

GENERAL AGREEMENT ON TARIFFS AND TRADE

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COTTON TEXTILES COMMITTEE

Statement by the Delegate of Pakistan

5 December 1963

Mr. Chairman, you have asked for a comprehensive statement from member countries for this review. I propose to follow your advice. I could have made my statement shorter if the note put up by the secretariat had really attempted a review of the working of the first year of the Agreement, instead of being, as it is, a sort of index of other documents circulated in connexion with this meeting. I shall try to meet this deficiency as far as I can, because it is extremely important that this Committee has a close look at the result achieved by the Long-Term Arrangement so far, and, in the light of this result, make a realistic assessment of the prospects for the remaining years.

It is important to do this right now because the forthcoming World Trade Conference will, almost certainly, consider how far the Long-Term Arrangement has solved the problem of market expansion for the developing countries and whether it can serve as a model for other manufactured or semi-manufactured items for which the developing countries are also clamouring for expanded markets. If not, the Conference will have to think of other methods for these items and may go so far as to recommend the scrapping of the Long-Term Arrangement for Cotton Textiles.

The countries participating in the Long-Term Arrangement itself - particularly those who were carried away by the pious sentiments incorporated in the preamble would, I imagine, like to have a close second look at it now (without waiting two more years for the major review) to be able to reconsider whether to go along with this Arrangement for the full term or not.

For these reasons, I say a thorough review of the Arrangement is necessary at this stage. Before I enter into this basic question, however, Mr. Chairman, I should like to report to the Committee the experience of my country with its working. Delegates will recall Pakistan's objection to the United Kingdom's reservation and how this Committee, in its wisdom, finally disposed of that matter. It is not my purpose in mentioning this to raise that controversy again, but I have to point out that Pakistan's fears are being realized (not only in respect of Pakistan but other countries too, as you will see from the document COT/15 circulated at the instance of the United Kingdom Government).

This document, by the way, contains what I like to think is a "mistake" in the first entry in respect of Pakistan. It states "Pakistan has agreed to limit exports of cotton textiles to Britain to the following annual amounts during the years 1963 and 1964:". You will see that the language is the same as applied in the case of Hong Kong ("Hong Kong has agreed to limit exports") and in the case of India ("India has agreed to limit exports"). This does not represent the actual situation. We have definitely not agreed to the quotas, or accepted the limitation. What we have done is to agree to continue export licensing to regulate exports to the United Kingdom in the interest of Pakistan exporters and United Kingdom importers and in the interest of a smooth flow of trade. This we did under protest and this was not to be construed as acceptance on the part of Pakistan of the quota which Pakistan does not accept.

Now, the quota of 42.4 million square yards mentioned was the quota under the Voluntary Agreement for 1962. No increase has been allowed in 1963 and for 1964 and the intention probably is not to give any increase for 1965 also. It has always been the United Kingdom's case that this quota is more than adequate for Pakistan and she has not been able to fulfil it. That was the position up to 1961. But the quota was fulfilled in 1962 and in 1963 it was fulfilled in four months so that we had to stop further contracts in the middle of May. Even then there were outstanding commitments amounting to about 50 million square yards. If contacts had not been forbidden they would almost certainly have exceeded 100 million square yards over and above the export quota of 42.4. This seems unbelievable, but the fact is that the cotton textile industry has made very rapid progress in Pakistan. We have 2.1 million spindles installed and 30,000 looms. But since this capacity is working three shifts a day the capacity is trebled. Our export surplus now amounts to about 200 million square yards and will increase to about 300 million square yards next year, when according to existing sanction the spindlage will increase to 2.75 million and the loomage to about 45,000. The rapid increase in textile production capacity has been brought about by our crying need for industrial diversification and we need expanded markets for exports badly to finance our development plan. But at this crucial moment the United Kingdom, traditionally our biggest market, has thought it fit to pull down the shutters. It is not that we dump the bulk of our exports into the United Kingdom market. Our exports to that country in 1963 would be about 35 per cent of our total exports. What we wanted was a reasonable increase in our quota but our friends will not listen to any argument. Not only have they frozen our exports of cotton piece-goods, they have arbitrarily imposed restriction on cotton yarn and fixed the yarn quota at such a low level that our mills exported two years' quota in three months and have to wait until 1965 to be able to make further exports. Not only this, we have recently received an official communication from the United Kingdom suggesting further restriction or intensification of existing restriction in the form of categorization stoppage of exports of finished cloth etc.

Mr. Chairman, I have given these details not to accuse the United Kingdom before this Committee. If we wanted to do that we could officially have complained to the Committee, which we have not done. My intention is only to inform the Committee how the United Kingdom which has until recently been the largest importer of cotton textiles in the world, is utilizing the Long-Term Arrangement, whose restrictive provisions she has accepted but not any obligation for expansion, not even the obligation not to impose or intensify restrictions contrary to the principles of GATT. The delegate of the United Kingdom said yesterday that the Long-Term Arrangement was being used as a "charter of restriction". He also referred to the slow increase allowed by the EEC and other countries. I fully agree with him, but I would in all earnestness request him to consider if the Arrangement is not being used as a charter of restriction by the United Kingdom also. I am fully aware of the United Kingdom's case that she has the largest proportion of imports from the developing countries, but she has considerably reduced her imports recently and this proportion is coming down. The proper thing to do is to persuade the other countries to increase the proportion of their imports to come up to the level of the United Kingdom, not for the United Kingdom to stoop to the level of these other countries.

Mr. Chairman, next to the United Kingdom our largest export market is in the United States, but we have had an equally sad experience with her also. Almost the only item of our export to the United States was carded cotton sheeting (category 9). In January this year the United States Government issued us notice to restrain export of this category to 11.4 million square yards and in spite of our pleadings, clamped down restriction at that level from 1 March 1963. It was claimed that market disruption was caused because exports during 1961-62 were appreciably higher than in 1960-61, although our exports during 1959-60 had been much higher than in 1961-62 and appreciably higher than the restriction level proposed. It was stated that our prices were one or two cents less per yard than the price of the domestic product. Some figures of overall increase in total exports were given but no indication as to what proportion of the domestic production the total imports amounted to. We pleaded that there was no cause for restriction - in vain. We asked for an increase in the restriction level, arguing that there were outstanding commitments amounting to as much as 25 million yards - no increase in the level was allowed, though the period of restraint was different by a few weeks. We were informally advised to explore export possibilities in other categories. One of our mills took this seriously and started exporting twills and satin (category 22). Exports reached the level of about 1 million yards by the end of October this year from negligible quantities before March, when restriction on category 9 was imposed. And on 31 October we received notice to restrict this category at the level of 500,000 square yards. The notice was so timed that had it been delayed by one day we would have been entitled to a quota of about 900,000 yards under the formula in Annex B.

In this category also on the date of notice there were outstanding commitments amounting to about 2.5 million square yards. The arguments given were similar to those given on the previous occasion and we are not convinced and we propose to protest, but we are not optimistic of the result. We are afraid that further notices will be received in months to come on items where our exports may show an increase from the existing levels, though, in absolute amount the increase may be less than one five hundredth of 1 per cent of the domestic production. You will agree that this is a very bleak prospect to face on the part of an under-developed country like Pakistan.

Mr. Chairman, I have to mention two other countries before I take up the basic situation which faces us all. These are Germany and France, who have given us quotas under Article 2. The quotas are so small (250 and about 100 tons respectively) and the small quotas are sub-divided into so many unrealistic categories that our mills have not made any serious attempt to utilize them at all. The categories indicated by Germany include even woollen apparel, synthetic textiles and woollen yarn - so that we are at a loss to understand what "cotton textiles" does mean for the purpose of this agreement and are inclined to agree with the Japanese delegation that it requires to be redefined.

Now, Mr. Chairman, this has been the experience of Pakistan during the first year of the Long-Term Arrangement which is, or is shortly going to be, the second largest producer (after India) of cotton textiles among the developing countries. We have quotas opened to us for about 3 million square yards of cloth which amounts to less than 3 per cent of our current restricted exports and, in terms of value, would be about 1.5 per cent of our total exports of textiles including yarn. This is all we have got in the shape of increased opportunities. On the other hand, we are restricted by the United Kingdom and the United States in respect of about 50 per cent of our exports. Because of the small quotas offered and the peculiar conditions attached, we have not been able to take any advantage of the opportunity offered, but through the restriction imposed we have lost exports amounting to about 100 million square yards. I will not go into the details of this calculation but will be ready to satisfy any delegation which may choose to put the question. Had the Long-Term Arrangement not been enforced, our exports to the United Kingdom during 1963 would have amounted to about 100 million yards and to the United States 40 to 50 million yards, a total of 150 million yards, against which, thanks to the United Kingdom's reservation and Article 3, we are permitted to export only about 50 million yards. Our Second Five-Year Plan projected an export of 225 million yards of cloth during 1964-65 which we could have easily exceeded if there were no restrictions, but from which there is bound to be a considerable shortfall if the Long-Term Arrangement exists and continues to be applied as it is being applied now.

This is what the Long-Term Arrangement has done for us. The position of the other developing countries may not be as bad, but would be similar. Thus, an agreement, which was ostensibly designed to give greater opportunity of exports to the developing countries, has, in fact, considerably reduced the pre-existing opportunities. Let me give you some figures, which ought to have been given actually by the secretariat. I am quoting from a document prepared by the UN secretariat for the second session of the Preparatory Committee of the World Trade Conference. A table in this document shows that from 1956 to 1961 total exports of cotton textiles from developing countries increased from 703 million dollars to 912 million dollars. Exports to North America increased from 115 to 200 million dollars an annual rate of increase of about 18 per cent. The increase in the case of the EEC countries was from 23 million dollars to 67 million dollars, an increase of about 40 per cent per year. In the case of the United Kingdom, the increase was 70 million dollars to 109 million dollars, an annual rate of 11 per cent. In the case of other countries of EFTA the increase was from 9 million dollars to 31 million dollars, an average increase of about 45 per cent. Due to the reservations accepted and action taken by certain countries under the Long-Term Arrangement, the overall growth rate of exports from the developing countries to North America and Western Europe has dropped to about 3 per cent per year. I shall quote the actual wording of the Conclusion on this point in this document:

"It should be observed that if the export quotas to Canada, the United Kingdom and the United States remain unchanged at the 1961 level, while quotas to the other European countries are increased as envisaged, the exports of cotton textiles from the developing countries will rise at an annual rate of only about 3 per cent during the period of the Long-Term Arrangement - which is a rate of growth much below the growth rate obtained in recent years."

This is not a mere hypothetical situation. The United Kingdom and Canada have stated categorically, and their statements form a protocol to this Agreement, that they will not allow any increase. The United States has, during the last few months, given unmistakable evidence of her determination not to permit any appreciable increase over the 1961 import level. So the growth rate of exports to these countries cannot exceed 3 per cent, whereas the growth rate attained in recent years without the help of the Agreement, was about 20 per cent. The Long-Term Arrangement thus, in its very first year, has achieved its avowed purpose of market expansion for the developing countries to the extent of an impressive 17 per cent minus.

It is now probably clear to everybody that this is the sort of expansion that the Arrangement was intended to achieve - though, I think, many developing countries would be prepared to confess, as I do, that we did not expect quite such a degree of negative expansion. If the developing countries now realize that this is not what they bargained for, it is incumbent on them to tell this Committee and through this Committee, the CONTRACTING PARTIES and the World Conference what they did bargain for and how they now think their legitimate purpose can be

achieved, whether through the wholesale scrapping of this Arrangement and by substituting something more in line with the ministerial Declaration of GATT and the GATT Action Programme, or by drastically modifying the Arrangement to remove its restrictive provisions. I shall say what I think necessary in this connexion when we come to item 4 on the agenda and I hope that other developing countries will do the same.

Before I conclude, Mr. Chairman, I have to say something to and for the industrialized countries lest my statement is dubbed as one-sided and unfair. What I want to say is that while we do not quite agree with the definition of market disruption adopted by the CONTRACTING PARTIES in November 1960 and while we certainly cannot accept the practical interpretation given to this definition by some of the industrialized countries, particularly the United States, in implementing the Long-Term Arrangement, we are quite prepared to concede that a situation may arise in which the cotton textile industries in industrialized countries may be seriously disrupted through unrestricted imports from other countries and that a request for reasonable restraint may be justified in such circumstances. It has never been my country's position that we must be allowed to export whatever happens. I have myself said in more than one international forum that the industrialized countries should be given a reasonable period of adjustment. I will go so far as to say that, in the case of the United Kingdom, the Lancashire industry would have been seriously damaged if exports from India, Pakistan and Hong Kong had not been restrained.

A legitimate question might probably be asked here, whether, in view of the fact that these countries provided the raw material as well as unrestricted markets to Lancashire ever since the Spinning Jenny was invented, they could not claim the same reciprocal treatment now. A similar question might be asked by other developing countries which provided the market for other European countries and the United States and thus paved the way for their industrialization. But these would be questions in ethics which perhaps does not apply in politics and in international commerce. In any case we did not ask this question but co-operated with the United Kingdom in voluntarily agreeing to restrain our exports. And I must add that the quota initially given to us by the United Kingdom was more than fair. It was fair and adequate up to 1961. We are pressing the United Kingdom now because it no longer meets our needs. India and Hong Kong have agreed to continue the voluntary agreement with the same quotas up to 1965. They can afford to do this because they are in the fortunate position of having about 25 to 30 per cent of the large United Kingdom market reserved for them. We cannot accept because, with a big population and a big industry we have been given a quota which is about one fifth of the quota of tiny Hong Kong. We want an increase which will not be damaging or disruptive to Lancashire. So our attitude in the case of the United Kingdom does not falsify my claim that we appreciate the difficulties of the industrialized countries.

But while I do concede the need for restriction in appropriate cases, I cannot agree that the cases of the United States or the EEC, generally speaking, are appropriate. Let me give you some more figures: the United Kingdom imports about 30 to 35 per cent of domestic production from the developing countries. I cannot say what the EEC imports in terms of their domestic production or supply. But they imported 3.9 per cent of their total imports from all sources from the developing countries in 1960. The United States imported about 20 per cent from the developing countries and the balance of 80 per cent from other sources. But still I say that there can be no question of market disruption because even the 20 per cent imports of the United States amounted to only 1.4 per cent of her total domestic supply. One cannot say that the EEC or the United States market could be disrupted even if their current level of imports from the developing countries increased 100 per cent every year for several years to come. Look at the position of the United States cotton textiles industry in 1963. According to my information, its production will exceed that of 1962 by an appreciable margin. Production will increase considerably if the difficulty of the two-price system for raw cotton is removed as is contemplated. Even as it is the United States exports more or less the same amount of cotton textiles as she imports so that she is not a net importer to any significant degree. Where is then the case for market disruption? Market disruption does not occur when from a few thousand yards of imports increase four or five fold to 20-25,000 yards and there is a difference of two to three cents in the price per yard. This is a normal price difference without which international trade would come to a standstill. This is why I said that the definition of market disruption is unacceptable. It is incomplete. It leaves out the most essential element that it should contain, the level of imports compared to domestic production or supply, only a sharp and substantial increase above which can constitute a real threat to market disruption. This level in my view should be 20 to 25 per cent of domestic supply. If market disruption is redefined accordingly and the Long-Term Arrangement suitably revised, including the elimination of the United Kingdom's reservation, and it is applied in the spirit in which it was said to have been designed, I can say for my country that we would be prepared to go along with it for a further three or four years. If this principle were accepted, we could perhaps go further and agree to the application of this principle to regulate the trade of one or two other appropriate - sensitive items of export from the developing countries. If not we shall have to devise other ways and means to deal with the crucial and vexed question of cotton textiles and that very soon.