



## Impact of COVID-19 on the Cotton Sector in Latin America and the Caribbean: Necessity to Rethink the Production and Marketing Model

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The spread of COVID-19 has deepened the vulnerability of millions of agricultural producers and workers in the agri-food industry and basic inputs and services; intensifying the feeling of uncertainty in the short and medium term for this section of the population. This new reality is even more intense in those countries with high levels of food and nutritional insecurity, where their installed capacities are limited to face additional risks such as those generated by the pandemic. In this context, there is a discussion on new ways and means of managing the diversity of agri-food systems and rethinking the established strategies, focusing on a new, inclusive, sustainable, and resilient model. The impacts of the pandemic cover a wide range of sectors and have forced decision-makers to change their original planning in the face of a situation that affects their countries and regions worldwide.

Since January this year, there has been a fall in energy product prices (oil, gas and coal, among others), aggravated in March due to the overall reduction in production and manufacturing activities in the world. In this sense, supply is also subject to external trade decisions, which, in turn, threaten the stability of domestic food prices. Thus far, eighty countries have enforced export restrictions as a result of COVID-19, and seventeen of these targeted exports of food and agricultural products (FAO and ECLAC, 2020). In the international market, these restrictions alter trade flows, causing a decrease in supply and a rise in prices, with a negative impact for importing countries, which depend on international prices and their equivalents in local currencies.

For the European Union and the United States, a decrease in exports of 16.1% and

11.6%, respectively, is projected; in the Latin American and Caribbean region, the Economic Commission for Latin America and the Caribbean (ECLAC) estimates a contraction in global demand in the short and medium-term for regional exports by 14.8% compared to 2019. This dynamic is part of the anticipated local unemployment figures, which could reach 11.5% in 2020, a 3.4% increase compared to 2019. Furthermore, in 2020, poverty is expected to increase by 4.4%, which means an increase of 28.7 million people in the poverty bracket. In addition to the negative economic growth, these projections directly impact household consumption and supply decisions (ECLAC, 2020).

The general global uncertainty at all levels makes projections difficult. However, it serves as a wake-up call to different stakeholders for the need to introspect on the production chains in order to serve the most vulnerable groups, guarantee food and nutritional security of the population, and expand the resilience of farming families, not only against the Covid-19 but also against the consequences of climate change.

### COVID-19 and Cotton

The impacts of the COVID-19 pandemic on the global cotton industry are still unclear. The insecurity of the overall economy and projections of economic slowdown apply to all aspects through the cotton value chains, including products, co-products, textiles, clothing, etc. that have been disrupted and weakened.

Facing this uncertain scenario, the first estimates of the World Bank for 2020, foresee an average decrease of the Gross

Domestic Product (GDP) of -4.6% for the Latin American and Caribbean region, and even lower estimates of -5.2%, -5%, -6% for the main cotton producing countries in the region such as Argentina, Brazil and Mexico, respectively (Figure 1).

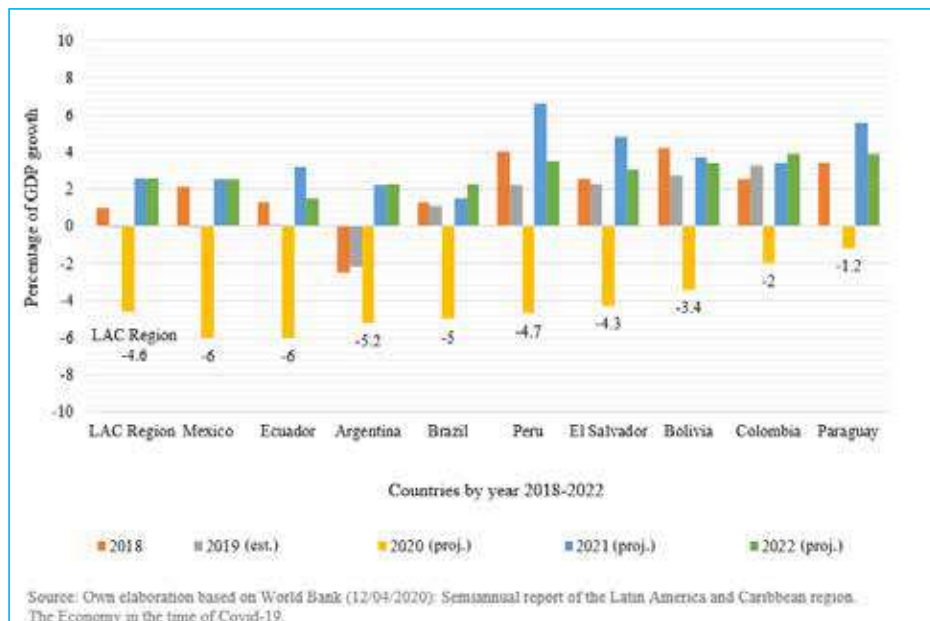


Figure 1.- Economic growth rate of Latin America and the Caribbean, by country, 2018-2022

In this context, it is observed that the demand for cotton has been strongly impacted. The United States Department of Agriculture (USDA) has predicted a 6.4% decrease in global cotton consumption. Additionally, due to outbreaks of COVID-19 in the USA and China, the main partners and export destinations of Latin America and the Caribbean (LAC), textile manufacturing activity decreased and, consequently, the demand fell globally. Manufacturing and supply chains in Asia have slowed their rate of production due to movement and work restrictions imposed on workers

for public health reasons; and factories have suspended orders for clothing and commodities. A significant shock on the world market can be seen in leading stock exchanges where all marketable products except gold lost value.

Between 16 May 2018 and 15 May 2020, the volatility of cotton prices was significantly influenced mainly due to two factors: the trade dispute between USA vs. China and the COVID-19 pandemic (Figure 2). The impact of the trade dispute resulted in a 26% decrease in prices as on 11 June 2018 and 5 Sep 2019, thereby triggering subsidies to cotton growers in producing countries including the USA and some countries in the LAC region. As of 31 March 2020, the price was 48.22 cents per pound, representing a decrease between 38 and 41% over the prices before the trade dispute (prices on 9 April 2019 and 11 June 2018 respectively). This pricing dynamic threatens crop sustainability in the region and forces the cotton industry to reinvent itself in reactivation plans quickly.

The reduction in oil prices have direct implications on the decrease in the value of synthetic fibres that compete with fibres of natural origin, such as cotton, and is a factor of concern. Estimates of the International Cotton Advisory Committee (ICAC, 2020) foresee an increase of 19.1% in the world cotton inventories for the 2019/20 season, attributable to the increase in inventories of 3.9% in the collection centres of China, whose stored volume increased to 9.2 million tons. On the other hand, in the rest of the world

an increase in volumes of 33% to 13.3 million tons is expected, given the production of this season's crops, which is expected to increase by 3%. According to the ICAC data, a 1.7% increase in global cotton production is estimated for the 2019/20 season worldwide, reaching a total of 26.1 million tonnes. This phenomenon may affect the income and access to essential services of more than 100 million

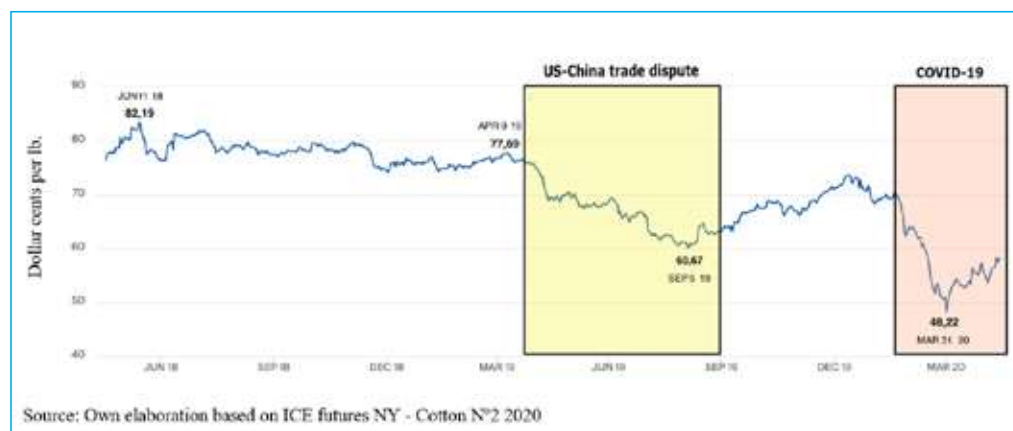


Figure 2.- "Cotton N°2" futures in US cents per pound of lint.

families in the Latin American and Caribbean region, both farmers and workers in the processing industry (UNCTAD, 2019), putting their livelihoods and well-being at risk.

Asia stands out as the main importer of cotton for industrial purposes. Asian countries imported cotton worth 33.5 billion dollars in 2019, led by China, Bangladesh and Vietnam. Countries in the LAC region imported cotton worth US\$ 3.9 billion, led by Mexico and Honduras as the main textile industries in the region. Comparing the regional export and import figures, the trade balance is slightly negative for the region, since LAC imported cotton worth US \$ 220 million in excess than it exported. Figure 3 examines cotton trade flows within the LAC region and presents data on imports of the countries participating in the Project +Cotton. Amongst all countries in the region, Argentina stands out with the most pronounced decline in imports, not surprisingly because of the incentives for planting and domestic production, with an aim to activate its local cotton industry and encourage cotton textile exports after value addition. The sharp drop is noticeable in 2017, when 318,000 hectares were planted, and 580,000 tonnes of seed-cotton were harvested from the national average yield of 24.6 quintals per hectare (2,460 Kg/ha).

Examination of export figures from Latin American coun-

tries, showed that in 2019 the value of exports reached 3.7 billion dollars with Brazil, Mexico and Argentina as the main exporters to Asian markets. Export figures from Latin American countries reached \$3.7 billion in 2019, with Brazil, Mexico, and Argentina as the main exporters to Asian markets. Asia is the main cotton exporting and importing region that has also been affected by the current

crisis, impacting the ability of LAC countries to trade their cotton. Brazil's export growth has been the result of a 2019-2020 record crop, which will yield a production exceeding four times the national demand.

On the other hand, exports of cotton and cotton products from Peru, Ecuador, Colombia, Paraguay and Bolivia have decreased since 2015. Peru experienced the sharpest decline, since cotton products accounted only for 1.9% of total exports in August 2019, 18.5% less than the previous year (MINCETUR 2020); however, Peru managed to strengthen cotton textile exports to the US domestic market. USA: dresses (+ 14.8%), sweaters (+ 13%), knit shirts (+ 9.9%) and T-shirts (+ 2.2%). USA was the leading destination for 51% of textiles exported by Peru in 2019.

During the period 2015 to 2019, the general trend of intraregional cotton imports in the LAC region was positive, rising slightly by 5% (UN-Comtrade, 2020). This indicates an opportunity for the industry in terms of regional trade itself, which would mean that maintaining this slight increase would contribute to the recovery of cotton markets at the regional level itself. In this context, promoting intra-regional trade and catering to the local demand with local cottons is strategic to strengthen and give flow to the economies of the main cotton producing countries in the Latin

American and Caribbean region.

## Disruptions in the cotton industry

In general terms, COVID-19 appears to have caused the following four major disruptions in the cotton industry: (1) halt in commercial operations; (2) Stagnation of imports and exports; (3) drop in the price of cotton and oil and; finally, (4) devaluation of Latin American currencies against the US dollar due to expectations of an oil market saturation by viewing the dollar as a refuge and boosting its exchange rate. As the dollar becomes more expensive, it influences import costs, mainly from India and the United States, invoiced in dollars. While this rise may represent an opportunity for regional cotton exports, investment export estimates are higher in Latin American currencies

(FAO and ECLAC, 2020a). On the other hand, the slowdown of the textile processing industry will have substantial implications in the regional and international trade; in Brazil, there is a paralysis of 91% of the industry; while in Asia there is a paralysis of up to 80%. Purchase and sale orders have stopped; shipments delayed up to 120 days. A period of at least 6 months is expected between the current status

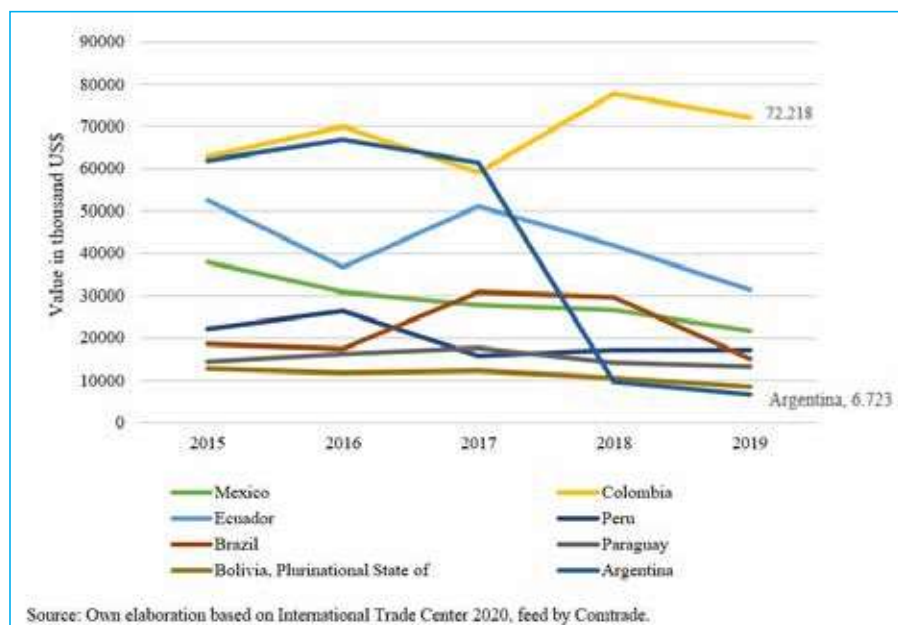


Figure 3.- Intraregional cotton imports, Latin America and the Caribbean and selected countries

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and the resumption of the markets to the previous normal levels.

The global uncertainty has been perturbing the regional agricultural scenario; COVID-19 is impacting the availability of work due to the closure of companies in the face of the economic depression and has made the acquisition of goods such as machinery, tractors, and intermediate inputs such as fertilisers and seeds more expensive. Agriculture in the Latin American and Caribbean region is mainly family-based and represented by 20.5 million productive units (represents 81% of total agricultural units); -is aware of its greatly expanded challenges in the current situation. Agriculture sector has been experiencing challenges of information and training, credit, social organisation, information on markets, rural services, Technical Assistance and Rural Extension (ATER) and production systems. These challenges have greatly expanded due to the pandemic.

### Cotton family farming

If, on the one hand, cotton family farming faces challenges, on the other, it is a sector recognised by its strong potential to contribute towards the sustainable production and development of rural economies, through the addition of value to its products through value addition to its products, guaranteeing generational replacement, and adopting innovations and technological tools to close the technical gaps faced in the field.

At this time, the Latin American cotton sector, like the global sector, is facing the economic and social crisis consequences generated by the pandemic. Its recovery will have to go through a systematic revival plans from production to trade, including producers, unions, industry, and government.

The social and economic heterogeneity of family cotton farming translates into differentiated typological profiles that, in turn, also generate differentiated production potentials that are strategic for to the revival of cotton-cropping systems, food security and livelihoods (Schneider, 2016). The families that adopt the diversified cotton-food production system consider food and nutrition security and income generation to be one of the drivers necessary for the economic reactivation of rural and urban areas, giving dynamism to an economy with an urgent need for innovation and reinvention.

This production and coordination system was promoted through the +Cotton Project, a Trilateral South-South Cooperation initiative, implemented between the Brazilian Cooperation Agency of the Brazilian Ministry of Foreign Affairs (ABC / MRE), the United Nations Organisation for Food and Agriculture (FAO) and partner countries Bolivia, Colombia, Ecuador, Paraguay and Peru. The vision of cooperation is to value cotton as a commodity crop that has a

direct interface with food systems in general, both in production, through its diversified systems, and in processing, by its value-added products.

### Measures against the crisis and the immediate context

FAO plans measures that can enable farmers to combat the crisis. The supportive measures include transfer of cash or reduction of individual debt of the most vulnerable families and groups, ensure that food banks and community food providers have means of delivery, establish rights to compensate for the loss of income, and maintain household food security (IPED FOOD, 2020). This is in addition to the urgent need to strengthen the resilience of agricultural communities against economic and climatic inclemency.

The current situation highlights the policies that have already been implemented in the region, focusing on sustainable production, distributing seedlings, seeds and other inputs to small farmers and vulnerable families for cultivating commodities; ongoing programs dedicated to the delivery of food in soup kitchens and schools; implementation of mechanisms for the direct sale of fresh family farming products at the domestic level, and policies aimed at increasing the liquidity of companies to subsidise costs for a few months, as well as economic incentives to protect the livelihoods of agricultural and livestock producers (FAO and ECLAC, 2020). The actions to be taken and the future initiatives must be compatible with the vast diversity of cultural, socioeconomic, or geographical contexts, and which can influence public health response.

These mechanisms would support the Latin American family cotton agriculture to transform challenges into opportunities, where the cotton-food system continues to play a strategic role in helping governments to guarantee food supply and income generation in the sector.

From a comprehensive perspective of the sector, it would be possible to promote the cotton agro-textile production system, through key initiatives as follows:

1. Agricultural digitisation with a focus on information and communication technology tools, digital agriculture, traceability and certification schemes for cotton and by-products, as well as remote Technical Assistance and Rural Extension (ATER) for socio-productive and marketing inclusion of family farming.
2. Financial support for initiatives and ventures that allow productive scaling, innovation and application of good agricultural practices.
3. Asset support for agricultural families that do not have access to land, water/irrigation, seeds, machinery, collective infrastructure, and construction capabilities.
4. Development of technical capacities in the territories



and establishment of public-private alliances, with a focus on inclusive and participatory community management (women, youth, and indigenous populations).

5. Expansion of associations and cooperatives to rejuvenate the contribution of the regional communities so as to strengthen social and economic solidarity that supports supply and access to food.
6. Regional strategies that integrate and expand cooperation between the countries of the LAC region and public and private organisations with a focus on developing the supply and consumption of products from the cotton agro-textile system.

These strategies, if implemented effectively, have the potential to catalyse the economic recovery of countries, especially where cotton farming families are also producers of food and value-added products. Strengthening of the national production systems, processing and manufacturing industries and promotion of trade can help the process of recovery in a new global revival scenario.



Figure 4. Most spinning mills are closed



Figure 5. A few factories have opened to partial capacity



Figure 6. Factories in Asia have started to open.

## Conclusions

The Latin American cotton-producing countries may launch two strategies: to strengthen domestic cotton and by-product consumption; and to strengthen integration processes into intra-regional trade by taking advantage of LAC trade agreements, tariff preferences, and eligibility conditions, which are built and have been proposed as routes to develop sustainable markets.

Sectoral planning at the regional level will be an anchor to combat the post-COVID-19 challenges. The support of public, private, civil society, and regional and international organisations are central to advancing the resumption of economic development, taking into account social and environmental challenges.

The post-COVID world provides an opportunity to revamp different agricultural and value chains. The ultimate objective is to plan and implement economic reactivation processes in a more comprehensive format, building regional capabilities to withstand global crises, transforming the vision of net producers of raw materials destined for other continents, for a vision of strengthening national and regional economies, with inclusive, resilient and sustainable guidelines for a growing and demanding world population of food and diverse products.

Latin American cotton family farming becomes a strongly allied sector for implementing an intraregional market strategy, where sustainability of the production system is the basis for commercial innovation, projecting new social, economic and environmental scenarios for countries to contribute to the Sustainable Development Goals (SDGs) 2030 Agenda in Latin America and the Caribbean.

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