

Cotton Industry's Big Future

Increased Purchasing Power of Far East Means Huge New Markets — New Sources of Raw Material Must be Developed — Possibilities of Mesopotamia.

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One of the most salient factors in the present economic situation is the strength of the world's demand for fabrics of all kinds, animal and vegetables relative to supply. The economists, in formulating the laws of supply and demand, like to emphasize the importance of supplies of substitute goods in affecting the demand for any one of the goods. Thus beef, mutton and pork compete with each other in the daily markets; potatoes and rice; peaches and pears; wool and cotton Egyptian and Upland cotton; and so on. If the price of one of these climbs unduly high some of the demand is likely to be turned to the other. The present overalls movement is another interesting, if not too significant example of the same law in operation—an exploited demand, if you will, but still an instance of a collective action by consumers that hopes to reduce prices of one fabric by changing the demand to another.

Wool and silk, cotton and linen, all of them show increases in prices far greater than the average rise of prices for all commodities. The reasons for this are well known and need not be rehearsed, except as they bear on our discussion of some of the effects. And the first point I want to make is that, given the shortage that exists, and the causes what they are, demand affects prices unusually vigorously, while supply is relatively unresponsive to changes in both demand and price. The two main reasons for this, it seems to me, are the fact that the shortage has been cumulative during the last few years, for obvious reasons of both demand and supply, and that various economic and physical forces stand in the way of a markedly increased supply. As a result, consumers find themselves far less able than normally to escape rising prices by diverting their demands.

In what quarters can we expect the demand for cotton to be particularly intensive in the next few years? We would probably think first of Germany, whose consumption of cotton before the War was second only to that of England, in Europe, and which during the past five years has been deprived of the major part of her supply. In the five years before the War, her average annual imports of raw cotton were valued at 137 million dollars, and her exports of cotton manufactures at 108 millions a year. Her needs for domestic consumption are very great, and the resumption of her former large exports of cotton goods of many kinds to all quarters of the globe awaits a plentiful supply of raw material. Methods of financing imports or satisfactory barter arrangements are absolutely necessary if the desired results are to be achieved.

The Far East-Asia—with its population of a billion, represents the greatest market for cottons in the world, a market in which so far the United States has counted for very little, and in which Great Britain has been the dominating factor, with Germany the next largest foreign purveyor, before the War. Here again we find a great shortage of cotton due to the war. German mills have not produced for the Eastern trade and Lancashire mills have sent much less than normal amounts of cotton goods to Asia. During 1919, for example, the volume of Indian imports of cotton manufactures from Great Britain was only a quarter of the total for 1913. Native mills, including Japanese, have done not a little to supply the deficiency, and in Japan particularly there

has been a remarkable increase in the export trade of cotton goods to other parts of the Orient. Inability to secure from the Occident, mill machinery and other equipment in sufficient amount was apparently the chief reason why Oriental output of cotton was not even greater than it was.

We have been making history in the Far East the last few days and all of it will no doubt have a considerable bearing upon our future position in the Orient. It gives us food for serious thought. No doubt we have all felt that progressive Japan had advanced more in the last few years and profited more by the increment of war activity than any other nation in the world and yet we find, peculiarly, that this nation, presumed to be most prosperous, apparently is in the throes of serious industrial and financial reaction. No doubt we cannot with the information now available advance all of the reasons for the present situation. Some of them may be interesting and should, if needed, be valuable to us as a lesson.

In the first place, seeking to displace commercial competitors, particularly German, Japan, flooded the world with all kinds of merchandise and manufactured goods in the making of which she had not had previously an extensive experience.

The result was inevitable. Nothing is so valuable in safe business conduct as experience. This is particularly so in the manufacturing business. Much of this merchandise was rejected and the large companies floated under promise of exorbitant profits have been a severe disappointment and a heavy loss. On the other hand, feeling that she had a better right to the exploitation of the wealth of China than any other country, she has expanded heavily in that direction, contracting obligations in silver at a time when silver was considerably cheaper than it is now and having to pay these obligations at a very high cost for silver. She has been keeping a tremendous army and a navy entirely disproportionate either to her needs or her earning capacity or to her bonding ability. She has been suffering to only a slight extent less than the rest of the world from the great social unrest. Feeling that gold accumulation alone was the only measure of prosperity, she developed an over-speculation in all kinds of industry and this over-speculation has developed its natural reaction.

For these reasons and others we have, as I have indicated, a country just beginning its real commercial future, seriously set back. Undoubtedly this set-back is only transient. Doubtless, through bitter experience, Japan will work out a clearer commercial future but it does bring home to us very strongly the fact that in a nation, which is not self contained, which does not produce in its own borders or its empire that wealth which warrants increase in population and increased industry, is bound to be dependent upon wealth producing nations for its permanent prosperity.

And there is another point in connection with this same subject which may be interesting—the fact has been pointed out that the Far Eastern cotton market is to a greater or a lesser extent influenced by the silver market and the price of silver. It is obvious, of course, that since the currency of China is silver, the more valuable the commodity silver is, the higher will be the purchasing power of China, the more favorable the rate of exchange for exports to China. In the

case of India, there is the complication that, although the currency of the people is the Rupee, a silver coin, the aim of the British Government is to have India on a gold or at least a gold exchange standard. During the War, the price of silver got out of control and the value of the Rupee had to be raised by successive steps from 1s 4d to 2s 4d. While this was going on, India's purchasing power in the West was steadily growing. Today, the Indian Government, by setting the exchange value of the Rupee at a high enough rate, has again continued to make the Rupee virtually a token coin, in other words, a coin that should not fluctuate in value. In any case, though, it is now a coin with a purchasing power of 45 cents or thereabouts, as against its former exchange rate of 32 cents, and in so far it means that British Indians and the inhabitants of all other dominions that use the Rupee, all the way westward of East Africa, find their command over western products 40 per cent above what it would have been under a 32 cent Rupee.

In this connection, it is well to remember that unless or until the Pittman Act is either repealed or its provisions complied with, the United States remains a potential purchaser of 200,000,000 or more ounces of silver at \$1 an ounce. This will be a sustaining influence in the silver market, as will currency demands by the European nations which have seen their silver coins disappear from circulation. While, therefore, silver may not remain at its present levels, it gives promise of maintaining in the near future a much higher price level than in the twenty years preceding 1916. We must not lay down emphasis on this situation. It is very easy to see a relative dependence and then exaggerate the factor in estimating its effect. It would be very difficult indeed, if not practically impossible, to measure statistically causes and effects of this little silver cotton episode, but there is a relationship of passing interest and some day we may determine that it has importance.

Of very much greater importance is the progress of industrialization of China and the Indies. A process that was going on very slowly before 1914 has unmistakably been accelerated by the War. For the present, as it happens, it is most in evidence in the textile industries, in India and in China. In India, the visible and developed mineral resources are not great, and apart from that it was only natural that the great fabric product of the country, cotton and jute, should feel any impetus that economic forces might give to industrialization. In China the mineral resources are enormous, labor is abundant and cheap, and will be brought more and more to the aid of manufacturers and industry generally. Now industrialization means two things: greater home manufacture at the expense of foreign products to a certain extent, but still more significant, greater productivity, greater prosperity and purchasing power. It takes but little additional purchasing power per capita, distributed among 750 millions of Chinese and Indians, to mean an enormous total, which is bound to make itself felt in the world's markets. It is quite within the power of American manufacturers—even textile manufacturers in the face of the dominating position of Great Britain and the growing competition of Japan—to make their influence felt on an increasing scale, adding to the increased custom that they have secured there during the past few years.

The Orient wants and has the power to command vast quantities of cotton goods in the near future. During the present year, the importations of cotton goods into India and China will probably be worth not far from half a billion dollars. How far will these wants be supplied at home? It may well be expected that not merely a growth in their mill equipment, replacing home manufacture, but larger crops in response to high-

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