

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Textiles Committee

COMMENTS ON THE REPORT BY THE GATT SECRETARIAT ON
"DEMAND, PRODUCTION AND TRADE IN TEXTILES AND CLOTHING"
(COM.TEX/W/156)¹
INTRODUCED BY THE GROUP OF DEVELOPING COUNTRIES,
EXPORTERS OF TEXTILES AND CLOTHING

1. This paper examines the GATT Report on "Demand, Production and Trade in Textiles and Clothing", taking into account issues which developing countries consider to be of particular interest to them in reviewing the operation of the MFA.

DEMAND

Developed countries

2. The GATT Report notes that the growth in real terms of consumer expenditure on clothing in developed countries tended to lose momentum between 1978 and 1982, but it does not attempt some possible explanations. The slowing down in total consumer expenditure during this period was certainly a major cause, but the intensification of the restrictions on imports from the developing countries probably also contributed, through their price-raising effect, to depress the level of consumption. The GATT Report could, therefore, have devoted more attention to the strong inverse relationship between the growth of consumer expenditure on clothing and relative prices, which is mentioned in the text only for the United States, but is clearly discernible also in several European countries, including some individual EEC member countries (regrettably not shown in the GATT Report which deals only with the EEC as a whole).

Developing countries

3. The growth of consumption of textiles and clothing slowed down considerably in recent years also in developing countries, as GDP per head had been falling continuously between 1980 and 1983², facts which are not mentioned in the GATT Report. Total GDP growth remained, however, somewhat higher in the developing countries, where population has continued to grow by about 2.4 per cent on average per year, than in the developed areas.

¹The detailed statistics from which the GATT Report draws are contained in GATT Textile and Clothing Statistics (COM.TEX/W/157).

²Derived from data on GDP growth in the World Bank's World Development Report 1984 and on population in UN Monthly Bulletin of Statistics, August 1984.

PRODUCTION

Clothing as compared with textiles in developed countries

4. The GATT Report attributes partly, but in the first instance, the less favourable performance of clothing as compared with the textiles industries in the developed countries, to the growth of imports. It does this twice, once when referring to developed countries as a whole, in paragraph 12 ("This can partly be explained by the greater impact of clothing imports on domestic producers") and again when referring to the United States in paragraph 14 ("This can be explained partly by the fact that clothing imports grew in volume terms faster than consumer expenditure on clothing"). With the exception of the last sentence in the paragraph referring to developed countries, which does mention that the exclusion of unrecorded production from the available indices introduces more of a bias for clothing than for textiles, no other explanation is given.

5. Such allegations concerning the links of causality between production and imports can be challenged for five main reasons:

(i) The validity of the production index. Apart from the bias which might reflect the exclusion of unrecorded production (small enterprises and non-registered production units), the indices of clothing production (obtained by deflating value-added in current prices) might significantly understate the growth (or exaggerate the decline) of clothing production for other reasons as well (for instance, if the price deflator used tends to have an upward bias). In this connection, it would have been useful to know the reasons why the indices of clothing production for the United States (published in the Federal Reserve Bulletin and used in the GATT Report) have ceased to appear after 1982. Was it considered that they are technically deficient? Is the method of estimation used by the GATT secretariat for 1983 compatible with that of the published index until 1982?

(ii) The incompatibility of the indicators in real terms of production, consumer expenditure and imports. Given the serious statistical shortcomings of each of these indicators, any assessment of the relation between them is not meaningful, as pointed out in the Introductory Remarks, paragraph 7, of the GATT Report.

(iii) Economic and technological factors having contributed to the relatively better performance of the textiles than the clothing industries in developed countries. It would have been useful if the GATT Report would have at least mentioned some of these factors, such as: textiles are relatively less labour-intensive than clothing, labour productivity has increased faster in textiles than in clothing, technological innovations have proceeded at a faster pace in textiles (non-woven as a typical example), etc.

(iv) An examination at a more disaggregated level would have shown that for many individual products for which production declined, in absolute terms it reflected essentially the decline in consumption, not the growth of imports.

(v) Even for the products for which the decline in production in absolute terms was accompanied by a substantial rise in imports, it can be argued from an economic point of view that the rise in imports was not the primary cause, but a symptom of the declining profitability and competitiveness of such products. For instance, productivity increased less than wages.

EMPLOYMENT

6. The validity of the basic data on employment, like that on production should have been examined more critically as regards the bias which might have been introduced because of the exclusion of non-recorded employment. In this connection, an indication of the orders of magnitude involved can be gauged from the fact that, according to estimates made by the Commission of the EEC total employment, i.e., including estimates for employment in enterprises with less than twenty employees and for non-registered employment, in Italy amounted to 870,000 persons in 1978¹ whereas the recorded employment in enterprises with more than twenty persons, which was used in the calculation of the indices of employment used in Table 3 of the GATT Report for the EEC as a whole, was 470,000 persons in the same year.²

TRADE

7. The usefulness of this section of the GATT Report for the purposes of the Major Review is limited by the following:

(i) The review is undertaken only at the aggregate level of the textiles and clothing sectors, whereas the restrictions are imposed at highly disaggregated product levels.

¹See Commission des Communautés Européennes, Communication de la Commission au Conseil sur la Situation et les Perspectives de l'industrie du Textile et de l'Habillement dans la Communauté, COM(81)388 final, Annex XVI.

²See, for instance, GATT Textiles Committee, Sub-Committee on Adjustment, Summaries of Information from Participating Countries, COM.TEX/33/Rev.1, page 64.

(ii) The bulk of the review is undertaken in current value terms, converted into US dollars, whereas the restrictions are imposed in physical units. The movements in the US dollar value of trade can, however, be misleading, especially in periods of wide fluctuations in the exchange rates vis-à-vis the dollar. The distorting influence of exchange rates on trade values in US dollars does not allow retracing the effect of the discriminatory restrictions on actual trade flows for most of the period under examination, especially for the years 1980-82. On the contrary, as can be seen from the Chart which shows the movement of dollar export prices of textiles and clothing for six European countries, Hong Kong and Korea (the only two developing countries for which indices of export prices are available) between 1980 and 1982, export prices of the European countries have fallen sharply, in line with the strong depreciation of their currencies vis-à-vis the US dollar in this period, whereas dollar export prices from Hong Kong and Korea were, in 1982, not much below their level of 1980. Thus, the decline between 1980 and 1982 in the share of developed countries in world exports (Tables 4 and 5) and in total imports into most developed members is exclusively due to the sharp decline in dollar export prices of the European countries.

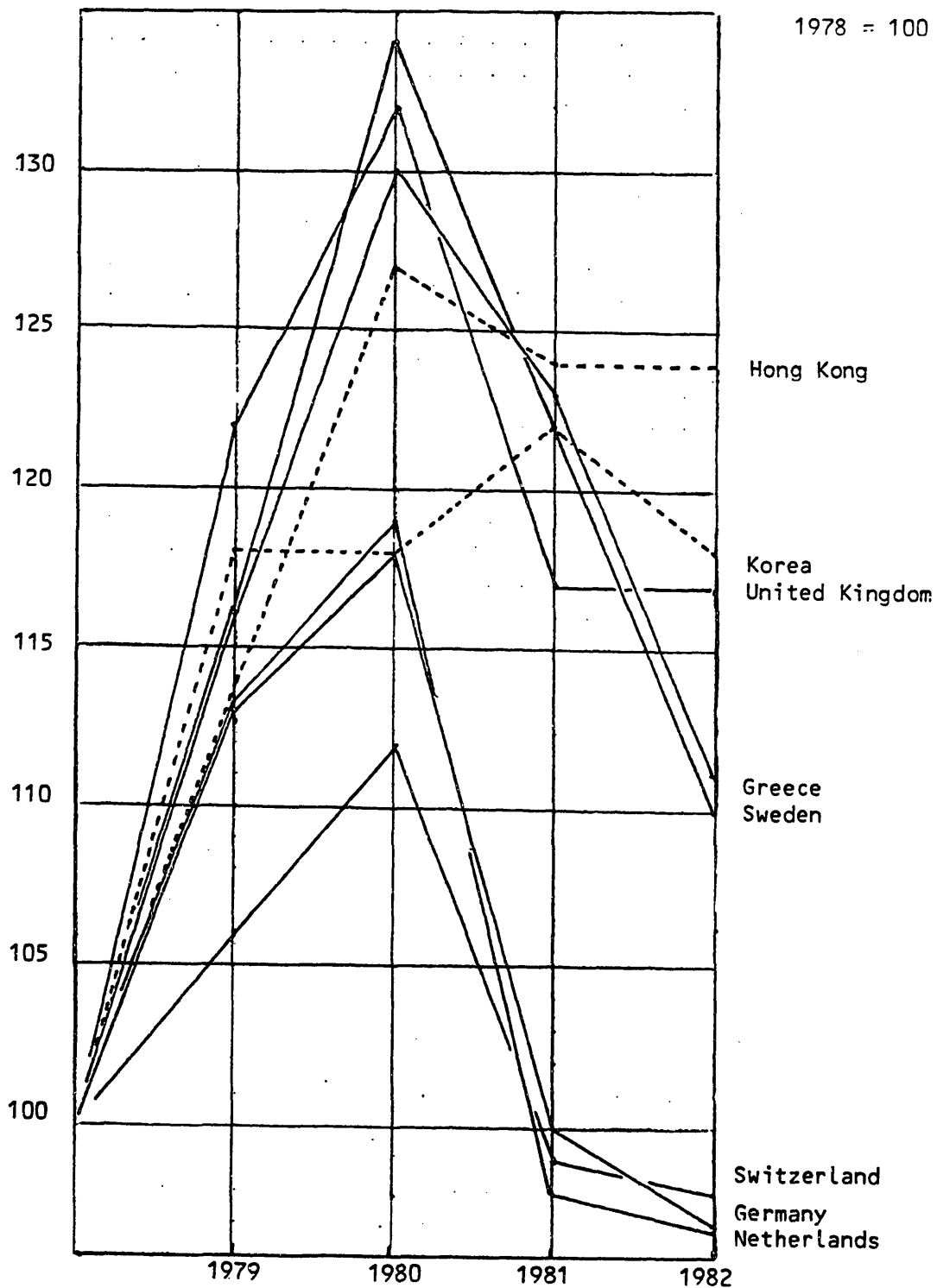
(iii) Trade between the Member States of the EEC, which accounts for a significant part of total trade of the EEC and of total trade of the developed members, is excluded (except in the last two paragraphs).

8. In paragraph 101, the only one to give data in volume terms for individual suppliers, it would have been more equitable:

(i) to indicate the growth of imports into the main developed markets and the growth of exports from Hong Kong not only for 1983, when they recovered strongly, but also for preceding years;

(ii) to indicate also, for several years, the growth of exports from the main developed suppliers and the growth of imports into Hong Kong.

Price indices of textiles and clothing¹ exports
in Six European Countries, Hong Kong and Korea, 1978-1982



¹Including footwear and leather for the European countries.
Source: UN "Monthly Bulletin of Statistics" and IMF "Financial Statistics" for the European Countries, Hong Kong Monthly Digest of Statistics, and Bank of Korea, Monthly Statistical Bulletin.