

POST-WTO COTTON & TEXTILES TRADE: A CASE STUDY OF PAKISTAN AND CHINA

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Abstract

The paper reviews cotton and textiles trade of the world in general and of Pakistan specifically with reference to World Trade organization. WTO has emerged especially, after 1995 as worlds leading organization to regulate world trade. There has been substantial criticism and appreciation about WTO. Pakistan after 2001, as per Doha round, was supposed to take over the recommendations of WTO for foreign trade. Since then various incidences such as 9/11 has happened. And it has severely changed world trade dynamics. Pakistan has also been affected. Incidences like 9/11, has created barriers for the foreign trade of Pakistan. Exports from Pakistan are facing non-tariff barriers of quality and quantity from developed countries. The paper attempts to explore new markets for cotton and textiles exports of Pakistan, such as Peoples Republic of China, with in the WTO framework. The paper looks about possibilities in suggesting ways and means, so that with in WTO context Pakistan could accelerate its trade with China and optimize foreign earnings. The research methods comprise of both formal and informal methods.

Key words: World Trade Organization (WTO), Cotton & Textiles, Trade & Tariffs.

1. Introduction

The paper examines all practical aspects in a theoretical frame work to asses Pakistan's capability in terms of its corresponding trade in cotton and textiles including China. The paper is divided in four main parts. Part one largely presents literature on the WTO and world trade. Part two briefly highlights research methods and probes into the objectives of the study. Whereas, part three and four present findings and conclusions.

2. Literature Review

Cotton is the most important non-food cash crop and a significant source of foreign exchange earnings for Pakistan. It covers a large share in the total cropped area in Pakistan. It employs a significant percentage of the total work force of Pakistan. Cotton and textile trade of Pakistan comprises about 65 to 70 percent of the total foreign trade of Pakistan (Economic Survey, 2002-2003). In 1999-2000 and 2001-2002, Pakistan was world's fourth largest producer of Cotton after China, the United States and India with an output of nearly 1.9 million tons, it accounted for the 10 percent of the world's total output. In the same year China produced 3.8 million tons, the U.S.A 3.7 million tons, and India 2.7 million tons (Burki, 2001). On the domestic consumption side, Pakistan also ranked fourth, after China, India and the USA. Of the four major producers of Cotton the USA and Pakistan normally have exportable surpluses. Whereas, both India and China generally consume more than they produce (Burki, 2001). China imported a million ton in 1999-2000, India about 300000 tons, while Pakistan exported 200000 tons. Countries like Bangladesh, Sri Lanka use to import processed cotton (cotton yarn) and are earning billions of the dollars by the value-addition and are the competitors of Pakistani cotton produce in the major markets. Pakistan can compete in the international market because its input cost for the cotton and cotton related produce is very low. Cotton and textiles have long been a backbone of economic growth throughout the world. The world witnessed textiles trade that, accounted for over US\$450 billion (Rafi, 2003). In terms of share of population employed and of total exports, it is particularly important for developing countries like Pakistan, which have a very high dependence on textile and clothing exports. But, in post 9/11 scenario Pakistan's cotton and textiles exports are facing quantitative and qualitative restrictions from the developed world, which are the main markets for Pakistan.

2.1. Regulation of International Trade

After World War-II different multilateral organizations were established to regulate the Monetary System of the world, International Bank for reconstruction and development (IBRD)

with the objective to provide finance to reconstruct the destroyed world of post world War-II. In order to regulate international trade a body General Agreement on Trade and Tariff (GATT) was established.(Ahmed,1999) The rules set in the agreement were without any binding framework, without compliance and optional. This framework regulated the international trade for a period of 40 years slow progress in regulating international trade and commerce by General Agreement on Trade and tariff (GATT) , in 1995 the nomenclature of GATT and its structure was revamped and organization with the name The World Trade Organization (WTO), was emerged. GATT regulated cotton and textiles trade through its subsequent body of Multi-fiber Agreement MFA (Ahmed, 1999). As GATT was replaced by the World trade Organization (WTO), MFA was phased out and replaced by Agreement on Textile and Clothing (ATC), a subsequent set of regulating rules of WTO since 1995 (Mehmood,1998). With the regulation of cotton and textiles trade by Uruguay Round agreement on textiles and clothing (ATC), it is expected that trade of the developing countries will expand significantly and its trickle down impact can create value addition and opportunities for employment. With the emergence of changing regulating rules, it has become necessary that cotton and its products related policies need to be re-visited to promote value-added cotton industry. The emerging multi-lateral system requires enhancing standards of cotton and its related produce to compete in free market.

3. Theory of the International Trade

According to Caves and Jones 1999, trade is the business of buying and selling goods or products in order to make a profit. Trade can be conducted within a country, or internationally between nations Goods or services sold by one country or region to another are exports, while those brought into a country or region are imports. All sorts of commodities can be traded, from a small quantity of a precious metal such as gold (cave & Jones, 1999). Trade products fall into three main categories: primary products are natural resources obtained from mining, forestry, agriculture, and fishing, such as tin, wood, grain, and fish; secondary products are manufactured from primary products, and include cars, computers, ships, and clothes; tertiary products are services

provided by banks, insurance companies, law firms, and other professional organizations (Ekelund & Hebert,1997).

4. Method of Data Collection

In this research attempt has been made to find venues for the cotton and textile sector of Pakistan with the value-addition chain, so the problem is of multiple nature. The devised methodology for this research is that data on Pakistan has been collected from the secondary sources like books, magazines, World Bank reports, encyclopedias, annual and quarterly reviews, year books and economic surveys by Government of Pakistan. Discussions with the key players and seminars and symposiums were attended for value able knowledge gain. Primary data was collected through questionnaires and interviews with key players.

5. China a Potential Market

The world has witnessed over the last two decades the transformation of the China as a major trading power. From 1980-95 the China's foreign trade has increased by an astonishing 721 percent (Asian Bank, 1997). In 1978, the China's share in total world trade was a mere 0.85 percent, while in 1994, its share had increased to 2.9 percent, making it the worlds 11 the largest trader and in 1978, the China's trade to GNP ratio was only 9.7 percent. In 1994, this ratio had increased to 46.3 percent (Asian Bank, 1997). China in its 10th five year plan is developing its western region adjacent to Pakistan. Most of the Chinese textile industry is being shifted to its western region adjacent to Pakistan. Development of the western region is a great strategic choice for China's economic development in the 21st century (Burki, 2001). The strategy, which began to be put in practice in year 2000, is expected to make break through progress in infrastructure construction and ecological conservation in five to ten years. The plan envisages four aspects of the efforts the year 2000 (Burki, 2000). First, formulating rules for implementation of preferential policies; second, organizing the implementation of the west development plan; third launching 12 key construction projects including the Qinghai-Tibet Railway, the west-east gas transmission project, the project to return farmland to forests and grasslands, and the education project, with combine investment of

300 billion Yuan; and fourth, expediting the reform and opening-up program in the western region, and accelerating the legislation work related to west development. Greater steps will be taken in the west development this year on last year's basis (State council, 2003).

China's entry into WTO proved a threshold for China's foreign trade. China's import and exports volume witnessed an increase of 300 percent, since its inception in the year 1949 (Burki, 2001). In terms of foreign trade China has improved its rank and stands at 10th in the world. As China is opening to the outside world, foreign investor has rushed to the new market and foreign-investing enterprises have become new factors, contributing to the growth of China's foreign trade (World Bank, 2000). China has very cheap labor and it produces in bulk, therefore products from China penetrate throughout the world. WTO entry has itself created opportunities for China as well as the country like Pakistan. Cotton and textiles sectors can reap maximum benefits from this because, Pakistan exports raw cotton which can be trickled down in value-addition.

6. Exploratory Analysis

Pakistan can be able to tap into our neighbor's well-developed textile industry by a close contact with Pakistan's cotton production with the textile industry of China. China has to cater its textile industry and will need not only raw cotton but yarn for its textile industry. It has a dynamic, broad based, spinning industry much larger than that of Pakistan.

Figure-1: Survey Results

The textile fashion industry is at the other end of the value-added chain and here Pakistan could organize itself to help China. Fashion houses have been developed by Western entrepreneurs, but still there exists a loop for value-addition in the sector. Because China has not remained under Anglo British colonial rule, it could not pick proficiency in English language. Due to this language problem China has not developed its own fashion industry, and in part because of absence of independent access to the western markets.

Figure-2: Survey Results

Pakistan has been struggling hard to multiply the gain from exports and moved towards higher value-added products in textiles. By the developing active collaboration with China, Pakistan can take major slice of value-addition in textiles exports.

Table-1**China's Average Tariffs by Country/Region**

Country/ Region	Applied 1992	Applied 1995	Applied 1996	WTO 2005
Australia	11.6	18.7	16.8	13.0
Japan	38.1	32.5	22.8	19.3
Korea	44.1	39.6	17.9	13.9
Hong Kong, China	44.8	39.7	25.5	20.3
ASEAN	22.0	23.9	17.9	13.9
Taiwan, China	41.4	37.5	23.4	19.2
South Asia	19.9	19.3	11.8	9.4
Canada	5.9	54.0	51.4	31.1
United States	22.1	23.4	19.3	15.0
Latin America & Caribbean	12.6	17.8	15.1	10.5
European Union	33.3	29.3	22.4	18.5
Austria, Finland, Sweden	20.5	21.4	16.5	11.6
Iceland, Norway, Switzerland	21.4	18.8	13.2	10.8
Central European Associate	20.3	18.7	15.4	13.2
Central Asia	13.4	17.7	16.2	9.5
Middle East, North Africa	15.6	12.4	9.8	9.2
Sub-Saharan Africa	14.8	19.5	16.0	9.3
Rest of world	20.6	21.3	16.0	12.2
Weighted Average	31.2	28.1	19.8	16.2
Un-weighted Average	39.1	35.6	23.4	17.5

Source: China 2020, (1997), World Bank Report.

Table 1 shows the deliberate reductions in tariff rates that China offers in post accession to WTO scenario. There is significant slash in it, which is an attraction for these countries in international trade perspective. For the countries of the South Asia tariff percent is 9.4. It is because China prefers regional trade and wants to promote it.

7. Conclusion

Analysis of survey data indicates that Fashion industry of China is dominated by the west. China has tried to develop its own products in that context, but yet it is far behind. Pakistan with a better knowledge of English language and with some members of Pakistani experts actively engaged in designing and marketing high value-added products, are in a good position to help China. In its future development China is developing another China in the adjacent border to Pakistan and shifting its textile industry to its western provinces adjacent to Pakistan. China consumes cotton more than it produces, so it could be best market for the raw cotton of Pakistan. Fashion industry from Europe is penetrating in China, so Pakistan can exploit this opportunity by exporting cotton with value-added chain. China's accession to WTO has prompted China to move much of its textile industry away from the East coast. It will go west to provinces near Pakistan, so Pakistan should develop physical infrastructure to bring about a better integration of Pakistan's economy with that of China. This will require a massive amount of new investment in roads, railways, ports and airports.

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