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Report Highlights:

Marketing year (MY) 23/24 cotton imports are forecast at 1.8 million metric tons (MMT) on higher domestic demand for textile and apparel products and higher spinning demand. Production for MY 23/24 is forecast at 6.1 MMT on declining planted area in Xinjiang. Production for MY 22/23 is raised to 6.4 MMT on higher planted area in Xinjiang that was spurred by domestic cotton prices exceeding the target price-based subsidy in place during the planting season.

Executive Summary:

Cotton production for MY 23/24 is forecast at 6.1 MMT compared to an estimated 6.4 MMT in MY 22/23. Reported volumes of ginned and classified cotton in Xinjiang indicate high domestic cotton prices exceeded the target price-based subsidy during the MY 22/23 planting season and led to increased planted area in the region.

The People's Republic of China (PRC) subsidy for Xinjiang cotton is expected to remain at 18,600 yuan/MT (\$2,660/MT) in MY 23/24.

Cotton consumption for MY 23/24 is forecast at 8 MMT on lower production, higher domestic demand for textile and apparel products following the end of zero-COVID restrictions announced in December 2022, and a declining trend in yarn imports. MY 22/23 consumption is forecast slightly higher at 7.8 MMT on lower prices and rebounding spinning demand in the second half of the year.

Cotton imports are forecast to increase to 1.8 MMT in MY 23/24 from an estimated 1.4 MMT in MY 22/23 on higher spinning use to meet textile and apparel demand, lower domestic cotton production, and a continuing supply gap. The U.S. remained China's largest supplier of cotton in 2022, exporting 1.2 MMT valued at nearly \$2.9 billion.

Cotton stocks are forecast to fall to 7.9 MMT in MY 23/24 from an estimated 8 MMT in MY 22/23.

Production

Cotton production is forecast at 6.1 MMT in MY 23/24, down 4.7 percent from an estimated 6.4 MMT in MY 22/23. Lower production is based on reduced planted area of 3.05 million hectares (MHa), a modest 1.6 percent decline due to lower prices and profits in MY 22/23, and a three-year average yield. PRC officials have indicated the target price-based subsidy for Xinjiang cotton of 18,600 yuan/metric ton (MT) (\$2,660/MT) will continue in MY 23/24, likely preventing a steeper decline in area. Production for MY 22/23 is increased to 6.4 MMT on higher area and yields driving Xinjiang production to 5.95 MMT.

Several official data sources provide insight on China's cotton production¹. The National Bureau of Statistics (NBS) publishes annual data on cotton area, yield, and production. According to NBS, total cotton production for MY 22/23 is 6 MMT based on planted area of 3 MHa and a yield of 1,992 Kg/Ha. Of this, Xinjiang production is 5.4 MMT, about 91 percent of total production.

The China National Cotton Exchange (CNCE), an official organization which operates a trading platform and whose members include ginners, publishes regular data on ginned cotton volumes. As of March 14, MY 22/23 Xinjiang cotton ginned volume reached 6 MMT cumulatively, up 13.1 percent from the previous year. Of the total, 2.2 MMT was produced by the Xinjiang Production and Construction Corp (XPCC) and 3.8 MMT was produced by non-XPCC farms, both up 8.9 percent and 16.1 percent, respectively, from the previous year.

Another official source of data is the China Fiber Inspection Bureau (CFIB). The CFIB classifies Chinese cotton by grade and plays a key role in standardizing packaging and labeling of baled cotton. As of March 26, CFIB data show total classified MY 22/23 Xinjiang cotton at approximately 6 MMT and classified cotton for other areas at 103,000 MT. Classified volumes are a lagging indicator and as such the volume allotted to Xinjiang is expected to increase.

As noted in Table 1 below, a comparison of these sources shows some disparity in production by area and source.

Table 1. China: Comparison of CFIB Classified and NBS Production Number
(in 1,000 MT)

	MY19/20		MY 20/21		MY 21/22		MY22/23	
	Xinjiang	Others	Xinjiang	Others	Xinjiang	Others	Xinjiang	Others
CNCE	NA	NA	5,781**	NA	5,310**	NA	6,124**	NA
CFIB	5,293		5,920		5,431		6,101*	
Classified volume	Xinjiang	Others	Xinjiang	Others	Xinjiang	Others	Xinjiang	Others
	5,131	162	5,768	153	5,307	125	5,999	103
NBS Final Production	5,889		5,910		5,731		5,997	
	Xinjiang	Others	Xinjiang	Others	Xinjiang	Others	Xinjiang	Others
	5,000	889	5,161	749	5,129	602	5,391	606

¹ The Ministry of Agriculture and Rural Affairs (MARA), through its China Agricultural Supply and Demand Estimate (CASDE), publishes monthly data on cotton area, yield and production; however, on an annualized basis MARA data will align with NBS data.

Source: NBS and CFIB; * CFIB classified volume as of March 26, 2023; **Data as of Mar 28, 2021; Apr 6, 2022, and Mar 26, 2023, respectively, from sources citing from CNCE. Final ginned volume for 2021 and 2022 is not available publicly.

In assessing Xinjiang cotton production, CNCE and CFIB data may be more reliable than NBS. CNCE data likely reflect cotton produced in all areas of the region, including underreported marginal lands that may not get counted in NBS area figures. Since nearly all Xinjiang cotton is classified, a necessary step for transport outside the region and for receiving a transport subsidy (see Subsidy section below), CFIB data on classified cotton may also offer a better data point on the region’s total production.

Conversely, relatively small volumes of cotton produced in other regions is classified, making CFIB a poor indicator of production outside of Xinjiang. Additionally, some farmers in these regions may sell cotton to cooperatives or mills that aren’t reporting their ginned volumes to CNCE. For this reason, NBS data may be considered a more accurate source for production data outside of Xinjiang; though various industry sources suggest NBS area data in other provinces are likely inflated.

As shown in Table 2, government and industry estimates for planted area and cotton production continue to vary, though historically they have differed to a greater degree in their estimates. The more closely aligned production and area estimates in recent years are likely due to higher concentration of production in Xinjiang, higher CFIB classification rates, and improved data collection due to requirements under the region’s subsidy program. Official and industry estimates for MY 22/23 production range from 6 MMT (NBS) to 6.7 MMT by Beijing Cotton Outlook Co. (BCO).

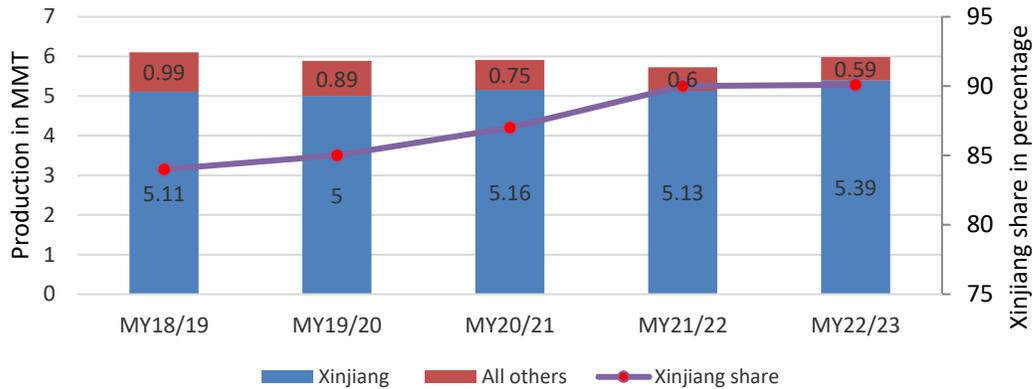
Table 2. China: Cotton Production (MMT) and Area (MHa) Estimates/Forecasts

	CCA		NCMMN		BCO		MARA/NBS	
	Area	Production	Area	Production	Area	Production	Area	Production
MY20/21	3.05	5.92	3.05	5.95	2.91	6.33	3.17	5.91
MY21/22	2.9	5.77	3.03	5.8	2.8	5.83	3.03	5.73
MY22/23	2.9	6.18	2.95	6.14	2.83	6.74	3.0	5.98
MY23/24			2.85		2.79	6.15		

Sources: China Cotton Association (CCA), National Cotton Market Monitoring Network (NCMMN), Ministry of Agriculture and Rural Affairs/March Report (MARA), China’s National Bureau of Statistics (NBS), BCO is Beijing Cotton Outlook Co.

Xinjiang’s share of China’s cotton production continues to grow, reaching 90.1 percent in MY 22/23, up from the 89.5 percent the previous year, according to NBS data. Some industry sources put Xinjiang’s share even higher. CCA, for example, estimates Xinjiang’s share of production at 92.9 percent. Xinjiang has benefitted from a target-price subsidy since 2020, transportation subsidies, and scale farming that results in considerably higher yields compared to other growing regions. Outside of Xinjiang, cotton farmers are disadvantaged in terms of government subsidies and cotton planting is mainly confined to small plots with little mechanization, resulting in higher production costs and lower yields.

Chart 1. China: Cotton Production by Region
(MY 18/19 to MY 22/23)



Source: NBS

Planted Area

Planted area for MY 23/24 is forecast at 3.05 MHa, down 1.6 percent from the previous year on decreased cotton prices and profits. Planted area for MY 22/23 is raised to 3.1 MHa based on CNCE reported ginned volumes and CFIB reported classified volumes for Xinjiang. Post’s forecast planted area for MY 23/24 is comprised of 2.55 MHa in Xinjiang and 500,000 Ha in all other production areas.

According to the China Cotton Association (CCA), as of the end of January 2023, the MY 22/23 seed cotton selling price was 18 percent lower than the previous year. Despite a moderate yield gain, CCA estimates a significant drop in cotton profits in MY 22/23 due to decreased cotton prices and increased production costs. Cottonchina.org.cn estimated that without subsidies, the average MY 22/23 cotton returns in Xinjiang of 10,320 yuan/Ha (\$1,474/Ha) were below production costs. Such hypothetical losses become more striking when compared to the previous year when average returns in Xinjiang reached 22,560 yuan/Ha (\$3,222/Ha), well above the floor price under the regional subsidy scheme.

Although no official announcement has been published, PRC officials have indicated the government’s target price-based direct subsidy to cotton farmers in Xinjiang will continue in MY 23/24. The target price was set at 18,600 yuan/MT (\$2,660/MT) for three years starting from MY 20/21. In February 2023, the PRC released its [No.1 Document](#), an annual policy document focused on agriculture and rural development. The document states the government will “optimize the cotton direct subsidy policy” in 2023; an early indication that the current subsidy policy would continue.

Several recent surveys on MY 23/24 cotton planting intentions point to a moderate decline in total planted area. Based on its February survey, CCA forecasts MY 23/24 cotton area down 3.7 percent from the previous year, as compared to a 1 percent fall in its December survey. Specifically, the survey indicates MY 23/24 area planting intention for Xinjiang, the Yellow River region and the Yangtze River region declined by 0.5 percent, 17.8 percent and 30.3 percent, respectively, from the previous year. A separate leading industry source forecast MY 23/24 cotton area planting intentions down 3.5 percent from the previous year with Xinjiang, the Yellow River and the Yangtze River regions down 1.7 percent, 11 percent and 15 percent, respectively. A March survey conducted by Cottonchina.org.cn

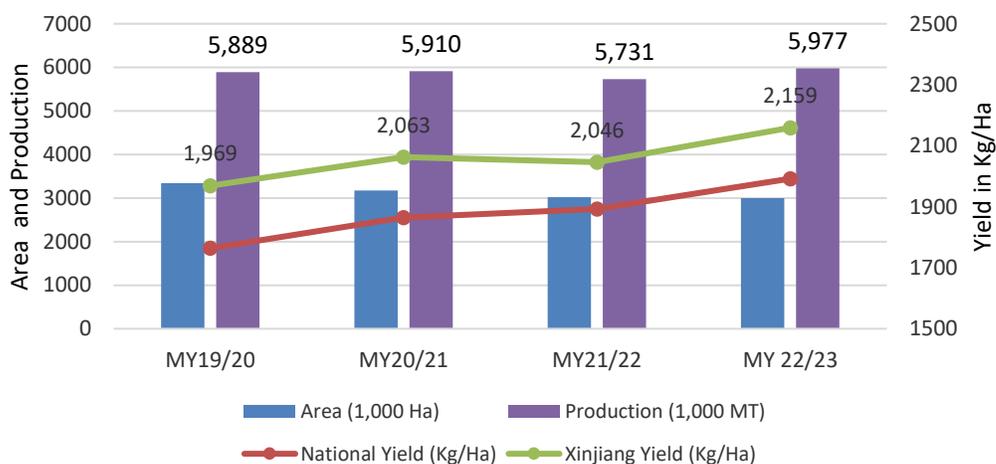
reported MY 23/24 cotton planting intentions down by 2.8 percent with Xinjiang intention down 2.3 percent from the previous year.

All sources attribute the lower MY 23/24 planting intentions to a combination of increased production costs, and lower prices and profits for seed cotton in MY 22/23. The generally stable planting intention in Xinjiang reflects the role of the PRC’s subsidy policy in the region (see Subsidy section below). The combined planted area of the Yellow River and the Yangtze River regions accounts for only about 16 percent of total area. In addition to declining prices and profits, the forecasted drop in area in these two regions reflects higher labor costs due to a lack of scale farming and mechanization. Some small-holder farmers may also expand plantings of corn or soybean. These are often planted alongside cotton in some regions and also receive subsidies.

Yield

Post forecasts MY 23/24 cotton yield at 2,000 Kg/Ha based on a three-year average. According to NBS, cotton yields reached 1,992 Kg/Ha in MY 22/23 with higher yielding Xinjiang cotton reaching 2,159 Kg/Ha. Cotton yield estimates continue to vary by source depending on planted area and production estimates. In recent years, most sources indicate yields have increased along with Xinjiang’s rising share of planted area.

Chart 2. China: Cotton Area, Production, and Yield
(MY19/20 to MY22/23)



Source: NBS

Xinjiang’s higher yields compared to the national average demonstrate the region’s advantageous environment, scale farming, and high rates of mechanized harvest. Although Xinjiang farms under the umbrella of the XPCC have a higher rate of mechanization than non-XPCC farms, higher labor and other production costs have pushed the entire region to accelerate mechanization. The Xinjiang provincial government has stated a goal of raising machine harvest rates for cotton to above 83 percent in 2023 from the 80 percent in 2022.

Post estimates official data on Xinjiang’s yield may be overestimated due to PRC subsidy policy. Periods of high cotton prices incentivize expansion onto marginal and lower yielding lands. Official

ginned and classified volumes in the region suggest farmers are likely underreporting planted area (see Subsidy section below). Cotton yield in all other production areas outside of Xinjiang remains low.

PRC Cotton Subsidies

PRC subsidies for cotton production are a critical component of the government’s strategy to ensure a significant share of the cotton utilized by the world’s largest spinning and downstream textile and fabric manufacturing sector originates in China. The subsidies also serve the purpose of ensuring stable income to millions of cotton farmers, especially in Xinjiang. PRC cotton subsidies can generally be divided into two categories: Xinjiang and other provinces. The broad outlines of the subsidies provided to Xinjiang cotton are generally understood in terms of scope and purpose. Subsidies provided to other provinces are less clear, as these appear to be applied at provincial and sub-provincial levels and involve much lower amounts.

Xinjiang Subsidy

A target price-based subsidy for Xinjiang cotton was established in MY 17/18 (see GAIN report [CH18014](#)). In late March 2020, the PRC announced an extension of the program for three years, from MY 20/21 through MY 22/23, with a fixed target price of 18,600 yuan/MT (\$2,650/MT). At a recent international cotton conference in Beijing, an official from Xinjiang stated the current subsidy policy would be extended.

Cotton subsidy payments are distributed directly to farmers by local government offices, usually between November and March. In MY 21/22, no subsidies were paid due to the average selling price of cotton remaining above the minimum subsidy price. In MY 22/23, the price index (CC Index 3128B) average selling price in the first 7 months was 15,500 yuan (\$2,220/MT). Based on NSB’s production number for Xinjiang, total MY 22/23 subsidy payout for the region is expected to be approximately 16.7 billion yuan (\$2.4 billion).

Table 3. China: Target Price-based Subsidy Payouts

Province	MY19/20	MY20/21	MY21/22	MY22/23
Xinjiang, (yuan and USD in billion)	13.7 (\$1.99)	19.6 (\$2.8)	0	16.7 (\$2.4)

Source: NBS production data and FAS/Beijing estimates

The target price-based subsidy program for Xinjiang stipulates a maximum annual volume of 5.47 MMT² as eligible for the subsidy. NBS data for MY 22/23 indicates Xinjiang cotton production at 5.4 MMT. Since Xinjiang production has not yet reached the subsidy cap volume, the incentive remains for farmers to increase planted area, especially when prices are high. Since most suitable land for planting has already been utilized, opportunistic planting predominately occurs on marginal lands. Since the government generally discourages expanded planting on less productive lands as a way to save resources, including water, much of this area is underreported. Any production gained is added to higher yielding areas.

² The cap volume of 5.47 MMT is based on 85 percent of the average national cotton production from 2012 to 2014.

The PRC continues to provide subsidies to transport Xinjiang cotton to mills outside the region. In recent years, the subsidy provided approximately 500 yuan/MT (\$79/MT) for cotton and cotton yarn shipped from Xinjiang to other parts of China. In March, a Xinjiang official indicated the subsidy had been reduced to 300 yuan/MT to support the development of the spinning industry in Xinjiang. The subsidy is based on transport records or bills of lading certified by government agencies. Payments are typically provided to the enterprises the following year.

Subsidy for Other Provinces

An [article](#) published by [cncotton.com](#) on February 14, 2023 describes PRC cotton subsidies for other than Xinjiang as follows:

"From MY2014/15, the subsidy rate is 2,000 yuan/MT, and the subsidy amount per MT in the following years will be calculated based on 60 percent of Xinjiang's target price subsidy standard, with an upper limit of 2,000 yuan/MT." The central government subsidizes these cotton-producing provinces based on the cotton production data determined by the National Bureau of Statistics. The subsidy method is determined by each province independently, and it can choose to subsidize by area or by production."

Thus, the central government provides the funds to provincial authorities, who develop their own plans to distribute payments in their respective provinces, which may include additional local-level subsidies. Official reports regarding the distribution of the subsidy payments are not readily available. However, total payments to farmers in other regions are understood to be significantly lower than their Xinjiang counterparts.

Xinjiang Production Costs for MY22/23

A recent Cncotton.com survey showed that non-XPCC and XPCC costs for machine harvested cotton production in MY 22/23 increased significantly from the previous year.

Table 4. China: MY 22/23 Xinjiang Cotton Production Costs Increased

MY22/23 Change vs MY21/22 in %	Production Costs (self- owned land)	Production Costs (rented land)	-- Fertilizer	-- Pesticide	--Seeds	--Field operation	-- Machine operation
PCC	+7.1	+17.4	+12	+20.2	NA	+10.2	+3
Non-PCC	+11	+19	+16.2	+12.5	+11.9	NA	+7.4

Source: [cncotton.com](#)

Consumption

Cotton consumption for MY 23/24 is forecast at 8 MMT on expected higher domestic and overseas demand for textile and apparel products. Post raises forecasted MY 22/23 consumption to 7.8 MMT on competitive domestic cotton prices bolstering domestic spinning and higher domestic demand for textile and apparel products in the latter half of marketing year following the end of zero-COVID restrictions.

Based on an average of industry estimates, cotton use for MY 22/23 is expected to reach 7.6 MMT, an average increase of about 0.3 MMT or 3.7 percent from MY 21/22. MARA remains an outlier, forecasting 7.5 MMT of use in MY 22/23, down from a comparatively high 7.9 MMT in MY 21/22.

Table 5. China: Cotton Use and Imports in MY 21/22 and MY 22/23

	CCA		MARA		BCO		cncotton.com	
	MY21/ 22	MY22/ 23	MY21/ 22	MY22 /23	MY21 /22	MY22 /23	MY21 /22	MY22 /23
Consumption	7.3	7.6	7.9	7.5	7.38	7.65	7.3	7.55
Imports	1.73	1.7	1.73	1.85	1.74	1.55	1.73	1.9
Ending stocks	8.32	8.57	7.13	7.43	5.81	6.45	5.29	5.75

Note: Of the referenced sources, only the Beijing Cotton Outlook (BCO) provides a forecast for MY 23/24 cotton consumption at 7.7 MMT, imports at 1.8 MMT and ending stocks at 6.7 MMT.

The rapid and unforeseen removal of the PRC’s zero-COVID policy in December 2022, along with mass outbreaks that lasted well into the Spring Festival holiday in January 2023, provide a clear dividing line for assessing MY 22/23 consumption. At the time of this report, most available data ends in 2022 or January 2023. The PRC’s reported 2022 GDP growth slowed to 3 percent, mainly due to pandemic related restrictions. Slower growth affected spinning operations and dampened consumer demand for textile and apparel products throughout the first half of MY 22/23.

According to NBS, 2022 yarn and fabric production reached 27.2 MMT and 46.8 billion meters, down 5.4 percent and 6.9 percent, respectively, from 2021. A CCA report indicates yarn production continued to decline in January 2023, down 7.3 percent year-on-year and down 10.5 percent from December 2022. The same report noted January fabric production declined 8.8 percent year-on-year and 12.7 percent from December 2022. A separate industry source estimated an even steeper decline in yarn production of 6.8 percent in the first half of MY 22/23. According to the PRC’s Ministry of Industry and Information Technology, production of garments in 2022 decreased 3.4 percent from the previous year, and output value and profits for monitored garment enterprises were down 4.6 percent and 6.3 percent, respectively, compared to 2021.

Chart 3. China: Yarn and Fabric Production, 2018 - 2022



Source: NBS

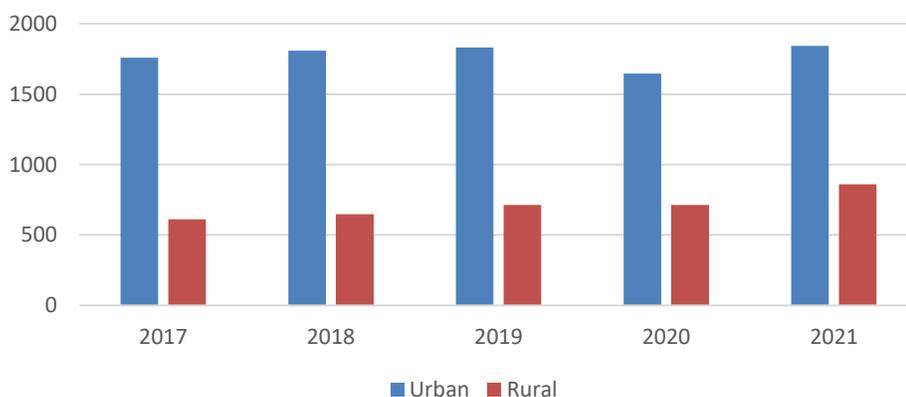
Despite the challenges, there were some positive developments in 2022. NBS data show total textile and apparel exports reached \$323.3 billion in 2022, up 2.6 percent from the previous year. NBS also shows fixed asset investment in the textile and apparel industries was up 4.7 percent and 25.3 percent, respectively, from the previous year. The increased investment has shifted the center of production to central and west China from the eastern provinces. Henan Province received the most investment and has become one of the largest textile and apparel manufacturing areas in China. According to industry, China's spinning capacity stands at about 110 million spindles, accounting for over half of global capacity. China's [The 14th Five-Year Development Guidance for Cotton Textile Industry \(2021-2025\)](#) noted plans to reduce the number of spindles to 100 million by 2025.

Domestic Textile and Apparel Demand

Following the removal of pandemic related restrictions, economic growth is expected to rebound to approximately five percent in 2023. Growth is expected to drive urbanization, a key factor for increased domestic textile and apparel consumption. China's urbanization continued in 2022, though at a slower rate than previous years, with net increase of 6.5 million residents to cities compared to the 12 million in 2021. Per capita spending on clothing by rural citizens was only 46.7 percent that of the urban populations in 2021.

Domestic demand for textile and apparel products is expected to recover in the second half of MY 22/23 and MY 23/24, increasing cotton use. Weak GDP growth in 2022 led to slower growth in disposable income and a slowdown in consumer expenditures with total sales of apparel, shoes, hats and knitting products declining 6.5 percent from the previous year. Average per capita clothing expenditure of 1,365 yuan in 2022 (NBS), was down from 1,419 yuan in 2021. (Chart 4 below is provided for historical reference on per capita urban and rural clothing expenditures. Data specific to 2022 has not yet been released).

Chart 4. China: Per Capita Consumption Expenditures for Clothing



Source: NBS

[China's 14th Five-Year Textile Industry Development Plan](#) (link in Chinese) divides China's fiber consumption into three product groups: garments, home textile, and industry. Consumption in each category is expected to be 38 percent, 27 percent, and 35 percent, respectively, in 2025.

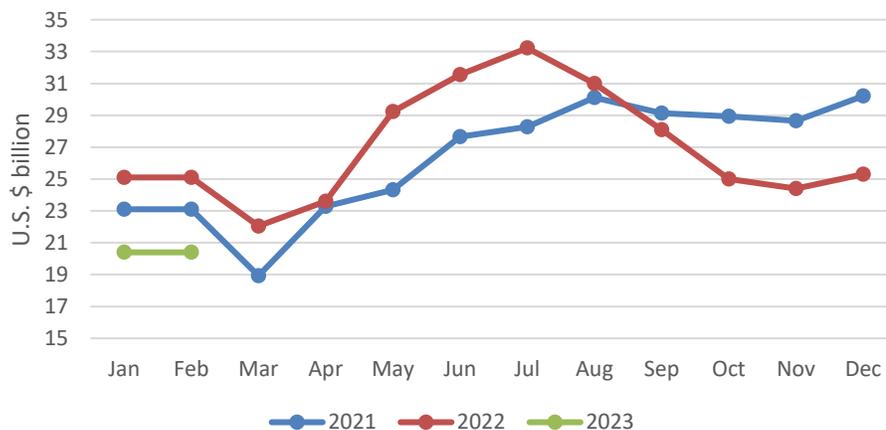
Textile and Apparel Exports

Chinese industry insiders are increasingly concerned weak exports may continue for the rest of MY 22/23 and beyond. In an industry survey, approximately 70 percent of export-oriented enterprises reported fewer orders in March 2023 than last year. However, over 70 percent expect a recovery in demand for textile and apparel products in 2023. China's media have reported stacks of idle containers at major ports since late 2022 - indicating weak exports generally. Chinese industry sources believe the weak order book reflects a slow recovery in global demand, and a gradual shift of orders from the United States and EU to other regions including ASEAN and India. It also reflects lower global demand for personal protective equipment (PPE).

The Xinjiang cotton issue (see the following section - U.S. Restrictions on Xinjiang Cotton) may further cut into China's textile and apparel exports. In mid-October 2022, 44 percent of surveyed enterprises replied that the U.S. law significantly affected business. Hesitation to accept orders for the U.S. and EU makes it more likely the orders will be filled in Southeast Asian countries. Industry data show Vietnam's textile and apparel exports hit U.S.\$ 44 billion in 2022, up 8.8 percent from the previous year.

Textile and apparel exports declined starting in September 2022 and hit bottom in December - when exports of textiles and apparel were 22.9 and 10.1 percent lower, respectively, then in December 2021. The decline continued in the first 2 months of 2023, with combined textile and apparel export value at \$40.8 billion, down 18.5 percent from the previous year. Textile and apparel exports fell 22.4 percent and 14.7 percent, respectively, from the previous year.

Chart 5. China: Textile and Apparel Export Value Fell from September 2022

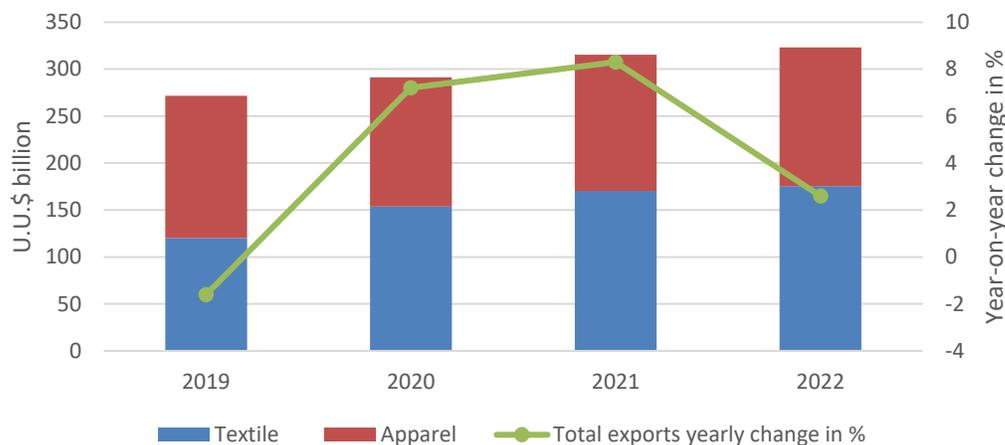


Source: China's Customs Statistics; Note: The data for Jan and Feb is the average based on the combined data for Jan and Feb by the Customs

NBS reported total textile and apparel exports at \$323.3 billion in 2022, up 2.6 percent from the previous year. In value terms, exports of textile and apparel were \$147.9 billion and \$175.4 billion in 2022, respectively - increases of 2 and 3.2 percent from the previous year. However, export volume likely decreased given generally higher unit prices. For example, industry data show that despite a 4.4

percent and 9.5 percent increase of export value, export quantity/unit of knitting garments and woven garments declined 2.3 percent and 3.4 percent, respectively, in 2022.

Chart 6. China: Textile and Apparel Export Growth Slowed in 2022



Source: China's Customs Statistics

In 2022, combined apparel exports to the three largest markets, the United States, EU, and Japan, reached \$86.3 billion or 49.2 percent of market share, a slight decline in value from 2021. Industry sources indicate China's apparel export to the United States stood at \$38.3 billion, down 3 percent from 2021. Apparel exports to the United States and EU have declined since September and October 2022, respectively. China's exports of home textile products declined 3.7 percent in 2022, with exports to the United States and EU down 12.1 percent and 10.2 percent, respectively, year over year.

Yarn Imports

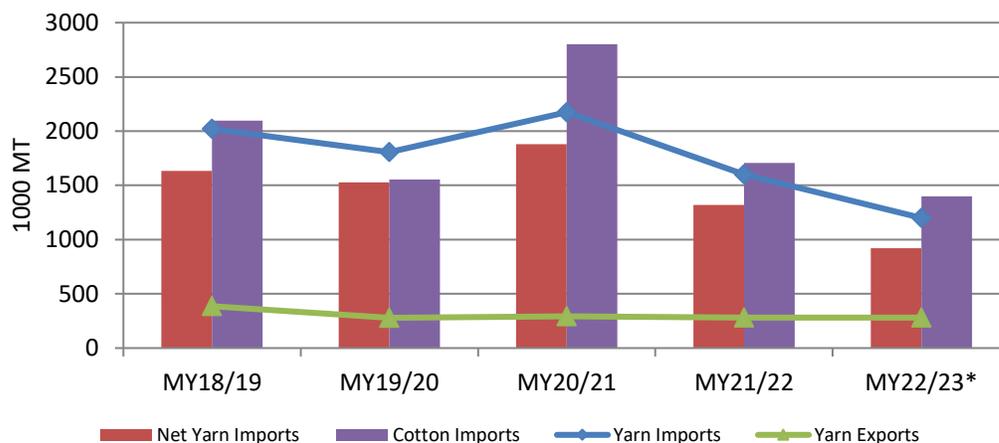
The significant decline in cotton prices since mid-2022, along with weak downstream demand, have given domestic yarn an advantage over imported yarn. Total yarn imports in the first seven months of MY 22/23 were less than 537,000 MT, 49 percent lower than the previous year. Unlike cotton, yarn imports do not face quota restrictions and serve to fill supply gaps in years when additional cotton quota is not sufficient. Yarn imports typically increase when the price gap between domestic and international cotton expands. As domestic cotton prices declined along with international prices in the second half of MY 22/23, imported yarn prices exceeded those of domestic spun yarn by 600 yuan/MT (\$86/MT) on average. Post estimates MY 22/23 yarn imports will decline to 1.2 MMT from 1.6 MMT the previous year. The reduction in yarn imports (see Chart 7) will facilitate cotton use in MY 23/24.

Vietnam is the largest yarn supplier to China, followed by Pakistan and India. Its market share increased to 49.8 percent in MY 21/22, from 46 percent in MY 20/21. In the first seven months of MY 22/23, despite lower imports, Vietnam continued to be the largest supplier - providing 60 percent of imports. India's yarn exports to China plummeted to about 14,000 MT from 140,000 MT during the same period in the previous year.

Yarn exports are generally stable with yearly exports of less than 300,000 MT since MY 19/20. Yarn exports in the first seven months of MY 22/23 were 162,000 MT, down slightly from the previous year.

Yarn exports could get a boost in the remainder of MY 22/23 as spinning increases because of competitive prices for cotton.

Chart 7. China: Declining Yarn Imports

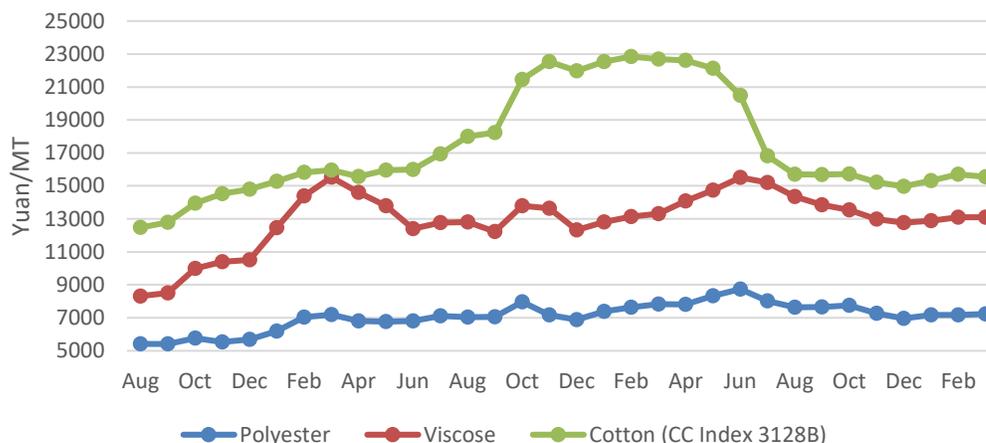


Source: Trade Data Monitor, LLC; *MY22/23 data is FAS China Estimates

Cotton Share in Yarn Production

Cotton is expected to gain share in yarn production in MY 22/23 and MY 23/24 on competitive pricing. The share of cotton in China’s yarn production has been declining in recent years due to high domestic cotton prices and improvements in blending in man-made fibers. This was particularly true in MY 21/22 when the average cotton price (CC Index 3128B) reached 175 percent and 54 percent, respectively, above polyester and viscose fibers. In the first 8 months of MY 22/23, the price gap between cotton and polyester and viscose fibers declined to an average 110 percent and 16 percent, respectively. This decline is expected to incentivize spinning mills to increase cotton inclusion in yarn production. NBS data show total synthetic fiber production reached 67 MMT in 2022, only slight lower than the 67.08 MMT in 2021. This indicates adequate supply of non-cotton fiber for yarn production.

Chart 8. China: Cotton Price Declined in MY 22/23
(China Cotton Price Index 3128 B)



Source: cottonchina.org; Note: Data from August 2020 to 1st Half of March 2023

Trade

Cotton imports are forecast to increase to 1.8 MMT in MY 23/24 from 1.4 MMT in MY 22/23 on higher spinning use to meet textile and apparel demand, lower domestic cotton production, an annual cotton supply gap often exceeding 2 MMT, and high volumes of state reserve sales in 2021. Imports during the first seven months of MY 22/23 were 899,000 MT due to weak demand and higher domestic production at competitive prices.

China’s cotton imports are subject to a tariff rate quota (TRQ) system. Under its WTO accension agreement, 894,000 MT of annual cotton imports are subject to a one percent tariff. Depending on domestic supply and industry demand, the PRC periodically allocates additional quota subject to a sliding duty. Industry contacts report the PRC allocated the entire 894,000 MT TRQ to end-users in January 2023. Based on current availability and lower prices, Post believes it is unlikely the PRC will allocate additional sliding-scale TRQ in the remainder of MY 22/23. Furthermore, were an allocation issued it would likely occur during the second half of the calendar year - precluding significant volumes of imports from arriving before the start of MY 23/24 in August.

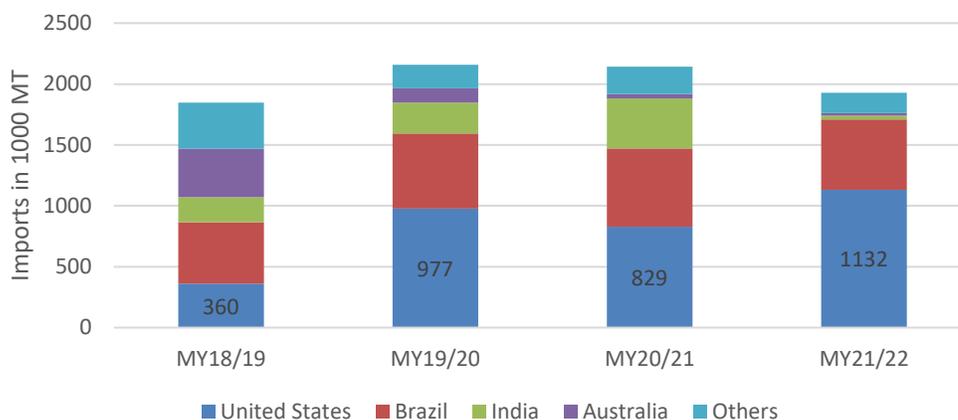
Table 6. China: Issuance of Cotton Import TRQ (2017-2023)

Year	WTO Committed TRQ (MT)	Additional TRQ (MT)*	Distribution Time of Additional TRQ
2017	894,000	0	
2018	894,000	800,000	Jun 2018
2019	894,000	800,000	Apr 2019
2020	894,000	400,000	Sep 2020
2021	894,000	700,000	July 2021
2022	894,000	400,000	Mar 2022
2023	894,000		

Source: Media reports; * TRQ subject to variable tariff import duty

U.S. cotton exports to China strengthened following the PRC’s implementation of a tariff exclusion process for Section 301 retaliatory tariffs on U.S. products beginning on March 2, 2020 (see [GAIN report CH2020-0024](#)). Currently, tariff exclusions continue to be processed for both state-owned and non-state-owned enterprises. Despite China’s weak imports in the first seven months of MY 22/23 (August to February 2023), U.S. cotton exports to China were 438,000 MT, accounting for 48.4 percent of total imports compared to 34 percent during the same period of MY 21/22.

Chart 9. China: Imports of Cotton by Origin (1,000 MT)



Source: Source: Trade Data Monitor, LLC

China exports insignificant volumes of cotton. Higher domestic cotton production in MY 21/22 and lower prices are expected to modestly boost cotton exports to 30,000 MT in MY 22/23. Exports in the first seven months of MY 22/23 reached 18,000 MT with 64 percent destined for Bangladesh and 23 percent to Vietnam. Exports are forecast to decline to 20,000 MT in MY 23/24 on higher domestic consumption and lower stocks.

Stocks

Stocks are forecast to decline to 7.9 MMT in MY 23/24 from an estimated 8 MMT in MY 22/23.

The PRC maintains an unknown volume of state cotton reserves. This poses a challenge in assessing China’s overall cotton supply and demand. The PRC does not publish a public benchmark level for state reserves, nor a clear mechanism for determining when state purchases or sales may occur. Aside from a few published purchasing programs, it is generally unclear when purchases of domestic or imported cotton enter the state reserve as opposed to other channels.

In response to surging cotton prices and higher spinning sector demand for various grades of cotton, the state reserve actively sold cotton in 2021. In 2022, however, declining demand and prices for domestic cotton led the state reserve to offer to purchase 500,000 MT of Xinjiang cotton. The offered purchase price, based on the prior day spot price, rarely reached above the breakeven purchase price for many businesses, resulting in only 17 percent of the allocated purchase volume fulfilled.

Table 7. China: State Cotton Reserve Sales and Purchases (2018 to 2022)

Year	Date	Target Volume (MT)	Actual Volume (MT)
2018	Mar 12 to Sep 30 (sale)	Daily 30,000	3,220,000
2019	May 5 to Sep 30 (sale)	1,000,000	1,000,000
2020	Jul 1 to Sep 30 (sale)	500,000	500,000
2021	Jul 5 to Sep 29 (sale)	600,000	630,400
	Oct 8 to Nov 30 (sale -via Auction)	912,000	572,365
2022	Jul 13 to Nov 11 (purchase)	500,000	85,500

Source: China's Industry Statistics

According to CCA, as of the end of January 2023, commercial cotton stocks were 5.1 MMT, 400,000 MT higher than in December but 400,000 MT lower than the previous year. Cotton stocks at spinning mills were estimated at 600,000 MT, down about 200,000 MT from the previous year as mills pared down inventories due to declining prices.

Policy

U.S. Restrictions on Xinjiang Cotton

On December 23, 2021, the U.S. signed The Uyghur Forced Labor Prevention Act (UFLPA) into law. The UFLPA creates a rebuttable presumption that goods entering the United States from the PRC, produced wholly or in part, in Xinjiang are made with forced labor, as well as certain goods made by entities elsewhere in the PRC that use forced labor by members of persecuted groups from Xinjiang. Starting on June 21, 2022, U.S. Customs and Border Protection (CBP) began to implement the UFLPA's provisions. For additional information please see the CBP UFLPA [Fact Sheet](#) and [Operational Guidance for Importers](#). Statistics on enforcement of the UFLPA can be found [here](#).

The 14th Five Year Crops Production Plan

In the [14th Five Year Development Plan for Crops Production \(2021-2025\)](#), published in January 2022, MARA set a target for cotton planted area at 3.2 MHa and production at 5.9 MMT by 2025. The document outlines plan to promote cotton planting in Xinjiang (about 2.4 MHa) and in the Yangtze River and the Yellow River regions with combined area of 800,000 Ha. However, Post expects most cotton production growth will be generated through yield gain in Xinjiang while other regions continue to see declining area.

Targeted Loans

The Agriculture Development Bank of China (ADBC) continues to provide loans at favorable terms to traders and gin operators for seed cotton purchases. Media reports indicated ADBC planned to provide 50 billion yuan (\$7.1 billion) in MY 22/23, unchanged from the previous year, to help purchase Xinjiang cotton. ADBC claims the loans facilitate cotton marketing and stable cotton production in Xinjiang.

Registration System for Overseas Cotton Suppliers

Before exporting cotton to China, overseas cotton suppliers must register with the General Administration for Customs of China (GACC). U.S. cotton exporters should work with their China-based representatives or customers to complete the registration process via the online system at <http://online.customs.gov.cn/static/pages/alllistititems.html>. Registrations are valid for five years and may be renewed. GACC publishes a list of recent registration approvals and renewals on its [website](#). The lists were most recently updated January 12, 2023.

Entry Inspection of Cotton Imports

According to industry sources, following GACC's April 2020 modification to cotton import requirements, quality inspection is no longer a mandatory step in the inspection process for cotton imports (see GAIN report [CH2020-0052](#)).

Amendments to China's Saw Ginned Upland Cotton Standard

On November 14, 2022, the PRC notified the World Trade Organization (WTO) on the "National Standard of the PRC, Cotton—Saw Ginned Upland Cotton", and requested the WTO members to submit comments within 60 days. The draft standard specifies terms and definitions, quality requirements, sampling requirements, inspection methods, inspection rules, inspection certificates, packaging and marking requirements of saw ginned upland cotton. It applies to the production, acquisition, processing, trading, storage and use of saw ginned upland cotton and will replace GB 1103.1 - 2012 Cotton - Part 1: Saw Ginned Upland Cotton (see GAIN Report [WTO Notification of Saw Ginned Cotton Standard | CH2022-0133](#)). The draft standard has not yet been adopted by the PRC. The notification states that the standard will be implemented one year after the date of adoption.

Cotton China Sustainable Development Program

CCA initiated the "Cotton China Sustainable Development Program" (CCSD) on April 30, 2021. As of July 23, 2022, 30 domestic enterprises engaged in cotton production and related industries had signed onto the program. As part of its outreach, CCA has provided online training to stakeholders on three topics: sustainable production standards, guarantee system for implementation of sustainable production, and supply chain management and brand promotion regulations. To further promote the program, CCA will hold a promotional event at the 2023 China International Fashion Fair on March 28 in Shanghai.

Marketing Opportunities

The China International Cotton Conference, a biannual event sponsored by CCA and MARA, attracts a worldwide audience from the cotton and textile industries. The most recent conference, in June 2021, was held in Suzhou, Jiangsu Province. Dates for a 2023 conference have not yet been announced. CCA, in collaboration with the China National Cotton Exchange, also holds an annual event known as the China Cotton Industry Development Forum. The 2023 Forum will be held in June 2023 in Guilin, Guangxi Province.

Cotton Council International (CCI), the National Cotton Council's export promotion arm, represents U.S. cotton in China. CCI maintains an in-country presence and organizes marketing and technical seminars throughout the year, including an annual Cotton Day promotional event. For more information about CCI's programs contact cci-hongkong@cotton.org or cci-shanghai@cotton.org.

U.S. cotton exporters interested in the China market are encouraged to contact the USDA/FAS Office of Agricultural Affairs in Beijing and the Agricultural Trade Offices in Beijing, Guangzhou, Shanghai, and Shenyang.

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Note: Exchange rates: U.S. \$1=Yuan 6.9 in 2019 and 2020; U.S. \$1=Yuan 6.45 in 2021; U.S. \$1=Yuan 6.73 in 2022

Tables

Production, Supply and Demand (PSD)

Table 8. China: Cotton PSD (in 1,000 Bales and 1,000 Ha)

Cotton China	2021/2022		2022/23		2023/24	
	Market Year Begin: Aug 2021		Market Year Begin: Aug 2022		Market Year Begin: Aug 2023	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted		3,000		3,100		3,050
Area Harvested	3,100	3,000	3,050	3,100		3,050
Beginning Stocks	37,794	37,794	38,564	37,148		37,010
Production	26,800	27,000	29,500	29,395		28,017
Imports	7,840	7,840	7,500	6,430		8,267
MY Imports from U.S.		4,348				
Total Supply	72,434	72,634	75,564	72,973		73,294
Exports	120	120	125	138		92
Use	33,750	35,366	36,000	35,825		36,744
Loss	0	0	0	0		0
Total Dom. Cons.	33,750	35,366	36,000	35,825		36,744
Ending Stocks	38,564	37,148	39,439	37,010		36,458
Total Distribution	72,434	72,634	75,564	72,973		73,294
Stock to Use %	114	105	109	103		99
Yield	1,882	1,960	2,106	2,065		2,000

Table 9. China: Cotton PSD (in 1,000 MT and 1,000 Ha)

Cotton China	2021/2022		2022/23		2023/24	
	Market Year Begin: Aug 2021		Market Year Begin: Aug 2022		Market Year Begin: Aug 2023	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted		3,000		3,100		3,050
Area Harvested	3,100	3,000	3,050	3,100		3,050
Beginning Stocks	8,229	8,229	8,396	8,088		8,058
Production	5,835	5,879	6,423	6,400		6,100
Imports	1,707	1,707	1,633	1,400		1,800
MY Imports from U.S.		947				
Total Supply	15,771	15,814	16,452	15,888		15,958
Exports	26	26	27	30		20
Use	7,348	7,700	7,838	7,800		8,000
Loss	0	0	0	0		0
Total Domestic Consumption	7,348	7,700	7,838	7,800		8,000
Ending Stocks	8,396	8,088	8,587	8,058		7,938
Total Distribution	15,771	15,814	16,452	15,888		15,958
Stock to Use %	114	105	109	103		99
Yield	1,882	1,960	2,106	2,065		2,000

Trade Tables

Table 10. China: Monthly Cotton Imports

Unit: MT				
	2020	2021	2022	2023
Month				
January	401,232	227,934	227,874	139,645
February	289,503	184,924	184,926	85,040
March	280,364	204,176	204,172	
April	230,316	230,283	173,177	
May	173,208	172,717	182,137	
June	172,072	172,048	162,861	
July	142,566	142,566	118,098	
August	86,274	86,255	107,438	
September	73,441	73,426	88,574	
October	62,621	62,618	129,499	
November	94,985	94,984	177,969	
December	136,304	136,304	170,662	
TOTAL	2,142,886	1,788,235	1,927,387	
Unit: Bales				
	2020	2021	2022	2023
Month				
January	1,842,859	1,046,901	1,046,625	641,389
February	1,329,687	849,356	849,365	390,589
March	1,287,712	937,780	937,762	
April	1,057,841	1,057,690	795,402	
May	795,544	793,289	836,555	
June	790,327	790,216	748,021	
July	654,806	654,806	542,424	
August	396,256	396,169	493,463	
September	337,315	337,246	406,820	
October	287,618	287,604	594,789	
November	436,266	436,262	817,412	
December	626,044	626,044	783,851	
TOTAL	9,842,275	8,213,363	8,852,488	

Source: Trade Data Monitor, LLC.

Table 11. China: Cotton Imports by Country of Origin

Unit: MT

	MY19/20	MY20/21	MY21/22	MY22/23*
Country				
United States	473,288	1,258,306	946,632	438,252
Brazil	565,643	716,746	455,928	382,210
India	130,132	501,527	70,258	1,757
Benin	16,449	32,356	43,527	4,308
Sudan	25,356	31,814	28,938	7,933
Burkina Faso	14,612	43,873	28,635	5,638
Australia	203,903	77,263	21,128	26,221
Egypt	1,329	2,655	16,492	6,789
Cameroon	11,997	4,575	12,336	449
Mali	15,301	23,793	10,745	493
Myanmar	6,941	15,536	10,663	12,644
Kazakhstan	8,325	10,146	9,285	2,115
Turkey	2,922	10,528	8,833	3,496
Mexico	14,253	16,555	8,643	1,402
Tajikistan	9,836	10,815	7,567	404
Others	53,659	43,555	27,221	4,717
Total	1,553,946	2,800,043	1,706,831	898,828
U.S.\$/MT	1,754	1,741	2,487	2,788

* First seven months data of MY22/23; Source: Trade Data Monitor, LLC.

Table 12. China: Monthly Cotton Yarn and Thread Imports

Unit: MT

	2020	2021	2022	2023
Month				
January	126,977	206,070	153,497	60,117
February	153,860	144,049	97,613	93,964
March	192,440	224,689	123,990	
April	143,176	233,355	119,161	
May	101,501	168,558	130,870	
June	146,701	156,529	102,851	
July	172,649	177,649	65,133	
August	166,110	179,008	72,640	
September	178,152	187,994	89,226	
October	168,600	147,537	64,857	
November	172,268	152,250	80,096	
December	177,768	140,047	76,166	
TOTAL	1,900,202	2,117,735	1,176,100	
Marketing Year	Aug/20-Jul/21	Aug/21-Jul/22	Aug/22-Jul/23	
TOTAL	2,173,797	1,599,840		

Source: Trade Data Monitor, LLC.

Table 13. China: Monthly Cotton Yarn and Thread Exports

Unit: MT

	2020	2021	2022	2023
Month				
January	30,577	26,200	30,759	24,363
February	13,241	15,867	17,296	17,893
March	31,647	23,203	23,146	
April	15,194	26,850	19,980	
May	14,533	24,273	22,363	
June	16,895	27,979	22,021	
July	23,472	25,017	25,212	
August	24,537	24,728	20,308	
September	26,991	23,116	25,884	
October	26,736	23,189	23,385	
November	23,030	23,455	25,188	
December	23,127	26,739	24,615	
TOTAL	269,980	290,616	280,157	
Marketing Year	Aug/20-Jul/21	Aug/21-Jul/22	Aug/22-Jul/23	
TOTAL	293,810	282,004		

Source: Trade Data Monitor, LLC.

Other Tables

Table 14. China: Cotton Planted Area and Production by Region

Area			
Year	MY 21/22	MY 22/23	MY 23/24
Total	3,000	3,100	3,050
--Xinjiang	2,580	2,580	2,550
--Others	420	520	500
Production			
Year	MY 21/22	MY 22/23	MY 23/24
Total	5,880	6,400	6,100
--Xinjiang	5,450	5,950	5,700
--Others	430	450	400
Average Yield (Kg/Ha)	1,960	2,040	2,000

Note: FAS/Beijing estimate and forecast

Table 15. China: Cotton Tariffs Effective on January 1, 2023

Description	HS Code	M.F.N.(%)	Gen(%)	VAT	ED	Unit
Cotton, not carded or combed	5201.0000					Kg
Cotton, not carded or combed, including degreased cotton -in quota	5201.0000.01	1	125	9	9	
Cotton, not carded or combed, including absorbent cotton – custom, out of quota, interim	5201.0000.80			9	9	
Cotton, not carded or combed, including degreased cotton -out of quota	5201.0000.90	40	125	9	9	
Cotton waste, yarn waste	5202.1000	10	30	13	13	Kg
Cotton waste, garneted stock	5202.9100	10	30	13	13	Kg
Cotton waste, other	5202.9900	10	30	13	9	Kg
Cotton, carded or combed	5203.0000		125	13	9	Kg
Cotton, carded or combed, in quota	5203.0000.01	1	125	13	9	
Cotton, carded or combed, out of quota	5203.0000.90	40	125	13	13	
Cotton sewing thread, containing 85% or more by weight of cotton	5204.1100	5	40	13	13	Kg
Other	5204.1900	5	40	13	13	Kg
Put up for retail sale	5204.2000	5	50	13	13	Kg
Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not for retail sale	5205.1100 to 5205.4800	5	40	13	13	Kg
Cotton yarn (other than sewing thread) containing less than 85% by weight of cotton, not put for retail sale	5206.1100 to 5206.4500	5	40	13	13	Kg
Cotton yarn (other than sewing thread), containing 85% or more	5207.1000	5	50	13	13	Kg
	5207.9000	5	50	13	13	Kg

Note: VAT--Value Added Tax; ED--Export Drawback Rate

Source: PRC Customs Import & Export Tariff, 2022

Table 15. Contd. China: Cotton Tariffs as of January 1, 2023 (continued)

Description	HS Code	M.F.N.(%)	Gen(%)	VAT	ED	Unit
Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200 g/square meter	5208.1100					
	to 5208.5990	8	70	13	13	M/Kg
Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200 g/square meter	5208.2300	8	70	13	13	M/Kg
	5209.1100	8	70	13	13	M/Kg
	5209.1200	8	70	13	13	M/Kg
	5209.1900	8	70	13	13	M/Kg
	5209.2100	8	70	13	13	M/Kg
	5209.2200	8	70	13	13	M/Kg
	5209.2900	8	70	13	13	M/Kg
	5209.3100	8	70	13	13	M/Kg
	5209.3200	8	70	13	13	M/Kg
	5209.3900	8	70	13	13	M/Kg
	5209.4100	8	70	13	13	M/Kg
	5209.4200	8	70	13	13	M/Kg
	5209.4300	8	70	13	13	M/Kg
	5209.5900	8	70	13	13	M/Kg

Note: VAT--Value Added Tax; ED--Export Drawback Rate; M/KG – Meter/Kilogram

Source: PRC Customs Import & Export Tariff, 2022

Table 16. China: Tariff Rate Quota

Description	HS Code	Initial Quota and Tariff Rate	Final Quota and Tariff Rate	Implementation of Final Quota
Cotton		780,750 MT	894,000 MT	2004
	5201 - 0000	1%	1%	
	5203 - 0000	1%	1%	
Other terms and conditions:				
1) STE share = 33% (See Note)				
2) Staging of TRQ for cotton:				
Year TRQ quantity:				
2002 -- 818,500 MT; 2003 -- 856,250 MT; 2004 -- 894,000 MT				
2005 -- 894,000 MT (China added 1.4 MMT TRQ in 2005)				
2006 -- 894,000 MT (China added 2.7 MMT TRQ in 2006, subject to variable import duty)				
2007 -- 894,000 MT (China added 2.6 MMT TRQ in 2007, subject to variable import duty)				
2008 -- 894,000 MT (China added 2.6 MMT TRQ in 2008, subject to variable import duty)				
2009 -- 894,000 MT (China added 400,000 MT TRQ only for processing trade, due to weak demands for cotton)				
2010 -- 894,000 MT (China added 2.67 MMT TRQ subject to variable import duty)				
2011 -- 894,000 MT (China added 2.7 MMT of TRQ subject to variable import duty)				
2012 -- 894,000 MT (China added 2.4 MMT of TRQ subject to variable import duty)				
2013 -- 894,000 MT (China added an estimated 2.3 MMT additional TRQ subject to variable duty or for processing trade)				
2014 -- 894,000 MT (China added about 1.3 MMT additional TRQ subject to variable duty were distributed but not officially announced)				
2015 -- 894,000 MT distributed (Industry sources estimated about 300,000 MT of cotton were imported by China's bonded zones* and destined for processing-trade for re-export in 2015)				
2016 -- 894,000 MT distributed				
2017 -- 894,000 MT distributed				
2018 -- 894,000 MT distributed (Added 0.8 MMT of TRQ subject to variable tariff import duty)				
2019 -- 894,000 MT distributed (Added 0.8 MMT of TRQ subject to variable tariff import duty)				
2020 -- 894,000 MT distributed (Added 0.4 MMT TRQ subject to variable tariff import duty)				
2021 -- 894,000 MT distributed (Added 0.7 MMT of TRQ subject to variable tariff import duty)				
2022 -- 894,000 MT distributed (Added 0.4 MMT of TRQ subject to variable tariff import duty in March 2022)				
2023 -- 894,000 MT distributed				

*Cotton imports by China's bonded zones are included in China's total cotton import data. However, industry sources explained that these imports are not subject to TRQ control if the processed products are proven to be exported. Note: China's WTO commitment does NOT mandate additional TRQ for CY05 and after, but China maintained an identical quantity of TRQ as CY04. In addition to those volumes, China adds quota based on market demand. The added quotas are subject to a variable import duty.

Source: NDRC and industry estimates.

Attachments:

No Attachments