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WORLD COTTON TRADE PROSPECTS TO 1990

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World cotton trade has trended upward since World War II, but is currently falling from a 1986/87 peak of nearly 26 million bales. In trying to assess what will happen to trade over the next 3 seasons, I begin with the assertion that world trade is determined primarily by what importers want to buy. Thus, it is the demand for textile products from countries that import cotton that is the chief long run determinant of world trade. I am also going to make an assumption that use of raw cotton is going to fall, at least in the market economies, sometime during the next several years. Lower consumption will mean less trade.

Imports Trending Higher

World cotton imports rose from about 17 million bales in 1960/61 to nearly 26 million in 1986/87. The average increase per year has been about 230,000 bales, although growth during the mid-1970's stagnated, and the increases since 1982/83 have been much greater. Imports last season and during this season are well above the 27-year trend, so on that basis alone, declines might be expected sometime during 1988/89-90/91.

The effects of rapid economic growth in the early 1970's and mid-80's on cotton mill use and, subsequently, imports are apparent by the peaks during 1972/73 and 1986/87. The rise in imports during 1986/87 was further boosted by the drop in cotton prices which encouraged increased stock holding by importers. The boost to world trade given by PRC imports in 1979/80, and the effects of the recessions in 1974/75 and 1980-82 are also apparent.

Turkey provides a well known example of a country substituting textile production for raw cotton exports. Since the mid-1970's, exports from Turkey have declined from over 1 million bales each year to only about 300,000. The reason has been an increase in domestic use, which has reduced the amount of cotton Turkey has had available for export. This change has been the direct result of

policies undertaken by the Government to promote the export of higher value added products. In the coming years, it is possible that the same phenomenon will occur in Pakistan, and exports by the PRC are likely to remain below the 3-million-bale mark reached during 1986/87.

Even though total trade has been rising, cotton imports as a share of world consumption have been dropping because of experiences like that of Turkey. Imports accounted for about 37 percent of world use in 1960/61, but only about 30 percent of world use will be supplied by imports during the current season.

Over the last 27 years, trade as a share of use has declined about one-fourth percentage point per year, and the trend is pointing to a share of less than 29 percent in 1990/91. If this tendency continues, world use would have to rise to 90 million bales in 1990/91 for world trade to match the 1986/87 level of 25.7 million bales. World trade is more likely to range between 22 and 25 million bales during 1988/89-90/91, with world consumption perhaps reaching 85 million bales by 1990/91.

Demand Due to Decline

Between 1984/85 and 1986/87, world cotton consumption rose 15 percent to 82 million bales. This increase was larger than can be explained statistically by growth in population and income alone. Cotton prices are not strongly correlated with changes in world cotton use. However, the steep drop in prices which occurred during the first half of 1986, along with shifts in consumer preferences to natural fibers, must have provided a boost to consumption.

During 1987/88, world consumption is increasing less than 200,000 bales because use in the PRC is dropping by 1.1 million. The Government of the PRC has ended special subsidies to encourage the non-mill use of surplus cotton. Cotton use outside the PRC is rising by 1.3 million bales or 2 percent during the current season, which is faster than the rate of population growth.

Declines in consumption may occur in several countries during 1988/89. The Cotlook A Index, which averaged 62 cents a pound during 1986/87, is expected to rise nearly 30 percent to about 80 cents a pound in 1987/88. Mill use does not respond quickly to changes in fiber prices because it is difficult to adjust spinning equipment to different types of fiber, and because mills purchase cotton months in advance of when it is actually spun. Much of the cotton being used in textile mills during August - December 1987, and even into 1988, was purchased in 1986 and early 1987, when prices were lower than they are now.

But the rise in cotton prices will eventually begin to affect use. During 1987/88, about 50 million bales of mill use will occur outside the PRC, the Soviet Union, Eastern Europe, Vietnam, Cuba and the Democratic Republic of Korea. Even if a one percent rise in cotton prices is assumed to reduce mill use by only one-tenth of

one percent, the 30 percent rise in prices which is occurring this season would reduce mill use in the market economies by 1.5 million bales during 1988/89.

In the United States, consumer spending has increased at twice the rate of other components of GNP since 1984, and the savings rate is at a post World War II low. Consumer spending will have to slow relative to income to rebuild the savings base back to more normal levels. The U.S. economy will influence the economies of other nations as well, since the United States is a major market for developing and developed countries. It seems that a reasonable forecast for the next few years would call for slower than average economic growth. This would imply lower cotton consumption and lower imports during 1988/89.

Importers Reducing Stocks From 1986/87 High

Imports by Japan rose from 3 million bales in 1985/86 to 3.8 million during 1986/87, as importers there took advantage of changes in the U.S. farm bill. During 1986/87, Japanese ending stocks rose to 17 percent of use, compared with an average of 10 percent during 1982/83 through 1984/85. The Japan Spinners Association estimates that during 1987/88, cotton imports will be a little over 3.2 million bales. This will bring the stocks-to-use ratio back down to about .09. During 1988/89, with consumption likely to drop to about 3.3 million bales, imports may also be about 3.3 million bales.

Imports by China(Taiwan) rose to 2.25 million bales in 1986/87, and some retrenchment seems likely. Imports are estimated at 1.8 million bales for 1987/88, and they could remain at about the same level during 1988/89, as stocks are held at about one-third of use.

In the Republic of Korea, imports are estimated down about 150,000 bales this season from 1.85 million bales in 1986/87. If consumption slides down a bit due to slower economic growth in the major end-use markets, Korean imports could decline another 100,000 bales in 1988/89.

In Hong Kong, imports rose to nearly 1.5 million bales during 1986/87, boosting Hong Kong stocks to 28 percent of use. The ratio of stocks to use is dropping below .2 this season, and imports during 1988/89 might fall below 1.2 million bales.

The same pattern is likely for the Federal Republic of Germany and Italy. Imports soared during 1986/87, and stocks-to-use ratios rose well above normal. Imports are declining this season to bring ending stocks back down to about 45 percent of use in Germany and 15 percent of use in Italy. With consumption likely to fall during 1988/89, imports are likely to either fall or stay unchanged.

An important determinant of the quantity of cotton that will be traded during the next 3 seasons will be production in the Soviet Union, and possibly also in Indonesia, Thailand and Spain. These 4 countries are the only cotton producers among the top 18 importing countries, and imports by the 4 producers totaled 3 million bales in 1986/87 or about 12 percent of world trade. Specific efforts are underway in each of the four to raise more cotton and import less.

In the Soviet Union, imports during 1980/81 through 1986/87 ranged between 100,000 and 800,000 bales. But imports during this season are likely to exceed 1 million bales. During the last decade, Soviet production has been as high as 13 million bales, but may fall to 11 million this season.

Agricultural officials in the USSR are embarking upon new programs to boost yields, including increasing the amount of land to be devoted to crop rotations. During the next few years, the likely result will be less land devoted to cotton and production of no more than about 12 million bales. With mill use rising -- long term plans call for a 30 percent increase in cotton yarn production by 2000 -- it is possible that imports by the Soviet Union will average above 1 million bales through 1990/91.

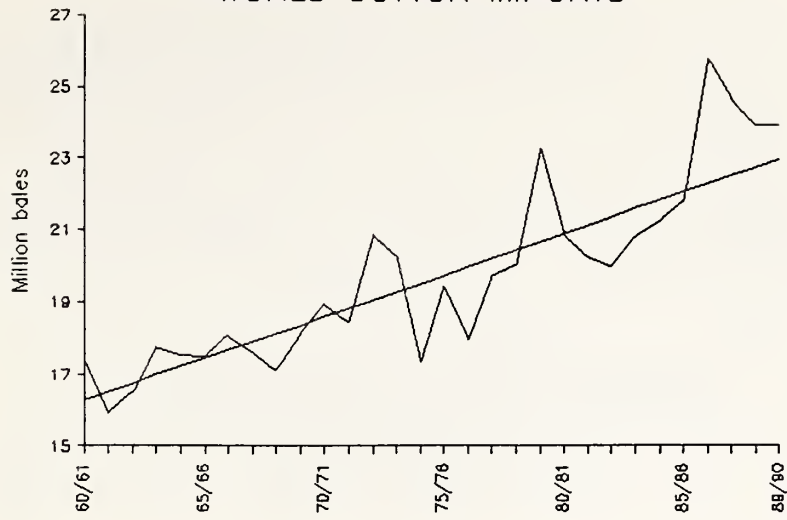
Indonesia and Thailand have the potential to produce more cotton than they do, and both have extensive research programs to boost yields and government programs to encourage expanded cotton acreage. Together, the two countries produce less than 200,000 bales while importing nearly 2 million. Large gains in production are not likely during the next three years, but the research programs could start paying off in the 1990's.

Spain is another importer whose production could rise. Since Greece joined the EEC, production has risen about 50 percent. If the same thing occurs in Spain, about 200,000 bales will be shaved from world trade.

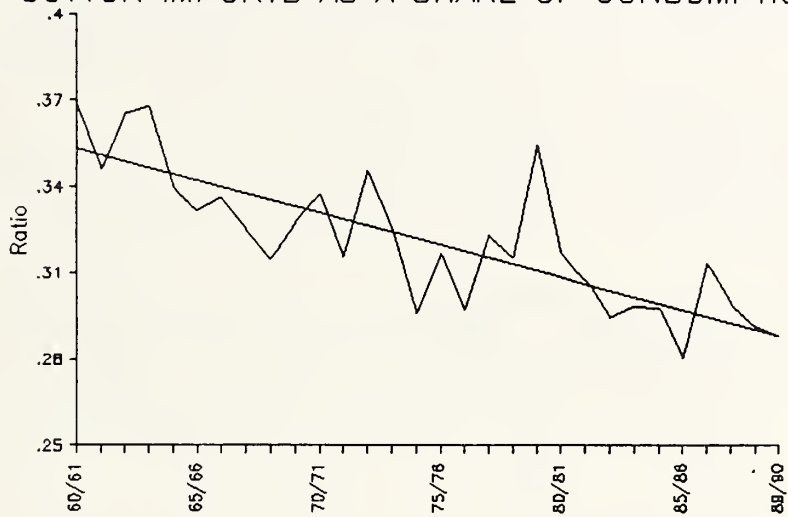
Trade Growth Likely to Resume by 1990

By the end of the 1988/89 season, stocks in importing countries will probably be fairly low and quantities imported will depend on the level of world demand for textile products. Assuming consumer demand is strengthening at least by 1990, trade could start rising in the second half of the 1989/90 season. Demand could be even stronger by 1991. Cotton consumption could reach 85 million bales that season, and trade could be back up to around 24 to 25 million bales. This would imply a ratio of world imports to consumption of a little less than 29 percent, which is about what present trends imply.

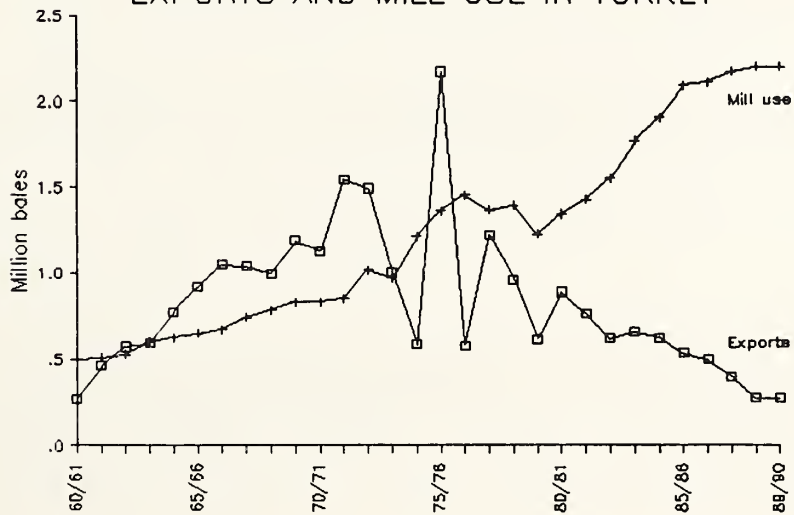
WORLD COTTON IMPORTS



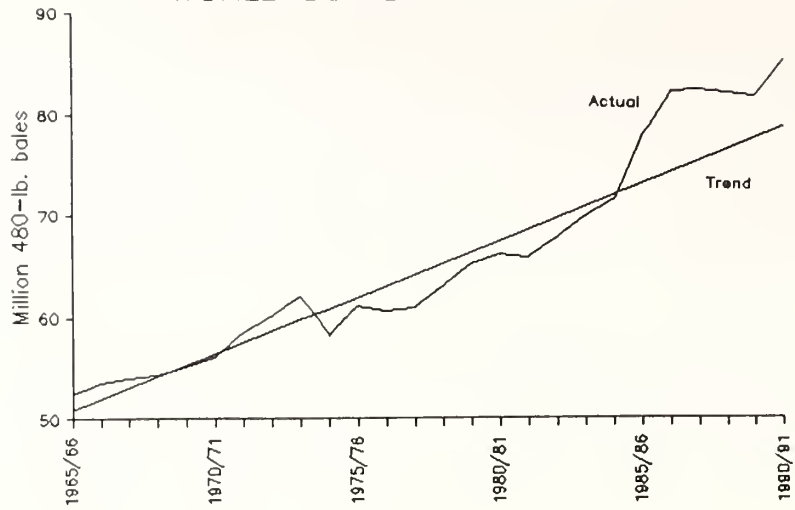
COTTON IMPORTS AS A SHARE OF CONSUMPTION



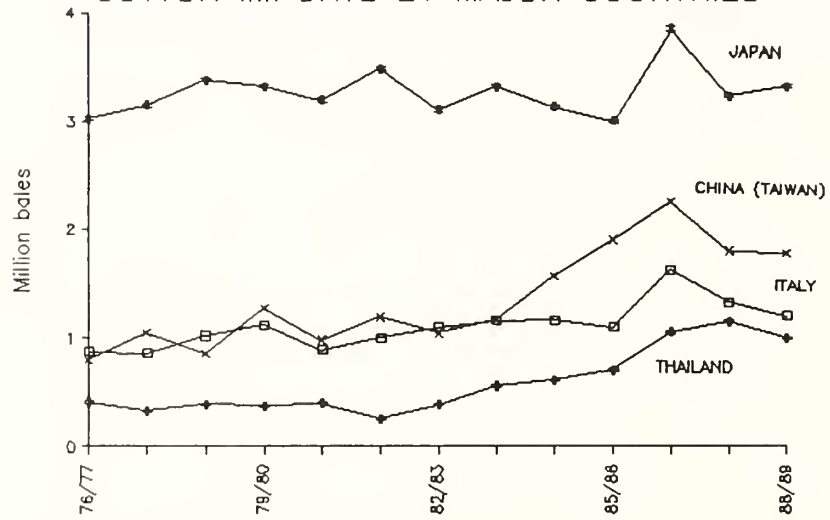
EXPORTS AND MILL USE IN TURKEY



WORLD COTTON CONSUMPTION



COTTON IMPORTS BY MAJOR COUNTRIES



SOVIET COTTON PRODUCTION

