CHAPTER – 4
NEW INDIA AND THE WTO (ATC)

4.1. ITO TO GATT

Globalization means integrating the economy of a country with the world economy. Global trade in textiles and clothing has had a long history of managed trade and has always been an issue between the exporting mainly the developing countries and the importing countries, mainly the developed countries. After the Second World War, several steps were taken to regulate the international trade through the proposed set up of International Trade Organization (ITO) along the lines of formation of International Monetary Fund and the World Bank. Almost 23 counties were the participants of ITO, went on with negotiations to reduce and bind customs tariff and to correct the large legacy of protectionist measures which remained in place from early 1930s. The first round of negotiations resulted in 45000 tariff concessions affecting $10 billion of trade, about one – fifth of the world trade. The participant also agreed that they should accept some of the trade rules of the draft of ITO charter. This they believed should be done swiftly and “ provisionally” in order to protect the value of the tariff concessions they had negotiated. The combined package of trade rules and tariff concessions became known as the General Agreement on Tariff and Trade (GATT). It entered into force in January 1948, while the ITO charter was still being negotiated.

Although the ITO charter was agreed at a UN conference on Trade and Employment in Havana in March 1948, in 1950, the United State Government announced that it would not seek congressional ratification
of Havana Charter, and the ITO was effectively dead. Even though it was provisional. The GATT required the only multilateral instrument governing international trade from 1948 until the WTO was established in 1995. India signed GATT in 1947 and was one of its founder members. Over the years the membership of GATT swelled and in 1994 it touched 118 countries.

Since January 1, 1974, the textile and clothing industry came to be governed by MFA (Multi Fibre arrangement). The MFA handed countrywide quotas for exports of textiles. India had bi-lateral arrangements under MFA with USA, Canada, Australia, countries of the European Unions, etc. More than 70% of India's clothing exports were to quota counties of USA and EU. Between 1947 to 1994, eight rounds of negotiation were held among the GATT Contracting countries the first six rounds were related to the lowering of tariffs. The seventh round included negotiations on non-tariff barriers. The eighth round which was held in Uruguay was different from others as it included a number of new subjects for negotiations.

The Uruguay round comprises of 28 agreements. The original GATT treaty (1947) only dealt with goods during the Uruguay round, negotiations were held in two new areas, intellectual property rights and services.

4.2. GATT TO WTO

WTO is the successor to GATT. In April 1994, GATT members signed an agreement in Marrakech, Morocco to establish World Trade Organization (WTO). On January 1st, 1995, it started with 128 members. By 2002, the number row to 144 including China which joined in 2002.
India became a founder member of the WTO, by ratifying the WTO agreement on December 30, 1994. The former GATT was not really an organization it was merely a legal arrangement. On the other hand WTO is a new international organization set up as a permanent body and is designed to play the role of a watch dog in the sprees of trade in goods, trade in services, foreign investment, intellectual property right, etc. Thus World Trade Organization (WTO) is a permanently inter-governmental body governing and regulating international trade in goods and services. Head quartered in Geneva, Switzerland, it lays down the parameter for the conduct of international trade. It has a legal basis and enjoys privileges and immunities on the same basis as that of International Monetary Fund (IMF) and World Bank.

It is the only global international organization dealing with rules of trade between nations.

4.3. VARIOUS AGREEMENT UNDER WTO:

As the present study in limited to textile industry and especially cotton textile industry which occupies the major portion of the total textile exports of India, we shall now discuss some of the main agreements under the WTO and this implementation status which are directly or indirectly related to textile industry of India.

4.3.1 Agreement on: Trade Related Investment Measures: (TRIMS)

Each members shall eliminate all trade related investment measures (TRIMs) which are notified under paragraph 1 within two years of the date of entry into force of the WTO agreement in the case of development country members, within five years
in the case of a developing country member, and within seven years in the case of a least-developed country member. On request of the council for trade in goods pray extend the transition period for the elimination of TRIMs notified under paragraph 1 for developing country member, which demonstrates particular difficulties in implementing the provisions of this agreement.

**Implementation Status:**

So far the WTO’s council for Trade in Goods (CTG) jailed to agree on a multilateral approach to developing countries request for expansions of this transition periods under the TRIMs agreement. Under the TRIMs agreement, developing countries should have phased out trade restrictions on foreign investment such as local content requirements, by 1st January 2000. The two plus two formal would extend that deadline until the end of 2001, and grant an additional two years for requesting members, who have made good faith efforts to comply and submitted a binding phase out plan for the remaining TRIMs inconsistent measures.

The extension of TRINs transition period is a key demand of mainly developing country in the context of implementation. But while they seek an across the board solution industrialized countries in the council for trade in Goods have insisted on reviewing the request individually.
4.3.2 Agreement on Trade – Related Aspects of Intellectual Property Rights (TRIPs)

Agreement: Member shall provide for the protection of plants, varieties either by patents or by an effective “Sui generis” system or of any combination thereof. The provision of this paragraph shall be reviewed four years after the date of entry into force of the WTO Agreement on Trade – Related Aspects of Intellectual property rights (Trips)

Implementation Status: Although the TRIPs agreement allowed developing countries the flexibility to apply patents in ways that still enables the protection of health of their people, the recent legal challenges by the pharmaceutical industry and some members in national law and the WTO dispute settlement undertaking have highlighted the lack of legal clarity on the interpretation and / or application of the relevant provisions of the TRIPs agreement.

4.3.3 Agreement on Trade in Textiles and clothing’s (ATC)

Getting rid of MFA was very difficult task during the Uruguay round,. The developing countries wanted outright removal of MFA and the EU wanted to keep it as it was and US took the middle path. Finally the Agreement on Textiles and clothing agreed to a four stage phase out of quotas arrangement covering a transition period of ten years. (1995- 2004)
Agreement:

Product coverage comprises all textiles products whether or not they are subject to restrictions integratio is to be achieved through two routes.

a. Removal of quotas on specified textiles and clothing products chosen by the importing countries. At each stage product amounting to a certain minimum percentage of the volume of the country's imports in 1990 are to be included in the integratio process. The percentage of integratio at various time period in the four stage are as follows:

Stage : 1 : 16\% of the period on the list as on 1\textsuperscript{st} January 1995.

Stage : 2 : 17\% at the end of the 3\textsuperscript{rd} year. (ie 1\textsuperscript{st} January 1998)

Stage : 3 : 18\% at the end of the seventh year (ie 1\textsuperscript{st} January 2002)

Stage : 4 : 49\% at the end of the tenth year (ie 1\textsuperscript{st} January 2005)

b. Through growth factors for providing improved and enlarged access for textile products that are restricted during the transition period. It requires that the growth factors provided for annual increases in the quotas fixed for each category of textiles products under bilateral agreements should be increase at the following escalated rates:

1. 16\% per year in the first three years.
2. 25\% per year in the next four years and
3. 27\% in the three years.
Table – 5

Step wise Integration of Products under WTO

<table>
<thead>
<tr>
<th>Step</th>
<th>Percentage of Products to be brought under GATT including removal of any Quotas</th>
<th>How fast remaining quotas should open up, if 194 rate was 6%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step – 1</td>
<td>16 % minimum, taking 1990 imports as base</td>
<td>6.96% per year</td>
</tr>
<tr>
<td>1st Jan 15 to 31 Dec 17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Step – 2</td>
<td>17%</td>
<td>8.7 % per year</td>
</tr>
<tr>
<td>1 Jan 1998 to 31 Dec 2001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Step – 3</td>
<td>18%</td>
<td>11.05% per year</td>
</tr>
<tr>
<td>1 Jan 2002 to 31 Dec 2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Step- 4</td>
<td>49% (maximum)</td>
<td>No quotas left</td>
</tr>
<tr>
<td>1 Jan 2005 &gt; Full integration into FATT (and final elimination of quotas. &gt; Agreement on textiles and clothing terminates.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thus, all quotas that had earliest been operating under the provisions of the multi fibre arrangement have been placed under the ATC. The agreement have provides that these quotas would be phased out in a period of ten years from 1995-2004.

Countries applying Non-MFA restrictions to phase them out over a period of 10 years agreement permits counties to late safe – guards actions during the transitional period for textile products not integrated into GAT. In the application of
the transitional safeguard, particular accounts shall be taken of the interest of least developed countries (LCD) & exporting members.

**Implementation Status:**
The Textile Monitoring Body (TMB) has been established to supervise the implementation of the ATC and to examine all measures taken under it, to ensure that they are in conformity with the rules. It is a quasi-judicial, standing body, which consists of a chairman and ten TMB members, discharging this function on an ad persona basis and taking all decisions by consensus.

Examining the potential trade effects of the first and second stages of integration, the TMB of WTO notes that, in terms of products integrated, the emphasis had been on less value added range of products. This was possible because the ATC defers the liberalization requirements in terms of volume of trade rather then value of trade. For individual member the product coverage includes both products that were under restraints and products that were not subject to restraints in 1995. The TMB found that those members which maintain quotas, have included an important share of those. "Unrestrained" and very small percentage of “restrained” product in the first stage of integration.

It is apparent that the integration programmes of major importing members focused on least- sensation textiles and
clothing's. Consequently low quotas on products of export interest to developing countries have been removed.

Many developing country members are concerned about the implication of the failure to spread the removal of quotas on products of commercial interest of them over the phase-out period and the resulting "back loading" of the adjustment by the importing countries at the end of the processes.

4.3.4. Anti-Dumping Practices:

Agreement: Except as provided for in paragraph 6 of the agreement on implementation of articles VI of the General Agreement on Tariffs and Trade 1994, an investigation is determine the existence, degree and effects of any alleged dumping shall be initiated upon a written application by or on behalf of the domestic industry. If a company exports a product at a price lower than the price it charges on its own home market, it is said to be "dumping". It is unfair competition.

Implementation status:
"Dumping" actually means "selling below cost. The MFA protected the developed countries textile industry by artificially restricting supply, thereby raising prices. With ATC coming in force, exporting firms of developing countries are benefited as thus to protect their home industry developed countries usually resort to "anti-dumping".
Important discretionary instruments of trade protection remains available to the developed counties, notably anti-dumping and safeguard measures. Between 1992 to 1996, the EU launched more anti-dumping investigations on the “textiles and allied” sectors than any other country.

At the end of the 1996, the EU had 143, USA had 198, Canada had 93 and Australia had 47 anti-dumping cases. Resources to anti-dumping is likely to continue to prove difficult for the third world nations. If the eight case roughly since the ATC by EU India has been involved in six, Pakistan, Egypt and Indonesia in three. It is found that intricate oculists of interest between users and producers is because of the bias in EU decision making in favour of the later.

4.4. Other trade Barriers: (Non-Trade Issues)

The ATC brings a long overdue removal of the quota restrictions on international trade in textiles and clothing. Developed country consumers will gain from cheaper textiles and clothing products and developing countries will be able to exploits this comparative advantages in this sector.

Hence there is some concern that developed countries may seek to limit access to this markets on the ground that this exports do not receive “fair” or “equitable” access to developing country markets. Many developing counties have
challenged this EU & US contention by noting that a greatest proportion of this tariff has been board at the prevailing or ceiling rates and that these levels will be reduced.

Still a broader concern among the developing counties is that the developed countries would create new trade barriers by linking non-trade objectives to trade. Developing countries believe that the developed counties could create trade barriers by using trade sanctions for the non-compliance with non-trade objective relating to “environment quality” and raising labour standards. Reality to these standards are set for the non trade objectives and the importing countries would enforce the compliance with these standards using WTO – approved trade sanctions.

“Environment” were has two connotations:
First : is “NATURE”. It refers to quality of air, water and land in or on which people, animal and plants time.
Second : Is “SURROUNDINGS”. That refers is to condition that we live or work in and the way that they influence how life feel and how effectively we can work. Thus environmental standards are regarding the standards of protecting air, water, land and people, plant & animals from adverse effects. Labour standards are necessary implements to strive freely for improvement of individual and collective conditions of work. The developing country members through have a comparative cost advantage over the developed counties in this integratio process, but still these developed nations to
protect this industries resort to such non-trade barriers as developing countries and LDC lack behind in these matters.

4.5. IMPLICATION OF WTO ON THE INDIAN TEXTILE INDUSTRY.

Indian textile industry's presence in the international trade in already very low with low with around 3 per cent of the total world trade in textiles. Besides, the unit price realization of Indian efforts is one of the lowest in the world. However as the Indian textile industry is predominantly cotton based, the cotton textile exports account for 14 per cent of the total of the world export is based on the developed world is more oriented towards kitted fabrics. India's knitting sector is meager as compared to woven sector. In the technology front, barring spinning sector, which is fairly modernized, the weaving and processing sectors are obsolete. The uninviting sector is in nascent stage. In the midst of all the above, the overall likely implications of WTO on the Indian textile industry beyond 2004 are enlisted below:

a. Exports of textile products will be quota-free and will only be based on market considerations, namely product attributes, pricing, promotion such as advertising, brand building and other sales promotion means, and physical distribution – its cost and logistics decisions. The market will be purely competitive which may result into: (i) receding prices
in the absence of quota premium, rent and floor prices, (ii) better price – quality match, (iii) quick response time and (iv) higher levels of service.

b. It may be unlikely that the developed countries will open their doors after MFA phase out. The restrictions on imports into these counties may forms such as –

• Non-tariff barriers based on environmental health labour standard related issues and so on.

• Formations of Regional Trade Arrangement, which implies higher degree of liberalization among the regions as compared to rest of the world.

• Initiating Anti-dumping and countervailing measures. During 195-, EU had initiated as many as 59 anti-dumping case against textile products of which India’s share was 20%.

c. Due to removal of quota restriction as per WTO agreements on market access, import of woven fabrics, mainly synthetics are on the increasing trend. Imported textiles already have a large presence in the retail network across the country. Power loom sector with largest synthetic predominance will have to face these imports. Further due to reduction in import tariffs added with increase market access import of value-added textiles from developed counties and low end fabrics from low cost producing counties into India may affect domestic production.

d. In the wake of WTO regime, one needs specialization and the globalization is impending to take place as to produce where it is cheap and sell where it is
profitable FDIs and technology transfer may take place in the developing counties.

e. Removal of quotas (textiles) will increase market access and thereby stimulate exports from the developing counties like India. But it will also increase competition amongst exports, with the prospect that there could be both winners and losers among the exporters.

f. Reduction / removal in subsidies would lead to reduction in taxes internally.

g. Impact of information technology and telecommunication advances will be extensive on business and trade and the industrialists and professional managers have to keep pace with them.

h. There is a likely emergence of “outward processing” concept by manufactures in advanced counties in their attempts to counteract the textile suppliers from counties like India which could be termed as dislocation of production.

i. There is observed to be an increasing role of NGOs in influencing trade related issues across countries. These organizations are well funded with high clout and well networked often raise issues that have trade implications such as labour and environment.

j. Increasing clout of developed countries as evident from reports on ministerial level meetings of WTO, in pursuing their interests.
In order to evaluate the impact of WTO and specially ATC on the Indian Textile Industry following study of various literatures is conducted.