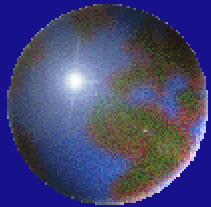


U.S. Department of Agriculture
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Meeting China's Cotton Mill Demands:
A Western Merchant's Perspective

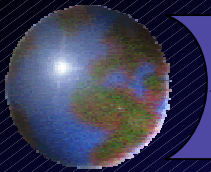
By

Gary W. Taylor



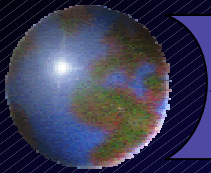
MEETING CHINA'S COTTON MILL DEMANDS

**A WESTERN MERCHANT'S
PERSPECTIVE**



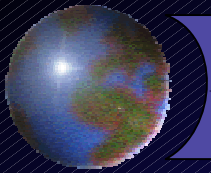
BACKGROUND AND INTRODUCTION

- **HOW DO CHINESE MILLS BUY CHINESE COTTON?**
- **WHO ARE THE BUYERS OF IMPORTED COTTON?**
- **WHAT GROWTHS, QUALITIES AND QUANTITIES DO THEY BUY?**
- **WHAT ARE THE MAJOR CHALLENGES AND**
- **HOW DOES BUSINESS GET DONE?**
- **LOOKING FORWARD, WHAT CHANGES ARE LIKELY?**



HOW DO CHINESE MILLS BUY CHINESE COTTON?

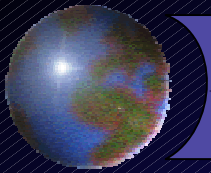
- Cotton and Jute
- Gin/merchant/mill privatization
- Governmental buying organizations
- Strategic reserves



CHINA'S COTTON BUYERS

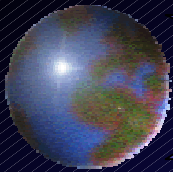
MAJOR GOVERNMENTAL BUYING ORGANIZATIONS

- **China National Textiles Import and Export Corporation (CHINATEX)**
- **China National Cotton Reserves Corporation (CNCRC)**
- **China National Cotton Group Corporation (CNCGC)**



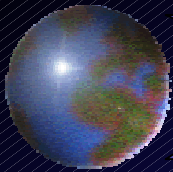
MAJOR PRIVATELY OWNED (EXPORTING) MILLS

- Weiqiao
- Huafang
- Others (approximately 225 mills were granted import licenses)



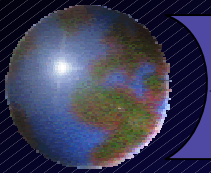
STATE RUN MILLS

- ❖ Inefficient, old equipment
- ❖ Large payrolls/retired employees
- ❖ Poor management
- ❖ Nonperforming Loans



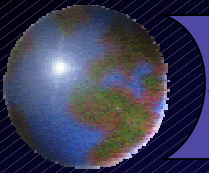
GROWTHS, QUALITIES AND QUANTITIES CHINA BUYS

- **Determined by China's cotton production**
- **Government policy**
- **Timing (availability), price**
- **Other major origins include Uzbekistan, West African, Greek and Australian**



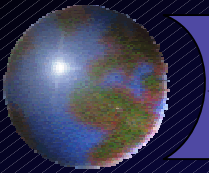
MAJOR CHALLENGES/DIFFERENCES OF THE CHINESE MARKET

- **Uneducated buyers**
- **Current trade utilizes Chinatex rules (LCA,ACSA, GAFTA?)**
- **Lack of price/risk-management tools**
- **Government policies—CIQ, quotas**
- **Corrupt legal/arbitration system**
- **Culture**



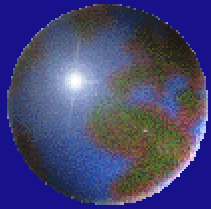
HOW THE BUSINESS GETS DONE

- Major merchants have a presence in China
- All merchants use agents
- Imports are priced relative to New York futures
- Much discussion regarding terms, credit, trade rules, etc.



A LOOK FORWARD WHAT CHANGES ARE LIKELY

- **China's imports will grow—many more mills will deal with world exporters**
- **Trading rules will get resolved**
- **Less government intervention**
- **Less trade with government bodies**



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