

What's all the fuss about China?

March 2023

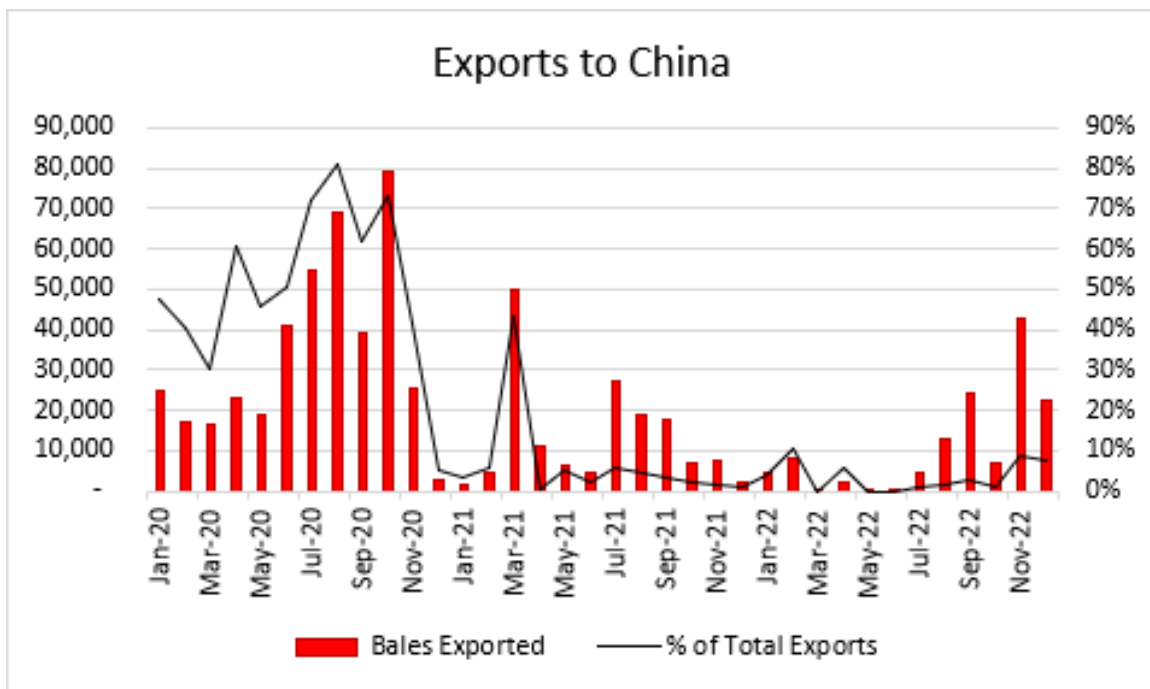
By Roger Tomkins, Australian Cotton Shippers Association

At the start of this century China was buying a little over one percent of Australia's cotton production. 22 years later and the position is basically unchanged but a lot has happened in the years in between and many are now talking that strong Chinese demand for Australian cotton will resurface in 2023.

Talk of easing geopolitical tensions between China and Australia began with the change of the Australian Federal Government in May last year. It would seem the present Government is making progress with numerous positive signals out of Beijing that the hard line they took on Australian imports may be slowly dissolving. Coal shipments to China have recommenced as have shipments for other previously banned products. Cotton however was never officially banned. It is widely believed that instead of a formal ban, mills were persuaded not to use their limited import license on Australian cotton. As such we are not going to receive any official announcement from the Beijing Government to say Australian cotton can enter the Chinese market again freely.

[INSERT IMAGE – AUSTRALIAN/CHINESE POLITICIANS]

As always, the proof will be in the numbers. The chart below tracks Australian cotton exports to China over the past three years with the line representing what percentage of Australian cotton exports went to China. A growth in exports to China has occurred in the last half of last year (at the time of writing export figures were only available to end of December 2022). Albeit still small, and the percentage exported there each month is still under 10 percent at best, but it does show bales are being shipped. The question is, are they camping in a free trade zone or making it through customs? A recent news article issued by Reuters on February 21 discussed this topic with those interviewed leaning towards an ultimate lift on the soft ban. One can only speculate on how long this will take.



Market diversification has been touted by Government and traders alike in response to the Chinese Government's past actions on restricting trade. Commercially this may be more difficult than it sounds as inevitably any commodity or product in limited supply will be attracted to the highest priced buyer. In the past the majority of buyers paying the highest price for Australian cotton were Chinese spinners. If and when China fully re-enters the market for Australian cotton will this still be the case?

The answer is likely somewhere in the middle. Yes China will be buying Australian cotton again but it seems very unlikely that they reach the lofty highs of the previous decade or so. This is primarily due to the expansion in spinning operations outside of China, particularly in Vietnam and the Indian sub-continent. The Australian Cotton Shippers Association (ACSA), its members and Cotton Australia have invested significant resources (largely funded by the Australian Government's ATMAC program) on sharing the fantastic Australian cotton story to mills operating in most importing countries. The results speak for themselves - a 5.5 million bale crop has been largely sold and exported with only around 2.5% of the crop moving to China, who are now our tenth placed cotton export destination.

Chinese mills are still very important to us. China remains number one in terms of textile manufacture and trade. The USDA Feb 2023 edition of their *Cotton: World Markets & Trade report* advised that while global cotton production was forecast to be down to only 114.37 million bales (480 lb), consumption was still spluttering along at 110.58 million bales. To put this into perspective in October of 2019, global consumption of raw cotton was 11 million bales more at 121.6 million. Chinese spinners remain the largest users of raw cotton accounting for around 32 percent of all cotton consumption. It is important to note that China still retains the prize of being the largest grower of raw cotton, the largest producer of textiles, the largest importer of yarn and the largest exporter of garments. But of some small note they have recently been dethroned by Bangladesh as the largest importer of raw cotton. Is this a sign of things to come?

We know that China's enforcement of strict anti-Covid laws held back the country significantly, their zero policy stance only easing toward the end of last year. We know that wages in China have been growing rapidly as their economy matures moving from low cost production based industries to a more developed economy. Shortages of available labour to operate spinning mills in China is becoming a big issue with talk that some companies are now paying an annual salary in excess of the equivalent of A\$30,000 per annum to secure workers with basic skills. Spinning mills also consume a lot of energy in the manufacturing process and as such reliable and cheap electricity is a major concern as manufactures look to stay competitive.

The history of global spinning clearly negatively tracks the economic maturity of countries or regions. At the start of the industrial revolution England was the centre of global yarn and textile industry. With advancing technologies and skills, spinning mills started opening up in countries that were actually growing the cotton, USA for example. As wages and energy became more expensive in these developed countries spinners in new locations emerged with a competitive advantage. Japan rose as a leading spinner after the war, to then be replaced by Korea and Thailand. Indonesia followed a decade later while India and Pakistan also started to expand their spinning capacity. The growing nations, especially China, India and Pakistan remain the largest spinners of cotton and will likely continue to do so for many years to come. Bangladesh and Vietnam, neither of who have the benefit of a domestic cotton production of any significance, are now numbers 1 and 3 buyers in terms of share of global raw cotton imports.

So what do we know? There has been plenty of noise post the last federal election that China will ease previously imposed trade restrictions on Australian goods. Imports of Australian cotton were

never officially banned and it is highly improbable that an announcement reversing this soft ban will ever materialise. Australian cotton is moving to China but volumes to date, while on an increasing trajectory, have been relatively minor. While China remains the top dog in the global business of textiles, Bangladesh and Vietnam are matching them in terms of the volumes of raw cotton imported. Chinese spinners will buy Australian cotton again but it seems unlikely the volumes sold there will ever match those of the previous two decades. Diversification of our markets is a necessity for a viable industry and Australian cotton is doing just that.

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