

Estimating the Impact of WTO and Domestic Reforms on the Indian Cotton and Textile Sectors: A General-Equilibrium Approach

Review of Development Economics

Volume 7, Issue 3,
August 2003

Blackwell Publishing,
Oxford, UK

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BY JANUARY 2005, TEXTILE AND clothing quotas under the Multi-fiber Arrangement will be removed in conformity with the Uruguay Round Agreement on Textiles and Clothing (ATC). The phaseout of quotas could affect U.S. textile exports and clothing imports through increased opportunities for suppliers—including China, India, and other Asian exporters—that currently do not benefit from preferential import terms. Overall increases in demand for textiles should raise demand for cotton and create new export opportunities for the United States.

One country with large potential in cotton, textiles, and clothing trade is India. India's likely response to ATC implementation depends as much on its own domestic policies as on the new export and import opportunities. India's high import barriers, domestic taxes, cotton export quotas, and restrictive policies on foreign investment impede the sector's productivity and limit trade both for importers (textile) and exporters (clothing). Moreover, India has long discriminated against man-made fiber, creating an over-reliance on cotton.

This article, using a multi-region applied general equilibrium model, examines the combined effect of quota removal and domestic policy reforms in India on India's cotton textile industry and trade. The key finding from the model scenarios is that while the quota removal leads to an expansion of India's clothing exports and textile imports, the extent of trade expansion depends significantly on India's implementing trade-enhancing domestic reforms.

