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Taiwan

Cotton and Products

Annual

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Approved by:
Scott Sindelar
American Institute in Taiwan

Prepared by:
Chiou-Mey Perng & Eric Trachtenberg

Report Highlights:
Taiwan's total cotton imports in MY05/06 are forecast at 1.04 million bales. The United States is expected to remain the major cotton supplier to Taiwan with market share slightly under 50 percent. Despite the ongoing contraction in the textile sector, the stable import outlook is primarily a result of lower prices compared with 2004. Taiwan textile firms will continue moving up the value chain to remain competitive with Southeast Asia and China.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Taipei [TW1]
[TW]

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Executive Summary

Total cotton imports in MY05/06 are forecast at 1.04 million bales, unchanged from MY04/05. Imports are not expected to decline because lower cotton prices may support trade despite continuing declines in the Taiwan textile sector. This continues a recent tendency for cotton consumption and imports to move in different directions when prices affect trade and stocks. The average CIF import price during the first three months of 2005 was 53 cents per pound, which is down 22 percent from the 2004 level of 68 cents per pound. Future demand for cotton fiber will be decided by two factors: the total number of operating spindles and the world cotton price. The U.S. market share for imported cotton is expected to increase to nearly 50 percent because of its competitive quality and price. Although the Multifiber Agreement ended on January 1, 2005, it is not expected to have a dramatic short-term effect on Taiwan's textile industry.

Production

Taiwan does not produce cotton. All cotton demand is supplied by imports.

Consumption

Taiwan cotton consumption in MY05/06 is expected to total 1.04 million bales. This is the same level in MY04/05 but down from 1.18 in MY03/04 and 1.24 million bales in MY02/03. All of the recent declines are a result of falling capacity in Taiwan's textile industry. According to the Taiwan-based China Textile Institute, 80 percent of all textiles are used in apparel while just 10 percent are used in home decoration and industrial applications each.

Status of Taiwan's Textile Sector

The textile industry has traditionally been a major engine of Taiwan's economic growth. In 2004, Taiwan was the world's sixth largest textile exporter and was responsible for 9.7 percent of total employment. In addition, the Taiwan textile industry earned $12.5 billion in export revenue with a $10 billion trade surplus. Despite rapid growth in high technology exports in the last ten years, textile exports are still a major source of Taiwan's foreign exchange.

Taiwan is a key producer of synthetic textiles, especially polyester. In 2003, it produced 10.1 percent of all synthetic textiles sold worldwide, the second largest total after China. Much of this capacity comes from long-standing ties between textile producers and the petrochemical industry. As a result, synthetics account for 60 to 70 percent of total textile production. In 2005, higher oil prices will likely increase cotton's market share. Over the longer term, the relatively low price of chemical fiber will boost production, although cotton will retain its market niche, especially in middle income and wealthy countries.

Taiwan's spinning and textile industry is in a process of long-term decline, although the rate of shrinkage is slowing slightly. The total number of active spindles declined to 1.80 million in 2004, spread over 81 textile mills. This is a six percent decrease compared with 1.91 million in 2003 (see *Table 4*) and down 47 percent from 3.40 million spindles in 1995. In the next year, another 5 percent of spindles will likely be idled or moved overseas, with the total expected to settle at 1.5 million by 2010. Taiwan's export-oriented textile industry continues to lose competitiveness because of high wages, increasing environmental protection requirements, expensive land and increasing competition from other Asian countries. The relocation of downstream firms such as apparel manufacturing out of Taiwan has also increased pressure on the textile sector.

Taiwan Textile Investment Patterns

To enhance their competitiveness, Taiwan textile firms are continuing to invest elsewhere in Asia, especially in Mainland China, Thailand, Vietnam, Cambodia and Myanmar (Burma).

Political instability and unattractive business climates have reduced investment in both Indonesia and the Philippines. In the future, investment is likely to shift to India, Bangladesh, Pakistan or even Russia. Despite this internationalization of production, Taiwan textile firms still make many of their buying decisions in Taiwan, especially for factories located outside Mainland China that export to third countries. Taipei's importance is magnified in target countries for Taiwan investment because local firms tend to follow the example set by foreign investors.

Taiwan textile investment in the PRC totaled $408 million in 2003 alone. PRC-based Taiwan-owned factories tend to make decisions locally, especially for products designed for the domestic Chinese market. Chinese-based factories function more autonomously because of the complexity of China's local import and trade regulations, especially the quota system for imported agricultural products. Sharp increases in Chinese exports to Western countries have fueled concern that safeguard duties may be used to slow PRC exports. The safeguards issue, combined with shortages of capital, labor and electricity and political pressures on Taiwan business people by the PRC government has cooled interest by Taiwan textile firms in the PRC. Industry sources said the labor shortage is particularly severe around Guangdong Province in southern China, with between 15 to 20 percent of jobs unfilled and up to 40 percent of plant capacity idle.

Prospects for the Taiwan Textile Sector

The fate of firms remaining in Taiwan will depend on their ability to adapt to increasing competition. Although the rate of adjustment is slowing as the number of weaker firms falls, companies with capacity remaining in Taiwan must diversify their markets and move up the value chain to high-end textiles and garments, performance fabrics, or branded products. Taiwan's strengths in information technology (IT) research and development could help it become competitive in the manufacture of technical fabrics along with high-quality and specialized textile products such as blended acrylic and yarn products that require high quality weaving. Taiwan's IT strength could also allow it to produce smaller lots more efficiently, allowing the mass customization of products and to meet changing consumer tastes. Taiwan's prospects for the production of technical textiles will also be boosted if local firms play a role in standards setting. As they move up the value-added chain, Taiwan firms also reduce costs by importing labor, mostly from Southeast Asia. In some plants, workers from the Philippines, Vietnam, and Thailand make up between 25 to 30 percent of the total workforce.

To avoid direct price competition with PRC or Southeast Asian textile products, Taiwan-based mills need to deepen their specializations in functional products while cutting production of lower-value and less profitable commoditized products. A few spinners have built up a streamlined supply chain through strategic alliances that runs from yarn to fabric to final garments. Through these alliances, Taiwan firms may remain competitive in the world textile market. At the same time, Taiwan is expected to retain most of the textile industry's head office functions because of Taiwan's relatively well-developed legal system, abundant capital and a fairly transparent trading system. As a result, most of the procurement, finance, logistics/supply chain and sales will be based in Taipei, especially for mills located outside Mainland China. Taiwan offices are expected to continue purchasing more than 1.3 million bales a year of cotton, even if the product is shipped to offshore factories.

Most industry leaders in Taiwan believe that local production will decline more slowly in the immediate future than in the last ten years and will level off by 2010. Competitive pressures and the expiration of the 1974 Multifiber Agreement on January 1, 2005 that ended most textile quotas has forced the Taiwan textile industry be more quality driven. On the other hand, although Taiwan is a WTO member, its producers need to prepare for a trading environment where competing countries are signing preferential trade agreements that could reduce Taiwan's competitiveness in lucrative export markets. Most significant would be moves by the U.S. or China to develop trade agreements with textile suppliers in Latin America, South Asia or Southeast Asia.

Trade

Despite falling cotton consumption, anticipated lower prices in MY05/06 will likely support imports at around 1.04 million bales. Taiwan's MY 04/05 imports were 1.04 million bales, up slightly from 1.01 million bales in MY03/04. Although Taiwan's cotton consumption is supplied entirely by imports, demand and imports sometimes do not move together when prices fluctuate. The average CIF import price during the first three months of 2004 was 53 cents per pound, down 22 percent from the 2004 level of 68 cents per pound. This figure is still slightly above the 51 cents per pound in 2003 and 40 cents in 2002. The last peak was 63 cents per pound in 2001. When prices are high (such as during 2004), cotton stocks tend to decline while the reverse happens when prices are low. In 2005, tight (or in yarn, negative) margins and a declining spindle count will likely prevent strong import growth despite lower prices.

The U.S. market share is expected to approach 50 percent through MY04/05 and as a result of the U.S.'s price competitiveness, low foreign matter, long staple, consistent quality and reliable delivery. These characteristics continue to make U.S. cotton the foundation of Taiwan's textile formulations. Other origins tend to compete with each other more than with U.S. cotton. In MY03/04, the United States had a market share of 48 percent, up from 44 percent in MY02/03. These levels are markedly higher than pre-2000 historical average of 35 percent of Taiwan's total cotton imports. In MY01/02, low prices gave the U.S. an unprecedented 54 percent of the cotton market with total exports exceeding 830,000 bales. As Taiwan moves up the value chain, U.S. exports will likely claim a larger share of the market in the future, with market share expected to settle just under 50 percent.

In MY03/04, Brazil became Taiwan's second largest supplier after the U.S while imports from Pakistan rose sharply to third place. In MY04/05, industry sources expect Brazil to remain in second place after the United States. Taiwan imports cotton based on both price and quality.

Yarn & Fabrics Trade

Taiwan generally imports lower valued cotton yarns and exports higher value cotton yarns. This trend is not expected to change. In 2004, Taiwan's textile sector experienced both intensifying competition and a global downturn. *Tables 6 & 7* show substantial 2004 export declines for fabric and apparel along with import declines for cotton yarn. However, exports of cotton fabric rose substantially because of growing demand in China, Indonesia, Sri Lanka, Thailand and Cambodia, much of which is made into garments in Taiwan-owned factories. This indicates that cotton yarn and fabric sectors remaining in Taiwan are still competitive despite the reduction of cotton spindles and the relocation of garment factories overseas. Taiwan's largest markets are Hong Kong, the PRC, Southeast Asia and the United States.

Policy

The tariff on cotton is zero. The applied rates for textile products are listed in the table below. There are no current non-tariff barriers that affect the cotton trade.

HS Code	Products	Tariff Rates (applied and bonded rates)
5202	Cotton Fiber	0%
5204, 5205, and 5207	Cotton Yarn	4%
5208	Cotton Fabric (gray)	7.5%
5209	Cotton Fabric (finished)	10%

Tariffs for Man-made versus Cotton Products:
After joining the WTO, Taiwan reduced its tariffs for cotton yarn and man-made spun yarn to 4 percent. The tariff for man-made fiber fell to 1.5 percent while the tariffs for cotton gray cloth and man-made gray cloth remained at 7.5 percent. Clothing is charged 12.5 percent. All temporary tariffs on yarns, gray cloth and man-made fibers were withdrawn upon WTO accession.

PRC Cotton Imports
Taiwan permits the import of PRC cotton and there are no duties or outstanding phytosanitary issues, unlike for most PRC agricultural products. However, since PRC cotton supplies are subject to significant fluctuations, they are not expected to compete with U.S. cotton every year. For example, in MY01/02 and MY02/03, PRC cotton imports increased sharply, which resulted in China becoming Taiwan's second largest supplier. However, in MY05/06, PRC is not even expected to be one of Taiwan's top ten suppliers.

Marketing

Given Taiwan's strength in petrochemical production, cotton's most formidable competitors are synthetic fibers, especially polyester. Although Taiwan's consumption of cotton versus man-made fibers will depend heavily on relative cotton and petroleum prices, opportunities for U.S. cotton exports to Taiwan exist in several sectors:

- High end textiles and yarns, including higher count fabrics that could compete with high cost producers such as Italy. Other more expensive fabrics include those that are finished to have special crinkle, softening, draping, 3D or other characteristics.

- Technical/Performance fabrics where cotton can play a role in formulations. The relocation of garment manufacturers out of Taiwan has spurred interest in raising the production of textiles for home or industrial use. The China Textile Institute has set a goal of increasing non-garment textile production to 40 percent of the total by 2010. Some technical fabrics include products that are anti-bacterial, water resistant, multi-function, sun protective, anti-static, oil repellent and have electro-magnetic shielding where cotton is blended with metal or fibers into yarn. Taiwan continues to invest in these and other new technologies to manufacture textiles for sports wear and active wear. Starting 1 ½ years ago, Taiwan Ministry of Economic Affairs began to certify performance of these products under the "Taiwan Functional Textiles" label.

- Taiwan firms with investments in other markets such as the PRC, Vietnam, Indonesia and Thailand but have their head office functions in Taiwan. Industry sources estimate that Taiwan firms buy between 30 to 40 percent more cotton in Taiwan than is reflected in bilateral import statistics. The extra 300,000 to 400,000 bales of cotton mainly go to Taiwan-owned sites in Southeast Asia and China.

- Textile formulations that can boost the weak brand equity of Taiwan textile and garment manufacturers.

- Cotton for use in textiles exported to the PRC and Southeast Asia.

When choosing between cotton suppliers, major Taiwan importers base their buying decisions on reliability of supply, price, quality and the availability of technical support. Importers are also sensitive to price differences between suppliers and the presence of pests such honeydew, which leaves sticky deposits or naps. Importers also pay particular attention to damaged fibers caused by mechanical picking or overly aggressive ginning. According to local spinners, Xinjiang (PRC) and African cotton have inferior quality to U.S. products, despite their long fiber length. The quality gap between U.S. and other cotton origins means that U.S. cotton will likely remain the most important component of Taiwan textile products.

The Cotton Council International (CCI) and Cotton Incorporated are very active in the Taiwan market. Cotton Inc. provides technical support to Taiwan textile mills, which encourages the use of U.S. cotton. CCI promotes the use of U.S. cotton through the Cotton USA Mark, which it supports through an extensive media campaign. As a result, recognition of the Cotton USA mark is very high in Taiwan, which encourages Taiwan textile producers to use U.S. cotton. As Taiwan textile manufacturers move into more blended fabrics, there will be increasing interest in promotion programs that emphasize their non “100 percent cotton” products.

Statistical Tables

Table 1. Cotton Production, Supply and Demand, Metric Tons

PSD TABLE						
Country	**Taiwan**					
Commodity	**Cotton**				(HECTARES) (MT)	
	2003	**Revised**	2004	**Estimate**	2005	**Forecast**
	USDA Official [Old]	**Post Estimate [New]**	USDA Official [Old]	**Post Estimate [New]**	USDA Official [Old]	**Post Estimate [New]**
Market Year Begin		**08/2003**		**08/2004**		**08/2005**
Area Planted	0	**0**	0	**0**	0	**0**
Area Harvested	0	**0**	0	**0**	0	**0**
Beginning Stocks	104944	**96920**	74245	**60072**	90574	**60072**
Production	0	**0**	0	**0**	0	**0**
Imports	220122	**220152**	255829	**227000**	0	**227000**
MY Imp. from U.S.	0	**90923**	0	**108000**	0	**108000**
TOTAL SUPPLY	325066	**317072**	330074	**287072**	90574	**287072**
Exports	435	**0**	0	**0**	0	**0**
USE Dom. Consumption	250386	**257000**	239499	**227000**	0	**227000**
Loss Dom. Consumption	0	**0**	0	**0**	0	**0**
TOTAL Dom. Consumption	250386	**257000**	239499	**227000**	0	**227000**
Ending Stocks	74245	**60072**	90574	**60072**	0	**60072**

Source: Taiwan Customs

Table 2. Import Trade Matrix for Raw Cotton, Metric Tones

IMPORT TRADE MATRIX			
Country	**Taiwan**		
Commodity	**Cotton**		
Time Period	08/2003	Units:	metric ton
Imports for:	**2003**		**2004**
U.S.	**90923**	**U.S.**	**108000**
Others		Others	
India	18445	Brazil	26140
Cote D'Ivoire	16919	Pakistan	21500
Togo	15062	India	9800
Burkina Faso	13036	Uzbekistan	8600
Mali	10046	Mali	9400
Senegal	7318	Zimbabwe	7050
Brazil	6096	Burkina Faso	6200
Uganda	4499	Togo	5503
Uzbekistan	4334	Tanzania	3095
Zimbabwe	4314	Zambia	2750
Total for Others	100069		100038
Others not Listed	29160		18962
Grand Total	**220152**		**227000**

Source: Taiwan Customs

Table 3. Cotton Import Price CIF, Cents per Pound

COUNTRY	**TAIWAN**		
Commodity	**Cotton**		
Prices in	**cent**	per uom	Pound
Year	2003	**2004**	% Change
Jan	52	**66**	27%
Feb	50	**68**	36%
Mar	50	**70**	40%
Apr	51	**68**	33%
May	52	**67**	29%
Jun	55	**65**	18%
Jul	55	**66**	20%
Aug	53	**60**	13%
Sep	55	**60**	9%
Oct	57	**57**	0%
Nov	60	**58**	-3%
Dec	69	**57**	-17%
Exchange Rate	34.47	Local Currency/US $	
Date of Quote	2004 Ave.	MM/DD/YYYY	

Table 4. Number of Operating Spindles in 2002 - 2004 by Yarn Type

Type of Yarn Produced	Year	Ring Spindles	Open-end Spindles	Jet Spinning Spindles
Cotton Yarn	2002	572,477	29,225	
	2003	546,652	25,885	
	2004	541,256	28,261	
CVC Blended Yarn	2002	374,321	9,569	
	2003	389,476	9,116	360
	2004	346,040	11,600	
T/C Blended	2002	232,898	19,960	1,080
	2003	256,908	16,953	1,800
	2004	254,600	15,996	600
Spun Polyester Yarn	2002	317,942	5,224	360
	2003	261,201	5,952	996
	2004	222,819	5,868	1,440
100% Rayon & T/R, T/W Blended Yarn	2002	339,898	5,228	1,080
	2003	348,709	8,248	360
	2004	322,934	8,491	1,116
Acrylic & Acrylic/ Blended Yarn	2002	93,082	1,533	
	2003	44,356	714	
	2004	43,666	481	
Total Operating Spindles	2002	1,930,709	78,659	2,880
	2003	1,847,302	66,868	3,156
	2004	1,731,315	70,697	3,156

Source: Annual surveys conducted by the Taiwan Cotton Spinners' Association and Taiwan Man-made Fiber Spinners Association (TCSA & TMFSA), http://www:tcsa.org.tw/

Table 5. Taiwan Imports of Textile Products for 2003 & 2004

Textile Imports	Volume in 1,000 mt			Value in $1,000,000		
Item	2003	2004	% of Change	2003	2004	% of Change
Fiber	366	364	0	512	584	+14
Yarn	166	144	-13	452	471	+4
Fabric	95	107	+14	511	588	+15
Apparel	82	86	+5	680	818	+20
Accessories	37	41	+12	245	227	-7
Total	747	745	0	2,402	2,688	+12

Source: The Taiwan Textile Federation (TTF)

Table 6. Taiwan Exports of Textile Products for 2003 & 2004

Textile Exports	Volume in 1,000 mt			Value in $1,000,000		
Item	2003	2004	% of Change	2003	2004	% of Change
Fiber	949	923	-3	1,030	1,216	+18
Yarn	1,060	1,104	+4	1,876	1,229	+19
Fabric	1,591	1,503	-6	6,938	7,204	+4
Apparel	93	74	-20	1,467	1,302	-11
Accessories	113	126	+12	573	588	+3
Total	3,086	3,731	+20	11,884	12,539	+6

Source: The Taiwan Textile Federation (TTF)

Table 7. Cotton Yarn & Cotton Fabric Production, 1998-2003

Cotton Yarn and Cotton Blended Yarn in mt			Cotton Fabric & Cotton Blended Fabric in 1,000 square meter		
Year	Production	% of Change	Year	Production	% of Change
1998	363,947	-0.31%	1998	983,979	1.38%
1999	353,590	-2.85%	1999	1,061,736	7.90%
2000	337,566	-4.54%	2000	1,059,629	-0.20%
2001	313,601	-7.10%	2001	831,566	-21.53%
2002	306,360	-2.31%	2002	793,071	-4.52%
2003	285,339	-6.84%	2003	704,750	-11.14%
2004	279,885	-1.91%	2004	742,244	+5.32%

Source: Industrial Production Statistics by the Department of Statistics, Ministry of Economic affairs (MOEA)

Table 8. Cotton Yarn Imports for 2002 - 2004, Metric Tons

Imports of Cotton Yarns in CY 2002 - CY2004			
HS5204	CY2004	CY2003	CY2002
Japan	1	3	4
France	2	3	4
China	0	1	0
Hong Kong	0	1	5
Others	2	0	4
Total	**5**	**8**	**17**
HS5205	CY2004	CY2003	CY2002
India	19,657	19,664	25,861
Pakistan	9,922	15,591	25,452
Indonesia	5,770	3,836	4,388
Vietnam	2,318	2,408	3,175
Peru	466	523	492
Thailand	361	521	390
Korea	279	242	649
Others	483	393	877
Total	**39,256**	**43,177**	**61,284**
HS5207	CY2004	CY2003	CY2002
Pakistan	52	122	157
India	143	88	38
Hong Kong	136	33	39
Korea	13	3	166
United States	0	2	0
Italy	0	2	5
Others	34	2	76
Total	**378**	**252**	**481**
Total Yarn	**39,639**	**43,437**	**61,784**

Table 9. Cotton Yarn Exports for 2002 – 2004, Metric Tons

Exports of Cotton Yarns in CY 2002 - CY2004			
HS5204	CY2004	CY2003	CY2002
Hong Kong	57	113	171
Lesotho	70	74	35
Vietnam	75	63	41
Myanmar	3	29	65
China	80	27	7
India	1	27	2
United States	24	25	21
Others	421	156	152
Total	**731**	**514**	**494**
HS5205	CY2004	CY2003	CY2002
Hong Kong	20,252	19,021	16,545
China	11,172	8,321	1,105
Indonesia	2,338	2,343	1,290
Philippines	1,436	1,310	2,168
Japan	501	853	448
Singapore	301	804	29
Viet Nam	554	747	569
Egypt	0	358	74
Korea	41	268	7
Israel	1	143	290
Others	543	455	1,255
Total	**9,032**	**34,623**	**23,780**
HS5207	CY2004	CY2003	CY2002
Hong Kong	7,417	11,404	9,326
China	1,604	2,627	83
Indonesia	221	2,025	436
Philippines	715	1,360	4,011
Thailand	20	179	15
Malaysia	127	176	76
Others	260	171	205
Total	**10,364**	**17,942**	**14,152**
Total Yarn	**20,127**	**53,079**	**38,426**

Source: Taiwan Customs

Table 10. Imports of Cotton Fabrics for 2002 – 2004, Metric Tons

Imports of Cotton Fabrics in CY 2002 - CY2004			
HS5208	CY2004	CY2003	CY2002
China	6,976	4,887	1,321
Indonesia	62	505	1,426
India	864	480	852
Thailand	357	438	336
Japan	323	201	215
Pakistan	486	180	4,409
Hong Kong	101	164	186
Singapore	132	142	122
Korea	92	70	154
Malaysia	12	52	23
Others	182	132	218
Total	**9,587**	**7,251**	**9,262**
HS5209	CY2004	CY2003	CY2002
China	966	808	1,036
Japan	677	425	568
Hong Kong	135	402	521
Indonesia	234	271	435
Korea	220	253	450
Pakistan	189	246	513
Nicaragua	0	72	0
India	32	46	18
Italy	44	42	23
United States	33	39	38
Others	308	99	85
Total	**2,838**	**2,703**	**3,687**
Total Fabrics	**12,425**	**9,954**	**12,949**

Source: Taiwan Customs

Table 11. Exports of Cotton Fabrics for 2002 – 2004, Metric Tons

Exports of Cotton Fabrics in CY 2002- 2004			
HS5208	CY2004	CY2003	CY2002
Hong Kong	6,940	5,339	7,116
Philippines	2,427	2,782	4,164
Indonesia	1,741	1,532	1,770
Sri Lanka	1,610	1,214	1,404
Cambodia	1,686	1,122	456
China	1,417	1,001	473
Viet Nam	655	600	907
Myanmar	955	479	153
Malaysia	625	432	403
Thailand	1,010	399	338
Bangladesh	395	377	320
Others	2,801	2,786	2,636
Total	**22,262**	**18,063**	**20,140**
HS5209	CY2004	CY2003	CY2002
United States	5,474	6,082	11,014
Hong Kong	4,417	4,417	6,805
Nicaragua	2,639	2,699	2,661
Philippines	2,374	2,342	2,682
South Africa	2,350	2,277	1,983
Vietnam	1,794	2,242	2,883
Cambodia	1,151	1,568	1,018
Egypt	884	1,217	350
Jordan	488	1,125	630
Lesotho	549	844	2,284
Others	15,563	11,195	13,851
Total	**37,683**	**36,008**	**46,161**
Total Fabrics	**59,945**	**54,071**	**66,301**

Source: Taiwan Customs