Statement by the Representative of the United States
on 7 December 1965

The United States comes to this, the third annual review by the Cotton Textiles Committee of the operation of the Long-Term Arrangement, with a sense of pride that the international community has been able to accomplish so much to find a practical, livable solution to the difficult and persistent problems surrounding trade in cotton textiles. These have been good years for both the exporters of cotton textiles to the United States market and for the United States industry, which from all indications is adjusting to the vast changes that have occurred in the production and trade in cotton textiles over the last decade. These changes are evident to us from the GATT secretariat's study. The United States would like to take this opportunity to offer its congratulations and appreciation to the secretariat for its fine job in providing to the Committee its study on cotton textiles. We feel this study is a useful contribution to a better understanding of the forces at work in world cotton textile production and trade.

I. Historical review

The accomplishments under the Arrangement— and there are many— should be viewed in the perspective of the situation that existed prior to 1962. That situation convinced all major textile importers and exporters of the need for international action. The pertinent facts are described in the secretariat study. It brings into focus the changes that have taken place in the cotton textile industries of the world since the early 1950's. It describes how the export trade has shifted from the industrialized countries to the developing countries and Japan. It examines in the case of various countries the policies and practices that have tended to expand or contract the flow of international trade in cotton products. Finally the study helps us grasp the nature of changes taking place in the industry through adjustments in industrialized countries and through the establishment of new plants in the developing world.

The data show that the decade of the fifties witnessed an unprecedented burst of activity in the cotton textile industry. The annual increase in production was 4 per cent as compared with an average rate of 1 per cent for the preceding forty years.
Augmented production in the fifties was accounted for largely by an extremely rapid increase in capacity among many developing countries. The developing countries not only supplied an increasing volume of textiles and clothing for their own populations, but also entered strongly into the export field. Exports of cotton textiles by the developing countries - largely to Western Europe and North America - almost doubled from 1953 to 1960, whereas exports from the developed countries remained static or declined.

Since per capita consumption of cotton textiles, particularly in the developed countries, is fairly fixed and adjusts but slowly to changes in supply and price, and heavy imports of low price apparel and other cotton textiles were quickly felt in the markets of the industrialized countries. The resulting problems were too massive to be handled through existing mechanisms.

II. Results of the Long-Term Arrangement

The Long-Term Arrangement was devised to deal with these problems on a cooperative, multilateral basis. The Long-Term Arrangement makes it possible to assure that growth of world trade in cotton textiles proceeds in an orderly manner. The Long-Term Arrangement has permitted expansion of world trade in cotton textiles while providing the necessary safeguards for the industries of the importing countries.

In the view of the United States, a most encouraging aspect of the GATT study is the fact that under the Long-Term Arrangement world trade in cotton textiles has grown faster than production of cotton textiles. In the same period exports from the developing countries participating in the Long-Term Arrangement have increased at a faster rate than have total exports. This larger participation of the emerging nations is in itself convincing evidence that the Long-Term Arrangement has, in fact, led to expanded market opportunities for the developing countries.

The statistical record clearly shows that the Long-Term Arrangement has sheltered the cotton textile industries of participating countries - both importers and exporters - from unrestrained and destructive competition. The Arrangement has given industry the new assurance and confidence that encourage technological change and adjustment. The cotton textile industry has been able to respond to more exacting consumer requirements at prices the consumer is willing to pay. The growing health and efficiency of the world cotton textile industry as
a whole is indicated by the sharp rise, in almost all countries, in the rate of machinery utilization and in output per spindle and loom.

Imaginative marketing, especially of newer cotton products, in major world consuming centres such as the United States, has stimulated consumer interest and developed sales opportunities for producers of all countries.

III. United States imports of cotton textiles

The United States recognizes that, as the largest single importer of cotton textiles, its record is of particular importance. United States imports of cotton textiles increased sharply during the third Long-Term Arrangement year to a new all-time high. Imports totalled 1,233 million square yards equivalent, valued at $354 million. Compared with the second Long-Term Arrangement year, this was a most remarkable increase: 19 per cent in quantity and 20 per cent in value. It is also interesting to compare the quantity and value of imports during the third Long-Term Arrangement year with the first Long-Term Arrangement year, and to note that the value increased by 19 per cent while the quantity increased by 10 per cent.

I may interject here that in the first month of the fourth Long-Term Arrangement year, October, United States imports have reached a level of 127 million square yards, as compared with the average monthly level in the third Long-Term Arrangement year of 103 million square yards. Less-developed countries were responsible for 66 per cent of these imports in contrast to their average share of 60 per cent during the third Long-Term Arrangement year.

The developments of the third Long-Term Arrangement year were not unexpected. A year ago the United States representatives to this Committee indicated that the drop in imports of cotton textiles during the second year had been halted and reversed. The rapid increase in imports since then confirms that the drop was attributable to a lull in the United States textile market which affected both domestic textile activity and imports. An additional factor was a temporary uncertainty created by the extended legislative consideration of one-price cotton. Thus the overall drop in imports was not due to the operation of the Long-Term Arrangement. Now, the one-price cotton programme is in effect at least until 1970 by the terms of the Agricultural Act of 1965. This is a development that has made cotton available to United States mills at the same price as to foreign buyers of United States cotton. As a result the market has stabilized and gained new confidence. Even more, the generally prosperous economic situation and high consumer income in the United States have contributed to an increasing demand for cotton textile products, both domestic and imported.
Although these observations on the developments of the past year are important, it is of even greater significance for this meeting to note the changes that have occurred in the textile trade and industry of the United States since the advent of the Long-Term Arrangement.

Imports in the third Long-Term Arrangement year represent an increase of 420 million square yards over those in the year ending June 1961, the base period of the Short-Term Arrangement. The growth in imports, amounting to 52 per cent, has been several times the growth in United States consumption. On a value basis, the increase in imports has been even greater, 56 per cent.

In reviewing the breakdown of trade by commodity groups, one is struck by the persistent upward trend in imports of apparel. In the third Long-Term Arrangement year the volume amounted to 438 million square yards, valued at $177 million, a sharp increase from 297 million square yards valued at $113 million for the year ending June 1961. Apparel imports have constituted 35 per cent of all cotton textile imports by quantity and 50 per cent by value. Apparel represents the most attractive export of all cotton products because the high value added maximizes employment opportunities and dollar earnings. Nevertheless, of all cotton textile products, the apparel categories are among the most susceptible to disruption. Importing countries like the United States that have well developed domestic apparel industries, employing large numbers of workers, must necessarily be concerned by disruptive apparel imports. The apparel industry of the United States consists of thousands of intensely competitive firms, generally small, often with limited working capital. These firms together with those in the mill sector, are the innovators of new products and are at the forefront of sales promotion, but at the same time they are particularly sensitive to competition from low price imports. Their ability to continue to innovate and to promote is essential to the welfare of textile industries in foreign countries that export to the United States market as well as to the health of the United States industry.

Changing supply and market conditions have produced some fluctuations in imports of other cotton textile products. Yarn imports after rising from 57 million square yards in the year ending June 1961, to 130 million in the Short-Term Arrangement year, declined to 69 million in the third Long-Term Arrangement year. Nevertheless, yarn imports have recently shown a strong upward trend. From March through September 1965, imports increased 56 per cent over those in the same period of the previous year.
Fabric imports, except for the dip in the second Long-Term Arrangement year that paralleled the decline in the domestic industry, have been gaining consistently both in absolute terms and in relation to total imports. In the third Long-Term Arrangement year, fabric imports were 64 per cent above those in the year ending June 1961. The made-up and miscellaneous groups also reached new highs in the third Long-Term Arrangement year, in both cases exceeding previous records set in the Short-Term Arrangement year.

The past four years have also witnessed greater sophistication and diversity in the imports of specific categories within the groups. This trend is reflected, as an illustration, by a decline in the proportion of relatively inexpensive carded sheeting and substantial gains in imports of more expensive fabrics such as poplins, broadcloth, printcloth, twills, and miscellaneous yarn-dyed fabrics.

The relative position of suppliers in the United States market is a subject of special interest to many of you in this meeting. About 92 per cent of total cotton textile imports into the United States during the third Long-Term Arrangement year came from developing countries and Japan. The developing countries alone accounted for about 60 per cent of the total. In contrast, imports from the developed countries of Western Europe, Eastern Europe and North America accounted for only 8 per cent of the total. Furthermore, the quantity imported from these developed countries has held closely to the level for the year ending June 1961. Thus, the entire import gain of 420 million square yards since that time is accounted for by increased shipments from the developing countries and Japan. Imports from the developing countries increased by 60 per cent during this period. The developing countries earned $174 million in foreign exchange earnings through their exports to the United States in the third Long-Term Arrangement year. We consider it probable that their exports to the United States will increase further during the fourth year of the Arrangement.

A number of new suppliers have shipped in quantity to the American market since 1961. We are pleased that several of these countries are represented at this meeting as participants in the Long-Term Arrangement. With most of the others also, the United States has entered into various types of arrangements to permit equitable and non-disruptive sharing of our market.

Imports have increased in the United States market not only in quantity and value; imports have also gained a larger share of the market. The imports of 1,233 million square yards accounted for 7.4 per cent of the total domestic market in the third Long-Term Arrangement year, as compared to 6.8 per cent in the
second Long-Term Arrangement year, and 5.2 per cent in the year ending June 1961. The Long-Term Arrangement itself is a factor in this increased share. Our bilateral agreements provide for an annual growth rate of 5 per cent, whereas domestic consumption is increasing at the rate of 3 per cent. As the secretariat's report shows, United States production of cotton textiles has not increased materially during the three-year term of the Long-Term Arrangement. The growth in the market has been taken up mainly by imports.

The United States would like to caution that, while import/consumption ratios are useful and interesting, they do not tell the story of the disruptive impact that imports may have in the market for individual products or groups of products. We will not take the time to review import trends into the United States in individual categories, but only note that about 50 per cent of total cotton textile imports during the third Long-Term Arrangement year were concentrated in nine categories. This concentration creates particularly heavy price pressures on the market for similarly produced domestic goods. Six of these categories are in the apparel group.

IV. United States policies under the Long-Term Arrangement

United States actions under the Long-Term Arrangement are predicated on the general governmental policy that trade and competition are healthy for industry. Cotton textile imports are permitted without quantitative limitation except for actions taken under the Long-Term Arrangement to avoid disruption to markets for particular products. The United States requests restraint on imports of cotton textiles only when circumstances clearly show such action is required. It does so sparingly and in accordance with the specific provisions of Article 3 of the Arrangement. Restraints are eliminated when no longer needed.

Article 3 restraints are currently in effect on seven categories from three countries. Only one of the countries is a participant in the Arrangement. The United States did not resort to the procedures of Article 3 with respect to imports from any participating country during the third Long-Term Arrangement year. Seven Article 3 restraints were dropped during that period. The restraint levels now in effect total 16 million square yards.

Where necessary to resort to the provisions of the Long-Term Arrangement to prevent market disruption, the United States has found that bilateral agreements under Article 4 offer exporting countries more favourable conditions to develop their exports of cotton textiles to the United States because of the assurances of stability and growth.
The United States now has multi-year bilateral agreements on cotton textile trade with seventeen exporting countries. Four of these were concluded during the third Long-Term Arrangement year. The manner in which the United States can co-operate under bilateral agreements is illustrated by these four instances. The aggregate ceilings in the four new agreements total 97 million square yards, compared to actual imports from these countries during the first year of the Geneva arrangements, the Short-Term Arrangement year, of 39 million square yards.

Even though bilateral agreements are designed to meet specific trade requirements, the United States, in its administration of the bilaterals, tries, to the extent possible, to accommodate particular problems that the exporting countries encounter thereafter. During the third Long-Term Arrangement year the United States agreed to changes in bilateral agreements with eight exporting countries. There were twenty-two separate actions involved. The United States observes its obligations under Article 6(c) to ensure that exports of participants are not restrained more severely than are exports of non-participants.

The figures show that the United States has successfully complied with this equity commitment. Imports from participants have remained above 90 per cent of total imports throughout the course of the Long-Term Arrangement. The United States has attempted to encourage non-participating countries to join the Long-Term Arrangement, in order both to receive its advantages and to assume a share of the responsibility for working out world cotton textile trade problems.

V. Impact of the Long-Term Arrangement on the United States cotton textile industry

The Long-Term Arrangement has helped to restore confidence in the future of the United States cotton textile industry, including the apparel sector. While imports into the United States have grown, the threat of disruption in the market has been reduced. The industry has responded by increasing its investment in new plants and in more modern equipment.

The output of United States firms has increased in recent months, though at a lesser rate than the increase in imports. As a result, the long-term decline in employment has been halted, at least temporarily, and profits of the industry have shown improvement.

The industry in the United States is nonetheless confronted with several serious problems:

- It has always been subject to cyclical fluctuations.

- Textile industry profits, although rising, are still among the lowest in industry.
- Cotton textile wage rates continue to lag behind the average for manufacturing industries.

- Unemployment rates, particularly in the apparel sector, continue to be well above the level for all manufacturing industries.

- Per capita consumption of all fibres in the United States has not grown since 1953, and cotton's share in the total has been declining steadily for the past fifteen years.

It is natural and healthy that the United States industry and the United States Government, should be concerned with those problems.

VI. Underlying problems requiring consideration

In reviewing the record to date under the Long-Term Arrangement, and especially, in considering the facts portrayed in the secretariat's study, we note several developments that are directly relevant to trends in world cotton textile trade and that will require careful attention. We would like to mention these briefly and suggest that the Committee consider them in its discussions.

1. Production of cotton textiles has been increasing rapidly in the developing countries although world consumption has been stagnant. The growth in production has occurred both in developing countries that are participants in the Long-Term Arrangement and in those that are not. This situation is contributing to significant over-capacity in production facilities.

2. The number of cotton textile exporting countries, most of which are developing countries exporting under great pressures to earn foreign exchange, has increased. The secretariat's study refers to these efforts and describes export incentive schemes operating in some countries. Over-zealous stimulation of exports intensifies depressive price effects in the limited and highly competitive world markets. In this connexion, more attention needs to be paid to the apparent disparity between export prices and higher domestic prices for similar goods in some of the highly protected markets of the exporting countries. High consumer prices, especially in low-wage countries, hold down internal consumption and the world demand for cotton textiles.

3. The growing competition from man-made fibre textiles requires some new thinking about how to stimulate demand for cotton products. The cotton-growing countries are already at work to improve cotton's position in inter-fibre competition. Countries which are large exporters of cotton textiles might wish to
join in these efforts. The competition is keen in this field and those who wish to maintain and develop their export markets for cotton textiles must be aggressive, competent merchandisers of cotton goods.

VII. The future

I should like now to present the views of the United States on the future of the Long-Term Arrangement. My remarks will be brief since the concept is simple: this international instrument has been successful in coping with an unprecedented and difficult economic crisis; it has led to the orderly development of trade in a highly sensitive section of industry.

Fortunately, we have the opportunity to think about these, and other, problems in cotton textile trade in an atmosphere of optimism based on our immediate past experiences and the outlook for the coming year. The optimism of today is in large measure due to the wisdom of our arrangements for the orderly development of cotton textile trade. For no commerce can prosper or long survive in the chaos and confusion which characterized the markets for cotton textiles prior to the negotiation of the Long-Term Arrangement.

Differences in point of view among participating countries still exist and will in the future. This is perfectly natural. Negotiations for the Arrangement involved the compromising of many different points of view. We have no reason to believe that the countries now participating in the Arrangement could find a better basis for mutual agreement than the terms of the Arrangement as it now stands.

In contemplating the future, it is important that we keep in mind the need to settle upon policies for cotton textile trade after 30 September 1967. We should do so early enough to avoid confusion and apprehension in the market. If doubts on the future are permitted to occur, normal trade patterns will undoubtedly be adversely affected. The United States supports efforts presently under way to extend the Long-Term Arrangement in its present form. But it is necessary that policy decisions on this matter be reached soon if, as our Chairman has said, we are to bring about "a higher degree of liberalization in trade in cotton textiles". The United States, as you have been told, is already engaged in talks with the Government of Japan. We are ready to consult similarly with other exporting countries prepared to work within the framework of the initiative taken by the Director-General of GATT.