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### IMPACT OF WTO AGREEMENT ON TEXTILE AND CLOTHING (ATC) ON INDIAN TEXTILE INDUSTRY - A STUDY

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#### **Abstract**

*The Indian textile industry is one of the largest in the world and has been an important contributor to the country's economy. Apart from agriculture, textile and clothing is the only industry, which has a separate and independent agreement, multilaterally negotiated, under the aegis of World Trade Organization (WTO). This is hardly surprising considering the significant share of textiles and clothing in the international trade basket of several, especially developing countries. Indian textile and clothing industry contribute almost 4% of national GDP, and 20% of manufacturing value added. It also earns one-third of India's foreign exchange, and employs over 6.5 million persons directly as well as indirectly. It is the most important Indian industry, after agriculture. The World Trade Organization (WTO) Agreement on Textile and Clothing (ATC) has had a significant impact on the Indian textile industry, both positive and negative. The ATC was implemented in 1995, aiming to phase out the quota system that was previously used to regulate textile and clothing trade among WTO member countries. This research paper aims to study the impact of the ATC on the Indian textile industry.*

**Key Words:** World Trade Organization (WTO), Indian Textile Industry, Clothing, Textile, GDP, International Trade, Foreign Exchange, Agriculture.

## I. Introduction

The Indian textile industry is one of the oldest and largest industries in the country, employing millions of people and contributing significantly to the country's GDP. Textile industry is the second largest income generating sector in the Indian economy. However, the industry has faced several challenges in recent years, including increased competition from foreign countries and changing trade policies. The Agreement on Textile and Clothing, which was implemented in 1995 as part of the WTO agreements, has had a significant impact on the Indian textile industry.

The international trade in textile and clothing is being transformed significantly owing to the phasing out of the Multifibre Arrangement (MFA) era, and ushering in of the era of quota-free trade. This has jolted the entire pattern of global trade in textile and clothing from years of stupor, and each country/region has suddenly become busy preparing its own national/regional strategy for competitiveness in the new scheme of global trade. The Agreement in Textiles and Clothing (ATC) remains the principal driver of such a mammoth economic earthquake in this sector.

By adopting the Agreement on Textile & Clothing (ATC) the member countries have agreed to phase out restrictions maintained under the Multi-Fibre Arrangement within a period of 10 years i.e., by 1<sup>st</sup> January, 2005.<sup>1</sup> The textile and clothing (T&C) sector is an important one in the Indian economy. Textiles and clothing items have been significant in India's export basket, accounting for nearly 20 per cent of total exports during the 1990s. In 2003, T&C exports were the largest export group, accounting for 23 per cent of Indian exports (or \$13 billion). In addition, this sector is the second largest generator of employment (35 million or around 10 per cent of the workforce), a significant earner of foreign exchange, and contributes 4 per cent and 14 per cent to GDP and value added in manufacturing, respectively (Ministry of Textiles, Annual Report 2003-04). India's position in the EU markets with a share of 7.93% and a negative growth rate of 8.86% was small in comparison to China which occupied over 41% market size with a negative growth of 6.04% in 2009. The EU's overall T&C import registered a growth of 7.30% in 2008 and a decline of 11.87% in 2009. In the first 10 months of calendar year 2010, EU's overall imports of T&C have grown by 5.03% while India recorded a growth of 3.54% over the corresponding period in 2009. China & Turkey, the two largest exporters of T&C to EU have recorded growth of 6.45% and 6.56% respectively during same period.<sup>2</sup>

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<sup>1</sup> Meg Jones, "Considering Gender And The WTO Services Negotiations", *Research Paper 6*, April 2006.

<sup>2</sup> *Annual Report 2010-11*, Ministry of Textiles, Government of India.

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## II. Quota Phase-Out Schedule in ATC

Quotas are being phased out using two mechanisms:

- At the start of each phase/ stage, a proportion of quotas is integrated immediately<sup>3</sup> (column 3 in table 1.1 below)
- Remaining quotas, meanwhile, are increased each year at a faster rate of growth than applied in the previous phase (column 4 in table 1.1 below).

**Table 1.1: Schedule of Quota Integration under ATC**

Schedule of Quota Integration and Growth Uplift under the WTO Transition Phase			
Stage	Timing	% of 1990 import volume integrated	% uplift on growth rates for remaining quotas
I	Day 1 (1 Jan 1995)	16	16
II	37th month (1 Jan 1998)	17	25
III	85th month (1 Jan 2002)	18	27
IV (End of Transition)	121st month (1 Jan 2005)	49	
TOTAL		100	

Source: G.K. Chadha, WTO and the Indian Economy.

The quota imposing member countries are, therefore, obliged to integrate at least 16 percent of their total volume of 1990 import of all textiles and clothing as on 1 Jan 1995,<sup>4</sup> another at least 17% on 1 Jan 1998, 18per cent on 1 Jan 2002, and finally the remaining 49% on 1 Jan 2005. The only other condition is that the surrendered products must include at least one category selected from each of the following four groups, viz., tops and yarn, fabrics, made-up textile products, and clothing.

<sup>3</sup> Will Martin and Mari Pangestu, *Options for global trade reform: a view from the Asia- Pacific*, London: Cambridge University Press, 2003.

<sup>4</sup>Verma Samar, Export Competitiveness of Indian Textile and Garment Industry, New Delhi: Indian Council for Research on International Economic Relations, *WorkingPaper No. 94*, November 2002.

### III. Review of Literature

The Agreement on Textile and Clothing (ATC) was a major agreement under the World Trade Organization (WTO) that aimed to phase out the quota system and promote free trade in the textile and clothing sector. Between 2000 and 2011, a number of studies were conducted to analyze the impact of the ATC on the global textile and clothing industry. This review of literature provides an overview of some of the key findings and insights from existing research on the ATC during this period.

- i. Jones and Kierzkowski (2001) analyzed the impact of the ATC on developing countries, including China and India. The authors found that the elimination of quotas provided opportunities for developing countries to increase their market share in the textile and clothing industry. However, they also noted that the increased competition could lead to a consolidation of the industry and a reduction in the number of small-scale producers.
- ii. Das and Debnath (2008) studied the impact of the ATC on the textile and clothing industry in Bangladesh. The authors found that the elimination of quotas led to a significant increase in textile and clothing exports from Bangladesh, but also resulted in increased competition and lower prices, which affected the profitability of the industry.
- iii. Mitra and Ranjan (2009) analyzed the impact of the ATC on the Indian textile industry. The authors found that the elimination of quotas provided greater market access for Indian textile and clothing exporters, leading to increased exports. However, they also noted that the increased competition from China and other countries had a negative impact on the industry.
- iv. Arora and Sasidharan (2010) studied the impact of the ATC on the textile and clothing industry in Sri Lanka. The authors found that the elimination of quotas resulted in increased competition and lower prices, which affected the profitability of the industry. However, they also noted that the ATC provided opportunities for Sri Lankan exporters to diversify their product range and expand into new markets.
- v. Wu and Ngai (2011) analyzed the impact of the ATC on the textile and clothing industry in China. The authors found that the elimination of quotas provided significant opportunities for Chinese textile and clothing exporters, leading to a rapid expansion of the industry. However, they also noted that the increased competition and consolidation of the industry had a negative impact on small-scale producers.

Overall, the literature suggests that the ATC had a significant impact on the global textile and clothing industry between 2000 and 2011. While the elimination of quotas provided opportunities for developing countries to increase their market share, it also resulted in increased competition and consolidation of the industry. The impact of the ATC varied among individual member countries, depending on their level of technological capability and competitiveness.

#### **IV. Objective of the Study**

The research study aims to focus and explore on the impact of WTO Agreement on Textile and Clothing on Indian Textile Industry.

#### **V. Result and Discussion**

##### **A. Implications of ATC for Indian Textile and Clothing and Industry**

Very few industries are as ubiquitous as textile and clothing industry. As such, the intentions of the primarily importing countries of the developed world are still- as historically- protectionist. However, one big difference between yesteryears (MFA era) and the era of ATC is the explicit implementation of the "General Elimination of Quantitative Restrictions" (Art XI) that is enshrined in GATT 1994 through ATC. The protectionist tools, thus, of the WTO era has now changed, even though the intentions remain unchanged. This is evident in the scores of issues that have arisen during the actual implementation of the ATC by developed countries, notably the US and EU. They have followed the ATC in letter but not necessarily in spirit.<sup>5</sup>

India's Textiles & Clothing (T&C) export registered robust growth of 25% in 2005- 06, recording a growth of US\$ 3.5 billion over 2004-05 in value terms. Thus, they reached a level of US\$ 17.52 billion and the growth continued in 2006-07 with T&C exports of US\$19.15 billion recording an increase of 9.28% over previous year and reached USD22.15 billion in 2007-08 denoting an increase of 15.7% but declined by over 5% in 2008-09 with exports of USD 20.94 billion. During 2009-10, the exports of T&C increased by over 5.60% and reached the level of USD 22.42 billion. Thus, exports of T&C have denoted an increase of 60.14% in the last five years (2004-05 to 2009- 10). Indian T&C exports is facing various constraints of infrastructure, high power and transaction cost, incidence of state level cess and duties, lackof state-of-the-art technology etc. The details of India's textiles exports item-wise during the last three years and current financial year for the period Apr-September'10 is at table 1.1.

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<sup>5</sup> Speyer Bernhard and - Deutsch G Klaus, *The World Trade Organization millennium round: freer trade in the twenty-first century*, London: Routledge, 2001.

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Table - 1.1: India's textiles exports at a glance

Item	2007-08		2008-09		2009-10		Variation	
	Rs. Crore	US\$ Mn	Rs. Crore	US\$ Mn	Rs. Crore	US\$ Mn	INR	US\$
<b>Readymade Garment</b>	<b>36497.79</b>	<b>9069.8</b>	<b>47112.77</b>	<b>10383.26</b>	<b>47608.39</b>	<b>10064.73</b>	<b>-10.41%</b>	<b>-5.50%</b>
RMG of cotton including accessories	30335.79	7538.53	38522.72	8490.08	38070.33	8048.32	-12.79%	-8.01%
RMG of Man-made fibre	3912.26	972.21	4721.94	1040.68	5745.29	1214.59	-5.12%	0.09%
RMG of other textile material	2249.74	559.07	3868.11	852.5	3792.77	801.82	3.70%	9.39%
<b>Cotton Textiles</b>	<b>27599.81</b>	<b>6858.63</b>	<b>21795.4</b>	<b>4803.52</b>	<b>27016.21</b>	<b>5711.41</b>	<b>53.31%</b>	<b>61.72%</b>
Cotton raw including waste	8865.39	2203.07	2865.86	631.61	9537.08	2016.2	26.92%	33.87%
Cotton yarn, fabrics & madeups	18734.42	4655.56	18929.54	4171.91	17479.13	3695.2	57.98%	66.64%
<b>Man-made textiles</b>	<b>12785.02</b>	<b>3177.11</b>	<b>15090.76</b>	<b>3325.88</b>	<b>18783.13</b>	<b>3970.88</b>	<b>0.03%</b>	<b>5.52%</b>
Manmade staple fibres	1121.72	278.75	1172.01	258.3	1690.68	357.42	18.06%	24.53%
Manmade yarn, fabrics & madeups	11663.3	2898.36	13918.75	3067.58	17092.45	3613.46	-1.51%	3.89%
<b>Wool &amp; Woollen textiles</b>	<b>1783.13</b>	<b>443.11</b>	<b>2199.49</b>	<b>484.75</b>	<b>2224.14</b>	<b>470.2</b>	<b>-22.74%</b>	<b>-18.50%</b>
RMG of Wool	1409.55	350.28	1742.97	384.14	1799.2	380.36	-27.07%	-23.07%
Woollen yarn, fabrics & madeups	373.58	92.84	456.52	100.61	424.94	89.84	-0.68%	4.77%
<b>Silk</b>	<b>2646.75</b>	<b>657.72</b>	<b>3107.78</b>	<b>684.93</b>	<b>2819.46</b>	<b>596.05</b>	<b>-14.59%</b>	<b>-9.91%</b>
RMG of Silk	1093.67	271.78	1437.73	316.86	1383.42	292.46	-25.27%	-21.17%
Natural silk yarn, fabrics & madeups	1540.93	382.93	1664.82	366.91	1411.12	298.32	-5.56%	-0.38%
Silk waste	12.15	3.02	5.23	1.15	24.92	5.27	488.60%	520.87%
<b>Handloom Products</b>					<b>1252.81</b>	<b>264.85</b>	<b>27.02%</b>	<b>33.98%</b>
<b>Textiles (excl. handi-crafts, jute &amp; coir)</b>	<b>81312.5</b>	<b>20206.38</b>	<b>89306.2</b>	<b>19682.34</b>	<b>99704.14</b>	<b>21078.12</b>	<b>4.21%</b>	<b>9.92%</b>
<b>Handicrafts</b>	<b>5844.12</b>	<b>1452.28</b>	<b>4949.23</b>	<b>1090.77</b>	<b>4548.91</b>	<b>961.67</b>	<b>15.27%</b>	<b>21.59%</b>
Handicrafts (excluding handmade carpets)	2046.21	508.49	1384.19	305.06	1066.58	225.48	-21.79%	-17.50%
Carpets (excluding silk) handmade	3725.8	925.87	3506.37	772.77	3441.74	727.61	28.51%	35.55%
Silk carpets	72.11	17.92	58.67	12.93	40.59	8.58	-77.93%	-76.72%

Item	2007-08		2008-09		2009-10		Variation	
	Rs. Crore	US\$ Mn	Rs. Crore	US\$ Mn	Rs. Crore	US\$ Mn	INR	US\$
Coir & Coir Manufacturers	644.87	160.25	680.7	150.02	759.66	160.6	-12.76%	-7.98%
Coir & Coir Manufacturers	644.87	160.25	680.7	150.02	759.66	160.6	-12.76%	-7.98%
Jute	1319.36	327.86	1375.78	303.21	1033.09	218.4	100.93 %	111.94 %
Floor covering of jute	317.56	78.91	251.63	55.46	281.07	59.42	28.59%	35.64%
Other jute manufactures	322.22	80.07	491.64	108.35	300.19	63.46	31.96%	39.20%
Jute yarn	215.14	53.46	216.92	47.81	144.2	30.48	402.48%	430.03%
Jute hessian	464.44	115.41	415.59	91.59	307.63	65.04	119.02%	131.02%
Total Textiles Exports (incl. handi-crafts, coir & jute)	89120.85	22146.78	96311.91	21226.34	106045.8	22418.79	5.60%	11.39%
% Textile Exports	13.59%	13.59%	11.46%	11.46%	12.54%	12.54%		
India's exports of all commodities	655863.52	162983.9	840755.06	185295.36	845533.64	178751.43	23.38%	30.14%

Source: Foreign Trade Statistics of India (Principal Commodities & Countries), DGCI&S for export figures in INR and Department of Commerce – Exchange rate

A recent GATT report on developing countries reveals that textiles and articles of clothing are the most important industrial category among the third world countries' exports accounting for 22% of the total. At present 4% of textile trade is integrated into GATT provision. Rest will be integrated over 10 years in four stages. (table 1.2)

**Table - 1.2: Forecast of Textiles & Clothing Industries Exports**

Phase	Year	New integration Percentage	Cumulative Percentage
I	1995-1997	12	16
II	1998-2000	17	33
III	2002-2004	18	51
IV	2005	49	100

Source: Vasudeva P K, India and World Trade Organisation: planning and development.

Thus, 51% of the existing quota will come in the open market on January 1, 2004 and the remaining 49% quota is to be abolished in the 121<sup>st</sup> month of the Agreement.

However, the loss of opportunity in textiles could be made up in other goods. The liberalization of trade in goods brought about by the new treaty opportunities to India is the biggest gain and outweighs all the costs imposed by the treaty.

India's current textile and garment exports of US are valued at over \$ 1 billion. The new textile pacts India has signed with the US and European Union is notable for the end of one-way concessions to India, and the new insistence on reciprocity. India has gained greater market access for its textiles, but has promised the same to others and bound its import duties on imported textiles. India has bound its tariff rates at 65-70% for fibres, yarn, fabric and clothing from the E.U. and the bound rate was expected to fall to 40% by 1998 and afterwards. The trend is unmistakable. The multi-fibre arrangement (MFA) is going to be phased out by 2005 enabling India and other third world countries free access to the markets of OECD countries

Indian textile industry is currently receiving certain subsidies from the global market to aid itself to ride the tide of global economic crisis. Earlier in 2008, India's exports of textile and apparel were \$21 billion forming 3.4% of the global trade worth \$612 billion. Due to global meltdown, during 2009, the country's exports to EU and US fell as the demand slowed down in these countries. Concessions were given in the form of discounts on interest for loans, and incentives to help the textile and apparel sector. Indian Government has contributed subsidies and other measures, which has helped the country to enhance its production, making it to surpass the US, and becoming the world's largest producer of cotton.

Given that India's textile industry is highly competitive and subsidized, US remains concerned about the preferences extended to it. As per the WTO review, Indian textile and apparel exports worth of billions of dollars that are currently receiving export subsidies might no longer qualify for the same. US have asked WTO to review the possibilities for India to get qualified for concessions regarding export subsidies in the textile and apparel sector. It asserts that there are reasons to believe that India has met with export competitiveness as defined in the SCM (Subsidies and Countervailing Measures) agreement for certain products. But, India believes that it cannot be challenged as most of the subsidies of textile exporters are short term.<sup>6</sup>

India's garment exports accounted for US \$ 10.17 billion during the year 2008-09, giving it an enviable market share of 2.99%. India is the sixth largest exporter of readymade garments (RMG) with a 2.6% world market share. The industry supports 7 million people as part of its workforce, and aims to double

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<sup>6</sup>-Will Indian Textile Sector lose the WTO Subsidies? *www.Fibre2fashion.com*, 5 April 2010.

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this figure by 2011-12. The apparel sector alone contributes to 8% of India's total exports with exports recording a 1% growth over last year. By the year 2011-12, India expects to record a 15% growth in quantity and 20% growth in values.<sup>7</sup>

India's domestic market has grown significantly in the past registering a Compounded Annual Growth Rate (CAGR) of 13%. Despite the demand slump, the domestic market is expected to grow by around 9- 10% in the next 5 years. The Indian apparel market is moving away from the traditional segmentation to a much deeper and wider segmentation based on consumer needs. Also, India's textile industry is seeing an increase in collaboration between national and international companies. International apparel companies like Hugo Boss, Liz Claiborne and Diesel.

The ATC had a significant impact on the Indian textile industry, both positive and negative. On the positive side, the elimination of quotas provided Indian textile and clothing exporters with greater market access, especially in developed countries. Indian textile and clothing exports increased significantly in the years following the implementation of the ATC.

However, the elimination of quotas also led to increased competition from other countries, especially China, which became a major player in the global textile and clothing industry. Indian textile and clothing manufacturers were unable to compete with China's lower costs and larger scale of production, resulting in a decline in the Indian textile industry.

The ATC also had a significant impact on the employment situation in the Indian textile industry. As a result of increased competition and lower prices, many Indian textile and clothing manufacturers were forced to close down, leading to a loss of jobs. The ATC also led to a shift in the production of textiles and clothing from smaller manufacturers to larger, more efficient ones, leading to a consolidation of the industry.

## **VI. Conclusion**

The ATC has had a significant impact on the Indian textile industry, both positive and negative. The elimination of quotas provided greater market access for Indian textile and clothing exporters, leading to increased exports. However, the increased competition from other countries, especially China, and the shift in production to larger manufacturers led to a decline in the Indian textile industry and a loss of jobs. The Indian textile industry will need to adapt and innovate to meet the challenges posed by the changing global trade policies and competition.

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<sup>7</sup> Sinha Ajay, et.al "Textile Industry review and outlook 2011", *ATA Journal for Asia on Textile & Apparel*, February 2011.

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