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TRADE POLICY BRIEFS

FAO SUPPORT TO THE WTO NEGOTIATIONS AT THE 13TH MINISTERIAL CONFERENCE

DEVELOPMENTS AND PROSPECTS IN THE INTERNATIONAL COTTON MARKET

KEY MESSAGES

- Cotton provides employment and income for millions of smallholders and represents a major source of export earnings and foreign exchange for many low- and middle-income countries.
- The strong demand from the textile and apparel industry is expected to continue boosting global trade of cotton over the next years, and changes in imports patterns are expected.
- While growing trends towards the adoption of sustainability standards along the supply chain will likely boost the demand for cotton, it is important that these standards benefit smallholder farmers.

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Developments in the international cotton market

Cotton is a key driver of economic growth, sustaining millions of farmers and families across 80 countries in five continents. It also represents an important source of foreign exchange for a number of low- and middle-income countries. Cotton exports account for nearly 20 percent of total export earnings in Benin, 15 percent in Afghanistan, around 10 percent in Burkina Faso, Mali and Tajikistan and 7 percent in Togo.

Cotton is essentially produced and traded for its use as a textile raw material. For this reason, demand for cotton is a derived demand, as it depends on global demand for textile products. The sharp growth in global demand for textile fibres over the past decades, driven largely by population and income growth, underpinned the increase in cotton demand, particularly from Asian countries, where conditions such as low labour and production costs have been conducive for the textile industry.

Over the past 20 years, global trade in cotton registered an annual growth rate of 5 percent, reaching around USD 26 billion in 2022. World cotton trade began to trend upwards in the early 2000s with the implementation of the commitments undertaken at the Uruguay Round of the World Trade Organization (WTO), in particular the phasing out of the Multi-Fibre Arrangement (MFA), which had imposed quota restrictions on textile imports and charged MFA duty rates on imports when they exceeded the quota limits (FAO, 2013).

Developments at the national level

Cotton imports by Asian countries more than doubled in the past 20 years, driven by the strong competitiveness of the textile industry. In 2021, cotton imports by Asia represented more than 90 percent of the world cotton imports (Figure 1), with China, Viet Nam and Bangladesh accounting for more than half of the total.

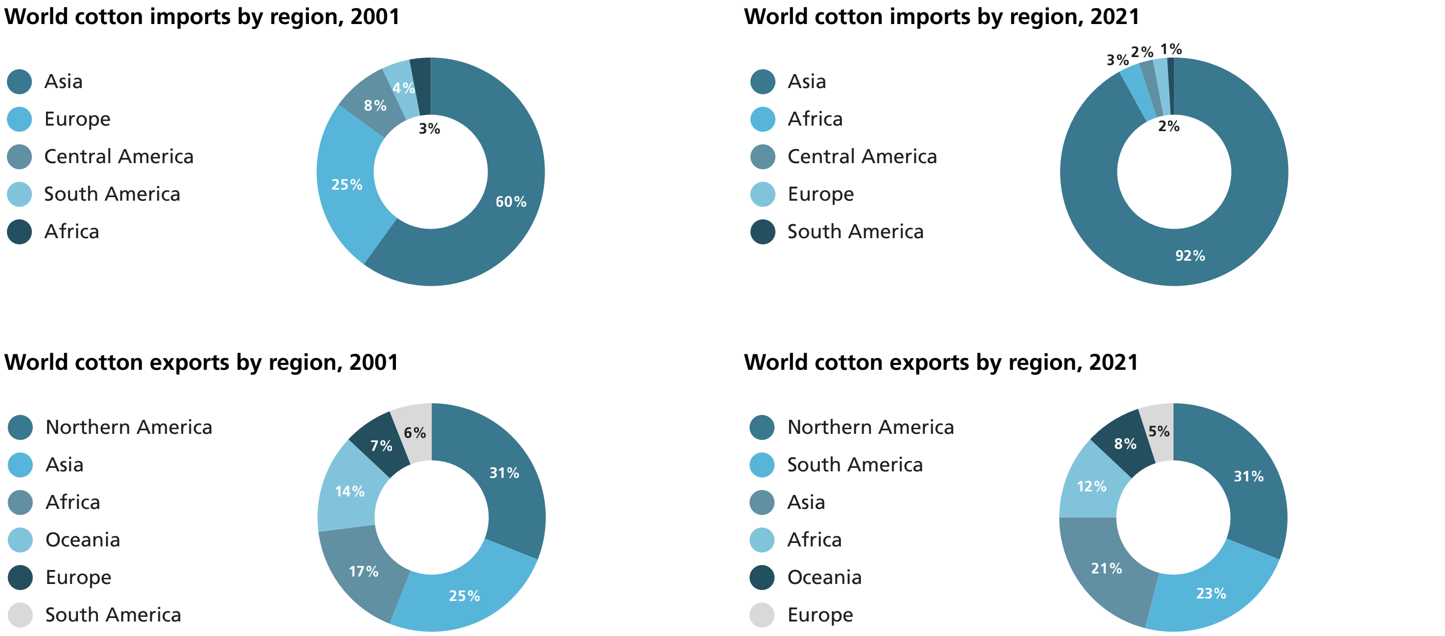
After joining the WTO in November 2001 and with the MFA quota elimination, imports soared in China, which has become the world's largest cotton importing country. For Viet Nam, the growth in the textile industry and in cotton imports were also driven by the country's accession to the WTO in 2007. In Bangladesh, the increase in cotton imports stemmed from the growing demand for yarns, which has spurred investments in new spinning facilities or in expanding production capacity of existing mills, backed by government support measures and foreign direct investments in the sector.

As regards exports, while the United States of America remains the world's largest cotton exporter, accounting for over 30 percent of global exports, Brazil and India have increased their export shares in the past twenty years. In 2021, Brazil ranked as the world's second largest exporter, accounting for a 21 percent share of global cotton exports, followed by India, with a 14 percent share. In Brazil, cotton production has grown rapidly over the past two decades, along with the agricultural sector in general. In India, cotton exports in the raw form and finished products are an important source of foreign exchange. The Government is promoting investments in the sector and has launched several schemes over the past years to promote the textile industry and improve the livelihood of the people involved. Cotton is an important export crop also for Sub-Saharan Africa, currently accounting for an aggregate of around 15 percent of global exports.

World cotton trade to expand over the next decade

World cotton trade is projected to expand steadily over the next decade and reach 11.2 million tonnes by 2032, 26 percent above the 2022 volume (OECD-FAO, 2023). This mainly reflects the significant growth in Asian countries, particularly Viet Nam and Bangladesh, which source virtually all their cotton from imports to support their growing textile sector.

Figure 1. International Cotton Trade, 2001 – 2021



Source: FAO. 2023. FAOSTAT. [Cited 3 July 2023]. Rome. https://www.fao.org/faostat/en/#home

In Asia, yarn production is gradually shifting from China to other Asian countries, notably Viet Nam and Bangladesh, where the use of cotton to transform it into yarn is foreseen to keep expanding over the coming decade. As a result, raw cotton imports by China are projected to increase by only 8 percent over the next decade, while in Bangladesh and Viet Nam imports are projected to expand by 60 percent. The three countries will continue to account for more than half of global cotton imports, with Bangladesh foreseen to become the world's leading raw cotton importer.

The United States of America is likely to remain the world's largest exporter, followed again by Brazil and India. Sub-Saharan African exports are also projected to increase, although the growing textile and apparel industry in the region could affect the export pace of raw cotton.

Uncertainties and challenges ahead

The expansion of cotton trade over the next decade is expected to be affected by a number of challenges and uncertainties. For instance, the demand for textiles is income responsive. As such, the extent to which the global economy will grow over the next decade will have an impact on the cotton sector.

In addition, the projected slowdown in population growth over the next decade is foreseen to prevent a larger increase in cotton demand (OECD-FAO, 2023). Furthermore, recycling by the textile industry, together with stronger than expected competition from man-made fibres, could also negatively affect the demand for cotton.

The increasing adoption of sustainability standards in supply chains, coupled with the growth in consumer preferences for more sustainable products, should partly offset the overall expected decline in cotton demand growth. However, it is important in this regard to ensure that the adoption of these standards benefit smallholder cotton growers by improving their livelihoods. Another challenge is the price-cost squeeze that manufacturers face because of stagnant retail prices against rising production costs (FAO, 2021). Finally, policy measures affecting the production and consumption of cotton, trade developments and geopolitical tensions can also have important implications for the world cotton market.

Actions to address key challenges:

- Strengthen compliance with sustainability standards at all levels of the value chain to respond to the consumer demand for more sustainable products.
- Ensure profitability for small farmers facing compliance costs related to sustainability standards by providing technical assistance and improving access to resources.
- Ensure that trade reforms address market-distorting measures and enhance market access to producing and exporting low-and middle-income countries.
- Overcome the price-cost squeeze that the textiles and manufacturers face to ensure the long-term viability of the cotton industry.
- Improve the fibre characteristics of cotton to compete with man-made fibres by breeding improved cotton varieties and exploiting new technologies to enhance cotton quality and processing efficiency.

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