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China, Peoples Republic of

Cotton and Products

Annual

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Report Highlights:

MY 2000 planted area and production are forecast to remain stable at 3.74 million hectares and 3.85 MMT, respectively. Recent increases in cotton prices have improved returns relative to other crops, and farmers are unwilling to cut production further. Overall, prices remain lower than in previous years however, and textile mills have increased their consumption of cotton. Increased consumption is forecast to result in a drop in exports and increased imports of raw cotton.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Beijing [CH1], CH

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Situation and Outlook

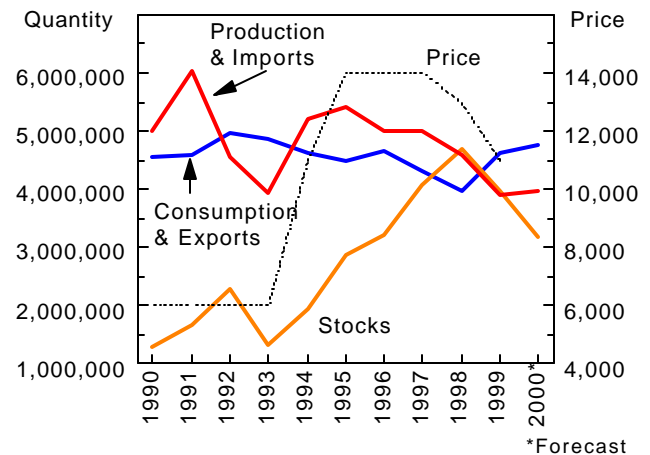
MY 2000 planted area and production are forecast to remain stable, after a sharp 16% drop in area during MY 99. A number of sources have indicated that a small increase in planted area may take place in some of the provinces of the lower Yellow River Valley. Though China's second largest cotton producing province, Henan, has been struck by a severe drought, local officials do not as yet expect serious problems with the cotton crop. Hubei province and parts of northern Jiangsu have also been affected by drought, but the effect on the cotton crop is still uncertain. Crop conditions in Xinjiang are better than last year, when wind storms caused considerable damage early in the year, and planted area appears to be stable, or to have fallen very slightly. Government and industry sources both attribute the general stability of planted area to the recovery of cotton prices in April and May, after a drastic drop last fall, when pricing in most provinces was liberalized. Though prices remain lower than pre-liberalization levels, the increase in prices has once again made cotton more profitable than many other crops, for which prices have also been cut.

The rebound in cotton prices is the result of growing demand from the textile industry, which has increased its use of cotton, both overall and relative to synthetic fibers. Chinese government sources now estimate that MY 00 consumption could rise as high as 4.5 MMT. The increase in consumption was triggered by a number of factors, including the fall in cotton prices, increased petroleum prices (which made synthetic fibers more expensive), and improved export demand for textiles. The shift in the price relationship between cotton and synthetics caused many mills to switch to cotton, reversing a long-term trend in favor of synthetics. Increased demand for cotton led to shortages, particularly of high-quality cotton, beginning in December, which in turn drove up prices. The increase in prices allowed Cotton and Jute Corporation's National Cotton Exchange Center (NCEC) to debut by selling out the remaining reserve cotton from 1993 and earlier. Once these supplies were exhausted, the market was forced to shut down while the government debated subsidizing the sale of reserve cotton from later years, which the government had purchased at high prices. In May, the government decided to sell the cotton at market prices, with the government absorbing any losses, and the NCEC resumed sales. As a result of the sales of reserve cotton, stocks are forecast to drop by over 700 TMT each year for MY 99 and 00. Though the short term losses incurred from these sales are immense, the reduction in stocks will reduce the annual cost of storing the cotton and help restore some balance to the market.

Shortages of high-quality cotton have also led the Chinese government to increase the cotton import quota. Government sources have stated that this recent quota is for 70,000 MT, with 10,000 MT for ELS cotton and the remaining 60,000 MT for other high-quality cotton. The increase in the import quota was

Cutting the Knot

Recent cuts in cotton prices have begun to bring overproduction and surplus stocks under control



heavily lobbied for by the Chinese textile industry, which recently began turning a profit for the first time in years. The textile industry was concerned that the increase in cotton prices last Spring would drive up production costs, once again pushing them into the red. Industry sources indicate, however, that larger mills purchased as much as six months' worth of cotton when prices were low, and have been less troubled by the jump in prices.

Exports of Chinese cotton have jumped to their highest level since the late 1980's, with MY 99 exports now likely to exceed 320 TMT. Many of the original export contracts were signed while prices were expected to be extremely low, and since then have run into problems, as some of the exporters in Xinjiang are having difficulty delivering the cotton, or have tried to change the terms of the contracts. Despite rumors of over 300 TMT of pre-signed export contracts, exports are forecast to fall to 250 TMT in MY 00, as growing domestic demand diverts more cotton away from export markets. The NCEC is likely to play a larger role in MY 00, as this will be the first time the market has been active during the peak procurement season. Several regional markets should also be active by the time the MY 00 crop becomes available for procurement.

Statistical Tables

Table 1. Cotton Production, Supply and Distribution (MT)

PSD Table						
Country:	China, Peoples Republic of					
Commodity:	Cotton					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		08/1998		08/1999		08/2000
Area Planted	4459000	4459000	3748000	3726000		3740000
Area Harvested	4250000	4250000	3748000	3726000		3740000
Beginning Stocks	4074483	4074483	4680483	4680483	4582483	3959483
Production	4501000	4501000	3827000	3829000		3850000
Imports	78000	78000	60000	70000		120000
TOTAL SUPPLY	8653483	8653483	8567483	8579483	4582483	7929483
Exports	148000	148000	185000	320000		250000
USE Dom. Consumption	3825000	3825000	3800000	4300000		4500000
Loss Dom. Consumption	0	0	0	0		0
TOTAL Dom. Consumption	3825000	3825000	3800000	4300000	0	4500000
Ending Stocks	4680483	4680483	4582483	3959483		3179483
TOTAL DISTRIBUTION	8653483	8653483	8567483	8579483	0	7929483

Table 2. Cotton Production, Supply and Distribution (Bales)

PSD Table						
Country:					Conversion	0.004593
Commodity:						
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	4459000	4459000	3748000	3726000	0	3740000
Area Harvested	4250000	4250000	3748000	3726000	0	3740000
Beginning Stocks	18714	18714	21497	21497	21047	18186
Production	20673	20673	17577	17586	0	17683
Imports	358	358	276	322	0	551
TOTAL SUPPLY	39745	39745	39350	39405	21047	36419
Exports	680	680	850	1470	0	1148
USE Dom. Consumption	17568	17568	17453	19750	0	20668
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	17568	17568	17453	19750	0	20668
Ending Stocks	21497	21497	21047	18186	0	14603
TOTAL DISTRIBUTION	39745	39745	39350	39405	0	36419

Table 3: Cotton Area, Production & Procurement

CHINA COTTON AREA, PRODUCTION & YIELD BY KEY PROVINCES						
1,000 HA; 1,000 MT; KG/HA						
		1998			1999	
PROVINCE	AREA	PROD	YIELD	AREA	PROD	YIELD
Xinjiang	999	1,400	1,401	990	1,354	1,368
Henan	800	728	910	688	707	1,028
Shandong	414	413	998	360	339	942
Hubei	432	325	753	311	282	907
Jiangsu	416	462	1,110	310	246	794
Anhui	396	290	733	296	195	659
Hebei	316	270	855	266	223	838
Hunan	199	192	966	162	177	1,093
Sichuan	140	102	731	96	76	792
Jiangxi	108	76	701	76	63	829
Other	240	243	1,012	171	167	977
TOTAL	4,459	4,501	1,009	3,726	3,829	1,028
SHARE OF AREA AND PRODUCTION BY PROVINCE						
		1998			1999	
PROVINCE	AREA	PROD		AREA	PROD	
Xinjiang	22.4%	31.1%		26.6%	35.4%	
Henan	17.9%	16.2%		18.5%	18.5%	
Shandong	9.3%	9.2%		9.7%	8.9%	
Hubei	9.7%	7.2%		8.3%	7.4%	
Jiangsu	9.3%	10.3%		8.3%	6.4%	
Anhui	8.9%	6.4%		7.9%	5.1%	
Hebei	7.1%	6.0%		7.1%	5.8%	
Hunan	4.5%	4.3%		4.3%	4.6%	
Sichuan	3.1%	2.3%		2.6%	2.0%	
Jiangxi	2.4%	1.7%		2.0%	1.6%	
Other	5.4%	5.4%		4.6%	4.4%	
TOTAL	100.0%	100.0%		100.0%	100.0%	
Source: SSB Yearbook, 1999; SSB Statistical Survey of China,						

1998 and 1999. Areas are from Provincial Yearbooks.		
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Table 4. Textile Industry Production

CHINA'S TEXTILE INDUSTRY PRODUCTION				
CY 1997, 1998 & 1999				
COMMODITY	1997	1998	1999	% Chang 1998/99
Cotton Yarn Production (MT)	5,598,000	5,420,000	5,670,000	4.6%
Cotton Yarn Exports	153,232	133,387	173,987	30.4%
Cotton Fabric Production (Mil. M)	24,800	24,100	25,000	3.7%
Fabric Exports (Mil. M)	3,022	2,722	2,996	10.1%
Chem. Fiber Production	4,716,200	5,100,000	6,000,000	17.6%
Source: State Statistical Year Book 1998, 1999 & China Statistical Abstract 2000.				

Table 5. Monthly Cotton Imports

CHINA'S MONTHLY COTTON IMPORTS (Metric Tons)					
	1996	1997	1998	1999	2000
January	44,234	94,204	34,185	6,036	4,904
February	52,709	68,760	23,333	6,842	2,154
March	118,153	71,475	32,658	7,925	3,244
April	125,847	83,855	32,390	7,574	44
May	37,567	77,539	24,136	2,918	206
June	40,056	73,566	14,974	5,616	0
July	27,400	81,682	11,375	4,864	0
August	34,567	52,698	7,532	3,556	0
September	38,354	40,474	7,953	1,779	0
October	57,097	43,390	10,883	1,543	0
November	41,819	38,300	3,055	1,339	0
December	63,648	53,601	6,964	2,214	0
JAN-DEC TOTAL	681,451	779,544	209,438	52,206	10,552
MY TOTAL	(96/97)	(97/98)	(98/99)	(99/00)	(00/01)
AUG-JUL TOTAL	786,566	401,514	46,939	20,983	0
01/1/ to date	Source: China Customs				
HS Code: 5201.0000, 5203.0000					
CHINA'S MONTHLY COTTON IMPORTS (480 Pound Bales)					
	1996	1997	1998	1999	2000
January	203,167	432,679	157,012	27,723	22,524
February	242,092	315,815	107,168	31,425	9,893
March	542,677	328,285	149,998	36,400	14,900
April	578,015	385,146	148,767	34,787	202
May	172,545	356,137	110,857	13,402	946
June	183,977	337,889	68,776	25,794	0
July	125,848	375,165	52,245	22,340	0
August	158,766	242,042	34,594	16,333	0
September	176,160	185,897	36,528	8,171	0
October	262,247	199,290	49,986	7,087	0
November	192,075	175,912	14,032	6,150	0
December	292,335	246,189	31,986	10,169	0
JAN-DEC TOTAL	3,129,904	3,580,446	961,949	239,782	48,465

MY TOTAL	(96/97)	(97/98)	(98/99)	(99/00)	(00/01)
AUG-JUL TOTAL	3,612,698	1,844,154	215,591	96,375	0

Table 6. Cotton Imports By Origin, CY 1999

CHINA'S COTTON IMPORTS BY ORIGIN, 1999						
(Metric Tones)						
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total	Share of
Country	1999	1999	1999	1999	1999	Total
Australia	5,043	4,631	5,407	2,444	17,525	33.6%
U.S.	5,852	4,605	1,731	1,480	13,668	26.2%
Uzbekistan	3,172	1,408	164	28	4,772	9.1%
Mexico	1,969	1,238	0	219	3,426	6.6%
Cameroon	1,270	495	500	0	2,265	4.3%
Cote d'Ivoire	410	380	578	519	1,887	3.6%
Argentina	593	648	499	0	1,740	3.3%
Benin	97	789	787	0	1,673	3.2%
Burkina Faso	930	260	0	99	1,289	2.5%
Mali	600	200	0	0	800	1.5%
Other	869	1,455	533	307	3,164	6.1%
TOTAL	20,805	16,109	10,199	5,096	52,209	100.0%
Source: PRC Customs						

Table 7. Cotton Imports By Origin, MY 98/99

CHINA'S COTTON IMPORTS BY ORIGIN						
July - June 1998/99 (MT)						
						Share of
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	MY 1998/99	Total MT
Country	1998	1998	1999	1999	Total	to Date
U.S.	8,795	6,546	5,852	4,605	25,798	30.2%
Australia	10,441	3,328	5,043	4,631	23,443	27.4%
Uzbekistan	2,433	3,057	3,172	1,408	10,070	11.8%
Mexico	0	1,381	1,969	1,238	4,588	5.4%
Argentina	648	1,337	593	648	3,226	3.8%
Burkina Faso	394	738	930	260	2,322	2.7%
Cameroon	0	150	1,270	495	1,915	2.2%
Tajikistan	297	1,444	0	0	1,741	2.0%
Mali	296	503	600	200	1,599	1.9%
Benin	511	202	97	789	1,599	1.9%
Kazakstan	345	931	0	0	1,276	1.5%
Cote d'Ivoire	400	0	410	380	1,190	1.4%
Syria	605	444	48	0	1,097	1.3%
Togo	900	40	40	0	980	1.1%
Other	1,196	841	781	1,805	4,623	5.4%
TOTAL	27,261	20,942	20,805	16,459	85,467	100.0%
Source: PRC Customs						

Table 8. Cotton Imports By Origin, MY 99/00

CHINA'S COTTON IMPORTS BY ORIGIN						
July- June 1999/00 (Metric Tones)						
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Total	Share of
Country	1999	1999	2000	2000	2000	Total
U.S.	1,731	1,480	8,172		11,383	44.5%
Australia	5,407	2,444	943		8,794	34.4%
Cote d'Ivoire	578	519	0		1,097	4.3%
Benin	787	0	0		787	3.1%
Cameroon	500	0	0		500	2.0%
Argentina	499	0	0		499	1.9%
Other	697	653	1,187		2,537	9.9%
TOTAL	10,199	5,096	10,302	0	25,597	100.0%
Source: PRC Customs						
Total volume is only up to the end of the first quarter of 2000.						

Table 9: Monthly Cotton Exports

CHINA'S MONTHLY COTTON EXPORTS (Metric Tons)					
	1996	1997	1998	1999	2000
January	470	0	11	10,291	28,427
February	0	0	0	20,821	21,552
March	5	11	513	12,613	43,517
April	410	10	293	15,811	43,767
May	274	0	0	19,130	27,261
June	910	182	472	14,451	
July	1,113	620	4,080	15,285	
August	701	234	10,336	22,181	
September	262	142	4,642	23,619	
October	477	120	3,473	17,379	
November	0	172	8,266	31,183	
December	0	0	13,175	34,676	
JAN-DEC TOTAL	4,622	1,491	45,261	237,440	164,524
	(96/97)	(97/98)	(98/99)	(99/00)	(00/01)
AUG-JUL TOTAL	2,263	6,037	148,294	293,562	
01/1/ to date					
HS Code: 5201.0000, 5203.0000					
CHINA'S MONTHLY COTTON EXPORTS (480n Pound Bales)					
	1996	1997	1998	1999	2000
January	2,159	0	51	47,267	130,565
February	0	0	0	95,631	98,988
March	23	51	2,356	57,932	199,874
April	1,883	46	1,346	72,620	201,022
May	1,258	0	0	87,864	125,210
June	4,180	836	2,168	66,373	0
July	5,112	2,848	18,739	70,204	0
August	3,220	1,075	47,473	101,877	0
September	1,203	652	21,321	108,482	0
October	2,191	551	15,951	79,822	0
November	0	790	37,966	143,224	0
December	0	0	60,513	159,267	0
JAN-DEC TOTAL	21,229	6,848	207,884	1,090,562	755,659

	(96/97)	(97/98)	(98/99)	(99/00)	(00/01)
AUG-JUL TOTAL	10,394	27,728	681,114	1,348,330	0

Table 10: Cotton Exports By Destination, MY 98/99

CHINA COTTON EXPORTS BY DESTINATION						
July - June 1998/99 (MT)						
	Jul-Sep	Oct-Dec	Jan-Mch	Apr-Jun		Share of
Country	1998	1998	1999	1999	TOTAL	Total
Hong Kong	9,098	8,517	8,278	5,359	31,252	22.8%
Indonesia	1,851	6,203	7,001	6,751	21,806	15.9%
South Korea	572	435	4,139	16,349	21,495	15.7%
U.S.	0	37	12,770	7,153	19,960	14.6%
Thailand	2,058	3,953	4,256	2,930	13,197	9.6%
Taiwan	3,130	4,083	2,121	3,414	12,748	9.3%
Peru	0	60	2,198	5,622	7,880	5.8%
Brazil	1,077	0	1,999	0	3,076	2.2%
Japan	364	217	365	477	1,423	1.0%
Others	908	1,232	597	1,447	4,184	3.1%
TOTAL	19,058	24,737	43,724	49,502	137,021	100.0%
Source: PRC Customs						

Table 11: Cotton Exports By Destination, MY 99/00

CHINA COTTON EXPORTS BY DESTINATION						
July - June 1999/00 (MT)						
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	TOTAL	Share of
Country	1999	1999	2000	2000	Yr-to-Date	Total
South Korea	25,514	19,806	24,884		45,320	31.4%
Indonesia	11,800	26,665	25,302		38,465	26.7%
Thailand	3,848	12,150	11,838		15,998	11.1%
Hong Kong	2,883	5,723	161		8,606	6.0%
Peru	4,294	4,121	0		8,415	5.8%
India	943	4,377	6,229		5,320	3.7%
Taiwan	2,895	1,781	7,750		4,676	3.2%
Pakistan	2,854	1,136	0		3,990	2.8%
Russia	2,001	1,400	0		3,401	2.4%
Japan	654	1,032	1,496		1,686	1.2%
U.S.	294	0	0		294	0.2%
Others	3,105	5,045	15,866		8,150	5.6%
TOTAL	61,085	83,236	93,526	0	144,321	100.0%
Source: PRC Customs						

Table 12: Cotton Yarn & Thread Imports By Country Of Origin

CHINA'S COTTON YARN & THREADS IMPORTS IN 1998, 1999 & 2000			
BY COUNTRY OF ORIGIN (Metric Tones)			
ORIGIN	1998 VOLUME	1999 VOLUME	2000 VOLUME
Pakistan	122,947	85,525	28,718
China	66,596	56,572	20,207
India	68,525	50,761	16,061
Hong Kong	37,482	25,106	10,516
Indonesia	21,255	18,314	4,946
Taiwan	13,051	9,217	3,083
South Korea	12,259	10,310	3,459
Thailand	8,341	5,329	1,949
Other	11,227	8,225	3,376
TOTAL	361,683	269,359	92,315
Source: China Customs			
Volume of 2000 is only up to the end of the first quarter.			

Table 13: Cotton Yarn & Thread Imports By Country of Origin

CHINA'S COTTON YARN AND THREAD IMPORTS, CY 2000						
by Country of Origin (Volume, Metric Tons)						
					Total	Share
Country of	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	VOLUME	of total
ORIGIN					(MT)	based on
Pakistan	28,718				28,718	31.1%
China	20,207				20,207	21.9%
India	16,061				16,061	17.4%
Hong Kong	10,516				10,516	11.4%
Indonesia	4,946				4,946	5.4%
South Korea	3,459				3,459	3.7%
Taiwan	3,083				3,083	3.3%
Thailand	1,949				1,949	2.1%
Other	3,376				3,376	3.7%
TOTAL	92,315	0	0	0	92,315	100.0%

Source: China Customs					
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Table 14: Cotton Yarn & Thread Imports, CY 1999

CHINA'S COTTON YARN AND THREAD IMPORTS, 1999						
by Country of Origin (Volume, Metric Tons)						
					Total	Share
					1999	of total
Country of Origin	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	VOLUME (MT)	based on Value
Pakistan	26,515	31,659	28,114	28,120	114,408	31.0%
China	15,228	21,278	22,641	24,187	83,334	22.6%
India	12,355	16,903	21,564	15,324	66,146	17.9%
Hong Kong	7,936	10,495	7,867	8,103	34,401	9.3%
Indonesia	5,418	5,810	7,242	4,569	23,039	6.2%
Taiwan	2,822	4,115	3,327	3,844	14,108	3.8%
South Korea	3,403	3,928	3,054	2,652	13,037	3.5%
Thailand	1,576	1,877	2,083	2,444	7,980	2.2%
Other	2,675	2,585	3,337	3,806	12,403	3.4%
TOTAL	77,928	98,650	99,229	93,049	368,856	100.0%
Source: China Customs						

Table 15: Cotton Yarn & Thread Exports By Country Of Origin

CHINA'S COTTON YARN AND THREAD EXPORTS in 1998, 1999 & 2000			
BY COUNTRY OF DESTINATION			
Country	1998 VOLUME	1999 VOLUME	2000 VOLUME
Origin	(MT)	(MT)	(MT)
Hong Kong	101,603	127,154	34,976
Japan	8,477	15,165	2,997
South Korea	3,867	11,628	3,817
Myanmar	4,833	7,441	1,318
Other	3,503	12,599	2,705
TOTAL	122,283	173,987	45,813
Source: China Customs			
2000 Volume of Year-to-date is only up to the end of the first quarter.			

Table 16: Cotton Fabric Imports By Country of Origin

CHINA'S COTTON FABRIC IMPORTS BY COUNTRY BY COUNTRY OF ORIGIN			
	1998 VOLUME	1999 VOLUME	2000 VOLUME
COUNTRY OF	(000 Sq.	(000 Sq.	(000 Sq.
ORIGIN	Meters)	Meters	Meters
Hong Kong	406,289	377,446	80,467
China	362,483	339,864	73,399
Pakistan	159,199	227,169	39,524
Japan	151,771	157,784	42,697
Taiwan	153,237	150,092	26,291
South Korea	49,779	44,937	9,207
India	25,549	37,651	13,394
Macau	28,373	18,578	2,444
Other	32,909	35,310	9,589
TOTAL	1,369,589	1,388,831	297,012
Source: China Customs data 1998, 1999 & 2000			
Volume of 2000 is only up to the end of the first quarter.			

Table 17: Cotton Fabric Exports By Country Of Origin

CHINA'S COTTON FABRIC IMPORTS BY COUNTRY BY COUNTRY OF ORIGIN			
	1998 VOLUME	1999 VOLUME	2000 VOLUME
COUNTRY OF	(000 Sq.	(000 Sq.	(000 Sq.
ORIGIN	Meters)	Meters	Meters
Hong Kong	406,289	377,446	80,467
China	362,483	339,864	73,399
Pakistan	159,199	227,169	39,524
Japan	151,771	157,784	42,697
Taiwan	153,237	150,092	26,291
South Korea	49,779	44,937	9,207
India	25,549	37,651	13,394
Macau	28,373	18,578	2,444
Other	32,909	35,310	9,589
TOTAL	1,369,589	1,388,831	297,012
Source: China Customs data 1998, 1999 & 2000			
Volume of 2000 is only up to the end of the first quarter.			

Table 18: Cotton Exports By Destination, MY 99/00

CHINA COTTON EXPORTS BY DESTINATION						
July - June 1999/00 (MT)						
	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	TOTAL	Share of
Country	1999	1999	2000	2000	Yr-to-Date	Total
South Korea	25,514	19,806	24,884		45,320	31.4%
Indonesia	11,800	26,665	25,302		38,465	26.7%
Thailand	3,848	12,150	11,838		15,998	11.1%
Hong Kong	2,883	5,723	161		8,606	6.0%
Peru	4,294	4,121	0		8,415	5.8%
India	943	4,377	6,229		5,320	3.7%
Taiwan	2,895	1,781	7,750		4,676	3.2%
Pakistan	2,854	1,136	0		3,990	2.8%
Russia	2,001	1,400	0		3,401	2.4%
Japan	654	1,032	1,496		1,686	1.2%
U.S.	294	0	0		294	0.2%
Others	3,105	5,045	15,866		8,150	5.6%
TOTAL	61,085	83,236	93,526	0	144,321	100.0%
Source: PRC Customs						
Total Yr-to-date is only up to the end of the first quarter of 2000.						

Production

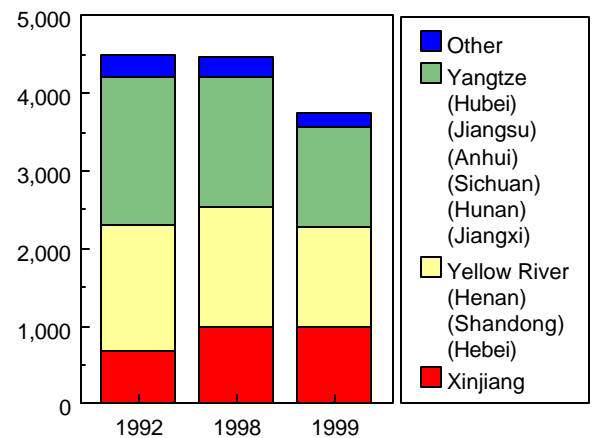
MY 2000 cotton planted area is forecast to stabilize at roughly 3.74 million hectares, after a drop of 16.4 percent in 1999. This comes in spite of the government's earlier plan to reduce area by another 10-15% this year, and is due partly to the partial recovery in cotton prices during the Spring, and partly to sharp reductions in prices for other commodities. Some increases in planted area are rumored to be taking place in the Yellow River Valley, particularly Shandong Province, though such rumors could not be confirmed. Officials in Henan (the second largest cotton producer) claim that area in that province is stable, and press reports in Hunan and Hebei claim that planted area in those provinces has fallen. Industry sources believe that planted area in Shandong province may have increased by as much as 8% over last year. Henan and Shandong were among the areas targeted for further reductions, but local officials have been resistant to further cuts, since cotton is a key component in farm incomes in these areas. In Henan, the local government has actually increased its investments in some aspects of cotton production, providing, for example, a subsidy of RMB 1,000 (\$121) per well for irrigation facilities.

Planted area in the largest producing region, Xinjiang, is expected to remain constant or fall slightly, as a small amount of marginal land is taken out of production. The government of Xinjiang has announced a plan to reduce planted area by 67,000 hectares per year for the next three years in the prefectures of Hetian, Kezhou, Hami, Turpan, Yili and East Changji. Evidence from industry sources suggests that most of this will come from the large Military Construction Farms, and may be partly offset by increases in individual farms in more productive areas such as Aksu and Kashgar. The decline in planted area has brought about a geographical shift in production, as Xinjiang has moved from producing one quarter of all of China's cotton in 1997 to nearly one third in 1999, and production in the provinces of the lower Yellow River Valley has passed that of the Yangtze River valley. The National Statistical Bureau has reduced MY 99 cotton planted area down to 3.726 million ha, bringing it to the lowest level since 1962.

Henan, the second largest cotton producing province in China, is suffering from its worst drought in 40 years. Rainfall from February to April has been only 10-30% of normal, with a total of 3.27 million hectares of farmland affected. Nonetheless, local officials claim that the small amount of rain they have received, was properly timed to support the cotton crop, and they do not expect the drought to have a strong impact at this point. This will change, should the drought continue. Drought has also struck in Hubei, the fifth largest cotton producer, where drought damaged land is estimated at 1.24 million hectares, of which 67,000 are a total loss. Parts of northern Jiangsu province, the third largest cotton producer, have also been hit by drought. Estimates of the impact on cotton in these two provinces are unavailable at this point. Reports from Anhui and other provinces indicate that farmers are investing less in inputs, due to the drop in prices, which is likely to cause a drop in yields. Offsetting this, travel in Xinjiang indicates that the crop is in better condition than last year, when wind storms caused

Geographic Drift

Recent cuts in planted area have favored Xinjiang and the Yellow River



considerable damage early in the year. Increased yields in Xinjiang may partly offset losses in drought-stricken areas. Bollworm problems in Xinjiang appear to have faded with the return to normal dry weather, though cotton aphid remains widespread. Local officials and farmers are relying primarily on natural predators to control the aphid problem.

Beginning with MY 99, the Chinese government has allowed cotton procurement prices to float according to supply and demand. This caused farm prices to fall as much as 40% during the peak procurement season. Since then, prices have improved as lower prices stimulated demand. The sole exception to price liberalization has been Xinjiang, which has maintained a floor price for cotton. This floor, however, does not seem to have prevented the MY 99 crop from selling out quickly. The Xinjiang Autonomous Region Price Bureau has already announced the MY 00 price floor for standard (middling) upland cotton at \$891.57/MT, and standard ELS cotton at \$1,159/MT.

The Chinese government is placing increased emphasis on improving cotton yields through improved management and the use of improved seed. (The need for improved planting seed is supported by a government survey which indicated that only 58% of the 100-200 million kg. of planting seed used each year meet national standards). Planting trials in Xinjiang using the double layer and double plant method have produced record yields, and officials in Kashgar are distributing seed for a new high-yielding variety developed by the Chinese Academy of Agricultural Sciences. Color cotton is being produced in limited quantities in several provinces. The most enthusiastic supporters of color cotton have been the Military Construction Farms in Xinjiang. Industry sources estimate area planted to color cotton in Xinjiang at 33,000 hectares. Local Cotton and Jute officials, however, are skeptical of color cotton's value compared to its production cost, and individual farmers are unlikely to begin planting color cotton anytime soon. The Military Construction Farms are also the largest producer of ELS cotton, accounting for 51% of China's ELS cotton crop.

Area planted to BT cotton will also increase in the future, as two additional provinces, Shandong and Anhui, have been approved to plant BT cotton. At present, most BT cotton is produced in Hebei Province through a joint venture with Monsanto, with BT now accounting for 92% of the planted area in that province. Henan also plants limited amounts of BT cotton (less than 20% of planted area) from domestically developed seed. Interest on the part of farmers has been weak, however, as they claim that regular cotton in combination with proper use of pesticides produces a higher yield than the BT cotton provided to them. The Cotton Research Institute in Henan claims to have developed and received government approval to plant a new form of BT cotton that remains resistant to bollworm longer and which is also resistant to verticillium wilt. They have been unwilling to distribute the seed for this cotton however, as there is insufficient protection for intellectual property rights in China at present. Researchers at the Institute believe that China's accession to the WTO will provide them with better IPR protection, and allow them to distribute the new seed without fear of being copied.

Regional authorities in Xinjiang are working to improve cotton quality, and have set the objective of increasing fine varieties of cotton to 80% of the total crop. At present, the top three grades account for 66% of total production. Cottonseed is distributed through state-owned seed stations, providing farmers with little choice in the varieties they plant. Another objective of introducing new types of cottonseed in Xinjiang has been to reduce the chronic problem of high sugar content. Local officials contend that the

high sugar levels are due to the introduction of high-sugar cotton from the Soviet Union in the 1950's, and are seeking to remedy the problem by bringing in high-quality seed with lower sugar content from Henan Province. Henan authorities confirmed that much of Xinjiang's seed in recent years has come from Henan. Xinjiang is also trying to reduce foreign matter, and has set the target of reducing FM from the current claimed level of 1 gram/MT down to 0.4 grams/MT.

Consumption

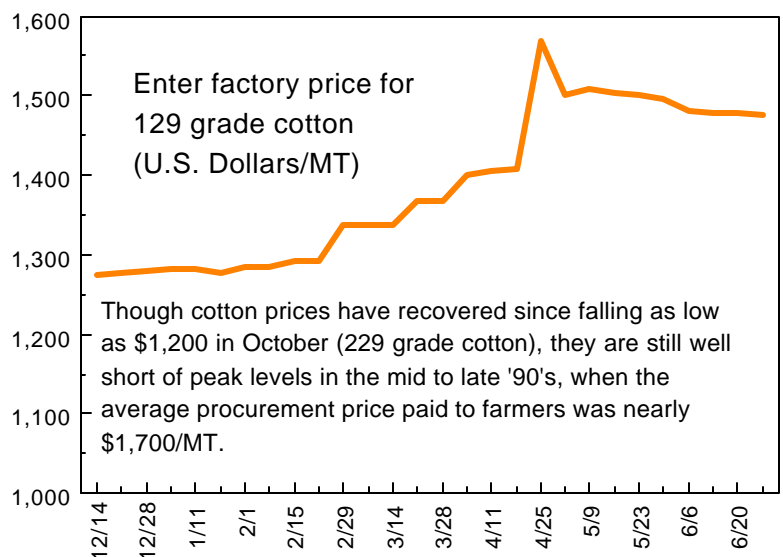
Spurred on by low cotton prices and rising petroleum prices, cotton consumption jumped in 1999 as mills increased output and substituted more cotton for synthetic fibers. This represents the reversal of a long-term trend toward increased use of synthetics. Cotton and Jute estimates 1999 consumption at 4.3 MMT, while the All China Federation of Supply and Marketing Cooperatives (AFSCME - Cotton and Jute Corp.'s parent organization) June conference estimated consumption for 2000 at 4.5 MMT. The State Administration of Textile Industry (SATI) forecasts mill use of cotton for 2000 at 4.12 MMT, based on first quarter yarn production of 1.456 MMT (an increase of 320 TMT over the same period last year), slightly higher than AFSCME's forecast for mill use. At the same time, SATI estimates that chemical fiber utilization has fallen by an average of 18% from the previous year. China is also rapidly developing industrial use of textiles for interior design and automotive use. At present, such uses account for only 13% of total textile fiber consumption, compared to 38% in western Europe.

Increased mill use has caused cotton prices to rebound. In October, sales prices for high-quality 129 cotton fell below US\$1,200/MT, at which price many farmers refused to sell. Tight supplies however, drove prices back up to a high of US\$1,570/MT by late April.

Industry complaints about the increase finally led the government to authorize the sale of additional reserve cotton and allocate a quota for imports of high-quality cotton. Since then, prices have drifted downward slightly, falling to US\$1,476/MT in late June. According to press sources, tight cotton supplies in Shandong led to the establishment of at least 11 black markets for cotton in that province. Recent sales of reserve cotton may undercut these markets.

The drop in cotton prices greatly improved prospects for the textile industry as a whole, since raw cotton constitutes 75% of the industry's costs. As a result, the industry as a whole is now operating at a profit for the first time in years. For mills specializing in cotton products, the impact has been even sharper: one mill in Xinjiang reported that cotton constitutes over 85% of the mill's operating costs, and attributed their jump in profits entirely to the drop in cotton prices. In the first two months of 2000, sales revenues were up by 24.2% over the previous year, and profits amounted to \$1.2 billion, up 22.5%

Factory Prices for Cotton



over the same time last year. Net profits in the first two months totaled \$242 million, compared to a net loss of \$12 million during the same period last year, according to the State Textile Bureau (STB).

Despite the good news, reform of the textile industry continues. The government eliminated 9.16 million of the targeted 10 million spindles by 2000, and will continue the program until they have reached 10 million. As an incentive, the government has been paying 3 million RMB per 10,000 spindles destroyed. The spindle reduction program, however, is aimed exclusively at outdated or obsolete equipment, and some mills have used the money paid for the destruction of old spindles to buy newer, high quality equipment. Now that the goal of eliminating old spindles is nearly achieved, the government is changing its focus to quality improvement. In February, the STB announced the key elements of its new program. These include diversification of the chemical fiber industry, upgrading 50% of spinning capacity to meet 'advanced international standards' by 2005, doubling the number of shuttleless looms by 2005, and upgrading 40% of dyeing equipment to meet advanced international standards. The STB also announced that 20 billion RMB (\$2.4 billion) would be appropriated by the government to fund this effort.

Trade

Though many mills purchased advance supplies of cotton while prices were low, these stocks have run low, and the textile industry has been agitating for increased import quotas to keep prices down. The government has responded by opening quotas for 70,000 MT of imports. Of this, 10,000 is for ELS cotton, and the rest for other high quality cotton. MY 99 imports are now forecast to reach 70 TMT, though this estimate may be optimistic. Customs data for the year to date show slightly less than 21 TMT of imports, and though a new import quota has been issued, industry sources indicate that it is not being used. Companies holding the quotas are reportedly sitting tight in the hope that sales of government reserves will cause prices to drop. Imports are likely to recover somewhat in MY 2000, as consumption is forecast to continue at high levels, and Xinjiang has already announced the signing of 320,000 MT in export contracts. Even if the full amount is not shipped, this may mean a continuation of the current pattern that places high-quality cotton in short supply, creating demand for imports of high-quality cotton. Recent growth in textile exports and upgraded textile equipment should also support demand for high quality cotton.

Exports for MY 99 are forecast to jump to 320 TMT, though this could easily go higher. This forecast assumes that tight domestic supplies will mean that less cotton is available for export. Unused funds that had been designated to subsidize exports of MY 98 cotton were apparently rolled over and applied to the MY 99 crop as well, though no estimate of the amount of money rolled over, nor of the amount of cotton exports subsidized, is available. Exports also continue to receive a partial exemption from the VAT. Industry sources indicate that many of the original export contracts from last fall have not been honored. The contracts were signed while cotton prices were expected to remain low, and since prices have risen, some exporters in Xinjiang have either been unable to obtain cotton, or have attempted to renegotiate the contracts to raise the price. In some cases, foreign buyers resold the contracts after prices went up, but have since found the original seller unable or unwilling to deliver at the contract price. Under these circumstances, exports for MY 2000 are unusually difficult to predict. The current market situation and China's accession to the WTO indicate that growing domestic demand may limit the amount of cotton

available for export. On the other hand, Xinjiang authorities continue to pursue an aggressive export strategy, and plan to increase exports from 30% to 50% in the next three to five years. Some sources claim that Xinjiang cotton enterprises have already signed export contracts for over 300,000 MT of cotton for MY 00. Based on the assumption that increased domestic demand will result in lower exports of raw cotton, exports are forecast to drop to 250 TMT, still well above MY 98 levels. Exports of cotton yarn and fabric have also increased in MY 99, with cotton fabric exports expanding by 18% during the first three quarters, and cotton yarn exports jumping by over 65%.

Stocks

Official stock numbers are considered a state secret, and therefore are not published by the Chinese government. Based on official estimates of cotton consumption and production, however, it appears that stocks could decline by as much as 700 TMT in MY 99, with a similar reduction forecast for MY 00. Part of this reduction, however, may have come out of commercial stocks rather than national reserves, as mills are reportedly holding smaller supplies than normal. The combination of a 16% drop in cotton production and limited imports has left China in a cotton-deficit situation, particularly for high quality cotton. This has, in turn, provided the Cotton and Jute Corporation with the opportunity to sell off a portion of their surplus. The National Cotton Exchange in Beijing sold a total of 130,000 MT of pre 1993 stock cotton from the national reserves between October, 1999 and February, 2000. The sales netted a total of \$132.5 million, with unit prices slightly lower than market levels for the same grades. (The quality of the cotton had suffered during storage, with the grade reported to be 2.8 grades lower on average than when originally procured). From April to June, the NCEC sold an additional 396,728 MT, at an average price of \$1,449.52/MT. Cotton and Jute also reports that a subsidiary exchange in Hubei Province sold an additional 5,000 MT of stocks. At present, Cotton and Jute is reinspecting MY 98 commercial reserves in order to determine the amount of high-quality cotton available for sale, but reports that provinces are exagerrating their figures, in anticipation of government subsidies for the sale of surplus stocks. Though the government hopes to be able to put another 200 TMT of grade I and II cotton on the market, industry sources believe that most of the commercial reserves are grade II or lower.

Marketing

Following on the success of the NCEC, a large number of local cotton exchanges are being established. As noted above, the Hubei exchange is already active, having sold 5,000 MT of local stocks. In Xinjiang, a subsidiary of the NCEC is being established in the capital of Urumqi. Although a local exchange has already been established in the Aksu prefecture of Xinjiang, initial reports indicate that this exchange is small and disorganized. The Aksu market is reported to be independent of the NCEC. Kashgar prefecture is also in the process of establishing an exchange. Kashgar C&J is still uncertain whether the new exchange will be affiliated with the NCEC. Though local officials acknowledge the advantages of being plugged into the NCEC's computer-based sales system, they feel that Kashgar (and Aksu) have a large enough supply and strong enough reputation to operate on their own. (Kashgar alone accounts for 20% of Xinjiang's cotton production). The fate of such independent markets is uncertain, however, as the April circular on sales of stocks also requires that all Cotton & Jute enterprises possessing cotton to sell their

cotton at the NCEC.

Policy

China currently provides a 15% rebate on the VAT for all exports of cotton, effectively reducing the VAT to 2%. The rebate on cotton yarn and fabric is 17%. Some of the funding used to subsidize exports of MY 98 crop Xinjiang cotton has been carried over to MY 99. The amount of cotton subsidized in this manner is not clear. The subsidy amounts to 3,000 RMB/MT (\$363/MT) for direct exports of cotton, with payment made to the exporter. A subsidy is also available on Xinjiang cotton used to manufacture goods for export, at a level of RMB 2,500/MT (\$302/MT), although the process for claiming the subsidy is cumbersome: mills must present both receipts for purchase of the cotton and export documentation in order to receive the subsidy. The verification process reportedly takes so long that many mills have given up before it was completed. Some 28,510 MT of cotton was reportedly sold to domestic mills using this subsidy, and mills within Xinjiang used the same program to obtain a subsidy on over 15,000 MT of cotton used to manufacture goods for export.

According to local officials in Xinjiang Province, the Chinese government has directed local cotton enterprises to form 'comprehensive cotton corporations.' These organizations are supposed to integrate all aspects of production: farmers, seed providers, management, procurement and marketing. The objective is to improve management by increasing the degree of coordination between the different stages of production. The order appears to be a bit vague, however, and local authorities are still puzzling over the complex cross-jurisdictional issues. For example, incorporating seed providers would be difficult, since seed is provided by AgBureau seed stations. This raises the issue of whether to include the local AgBureau in the corporation, and what rights and responsibilities AgBureau would then have within the corporation. The local authorities have only begun to think these issues through, and it is unlikely that there will be concrete action any time soon.

Procurement and marketing reform is continuing, with an increasing number of cotton mills authorized to purchase cotton directly from farmers. According to the most recent statistics, Cotton and Jute Corporation, once the sole purchaser of farmers' cotton, only procured 72% of the MY 99 crop. The number of mills actually procuring cotton is still small, and limited to the largest of mills. Even for those mills authorized to purchase directly, there have been problems. One mill in Xinjiang reported that the main obstacle to purchasing directly from farmers is financing. Textile mills normally receive loans from the Commercial and Industrial Bank, while agricultural enterprises get loans from the Agricultural Development Bank. To procure cotton from farmers, mills must borrow money which is then paid to farmers. In some areas, however, neither bank is willing to cross traditional lines to loan money to mills for payment to farmers (instead of Cotton and Jute). In Henan, authorities report similar difficulties. Although forty-six textile enterprises have been authorized to purchase cotton directly, there have been a number of problems with financing, ginning and warehousing of the cotton.