

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

COT/W/61  
8 December 1965

Special Distribution

Original: English

## COTTON TEXTILES COMMITTEE

### Statement by the Representative of Pakistan at the Meeting of 7 December 1965

May I at the outset join other members of the Committee in expressing our warm appreciation for the Study on Cotton Textiles prepared by the GATT secretariat for the use of this Committee (COT/W/49 dated 17 November 1965), together with the factual analysis of the Long-Term Arrangement in the first three years of its existence contained in secretariat document COT/W/51 dated 6 December 1965. As you very rightly pointed out in your opening statement yesterday, these two documents together provide a great deal of factual and statistical data on the cotton textiles industry both in developed and in developing countries. They also reveal the broad trends and policy directions in this field and provide the basic material for the Committee to evaluate the operation of the Long-Term Arrangement.

My Government has not had enough time to study and analyse in detail the statistical data contained in this report. I would, however, wish to make a small comment on the grouping of countries for statistical purposes. Paragraph 22 of the Study shows that the countries participating in the Long-Term Arrangement have been grouped into three main categories, namely, Group I consisting of industrialized countries applying restrictions on imports of cotton textiles under the Long-Term Arrangement, Group II consisting mainly of developing countries whose exports of textiles are the subject of these restrictions, and Group III consisting of Japan. There is no doubt that this method of grouping has a certain advantage from a statistical point of view, but its drawback is that a number of comparatively developed countries are lumped along with developing countries in Group II. It would be helpful if in future the secretariat could provide a separate analysis of statistics with regard to exports of cotton textiles of developing countries.

As the Study was undertaken to facilitate the major review of the Long-Term Arrangement, one expected it to include a detailed analysis of the working of the Long-Term Arrangement. This was missing from the document circulated on 17 November 1965. We are glad, however, to note that this omission was rectified to some extent by the supplementary note circulated yesterday and by your own thoughtful remarks at the first session of this Committee, even though your criticism of the protectionist measures adopted by industrialized countries was somewhat muted. The reluctance of the secretariat to be involved in controversy

is understandable, but we hope that this inhibition will not extend to the contracting parties and that the members of the Cotton Textiles Committee will feel free to express their views frankly, though without rancour.

My delegation is in full agreement with your suggestion that, in reviewing the operation of the Long-Term Arrangement during the first three years of its existence, the Committee should weigh up how the trends and policy directions which the developments imply match the underlying objectives of the Arrangements and the hopes and expectations expressed at the time the Arrangement was negotiated.

It will be recalled that the Long-Term Arrangement Regarding International Trade in Cotton Textiles was established in October 1962 at the instance of the United States and other industrially advanced countries which expressed deep concern regarding the disruption of their markets and the serious injury to their own cotton textile industries as a result of increasing imports of textiles from the developing countries. It was represented by them that the cotton textiles market constituted a special problem calling for special treatment. It was recognized that restrictions on imports of cotton textiles constituted a major departure from the provisions of the General Agreement, but the developing countries were assured that the restrictions would be applied only for a limited period of time and that this would facilitate necessary adjustments in the textile industries of the industrially advanced countries.

The Long-Term Arrangement came into force on 1 October 1962 and is valid only for a period of five years. Article 8 of the Long-Term Arrangement provides for an annual review of the Arrangement. The review to be carried out during the third year was described as "a major review", Article 8(d) envisages a meeting of the Cotton Textiles Committee, not later than one year before the expiry of the Arrangement "in order to consider whether the Arrangement should be extended, modified or discontinued".

Although the initial objective of the Long-Term Arrangement was to regulate international trade in cotton textiles in such a way as not to "cause or threaten to cause" disruption of the market for cotton textiles, in order to make these restrictive measures palatable to the exporting countries and to make the Long-Term Arrangement more presentable to world public opinion. The preamble to the Long-Term Arrangement emphasized that the objective of the Arrangement was

"to facilitate economic expansion and promote the development of less-developed countries possessing the necessary resources, such as raw materials and technical skills; by providing larger opportunities for increasing their exchange earnings from the sale in world markets of products they can efficiently manufacture".

The Committee should consider whether the fears of industrialized countries with regard to the disruption of their markets were well founded, whether the import restrictions imposed under the cover of the Long-Term Arrangement were justified, and whether and to what extent the importance and objectives of the Long-Term Arrangement, particularly with regard to orderly expansion of the cotton textiles exports of developing countries, have been achieved in actual practice. To be more precise, the Committee should consider whether, on the basis of the Study prepared by the GATT secretariat,

- (i) there was or there is any "serious damage to domestic producers" of cotton textiles in industrially advanced countries, or threat thereof, as a result of imports of cotton textiles from developing countries;
- (ii) the industrially advanced countries have carried out the necessary adjustments in their own textile industries so as to obviate the need for continued restrictions on imports of cotton textiles as was promised at the time the Long-Term Arrangement was negotiated;
- (iii) the Long-Term Arrangement has provided the growing opportunities for exports of cotton textiles from developing countries which was promised to them when the Long-Term Arrangement was negotiated. Finally, we must decide whether in the light of the conclusion reached on these three issues, there is any justification for the continuance of the restrictive provisions of the Long-Term Arrangement.

The fear of disruption of the markets of developed countries was primarily based on the argument that the cotton textile industry was a labour intensive industry, that labour being plentiful in the developing countries and wages

comparatively low, the cost of production in developing countries was considerably less than in the developed countries. It was, therefore, argued by the industrialized countries that if steps were not taken to restrict imports of cotton textiles from developing countries, their own domestic industries would get into serious difficulties and that this would result in a steep fall in production and large-scale unemployment. The secretariat Study shows that these fears were unfounded. Even before the Long-Term Arrangement came into force, there was no fall in the production of yarn or cotton fabrics in the Group I countries, certainly there has been no reduction in production of these commodities since October 1962. The secretariat Study shows that production of yarn in Group I countries continues to be half times more than the production in Group II countries, and that it has increased by about 20 per cent between 1953 and 1964 (vide Table 5 at page 12 and paragraph 106 of the secretariat Study COT/W/49). As a matter of fact production of yarn in Group I countries has increased more rapidly between 1960 and 1964 than between 1953 and 1960. The rate of increase during the years 1953 and 1960 was 7.6 per cent while the increase during 1960 and 1964 amounted to 11.4 per cent. In the case of cotton fabrics production in industrialized countries has been, more or less, stable between 1953 and 1964.

In the light of this evidence, it is clear that the emergence of less-developed countries as producers and exporters of cotton textiles has not led to any fall in production either of cotton yarn or cotton fabrics in Group I countries; either before or after the coming into operation of the Long-Term Arrangement.

There is also no evidence to show that there has been any noticeable decline in employment in the cotton textiles industry of developed countries due to increased imports of cotton textiles from developing countries. Such reduction in the number of workers employed in the cotton textile industry in Group I countries as might have taken place during the last decade has been due primarily to the introduction of automatic machines and other labour-saving devices. As has been pointed out in paragraph 154 of the GATT Study "there appears to be a negative correlation between investments and both the number of machines and man-power".

On the evidence now available the need for restriction on import of cotton textiles from developing countries was questionable even in 1962. There is still less justification today for special protectionist measures for the cotton textile industry of developed countries in the light of developments during the last three years. The secretariat Study shows that, while there has been a considerable overall decrease in textile machinery in place in Group I countries, this has been accompanied by the replacement of obsolete low capacity, machinery by new equipment capable not only of maintaining, but even of raising the level of production previously attained. There has been a striking improvement in machine production in terms of output per spindle or per loom in Group I countries. Between 1955 and 1964, output per spindle in Group I countries increased by 90 per cent, and output per loom increased by more than two thirds. The machine utilization has also increased substantially in the Group I countries during this period.

The secretariat Study makes the interesting observation that the cotton textile industry is increasingly becoming a capital intensive industry, and is consequently in a better position to compete with the cotton textile industries of the developing countries.

The secretariat Study has also drawn attention to the large and growing amount of investment in the cotton textile industry in industrially advanced countries. For instance, the United States invested \$760 million in new plant and equipment in 1964 and new investments in 1965 are estimated at approximately \$1 billion. In Canada, total new capital spending in the cotton textile industry during the period 1946 and 1965 was of the order of \$195 million for new construction and \$133 million on repair and maintenance. Investments in the EEC countries in this industry totalled approximately \$168 million in 1963 (vide paragraphs 149 and 151 of document COT/W/49).

To sum up as a result of the modernization of the cotton textile industry during the last decade, the introduction of more automatic machines and other technological advances in the cotton textiles industry in most of the industrially advanced countries is strong enough to compete on even terms with the textile industry of less-developed countries. It is not in need of special measures of protection such as were provided in the Long-Term Arrangement. If any industrially advanced country feels that its textile industry is in need of some special assistance, the correct remedy is not the imposition of arbitrary restriction on imports of cotton textiles, but the grant of adjustment assistance.

Pakistan agreed to the Long-Term Arrangement in the hope that the industrially advanced countries would vacate a part of the cotton textile field to the developing countries and would themselves concentrate on the more specialized high priced, variety of goods. It was also our hope that this would make possible a substantial increase in our exports of cotton goods and increased earnings of foreign exchange to help to finance our economic development and growing imports of capital goods and machinery. We have to observe with regret that these hopes have not materialized.

I would like now to turn to the question of changes in the pattern of trade, to see whether the Long-Term Arrangement has led to a reasonable and orderly growth in the exports of less-developed countries or it has arrested the expansion of their trade. Let me say, quite frankly, that the rate of growth of exports in the yarn and cotton fabrics from Group II countries, as a whole, has declined considerably during the period of the operation of the Long-Term Arrangement compared to the rate at which the exports of these products were growing during 1953 and 1960.

It will be seen from Table 5 of the secretariat report that, while the exports of yarn and fabrics of Group II countries increased from 136,000 metric tons in 1953 to 294,000 metric tons in 1960, that is, increased at a rate of approximately 15 per cent annually, during 1960-1964 the increase amounted to 47,000 tons only, or about 4 per cent per year. This is surely not consistent with the objectives of the Long-Term Arrangement which was designed to provide growing opportunities for exports of these products from Group II countries.

The problem may also be looked at in another way. Let us examine the ratio of imports of Group I countries to their domestic consumption between 1953-1960 and between 1960 and 1964. We find that in the United States the ratio in respect of cotton fabrics increased from 0.2 to 2.6 between 1953 and 1960, but declined to 1.4 in 1961 and stood at 2.5 in 1964. In the case of the EEC, this ratio moved from 0.8 to 2.2 during 1953-60, but declined to 1.2 in 1962 and 1.9 in 1963, but registered an increase to 3.1 in 1964. In the case of the United Kingdom the ratio of imports of cotton fabrics from Group II and Japan rose from 4 in 1953 to 28.2 in 1960; but registered no improvement during the years 1961-64.

The inescapable conclusion is that, far from producing a substantial expansion in the exports of cotton textile of Group II countries, the Long-Term Arrangement has in fact, arrested the growth of these exports and showed no noticeable improvement in the ratio of imports to consumption of cotton textiles in Group I countries.

We have so far reviewed the effect of the Long-Term Arrangement on the exports of Group I countries, as a whole. As far as Pakistan is concerned, we have explained in the previous two annual reviews that the cotton textile industry is the largest industry of Pakistan and has to play a very important rôle in earning the foreign exchange required for the execution of Pakistan's development programme. The implementation of the current Third Five-Year Plan of Pakistan requires that export earnings of cotton manufacturers should increase to Rs.350 million by 1969-70. However, there are many obstacles in the way of the expansion of our trade in cotton textiles. The United Kingdom continues to maintain quantitative restrictions on exports of Pakistan even though those restrictions are inconsistent with its obligations under the General Agreement. We are also faced with quantitative restrictions in France, Germany, Italy and Austria. The French quota amounts to 300 metric tons, and the quota fixed by the Federal Republic of Germany is barely 155 tons. We have several times in the past requested the Governments of France and Germany to enlarge our quotas significantly but we have met with no success. These quotas are not only very small in size but they are also categorized in such a way that it becomes impossible for us to utilize them. Several categories of our textiles are subject to quantitative restrictions in the United States as well. All these quotas do not take into account either our capacity to export cotton textiles or our pressing need for more foreign exchange. According to our estimates, we could export 175 million square yards of cloth to the United Kingdom and the United States, but our exports to these markets, where there is considerable expressed demand for Pakistan cloth, are restricted to about 68 million square yards. We are, therefore, losing an opportunity to export over 100 million square yards to these two countries alone.

The brief review of the Long-Term Arrangement which I have just attempted brings out the following broad conclusions:

- (i) Exports of cotton textiles from less-developed countries do not constitute a threat to the cotton textiles industry of developed countries.
- (ii) In view of the modernization and rationalization of the cotton textile industry in Group I countries, special protective measures are no longer necessary.
- (iii) The Long-Term Arrangement has not led in practice, to a substantial and orderly growth of the cotton textile exports of less-developed countries. In fact, it has considerably restricted their trade opportunities in these goods.

If these conclusions are valid, we wonder, if we have not reached the point where we should begin a return to freer trade in cotton textiles and more strict adherence to and honest application of the General Agreement.

We agree with your observation that the current trade negotiations, namely, the Kennedy Round, might offer an opportunity to negotiate on all the problems relating to international trade in cotton textiles with a view to achieving greatest possible reduction in tariffs on cotton textiles, removal of non-tariff barriers, and promotion of trade in textiles of less-developed countries without serious damage to the textile industry of the developed countries. We were glad to have participated in the informal exchange of views which took place recently between the countries having an important interest in trade in cotton textiles. We would readily join in any further discussions which might take place on this subject. We must, however, reiterate our stand that if the review envisaged in Article 8(d) of the Long-Term Arrangement is to be combined with negotiations of tariff reductions in the Kennedy Round, all elements of the problem should be equally open to discussion and negotiation. My Government could not surrender its right to examine the question of extension, modification or discontinuation of the Long-Term Arrangement in the vague hope that access for its cotton textiles will be substantially enlarged through reduction of tariffs and "a more liberal administration of the Long-Term Arrangement".

The Committee has been asked to consider the Aide Memoire on cotton textiles imports in the United Kingdom circulated in secretariat document COT/59 dated 3 December 1965. This is an important document and is of vital interest to Pakistan. While the United Kingdom's proposals do have an important bearing on the Long-Term Arrangement, we feel that it would be more convenient to deal with these proposals after we have concluded our major review of the Long-Term Arrangement. In these circumstances, we will defer our comments on the proposals of the United Kingdom.

