

# **China's Policy Driven Ascendancy in Cotton**

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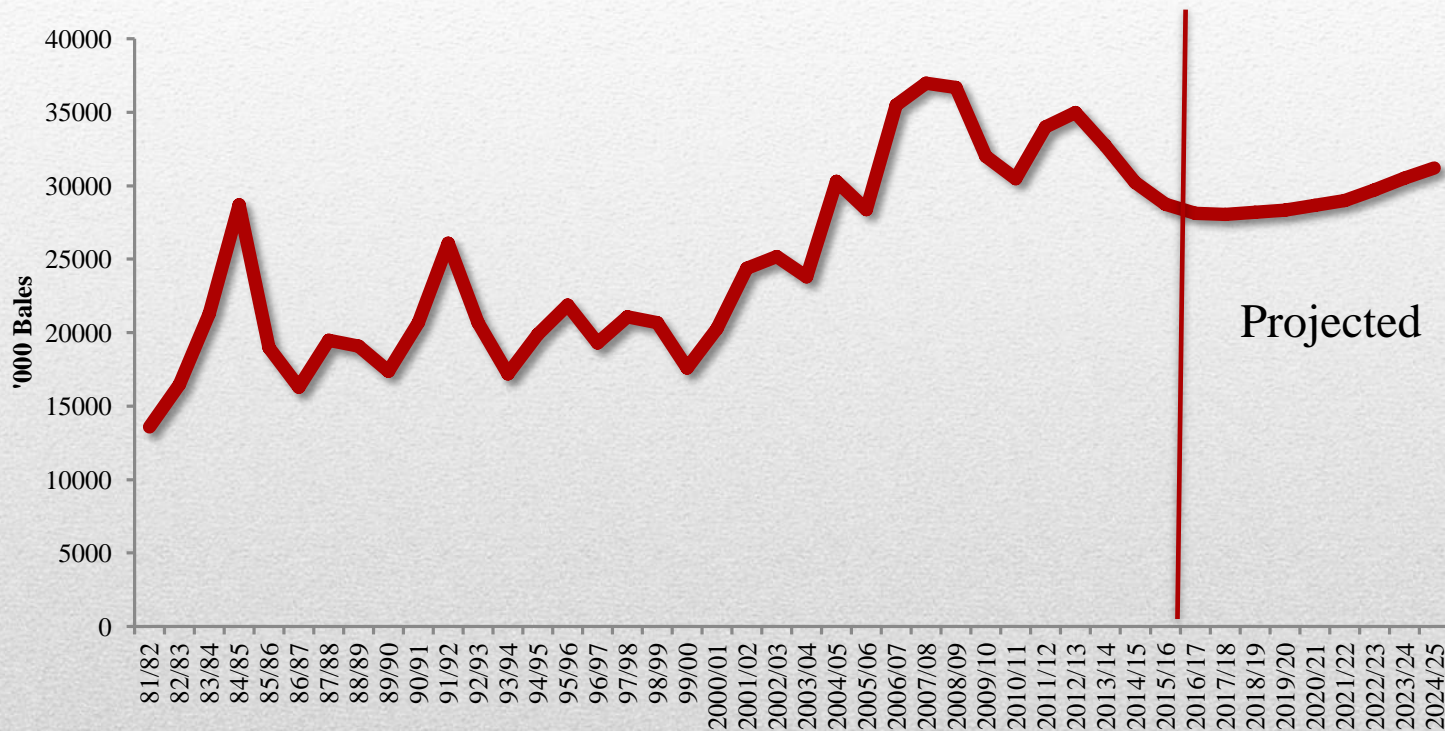
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- China has grown rapidly as a major global cotton producer.



# Background

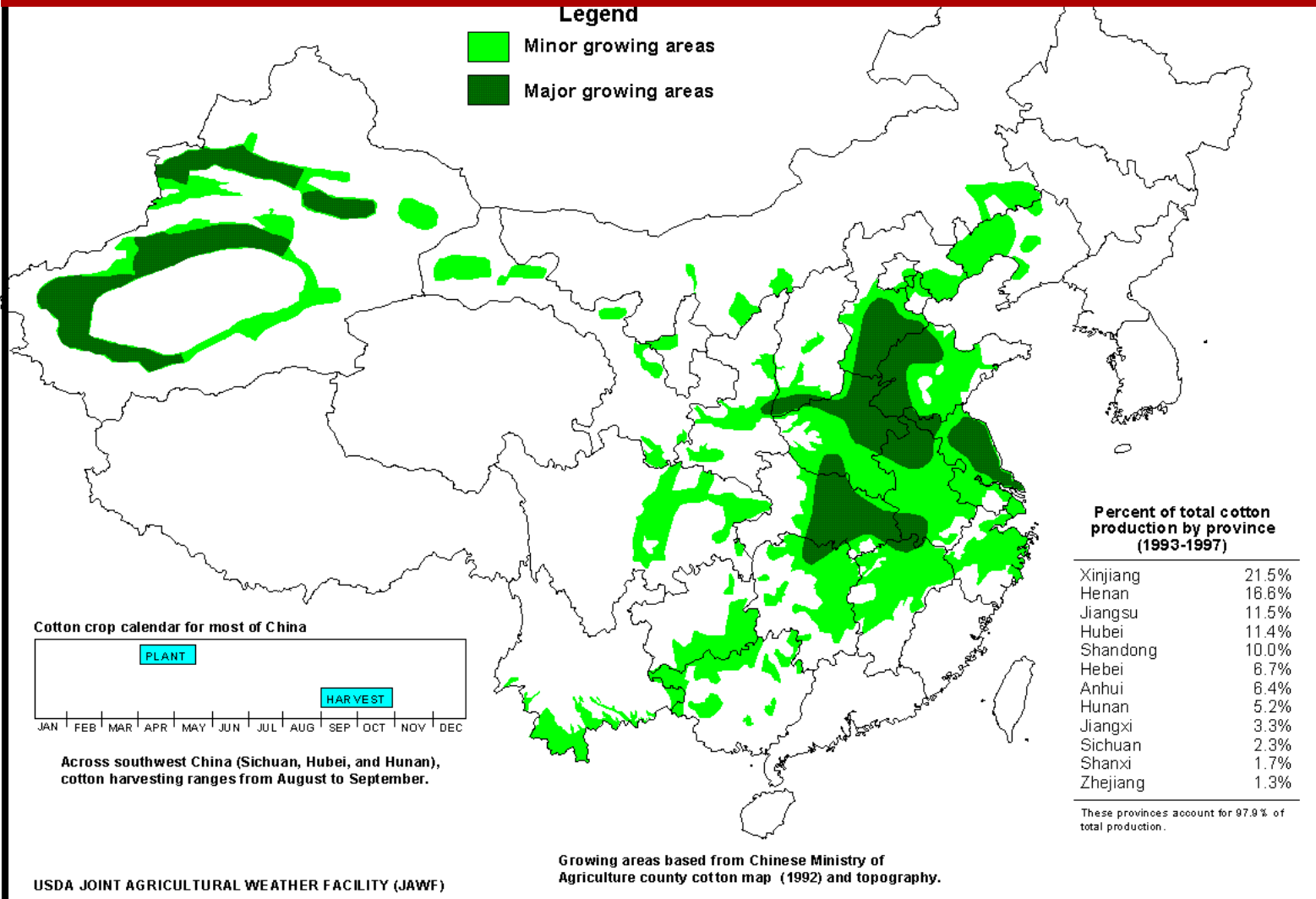
- Technological growth
- Irrigation opened up new areas/expanded production possibilities
- Policy
  - This last point is the objective of this discussion

# Causes

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# China



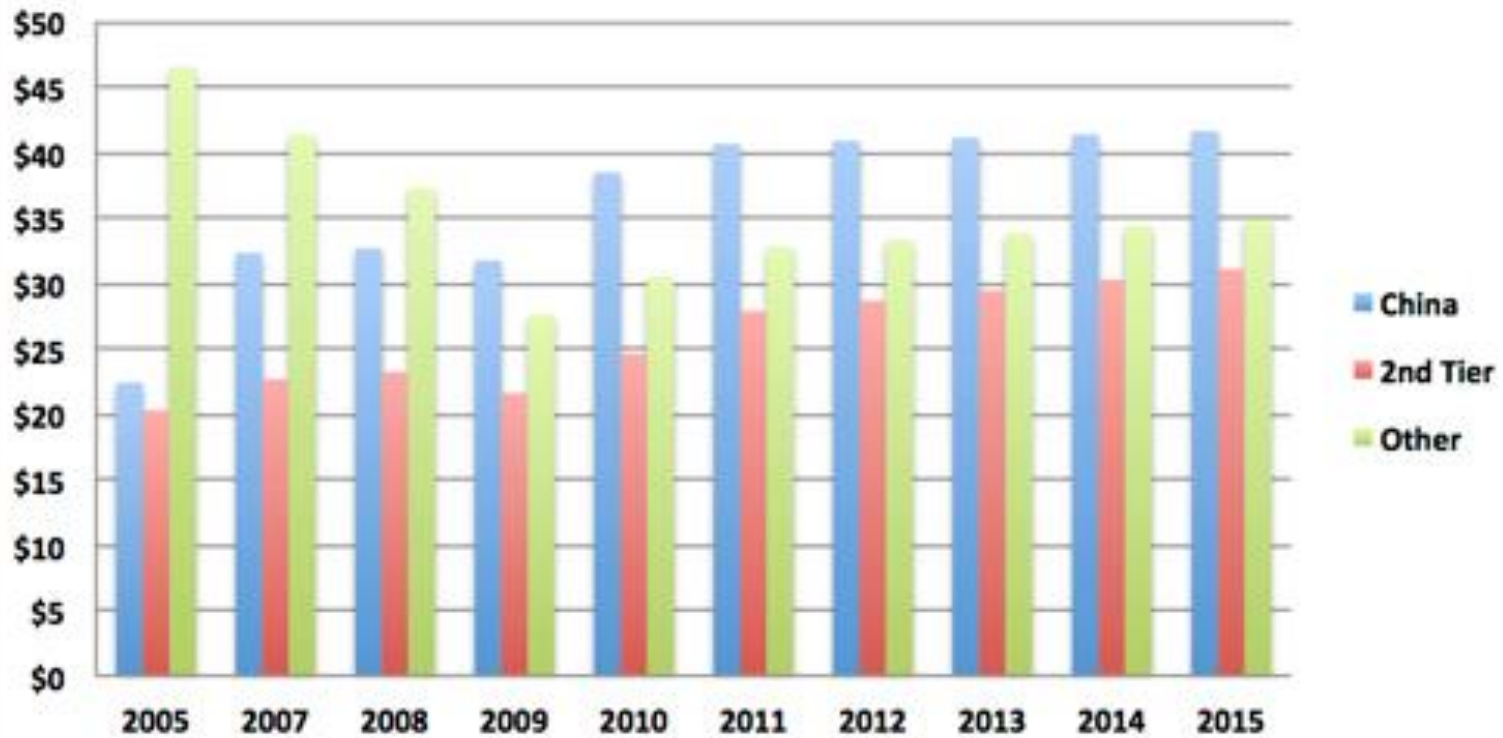
# China's Cotton Production

- Part of the U.S. commitment to the WTO was the phase-out of the Multi-Fiber Arrangements—essentially mutually agreed quotas on textile imports around the world.
  - When the MFAs expired, there was a large surge of textile imports into the U.S., in large part from China.
- China agreed to base quota imports for cotton when it became a member of the WTO, but is self-designated as “developing” and so not subject to the same subsidy restraints as the U.S.
  - By restricting cotton imports, they raise the price of cotton to Chinese growers.

# The WTO, China, and Textiles

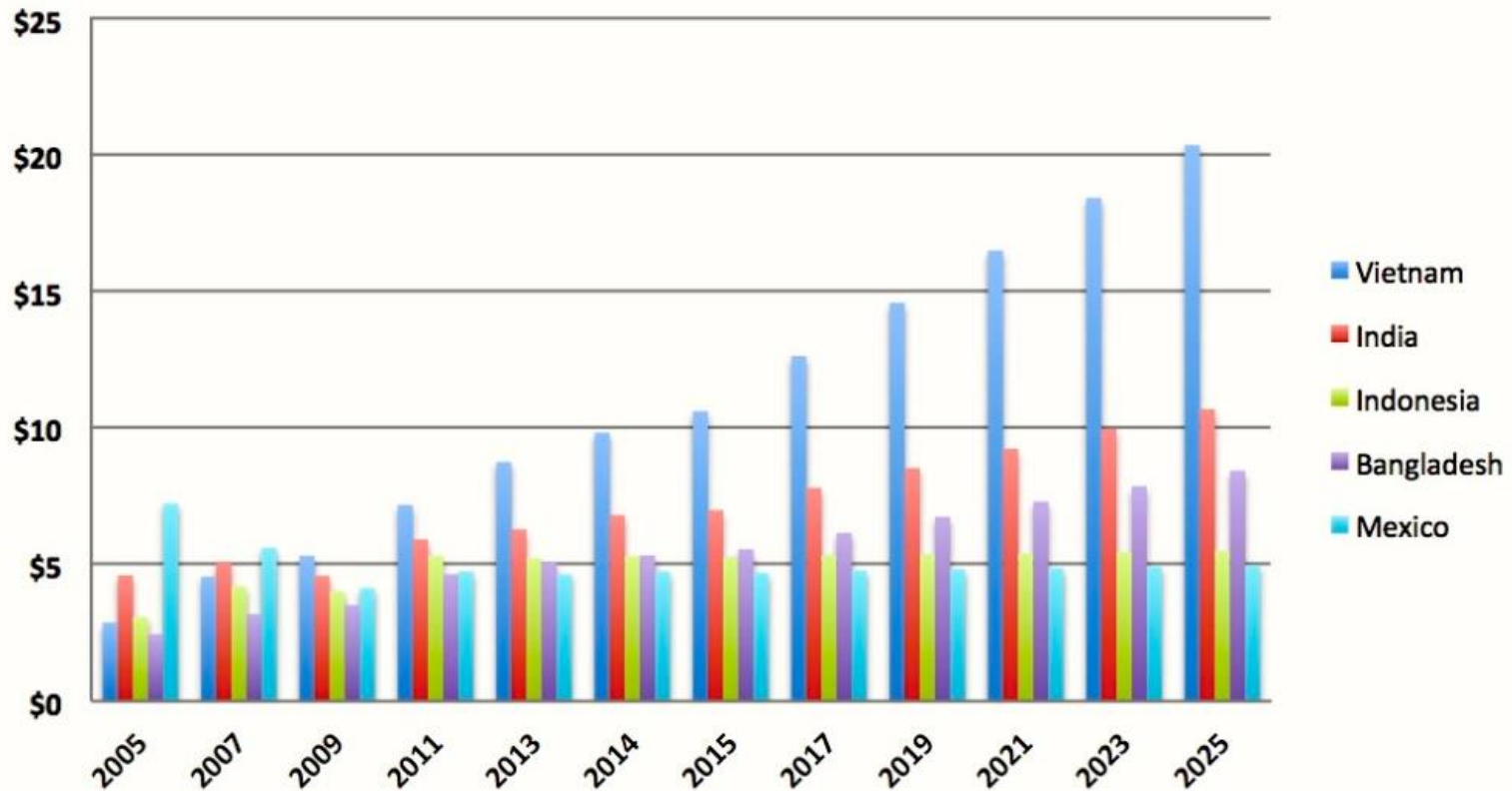
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## U.S. Apparel Imports (\$bil)



# Apparel Imports by Source

**U.S. Textile & Apparel Imports fr "2nd Tier" Countries**  
US\$ billion



## **“Tier 2” Imports by Source**



- China holds over 50% of the stocks of cotton in the world
- A purposeful move to insure ample supplies of cotton and better able to manipulate domestic prices
- Policy held prices up (to the benefit of U.S. growers) for a short period, but is now holding prices down because of excess global supplies
- They can draw out of stocks when prices are higher to aid domestic textile mills

# Stockpiling

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- Mercantilism is economic nationalism for the purpose of building a wealthy and powerful state. Adam Smith coined the term to mean wealth generation through the restriction of imports and promotion of exports.

# Mercantilism

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- Pegged exchange rates: when the dollar depreciates, the yuan depreciates as well.
- Import quotas: physical limits to the number of imports controlled by the government
- Significant domestic subsidization of both commodities and other inputs like labor (lax labor laws and health and safety), environmental conditions, and energy
  - Current cotton support price at approximately \$1.49/lb.

# China's Mercantilism

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- Substantial rise in production and exports are real
- Even China will reach diminishing returns on labor and labor costs will rise (that is already occurring)
- New textile growth is occurring outside of China (SE Asian countries like Vietnam)
- Ascendency has come at a cost

# **Is China's Ascendency Real?**

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- Substantial strain on government budgets (the stockpiling alone was costing billions of dollars)
- Pegging of exchange rates has forced China to absorb what inflation would have occurred in the U.S. with all of the increase in money supply
- Mercantilism has largely been discredited as a method of creating wealth

# The Costs

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- China is shifting gears...it is trying to create more of a consumer driven, rather than export oriented market
- They are large, and costs are overall lower for agricultural production, but they will remain as large importers of food and fiber

# The Future

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