibres; in all the categories of textile yarns, threads, fabrics, made-ups etc (except woven fabrics) and clothing and accessories (except textile clothing accessories nes) as they display greater than unity index value of revealed comparative advantage. Though Pakistan has comparative advantage in most of the T&C products in global market, there are very few “dynamic” products which are cotton; textile yarn and thread; cotton fabrics, woven; woven textiles, noncotton; textile etc products nes; and headgear, non textile clothing.

In the EU market India has revealed comparative advantage in all the T&C products except for veg fibre, excl cotton jute; artificial, man made fibre; wool and animal hair; and waste of textile fabrics. During 1990-2000, India gained advantage in jute; and knitted, crochet fabrics but didn’t loose its advantage in any of the products.
India’s dynamic advantage lies in silk; fabrics, woven; woven textiles, noncotton; textile etc products nes; floor cover, tapestry etc; mens outwear non knit; outerwear knit nonelastic; and headgear, non textile clothing.

Pakistan can specialize in production and export of cotton; wool and animal hair; and waste of textile fabrics; from among the category of textiles fibres, textile yarn and thread; cotton fabrics, woven; woven textiles, noncotton; knitted, crochet fabrics; textile etc products nes; and floor cover, tapestry etc among the category of textiles yarns, threads, fabrics, made ups etc. Pakistan has shown comparative advantage in all the products from category of clothing, accessories except for textile clothing accessories nes. Pakistan's dynamic revealed comparative advantage lies in cotton; wool and animal hair; and waste of textile fabrics from among the textiles fibres. Pakistan has ORCA index value of more than 100 in textile yarn and thread; cotton fabrics, woven; woven textiles, noncotton; textile etc products nes; and floor cover, tapestry etc from the category of textile yarns, threads, fabrics, made-ups etc. As far as clothing and accessories are concerned, it is competitive in all the products from this category except for outerwear knit nonelastic.

It is observed that India and Pakistan have comparative advantage in most of the products and therefore are competing in the production and export of those products, more so in the EU market for a higher share. There are, however, few commodities in which both countries have distinct advantage. In certain products like silk; fabrics, woven though India is competitive but Pakistan is not. In other products like cotton; waste of textile fabrics; textile yarn and thread; woven textiles, noncotton; mens/boys clothing; and womens outwear non knit Pakistan is competitive but India is not. The respective countries should specialise in production and export of these products which will lead to growth in exports for both the countries.

The Market Share Analysis (using ECLAC Model) shows that in global market, some of the “rising Stars” for India during 1990-2000 were lace, ribbons, tulle etc; special textile etc. products nes; textile etc. products nes; mens outwear non knit; womens outwear non knit; under garments non knit; and outerwear knit nonelastic. These are the products in which India’s world export share is rising with the products rising share in total world exports. Cotton and jute were undergoing restructuring. In these products, India’s world share declined and so did the share of these products in total world exports. India had lost opportunity in knitted, crochet fabrics; and under garments knitted. These products gained market share in world exports but India’s share in these
products declined and hence it lost opportunity to take advantage of growing market demand for these products. The products in which India’s share in world exports is rising but that product’s share in total world exports is falling (falling stars) are silk; jute; synthetic regenrtd fibre; artificial, man made fibre; wool and animal hair; textile yarn and thread; cotton fabrics, woven; woven textiles, non cotton; fabrics woven; special textile etc. products. nes; floor cover, tapestry etc; mens outwear non knit; and under garments non knit.

Pakistan has competitive advantage in knitted, crochet fabrics; lace, ribbons, tulle etc; textile etc. products nes; womens outwear non knit; and outerwear knit nonelastic. India also had competitive advantage in all these products except for knitted, crochet fabrics. Besides these products, India also had advantage in special textile etc products; mens outwear non knit; and under garments non knit. These were the products in which Pakistan had “lost opportunity” during 1990s. Both the countries have “lost opportunity” in increasing their market shares in under garments knitted; while cotton is undergoing “restructuring”. All the “falling stars” for Pakistan are also the ones for India.

The same analysis for EU market shows that India and Pakistan were competing during 1990-1996 in the EU market at 3-digit SITC in special textile products nes; textile etc products nes; women's outerwear non-knit; and outwear knit nonelastic. Overall at 4 digit SITC level India and Pakistan were competing in 14 products out of 23 in which Pakistan was competitive and 33 in which India was competitive. During post WTO period, there was only one common “rising star” to both the countries and that was other woven fabrics, cotton. It was one of the 3 “rising stars” for Pakistan during this period. India showed competitiveness in 11 products during this period. During the overall decade, India and Pakistan have shown common competitiveness in some products from textile etc products nes; and women's outerwear non-knit.

China is the main competitor for India, particularly in the EU market. China was competing with India in more than 85 percent of the products in which India had advantage and 22 out of 28 products in which they were competing were from clothing category. During 1996-2000, they were competing in 9 out of 11 products in which India had advantage and 15 in which China had advantage. During 1990-2000 all the three countries were competing in blankets, traveling rugs; suits, jackets, trousers. etc; shirts, mens boys, knit; jerseys, pullovers, etc. knit; and plastic, rubber, apparel, etc
Chapter 5 provides an empirical verification of potential products in which India’s and Pakistan’s exports of T&C to EU can expand. Through this exercise, these countries can identify the products in which there is synergy between their exports with EU’s global imports. They can also identify the products in which these countries dominate and whose share is low in EU’s imports. The feasibility of exporting such products should be re-examined. This exercise has been worked out through the Cosine measure, Complimentarity Index (CI) and Similarity Index (SI), and Export/Import Intensity Index.

It has been observed from the computation of Cosine measures that in 1990, the value of Cosine measure was high between India and EU as far as overall T&C products are concerned (0.8034). Also the value has increased over the period to 0.8349 in 1996 and further to 0.8643 in 2000. It is also noticed that the values are also in the high range for broad individual categories of T&C thus exhibiting almost perfect trade complementarity. Textiles fibres have also shown high potential throughout 1990s. The index value has also increased from 0.5035 in 1990 to 0.5642 in 1996 and further to 0.7212 in 2000. Textiles yarns, threads, fabrics, made-ups etc has shown perfect complementarity as indicated by high index value of 0.9109 in 2000. There was significant increase in the value from 0.7859 in 1990. Clothing, accessories also exhibited high trade complementarity with the Cosine index value constantly increasing from 0.8034 in 1990 to 0.8349 in 1996 and further to 0.8643 in 2000.

The similar estimates for Pakistan with EU also show high trade potential for its overall trade with EU in textiles and clothing (the values, however, are much lower than India’s). The index values have, however, declined during the period under consideration. The Cosine index value has declined from 0.6724 in 1990 to 0.6276 in 1996 and further to 0.6078 in 2000. In the individual broad categories of T&C, textiles fibres exhibited moderate trade potential in 1990 but the value increased in 1996 only to fall again in 2000 and textiles fibres continue to have moderate trade potential while India exhibited high trade potential in this category throughout 1990s. In the case of textiles yarns, threads, fabrics, made-ups etc, Pakistan has also shown high trade potential but the index value has been lower than that of India. It is also noticeable that the values in this category have also declined consistently throughout the period under consideration. In clothing, accessories also, Pakistan has shown high trade potential. The index value increased during 1990-96 from 0.7899 to 0.8015. The value, however, declined to 0.7054 in 2000.
It is important to note here that though Pakistan has displayed high trade potential in all the broad categories but the value in all the categories declined implying reducing complementarities between Pakistan and EU in T&C. Also though both India and Pakistan have high trade potential in all the T&C categories, the index values are much higher for India than Pakistan.

An exercise of Complementarity and Similarity between Indian exports and EU’s global imports highlights two important points. The complementarity of Indian exports to EU’s global imports clearly improved during 1990-2000 and so did the similarity index. But complementarity or similarity realized so far is not strong enough to conclude firmly that Indian exports (particularly clothing) are closely linked to the pattern of EU global imports. The Correlation coefficient provides support to this conclusion. The coefficient of Complementarity Index (CI) was 0.58 in 1990, which increased to 0.66 in 2000. In individual broad categories of T&Cs also the complimentarity between India and EU is high and has increased during this period. In textile fibres it increased from 0.71 in 1990 to 0.86 in 2000. In textile yarn and fabrics the CI increased significantly during this period from 0.53 to 0.71. In clothing category, it has more or less remained constant at 0.6.

As far as Pakistan is concerned, there is mismatch between Pakistan’s exports to EU and EU’s global imports of T&C. In other words, Pakistan’s exports dominate in the products in which EU’s imports are low. This is evident from low and declining value of complementarity index (CI). The value of CI for overall T&C was 0.51 in 1990, which declined to 0.48 in 1996 and 2000. As far as the broad categories are concerned, the CI value is highest for clothing, accessories etc and the value has also increased from 0.49 in 1990 to 0.52 in 1996 and further to 0.55 in 2000 (whereas in case of India, it remained more or less constant at 0.6 during 1990-2000). On the other hand, the CI value for textiles fibres and textiles yarns, threads, fabrics, made-ups etc has declined during this period.

The complementarity between Pakistan’s exports of T&C (overall as well as in the individual broad categories of T&C) and EU’s global imports is much less than the complementarity between India’s T&C exports to EU with the latter’s global imports. Also unlike the case with India, the complementarity of Pakistan’s exports of T&C (overall) to EU’s global imports has deteriorated over the years and so has the Similarity Index. In textiles fibres, CI value has declined from 0.7823 in 1990 to 0.6451 in 1996 and further to 0.4016 in 2000 (which was much lower than CI value of 0.86 for India in
2000). In textile yarn, threads, fabrics made-ups etc also, the CI value has declined from 0.5733 in 1990 to 0.5217 in 2000 (which was lower than CI value of 0.71 for India in 2000). As stated above, though the CI value has consistently increased for Pakistan, it remained lower than India.

Thus the overall complementarity and the similarity realized is not even 0.50 which leads to the conclusion that that there is a mismatch between the Pakistan’s exports of T&C to the EU and EU’s global imports of the same. In other words, Pakistan’s exports are not closely linked with the pattern of EU’s global imports. The value of Similarity Index further strengthens this argument. The similarity index value for overall T&C is not only low but also declined during 1990-2000, while in case of India it was higher and it also improved during the period of consideration.

In overall T&C as well as in the broad categories of Pakistan’s exports, namely textiles fibres and textiles yarns, threads, fabrics, made-ups etc, the SI value has come down indicating reducing/falling complementarity between Pakistan’s exports and EU’s global imports. In clothing, accessories, however, it has shown consistent improvement. The coefficient of Correlation estimated between Pakistan’s exports of T&C and EU’s global T&C imports provide further support to this conclusion. The Correlation coefficient is as low as 0.329 (as against India’s 0.51) for Pakistan’s overall textiles and clothing exports to EU and it has also deteriorated during 1990s. It is also low and declining in Pakistan’s exports of textile fibres (0.45) and textiles yarns, threads, fabrics, made-ups etc (0.45). It is important to note that though India’s complementarity in overall export of textiles and clothing and in category of yarns, threads, fabrics, made-ups etc, is higher Pakistan has better and increasing complementarity in clothing, accessories where the CI value, SI value and correlation coefficient, though are less than India’s but have improved during 1990-2000.

India's Export Intensities with EU in T&C shows that in India's total exports (all commodities) as well as in overall T&C products, EU is under-represented as the value of export intensity index is less than 100. The trend during this period shows that the export intensity increased in 1996 as compared to 1990 but declined during 1996-2000. The value of export intensity index has increased or remained same for almost all the available T&C product groups during 1990-96. The pattern changed during the later period as textiles fibres became the only broad product group in which EU was over-represented in Indian exports (in previous periods, it was clothing). In other broad groups, EU has remained under-represented in 2000.
Thus, the trend in the India's export intensity index with EU in T&C during three points of time i.e. 1990, 1996 and 2000 shows that the value has moved towards the higher side during 1990-96 for its export of total T&C products but declined in the post WTO period. The product-wise analysis shows that EU is over-represented in India’s exports of cotton, synthetic regenerated fibre; waste of textile fabrics; knitted, crochet fabrics; lace, ribbons, tulle etc; womens outwear non knit; under garments non knit; under garments knitted; and headgear, non textile clothing.

As far as Pakistan is concerned, it is observed that EU is under-represented in Pakistan's total exports (all commodities) as well as in overall T&C products as the value of export intensity index is less than 100. It is also observed that EU has not only been under-represented in Pakistan’s exports but the export intensity has also decreased during the 1990s. The trend during this period shows that the export intensity in T&C products increased in 1996 as compared to 1990 but declined during 1996-2000. Yet it remained less than 100 at all the three points of time.

In the broad categories of fibres and yarns, threads, fabrics, made ups etc Pakistan has low export intensity. In clothing, accessories etc, there was over-representation of EU in Pakistan’s textiles exports in 1990 and 1996 but the value fell to less than 100 in 2000. The products in which Pakistan has high export intensity in 2000 are cotton; woven textiles, noncotton; special textile etc products; womens outwear non knit; under garments knitted; and headgear, non textile clothing. There were certain products in which there was over-representation of EU in 1990 or 1996, but the values couldn’t be sustained in 2000. Some of these products are wool and animal hair; fabrics woven; textile etc products nes; under garments non knit; and outerwear knit nonelastic. From amongst these products, EU was over-represented in India’s export of cotton; womens outwear non knit; under garments knitted; and headgear, non textile clothing.

It can be concluded that the trade complimentarity between India’s exports of T&C to EU and EU’s global imports is much higher as compared to Pakistan as far as overall T&C products are concerned. In the individual broad categories of T&C also, India’s export match better than Pakistan’s with EU’s global imports as has been shown in the foregoing analysis on Cosine measure and Complementarity and Similarity Index constructed for India and Pakistan for their trade with EU in T&C.

As far as India and China are concerned, China clearly has better complimentarity with EU in latter’s import of T&C (overall as well as in broad T&C categories of clothing, accessories) as reflected by higher Cosine and CI and SI values.
for China than India but the complimentarity declined in clothing for China while it has more or less remained constant for India. In textile fibres both India and China have rising complimentarity but value is higher for India. Similarly in textile yarn, threads, fabrics, made ups etc both have rising CI and SI values but value for India is higher.

India therefore has high and rising complementarity in its T&C exports to EU. But as stated earlier, complementarity or similarity realized so far is not strong enough to conclude firmly that Indian exports (particularly clothing) are closely linked to the pattern of EU’s global imports. The coefficient of Correlation also provides support to this conclusion. India should be able to improve the complementarity by increasing exports which are dominant in EU’s T&C imports.

Chapter 6 is devoted to examine India’s and Pakistan’s IIT in T&C at 3 and 4-digit SITC. Some of the major findings from the estimations are as follows:

India’s global IIT revealed increasing trend during 1990 and 2000. The value increased from 85.74 in 1990 to 92 in 1996. This reflects the rising trend in India’s overall distribution of India’s IIT with world. However, in the second half of the decade, the IIT value declined to around 85 in 2000. The overall textiles and clothing exhibit a very low IIT value which has been around 6 during 1990s. It reflects that India has low IIT in T&Cs on the global level. In the individual broad categories of T&C also the IIT value has been very low. IIT value has been around 10-15 for fibres and yarns. In case of clothing, the value has been less than one during the entire decade.

The analysis at 4-digit SITC gives the products displaying more than 50 IIT value in 2000 are cotton linters; sisal, agave fibres waste; synthetic staple fibre, unprd; synthetic staple fibre, spinning; artificial fibre, spinning; horse hair, coarse animal hair; and wool, animal hair, carded; thread of man-made fibre; synthetic filament yarn, bulk; other synthetic filament yarn; pile, chnlle fabric, m-made; fabrics, woven, of flax; fabrics, woven, nes; other knit crochet fabrics; narrow fabric, woven, other; labels, badge etc. not emb; tulles, net fabric, lace; felt; coated, impregnated textiles nes; coated, coated, impregnated textiles nes; and rubber, textile yarn, cord etc. These are the products in which there is potential for inviting Foreign Direct Investment (FDI) at the global level (from other countries including EU). It is interesting to observe that there is no product from clothing, accessories showing an IIT value greater than 50.

Pakistan’s global IIT has observed the similar trend that of India’s in the sense that that the IIT value for trade in overall products is very high and also increased during 1990-96. Unlike India, the IIT value increased during 1996-2000. In the overall
T&C products, the IIT value has increased from 2.7 in 1990 to 4.1 in 2000. While the value for India has been around 6-7. The broad categories of T&C show IIT value of 1-2 for textiles yarns, threads, fabrics, made-ups etc and less than one value for clothing products. It is the textiles fibres which have shown high IIT value. The value also increased significantly from 6.5 in 1990 to 48 in 2000. Though fibres also exhibited highest value in broad categories of T&C in case of India, the value was much lower (13.6 in 2000).

The analysis at 4-digit SITC identifies the following products for JVs which are the ones which have displayed more than 50 IIT value in 2000. They are synthetic staple fibre, spinning; cotton, not carded/combed; twine, cordage, etc products; labels, badge etc. not emb; hand-woven rugs, gimped yarn, etc.; fabric – wool fine hair, nes; and fabrics, woven, nes; headgear, fittings, nes; and plastic, rubber, apparel, etc.

It is interesting to observe here that in case of India’s global IIT while there was not even a single product from the clothing, accessories category, in case of Pakistan two products features in the list of products having more than 50 IIT value.

India’s Bilateral IIT with EU in T&C follows the similar pattern that with the world. Though the IIT for overall trade with EU is very high and has also increased from 85 in 1990 to 92 in 2000. However, the overall T&C products exhibit a low IIT, though the value has increased marginally, it remains insignificant. The IIT value has increased significantly for textiles fibres from mere 5.7 in 1990 to 14 in 1996 and further to 21 in 2000. In case of yarns, threads, fabrics, made-ups etc, the IIT value has been around 4 during 1990s. In case of clothing, the value has been less than one. The product wise analysis at 4-digit SITC displays more than 50 IIT value in 2000 for synthetic staple fibre, spinning; and wool, animal hair, carded; thread of man-made fibre; pile ,chnlle fabric ,man-made; fabric, wool, fine hair, nes; fabrics, woven, of flax; narrow fabric woven, other; felt; and coated, impregnated textiles nes. There is no product from clothing category having IIT value greater than 50. Except for plastic, rubber, apparel etc (8482); and headgear, fittings, nes (8484), no other products has value greater than 10.

Pakistan’s bilateral IIT with EU also gives the similar trend as its global IIT. However the values are much lower in the former case. The IIT value for Pakistan’s overall trade with EU is very high but the value has consistently declined from 96.7 to 95 during 1990-96 and further to 79.1 in 2000. In overall textiles and clothing the value has hovered around 1-2 and in the individual broad T&C categories, the values are even lower.
As in the case with Pakistan’s global IIT, the textiles fibres have realized the highest as well as rising IIT values, but in yarns, threads fabrics, made ups etc, it's been fluctuating around 1 and in case of clothing it's been less than one during the entire decade of 1990s.

The analysis at 4-digit SITC shows that there are very few products showing more than 50 IIT value and they are other wool, unprocessed (2682); tulles, net fabric, lace; and narrow fabric, woven, other. There is no product from clothing, accessories category. It is important to note here that the number of products displaying greater than 50 IIT value are much less in EU as compared to the world.

The entire world is increasingly getting integrated and south Asian countries cannot afford to be left out of the globalisation process, otherwise it will be left with only products that have very low value-addition potential. Textile industries across the world are benefiting from larger inflows of technology transfer and investment and are able to upgrade production efficiency and international competitiveness, achieving higher exports. India and Pakistan are yet to take advantage from FDI inflows. Technological obsolescence and a slow rate of modernisation are the two key problems for the textile industry in India and Pakistan. The industry is in urgent need of financial and technological investments. Domestic investment is not coming because of complicated procedures, differential tax structures and unworkable labour laws. Hence the gap in investment can be filled by FDI. Realising the importance of FDI, this chapter gives the status of FDI in textiles and clothing in India and Pakistan.

India and Pakistan are among the least preferred destination as far as textile is concerned and textile is among the least preferred sector for foreign investors. In India during 1991-2002, a total of 732 projects worth Rs 34079.63 million were approved in the textile and garments sector by SIA/FIPB which was just 1.5 percent of the total FDI approved. In 2000-01, the share of textiles was a mere 0.61 percent. Similarly, in Pakistan, the share of textiles and clothing was just around 1 percent.

On the other hand, FDI in textile and garment sector in countries like China, Sri Lanka, Bangladesh etc has been comparatively higher and that has helped these countries become important players in the global market inspite of the fact that they are late entrants in the global market.

The products in which there is potential for joint ventures in the textile sector have already been identified and listed above and there is need to encourage FDI in these products. Besides, there is also a need to provide favourable conditions for foreign
investment. Some of steps which may be taken to improve the investment climate in the country are as follows:

- Simplify the procedures and remove bureaucratic hassles in handling of approvals

- Increase FDI through investments from non residents: India should attract FDI from NRIs. Like in China, out of US $46 billion FDI in textiles, US $ 26 billion has come from ethnic Chinese or Non Resident Chinese (NRCs). It is because of the liberal and conducive Government policy to attract NRCs. Similarly in Pakistan also, whatever foreign investment that is being made is by the Arabs as the raw material availability and infrastructure is better in Pakistan.

- Single window clearance. There should be one single authority to get all the clearances (land, building plans, environment, power supply, safety board, exemptions etc). There are around 14-15 clearances required. The government should have a nodal agency for getting all the clearances done within a time frame for a fee.

- Special Economic Zones (SEZ): taking example of China, where in SEZs, local Chinese laws are not applicable (including labour laws). The operational laws should be in conformity with the international laws (in labour, environment, safety, wages, bonus etc). For other like criminal laws etc local laws should be allowed.

- Simpler laws: Laws should be made simpler and bureaucratic delays can be done away with, like checking at every state border etc. Once destination is fixed, nodal agency should issue a certificate and they should not be stopped at every check points and pay octroi etc

- Improve image of brands abroad: The embassies and media have to play an important role to project a positive picture about the country. It is also important that the success stories are taken back to the country of origin to boost the investors' confidence.

- Measures should be taken to improve the quality of cotton. In India Cotton Technology Mission is a long term solution for the cotton industry and should be strengthened with proper involvement of the textile industry. In order to minimise contamination, it is necessary to introduce grading of ginning/pressing factories in terms of quality of cotton ginned/pressed by them.
Textile technology parks should be set up to create awareness and giving new dimension to the working of textile mills

There is a need to have large-scale global capacities having a capability of delivering and liaisoning with the very large scale buyers in the export markets.

**At Macro Level**

Improved Infrastructure is very important. The following suggestions are being made to improve the conditions

- **Power:** Under suitable Central enactment peak hour rates and normal hour rates should be differentiated. Organisations supplying electricity should be penalised if the power supply is not of standard quality or if not adequate power supply as compared to contracted load.

- **Labour Laws:** It would be imperative to gradually relax the present, stringent labour laws to suit the requirements of the textile industry. The last few Budgets have made some important changes regarding labour laws.

- **Cost and availability of Capital:** It is necessary to make the terms of loan more flexible. Guidelines should be issued to banks and financial institutions not to consider textile industry a high-risk industry. Rescheduling of term loan with moratorium of at least two years on softer terms and relaxation in lending norms by banks in the areas of current ratio.

Major textile centres of the industry should have their own term lending institutions specifically meant for textile industry. Similarly banks should be established which should be chartered to exclusively cater to textile industry adopting different realistic criteria to calculate working capital requirement. Such specialised banks and institutions can charge compatible interest rates and provide additional funds during cotton season.

Lastly Chapter 7 examines EU's changing commercial policy on imports of T&C from India and Pakistan and the implications of these changes on India's and Pakistan's T&C exports to EU. It also analyses the evolution and working of EU's import policy in T&C in the context of MFA and its restrictiveness on India's and Pakistan's T&C exports to EU. It also examines the basic features of ATC, and the implementation of ATC provisions by the EU in its first and second phase. Finally it assesses the consequences of changing trading environment in T&C for India and Pakistan in EU.
Nearly all textile and clothing products imported into EU from India and Pakistan and other developing countries are subjected to some restrictions or the other. These restrictions are imposed either by means of MFA quotas or via the "basket exit" and "anti-surge" procedures. There is an evidence of increasing use of "basket exit" and "anti-surge" procedures, which resulted in fixing country specific quotas. The "anti-surge" procedures have not been invoked. The other form of restrictions/barriers used by EU to restrict import of T&C from India and Pakistan, in addition to the above mentioned restrictions include technical standards, labour standards, environmental regulations, anti-dumping and countervailing duties etc.

Once quotas are phased-out, there will be free trade in textiles. This will, on one hand, improve the market access as the quotas will not be restricting the exports, but on the other hand removal of quotas would also mean increased competition from other countries [specially Southeast Asian states (SEAS) and Newly Industrialising Economies (NIEs)] as ATC applies to them as well. Also, ATC would mean that the developing countries open up to the rest of the world as reciprocity is a part of GATT agreement.

The MFA phase-out is more likely to enhance the T&C exports to the EU because it would provide increased market access as the quotas were considered highly restrictive by these countries (as evident from the high quota utilisation rates). The restrictiveness of quotas on India's and Pakistan's exports is analysed on the basis of level of quota utilisation. The quota utilisation rate of 80 percent or more is considered to have restrictive effect on a country's exports. The utilisation rates improved for India and Pakistan during 1990s as against 1980s. In 1991 and 1992, the quota utilisation rate of India in EU market was 78 percent. The T-shirts (cat. 4) was the only category in which India realised 100 percent quota. In 1992, two categories, namely, T-shirts (cat.4) and Ladies Dresses (cat.26) realised full quota. In 1991 and 1992, the number of categories realising the quota utilisation of 80 percent or more were 7 (out of 13) and 8 (out of 14) respectively. In 1993, the average quota utilisation rate was 74 percent, but in increased in the later years and was more than 90 percent in 1995. It declined, however, to 83 percent in 2002.

2 The anti-surge procedure is applied to regulate the level of imports in previously under-utilised quotas for highly sensitive products in such a manner that sharp and substantial increases in the imports are prevented.

Another way of looking at the average quota utilisation is by calculating average utilisation rate per product instead of per year. Application of this type of calculation shows that 13 out of 21 product groups under quota had average quota utilisation of more than 90 percent during 1993-2002. Table 7.3 gives the quota utilisation of Indian textiles and clothing exports to EU during 1993-2002. It is observed that Indian firms suffer from binding constraints in the categories in which they are competitive. The utilisation rates have also been volatile during this period. Summarising the above figures for India, it can be said that a very substantial amount of textile and clothing trade in the EU is under potential or actual impact of the MFA.

The quota utilisation rate of Pakistan in EU has been much lower than that of India. In 1993, the average quota utilisation rate was 82.5 percent, but it decreased in the later years and was 75.6 percent in 1995. It increased, however, to 78.97 percent in 1996, but has consistently declined since then. In 2002, the average quota utilisation was as low as 46.72 percent. Summarising the analysis for Pakistan, it can be said that not a substantial amount of textile and clothing trade in the EU is under potential or actual impact of the MFA. The categories in which Pakistan has comparative advantage, the utilisation rate has been more than 90 percent, e.g. cotton yarn (cat.1), cotton fabrics (cat.2), blended fabrics (cat.3), T-shirts (cat.4), men's shirt (cat.8), terry toilet linen (cat.9), bed linen (cat.20).

Although a considerable amount of trade is covered by the higher utilised quotas, there was also under-utilisation of quotas in certain product categories. This validates our hypotheses that MFA quotas have been highly restrictive on India’s and Pakistan’s textile exports, especially to the EU market and therefore ATC will lead to expansion in global trade in textiles and therefore will also mean increase in India’s and Pakistan’s textile exports to EU.