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Cotton

Cotton Update

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Report Highlights:

Post has revised planted and harvested area based on reports from official newspapers. Exports and consumption have also been revised to account for the effects of the Asian financial crisis. The current difficulties facing the Chinese government and the policy reforms being undertaken are also discussed.

Includes PSD changes: Yes
Includes Trade Matrix: No
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General Summary

Post has reduced its estimate of 1998 planted area and harvested area based on information reported in an official newspaper following the National Cotton Conference on September 24, 1998. Estimated 1998 production remains at 4 million metric tons (MT). Post forecast for 1998/99 imports also remain the same as last reported. Exports have been further reduced to 70,000 MT. Ending stocks for the 1998/99 marketing year were raised to reflect lowered exports and domestic consumption. The Cotton & Jute Corporation is now facing the consequences of years of overstocking and financial losses caused by previous policy.

Area

Planted area is estimated at 4,397,000 hectares based on the China's Farmers Daily (the Ministry of Agriculture's official newspaper) which reported that 1998 planted area was about 133,333 hectares less than the previous year. Post has lowered estimated harvested area to 4.25 million hectares, adjusting for the China's Farmers Daily figure. According to MOA, the actual harvested area was only 4.2 million hectares, the lowest figure since 1980, because more than 200,000 hectares were completely lost due to flooding. MOA reportedly has recommended reducing the planned planted area for cotton in 1999 to 4 million hectares, down more than ten percent from this year. Local governments are expected to control planted area by shifting production away from low yield areas. MOA projects cotton production for 1999 at 3.75 million MT. Actual production is likely to be higher than this, since the returns from cotton remain superior to many other crops, even after reductions in the purchase price have been taken into account.

Production

Post's estimated production for 1998 remains at 4.0 million MT. Although this is 600,000 metric tons lower than the previous year, the average unit yield will still be the second- highest on record : approximately 941kg/hectare (23lb/acre). Yields through much of China are expected to be lower than average due to heavy rains; however the largest producing province, Xinjiang, is expected to enjoy yields this year that exceed 1,350kg/ha.

In the years when cotton prices were rapidly increasing, China's cotton production brought prosperity to local branch offices of Cotton & Jute Corporation (CJC). CJC, responsible for purchasing and sales of domestic cotton, is administered under the All China Federation of Supply and Marketing Cooperatives (ACFSMC). Most of the local CJC branches greatly expanded their personnel, and their ginning capacity reached its peak. Then as surplus stocks then began to accumulate local governments started to cut cotton planted area. For instance, during its peak time in 1984, the Shandong Province CJC office expanded its staff to over 105,000 employees and its ginning capacity to 2 MMT. However, since the Shandong provincial government began to reduce cotton planted area, production has dwindled. Further, as the gap between China's procurement price and world prices continued to grow, real demand for Chinese cotton fell and stocks grew, causing actual procurement to fall even more sharply. No official statistics are published on cotton procurement since the government is supposed to buy as much cotton as farmers wish to sell, but it is unofficially put at 60 to 70 percent of production. This year the procurement quantity in Shandong declined to a level that local officials claim is one fifth that of 1984, and the local CJC office is facing serious losses.

The National Cotton Conference held on September 20 announced that, effective that date, the floor price for

cotton procurement would be set at 12.35 RMB/kg (USD0.678/lb) for provinces other than Xinjiang. Xinjiang set its own floor prices at 11.4RMB/kg (USD0.627/lb) for average upland cotton and 13.68RMB/kg (USD0.75/lb) for long staple cotton.

Procurement

Structural adjustments in the Chinese textile industry, in which more than 20 million outmoded spindles were destroyed, caused a drop in domestic consumption of cotton. CJC's cotton procurement between 1995 and 1997 reportedly totaled 9.34 MMT, but sales during the same period were only 5.43 MMT, about 58 percent of the procurement. 1997 was the year in which China purchased the most cotton while selling the least. According to the Chinese Co-op Times, the surplus cotton accumulated by the ACFSMC system reached 1.9 MMT by the end of August 1998—1.1 MMT more than the previous year. It is estimated that in MY1998 stocks will continue to grow.

In 1998, the channels for cotton procurement have not changed. Procurement, cotton ginning, marketing and sales continue to be handled by ACFSMC. ACFSMC officials acknowledge that many of their local CJC facilities have been experiencing difficulties with cotton procurement this year because of the government's new cotton policy. Starting next year, no government controls will be imposed on the cotton procurement price. At the same time, the ACFSMC will no longer be the only source for purchasing and ginning cotton. Local private companies will be allowed to gin and pack cotton. In many provinces, such as Henan, Anhui and Hubei, some companies have already started to purchase cotton directly from the farmers, and some locally run facilities have started to gin and pack the cotton. In order to keep things under control, ACFSMC has announced that it is taking measures to fight such illegal activities.

Consumption

In 1998 cotton supply still exceeds demand. According to Cotton & Jute sources, the government's estimate for domestic consumption in 1998 is 3.6 million MT of cotton including spinning, wadding, waste and farmers' household use. (This number does not include military and hospital use, which may range between 250 to 500 thousand MT). The decline in domestic consumption of cotton is the result of textile industry reforms, a decline in the domestic textile market, and sluggish exports caused by the Asian financial crisis. After confirmation of the amount for domestic consumption with officials at Cotton and Jute Corporation, Post has lowered the 1998 domestic consumption to 3.9 million MT since, historically, the government's consumption estimate has always been lower than actual consumption.

Xinjiang Uygur Autonomous Region is estimated to have a total cotton production of 1.25 million metric tons, about one third of the nation's total cotton production of 4 million tons. By encouraging exports of Xinjiang cotton, restricting imports and controlling cotton planted area, China hopes to reduce its surplus stocks in a few years. Also, in 1996 the Xinjiang Regional State Farm Cooperatives' Cotton & Jute Corporation found a way to sell their cotton by establishing the Qingdao Textile Supply Market in Shandong province. In the first half of 1998, Xinjiang had already supplied to Qingdao one seventh of their cotton for textile use.

Trade

The Asian financial crisis has made exporting both cotton and cotton textile products very difficult. Since 1998, as textile exports declined, China has reduced its cotton imports dramatically. According to China's Custom statistics, imports in the first three quarters of this year decreased 61.5, 70.0 and 84.7 percent respectively from the same period of 1997.

The government has adopted a policy of encouraging cotton exports by cutting the VAT by 11 percent. The government is also making a concerted effort to export cotton from Xinjiang, since both the price and quality of Xinjiang cotton are more competitive in the international market than cotton from other areas of China. China's cotton exports are forecast to be nearly 12 times the level of 1997. Despite rumors of massive export sales of Xinjiang cotton, CJC sources only confirmed less than 1,000 MT of new crop sales since October this year.

Tax evasion on imports is a major problem in China. Normally, a 17 percent VAT is assessed on all imported cotton, in addition to a 3 percent tariff. Cotton that is used to manufacture items for re-export however, receives a rebate on the VAT, effectively making the cotton cheaper. Many of the enterprises which import cotton for processing and then re-export have not actually been exporting finished products. Since their imported cotton has cost less, the cost of their finished products have been cheaper than those produced using domestic cotton. The Chinese government has been losing money from this kind of tax evasion for years, but recently various measures have been taken to discourage tax evasion on imported products, including more careful tracking of re-exports and tighter foreign exchange controls. Even stricter import regulations are reportedly under consideration by relevant government offices such as MOFTEC to insure that tariffs and taxes are properly paid.

Policy

Over the past two years, China's cotton supply has exceeded demand and the domestic market has remained sluggish. To alleviate the pressure caused by the large surplus, the central government has adopted a number of stopgap policies including increasing stocks, subsidizing sales, encouraging exports, controlling imports, and adjusting procurement prices.

China's beleaguered state cotton monopoly, the Cotton & Jute Corporation (administered by the government's All China Federation of Supply & Marketing Cooperatives –ACFSMC) is in some respects typical of China's undiversified, single-industry state-owned enterprises (DOES). In the past, as China's cotton production steadily grew, marketing and distribution remained under the strict control of the central government. While international cotton prices steadily declined, China's policy of government-guided procurement and marketing failed to keep pace, and domestic procurement and sales prices remained unrealistically high. Although procurement prices were finally brought down in April 1998 the reductions were very small compared to the gap between procurement and world market prices, and it was too late to offset the heavy financial losses which the nationwide network of the Cotton and Jute Corporation (CJC) had already sustained due to sluggish sales. The new gap between procurement and sales prices has itself caused the government a loss of RMB2.9/kg (USD0.16/lb) to RMB3.5/kg (USD0.19/lb). According to ACFSMC's publication, the China Co-op Times, current domestic cotton selling prices are between RMB13.6/kg (USD0.747/lb) and RMB14.2/kg (USD0.78/lb).

As of the end of July 1998, Cotton & Jute Corporation reported a total loss of USD72.55 million, and further losses are likely. China's textile industry, which has not escaped the international impact of the Asian financial crisis, owes CJC huge sums of money. According to the "China Co-op Times," textile enterprises nationwide owe CJC about USD 1.69 billion. Since many textile mills have already gone bankrupt, CJC will be hard-pressed to recover those debts.

Under these pressures, in previous years local CJC branches resorted to giving farmers IOUs in exchange for cotton or to refusing to buy cotton from farmers. The CJC's financial crisis has now deepened to the point that it is cutting large numbers of personnel, and many of its local branch offices (such as those in Hubei Province) cannot afford to issue their employees' salaries. According to the CJC Beijing, the organization has already cut about 130,000 employees from the total of more than 600,000, and is planning reductions of another 200,000 in the next three years. The people who were removed from the organization have not become unemployed, but rather have been transferred to other areas of the industry.

The National Cotton Conference held on September 20 announced that there would be no limits to the quantity (or crop year) of cotton purchased by Cotton and Jute. This in effect requires local branches of the Cotton & Jute Corporation to purchase whatever amount farmers want to sell. The announcement also allows local Cotton & Jute branches nationwide to absorb the difference between the previous procurement price and current sales price as a subsidy to the farmers. The government has already allocated several billion RMB to local Cotton & Jute branches to prevent the procurement price from further declining. Sichuan Province even announced that the provincial government would provide a subsidy to farmers of 15 RMB for each *dan* (50kg) of cotton they sell to the government. This subsidy amounts to RMB300/MT, as compared to the procurement price of RMB12,350/MT.

Post is preparing an in-depth report on changes in China's cotton production and marketing policies and their implications for world and U.S. cotton trade.

Tables

Table 1. Cotton Production, Supply and Distribution

PSD Table						
Country:	China, Peoples Republic of					
Commodity:	Cotton					
		1996		1997		1998
	Old	New	Old	New	Old	New
Market Year Begin		08/1996		08/1997		08/1998
Area Planted	4722000	4722000	4530000	4530000	4330000	4397000
Area Harvested	4722000	4722000	4530000	4530000	4300000	4250000
Beginning Stocks	2965896	2965896	3378199	3378199	4071483	4071483
Production	4200000	4200000	4600000	4600000	4000000	4000000
Imports	786566	786566	399321	399321	250000	250000
TOTAL SUPPLY	7952462	7952462	8377520	8377520	8321483	8321483
Exports	2263	2263	6037	6037	120000	120000
USE Dom. Consumption	4572000	4572000	4300000	4300000	4200000	3900000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	4572000	4572000	4300000	4300000	4200000	3900000
Ending Stocks	3378199	3378199	4071483	4071483	4001483	4301483
TOTAL DISTRIBUTION	7952462	7952462	8377520	8377520	8321483	8321483

Table 2. Cotton Monthly Imports

CHINA'S MONTHLY COTTON IMPORTS (Metric Tons)						
	1994	1995	1996	1997	1998	
January	485	52,378	44,234	94,204	34,185	
February	2,323	80,354	52,709	68,760	23,333	
March	9,129	94,406	118,153	71,475	32,658	
April	17,209	99,910	125,847	83,855	32,397	
May	14,156	92,405	37,567	77,539	21,936	
June	75,599	94,842	40,056	73,566	14,974	
July	65,962	29,460	27,400	81,682	11,375	
August	93,220	51,840	34,567	52,698	7,532	
September	78,669	45,168	38,354	40,474	7,953	
October	62,554	38,334	57,097	43,390	10,883	
November	46,706	29,776	41,819	38,300		
December	58,972	51,850	63,648	53,601		
JAN-DEC TOTAL	524,984	760,723	681,451	779,544	197,226	
MY TOTAL	(94/95)	(95/96)	(96/97)	(97/98)	(98/99)	
AUG-JUL TOTAL	883,876	662,934	786,566	399,321	26,368	
01/1/ to date	Source: China Customs					
HS Code: 5201.0000, 5203.0000						

CHINA'S MONTHLY COTTON IMPORTS (480 Pound Bales)						
	1994	1995	1996	1997	1998	
January	2,228	240,572	203,167	432,679	157,012	
February	10,670	369,066	242,092	315,815	107,168	
March	41,929	433,607	542,677	328,285	149,998	
April	79,041	458,887	578,015	385,146	148,799	
May	65,019	424,416	172,545	356,137	100,752	
June	347,226	435,609	183,977	337,889	68,776	
July	302,963	135,310	125,848	375,165	52,245	
August	428,159	238,101	158,766	242,042	34,594	
September	361,327	207,457	176,160	185,897	36,528	
October	287,311	176,068	262,247	199,290	49,986	
November	214,521	136,761	192,075	175,912	0	
December	270,858	238,147	292,335	246,189	0	
JAN-DEC TOTAL	2,411,252	3,494,001	3,129,904	3,580,446	905,859	
MY TOTAL	(94/95)	(95/96)	(96/97)	(97/98)	(89/99)	
AUG-JUL TOTAL	4,059,642	3,044,856	3,612,698	1,834,081	121,108	1/

Table 3. Cotton Monthly Exports

CHINA'S MONTHLY COTTON EXPORTS (Metric Tons)						
	1994	1995	1996	1997	1998	
January	4,692	1,089	470	0	11	
February	12,875	10,021	0	0	0	
March	17,720	1,206	5	11	513	
April	9,182	0	410	10	293	
May	16,422	2,106	274	0	0	
June	18,777	4,874	910	182	472	
July	11,621	1,075	1,113	620	4,080	
August	8,187	692	701	234	10,336	
September	3,904	0	262	142	4,642	
October	1,793	5	477	120	3,473	
November	3,820	0	0	172		
December	1,790	670	0	0		
JAN-DEC TOTAL	110,783	21,738	4,622	1,491	23,820	
	(94/95)	(95/96)	(96/97)	(97/98)	(98/99)	
AUG-JUL TOTAL	39,865	4,549	2,263	6,037		
01/1/ to date		Source: China Customs				
HS Code: 5201.0000, 5203.0000						

CHINA'S MONTHLY COTTON EXPORTS (480 Pound Bales)						
	1994	1995	1996	1997	1998	
January	21,550	5,002	2,159	0	51	
February	59,135	46,026	0	0	0	
March	81,388	5,539	23	51	2,356	
April	42,173	0	1,883	46	1,346	
May	75,426	9,673	1,258	0	0	
June	86,243	22,386	4,180	836	2,168	
July	53,375	4,937	5,112	2,848	18,739	
August	37,603	3,178	3,220	1,075	47,473	
September	17,931	0	1,203	652	21,321	
October	8,235	23	2,191	551	15,951	
November	17,545	0	0	790	0	
December	8,221	3,077	0	0	0	
JAN-DEC TOTAL	508,826	99,843	21,229	6,848	109,405	
	(94/95)	(95/96)	(96/97)	(97/98)	(98/99)	
AUG-JUL TOTAL	183,100	20,894	10,394	27,728		

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