Fact Sheet

U.S. Department of Agriculture
Foreign Agricultural Service
May 2000

Permanent Normal Trade Relations With China
What's at Stake for Cotton?

China's successful entry into the World Trade Organization (WTO) will dramatically cut import barriers currently imposed on American agricultural products, including cotton. The bilateral WTO accession agreement China signed with the United States locks in structural reforms, tariff-rate-quotas, lower tariffs, and ends discriminatory import licensing--concessions that represent a significant opportunity to increase U.S. cotton exports. China currently maintains a costly, non-market, and artificial system to stimulate cotton production. Due to this policy, in recent years cotton imports have declined. The Chinese Government has made it clear it can no longer afford to continue this strategy and as the WTO agreement is implemented, structural reform and market liberalization will result in export opportunities for U.S. cotton to China.

Congress must grant China permanent normal trading relations (PNTR) status in order to guarantee that American agriculture benefits from the concessions the U.S. negotiated bilaterally under the WTO. Even if Congress fails to approve PNTR, China will likely become a member of the WTO. Failure to grant China PNTR would mean that our Asian, European and Latin American competitors would enjoy these benefits while American agriculture loses out.

The Market

China is the world's largest producer and consumer of cotton, accounting for 20-25 percent of the world's total in both categories. U.S. cotton exports to China in 1998/99 were just 71,000 bales, valued at roughly $21 million. Several years ago, however, U.S. cotton exports to China averaged 1.95 million bales, at that time the largest market for U.S. cotton, and 1 in 4 bales exported by the United States was sold to China.

At that time, China turned to imports of cotton for its export-oriented textile mills because the supported domestic price for cotton was above world prices. The result was large stocks of poor quality domestic cotton. To deal with this problem, China reformed its cotton and textile sectors by imposing an import licensing system, lowering prices paid to cotton farmers, and destroying out-dated textile machinery. As a result, China's cotton imports plummeted from 3.6 million bales in 1996/97 to 359,000 bales in 1998/99. Stocks and production also fell.

Currently, access to the Chinese cotton import market is very restricted. The China National Textiles Import and Export Company (Chinatex), a state trading entity, controls the market allowing only minimal imports through a non-transparent quota system.

The Opportunities

- When China accedes, it will establish a tariff-rate-quota (TRQ) of 3.4 million bales, rising to 4.1 million bales by 2004. The in-quote tariff will be 1 percent and imports above these levels will face a higher duty of 76 percent, which will be reduced to 40 percent by the year 2004. Two-thirds of the TRQ will be reserved for import by the private sector. The United States and China have agreed on specific rules for TRQ administration to maximize the possibility that TRQ's fill. Unutilized quota amounts will be reallocated to other importers.

- Once China is a WTO member, it will be prohibited from using export subsidies for cotton and from treating exports of yarn, textiles, and apparel made from imported cotton less favorably than if they were made from Chinese cotton.

- China has also committed to cap and reduce domestic support which should reduce planted area, reduce production and lead to higher imports. The specific levels will be determined through multilateral negotiations in Geneva on the protocol and working party report. China also committed to provide greater transparency to make its domestic support measures more predictable.

- U.S. companies will be able to more freely market, distribute, and provide sales services through China's liberalized distribution system, a primary commitment sought by U.S. agricultural exporters. China now generally prohibits companies from distributing imported products, an obstacle that will remain in place without PNTR. China's distribution commitment, phased in over three years, is comprehensive, covering commission agents services, wholesaling, retailing, franchising, sales away from a fixed location, as well as related subordinate activities such as inventory management.

The Bottom Line for the U.S. Cotton Industry

- Bringing China's cotton industry under WTO disciplines will provide further stability to the global market. Currently nearly half of world cotton stocks and one-third of world production and consumption is outside the WTO member countries. Of that, China accounts for two thirds of non-member stocks and consumption. A great majority of world cotton production policies would be disciplined by WTO principles for the first time with China's membership.

- Opening new markets for U.S. cotton in China, especially in a country that is the largest consumer of cotton fiber, is of critical importance to U.S. farmers. Today, stagnant U.S. consumption of cotton fiber and rising world cotton stocks put downward pressure on prices. The domestic reforms and import liberalization to which China has agreed for its accession to the WTO can begin to change these market conditions if Congress passes PNTR.

- In 1998, about one-third of U.S. cotton production was exported. The bottom line is that a large share of each cotton farmer's income is from export sales. Increasing export markets for

U.S. cotton is critical to the future viability of the farm economy.

- In 1998, total cotton exports of $2.6 billion supported nearly $4.8 billion of total economic activity in agriculture and related industries. These exports contributed nearly 27,600 jobs to the nation. Texas, California, Georgia, and Mississippi are the leading cotton producing states. The rest of the economy gains from cotton exports through supplying inputs, export services, storage, transportation, insurance, finance, and other related services.