



## Return of the Dragon: Post-Quota Cotton Textile Trade

January 1, 2005, marked the end of an era, the conclusion of the gradual phase-out of quotas on apparel trade for all World Trade Organization (WTO) member nations mandated by the watershed Agreement on Textiles and Clothing. The agreement set a timetable for the gradual removal of quotas in four steps — by January 1995, 1998, 2001, and 2005, when all remaining quotas were removed. Upon China's accession to the WTO in late 2001, many grew concerned about surging Chinese textile exports and their likely continued growth in the absence of quotas after 2004. The Fall 2002 *Textile Consumer* addressed this issue, predicting that with the expiration of all remaining quotas in 2005, China would come to dominate international textile and apparel trade. Revisiting this topic, we examine how the world has changed since 2002 and where textile and apparel trade stands now, and we suggest how the markets for cotton may be affected by likely future changes in textile trade patterns.

### China's Emergence in Textile Trade

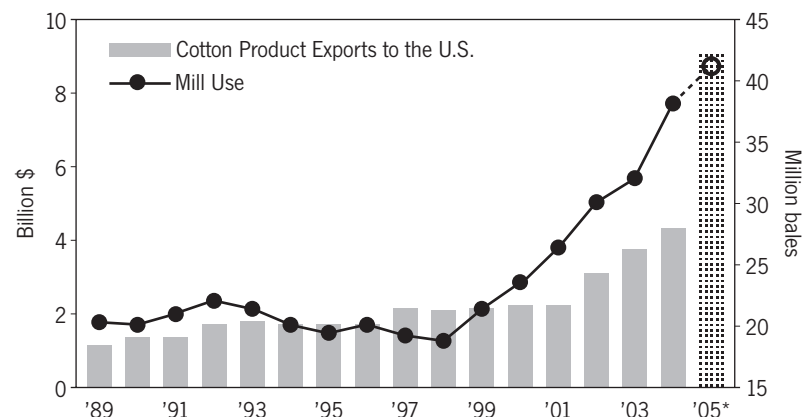
China's growth and dominance in textile and apparel trade come as little surprise. Fixed-asset investment in China's textile and apparel sector has climbed sixfold since 1999, to a record 102.4 billion yuan (\$12.4 billion) in 2004.

Cotton use by Chinese textile mills has grown rapidly in recent years, effectively doubling since 1999, to over 41 million bales. A key factor behind this increased mill use of cotton has been a robust export trade to several destinations, including the United States. Since China's accession to the WTO, the dollar value of U.S. imports of Chinese cotton textiles and apparel has soared 91.4% (from 2001 to 2004), reaching a record \$4.4 billion in 2004. U.S. import data for early 2005 indicate that imports from China have climbed even more dramatically this year; for the first four months, they were up 109.5% from the same period last year. If this growth rate persists

*(continued on page 2)*

### Chinese Cotton Use & Exports to the United States

1989 to 2005\*



Source: USDA and U.S. Commerce Department. \*Forecast based on data for January through April 2005.

## Denim Jeans: Commanding a Premium

With 8.3 pairs of jeans filling the closet of the average American, are consumers continuing to buy more? According to AccuPanel survey data from STS Market Research, denim jeans unit sales have increased 6.7% for the first quarter of 2005, compared with the same period in 2004. Furthermore, the average price is up 7.4%, for an increase of \$1.74. A major impetus behind this growth is sales of premium-priced denim jeans.

First-quarter unit sales of premium-priced (over \$60) denim jeans nearly doubled from 2004 — for a 98.8% increase, compared with only 4.0% for lower-priced jeans. Nonetheless, 89.7% of all denim jeans sold in the first quarter of 2005 cost under \$40, and another 7.7% cost between \$40 and \$59.99, leaving premium-priced jeans with the smallest share of denim jeans unit sales, just 2.7%. Despite

*(continued on page 4)*

through the rest of the year, 2005 import volume could jump to over \$9 billion. Even more impressive is the growth in newly quota-free Chinese textile and apparel imports — primarily cotton-dominant apparel categories — as discussed below.

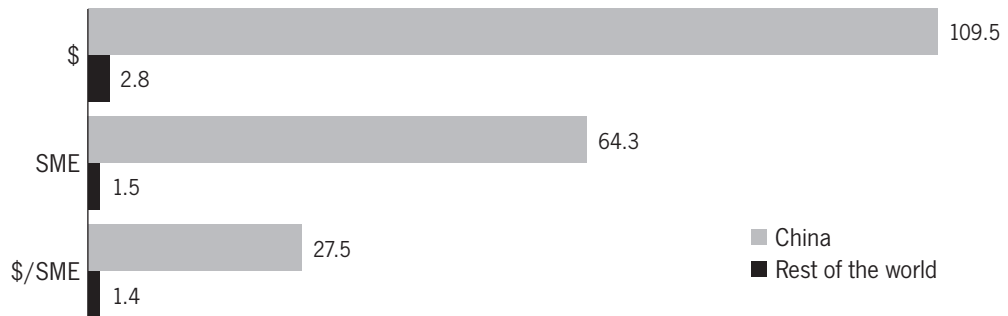
### China's Phenomenal Growth in Cotton

Since the completion of quota phaseouts on January 1, 2005, world volume of imported cotton textiles and apparel has climbed, but by amounts that hardly seem extraordinary. For the four-month period, the dollar value of shipments expanded 12.7%, little higher than the 9.8% average annual growth over the last 15 years. At first blush, this growth rate is unimpressive. However, if we focus only on shipments from China, the growth is more pronounced. The value of U.S. imports of cotton textiles and apparel from China was up 109.5% for the first four months of 2005 and is on track to reach a record volume this year. In contrast, shipments from the rest of the world grew only 2.8%. In part, it is this phenomenal growth in imports of Chinese cotton products that has led to the current impasse in trade negotiations between

the United States and China. Even so, the Chinese growth appears less impressive when we consider cost per SME. The landed cost of total world cotton textile and apparel imports for the four-month period climbed a modest 1.9%, to \$2.35, while the cost of Chinese goods rose 27.5%, to \$1.87 (compared with \$2.49 for the rest of the world). It appears that

### % Growth in U.S. Cotton Textile and Apparel Imports

China vs. the Rest of the World, Jan.–Apr. 2004 to Jan.–Apr. 2005



Source: U.S. Commerce Department.

as Chinese import volume climbs, Chinese costs are moving in the direction of parity with world costs—suggesting that Chinese shippers will enjoy little pronounced long-term cost advantage in a quota-free world.

### Newly Quota-Free Cotton Products

If we focus just on imports of cotton product categories freed from quotas in 2005 (primarily apparel), a more divergent pattern in textile trading is evident.

The dollar value of total world imports of newly quota-free cotton products expanded 12.8%, as the cost per SME climbed 2.1%, to \$3.26 — growth little different from the annual average over the past 15 years. But Chinese shipments of the same newly quota-free products enjoyed 308.7% growth, as the cost per SME declined 9.1%, to \$2.85. In fact, if the impressive growth in Chinese exports is excluded, the world volume in newly quota-free cotton products grew only 1.6% in dollars, as costs climbed faster, rising 4.3%, to an average \$3.33 per SME.

### Imports of Newly Quota-Free Cotton Textile and Apparel Products

China vs. Rest of World, % Change, Jan.–Apr. 2004 to Jan.–Apr. 2005

Category	% Change in \$		Cost/SME (\$)		% Change in Cost	
	China	ROW	China	ROW	China	ROW
<b>Total</b>	308.7	1.6	2.85	3.33	-9.1	4.3
Apparel	376.7	1.8	3.16	3.69	-37.6	2.5
Males' bottomsweat	741.4	1.8	3.82	4.79	-44.3	-1.1
Females' knit shirts	737.6	3.5	5.75	5.49	-51.5	-3.7
Females' bottomsweat	574.0	-2.4	4.02	4.65	-58.0	3.0
Skirts	388.5	18.9	4.01	4.00	-58.0	3.3
Nightwear & pajamas	458.3	-20.9	0.94	0.99	-31.7	-2.1
Males' woven shirts	320.5	18.1	2.97	3.84	-24.8	2.8
Males' knit shirts	323.7	4.6	4.61	5.11	-61.2	-0.7
Sweaters	311.8	-14.7	3.09	3.50	-46.6	20.1
Females' woven shirts	243.1	-2.0	5.16	4.72	-46.7	-0.9

Source: U.S. Commerce Department.



Given that many apparel products were among the last to be integrated into quota-free trading, it comes as little surprise that the most dramatic year-to-date growth in shipments from China has occurred in this category. The dollar value of Chinese shipments in newly quota-free categories of cotton apparel climbed 376.7% from the same period last year, while the cost per SME plummeted 37.6%. At the same time, the value of imports of these products from the rest of the world grew only 1.8%, as the cost per SME rose 2.5%. Various newly quota-free Chinese cotton apparel products saw some of the strongest growth for the first four months of 2005, easily outpacing the growth in shipments from the rest of the world—implying that China’s share of the U.S. import market has expanded markedly from year-ago levels.

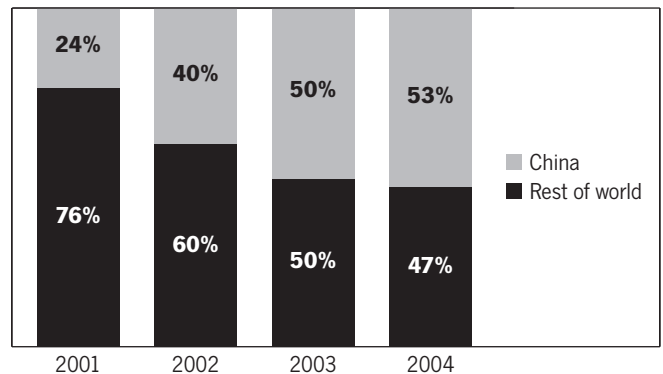
### Forecasting Continued Growth

In forecasting the growth in cotton products from China, one need only look to the past for insight. After the third stage of quota phaseout (January 1, 2002), U.S. imports of cotton products no longer subject to quota climbed dramatically, owing primarily to surging shipments from China. From 2001 to 2004, the import volume (SMEs) of newly quota-free cotton products grew 69.6%. However, excluding China, world shipments actually fell 8.4%, while Chinese shipments mushroomed by 483.9%. As the volume of Chinese imports grew so rapidly, the cost per SME for these categories fell 45.9%, a decline the rest of the world was unable to match. Accordingly, China’s share of world shipments of cotton products newly integrated into quota-free trading grew from 24% in 2001 to 53% in 2004. With China’s increased installed capacity for apparel production now in place, there is little reason not to expect similar growth in Chinese shipments of products from which quotas were lifted in January 2005.

### The Impact on Cotton

The lingering debate regarding U.S. safeguard measures against Chinese cotton textile

### China’s Share of Newly Quota-Free Cotton Products Shipped to the United States, 2001 to 2004

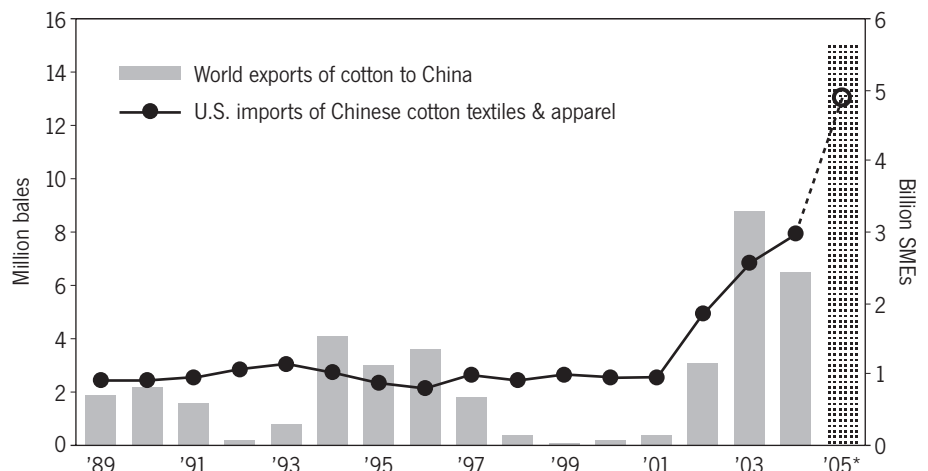


Source: U.S. Commerce Department.

and apparel imports directly affects the market for cotton. With China as the world’s largest buyer of cotton and the United States as the largest seller, any changes in textile trade policy could have major ramifications for cotton. For the 2005/06 marketing year, the USDA forecasts that China will import a record 15.0 million bales to satisfy internal mill demand for fiber. Typically, the United States accounts for 55% to 60% of China’s cotton purchases, suggesting that it likely could sell a record 7 to 8 million bales to China in the coming marketing year. Should the volume of cotton products exported from Chinese mills wane, as a result of new trade restrictions, the volume of cotton demand could likewise fall, possibly resulting in an oversupply of cotton on the U.S. and world markets, which would suggest a depressed outlook for price.

### China’s Cotton Trade, 1989 to 2005\*

World Exports of Cotton to China & U.S. Imports of Chinese Cotton Products



Source: USDA and U.S. Commerce Department. \*Forecast based on data for January through April 2005.



## Growth in Premium-Priced Denim Jeans *(continued from page 1)*

their rapid sales growth, premium-priced jeans still are for a niche market.

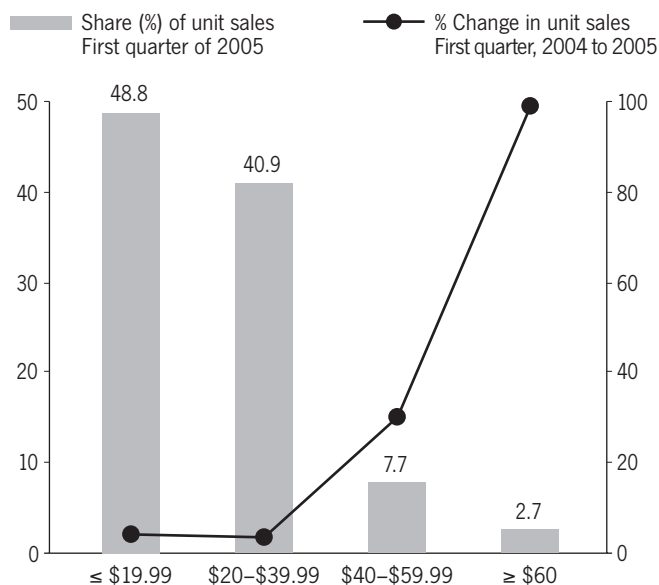
Premium-priced denim jeans maintain their status by not discounting. Over 9 out of 10 (91.2%) pairs of premium-priced denim jeans were purchased at regular price, compared with only 40.2% of lower-priced jeans. Though the average price increased for both premium- and non-premium-priced jeans, premium prices grew much faster, up 39.4%, compared with 2.3% for non-premium prices.

Fiber also plays a key role in the premium jeans market. According to Cotton Incorporated's Lifestyle Monitor™, almost two-thirds (63.6%) of consumers say they are willing to pay more for natural fibers such as cotton — perhaps one reason why 88.8% of premium-priced denim jeans sold were cotton-dominant (containing at least 60% cotton).

The fact that consumers are paying more for jeans does not mean they own fewer pairs. According to the Lifestyle Monitor, denim jeans ownership reached its highest level in 2004 among purchasers of both premium and non-premium jeans. In fact, consumers who say they are willing to pay over \$70 for a good-fitting pair of denim jeans own an

average of 13.3 pairs, compared with 8.1 pairs for shoppers not willing to pay that much. The consumer most likely to say she will pay over \$70 for a pair of jeans is a woman aged 20 to 24 who shops mostly at specialty stores.

### Share and Growth in Denim Jeans, By Price



Source: STS Market Research.

# Cotton Incorporated

#### World Headquarters

6399 Weston Parkway  
Cary, NC 27513  
Tel. (919) 678-2220  
Fax (919) 678-2231

#### New York

488 Madison Avenue  
New York, NY 10022-5702  
Tel. (212) 413-8300  
Fax (212) 413-8377

#### Los Angeles

110 East 9th Street, Suite A-792  
Los Angeles, CA 90079  
Tel. (213) 627-3561  
Fax (213) 627-3270

#### Mexico City

Av. Insurgentes Sur 1605, Piso 9  
Col. San José Insurgentes 03900  
México D.F.  
Tel. 52-55-5663-4020  
Fax 52-55-5663-4023

#### Osaka

Osaka Kokusai Building  
27th Floor  
3-13, Azuchi-Machi 2-chome  
Chuo-ku, Osaka, 541, Japan  
Tel. 81-6-266-0707  
Fax 81-6-266-0710

#### Singapore

250 North Bridge Road  
36-02 Raffles City Tower  
Singapore 0617  
Tel. 65-6337-2265  
Fax 65-6337-3572

#### Shanghai

Unit 2309 & 2310, Plaza 66  
1266 Nanjing Rd (W)  
Shanghai, 200040 China  
Tel. 86-21-6288-1666  
Fax 86-21-6288-3666

[www.cottoninc.com](http://www.cottoninc.com)

*Textile Consumer™ is published by Cotton Incorporated as a service to the textile and retailing industries.*

