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## Hong Kong

## Cotton and Products

## Annual

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### Report Highlights:

Hong Kong's import of US cotton dropped from 78,548 MT in MY99 to 70,191 MT in MY00. The 11% decrease in import cotton was partly due to an increase in prices for US cotton and decrease in prices for Australian cotton. In addition, Pakistan resumed supply of cotton in MY00. As a result, US market share dropped from 69% in MY99 to 61% in MY00. However, future prices show that US cotton is still most price-competitive in the market and its dominance is expected to continue in MY2001.

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## Situation & Outlook

Hong Kong's import of US cotton dropped from 78,548 MT in MY99 to 70,191 MT in MY00. The 11% decrease in import cotton was partly due to an increase in prices for US cotton and decrease in prices for Australian cotton. In addition, Pakistan resumed supply of cotton in MY00. As a result, US market share dropped from 69% in MY99 to 61% in MY00. However, future prices show that US cotton is still most price-competitive in the market and its dominance is expected to continue in MY2001.

In MY00, Hong Kong imported 114,160 MT of cotton from all over the world, increasing by only 0.8% from 113,237 MT in MY99. The small increase in import was attributed to the still high inventory level at the end of MY99, when end users expected cotton prices would rise and stocked up on imports. The decrease in cotton re-exports to China and Indonesia also lowered the demand for cotton imports. The size of Hong Kong's cotton import is affected by three variables, namely local consumption, re-export volume and stock level. First, local consumption has always been in the region of 0.5 million bales because of limited production capacity. Second, cotton imported is primarily used for local consumption and re-exports constitute around 10%-15% of the total distribution, therefore fluctuation in this variable will only have minor impact on Hong Kong's total cotton imports. Third, end users may stock up on inventory when they are expecting increase in prices, high storage costs in Hong Kong make them difficult to keep too much stock and for too long. Given the stability of these three variables, Hong Kong's cotton import is unlikely to fluctuate significantly. For MY2001, Hong Kong's cotton import is expected to grow slightly by 0.7% to reach 115,000 MT.

## Production & Consumption

Hong Kong does not produce any cotton and therefore relies on imports to meet local demand. There are four spinning mills in Hong Kong. In 2001, the four mills produced a total of 91,780 MT of yarn, 84% of which were open-end while the rest were ring spun.

2001 spinning capacity in Hong Kong is as follows:

Total number of ring spindles installed	57,136 spindles
Total number of open-end rotors installed	20,144 rotors
Total number of doubling spindles installed	480 doubling spindles
Total number of workers employed	1,755 workers

If operating at full capacity, mills can run three shifts each day. However, due to keen competition from imported yarn and low yarn prices offered, the mills did not operate at full capacity most of last year. Major suppliers of cotton yarn included China, Pakistan and India.

In MY00, about 61% of cotton used in Hong Kong mills came from the US. There were two main reasons explaining the dominance of US cotton. First, US cotton is still price-competitive in the market, partly because of the resumption of Step-2 program. Second, US cotton is well known in the market to be of high quality with very little contamination. US cotton is expected to remain highly competitive in the market, as long as it is continued to be supported by the two favorable factors.

Based on the consumption situation in late 2001, it is forecasted that Hong Kong's cotton consumption for MY 2001 will remain at the same level at 110,000 MT. Given the limited production capacity and keen competition from imported cotton yarns, it is unlikely that local yarn production will increase significantly. About 74% of locally produced yarn is sold into the domestic market and the rest is exported. Locally produced yarn meet about 43% of local demand and the remaining 57% is supplied by imported yarn. Local production of coarse count open end yarns has decreased because local weaving industry has lost much of the business of heavy weight denim to low-production-cost countries like China, India and Pakistan. As a result, the average yarn count of open end yarns was finer than before. On the other hand, the local weaving industry has expanded its business in stretch woven fabrics. In response, local spinners have developed and manufactured various types of quality stretch yarns to meet the market needs.

### Trade

For MY2001, Hong Kong's import of cotton is estimated to rise by only 0.7%. Major suppliers will include the US, Australia and Pakistan, as in MY 2000 (as discussed in the Consumption Section). Australian cotton is the largest competitor relative to US cotton. Australian cotton is of high quality, but is higher priced. It is primarily suitable for ring-spun yarns, which constitute only about 16% of local production. However, it should be noted that Hong Kong is increasing the production of ring spun yarns, which offer higher profit margins than open-end produced yarns. That will lead to an increase of imports of Australian cotton in the future. In fact, import of Australian cotton has grown from 11,668 MT in MY99 to 14,699 MT in MY00, representing a growth in market share from 10% to 13%.

Pakistan was the third largest cotton supplier in MY 2000 and had a market share of 9%. Hong Kong imported cotton from Pakistan when prices of US cotton were high, especially during the beginning of 2001. It is expected that Pakistan will continue to supply cotton to Hong Kong in MY2001.

### Cotton Imports from USA & Pakistan in 2001

Description	US cotton, \$/MT	US cotton imports, MT	Pakistan cotton, \$/MT	Pakistan Cotton Imports, MT
Jan	1,223	4,429	1,196	1,357
Feb	1,208	4,380	1,128	977
Mar	1,123	15,187	NA	0
Apr	1,139	9,397	NA	0
May	1,064	6,352	2,453	7
Jun	1,049	5,183	2,265	8
July	939	7,948	2,265	8
Aug	888	3,251	2,131	9
Sep	878	8,000	2,072	35
Oct	789	7,579	1,941	16
Nov	755	3,149	1,839	16
Dec	805	5,760	1,783	59

Unlike other major cotton supplying countries, the average prices of cotton from China increased by 76% in 2001 when compared to 2000. As a result, cotton imports from China in MY 2000 dropped by 81%. Hong Kong spinning mills have little incentive to buy expensive but lower quality Chinese cotton while US cotton is competitively priced and of high quality. Therefore, it is expected that cotton imports from China will further contract in MY 2001.

About 10% of Hong Kong's cotton imports were re-exported, most of which went to China. It is expected that China's accession to WTO in late 2001 will have some mixed impacts on Hong Kong's cotton trade and it may take a few years for these impacts to become apparent.

On the positive side, Hong Kong garment manufacturers who have operations in China expect to benefit from better access to the US market for their manufactured apparels. That will lead to a greater demand for locally produced yarn and thus cotton consumption. In addition, Hong Kong companies expect to play a middleman role and gain more cotton trade business as China continues to open up the market and buy more US cotton.

### Competition

Hong Kong's spinning mills face strong competition from yarns imported from China, Pakistan, India and Indonesia. These countries have lower costs of production. The average price of imported cotton yarn has dropped by 6% from 2000 to 2001 whereas that for locally produced yarn has dropped only by 1%. As a result, the import of cotton yarn has grown from 448,804 MT in 2000 to 507,317 MT in 2001, representing a growth of 13%. In terms of actual consumption of cotton yarn in the local market, market share of imported cotton yarn has grown slightly from 56% in 2000 to 57% in 2001.

The cotton yarn supplying countries are particularly strong in coarse count open end yarns. The imports of core stretch yarns have also increased gradually over the years because of the popularity of stretch woven fabrics. Prevailing prices of open-end yarns are so low that local spinning mills have very thin or even no profit margins. Local spinners are trying to regain some market share and restore profit margins by creating market niches for higher quality and tailor-made yarns for use by local weavers.

Apart from cotton yarn, Hong Kong spinners also face minor competition from imported cotton fabric. However, there has been drop in prices for cotton yarn whereas prices for cotton fabric remain more or less stable. As a result, Hong Kong's import of cotton fabric actually dropped by 11% from 1,869 million sq.m. in 2000 to 1,663 sq.m. in 2001.

## Statistical Tables

PS &amp; D Table

### PSD Table

Country Commodity	Hong Kong Cotton					
					(HECTARES)(MT)	
	Revised Old	2000 New	Preliminary Old	2001 New	Forecast Old	2002 New
Market Year Begin		08/2000		08/2001		08/2002
Area Planted	0	0	0	0	0	0
Area Harvested	0	0	0	0	0	0
Beginning Stocks	29175	33416	23079	26579	27434	23579
Production	0	0	0	0	0	0
Imports	113000	114160	130636	115000	0	125000
TOTAL SUPPLY	142175	147576	153715	141579	27434	148579
Exports	6967	11065	6532	8000	0	8000
USE Dom. Consumption	112129	109932	119750	110000	0	115000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	112129	109932	119750	110000	0	115000
Ending Stocks	23079	26579	27434	23579	0	25579
TOTAL DISTRIBUTION	142175	147576	153716	136579	0	148579

## Trade Matrices

Import Trade Matrix			
Country	Hong Kong		
Commodity	Cotton		
Time period	Aug - Feb	Units:	MT
Imports for:	2000		2001
U.S.	27069	U.S.	34401
Others		Others	
Australia	10793	Australia	10924
China	1145	China	459
Syria	6655	Syria	810
Mexico	1450	Mexico	834
Argentina	0	Argentina	991
Cameroon R	0	Cameroon R	0
Pakistan	10831	Pakistan	150
Paraguay	850	Paraguay	150
Tanzania	726	Tanzania	2352
Total for Others	32450		16670
Others not Listed	2439		2461
Grand Total	61958		53532

Export Trade Matrix			
Country	Hong Kong		
Commodity	Cotton		
Time period	Aug - Feb	Units:	MT
Exports for:	2000		2001
U.S.	0	U.S.	0
Others		Others	
China	6236	China	5642
Indonesia	96	Indonesia	149
Japan	9	Japan	0
Thailand	21	Thailand	1
Macau	11	Macau	5
Malaysia	0	Malaysia	0
Total for Others	6373		5797
Others not Listed	1		6
Grand Total	6374		5803



## Price Table

Prices Table			
Country	Hong Kong		
Commodity	Cotton		
Prices in	US\$	per uom	MT
Year	2000	2001	% Change
Jan	1,010	1,125	11.39%
Feb	918	1,270	38.34%
Mar	887	1,153	29.99%
Apr	909	1,197	31.68%
May	993	1,139	14.70%
Jun	944	1,013	7.31%
Jul	965	1,046	8.39%
Aug	1,126	1,089	-3.29%
Sep	1,172	971	-17.15%
Oct	1,224	971	-20.67%
Nov	1,278	988	-22.69%
Dec	1,125	904	-19.64%
Exchange Rate		Local currency/US \$	

Table 1 : Hong Kong's Average Monthly Import Prices in 2001  
Prices in US\$ per MT

	USA	Syria Arab	China	Australia	World
Jan	1,223	0	3,192	0	1,125
Feb	1,208	1,337	3,464	1,417	1,270
Mar	1,123	1,399	3,700	1,150	1,153
Apr	1,139	1,399	4,009	1,343	1,197
May	1,064	0	3,779	1,229	1,139
Jun	1,049	0	3,650	1,008	1,013
July	939	1,399	3,797	1,279	1,046
Aug	888	1,400	4,048	1,261	1,089
Sep	878	1,399	3,339	1,059	971
Oct	789	1,399	3,502	1,219	971
Nov	755	1,398	4,045	1,169	988
Dec	805	972	3,746	1,020	904
Year 2001	1,005	1,348	3,681	1,183	1,075
Year 2000	964	1,135	2,095	1,199	1,044

Table 2 : Hong Kong's Marketing Year Cotton Imports by Volume, Aug - Jul

	MY99	Market Share	MY 00	Market Share
	MT	MY 99	MT	MY 00
USA	78,548	69%	70,191	61%
Australia	11,668	10%	14,699	13%
Pakistan	362	0%	10,492	9%
Syria	5,366	5%	6,976	6%
Nigeria	0	0%	2,914	3%
Mexico	1,574	1%	1,899	2%
China	8,957	8%	1,666	1%
World	113,237	100%	114,160	100%

Table 3 : Hong Kong's Marketing Year Cotton Imports by Value (Aug - Jul)

	MY99	Market Share	MY 00	Market Share
	USD '000	MY 99	USD '000	MY 00
USA	73,442	64%	78,328	59%
Australia	13,664	12%	18,434	14%
Pakistan	320	0%	11,379	9%
Syria	6,293	6%	8,139	6%
Nigeria	0	0%	2,759	2%
Mexico	1,674	1%	2,391	2%
China	11,510	10%	4,939	4%
World	114,054	100%	132,434	100%

Table 4 : Hong Kong's Marketing Year Cotton Exports (Aug - Jul), MT

	MY99	Market Share MY 99	MY 00	Market Share MY 00
China	8,705	73%	10,878	98%
Indonesia	1,640	14%	96	1%
World	12,015	100%	11,065	100%

Table 5 : Hong Kong's Local Yarn Production, MT

	2000	2001
Ring Production, based on 20 counts	12,831	15,005
Open-end Production, based on 20 counts	82,540	76,775
Total	95,371	91,780

Table 6 : Hong Kong's Domestic Export of Cotton Yarn

	2000, MT	2001, MT	% change	Market	Market
China	15,204	16,753	10%	67%	69%
Malaysia	3,587	3,273	-9%	16%	14%
Japan	1,468	2,200	50%	6%	9%
Philippines	1,774	650	-63%	8%	3%
India	95	482	407%	0%	2%
Mauritius	0	189	NA	0%	1%
Macau	304	120	-65%	1%	0%
S. Korea	0	112	NA	0%	0%
Thailand	150	105	-30%	1%	0%
USA	0	1	NA	0%	0%
WORLD	22,756	24,209	6%	100%	100%

Table 7: Hong Kong's Import of Cotton Yarn by Major Suppliers, MT

	2000, MT	2001, MT	% change over 2000	Market Share 00	Market Share 01
China	178,718	214,565	20%	40%	42%
Pakistan	145,922	161,793	11%	33%	32%

India	67,976	61,214	-10%	15%	12%
Indonesia	20,620	26,409	28%	5%	5%
Taiwan	13,193	22,304	69%	3%	4%
S. Korea	9,362	9,942	6%	2%	2%
Thailand	2,380	2,537	7%	1%	1%
Australia	3,262	1,845	-43%	1%	0%
USA	368	154	-58%	0%	0%
WORLD	448,804	507,317	13%	100%	100%

Table 8 : Hong Kong's Re-exports of Cotton Yarn, MT

	2000, MT	2001, MT	% change over 2000	Market Share 00	Market Share 01
China	320,715	371,069	16%	90%	89%
Australia	2,464	5,493	123%	1%	1%
Japan	3,332	5,464	64%	1%	1%
Bangladesh	2,281	5,015	120%	1%	1%
Thailand	4,617	4,647	1%	1%	1%
Indonesia	3,681	4,523	23%	1%	1%
UK	3,116	4,218	35%	1%	1%
Sri Lanka	2,110	2,455	16%	1%	1%
WORLD	355,105	418,008	18%	100%	100%

Table 9 : Average Import Price of Cotton Yarn, USD/MT

	2000	2001	% change
China	3,479	3,271	-6%
Pakistan	2,173	2,068	-5%
India	2,702	2,626	-3%
Indonesia	3,056	2,706	-11%
Taiwan	2,225	2,069	-7%
S. Korea	5,356	4,691	-12%
Thailand	2,947	2,410	-18%
Australia	2,155	1,878	-13%
USA	6,574	10,557	61%
WORLD	2,948	2,776	-6%
Local	2,307	2,278	-1%

Note : Prices of local yarns are based on F.O.B. prices while others on C.I.F. prices.

Table 10 : Hong Kong's Import of Cotton Fabric

In square meters

Description	2000	2001	% change over 2000	Market Share 00	Market Share 01
China	1,374,688,736	1,193,553,417	-13%	74%	72%
Pakistan	224,587,374	227,967,841	2%	12%	14%
Taiwan	76,016,207	72,674,303	-4%	4%	4%
Japan	48,953,292	48,940,914	0%	3%	3%
Indonesia	34,316,538	25,530,008	-26%	2%	2%
India	19,856,207	14,844,644	-25%	1%	1%
S. Korea	20,509,178	14,522,271	-29%	1%	1%
Thailand	13,577,302	11,304,783	-17%	1%	1%
USA	3,640,471	3,043,348	-16%	0%	0%
WORLD	1,869,285,775	1,663,146,432	-11%	100%	100%

Table 11 : Hong Kong's Total Export of Cotton Fabric

In square meters

Description	2000	2001	% change over 2000	Market Share 00	Market Share 01
China	1,219,664,238	1,142,358,860	-6%	60%	56%
USA	88,203,348	86,487,793	-2%	4%	4%
Bangladesh	99,258,105	79,023,613	-20%	5%	4%
Philippines	69,206,338	61,639,861	-11%	3%	3%
Indonesia	57,178,063	55,867,794	-2%	3%	3%
Sri Lanka	61,424,086	51,493,596	-16%	3%	3%
WORLD	2,041,042,515	1,830,857,761	-10%	100%	100%

Table 12 : Hong Kong's Import of Synthetic Yarn by Major Suppliers, MT

Description	2000	2001	% change over 2000	Market Share 00	Market Share 01
Taiwan	133,343	111,201	-17%	33%	36%
China	82,934	93,891	13%	20%	31%
Indonesia	58,383	30,627	-48%	14%	10%
S. Korea	32,426	23,534	-27%	8%	8%
Malaysia	52,313	13,880	-73%	13%	5%
Thailand	12,291	4,553	-63%	3%	1%
Japan	10,125	4,218	-58%	2%	1%
WORLD	404,558	306,583	-24%	100%	100%

Table 13 : Hong Kong's Total Exports of Synthetic Yarn by Major Destinations, MT

Description	2000	2001	% change over 2000	Market Share 00	Market Share 01
China	271,136	226,075	-17%	94%	93%
World	287,350	242,384	-16%	100%	100%

Table 14 : Hong Kong's Total Imports of Synthetic Fabric by Major Suppliers

In square meters

Description	2000	2001	% change over 2000	Market Share 00	Market Share 01
Taiwan	1,110,497,540	1,059,248,431	-5%	31%	34%
Malaysia	730,925,410	683,581,879	-6%	20%	22%
China	944,898,178	659,978,506	-30%	26%	21%
S. Korea	449,050,923	365,430,554	-19%	12%	12%
Vietnam	128,447,862	119,551,518	-7%	4%	4%
Japan	105,530,038	89,014,893	-16%	3%	3%
WORLD	3,604,845,580	3,101,277,541	-14%	100%	100%

Table 15 : Hong Kong's Total Exports of Synthetic Fabric by Major Destinations

In square meters

Description	2000	2001	% change over 2000	Market Share 00	Market Share 01
China	2,172,551,921	1,922,436,174	-12%	85%	89%
Taiwan	74,043,312	37,310,375	-50%	3%	2%
WORLD	2,567,850,528	2,171,547,866	-15%	100%	100%

Source : Hong Kong Census & Statistics Department