

**UNDERSTANDING THE CHINESE TEXTILE MARKET:  
OPPORTUNITIES FOR U.S. COTTON**  
**Robert P. Antoshak and Hunter Colby**  
**Globecot, Inc.**  
**Globecot Associates**  
**Nashville, TN**

The current status of China's textile industry may be summed up in one word: growth. In turn, the future prospects for China's textile industry may be summed up in two words: *more growth*.

However, even with current and projected growth in China's textile industry, structural issues, new emerging competitors and slowing growth in the rate of global consumption of textiles in the coming years will temper industry expansion. At the same time, though China's textile industry exhibited strong growth in recent years, has been plagued by a series of problems ranging from (at times) chronic overcapacity, inefficiencies brought about by central government planning and difficulties in securing consistent supplies of raw materials. These problems still affect the industry today.

In many ways, the emergence of China as a dominant global player in textiles and apparel up until now has been the direct result of China's success in the cut and sew trade, not as a result of its textile industry. It is the growth in China's cut and sew business that has in large part pulled China's textile industry along.

In order to fuel China's rapidly expanding global reach in apparel, the country's apparel industry imports whatever it needs that it cannot find produced domestically. Thus, China remains a major importer of textile yarns and fabrics; in particular, China still imports a significant amount of its basic textiles from other Asian suppliers. Yet this import phenomenon will not last for much longer as the country will increasingly rely on domestic sources for its textile supply – a supply that is increasingly supported by overseas investment.

**Prospects for Future Growth**

Much of China's future growth in textiles will be predicated on several key factors:

1. China's textile industry will continue to receive outside investment
2. China's textile industry will continue to grow as long as there are expanding markets for Chinese apparel globally
3. China's textile industry will continue to expand as long as there are few trade barriers erected by importing countries
4. China's textile industry will continue to expand as long as there is a rising standard of living at home
5. China's textile industry will continue to expand as long as there is political stability at home.

Of course, there will undoubtedly be unforeseen factors that will affect the Chinese industry. For example, SARS, another Asian currency crisis, or political instability at home are all unknown "wild cards" that could dramatically affect China's textile industry.

**Outside Investment**

Hampered by a variety of factors, China's textile industry will need to continue its active courting of foreign investors in order to help provide not only much-needed capital, but also technical expertise in order to improve the management and production efficiency of its textile infrastructure.

As is apparent in the following table, China has been very successful in boosting aggregate (domestic and foreign) fixed capital investment in its textile industry. Strong growth has occurred in investment capital for the construction of new mills (capital construction), as well as for efforts to modernize older facilities (innovation).

### China: Cumulative Fixed Asset Investment in the Textile Industry

Period	National total		Capital construction		Innovation		Other
	Year-to-date	Yr-on-yr prct chg	Year-to-date	Yr-on-yr prct chg	Year-to-date	Yr-on-yr prct chg	Year-to-date
<i>Unit: Billion Yuan</i>							
1999	13.58	---	4.08	---	8.29	---	1.22
2000	20.53	51.1	4.34	6.5	13.79	66.4	2.40
2001	29.08	41.6	8.55	97.0	17.22	24.9	3.31
2002	35.62	22.5	9.62	12.5	21.73	26.2	4.27

With regard to modernization, China remains the world's leading importer of new textile equipment.

### Expanding Global Market

An expanding global market will be critical for China's textile industry over the next ten years. Although long-term projections suggest that the rate growth of the global market will likely slow over the next 15 years, China's textile industry will continue to expand due to a greater export market share and rising domestic consumption for textiles.

#### Global Textile Consumption

Year	Population (Millions)	Consumption Million Tons	Ave. % Growth	Per Capita Kgs	Ave. % Growth
1770	750	1,400	--	1.9	--
1800	860	1,600	0.5	1.9	0.0
1850	1,091	2,200	0.6	2.0	0.1
1900	1,571	3,893	1.2	2.5	0.5
1950	2,513	9,939	1.9	4.0	0.9
1960	3,039	14,934	4.2	4.9	1.8
1970	3,707	21,840	3.9	5.9	1.3
1980	4,454	29,821	3.2	6.7	0.8
1990	5,279	38,378	2.6	7.3	0.8
2000	6,083	47,743	2.2	7.9	0.7
<u>Projected</u>					
2010	6,849	57,655	1.9	8.4	0.7
2020	7,585	67,573	1.6	8.9	0.6

In terms of exports, China is forecast to drive other suppliers out of major markets such as the U.S., thus further solidifying the position of China's textile industry as the largest in the world. For example, in the case of the U.S. market, China is forecast to more than double its share of the U.S. apparel market by 2005 and further expand its position by 2010.

#### Projected Sources of Apparel for U.S. Market Billion SME

Origin	1995	2000	2005	2010
Domestic	11.3	9.3	6.5	2.0
Total Imports	8.6	16.0	15.5	23.5
Mexico	0.9	2.5	1.5	1.0
CBI	1.6	3.6	2.5	1.5
China	0.9	0.9	2.5	6.0
ROW	5.2	9.0	9.0	15.0

However, as is illustrated in the U.S. example, the rate of China's expansion in the U.S. market will slow as the end of the decade approaches as other new suppliers (such as Vietnam, Cambodia and others) step up their production of finished apparel products.

### Trade Barriers to Chinese Exports

The Chinese government will need to be proactive in challenging importing countries in trade restricting measures. Importing nations will find ways of disrupting Chinese exports in an effort to answer calls by industry constituencies to control rising import flows. There will also be calls for investigations of China's trading patterns as import-impacted producers in the U.S. and E.U. will allege that China transships much of its merchandise through third countries.

At a minimum, transshipments are a serious perception problem for Chinese makers, as was seen in the recently concluded U.S.-Vietnam bilateral negotiations. Transshipments, real or otherwise, will also fuel government use of the WTO safeguard.

At this writing it appears unlikely that importing countries would have the political will to introduce a resurrected MFA at the WTO, but it is likely that the U.S. and E.U. will make use of the special safeguard with China.

According to U.S. procedures, the safeguard operates much like the old "call" system operated by the Committee for the Implementation of Textile Agreements (CITA) under the MFA. As such, the procedures will be politicized, but the actual operation of the safeguard will operate in a relatively streamlined manner, void of the procedural and administrative hurdles that typify other trade-restricting measures permitted by WTO regulations (such as dumping actions).

### The Importance of a Rising Standard of Living at Home

While exports will continue to be the main engine of growth for Chinese textiles over the next ten years, it will be increasingly important for China to increase living standards at home in order to boost domestic consumption of textiles. This is critical for the long-term growth prospects for the Chinese textile industry as growth in global textile consumption will slow in the coming decades.

Concurrently, much of China's export growth will be fueled by the displacement of other suppliers in the world market. Although China will gain market share, this will not alter the fact that growth in the major importing markets will only match population growth – a level not adequate to maintain China's rapid growth in recent years.

Thus, when the export engine slows for Chinese manufacturers, it is possible that the domestic market would have already developed adequate buying power to help offset declines in overseas sales. Globecot forecasts suggest that future domestic apparel purchases will rise sharply, though it is uncertain if that increase will be enough to offset what may prove to be a more difficult export environment during the next decade.

<b>China: Consumer Spending on Apparel/Accessories</b>						
	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>
<b>Annual Per Capita Spending on Apparel/Accessories (RMB per capita):</b>						
Urban	171	479	500	699	952	1,271
Rural	45	90	96	133	183	247
<b>Total Value of Spending on Apparel/Accessories (million RMB):</b>						
Total	89,111	244,124	280,634	422,739	622,775	890,267
Urban	51,235	167,454	197,514	307,173	462,482	675,045
Rural	37,875	76,670	83,120	115,566	160,293	215,222
<b>Population (millions):</b>						
Total	1,135	1,203	1,261	1,311	1,360	1,401
Urban	300	349	395	440	486	531
Rural	835	854	866	871	874	870
<b>Real GDP Growth (percent)</b>						
National	4.2	9.0	8.4	7.4	7.0	6.5

### Implications for Cotton Consumption

The implications for cotton consumption are that for the next few years, cotton consumption will rise rapidly, but will level off as the rate of export growth in textiles and finished apparel subsides towards the end of the decade. To some degree, in-

creased domestic demand for textiles will help to partially offset that decline, but to what degree it will be offset is hard to predict as the buying power of large segments of the Chinese populace are hard to anticipate going forward.

Continued growth in cotton consumption in the future to feed the expanding textile sector will boost domestic production and imports. The need for increasing amounts of cotton imports will be driven both by China's limited ability to expand domestic output without having to resort to more marginal and less productive lands and by demands for cotton qualities that are not produced in sufficient supply by domestic growers. As the decade unfolds, the outlook for continued growth in cotton consumption suggests China may increasingly bump up against the TRQ quota limit of 894,000 tons.

### The Likely Scenario

Globecot projects the following scenario for Chinese textiles, which in general is typified by strong aggregate growth for the industry, but at the expense of other suppliers.

In turn, this rapid growth will begin to slow before the end of the decade as increased competition from other suppliers and slowing global consumption of textiles begin to take their toll.

At the same time, Globecot forecasts an improving standard of living for many Chinese, which will translate into improving demand for textiles via rising apparel sales. In large part, increased domestic consumption of textiles will translate into the eventual demise of the industry, as the government and outside investors will increasingly look for higher valued-added products (such as cars and planes). Textiles have historically been a stepping-stone industry for developing economies and China will not be an exception to the historical rule.

Nevertheless, Globecot forecasts Chinese and global textile production as follows:

#### **Actual and Projected Global Production of Cotton Yarn (100% and Blends)**

**1990-2002; 2005-2015**

**1,000 Metric Tons**

Region	ACTUAL				FORECAST		
	1990	1995	2000	2002	2005	2010	2015
World	16,228	16,278	19,176	19,859	20,500	22,000	23,000
Americas	2,443	3,168	3,414	2,969	2,900	2,800	2,000
Africa	494	563	429	409	500	750	1,000
Europe	3,400	1,616	1,570	1,592	1,300	1,000	750
Asia/Oceania	9,892	10,931	13,763	14,888	15,800	17,450	19,250
China	4,091	4,606	5,354	7,000	8,579	10,484	11,416
% of Asia	41%	42%	39%	47%	54%	60%	59%
% of World	25%	28%	28%	35%	42%	48%	50%

#### **Actual and Projected Global Production of MMF Filament and Spun Yarn**

**1990-2002; 2005-2015**

**1,000 Metric Tons**

Region	ACTUAL				FORECAST		
	1990	1995	2000	2002	2005	2010	2015
World	17,672	20,798	28,335	28,401	29,000	32,000	35,000
Americas	4,140	4,702	4,660	4,050	3,900	3,700	3,200
Africa	166	235	246	149	250	350	450
Europe	5,327	3,797	3,429	2,860	2,750	2,600	2,400
Asia/Oceania	8,039	12,064	19,999	21,343	22,100	25,350	28,950
China	1,557	2,719	6,711	8,688	9,945	12,675	15,923
% of Asia	19%	23%	34%	41%	45%	50%	55%
% of World	9%	13%	24%	31%	34%	40%	45%

**Actual and Projected Global Production of Cotton Fabric  
1990-2002; 2005-2015  
1,000 Metric Tons**

<b>Region</b>	<b>ACTUAL</b>				<b>FORECAST</b>		
	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2002</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>
World	10,276	9,592	11,017	11,331	11,500	12,000	12,500
Americas	1,603	1,801	2,025	1,774	1,750	1,700	1,600
Africa	254	271	212	216	250	300	350
Europe	2,233	1,172	1,174	1,175	1,100	1,000	850
Asia/Oceania	6,186	6,348	7,605	8,166	8,400	9,000	9,700
China	2,460	2,385	3,029	3,457	3,780	4,500	5,335
% of Asia	40%	38%	40%	42%	45%	50%	55%
% of World	24%	25%	27%	31%	33%	38%	43%

**Recommendations to the U.S. Cotton Industry**

Accordingly, we recommend the following six action points for U.S. cotton:

1. Development of a new tariff incentive program for Chinese mills to use U.S. cotton.
2. Better education of the Chinese industry to the benefits of running U.S. cotton.
3. Relocate marketing efforts in China to include a presence by at least one or more of the U.S. cotton organizations in Beijing.
4. Re-double marketing efforts in the rest of Asia to use U.S. cotton, as this region still supplies a large share of the yarns and fabrics to China's apparel and made-up industries.
5. Undertake a comprehensive re-assessment of the trade policy of the U.S. cotton industry to include a new independence from the traditional textile industry partners of the past.
6. Develop a lobbying program in China to begin the process of encouraging changes in Chinese government policies that will increase Chinese consumption of U.S. cotton.

It will be increasingly important for U.S. cotton growers to find a better way to penetrate the Chinese market. To do this, growers will need to find a way to become a choice supplier to China's burgeoning textile industry. However, there are problems in selling U.S. cotton in China, not the least of which are the problems of staple length and some times quality. Education of Chinese mills will be important. Equally important will be good relations with the government in order to keep the cotton import quota from being capped at the 894,000 metric tons agreed upon in China's WTO agreement.

At the same time, it will be important for the U.S. cotton industry to develop a strategy that de-couples cotton's traditional lobbying relationship in the U.S. with the domestic textile industry whereby the protectionist policies of the domestic textile industry are left behind. By doing so, domestic growers will be better able to propose new trade initiatives that would otherwise be controversial in a coalition with the domestic textile industry.

The growth of China's textile industry makes it essential for U.S. cotton to find ways of cementing long-term relationships with what has become the world's largest and most dynamic textile industry.

Two facts drive home the point. In 2002, China's fabric production *grew* by 11 percent from 2001, while U.S. textile production *fell* by five percent. Further, in textiles, the political strength of the U.S. industry is far weaker than it once was. In fact, this weakness has resulted in broad divisions in the domestic industry over trade. Yet it is trade that will provide U.S. growers with their future sales. To be blunt, U.S. cotton growers will need to find new partners overseas in those regions of the world where the textile growth is occurring, while at the same time pulling back marketing efforts from regions where growth is not occurring.

To this end, with growth so heavily favoring the Chinese textile industry over the next few years, a new incentive program needs to be developed that rewards Chinese spinners for running U.S. cotton. China is now consuming 29 percent of the world supply of cotton, compared to just nine percent in the U.S. If current trends continue – and if anything, they are only likely to accelerate – cotton consumption by the U.S. industry will only fall. One approach is for a duty rebate or outright reduction in the regular U.S. import tariffs for Chinese-origin products that contain U.S. cotton. Another (though perhaps controversial) approach would be to rebate the cotton import fee.

As a result, it would make sense for the U.S. cotton industry to evaluate its current marketing efforts in China, as well as other cotton industry-sponsored marketing efforts to assess the real impact of those programs on Chinese mills and the government.

## What Are the Current and Future Fiber Processing Technology Needs?

Robert P. Antoshak  
President  
Globecot Associates

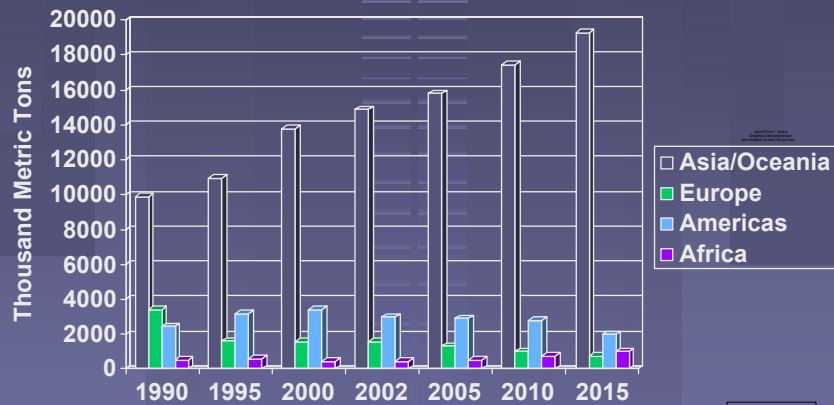


## A changing world É

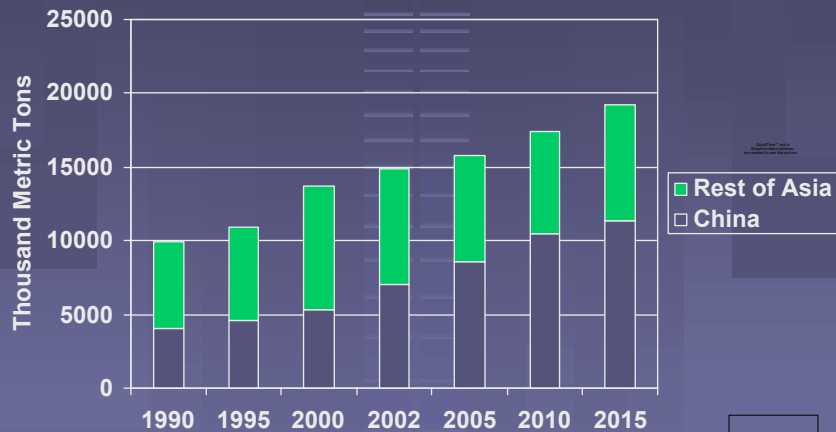
- Global shifts in textile production É driving shifts in cotton purchasing patterns
- Requires close attention to quality, price and varieties
- In the long run, U.S. cotton export sales will not just support global textile exports but rising domestic textile consumption in China and elsewhere



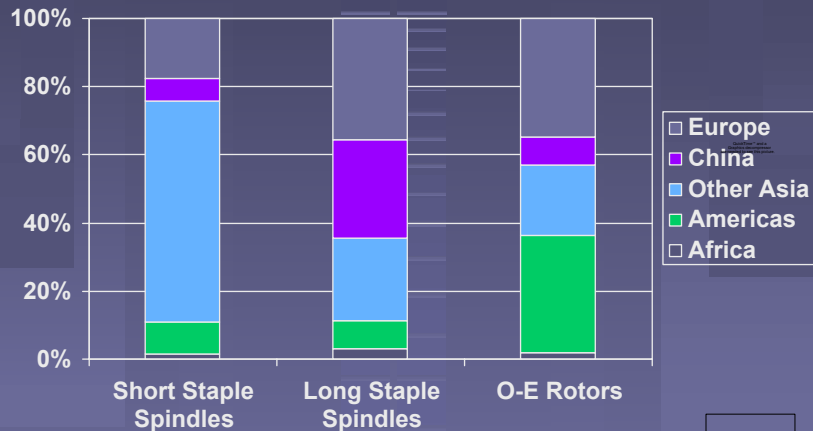
## Annual & Projected Global Production of Cotton Yarn (100% and Blends)



## Global Cotton Yarn Production: China Vs. Rest of Asia



## Cumulative Spinning Machine Shipments (1992-2001)



## Cotton Board Survey

- Conducted by Globecot with more than 100 spinners around the world
- Survey results provide insight into those issues that will most likely affect current and future fiber processing requirements
- Also, survey results provide valuable insights for maintaining the export business



## Survey Respondents

- Wide range of varieties used
  - Most ran U.S. Upland, Australian, West African and Chinese
- Most ran combed and carded yarns for weaving
  - Slightly more ran ring spun than open end yarns
  - Mostly coarse/medium yarns (about 70%)
- For more than 1/3 of respondents, U.S. cotton made up less than 10% of total consumption
- For only 1/4 of respondents did U.S. cotton make up a majority of consumption



## Survey Results

- Nearly 100% said micronaire and staple length were most important in their buying decisions
- Color grade was also important
- Per bale inspection and properties were very important to 2/3 of respondents
- Not surprisingly, price is very important to most respondents
- Supply, shipping and reliability is also very important for repeat business



## Survey Results (continued)

- Availability of HVI data is important to only about half of respondents
  - As is a lower number of neps
  - As is the importance of financing
- Low contamination important to 2/3 of respondents
- Fiber quality is crucial for more than 80% of respondents



## Survey Results (continued)

- Factors that keep respondents from buying more U.S. cotton:
  - High prices
  - Lack of merchant reliability
  - Shipping problems
  - Stickiness and quality problems
  - Lack of familiarity with U.S. growths and shipping and purchasing procedures
- On balance the quality of information and services received from U.S. cotton industry was good, but could be improved



## Observations

- Typical respondent used some U.S. cotton
  - Most ran coarse yarns and were weavers
- Key purchasing decisions based mostly on price, quality and delivery
- Room for improvement in education
- With a few exceptions, little variation in answers from region to region



## Issues With U.S. Cotton

- Quality cited as an important deterrent to buying more U.S. cotton
  - Stickiness
  - Small problem has much wider influence



# Issues With U.S. Cotton

- Staple length can be an important deterrent to buying more U.S. cotton
  - U.S. Memphis/Eastern crop has historically moved to domestic mills
  - But with downsizing of domestic industry, growers forced to find new business off-shore
  - However É



# Issues With U.S. Cotton

- As overseas spinners have upgraded their equipment, they tend to run longer staple cotton
  - SLM 1-1/16" had been the standard
  - M 1-3/32" is the new standard
  - Most spinners overseas know relatively little about Memphis/Eastern
  - Had to sell at big discounts



## Possible solutions:

- 1) Work toward increasing staple length of Memphis/Eastern crop
- 2) Concentrate education and public relations program on Memphis/Eastern



## Survey Question:

*What factors would prompt you to buy more U.S. cotton? O*

- Improved quality: 62.12 %
- More familiarity with U.S. growths: 56.93 %

