



INTERNATIONAL COTTON ADVISORY COMMITTEE

1629 K Street NW, Suite 702, Washington, DC 20006 USA
Telephone (202) 463-6660 • Fax (202) 463-6950 • Email secretariat@icac.org

The Egyptian Cotton Industry – Growth Through Private Investment

The Cairo Marriot Hotel, Egypt
15 May 2004

World Cotton Demand and The Outlook for The Cotton Textile Industry

Andrei Guitchounts

Final Demand for Textile Fibers

World textile consumption is driven by two major economic variables, income and population growth. World final demand for textile fibers increased at an impressive pace since the 1950s. From 7.6 million tons in 1950, textile consumption increased to 52 million tons in 2002. While about 50% of the increase was the result of population growth, the remaining 50% was the result of higher income per capita levels, declines in real textile prices, and competition which generated new uses for textile fibers. However, the pace of growth of textile consumption has decelerated gradually. The average annual rate of growth of textile consumption was 3.7% during the 1960s, 3.1% during the 1970s, 2.5% during the 1980s and 2.7% during the 1990s. Growth of the two major economic variables that determine textile consumption, income and population, has also decelerated.

Long term projections of world GDP and population growth suggest that world textile fiber consumption can expand at an annual average rate of 2.3% over the next seven years to reach 62 million tons in 2010.

In contrast to overall textile fiber consumption, cotton consumption at the end-use level continued to concentrate rapidly in industrial countries during the 1990s, essentially in the United States and Canada. While industrial countries accounted for 38% of world cotton consumption in 1990 and 44% in 2002, developing countries accounted for 48% in 1990 and 52% in 2002. Eastern Europe and the former USSR captured 14% of world cotton consumption in 1990 and 4% in 2002.

Mill Consumption of Cotton

World cotton consumption reached 21 million tons in 2003 and is projected to expand at an average annual rate of 1.7% to reach 23.6 million tons in 2010. Cotton's share of the world textile fiber market is projected to decline from 39.7% in 2002 to 38% in 2010.

Over the last four years, cotton consumption increased by 1.3 million tons, an average increase of 1.6% per year, after ten years of stagnation at around 18.5 million tons during the 1990s. The resumed increase in cotton consumption has only been matched by increases in the early 1980s and was mainly the result of low cotton prices relative to prices of competing fibers.

In the early 1990s, mill consumption of cotton declined dramatically in Eastern Europe and the former USSR from 2.5 million tons in 1990/91 to 730,000 tons in 1998/99, offsetting gains elsewhere in the world. Mill consumption of cotton recovered in that group of countries after 1998, increasing to over 900,000 tons in 2002/03. Mill consumption of cotton in industrial countries remained at about 4 million tons during the early 1990s, but declined rapidly after 1998/99 to 2.8 million tons in 2002/03. High labor costs and increased competition of imports from developing countries caused the cotton textile industries in many industrial countries to decrease production levels. In contrast, mill consumption of cotton in developing countries increased at an annual rate of growth of 2.9% during the 12 years to 2002/03. As a result, the processing of cotton continued to concentrate in developing countries, and their share of world mill consumption rose from 67% in 1990/91 to 83% in 2002/03, compared to 46% in 1970/71 and 60% in 1980/81. The bulk of the increase since 1998 occurred in China (Mainland), but important expansions were also registered in Pakistan, India and Turkey.

For the past five years, China (Mainland) has been the driving force of the world textile industry. Between 1998/99 and 2002/03, additional mill consumption of cotton in China (Mainland) accounted for 83% of additional consumption worldwide. The Chinese industry processed 6.5 million tons of raw cotton in 2002/03, an increase of 2.2 million tons since 1998/99. The textile industry in China (Mainland) is highly dependent on the export market, and can be sensitive to world affairs. Nonetheless, low labor costs and Chinese policies have improved the country's competitiveness vis-à-vis other textile exporting developing countries, and China (Mainland) has increased its share of world textile and apparel exports in the last four years. China (Mainland), which surpassed Mexico as the second largest source of U.S. textile imports in 2001, surpassed Canada in 2002 and became the leading supplier of textile manufactures to the U.S. market. Cotton mill use in China (Mainland) is projected to reach 7.6 million tons in 2005/06 or 35% of world mill use.

In India, the second largest cotton processing country, mill consumption of cotton between 1990/91 and 1997/98 increased at an average annual rate of 4.3%, or seven times more rapidly than world consumption growth. Demand for Indian textile products has been supported mainly by very strong exports, in particular exports of cotton yarn. Taking advantage of relatively low costs of cotton processing, Indian exports to other Asian markets increased faster than to other destinations between 1990/91 and 1997/98. In addition, promotion of exports to the United States, Canada and Mexico, as well as to Latin American countries has been developed since 1996. Nonetheless, Indian mill consumption of cotton remained at 2.9 million tons after 1998/99, due to increased competition from China (Mainland) and other textile exporters. Indian mill consumption of cotton is projected at 3 million tons in 2005/06 or 14 % of world mill use.

Driven by increasing exports of yarn and fabric over the last four years, Pakistan surpassed the USA as the third largest cotton processing country in 2001. Currently, the Pakistani textile industry is in a drive to add value to exports, and is modernizing its infrastructure as part of the goal of expanding exports of manufactured products. Mill consumption of cotton in Pakistan increased from 1.3 million tons in 1990/91 to 1.5 million tons in 1998/99 and 2.1 million tons in 2002/03. Mill consumption of cotton in Pakistan is projected at 2.2 million tons in 2005/06 or 10% of world mill use.

In Turkey, mill consumption of cotton increased at an average annual rate of 10% between 1990/91 and 1997/98, reaching one million tons. Turkey benefited from rapid expansion of exports of cotton products to the former USSR and Europe. However, despite sharp

devaluations of the Turkish currency in the last five years and access to the European market as a member of the EU Customs Union, mill consumption of cotton in Turkey increased at an average annual rate of only 2.6% in the last five years, as exports to the former USSR and to the EU faced greater competition from China (Mainland). Mill consumption of cotton in Pakistan is projected to reach 1.3 million tons in 2005/06 or 6% of world mill use.

Mill consumption of cotton in other East and South Asian developing countries, where textile production had prospered during the 1980s, declined during the past five years, due to increases in labor and energy costs causing a shift of textile capacity to lower-cost countries in the region, such as China (Mainland). This trend is projected to continue.

Mill consumption of cotton in Latin America and the Caribbean continued to increase through the end of the 1990s due to a recovery in Brazil and Mexico, only to decline below the levels of the mid-1990s during the last three years. Mexican mill consumption declined due to competition from Chinese products in North American markets.

Mill consumption of cotton in Africa declined at an average annual rate of 2.1% between 1990/91 and 2002/03, reaching 577,000 tons at the end of the period. Declines took place in the two largest cotton processors on the continent, Egypt and Nigeria, while mill consumption failed to increase in South Africa and Morocco, other important cotton processors. Together, these four countries account for 65% of African cotton mill consumption.

During the 1990s, mill consumption of cotton became more concentrated in the largest processing countries. During the next 7 years, more concentration of mill use is expected in China (Mainland), India, Pakistan and Turkey. The four countries are expected to account for 67% of world cotton mill consumption in 2010/11. China will likely continue to register the most rapid expansion from 6.5 million tons in 2002/03 to a projected 8.5 million tons in 2010/11. Mill consumption in India and Pakistan could increase by half a million tons in each country over the next seven years, while mill use in Turkey could expand by 100,000 tons. Mill consumption in the United States is expected to continue to decline rapidly from 1.6 million tons in 2002/03 to 800,000 tons in 2010/11. Similarly, mill consumption of cotton in the EU could fall from 860,000 tons in 2002/03 to 500,000 tons in 2010/11.

Despite low prices, world cotton production reached a record 21.5 million tons in 2001/02 and is expected to match the pace of consumption growth during the next seven years. Three main factors have promoted increases in cotton production since the mid-1990s: new technologies, the incorporation of new area dedicated to cotton and government measures. These factors are expected to continue to support cotton production in the next seven years, without causing large accumulation of stocks.

International cotton prices, as measured by the Cotlook A Index, have declined overtime due to more efficient production practices. During the ten years to 1985/86 international cotton prices averaged 75 cents per pound; between 1985/86 and 1994/95, prices averaged 70 cents per pound; and in the eight years to 2002/03 prices averaged 63 cents per pound. It is expected that international cotton prices will average 60 cents per pound over the next the seven years.

Elimination of Quotas and the Textile Trade Outlook

Expansion of textile and apparel production in China (Mainland) has been one of the most significant factors affecting world trade in textiles during the past five years. Substantial

impacts on world textile trade have been caused by the entry of the China (Mainland) into the World Trade Organization in late 2001. The forthcoming elimination of trade quotas in 2005 is expected to significantly reshape the composition of world textile production and trade. China (Mainland) has already benefited from a gradual removal of quotas on a number of textile and apparel products in 2002 and 2003, leading to a surge of exports from China (Mainland), especially to the USA and the EU. Imports of textiles and apparel by the USA from China (Mainland) rose by 62% in 2002 and an even larger increase took place in 2003. China (Mainland) total exports of textiles and apparel rose 26% during 2003 and reached \$78 billion with a net profit of \$4.8 billion. In 2000, exports of textiles and apparel from China (Mainland) were at \$52.2 billion. It is estimated by the World Bank that China (Mainland) will account for 47% of the world textile and apparel exports in 2005.

China (Mainland)'s success in the world textile market stems from an early recognition that the development of its textile complex had to focus on where it was most competitive, in the apparel sector. China (Mainland) has a substantial labor cost and supply advantage compared with other major textile and apparel producers. Development of the competitive apparel production sector served as catalyst for expanded investments in modernization of the capital-intensive textile sector. China (Mainland) invested heavily in the modernization of the textile and apparel sectors during the past 10 years, and investments in the textile sector rose by 80.4% in 2003 alone reaching \$10.7 billion according to the National Bureau of Statistics. China (Mainland) imported \$11.8 billion worth of textile machinery between 2000 and June 2003 according to International Textile Manufacturers Federation (ITMF) data. In 2002, China (Mainland) accounted for 72% of world shipments of shuttle-less weaving, 64% of rotor spinning machines and for 67% of texturing machines in 2001. As a result, China (Mainland) became the world largest textile economy, the largest exporter of textiles and clothing, the largest cotton and chemical fiber producer, with the textile sector generating 10% of GDP. Per capita fiber consumption in China (Mainland) rose from 8.3 kg in 2000 to 10.8 kg in 2002, and population is rising by 11-12 million annually to reach 1.32 billion in 2005. China (Mainland) is positioned to increase its market share after the elimination of quotas. However, other developing countries could find new opportunities for open competition.

A similar strategy of modernization and investments was implemented by Turkey, where combined exports of textiles and clothing rose from \$474 million in 1980 to \$10.5 billion in 2001. During that period exports of textiles rose by 1,130% while exports of apparel rose by 5,000% reaching \$6.6 billion. India has been developing its textile and apparel sectors at similar growth rates. During the 20 years starting in 1980, exports by both sectors in India rose by 687%. In Pakistan, during the past 20 years more emphasis was given to the development of the textile sector compared with clothing industries, and the combined export growth during the period was 580%, according to the ITMF data.

Between 1980 and 2000 Egypt had significant investments in the textile industry. According to the ITMF data, during the 20 years cumulative shipments of textile machinery to Egypt included 1.3 million spindles and 7,200 open-end rotors, which correspond to 50% of installed capacity in spindles and 20% of installed open-end rotors as of 2001. During the period almost all weaving capacity was replaced and shuttle-less looms accounted for 45% of all capacity as of 2001. However, considerable investments have not led to an increase in Egypt's share in world textile trade. Mill use of cotton in Egypt declined from 330,000 tons in 1980/81 to 190,000 tons in 2002/03. More effective strategies utilizing Egypt's competitive advantages are needed, perhaps through greater private investment, to increase Egyptian textile production.

The elimination of quotas will provide an opportunity for large competitive textile producers to increase their market share. However, the elimination of quotas will also intensify competition in the open marketplace, will necessitate and stimulate a number of developing countries to restructure their textile economies investing in the modernization of the sectors where their competitive advantage lies in an attempt to capture a larger share of the market. The end of quotas will lower the barriers to entry by new exporters with a wider range of products and could lead to lower prices for textiles. Countries now enjoying a guaranteed quota, or quota-free access to the most lucrative markets could lose market share if their products are of low quality and not competitive. Quality, product innovation, reliability, demand responsiveness, market proximity, quick turnover and preferential tariffs will become increasingly important competition factors.

In 2005, Mexico will lose its advantage of quota-free access to the US market provided by the NAFTA trade regime, but will continue to have an advantage of market proximity and tariff-free access. As a result Mexico could lose market share to China (Mainland) and Caribbean countries, which have been granted enhanced benefits in the U.S. market in recent years. Similarly, countries of Central and Eastern Europe and the Mediterranean will lose the advantage of quota-free access to the EU, but will continue to benefit from market proximity and duty-free access.

Market shares in textile trade of countries with quota-free and duty-free access to large markets in the USA or EU, but with relatively weak industries or/and remote location, such as Bangladesh (EU and US agreements), Mauritius (EU agreement), Sub-Saharan Africa (AGOA), Hong Kong (large quotas) and countries in similar positions could decline .

Among expected winners will be final consumers of textile products benefiting from increased supply, variety and lower prices, which in turn could stimulate consumption growth to the benefit of the more efficient and modern cotton, textile and apparel industries.

SUPPLY AND DISTRIBUTION OF COTTON

Years Beginning August 1

	2000	2001	2002	2003 Est.	2004 Proj.	2005 Proj.
Million Metric Tons						
BEGINNING STOCKS						
WORLD TOTAL	10.109	9.728	10.511	8.602	7.75	8.32
CHINA (MAINLAND)	3.812	2.984	2.631	1.566	1.10	1.30
USA	0.852	1.307	1.622	1.172	0.81	0.90
NET EXPORTERS	2.775	3.153	3.818	3.169	2.64	3.05
NET IMPORTERS 1/	7.334	6.575	6.693	5.433	5.11	5.26
PRODUCTION						
WORLD TOTAL	19.441	21.486	19.292	20.298	21.94	22.25
CHINA (MAINLAND)	4.417	5.324	4.916	4.870	6.10	6.16
USA	3.742	4.420	3.747	3.972	3.79	3.92
INDIA	2.380	2.686	2.312	2.831	2.64	2.66
PAKISTAN	1.816	1.783	1.736	1.734	1.91	1.89
UZBEKISTAN	0.975	1.055	1.022	0.915	1.00	0.98
TURKEY	0.880	0.922	0.900	0.900	0.94	0.94
OTHERS	5.232	5.295	4.659	5.076	5.57	5.70
CONSUMPTION						
WORLD TOTAL	19.842	20.278	21.140	21.148	21.37	21.62
CHINA (MAINLAND)	5.200	5.700	6.500	7.000	7.35	7.57
INDIA	2.924	2.910	2.914	2.873	2.93	2.97
EU, C. EUR. & TURKEY	2.361	2.430	2.415	2.205	2.11	2.11
EAST ASIA & AUSTRALIA	2.075	2.127	2.055	1.904	1.83	1.82
PAKISTAN	1.764	1.855	2.042	2.100	2.14	2.21
USA	1.929	1.676	1.583	1.350	1.21	1.09
BRAZIL	0.873	0.830	0.760	0.800	0.84	0.87
CIS	0.657	0.671	0.669	0.686	0.70	0.74
OTHERS	2.059	2.079	2.203	2.230	2.26	2.24
EXPORTS						
WORLD TOTAL	5.857	6.477	6.600	7.074	6.63	6.68
USA	1.472	2.395	2.591	3.000	2.48	2.05
UZBEKISTAN	0.800	0.810	0.798	0.648	0.71	0.67
CFA ZONE	0.755	0.756	0.815	0.995	0.89	1.09
AUSTRALIA	0.849	0.662	0.575	0.360	0.39	0.67
GREECE	0.244	0.290	0.275	0.223	0.23	0.23
SYRIA	0.212	0.180	0.110	0.164	0.12	0.12
CHINA (MAINLAND)	0.097	0.074	0.164	0.040	0.05	0.05
IMPORTS						
WORLD TOTAL	5.746	6.154	6.578	7.074	6.63	6.68
EAST ASIA & AUSTRALIA	1.995	2.148	2.036	1.759	1.76	1.75
EU, C. EUR. & TURKEY	1.452	1.594	1.398	1.197	1.09	1.10
CIS	0.412	0.328	0.348	0.346	0.33	0.34
SOUTH AMERICA	0.309	0.226	0.318	0.288	0.21	0.22
CHINA (MAINLAND)	0.052	0.098	0.682	1.700	1.50	1.50
TRADE IMBALANCE 2/	-0.111	-0.323	-0.022	0.000	0.00	0.00
STOCKS ADJUSTMENT 3/	0.130	-0.102	-0.039	0.000	0.00	0.00
ENDING STOCKS						
WORLD TOTAL	9.728	10.511	8.602	7.752	8.32	8.95
CHINA (MAINLAND)	2.984	2.631	1.566	1.096	1.30	1.34
USA	1.307	1.622	1.172	0.805	0.90	1.69
NET EXPORTERS	3.153	3.818	3.169	2.642	3.05	3.79
NET IMPORTERS 1/	6.575	6.693	5.433	5.109	5.26	5.16
ENDING STOCKS/USE 4/	0.46	0.54	0.52	0.59	0.60	0.65
COTLOOK A INDEX 5/	57.20	41.80	55.70	71*	67*	61*

1/ Includes Brazil, China (Mainland), Colombia, India, Mexico, Pakistan, Turkey and traditional importers.

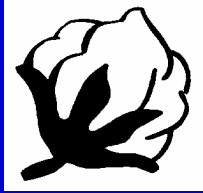
2/ The inclusion of linters and waste, changes in weight during transit, differences in reporting periods and measurement error account for differences between world imports and exports.

3/ Difference between calculated stocks and actual; amounts for forward seasons are anticipated.

4/ World-less-China (Mainland) ending stocks minus China net exports, quantity divided by world-less-China consumption.

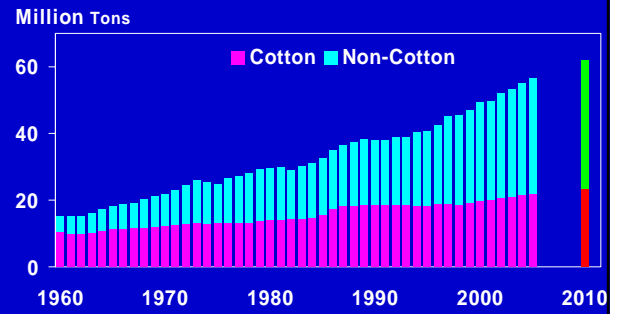
5/ U.S. Cents per pound. The estimate for 2003/04 IS NOT A PRICE MODEL RESULT. The projections for 2004/05 and 2005/06 are based on net China (Mainland) trade and world-less-China (Mainland) ending stocks-to-use ratio.

*/ 95% confidence interval extends 12 cents above and below the point estimate.

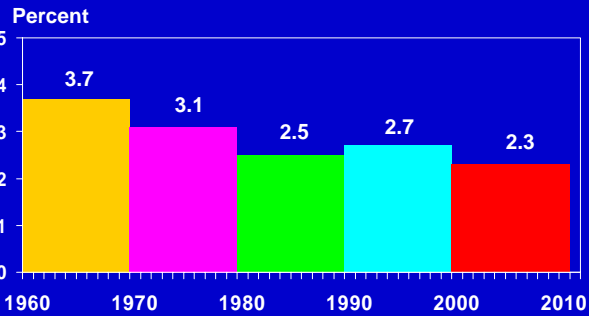


International Cotton Advisory
Committee

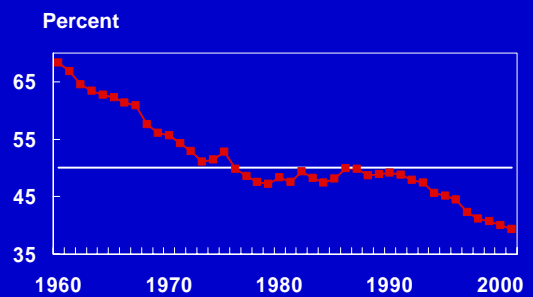
WORLD FIBER USE



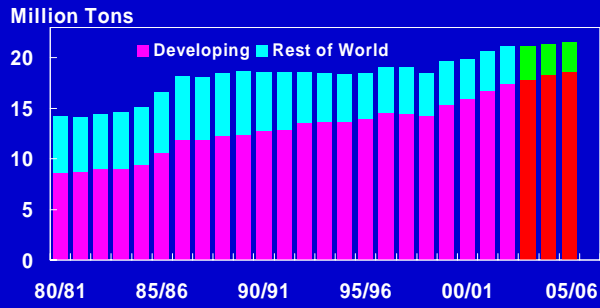
WORLD FIBER USE AVERAGE GROWTH RATE



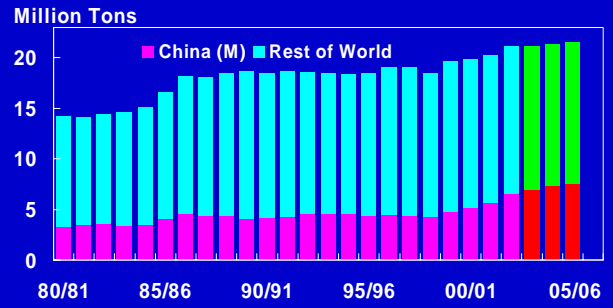
COTTON'S MARKET SHARE



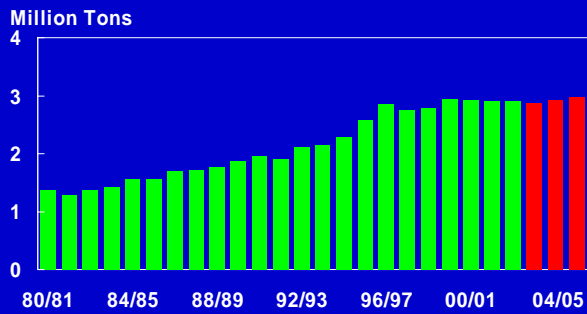
COTTON MILL USE



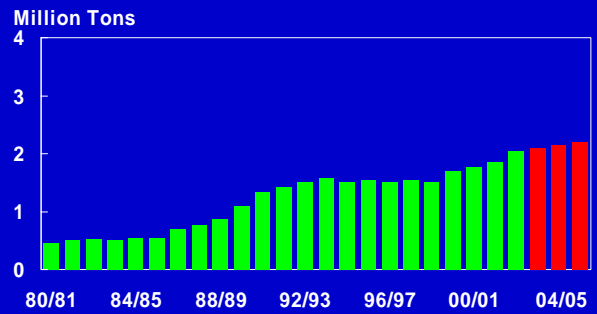
COTTON MILL USE



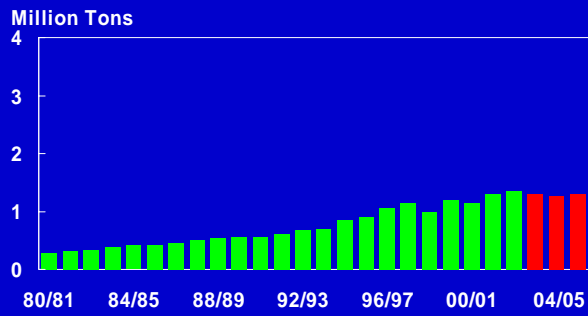
COTTON MILL USE: INDIA



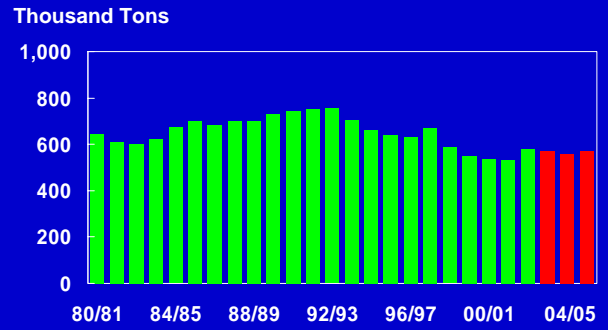
COTTON MILL USE: PAKISTAN



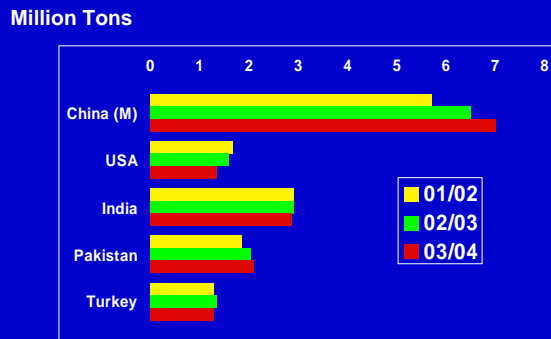
COTTON MILL USE: TURKEY



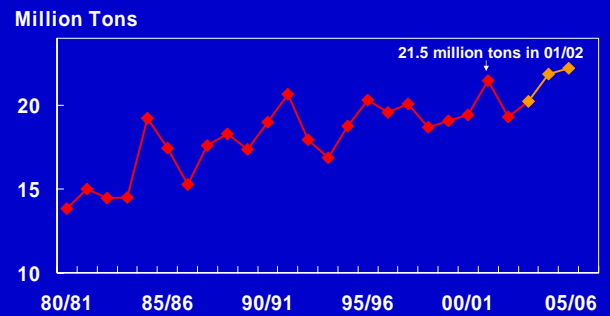
COTTON MILL USE: AFRICA



COTTON MILL USE

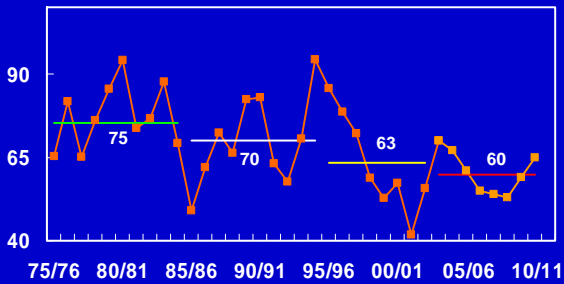


WORLD PRODUCTION



COTLOOK A INDEX

Season-average in U.S. Cents per Pound



CHINA (MAINLAND)

Exports of textiles and apparel in 2003 **\$78.9 billion**
 Share of world textile trade by 2005 **47%**
 Invested in textile industry in 2003 **\$10.7 billion**
 Textile sector generated **10% of GDP**

The largest: importer of textile machinery;
 textile economy;
 cotton and chemical fiber producer;
 producer and exporter of textiles.

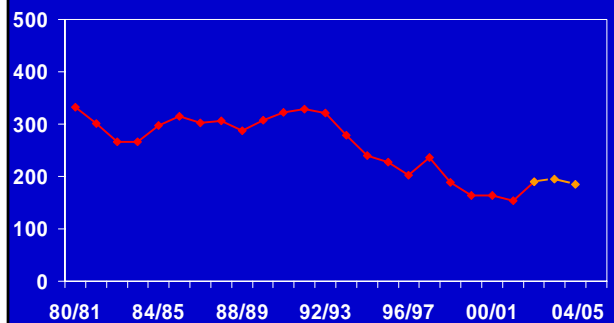
Market share is projected to increase further

TEXTILE AND APPAREL EXPORT GROWTH BETWEEN 1980 AND 2001

Turkey	2000%
India	687%
Pakistan	580%

COTTON MILL USE: EGYPT

Thousand Tons



2005 ELIMINATION OF QUOTAS EFFECTS

Intense competition, changes in market shares;
Lower textile prices;
Necessity to restructure and modernize textile sector;
Emphasis on quality, innovation, reliability, demand
responsiveness, market proximity, duty-free access;

Consumer demand will be stimulated by increased
variety, supply and lower prices;

More efficient and modern textile industry will
grow faster.