

The changing face of cotton trade

By Stephanie Lowe, Rabobank Group

Over the past 20 years, the global cotton industry has witnessed a shift in trade dynamics. Although the proportion of world trade has remained relatively stable — at between 25 per cent and 30 per cent of world production — the source of raw cotton exports and the end destination of imports has altered.

Of particular interest is that some of the incremental rise in mill consumption has come from countries which are also significant producers of cotton. In addition, the market is beginning to see smaller cotton producing zones within Eastern Europe and South America in a position to supply their domestic textile markets and, potentially, the global market as well.

With the continued shift of textile operations to developing and transitional economies and over 76 per cent of cotton produced globally by developing countries, some questions arise:

- Will international trade of cotton remain at current levels or will domestic production in developing regions meet their local mills requirements?

- And what will be the implications to the trade environment of emerging suppliers?

In understanding what is driving trade, it is important to firstly look at cotton mill consumption across the regions. In line with the growth of the textile powerhouses of SE Asia, mill consumption within China, India, Thailand, Pakistan and Indonesia has risen significantly over the past 20 years (Figure 1).

Growth in consumption in Eastern Europe and Central and Southern America areas is evident, as European and American mills seek lower cost processing regions. This capacity is strategically located close to their markets, from both a geographical and market access perspective.

A significant number of countries which have increased their mill consumption are also substantial producers of raw cotton. Variability of production by volume and grade plus pricing differentials has meant that import requirements for these regions have generally experienced a volatile but upward trend (Figure 2).

This dynamic suggests major producers will play a large role in determining future growth in imports as a proportion of total production and the structure of trade flows.

To understand the ongoing shift in trade dynamics and the impact this may have upon cotton export dependent countries, a number of factors must be addressed. They include:

- The capacity of regions to expand based on area or yield growth, market and government incentives;
- Future trade market access issues;
- and,

FIGURE 1: Cotton mill consumption, 1979-80 to 2004-05f

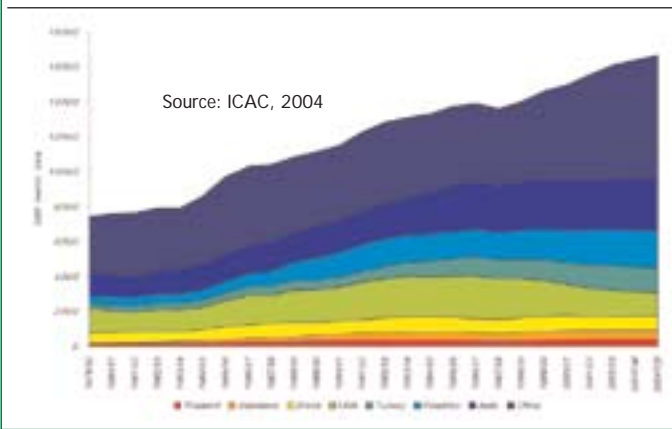
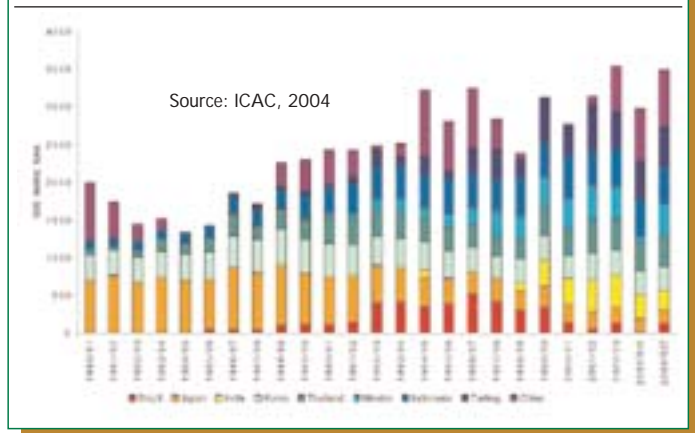


FIGURE 2: Global imports of cotton, 1980-81 to 2004-05f



- The rate of future growth in the textile mill capacity from a cotton and non-cotton perspective.

The critical implication to the trade market is that if the shift in export-import dynamic continues — the market share of the different grades that are exported may be affected. This has the potential to create further volatility in the market — that is, textile consuming countries that are also producers may have significant variation in their trade market requirements from year to year.

CAPACITY OF PRODUCTION GROWTH

On a global scale, the capacity to expand cotton production by area is generally viewed as limited because of environmental and land constraints. For example, there is scope to expand production by area in some regions of China, but the likelihood of this occurring is slim.

Availability of resources and population pressures are limiting the regions in China where production can expand. Grower returns have fallen with the deregulation of the domestic cotton price market and higher returns are available for alternate crops such as feed grain to supply to the burgeoning domestic livestock industry.

Government policy has tended to be structured in some countries to encourage production, but it is also interesting to note examples where governments have begun to discourage production because of concern of heavy reliance upon cotton exports for gross national income.

For example, Uzbekistan has adopted a policy of shifting to production and exports of non-cotton products that deliver higher value-add returns. This trend in conjunction

with significant water resource and soil depletion problems has seen domestic cotton production in Uzbekistan fall by approximately 20 per cent over the past 20 years.

Yield increases remain the major alternative for increasing production in regions facing the above mentioned limitations. The suitability and scope for achieving yield improvements depends on a country's access to technology, use of irrigation in the production system and the timely application of inputs.

A few regions do exist that have the potential to increase production. Brazil and Turkey both have the ability to expand production.

Estimates for production in 2004–05 would see Brazil become the world's fifth largest producer.

COTTON VERSUS NON-COTTON TEXTILE CAPACITY GROWTH

The expected future development of cotton and non-cotton textile processing capacity must also be addressed. Following relatively flat demand for cotton over the past 10 years leading up to 2000, the past four years has seen improved growth in cotton fibre consumption — up by 2.9 per cent during 2002.

Much of this growth has come from

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On a global scale, the capacity to expand cotton area is limited.

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China, which has accounted for 75 per cent of the global increase in total mill use and an 86 per cent rise in cotton mill use over the past five years.

Although cotton consumption is expected to be less than production over the next four years, it is forecast to continue growing, so the location of future growth in mill capacity is critical, as it will have a defining impact upon world trade. The expectation is that China's position as the number one consumer of cotton is likely to remain over the next five to 10 years.

But the question is whether China will continue to expand as aggressively as in the past? And what is the potential for Chinese textile companies, who have privatised, investing in other countries?

With synthetic fibre consumption increasing at twice the rate of cotton fibre consumption in 2002, future expansion of the industry is likely to be at the expense of the cotton industry.

So what are the implications of further changes to the trade market dynamics? It is likely that there will be a change in the traditional trade patterns with major producers such as China, India and Pakistan and

potentially Uzbekistan becoming net importers in the long run to supply their domestic textile market and new entrants including Brazil and Turkey plus other countries such as the US shifting to become significant suppliers on the world market.



Some major producers are now becoming net importers to supply their expanding domestic textile markets.

The profile of the fibre types exported on to the world market may shift, depending upon the grade quality of cotton from emerging markets, expansion of exports (especially from the US) and other regions that are moving to becoming permanent net importers.

In turn, this will be of significance to competing players due to market access, cost of production pressures, the long term downward on prices coupled with volatility in the market price.

For the Australian industry, which exports over 95 per cent of its production, it is imperative to understand how the future needs of the trade market may evolve. The Australian industry will have to accept that export markets may alter to a certain degree. Competition from emerging markets may also pose a problem for Australia in the future.

But the comparative advantage Australia holds from a quality perspective puts the industry in good stead. The relationship all these variables will have with on-farm margins relates to the approach that individual growers take in addressing productivity improvements, reducing costs and their marketing strategy. 