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Cotton Annual

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Report Highlights:

Korea's spinning industry revitalized somewhat in MY 1999 due to stabilized raw cotton prices, increased demand in local markets and strong export performance. The outlook for raw cotton consumption in foreseeable years is less favorable as Korea becomes less price competitive in overseas markets and imports of less expensive cotton products increase. Efforts to expand market share domestically and internationally focus on development of high-quality and multi-functioned cotton yarn and fabrics.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

Consumption

Korea's spinning industry was revitalized somewhat in MY 1999 due to stabilized cotton prices and increased demand in both domestic and export markets. In domestic markets, national consumption was boosted by the 10.7 percent growth in the national economy in 1999. In export markets, a favorable exchange rate strengthened Korea's ability to compete in foreign markets. Also, the worldwide trend toward natural fiber continues to be witnessed in both local and overseas markets.

The outlook for Korean raw cotton consumption in foreseeable years is divided. Some view that Korea's cotton consumption will remain at current levels or increase slightly for the following reasons: 1) positive national economic growth should boost consumer consumption, 2) restructuring of the spinning industry should be nearly completed, 3) consumer preference for natural fiber material should remain strong, 4) imported cotton products from China and South East Asian countries would be considered as Korean products because they would be made of raw cotton purchased by the Korean parent companies.

On the other hand, the industry is also forecast to decline at a modest rate, which is the view of the post, for the following reasons:

- 1) Korean spinners continue to shift production facilities overseas as part of ongoing industry restructuring. New domestic investment is considered as a preparation to expand the market share of competitive spinners as financially weak companies are expected to exit the market.
- 2) Continuing inflow of imported cotton products should dampen consumer demand for Korean-made cotton products. Already less expensive, the quality of these foreign products, sourced mainly from China, is steadily improving. China's signing the Bangkok Agreement in May 2000 should accelerate imports from China as tariffs for 9 classes of cotton garments are to be lowered from 13 percent to 8.1 percent under the Agreement.
- 3) The transition in Korean production system, from mass production to specialized small-lots, does not require large volumes of raw cotton.
- 4) Korean spinners are slowly moving cotton spinning to other MMF fiber spinning in an effort to increase exports. Those spinners who previously produced lower count carded yarn are shifting production to rayon products. Reportedly, rayon products newly developed by Korean spinners (e.g. Tencell, Lyocell) are well received in overseas markets due to its strengthened function and natural material image despite the price 3-5 times higher than cotton products.
- 5) The exchange rate remains a critical factor for determining future exports of cotton products, as about 60 percent of Korean yarn production enters export channels. To remain competitive, the exchange rate should remain in 1150 and 1200 won to the U.S. dollar range. At the current exchange rate (1100 won = US\$1), Korean products less competitive in foreign markets, while foreign cotton products are now attractively priced.

Restructuring

Under the ongoing industry restructuring program, the number of spindles carried by SWAK member companies declined to 2.2 million in 1999 by 3.1 percent and is projected to decrease further in 2000 by 3.7 percent. Currently, factories are operating at over 90 percent capacity for cotton yarn and about 84 percent capacity for cotton fabric production. Total number of looms in place declined in 1999 by 29 percent and is projected further decrease in 2000

by 6.8 percent. Approximately one-third of Korea's total spinning facilities and weaving machines are now operating at 21 overseas factories in 8 countries. While transferring facilities overseas, spinners continue to invest heavily in automatic facilities and new machinery in efforts to improve quality and to enhance productivity. The current trend for production shows a shifting from the mass production system to a small lot production in order to produce high quality special yarn in a large number of variety.

Price

Average CIF cotton import prices, from all sources, has steadily decreased during MY 1999 and also thus far through mid-MY 2000. Due to increasing imports of cotton yarn, combined with decreasing raw cotton prices, local prices for cotton yarn remains weak. The import price of synthetic fiber increased by 30 percent last year due to rising oil prices. However, the price of final synthetic products remained unchanged due to surplus stocks and severe competition, leaving cotton products unaffected. Recently, the synthetic fiber price is increasing as the industry agreed to reduce production by 18 percent. The price changes in synthetic fiber do not affect cotton consumption significantly as the local market for cotton products is firmly established, unlike synthetic fibers that are in lower demand in Korea. In 1999, the ratio of chemical fiber to natural fiber use by spinners was 9.8 percent verses the current level of 9.7percent.

Trade

Raw cotton imports increased somewhat in MY 1999 to meet increased demand for cotton yarn from both domestic and foreign markets. Imports from U.S. declined considerably due to lack of availability and high prices, while China and Uzbekistan increased market share at U.S. expanses. Problems are being reported with Chinese cotton both in foreign matter levels and delayed delivery. Imports of raw cotton in MY 2000 are expected to decrease due to displacement of the domestic product with the increasing imports of cotton products and sluggish export demand. The recent trend for cotton yarn imports show that: 1) Korea imports cotton products for the purpose of reexport after further processing, e.g. dyeing, printing, coating, and finishing, 2) Most imported cotton products are produced by Korean own overseas facilities experiencing weak local demand, 3) The Korean demand for lower count carded yarn is being satisfied by imports from Pakistan, India and China due to lack of price competitiveness of local products, 4) Imports of combed yarn is rapidly increasing and has equaled to the level of local production.

Korean exports of cotton products experienced considerable growth early last year due to worldwide trend toward natural fiber. Exports become sluggish due to a lack of price competitiveness as the Korean currency appreciated from the second half last year. Korea sees weak export market growth in foreseeable years as: 1) Korean products become less price competitive, 2) The export market for quality Korean products will be challenged soon by Chinese and other competitor's processing ability that is steadily improving, 3) Cotton spinners will make more efforts for exports of rayon products due to their favorable market response as a natural fiber (made of pulp) despite of their high prices.

Korea exports a small amount of raw cotton to China, Vietnam, and Sri Lanka where Korean spinners' offshore facilities are established, in order to reduce stock levels at Korea factories, or to facilitate emergency use or small volume use in offshore factories. The Korean parent company purchases all cotton consumed by domestic and off-shore affiliates.

Marketing

Market development efforts continue to be focused on consumers attracted to new materials and fashions. To meet consumers needs and taste, spinners continue to develop high-quality and multi-functioned cotton yarn and fabrics, by holding enhanced color, touch, appearance and safety. Industry's efforts appear to expand market share being lost to less expensive foreign products that are made of regular (plain, not processed) cotton yarn. Also, Korean spinners emphasize production of high count cotton products used by the high-end market such as golf wear, dress shirts, blouse, under/inner wear, and home fashion. Although this market is relatively small in relation to total cotton production (about 5-10 percent), the market is experiencing a steady increase in sales, led by golf wear.

U.S. cotton product market promotions continue to focus on value-added products containing 100 percent cotton content, or more than 50 percent U.S. cotton content. Currently, retail promotions conducted by CCI emphasize denim, baby wear, and home fashion products aimed at consumers in their 20s and 30s with strong purchasing power. Among Korean consumers, U.S. cotton products are now widely recognized as a symbol of quality.

For FY 1999, U.S. cotton sales to Korea under the GSM program totaled \$31.2 million, or 25 percent of 125 million program allocation. Less use of GSM credit during the period was due to the low availability and strong price of U.S. cotton. Under the FY 2000 GSM-102 program, U.S. cotton sales to date totals \$37 million.

GSM credit is considered as a more desirable financing source than local bank import financing (USANCE) as it has lower interest rate (about 1 percent lower than USANCE) and longer repayment period (2 years for GSM compared to 6 months for USANCE). The factors considered by Korean spinners in using GSM credit include the U.S. premium price enough to be offset by the benefit of GSM's lower interest rate and the projected stability of foreign exchange rate during the two-year repayment period. When the future foreign exchange rate is supposed to be stabilized, demand for the credit program depends on the price competitiveness of U.S. cotton. According to industry source, GSM credit is desirable when U.S. cotton price premium is about 5 cent or less per pound (currently US cotton is 8 cents higher than Chinese cotton).

Stock

No solid information on stock levels are available due to different standard of stock level among spinners. In general, SWAK members maintains a stock pipeline of about 90-100 days, e.g. 40 days in factories, 20 days in bonded warehouses, and 40 days for L/C operation. In MY2000, cotton stocks are expected to remain the same or increase somewhat above the MY 1999 level as increasing imports of cotton yarn may impact local demand for raw cotton resulting in an accumulation of cotton stock.

Tariff

From July 1999, the Korean government exempted raw cotton from the list of commodities subject to the tariff rate quota in response to decreasing international cotton prices. The base tariff to be applied on raw cotton is one percent. Since 1996, Korea imposed a zero percent tariff on raw cotton imports. Korea's applied rates on raw cotton and other cotton products are significantly lower than the concession tariff rate (6 percent for 1999 and 5.2 percent for 2000) committed to under the Uruguay Round.

In 2000, the industry requested the government increase the import quota for carded yarn to 50,000 MT at a 2 percent tariff. The government approved 20,000 MT for the first half of this year. 30,000 MT has yet to be approved.

Korean demand for low count carded yarn is made up by imports due to lack of price competitiveness of locally produced yarn.

SECTION II. STATISTICAL TABLES

PS&D for Total Cotton

PSD Table						
Country	Korea, Republic of					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		08/1998		08/1999		08/2000
Area Planted	0	0	0	0	0	0
Area Harvested	1000	0	1000	0	0	0
Beginning Stocks	93840	89314	85784	83407	89268	85407
Production	218	0	218	0	0	0
Imports	320494	320532	348363	315000	0	310000
TOTAL SUPPLY	414552	409846	434365	398407	89268	395407
Exports	7620	7720	7620	8000	0	8000
USE Dom. Consumption	321147	318719	337476	305000	0	300000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	321147	318719	337476	305000	0	300000
Ending Stocks	85784	83407	89268	85407	0	87407
TOTAL DISTRIBUTION	414551	409846	434364	398407	0	395407

Trade Matrix

Korea: Imports of Total Raw Cotton for MY1999 and MY2000

	MY98/99		MY 99/00 (Aug. 99 - Mar. 2000)			
	\$1000	MT	Mkt Shr	\$1000	MT	Mkt Shr
U.S.A	152,886	93,127	29%	62,487	49,019	23%
UZBEKISTAN	133,898	89,506	28%	74,370	56,640	27%
PR.CHINA	45,605	32,243	10%	73,070	57,531	27%
AUSTRALIA	85,109	51,907	16%	45,700	31,785	15%
EGYPT	13,270	5,743	2%	11,769	5,330	2%
RUSSIA	32,759	21,546	7%	3,207	2,374	1%
MALI	24,041	14,748	5%	7,413	4,895	2%
OTHER	17,310	11,711	4%	7,382	5,735	3%
Grand Total	504,878	320,532	100%	285,400	213,309	100%

Source: Korea Trade Information Services (KOTIS)

Korea: Imports of Upland Cotton for MY 1999 and MY 2000

	MY 98/99			MY 99/00 (Aug. 99 - Mar. 2000)		
	\$1000	MT	Mkt Shr	\$1000	MT	Mkt Shr
U.S.A	145,727	89,910	29%	56,752	45,850	22%
UZBEKISTAN	132,262	88,683	28%	74,370	56,640	27%
PR.CHINA	45,306	32,111	10%	72,834	57,412	27%
AUSTRALIA	83,379	51,191	16%	45,333	31,535	15%
EGYPT	9,685	4,224	1%	10,006	4,527	2%
RUSSIA	32,301	21,350	7%	3,207	2,374	1%
MALI	23,800	14,654	5%	7,413	4,895	2%
OTHER	17,100	11,616	4%	7,359	5,722	3%
Grand Total	489,559	313,738	100%	277,276	208,955	100%

Source: KOTIS

Korea: Imports of ELS Cotton for MY 1999 and MY 2000

	MY 98/99			MY 99/00 (Aug. 99 - Mar. 2000)		
	\$1000	MT	Mkt Shr	\$1000	MT	Mkt Shr
U.S.A	7,159	3,217	47%	5,735	3,169	73%
UZBEKISTAN	1,636	823	12%	0	0	0%
PR.CHINA	299	132	2%	236	119	3%
AUSTRALIA	1,730	717	11%	367	250	6%
EGYPT	3,585	1,518	22%	1,763	803	18%
RUSSIA	458	197	3%	0	0	0%
MALI	241	94	1%	0	0	0%
OTHER	210	95	1%	23	13	0%
Grand Total	15,319	6,793	100%	8,124	4,354	100%

Source: KOTIS

Korea: Exports of Total Raw Cotton for MY 1999 and MY 2000

	MY 98/99			MY 99/00 (Aug. 99 - Mar. 2000)		
	\$1000	MT	Mkt Shr	\$1000	MT	Mkt Shr
U.S.A	0	0	0%	0	0	0%
SRI LANKA	2,571	1,885	24%	4,292	3,238	81%
VIET NAM	2,688	1,421	18%	775	521	13%
PR.CHINA	5,666	3,615	47%	319	232	6%
PAKISTAN	982	399	5%	0	0	0%
TAIWAN	644	281	4%	0	0	0%
OTHER	212	119	2%	74	5	0%
TOTAL	12,763	7,720	100%	5,460	3,996	100%

Source: KOTIS

Korea: Exports of Upland Cotton for MY 1999 and MY 2000

	MY 98/99			MY 99/00 (Aug. 99 - Mar. 2000)		
	\$1000	MT	Mkt Shr	\$1000	MT	Mkt Shr
U.S.A	0	0	0%	0	0	0%
SRI LANKA	2,499	1,854	25%	4,292	3,238	81%
VIET NAM	2,150	1,219	16%	738	503	13%
PR.CHINA	5,578	3,577	48%	315	232	6%
PAKISTAN	982	399	5%	0	0	0%
TAIWAN	644	281	4%	0	0	0%
OTHER	203	116	2%	74	5	0%
TOTAL	12,057	7,448	100%	5,419	3,978	100%

Source: KOTIS

Korea: Exports of ELS Cotton for MY 1999 and MY 2000

	MY 98/99			MY 99/00 (Aug. 99 - Mar. 2000)		
	\$1000	MT	Mkt Shr	\$1000	MT	Mkt Shr
U.S.A	0	0	0%	0	0	0%
SRI LANKA	72	30	11%	0	0	0%
VIET NAM	538	201	74%	37	18	100%
PR.CHINA	88	38	14%	4	0	0%
PAKISTAN	0	0	0%	0	0	0%
TAIWAN	0	0	0%	0	0	0%
OTHER	9	3	1%	0	0	0%
TOTAL	706	273	100%	41	18	100%

Source: KOTIS

Korea: Imports of Cotton Yarn for CY 1996 - CY 1999

	Cotton Yarn		Cotton Blended		Total	
	MT	\$1000	MT	\$1000	MT	\$1000
1996	110,222	373,695	8,736	24,406	118,958	398,101
1997	118,038	382,379	7,852	20,081	125,890	402,460
1998	96,502	261,880	12,282	27,377	108,784	289,257
1999	191,211	508,679	22,775	45,835	213,986	554,514
Growth 99/98	98%	94%	85%	67%	97%	92%

Source: Spinners & Weavers Association of Korea (SWAK)

Korea: Imports of Cotton Fabric for CY 1996 - CY 1999

	Cotton Fabric		Cotton Blended		Total	
	MT	\$1000	MT	\$1000	MT	\$1000
1996	60,062	321,275	70,233	273,150	130,295	594,425
1997	53,061	291,431	67,527	253,448	120,588	544,879
1998	34,751	158,183	47,721	147,769	82,472	305,952
1999	68,090	268,208	64,775	185,723	132,865	453,931
Growth 99/98	96%	70%	36%	26%	61%	48%

Source: SWAK

Korea: Exports of Cotton Yarn for CY 1996 - CY 1999

	Cotton Yarn		Cotton Blended		Total	
	MT	\$1000	MT	\$1000	MT	\$1000
1996	41,537	203,571	9,065	29,902	50,602	233,473
1997	34,620	176,320	7,483	25,968	42,103	202,288
1998	40,313	181,840	7,616	17,785	47,929	199,625
1999	35,567	167,906	9,196	21,345	44,763	189,251
Growth 99/98	-12%	-8%	21%	20%	-7%	-5%

Source: SWAK

Korea: Exports of Cotton Fabric for CY 1996 - CY 1999

	Cotton Fabric		Cotton Blended		Total	
	MT	\$1000	MT	\$1000	MT	\$1000
1996	48,983	493,381	30,821	220,822	79,804	714,203
1997	45,817	460,096	30,137	220,351	75,954	680,447
1998	38,633	371,557	19,519	131,596	58,152	503,153
1999	54,198	564,236	18,055	113,551	72,253	677,787
Growth 99/98	40%	52%	-8%	-14%	24%	35%

Source: SWAK

Prices

Korea: Average Monthly Import Price for Raw Cotton

(Unit in U.S. Cents/Pound)

Korea: Average Monthly Import Price for Raw Cotton (U.S. Cents/Pound)												
YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1993	70	68	67	67	65	66	65	66	66	66	64	65
1994	65	65	66	68	69	71	74	76	77	78	80	79
1995	79	83	87	91	97	102	103	103	106	104	97	94
1996	93	94	94	96	96	95	96	93	90	90	88	86
1997	87	87	87	86	85	84	79	82	82	85	84	83
1998	84	83	82	79	79	76	76	76	76	78	76	75
1999	73	71	70	68	67	65	66	66	65	64	61	59
2000	58	57	56	-14%	-15%	-14%	-13%	-13%	-14%	-18%	-20%	-21%
Chng.1/	-21%	-20%	-20%									

Note: 1/ Percentage change between two years prices

Source: KOTIS

Korea: Average Monthly Import Price for Cotton Yarn

(U.S. Cents/Pound)

Korea: Average Monthly Import Price for Cotton Yarn (U.S. Cents/Pound)												
YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1997	145	149	147	146	149	148	146	149	145	144	141	137
1998	137	136	132	132	129	123	117	117	117	115	113	117
1999	117	122	120	120	120	123	121	123	122	123	121	122
2000	120	117	116	-9%	-7%	0%	3%	5%	4%	7%	7%	4%
Chng.1/	3%	-4%	-3%									

Source: KOTIS

Korea: Average Monthly Import Price for Cotton Fabrics

(Unit in U.S. Cents/Pound)

Korea: Average Monthly Import Price for Cotton Fabric (U.S. Cents/Pound)												
YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1997	254	243	223	217	224	253	260	242	225	229	246	275
1998	245	242	208	204	180	214	212	188	187	229	195	212
1999	193	175	172	163	169	175	176	167	167	167	179	190
2000	180	169	159	-20%	-6%	-18%	-17%	-11%	-11%	-27%	-8%	-10%
Chng.1/	-7%	-3%	-8%									

Source: KOTIS

Korea: Offer Prices for Cotton, Late April, 2000 and Oct-Dec 2000

(Unit in U.S. Cents/Pound, C&F 1/)

	Prompt Delivery	Oct-Dec, 2000 Delivery
Australian Andy	60.33	62.67
U.S. SM 1-3/32"	62.67	65.00
U.S. premium/discount	2.33	2.33(-0.4)
Chinese Xinjiang 129	58.00	59.96
U.S. SJV 3135	62.83	65.33
U.S. premium/discount	4.83 (8.28)	5.37(5.05)
Chinese Shandong/Hubei 229	56.00	58.00
U.S. CA 3135	58.00	60.50
U.S. premium/discount	2.00 (3.45)	2.50 (1.61)
Chinese Type 623	0.00	0.00
U.S. LM 1"	45.67	47.50
U.S. premium/discount	n/a	n/a
Pakistani Afzal 1"	47.00	47.00
U.S. SLM 1"	48.50	49.25
U.S. premium/discount	1.50(n/a)	2.25 (n/a)
Egypt ELS	102.00	100.00

Note: 1/ U.S. C&F prices = FOB x 1.088, (Numbers in parentheses are from April, 1999)

Source: Various cotton traders.

Korea: Raw Material Consumption by SWAK Member Companies 1/ (Unit in MT)

Year	Raw Cotton	Rayon& Acetate fibers	Polyester	Other	Total
1993	332,055	27,465	94,892	16,300	470,712
1994	348,222	23,831	78,974	11,901	462,927
1995	327,046	26,749	70,072	12,296	436,163
1996	303,883	23,024	59,146	8,835	394,887
1997	267,199	16,959	36,989	2,686	323,833
1998	244,296	17,169	33,537	2,621	297,623
1999	275,113	21,274	32,776	4,042	333,205
2000 2/	68,570	5,854	8,111	827	83,362

Note:

1/ The Spinners & Weavers Association of Korea (SWAK) member companies account for approximately 85 percent of total cotton consumption.

2/ Performance only for first 3 months of this year

Korea: Spun Yarn Production by SWAK Member Companies (Unit in MT)

Year	Cotton Yarn			Cotton Blended	MMF 2/	Total
	CD Yarn	CM Yarn	Total			
1996	51,424	146,844	198,268	103,177	32,868	334,313
1997	41,202	141,775	182,977	64,200	22,819	269,997
1998	32,238	136,467	168,705	58,118	22,636	249,459
1999	34,990	155,304	190,294	57,871	27,429	275,594
2000 3/	7,113	39,602	46,715	15,559	7,111	69,385

Note:

1/ The Spinners & Weavers Association of Korea (SWAK) member companies account for approximately 84 percent of total cotton consumption.

2/ Man-made Fiber (MMF)

3/ Performance only for the first 3 months of 2000

Korea: Fabric Production by SWAK Member Companies 1/(Unit in 1000 Square meters)

Year	Cotton Fabric	Cotton Blended	MMF 2/	Total
1996	177,073	89,331	77,309	343,713
1997	140,919	82,983	58,622	282,524
1998	104,558	58,183	47,346	210,087
1999	127,101	88,540	46,560	262,201
2000 3/	29,295	22,468	11,631	63,394

Note:

1/ The Spinners & Weavers Association of Korea (SWAK) member companies account for approximately 84 percent of total cotton consumption.

2/ Man-made Fiber (MMF)

3/ Performance for the first 3 months of 2000

Korea : Number of Spindles/Looms owned by SWAK member Companies

	Dec. 1996	Dec. 1997	Dec. 1998	Dec. 1999	Dec. 2000 (Est.)
Spindles ('000)	2,412	2,335	2,271	2,200	2,119
Looms	7,483	4,526	3,482	2,469	2,300

Source: Spinners & Weavers Association of Korea

Korea: Offshore Cotton Facilities as of December, 1999

Country	Number of Spindles	Number of Looms
India	104,646	-
Egypt	53,184	-
Indonesia	16,960	-
Vietnam	187,572	2,061
Uzbekistan	329,340	346
Tadzhikistan	35,952	243
PRC	245,672	392
Sri Lanka	100,000	558
Total	1,073,326	3,600

Source: Spinners & Weavers Association of Korea

Korea: Bound Tariff Rates for Cotton Products under WTO Commitments

(Unit % imposed on CIF value)

Product	1998	1999	2000	2001	2002	2003	2004
Raw Cotton	6.8	6	5.2	4.4	3.6	2.8	2.0
Cotton yarn	17.2	16.5%	15.8	15.1	14.4	13.7	13.0
Cotton fabric	23.2	21.5	19.8	18.1	16.4	14.7	13.0

Source: Korean Customs Services