

GENERAL AGREEMENT ON TARIFFS AND TRADE

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COTTON TEXTILES COMMITTEE

Major Review of the Long-Term Arrangement

Opening Statement by the Chairman

The Long-Term Arrangement provides, in Article 8(c), for a major review of the Arrangement in the light of its operation in the preceding years. This is the purpose of our present meeting.

As we carry out this major review we shall obviously have very much in mind the circumstances and situation which led to the negotiation of the Long-Term Arrangement. The choice facing the international trading community at that time was between international co-operation in trade in cotton textiles or unilateral action; in other words, some restriction on trade under international supervision and collaboration or unilateral trade restriction. In the event it was the judgement of the governments which negotiated the Long-Term Arrangement that the preferable approach was that of international co-operation.

When arrangements were made at the meeting of the Committee last year for the major review, it was understood that the review would have to be carried out on the basis of a study of trends in the cotton textiles sector. It was therefore agreed that the secretariat, with the assistance of experts, should prepare such a study. The document containing the study has been distributed to members of the Committee in COT/W/49 and Addenda 1 and 2.

The subjects dealt with in the study before us are complex but I think that, with the help of experts and information supplied by participating governments and the International Federation of Cotton and Allied Textile Industries - whom I am sure the Committee would wish me to thank for their generous co-operation - valuable information and fairly comparable data have been presented. I hope this exercise will - to borrow a thought expressed by a delegate in the Committee's meeting last year - enable the major review to proceed without discussion being impeded by technical considerations and differences of opinion about figures, etc.

Trends and developments in cotton textiles

Certain findings derive from this study and I think it would be useful if I were to bring out what, to me, appear to be some of the most salient of these. For it is in the light of the developments in trade, production, consumption, and changes in the structure of the industry that we should carry out our review and plan our work for the future.

It is clear from the study that the developing countries have figured more prominently in the expansion in cotton textiles activity than the industrialized countries. Nevertheless, in the case of the less-developed countries also, expansion has slowed down and, during the last decade, has been comparatively less than in the combined output of the manufacturing industries of these countries. This prompts the interesting observation in the study that - contrary to what may sometimes be believed - the process of industrialization in the less-developed countries has not represented a one-sided concentration on the cotton textiles industry.

We may derive some comfort from the fact that, as will be seen from the study, international trade in cotton textiles has been expanding. The value of world exports, including cotton clothing, was 10 per cent higher in 1964 than in 1961, most of the increase taking place in 1964. This expansion was due to made-up goods and, in particular, to cotton clothing exports which, in 1964, were almost 50 per cent higher than in 1961; exports of yarn and fabrics in 1964, though higher in the preceding year, were slightly lower than the level of 1961 and much below the peak level of 1960.

It will be noted that there have been different trends as regards the export performance of the industrialized and the less-developed countries. In the case of the industrialized countries of Western Europe and North America the increase in exports since 1961 has occurred in clothing, a decline being recorded in the case of yarn and fabrics. Japanese exports of all cotton textiles, after having fallen by 8 per cent in 1963 compared with their level in 1961, showed some recovery in 1964 but their value still remained below that of 1961. The less-developed participating countries, on the other hand, have showed a considerable increase in exports of all cotton textiles, an increase which, during the period 1961-64, amounted to almost 40 per cent in value.

Looking at the consumption picture it will be seen from the study that, while per capita consumption in the industrialized countries of man-made fibre goods has shown a significant increase during the last decade, there has been hardly any movement in the case of cotton goods. In the less-developed countries, on the other hand, although per capita consumption is still low, there has been a considerable increase in consumption of cotton textiles due to a steady increase in population and rising standards of living and income levels.

World production of cotton fabrics has remained at more or less the same level during the 1960's but, within this overall situation, there have been trends which are significant. A decline in production in the industrialized countries has been offset by a corresponding increase in the less-developed countries' production. In the industrialized countries the general picture is one of a fall in production accompanied by a reduction in exports and a concurrent rise in imports although, as is clear from the study, there are considerable variations among these countries as regards the ratio of imports to consumption.

One of the basic objectives of the Long-Term Arrangement is to bring about an expansion of the less-developed countries' export trade in cotton textiles. The developments in imports of cotton textiles - particularly into the industrialized countries - are, therefore, of the greatest interest and relevance. The study shows that, during the period 1961-64, imports into the participating industrialized countries of Western Europe and North America increased by approximately \$430 million, of which about \$360 million came from participating countries. Of this increase attributable to the participating countries as a whole, a little less than half was accounted for by imports from the less-developed participating countries. The rest was taken up by an increase in trade by these industrialized countries and by imports from Japan. This increase in value terms in imports from the less-developed countries is, to some extent, accounted for by higher priced goods, more made-up articles, etc., and does not per se indicate a further significant penetration of these markets by the less-developed countries in terms of higher ratios of import volumes to consumption. It might also be mentioned here that some less-developed participating countries experienced a drop in their exports to Asian and African countries during this period.

Imports from Japan and from other industrialized countries experienced a decline over the period in terms of their share of the import market of the industrialized countries of Western Europe and North America, while the less-developed participating countries increased their share from 21 to 26 per cent. It is to be noted that, as a result of an increase of \$70 million in industrialized countries' imports from non-participating countries, the share of these countries, in particular countries belonging to the Eastern Trading Area, moved up from 12 to 13 per cent.

Apart from describing developments in production and trade, the study also offers us considerable information about the changes that are taking place in the structure of the industry. In many countries the industry has undergone great changes so as to adapt itself to the technological and trading conditions which exist today. These have resulted in larger units through vertical and horizontal integration and substantial capital investment, despite the relatively low rate of return on capital. The study gives us an indication of the massive investments

that are being made in various parts of the world; the degree to which modern technology is being adopted; and the extent to which rationalization and modernization are being applied. A decline in the number of spindles and looms has been compensated by higher output per machine as a result of a high degree of utilization and/or improvement of output per machine/hour resulting from the use of more advanced machinery and new techniques. The new technologies normally call for high intensity of utilization so as to offset the considerable amortization costs. There are, however, great variations as to machine utilization and output per machine/hour among both industrialized and less-developed countries.

The cotton textiles industry has been essentially labour intensive, in the sense of having a high ratio of labour in relation to capital. Because of the large-scale investment in many countries this ratio has changed considerably.

It is noted in the study that the available data shows that a negative correlation exists between investments and both the number of machines and manpower in the industrialized countries. This indicates clearly that investments in these countries have been mainly geared to scrapping surplus capacity and continuing modernization and that the large capital spending of the last few years has not, in general, led to an increase in production¹ of yarn or cloth taken together but to the reduction of labour cost per unit of production due to higher labour and machine productivity. It should be noted, however, that while increased productivity enhances the competitive position it may give rise to redundancy in the industry's capacity. In this situation, it is understandable that the less-developed countries might be concerned at the prospect of increased capacity being built up in the industrialized countries behind the shelter of trade restrictions.

The study shows that, unlike in the case of the industrialized countries, the major part of new investment in most of the less-developed countries is used for additional machinery which necessitates an increase in manpower requirements. In the light of the scarcity of capital, shortage of special industrial skills and lack of technological knowledge, many less-developed countries apply the capital allocated for the development of the cotton industry to the levels of technology which they can feasibly adopt and thereby make sufficient use of their abundant unskilled labour.

As regards wages in the industry these in general have risen in both the developed and the developing countries over the last decade and it seems that the gap between textile earnings in some of the developing countries and those in some European countries is now less than the gap between earnings in those European countries and in the United States. However, as low wages do not necessarily result in low wage costs, wages per unit of production rather than wage rates should be considered as a basis for international comparison; precise

¹Includes also yarn and fabrics of man-made fibres produced in the cotton industry.

comparisons of this kind are, however, regarded as almost impossible for various technical reasons. When reviewing labour productivity in some of the cotton textile producing countries it seems, however, that there are great variations between countries, both within the group of less-developed countries and within the group of industrialized countries.

The review of industrial policy measures in the study reveals that the structural changes which have taken place in the cotton textile industry in the industrialized countries are in most cases only to a limited extent the result of industrial policy measures, while in the less-developed countries the expansion of this industry is a significant element of national industrial policy. Trade policy measures of a restrictive kind unfortunately seem to be the major policy measure used by industrialized countries. Commercial policy measures, however, both on the importing and exporting side, do not fully explain the developments in the direction of trade; in order to get a full understanding of all the aspects of trade in cotton textiles more attention should perhaps be given to the rôle of international marketing and prices. All trade restrictions on cotton textiles are not fully notified by participating governments and, in my view, the work of the Committee would be greatly facilitated if the countries concerned could make a renewed effort to help lift the haze which still rests over this subject.

The study for obvious statistical reasons confines itself to the developments up to and including 1964 only. I am sure that delegations, in their statements, will complete the picture with regard to developments in their respective countries during the present year.

It was not possible at this stage to include a projection or assessment of future trends in the study, although some material for the spinning and weaving sectors for a number of countries will be found in the survey on productive capacity in Addendum 2.

If one looks to the future, however, it would seem to me that the following general points could reasonably be made:

- (1) The less-developed countries will continue their expansion in the cotton textile field. Despite the movement towards higher capital requirements, the cotton textile industry can still provide employment opportunities for people with little education more easily than many other manufacturing industries; investments in the cotton industry, therefore, taking into account expanding home markets in the less-developed countries, will continue to be an important part of these countries' programme for the full utilization of resources and the earning of foreign exchange.
- (2) The market in industrialized countries for cotton goods can be expected to grow only slowly due to competition from man-made fibre textiles. It is reasonable to believe that the domestic industry in many industrialized countries will continue to increase in efficiency and that competition in these markets will continue to be strong.

- (3) As more less-developed countries develop their cotton textiles industry and become self-sufficient it will evidently become more difficult for the traditional exporters among less-developed countries to export to other less-developed countries. A gradual liberalization of trade between these countries would lead to greater competition thereby contributing to increased efficiency in their cotton industries.
- (4) International trade in made-up articles will probably continue to grow faster than trade in yarn and fabrics. The labour content in the production of garments will continue to be high and less-developed countries will, provided they have export outlets, undoubtedly try to benefit from the comparative advantage they have with their abundance of cheap labour to expand the clothing industry. At the same time, one can expect a continued increase in trade among industrialized countries in novelty goods and specialities. Trade expansion and increased competition in the field of man-made fibre textiles, especially among the industrialized countries, is likely to continue.

Operation of the Long-Term Arrangement

It is impossible to assess precisely the exact extent and degree to which the developments which are described in the study have been due to the existence of the Long-Term Arrangement. What we shall all be doing, I am sure, however, is to weigh up how the trends and policy directions which the developments imply match the underlying objectives of the Arrangement and the hopes and expectations expressed at the time the Arrangement was negotiated.

I have no doubt that in their preparations for this review the governments which are parties to the Long-Term Arrangement have been giving serious thought to the question of the operation and administration of the Arrangement during the three years of its existence. The governments of developing countries will certainly have been making a judgement as to the value to them of the type of commercial co-existence and co-operation which the Arrangement represents. For their part I assume the industrialized countries have been giving serious thought as to the extent to which their policies respond to the purposes for which the Arrangement was negotiated.

In the two annual reviews which we have already had, very serious anxieties were expressed as to the way in which the Arrangement had been operated. In these two reviews we have heard from both exporting and importing countries of the difficulties they have experienced in connexion with the operation of the Arrangement; and certain steps were agreed in order to try and improve the situation in this respect. I have the feeling that similar complaints and concerns are likely to be expressed on this occasion.

Despite a general increase in exports it is reasonable to assume that the operation of the Long-Term Arrangement has limited the trade of less-developed countries and Japan in certain categories of cotton textiles. Further, contrary to what was the hope and expectation when the Arrangement was negotiated, it is clear that exports of cotton textiles from the less-developed countries are still mainly concentrated on the same markets in the industrialized areas as they were before the Arrangement.

As members of the Committee are aware, and as will be apparent from the note by the secretariat in document COT/W/51, there has been extensive use of the restraint provisions of the Arrangement. These provisions have not been used sparingly as was envisaged when the Arrangement was negotiated. However, one can see that there may well be a practical difficulty in using such provisions sparingly. International trade in cotton textiles is highly organized involving a world-wide market with a growing degree of interdependence between individual countries. One consequence of this is that, when a major importing country takes action to restrict the flow of imports from a particular source, or when a quota for a particular exporting country is used up, the flow of goods is very soon diverted to another importing country. Likewise, when exports from one country are restricted it is possible for importers, in a short period of time, to find other suppliers in respect of which restraint measures have not yet been imposed. This may, to some extent, explain why there have been so many restraint actions and may, in fact, be taken as an example of how restrictions breed restrictions.

Attention should also be focussed on the quotas referred to in Article 2 of the Arrangement. These quotas have, in many cases, more or less, only matched the minimum obligations undertaken when the Long-Term Arrangement was negotiated and, I understand, even these have not in some cases been taken up for various reasons.

As will be seen, the problems in trade in cotton textiles are complex and interrelated and a lot still remains to be done in this sector of international trade. The current trade negotiations - the Kennedy Round - would seem to offer the opportunity to negotiate on these problems with a view to bringing about a higher degree of liberalization in trade in cotton textiles. The interrelated elements which might be an appropriate basis for such negotiation would appear to be the greatest possible reduction of tariffs on cotton textiles, the maintenance for some further time of the safeguards against the sudden disruption of existing patterns of production provided for in the Long-Term Arrangement, and a more liberal administration of the Long-Term Arrangement in order to provide expanded access to markets for the exporting countries - in particular less-developed countries.

At the Committee's meeting last year, a member of the Committee expressed the view that our task should be seen as falling into two parts. The first part - which should now be looked upon as being more or less completed - would have seen the international trade position brought into some semblance of order through restraint actions and so on; the major review itself should be looked upon as the beginning of the second phase of our task which is to give effect to the long-term and positive aims of the Arrangement. It would be my hope - and I assume the hope of all of us - that the tenor and direction of our deliberations at this meeting will clearly demonstrate that the Cotton Textiles Committee is playing an active and constructive rôle in this difficult field.