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WORLD BANK PERSPECTIVE ON COTTON

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PRICES

1. World cotton prices have been falling and are at an historical low (inconstant prices)
2. Why'?

inroads of synthetic fibers into the market, sometimes subsidized by producers
From 1960-2002 synthetics consumed rose by 10x
cotton consumed rose by 2x

Large subsidies granted by some industrial countries to producers of cotton and exporters of cotton

US and EU, followed far behind by China, Turkey are the biggest subsidizers

Example: US cotton farmers received \$2.3b in direct subsidy in 2001/2002;

New farm bill will increase this.

Recent slow-down in world economy caused cotton demand to stagnate - while cotton production increased: world cotton production increased 9% since 1999.

Most increase: US and China

3. Is this price decline bad for everyone?

100: Price declines are good for consumers and textile industry.

But bad for cotton farmers and for countries dependent on cotton, or communities dependent on cotton.

4. U.S. and Europe can afford producer subsidies. Subsidies constitute a small % of government resources in these countries. Poor countries cannot, because there is less of an alternative economy to tax to subsidize cotton farmers. The more important is cotton to an economy, the more difficult it is to support it.

U.S. has 30% of world cotton exports; but cotton makes up less than 1% of US GDP. For Benin and Burkina: 22% of population is dependent on cotton.

What to do: At country level?

5. Domestic policy has difficult time offsetting declining world prices in any country - but especially in developing countries.

Marketing boards and stabilization funds lose money; become a burden on government finance. Because there is so little alternative economy to tax in countries dependent on agriculture and cotton, typically marketing boards and stabilization funds collapse.

6. Income transfers to farmers to compensate low cotton prices is industrial country practice. But even in industrial countries, this is self defeating on aggregate. Subsidies serve to reduce world prices farther, causing a need for expanding subsidies.
7. Targetted social protection for farmers may be necessary in the current circumstances of extraordinarily low cotton prices. Temporary employment, aid including if necessary and where necessary food aid, or other income transfers are likely to be needed. International community can help here.
8. Longer-term solution at counn level

- Diversification into other things: expand non-cotton economic base
- Raise productivity: will raise cotton farmers incomes
But there is an "adding up" problem: if all farmers in all countries raise productivity, the production increase may expand even further, putting downward pressure on world prices.
Reduce marketing costs -- farmers and ginnery income will increase
Improve public services to farmers -- to reduce costs of transport for ^{example}
Abandon cotton? - A Mali study showed that the :

Cotton/maize mix leads to better diet and income than producing food crops alone.

Health outcomes better among cotton farmers than food crop farmers
Poverty less among cotton farmers than among non cotton farmers

Hence, abandon cotton and diversify only where the alternatives are good.

Sub-Saharan Africa

9. Farmers in CFA countries have responded well to low world prices. Farmers price maintained through 2001 due to depreciation of the CFA franc, improved marketing efficiency (greater % of price went to farmers), and some government

subsidy, But this is unlikely to hold up with the further decline in cotton prices and the current depreciation of the dollar. Assistance is likely to be required for African cotton farmers.

10. If subsidies in industrial countries come down, the competitive position of Africa would increase because they are low cost producers.

11. The World Bank is helping countries restructure cotton industry. It does this through:

- a. liberalization, improved payment systems to farmers, privatization combined with improved regulation and institution building
- b. World Bank finances the public investments required by the cotton industry in some countries
- c. counter cyclical resource transfers
- d. technological: R&D in cotton
- e. help with farmer cooperative formation
- f. sometimes credit
- g. safety net

finally: The World Bank advocates phase out of producer and export subsidies for cotton, and reduced trade barriers.