

SOUTH KOREA: THE OUTLOOK THROUGH 2002 FOR U.S COTTON SALES

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Abstract

The most favorable balance of export trade in U.S. cotton occurs most often with South Korea. Prospects for this trend to continue are very good. South Korea's economy has demonstrated above average growth since 1994. Continued and steady economic and population growth is forecast through 2001.

Introduction

Analysis of world cotton importing countries and U.S. exports revealed surprising conclusions to who are the best customers. Many of the major buyers of U.S. cotton export cotton goods back to the U.S. South Korea leads U.S. trading partners Japan and Mexico as net consumers of U.S. cotton.

Discussion

The Republic of Korea or South Korea, is by far the most important purchaser of U.S. cotton, having bought nearly 4.7 million bales in the last five marketing years. At least two-thirds of the U.S. cotton merchant exporters send cotton to South Korea. In 1993, South Korea purchased well over one million bales of U.S. cotton. Only 19 percent of that cotton, in bale equivalents, was imported back to the U.S. as finished cotton goods. The most recent statistics on the balance of trade in cotton, place South Korea as the number one U.S. trading partner.

The U.S. is South Korea's top trading partner in all commercial trade and most economic indicators are for this trade relationship to continue into 2001 and 2002. A relationship of the Korean economy to the cotton trade can be linked to consumer spending. Consider the various segments of the cotton market: The South Korean market has much to offer as a potential for increasing cotton trade, Manufactured cotton goods have real potential for increased sales to South Korea, and an entire generation of Korean consumers in their 20s and 30s are in the world marketplace with money in hand.

South Korean consumer income has grown substantially. This purchasing power will express itself in higher expenditures for better food, better clothes and more frequent purchases. The nominal per capita gross domestic product (GDP) in South Korea reached \$10,155 U.S. dollars

in 1995. Forecasts by the WEFA Group for per capita GDP in constant 1990 U.S. dollars have average Koreans earning more than \$11,200 by 2001. The strong economic showing by the economy prompted the South Korean government to apply for membership in the Paris-based Organization of Economic Cooperation and Development (OECD). The South Korean economy ranks 11 in the world, behind the U.S., Japan and many of the European countries, yet ahead of the Netherlands, Australia and Sweden.

The U.S. Secretary of Agriculture, Dan Glickman, has stated Asia's demand growth is concentrated in high-value products. South Korea's fast growing economy holds potential for more sales of cotton and cotton goods. Cotton sales increases may surpass most conservative growth projections. The consuming generation in Korea is buying western fashions—fashions keyed on cotton. English is rapidly replacing Japanese as the second language of this youthful generation of intellectuals and technology-adept citizens.

South Korea has reached world-class levels in technology and continues to advance. Koreans returning from U.S. and European universities with Ph.D.s after their names are accelerating this trend. South Korea claims to have more Ph.D.s per capita than any other country. Human capital development translates into rapidly increasing wages income to spend on clothes, houses and cars. South Korean President Kim Young-Sam forecasts per capita income will rise to \$20,000 by the next century.

Along with South Korea's economic growth, population growth has averaged 0.9 percent per year since 1993. Population growth is forecast by the WEFA Group to continue growing at the same rate through 2001. The South Korean population growth rate of 0.9 percent is slightly higher than the 0.6 percent population growth rate for the world's developed countries. In 1993, the South Korean population was estimated at 44.1 million. By 2001, the population should reach 47.3 million.

World markets will remain important in selling U.S. cotton, whether as raw product or manufactured goods. Worldwide consumption of textiles and apparel should continue to increase along with rising incomes and population growth. The largest gains should be in moderate-income developing countries with a propensity to spend additional income on clothing. The World Bank classified South Korea as a middle income country in 1993. Using 16.1 pounds as world per capita cotton fiber demand, as estimated by Rabobank Nederland; South Korea should consume for domestic use approximately 1,586,500 bales by 2001.

South Korean cotton purchases may also increase for export purposes. Korea's industrialized economy includes textile manufacturing that employed approximately 350,000 workers in 1993. However, the favorable U.S. balance trade in cotton with South Korea, still makes South Korea

our best customer. If U.S. cotton exporters can continue to hold on to an average market share of 52 percent of the Korean market over the next five years, a conservative estimate will put U.S. sales back over the million-bale mark for the 2001-2002 marketing year. The total South Korean cotton market for all purposes in 2001 should hit two million bales.

These projections are reinforced by the strong South Korea economy, which experienced robust growth rates in GDP in 1993, 1994 and 1995 of 5.8, 8.6 and 9.0 percent respectively, according to WEFA. Growth in GDP in 1996 was an estimated 7.3 percent. WEFA forecasts growth to slide gradually to 6.0 percent by 2001. However, the consumer price index is forecast to remain steady in a range of 5.4 to 5.1 percent during the same time frame. South Korean consumers are enjoying new purchasing power and these are good reasons to be optimistic about cotton trade. There was a time when the South Korean market was guided by political decisions. Today their market responds to economic signals.

Summary

Trade development and sales expansion of U.S. cotton to South Korea has much room for growth. The U.S. market share of bale cotton can grow to higher levels. There is a huge potential for increasing sales of high value cotton goods to South Korea's consuming generation and growing economy.

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Table 1. U.S. Cotton Exports to South Korea

Market Year	Bales	Fiscal Year	million \$
1991-1992	1,024,200 #	1992	\$356.4
1992-1993	1,031,300 #	1993	\$304.8
1993-1994	976,100 #	1994	\$297.0
1994-1995	911,400 *	1995	\$351.5
1995-1996	753,700 *	1996	\$291.3

#Statistical bales

*Running bales

Source: U.S. Department of Agriculture

Table 2. Percent of U.S. Cotton Exports to South Korea

Fiscal Year	U.S. Total million \$	To Korea million \$	percent
1992	\$2,195	\$356	16.2
1993	\$1,538	\$305	19.8
1994	\$2,306	\$297	12.9
1995	\$3,496	\$352	10.1
1996	\$3,028	\$291	9.6

Source: U.S. Department of Agriculture

Table 3. Cotton Demand Per Capita, South Korea

Year	Population	Bales
1997	45,700,000	1,532,900
1998	46,100,000	1,546,300
1999	46,500,000	1,559,700
2000	46,900,000	1,573,100
2001	47,300,000	1,586,500

World per capita cotton fiber demand 16.1 pounds per Rabobank Nederland estimate.

Population forecast source: United Nations

Table 4. Forecast Cotton Exports to South Korea

Year	All countries bales	U.S. bales*
1997	1,778,700	924,900
1998	1,832,100	952,700
1999	1,887,100	981,300
2000	1,943,700	1,010,700
2001	2,002,000	1,041,000

*Average market share 52 percent