

GENERAL AGREEMENT ON  
TARIFFS AND TRADE

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COTTON TEXTILES COMMITTEE

Information Transmitted by Japan

The following information relating to the structure and future development of trade in cotton textiles has been transmitted by the delegation of Japan in response to GATT/AIR/420 dated 6 October 1964.

Problems Concerning the Structure and the  
Future Development of Trade in Cotton Textiles

A. Recent trend in demand for Japanese cotton textiles

1. According to the estimate by the Japanese Government, the demand prospect for Japanese cotton textiles for the fiscal year 1964 (from April 1964 to March 1965) is at 492,400 metric tons, a decrease of 1.4 per cent against 499,333 tons in the base year (the average of 1959-1963 calendar years). Of this total, exports account for 202,400 tons, 6.7 per cent less than 216,987 tons in the base year.

Major factors related to this decline are, apart from stringent restrictions maintained on Japanese exports by a number of importing countries; greater self-sufficiency in the developing countries; inroads into export markets of the newly emerged cotton textile industries, and the shift of Japan's exports to other fibres, especially synthetic fibre products.

2. Cotton textile exports from Japan have been gradually shifting to those of higher-grade goods and diversified products, and this trend will be accelerated in the future.

In the first place, the trend is seen in the relatively increased share of made-up cotton goods against the decreased share of cotton yarn and piece goods. (Table 1).

Secondly, in the composition of cotton textile exports, the share of grey cloth went down in comparison with the increased share of finished categories, particularly those of dyed and yarn-dyed fabrics. (Table 2).

Thirdly, the average export prices have substantially rose by 29.3 per cent in the last ten years.

Table 1Japan's Exports of Cotton Products

	<u>average 1959-63</u>	<u>1964 (fiscal) (estimate)</u>
Cotton yarn	9.6%	5.1%
Cotton cloth	72.8	71.1
Made-up cotton goods	17.6	23.8
Total	<u>100.0%</u>	<u>100.0%</u>

Table 2Japan's Exports of Cotton Cloth

(Unit: 1,000 sq. m.)

	<u>1953</u>	<u>1963</u>
Grey	167,238 (21.9)	108,396 (10.7)
White	218,975 (28.7)	255,760 (25.4)
Dyed	75,143 ( 9.8)	218,609 (21.7)
Printed	221,238 (28.9)	256,724 (25.5)
Yarn-dyed	67,850 ( 8.9)	162,500 (16.1)
Others	13,787 ( 1.8)	5,692 ( 0.6)
Total	764,231 (100%)	1,007,680 (100%)

3. The exports of Japanese cotton goods are directed increasingly towards highly industrialized countries, as indicated by the fact that the percentage share of exports to Europe, North America, and Oceania has increased from 14 per cent of the total in 1953 to 39 per cent in 1963.

4. Import of cotton goods into Japan has almost been liberalized since October 1962; and there remain only two remaining non-liberalized as of October 1964.

Imports of cotton goods, which averaged 300 tons between 1959 and 1961, increased to 540 tons in 1962, 750 tons in 1963, and in the first eight months of 1964 to 1,000 tons. This is more than twice as large as the imports in the same period a year ago.

As to the suppliers, highly industrialized countries took a dominant part until 1962, but in the first eight months of 1964, most of the imports was grey cloth shipped from such developing countries as South Korea, Taiwan and Pakistan. Such a trend of increasing imports from less-developed countries is believed to be accelerated in the future.

## B. Structural problem of the cotton and allied textile industries in Japan

### 1. Surplus capacity

After World War II, a rapid expansion in production capacity was brought about to most post-war demand in the Japanese textile industry, particularly in the spinning industry, resulting in surplus capacity in recent years.

To cope with this situation, the government had restricted expansion of textile equipments since 1956, under the Textile Industry Equipment Temporary Adjustment Law, by way of the so-called mothballing programme. However, partly due to further improvement of productivity, surplus capacity did not disappear, despite the encouraging effect of increased demand both at home and abroad. The surplus capacity in the cotton and allied textile industries thus stood in 1964 at 2,830,000 spindles and more than 20 per cent of the total spindles duly registered.

The existence of such redundant capacity is posing a major structural problem to the spinning industry in that it is hampering stability of the spinning industry and consequently affecting adversely its international competitive position.

### 2. Shortage of labour

Traditionally, the Japanese cotton industry was dependant on young female workers who were generally recruited from among new graduates of the middle school every year. In recent years, however, such recruiting has become increasingly difficult. The ratio of job vacancies and those actually filled was about 3:1 or worse in the textile industry as a whole. This is due to the increase in the

number of those young girls desiring to receive higher education and the increased demand for labour in many other industries. As the result of it, wages in the cotton industry sharply increased at an annual rate of more than 10 per cent in recent years.

To meet this situation, every effort is being made by the spinning firms for rationalization of equipments by adopting a continuous automated spinning system as well as a larger package method and so on.

### 3. Competition with developing countries

After the War, cotton textile industries have emerged rapidly in many less-developed countries.

To meet this competition from less-developed countries, the Japanese cotton industry has tried its best for greater production of higher-grade cotton goods, with making shifts in its export markets as well as with its rationalization efforts to reduce the costs.

At present, competition from the developing countries is witnessed not only in the overseas markets but in the domestic market as well.

Such imports have been increasing year after year.

### 4. Inroads of man-made fibres

In Japan, demands for textiles have recently been shifting from that for natural fibres to that for man-made fibres and this trend is believed to continue in the future.

At the same time, Japan has now entered into the so-called multi-fibre age, by gradually increasing blended textile products made of more than one type of textile raw materials.

Under the old Textile Equipment Law, spinning capacity in Japan was classified into ten types such as cotton, rayon, synthetic fibre, etc. for the purpose of restricting yarn that may be spun on specific equipment, but this is no longer fitted to the changed situation.

### C. New textile law

1. The new textile law, which replaced the Textile Industry Equipment Temporary Adjustment Law came into force on 1 October 1964. The new law aims at eliminating gradually various restrictions heretofore imposed on equipment and production, in order to put the spinning industry on a freer basis. It is believed that the new law will stimulate structural re-organization in the cotton and allied textile industries in Japan.

As stated in B, the Japanese textile industry, especially the spinning industry, has a number of structural problems. A complete shift to free competition without the solution of these problems would seriously hamper the stability of the industry. It is, therefore, the purpose of the law to put the industry on a more sound footing by solving these structural problems. It is thus scheduled to shift into a system of free competition, where there is no longer any curtailment of production and restriction on equipment, so that the individual enterprise may demonstrate the initiative of his own in full after four years when the new law will expire.

2. The gist of the new law is as follows:

(a) Encouragement of scrapping surplus capacity.

As far as the cotton and allied textile industries are concerned, there are about 2,800,000 surplus spindles at present which the new law intends to scrap within three years. Initially, 25 per cent of cotton spinning equipment, or some 2.25 million spindles and 21.4 per cent of rayon spinning, or 0.57 million spindles, were mothballed by the joint action of the enterprises concerned under the instruction from the Government.

This mothballed equipment will not be released for three years up to the end of September 1967.

However, if any spinning firm, which has mothballed equipment, desires to install new machines or utilize its mothballed machines, it is permitted to do so provided that it scrapped its mothballed machines twice the number so installed.

In exchange for this scrapping, the Government will provide financial aids, through the official banking institutions, to cover a part of necessary funds for operating the active spindles. This could indirectly encourage scrapping but no measure is provided for buying the mothballed machines. The Government is of opinion that newly operating machines will be used for production of spun synthetic fibre yarns, for which increased demand is anticipated in the future.

(b) Relaxation of restriction on production

Under the old law, spinning facilities were divided into ten groups and the scope of yarn spun in each group was restricted.

In order to attain a smooth shift to synthetics production, for which future demand is expected to increase, and to meet the new age of multi-fibre production, cotton, rayon and synthetic fibres are now merged into one group under the new law and any one of these three categories may be spun on any frame registered under this group. At the same time, production of blended yarn is permitted in any group.

4. It is premature to predict accurately the effects of the new law, as it was just enforced in October 1964. However, it is expected that scrapping of surplus equipments will be promoted. In addition, shift of production to synthetics will proceed smoothly, facilitating the diversification of products and production of high-grade goods.

In the course of its gradual removal of restrictions toward freer competition, coupled with the labour shortage situation as well as the competition among the groups of fibres, the new law would intensify the efforts for rationalization, not only in the spinning industry but also in the textile industries as a whole. This would eventually bring about structural re-organization, both horizontal and vertical, in the cotton and allied textile industries in Japan.

