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WORKING PAPER

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Free Trade on Paper, Protection in Practice: How India's Policy Interventions Hollow Out Trade Liberalisation

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Abstract

Free trade agreements are often presented as stepping stone to trade liberalisation. In practice, their economic effects depend less on negotiated tariff schedules than on how governments deploy domestic policy instruments once agreements take effect. This paper shows how formal tariff liberalisation can be systematically offset through instrument substitution, generating persistent monopoly rents and eroding downstream export competitiveness, using the case of Viscose Staple Fibre (VSF), a critical input in modern apparel production, under the ASEAN–India Free Trade Agreement. Combining firm-level sales data with international trade prices, we estimate that between 2010 and 2024 this policy regime generated US\$2.5–3.1 billion in monopoly rents. Downstream manufacturers bore the cost, as India's share of global exports of VSF-based yarn and garments declined over the same period. The VSF episode illustrates how governments can comply formally with trade agreements while reproducing protection through domestic policy instruments, with predictable distributional consequences along global value chains.

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1 Introduction

Free trade agreements (FTA) are often justified as stepping stones toward broader trade liberalisation (Lawrence, 1991). By committing governments to phased tariff elimination, FTAs are presumed to weaken protectionist interests and pave the way for deeper integration through lower Most-Favoured-Nation (MFN) barriers. A long literature, however, questions this optimism. Critics argue that preferential agreements may instead function as stumbling blocks, entrenching selective protection and diluting incentives for genuine liberalisation (Bhagwati & Panagariya, 1999; Krishna, 1995). Whether FTAs ultimately liberalise or merely repackage protection, therefore, remains an open empirical question.

This paper argues that the stepping-stone versus stumbling-block distinction understates a more fundamental problem. Once tariffs are phased out under an FTA, governments may preserve protection through instrument substitution—the strategic deployment of trade remedies, regulatory standards, and administrative controls that reproduce the effects of tariffs without formally violating treaty commitments (Bown, 2011; Hoekman & Nelson, 2020). When such instruments are available, formal compliance with FTAs can coexist with persistent protection in practice.

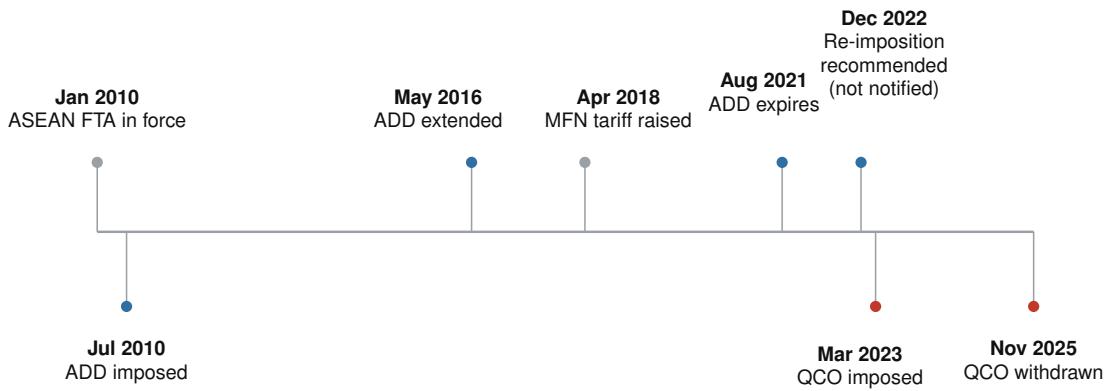
Understanding how this substitution operates has become particularly urgent for India. After nearly a decade of disengagement, India has re-entered the FTA landscape, signing or concluding agreements with the United Kingdom, New Zealand, Oman, and the European Union. These initiatives signal a strategic correction: an acknowledgement that export-led growth requires deeper integration into global value chains. Yet India's recent trade history suggests that optimism should be tempered. Experience under earlier agreements reveals a recurring pattern in which tariff concessions are announced, implemented, and then quietly neutralised.

India's experience under the ASEAN–India Trade in Goods Agreement (AITIGA) is illustrative. Although the agreement entered into force in January 2010 with commitments to eliminate tariffs on a wide range of intermediate inputs, India initiated anti-dumping investigations on 54 ASEAN-linked products between 2010 and 2024, imposing 80 product–country duties.¹ These measures were concentrated overwhelmingly on upstream inputs and intermediates. The pattern is consistent with broader evidence that formal tariff liberalisation often fails to translate into effective market access when governments retain discretion over contingent protection (Krishna, 2024).

¹Authors' own calculations based on Anti-Dumping Duty Notifications reported in Customs Tariff Database Online, Ministry of Finance, Government of India. Anti-dumping measures are counted on a unique product–country basis to avoid double-counting sunset reviews or renewals.

Nowhere is this dynamic clearer than in viscose staple fibre (VSF), a critical input in modern apparel production. Under AITIGA, tariffs on VSF imports—particularly from Indonesia—were scheduled for elimination. In practice, this liberalisation was systematically offset through a rotating mix of anti-dumping duties (ADD), MFN tariff adjustments, administrative extensions, and, ultimately, Quality Control Orders (QCOs). Together, these instruments neutralised the FTA almost entirely, as shown in Figure 1.

Figure 1: Timeline of Policy Interventions in VSF (2009–2025)



Source: Authors' compilation based on official documents.

What makes VSF analytically distinctive is who was being protected. VSF production in India is characterised by extreme upstream concentration: a single firm supplies nearly the entire domestic market. There is no infant industry to nurture, no fragmented sector struggling to emerge, and no plausible dynamic-efficiency rationale for prolonged insulation from foreign competition. Yet successive policy instruments were deployed to shield this upstream input from imports even after tariff elimination was mandated. Similar patterns of instrument rotation have been documented across India's man-made fibre segments, where upstream protection has repeatedly come at the expense of downstream competitiveness (Anand & Thomas, 2022; Joshi & Thakurta, 2025).

This pattern reflects a deeper political-economy logic. When preferential liberalisation threatens concentrated upstream interests, protection does not disappear; it mutates across policy tools. As Krishna (1995) and Krishna (2024) argue, preferential agreements are often designed or managed in ways that preserve the rents of powerful domestic lobbies. In this sense, regional agreements can act as stumbling blocks to broader liberalisation—not by preventing tariff cuts, but by legitimising protection through alternative instruments.

The consequences for downstream sectors were substantial. By insulating a key upstream input, trade policy imposed a de facto tax on competitive, labour-intensive yarn and garment industries. Using domestic-export price wedges and sales volumes, we es-

timate that between 2010 and 2024 this protection generated roughly US\$2.5–3.1 billion in rents for the dominant VSF producer. As domestic VSF prices rose, yarn and garment manufacturers lost competitiveness. India’s share of global exports of viscose-based yarn declined from 13.2 per cent in 2011 to 8.7 per cent in 2024, and its share of viscose-based garments fell from 5.0 per cent in 2017 to 3.9 per cent in 2024.

This paper makes three contributions. First, it documents how tariff liberalisation under a major free trade agreement was systematically offset through the selective use of trade remedies and administrative barriers, highlighting the gap between formal and effective liberalisation. Second, it quantifies the scale of excess returns created by prolonged upstream insulation in a concentrated market. Third, it traces how input distortions are transmitted downstream, linking protection to trade diversion and declining export performance in labour-intensive viscose-based garments—precisely the sectors India’s new FTAs aim to strengthen.

The paper proceeds as follows. Section 2 explains why AITIGA-mandated tariff liberalisation in VSF mattered for India’s apparel value chains. Section 3 shows how anti-dumping duties pre-empted the FTA’s tariff cuts. Section 4 documents the shift to non-tariff barriers following ADD withdrawal. Section 5 quantifies the resulting monopoly rents using domestic–export price wedges and sales volumes. Section 6 traces downstream consequences and India’s declining export share. Section 7 concludes with policy implications for India’s current generation of FTAs.

2 The ASEAN FTA Promise — and Why It Mattered

The global textile and apparel industry has shifted decisively toward man-made fibres. Nearly 70 per cent of global fibre consumption today is synthetic or artificial,² reflecting the rise of fast fashion, performance wear, and advances in blending technologies. Viscose is a biodegradable, versatile, and easily blended fibre and has become a standard input across modern apparel supply chains.

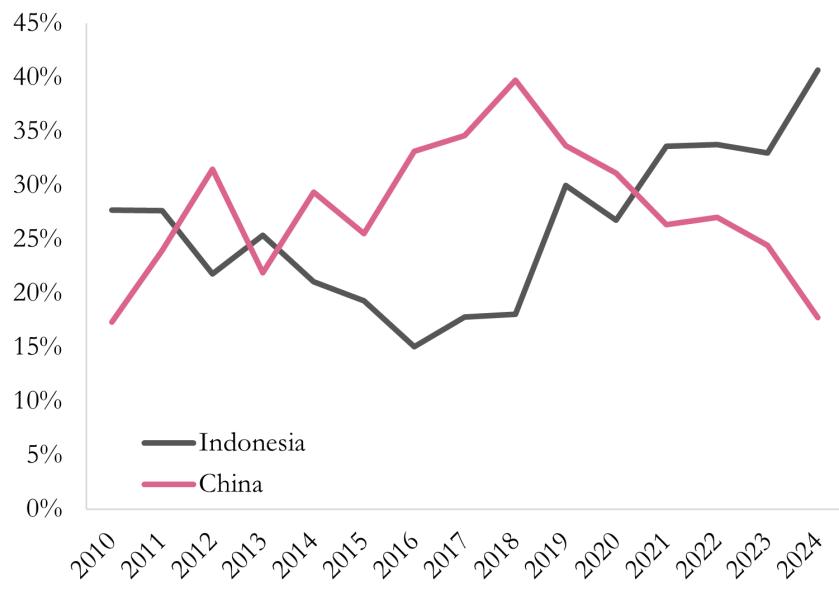
India has been slower to adjust. Despite ambitious export targets, its fibre mix remains misaligned with global demand: cotton still accounts for about 60 per cent of domestic fibre use, while man-made fibres account for roughly 40 per cent (United Nations Statistics Division, 2024). This divergence is not technologically determined. It reflects a policy

²There is a conceptual distinction between synthetic and artificial fibres. Synthetic fibres, such as polyester and nylon, are derived from petrochemical intermediates. In contrast, artificial fibres, such as viscose, are produced from natural raw materials, most commonly wood pulp, that are chemically processed to create fibre.

environment that has consistently raised the cost of man-made fibres, favoured upstream producers and weakened downstream competitiveness in an industry where access to affordable intermediates is central.

AITIGA was specifically designed to address this constraint, and Indonesia played a central role in this vision. It is among the world's most competitive and largest VSF producers, accounting for over 40 per cent of global exports by value in 2024, with vertically integrated operations based on a strong raw material base, strong sustainability credentials, and deep links to global apparel value chains (Figure 2).³

Figure 2: Share in global exports of VSF



Source: UN Comtrade.

The AITIGA was signed in August 2009 and entered into force on January 1, 2010. Crucially, the FTA's implementation was staggered. While AITIGA became effective for India, Malaysia, Singapore, and Thailand in January 2010, it came into force for Indonesia only on October 1, 2010.

Under the agreement with Indonesia, VSF was placed in Normal Track 1, requiring a phased reduction of India's tariff from roughly 10 per cent to zero by 31 December 2013.⁴ In practice, however, the tariff was not fully eliminated until 2016.⁵ The timing matters

³Indonesia is also a major global producer and exporter of dissolving grade wood pulp (DWP), the key raw material used in the production of VSF. In 2024, Indonesia ranked as the second-largest exporter of DWP globally (United Nations Statistics Division, 2024).

⁴The Schedule of Tariff Commitments under AITIGA specifies India's product-wise, time-bound tariff reduction obligations to ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore, Thailand) and CLMV countries (Cambodia, Lao PDR, Myanmar, Vietnam), operationalised through phased reductions across designated liberalisation tracks.

⁵UNCTAD TRAINS database reports a positive applied tariff on viscose staple fibre through 2015, with the rate recorded as zero from 2016 onwards.

economically. A delayed tariff elimination would have allowed the domestic producer to sustain a higher price premium by pricing against imports bearing both ADDs and tariffs, rather than ADDs alone.

3 Anti-Dumping Duties: Protection in Anticipation

Before the FTA's benefits could even materialise for Indonesia, India moved to preempt them. As a result, the FTA's tariff commitments did not translate into effective market access for the viscose-rayon value chain.

An anti-dumping investigation into VSF imports was initiated in March 2009. Definitive duties were imposed on July 26, 2010, barely weeks before the FTA became operational for Indonesia.⁶ The duties ranged from US\$0.103 to US\$0.512 per kg.

The economics were straightforward. At the prevailing Cost, Insurance, and Freight (CIF)⁷ prices of US\$2.36 per kg for imports from Indonesia, the anti-dumping duty amounted to a 5–25 per cent tax. This created a clear inconsistency between the formal tariff commitment and effective protection. A free trade agreement promising zero tariffs was neutralised by a trade remedy that reinstated protection at levels exceeding the original tariff wall.

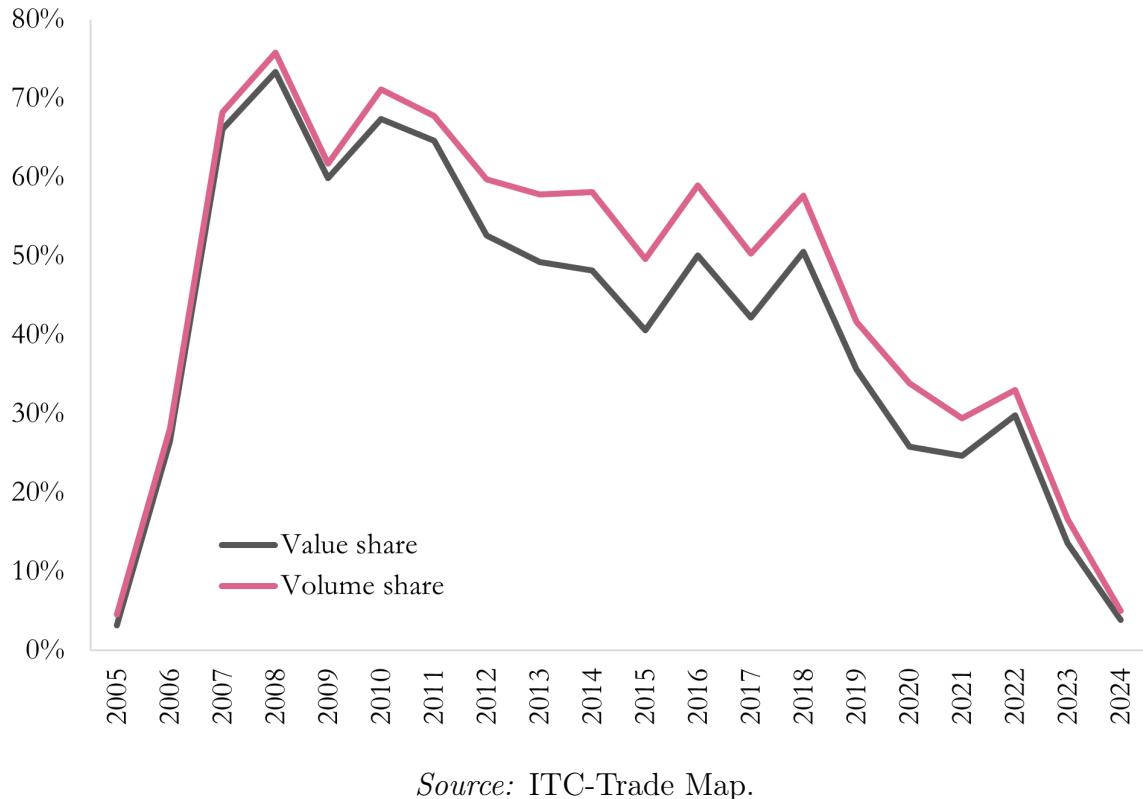
The effects were immediate and predictable. Landed costs rose sharply, and Indonesia's share of India's VSF imports fell from nearly two-thirds in 2010 to below 30 per cent over the following decade, a decline evident in both quantities and value. By 2024, following the introduction of the QCO, Indonesia's share had dropped to barely 5 per cent (Figure 3). Indian manufacturers did not substitute toward domestic fibre. Instead, they reallocated sourcing toward alternative foreign suppliers, often at higher MFN tariffs. Import volumes nevertheless expanded at an average annual rate of about 11 per cent between 2010 and 2024, pointing to strong and persistent domestic demand for VSF.

The anti-dumping duty was initially imposed for a five-year term. Instead of expiring, it was extended in 2016 for a further five years. In 2018, the government compounded the damage by raising the MFN tariff on VSF from 10 per cent to 20 per cent, penalising even non-ASEAN suppliers and further eroding downstream competitiveness.

⁶Government of India, Ministry of Finance, Notification No. 76/2010-Customs (ADD), 26 July 2010 (anti-dumping duty on viscose staple fibre imports from China PR and Indonesia).

⁷CIF is the price of a good delivered at the frontier of the importing country, including any insurance and freight charges incurred to that point before the payment of any import duties or other taxes on imports or trade and transport margins within the country (Glossary of the System of National Accounts, 1993).

Figure 3: Volume and Value Share of VSF Imports from Indonesia



Source: ITC-Trade Map.

4 A Brief Liberalisation — and the Return of Barriers

Reality eventually intruded, but not before considerable damage had been done. Anti-dumping duties on VSF were withdrawn in 2021, following a sunset review that found imports from the subject countries were no longer undercutting domestic prices and that their share in total imports had declined. Although Directorate General of Trade Remedies (DGTR) subsequently recommended re-imposition of anti-dumping duties in December 2022 following remand proceedings, the Ministry of Finance did not notify the duty. Imports therefore remained formally liberalised, even as policy uncertainty resurfaced.

The course correction continued in 2022. The MFN tariff was cut back to 5 per cent. Imports responded immediately, led by ASEAN partners, vindicating the original logic of the FTA. Competition returned, input costs eased, and downstream users finally saw relief.

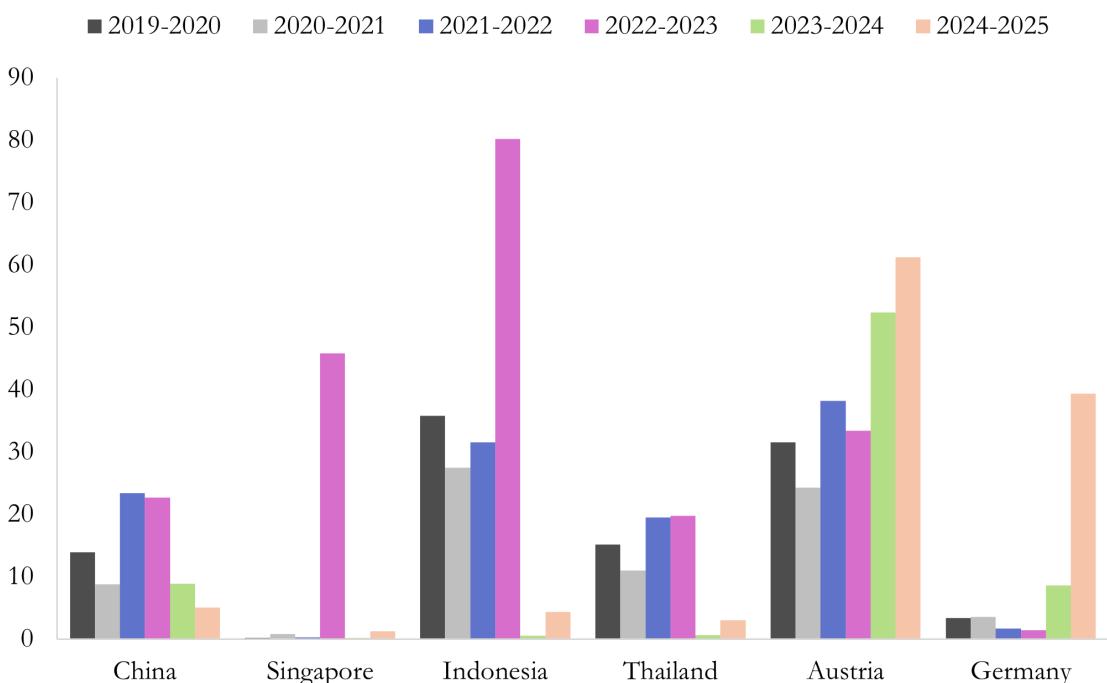
The liberalisation, however, proved short-lived. This window lasted barely a year.

In March 2023, India imposed a QCO on VSF, formally requiring Bureau of Indian Standards (BIS) certification for all producers. On paper, the rule was origin-neutral. In

practice, it marked a return to the familiar “licence raj”. Certification hinged on on-site inspections by BIS officials — inspections that, in key cases, never occurred. Indonesian VSF producers, which had regained market share following the rollback of anti-dumping duties, were not issued BIS licences because factory inspections were not conducted, with no clarity on timelines even years after applications were filed. Indonesian exports, therefore, collapsed almost overnight.

The data leave little room for doubt (Figure 4). Imports from Indonesia surged when tariffs were removed and vanished when the QCO was imposed. Other ASEAN suppliers, notably Singapore and Thailand, experienced similar declines. The sequence is instructive: when tariffs fell, competition returned; when the QCO arrived, it disappeared. In effect, the QCO functioned as a binding import constraint, operating through prolonged administrative delays in the certification process. Once again, the benefits of liberalisation, including those negotiated under ASEAN FTAs, failed to accrue. Monopoly protection simply changed form.

Figure 4: Country Wise Import of VSF (\$ million)



Source: ITC-Trade Map.

Indonesia explicitly raised concerns over this unequal treatment.⁸ It noted that while BIS had conducted inspections for firms from other countries — and even for Indonesian companies producing other textile products — Indonesian viscose staple fibre producers

⁸WTO Technical Barriers to Trade (TBT) Committee, statements by Indonesia regarding India’s Quality Control Order on Viscose Staple Fibre, meetings held between 2023 and 2025. The European Union raised parallel concerns that the QCO constituted an unnecessary barrier to trade under Articles 2.1 and 2.2 of the TBT Agreement.

were treated differently. Despite applying for BIS certification as early as December 2022, no factory inspections were carried out, and no timelines were provided, even as of June 2025. The outcome is consistent with the expected effects of administrative import restrictions: Indonesian VSF exporters were effectively shut out of the Indian market from the moment the QCO entered into force in March 2023, incurring significant losses, prolonged trade uncertainty, and material harm to business operations.

While framed as quality regulation, the measure effectively negated the market access commitments embedded in the FTA. Only in November 2025, amid supply disruptions and export stress, was the QCO rescinded. Thus, completing a full cycle of tariff removal, non-tariff substitution, and belated reversal.

5 Who Benefited? A Dominant Upstream Producer Did.

VSF production in India is effectively controlled by a single firm, which is also one of the world's largest viscose producers (hereafter, the Dominant Domestic Producer, DDP). In the original anti-dumping investigation preceding, the DGTR recorded the DDP's share of domestic VSF consumption at around 94 per cent. When ADDs and tariffs insulated the domestic market from foreign competition, concentration increased further. Between 2014–2015 and 2021–2022, DDP's VSF capacity doubled, domestic sales rose 2.5 times, and EBITDA from the VSF division increased fourfold.⁹

Rather than inducing efficiency gains, protection primarily translated into sustained economic rents. In 2020, the DDP was fined 302 crore for abusing its dominant position in the VSF market. The finding was blunt: the DDP used its market power to impose “supplementary, unconnected obligations” on domestic buyers and to engage in systematic price discrimination.¹⁰

The conduct was revealing. The DDP sold the same fibre abroad at significantly lower prices while charging domestic spinners a premium. Discounts were tied to intrusive disclosure of downstream production, a mechanism more about control than efficiency. At the same time, the DDP sourced fibre through its group companies in Thailand and Indonesia—even as it pressed for ADD against other producers in those very countries.

⁹Directorate General of Trade Remedies (DGTR), Final Findings of Remand Investigation in the Second Sunset Review of Anti-Dumping Duty on Viscose Staple Fibre from China PR and Indonesia.

¹⁰Competition Commission of India (2020), Final Order in Case No. 62 of 2016. However, the DDP filed a writ petition with the Delhi High Court, and the Delhi High Court stayed the operation of the CCI order on 3rd June 2021.

Such conduct would have been difficult to sustain under conditions of effective import competition. It survived because policy made it possible. By imposing anti-dumping duties and later non-tariff barriers on imports, India removed the only credible check on pricing power: the landed price of foreign supply.

5.1 Measuring monopoly rents

We quantify the economic magnitude of protection by comparing the price paid by Indian buyers with competitive, trade-based benchmarks, and applying the resulting price premium to domestic sales volumes. Domestic and foreign sales quantities and prices are constructed by combining firm-level and trade data. Total VSF sales (value and quantity) are taken from the DDP's annual reports. Using UN Comtrade, we compile India's total VSF exports in value and volume terms. Given that the Indian VSF sector is effectively a monopoly, we treat India's VSF exports as exports of the DDP. Domestic sales are obtained residually as total sales minus exports, and per-unit prices are computed by dividing revenues by quantities in the VSF segment.

To estimate the rents earned by the DDP, we use two alternative benchmarks of the counterfactual competitive domestic price had there been no protection. The first is India's own Free on Board (FOB)¹¹ export unit value for VSF, which captures the price at which the DDP sells when disciplined by international competition. The second is the CIF unit value of VSF imported from Indonesia into India, which reflects the delivered price that would have constrained domestic pricing had ASEAN supply been freely accessible under AITIGA.

Formally, the price wedge, Δ_t^b for the benchmark b in the year t , is:

$$\Delta_t^b = P_t^{dom} - P_t^b \quad (1)$$

where P_t^{dom} is the DDP's average domestic realisation price, and P_t^b is the relevant counterfactual competitive domestic price. The derived rents, R_t^b in the year t for the benchmark b is given by,

$$R_t^b = \Delta_t^b \times Q_t^{dom}, \quad (2)$$

¹¹The FOB price of exports of goods is the market value of the goods at the point of uniform valuation, (the customs frontier of the economy from which they are exported); it is equal to the CIF price less the costs of transportation and insurance charges, between the customs frontier of the exporting country and that of the importing country (Glossary of the System of National Accounts, 1993).

and cumulative rents by,

$$R^b = \sum_{t=2010}^{2024} R_t^b \quad (3)$$

Here Q_t^{dom} is the DDP's domestic sales volume for the year t .

Table 1 reports domestic prices alongside both benchmarks.¹² Until 2009, domestic and international prices tracked each other closely, as competitive pressure would predict. That relationship broke sharply after 2009, when anti-dumping duties were imposed. Between 2010 and 2021—the last year in which the ADD regime was in force—Indian buyers paid, on average, around 21 per cent more than foreign buyers for the same fibre relative to the export benchmark, and an even larger premium (25 per cent) relative to Indonesia's CIF price. The divergence is persistent and difficult to reconcile with cost or quality differences.

The post-2021 period is more complex. The revocation of anti-dumping duties in 2021 should, in principle, have eliminated the wedge by re-exposing the domestic market to import competition. Instead, the wedge narrows but does not disappear, averaging around 13–22 per cent between 2022 and 2024. This reflects policy instability rather than market fundamentals. The brief liberalisation following the withdrawal of ADDs was quickly offset by the introduction of QCO in 2023, which sharply restricted imports through administrative barriers. Competitive pressure was restored only partially and temporarily.

Table 1: Domestic and trade-based prices of VSF (US\$/kg)

Period	Domestic Price	Benchmark A: India FOB Export Price	Benchmark B: Indonesia CIF Import Price
2001–09	1.99	2.01	2.07
2010–21	2.43	2.01	1.95
2022–24	2.51	2.21	2.05

Source: UN Comtrade; Annual Reports of the DDP; authors' estimates.

Applying the price premia to domestic sales volumes implies cumulative rent extraction of between US\$2.5 billion and US\$3.1 billion over 2010–24, equivalent to roughly 14–17 per cent of the DDP's cumulative sales value over the period. These rents were not the by-product of superior technology, higher quality, or scale efficiencies—export prices already internalise those factors—but the mechanical consequence of a protected domestic

¹²A caveat here is that the annual prices from trade data are the average for a calendar year and those from financial statements is based on financial year.

market in which competitive discipline was repeatedly weakened. In effect, the same fibre was sold abroad at world prices and at home at a sustained premium, converting trade protection into monopoly rents borne by downstream users.

But why protect a monopoly? The standard infant-industry argument does not apply in such a setting. A monopoly, which is also one of the largest and oldest producers of VSF globally, cannot be an infant. VSF was already produced at a global scale by a dominant firm exporting at world prices. However, the DDP's focus was the domestic market, with exports averaging only 20 per cent during 2010–2024.¹³

This distinction matters because protection behaves very differently under a monopoly than under competition. In competitive markets, temporary protection may raise prices briefly, but rivalry forces expansion, cost reduction, and convergence toward global prices (Helpman et al., 2004; Aghion et al., 2019). Under a monopoly, the logic reverses. Restrict imports and prices rise persistently, not temporarily. Innovation and efficiency become secondary, as profits are secured through policy rather than performance (Aghion et al., 2005; Autor et al., 2020).

Claims that VSF is a “strategic” input fare no better. If VSF is strategic, making it expensive is perverse. India’s comparative advantage in textiles lies downstream — in spinning, weaving, garmenting, and exports — not in capital-intensive fibre production. Inflating the price of a core input operates as an implicit tax on exporters, shifting rents upstream while eroding competitiveness where jobs actually are.

This pattern is familiar. It mirrors the polyester case, where upstream concentration was similarly reinforced through trade instruments (Thakurta, 2014; Anand & Thomas, 2022; Joshi & Thakurta, 2025). In both cases, protection insulated dominant producers, penalised downstream exporters, and deterred entry. Highly protected prices did not invite competition; instead, they deterred entry by signalling the incumbents’ deep political connections and their ability to shape policy in their business interests. Capital intensity, regulatory barriers, and political insulation combined to lock in incumbency.

The VSF episode, therefore, exposes a deeper inconsistency in India’s trade strategy. FTAs are signed to lower input costs and boost exports. But when those agreements threaten entrenched upstream interests, protection re-enters through alternative instruments. The outcome is not industrial upgrading, but institutionalised incoherence.

¹³The exports share dipped to only 8 per cent from 2022-24.

6 Who Lost? The Downstream Industries Did.

The economic costs of upstream protection did not dissipate as fibre moved down the value chain. They propagated—first sharply, then with a lag—through yarn and eventually into garments. The timing, severity, and channels of transmission varied across stages, but the direction was uniform: upstream protection eroded competitiveness downstream.

The first and most direct impact was felt by the viscose yarn industry. Unlike viscose staple fibre, which is produced by a single dominant firm, yarn spinning is labour-intensive and competitive. These firms are price takers in both input procurement and output sales.

When anti-dumping duties on VSF were imposed in 2010, domestic fibre prices rose sharply relative to world prices. Spinners had little scope to adjust as importing cheap fibre was no longer feasible.

The trade data reflect this immediately (Figure 5).¹⁴ India’s share in global viscose spun yarn exports declines sharply following the imposition of anti-dumping duties. The decline is abrupt rather than gradual and closely coincides with the timing of the policy intervention. This loss of competitiveness persists for more than a decade. Only after the revocation of anti-dumping duties in 2021 does India’s export share begin to recover. Even then, the rebound is partial. The QCOs and years of suppressed margins, underinvestment, and firm exit left lasting scars that could not be reversed quickly.

In short, upstream protection translated directly into downstream contraction in yarn—the most exposed and least shielded segment of the value chain.

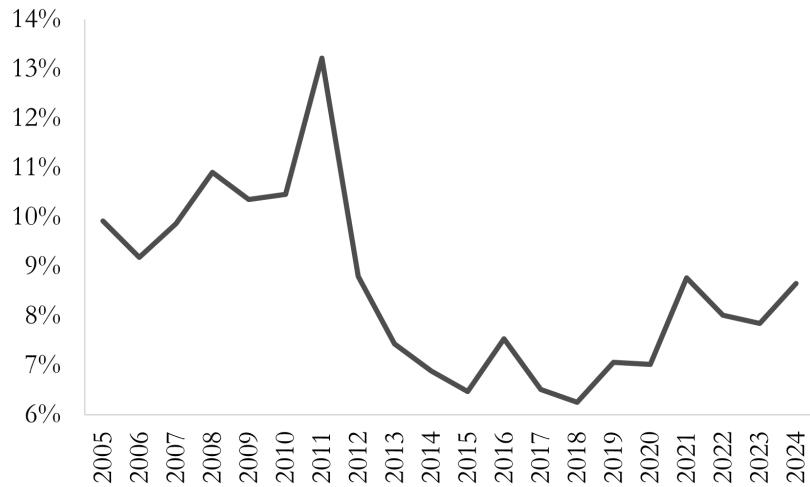
The garment sector experienced the same upstream shock, but its response was delayed.¹⁵ Unlike spinners, garment manufacturers retained an important margin of adjustment: input substitution. During the 2010–2017 period, while domestic fibre and yarn prices were elevated, garment exporters could partially bypass the distortion by importing viscose yarn and fabric. This flexibility allowed them to remain competitive despite rising domestic input costs.

As a result, India’s performance in VSF-based garments initially diverged from that of yarn. India’s global export share in VSF-based garments rose steadily through the mid-2010s, peaking around 2017–18. The contrast is instructive. Yarn exports were already

¹⁴HS codes 551011, 551012, 551020, 551030, and 551090 are considered for the analysis. Although these codes include yarn made from acetate rayon and other cellulosic fibres, yarn based on viscose staple fibre accounts for roughly 90 per cent of artificial fibre based yarns covered under these headings.

¹⁵VSF based garment include HS codes 610444, 620444 and 621440.

Figure 5: India's Share in Global Viscose Spun Yarns Export



Source: ITC-Trade Atlas.

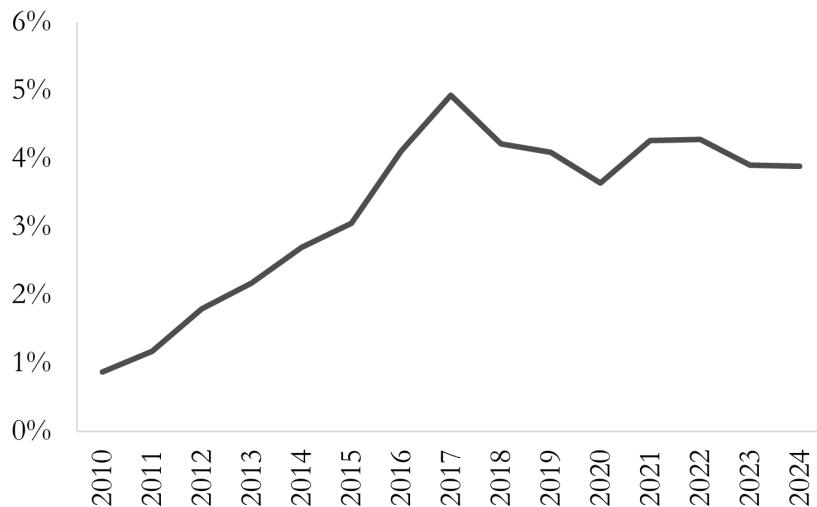
in decline, but garments held up precisely because firms could arbitrage across borders and neutralise the upstream price wedge.

This resilience, however, was temporary.

In 2018, India raised MFN tariffs on key textile intermediates, including viscose yarn and fabric, from 10 per cent to 20 per cent. This policy change directly undermined the substitution strategy that garment exporters had relied upon. Imported inputs became more expensive and the upstream distortion, previously diluted, now passed fully into garment production costs.

The effect shows up clearly in export outcomes (Figure 6). After peaking in 2017–18, India's global export share in VSF-based garments begins to decline. Over the same period, Bangladesh's share rises sharply from just 0.1 per cent to 4.8 per cent as it combined duty-free access to textile inputs—particularly from Indonesia—with minimal non-tariff barriers and predictable customs procedures. As costs rose and supply chains tightened in India, orders shifted toward a location where input access remained frictionless.

Figure 6: India's share in global VSF based garments exports



Source: ITC-Trade Atlas.

7 Conclusion and Policy Discussion

The paper shows how India has neutralised its own trade liberalisation. While tariff reductions under AITIGA were intended to lower input costs and support value-chain integration, these effects were repeatedly offset through other policy instruments. As tariff cuts took effect, protection shifted from tariffs to anti-dumping duties and later to regulatory measures. The instruments changed, but the restriction on import competition remained.

The costs were neither abstract nor transitory. Between 2010 and 2024, protection of VSF generated an estimated \$2.5–\$3.1 billion in rents for the DDP (14–17 per cent of total sales value), extracted through a sustained domestic price premium over export prices. Over the same period, India's share of global exports of viscose-based garments declined, even as global demand for such apparel continued to expand. In effect, competitive, labour-intensive downstream exporters bore the burden. Bangladesh and other producers captured the space India vacated.

Recent developments suggest that this approach has not been abandoned. The Directorate General of Trade Remedies' December 2022 recommendation to reimpose anti-dumping duties following remand proceedings indicates that renewed protection in VSF remains a policy option. Re-imposing such duties would likely repeat earlier outcomes and should not be pursued.

The policy lesson is simple but uncomfortable. Rather than relying on contingent pro-

tection or non-tariff barriers, policy should focus on lowering input costs for downstream sectors where employment and export potential are greatest. One practical illustration is dissolving-grade wood pulp. With limited domestic capacity, the current 5 per cent MFN tariff functions primarily as a cost on downstream production. Although AITIGA provides for zero-duty imports from Indonesia, this preference has delivered limited effective relief. Correcting this inverted duty structure would do more to support competitiveness than renewed trade remedies.

The implications extend beyond viscose. The VSF case illustrates a recurring pattern in India's trade policy: liberalisation on paper, protection in practice. Unless trade remedies and regulatory instruments are aligned with the objective of preserving competition in upstream input markets, new trade agreements—whether with ASEAN, EFTA, or the European Union—risk repeating the same outcome. Tariffs will fall. Protection will adapt. And export competitiveness will quietly erode.

If India is serious about exporting man-made-fibre apparel at scale, it must confront an uncomfortable constraint. Shielding upstream inputs and building globally competitive downstream manufacturing are incompatible goals. To date, policy has consistently prioritised the former—and paid the price. Until that choice changes, free trade agreements will continue to exist, impressively, on paper.

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