When Economics 101 Meets Global Cotton Policy

By Josh Zarco, Australian Cotton Shippers Association February 5, 2026

Global cotton has a long and well-established history of farmer support and subsidy programs across most producing countries. Prices are driven by many factors, but the basic principle I learned in Economics 101 still applies: markets tend to find an equilibrium where supply meets demand. The complication in cotton is that supply and demand are not operating in a vacuum. Government intervention from multiple countries changes behaviour and outcomes, and not always efficiently.

Subsidy programs are typically justified based on income stability, domestic supply security and support for critical downstream industries such as textiles. Those objectives are understandable. However, when government support becomes a permanent feature rather than a counter-cyclical one, it inevitably affects production decisions.

At a global level, this leads to sustained output even when prices suggest production should reduce. That raises a fair question: are we as the Australian cotton industry operating on a level playing field?

Cotton is one of the most subsidised agricultural commodities in the world. The largest producers and consumers - India and China - along with the second-largest exporter, the United States, all provide significant and ongoing support to their industries. The form of support differs, but the effect on global supply is material. These countries combined accounted for 60% and 55% of production and consumption respectivel.

In China, industrial cotton consumption grew rapidly after accession to the World Trade Organisation as textile manufacturing expanded at scale. Ensuring supply for this industry became a priority. Earlier policy responses focused heavily on stock accumulation via imports, particularly during the 2011–2013 period. That period coincided with extreme global price volatility, logistical pressure, and reduced competitiveness for domestic textile mills. At one point, China held more than half of global cotton stocks. That outcome alone made it clear that something needed to change.

From 2014 onwards, policy direction shifted away from market price intervention toward income-based support for growers, particularly in Xinjiang. During 2014–2016, global prices traded well below grower support levels, yet due to the support production increased year on year. Even as support was adjusted lower in 2017, production continued its rise. The trend has been consistent: year-on-year growth supported by improved yields, mechanisation and efficiency gains. Output is now materially higher than when the support framework was first introduced, even though subsidy volumes are meant to be capped and subject to review this year.

Beyond direct income support, China via subsidy and support programs has invested heavily in production efficiency and value-chain development. Mechanisation subsidies, irrigation, land development, seed research, logistics infrastructure, and support for relocating spinning capacity closer to cotton-growing regions have all lowered the cost base over time. Taken together, these measures have supported production growth even as market prices have softened. Import management tools also play a role, however for the purposes of this article, the focus is on production.

The Indian Government supports a very large farming population. Estimated at 6 million people involved in cultivation of cotton, making minimum support pricing (MSP) politically sensitive and

central to agricultural policy. The MSP is designed to sit 50% above the cost of production and to provide certainty to farmers. From a policy standpoint, this makes sense. From a market standpoint, it is expensive and distortionary.

The Cotton Corporation of India steps in when market prices fall below support levels, procuring cotton to stabilise farm incomes. In many seasons this cotton is later sold at a loss to the taxpayer. Large-scale procurement lifts domestic prices, making Indian textile mills less competitive globally, and pushes trade distortions elsewhere. Import duties are adjusted from time to time, as seen recently, but the fundamental protectionary measures remain.

In the United States, support is delivered through a combination of income protection and risk-management programs tied to historical acreage and yields. Crop insurance subsidies, price loss coverage, agriculture risk coverage, and marketing assistance loans all provide downside protection and liquidity to no-one other than the farmer. The US balance sheet ultimately anchors the global cotton market, yet it is hard to argue that current US production, or India or China, would look the same without these support mechanisms that are in place.

Across all three regions, the motivations are clear: stabilise farmer income, protect domestic supply, manage costs for textile industries, and support regional development. These are rational policy goals through their respective glasses. However, when the Cotlook A index sits at 73.35 US c/lb, and global production continues to grow in conjunction with increased costs of inputs and production overall, it is difficult not to question what the market would look like in the absence of widespread government support.

I keep coming back to Economics 101 and the concept of deadweight loss. When price signals are repeatedly overridden, production displacement doesn't occur where theory and costs of production suggest it should. In cotton, that reality continues to shape the global market.

Country	2020/21			2021/22			2022/23			2023/24		
	Lint Production	Average Assistance per Pound of Lint Produced	Total Assistance	Lint Production	Average Assistance per Pound of Lint Produced	Total Assistance	Lint Production	Average Assistance per Pound of Lint Produced	Total Assistance	Lint Production	Average Assistance per Pound of Lint Produced	Total Assistance
	Thousand tonnes	US cents	US$ Million	Thousand tonnes	US cents	US$ Million	Thousand tonnes	US cents	US$ Million	Thousand tonnes	US cents	US$ Million
China	5,910	29.3	3,816.0	5,730	3.7	467.0	5,980	18.3	2,413.0	5,600	12.1	1,495.3
USA**	3,181	15.7	1,097.7	3,815	9.5	801.3	3,150	22.8	1,583.0	2,627	18.4	1,064.5
India	5,992	12.5	1,645.0	5,290	22.4	2,618.1	5,722	21.1	2,664.3	5,493	17.3	2,100.9
Türkiye	656	15.9	230.1	833	10.1	186.0	887	14.3	280.0	700	9.9	153.0
Greece	321	31.7	224.1	305	30.4	204.5	305	28.8	193.6	200	45.0	198.2
Spain	56	58.7	72.8	58	51.6	66.4	41	70.4	62.9	21	139.0	64.4
Cote d'Ivoire	238	13.2	69.0	216	3.6	17.0	106	43.1	101.0	150	14.0	46.2
Mali	63	46.2	63.8	311	4.4	30.1	176	22.8	88.3	280	0.0	
Burkina Faso	215	8.1	38.2	208	4.9	22.5	185	28.7	117.1	170	4.4	16.5
Chad	51	4.9	5.5	54	4.5	5.3	46	16.2	16.4	49	24.4	26.3
Benin			n.a			n.a	265	15.2	88.5	220	10.2	49.4
Mozambique				23		1.6	23		4.1			n.a
Senegal	8	9.7	1.7			n.a			n.a			n.a
Total	16,690	19.7	7,263.8	16,841	11.9	4,419.7	16,885	20.4	7,612.2	15,510	15.3	5,214.6

Reference list - https://www.reset-foundation.org/en/post/icac-cotton-subsidies-report
https://www.cotlook.com/prices/cotlook-a-index/

End