MULTILATERAL TRADE NEGOTIATIONS THE URUGUAY ROUND

RESTRICTED

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Group of Negotiations on Goods (GATT)
Negotiating Group on Textiles and Clothing

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STATEMENT MADE BY THE DELEGATION OF PAKISTAN AT THE MEETINGS OF THE NEGOTIATING GROUP ON TEXTILES AND CLOTHING ON 5 MAY AND 14 JUNE 1988

The task before the Group in today's meeting is to continue with the examination of techniques and modalities for achievement of the objectives set out in the area of textiles in the light of the proposals made by the participants. I should recall in that behalf that I had the honour to present some specific ideas when the Group met on 9th of February, earlier this year. As I had occasion to state then, our ideas were designed and intended to promote structured discussions in the Group. Our proposal has been with the Group for about three months, and we hope that it would have received careful consideration in the capitals. We hope it would be possible for the participants to offer their reactions and to share their ideas with us in our meetings today and tomorrow.

GATT SECRETARIAT
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While we would welcome reactions to our ideas, I wish only to add that our authorities view with grave concern the relative neglect of textiles in the Uruguay Round negotiating process so far. Our concern gets compounded when we look with hope and expectation at the forthcoming mid-term review in Montreal in December.

One of the basic principles laid down by the ministers for negotiations in the Uruguay Round is to "ensure mutual advantage and increased benefits to all participants". Textile being the most important issue in the trade negotiations for my country, as indeed it is for many other developing countries, we expect that in this business of horse trading, our interests will not be neglected. We hope for a reinforcement of the political will of the participants to carry forward the process of negotiations and to adopt concrete results in the textile sector as a reflection of their determination to achieve the objectives set-out in the Punta del Este declaration.

When we insist on concrete results in the area of textiles by the mid-term review, we are motivated not only by a consideration that almost 50% of our export

earnings are derived from this sector but also, and more importantly, from the fact that to have a balanced package of results by the time of the mid-term review exercise, such as would result in mutual benefits for all participants, it is necessary to make a positive move for concrete results in the textiles sector as well.

We are looking for a time-bound programme for elimination of the discriminatory MFA regime and the integration of this sector into the normal Gatt framework. And, in that process we believe that it is important, indeed essential, to establish milestones to reach our goal. Unless we establish a target date for elimination of MFA-type restrictions, our goal will remain elusive as it has, for the past three decades or so. It is our earnest hope that the modalities outlined in our proposal could form the basis for our negotiations and the achievement of our objectives. Let me stress here that the modalities suggested by us can be both effective and operational. Our phased scheme is logical, gradual and progressive. It can facilitate an orderly elimination of restrictions and transition to the Gatt system.

We would welcome reactions from the participants to our proposals which, needless to remind, have been with them for full three months. On our own part, we would remain ready to offer any clarifications that participants may wish to direct towards us.

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As we stated in our submission in W/10, the textile sector remains a victim of discrimination for about three decades. It is the only sector of manufactured products, to which normal Gatt rules do not apply. On top of that, MFA restrictions are applied on a discriminatory basis: only to imports from developing countries while imports from developed countries remain unrestrained.

This discriminatory treatment emanates from the so-called concept of market disruption which, in turn, is founded on the idea of 'low cost'. This low cost concept itself has been developed over time. Starting from the 'low wage' thesis, it first

traversed its path, the story of which remains murky, to become 'low prices', and then evolved into the present day thesis of 'low cost' where a whole group of developing exporting countries are dubbed, or in fact condemned, as low cost suppliers and hence responsible for disrupting the textile markets in the developed importing countries justifying imposition of quota restrictions against imports from those developing countries. In fact, even statistics pertaining to textiles trade are developed and published separately on that basis: one set relating to the so-called 'low cost' developing countries, and the other relating to the previleged suppliers.

This maverick concept has spread its tentacles far and wide. Unless the contracting parties move to discipline this freak, hopes of integrating the textile sector into the main Gatt framework will remain frustrated.

The so-called low cost idea has no basis in actuality. It can be said without any fear of contradiction that the 'low wage' thesis on which the idea was first

based and later developed to form the main pillar of market disruption, and hence of MFA itself, is devoid of economic rationale. Wages constitute but a small proportion of the total cost structure in the production and marketing of textiles products. In the case of developing countries, the so-called low wage effect is more than set-off by high capital costs and lower productivity in these countries. This has been amply demonstrated by empirical studies. To quote an example, we seek to circulate calculations (Attachment 1 & 2) by the Zurich-based ITMF which show comparisons of import costs in West Germany of carded cotton yarn of 1 $\frac{1}{16}$" staple length and cotton sheeting fabric of 60/60 construction per inch and 63" grey width emanating from USA, Korea, Brazil and India. The last three are the so-called low cost suppliers. Figures in these calculations speak for themselves. The following conclusions clearly emerge from these calculations:-

(i) Wages are but a small fraction of total costs of production and marketing;

(ii) Capital and other costs in developing countries are much higher compared to those in the USA.

(iii) Taking into consideration all cost factors (in addition to the labour costs), the lowest cost supplier of these products on the German market in 1987 was the United States.

Add to the above, one can also say with certainty that the overhead costs incurred by developing countries on marketing are generally higher compared to those in the developed countries. It is apparent, therefore, that the argument for discrimination against developing countries on the basis of their 'low wages' or 'low costs', is not tenable at all.

Also, it must not be forgotten that the cost differential is the very basis of international trade.

In view of the very substantial arguments that I have narrated, the idea of so-called 'low cost' is nothing more than a sheer fabrication to cover up discrimination. It has no economic justification. No intellectual or moral justification either. It must, therefore, be eliminated in its application to trade in textiles. It will be a giant step forward for the integration of textiles into the main Gatt framework.

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As a second step in the first phase of our programme for integrating the textile sector into the Gatt, we suggested elimination of MFA import restrictions on non-apparel textile products because world trade in this segment has continued to be dominated by supplies from their own domestic industries. The share of developing countries in total supplies in their domestic markets is so small that it cannot justify allegations of market disruption.

It is no secret that from amongst the importing participating countries, Switzerland, Japan, Austria, the Nordic Countries and Canada, generally do not apply MFA-restrictions against imports of textile products (yarns, fabrics etc.,). It should, therefore, not be necessary to identify these countries in this element.

MFA restrictions against non-apparel products are mainly, and comprehensively, applied by the US and the EEC - and without justification. Let us look at the state of affairs in these countries.

(i) First, I would take the liberty of circulating a couple of sheets (Attachment 3 and 4) to show that the predominant suppliers of textile products on these markets remain their own domestic industries.

In the case of the US, just 4% of consumption in value is accounted for by the developing exporting countries: all combined. They have reached this "high" share of the market after a full two decades: they accounted for 2% of the market in 1973.

Same is the story for the EEC. Only 6% of their consumption is provided by the developing countries. And these countries have been able to reach this inconsequential figure from 5% in 1981.

Given these figures, one cannot but question the justification for restrictions against developing countries' exports of these products.

(ii) Secondly, the textile producing industries in many developing countries are based on indigenous raw material and are important source of foreign exchange earnings, and consequently of their import capacity. The restrictions hinder the development and diversification of their manufacturing sectors. In the case of my own country, a large producer of cotton, over half of the total domestic production of cotton has to be exported in raw form. This deprives our large population of more than 100 million people the much-needed opportunities for jobs.

(iii) Processing, marketing and distribution (PMD) of commodities in the developing countries has long been accepted as a universally recognised need for assisting and facilitating the process of growth and development in these countries. This is one of the elements recognised by successive Unctad Conferences. Is it not paradoxical that those very countries which accepted and continue to accept the notion of PMD in one forum, deny the developing countries the opportunities for processing their raw fibres by keeping in place, or by threatening to establish, MFA restrictions on their finished products?

(iv) Textiles is a segment of the industry which essentually provides the raw material for the down stream clothing industries. By providing textile raw materials to the clothing industry at competitive prices, the domestic clothing industries would be spared of their competitive disadvantage. And this, in turn, will obviate the necessity of providing protection to that (i.e., the clothing) industry.

In view of the fact that this i.e., non-apparel segment of the market, is dominated by the domestic industries of these countries, and their industries are fully competitive in these products, we do not see any justification for continuation of MFA restrictions against these products. Therefore, these restrictions should be removed immediately.

The above points provide detailed justification and rationale for the two steps proposed in Phase I of our proposal in MTN.GNG/NG4/W/10, and are intended to facilitate proper consideration of the proposal by the Group. In due course, we shall provide further ideas with reference to the other elements in our proposal.

ATTACHMENT 1

IMPORTED CARDED COTTON YARN 1/

(Cost structure in Germany)

1987 2/

(US $/kg)

Cost Element	Germany (domestic)	USA	Imported from Korea	Imported from Brazil	India
1) Raw material (Cotton)	1.46	1.28	1.47	1.30	1.25
2) Power, auxil. mat. & waste	0.43	0.31	0.38	0.27	0.43
3) Labour	0.74	0.36	0.11	0.12	0.09
4) Capital	0.66	0.50	0.48	0.97	0.71
5) Freight & Insurance	-	0.13	0.25	0.26	0.24
6) EEC duty	-	0.16	0.16	0.17	0.16
Total CIF duty paid in Germany	3.29	2.74	2.85	3.09	2.88

1/ Ne 20 (Nm 3330 tex) Carded Yarn
100% Cotton of 1 $\frac{1}{16}$" staple length.

2/ First quarter.

Source: International Textile Manufaturers Federation (ITMF), Zurich, 1987 International Production Cost Comparison.

ATTACHMENT 2

IMPORTED COTTON SHEETING 1/

(Cost structure in Germany)

1987

(US$/yard)

Cost Element	Germany (domestic)	USA	Imported from Korea	Brazil	India
1) Raw material (cotton) and yarn	0.61	0.46	0.44	0.50	0.45
2) Power & auxil material	0.11	0.07	0.09	0.05	0.10
3) Labour	0.21	0.12	0.03	0.03	0.03
4) Capital	0.24	0.14	0.16	0.26	0.20
5) Freight & Insurance	-	0.02	0.03	0.07	0.04
6) EEC duty	-	0.08	0.08	0.09	0.08
Total CIF duty paid in Germany	1.17	0.89	0.83	1.00	0.90

1/ Cotton sheeting fabric of 60/60 threads per inch and 63 inch grey made of cotton yarn specified in table 1.

2/ First quarter.

Source: International Textile Manufacturers Federation (ITMF), Zurich, 1987 International Production Cost Comparison.

ATTACHMENT 3

UNITED STATES

TEXTILES 1/

(Percentage shares in value of Apparent Consumption) 2/

	1967	1973	1981	1986
1) Domestic supplies	96	95	95	90
2) Imports from Developed	2	2	2	5
3) Imports from developing MFA	1	2	2	4

1/ US SIC 22

2/ Shipments + Imports - Exports

Source: (1) US, ITC, US Industrial Outlook, 1978, 1984, 1987.
(2) UN trade tapes.

ATTACHMENT 4

EEC (10)

TEXTILES 1/

(Percentage shares in value of Apparent Consumption) 2/

	1981	1986
1) Domestic supplies	85	83
2) Imports from developed (Extra-EEC)	4	5
3) Imports from developing	5	6

1/ NACE (General Industrial Classification of Economic Activities in the EC) 43.

2/ Shipments + Imports - Exports.

Sources: (a) Eurostat, Structure and Activity of Industry, Yearly; Industry Statistical Yearbook; Industrial Trends, Monthly.

(b) UN trade tapes.