



An Analysis Of The Impact Of Regional Comprehensive Economic Partnership (RCEP) – A Massive Free Trade Agreement (FTA) With 16 Nations By Govt. Of India On Local Textile Industry Of Surat, Gujarat

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Abstract

RCEP agreement under international trade law is critical for the local textile industry of Surat and other such clusters of textile across the India. Based on the perceiving threats of RCEP by the entrepreneurs' local industry of Surat-Gujarat, a preliminary survey has been conducted to collect the details of the pros and cons of RCEP. There are various institutions, NGOs and textile entrepreneurs who are concerned for the negative impacts of RCEP. In association with NGOs, the workers of textile industry have written Lakhs of Postcard (a kind of postcard awareness movement) to PMO of India to stop RCEP. Accordingly the government of India has postponed the RCEP agreement to June 2020.

The major objective of development of this case study is to collect the views of students of law and business management on the impact of RCEP on textile industry and suggesting the corrective steps and line of action by the government in the context of holistic impact.

Researcher will highlight the pros and cons of RCEP agreement as a part of FTA in international law regime as a part of case study supported by small survey on RCEP agreement in local textile industry of Surat as a part of academic requirements

Key words: RCEP, FTA, Textile, Surat.

1. Introduction :

Recent scenario of global and local market is not favorable for the business (Brown, 2013). In international (global) market, a period of past 1.5 years around is a witness of turmoil in international trade practices, i.e. conflict of USA with Iran, North Korea and China (World Economic Situation and Prospects 2019 and Globalization for Development, 2008), volatility in FOREX, i.e. mainly US \$ (Jorion, 1990; Bodnar and Gentry, 1993; Amihud, 1994; Choi and Prasad, 1995; Griffin and Stulz, 1997; He and Ng, 1997) and crude market of Venezuela and Iran (Sathyanarayana, Harish, and Gargasha, 2018; Apergis, and Miller2009; Basher and Sadorsky, 2006; Gisser and Goodwin, 1986; Jha, 2019), BREXIT (Vyas, 2016; Moid, 2016; Sathyanarayana,2017;), violation in trade treaties of WTO and dumping (Auboin, and Borino, 2018; Thephavong, Iemsouthi, and Vilavong, 2019) of textile goods of China at lower price through Bangladesh and Vietnam route under Regional Comprehensive Economic Partnership [RECP] agreement (Business Today, 2019; Sheng, 2019; Srivastava, 2016). In national (local) market, Modi 1.0 govt had taken steps like demonetization (Vij, 2017; Kushwaha, Kumar, and Abbas, 2018; Singh, 2018; Litvack, and Vigne, 2017; Natraj, 2017), haphazard imposition of GST in nation, multiple amendments in GST law after July 2017 are a witness of half cook meal of GST (Mishra, 2018; Dani, 2016; Sankaran and Sreelatha, 2018; Srivastava, 2018; Khan and Soni, 2018; Sreeshma, Aswamalika, and Aparna, 2018; Gupta, 2018), and a movement for 'Make in India' concept (Gulhane, and Turukmane, 2017; Fibre 2 Fashion, 2014; Barwer, and Sharma, 2019; Suryalakshmi Cotton Mills Limited, White Paper, 2019), imposition of surcharge on FDI in first budget of Modi 2.0 govt. (Malhotra, 2014; Choi and Baek, 2017; PWC, 2019; India Manufacturing Barometer, 2019; Deloitte, 2018) and withdrawal of benefits to textile exporters under MEIS—merchandize exports incentive scheme (Narsimhan, 2019; ICRA, 2016; Economic Times, 2019).

The Indian policies are not as conducive for growth as the Chinese policies in providing better infrastructure to its industries (Vasa, 2016). Even after the abolishment of quotas under the Multi-Fiber Arrangement, which provided more opportunities to tightly restricted countries such as India rather than lightly restricted or mature markets, the government failed to capture the potential of its under-achieved textile and apparel industry. Hence, the weak government policies pose the biggest challenge to the growth of the Indian Textile Industry. What happens when the government introduces a historical new policy, such as RCEP ?

India is on the cusp of signing a massive free-trade agreement (FTA) involving 16 nations that are home to nearly 50% of the world's population, known as RCEP, or The Regional Comprehensive Economic Partnership, the agreement would position India as a major player in a huge trading bloc. This change in global law and free trade movement is going to make serious impact on the local textile business sector of Surat city of South Gujarat. Though Commerce Minister Piyush Goyal has voiced his support for India's involvement in the RCEP, a number of Indian industries that are adamantly against the agreement and the changes it will inflict upon the country's markets.

The countries in RCEP include the 10 ASEAN countries — Indonesia, Thailand, Singapore, Malaysia, the Philippines, Vietnam, Myanmar, Brunei, Cambodia, Laos — and the six countries these countries have free-trade agreements with — Australia, China, India, Japan, New Zealand and Korea. This 16-country bloc reportedly comprises 25 % of global GDP, 30 % of global trade and 26 % of foreign direct investment flows.

A free-trade agreement is essentially an agreement that two or more countries reach with regard to import and export of goods. It aims to reduce the number of processes in place. Usually, this also implies that there are little to no tariffs, quotas etc on the import and export of products. According to ASEAN, this deal will provide “a framework aimed at lowering trade barriers and securing improved market access for goods and services for businesses in the region”. Negotiations for this agreement have been ongoing since 2013, with several countries, including India, trying to resolve problems with other countries with regard to tariffs. There are a total of 14 issues that countries need to sort out, five of which pertain to India.

Now, after multiple rounds of negotiations, it is finally near completion. But there are multiple unresolved issues between countries, and India has the most number of them. Currently, India has time to sort out its problems before October 22, 2019; but due to the rigorous oppose from the people of Textile and dairy, govt. of India has postpone the RCEP implementation on 27th October, 2019 and declared a next date of 20/06/2020.

The textile industry of Surat city, mainly imports the raw-materials (POY, yarn, chemicals and auxiliary items) and exports the dyed and printed fabrics, dress materials, technical textiles and textile articles to middle east countries, Europe (EU), South – East Asian countries and other such least developed countries (Chaudhry, 2002).

The textile industries of Surat imports capital goods (plant & machinery) from China, Korea, Japan, Taiwan and Switzerland for processing the raw-materials as per the international standards (Singapuri, 2018). In view of the GLOCAL laws and political movement in global and local markets, the textile industries of Surat has been affected to a great extent (Chavan, 2001; IBEF, 2008; Tag, 2016; Shetty, 2001). The imports have been reduced to a great extent due to the increment of local cost in Indian rupees, i.e. US \$ appreciation and Yuan depreciation due to trade war of China-US (Shetty, 2001). The payment cycle of the business has been affected due to the dollar appreciation and non exercise of the hedging option by the small scale entrepreneurs. Also the imports of raw-materials has been restricted to some extent due to the higher cost in local currency, which has reduced the production activities, the entrepreneurs have developed another alternatives for the sustenance of the local industry (Shetty, 2001).

The Surat city and its peri-urban area / metropolitan region is one of the leading city-regions in the country that has attracted massive investments of which substantial proportion is under implementation. Major investments made in Surat are in the imported plant and machinery (or capital goods) for the process of textile and diamonds. The business activities of machinery import and exports of finished goods are affected by the

global forces, including fluctuations in FOREX, recession in EU, USA and other parts of the world and now a threat of RCEP agreement is very high (Times of India, 2019; Gujaratmitra, 2019).

The textile industry of Surat mainly operates on a small scale industries level which are being promoted by the entrepreneurs of MSME type who are not having a much deeper knowledge of international trade and law (Shetty, 2001; Bedi, 2009).

This case study deals with an impact of RCEP on Textile Industry of Surat City, which is traditional in nature but have a higher potential in terms of GDP contribution and FOREX generation for our nation (Chaudhry, 2002; Gandhi, 2005; Singapuri, 2018). The present scenario of international trade and trade agreements based competitions (such as RCEP under FTA) has given a "Warning Signal" to the local industrialist & government to think for corrective policy level measures for maintaining the socio-economic balance (Bloomberg (2019; Chandrasekhar, and Ghosh, 2019; Azevedo, 2019; World Economic Outlook, 2018; Tan, and Gonzalez, 2019).

This research work for case study development will thus, put to test the recently introduced RECP (a kind of FTA with 16 nations) in the context of the Indian Textile Industry, especially textile industry of Surat. The study will contribute to the limited understanding of its counter-intuitive impact due to lack of empirical examples.

The research shall bring into perspective the opinions of different textile entrepreneurs of Surat through preliminary survey and interviews, on the dilemma, whether, RECP is going to reduce economic and employment opportunities in Surat or is going to benefit in long term. Thus creating a new outlook towards the overall worth of the international trade law policy and further reforms that it might needed.

In this context, researcher will highlight the impact of RECP on local textile industry of Surat as a part of case study development in MPhil study supported by the preliminary survey on RCEP impact among the industrialists of Surat as a part of academic requirements

2. About Textile Industry of Surat, Gujarat

Surat City is well known from its ancient time in India. Surat is better known as the 'Silk City' or 'Diamond City' or Jari City or Green city and is one of the rapidly developing city, bustling activities of all kinds (Mahadevia and Shah, 2010; Menning, 1998; Parveen, 2014). Surat is also known as an Antwerp of India, 'art silk Manchester' of India and because of Reliance it is known as Plastic City. In Surat around 22 Lacs people are getting revenue from the textile and diamond industry (Chaudhry, 2002; Gandhi, 2005; Singapuri, 2018; Purani, 2000; Hirway, 2009; Hynes, 1997; Mahadevia, 2002; Menning, 1997a; Menning, 1997b; Menning, 1998; Miranda, 1999). During the Mughal period, Surat was famous for various types of cloths and fabrics, such as Kinkhab, Silk, Satin, and Brocades etc (Parveen, 2014). Craftsman and artisans of Surat possessed a very high level of skill and they could produce goods with intricate designs and textures (Gandhi, 2005; Menning, 1998; Parveen, 2014).

Based on the data collected from The Southern Gujarat Chambers of Commerce and Industries (SGCCI), it has been found that the textile industry is playing a major role in the development of industrial base of Surat. Most of the units of the textile industry are of MSME (micro, small and medium enterprises), SSI (small Scale Industries) and Cottage level and operate in an unorganized sector. They are providing valuable employment to semi-skilled and skilled artisan and have a prominent role in the economic development of the city. (Gandhi, 2005; Goti and Nayak, 2015; Menning, 1998; Hirway, 2009; Miranda, 1999).

The city of Surat is being considered as a commercial and financial capital of the Gujarat state and due to its location on DMIC corridor, and two major industries of textile and diamond, it is having a crucial role in the GDP of our nation (Bhasin, 2006; Shah, 2004). Surat is having a strategic place between Ahmedabad and Mumbai regional corridor and has a direct rail, road connectivity with major industrial pockets and urban centers of Gujarat state (Bhasin, 2006). The city is having a regional importance due to its presence on "Golden Corridor" of industrial belt of western India (Shah, 2004).

Due to the unorganized sector of these two industries, the city is having a unique social and economic character which differentiates it from other cities of India (Vaidya, 2009). The city has experienced niche over others due to its dissimilar economic base, favorable environment for industrial growth, availability of water, supporting nature of ULB (for gumastadhara license), and DIC (for SSI license) for cottage level units of diamond, textile and jari industry, social cohesiveness, community bonding, entrepreneurial skill of people and availability of cheap labor (Shah, 2004; Vaidya, 2009).

In past two and half years, the textile industry of Surat city have been affected due to the unplanned and haphazard implementation of local laws, such as GST, and laws related to subsidies to industry (Gujarat Guardian, 2019; Rudalal, 2019; Rajivkumar, 2019; Gujarat Samachar, 2019a). Also after the financial scams of Vijay Mallya, Nirav Modi and Mehul Choksi, financial institutions (banks) have tighten the norms for business loans and paper work have been increased to a great extent; which they are intended to relax as per

the directives from Ministry of Finance of GoI in the context of recession (Gujarat Samachar, 2019b). The demonetization and laps of credit under GST for textile units have affected to the financial liquidity of the entire trade (Singh, 2018; Natraj, 2017; Mishra, 2018; Rudalal, 2019).

Even though the textile industry is traditional in nature, mainly cottage type, lacking in professional business / management practices but are major contributor to the economic development of our nation in terms of both providing employment and generation of FOREX for nation (Chaudhry, 2002; Gandhi, 2005; Singapuri, 2018).

History of Surat City :

Surat is one of the fastest developing metropolitan area of the world and is 9th largest metropolitan city of India (Zanzmera, 2012). Surat city is known for its economic base on two basic industries, i.e. textile and diamond (Mahadevia and Shah, 2010; Menning, 1998; Parveen, 2014). Most of the population of the Surat city is involved in industrial activities, mainly in both these industries, such as textile and diamond (Makvana, 2014; Zanzmera, 2012).

It is difficult to trace the history of Surat city regarding when and who built the city of Surat. This ancient port city with a history dating back to the 11th century BC is today devoid of any visible signs of its maritime history. Various views have been expressed regarding the identity of Surat in mediaeval times. Sir Monier Williams in his 'Modern India and The Indians' suggests that, the old name of the town was Suraj (Sanskrit Surya), city of the Sun. A Mohammedan ruler changed its Hindi name Suraj into Surat, as mentioned in two local histories by Bakshi Walad Shah Ahmed and Munshi Gulam Moho-ud-din. It is the city where the British first land in India. The Dutch and the Portuguese also established their business centers in Surat, the remnants of which are still preserved in the modern day Surat. In past this was a glorious port with ships of more than 84 countries anchored in its harbor at any time. That is a reason that, its main city area is known as 'Choryasi (i.e. eighty four)' Taluka (i.e. Tehsil) of Surat district. Till today, Surat continues the same tradition as people from all around the country flock in for business and jobs (Chaudhry, 2002; Gandhi, 2005; Singapuri, 2018, Hynes, 1997; Menning, 1997a; Menning, 1997b; Menning, 1998; Parveen, 2014).

The industrial policies of state government have played a major role in the development of metropolitan area of the Surat (Makvana, 2014). The recent industrial and economic growth has become a subject of considerable interest among sociologists, linguists, urban planner, advocates, foreign trade experts and the economists along with an urban sprawl (Savani and Bhatt, 2016). Surat a city of historical importance, caught up with momentum of moving towards industrial growth unprecedented in its history (Parveen, 2014). As the industry expanded, approach and strategy of its local entrepreneurs changed. They focused upon technological innovation and they opened indentations for their products towards exports in the international markets with their personal qualities of openness, trust and business working culture (Mahadevia and Shah, 2010; Menning, 1997a; Menning, 1997b).

It has been observed that, before the 1970s, the Surat City's economy was influenced by the jari and art-silk industries. The world famous Kancheevaram sarees of the south India used to get the real Jari made from gold and silver threads / linings from Surat (Gujarat Plus, 2011). Today, another variety of Jari, named as imitation jari, is used for the fabrics made of cotton, art-silk and polyester (Gujarat Plus, 2011; Mahadevia and Shah, 2010).

Geography of Surat :

The city of Surat is situated on the bank of river Tapi (Latitude 21°15' N and 72°52'E). The climate of the city from March to May is warm and moist. The rainy season extends from mid of June to beginning of October, and then October remains mostly dry. The winter season extends from November to February. The average rainfall is 100 centimeter (or 39.5 inch) but in last ten years the figure is varying between 48~65 inch. It occupies a pivotal position on DMIC corridor and is connected by rail-road-air-&-sea with major metros of India. Arabian Sea is only 16 kms from the city and Magdalla port is in near vicinity. It is one of the most dynamic city of India with one of the fastest growth rate due to immigration from various part of Gujarat and other states of India. As of 2018, Surat and its metropolitan area had a population of approximately 6.5 million.

3. National Contribution of Surat as a Textile Industrial Cluster Zone to our nation

The textile industry has received a support from the various semi-government bodies and NGO type organizations, such as The Southern Gujarat Chambers of Commerce & Industry (SGCCI), Surat Vankar Sangh, SASMIRA, MANTRA etc. The share of exports revenue (FOREX) generated from Surat (by textile and diamond industries) is around 59.8% in total exports of India (Chaudhry, 2002; Gandhi, 2005; Singapuri, 2018, Chavan, 2001).

Surat city is one of the most important city on the industrial map of the country with many large industries developed over here. Surat contributes (Source : DIC, Surat) :

- 28 % of the nation's total man made fiber production.
- 18 % of the nation's total man made fiber export.
- 40 % of the nation's total man made fabric production.
- 12 % of the nation's total fabric production.

Jari units are in operation from Mughal period (Parveen, 2014), which are a part of textile industries for consumption of end products in fabrics developments, where as textile units were in operation from British period (Menning, 1997a; 1997b) and flourished after the independence (Shah, 2004), after Britishers arrived in Surat, it emerged as an unorganized clothes capital of county. Before 1759 when the British took over the administrative charge of the city it had already established contacts with merchants from other European countries like Portugal, Netherlands and France. The English began their trade with Surat in 1608. Even prior to that during Akbar's time this region was known as the Emporium of Trades. The port city of Surat was actually the creation of the Mughals. Till the rise of Bombay port in the seventeenth and eighteenth centuries Surat was at the height of prosperity (Government of Gujarat 1991). The Arab, Turk, Iranian and Jewish traders settled in the town of Surat and Khambat which enjoyed the status of international ports. These traders had

brisk business with neighbouring countries like Java, Sumatra, Malaya, Burma, Sri Lanka, the Persian Gulf Countries, Red Sea Ports and other far flung areas. Also it had trade links with prominent cities all over India like Golconda, Burhanpur, Lahore, Ahmedabad, Agra and Delhi. By the early decade of the seventeenth century itself, Surat had acquired the status of 'one of the most eminent cities for trade in all India' (Shah, 2010).

Surat was a great commercial centre in the seventeenth century and the European nations carried on a very profitable trade there. But there were a few factors, which caused considerable disturbance and injury to the trade of the city. They were – first the raids of the Marathas, second the attitude of the Mughal Officials towards the merchants, third piracy in Indian Waters, fourth the policy of discrimination towards Hindus and fifth, the rivalry of the European merchants (Shah, 2010). After the independence, the Manchester of India (Ahmedabad) and financial capital of India (Mumbai) had experienced a downfall due to the multiple factors; resulted into the emergence of unorganized cluster of textile industry in Surat in contrast to the famous economic theory of 'Flying Gheese' (Menning, 1997a; Menning, 1997b; Menning, 1998).

Surat is India's 12th and Gujarat's 2nd most populous city and is one among the 11 cities in the country, which has acquired a metropolitan status in 1991 census by crossing the one million mark. The 1961 census classifies the Surat City as a "manufacturing town". (Shah, 2010). Due to the agglomeration of unorganized industrial clusters, around 88.4% of the total urban population of the district is living in the Surat metropolitan area (Census of India, 2011). This can be considered as a sturdy pointer of specific economic and social activities took place in the industries of the city (Shah, 2010). The SSI level, MSME and cottage type industries of textiles – yarn making, weaving, dyeing and printing, and embroidery (jari and cotton thread) are having a dominated role in the economic development of Surat (Shah, 2010).

In present time as well, Surat is one the biggest small-scale industrial center of South Gujarat with a valuable contribution in FOREX earning for our nation (Brief Industrial Profile, Surat district, 2011). The development of various industries in Surat has been disorganized due to the lack of governmental control and entrepreneurship approach for home based cottage type units (Mahadevia and Shah, 2010; Engineer, 1994).

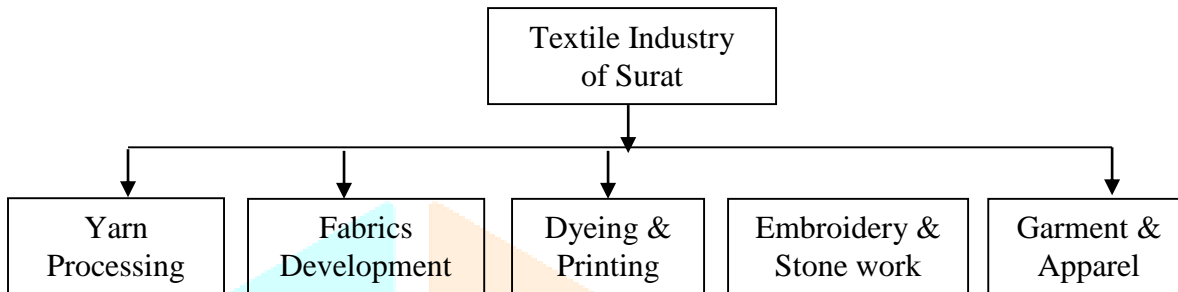
India exported 16 billion USD of textiles in the year 2016 which is 5.7% of total world exports, the second largest individual country to do so (Bansal, 2018). The total exports increased to USD 37.74 billion in the financial year 2017-18 (Bansal, 2018). The industry registered an export growth of 7.5% in the country's 12th five year plan (Ministry of Textiles, 2018) and contributes to 15% of country's export earnings – one of the largest in the country (Bansal, 2018), 2% of GDP and 7% to the industry output in terms of value (Bansal, 2018).

From past data of exports from India, it can be said that, textile industry have a share of around 35% and MMF yarn have a share of around 3.5 ~ 4.0 %. (Brief Industrial Profile, Surat District, 2011). Past five years data indicates that the growth rate of Surat textile industry is around 10% (Fibre2Fashion, 2017).

The textile manufacturing chain of Surat comprises of the following activities :

1. Yarn processing (texturizing, twisting, warping and yarn dyeing)
2. Fabrics Development (on Weaving Looms, Knitting M/C and Needle Looms)
3. Fabrics Dyeing and Printing (including inkjet / digital print & sublimation print)
4. Embroidery & Stone work on Fabrics
5. Garment & apparel development

The traditional textile industry of Surat comprises of :



1. **Yarn processing** (texturizing, twisting, warping and yarn dyeing)

Main raw-materials for this stage is raw yarn comprises of man-made fibers (MMF) / synthetic yarn (i.e. POY, FDY, PSF, viscose or art silk) and natural yarn (cotton and silk). The synthetic yarn mainly supplied by corporate players, such as Reliance, Garware and Bombay Dyeing and by non corporate players such as Shubhalakshmi, Devika and many more.

Synthetic yarns are the product derived from petrochemicals, such as polyester is derived from monoethylene glycol (MEG) and paraterephthalic acid (PTA) and nylon is made from caprolectum. Major yarns used in Surat market is polyester and viscose for development of sarees, dress materials and made ups, where as nylon is mainly used for the development of technical textiles.

Spinning is an operation in which liquid material pass through Spinnerets (it comprises of micron size holes and manufactured from either platinum or gold or high alloy), which comprises of micron size holes; the liquid divides into no. of streams according to the no. of micron size holes. The main function of the spinnerate is to convert the molten polymer into multi filament yarn through phase change. After spinning, the yarn wind on the cylinders made from card box, known as POY, PSF, BCF etc. and send to the market for further processing, known as texturizing. The process of Texturizing (i.e. to strengthen the yarn) of man-made fibers such as Polyester, Nylon and Cellulose based products carried out to make them suitable for fabrics production. . However, mainly Polyester is widely used in Texturizing process. These machines will be mainly used in the Texturizing process of yarn and in down stream the yarn will be later process for fabrics and other technical textile development.

After texturizing process, on yarn twisting process carried out to make yarn suitable for weaving process. Warping is a process to develop beams comprises of warp yarn for supplying the same to weaving looms and warp knitting machines.

Yarn processing provides valuable employment to people and also exports of yarn from Surat is done to Latin America, Europe and Africa.

2. Fabrics Development (on Weaving Looms, Knitting M/C and Needle Looms)

Fabrics development is mainly through weaving and knitting process. Weaving process comprises of two types of process, i.e. shuttle based weaving looms and shuttleless weaving looms (such as Rapier, Waterjet and Airjet). Both these looms use two types of yarn, i.e. warp yarn and weft yarn for the development of fabrics. Knitting Machines are also of two types, i.e. warp knitting machines and circular knitting machines. Warp knitting machine uses warp and weft yarn for the development of warp knitted fabrics and circular knitting machines mainly used for the development of apparels related fabrics. Needle looms mainly used for the development of narrow fabrics, such as brocades, ribbon and laces.

Surat is producing around 30 million meters of grey fabrics and 25 million meters of dyed and printed fabrics on a daily basis (Fibre2Fashion, 2017).

3. Fabrics Dyeing and Printing (including inkjet / digital print & sublimation print)

The dyeing and printing house unit is mainly used for the production of dyed and printed fabrics, dress-materials and garments on job work and on direct exports basis with the specific quality criteria to cater the market demands of local and global level. The dyeing & printing work is done after the weaving process by using the following plant & machinery in the unit.

Based on the available information from SMC, there are around 326 Dyeing and Printing units in and around Surat city. Out of which around 78 dyeing and printing units are in operation in city limits and rest are in outskirts of the city. The dyeing and printing houses mainly produces dyed and printed fabrics, which is being sold out in textile markets located on the ring road. The main feed stock for these dyeing and printing units is clothes / fabrics produced by the weaving units.

As per the information provided by Federation of Surat Textile Traders Association (FOSTA), forward integration is started in the form of fashion studios in Surat to add more value addition on the fabrics. One of the forward integration of this is initiation computerized embroidery units in Surat.

Two of the leading international brands, such as Garden Vareli and Vimal (Reliance) have their textile units in Surat (Fibre2Fashion, 2017). Also in past 15 years, some of the local manufacturers of Surat have developed their brands at India level and now they are moving further in international market, such as Parag, Rivaa,

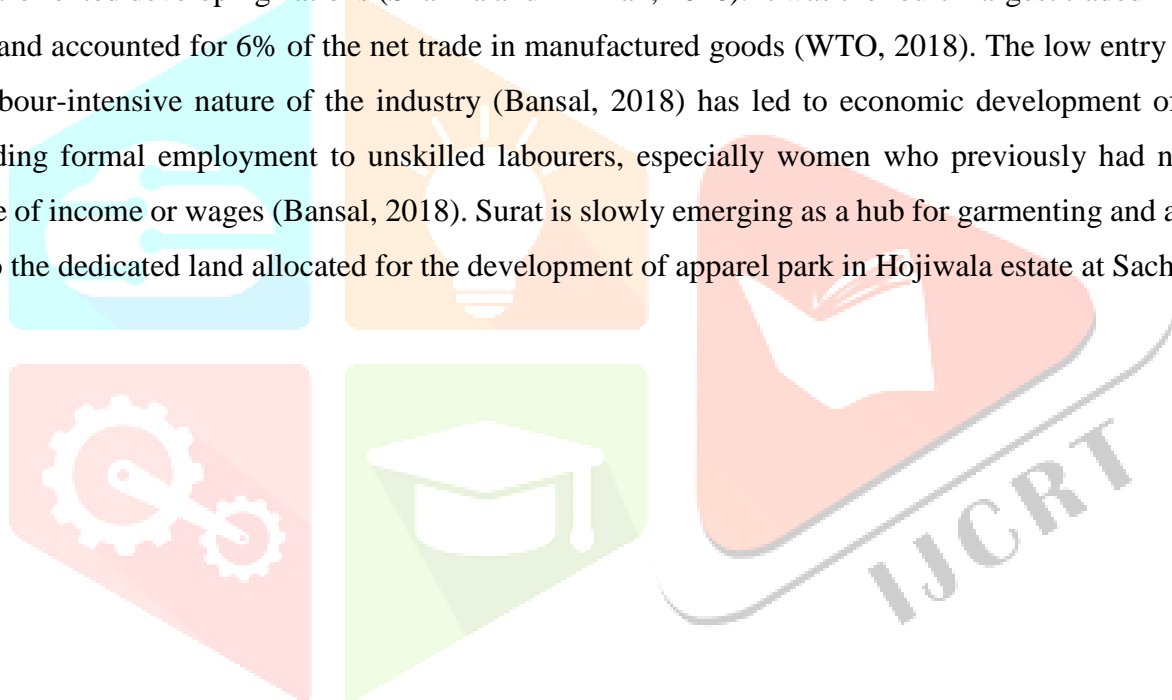
Prafful, Sahiba, Sahlon and Vipul; but they fail to create specific brand identity in international market (Fibre2Fashion, 2017; Textile Companies, 2017).

4. Embroidery & Stone work on Fabrics

As per the data obtained from Synthetic and Rayon Textile Export Promotion Council (SRTEPC), Surat and District Industries Center (DIC), Surat, there are more than 5,000 units of embroidery machines in Surat who are producing around 30,000 million meters fabrics per day. Development of embroidery design on dyed fabrics is one of the forward integration for value addition. This particular movement is known as fibers to fabrics (entire chain of textile industry) in Surat (Fibre2Fashion, 2017).

5. Garment & apparel development

The Apparel and Textile industry is one of the oldest and leading sectors of economic globalisation for several export-oriented developing nations (Sharma and Dhiman, 2016). It was the fourth largest traded manufactured good and accounted for 6% of the net trade in manufactured goods (WTO, 2018). The low entry barriers and the labour-intensive nature of the industry (Bansal, 2018) has led to economic development of nations by providing formal employment to unskilled labourers, especially women who previously had no organized source of income or wages (Bansal, 2018). Surat is slowly emerging as a hub for garmenting and apparel units due to the dedicated land allocated for the development of apparel park in Hojiwala estate at Sachin, Surat.



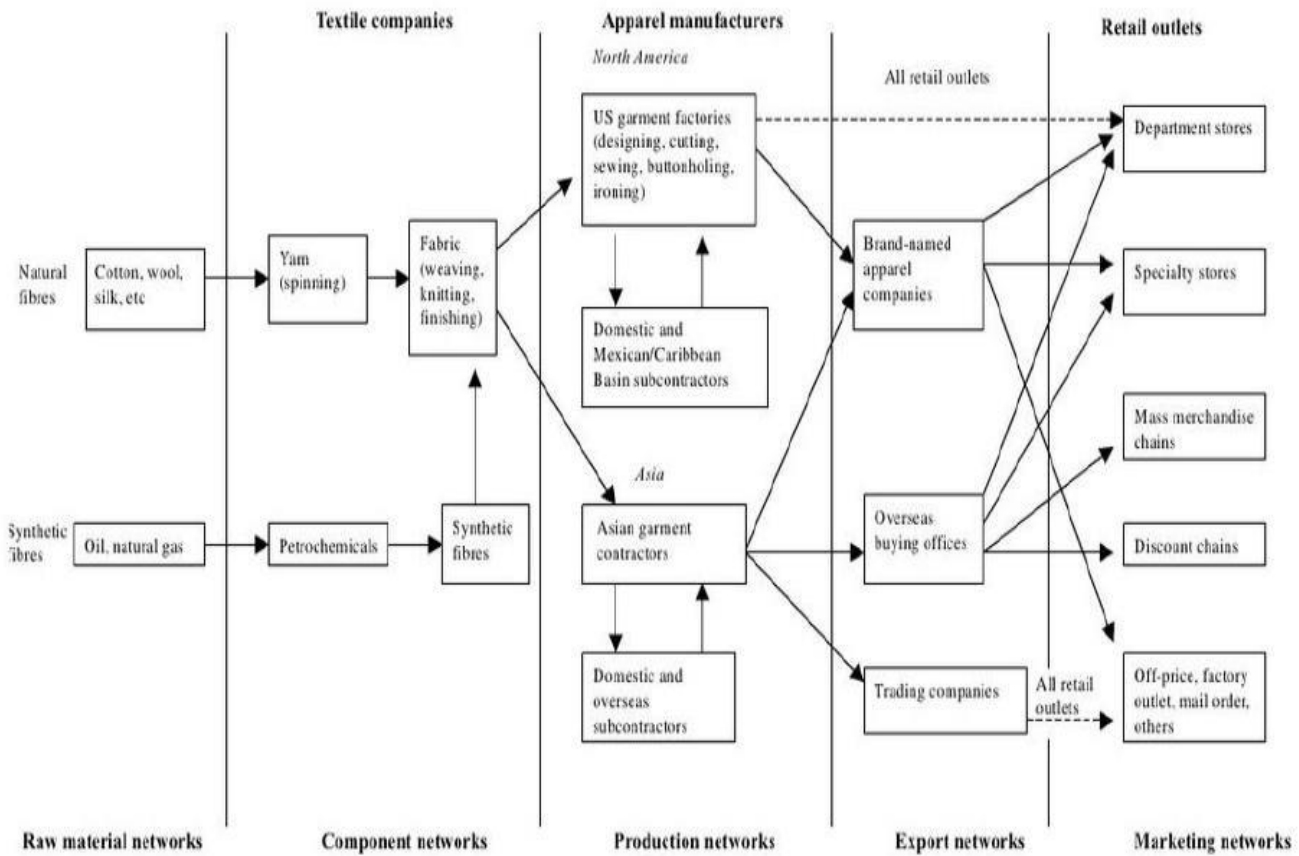
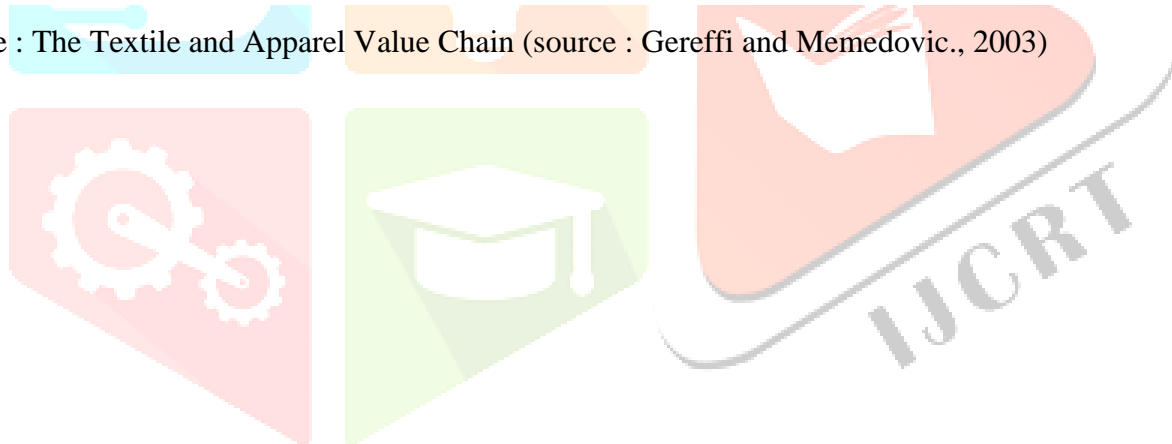


Figure : The Textile and Apparel Value Chain (source : Gereffi and Memedovic., 2003)



4. Regional Comprehensive Economic Partnership (RCEP) - proposed free-trade agreement

RCEP potentially includes more than 3 billion people or 45% of the world's population, and a combined GDP of about US \$ 21.3 trillion, accounting for about 40 % of world trade. The combined GDP of potential RCEP members surpassed the combined GDP of Trans-Pacific Partnership (TPP) members in 2007. Continued economic growth, particularly in China, India and Indonesia could see total GDP in RCEP grow to over \$100 trillion by 2050, roughly double the project size of TPP economies.

After entering into RCEP, it is expected that negotiations and the agreement will be completed by June 2020 (Gujarat Guardian, 2019), and the deal will be signed next year. India has also been facing opposition from several domestic industries over RCEP. They fear that this agreement will sound the death knell to several industries.

India's conditions for RCEP are as follows :

- **Base year for tariffs :** The RCEP will result in all countries reducing their tariffs. Since negotiations began in 2013, the pact has proposed that the base year, based on which tariffs will be reduced, be 2013. But India wants to change the base year applied to reduced tariffs to 2019. This is because India has raised customs duties on scores of products since 2014, and so prefers 2019 as a base rate, so that it can charge a higher customs duty. Negotiations which began in 2013 have obviously stretched, and according to Mint, India's tariffs have increased, on average, from 13% to 17% because of an increase in tariffs on sectors such as textiles, auto components and electronic items.
- **Auto-trigger :** In case there is a sudden surge in imports due to the trade pact, India wants an auto-trigger mechanism to be in place, which will allow it to decide which products it doesn't want to offer the same concessions to.
- **Ratchet obligations :** It also wants exemptions on ratchet obligations. A ratchet mechanism means that if a country signs a trade agreement with another country where it liberalises (i.e., removes or reduces) tariffs, quotas, etc on import and export of products, it cannot go back on them and bring in measures that are more restrictive. In this case, wanting an exemption on ratchet obligations would mean that India wants to be able to bring in restrictive measures in the future, if required. Meaning, it wants to be able to increase tariffs in the future.
- **Data localization :** As part of the RCEP, India wants all countries to have the rights to protect data. The government also reportedly said that by this, countries may prevent the transfer of information across borders, and will share only where it is "necessary to achieve a legitimate public policy objective" or "necessary in the country's opinion, for the protection of its essential security interests or national interests". However, this was opposed by 14 out of 16 countries.

Opposition to RCEP within India

There has also been talk about India eventually not signing the agreement as well, and not without cause. Multiple sectors have shown abundant resistance to the agreement. The RCEP proposes that 92% of India's goods would be tariff-free over the next 15 years. Most countries wanted India to slash existing tariffs on up to 90% of all goods.

While being a part of a bloc such as this may certainly be of strategic importance, there have been concerns that with most custom tariffs being reduced or removed, India's industries will suffer and will specifically see an influx of cheaper goods from China.

The industry reservations aren't unfounded, given India's huge trade deficit with China. Trade deficit means that what we import from China exceeds what we export to them. India's largest trade deficit with China is at \$53 billion. This has left people worried that in the absence of tariffs, the market could be flooded with Chinese goods. According to reports, India had agreed to remove tariffs on 74% of the goods it trades with China over 20 years. However, China is unwilling to "commensurate to India's demands," an official told Business Standard.

Major Indian Industries worried from RCEP agreement under FTA are :

- Dairy
- Steel
- Agriculture
- Automobiles
- Textiles

The scenario of Textile is elaborated as follows :

- The RCEP will reportedly allow free import of polyester fabrics from China, Vietnam, Bangladesh and other countries, which could lead to cheaper textiles, affecting an already-hit sector.
- "India's trade deficit with China in the textiles and clothing sector is likely to be widened once RCEP is concluded and could be detrimental for its domestic textile manufacturers," said Confederation of Indian Textile Industry Chairman Sanjay Jain said in May.

How past free-trade agreements have worked out

- A report by NITI Aayog showed that India imports more than it exports to countries with which it has free-trade agreements, and exporters don't use regional trade agreements. The note also showed that after the ASEAN-China Free Trade Agreement was enacted in 2010, goods trade of the countries – Indonesia, Malaysia, Thailand, Vietnam, Philippines and Singapore – with China went from a surplus of US \$ 53 bn to a deficit of US \$ 54 bn in 2016.
- "Given India's inability to negotiate a good services deal in the past, RCEP negotiations especially with China need a second thought. Indian industry will have more to lose than gain if it agrees to a liberal tariff elimination schedule specially w.r.t China," the report said.

The government's stance

- On 16.10.2019, PM Modi held a meeting with senior Cabinet ministers to decide India's final stand. While India is reportedly trying hard to protect the country's interests, Commerce Minister Piyush Goyal defended the RCEP saying that India cannot stay isolated in a globalised world and that it cannot stop its engagements and trade with the rest of the world (Times of India, 2019)..
- "If India remains out of RCEP, we will be left isolated from this large trading bloc. The trade among RCEP countries is about \$2.8 trillion. If India sits outside RCEP, whether it is in our interest or against our interest, it is also the responsibility of the government to see. You will want us to engage to find solutions which is in national interest," A Mint report quoted Goyal as saying at an event last week. But, Goyal said that the government will ensure India is not flooded with cheap Chinese goods (Times of India, 2019).



5. Survey on likely effect of RCEP on Textile industry of Surat

Researcher has conducted a small preliminary kind of survey to find out the impact of RCEP on local textile industry of Surat. Researcher has carried out the telephonic and whats-app based small questionnaire based survey with interviews of the leading textile entrepreneurs and officials of some of the NGOs, such as SGCCI, FOGWA, FIASWI, CII etc. Following is the outcome of the same.

5.1 Quantitative Outcome

Respondent Profile	Total	%
Yarn Manufacturer	08	12.31
Fabrics Manufacturer	12	18.46
Dyeing & Printing House	08	12.31
Embroidery & Stone Work	06	9.23
Garment & Apparel Manufacturer	04	6.15
Fabrics Traders (of Textile Market)	15	23.08
Textile Exporters & Importers	08	12.31
Officials of NGOs	04	6.15
Total	65	100

Explanation :

Researcher has received total 65 responses from the local textile industry of Surat out of which 58.46 % are from textile manufacturing sector and 41.54 % are from the textile trade sector.

Questions

1. Do you have an idea of RCEP trade agreement ? Yes / No

	Yes	No	Total
Textile Manufacturing Sector	35	03	38
Textile Trade Sector	26	01	27

2. From where did you came to know about RCEP ? Friends / NGOs / News paper / TV / Social media

	Friends	NGOs	NP	TV	SM	Total
Textile Manufacturing Sector	03	15	12	02	03	35
Textile Trade Sector	04	07	11	01	03	26

3. Do you feel that RCEP is needed for betterment of textile trade ? Yes / No / Can't Say

	Yes	No	Can't Say	Total
Textile Manufacturing Sector	07	22	06	35
Textile Trade Sector	02	18	06	26

4. Do you feel that India must sign RCEP trade agreement ? Yes / No / Can't Say

	Yes	No	Can't Say	Total
Textile Manufacturing Sector	04	22	09	35
Textile Trade Sector	02	18	06	26

5. Do you feel that RCEP will have an adverse impact on local textile industry ? Yes / No / Can't Say

	Yes	No	Can't Say	Total
Textile Manufacturing Sector	28	05	02	35
Textile Trade Sector	20	05	01	26

Reasons supporting these results of Sr # 1 to 5 have been outlined in qualitative outcome.

5.2 Qualitative Outcome

Not in favor of RCEP trade agreement

Majority of the respondents are not in favor of implementation of the Regional Comprehensive Economic Partnership (RCEP) in India, followings are some of the reasons / remarks in support of the same,

- RCEP will demolish the local textile industry, as low cost fabrics from China will dump in local market
- Due to RCEP, unemployment rate in market will increase
- Instead of RCEP, it is better to implement Remission Of Duties or Taxes on Export Products (RODETP)
- Instead of RCEP, it is better to increase the subsidies on exports from India
- Instead of RCEP, at present MSME sector of textile need support in the form of relaxation in bank interest, subsidies under TUF and CLCSS
- To avoid the zero duty dumping of textile goods (from Bangladesh and Vietnam) in local market, there is a need to implement a concept of “Origin of Goods”. This will help to identify Chinese fabrics / textile materials dumped in Indian via Bangladesh and Vietnam.
- As per the officials of DRI (directorate of revenue intelligence), even in absence of RCEP, China is exporting its goods to India via Bangladesh under SAFTA agreement, hence certificate of origin is needed to control the dumping; but under RCEP, China will start direct dumping of the goods, which will have an adverse impact on local industry.
- Even in absence of RCEP, the trade of 2017–18 with RCEP nation is in a deficit of 105 billion US \$; the said deficit is likely to increase to a huge amount if RCEP agreement is done (mainly due to the dumping of goods at low price with zero duty)
- It is being expected that with RCEP import duty on import of around 80-85% goods will be at zero percent customs duty and this move will provide an easy access to Chinese products for their dumping.
- As far as textile industry is concerned, RCEP is going to be more benefited to nations like China, Indonesia, Bangladesh, Vietnam and not to India
- Due to trade war of China – USA, heavy loss has been incurred to China and because of the same; China is looking for Indian market to dump their products under RECP.
- At present after demonetization (DEMO) and unplanned imposition of GST, local textile industry is facing a problem of liquidity; the said will worsen if RCEP will be implemented
- After DEMO and GST, Surat textile industry of Surat has cut down a production by 40%, which is likely to go by 70% if RCEP implemented.
- For the likely impact of the implementation of RCEP, the officials of SGCCI have quoted a case of Agarbatti business of India and express the threats of same for local textile industry
 - The local Agarbattis business of India demolished by the dumping of Chinese and Vietnam agarbattis in Indian market

- Raw agarbatti import from China and Vietnam in the year 2009 was Rs. 31 Cr; after the huge reduction in import duty under the Indo-ASEAN Free Trade agreement, the said rose to Rs. 540 Crores in 2018
- Because of the same, MSME in the local business are faced with a crisis – pricing is down from Rs 70/kg to Rs 48/kg.
- Around 25% of the agarbatti production units closed down and resulted in reduction of employment opportunities at grass-root level.
- Trade experts are of opinion that instead of RCEP, government has to look for extending the tax benefits for exports such as :
 - ‘Rebate of State and Central taxes and Levies (RoSCTL) Scheme for managing the textile value chain of apparels and made-ups sectors.
 - Trade experts are of opinion that RoSCTL will allow reimbursement of duties on export inputs and indirect taxes via transferable scrips. Scrips are incentives that can be used to pay duties.
 - Amend the foreign trade policy (FTP) : 2020-205 to cut the raw-materials cost by allowing ease norms for raw-materials import and capital goods
 - Offer higher export rewards to products with geographic indication (GI) tag, such as ‘Surat Jari’; ‘Surat Gaji’ clothes etc.
 - Simplification of various export incentives schemes, such as advance authorization to facilitates duty free import of inputs for export products and Export Promotion of Capital Goods (EPCG) that allows exporters to import certain amount of capital goods at zero duty for upgrading technology related to exports of textile goods.
- Trade experts have disclosed that in the present scenario of international trade, India’s textile and apparel trade gap with China (a member of RCEP agreement) has widened because India is losing its share of cotton yarn to Vietnam and Pakistan due to lower cost. And the said trade will deteriorate further under RCEP agreement.
- Mr. Mandar Dave (textile commodity expert) has said that instead of RCEP, govt. has to focus on :
 - immediate attention is needed to stop the import from Bangladesh under free trade agreement to protect the local garment producers and retailers.
 - international trade policies which are highly import oriented and not export oriented, which reflects from current trade statistics (mainly deficit in BoT).
 - to give subsidy for exports of textile goods from India.
- Around 90% of the textile units operates in unorganized segments will be affected badly by RCEP.
- Based on the trade statistics, Mr. K V Srivastava (Chairman of TEXPROCIL) has said that around 24% if the reductions in exports of yarn and fabrics and majority of the units have been close down. He has emphasized to promote RoSCTL and not RCEP agreement.
- Instead of RCEP, govt has to focus on increase of FDI in our nation. This will help to boost the GDP, provide employment to the youth at large and will bring the economic development.

- Instead of RCEP agreement, government has to release the TUF subsidy to the textile entrepreneurs for promoting the technology upgradation.
- President of SGCCI (Ketan Desai) has said that in the context of prevailing circumstances, it is important for our government to focus on following issues and not the RCEP :
 - Pending subsidies under TUF and CLCSS
 - Credit laps under GST
 - Restrict the import of fabrics from Bangladesh and Vietnam
 - Promoting clusters of group work shed
 - Provide loans at lower interest rates to small entrepreneurs
 - Solar energy subsidy under the utilization of renewable energy in textile production
- Exporters have demanded that they are in need of providing more benefits under MEIS (Merchandise Exports from India Scheme) and not the RCEP.
- Some of the trade experts are of opinion that with RCEP agreement, it will be difficult to develop US \$ 5 trillion economy and their rationale are as follows :
 - dumping of low cost products at zero percent customs duties from member countries
 - will close down the textile manufacturing units, results into reduction of GDP and reduction of employment opportunities.
 - will hamper the dream of 'Make in India' of our PM
- Due to the GST and international trade war, in 2019-20, the exports of MMF yarn and fabrics from India have been reduced by 54.92 % and 58.57% respectively. This situation will further deteriorate after the RCEP.
- A post card movement initiated by the entrepreneurs of textile industry of Surat to our honorable PM for "NO RCEP agreement. Accordingly, PM has extended the date of implementation of RCEP agreement to June 2020.
- As per the information provided by Mr. Mayur Golwala (fabrics weaver), Surat is a major importer of Bemberg yarn from Japan. Under a threat of RCEP agreement, Press Reporters from Japan has recently visited Surat to explore the survey to check the impact of RCEP on Bemberg yarn business.
- Textile Industry leaders, like Mr Ashish Gujarati, Mr. Ashok Jirawala, and Mayur Golwala have said that, after the RCEP agreement, around 12 crores workers associated with power loom weaving across the India will be unemployed.

In favor of RCEP trade agreement

Some of the respondents are in favor of implementation of the Regional Comprehensive Economic Partnership (RCEP) in India, followings are some of the reasons / remarks in support of the same,

- RCEP will provide the ease of excess for exports of goods

- RCEP will help to boost the economic growth and help to curb the economic slow-down in a same way, China did in past 3 decades
- Under RCEP, with the help of Taiwan, production of technical textiles can be increased; the officials of SGCCI and CII has said that, with a population of merely one crore; Taiwan is able to export technical textiles of 360 billions US \$ where as India has an exports of technical textile of only 300 billion US \$.
- With the help of Taiwan in technology up-gradation, Surat is able to produce technical textiles at par with international standards. The exports of the same will boost under RECP.
- Under RCEP, Surat textile industry is able to exports technical products such as home furnishing materials, sports wear, medical textiles etc.
- As per the officials of SGCCI and CII, under RCEP, Surat can boost up exports of ‘Khadi’ Clothes with a slogan or business tag line of “Globalizing the Brand Khadi – the pride of India”
- Under RCEP, khadi exports from India will help to establish cluster of khadi production in Surat, Gujarat. This will be a new business area other than synthetic / polyester clothes production
- RCEP will help in the campaign of Make in India launched by our PM Shri Modi for the exports of higher quality textile products.
- RCEP will help to boost contract manufacturing under 100% FDI in textile manufacturing; this will help to have joint ventures with global brands and generate more employment in local regions of Surat and helps in the exports of textile products.
- Past data of yarn exports from India indicates that there is a fall of 35% in cotton yarn exports in first quarter of 2019-20 (i.e. April–June ‘2019); experts of trade are of opinion that trade agreements like RCEP will help to explore new markets and increase the exports of yarn from India
- Trade experts have said that at present, China is importing fabrics from Pakistan with zero duty under their free-trade agreement while Indian fabrics are subjected to 10% duty. Under RCEP agreement, India will be able to supply / exports fabrics to China with zero percent duty. This will open the gates for Indian businessmen to explore Chinese market.
- Under RCEP agreement, India will be able to explore markets of other member countries, which will help to boost the economic development.
- RCEP will help to India to maintain the stability of Indian Rupees against the US \$, by exporting more products from India under zero duty free trade.
- There are some of the textile manufacturers who favors RCEP and have given the rationale as follows :
 - As good quality Chinese and Vietnam fabrics will dump at lower cost in Surat market will provide a tough competition to local textile manufacturers. This will be a guiding movement for local textile manufacturer to improve their products’ standards.
 - Over a period of time, there will be close down of SSI and MSME type textile units and mergers of small units will took place and conglomerate manufacturing will start. This will help to reduce the cost of production, improve the quality of products,
 - As small units will be close down, the burden of various subsidies granted by government for small units will be reduced.

- It will be easy to develop international brands of textile products, mainly the garments and apparels.

This will help to promote the exports of branded products.

6. Concluding Remarks :

Taking into considerations the above discussions, it can be said that most of the entrepreneurs are not in favor of signing RCEP agreement by government of India under FTA. Government must have to be cautious before signing the RCEP agreement. There will be multiple negative effects of signing this RCEP by India. Textile entrepreneurs are perceiving threats of RCEP in terms of loss of business and unemployment.

On the other side, certain entrepreneurs of local textile industry of Surat are of opinion that in long runs, due to RCEP, the quality of finished goods will increase and help to implement Make in India concept with the development of global brands.

As a researcher of international trade law, I am of opinion that, government must have to take holistic view and consider the voice of every stakeholder before the implementation of RCEP.

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