Articles

Lifting the Wool Curtain: Recent Reforms and New Opportunities in the Chinese Wool Market with Special Reference to the "Up-country" Mills

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From being an insignificant buyer of Australian wool at the start of the 1980s, China had emerged as Australia’s major, if somewhat erratic, customer by the 1992/93 season. Continued development of Sino-Australian trade in wool is vital to the future of the Australian wool-growing industry. This article describes recent market and trade reforms in China and examines their likely impact on wool imports. Particular attention is devoted to the effects the recent changes will have on the up-country mills which represent a poorly understood but potentially significant new market for Australian wool. In many respects the problems/opportunities identified in relation to the up-country mills also exist for many other mills in China which, for various reasons, have traditionally produced for the domestic market. The domestic demand for wool products in China is potentially enormous and further development of this market is one of the great challenges facing the Australian wool industry.

1. Introduction

Few periods have been as eventful for the Australian and Chinese wool industries as the period since the late 1980s. Despite a series of inquiries, legislative responses and institutional changes in Australia, debate continues over past decisions and future directions (Garnaut, Bennett and Price 1993; Chisholm, Haszler, Edwards and Hone 1994). One point not in contention, however, is the need to identify new markets for Australian wool (O’Connor 1993; Garnaut, Bennett and Price 1993; Chisholm, Haszler, Edwards and Hone 1994). Further development of the Chinese wool textile industry and especially that part oriented to the domestic market is seen as crucial in this regard.

The Chinese wool industry also has experienced turbulent times undergoing major policy reforms and industry restructuring. A relaxation of import controls in 1992 (Wilcox 1994) triggered a surge in imports of Australian wool into China. The question is whether growth can be sustained once the initial increase in imports is realised and what effect on imports other recent marketing and trade reforms in China will exert? (Cross and Spinks 1986; Morris, Roper, Short, Proctor and Connolly 1993). This paper addresses the future potential of

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1 The information reported in this article drew on various primary and secondary data sources. Primary sources included information obtained from mill officials, government officials, supply and marketing cooperative officials, fibre testing and research officials and others involved in wool textiles and marketing in China. The research was conducted as part of an Australian Centre for International Agricultural Research (ACIAR) project on wool production and marketing in China and an Australia-China Agricultural Cooperation Agreement (ACACA) mission on wool processing in China. The authors wish to thank both ACIAR and ACACA for funding the research on which the paper has been based. The Chinese collaborating scientists working on the ACIAR project have made a major contribution to our understanding and for this we are most grateful. For more details of the ACIAR project and for a list of the Chinese scientists who worked on it, see Longworth and Williamson (1993). Further information about the ACACA mission is provided in Brown (1993). The authors would also like to express their appreciation to Alistair Watson and an anonymous journal referee who commented on an earlier version of this paper.
the Chinese market for Australian wool in more
detail than previous authors by focussing on the
"up-country" mills located in the main wool-grow-
ing provinces of China’s pastoral region. This
sector of the Chinese textile industry is currently a
small and neglected, though potentially important,
part of the industry.

The up-country mills offer considerable potential
as a new market for Australian wool. The severe
and often discriminatory constraints to importing
wool traditionally imposed on those mills are being
eased. There is evidence to suggest that these mills
would use imported wool to displace chemical
fibres and to expand their wool textile output both
in terms of quantity and product mix rather than
substitute imported wool for locally grown wool
(Lin 1993). From the perspective of industry
organisational efficiency, it may be better to process
wool elsewhere in China. However, various levels
of government seek to promote development of the
up-country mills. The authorities in the wool-
growing provinces perceive that an integrated wool
industry can play a key role in the economic devel-
opment of these remote areas which have few other
industrial opportunities open to them. The Central
government, if necessary, may sacrifice national
economic welfare to encourage development in
these strategic and sometimes volatile "autono-
mous" regions of China (Longworth and William-
son 1993). But if the up-country mills are to adjust
to new competitive pressures in line with other
Chinese mills, they need imported wool to counter
the deficiencies (quantity and quality) in locally
grown wool. Furthermore, for reasons outlined in
this paper, they require assistance both in identify-
ing and obtaining imported wool most suited to
their needs and in being able to make the most of
that imported wool.

Apart from being of interest in themselves, an
investigation of the up-country mills provides a
number of useful insights into the Sino-Australian
wool trade. In particular, it illustrates how recent
reforms are likely to impact on mills producing
primarily for the domestic market. Relatively little
is known in Australia about the up-country mills
which supply product markets not only in the wool-
growing provinces but also throughout China. Tra-
ditionally, attention has been focussed on the large
State-owned mills on the east coast which, while
they are producing for both the domestic and export
market, have been encouraged and assisted to be-
come much more export-oriented in recent years.
Given the close links between the up-country mills
and domestic wool production and marketing, an
investigation of these mills sheds light on the im-
pact of recent marketing reforms on the domestic
supply side of the Chinese wool market. Such
insights are important as wool import policies in
China in the past have reflected changing economic
circumstances in the domestic raw wool production
sector.

The next section of the paper points out that the
up-country mills represent one of the three broad
sectors which can be identified in the Chinese wool
textile industry. There are wool-processing mills
in all the pastoral provinces but the ones of major
interest are in the three north and northwestern
provinces of Xinjiang, Inner Mongolia and Gansu.
The third section, therefore, broadly describes the
wool textile industries in these three provinces and
highlights the equipment and labour problems they
face. The following three sections are concerned
with recent marketing and trade reforms and re-
structuring of the bureaucracy which will impact
on the whole Chinese wool textile industry but
which will have especially important effects on
mills producing primarily for the domestic Chinese
wool textile market, such as the up-country mills.

This article identifies lack of access to imported
wool of the desired type as one of the major factors
inhibiting the further development of Chinese mills
producing primarily for the mass domestic market.
It is also pointed out that recent reforms in China
create new opportunities for initiatives aimed at
removing this bottleneck. The final section, briefly
outlines some of the things which need to be done
in this regard.
2. The Three Sectors of the Chinese Wool Textile Industry

The Chinese wool textile industry can be broadly divided into three sectors. The large State-owned mills on the east coast have traditionally dominated the industry. These mills generally have modern equipment, they are relatively well managed, and they produce products which compete well on international markets. Traditionally, most of the wool imported from Australia was processed by these mills. In the past, this segment of the industry has been closely controlled by the Ministry of Textile Industries (MOTI).

During the 1980s, most of the large State-owned mills on the east coast replaced their equipment with modern machinery imported from Japan and Europe. The old second-hand equipment from these mills found its way into township-enterprise mills which sprang up during the economic boom of the mid-1980s. Indeed, it was the sudden emergence of this new "township-enterprise" segment of the wool textile industry which generated the rapid growth in demand for imported wool in the 1984 to 1988 period. Unfortunately, while some of the new township-enterprise mills quickly acquired both the equipment and skills needed to operate successfully, many did not. Without a skilled workforce and with antiquated second-hand equipment, many township-enterprise mills were doomed to fail. Nevertheless, a significant number have survived and prospered often assisted by foreign joint venture partners. Today, some of the best textile mills are to be found in this second or so-called township-enterprise sector of the industry.

The third group of wool textile mills are the up-country mills located in the pastoral provinces. Almost all of these mills are State owned. These mills traditionally belonged to the MOTI network although they were seen as the poor cousins to the State-owned mills on the east coast. In a broader sense, however, the Chinese government has become increasingly conscious of the need to encourage pastoralism in the remote north and northwestern parts of the country (Longworth and Williamson 1993). Wool growing and processing is recognised as making an important contribution to the regional economy. There has been a growing interest in ways to promote the development of an integrated wool industry in the pastoral region. Consequently, when the Central government delegated control over the marketing of wool to the provincial governments in 1985, it directed that four major provinces producing wool, Xinjiang Uygur Autonomous Region (XUAR), Inner Mongolia Autonomous Region (IMAR), Gansu and Qinghai, adopt a "self produce, self process, self sell" policy for wool. As will be discussed below, this policy had a number of undesirable effects on the domestic raw wool market. More importantly in the context of this paper, it led to the inland mills being denied access to imported wool.

3. The "Up-country" Mills in the Pastoral Region

The pastoral region of China is broadly defined as consisting of 12 provinces (Longworth and Williamson 1993) and wool textile mills operate in each of these provinces. The mills in the northeastern pastoral provinces of Heilongjiang, Jilin, Liaoning and Hebei have many of the characteristics of the east coast category of mill described above. Of the remaining eight pastoral provinces, XUAR, IMAR and Gansu have the overwhelming share of the wool textile spindles in the pastoral region, but these three provinces accounted for less than 10 per cent of all spindles in China in 1990. Some characteristics of the wool textile industry in these three provinces are provided in Table 1, while the location of the provinces and all the processing centres referred to below are indicated in Figure 1.

The importance of the wool textile industry in XUAR, IMAR and Gansu derives not from the share of national processing capacity found in these provinces but from the fact that these three provinces produce over two-thirds of all the fine wool (namely wool with an average fibre diameter of less than or equal to 25 micron) grown in China. The mills in these provinces, therefore, have been traditionally expected to give priority to processing the locally grown wool.
### Table 1: Overview of Wool Textile Industry in Selected Wool Producing Regions of China, 1992

<table>
<thead>
<tr>
<th></th>
<th>Xinjiang Uygur Autonomous Region</th>
<th>Inner Mongolia Autonomous Region</th>
<th>Gansu Province</th>
<th>People’s Republic of China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Wool (thousand tonnes)</td>
<td>20.6</td>
<td>24.9</td>
<td>6.3</td>
<td>238.2</td>
</tr>
<tr>
<td>- % of National total</td>
<td>26.3</td>
<td>30.1</td>
<td>4.1</td>
<td>106.2</td>
</tr>
<tr>
<td>Fine Wool (thousand tonnes)</td>
<td>3.7</td>
<td>2.7</td>
<td>2.8</td>
<td>3030.2</td>
</tr>
<tr>
<td>- % of National total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Wool Spindles (thousand)</td>
<td>3.5</td>
<td>3.9</td>
<td>3.0</td>
<td>337.9</td>
</tr>
<tr>
<td>- % of National total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

| Fabric Type           |                                   |                                 |                |                          |
| - % worsted          | 71.0                             | 63.2                            | 70.0           | 48.5                     |
| - % woollen           | 29.0                             | 35.9                            | 30.0           | 50.6                     |

| Raw Material Type     |                                   |                                 |                |                          |
| - % pure wool         | 89.6                             | 52.9                            | 24.9           | 30.9                     |
| - % blended           | 10.4                             | 47.1                            | 75.1           | 69.0                     |
| Wool Yarn (thousand tonnes) | 1.4                             | 2.7                            | 2.9            | 350.6                    |
| - % of National total | 100.0                            | 100.0                           | 100.0          |                          |

| Yarn Type             |                                   |                                 |                |                          |
| - % coarse            | 58.8                             | 71.6                            | 68.0           | 43.0                     |
| - % fine              | 0.0                              | 4.9                             | 5.2            | 7.6                      |
| - % worsted knit      | 41.2                             | 23.5                            | 26.8           | 49.4                     |
| Wool Blankets (million pieces) | 1.4                             | 2.5                            | 8.4            | 24.6                     |
| - % of National total | 100.0                            | 100.0                           | 100.0          |                          |

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*a* Provincial level and type information on wool fabrics, wool yarn and wool blankets was derived from Zhang (1990) and so based on 1988 data. The number of wool spindles is for 1991.

*b* Percentages for fabric type (worsted, woollen) do not include the Chinese categories of plush and lambsdown and so do not add up to 100 in all cases.

Sales of output from these mills rely not only on local consumption but also on retail markets throughout China. The remote, border regions are sparsely populated by Chinese standards with the total population of XUAR, IMAR and Gansu being 59 million or only 5 per cent of the national total in 1990. A wide and growing disparity in incomes has arisen between these pastoral provinces and urban areas in eastern and south eastern provinces. In general, the average per capita consumption of wool fabrics and knitting wool in Chinese rural areas is five times less than that in urban areas (Zhang 1994). In the long term, faster rates of growth in population and a reduction in the disparities in per capita incomes and hence wool textile consumption may enhance the significance of the local market for up-country mills. Nonetheless, for the foreseeable future the fortunes of the up-country mills will continue to be integrally linked with wool-product markets throughout China. In the past, little of the output of these mills has found its way onto export markets but the recent reforms outlined below could open the way for the up-country mills to become more export oriented.

### 3.1 Wool and Wool Textile Production in the XUAR, IMAR and Gansu

The XUAR produces around one-fifth of China’s greasy wool or 48kt per annum. About 35kt of this wool is suitable for worsted or woollen manufacturing, the remainder being coarse wool from native sheep which is used mainly in the production of carpets, upholstery and felt. Over 200 State farms represent the core of the wool production sector in XUAR since they typically raise the better sheep and produce the better wool. In 1992, the 36 wool-processing mills in XUAR accounted for around 100,000 spindles (65,000 worsted spindles, 18,000 woollen spindles and 17,000 yarn spindles). Two distinct types of mills exist in the XUAR. First, large and medium-sized textile mills are located in the wool producing areas, including Yili mill in Yining city with 15,000 worsted spindles,
August 1 mill at Shihezi with 15,000 worsted spindles, XUAR No. 1 mill at Changji with 11,300 worsted spindles, and other medium-sized mills at Aksu city and Urumqi. Second, since the mid-1980s, integrated woollen mills with an average size of only 300 to 400 spindles have developed at the county level. In 1992, over 13 million metres of fabrics (worsted and woollen), 4kt of yarn and 300,000 blankets were produced in the XUAR. Like other inland producing regions, the XUAR produces a much higher proportion of worsted fabrics relative to the national average (Table 1). In comparison with IMAR and Gansu, however, most of the wool fabrics produced in the XUAR are pure wool rather than blends with synthetics.

Although, as discussed below, wool import policies have changed over time, up-country mills, in general, have had little access to imported wool. In the first half of the 1980s, XUAR had an import quota of around 0.5kt with a peak of 0.9kt. Most of the quota was used to purchase New Zealand wool (average fibre diameter of 35-38 micron) for manufacturing into knitting yarn, although imports of up to 0.3kt per annum of Australian fine wool (average fibre diameter less than 25 micron) also occurred. The "self produce, self process and self sell" policy introduced in 1985 effectively led to there being no state allocation of imported wool to XUAR between 1985 and 1991. Nevertheless, since 1985, around 0.2 to 0.3kt of imported wool per annum has been used by XUAR mills. This imported wool has mainly been purchased from other Chinese mills or provincial textile industry corporations. However, on some occasions the XUAR textile industry corporation has been able to exchange XUAR wool, generally of higher quality than other domestically grown Chinese wool, for imported wool held by other provincial textile industry corporations. Relaxation of the "self produce, self process, self sell" policy in 1992 resulted in XUAR receiving a quota allocation of 0.6kt. The restricted access to imports has been one of the reasons for the lack of wool textile exports from the XUAR, with exports representing less than 1 per cent of wool textile production in XUAR prior to 1992.

The IMAR is the largest producer of wool in China with an annual output of 60kt of greasy wool or around one-quarter of China’s total wool production. Total wool spindles in 1991 amounted to 71,900. The major mills are located in the capital Huhehot or near cities in the Eastern Grasslands areas of IMAR (such as Chifeng City and Tong Liao). Worsted fabrics are again the major fabrics produced, although wool textile mills in IMAR use more synthetics and produce more blends of wool and synthetics than in XUAR (Table 1). The "self produce, self process, self sell" policy of the mid-1980s resulted in minimal import quotas for the IMAR. Most imported wool is used in the production of export products with the remainder going to domestic worsted fabrics and hand-knitting woollen yarns (using 48/50 count wool). During the 1985 to 1992 period, access to imported wool was restricted to that which could be obtained from other mills in eastern and southern China. Joint venture operations have recently provided some access to imported wool especially for the large mills in Huhehot. As in XUAR, the restrictive import policies have limited the foreign trade sector. Although joint ventures have facilitated minor exports of wool products from the IMAR in the past, further exports are constrained by the lack of access to imported wool. Little of the domestically-grown wool is of sufficiently high quality to enable it to be made into products suitable for overseas markets.

Gansu produces much less wool than either the XUAR or IMAR with total output of greasy wool being 15kt (or 6 per cent of the national total) in 1991. Nevertheless, Gansu has a long history of wool processing with some of the largest and oldest wool textile mills in the country being located in this province. Of the 80,000 spindles in Gansu, 30,000 are for worsted production and 40,000 for woollen production including blankets. Most of the wool is processed at two large (State-owned) mills in the capital, Lanzhou, namely the Gansu No.1 mill with almost 17,000 spindles and the Gansu No.3 mill with 20,000 spindles. Yarn output, both woollen and worsted and including synthetics, is around 6kt per annum. Gansu mills use
a much higher proportion of synthetics in their wool fabrics than either XUAR or IMAR reflecting, among other things, a larger production of chemical fibres in Gansu. At present levels of plant utilisation and with current blending policies, the Gansu mills require about 5kt (clean wool equivalent) of raw wool each year. Half of this requirement is met by wool produced in Gansu and half is purchased from other provinces or provided by imports.

Being a less important wool producer and having a long history of textile processing, Gansu has enjoyed relatively more favourable access to imports than either XUAR or IMAR. Nonetheless, an import allocation of around 1kt clean represents only one-fifth of the total current demand for wool by Gansu mills. Much of the imported wool goes into the production of worsted materials for export of which 70 per cent to 80 per cent are pure wool. The Gansu textile industry corporation which is primarily responsible for the purchase of wool imports has traditionally made its purchases through CHINATEX (China National Textiles I/E Corporation). Other small local trade companies exist but these organisations also tend to operate through CHINATEX.

3.2 Equipment and Labour Problems

The up-country textile mills found themselves in an unfavourable state at the start of the 1990s and this situation will greatly hinder their ability to respond vigorously to the recent reforms aimed specifically at freeing up the wool market. Furthermore, it has also placed the mills under great pressure from other general economic reforms such as those directed at improving the efficiency of State-owned enterprises including the changes to MOTI referred to in Section 5. In 1990, wool textile mills in XUAR incurred a total loss estimated at 66 million yuan and the profitability of XUAR mills has improved only slightly since that year. The small-scale mills at the county level were hit particularly hard and many were forced to close. In Gansu, one-third of the mills incurred losses in 1991 and a similar situation existed in the IMAR. The problems were not confined to the up-country mills but were pervasive throughout many of the State-owned east coast mills as well as the township-enterprise sector. Indeed, the whole Chinese textile industry began the 1990s in a state of crisis (Zhai 1991).

To address some of the problems, MOTI introduced a series of measures designed to improve mill efficiency in the 8th five-year-plan (1991-95). Both short-term problems arising from excess capacity and low demand as well as longer-term problems related to mill efficiency were targeted. Among the measures was an edict that no new capacity would be sanctioned with emphasis instead to be placed on the modernisation of existing capacity. In addition, punitive measures including cuts to energy supplies and finances were to be imposed on managers of plants with finished product stocks who refused to lower production and adopt new technology (Zhai 1991). The tough measures implemented by MOTI placed great pressure on existing mills to improve their efficiency and hastened adjustment to the excess industry capacity. Although a renewed growth in domestic demand for wool products since 1992 may relieve some of the under-utilisation problems, pressures for modernisation and structural adjustment are expected to continue.

Although some of the bigger up-country mills had been undergoing re-equipment during the 6th and 7th five-year-plans (1981 to 1990), much of the textile machinery still in use was only capable of producing low quality products. Furthermore, mill efficiency was low with top-to-noil ratios below 85:15 even with imported wool. (Most Australian mills, for example, achieve a top-to-noil ratio above 90:10.) The heavy losses incurred from 1989 onwards have limited the capacity of even the best up-country mills to service past loans and have largely precluded further investment in new machinery under the 8th five-year-plan (1991-1995).

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2 The yuan was equivalent to AUD$0.27 in 1990.
Outdated equipment not only impacts on mill efficiency, it also limits the potential for effective use of imported wool. Poor quality locally made spindles, scours and combs lessen the potential of imported wool to improve product quality. The older, up-country mills have experienced difficulties in fully adopting new technology, while many of the small county operations developed around second-hand or outdated equipment. Furthermore, almost all combs in China are French combs while the spindles are of the ring type. Although this equipment suits a broad range of domestic wools because they are rather short in the staple and of medium fibre diameter, it is not conducive to converting longer-stapled and finer imported wool into high quality fabrics. Further development of wool processing based on imported wool by many of the up-country mills (and indeed many other mills in China) may require the re-equipping of these mills with more appropriate machines.

The introduction of new technologies and equipment requires commensurate changes in the structure of the workforce of the mill and an upgrading of skill levels. However, the existing labour system for State-owned enterprises inhibits a smooth modernisation of the mills. Labour arrangements based on seniority rather than merit and the employment of cohort groups on a "for-life" basis have hampered efforts by State-owned enterprises to improve their efficiency. An even greater burden arises for individual State mills because they must make provision for their retired workers both financially and in other areas such as medical care. The economic reforms since 1978 heightened the problem as they encouraged retirement while not providing for the collective funding of retirement benefits. The older State-owned mills typically are responsible for a large number of retired workers with mills established prior to 1949 typically having a ratio of productive workers to retired workers of less than 3 to 1 (Davis 1988). In XUAR, retirement benefits at wool textile mills range from 75 per cent of full salary for those employees with less than 30 years of service and who retire early, up to 100 per cent of full salary for employees with more than 30 years of service (Longworth and Brown 1995). The welfare obligations along with the inflexible labour arrangements greatly hinder the State-owned mills in responding to the competitive pressures implicit in the latest policy reforms outlined below. However, welfare obligations and labour arrangements also discriminate among mills based on age and status (State-owned versus township or other collective enterprises) in meeting these competitive pressures. China is currently grappling with the issues of labour market reforms and provision for the elderly, but given the demographics of the Chinese workforce and changes in Chinese society in relation to traditional filial care, there are major difficulties ahead (Wen-Hui 1987). A holistic approach to the resolution of these problems is needed if State-owned enterprises, including the up-country wool processing mills, are to meet the competitive pressures confronting them.

4. Reforming Domestic Wool Marketing

Apart from equipment and labour problems, the viability of up-country mills has come under increasing pressure as a result of the inefficient marketing system for domestic wool. The quality of domestic wool has declined progressively throughout the 1980s and early 1990s while mills have been forced to pay unrealistic prices both in an overall average sense and in terms of price differentials between grades.

Far from encouraging an improvement in wool quality, past marketing arrangements for wool grown in China have worsened it. Greasy wool has customarily been purchased from herdsman on a greasy weight basis with little or no attention being given to the degree or nature of contaminants in the wool nor to fibre strength. As a result, clean yields are extremely low by international standards, often below 40 per cent, and there is a considerable amount of tender wool. The high level of contamination increases the costs of scouring and raises the possibility that the fibre will be irreversibly damaged during scouring. Furthermore, although the simple grading system which has been used for many years places some emphasis on staple length,
the price premiums and discounts between the grades have provided little if any incentive for the production of longer staple wool. Mill managers report that the declining weighted average length of fibres and the tendency for the proportion of short fibres to increase (due to breaks in the wool) are increasingly serious problems. The Chinese clip also includes a large amount of discoloured wool and heterogeneous wool.

The non-uniformity of length and fineness impact adversely on mill efficiency. For example, several mill managers estimated that it reduced the conversion rates of greasy to clean wool by around 3 to 4 per cent, scoured wool to tops by about 3 per cent and tops to fabrics by 2 per cent. Given the imprecise nature of the simple grading system by which wool is purchased from the growers, the high degree of heterogeneity requires that most wool (especially that destined for worsted processing) be re-sorted at the mill thereby imposing a significant cost on mills. Furthermore, it means that mills are not fully aware of the exact characteristics of the wool they acquire at the time of purchase which creates problems in matching purchased raw wool supplies to the desired mix of output products.

Considerable efforts have been made in the areas of sheep breeding and management, including a number of Australian development-aid and collaborative-research projects (Lehane 1993) with the objective of improving the quality of domestic wool. The crux of the problem, however, lies more in past marketing systems which, as already mentioned, have offered no incentive for herdsman to supply wool of better quality. The quality of wool deteriorated throughout the 1980s as herdsman, with greater control over their production and management under the household production responsibility system, responded to what were effectively quality disincentives in the marketing system. For example, textile industry officials in XUAR claim that in the early 1980s the typical staple length of domestic wool was around 7cm but that this fell to only 6cm by the early 1990s. Longworth and Brown (1995), Lin (1993), Watson and Findlay (1992) and Connolly and Roper (1991) discuss various problems created by the marketing arrangements for Chinese wool which have operated for many years.

The whole wool textile industry encountered great financial difficulties in the 1989 to 1992 period but the situation was especially acute for the up-country mills. The crisis in up-country wool mills hastened the introduction of some key reforms to wool marketing. Among these reforms have been a liberalisation of the Chinese raw wool market and the development of a new grading system to be used when wool is purchased from the herdsman.

### 4.1 Liberalising the Chinese Raw Wool Market

Wool was classified as a category II commodity from 1956 to 1985. Commodities in category II were subject to State plans and administered pricing (Sicular 1988). Specific production quotas were set for these commodities and the quotas were procured by the State at set prices. Over-quota production was usually purchased by the State procurement agency (that is, the Supply and Marketing Cooperatives (SMCs) in the case of wool) at negotiated prices which in practice seldom varied from the official State price paid for quota production.

In 1985 the Central government suspended the category II classification for wool. Provincial governments were given the authority either to continue with administered pricing and production quotas or to allow a free market to develop for wool. Some provinces such as Liaoning and Gansu declared their wool markets to be free while others, notably XUAR and IMAR especially under the "self produce, self process, self sell" policy, refused to allow free trade in wool. The situation was further complicated because the degree of control over wool marketing varied even within provinces. In Gansu, for example, the county government in one of the most important wool-growing counties, Sunan, refused to allow a free market to develop for wool. The result was the emergence of "black markets" and a period of generally chaotic market-
ing from 1986 to 1988 (inclusive) commonly called the "wool war" period (Watson and Findlay 1992).

The collapse of the raw wool market in China from the middle of 1989 led to the re-introduction of administered pricing and once again the SMCs became the only purchaser of wool in most areas. The State was forced to subsidise the holding of large stocks of raw wool by the SMCs between 1989 and 1992 and a major share of this burden fell on the provincial governments.

Once the wool market began to improve in 1992, the governments of the major wool-growing provinces grasped the opportunity and declared that hence-forth their wool markets would be open to free trade. However, as in 1985, not all local governments have accepted the idea.

There have traditionally been three major obstacles to the elimination of administered pricing for wool. In many pastoral localities the SMCs are the major (often the only) agribusiness organisation of any substance. The SMCs not only buy most of the pastoral products, they also supply most of the purchased inputs and necessities of daily life. They are a critically important social as well as economic institution in many pastoral communities. The first obstacle to free trade in wool is, therefore, the threat such a change poses for the economic viability of the SMCs. Under the traditional administered pricing arrangements the SMCs were assigned a fixed 27 per cent marketing margin between the State price paid to growers and the mill-door price at which the wool was sold to textile manufacturers. Of this mark-up, 17 per cent was retained by the SMCs and 10 per cent was paid to the county government as a wool product tax. Since the mark-up was set in percentage terms, the SMCs and the county governments stood to benefit greatly when the administered price of wool rose rapidly between 1985 and 1988 provided, of course, that the SMCs could retain their monopoly over the purchasing of wool.

From the viewpoint of county governments, it is much easier to collect the 10 per cent wool-product tax via the SMCs than from a multiplicity of buyers in a free market. This is the second serious problem to be overcome in the move towards a deregulated wool market. Indeed the chaos during the wool war period was primarily the result of local governments trying to protect the SMCs and, in turn, retain control over a major part of their fiscal base as wool prices, marketing margins and wool tax revenues were all rising rapidly.

The third obstacle to freeing-up wool prices relates to the income distributional effects of changing the price differentials which have traditionally existed in the administered pricing schedules for wool. Administered prices for wool have always been set by establishing the price for a base grade of wool and then using the quality differentials enshrined in the National Purchase Standards to calculate the premiums and discounts paid for higher or lower grades (Longworth 1993; Longworth and Brown 1995). The overall price level and especially the price differentials between grades often bore little resemblance to market realities. In particular, the grade-price-differentials were strongly biased in favour of the lower quality wool which was produced by the vast majority of individual households. A completely free market would significantly increase the extent to which the lower grades of wool were discounted. While this would greatly increase the incentive for growers to upgrade the quality of their wool in the longer term, in the short-term it would have a potentially serious impact on the household incomes of the vast majority of wool producers. As Longworth and Williamson (1993) point out, many of these households belong to minority nationalities and the political consequences of a wool marketing reform which significantly lowered their incomes are potentially serious, especially at the local level.

It is not surprising, therefore, that local governments and the grass roots SMCs have resisted the opening of the wool market. Nevertheless, since mid-1992, all major wool-growing provinces have officially eliminated administered pricing for wool. The consequences of this decision need to be moni-
tored carefully by foreigners seeking to understand the political economy of wool in China.

Prior to liberalisation, some State farms and mills were allowed to experiment with direct sales. In XUAR and IMAR in particular, these direct sales have proven to be mutually advantageous and following deregulation of the wool market, a significant proportion of wool grown on State farms is likely to be sold direct to mills. Substantial problems would arise, however, if the direct sales approach was to be extended to the majority of Chinese wool which is grown by an extremely large number of individual households dispersed over a vast region and each of which produce small lots of heterogeneous wool. Mills cannot afford to employ enough qualified buyers to extend the scope of the direct sales. As a result many new marketing intermediaries have entered the domestic wool trade in competition with the SMCs, and their share of total wool purchases has fallen sharply from greater than 90 per cent prior to liberalisation to around 50 per cent. However, the agribusiness infrastructure needed to cater properly for the special characteristics of Chinese wool production, such as wool wholesale markets, interlotters and brokers, is yet to emerge.

Wool auctions are another marketing channel which has been developed on a trial basis since 1987 (Longworth and Brown 1995). Auctions offer the potential for mills to source more appropriately the wool that they require. In spite of this potential, auctions have not become a major marketing channel, never accounting for more than 1 per cent of all Chinese wool and being confined entirely to the best wool from the State farms. Indeed, since 1992 wool auctions have virtually been suspended as the small number of mills and State farms that previously participated in the auctions have apparently found direct sales more attractive (Zhang and Niu 1994).

4.2 Improving Wool Grading

A complete liberalisation of the Chinese raw wool market, even if achievable, may not be sufficient to establish an efficient pricing system for raw wool. For the true value of the various types of wool to the mills (and ultimately to the consumer) to be transmitted back to growers, there must be an appropriate grading system in place. Furthermore, the mills and others trading in raw wool must have confidence in the grading system which requires that there exist an impartial and trusted fibre inspection service to certify the grading of wool.

Prior to December 1993, wool was purchased from herdsmen according to a set of elementary and unscientific standards known as the National Wool Purchase Standard. This simple grading system divided wool according to fibre diameter (fine wool and semi-fine wool) and the degree of wool homogeneity (homogeneous and non-homogeneous wool) with provision for two quality grades within each of the four groups (Longworth and Williamson 1993). Mills have long found the purchase standards too imprecise, and they are often forced to re-sort the wool according to a different set of standards known as the Industrial Wool-sorts Standard. Little correspondence exists between the National Wool Standards and the Industrial Wool Sorts. Longworth (1993) showed that even the more homogeneous wool under the National Wool Purchase Standards needed to be re-sorted into many different categories under the Industrial Wool-Sorts Standard. Information obtained from the same mill investigated by Longworth for a different time period also revealed that the distribution of purchase grades into industrial grades varies through time (Longworth and Brown 1995). Thus mills face a major problem in valuing any particular lot of raw wool described in terms of the Purchase Standards because there is only a limited correlation between the grades applied at the time the wool is purchased from growers and the grades required for manufacturing.

To address the imprecise nature of the National Wool Purchase Standard as well as other standards such as the National Top Standard, officials involved in the wool industry in China have been engaged since 1989 in re-drafting the almost 20-year-old standards. A new national standard for the
purchase of raw wool from herdsmen was issued in April 1993 and introduced from December 1993. The new standard classifies wool according to fineness, length, grease level and percentage of weathered wool (Longworth and Brown 1995). While the new purchase standards reflect more meaningfully some of the characteristics of wool which determine its value to mills, it will take some time before it can be implemented nationwide. Initially at least, it will probably strengthen the position of the SMCs in wool buying. When the major wool-growing provinces declared their wool markets open in 1992, they introduced a system of registration for wool-buyers to prevent a return to the chaotic situation which existed with the buying of wool in the 1986 to 1988 period. From December 1993, one criterion for registration will be the possession of a certificate demonstrating that the person seeking to become a registered wool-buyer has attended an official training program on the new purchasing system. Relative to many other individuals and units interested in buying wool, the SMCs are in a good position to ensure that their staff undertake the training necessary to become registered buyers. In the short-term, therefore, the introduction of the new purchasing standards will indirectly limit the degree to which others compete with the SMCs for raw wool supplies.

5. Restructuring the Bureaucracy

In April 1993 the Government of the People’s Republic of China announced a major restructuring of national ministries. Several of these changes will have profound implications for the Chinese wool market.

One of the key changes in this regard involved a restructuring of MOTI as an industry association known as the China National Textile Council which is directly responsible to the State Council. Traditionally, MOTI has controlled the processing of wool tops, wool yarn, knitwear, wool fabrics, wool clothing and woollen blankets. The change in name and the down-grading of the status of the former Ministry to an industry association is intended to reflect a move away from the predominant planning role of MOTI towards a greater emphasis on the provision of technical services and marketing advice. It is understood that the large number of State-owned textile enterprises which were formerly under the control of MOTI will henceforth be called upon to "fend for themselves" without Central government subsidies. In most cases, at least in the short-term, these large State-owned mills will continue to be supported by provincial governments because they are so important to the local economy in many areas. In the longer-run, however, there is likely to be considerable rationalisation as mills with antiquated equipment or other structural problems are squeezed out of the industry. As the State-owned mills are forced to become more entrepreneurial, many will be seeking foreign joint venture partners.

Another set of changes in 1993 which will have a profound effect on the Chinese wool trade was the decision to downgrade the functions and resources of the Ministry of Foreign Economic Relations and Trade (MOFERT) and the Ministry of Commerce. MOFERT, which will now be known as the Ministry of Foreign Trade and Economic Co-operation, has traditionally controlled raw wool imports and wool product exports. While the degree of centralised control exercised by MOFERT over wool trade has varied in recent years, this Ministry has been seen by both Chinese textile mills and by foreign suppliers as a major "bottleneck". If the recent reforms in relation to MOFERT lead to a continued relaxation of controls over the extent to which Chinese textile mills can purchase directly from foreign suppliers, the changes will shorten the lines of communication between buyers and sellers. Mills, like the "up-country" mills, which have previously not operated directly in international markets may soon have the opportunity to do so.

The restructuring of the Ministry of Commerce as the Ministry of Internal Trade will have important consequences for the Chinese wool market. The former Ministry of Commerce was responsible for controlling the wholesaling and retailing of wool textiles, wool garments and non-apparel products. The new arrangements are expected to accelerate
the trend towards a much less regulated market for the products of the wool textile industry. The Ministry of Commerce also had strong links with the major purchasing agencies for raw wool in China, the Supply and Marketing Co-operatives (SMCs). With the freeing-up of the domestic marketing arrangements for raw wool briefly described above, the SMCs (which in most provinces were a branch of the Ministry of Commerce) have been subjected to increasing pressure from other entities interested in competing for the available domestic supplies. It is not impossible to imagine foreign buyers (from Hong Kong and Taiwan for instance) entering the Chinese domestic raw wool market, initially perhaps as participants in Chinese wool auctions (Zhang and Niu 1994).

6. Reforming Importing Arrangements

While it is easy to exaggerate the impact on the wool trade of the move to a single exchange rate and the reduction in tariffs, these two decisions have attracted a great deal of attention outside China. Perhaps more important, however, have been the subtle and almost unofficial ways in which the Chinese wool importing arrangements have been liberalised since 1992.

6.1 Exchange Rate and Tariff Policy Changes

China commenced 1994 with major changes to its exchange rate system and with significant reductions in wool tariffs. Throughout the 1980s, China effectively operated a dual currency system with a local and foreign exchange component. The Central government rationed foreign exchange at an (overvalued) official rate. To overcome some of the inefficiencies associated with this rationing, legal secondary markets for foreign exchange developed in the second half of the 1980s. The transaction costs of operating in the secondary markets have been considered an impediment to both raw and semi-processed wool imports and wool product exports (Martin 1992, Morris, Roper, Short, Proctor and Connolly 1993). In 1994, a single currency was introduced although the extent to which the exchange rate will be allowed to adjust freely remains unclear. Introduced at the same time as the exchange rate reforms, the five percentage point fall in tariffs reduced the tariff on raw wool by one-third and on semi-processed wool by one-quarter. Tariffs not only have the potential to distort relative prices of imported versus locally grown raw materials but, since 1992, they have also distorted end-use markets (domestic versus export) as a result of the provisions which allowed wool used in the production of export goods to be imported duty free.

The potential beneficial impact of lower wool tariffs and foreign exchange reforms on wool imports are likely to be greatest on mills producing for the domestic market such as the up-country mills. Joint ventures and other mills producing for the export market gain little directly as they already import wool duty free and, as exporters, have access to foreign currency. On balance, however, other factors may be more important in determining future levels of wool imports than a rather modest fall in import duties. The impact of the foreign exchange reforms are more difficult to ascertain, not least because of the uncertainty surrounding the nature and extent of the reforms themselves and the economy-wide effects these reforms may have (Martin 1992). Nevertheless, the currency reforms should make importing easier for mills wishing to use local currency to purchase foreign wool, including many of the up-country mills.

6.2 Freeing-up the Importing System

Arrangements for importing wool into China in the 1990s reflect a system in transition. A widespread recognition of the shortcomings associated with the old highly-centralised arrangements have fuelled the changes. Chinese officials consider that they face the dilemma of distorting development of the wool textile industry under excessive controls or creating a chaotic trading environment under completely open arrangements. Consequently, while the State has been reluctant to forego centralised controls over wool imports, instead it has allowed
enough "loopholes" in the arrangements to facilitate growth in imports so as not to overly restrict development. This de facto freeing-up of import markets exerts different impacts across the wool-processing sector as some mills are more able to respond to the loopholes than others. The effects vary markedly between joint venture mills and non-joint ventures, between mills producing for the export market and those producing for the domestic market, and between up-country mills and the east coast mills.

The evolution of the system for importing wool parallels, to some extent, changes in the marketing of raw wool. Prior to 1980, imports were tightly controlled at the central level. Mills sought permission from MOTI and their local Economic and Planning Commission to import wool. The State Planning Commission, based on information from MOTI, set a national quota and authorised agencies under MOFERT to import the wool. Specifically, CHINATEX was authorised to organise all fine wool imports and the Animal By-Products Import-Export Corporation was given responsibility for non-apparel wool imports. Since 1984 the China Resources Corporation (based in Hong Kong), Nam Kwong (Macao) and CHINATEX (Sydney office) have acted as "agents" for CHINATEX. The growth in the wool textile industry in the 1980s led to an easing of import controls in order to facilitate the growth in imports. Indeed, by the mid- to late-1980s, many different organisations were involved in importing wool with little co-ordination among them or little control over them (Wilcox 1994). The decline in domestic demand in 1989, however, motivated the Central government to re-centralise control over wool imports. Initially this occurred through the China Wool Group which consisted of CHINATEX, the Animal By-products Import-Export Corporation and the major provincial foreign trade corporations on the east coast.

The re-centralisation of import controls was unpalatable for many mills which had become increasingly dependent on imports during much of the 1980s. Moreover, provincial foreign trade corporations resented being forced out of wool importing or, at best, being compelled to operate through the China Wool Group. Consequently, pressure built up for an easing of import controls including the disbandment of the China Wool Group. Wilcox (1994) outlines the decentralisation of wool import arrangements and growth in wool imports in the 1990s. Official import quotas expanded from a low of 45kt in 1990. More importantly, various arrangements were developed which allowed imports outside the official quotas making them more indicative than regulatory. The most important "loopholes" exist for mills producing for the export market. Subject to authorisation, mills can import wool duty free provided that it is used for making products for the export market. Joint venture mills do not require an import permit and can deal directly with overseas wool suppliers. The administrative difficulties associated with identifying the precise amount of imported wool used in any particular export product offers scope for considerable abuse of the rules. Numerous anecdotal examples exist of mills diverting imported wool from a single production line destined for export and operated as a joint venture, to other product lines being manufactured in the mill for the domestic market.

The major potential for new markets for Australian wool, however, lies in wool imported by Chinese mills producing for the domestic market. Obtaining imported wool for domestic uses is more problematic. Nonetheless, the source of these imports has been expanded and decentralised from CHINATEX and its agencies. MOTI has begun to compete with the import agencies connected with MOFERT through its own trading companies, notably the China Textile Resources Company and the Beijing Xie Li Textile Limited Corporation. Many provincial foreign trade corporations also now have authority to import wool and sign contracts, although in some cases it applies only for wool to be used in products for export. Intermediate wool trading corporations, which previously operated as raw material allocators for the State, now act as wholesalers of imported wool by buying large shipments of imported wool which they then offer to mills in the form of smaller quantities and
on a regular basis. Access to finance, storage and handling infrastructure, and influential contacts enable the intermediate wool trading corporations to perform these wholesaling services. Apart from these larger State organisations, a plethora of small trading companies exist and operate in a so-called "secondary" market. According to Wilcox (1994), these companies were highly active in the second half of the 1980s, disappeared when the government re-centralised control in 1989 and have since re-emerged with the push for more open markets. With no direct authority to import, the small trading companies have to purchase wool from approved importers. Development of the secondary markets has been enhanced by the improvements in communication technology. However, they still tend to be relatively poorly developed and many of the traders are indifferent to detailed specifications of the wool exchanged.

Starved of access to official channels for imported wool, up-country mills have sourced their imported wool indirectly through intermediaries either by negotiating with other provincial foreign trade corporations or by operating in the intermediate or secondary markets. The transaction costs of operating in such markets and the problems in obtaining wool true to the specifications ordered, have discouraged these mills from using imported wool. As the up-country mills and other mills producing for the domestic market are allowed to gain more direct access to foreign suppliers their ability to obtain imported wool of appropriate specifications should improve. Other things being equal, the result should be a significant growth in the total Chinese demand for imported wool.

6.3 Implications for Australian Suppliers

The emergence of many independent Chinese buyers to replace the monolithic CHINATEX organisation creates new opportunities but also new uncertainties for Australian and other foreign suppliers. Previously, exporters could focus their attention and activities on CHINATEX or its agents. Now they must deal with many new and often previously unknown participants. Transitional problems have already emerged. Power (1993), citing the Australian Council of Wool Exporters and various wool brokers, claimed that in 1992 there had been major problems with wool contracts worth a total of about $25 million and accounting for 6 per cent of Australia's wool trade with China. The breaking of these contracts was linked to individual mills and textile companies dishonouring or re-negotiating contracts following a fall in auction prices. The immediate response of Australian exporters was to seek solutions at the diplomatic level. Given the emerging decentralisation of import arrangements discussed above, little can be achieved by diplomats. A lasting resolution of these trading problems calls for forging closer links and greater understanding between the participants in the market.

Under the old centralised import arrangements, mills applied through provincial textile industry corporations to import wool. Most mills specified fineness, length, vegetable matter and, on rare occasions, strength. For scoured wool and top imports, colour and style were also specified. The administrative arrangements meant that mills had to place orders by September for wool supplied in the following year and waited up to 6 to 9 months during which time they could not alter specifications. Conversely, CHINATEX or its agents could and did adjust specifications. Mills often received wool from CHINATEX which did not match the specifications in their orders. Although such wool could be rejected, the general lack of access to imported wool meant that the up-country mills often accepted almost any type of imported wool.

Importing through the decentralised channels which have emerged since early 1992 does not resolve these problems for the up-country mills. The rapidly developing, highly competitive but relatively disorganised nature of the secondary and intermediate markets means that precise specifications are often given a low priority (Wilcox 1994). Even excluding the possibility of fraud, there exists several points in these markets where mis-specification or simply a loss of specification details can arise. While the access to imports remains artifi-
cially constrained by government regulations and demand for imported wool is strong, there is little incentive for the decentralised traders to pay much attention to specifications.

Mis-specification is only one aspect of the problem. Another important issue arises because mills often place their orders in terms of minimum specifications. As a result the orders are filled by wool the bulk of which just meets the minimum specifications but which exhibits a great deal of quality variation. According to the Gansu textile industry corporation, at least one-third of the wool imported by Gansu mills from Australia barely meets the minimum requirements of the mills and exhibits substantial intra-lot variation. Because the variation is not uniform across all lots, individual mills experience even greater variability in the quality of their imported raw material.

The root causes of the specification problems are difficult to isolate. Various organisations both within and outside the Chinese textile industry blame different sources and often each other. For instance, some Chinese and Australian organisations claim it reflects a short-sighted strategy on behalf of some exporters who aim to meet only the minimal requirements of Chinese orders at the lowest possible cost; a claim levelled at Australian exporters of other commodities in the past. There are major long term benefits for Australian exporters if they are prepared to build trading relationships by demonstrating a commitment to this evolving market rather than exploiting market ignorance in the short run.

One area of specification of particular importance for Chinese mills is vegetable matter. The handling of certain burrs and grass seeds in Australian wool creates major problems for Chinese mills. Although Australian mills also encounter technical difficulties in regard to certain kinds of vegetable matter (Francis 1992), the scouring and carbonising techniques employed in China heighten the seriousness of the problem. Up-country mills are particularly susceptible given their outdated scouring and carbonising equipment, less well-trained technicians and dependence on poor quality, locally-made detergents (Brown and Longworth 1992). In order to purchase wool most suited to their needs and processing capabilities, up-country mills need to be well informed of the amount and type of burrs in imported wool. Difficulties in handling wool that contains large amounts of the undesirable kinds of burrs can outweigh the other benefits of imported wool and so deter future purchases of imported wool. Although burr content is identified in Australian wool marketing systems (subject to qualifications expressed in Francis 1992), such information can be lost in the import channels that exist in China.

Technical specifications are not the only casualty of the existing marketing channels for imported wool. Also at risk is the provision of information about prices, alternative purchasing channels, new testing and grading techniques, etc. Although CHINATEX and its agents disseminate some information through the local textile industry corporations, it is often limited in coverage and invariably outdated. The policies that isolated up-country mills from the foreign trade sector mean that many of these mills, including the more innovative ones keen to import wool, remain ignorant about aspects of Australian wool including purchase channels, price and auction information, and wool grading and testing. Mills need to be informed in much greater detail and on a much more timely basis if they are to make the most efficient use of wool imports. Specifying requirements based on outdated and limited price information for purchases arriving 6 to 9 months later is hardly an appropriate basis for decision making.

Although more direct channels of communication between Chinese mills and foreign suppliers may be desirable, they are not necessarily without costs. From the Chinese viewpoint, there are economies of size in centralised wool importing, in the provision of market information, and in the resolution of trade disputes. More importantly, centralised import handling may avoid the excesses of destructive, parochial competition for imports among mills and regions. Nevertheless, the centralised
arrangements of the past have imposed significant costs on the wool textile mills in China and have fallen well short of the needs of the industry in that they severely curtailed both the level of and efficient use of imports.

With the move to more open trading, new institutions are needed to support the new arrangements. To reap full benefit from the reforms, Chinese authorities need to facilitate and improve market channels, information flows and other service areas to enable individual mills to make appropriate purchase decisions in the more open trading environment. This is especially critical for up-country mills which, because of their location and history, have had less direct exposure to the foreign trade sector. Recent changes in the role and functions of MOTI (outlined in section 5) represent, albeit in a limited way, one potential move in this direction.

7. A Call for Action

The recent remarkable dynamism and growth exhibited by the Chinese wool textile industry is expected to continue and many observers such as Gammaiti, Bennett and Price (1993) claim China has the potential to become an even more dominant market for Australian wool. In this regard, recent trade and market reforms, by improving the prospects for further Chinese wool imports, especially those oriented to the key domestic market, should advance the cause of the Australian wool industry. Gearing up for an increase in trade with, and a much greater reliance upon, a market not known for its stability in the past, calls for substantial investment in understanding all aspects of the Chinese wool and wool textile industries.

Many of the policy related impediments which impact on Chinese wool imports are beyond the control of the Australian wool industry. However, there is still much the Australian industry can do to facilitate imports. For instance, much greater technical assistance could be provided to help overcome some of the problems faced by Chinese mills in efficiently processing imported wool. In particular, the up-country mills and other mills primarily producing for the domestic market need to be given much greater attention. Such assistance should not be confined to spinning and scouring technology but extended to other less obvious areas such as fibre inspection. The need for such assistance will grow as the flow of wool imports expands and extends beyond joint venture mills and the more advanced mills.

Apart from technical assistance, another area warranting involvement from Australia is the provision of market information. It is in this field that the needs of domestic-market oriented mills such as the up-country mills may differ markedly from those mills with which Australian exporters have been most familiar in the past. Up-country mills are being weaned off policies which have insulated them from overseas markets. They face considerable problems in making the transition and are in desperate need of information. Their insulation from foreign markets means that they are largely ignorant about many aspects of the Australian wool industry, especially recent developments. And their official and unofficial networks for obtaining this information are poor.

The absence of well developed marketing infrastructure and information networks suggests that Australian involvement be pitched at a number of levels. Direct contacts between Chinese mills and overseas wool suppliers are needed to overcome the shortcomings of the existing marketing channels which result in mills not receiving the type of wool they require. Direct contacts would also promote a greater understanding among these key participants in the Australia-China wool trade about aspects of the trade, marketing and production systems in the other country. A better understanding and appreciation of each other's circumstances could build a stronger basis for trading arrangements which were less reliant on, and more insulated from, government policy decisions. However, in the absence of well developed information networks, developing contact with the broad range of Chinese mills that have the potential to import Australian wool is problematic for individual exporters. Thus there also appears to be a service role for an industry-wide organisation such
as the Australian Wool Research and Promotion Organisation in providing a central source of information for Chinese mills and Australian exporters and to facilitate direct contacts where appropriate. They could also serve to disseminate more widely the results of technical assistance carried out at specific mills in China, and support and promote the new service roles being mooted for the former MOTI organisation. Some of these efforts have already begun, but need to be hastened if the potential of the Australia-China wool trade is to be realised.

References


