A STUDY ON COTTON TEXTILES: NEW GATT PUBLICATION

The GATT secretariat has published the text of A Study on Cotton Textiles.\footnote{A Study on Cotton Textiles. Available in English or French from the Information and Library Services, GATT secretariat, Villa Le Bocage, Palais des Nations, 1211 Geneva 10, and from all GATT Sales Agents. Sales No. GATT/1966-4. Price US$3.00 or Sw.Frs. 13.00.} This Study was prepared by the secretariat with the help of experts made available by Governments. The Study was before the Cotton Textiles Committee when it undertook the major review of the Long-Term Arrangement in December 1965.

Following an Introduction, reproducing a statement by the Chairman of the Cotton Textiles Committee, Mr. Wyndham White, the Study comprises the following Chapters: I, Historical Developments in the Textile Industry; II, Recent Developments in Production, Consumption and Trade; III, Changes in Installed Machinery and Utilization: Technical and Economic Structure; IV, Industrial and Commercial Policies. There is a substantial statistical appendix; Part I provides Statistics on Production and Consumption of and Trade in Cotton Textiles; Part II is a survey on Productive capacity in the World Cotton Industry.

Introduction. The following is the full text of the Introduction. It formed part of the opening statement by the Chairman of the Cotton Textiles Committee when it met in December 1965 and it summarizes the salient features of the Study.

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TRENDS AND DEVELOPMENTS IN COTTON TEXTILES

1. Certain findings derive from this study and I think it would be useful if I were to bring out what, to me, appear to be some of the most salient of these. For it is in the light of the developments in trade, production, consumption, and changes in the structure of the industry that we should carry out our review and plan our work for the future.

2. It is clear from the study that the developing countries have figured more prominently in the expansion in cotton textiles activity than the industrialized countries. Nevertheless, in the case of the less-developed countries also, expansion has slowed down and, during the last decade, has been comparatively less than in the combined output of the manufacturing industries of these countries. This prompts the interesting observation in the study that - contrary to what may sometimes be believed - the process of industrialization in the less-developed countries has not represented a one-sided concentration on the cotton textiles industry.

3. We may derive some comfort from the fact that, as will be seen from the study, international trade in cotton textiles has been expanding. The value of world exports, including cotton clothing, was 10 per cent higher in 1964 than in 1961, most of the increase taking place in 1964. This expansion was due to made-up goods and, in particular, to cotton clothing exports which, in 1964, were almost 50 per cent higher than in 1961; exports of yarn and fabrics in 1964, though higher in the preceding year, were slightly lower than the level of 1961 and much below the peak level of 1960.

4. It will be noted that there have been different trends as regards the export performance of the industrialized and the less-developed countries. In the case of the industrialized countries of Western Europe and North America the increase in exports since 1961 has occurred in clothing, a decline being recorded in the case of yarn and fabrics. Japanese exports of all cotton textiles, after having fallen by 8 per cent in 1963 compared with their level in 1961, showed some recovery in 1964 but their value still remained below that of 1961. The less-developed participating countries, on the other hand, have showed a considerable increase in exports of all cotton textiles, an increase which, during the period 1961-1964, amounted to almost 40 per cent in value.

5. Looking at the consumption picture it will be seen from the study that, while per capita consumption in the industrialized countries of man-made fibre goods has shown a significant increase during the last decade, there has been hardly any movement in the case of cotton goods. In the less-developed countries, on the other hand, although per capita consumption is still low, there has been a considerable increase in consumption of cotton textiles due to a steady increase in population and rising standards of living and income levels.
6. World production of cotton fabrics has remained at more or less the same level during the 1960s but, within this overall situation, there have been trends which are significant. A decline in production in the industrialized countries has been offset by a corresponding increase in the less-developed countries' production. In the industrialized countries the general picture is one of a fall in production accompanied by a reduction in exports and a concurrent rise in imports although, as is clear from the study, there are considerable variations among these countries as regards the ratio of imports to consumption.

7. One of the basic objectives of the Long-Term Arrangement is to bring about an expansion of the less-developed countries' export trade in cotton textiles. The developments in imports of cotton textiles - particularly into the industrialized countries - are, therefore, of the greatest interest and relevance. The study shows that, during the period 1961-1964, imports into the participating industrialized countries of Western Europe and North America increased by approximately $430 million, of which about $360 million came from participating countries. Of this increase attributable to the participating countries as a whole, a little less than half was accounted for by imports from the less-developed participating countries. The rest was taken up by an increase in trade by these industrialized countries and by imports from Japan. This increase in value terms in imports from the less-developed countries is, to some extent, accounted for by higher priced goods, more made-up articles, etc., and does not per se indicate a further significant penetration of these markets by the less-developed countries in terms of higher ratios of import volumes to consumption. It might also be mentioned here that some less-developed participating countries experienced a drop in their exports to Asian and African countries during this period.

8. Imports from Japan and from other industrialized countries experienced a decline over the period in terms of their share of the import market of the industrialized countries of Western Europe and North America, while the less-developed participating countries increased their share from 21 to 26 per cent. It is to be noted that, as a result of an increase of $70 million in industrialized countries' imports from non-participating countries, the share of these countries, in particular countries belonging to the Eastern Trading Area, moved up from 12 to 13 per cent.

9. Apart from describing developments in production and trade, the study also offers us considerable information about the changes that are taking place in the structure of the industry. In many countries, the industry has undergone great changes so as to adapt itself to the technological and trading conditions which exist today. These have resulted in larger units through vertical and horizontal integration and substantial capital investment, despite the relatively low rate of return on capital. The study gives us an indication of the massive investments that are being made in various parts of the world; the degree to which modern technology is being adopted; and the extent to which rationalization and modernization are being applied. A decline in the number of spindles and looms has been compensated by

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higher output per machine as a result of a high degree of utilization and/or improvement of output per machine/hour resulting from the use of more advanced machinery and new techniques. The new technologies normally call for high intensity of utilization so as to offset the considerable amortization costs. There are, however, great variations as to machine utilization and output per machine/hour among both industrialized and less-developed countries.

10. The cotton textiles industry has been essentially labour intensive, in the sense of having a high ratio of labour in relation to capital. Because of the large-scale investment in many countries this ratio has changed considerably.

11. It is noted in the study that the available data show that a negative correlation exists between investments and both the number of machines and manpower in the industrialized countries. This indicates clearly that investments in these countries have been mainly geared to scrapping surplus capacity and continuing modernization and that the large capital spending of the last few years has not, in general, led so far to an increase in production of yarn or cloth taken together but to the reduction of relative labour cost per unit of production due to higher labour and machine productivity. It should be noted that while increased productivity enhances the competitive position it may give rise to redundancy in the industry's capacity. In this situation, it is understandable that the less-developed countries might be concerned at the prospect of increased capacity being built up in the industrialized countries behind the shelter of trade restrictions.

12. The study shows that, unlike in the case of the industrialized countries, the major part of new investment in most of the less-developed countries is used for additional machinery which necessitates an increase in manpower requirements. In the light of the scarcity of capital, shortage of special industrial skills and lack of technological knowledge, many less-developed countries apply the capital allocated for the development of the cotton industry to the levels of technology which they can feasibly adopt and thereby make sufficient use of their abundant unskilled labour.

13. As regards wages in the industry these in general have risen in both the developed and the developing countries over the last decade and it seems that the gap between textile earnings in some of the developing countries and those in some European countries is now less than the gap between earnings in those European countries and in the United States. However, as low wages do not necessarily result in low wage costs, wages per unit of production rather than wage rates should be considered as a basis for international comparison; precise comparisons of this kind are, however, regarded as almost impossible for various technical reasons. When reviewing labour productivity in some of the cotton textile producing countries it seems, however, that there are great variations between countries, both within the group of less-developed countries and within the group of industrialized countries.

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1Includes also yarn and fabrics of man-made fibres produced in the cotton industry.
14. The review of industrial policy measures in the study reveals that the structural changes which have taken place in the cotton textile industry in the industrialized countries are in most cases only to a limited extent the result of industrial policy measures, while in the less-developed countries the expansion of this industry is a significant element of national industrial policy. Trade policy measures of a restrictive kind unfortunately seem to be the major policy measure used by industrialized countries. Commercial policy measures, however, both on the importing and exporting side, do not fully explain the developments in the direction of trade, in order to get a full understanding of all the aspects of trade in cotton textiles more attention should perhaps be given to the role of international marketing and prices.

15. It was not possible at this stage to include a projection or assessment of future trends in the study. If one looks to the future, however, it would seem to me that the following general points could reasonably be made:

(a) The less-developed countries will continue their expansion in the cotton textile field. Despite the movement towards higher capital requirements, the cotton textile industry can still provide employment opportunities for people with little education more easily than many other manufacturing industries; investments in the cotton industry, therefore, taking into account expanding home markets in the less-developed countries, will continue to be an important part of these countries' programme for the full utilization of resources and the earning of foreign exchange.

(b) The market in industrialized countries for cotton goods can be expected to grow only slowly due to competition from man-made fibre textiles. It is reasonable to believe that the domestic industry in many industrialized countries will continue to increase in efficiency and that competition in these markets will continue to be strong.

(c) As more less-developed countries develop their cotton textiles industry and become self-sufficient it will evidently become more difficult for the traditional exporters among less-developed countries to export to other less-developed countries. A gradual liberalization of trade between these countries would lead to greater competition thereby contributing to increased efficiency in their cotton industries.

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(d) International trade in made-up articles will probably continue to grow faster than trade in yarn and fabrics. The labour content in the production of garments will continue to be high and less-developed countries will, provided they have export outlets, undoubtedly try to benefit from the comparative advantage they have with their abundance of cheap labour to expand the clothing industry. At the same time, one can expect a continued increase in trade among industrialized countries in novelty goods and specialities. Trade expansion and increased competition in the field of man-made fibre textiles, especially among the industrialized countries, is likely to continue.