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Outlook for World Cotton and Textile Trade

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World textile fiber consumption is driven by three major economic variables, income, population growth and fiber prices. World final demand for textile fibers has increased at an impressive pace since the 1950s. From 7.6 million tons in 1950, textile fiber consumption increased to 52 million tons in 2002. While about 50% of the increase was the result of population growth, the remaining 50% was the result of higher income per capita, declines in real textile prices, and competition, which generated new uses for textile fibers. However, the rate of growth of fiber consumption has decelerated gradually. The average annual rate of growth of textile fiber consumption was 3.7% during the 1960s, 3.1% during the 1970s, 2.5% during the 1980s and 2.7% during the 1990s. Growth of the two major economic variables that determine textile consumption, income and population, decelerated during the 1990s compared with the 1960s. Long-term projections of world GDP and population growth suggest that world textile fiber consumption can expand at an annual average rate of 3.2% during this decade to reach 67.2 million tons in 2010. World cotton consumption is projected to expand at an annual average rate of 2.5% to reach 25.5 million tons in 2010.

One exogenous factor that has supported textile consumption in the last few years is the gradual integration of textile trade into WTO rules. As of December 2004, just over half of world textile trade had already been gradually integrated, and on January 1 2005, all textile trade was integrated into WTO rules. Therefore, quotas agreed under the Multifiber Arrangement (MFA) no longer exist. Research by the Secretariat, using previous joint work with FAO, suggests that because of textile quota elimination, the world will consume half a million tons more cotton each year by the end of 2005. A portion of the gains in cotton consumption due to quota elimination are likely to have occurred between 1995 and 2004, particularly since January 1 2002. Research and promotion have also supported cotton consumption. Research by the Secretariat suggests that as a result of research and promotion 300,000 tons per year more of cotton have been consumed since 1998.

World cotton consumption increased over the past 5 seasons and is projected to reach a record 23 million tons in 2004/05, and consumption is projected to expand at an annual rate of 2.4% in 2005/06 to reach 23.6 million tons. Lower cotton prices during 2004/05 are helping to boost cotton consumption to record levels.

China (Mainland)

For the past six years, China (Mainland) has been the driving force behind the world textile industry and world textile trade. Between 1998/99 and 2003/04, additional mill consumption of cotton in China (Mainland) accounted for 81% of additional consumption worldwide. Substantial impacts on world textile trade have been caused by the entry of the China (Mainland) into the World Trade Organization in late 2001. The Chinese industry processed 7 million tons of raw cotton in 2003/04, an increase of 2.3 million tons since 1998/99. Cotton mill use in China (Mainland) is projected to reach 8.1 million tons in 2004/05 and 8.6 million tons in 2005/06, or 36% of world mill use. The textile industry in China (Mainland) is highly

dependent on the export market, and can be sensitive to world affairs. Nonetheless, low labor costs and Chinese government policies have improved the country's competitiveness vis-à-vis other textile exporting developing countries, and China (Mainland) has increased its share of world textile and apparel exports in the last four years. China (Mainland) became the leading supplier of textile manufactures to the U.S. market, the largest retail market for textile and apparel in the world.

China (Mainland) has already benefited from a gradual removal of quotas on a number of textile and apparel products starting in 2002, leading to a surge of exports from China (Mainland), especially to the USA and the EU. Imports of textiles and apparel by the USA from China (Mainland) rose by 62% in 2002 and an even larger increase took place in 2003. China (Mainland)'s total exports of textiles and apparel rose 26% during 2003 and reached \$80 billion, with a net profit of \$4.8 billion. In 2000, exports of textiles and apparel from China (Mainland) were \$52.2 billion. In 2004 exports of textiles and apparel by China (Mainland) grew by 21% and reached \$97.4 billion. Cotton products represented 32% of all textile and apparel exports by China (Mainland). Asian destinations accounted for \$54 billion of exports or 55%, growing by 16% during 2004. In Asia, Japan and Hong Kong are accounting for the largest shares of Chinese exports, 18% each, with a rate of growth of about 13% during 2004. USA accounted for \$11.8 billion or 12% of Chinese exports, growing by 22% in 2004. The rate of growth of exports of textiles and apparel from China (Mainland) to Europe was 27% in 2004 outpacing the USA and reaching \$19.4 billion or 20% of the total. Of the total exports of textiles and apparel by China (Mainland) in 2004, exports to quota markets represented only 26.5% and textiles accounted for 36.7%. It is estimated by the World Bank that China (Mainland) will account for 47% of the world textile and apparel exports in 2005. China (Mainland) is increasingly becoming a net importer of several key textile products, such as cotton yarn and total textile imports by China (Mainland) in 2004 reached \$15.3 billion, including 4.4 billion of cotton textiles. China (Mainland) is the world largest importer of cotton yarn with imports of 714,000 tons and net imports of yarn soaring by 33% in 2004 because of competition from India and Pakistan.

China (Mainland)'s success in the world textile market stems from an early recognition that the development of its textile complex had to focus on where it was most competitive, in the apparel sector. China (Mainland) has a substantial labor cost and supply advantage compared with other major textile and apparel producers. Development of the competitive apparel production sector served as a catalyst for expanded investments in modernization of the capital-intensive textile sector. China (Mainland) invested heavily in the modernization of the textile and apparel sectors during the past 10 years, and investments in the textile sector rose by 80.4% in 2003 alone reaching \$10.7 billion according to the National Bureau of Statistics. China (Mainland) imported \$11.8 billion worth of textile machinery between 2000 and June 2003 according to International Textile Manufacturers Federation (ITMF) data. As a result, China (Mainland) became the world largest textile economy, the largest exporter of textiles and clothing, the largest cotton and chemical fiber producer, with the textile sector generating 10% of GDP. Per capita fiber consumption in China (Mainland) rose from 8.3 kg in 2000 to 10.8 kg in 2002, and population is rising by 11-12 million annually to reach 1.32 billion in 2005. The rate of growth of retail apparel sales in China (Mainland) reached 20% in January-February 2005 compared to a year earlier and the rate of growth in rural areas is outpacing urban sales. China (Mainland) is positioned to increase its market share with the elimination of quotas. However, other developing countries could find new opportunities with open competition.

Turkey

A similar strategy of modernization and investments was implemented by Turkey, where combined exports of textiles and clothing rose from \$474 million in 1980 to \$15.180 billion in 2003. During that period exports of textiles rose by 1,428% while exports of apparel rose by 7,487% reaching \$9.4 billion. In 2004 apparel output in Turkey rose by 5.5% in volume compared to 2.8% growth recorded in 2003, while textile output rose by 4.2% in 2004 after declining by 0.9% in 2003. Turkey's top export market is the EU, while exports of cotton apparel suffered a 4.3% decline in the USA in 2004, losing to rising volumes from China (Mainland), India and Pakistan.

India

India has been developing its textile and apparel sectors at impressive growth rates. Between 1980 and 2003, exports by both sectors in India rose by 647%. In India, the second largest cotton processing country, mill consumption of cotton between 1990/91 and 1997/98 increased at an average annual rate of 4.3%, or seven times more rapidly than world consumption growth. Demand for Indian textile products has been supported mainly by very strong exports, in particular exports of cotton yarn. Taking advantage of relatively low costs of cotton processing, Indian exports to other Asian markets increased faster than to other destinations between 1990/91 and 1997/98. In addition, promotion of exports to the United States, Canada and Mexico, as well as to Latin American countries has been developed since 1996. Nonetheless, Indian mill consumption of cotton remained at 2.9 million tons between 1998/99 and 2003/04, due to increased competition from China (Mainland) and other textile exporters. However, Indian mill consumption of cotton is projected to rise by 12% in 2004/05 to reach 3.4 million tons because of improved competitive advantage of cotton yarn and apparel production in India and the expansion of exports of textiles and apparel.

In 2005/06 Indian cotton consumption is projected to reach 3.4 million tons or 14 % of world mill use. One of the important effects of lower cotton prices is an increase in the market share of cotton in spinning in India, and as a result a decline in output of man-made fibers. During most of 2004, cotton prices in India were lower than cotton prices in China (Mainland). In December 2004 monthly output of man-made fibers was the lowest since February 2004, while cotton yarn and fabric output reached a record rising by 7.4% during 2004. India has been one of the three top winners of the post-quota era along with China (Mainland) and Pakistan, exercising a competitive advantage not only in yarn and fabric, but also in apparel production. India's apparel production proved to be one of the most competitive in the world gaining market share in most markets against China (Mainland). For example Indian cotton fabrics along with Pakistan's are poised to replace Chinese products in fast growing Vietnam's cut and sew operations. India's apparel production began rising strongly during the second half of 2004 and by December 2004, rose 38.2% in volume compared with December 2003.

Pakistan

In Pakistan, during the past 20 years, more emphasis was given to the development of the textile sector compared with clothing industries, and the combined export growth between 1980 and 2003 was 770%. However, recently Pakistan began to expand apparel and fabric production, while reducing exports of cotton yarn due to increased competition from Indian yarns and increased domestic demand for yarns from weavers and knitters. Knitwear exports from Pakistan soared 35.8% during 2004.

Winners and losers

The elimination of quotas provided an opportunity for large competitive textile producers like China (Mainland), India and Pakistan to increase their market share. However, the elimination of quotas will also intensify competition in the open marketplace, will necessitate and stimulate a number of developing countries to restructure their textile economies investing in the modernization of the sectors where their competitive advantage lies in an attempt to capture a larger share of the market. The end of quotas lowers the barriers to entry by new exporters with a wider range of products and could lead to lower prices for textiles. Countries enjoying a guaranteed quota earlier, or quota-free access to the most lucrative markets, could lose market share if their products are of low quality and not competitive. Quality, product innovation, reliability, demand responsiveness, market proximity, quick turnover and preferential tariffs are becoming increasingly important competition factors.

In 2005, Mexico lost its advantage of quota-free access to the US market provided by the NAFTA trade regime, but will continue to have an advantage of market proximity and tariff-free access. As a result Mexico could lose market share to China (Mainland) and Caribbean countries, which have been granted enhanced benefits in the U.S. market in recent years. Similarly, countries of Central and Eastern Europe and the Mediterranean will lose the advantage of quota-free access to the EU, but will continue to benefit from market proximity and duty-free access.

Market shares in textile trade of countries with quota-free and duty-free access to large markets in the USA or EU, but with relatively weak industries or/and remote location, such as Bangladesh (EU and US agreements), Mauritius (EU agreement), Sub-Saharan Africa (AGOA), Hong Kong (large quotas) and countries in similar positions could decline.

Among expected winners will be final consumers of textile products benefiting from increased supply, variety and lower prices, which in turn could stimulate consumption growth to the benefit of the more efficient and modern cotton, textile and apparel industries. Cotton growers themselves are benefiting from stronger demand for cotton fiber.

World Trade in Cotton

World trade in cotton is projected at 7 million tons in 2004/05. Production is falling behind mill use in China (Mainland), Pakistan, India and Turkey. The four countries accounted for 15% of world imports in 2000/01 and for an estimated 37% in 2004/05, while imports by the rest of the world decline. In 2005/06, world trade in cotton is projected to reach 8 million tons and the share of the four countries is projected to reach 49% of world cotton imports.

The largest and most significant impetus to the growth of world trade in cotton is provided by a sharp increase of cotton use in China (Mainland). A record surge of cotton imports by China (Mainland) to 1.9 million tons, or 26% of world imports in 2003/04, led world trade to a record. With the reduction of stocks in China (Mainland) to minimum levels, the government began to provide full support to imports by issuing sufficient import quotas as a measure to balance supply and use, reduce domestic prices and make the textile industry more competitive. Imports by China (Mainland) are estimated at 1.6 million tons in 2004/05 and are projected to reach 2.8 million tons in 2005/06.

The largest share of increased world import demand was met during the past three seasons by exports from the USA. Large supplies of cotton in the USA, declining mill use and the

effects of the marketing competitiveness provisions of the government program, known as the marketing loan and Step 2, led to record U.S. exports of 3 million tons in 2003/04. In 2004/05, U.S. exports are expected to decline to 2.75 million tons because of a projected decline in imports by producing countries, but the U.S. will still account for 40% of world exports. In 2005/06, U.S. exports are projected to exceed 3 million tons because of expected record imports by China (Mainland).

The other largest exporters are Uzbekistan, Australia, West Africa and Brazil. Together these countries will account for 33% of world shipments in 2004/05.

Biotech Cotton

Biotech cotton is entering the world textile trade pipeline in increasing volumes as a result of growing world production and exports from the USA and Australia and textile exports from China (Mainland). Based on the production shares of biotech cotton in exporting countries, it is estimated that biotech cotton accounted for 34% of world exports in 2002/03 and 36% in 2003/04. In 2004/05 the share of biotech cotton in world exports is declining to 31% because of an expected decline in export volumes from the USA and Australia. A larger share of world production will be consumed domestically in China (Mainland). In 2003/04, an estimated 64% of all exports of biotech cotton went to Asia and Oceania (not counting the Middle East) compared with 58% in 2002/03.

Based on domestically produced and imported biotech cotton, especially in China (Mainland), it is estimated that 60% of mill use in Asia and Oceania were accounted for by biotech cotton in 2003/04 compared with 31% in 2002/03. Taking into account that Asia and Oceania account for more than 65% of world exports of cotton textiles, it is evident that the share of biotech cotton in textiles traded in major markets in Europe and America is rising. Despite an increasing share of biotech cotton traded in the world, there are no price differentials for biotech and non-biotech cotton fiber, or textiles containing biotech cotton. There is no evidence of rejection of biotech cotton by any segment of the market or region. In practice, markets do not identify biotech cotton content, but rather evaluate cotton properties based on quality characteristics.

Conclusion

Long-term projections suggest that world cotton consumption will reach 25.5 million tons in 2010, and world trade in cotton will reach 8.5 million tons. China (Mainland), India, Pakistan and Turkey will remain major textile economies with a dependency on cotton imports. However, other countries such as Vietnam could become large textile centers. Competition in world textile markets will intensify and will stimulate a number of developing countries to restructure their textile economies to utilize their competitive advantages and to increase market share. Final consumers of textile products will benefit from increased supply, variety and lower prices, stimulating consumption growth to the benefit of the more efficient and modern cotton, textile and apparel industries. Cotton growers will benefit from stronger demand for cotton fiber.