

## Important commodities in agricultural trade: cotton

### SUMMARY

- ▶ *Many developing countries are increasing their production and trade in cotton, and the industry is an important rural employer. New technologies are expanding production.*
- ▶ *Major exporters such as the USA and EU support cotton production and exports, driving down international prices, and thereby limiting production growth in developing countries.*
- ▶ *Import tariff reductions, and import quota removal will bring major changes to the cotton and textile/apparel markets, intensifying competition among suppliers.*

Cotton is an important commodity traded internationally as well as a major employment generator. In 2001, value-added trade in apparel was US\$19.5 billion, and raw cotton trade was US\$6.3 billion. The International Cotton Advisory Committee (ICAC) estimates that more than 100 million farming units globally are engaged directly in cotton production, with many more in ancillary activities.

Major players in cotton production and trade include China, India, the USA, the EU and central Asian and African states. China's cotton output has fluctuated considerably, but it is the world's largest exporter of apparel and remains a potential market for raw cotton exporters.

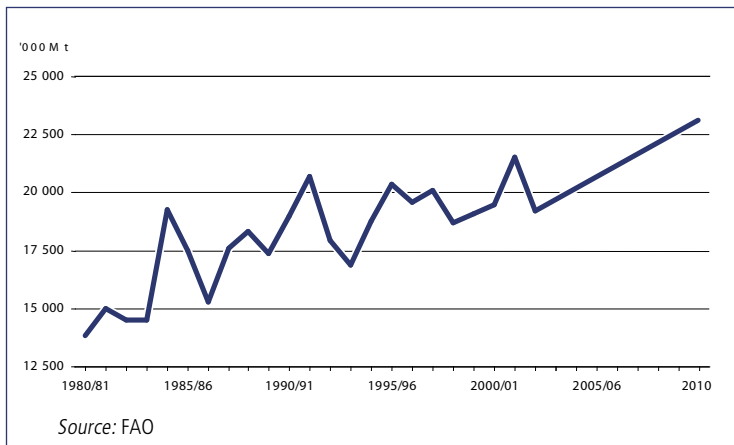
With biotech cotton, and new, low-cost producers and with the implementation of the Agreement of Textiles and Clothing (ATC), world cotton production is expected to grow by 1.5 percent annually. This will increase cotton trade to 6.5 million tonnes by 2010, about 9 percent higher than the current level.

Most of the growth in end-use cotton has been in developed countries, which increasingly import clothing and textiles from developing countries. Mill consumption and imports of raw cotton are increasing in developing countries, particularly in industrializing Asian countries. While trade in raw cotton is predominantly to developing countries from developed countries, trade among developing countries is growing. West African countries such as Burkina Faso, Benin, Côte d'Ivoire and Mali but also Egypt, Sudan, Zimbabwe and Tanzania are increasing their cotton exports. Africa now exports more than 20 percent of raw cotton in international trade. Developing countries in Asia make up 55 percent of global imports, with Europe accounting for much of the remainder and Mexico also a significant importer.

### DOMESTIC SUBSIDIES DISTORT TRADE PATTERNS, LOWER PRICES FOR COTTON ■

Domestic subsidies in certain developed countries distort cotton production and trade. The USA and the EU, which together account for 25 percent of world output and 35 percent of global exports, support their cotton farmers, encouraging higher production and exports and depressing global prices. Producers in many developing countries including many in Africa, face restricted export markets and lower returns. According to the ICAC, farm subsidies to cotton farmers in 1999 were US\$4 billion in the USA, and US\$800 million in the EU. A study by the ICAC estimated that such subsidies and those of other developed countries have depressed the world cotton price by about 20 percent, a loss of US\$300 million to African cotton exporting countries.

**Figure 1: World cotton production and projections**



Cotton production accounts for 5 to 10 percent of GDP in Benin, Burkina Faso, Chad, Mali and Togo; export earnings contribute significantly to food security in many African countries. This group of countries has proposed that cotton subsidies become a central issue in the WTO negotiations at Cancun, and countries that subsidize their production should compensate African cotton farmers. Brazil has announced to the WTO Dispute Settlement Body its intention to discuss cotton subsidies with the US. If domestic support levels were reduced in developed countries, world prices would rise, encouraging higher production in cost-effective producing countries, including many developing countries.

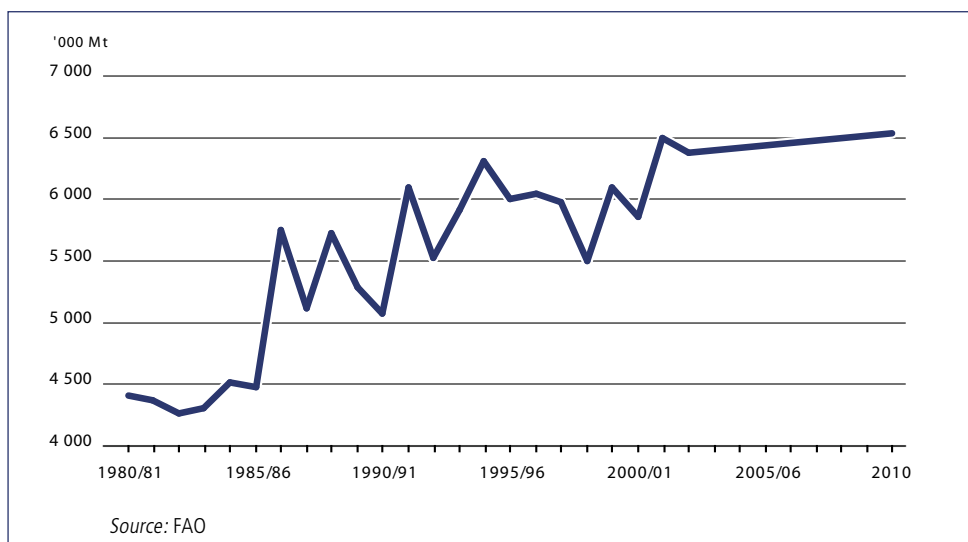
#### INCREASING MARKET ACCESS FOR TEXTILES AND CLOTHING WILL CHANGE MARKETS ■

Restrictions on trade in textiles and apparel have severely impacted on global trade of these goods. Tariff reductions for all manufactured goods including textiles and clothing have been proposed under the Doha Development Agenda (DDA). If this happens the world cotton market could face some dramatic changes. Since most developing countries have higher tariffs on textiles (around 20 percent compared with around 10 percent in most developed countries) and consume, on a per caput basis, only 25 percent of world textiles, these

reductions would increase demand for natural and manufactured fibres in developing countries. Given their population, developing country markets could be the major driving force in fibre demand.

On the other hand, implementing the ATC would remove all quotas on textiles and clothing by 2005 in addition to any tariff reductions agreed upon and would intensify competition in world textiles and clothing. Thus, many high-cost textile-producing countries, both developed countries and developing, may be forced out of textiles and clothing and may even become textile importers, significantly changing cotton trading patterns. Several major textile-exporting countries such as China, India, Indonesia, and Pakistan may become major importers of raw cotton.

**Figure 2: World cotton exports and projections**



### KEY CHALLENGES

- ▶ To improve supply potential of developing countries, adopt new technologies, and facilitate growth in production, employment and trade;
- ▶ To reduce trade distorting subsidies provided by developed countries, which expand their production and provide an unfair competitive advantage;
- ▶ To implement the Agreement on Textiles and Clothing, removing tariff quotas on these products by 2005.