

TRADE POLICY BRIEFS

FAO SUPPORT TO THE WTO NEGOTIATIONS AT THE 12TH MINISTERIAL CONFERENCE

RECENT TRENDS AND PROSPECTS IN THE WORLD COTTON MARKET AND POLICY DEVELOPMENTS

KEY MESSAGES

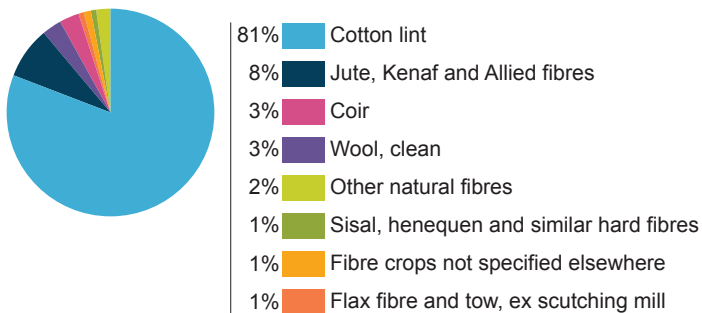
- Demand for cotton depends on the global demand for textiles and on competition from substitutes.
- The performance of the cotton sector is heavily influenced by policies and programmes implemented in many countries.
- The cotton sector contributes significantly to the economies of many developing countries and to the livelihoods of millions of rural smallholders worldwide.
- Cotton faces a number of uncertainties that need to be addressed to ensure that the sector becomes more resilient and sustainable and continues to support economic growth and development.

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The cotton market and changes in demand for textile products

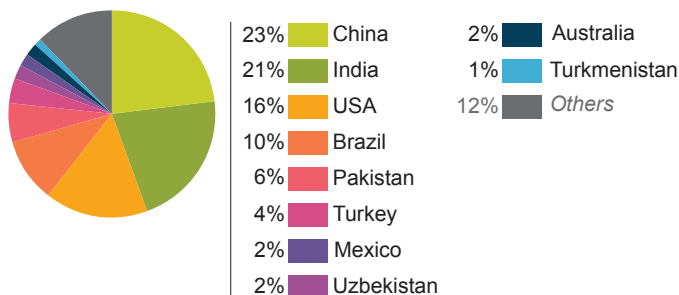
Cotton is the most important of the natural fibres due to its rapid growth rate and wide range of applications in apparel and home furnishings. About 80 percent of cotton is used in apparel, 15 percent in home furnishings, and the remaining 5 percent mostly accounts for non-woven applications, such as filters and padding. The largest cotton producing countries are China and India followed by the United States of America and Brazil.

World natural fibre production (32 million tonnes in 2018)



Source: FAO, 2021.

World cotton production (2018)



Source: FAO, 2021.

Demand for cotton is a derived demand, as it depends on the global demand for textile products. Competition from substitutes such as polyester and other synthetic fibres also influences the performance of the sector. Over the last decade, textiles utilisation has risen steadily mainly driven by population and income growth mostly in developing countries, particularly in Asia. Moreover, demand for natural fibres has expanded quite markedly in recent years, sustained by a growing trend for sustainability. Despite this, cotton mill use has not increased in the past ten years. The main reason for this is a deterioration in the competitiveness of cotton relative to polyester. Added to the cost of the fibre itself, manufacturers have to bear high production costs throughout the apparel value chain, while retail prices have remained relatively stagnant. The resulting small profit margins and financial pressure have accelerated the process of consolidation in the textile and apparel industry. This has contributed to lower overhead, labour and energy use per kilogram processed, and has created advantages in accessing information and capital, and greater abilities to handle logistics efficiently. Consolidation is occurring among countries, but also among companies. In addition, because of the cost pressures in the value chain and interdependence among cotton producers and manufacturers, coordination and cooperation among producing segments is becoming crucial to the long-term viability of cotton as an industry.

Market and policy developments in major cotton producing and consuming countries

Many countries have implemented policies and programmes in support of the cotton sector. These include direct payments to producers, government purchases of cotton, buffer stocks to stabilize prices and guarantee domestic supplies, border measures to protect domestic industries, crop insurance subsidies and price support mechanisms.

In China, changes in the cotton policy favoured a shift of the cotton industry to the western part of the country, dominated by increased mechanization and higher yields. This allowed production to rise and contributed to developing the largest cotton spinning industry in the world. In India, production has also expanded in recent years and remained heavily influenced by changes in the Minimum Support Prices (MSPs) established by the national government each year. Mill use of cotton in India also increased, which turned India into the second largest user of cotton in the world. In the United States of America, cotton farmers benefit from subsidised crop insurance, marketing loans and are eligible to receive direct and counter-cyclical payments. Turkey has been investing in a large irrigation project since the 1980s, and since 2018/19, about two-thirds of cotton production has been located in the region where the South-eastern Anatolia Project is being implemented. In Viet Nam, where cotton production is limited, mill use has increased significantly in the past decade, supported by free trade agreements with China and the Republic of Korea, and increasing investments from both countries. Similar to Viet Nam, Pakistan has benefited from substantial investments in infrastructure and textile activity from China. Another key cotton consumer is Bangladesh, which has developed an integrated domestic supply chain from spinning to garment assembly, backed by foreign direct investments in the sector. In Africa, production in Egypt and the Sudan has seen robust increases on the back of profitable margins and government support measures.

Strengths and challenges of the cotton sector

The cotton sector contributes significantly to the economies of many developing countries, notably least-developed countries (LDCs), and it represents a major source of livelihood and income for millions of rural smallholders worldwide. As a major source of export revenues for some of the poorest countries in the world, the sector empowers individuals and communities to meet their food security needs and improve their nutritional status. This makes the sector an important contributor to the achievement of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs).

Cotton, however, faces a number of challenges and uncertainties on both the production and demand sides that need to be addressed if the sector is to realize its full potential in supporting economic growth and development. There is mounting evidence on the impact of cotton production on the sustainable use of land, water and ecosystems. Strategies to address these negative externalities are taking place in the face of a general decline in land and water resources availability. Another challenge is the price-cost squeeze that manufacturers face because of stagnant retail prices and rising production costs. Innovation, new technologies and resources need to be mobilised to ensure that the sector remains viable and continues to be a good source of income and overall economic development.

The way forward

Cotton is one of the world's very important industries, providing incomes for tens of millions throughout the cotton value chain, connecting producers in remote areas to local, regional and world markets and contributing to fighting poverty and food insecurity.

However, the industry must change and improve in order to be able to compete with man-made fibres, particularly polyester, or it will risk decline. Cotton yields must increase, agronomic limits be overcome in a sustainable manner, resource use must decrease and fibre characteristics need to be improved to reach a level of performance that meets the demands of consumers. In addition, the sector must seek to achieve greater coordination among the value chain segments to enhance transparency and inclusivity, improve efficiency, and raise productivity. These outcomes would contribute to the transformation and long-term viability of the world cotton industry, making it more efficient, inclusive, resilient and sustainable.

Actions to address key challenges:

- ▶ Enhance market and policy transparency for the sector.
- ▶ Strengthen compliance with sustainability standards at all levels of the value chain.
- ▶ Achieve sustainable productivity gains along the various stages of the value chain through innovation, technology adoption and increased investments.
- ▶ Overcome the price-cost squeeze that the textiles and manufacturers face to ensure the long-term viability of cotton as an industry and as a provider of livelihoods.

This policy brief is based on: FAO. 2021. *Recent trends and prospects in the world cotton market and policy developments*. Rome. <https://doi.org/10.4060/cb3269en>

Required citation:

Amrouk, E. M. and Palmeri, F. 2021. *Recent trends and prospects in the world cotton market and policy developments*. Trade policy briefs, no. 41. Rome. <https://doi.org/10.4060/cb7232en>



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