



### Cotton exports

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## Knickers in a twist

### India bans cotton exports-confusing everyone, including its government

**W**HEN Mahatma Gandhi began spinning Indian cotton on a wheel in 1918, it symbolised his desire for national self-sufficiency. Too much of the fibre was exported to Japan and Britain, on exploitative terms, he felt. Almost a century on, India's cotton industry is still integrated with global production chains. Thus a decision on March 5th by the country's commerce ministry to ban exports sent markets around the world into a tizz. Derivative prices leapt on New York's trading floors. Panicky y-front makers the world over worried if their contracts were void. Excited stockbrokers in Thailand told their clients to buy the shares of polyester firms. India, after all, is the world's second-largest exporter of cotton, after America.

The commerce ministry seems to have been worried that short-term export commitments were more than India could comfortably meet. It feared a spike in domestic cotton prices, followed by hoarding. This would hurt India's textiles industry, which uses cotton as a raw material, is not in the best financial health and is a huge employer. India temporarily banned cotton exports in 2010 in response to similar concerns.

And there is a troubling backdrop, too. The world cotton market went nuts in 2011, with supply blips in some countries and high demand (partly from China) pushing global prices last year to their highest since the American civil war. After years of declining raw-material prices, clothes firms such as Gap announced profit warnings

and saw their shares whacked. The agricultural divisions of two big trading firms, Glencore and Noble Group, were caught with their trousers down and lost money.

Prices have collapsed since mid-2011, but after a roller-coaster ride everyone is jittery. China has been stockpiling a mountain of cotton, presumably to insulate its textile makers from shocks. India may in turn be worried that its own surplus is being whisked away to create a safety buffer for the Middle Kingdom. Hence the ban.

A vicious circle of price rises, stockpiling and export bans does not make sense in the medium term for any commodity, whether cotton, onions or iron ore. It erodes confidence in supply chains and may dent overall production. Behaviour that may be rational for individual actors can cause chaos if everyone copies it. No

one expects a nation to act for the common good, but it seems doubtful that India's ban is even in its own narrow interests.

Trying to keep prices low favours textile makers but is bad for farmers who grow the stuff. India's agriculture minister says he was not consulted about the ban. Narendra Modi, the powerful chief minister of Gujarat, a state in west India, wrote to the prime minister, Manmohan Singh, that the ban was anti-farmer. Mr Singh has promised an immediate review.

That seems likely to repeal the ban. But there may be damage to India's reputation as a reliable supplier. As the news of the ban came out Australia's agriculture minister had just launched a report predicting that Australia would double its cotton exports between 2010 and 2013. His view on India's ban? "It's an opportunity."

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