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Phasing out of Multi-fibre Arrangement: Implications for the Indian Garment Exporting Firms

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1. Introduction

International trade in textiles and clothing has been constrained for the last two decades by "Multi-fibre Arrangement" (MFA) under which industrialized countries protect their domestic textile and clothing sectors by imposing quota restrictions on imports from developing countries. The instrument of quota was originally devised in 1961 as a purely *ad hoc* arrangement under the Short Term Arrangement (STA) but it was extended through a Long Term Arrangement (LTA) in 1964. Trade restrictions on textiles and clothing were given further extension once more in 1974, now through the Multi-Fibre Arrangement (MFA).

It is generally agreed that the MFA is an economically inefficient system since it protects uncompetitive textile and clothing industries of the developed countries and acts as an obstacle to increase exports from the developing countries[2]. Textiles and clothing is one sector where the developing countries possess comparative advantage, largely because of their low labour cost. Therefore, the industrialized countries have been unwilling to agree to do away with the MFA on the pretext that imports from their low cost counterpart may cause "market disruption" to their domestic industries. On the contrary, the developing countries made persistent efforts to get textiles and clothing sector integrated into the framework of General Agreement on Tariff and Trade (GATT). Yet the MFA remains a major feature of global trade relationship.

A major achievement of the Uruguay Round Agreement (henceforth GATT-94) is that a time table has been set for the phasing out of MFA under the auspices of newly formed World Trade Organisation (WTO) that has replaced GATT. The contracting parties have agreed to phase out of MFA over a 10-year period between January 1, 1995 to January 1, 2005. Consequently, textile and clothing sector is to be fully integrated into GATT on January 1, 2005. This integration implies that the world trade in these products will be governed by the fundamental principles (i.e. non-discrimination, reciprocity, and transparency) and general rules of GATT. The integration of the sector will occur in the following manner: at the beginning of the Phase 1, on January 1, 1995, each contracting partly would integrate into GATT products from the specific list in the Agreement which accounted for not less than 16 per cent of its total volume of imports in 1990; at the beginning of Phase 2, on January 1, 1998, products which accounted for not less than 18 per cent of 1990 import would be integrated; at the beginning of Phase 3, on January 1,2003, products which accounted for not less than 18 per cent would be intergraded; all remaining products would be integrated on January 1, 2005[3].

1The Organisations in which authors work are not responsible for the views expressed in this article.

2See for example Hamilton (1990).

3Refer to MVIRDC World (1995), pp.109-34.

The agreement on growth rates applicable for restrained products runs as follows: during first stage 1, and for each restriction previously under MFA bilateral agreement in force for 1994, annual growth should be at least 16 per cent higher than the growth rate established for the previous MFA restriction: for Stage 2 (1988 to 2001 inclusive), annual growth rate should be 25 per cent higher than the stage 1 rates; for Stage 3 (2002 to 2004 inclusive), annual growth rates should be 27 per cent higher than the Stage 2 rates[4]. Besides the agreement on phasing out of MFA, GATT-94 also makes it obligatory on the part of all contracting parties to improve access to their markets. It provides for stronger measures to deal with dumping, subsidies and counterfeiting. In effect, when agreed to op en their markets, the developed countries made sure that they get access to the markets of developing countries too.

World trade in textiles and clothing has grown fast in the recent period, the growth being more impressive in the case of the latter. With an annual growth rate of about 10 per cent, the clothing (or garment) sector has become one of the fastest growing sectors in the present world trade[5]. In 1992, the estimated share of textiles and clothing in the world merchandise trade was 7 per cent[6]. India too has a vital and internationally competitive garment industry whose export registered a phenomenal growth of 27 per cent per annum during 1980-992[7]. India's present share in the total world trade in clothing accounts for 3.7 per cent[8]. On an average during 1980-92, about 75 per cent of India's garment export was directed to the MFA countries[9]. The European Union and the USA are the major importers of Indian garments [10]. India is ranked 6th in MFA countries in terms of its exports of garment[11]. Thus, the Indian garment sector is an important sector for which GATT-94 on textiles and clothing may have serious implications.

It is argued by a section of academicians and policy makers that the removal of quota restrictions by the developed countries on the exports of textiles and clothing from the developing countries will offer opportunities to India for increasing exports, reaping economies of scale, enhancing quality and productivity[12], etc. However, the Agreement is also criticized mainly, on four grounds: long transition period envisaged in the accord, slow pace of integration, inflated product coverage and low growth factors for the

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4Ibid

5Refer to Bhattacharya (1994).

6Ibid

7Ibid

8Ibid

9Ibid

10Ibid

11Ibid

12Keshari, et al. (1994b), Chapter II.

quotas[13]. It has been pointed out by many scholars that the wider product range and slow integration will result in heavy back-loading which in turn will ensure that no gains are made by India till the end of the present century[14]. Moreover, the importing countries will exercise their freedom to choose the products to be integrated to the detriment of the developing countries[15]. These factors are expected to offset the gains achieved through the phasing out of MFA during the transition period. In addition, India's ability to retain its competitiveness in the ensuing years becomes a crucial question to reckon with, especially in the context of the coming to prominence of countries like China, Bangladesh, Pakistan, Sri Lanka, Vietnam and Indonesia in the global textile trade scene.

Given this backdrop, out enquiry was targeted at understanding the perception of the garment exporters about the gains or otherwise they expect from the agreement on Textiles and Clothing. The specific objectives of the study were the following: (i) To know how the Indian garment exporters perceive the effect of the agreement on their growth performance, (ii) to analyse the perception of entrepreneurs about the determinants of competitiveness of their firms in the aftermath of GATT-94, (iii) To identify the obstacles to export faced by the garment manufacturers, (iv) To explore the strategies planned by entrepreneurs to exploit opportunities or cope up with challenges arising out of GATT-94, and (v) To suggest specific Government actions required for supporting garment industry in the wake of GATT-94

2. Sample and Data

The study is based on the opinion survey of 30 educated entrepreneurs drawn from the garment exporting firms and their industry associations. These entrepreneurs had sufficient knowledge of the major feature of the agreement on textile and clothing concluded in the Uruguay Round. Two types of structured schedules were utilized for conducting opinion survey. The first one was used to record the perceptions of entrepreneurs about the likely import of GATT-94 on their own firms. The second one was used to know the view of a few industry associations on the major obstacles to exports faced by the firms and effect of GATT-94 on the entire industry. Respondents were contacted in 3 major cities, namely Ahmedabad (5), Bombay (10) and Delhi (15). Profile of the respondents in terms of their age, status and educational qualifications is given in Table 1. Frequency distributions of size (measured alternatively in terms of sales turnover, fixed assets and sales) are shown in Table 2.

3. Findings

In general, the entrepreneurs interviewed welcomed the agreement on textiles and clothing. They were of the view that the system of quota restriction has been disadvantageous to their business and to the industry as a whole. The most frequently quoted reasons for this situation are: (a) the inability to mass produce and thereby reap

13Refer to Das (1994).

14 Ibid

15 Ibid

economies of scale and (b) non-competitive prices when quotas are obtained at a premium. There was also the opinion that under the quota regime a kind of complacency sets in among entrepreneurs that restricts innovation in spheres of technology and marketing. Therefore, almost all the entrepreneurs viewed the process of freeing textiles and clothing sector from the shackles of quota restrictions as beneficial to their firms and industry as a whole.

3.1 Performance

The entrepreneurs interviewed were uncertain about the impact of MFA phasing out on their firms' performance during the transition period but the general expectation was that in the long run the agreement will offer greater market access t their products in the developed countries. According to them, the slow pace of integration, long transition period and expansion of product coverage would make the process of integration heavily back-loaded ad would practically nullify the benefits of removal of quota restrictions in the transition period. Although there is a review mechanism included in the Final Act, the entrepreneurs apprehended that the developed countries could always bring in new modes of restrictions. They opined that the meaningful integration of the textile and clothing sector would take place only after the lapse of the ten years of transition period.

Table 3 presents the entrepreneurs' opinions on likely impact of the agreement on their firms' performance. According to the Table, substantial growth (more than 20%) in exports is expected after the transition period. In the case of sales turnover, there is a general expectation of above 15 per cent growth, the cluster being in the range of 15-20 per cent. Same is the situation with employment. The investment and profit are also expected to grow anywhere between 10-15 per cent.

3.2 Determinants of Competitiveness

As far as the determinants of competitiveness are concerned, we asked the entrepreneurs to rate seven factors, namely, timely delivery, quality, cost of labour, productivity of labour, technological capability, brand name/company's image, packaging and aesthetics/colour/design in order of their importance. Using a five point ordinal scale, mean scores of their ratings were calculated. Table 4 presents these ratings. It can be seen from this Table that the timely delivery and quality were considered most important while labour productivity, cost of labour, aesthetics/colour/design and technological capability were perceived to be less important (i.e. 'very important) by the entrepreneurs.

3.3 Obstacles to Export

As per our objective, we analysed several internal and external factors which may act as constraints on the export growth of sample firms. Entrepreneurs were asked to rate on a five point ordinal scale such internal hurdles as poor quality, delay in delivery, procedural complexities, less developed technology and inadequate infrastructure. The average scores of their response are presented in Table 5. According to this Table, the procedural hurdles and inability to keep delivery schedule were viewed by the entrepreneurs to be the 'most' important constraints to competitiveness and thus export growth of the firms. In the opinion, it is the former that cause the latter by inordinately delaying supply due to delay in clearance and fulfillment of several formalities at customs and at ports, etc. The remaining factors were perceived to be less important (i.e. 'very' important) barriers to competition by the entrepreneurs (Table 5).

As far as the external constraints to export are concerned, most of the entrepreneurs cited ensuing competition from the developing countries and likely imposition of new types of non-tariff barriers (NTBs) by the developed countries to be the "most" significant deterrents (Table 6). In the wake of phasing out of MFA, the entrepreneurs apprehend greater competition from other Asian countries including Pakistan, China, Bangladesh and Sri Lanka. The other possible sources of competition, such as that from foreign firms based in India and from the domestic competitors, were considered to be relatively less important.

An issue that came up often in the discussions with entrepreneurs related to the new types of NTBs that are likely to be imposed by developed countries during as well as after he phasing out period of MFA. Besides the quota restrictions under MFA, the Indian firms frequently face several other export restrictions, especially from the USA, the UK, Germany and France. They have taken dyes and colours, restrictions based on safety and use of child labour, etc. The entrepreneurs interviewed believe that there is a definite scope for the developed countries to exert bilateral pressures or raise new types of NTBs increasingly in future in the names or safety, national security requirements, deceptive practices, protection of environment, human, animal or plant life, etc. To support their belief, they cited the recent incident of America banning the so called 'highly inflammable' skirts exported from India.

3.5 Strategies for Survival and Growth

The inquiry into the proposed strategies to face the challenges thrown up by the changing situation revealed that the respondents give maximum weightage to quality improvement and technological up gradation whereas improvement in skills through retraining of workers and increased penetration into export market were considered less important (Table 7). By following these strategies, they respondents were quite confident that they would be able to effectively utilize the export opportunities created by the GATT-94. Interactions with associations and officials of the Apparel Export Promotion Council have reinforced this optimism. They hope to almost triple the present exports and capture at least 6 per cent of the global sale. They also realize that unless the industry emerges as a world leader exploiting all the competitive elements within the 10 year transition period, it will end up as a "back bench player" in the sphere of international apparel trade.

3.6 Suggestions for Government Action

In order to be able to actually gain in the global market place, the entrepreneurs demanded adequate support from the State. They came out with concrete suggestion for the State action so as to equip the Indian garment industry to withstand the travails of 'going global'. These suggestions can be clustered under four groups, namely labour and wage regulations, infrastructure, procedure and formalities, and trade policies.

There was a widespread demand by the entrepreneurs and industry associations to modify labour laws, making retrenchment of unproductive labour easy and hassle-free. A representative of the Apparel Export Promotion Council indicated the willingness of the industry to give an undertaking that in case two per cent unproductive labour is retrenched, it can hire at least four per cent of productive labour in its place. A related suggestion was to bring apparel export industry under the Essential Services Maintenance Act so that interruption of production due to labour strikes can be prevented.

Modernisation of infrastructure, more specifically of ports, was another oft-repeated suggestion. To achieve modernization, privatization of the infrastructure sector and collaboration with the foreign firms were recommended by the entrepreneurs.

Among the actions demanded in the realm of trade policies, the thrust was on increased liberalization. The need to allow exporters as well as processors to import garment machinery and fabric free of duty was emphasized by many. Some of them also reiterated the industry's long standing demand to allow upto two per cent of the FOB value or exports for free import of trimmings and embellishments. This would enable the industry to produce good quality merchandise which, in turn, would help it face the competition from other countries.

Dissatisfaction was expressed by quite a few entrepreneurs over long and cumbersome bureaucratic procedures in the fields of customs inspection, advance licensing, etc. They demanded removal of such shackles to help the industry perform efficiently.

The other suggestions include strengthening of trade information network, organization of trade fairs/exhibition and buyer-seller meets under government initiative and availability of timely financing for exports.

4. Conclusions

To conclude, we would like to underscore a crucial observation that we made while talking to the entrepreneurs. It is evident from the foregoing discussion that the Indian garment sector is all set to take on the challenges and opportunities created by the signing of the Final Act by the Government of India. Nevertheless, we observed that every word of optimism was qualified by a 'fear of the uncertain'. Firms are confident about their inherent competitive advantage that would facilitate greater market penetration. Yet, they realize that China, Pakistan and Bangladesh would emerge as major rivals in the global market along with multinationals.

They have serious doubt about the distribution of actual gains during the transition period as they view the process and pace of integration envisaged in the Agreement as disproportionately biased towards the developed countries. The pattern of phasing out would practically deprive them of their access to real benefits. Similarly, along with the disappearances of the restrictive regime of quotas, they see the possibility of new types of barriers emerging in future. It is this uncertainty, which spreads over the optimism of Indian firms in the garment sector like a layer of mist that needs attention in the policy making fora.

Table 1: Profile of Respondents

AGE (Year)	No. of Respondents
30-40	7
40-50	18
above 50	5
Total	30
STATUS	No. of Respondents
Managing Director	15
Managing Partner	4
Director	3
Others	8
Total	30
QUALIFICATION	No. of Respondents
B.A./B.Com. or M.A./M.Com.	12
M.B.A.	8
B.Sc./B.Tech. or M.Sc./M..Tech.	10
Total	30

Table 2: Distribution of Size and Export intensity of Firms

Sales Turnover (Rs.crore)	No. of respondents
below 1 1-10 1-50 above 50	3 7 15 5
Total	30
Fixed Assets (Rs. crore)	No. of respondents
below 1 1-5 5-10	15 4 11
Total	30
Employment (Number)	No. of respondents
Below100 100-500 above 500	4 18 8
Total	30
Export Intensity	No. of respondents
5-75 75-100 100	4 5 21
Total	30

Table 3: Expected Growth in Performance Indicators in the Garment Industry after the Phasing out of MFA

INDICATORS	PER CENT
Export	above 20
Sales Turnover	15-20
Investment	10-15
Employment	10-15
Profit	10-15

Table 4: Determinants of Competitiveness in the wake of GATT-94

FACTORS	EXPORT MARKET (Score)
Quality	5
Timely Delivery	5
Cost of Labour	4
Productivity of Worker	4
Technological Capability	4
Brand Name/Company's Image	2
Packaging	3
Aesthetics/Colour/Design	4
Overall Mean	4

Note: Score is the weighted average of the response ranked in the descending order from the most important (=5), very important (=4), important (=3), somewhat important (=2) to least important (=1)

Table 5: Internal Constraints to Exports

FACTORS	SCORE
Poor Quality	4
Delay in Delivery	5
Procedural Hurdle	5
Less Developed Technology	4
Poor Infrastructure	3
Overall Mean	4

Note: Score is the weighted average of the response ranked in the descending order from the most important (=5), very important (=4), important (=3), somewhat important (=2) to least important (=1).

Table 6: External Constraints to Export Growth

FACTORS	SCORE
New Types of Non Tariff Barriers	5
Increased Competition from Asian Countries	5
Increased Competition from Foreign Firms Operating in India	2
Increased Competition from Indian Exporters	3

Note: Score is the weighted average of the response ranked in the descending order from the most important (=5), very important (=4), important (=3), somewhat important (=2) to least important (=1)

Table 7: Important Strategies for Exploiting opportunities arising out of GATT-94

FACTORS	SCORE
Quality Upgradation	5
Change in Managing and Marketing Practices	3
Tie-ups for Marketing with MNCs	2
Indigenous Technological Development	5
Retraining of Workers	4
Technological Collaborations with MNCs	3
Financial Collaborations with MNCs	2
Sub-contracting for Exports	3
Increased Penetration into Export Market	4
Overall Mean	3.5

Note: Score is the weighted average of the response ranked in the descending order from the most important (=5), very important (=4), important (=3), somewhat important (=2) to least important (=1)

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