WTO And Indian Textile Trade: Emerging Challenges

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The traditional Indian textiles are enchanting and very fascinating in appeal, and have a romantic story that dates back several centuries. The interaction of invaders, indigenous tribes, traders and explorers has built a complex structure legendary for its vitality and colour.

Today over ten million spinners, handloom weavers, block printers, textile painters, dyers and embroiderers work to continue the developing tradition of the Indian textile crafts and contribute their share to this industry. The fine quality cotton cloth, the excellent embroidery techniques, the ability to create new designs and patterns, as per the changing demands, the fast nature of the colourful vegetable dyes in addition to the abundance and cheapness of raw material and labour have together contributed in making India the world's foremost centre for textile production.

The Indian Textiles enjoyed certain inherent traditional advantages from the very beginning. This is the basic factor which improved the status of the industry in the global trade, and to stand next to China. Adoption of world class technology, large scale production, global manufacturing practices etc are required to maintain this position of Indian Textile Industry.

Structure of Indian Textile Industry

India has the largest acreage under cotton in the world but yield is poor (308kg per hector). The country has a well developed textile industry of cotton as well as synthetic fibres/yarn supported by silk, wool and jute. The Textile Industry in India

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(including the garment industry) is contributed 6 percent of the gross domestic product and 18 percent of the total foreign exchange earnings of the country.

Indian textile industry can be broadly classified into the organised sector comprising mechanized spinning and composite mills and the unorganized sector comprising power looms and handlooms. Textile sector generates largest employment next only to agriculture. Over 50 percent of the employees are women who help to sustain the family income. The garment industry alone provides employment to more than 4 million workers and supports the people working in ancillary units.

This industry consists of three distinct processes - spinning, weaving and processing. The spinning sector is well-organised and producing yarn as coarse as 6s to as super fine as 160s, both in singles and multiples. Compared to the overall textile industry, spinning sector is more advanced in terms of technology. Because of the entry of more and more new players into the industry, spinning is witnessing an excess production and so suffering from price pressure.

The unorganized power loom and handloom sectors account for around 95 percent of weaving in India. This sector enjoys the advantage of the low labour cost, tax and fiscal benefits. The power loom sector is keenly interested in setting up automatic air jet or water jet looms of vintage variety with a balance lifespan of ten to fifteen years. The organised mill sector is also interested in the latest technology and hence chalking out plans to invest with the help of the government and public.

The processing sector is the weakest link in the chain of the textile industry and is operating as organised and unorganised units. The unorganised units concentrate on certain processes only, while the organised units undertake the processing of fabric from the grey stage up to its finished state. All the sectors are overcrowded but none of the units from any of the sectors are able to compete effectively with other countries in the international markets.

Evolution of the Multi-fibre Arrangement

The global trade of Textiles and Clothing has always been subject to some or other kind of restrictions. The first voluntary export restraints for cotton textile products was agreed by Japan, Hong Kong, India and Pakistan in 1950. A short term arrangement (STA) in cotton textile trade was reached in 1961 under GATT. Subsequent to this a long term arrangement (LTA) was concluded in 1963 by imposing a restriction of 50 percent of cotton imports from the developing countries.

In 1974, the much discussed MFA came into force where by the developed countries protected their markets through administration of quotas in a series of bilateral agreements.

Agreement on Textiles and Clothing

The quota system was directed to protect the market of the industrialised countries so as to allow them to restructure and adapt to competition from cheaper imports from developing countries. During the Uruguay round of trade negotiations in 1994, it was agreed that MFA would be phased out through the implementation of the Agreement of Textiles and Clothing (ATC). On January 1st 2005, the market opened up fully through complete integration process of ATC paving the way to unrestricted global trade in Textiles and Clothing. The principal objective of ATC was to integrate the textile sector into the WTO, the successor to GATT. The integration process included four phases of accession in a ten year transition period. The first stage began on 1st January,1995, with 16 percent integration. In the second stage which started on the 1st January, 1998, the integration was 17 percent. In 2002 it integrated 18 percent as the third stage and in the last stage in 2005, integration was completed.

Performance of World Textile Industry during quota regime

The world trade in Textiles and Clothing amounted to US $ 385 billion in 2003 out of which textiles comprised of U.S $ 166 billion (43%) and the balance US $219 billion (57%) for clothing. Developed countries occupied one third of the world exports in textiles and it accounted US $ 79 billion for textiles and 61 billion for clothing. The ATC transition period highlighted a hike in Global textile exports and showed a stagnant trend in the Global exports of clothing. The principal exporters of textiles during 2003 are the EU, China, US, Republic of Korea, India, and Japan. While the principal exporters of clothing are EU, China, Turkey, Mexico, India, US, Bangladesh and Indonesia.

Table No.1 Leading Exporters of Textiles 2003

Sr.No	Exporters	Value 2003 US $ bn	Share in World Exports			
			1980	1990	2000	2003

1	European Union	58.94	49.4	48.7	34.3	34.8
2	China	26.90	4.6	6.9	10.5	15.9
3	United States	10.92	6.8	4.8	7.1	6.4
4	Republic of Korea	10.12	4.0	5.8	8.2	6.0
5	Taipei, Chinese	9.32	3.2	5.9	7.7	5.5
6	India	6.51	2.4	2.1	3.9	3.8
7	Japan	6.43	9.3	5.6	4.5	3.8
8	Pakistan	5.81	1.6	2.6	2.9	3.4
9	Turkey	5.24	0.6	1.4	2.4	3.1
10	Indonesia	2.92	0.1	1.2	2.3	1.7

Source : Nayak P,'Post MFA/ATC Market Trends:A case of Indian clothing exports to EU' 3Ts, Jan- June 2005,Textile Committee.

The tables 1 and 2 reveal that Western Europe has registered a decline in shares of both textile and clothing exports during the ATC transition period and the Asia's share of exports to the world in textiles has seen an increase rather than in clothing. The decline in the share of the developed countries was mainly attributed to the sharp decline in the share of EU in both Textiles and Clothing exports. The share of Asia in the world textile exports grows from 42% in 1995 to 44.3% during 2003, while its share in clothing exports remained stagnant around 44%. On the contrary North American textile exports have risen from 5.7% in 1995 to 7.8% in 2003, but clothing exports declined to 3.3% from the level of 4.8%.

Table No.2 Leading Exporters of Clothing 2003

Sr. No	Exporters	Value 2003 US $ bn	Share in World Exports			
			1980	1990	2000	2003
1	European	59.95	42.0	37.7	24.1	26.5

	Union					
2	China	52.06	4.0	8.9	18.3	23.0
3	Turkey	9.94	0.3	3.1	3.3	4.4
4	Mexico	7.34	0.0	0.5	4.4	3.2
5	India	6.46	1.7	2.3	3.1	2.9
6	United States	5.54	3.1	2.4	4.4	2.5
7	Bangladesh	4.36	0.0	0.6	2.1	1.9
8	Indonesia	4.11	0.2	1.5	2.4	1.8
9	Romania	4.07	-	0.3	1.2	1.8
10	Thailand	3.62	0.7	2.6	1.9	1.6

Source : Nayak P,'Post MFA/ATC Market Trends:A case of Indian clothing exports to EU' 3Ts, Jan- June 2005,Textile Committee.

Developing countries share in textile exports has increased from 17.3% in 1980 to 41.9% in 2003, and in clothing ,it has increased from 16.4% to almost 46.1% during the same period. China has significantly increased its share of textile exports from 4.6% in 1980 to 15.9% in 2003 and clothing from 4% to 23 % of the same period.

Trends of Indian textile and clothing trade

The review of Indian Textiles and Clothing trade showed an up trend of textiles trade from 2.4% in 1980 to 3.8% in 2003 and in the case of the clothing the share of 1.7% has gone up to 2.9% during 2003.The India's traditional markets are US, EU, Canada and Japan. In the EU market India ranks third in textile export and sixth in clothing trade. As far as the US market is concerned India stands fifth in textile exports and seventh in clothing export. In the Canada market the position in textile export indicates fourth place in textile exports and third place in clothing. In the case of Japan market, India's grading is seventh position in textile export and in the case of clothing India is lagging back.

Table No.3 Indian Textiles and Clothing Exports 2003-04

Country	Million US$	% Share
EU (15)	3857.6	28.5
US	2931.8	21.7
UAE	1121.1	8.3
Canada	350.5	2.6
Saudi Arabia	320.7	2.4
Rest	4934.0	36.5

Source : Nayak P,'Post MFA/ATC Market Trends:A case of Indian clothing exports to EU' 3Ts, Jan- June 2005,Textile Committee.

The total exports of Textiles and Clothing from India during 2003-04 shows former EU(15) is the top ally in textiles and clothing and has a trade size of US$ 3.86 billion while the trade with US is estimated at US$ 2.93 billion. The trade with UAE is US$ 1.12 billion, Canada US$ 0.35 billion, Saudi Arabia US$ 0.32 billion and rest trade of around 36.5% is carried out with the rest of the world.

India's share in international trade in Textiles and Clothing is presumably very low to the tune of 3% of the total world trade. Globally the fibre mix is skewed towards man made fibres but Indian exports are highly skewed towards cotton. While the international fibre mix is 42% cotton and 58% man made fibres , the fibre mix in India's exports is 86 % and 14% respectively. The cotton textile exports accounts for 14% of the total cotton textile trade in the world. Major players in the textile industry of the world are showing more leniencies towards synthetic and knitted fabrics. India's knitting sector is meagre as compared to woven sector. India enjoys a sumptuous domestic market which consumes two third of the total output and leaves only one third for the international market. Indian product mix is mainly of home textiles; where as the developed and developing countries are oriented towards technical and industrial textiles. China holds a major share in the production of technical textiles which anticipated a market of US$ 90 billion. India's share in this sector is only 2% of the total world market share.

Post –Quota Regime

With the phasing out of the quota system from January 1, 2005,the market opened up fully for unrestricted international trade. As a consequence the buyers across the world will have more power in selecting their source of material requirement. The global textile industry is anticipating a turn over of around $360 billion. The major players in the global market like US and EU account for 64% of the total textile trade. The figure is expected to be $650 billion by the end of 2010.The Government of India has set an ambitious textile export target of $ 50 billion by 2010 compared to $11 billion currently. The Indian Government and textile industry anticipated an export growth of 35 – 40% in 2005. To capitalize the new advantages the industry updated technology and capacity utilization. Contrary to expectations, the industry failed to get the cherished orders. The data available from the Office of Textile Export Of America (OTEXA) shows, textile exports to the US grew by 24%. Apparel export went up 32.31%. India during this period has increased its exports by 26.03%, China's exports went up by 65.61%, where as US imports from Pakistan increased by 7.21%.

The process of economic liberalisation has thrown open immense vistas of growth for the Indian textile industry and presently the industry become globally competitive both in terms of price and quality. The comparative advantage of India in Denim and shirting production is high when compared in the international markets. Thus, looking at the global demand size, the potential of Indian textile and clothing industry is huge. India is having a cutting edge over fabrics and garment making, due to cheap labour, and skilled technicians, over other countries in the world.

A sample survey analysis of the five composite mills in Ahmedabad on the preparedness for the WTO regime reveals positive signals as given below.

- WTO regime in general is favourable for the Indian textile industry.
- Technology upgradation is the key. Price cuts of the products is indispensable due to competition and quota- phase out.
- Visualise import as threat.
- No need to change existing marketing organisational structure.
- Perceived value as the pricing system.
- No need to change the credit system.
- No need to increase promotional expenditure.

- The focus should be on 100% cotton fabrics- mainly shirting.
- The focus should be on medium to high-end markets in EU and US.
- Proposed steps to phase WTO regime – cost control , quality improvement, competitive pricing, improve net works, product development.
- China would resort to dumping.

Challenges before Indian textile industry

The Indian textile industry is emerging from the shadows of a debilitating quota system. To achieve a sustainable competitive advantage, the Indian textile industry should overcome some apprehensions inherent in the industry.

- EU and USA would impose more of Non Tariff barriers, the trade defence to act as barriers as quotas, issues like Anti Dumping, Anti subsidy, Safeguard measures may be raised.
- RTA, PTA and Trade blocks will become more active.
- Exodus of quality manpower from developing including India.
- Global trade will be more IT enabled but majority of the Indian textile industry, even the mills in the organising sector is not in tune with IT.
- As per the US International trade Commission (USITC) report, the rank of competitiveness of India was at 54 in the year 2000 and this is has clear effect on FDI.
- India is not proximity to real markets- US , EU are very far away.
- Quota free market will not benefit all.
- Other countries are visualizing India as a big market and are waiting to tap market potential.
- Consolidation of supplying sources world wide. Market preference for vertically integrated units. Market dominance by global retail giants.
- Constant downward pressure on selling prices. Fast changing fashion trends-shorter fashion cycles and production runs.
- Speculation and uncertainty about international policy.

Conclusion

To achieve the growth rate visualized in the Vision –2010, the key factors under consideration are cost competitiveness, adherence to time schedules , ability to undertake large volume orders, consistency in quality, and quick turn around times as also availability of raw material \ inputs. India will have to sharpen its competitive edge by lowering the operational costs by way of efficient usage of inputs. The industry will have to invest in improving weak links such as weaving and processing. Besides, in order to achieve the desired level of economy in scale, the Industry will have to consolidate and expand. This is the right time that all the stakeholders gear up to face this challenge.

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