

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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COTTON TEXTILES COMMITTEE

Statement by the Representative of India at the Meeting of 7 December 1965

I would at the outset express the gratitude of my delegation to you, Mr. Director-General, and your secretariat, for the exhaustive information made available to the members of this Committee. We are generally in agreement with the conclusions on the working of the Long-Term Arrangement reached by my distinguished colleague from Pakistan. We would like to examine the data presented to us with a view to ascertaining how far the following objectives of the Long-Term Arrangement, which has been in force for full three years, have been fulfilled, namely:

- (a) promoting exports of less-developed countries possessing the necessary resources such as raw materials and technical skills, and
- (b) ensuring that this development proceeds in a reasonable and orderly manner so as to avoid disruptive effects in individual markets and on individual lines of production in both importing and exporting countries.

The second objective mentioned above is not so much an objective as a procedure which, with the agreement of exporting countries, was made available to importing countries, so that whenever the fulfilment of the objective of the promotion of exports of less-developed countries led to a disruption of their markets, they could remedy the situation. A study of the data contained in document COT/W/49 and the two addenda attached to it clearly brings out that this procedure has been liberally used even in situations when it was not called for. The result is that the textile industries of importing countries have not only been able to protect themselves fully against dislocation, but have succeeded in preserving their production structure and strengthening it, not with a view to accommodating imports from less-developed countries, but with the aim of frustrating these imports even during a period when the procedure under the Long-Term Arrangement may not be available to them. No wonder then that the Long-Term Arrangement has caused unadulterated satisfaction to importing countries and unrelieved and growing gloom to the textile industries of the exporting countries. The report brings out that due to large-scale investments and

modernization, the textile industries of Group I countries have increased their strength and competitive capacity on a scale which threatens the very export potential of Group II countries.

In the developed countries, there has been a pronounced shift from cotton to man-made fibres and the so-called contraction in the cotton textile sector of the developed countries is really the manifestation of such a shift from cotton to man-made fibres. In fact, taking consumption of cotton, rayon and other man-made fibres together, the textile industries of the developed countries have made substantial progress throughout the period of the Long-Term Arrangement. Their consumption of these fibres has gone up from 4.70 million metric tons in 1953 to 5.17 million metric tons in 1960 and 6.06 million metric tons in 1964. The statistical report further notes that cellulosic and synthetic fibres give more yarn or cloth per unit weight than cotton and that the factors for converting man-made fibres into cotton equivalent usually vary from 1.1 to 1.8. Even if we use the ratio of only 1.5 for rayon and other man-made fibres, the consumption by the developed countries in 1953 is equivalent to 5.36 million tons, the corresponding figures for 1960 and 1964 being 6.06 and 7.43 million tons, which show an increase in 1964 of 40 per cent, over 1953 and 22 per cent over 1960.

While thus the second objective has been more than fulfilled, the progress in regard to the promotion of exports of less-developed countries has been very much disappointing.

As may be observed from Table 5 in COT/W/49 the exports of Group II countries expanded from 192,000 metric tons in 1960 to 222,000 metric tons in 1964, an increase of 15.6 per cent. Figures of Group I countries in this table as well as in Table 8 appear to have been vitiated by some confusion in regard to intra-EEC and intra-EFTA trade. But COT/STAT/38 submitted by the EEC brings out the fact that EEC exports to the world increased from 1,128 million dollars in 1962 to 1,458 million dollars in 1964, a rise of 30 per cent in two years alone. Quoting, however, from the GATT publication "International Trade 1964", we can see from Table 16 thereof that the EEC exports of textiles and clothing to the world rose from 2,599 million dollars in 1960 to 3,879 million dollars in 1964, a rise of 49 per cent. The intra-EEC trade more than doubled in that period, from 909 million dollars to 1,982 million dollars. In the same period EFTA exports increased from 1,317 million dollars to 1,659 million dollars, i.e. by 26 per cent. The increase in exports from North America, though lower at 19 per cent, are still higher than the Group II countries' figure of 15.6 per cent. What is even more remarkable, the exports of non-participating countries according to Table 5 of COT/W/49 went up from 122,000 metric tons in 1960 to 144,000 metric tons in 1964, a rise of 18 per cent as against a rise of 15.6 per cent for Group II countries. Table 7, however, reveals a different picture. The imports of cotton textiles into Group I countries from the Eastern Trading Area went up from 45 million dollars in 1961 to 81 million dollars in 1964, a growth of 80 per cent in three years.

The conclusions to be drawn from these observations are that an exporting participating country is worse off than a non-participating exporting country. A developing participant is particularly worse off, as the restrictive arrangements are not applied to the developed countries, but they are applied to the less-developed countries. So far as EEC is concerned, the less-developed country is exposed to two-fold discrimination, whereas for intra-EEC trade, there are no quotas and the tariffs have been reduced, a less-developed country is bound by quotas and has to face high tariffs. As a matter of fact, this should have been the other way about, i.e., there should be no tariff when the import is restricted to a quota.

Turning to the aspects of structural adjustments, Article 1 visualises that special practical measures of international co-operation should be applied so as to assist in any adjustment that may be required by changes in the pattern of world trade in cotton textiles. This meant that structural adjustment in the industries of the Group I countries was expected to proceed in the direction of enabling a progressively larger access to the kind of goods which less-developed countries are in a position to export. Actually, however, the structural adjustment has proceeded in the opposite direction, i.e. the production and exports of Group I countries have increasingly shifted to the area in which Group II countries were supposed to have a better potential. Their average count has gone coarser and they have increasingly resorted to exports of greys.

The operation of the Long-Term Arrangement has created a climate in which an increasing resort is being made to restrictions inconsistent with the objectives of GATT, the result of which is to impede the efforts of less-developed countries to invest in and build their industries in sectors where increasing export opportunities would be available. When the exporting countries subscribed to Long-Term Arrangement, they believed that if the expansion of the exports of less-developed countries caused any difficult problems to the textile industry of an importing country, that country would resort only to the remedial measures provided for in the Long-term Arrangement. What appears, however, to have happened, is that the importing countries viewed the Long-Term Arrangement as giving them a carte blanche for imposing whatever restrictive measures appeared to them to be feasible and effective. There is no other explanation which occurs to our delegation for the widespread use of tariff and non-tariff barriers to checkmate exports from less-developed countries.

We had entered into a voluntary arrangement with the United Kingdom long before the Long-Term Arrangement was thought of. Had the refreshing example set for larger intake of cotton textiles by this country been emulated by other Group I countries, these annual meetings of the Cotton Textiles Committee could have been converted into social gatherings which are so useful for promoting international economic co-operation and assistance. In the wake of the

Long-Term Arrangement and the climate created by the Arrangement, however, the subjection of our imports into this country to categorization has resulted in some set-back in our capacity to maximize foreign exchange earnings from exports to this important market. Furthermore, while the countries observing voluntary quota restrictions remained where they were, others have substantially expanded their exports to this market. Nevertheless, we are hopeful that these aspects of the problem would be settled in a spirit of understanding and appreciation of the needs of a developing country like ours.

In the EEC countries, the administrative procedures adopted by Germany and France for operating the quotas have greatly hampered us in the fulfilment of even the meagre quotas. As pointed out in the report before us, Germany and France would be more helpful if they consider transferring the administration of the quota arrangements to the exporting countries. Continued operation of the Nordjwik Agreement and the CEEC preferences, given on non-commercial grounds, have severely restricted access for our exports, particularly our greys, to the EEC countries.

Another developed country is making increasing resort to tariff protection and still another has adopted a valuation procedure which has had a telling effect on our export performance in that market.

In the market in which India has been subjected to Article 3 restraints, restrictions have been placed precisely in those categories where we have an ability to expand exports much faster because of the nature of raw cotton and technical skills with which my country is endowed. Further, in placing such restrictions, the base year approach and the period chosen for the determination of our quotas, have resulted in the quantities being fixed at an unduly low level. The importing country should place before itself the objective of making necessary structural adjustments with a view to discarding Article 3 restraints, as early as possible, and not perpetuating them as is happening at present. The categorization should not also be narrow and detailed.

We are fully in agreement with the point made by the distinguished delegate from Japan, namely, that with regard to pre-existing restrictions inconsistent with the provisions of GATT, little or no progress has been made towards relaxing them progressively each year with a view to their elimination. A reference has already been made to the continued operation of the Nordjwik Agreement and the operation of the quotas by France and Germany. There has not been the same amount of pressure for removal of these illegal restrictions which, but for the Long-Term Arrangement, would have been generated.

My country has been particularly hit by the operation of the Long-Term Arrangement and it is unfortunate that the results which our colleagues from developed countries during the long negotiations preceding the Long-Term Arrangement led us to believe would accrue to India by joining the Arrangement, have not been fulfilled. Our example is of significance in view of the fact that we have been exporting cotton textiles from times immemorial. We are particularly fitted to earn foreign exchange by exports of cotton textiles as we grow our own cotton. We have one of the oldest textile industries of the world. We mainly cater for the requirements of our own domestic consumers and export only a small percentage of our production in order to earn the much needed foreign exchange. We have been hoping that because of our natural endowment, we can easily increase our foreign exchange earnings from this item and thus build up our import capacity for purchasing more sophisticated items from industrialized countries to whom our increased exports would be directed. We thought that the Long-Term Arrangement would help us to bring about that international division of labour, of which we have talked so much, and would help industrialized countries to bring about an orderly shift from less remunerative to more remunerative employment of labour and capital. The fact that we have failed to increase our export earnings and the industrial countries have failed to bring about this desirable shift, proves conclusively that the Long-Term Arrangement has not achieved the purpose for which not only we but representatives of the industrialized countries subscribed to the Arrangement.

I would request you, Mr. Chairman, to permit me to take certain observations on the provisions contained in some of the key articles of the Long-Term Arrangement.

Article 1 prompted less-developed countries to become signatories to the Arrangement in the hope that structural adjustments would be carried out in the industries of the importing countries with a view to giving progressively larger access to exports of less-developed countries. Contrary to this expectation, the period of the Long-Term Arrangement has been utilized by industries of the importing countries not only to modernize and change the character of their industries from labour-intensive to capital-intensive, but also to shift their production precisely to those areas in which the less-developed countries expected to have a progressively larger access. The productivity of Group I countries has made a very rapid progress during the period of the Long-Term Arrangement. In 1953, yarn production per spindle hour was .0141 kg for Group I countries and .0137 kg for Group II countries showing only a marginal difference between the productivities of the two Groups. In 1964, the corresponding figures were 0.186 kg. and .0136 kg, which show how far the Group I countries have technologically advanced over the Group II countries. The progress has been particularly spectacular between 1960 and 1964 and one may expect that within the next two or three years, productivity of Group I countries will outstrip that of Group II countries by more than 50 per cent. As regards productivity in weaving, a similar trend is visible. The machinery utilization has also shown spectacular growth in Group I countries. Their average count has also gone coarser.

So far as Article 2 is concerned, its first paragraph has remained almost a dead letter. Besides that, I have already referred to the difficulties created by the administration of quotas by the importing countries. While the importing country claims that it has given the growth which it was required to give under the Long-Term Arrangement, the exporting country does not derive any benefit from this so-called growth. I would like to leave it to this Committee to judge whether the fault for this lies with the method of operation of Article 2 or its structure. Furthermore, it has given rise to a climate in which increasing resort is being made by the developed countries to tariff, commercial and non-commercial policies which are calculated to shut out their markets to less-developed countries.

Turning to Article 3, market disruption is claimed only on the basis of a narrow statistical exercise of comparing imports of one period with those of another. As stated by me earlier, the study contained in document COT/W/49 has, far from establishing any market disruption in the last three years, revealed a substantial growth in the textile industries of Group I countries, taking cotton and man-made fibres together. Wherever a promising outlet was discovered by the less-developed countries, it was promptly plugged not for a temporary period as envisaged, but on a long-term basis. While exercising the unilateral judgement given to the importing countries to place restraints under Article 3, some objective criteria should be laid down for concluding that a threat of disruption has, in fact, arisen. In doing this, full consideration ought to be accorded to the ratio of imports to consumption in the importing country. In this connexion we heard the distinguished delegate from the United Kingdom say yesterday that nearly 40 per cent of the total consumption of cotton textiles in his country was met by imports. The importing country should also be required to examine whether it is not possible for it to accommodate increasing imports through a shift of the local production to more sophisticated goods. Or alternatively, the liberal use of the provision for the grant of adjustment assistance provided for in the Trade Expansion Act of the United States and promotion of similar legislation by other developed countries would take care of the adjustments which shifts in demand may call for. If at all restraints under Article 3 become inevitable, in fixing the levels of quotas, only the level of exports in the previous year is taken into account, disregarding the export performance of previous years, as also the fact that in the previous years the importing country had been able to accommodate larger imports without causing any disruption. Best year performance rather than base year performance as also the export potential of the particular exporting country and its needs for earning foreign exchange should all be taken into account. The categorization should also not be too narrow and detailed. But for such improvement in the working of Article 3, efforts made by the developing countries to build up entrepreneurial talent and make investments in those particular sectors where they have an export potential, will be completely jeopardized.

Textile products manufactured out of hand-made fabrics in the cottage industry should be treated on par with handloom fabrics on the basis of certification procedures in the exporting countries. Such exemption should also be extended to other categories of textile products of particular export interest to the developing countries.

A review of the working of the Long-Term Arrangement discloses that the concept of orderly growth by departure from GATT principles has failed. In this context, we fully share the disappointment so eloquently voiced by the distinguished delegates from Jamaica and the United Arab Republic. To us the concept has come to mean legalization of illegal restrictions and discriminatory action to frustrate rather than promote growth of exports of less-developed countries. There has been a proliferation of restrictive practices which, we believe, would not have come into being but for the climate created by the Long-Term Arrangement. We would like to end by pointing out that non-participants have enjoyed a much better rate of growth than the participants and exports of handloom fabrics not subject to the Long-Term Arrangement restraints have shown a commendable progress. This is not a very happy reflection on the working of the Long-Term Arrangement. The public opinion in our country makes it virtually impossible for our Government to continue to lend its support to this concept. Our delegation is, however, aware that important importing countries desire this concept to be maintained for a period even longer than the one prescribed in the Long-Term Arrangement. The responsibility rests heavily on them to indicate to this Committee, the steps they propose to take during the year 1966, so that it may be possible to view this concept more sympathetically than the actual operation to date justifies. I would like to suggest that in order to give an opportunity to developed countries to let us have their fully considered response to this appeal, a meeting of this Committee be convened in the early part of 1966. Such a meeting would also appear to fit in with the time schedule indicated in Article 8(d).