China’s Policy Driven Ascendency in Cotton

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• China has grown rapidly as a major global cotton producer.
Causes

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

Legend
- Minor growing areas
- Major growing areas

Cotton crop calendar for most of China:
- PLANT
- HARVEST

Across southwest China (Sichuan, Hubei, and Hunan), cotton harvesting ranges from August to September.

Growing areas based from Chinese Ministry of Agriculture county cotton map (1992) and topography.

Percent of total cotton production by province (1990-1991):

- Xinjiang: 21.5%
- Henna: 10.8%
- Jiangsu: 11.3%
- Hubei: 11.4%
- Shandong: 10.0%
- Hebei: 6.7%
- Anhui: 6.4%
- Hunan: 5.2%
- Jiangxi: 3.3%
- Sichuan: 2.3%
- Shanxi: 1.7%
- Zhejiang: 1.3%

These provinces account for 97.9% of total 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
Apparel Imports by Source
“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
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.
• 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.
• 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?
The Costs

- 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
• 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