CHAPTER III

WORLD TRADE ORGANIZATION AND
INDIAN TEXTILE INDUSTRY
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SECTION A

PROVISIONS OF AGREEMENT ON TEXTILE AND CLOTHING

INTRODUCTION

Over the years textile and clothing have played a vital role for developing countries and transition economies. Today this sector represents about 9 per cent of the global trade in manufactures and it employs some 24 million people. For developing countries textiles form an important item of export. Being labour intensive, the industry offers developing countries an alternative to advance early stages of industrialization with high potential of employment generation and export expansion. The following figures highlight the importance of this sector for a large number of developing countries:

- In 1998 some 72 per cent of the export earnings of Bangladesh came from clothing exports.
- In India the figure for textiles and clothing exports was about 30 per cent, in Pakistan 60 per cent,
- In Sri Lanka 45 per cent and
- In China 25 per cent.
Given the disparity in labour costs between developed and developing countries, it is not surprising that trade restrictions have been the norm in Textile & Clothing Trade (here in after referred to as T&C) since the 1930's.

For about forty years the international trade in textiles and clothing has been covered by several special arrangements. To protect their textile industries from the increasing competition from the developing countries, the developed countries in early 1960s, were success in making the developing countries accept their argument made for trade in textiles and clothing to give them 'time to relax' and to adjust their industries. Nevertheless since then this special arrangement has continually been renewed. It started with the Short Term Arrangement regarding International Trade in Cotton Textiles (STA) in 1961 and the Long Term Arrangement (LTA) (1963-1973) followed by the Multi Fibre Arrangement [the MFA] covering almost 50 per cent world exports in textiles and clothing. The MFA was introduced as a temporary measure to control international trade in textiles and clothing. The MFA was extended five times and eventually came to an end 31.12.1994 when the Agreement on Textiles and Clothing (ATC) was introduced on the following day. Since these arrangements were restricting the volume of trade, they were not in conformity with the existing GATT Rules.

BACKGROUND OF THE MULTIFIBRE ARRANGEMENT
AND ITS IMPLICATION

BACKGROUND OF MFA

Soon after World War II, a major part of international trade was governed by national trade regimes, which were mostly very complex by nature. Economic difficulties following the post-war era in several developed countries were presented as justification for high tariffs, complex import licensing procedures, and an array of trade restrictions, etc. However, in the 1950s quantitative trade restrictions were reduced once both the GATT and the International Monetary Fund (IMF) started pursuing the liberalization of trade.
The gradual removal of trade restrictions in the developed countries coincided with the emergence of a number of developing countries as exporters of textiles. Those developing countries, which had an access to raw materials and cheap labour, were in the position to increase their exports of cotton textiles, followed a few years later by clothing exports. This trend was not favourably received in developed countries, where the developing country imports quickly became a threat to local industries. In order to avoid potentially serious social problems, some developed countries negotiated with the supplier Governments in developing countries special agreements in order to limit the quantities of their exports of cotton textiles.

For more than 40 years this sector has been covered by several special arrangements: the Short Term Arrangement Regarding International Trade in Cotton Textiles (STA) in 1961 which was then followed by the Long Term Arrangement Regarding International Trade in Cotton Textiles (LTA) (1963-1973). After the LTA the Arrangement Regarding International Trade in Textiles (the Multi Fibre Arrangement-the Comprehensive Arrangement) the Arrangement Regarding International Trade in Textiles which later come to known as Multi Fibre Arrangement.

The MFA extended the coverage from cotton products also to include wool & Man-Made Fibre (MMF) products.

The MFA of 1973 (MFA I), which lasted for 4 years, recognized the unsatisfactory situation in global commerce involving textiles at that time.

The MFA was to achieve the expansion of trade, the reduction of barriers to trade & the progressive liberalization of world trade in textile products. At the same time it was expected to ensure the orderly and equitable development of this trade & avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries. MFA was also to further the economic and social development of developing countries and secure a substantial increase in their export earnings from textile products and to provide for a greater
share for them in world trade in these products. Under certain circumstances, safeguard measures were allowed as long as the rights and obligations of the contracting parties under GATT were not affected.

The concept of market disruption was introduced under MFA I with the purpose of reducing the degree of subjectivity. In practice, however, there was a growing tendency among importing countries to consider imports for developing countries as disruptive. The lack of an effective enforcing mechanism led to loose application of the market disruption concept and created more confusion that clarity. As a result, the importing country acting unilaterally had considerable discretion when imposing restriction upon imports. The market – disruption concept paved the way for institutionalized derogation of the fundamental principles and rules of the General Agreement, thus creating an imbalance of rights and obligations.

Any restraint was to be the result of consultations and could only be introduced for one year. The restraint level was not to be lower than the level of actual imports or exports of such products during the twelve-month-period preceding the month in which the request for consultation was made. If these measures were renewed or extended for another year, the restraint level would be that for the preceding twelve months, increased by not less than 6 months. This provision guaranteed the exporting country a certain extension of textile trade but cause difficulties for importing countries.

The main feature of MFA I is to provide the legal basis for VERs, (Voluntary Export Restraints) bilateral agreements on mutually acceptable terms, which is grounded in the elimination of real risk of market disruption. As real risk is not specifically defined, its use is more flexible than the actual market disruption requirement of Article 3. This development was welcomed by importing countries. It is not surprising that, in practice, Article 4 actions are more often used than Article 3 actions. There was no formal notification required for such Agreements. The participating countries shall only communicate to the Textile Surveillance Body (TSB) full details of agreements entered into. As the determination of market disruption
already caused considerable difficulties, the real risk thereof could never to
determine by the TSB. Its effectiveness in supervising Article 4 safeguard measures
are rather limited because of their bilateral private nature.

MFA II extended MFA I for four years, until 31 July, 1986, but it didn't alter the
text. A 'Jointly agreed reasonable departure' clause was introduced, which allowed
the participants to depart from particular elements in particular cases. This provision
was neither specified nor limited to special provisions and allowed the conclusion of
more restrictive Agreements. In MFA III this clause was eliminated.

MFA III extended to provisions of MFA II for a period of another four years
and it introduced a modified safeguards mechanism. Paragraph 10 of MFA III allows
importing countries to further restrict imports already covered by existing MFA
quotas by taking what is called on 'anti-surge action 'when difficulties arise from'
consistently under-utilized larger restraint levels. This means that if the restraint
level (quota) is larger than the actual import level, but the imports are increasing
sharply and substantially and cause or threaten serious and palpable damage to
domestic industry, an anti-surge action can be imposed bilaterally or unilaterally in
the absence of mutual acceptable arrangement. Such a provision threatens the
interest of exporting countries and undermines Article 3.3 of MFA I.

MFA III was extended for a further period of five years until 31 July 1991.
During the following three and half years, MFA IV was in force, which finally expired
on 31 December, 1994, for the first time, the recognition of the GATT rules as the
final objective was introduced. The serious palpable of damage provision in MFA II
anti-surge provision, and constantly under-utilized larger restraint levels was no
longer precondition. Whether this more open-ended provision represents less
restrictiveness or more discretion depends on the bargaining power of the parties
involved.

Under MFA II and III, the importing countries started to expand the coverage
of restrictions on non-MFA fibres, which was considered to be inconsistent with the

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MFA. This practice was legalized under MFA IV and the products covered were extended to vegetables fibres, blends thereof and blends containing silk. Towards the end of the MFA, six participating countries - Austria, Canada, EEC, Finland, Norway and United States - were applying restraints under the MFA. The Arrangement was almost entirely used to restrict the imports from developing countries. Switzerland and Japan - both members of the Arrangement - never applied restraints towards the exporting countries under the MFA. Interestingly, Sweden became temporarily a non-quota country in August 1991 when all the quotas were abolished and the country left the MFA. This, however, lasted only till 1.1.1995, as the country joined the EC and the EC quotas were imposed on the Swedish market. When the MFA came to an end 31.12.1994 it had 44 Members - less than half of the number of GATT Members, but the most significant producers/traders in the international trade in textiles and clothing were part of it. China was not a contracting party of GATT, but it was a Member of the MFA.

All in all, it does not seem that the MFA has achieved its aim of trade expansion, reduction of barriers and liberalization of world trade and textile products. On the contrary, the MFA tends to freeze market shares, impose immense costs upon the consumers and authorizes restrictions that have been used exclusively against imports for developing countries. Nevertheless, how can the objectives expressed in the MFA be achieved with instruments that violate the basic GATT principles necessary for trade liberalization? Originally, the MFA laid great emphasis on the rights and duties of both the importing and exporting country.

**IMPLICATIONS OF THE MFA**

The effects of MFA quota restrictions are difficult to quantify because

- not all textile and clothing products were covered;
- some quotas were not fully used;
- not all sources of product were restricted.
For example, the International Textile and Clothing Bureau estimate that about one third of EU and USA imports of textiles and clothing were not restrained by the MFA.

It is apparent that the restrictions had four effects on developing countries as exporters of these products. They are:

1. The quantitative restrictions, on top of generally high levels of tariff protection, reduced import demand in developed country markets.
2. Where developing country Governments charged a fee for export quota entitlements, this acted as an export tax on developing country producers.
3. The pattern of quota restrictions fostered a tendency for export industries to relocate to countries not subject to quotas without regard to competitiveness of production.
4. Although quota entitlements do not guarantee sales in the restricted markets, they offer protection against third country competitors in markets where prices are high due to the level of protection, thus providing 'rents' for the exporting country.

The textiles and clothing sector is one area where developing countries have a comparative advantage. Textiles and clothing are one of the largest components of a developing countries export of manufacturers to the world. But as trade in the sector has been subject to long standing market constraints and discrimination by the developed countries, the sector in developing countries have never had an opportunity to compete freely. With every extension of the MFA, the restrains have intensified and the country and the product coverage charged. The bilateral agreements concluded under the MFA have become increasingly restrictive. The importing countries have also tended to resort to additional restrictive measured despite quota restrictions begin in operation under the existing arrangement. An increased usage of several new MFA measures tended to erode further the original trust, which developing countries placed in the MFA. What started as a deal tuned out to be misdeal?

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The restrictive and discriminatory nature of MFA is just the opposite to the concept of comparative advantage, which underlines the philosophy of the multilateral trading system which starts in the world arena with the establishment of the GATT. To distort the international competition in textiles trade serves only to slow down the development process and diversification of the economy of the developing countries. The continued existence of the MFA is one of the major influences eroding the credibility of the international trading system. Thanks to the efforts of the developing countries, ‘textiles and clothing’ was included as an item in the Uruguay Round of multilateral trade negotiations with a key objective to formulate modalities that would permit the eventual integrations of this sector into GATT on the basis of strengthened GATT rules and disciplines, thereby also contributing to the objective of further liberalization of trade.

RESULTS OF THE URUGUAY ROUND NEGOTIATIONS

When the WTO Agreement on Textiles and Clothing, negotiated in the Uruguay Round, became operational on 1 January 1995, several importing Members (the United States, Canada, the European Union (15 countries) and Norway) had a total of 81 restraint agreements with WTO Members, comprising over a thousand individual quotas. In addition, there were 29 non-MFA Agreements or unilateral measures imposing restrictions on imports of textiles.

But still there was no consensus among experts on whether the developing countries suffered a loss from the MFA or whether the damage caused by QRs was compensated for by the rent transfer. During the years of the MFA regime, world trade in textiles and clothing expanded by less than the average growth rate of world trade. It is obvious then that the MFA was an expensive and ineffective tool to protect the textiles industry in the developed countries.

Therefore, it was significant that this sector was included in the Uruguay Round of Multilateral Trade Negotiations in 1986. The complex negotiations over a
period of seven years resulted in the Agreement on Textiles and Clothing (ATC) which now forms an important part of the final results of the Uruguay Round. As stipulated by the ATC this sector will be fully integrated into WTO rules by 01.01.2005 and at the end of the ten-year transitional period the ATC will no longer exist, since it is the only WTO Agreement that has its own termination built in.

From the strictly legal point of view, the maintenance of these restrictions was not consistent with GATT rules. However, MFA (negotiated within the framework of GATT) provided a legal cover for derogation from GATT discipline. The basic aim of the Agreement on Textiles and Clothing, which carried over the quotas from MFA, is to integrate the trade in textiles and clothing into GATT rules and disciplines by requiring countries maintaining restrictions to eliminate them over a period of 10 years. After the expiry of the 10-year period, i.e. from 1 January 2005, it will not be possible for any Member country to maintain restrictions on imports of textiles, unless it can justify them under the provisions of Article XIX of the GATT as interpreted by the WTO Agreement on Safeguards. In other words, an importing country can impose restrictions only when, after carrying out investigations, it can establish that increased imports are causing or threatening to cause its domestic textile industry serious injury. Furthermore, such restrictions will have to be applied to imports from all sources and not on a discriminatory basis to imports from one or two countries as was the case with restrictions under MFA and is now under ATC. Therefore, we can say though in certain ways the ATC may resemble the MFA, but the fundamental difference is that the ATC will not be prolonged, as was the case with the MFA. There shall be no extension of this Agreement (Article 9). The progressive dismantling of the MFA was one of the primary goals of the new Agreement. The ATC will cease to exist 31.12.2004 and so will the quantitative limitations to the international trade in textiles and clothing.
MAJOR ELEMENTS OF THE AGREEMENT ON TEXTILES AND CLOTHING

The brief Preamble to the Agreement recalls the relevant objectives of the Uruguay Round\(^1\). It aims 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 objective of further liberalization of trade. Unlike the other provisions, the textiles and clothing Agreement has a specific and definite task, extending only over the transition period of 10 years.

MEMBERSHIP OF THE AGREEMENT

Through the principle of the 'single undertaking' the provisions of the ATC are binding upon all WTO Members. The principle, introduced by the Uruguay Round, implies that all agreements except plurilateral Agreements are binding upon all Members. This effectively brings to an end code approach, introduced in the Tokyo Round, which implied that Government could choose the Agreements to which they decided to become signatories. This means that in addition to the MFA signatories, the Agreement is automatically applicable to former non-MFA signatories. The countries who didn't participate in the MFA can opt for the gradual integration approach contained in the Agreement, provided they notify their actions under the integration programme to Textile Monitoring Body (TMB). Alternatively, they may decide to fully integrate the textiles and clothing regime into the multilateral trading system at once, which would be the most preferable decision from a trade liberalization perspective. In doing so, the importing countries can thus treat the textiles and clothing products like any other good under GATT/WTO rules.

Another consequence of the Agreement being part of the WTO's provisions is the bilateral restrictions applied under MFA by Members of the WTO to non-members who are signatories to the MFA will be discontinued. Members may, and

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\(^1\) Preamble of the Arrangement on Textiles and Clothing
are likely to seek or continue to apply bilateral or other restrictions to major exporters of textiles and clothing that are not party to the Agreement in order to prevent a surge in imports, which would disrupt markets.

PRODUCT COVERAGE

The precise product coverage of the Agreement is given in its Annex\(^2\) coding System (HS) codes at six-digit level. This includes all textiles and clothing products that were subject to MFA or MFA type restraints in at least one importing country when the Agreement was negotiated. The ATC provides wider coverage than the MFA and includes all textile and clothing products:

- regardless of whether they are subject to MFA restrictions
- that are of vegetable, man-made or animal origin.

For example, trade in pure silk products and vegetable fibre products not subject to the MFA will be liberalized under the ATC. This Agreement also covers certain products with textile components including luggage, footwear uppers, umbrellas, watch straps and parachutes.

The transition process is to proceed simultaneously on two tracks. The removal of products from Agreement, so that they are covered by the normal GATT rules, and the enlargement of quotas for product still restricted. Both these process are to take place in three successive stages lasting three, four and three year. The dates which the main changes are to take place are stated in terms of months after the entry into force of WTO, but are in fact 1 January of the years 1995, 1998, 2002 and 2005. Separate provision cover each phase.

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\(^{2}\) The Annex attached to the Agreement which covered by the Agreement
INTEGRATION OF TEXTILE AND CLOTHING

The provision setting out the integration process is mentioned in paragraphs 6 to 8 of Article 2 of the ATC. The MFA will be phased out in fourteen stages over a ten year period. At each stage, products amounting to a certain minimum percentage of the volume of the country's imports in 1990 are to be included in the integration process that is, moved from the purview of ATC to the purview of the general rules of WTO. Once a product is integrated, it automatically becomes subject to the GATT rules and loses recourse to any of the transitional provisions of the Agreement of Textiles and Clothing.

METHODOLOGY FOR INTEGRATION

The integration process will comprise four stages. At each stage, a minimum percentage of a country's import volume in the agreed base year (1990) will be included. These percentages are:

• 16 per cent of the products on the list, on commencement of the Agreement (1 January 1995);
• 17 per cent at the end of the third year (1 January 1998);
• 18 per cent at the end of seven years (1 January 2002); and
• 49 per cent at the end of the tenth year (1 January 2005).

Members are free to integrate more products on faster pace. In deciding on which products to bring into the integration process, countries are under no obligation to limit themselves to products subject to restrictions. Indeed, countries have begun with the least sensitive items and included very few products under Article 2 of the Agreement.
quota. The only constraint the Agreement places is that the integration list should have products from each of four segments, namely,

- tops and yarn,
- fabrics,
- made-up of textile products, and
- clothing.

From 1 January 2005, WTO Members will not be permitted to maintain quantitative restrictions on imports of textiles and clothing. The only exceptions are those justifiable under the Agreement on Safeguards.

The Council on Trade in Goods will oversee the implementation of the ATC, conducting periodic reviews\(^4\) and taking decisions deemed appropriate to ensuring the rights and obligations under the ATC are not impaired.\(^5\) To do this, the Council set up a Textiles Monitoring Body (TMB).

For the United States and the European Union, in 1990 the per cent of unrestricted imports of ATC products was around 34 per cent and 37 per cent respectively. For other import-restricting countries, the percentage was much higher. Therefore, it was possible for these major restraining countries to meet their obligations to integrate products in the first two stages without significantly removing restrictions.

Given the difference in product coverage between the ATC and the MFA, it appears likely that many MFA restrictions will be removed in Stage 3 beginning in 2002. The bulk of other quota restrictions may not be eliminated until the last day of the transitional period. The gradual integration foreseen under the terms of the Agreement implies that until the end of the transition period, only 51 per cent of total textiles and clothing trade will be integrated into GATT 1994. Remaining 49 per cent

\(^4\) Article 8.11 of the ATC
\(^5\) Article 8.12
will be integrated in one move at the very end of the life span of the Agreement. This is referred to as ‘backloading’, where much of the integration is deferred to a later stage. Policy markers are likely to feel strong pressure from domestic industry to delay the integration of sensitive products to the end of the process, thus preventing foreign competition on domestic markets.

ACCELERATED ENLARGEMENT OF QUOTAS AGREEMENT ON TEXTILES AND CLOTHING

The Agreement, however, tries to provide improved and enlarged access for textile and clothing products that continue to be restricted during the transition period. It seeks this by requiring that rates for annual increases in quotas should be escalated at each stage in the transition process. Thus, if the annual growth rate for a quota (say, for shirts) is fixed under a bilateral agreement at 3 per cent, it will have to be increased by:

- 16 per cent per year in each of the first three years (i.e. 3 per cent x 1.16 = 3.48 per cent);
- 25 per cent per year in each of the next four years (i.e. 3.48 per cent x 1.25 = 4.35 per cent); and
- 27 per cent in each of the next three years (i.e. 4.35 per cent x 1.27 = 5.52 per cent).

This will raise the growth rate of 3 per cent to 5.52 per cent by the eighth year. If the size of a quota is 100 tons at the beginning of the transition period, it will more than double to around 204 tons in the tenth year. The ATC further provides that, countries which are small suppliers (i.e. countries the restrictions on which were equivalent to 1.2 per cent or less of the total volume of the importing country’s restrictions) and least developed countries should be given advancement by one stage of the growth rates.

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6Article 2:13-2:14
The countries maintaining restrictions have generally abided by the provisions on growth factors. However, the extent to which countries benefit from the application of accelerated growth rates depends on the initial growth rate provided under the bilateral agreements. In the majority of cases, this initial rate is 6 per cent. In a few instances, it is as low as 1 per cent or even less. Many of the quotas for which higher growth rates are provided are not being fully utilized; for such quotas, the application of accelerated growth rates will not result in any meaningful advantage for the exporting country.

Moreover, developing countries had expected the enlargement of quotas to complement the process of integrating textiles into GATT through the removal of restrictions. In their view, unless positive steps are also taken to remove these restrictions, the mere application of accelerated growth rates will not achieve the expected liberalization.

ELIMINATION OF REMAINING RESTRICTIONS

With regard to other, non MFA restrictions, whether they are consistent with GATT 1994 or not, Members had to notify these to Textiles Monitoring Body (TMB) within sixty days following the entry into force of the Agreement. Non MFA restrictions may take different forms, such as import licensing programmes, quantitative restriction, price surveillance system and bilateral agreements with non-MFA participants. The Programme shall provide for passing out of all restriction within a period not exceeding the duration of the Agreement, i.e. ten years. In Turkey – Textiles case, India claimed that the measure adopted by Turkey are new measures and were not authorized by the ATC, when it has no GATT justification. Turkey on the other hand, claimed measure under examination were not new, since the EC had similar restriction in place when Turkey and EC formed their customs union, and such restriction were justified under GATT. The Panel noted that since,

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7Article 3
immediately before the day of entry into force of the ATC, Turkey did not have any MFA restriction in place; it could not make any notification pursuant to the provision of Article 2 of the ATC. The Panel refused the Turkey's argument that its measure was not new because the EC had similar measure in place.

In order to smoothen the transition process for each stage, the Agreement specifies growth rate for respective restriction. During the first three years, the annual growth rate will be 16 per cent over the above quota level that prevailed in the bilateral Agreements under MFA (Article 2). During the second stage, the growth rate for respective restriction in stage 1 will be increased by at least 25 per cent during the third stage, the growth rate for respective restriction in stage 1 will be increased by at least 27 per cent. Difference between quota levels widen considerably in the last three years of the transition period, as the growth rate under the terms of the Agreement increase. Provided these quotas are filled, the growth rates will have a real impact of trade and affect the level of integration, both in absolute and in relative term. At the same time, higher import levels will create more competition in Textiles and Clothing in the importing countries and thus cause additional pressure for carrying out the adjustment necessary to face this new competition.

This treatment of MFA and non-MFA restrictions in terms of the condition attached to their phasing out are quite different. MFA restriction must be phased out according to a time-table established in the Agreement and leading to the full integration of this sector into the multilateral trading system, whereas Members applying non-MFA restrictions will have to either eliminate such restriction within one year or submit a programme of integration to the TMB. The TMB may make recommendations to the Member concerned with respect to such a programme, although it doesn’t have the authority to give binding directions. This could imply that countries may delay the elimination of such restrictions until the final stage of the transition period, thus adding to the 'back loading' of the Agreement.
SAFEGUARD MEASURES UNDER THE AGREEMENT

Transitional safeguard actions cannot be taken against exports of handloom fabrics from developing country Members; hand-made cottage industry products or folklore handicrafts when properly certified; historically traded products such as bags, sacks, etc. from jute and some other fibres; and pure silk products. Any safeguard action taken in respect of such products (of interest to developing countries) will be based on Article XIX of GATT 1994.

It is interesting to note that even though the aim of the Agreement is to facilitate the removal of restrictions on textiles, it permits countries to take safeguard actions during the transition period under very strict rules. Such transitional safeguard actions can be taken only in respect of textile and clothing products that are not already subject to quotas and not integrated into GATT, and if the importing country determines that:

➢ The product is being imported in such increased quantities as to cause serious damage or actual threat thereof to the domestic industry producing the like product, and
➢ There is a causal link between such serious damage to the domestic industry and sharp and substantial increase in imports from the exporting country or countries whose exports are sought to be restrained.

The right to use transitional safeguard measures is available to all WTO Members, i.e. not only to countries which in the past applied quantitative restrictions under MFA but also to other countries (including developing and least developed countries), subject to the strict conditions.

First, in order to be eligible to apply such measures, countries were required to notify to WTO their intention to retain the right to use these provisions within a

*Article 6 of ATC
specified period after the ATC became operational. In accordance with these provisions, 55 countries notified their wish to retain the right, while 9 notified that they did not want to retain it.

Secondly, the countries which notified their intention to retain the right are under an obligation to integrate their trade in textiles into GATT in four stages, following the procedures applicable to countries imposing MFA restrictions.

Thirdly, the country proposing to impose safeguard measures is required first to enter into consultations with the exporting country or countries concerned and to demonstrate the existence of a situation of serious damage or actual threat thereof.

The consultations may result in Agreement that the situation does indeed call for restraint on the product in question, in which case the level of the restraint and its period of application are specifically provided for in ATC. Restrictions may also be imposed by the importing Member even if the consultations are not successful. But in such cases, the matter has to be referred to the Textiles Monitoring Body for prompt examination and appropriate recommendations.

Further, in order to ensure that even restrictions agreed in bilateral consultations are in strict conformity with the provisions of ATC, the Textiles Monitoring Body is required to determine whether the imposition of such restrictions is justifiable under ATC.

Article 6(a) singles out the least-developed countries for significantly more favourable treatment than that provided in that Article for small suppliers, wool producing exporting countries and countries having a significant proportion of their trade in outward processing. This more favourable treatment should be preferably with respect to all the elements of the Article, but at least in overall terms.

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10Article 6:1
Article 6(b) recognizes the needs of small suppliers through provision for more favourable treatment in the application of quota base levels, growth rates and flexibility. It also recognizes the need to take into account the future possibilities for the development of their trade and to allow commercial quantities of imports from them.

Article 6(c) highlights the special situation of developing country Members which are comparatively small textiles and clothing exporters, whose economies are dependent on the wool sector, and whose trade in textiles and clothing consists almost exclusively of wool products. Their export needs will be given special consideration when applying the safeguard in terms of the quota levels, growth rates and flexibility.

Article 6(d) provides that for Members having a significant portion of their exports in outward processing trade, more favourable treatment is to be given to such trade.

EXPERIENCE OF THE PROVISION OF SAFEGUARD

Transitional safeguard measures are, as noted earlier, permitted sparingly and only in exceptional situations, where the industry producing a specified category of products is suffering serious damage or actual threat thereof as a result of an increase in total imports. The provisions make it clear that such transitional actions should be taken only after it has been possible for the importing country to establish that there was a causal link between increased imports and damage to the industry. For this purpose, ATC lays down economic variables that must be examined to ascertain whether there was such a causal link. It further states, that where the alleged state of the industry was not due to an increase in imports, but was caused by such factors as “technological changes or changes in consumer preferences”, no safeguard actions shall be taken.
Since the Agreement entered into force, these provisions have been invoked by three countries, viz. the United States, Brazil and Colombia. In the first six months of its operation (January-June 1995), the United States resorted to safeguard measures in 24 cases. The review process found that many of these actions were taken without strictly following the rules of the Agreement. From the second half of 1995, there has been a substantial slowdown in recourse to these provisions, with the United States using safeguard measures only four times from mid-1995 to end-1998. This may have resulted from the interaction of two factors. In its investigation of cases, the Textile Monitoring Board stressed that the rules on the invocation of these measures should be applied strictly. There is also greater awareness that unless such measures are taken on justifiable grounds, the exporting countries affected may invoke dispute settlement procedures.

In US – Underwear case\textsuperscript{11} India submitted that US did not have the option of claiming a situation actual threat of serious damage in July 1995, after having determined in March 1995 that there was a situation of serious damage and having requested consolations on that basis. India argued that all data necessary in terms of the provision, the Article 6 of that ATC had not been provided by the US. The data provided did not indicate that there had either been a situation of serious damage or actual threat of serious damage to the US. The Panel noted that Article 6.2 conditioned the application of a transitional safeguard action on the finding that product is being, imported in such increased qualities as to cause serious damage or actual threat thereof, to the domestic industry. The Panel therefore, concludes that since US failed to demonstrate adequately that its domestic industry suffered serious damage; it has failed to comply with its obligations under Article 6 of the ATC.

In US – Blouses case\textsuperscript{12} India argued that, required demonstration that the increase in imports was causing serious damage or actual threat thereof. India claimed that, US has failed to demonstrate any causal link between the rising

\textsuperscript{12}United States–Measures affecting Imports of Woven Wool Shirts band Blouse from India, Panel Report, WT/D/DS33/3R,23 may 1997, as upheld by the Appellate Body Report WT/DS33/AB/R and corr. 1, DSR 1997:1
imports and declining production. US on the other hand, argued that the ATC does not provide any methodology for collecting data and claimed that demonstration was reasonable. The Panel concluded that importing country is free to choose the method, but at the same time it must has to demonstrate that it had addressed the issue.

Indian cotton textiles especially cotton type bed linen was subjected to definitive Anti-Dumping duties by the European Communities (EC) after the Committee of the Cotton and Allied Textiles Industries of the products – complained to the EC that cotton type bed linen originating from India is dumped in the European Communities markets. On 13 September, 1996 the European Communities established 1 July 1995 to 30 June 1996 as the investigating period, and the investigation of dumping covered during this period. The examination of injury covered the period from 1992 till the end of the investigating period.

The Appellate Body reserved the Panel’s finding that the EC did not act inconsistently with Articles 3.1 and 3.2 of the Anti-Dumping Agreement. The Appellate Body found, instead, that in respect of import volumes attributes to exports or producers that were not examined individually in the investigation, the European Community had failed to properly discharge its duties under Article 17.6 of the Anti-Dumping Agreement and Article 11 of the DSU. The Appellate Body recommended that the DSB request the European Communities to bring its measure into conformity with its obligations under Anti-Dumping Agreement. On April 24, 2003, DSB accordingly adopted the Appellate Body Report and the corresponding Panel Report, as modified by the Appellate Body Report.\(^\text{13}\)

Therefore, the rules governing transitional safeguard measures, in Article 6 are most stringent that those, which governed restriction under the MFA. In outline they call, first, for the importing Member to determine formally the domestic industry

\(^{13}\)European Communities – Anti-Dumping duties on Imports of Cotton–Type Bed Linen from India, Recourse to Article 21.5 of the DSU by India, Notification a settlement dispute (DSU))WT/DS141/1609/01/2003.)
is seriously damaged, or threatened by serious damage, that total imports of the 
product concerned are increasing, and the damage is in fact caused by the 
increased imports and not by other factors such as changes in technology or 
consumer tastes. Transitional safeguard measures are to be applied 'on a Member 
of Member basis' – that is, against a particular supplying Member. Imports of the 
product from that Member must have increased sharply substantially both in 
absolute terms and relative to other imports. Except in highly unusual and critical 
circumstances, where delay would cause damage, which would be whether a 
restraint and which would be difficult to repair, consultations must then normally 
follow before action is taken. Whether a restraint is agreed bilaterally or is imposed 
unilaterally no restriction applied may be lower than the actual level of imports from 
that source during a recent 12 months period, and the action taken may not remain 
in place for more than three years. If the measures are in place for more than one 
year, permitted growth shall normally be no less than 6 per cent. When the 
transitional safeguard clause is used, more favourable treatment shall be given to 
least–developed countries, small suppliers, and new entrants and re imports from 
outward processing.

RULES OF ORIGIN

For the administration of quotas allocated by country or area, it is necessary 
to adopt rules of origin which determine to which country's quota imported products 
processed in different countries should be allocated. In the United States, prior to 1 
July 1996, the origin was considered to be the country where substantial 
transformation of the product had taken place (in the case of clothing, this was 
generally where the cloth was cut). Since that date, the rules of origin have provided 
that the country where a textile or apparel product is wholly obtained or produced or 
assembled shall be its country of origin.

However, 16 specified product categories are subject to a separate set of 
rules. Thus the origin of articles made from yarn, strips, twine, cordage, rope or 
cables is not the country where such articles are produced, but the country where
the yarn, etc. is produced. Likewise, for the other product categories listed in box 32, the origin is the country where the fabric is produced.

The new United States rules could adversely affect the trade of several exporting countries, especially with regard to the products listed in box 32. Many of these products, such as dyed and printed fabrics, quilted products, bed linen, handkerchiefs, scarves, dust cloths and mops, and pillow and quilt shells, are restricted items for a number of countries. Some developing countries import grey fabrics, for dyeing and printing, and then re-export the processed products. Under the new rules, the origin of those exports will be the country where the grey fabric was produced. Similarly, many countries import fabrics for conversion into household linen, draperies or for embroidery. Once again, the origin of these products will be the country from where the fabric was imported.

Other difficulties are also expected to arise for exporting countries. For example, a country supplying base fabrics will find it difficult to accommodate in its quota the goods shipped by other countries and debited to it as origin. Obtaining a visa from a country of origin may also cause considerable administrative inconvenience for the exporting country/area.

Some of these problems may be resolved when, as a result of the work being undertaken in WTO in cooperation with WCO under the Agreement on Rules of Origin, harmonized rules are adopted for the determination of origin. At present, there is no binding multilateral agreement specifying rules for the determination of origin.

**INCREASING USE OF ANTI-DUMPING ACTIONS**

Another major problem is the increasing resort to Anti-Dumping and countervailing actions. Box 33 lists the countries currently applying Anti-Dumping
duties on imports of one or more textile and clothing products and the countries whose exports are affected.

In some countries, these duties were applied to products whose imports were restricted by quotas; this resulted in providing double protection to domestic goods. Investigations were often initiated without adequate justification; some were terminated within a short period on the grounds of lack of evidence. Even though investigations may be terminated without imposing Anti-Dumping duties, they could induce importers to change their sources of supply and result in trade harassment. It is therefore necessary for investigating authorities to examine carefully requests from industries for Anti-Dumping actions and exercise restraint in initiating investigations, particularly where the products concerned are subject to quota restrictions.

CIRCUMVENTION AND PROCEDURES FOR PENALTIES

Circumvention has been a major concern for Members of the MFA, as it effectively undermines the provisions. Article 5 clearly specifies the process of consultation, the nature of collaboration expected, the possible remedies that an importing Member can apply and resource that can be made to the TMB. Circumvention includes such practices as transshipments, re-routing, false declaration concerning country or place of origin which frustrate the implementation of the Agreement. Procedural provisions aim at assisting Member in reaching mutually satisfactory solution to deal with such circumvention. Where it is alleged, Members must co-operate fully to establish the relevant facts including exchanging documents and facilitating plant visit and contacts. Members agree to take action to the extent necessary to address the problem, including legal action against circumvention practices within their territory. Any actions including the denial of entry of goods may be taken after consultation between the Members concerned and shall be notified to the TMB with full justification. If a mutually satisfactory solution is

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14 Article 5
15 Article 5.2
16 Article 4
not reached, any of the Members concerned may refer the matter to the TMB for prompt review and recommendations.

The determination of circumvention is by no means easy, as it is related to the question of what constitute a domestic product. This includes primarily the determination of the origin of the product whether substantial transformation has occurred. Rules of origin provisions can vary from one product to another and also between countries.

**TEXTILES MONITORING BODY**

The Council for Trade in Goods established the TMB to supervise the implementation of the Textiles and Clothing Agreement.\(^{17}\) The TMB is a standing body composed of an independent chairman and 10 persons, balanced and broadly representative of the WTO membership. Its Members rotate at intervals, and discharge their functions on a personal basis, that is, not on behalf of a particular Member. They are appointed by WTO Members designated by the Council for Trade in Goods, the parent body of the TMB.

The TMB has a conciliatory and semi-judicial role. It examines all measure taken under the Agreement, and their conformity with the Agreement’s rules including Member programmes for integration and liberalization, as well as restraint measures taken under special safeguard clause. It makes recommendations and finding on this matters, which Members shall endeavor to accept in full, if they cannot, and if after further review by the TMB the matter remains unresolved it can be pursued under the WTO's dispute settlement procedures. At the end of each stage of the integration process, the TMB will have to prepare a comprehensive report on the implementation of the Agreement, to be transmitted to the Council for Trade in Goods. Thus the responsibilities of the TMB are broadly similar to those

\(^{17}\) Article 8
previously empowered in the Textiles Surveillance Body (TSB) under MFA Agreements.

**TERMINATION OF ATC**

The Agreement on Textile and Clothing itself explicitly provides for its own termination. The Agreement and all restrictions covered by it 'shall stand terminated' on 1st January 2005, 'on which date the textiles and clothing sector shall be fully integrated into GATT 1994.' It concludes with the statement: 'there shall be extension of this Agreement.' The Agreement stands terminated on 1st January 2005.

**POLICY IMPLICATIONS OF THE IMPLEMENTATION OF THE AGREEMENT**

With the termination of the Agreement, the eventual restoration of market principles to trade in textiles and clothing will enhance specialization based on the relative comparative advantage of producers, and is thus likely to affect the patterns of the trade, production and investment. The dismantling of the MFA and ATC will contribute to encouraging trade liberalization and to strengthening the integrity of the system by accepting that textiles and clothing will be treated like any other manufactured good. The integration of this sector into the multilateral trading system is one of the major achievement of the Uruguay Round negotiations. It has effectively brought to an end the GATT legitimized discriminatory quantitative restriction, which have lasted for over four decades and have caused inefficiencies in the economy. It will furthermore contribute to shaping the new world trading system.

Today 130 countries are producing textiles and clothing for export to markets in only about 30 nations. Many of these 130 are totally dependent on those exports

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18 Article 9
in terms of foreign exchange earnings and employment. The survey done by International Textile, Garment and Leather Workers' Federation shows:

**Nepal**- Their garment export arose by 38 per cent in 1999 and 44 per cent in 2000. They now represent 25 per cent of the country's total export trade.

**Pakistan**- There the textile sector accounts for 60 per cent of all exports with 1.4 million workers employed.

**India**- Here again textile and clothing constitutes more than a third of the country's export trade. 94 per cent of all garment exports go to the United States or the European Union.

**Bangladesh**- Here garments account for 75 per cent of all exports. The industry employs 1.5 million workers and provides 70 per cent of all formal sector employment for women. Bangladesh is totally dependent on its export trade with the European Union and the US which take 95 per cent of all textile and clothing exports.

In export and employment terms the picture is similar for a huge number of countries: Lesotho, Mauritius, Tunisia, Indonesia, Cambodia, Honduras, El Salvador, Turkey, Bulgaria. The list is almost endless.

So countless countries and their peoples are highly dependent on the benefits of textile trade being spread evenly. This hasn't happened in the past so it is likely to improve presently because there are no bindings for developing countries to restrict their exports under MFA or ATC. Last year's US trade statistics suggest that China is increasingly dominating world trade in textiles. In the first ten months of 2002, China's textile and garment exports to the United States increased by 105 per cent. Most developing countries saw their exports fall, Bangladesh by 5 per cent and Jamaica by 19 per cent for example.
A glimpse of the future is provided by what happened during those same 10 months to textile and clothing items freed from quota for the first time in 2002. Imports of all such garment items to the United States for the first ten months of the year saw China’s share jump by 30 per cent while the rest of the world suffered a 28 per cent fall.

At the same time the prices of Chinese imports fell by 35 per cent while those from the rest of world fell by 11 per cent. These figures suggest that China is driving other developing countries out of the US market and China’s deflationary impact will further drive down wages and worsen working conditions in the sector. Already consultants in countries like Bangladesh are blaming labour protection for the lack of competitiveness of the local industry when pitched against China.

Today, China’s strength as a global garment exporter is not seriously rivaled by any other single country. Rather, it competes with entire trading blocks of countries.

It looks as if we are moving to a uni-polar world in textiles where China is the pole.

A further look at US imports of individual items removed from quota in 2002 confirms this view. For example, China’s exports of printed cloth to the United States increased by 65 per cent in the first 10 months of 2002 while India’s exports fell by 48 per cent, Bangladesh’s by 42 per cent and Indonesia’s by 34 per cent.

In infants wear, China increased its exports to the United States by an amazing 306 per cent in the same period while the Philippines saw its exports drop by 20 per cent, Mexico’s drop by 17 per cent and Bangladesh’s drop by 16 per cent.
If the situation continues like this, many developing countries dependent on exports of textiles and clothing are likely to see their economies destroyed over the coming few years.

This is already beginning to happen with factories closing across the world as orders are re-directed to China. According to Bangladesh's Garment Manufacturers and Exporters Association, hundreds of factories have closed there in the last few years or so and thousands of jobs have been lost. Factories are also closing with huge job losses in Mexico, Indonesia, across Central America and even in Turkey. As a consequence workers everywhere are being told that they must be more competitive if they are to survive in a textiles and clothing world dominated by China. The message here is clear, wages will have to fall and working conditions worsen.

The study of International Textile, Garment and Leather Workers' Federation (ITGLWF) shows while reviewing the situation across the world, one million jobs has been lost in Bangladesh alone as a result of the abolition of quotas at the beginning of 2005. A further million jobs could be lost in Indonesia, tens of thousands in Sri Lanka and literally millions of other jobs in every continent across the world.

What future would there be for a country like Bangladesh so dependent on textiles and clothing exports if the industry is thus driven out of business? What will happen to the one million workers, mainly young women, who will be displaced?

This cannot be permitted to happen. Steps must be taken to ensure that trade in textiles is arranged in such a way, so as to promote real sustainable development.

Accordingly, the ITGLWF and each of its regional organizations and a great many of its affiliates are convinced that any strategy for the future of the textiles and the clothing industries must include action on the trade and industrial policy fronts.
The sectors today face a crisis globally and it has already getting worst even after the elimination of MFA and ATC. Clearly the future of the industries is being dictated by globalization driven by the major economic and trading blocks and nations, the World Bank and the International Monetary Fund and the transnational manufacturers, merchandisers and retailers who dominate the sector.

The crisis in the sector is not due to overcapacity or overproduction as some contend. Instead it is grounded in under consumption with hundreds of millions of people, including workers employed in the textiles, clothing and footwear export industries, not able to afford decent clothes or shoes. It is now urgent that global trading arrangements, a key element of sustainable development, are used to ensure that trade in textiles, clothing and footwear benefits those employed in their production. The ITGLWF accordingly believes that, an urgent review of trade liberalization, particularly its impact on employment and working conditions is labour intensive industries such as textiles, clothing and footwear is needed.

In addition there must be tripartite involvement in all future trade negotiations. The inclusion of labour standard conditionality in all international trade agreements is imperative.

WTO should establish a new Arrangement in the Textile and Clothing sector to help emerging and struggling industries, particularly in developing countries, adjust to meet the threat posed by dominant producers such as China, including clear restraints on such dominant producers. Finally the promotion of trade based on respect for international labour standards through rewards and sanction-based mechanisms must be a central part of any trade policy.

On the industrial front, all countries with significant textiles and clothing industries should establish a development strategy for the textile, clothing and footwear industries. This strategy should provide for interventions in areas such as: respect for international labour standards; worker development especially the development of women workers; skills training; technology diffusion; productivity;
improved management; enhanced quality and market development, both internally and externally.

In short, production of and trade in textile, clothing and footwear items can not continue to serve only the interests of multinational merchandisers and retailers in a handful of industrialized countries.

The new era, that has ushered in already by the termination of the Multi-Fibre Agreement provides the opportunity for real change. However, the real question is, do our politicians and trade specialists have the courage to promote sustainable development in the sectors. If they don't – millions of workers and their families would face a dire future. A future where there can be only one huge winner – China – and millions of losers elsewhere.

Can the world afford such a future for the textiles, clothing and footwear industries?\(^{19}\)

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SECTION B

INDIAN TEXTILE INDUSTRY

INTRODUCTION

The Textile and Clothing (T&C) sector is an important one in the Indian economy. Textiles and clothing items have been significant in India's export basket, accounting for nearly 20 per cent of total exports during the 1990s. In 2003, T&C exports were the largest export group, accounting for 23 per cent of Indian exports (or $13 billion).

In addition, this sector is the second largest generator of employment (35 million or around 10 per cent of the workforce), a significant earner of foreign exchange, and contributes 4 per cent and 14 per cent to GDP and value added in manufacturing, respectively.20

The industry has several vast sectors within it, viz., the mill sector, the clothing or garment sector, the handloom sector and the power loom sector. Each of these sectors employs lakhs of workers and also contributes significantly to the national economy.

The tradable commodities under textiles include readymade garments (clothing), cotton yarns, fabrics, silk and woolen products, etc.

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20 Ministry of Textiles, Annual Report 2003-04
The garment sector, however, has emerged as the most globalize sector in the world today. This sector alone employs about 3.6 million workers. A large segment of the garment sector comprises of a vast domestic market, while another significant segment caters to the export market. Most of the units producing for exports are in Tirupur, Delhi and Mumbai. According to the Ministry of Commerce, 51 per cent of the total textile exports in 2000-2001, were from the garment sector alone. Nearly 80 per cent of Indian clothing exports go to the USA and the EU where they face quota restrictions. Apart from Agriculture and Patents, textiles and clothing in particular are the murkiest elements on the stage of world politics. The struggle on these two sectors continued throughout the Uruguay Round for eight years. Textiles and clothing still remain as the most contentious issues.

The export orientation and thereby production of garments for exports in India is a trend that started in the 1970s, with some exports to Africa and mostly to the erstwhile Soviet Union.

Though Indian textile industry is rich from all possible angles and has all qualities to grow, it was being restricted to grow under the pressure of international regulations. The Agreement in Textiles and Clothing (ATC) was one such big hindrance which remained the principal driver of such a mammoth economic earthquake in this sector.

The following are the arguments stating that the textile proposals given in ATC are neither satisfying nor favourable to India:

- India wanted the phased liberalization of textile trade in six years. The proposal envisaged 10 years transition period.
• The front-loading of liberalization is inadequate. At the end of the seventh year only 1/3 of the world textile trade would be integrated into GATT. In the last three years 2/3 of the integration would take place.

• Liberalization is not limited to restricted products alone. It encompasses the whole range of textile products. The major textile importers such as the US and the EEC may choose many products in the first two phases which are not under restraint. This may further limit market access.

• In the transitional period, the textile exporting countries continue to face product quotas and coiling. These built-in rigidities of the MFA are not addressed. Integrated textile products into GATT became subject to the operation of the GATT safeguard clause Article XIX. So developed countries has applied 'transitional safeguard'. However, the importing country is obliged to demonstrate serious damage following a sharp increase of imports.

• India wanted to exclude from the scope of the Agreement the bulk items such as carded wool and cotton. However, the product coverage has remained unchanged India's Proposals Regarding the Agreement on Textiles and Clothing in terms of Paragraph 9(a) (i) of the Geneva Ministerial Declaration - July 02, 1999 Issues.

PROPOSALS GIVEN BY INDIA

The integration programme implemented by the importing countries has been very meagre and have not been in line with the spirit of the ATC. Therefore, India sends its proposals during the Uruguay Round to the appropriate forum. They are:
1) Importing countries, on the first day of the first month, that is 1/1/1995, on which the WTO Agreement is in effect, shall integrate products which accounted for not less than 50 per cent of the total volume of the Member's imports of the products in the Annex. This is possible since Article 2:10 and 2:15 do not prevent a Member from advance integration of products.

2) The importing countries to apply growth-on-growth for stage 3 with effect from 1 January 2000 instead of 1 January 2002.

3) Sparing use of transitional safeguards based on standards established in the context of WTO dispute settlement mechanism.

4) A moratorium by importing countries on Anti-Dumping actions in this sector until two years after the entire textiles and clothing sector is integrated into GATT.

5) Any change in rules of origin to be examined in the Council for Textile and Garments (CTG) for its possible impact on market access of exporting countries and relevant recommendations made.

EFFECTS ON INDIAN TEXTILES IN THE NEW ERA

Finally, the International Trade in Textile and Clothing is being transformed significantly owing to the phasing out of the Multi Fibre Arrangement (MFA) era, and ushering in of the era of quota-free trade. This has jolted the entire pattern of global trade in textile and clothing from years of stupor, and each country/region has suddenly become busy preparing its own national/regional strategy for competitiveness in the new scheme of global trade.
Indian textile industry is no exception finally, on January 2005; the Indian textile industry was liberated from quota restrictions. India particularly is and still having euphoria about the shape of things coming in future years, because the WTO takes over the trade in textiles and clothing. The Agreement on Textiles and Clothing was a major boon for countries like India as exports of textiles account for about 20 per cent of total exports from the country and represent the largest net foreign exchange earner.

Let us have a look at the position of Indian textile industry and expectation from it in the post era of ATC and simultaneously the challenges inherent in the industry and measures taken by the Government of India to correct the loopholes.

In India, textile exports during the period of April-February, 2003-2004 amounted to $11,698.5 million as against $11,142.2 million during the same period in the previous year, showing an increase of around 5 per cent.

It was estimated that, the textile sector might achieve about 15 to 18 per cent growth in 2005 following dismantling of MFA. The Government expects to increase the exports of textiles, most particularly garments by about 4-5 times in the years to come. Recommendation to remould the Textile Policy in such a manner that it becomes consistent with the globalized economy and trade under the WTO regime. So the new Textile Policy (2001) was formulated, exposing all its sectors to the ravages of the WTO’s “free trade” philosophy.

With the quantitative restrictions being removed in this huge industry, the mood in the Indian textile industry given the phase-out of the quota regime of the Multi Fibre Arrangement (MFA) is upbeat with new investment flowing in and increased orders for the industry as a result of which capacities are fully booked up to April 2005. As a result of various initiatives taken by the Government, there has been new investment of Rs.50, 000 Crore in the textile industry in the last six years. Nine textile major industries invested Rs.2, 600 Crore and plan to invest another Rs.6, 400 Crore. Further, India’s cotton production increased by 57 per cent over the
last six years; and 3 million additional spindles and 30,000 shuttles-less looms were installed.

The industry invested of Rs.1, 40,000 Crore in this sector in the post-MFA phase. Vision 2010 for textiles formulated by the Government after intensive interaction with the industry and Export Promotion Councils to capitalize on the upbeat mood aims to increase India's share in world's textile trade from the current 4 per cent to 8 per cent by 2010 and to achieve export value of US $ 50 billion by 2010. Vision 2010 for textiles envisages growth in Indian textile economy from the current US $ 37 billion to $ 85 billion by 2010; creation of 12 million new jobs in the textile sector; and modernization and consolidation for creating a globally competitive textile industry.

But has it changed the way the garment manufacturers are operating these days? Are the foreign orders for Indian garment exporters going up?

"Nothing dramatic has happened in the textiles exports as of now. There is no deluge of orders. But expert think it will take some time for the liberated textiles sector to boom," points out K. Badrinath, a leading exporter of knitted garments from Tirupur in Tamil Nadu.

Exporters like Badrinath do not expect huge orders in the immediate months. "But we have ramped up our production capacities and are waiting for the big business to come by," he said.

Textile exporters from the garment hot-spot of Tirupur are keeping their fingers crossed. Many of them as bullish on new export enquiries that have began to trickle in.
"The rush of garment exports in the quota-free regime has not yet happened in the Indian textiles sector. He says in the liberalized textile era, companies would have to restructure their production capacities to meet export orders.

Textile exporters anticipate huge orders from major American stores and brands. "The biggest change is that large textile firms within India are buying small-scale garment manufacturers to shore up their production facilities," says Tirupur-based textiles consultant Sri Ravi Raju.

"In the months to come, companies will have to increase the production capacity to face changed global textile trade," he points out.

Already, the Gujarat-based Super Spinning Mills Ltd. has moved in to acquire two sick textile mills in Madurai to increase the company's yarn production capacity and to cater to the United States export market.

But there are many challenges ahead. "The competitive advantage that India enjoys now is the low cost of production here. But the real challenge is to develop and offer value-added services to foreign customers, especially in countries like America," says Raju.

The question arises, who gained when trade was actually "free" in the world. The UNCTAD report after the Marrakesh Agreement had rightly pointed out that since 1970; the developing countries have always been at the receiving end in world trade. The rich North has been dominating over the poor South. In India also, the trade balance was never positive, i.e. exports never exceeded the imports.

The other aspect we have to see is that, in a free trade and quota free regime under WTO, India is facing extremely stiff competition from other Asian countries like China, South Korea, Philippines, Indonesia, Thailand, Bangladesh, Srilanka, etc.
The Indian interest is affecting because of the globally competitive position of its textiles and apparel industry is currently placed in. The United States International State Corporation says that China is expected to become the "supplier of choice" for most US importers (the large apparel companies and retailers) because of its capacity to make almost any type of textile and apparel product at any quality level at a competitive price. But over-dependence on one supplier is strategically bad in international trade. So, according to the Commission, US importers will also tap other low-cost sources, particularly India, which also has a very large manufacturing base for textiles and apparel and a large supply of relatively low-cost skilled labour.

As regards India, the report says that it is likely to remain a competitive supplier to the US in the post-quota period and is considered by many US firms to be the primary alternative to China. However, as with China, it is expected that competitiveness will diminish over the long run as domestic economic growth increases competition for the inputs used by the Indian textiles and apparel sector.

Further, in the free trade regime, India is trying also have to open its own domestic market to all other countries in the world particularly to the rich North. In a liberalized regime in the globalized economy under the WTO, we are already having very adverse effects on our trade and economy.

Already under pressure from America, the Government has de-reserved many items of production in the Small Sector Industry, including handloom. The Satyam Committee also made recommendation for de-reservation on the ground that reservation of any item of production does not have any meaning in an era of liberalization. This apart, the Government has also withdrawn the quantitative restrictions on imports.

Also, there will be several barriers, which the ongoing, WTO trade polices and the rich North have given us. Protectionism, Anti-Dumping measures, environmental issues, labour rights, child labour issues, etc – all put brakes on exports from India and the poor South.
THE AXE FALLS ON LABOUR

Whatever is happening in trade from January 2005 is a matter of speculation and arguments and counter arguments. But the working classes in any case will have to suffer on account of imperialist globalization and the WTO regime.

It is certain that the adverse impact is on the workers. With prices offered by the lead firms i.e. the MNCs, the exporters will try to cut their costs. Since fabric and other inputs have a direct bearing on the final quality of the product, these costs cannot be reduced beyond a point. So the axe will fall on labour.

We are already experiencing how globalization encourages contractualization and informalization of production and economy leading to severe exploitation of the workers. The textile and clothing industry is one of the worst affected in this respect.

Even as a precursor to the full fledged WTO regime, there is all-round violation of workers' rights. There are high levels of casual employment, long working hours, no employment security, very low levels of wages, lack of any social security, more exploitation of women workers, no labour laws or trade union rights. Even the minimum standards set by the ILO Conventions are violated, namely, Freedom of Association and Right to Collective Bargaining (Conventions 87 and 98); Ban on Forced Labour (Convention 29); Determination of Minimum Wage; Ban on Child Labour (Convention 138); on the issue of migrant labour, on health, safety, occupational diseases and so on.\(^{21}\)

\(^{21}\)Textile and clothing industry in India and phasing out of the MFA: P.K. Ganguly
CONCLUSION

The plus points in regard to Indian textiles are, India has a huge, relatively inexpensive and skilled labour force; it has impressive design expertise; it is among the world's largest producers of yams and fabrics; and it produces a wide range of apparel articles and is considered a particularly competitive source for home textiles (bed linens, towels, etc). But unfortunately, the report adds many negative points imbibed in Indian textile sectors like personal safety, security of shipments between factories and ports, and bureaucratic red-tape and infrastructure are "issues" with many US firms "using agents in lieu of dealing directly with producers".

More specifically, although US retailers described Indian firms as innovative, particularly in design functions, poor infrastructure and an inefficient bureaucracy were cited as areas of major concern but not as factors that would necessarily determine investment and sourcing decisions.

A number of US firms cited the "lack of transparency in legal requirements and complicated paperwork" which led to an increase in producer costs and necessitated the appointment of a broker instead of the much-preferred direct-dealing with manufacturers. Poor infrastructure included a lack of deep-water ports and an antiquated railway network.

The report found that labour productivity in India was 20-25 per cent lower than in China despite the fact that India had a very large pool of skilled and unskilled workers and well-educated management and technicians.

In summing up, the only point that can be made with any degree of certainty is that a tough future awaits for the Indian textiles and apparel industry. Competition will be tough. Left to itself, the industry will do its best to protect existing markets and make inroads into those of its rivals, mainly from China. Needless to say, effective Government assistance would be of great help in implementing this campaign. The
question is: will such help be forthcoming in the right direction and in the appropriate
doses?

There will be opportunities as well as challenges for the Indian textile industry
in the post-MFA era. But India has natural advantages which can be capitalized on
strong raw material base - cotton, man-made fibres, jute, and silk; large production
capacity (spinning – 21 per cent of world capacity and weaving – 33 per cent of
world capacity but of low technology); vast pool of skilled manpower;
entrepreneurship; flexibility in production process; and long experience with US/EU
(European Union). At the same time, there are constraints relating to fragmented
industry, constraints of processing, quality of cotton, concerns over power cost,
labour reforms and other infrastructural constraints and bottlenecks. E.g., cost of
power was Rs. 8 per garment in India whereas in China it was only Rs. 2 per
garment.

Further, for the benefit of exporters, there should be a state-owned cargo
shipping mechanism. Several initiatives have already been taken by the Government
to overcome some of these concerns including rationalization of fiscal duties;
technology up gradation through the Technology Up-gradation Fund Scheme
(TUFS); setting up of Apparel Parks; and liberalization of restrictive regulatory
practices.

The textile industry in India is preparing to meet the competition. The
Government is trying to help the industry to meet the situation and has recently given
a favourable Exim Policy as well as various other schemes through Budget
notifications. In order to provide easy access to raw materials required for export
production, the Government has recently introduced a scheme of granting Annual
Advance Licenses by which exporters can continue to import their input
requirements throughout the year and simultaneously, export garments made out of
them. This scheme will reduce the transaction time and cost to enable the garment
exporters to devote themselves to the job of producing and exporting their products.
Various types of trimmings and embellishments have been allowed to be imported by
the industry, free of license as well as import tariffs. Most of the fabrics have been brought into the free list of imports. Arrangements are also being worked out by taking policy initiatives so that quality fabrics produced by the mill sector in India are made available to the garment makers.

A scheme of setting up Apparel Parks is being worked out whereby the State Governments will be asked to set up such Parks in areas which are near the existing garment production centers as well as the fabric trading or manufacturing industries so that garment exporters can set up and relocate their manufacturing facilities to places where they can get cheaper labour and cut down costs. This cluster development approach will enable the Apparel Parks to be used as an instrument for guiding technology up-gradation and export culture.

A Technology Up-gradation Fund Scheme has been launched with effect from April 1, 1999 with a view to making the Indian textile industry globally competitive and bringing in the desired level of investment for the technological up-gradation of the textile sector, covering spinning, weaving, processing and the garment manufacturing sectors.

The key areas of infrastructural concern for textiles are ports, power (both availability and price), highways, telecommunications and FDI. Certain steps have been taken to encourage private investment in segments like ports (on build-operate-transfer basis), power generation and distribution, etc. The pace of investment in infrastructure for the export-related segments needs to be enhanced through both public and private efforts including FDIs. Higher budgetary support through the Ministry of Textiles is envisaged for providing better infrastructure in the clusters of textiles and garment production.

Reservation for garment and knitting in the SSI sector could be eased in order to provide the Indian industry a level playing field to compete against imported garment and knitted products. This would also help in attracting foreign direct
investment and joint ventures, besides proper utilization of the Textile Up-gradation Fund Scheme.

The competitiveness of the domestic industry has to be strengthened to withstand the increased import of textile products. Therefore, a detailed view of various issues relating to the domestic textiles industry such as excise and other duties applicable to raw material, infrastructural problems, interest rates, etc. have to be undertaken for revamping in order to increase the competitiveness of the domestic textile industry. Consultants like Raju also added that, the textile industry in India will need greater supply-chain efficiencies and flexible labour laws to succeed in the world market.