CHAPTER SIX

IMPACT OF WTO ON INDIAN TEXTILE AND CLOTHING INDUSTRY
The World Trade Organization (WTO) is the only International Body dealing with the rules of trade between the nations. The World Trade Organization (WTO) was established on 1\textsuperscript{st} January 1995 as a result of the 8\textsuperscript{th} round of talks under GATT (1986-1994) known as Uruguay round. Till then GATT covered issues related to trade in goods. In the Uruguay Round, however, new agreements viz. ‘General Agreement on Trade in Services’ (GATS) and Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) were also negotiated. The agreements are drafted and signed by the community of trading nations and the WTO is to serve as a ‘Forum for Trade negotiations’ and to settle the disputes through some neutral procedure.

The WTO is the umbrella organization responsible for over seeing the implementation of all the multilateral and plurilateral agreements that have been negotiated in the future. Its basic objectives are similar to those of GATT. These objectives have been expanded to give WTO a mandate to deal with trade in services. Furthermore, in promoting economic development through the expansion of trade, adequate attention has to be paid in protecting and preserving the environment.

Since the mid-sixties, textile exports to the US and Western Europe have been regulated by the importing countries. These restrictions cover in minute details the products and the quantities that each developing country can sell in the advanced economies. At present the restrictions on textiles are covered by the Multi Fibres Arrangement (MFA). Under the Multi Fibres Arrangement, countries such as USA, EEC, Canada, Austria, Norway and Finland maintain certain quantitative restrictions on the import of textile items from developing countries. The Uruguay Round seeks to integrate the textile and clothing sector into GATT. The Dunkel text provides for a transition period of 10 years for the abolition of MFA; the rate of abolition in the early years for the transition period is slow. India, however, took the stand that the rate of abolition of MFA during the transition period should be more evenly balanced so that the benefits to countries like India start flowing immediately after the Uruguay Round Agreement. During the transition period only 51 percent of textiles imports would have been freed from restrictions. The remaining 49 percent are to be integrated
immediately after the transition period ends. In addition, products that are now outside MFA have also been included in the list of textile products that are to be freed from restrictions, thereby further back loading transition.\(^1\)

The MFA permits the importing and exporting countries to enter into bilateral agreements to avoid sudden imposition of restrictions by the importing countries. In practice the important importing countries with all major exporting countries have generally entered into such agreements. Such agreements suit both the parties because they provide a measure of certainty to the trade. The exact quantities of various textile and apparel products which can be exported in a year are listed in these agreement, which are to provide after such matters as growth rates, carry over and carry forward of quotas to/from the next year, flexibility in swinging from one category to another and the procedural matters. India has at present bilateral agreements with US, Canada, European Community, Norway, Sweden, Austria and Finland.

6.1 INDIAN-TEXTILE INDUSTRY IN WTO REGIME:

The inclusion of trade in textiles as a subject for negotiations in the Uruguay Round was itself an achievement. Since 1961, textile trade has been governed by a separate set of rules, permitting the application of discriminatory quotas, in violation of the GATT's cardinal principle of non-discriminatory treatment. The separate set began with a Short Term Arrangement for trade in cotton textiles. It was soon converted into a Long Term Arrangement for five years which was twice renewed for terms of three years ending in 1973. A new arrangement -the MFA-came into existence in 1974, extending the coverage of discriminatory quotas from cotton textiles to wool and manmade fibres. The MFA remained in force, after several renewals, until the end of 1994. At the time of the MFA's expiry in 1994, there was hardly any developing country engaged in textile trade, irrespective of its stage of development or the size of its export that was not saddled with bilateral quotas in the European Community (EC) or the US, the two largest markets that were also the most protectionists.\(^2\)

---

1 GATT/WTO: TRIPs, TRIMs and Trade in Services, pp. 242-243.
The following table 6.1 shows the product integrated schedule during MFA phase out product integrated schedule the transition is built upon a four-stage process of integrating products fully into the WTO's trading rules; as they are integrated, any quotas on the products involved must be removed. The third stage in the process was reached at the beginning of 2002. The process is technically on track, with member countries having fully integrated into WTO rules the percentages required in each of the three stages to reach 51 percent of their textile and clothing imports in volume terms, based on their 1990 import figures. The products integrated by each member were chosen by that member and for these products the full rules and disciplines of the WTO now apply. There can be no bilateral quotas on these products. While just over half of textile and clothing products have been integrated, it is significant that only about 20% of these products were subject to quotas in the restraining members, the EC, US and Canada. The remaining 49 percent of the products account for 80 percent of the quotas, which must be removed either during the remaining two years or at the end of the ATC on 31 December 2004.

This particular situation has aroused deep concern in many exporting; developing countries as they consider that a larger portion of quotas should have been remove in the first three stages, rather than leaving such a high percentage to the end. They have repeatedly argued in the WTO that this 'back loading' of the quota removal process is not providing the improvements in market access that they had anticipated. Concurrent with the integration of products, the member maintaining the quotas were also required by the ATC to enlarge them by progressively increasing the annual growth rates at the beginning of each stage. This also has been carried out. To illustrate how this operates, a quota with a growth rate of 6% in 1994 has been increased three times, that is, at the beginning of stage 1,2, and 3 by percentage factor and would currently stand at just over 11% and be applied annually in the final three years. On this basis, a quota would double in size between the beginning of the transition in 1995 and 2003. Of course, the impact is less for those quotas with smaller growth rates. The restraining countries have argued that this compounded growth substantially increases the size of quotas to the point where they become large enough that they will have no restrictive effect well before the end of the transition period.\(^3\)

Table 6.1: Product Integrated Schedule During MFA Phase Out

<table>
<thead>
<tr>
<th>Category</th>
<th>Phase I 1.1.95</th>
<th>Phase II 1.1.98</th>
<th>Phase III 1.1.2002</th>
<th>Phase IV 1.1.2005</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yarn</td>
<td>8.46%</td>
<td>8%</td>
<td>3.26%</td>
<td>2.46%</td>
<td>22.36%</td>
</tr>
<tr>
<td>Fabric</td>
<td>3.44%</td>
<td>2.51%</td>
<td>3.91%</td>
<td>12.19%</td>
<td>22.05%</td>
</tr>
<tr>
<td>Made-up</td>
<td>2.3%</td>
<td>4.54%</td>
<td>8.39%</td>
<td>2.95%</td>
<td>17.88%</td>
</tr>
<tr>
<td>Apparel</td>
<td>1.92%</td>
<td>1.98%</td>
<td>2.54%</td>
<td>31.26%</td>
<td>37.71%</td>
</tr>
<tr>
<td>Total</td>
<td>16.21%</td>
<td>17.03%</td>
<td>18.11%</td>
<td>48.65%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: WTO

6.2 THE OPPORTUNITIES FOR EXPORT MARKET IN INDIA:

The completion of phasing out of the MFA on 1st January 2005 would expand the size of the market available to the countries that have been restricted by the quotas. The size of the world textile and garment export market is projected to grow to about $655 billion by 2010, which is worth $40.0 billion currently. India will be one of the principal beneficiaries of the large market available in the post MFA. It is estimated that India’s share in total world textiles and garments exports can reach 8.0% by 2010 from the present 3.9%. India’s market share of textiles and garments is going to jump substantially in both the US and EU which are its principal exports market. According to a study of the WTO, India’s market share in textiles in the EU is estimated to increase to 11% from the present 9% after the elimination of quotas. For the garments sector the market share is expected to increase by 50% from 6% to 9%. In the case of USA, India’s market share in garments is estimated to quadruple to 15% in post MFA from the present 4%.

Indian economy is increasingly getting integrated with the through trade and investment flows, both inward and outward. This has opened up new avenues for Indian exporters, entrepreneurs, businessmen, professionals and consultants to explore new business opportunities abroad. An export boom underway now as export business are so vast and attractive today that was never before in earlier days. Export marketing is there for regarded as one of the top agenda item today for the economic development of our country, because of vastness in size, volume and the amount involved and that so also in foreign currencies. After joining the WTO, our country has been trying to penetrate more and more in the global market and also
encouraging all type of enterprises in our country, whether such enterprises are micro, tiny, small, medium or large scale one or whether such enterprises are urban based or rural based, but our target is to export more and more goods and services to different parts of the world. In the New Foreign Trade Policy, 2008 also, the Government of India continues to focus on the traditional thrust areas of Agriculture, Handicrafts, Handlooms, Gems and Jewellery, Leather and footwear sector. It is thus quite evident from the above, that the world has yet to get used to a free trading regime in textiles and clothing. Considering the fact that quotas were in force for four decades, it is only natural that the developed countries should instinctively protect themselves from the free flow of trade with new instruments while at the same time sharpening the old ones. Given the crucial importance of the textile sector in world economies, it will be a long time before the sector can claim to be fully "free" from the rigors of policy distortions.

6.3 INDIA'S COMPARATIVE ADVANTAGE:

India is placed in an advantageous position to exploit the larger market available in the post MFA regime. This is because India has a comparative advantage in textiles and garments, which emanates from the low wage costs and access to domestically produced fabrics and other inputs. A study of comparative advantage of various countries in textile and garments done by WTO shows that India's comparative advantage is higher than China and South East Asia in both textiles and clothing. In textiles India’s advantage stands at 4.67 as compared to 3.18 of China. In garments too it is marginally higher at 3.90 compared to 3.64 of China. The figures for comparative advantage in textiles for Indonesia, South Korea, Malaysia, Philippines, Thailand and Vietnam are 1.98, 2.49, 0.36, 0.41, 1.16, 1.12 respectively as compared to 4.67 of India. The other strengths of the Indian textile industry, which would provide it a strong base for accelerating the growth post MFA, are: (i) the easy availability of almost all raw materials from fibre to yarn to fabrics and others domestically. (ii) There are big players who can do everything under one roof. Thus, exploiting the economies of scale available in post MFA. This is going to be one of the most important factors in determining India’s competitiveness. (iii) India has a well-developed fashion design industry, which can cater to the rapidly changing fashion trends and demands. (iv) India has a large base of skilled workers. Thus, India has all the requisites for maximization of the gains from the emerging opportunity.

---

Countries like China, USA, India, Pakistan, Uzbekistan and Turkey have resource based advantages in cotton; China, India, Vietnam and Brazil have resource based advantages in silk; Australia, China, New Zealand and India have resource based advantages in wool; China, India, Indonesia, Taiwan, Turkey, USA, Korea and few CIS countries have resource based advantages in manmade fibres. In addition, China, India, Pakistan, USA, Indonesia has capacity based advantages in the textile spinning and weaving. China is cost competitive with regard to manufacture of textured yarn, knitted yarn fabric and woven textured fabric. Brazil is cost competitive with regard to manufacture of woven hank yarn. India is cost competitive with regard to manufacture of hank yarn, woven yarn fabric, knitted ring yarn fabric and knitted yarn fabric. According to Werner Management Consultants, USA, the hourly wage costs in textile industry is very high for many of the developed countries. Even in developing economies like Argentina, Brazil, Mexico, Turkey and Mauritius, the hourly wage is higher as compared to India, China, Pakistan and Indonesia. From the above analysis, it may be concluded that China, India, Pakistan, Taiwan, Hong Kong, Brazil, Indonesia, Turkey and Egypt would emerge as winners in the post quota regime. The market losers in the short term (1-2 years) would include CBI countries, many of the sub-Saharan African countries, Asian countries like Bangladesh and Sri Lanka.

The market losers in the long term (by 2014) would include high cost producers, like EU, USA, Canada, Mexico, Japan and many east Asian countries. The determinants of increase / decrease in market share in the medium term would however depend upon the cost, quality and timely review of Indian Textiles and Clothing Industry. In the long run, there are possibilities of contraction in intra-EU trade in textile and garments, reduction of market share of Turkey in EU and market share of Mexico and Canada in USA, and thus provide more opportunities for developing countries like India. It is estimated that in the short term, both China and India would gain additional market share proportionate to their current market share. In the medium term, however, India and China would have a cumulative market share of 50 percent, in both textiles and garment imports by USA. It is estimated that India would have a market share of 13.5 percent in textiles and 8 percent in garments in the USA market. With regard to EU, it is estimated that the benefits are mainly in
the garments sector, with China taking a major share of 30 percent and India gaining a market share of 8 percent. The potential gain in the textile sector is limited in the EU market considering the proposed further enlargement of EU. It is estimated that India would have a market share of 8 percent in EU textiles market as against the China’s market share of 12 percent. Indian industry has the potential to be globally competitive. Multinational Corporations (MNCs) are already using its resources. For instance, Sri Lanka imports yarn from India and produces better cloth, for better prices. India needs to understand the world market and what it wants. India has a very high self-sufficiency index, so it could easily achieve higher exports. We have very limited exploitation of economies of scale, low utilization of resources and a large technology gap with developed countries. Indian industry needs restructuring to reduce excess capacity.5

6.5 THE AGREEMENT ON TEXTILE AND CLOTHING (ATC) AND INDIAN TEXTILES AND CLOTHING INDUSTRY:

The Agreement on Textiles and Clothing (ATC), forming a part of the results of the Uruguay Round, is designed to remove progressively the MFA quotas over a period of 10 years ending on December 31, 2004. It expressly prescribes that this agreement cannot be further extended and it will expire on the due date. This was considered a major achievement of the Round. The developing countries were elated that the hated system of discriminatory quotas would be finally brought to an end. The bilateral quota was vanishing on January 1, 2005. In the euphoria generated by this provision, it is fondly imagined that it will usher in an era of free trade for the textile sector. According to the final text of the “Agreement on Textiles and clothing” (ATC) each member country would on the commencement of the agreement (1st January, 1995) integrates into the GATT, products form the specific list annexed to the agreement which in 1990, accounted for not less than 16% of the total volume of imports. At the beginning of phase two, on 1st January, 1998 products which accounted for not less than 17% of 1990 imports would be integrated. On 1st January 2002 products, which accounted for a further 18% of 1990 imports would be integrated. All remaining products would be integrated at the end of the transition period on 1st January 2005. In each of the first three stages, products shall be chosen from each of the four groups of (I) tops and yarns (ii) fabrics (iii) made ups and (iv) apparel.

5 fairtrade.socioeco.org/documents/90rtf_India-WTO.rtf
According to the GATT, free trade actually implies duty-free and quota-free trade between countries. There are no prospects of duty-free trade in textiles even after the implementation of the tariff cuts agreed to in the Uruguay Round. The developed countries had decided to reduce the tariffs of all industrial products by 38 per cent but for textile items the depth of cut was only 22 per cent. The result of this differential reduction is that the average tariffs for textile products in all the developed countries will be 12 per cent compared with the average of 3.9 per cent of all industrial products. The textile tariffs will thus be three times higher than the average for the industrial products. Of the four countries (popularly known as the Quad), which have taken upon themselves the role of guardians of international economy and trade relations, Canada’s post-Uruguay Round textile tariffs will still remain at an average of 14.5 per cent in spite of a cut of 32 per cent. And that persistent champion of trade liberalisation, the US has made a magnificent reduction 13 per cent in the textile tariffs resulting in post-Uruguay Round average of 14.6 per cent. This may be compared with the average of 9.1 per cent in EC and 7.6 per cent in Japan, the other members of the Quad. The balance of 49 per cent will be integrated at one stroke on the day following the expiry of the ATC, i.e., January 1, 2005. The impact of the programme is that the GATT rules will begin to apply on integrated products and MFA quotas on those products will automatically disappear. The salient features of the Textiles Agreement (including clothing) are as follows:

1. The 10-year transition period beginning from 1995 will be divided into three stages of 3:4:3.

2. At the commencement of the first stage, i.e. from January 1995, effectively 16 percent of total volume of imports prevailing in 1990, of products covered under the MFA, shall be integrated into GATT.

3. The percentage of such integration at the commencement of the second and third stages would be a further 17 and 18 percent respectively.

4. Thus 51 percent of total imports shall be integrated into GATT by 1-1-2002, leaving the remaining 49 percent to be integrated on 1-1-2005. Thus in effect the restrictive MFA regime will be completely phase out over a particular period and trade and textile would be governed by GATT rules from January 1, 2005.

The Agreement contains specific provisions to cope with possible circumvention of commitments through transshipment, re-routing, false declaration
concerning country or place of origin and falsification of official documents. The programme is intrinsically flawed as it leaves nearly half the imports for integration on the last day. It nullifies the notion of progressive elimination of quotas with time for domestic industries to adjust to competition. Since around 35 per cent of the imports in EC and the US are not covered by quotas, it allows these countries to evade the integration of restricted products in the earlier stages. This loophole was deliberately crafted by the developed countries so that real integration could be postponed as long as possible. The real intentions of EC and the US were demonstrated in their integration programmes carried out in 1995 and 1998. While they technically fulfilled the obligation, no restrained products were integrated in the first stage in 1995. In the second stage, integration in EC and the US removed quotas on imports accounting for 3.15 per cent and 1.30 per cent, respectively, of the total imports. Obviously, at this rate, the bulk of the quotas accounting for 49 per cent of the imports will remain in place until the last day of the ATC, i.e., December 31, 2004. This large volume consists of the hard core of protectionism.

6.6.1 ANTY DUMPING INVESTIGATION:

Since the completion of the Uruguay Round, it has initiated the largest number of anti-dumping investigations for textile products compared with others. There are about 15 different textile items which have been subjected to this type of actions and more than one-half of the extra-EC imports are affected thereby.

6.6.2 PRODUCT CATEGORIES UNDER ATC

1. Silk
2. Cotton
3. Other vegetable textile fibres
4. Paper yarn and woven fabrics
5. Man-made filaments
6. Man-made staple fibres
7. Wadding, felt and non-woven
8. Yarns, twine, cordage, etc.
9. Carpets & other textile floor coverings
10. Wool, fine/coarse animal hair, horsehair, yarn & fabrics
11. Special woven fabrics, tufted textile fabrics, lace & tapestries

---

6 GATT/WTO: TRIPs, TRIMs and Trade in Services, pp. 242-243
12. Impregnated, coated, cover/laminated textile fabrics
13. Art of apparel and clothing access, knitted or crocheted
14. Art of apparel and clothing access not knitted or crocheted
15. Other made up textile articles, sets, worn clothing etc.

Anti-dumping action may become the preferred mode to stem the flow of trade, from January 1, 2005. It has the advantage of being consistent with the GATT provisions. It can be applied selectively on a few countries and the targets will naturally be the developing countries. It is more effective than quantitative restriction for strangulating trade because no buyer would like to import from a source which is under investigation or has been visited with provisional duties. The investigations can be stretched in time and redressal in the WTO could be delayed. In the absence of quotas, trade in textile and clothing after the ATC will be carried out on the basis of market forces. In view of large number of countries participating in this, trade competitions will continue to be fierce and this will require both producer and their governments to re-think their strategies and policies. The most efficient, dependable, quality conscious and competitive exporters will reap the benefits. Government policies must compliment the efforts of producers by facilitating their activities both in sourcing raw materials and in exporting the finished products. At the same time, there will continue to be changes in the production patterns in some developing countries as there economic advantage and they diversify their industrial bases. This will, consequently, raise the level of costs and reduce their competitiveness in this sector which will, in turn, continue to make room for new producers and for others to further expand their trade.

6.7 GLOBAL TRADE IN TEXTILE AND CLOTHING:

World trade in textiles and clothing amounted to US $ 385 billion in 2003, of which textiles accounted for 43 percent (US $ 169 billion) and the remaining 57 percent (US $ 226 billion) for clothing. Developed countries accounted for little over one-third of world exports in textiles and clothing. The shares of developed countries in textiles and clothing trade were estimated to be 47 percent (US $ 79 billion) and 29 percent, (US $ 61 billion) respectively. The full and final integration of world textile trade into the Agreement on Textiles & Clothing (ATC) on 1st January 2005 is a watershed development in the era of International Trade Policy during the Post World War II period.
The developed countries have vacated the primary textile manufacturing activities as they found that they are unable to compete with Asian countries. As of 2004, almost 80 per cent of spinning capacity in the cotton system operates in Asia. Similarly, almost 60 per cent of the weaving Capacity in shuttleless looms and 80 percent of shuttle looms operate in Asia. Quotas by their very nature encouraged inefficient production, raised prices for consumers and also did not prevent decline in employment in the industry of developed countries. The few jobs saved by quotas were at huge costs. Many supplying countries benefited from this distorted form of trade practice and helped many countries in developing a nourishing industry over the years, especially in apparel products. Considering these aspects, the performance by leading developing countries like India and China in the Post-quota period came in for special comment with analysts across the world preparing their own lists of winners and losers.

With effect from 1st January 2005, the quota system has been dismantled and trade in these products is under multilateral disciplines. With world trade in textiles and clothing expected to grow from US $ 385 billion in 2003 to US $ 800 billion by 2014, of which, 40% share is expected to be of textiles and remaining 60% of clothing; analysts and commentators are keenly speculating on the countries that are likely to gain significant market shares.

**6.8 INDIA’S POTENTIAL IN THE TEXTILE SECTOR:**

In order to understand India's potential in the textile sector it is important to take a close look at the structure of the Indian textile industry, its changing profile and the steps needed to be taken to accelerate the pace of development to attain the desired levels is competitive growth. A large part of the responsibility for the loopsided development of the Indian textile and clothing industry, over the years, has to be borne by Government policies, which stunted its growth by imposing a variety of restrictions in terms of capacity expansion, steep fiscal levies, reservation of production processes. With the liberalization of economic policies in the early nineties, winds of change also swept across the textile value chain, though, a wee bit slowly. For instance, while export quotas on the spinning sector were removed in the year 2002, the sector continues to be burdened with the Hank yarn obligation. The knitwear sector was removed from SSI cover only in the year 2005, while garments were deserved in the year 2004. The weaving sector, on the other hand, severely weakened by fiscal distortions and levies with artificial distinctions between Mills/Powerloom and even Handlooms is slowly coming into its own with the exemption from Excise levies granted
to the cotton sector, last year. This has reduced the need to maintain distinctions and is in fact encouraging a synergy of production requirements and processes in a spirit of partnership between the Mill sector and the Powerloom sector.

The growth of world trade in textiles and the movement up the buyer-driven supply chain from full package supply to original-brand-name manufacturing requires industrial upgradation and a reversal of the policy which 'reserved' certain productive activities for firms in the small-scale sector, a policy which was originally justified in terms of its ability to promote employment and reduce poverty. The potential obstacle to reform represented by the less-efficient segments of the textile industry, which are far less able to respond flexibly to the changing economic environment than their more efficient counterparts, have been overcome in India by framing complementary policies that supported their restructuring so that they could take advantage of emerging market opportunities created by new trade rules. Moreover, as the gains from industrial upgradation begin to outweigh the benefits of inefficient transfers, more efficient powerloom-based producers have begun to align themselves politically with the mill sector, the two groups lobbying jointly for a change in the policy regime. As textiles and garments are a leading sector in terms of employment and foreign exchange earnings, the state's interest is in the promotion of this new alignment. Its objective is to avoid suffering significant revenue losses, which would impair the ability of politicians to fund popular anti-poverty programmes. The likely losses in terms of employment have been assessed in terms of these potential gains. The process by which sectoral reform has taken place in India has led interest groups that once sought exemptions and concessions from the state, and sought to shift the tax burden down or up the value chain, to realize that investing time and resources on influencing India's negotiating position at the WTO is meaningless unless priority is given to restructuring domestic industry.

6.9 SAFEGUARD PROVISIONS:

The expiry of the ATC does not necessarily mean the end of quantitative restriction after January 1, 2005. The safeguard provisions in the GATT itself (Article' XIX) permit recourse to quotas when domestic producers face serious injury from imports. The criteria for the assessment of serious injury are more stringent and the procedures for application more elaborate than the safeguard provision in the ATC. The most important qualitative difference, however, is that the GATT quotas have to be global in character, encompassing imports from all sources, and not selective as
in the ATC, targeting a few countries. The industrialised countries have been reluctant to take recourse to Article XIX because of the fear of retaliation or demand for compensation from other developed countries that will also be covered by global quotas. Among the hard core of quotas awaiting integration at the end of ATC, there are many products that are imported almost entirely from the developing countries. The shares of industrialised countries are negligible or minuscule. The bilateral quotas on such products, upon expiry of the ATC, could be converted into global quotas under Article XIX of the GATT. This was probably the reason for EC and the US hanging on to such a large number of quotas until the very end of the integration process. The importing countries, of course, will have to demonstrate the existence of serious injury to domestic producers to the satisfaction of the judicial Scrutiny in the WTO. There is another development which should not be lost sight of. At the ministerial meeting of the WTO held in May 1998, a determined bid was made to launch another round of multilateral trade negotiations which was stoutly resisted by the developing countries. Nonetheless, the decision entrusting WTO’s General Council to make recommendations on future work programme contains the possibility of reviving the idea of a new Round. Textiles might reappear in the work programme in some form.

Studies have shown that the gap between developed and developing countries is reducing, but the gap between developing and least developed countries is increasing. 40 percent of developing country exports now go to other developing countries. A few developing countries like China have dominated this while others have lagged behind. Developing countries (as a group such as ASEAN) achieved a fast expansion of trade and as the result of this, some of them have become important global players and important in each others’ market. In these countries, there have also been changes in production processes and a rapid expansion of intra-industry trade. The Indian textile industry especially the organized textile mills and the progressive SMEs in the textile and clothing sectors are prepared for the WTO regime. In the international front, tariff peaks, rules of origin under PTA, social clause, health and safety are some of the protectionist measures likely to be adopted by the developed countries, however, in newer forms that are compatible with WTO rules.

The year 2007 has not been a good year, in so far Indian textiles and garment exports are concerned. For the first time, the exports have slowed down. This is the year, when the temporary “caps” or safeguard quotas were fully in Chinese imports,
both for the US and the EU markets, which did offer India a chance to occupy the space vacated by the China’s problems, both internal and external. Unfortunately, that has not happened, partly because of unexpected and continued appreciation of Indian rupee, which edged out Indian exports by the competing economies. However, now that the downward slide of Indian rupee has started and it fell to a 13-month low of Rs. 42.55/56 against a US$, there could be same hope even if it appears to be hope against to be hope that India could revive its fortunes at least to the extent that the relief afforded by the decline of Indian rupee could help it to compete with China and other upcoming economies like Vietnam and Bangladesh. Textile exporters have had a difficult time in 2007 when the rupee was rising. Though government offered them several sops to stay competitive in the global market, they will still hurting. It should be possible for India to grow up, outside the shadow of, China had all along, and feared by all developing counties for its sheer volume of production and the lowest cost of per unit of their apparel products.  

6.10 PROSPECTIVE MARKET:

According to a study by Mc Kinsey, India could be the major supplier to EU and US market after the post quota regime. Though the market share in the post quota regime would determine bases on the various preserve actions to be taken by US and EU, it is accepted that there would be a certain uphold against China, which would limit the growing market share of China in the worldwide market. The study also points out that the exports of main players of Hong Kong, Korea, Indonesia, Taiwan, Philippines and Thailand would turn down.

Indian textile exports are projected to touch US $35 billion in the fiscal 2008-09. This includes a major share of outsourced by most important retail chains. The exports are expected to touch US $ 50 billion by 2010 of, which the contribution of garments will be US $ 25 billion. The focused segmented markets for Indian textiles and apparels are USA, UAE, UK, Germany, France, Italy, Russia, Canada, Bangladesh and Japan. The Textile and Clothing industry occupies a unique place in the Indian economy. It accounts for 14 per cent of the country’s total industrial production, nearly 30 per cent of total exports, and is the second largest employment generator after agriculture. Most studies relating to the end of quotas predicted an increase in India’s current 4 per cent share in the world’s textile and clothing trade and the creation of more than 1 million jobs between 2005 and 2010.

---

Overall Textile and Clothing exports dropped by 3.4 per cent to US$13.03 billion in the first three months of 2005. During the first two months of 2005, a comparative performance analysis of India and China also seemed to indicate that, within particular garment item categories where both countries have revealed a strong comparative advantage, India performed with mixed results. India seems to have lost market share against China in categories 347 (men's cotton trousers), and 348 (women's cotton trousers), but gained market share in categories 336 (cotton fibre dresses) and 338 (men’s cotton knit shirts). The benefits of the new regime might accrue in only a limited number of sub-sectors if the Government does not accelerate the pace of reforms requested by the business community and if domestic manufacturers do not take steps to improve their competitiveness.

India is presently exporting six billion U.S. Dollars worth of garments, whereas with the WTO regime in place, we can increase the production and export of garments to 18 to 20 billion U.S. Dollars within the next five years. This will enable generation of employment in general and in rural areas in particular. By tripling the export of apparels, we can add more than 5 million direct jobs and 7 million indirect jobs in the allied sector, primarily in the cultivation of cotton. Concerted efforts are needed in cotton research, technology generation, transfer of technology, modernization and upgrading of ginning and pressing factories and an aggressive marketing strategy. Developing countries with both textile and clothing capacity may be able to prosper in the new competitive environment after the textile quota regime of quantitative import restrictions under the multi-fibre arrangement (MFA) came to an end on 1st January, 2005 under the World Trade Organization (WTO) Agreement on Textiles and Clothing. As a result, the textile industry in developed countries will face intensified competition in both their export and domestic markets. However, the migration of textile capacity will be influenced by objective competitive factors and will be hampered by the presence of distorting domestic measures and weak domestic infrastructure in several developing and least developed countries. The elimination of quota restriction will open the way for the most competitive developing countries to develop stronger clusters of textile expertise, enabling them to handle all stages of the production chain from growing natural fibres to producing finished clothing, while low wages can still give developing countries a competitive edge in world markets, time factors now play a far more crucial role in determining international competitiveness. Countries that aspire to maintain an export-led strategy in textiles and clothing need to complement their cluster of expertise in manufacturing by
developing their expertise in the higher value-added service segments of the supply chain such as design, sourcing or retail distribution. To pursue these avenues, national suppliers need to place greater emphasis on education and training of services-related skills and to encourage the establishment of joint structures where domestic suppliers can share market knowledge and offer more integrated solutions to prospective buyers.

6.11 INDIA, CHINA, BANGLADESH GAIN IN POST-QUOTA REGIME:

In the second year after the phase-out of the Agreement on Textiles and Clothing (ATC), China, India and Bangladesh exporters performed well benefiting millions of low-income textile workers. In its preliminary assessment of global trade released in Geneva recently, WTO said while China has enhanced its role as the leading supplier, low and lower-middle income countries have seen their share of world exports of textiles and clothing increase markedly. Pointing out that the structural changes in world trade of textile and clothing continued unabatedly, WTO noted that exporters from developed countries and those from advanced developing economies in East Asia are losing market share, together with major developing suppliers in Central America and the Mediterranean region, which process textiles originating from developed countries. It said the annual expansion rate of textile and clothing imports from China into Canada, the US and the EU was roughly halved between 2005 and 2006 in each of these three markets. The combined textiles imports of the three economies from China rose by 41 per cent in 2005 and is estimated to have increased by 15 per cent in 2006.8

Imports from India a major supplier to the US, rose 12 per cent in 2006 which was less than the rate recorded by China. The reshuffling of EU import shares had similarities with those of the US market. Some of the major traditional suppliers such as Turkey, Romania, Morocco and Tunisia lost market shares while Asian developing countries increased their share. As in the US market, China expanded its role as leading supplier, but imports from smaller Asian suppliers tended to rise faster than those from China. Rather untypical is the sharp rise of EU clothing imports from Hong Kong, China in 2006. Among the developed markets Japan's textiles and clothing imports are the most focused on China due both to geographic proximity and the absence of import quotas in the recent past. India's exports to the 25-country EU are 13 per cent and to Japan 12 per cent on annualized basis for the first eleven months.

of 2006 calendar year. Developing countries with both textile and clothing capacity may be able to prosper in the new competitive environment after the textile quota regime of quantitative import restrictions under the multi-fibre arrangement (MFA) came to an end on 1st January, 2005 under the World Trade Organisation (WTO) Agreement on Textiles and Clothing.\(^9\)

6.12 GOVERNMENT INITIATIVES AND APPROACHES AFTER POST-MFA CHALLENGES:

A Vision 2010 for textiles formulated by the government after intensive interaction with the industry and Export Promotion Councils to capitalise on the upbeat mood aims to increase India's share in world's textile trade from the current 4% to 8% 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 modernisation and consolidation for creating a globally competitive textile industry. 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 capitalised on strong raw material base - cotton, man-made fibres, jute, silk; large production capacity (spinning - 21% of world capacity and weaving - 33% of world capacity but of low technology. Under the World Trade Organization (WTO) Agreement on Textiles and Clothing, the textile quota scheme of quantitative import limitations under the multi-fibre arrangement (MFA) came to an end on 1st January, 2005, hence developing countries like India will flourish in the new competitive atmosphere and as a result, the Indian textile industry will have a stronger place in both their export and domestic markets.

All along with its usual yarn and fabrics, at present India is exporting more than 100 garment product range. Many worlds' leading brands like Banana Republic, Tommy Hilfiger, Gap, Liz Claibome, Polo etc, are sourcing products from India. With huge investments, persistence innovations, latest product mix and planned marketing, today, India has come out as a flourishing outsourcing centre for textiles and apparel industry to meet the global requirement of the manufacturing fibres and yarns products. In a view of the rising rapport with major global brands, dismantling of quota system from 2005 era would hit upon India as a main global outsourcing hub.

---

Like other developing country Indians manufactures fear WTO and resultant
globalisation because of the problems of unskilled labour and lack of foreign direct
investment, which reduce the bargaining power and competitiveness of the country.
Weak labour standards are only helpful in the short term (for lowering costs) but will
not be beneficial in the long run. To be competitive in the long run, a country needs to
have skilled labour, and advanced technology. Developing countries had agreed to
participate in the Uruguay Round only because they were assured of greater market
access in areas like textiles and agriculture. Integration has not happened and here
is perceived back-loading of WTO commitments vis-à-vis textiles and clothing as
made in the Uruguay Round. There has been a growing trend towards increased use
of anti-dumping measures, both by developed and developing nations. Protection
remains concentrated in the areas where trade would be of interest to developing
countries. Further the spread of Regional Trading Arrangements is seen as being
detrimental to the world trading system. The major bone of contention is the lack of
greater market access for developing countries. Still there is an opportunity to
explore new market segments like Latin America and Africa all along with maintaining
the share in the established markets like European Union and USA. At this stage an
annual growth expected to 15% for synthetic textiles and exports are expected to
touch US$ 2.5 billion in 2005-06 and US$ 4.3 billion in 2009-10. More importantly,
quota-free market means competition between firms rather than nations can at best
only facilitate the trade in the free global trade.

The Indian government on its part has taken efforts to prepare the Indian
textile industry to improve the competitiveness in the post-MFA era. 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 Licences
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 licence 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 centres 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 upgradation and export culture. A Technology Upgradation Fund Scheme has been launched with effect from April 1999 with a view to making the Indian textile industry globally competitive and bringing in the desired level of investment for the technological upgradation of the textile sector, covering spinning, weaving, processing and the garment manufacturing sectors. 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.

(1) By taking decisive steps on the long pending anomalies in the fiscal duty structure that has created level playing field across sector through the 2004 Budget, introducing uniform excise duty across sectors. This can be viewed as restructuring of the textile industry, a departure from the earlier policy regime that discriminated various textile sector based on technology employment, scale of operations and ownership and the resultant differential fiscal duty structure. Through this discrimination there was a hidden incentive to remain small and thus across textile processes in spinning, weaving processing, knitting and garment, there was a proliferation of small-scale units. The fiscal new duty regime does not discriminate any sector or processes with a uniform duty level. It is expected that the industry will consolidate and would result in increase in size of the SMEs, merger and acquisitions, forward and back ward integration. If the happening in the industry are anything to go about this is already beginning to happen.

(2) The Indian customs tariff on the import of machinery across spinning, weaving, knitting and processing machinery that was earlier at 45% was a commitment to WTO agreement in the reduction of import duties.
In the policy front, de-reservation of garment sector from SSI should go along way in the development of this sector. Other facilitating measures initiated by the government, the Technological Upgradation Fund (TUF) Scheme and the Technology Mission on Cotton (TMC), which have begun to show results albeit slowly. However, the much demanded labour reforms and Foreign Direct Investments especially in the retail sectors are found wanting.

6.13 NON-TARIFF BARRIERS (NTBs):

In terms of labour, India is competitive in a relative sense but lack of skills. Wages are low and the wage rate is a function of demand. India produces all sorts of yarns. It could provide variety in fashion world and supply to niche markets. There are large number of small units of production in the textiles and clothing sector. Indian textiles and clothing exports have faced a number of Non-Tariff Barriers (NTBs) owing to certain WTO instruments. For instance—

I. Inflammability test against ghaghra skirts in 1994
II. Alleged child labour in carpet making
III. Anti-dumping investigations by the EU into Indian cotton fabrics, bed-linen and polyester staple fibre.
IV. Developing countries are still facing a lot of problems in terms of trade and many of them are pertaining to non-tariff barriers.
V. Competitive advantage ultimately results from an effective combination of national circumstances and company strategy.

6.14 ENVIRONMENT COMPLIANCE:

In so far as the environmental community is concerned, it is concerned about degradation of the environment due to the adverse effects of production in the textile sector. Among other things, it postulates that following the elimination of quota restrictions on textiles and clothing, a larger share of the market will be supplied by more competitive developing countries and that the resulting shift in production from developed to developing countries might lead to higher levels of water and air pollution.

In fact, a study that attempted to measure the environmental effects of Uruguay Round agreements predicted that liberalization of quota restrictions will result in a significant contraction of textile and clothing production in developed
countries, matched by an expansion of these sectors in the developing world. It further estimated that this will result in increase in pollution in developing countries, despite the relatively low pollution intensities associated with the output from the textile and clothing sectors. Whether based on such analysis, or due to perceived effects of certain production processes involved in the manufacture of textiles and clothing, the environmental community appears to be persuaded of its cause. Its campaign is producing pressures for initiatives aimed at arresting such adverse effects, both at the national and international levels. Unfortunately, however, these initiatives employ a broad brush approach that considers the manufacturing of textile and clothing as one single industry. Thus, instead of addressing the real causes of problems in the production of textiles, the effort seems to be concentrated on tackling its assumed effects at the trade-end of the sector. For a proper environmental impact analysis, though, the issue needs to be approached at the production end. In doing so, one cannot escape the conclusion that apparel production has extremely low emissions as it primarily involves the application of labour to pre-manufactured components, i.e., fabric; etc.

Even at the textile end of the sector, the environmental problems appear to be much less acute than in some other manufacturing industries like non-ferrous metals; chemicals, rubber and plastics; iron and steel; leather products; pulp, paper and printing; transportation equipment; etc. Indeed, according to a ranking of different manufacturing industries by the US Environmental Protection Agency on the basis of their toxic intensities, the textile industry was seen as substantially cleaner, compared to the ones mentioned here. The problems associated with it vary depending on the process used. Some common problems are the use of chemicals in its dyeing and printing processes, water effluents, non-biodegradable wastes in the manufacture of synthetics, high noise levels, dust in the spinning process, and inefficient use of water and energy. Also mentioned is the use of chemical fertilizers in the production of natural fibres (cotton, etc.). At close scrutiny however, even in the case of textile processing, the main problem is the use of products of the chemical industry as input. Directing the environmental impact analyses to the textile sector with little regard to the real and underlying causes of the perceived problem, therefore appear to be somewhat misplaced and obscure. Even so, short of reversing the developmental wheel, any viable solutions to problems associated with the use of chemicals need addressing through the development of appropriate technologies and their dissemination, especially to the developing world.
The above notwithstanding, increased awareness of the need to protect the environment (air, water, soil, human life, animal and plant life, natural resources and ecosystems) is bringing changes to all areas of human activity. Included among these are the production, marketing, consumption, use and disposal of goods and services offered at domestic as well as international levels. The interested parties in the environmental protection issue include not only the producers and consumers but also the traders, exporters, importers, -national, regional and international organizations and authorities, environmental groups, the scientific and technological communities, indeed the society at large. Consequently, Eco-labeling schemes are being developed in many countries and regions to inform and guide consumers on environmentally conscious choices of products. Despite the fact that Eco-labling remains voluntary, is becoming not only a choice but also a market practice especially for high-income, quality-minded market niches. There appears, therefore a dire need to slow down the whole environment issue clearly defining and articulating the problems, establishing independent scientific basis for the requirements, and providing for sufficient adjustment time for the factors involved. At the same time there is a need to harmonize the eco-criteria and the recognition of developing-country eco-labels. In short the arbitrary imposition of environmental standards/requirements without consideration of local and regional conditions and the application of the harmonization of standards only to global environmental problems do not appear to be the right approach.

6.15 FREQUENT ANTI-DUMPING PROBES AGAINST INDIA’S TEXTILE EXPORTS:

Over the past few years, India’s textile exports to the European Union have been facing anti-dumping investigations of the European Commission (EC). In recent times, 3 textile product categories, namely (i) Unbleached Cotton Fabrics (UCF) (ii) Cotton Type Bedliner and (iii) Polyester Texturised Filament Yarn (PTFY) originating from India have been subjected to antidumping action by the EC. India’s exports to the European Union of certain textile products are already under quantitative restrictions under the Indo-EU bilateral textile agreement. As a result of various initiatives taken either through intensive diplomatic efforts or legal course of action to defend the cases, the Unbleached Cotton Fabrics anti-dumping case of the EC was turned down. In the cotton type bed-linen anti-dumping case, Government of India decided to contest the EC’s action and initiated the process as a prelude to raising
this issue under the Dispute Settlement Mechanism of the WTO. Two rounds of consultations with EC have already taken place and DSB proceedings initiated. The European Commission had initiated two parallel investigations, namely, anti-dumping proceedings and anti-subsidy, concerning import of PTFY originating, among others, from India. The complainant has since withdrawn the case. Turkey has recently initiated anti-dumping investigations on import of Polyester Textures Yarn (PTY) from India, Republic of Korea, Thailand and Chinese Taiwan. The Silk and Rayon Textiles Export Promotion Council (SRTEPC) is coordinating the defence of Indian producers/exporters in the case and taking necessary steps to contest the proceedings. The Board of Tariff and Trade (BOTT), South Africa, had received complaints against large quantity of imports from India and also received requests for initiating anti-dumping and anti-subsidy proceedings against the following two items being exported from India: firstly, printed and dyed bed linen and secondly, acrylic fibre blankets. Although Board of Tariff and Trade (BOTT) has not initiated any anti-dumping and anti-subsidy proceedings against imports of printed and dyed bed linen, in case of acrylic fibre blankets definitive anti-dumping duties have been imposed by the South African authorities.  

6.16 RULES OF ORIGIN: NEW WEAPON AGAINST FREE TRADE IN TEXTILES:

The US has changed its Rules of Origin (RO) with effect from July 1, 1996. According to the old US Rules of Origin, for processed fabrics and made-ups (e.g. sheets, pillow cases, terry towels, toilets & kitchen linen), the country of origin was the country where transformation of the fabric into processed fabric/made-ups took place (i.e. the country where the processing of the grey fabric or the stitching operation for conversion into madeups took place). For garments, it was the country where the fabric was cut (but not necessarily stitched). But now, for processed fabrics and made-ups, the country of origin is the country where the fabric is made. For garments, it is the country where the fabric was substantially converted into a garment and not necessarily where it was cut. Since we currently have zero or negligible off-shore production (third country production) of garments produced from fabrics cut in India, the change in the US Rules of Origin may not affect us at this juncture, although it may affect us adversely at a later stage. But, we are likely to be affected by the application of new rules on the exports of fabrics and made ups as it

10 http://www.nic.in/commin or http://www.nic.in/India.
gets debited against our quota utilisation. A substantial quantity of our fabrics is going to countries like Sri Lanka, Bangladesh and Hong Kong for conversion into processed fabrics /made-ups for re-export to the US. As per the new rules, these value added products require to be accompanied by an Indian visa and/or Indian quota for clearance by the US Customs. India has been so far clearing such cases by giving Indian visas/quotas under protest. Rules of Origin continue to be an important issue of concern to India in the textiles sector which has been conveyed on several occasions.  

WTO discipline includes a number of side agreements on various trade measures such as anti-dumping, subsidy and countervailing measures, safeguard, origin marking requirements, etc, all purported to ensure free and fair trade. But the experience during the post-Marrakech years has not been very happy for the exporters of the developing countries in regard to several of these measures. There is a growing feeling that these very measures, at the hands of the mighty, are capable of being used as instruments to obstruct free and fair trade. The dispute settlement process under the WTO discipline also does not perhaps provide the best remedy, as it is both cumbersome and time-consuming. In this context, an important concern has arisen recently as to how Rules of Origin, another trade related measure under the WTO discipline, will impact on the textile trade. As many as 70 unresolved issues are before the WTO Committee on Rules of Origin and there are very strong and clearly opposite views on most of these issues defying any easy and quick solution. Rules of Origin are merely tools to be used in the context of other trade-related measures. The Agreement on Rules of Origin (ARO), an annex to the main WTO Agreement, was designed to ensure formulation of trade neutral and uniform rules of origin in three years. But at the end of three years, negotiations are still going on to finalise a set of Harmonised Rules of Origin encompassing all product sectors. In the meantime, the US has gone and unilaterally formulated its own national Rules of Origin for the textile sector under Section 334 of its Uruguay Round Agreements Act effective from July 1, 1996. These provisions which are already in force in the transition period pending finalization of the Harmonised Rules of Origin by the WTO Committee have also become a matter of great concern the way they are already affecting the textile trade. Such unilateral action by the US violates Articles 4.2 and 4.4 of the Agreement on Textiles and Clothing inasmuch as it adversely affects market access of other WTO members for which no prior consultations were held by

---

the US as required. Many others including the EC have already raised disputes in this regard and it is believed that India has also to do the same. The Agreement on Rule of Origin (ARO) itself stipulates several general principles, which need to be followed while formulating the Rules of Origin. Some of these are:12

(i) The rules should not themselves create restrictive, distorting or disruptive effects on international trade, (ii) The rules should not be used as instruments to pursue trade objectives, directly or indirectly, (iii) The rules should not impose unduly strict requirements or fulfillment of conditions not related to manufacturing or processing. (iv) The rules should be clear, consistent, transparent, uniform and reasonable, not only in formulation but also in application.13

6.17 PREFERENTIAL TARIFFS AND RULES OF ORIGIN:

Both EU and US have been playing around with Preferential Tariffs and Rules of Origin to give effect to these tariffs. Thus, while US has special treaties with AGOA (African Growth and Opportunities Act) and with Caribbean Basin countries whereby preferential tariffs (even zero) and quota-free entry into USA is guaranteed if the raw material is sourced either from the countries enjoying the preference or from USA. EU Scheme available to least developed countries and to those observing/practicing social compliance and/or prevention of drug abuse, for duty-free entry into EU. EU is further following a compounding formula whereby, if imports of any garment from any beneficiary country exceed 15% of the total imports of that garment from all beneficiary countries, import of such garment into EU from the beneficiary country will not enjoy tariff preference. India is out of tariff preference so far as EU is concerned. This formula is a convenient tools in the hands of EU authorities to side-step any inconvenient supplier. Further, most beneficiary countries are so irked by the social compliance clause (which is often applied at the whims of EU authorities), that they would rather not enjoy tariff preference. With such non-tariff barn-affecting Indian garment exports to 80% of its markets, it is high time India looked to developing other markets as a measure of balancing and safeguarding its exports of garments. It is from this point of view that India should look into developing trade agreements in Asia, Africa and the Pacific countries.

13 Economic and Political Weekly, September 5-12, 1998, pp. 2336 to 2337.
6.18 RESISTANCE TO REFORM TARIFF REGIME:

With the phasing out of "Quotas" the focus has shifted to tariffs on textile products. The issue of tariffs was not addressed adequately under the Uruguay Round of Trade Negotiations, largely because of the preoccupation with phasing out of the Quotas. While tariffs did find an echo in the arguments relating to "market access" under the ATC, the issue of tariffs was not addressed in a comprehensive manner. Codified under the Non-Agricultural Market Access (NAMA) negotiations in the Doha Ministerial Round, great expectations have been attached by the developing countries to seeking tariff reductions especially in textiles and clothing products. The importance of tariffs on textiles can be gauged from the fact that in USA while textile and clothing accounted for 5.6% of the share in total imports of all mercandise in 2005, they contributed almost 40% of the duties on such imports. The US also has fibre based peak tariffs. Thus for instance, while the tariff on cotton T-shirts is 16.5% that on man-made fibre T-Shirts Other importing countries like EU and Canada follow a pattern of "tariff escalation". In the case of E.U, yarns attract a tariff of 4%, Fabric 8% and garments 12%. In the case of Canada, the tariffs vary for yarns and garments in a range of 8%-18%. Efforts to address these issues in terms of reducing the tariffs, eliminating peak tariffs and "nuisance" tariffs are meeting with various types of resistance with the developed and developing countries unable to agree on suitable "coefficient" of reduction. The developing countries are seeking "less than full reciprocity in tariff reductions" which is being resisted by the developed countries.

6.19 PROTECTION OF PREFERENCES:

The phase out of quotas, in a way instinctively led to an intensification of the efforts to protect preferences. This was manifest in the European Union's frenzied programme of enlargement by adding 10 new countries to the earlier EU-15 from 2004. This has led to an increase in intra-EU trade. The period has also seen a strengthening of preferential arrangements by the EU especially in the Euro-Mediterranean region whose share in Extra EU imports has increased from 25% in 1995 to 30% in 2005. Turkey, Romania, Tunisia, Morocco are amongst the top ten suppliers of textiles and clothing to EU. The EU also modified its GSP Scheme so as to keep out suppliers like India and also continued to grant special concessions on non-trade issues like labour standards, 'sustainable development', thereby seeking to perpetuate the preferences. Thus the prevalence of "peak tariffs" and "tariff escalation" along with grant of selective preferences is distorting the trading environment.
6.20 ENFORCEMENT OF COMPLIANCE CODES:

With the industrialized countries losing their comparative advantage in the textile and clothing sector for a variety of reasons including structural adjustments, rising labour costs environmental considerations, they are putting in place "codes of conduct", scrutinizing detail the working practices and norms of the supplying countries. These codes are being enforced both at the level of the State as seen in the provision for maintaining labour standards in the USA Cambodia and US-Jordan bilateral Agreement and in the US Philippines Memorandum of Understanding (MOU) on illegal transshipments including factory visits (even after the removal of Quotas) and at the individual company level seeking enforcement of social audits. Unannounced visits, along with prolonged audits often with the assistance of some NGO's, often adds to costs, apart from disrupting the supply chair.

6.21 TECHNOLOGICAL UPGRADATION:

The global textile industry is going through dramatic technological change during the last decades, which ensured increase in yield and quality of fabrics, together with reduction expenses and labour. India's preparedness for WTO lies in the strengths of skilled manpower, strong row material and vast entrepreneurial expertise, the major aspect that is found wanting is the level of technology. Reason being majority of the weaving knitting, processing and garmenting takes place in the decentralized mode of the manufacturing except spinning where more than half of the capacity is fairly modernized. For batter preparedness for WTO regime, basis of technological up gradation for India can be productivity improvement, energy conservation, quality improvement, and information technology application.

The garments segment is where maximum growth of exports is projected. This segment provides the highest per unit realisation and has high value added content. The garments segment broadly comprises the high-fashion garments; low quality mass-produced / standardized products and low to medium priced segment. A dominant role is played by big retail companies these days like WAL-MART or companies like NIKE and ADDIDAS, most of whom do not have their own manufacturing units but outsource from mainly the developing countries. Retailers accounted for more than 1/2 of total garment imports in the EU. The retail market today has become concentrated and has considerable buying power thus should be the focus area for the Indian garment exporters.
Within this overall picture of trade developments, there have also been important changes in several of the key developing, exporting countries during the 1994-2001 period. The most notable trade expansion during the ATC implementation period has occurred in China, as textile exports grew 42.4% and clothing exports increase 54.4%, both well above the world average, to reach total level in 2001 of $53.3 billion. China is the largest exporter of textile, just ahead of Italy, Korea and the United States. In clothing, China is by a wide margin, the largest exporters at a level in 2001 of $36.6 billion, almost as great as the total of the next four largest exporters. At the same time, there has been a substantial decline in exports from Korea and Chinese Taipei as well as a small decrease in domestic clothing exports from Hong Kong, China. According to the International Textiles and Clothing Bureau in June 2000, only a few quota restrictions (13 out of 750 by the US; 14 out of 219 by the EU; 29 out of 295 by Canada) had been eliminated. Government of India (GOI) has, on the other hand, opened its markets for textiles and clothing, with the result that our textile and garment industry is facing cutthroat competition. And the brunt is being borne by the workers.

With regard to India, the figures for textile exports between 1994 and 2000 show an increase of 54%, while clothing exports grew by almost 63%. Taken together, exports of textile and clothing increased by 58% to reach a total figure of $11.9 billion. It is clear that that some of Asia’s performance recorded during the ATC period is linked to development elsewhere in the world. Textile and clothing production and trade is a global activity and the shifting patterns are equally on the global scale. One of these developments is the accession of China to the WTO on 11 December 2001. As this major textile trading nation implements its market opening obligations, one can expect expansion of both China’s imports and exports of textiles and clothing, ranging from raw materials to finished products. Some important preferential market opening measures taken by the US, EU and Canada will also have particular importance for a number exporting countries. The indications are that there has been an expansion of trade, as the new programme takes effect. The European community, which extends especial benefits to developing countries under the Generalised System of Performance programme, includes reduction of duties payable for textile and clothing. Canada has recently announced its market access initiative for least developed countries which was put forward at the G-8 summit meeting held in Canada in July. Under this programme, Canada will remove all duties and quotas on export from least-developed countries, effective at the beginning of
2003. This programme should also provide an incentive for growth in exports from some other least-developed countries. With this review of developments in the recent past, one look towards the future.

The present constraints However, despite our inherent comparative advantage the study of the costs suggests that the Indian garment and textile industry has a high cost structure, which would come in the way of maximizing the gains from the opening of the market. For example, South East Asian countries and China who are India's main competitors have a lower labour cost. Unskilled labour costs as percent of gross output of garment industry for India is 21.1% as against only 9% in Vietnam, 15% in Korea and 18.2% in China. This is higher than even some developed countries. (USA-21.0%, Italy-14.3%). The same is the case with the textiles sector too. The skilled labour costs too are higher than South East Asian countries. It is 2.8% for India as against 1.6% for China, 1.6% for Vietnam and, 2.3% for South Korea. Since a large portion of our exports is from the lower priced segment where labour intensity is high, it is important to improve the efficiency and productivity to increase the cost competitiveness of these segments. It is only then that India can compete in this segment where competitiveness is driven by lower costs.

The industry is also suffering because of very slow technological upgradation. This is one of the reasons for lower efficiency and productivity in the Indian textile and clothing industry. Also the quality of Indian products suffers, especially in the standardized mass production market. This fact comes out clearly in the study of capital costs. The proportion of capital costs to gross output is 6.7% in India textile industry and 7.8% in garment industry. This is lower than that of its main competitor China, where capital costs form 12.2% of gross output for clothing and 12.0% for textiles. The lower capital costs are reflecting the low capital utilization in the textiles and clothing industry. Therefore, this lower capital costs do not provide any competitive advantage to India.

6.22 CONCLUSION:

- Like other developing country Indian companies fear WTO and resultant globalisation because of the problems of unskilled labour and lack of foreign direct investment, which reduce the bargaining power and competitiveness of the country. Weak labour standards are only helpful in the short term (for
lowering costs) but will not be beneficial in the long run. To be competitive in the long run, a country needs to have skilled labour, and advanced technology

- Studies have shown that the gap between developed and developing countries is reducing, but the gap between developing and least developed countries is increasing. 40 percent of developing country exports now go to other developing countries. A few developing countries like China have dominated this while others have lagged behind. Developing countries (as a group such as ASEAN) achieved a fast expansion of trade and as a result of this, some of them have become important global players and important in each others' market. In these countries, there have also been changes in production processes and a rapid expansion of intra-industry trade.

- Developing countries had agreed to participate in the Uruguay Round only because they were assured of greater market access in areas like textiles and agriculture. Integration has not happened and here is perceived back-loading of WTO commitments vis-à-vis textiles and clothing as made in the Uruguay Round. There has been a growing trend towards increased use of anti-dumping measures, both by developed and developing nations. Protection remains concentrated in the areas where trade would be of interest to developing countries. Further the spread of Regional Trading Arrangements is seen as being detrimental to the world trading system. The major bone of contention is the lack of greater market.