1.0 BACKGROUND
Cotton is one of the major agro-based foreign exchange earner in Malawi, however, for the past decade, cotton production in the country has been characterized by a steady decrease in production levels to as low as 10,000 Mt in 2018/19 season.

The African Institute of Corporate Citizenship had noted the urgency of having a multi-stakeholder dialogue platform to provide space for cotton stakeholders to design innovative solutions for the development of the sector through public private partnerships. Ultimately, National Cotton platform was born out of the various initiatives that AICC had been implementing to ensure that all players in the cotton value chain including smallholder farmers can get maximum benefits. AICC was hence elected to be the de facto interim secretariat of the cotton platform in 2007.

It should be noted that Malawi has a capacity to produce more than 100,000 metric tons of seed cotton through creation of a conducive production and marketing environment. Since the year 2012, (highest producing year), stakeholders have been striving to revive the sector to its former glory. While private sector especially, ginners have strived to keep the industry alive, Governments’ bail out of an industry that almost collapsed was necessary. The 2019/20 season has been a transformative year for the sector, because for the first time in 10 years, the sector got full governments support. K1 Billion was pumped into the sector by Government and another K1 Billion will be pumped in 2020/21. The 2019/20 season was declared a season of revival, through the special campaign for cotton production enhancement (SCOPE).

The marketing season was received with enthusiasm as it restored hope to smallholder farmers, who for the first time in 8 years, have increased yield and production by more than 50%. Unfortunately the emergence of the COVID-19 has distorted the cotton market both at international and domestic level. The COVID 19 outbreak being experienced across the world was declared a global pandemic by World Health Organization (WHO) on March 1, pointing to the over 118,000 cases of the COVID-19 illness in over 110 countries and territories around the world and the sustained risk of further global spread.

The COVID-19 pandemic is straining health, livelihoods, and education, trade and governance systems worldwide. Specifically, global trade has been up to a complete halt with the restrictive measures put across by different governments to contain the pandemic. The cotton crop being a globally traded commodity has not been spared, companies, governments and individuals have lost a lot of revenue. The first confirmed cases of COVID-19 in Malawi were announced on 2 April 2020 (Malawi Public Health Institute), following the confirmation of cases in all neighboring countries. Modelling data suggests that the impact of the virus in Malawi is likely to be significant. Whilst national coordination and preparedness efforts are underway, Malawi is generally ill-prepared for an epidemic.

2.0 COVID-19 IMPACT ON THE COTTON SECTOR

2.1 Impact on the international market
Since the COVID-19 virus outbreak in December 2019, the disease has spread to almost 100 countries around the globe with the World Health Organization declaring it a public health emergency. The global impacts of the coronavirus disease 2019 (COVID-19) has already been felt and will significantly affect the Cotton market in 2020 and beyond.

COVID-19 has affected the global economy in three main ways: by directly affecting production and demand, by creating supply chain and market disruption, and by its financial impact on firms and financial markets. The outbreak of COVID-19 has brought effects on many aspects, like flight cancellations; travel bans and quarantines and a massive slowing of the supply chain, stock market volatility, falling business confidence, growing panic.
among the population, and uncertainty about future.

The rapid spread of COVID-19 has severely impacted the global cotton supply chain. An unexpected reduction in cotton mill use data is observed across all of the major cotton consuming countries, including China, India, Pakistan, Bangladesh, Turkey and Vietnam. Cotton spinning in China fell by upwards of 90% during the height of the pandemic in that country in early March. The spinning industry in China has begun to recover now but, with the anticipation of a decline in consumer consumption of apparel, the recovery of the spinning industry is limited for the current marketing year.

COVID-19 is spreading fast in Turkey, India and Pakistan. Like China, recent travel restrictions in India, Pakistan and Vietnam are likely to have similar impacts on their spinning industry. World retail sales of clothing and textiles have also plummeted. Many “non-essential” businesses, including apparel stores, are closed to slow down the spread of the virus. In addition, with the rising rate of global unemployment, consumers’ use of dispensable income on apparel is also likely to be limited.

The forecast for the current year’s world cotton consumption dropped 6.4% (7.6 million bales) in April 2020 compared to March 2020. The current forecast of world cotton demand is at 111 million bales, while the world cotton supply is at a relatively high level of 122 million bales.

Global ending stocks are also projected to increase at the third-highest level for the past decade at 91 million bales. With supply outpacing demand and rising global ending stocks, we have seen downward pressure on global cotton prices.

2.2 Impact on the domestic market

2.3 Disruption of the local cotton supply chains:

Malawi declared stringent measures to combat the pandemic, among which, social distancing, and banning of all non-essential service operation such as cotton trading. The effects however have impacted on supply chain actors to freely trade as is the norm where markets involve more than a single actor to operate in. This however, at local level has not been substantial in affecting cotton trading. The disruption on the international market has led into the private sector players, specifically ginnery companies to drop out due to the anticipated plummeting of cotton pricing and tremendous reduction of demand. Agri-Value chain Ltd, and Malawi Cotton Company have completely pulled out of business, while Afrisian is loosely operating, with ADMARC’s poor financing failing to reach out to farmers.

At the onset of the marketing season, The cotton Council had only licensed ADMARC Ltd as the only company to buy seed cotton from farmers at K389/Kg. Among the reasons of this unprecedented turn of events is attributed towards the uncertainty of the cotton market both at the local and international market attributed to the emergence of the Corona Virus.

Private companies didn’t apply for a license, and demanded for CCM revision of certain terms stipulated in the contract which include the revision of price to a lower price set that would reflect the international trends which has depicted a downward spiral. The absence of the three private ginners has created a vacuum in the market system. Farmers do not have a readily available market spot to sell their cotton as ADMARC is not yet financially prepared to buy in all areas.

Farmers have turned to free riders/ vendors who have taken advantage of this situation to buy at very low prices averaging MK150/KG- 250/KG. Vendors are most likely to sell to ADMARC as soon as they start buying. The worse-case will emanate where farmers or vendors especially those operating within the boundaries of Malawi selling their seed cotton outside.

The sudden escalation of COVID-19 has demonstrated the cross-border vulnerability of the cotton supply chains, and non-reactive nature of business continuity plans. The response of enterprises to the spread of coronavirus (COVID-19) in the cotton sector has focused on securing their personnel and reviewing supply chains in an attempt to achieve some kind of business continuity.
2.4 Disruption of cotton prices:
The cotton prices on both A-Index and US Spot prices have both drastically dropped from January, 2020, just about the same time of the insurgence of the COVID-19 in China, USA, UK, Australia and East Asia. This phenomenon has had effects on the local cotton market because ginnery companies were reluctant to buy from farmers at a farm-gate price of K389/Kg which in comparison with the international trends might be on the higher side. Cotton farm gate prices have had a substantial impact on the declining production in Malawi. The global cotton price trends have a bearing on the local prices offered to farmers by ginners. Cotton farm gate prices in Malawi are agreed upon in a transparent and systematic manner, based on farmer’s gross margins against ginners. Cotton prices have stabilized over the past 5 years ranging from MK300/Kg – MK375/kg. However, the steadiness has not been pleasing to farmers that have seen an increase in cost of production from their end. Subsequent cotton price negotiations have led to the farm gate prices that are later adopted by Government.

The price negotiation modalities for the 2019/20 season followed three stages with the last stage having the seed cotton selling price at K389/Kg and K317/Kg for Grade B. The prices were officially released by the minister of agriculture and cotton markets officially opened by cotton council of Malawi followed with ADMARC being provided with the buying license. However, emergence of the Corona virus pandemic which has disrupted local and international trade thus creating too many uncertainties on pricing, seed cotton demand and supply. The international market price has dropped to hit the lowest in a decade to as low as $0.45/Lb. The price negotiation process for this year has been heavily disputed by ginner as being on the higher side. The phenomenon has led ginners to drop out of the marketing season.

2.5 Malawi Losing out on revenues
Malawi has approximately produced 40,000Mt of seed cotton in the 2019/20 season, this is a tremendous boost from the previous year in which the country accumulated 10,000Mt. At farmer levels, this translates into an approximate $20Million revenue that is intended to be accrued by farmers and $56Million towards export revenue. In the face of disrupted cotton trade, the country, private sector and farming community is likely to lose a lot of money.

3.0 COTTON MARKET OUTLOOK
According to USDA’s first forecast for the 2020/21 marketing year, global supply is likely to drive usage of cotton
as countries begin to recover from the COVID-19 pandemic. Global consumption is expected to rebound 11 percent to more than 116 million bales from the largest recorded drop, however, use is projected only slightly above the 5-year average.

All top ten consuming countries are expected to witness growth as uncertainties regarding the pandemic diminish. China and India are forecast to expand consumption by 7 million bales combined, accounting for more than two-thirds of growth in global use. Lingering disruptions are expected to cap global use to below levels witnessed 2 and 3 years prior when global consumption registered at more than 120 million bales.

Spending on cotton products including clothing and home furnishings is highly correlated to changes in GDP. Recovery in global cotton demand will depend on reopening of retail outlets and employment conditions in each country.

The recovery trajectory is a good induction for Malawi, depicting a recovery towards business operation of ginnery companies who will gain back confidence with the resurgence of the global cotton economy. The reopening of the economies will mean apparel factories in the east to be reopened, retail show to continue demanding cotton production which will directly increase the demand of cotton from countries such as Malawi.

4.0 THE ROAD TO RECOVERY FOR MALAWI: RECOMMENDATIONS

As a means of protecting the unstable cotton sector in many cotton producing countries, governments have resorted into supporting state-owned companies to take up the role of private sector in ensuring that vulnerable entities such as farmers are protected. In the aftermath of COVID-19, the government needs to consider extending its COVID-19 response plan towards supporting agricultural sector recovery, in this case the cotton sector which can be able to generate export earnings adequate for the general recovery of the Malawi economy.

Governments all over the world use state-agencies such as ADMARC to bail out their farmers when there are real or artificial market-failures. In this case, ADMARC, only needs K17 Billion to buy the 45000 metric of seed cotton. Currently ADMARC gives the biggest hope of survival for the cotton sector and some commodities. It is meant to be buyer of last resort. Notwithstanding liberalization as well corruption and other inefficiencies at ADMARC, revitalization of ADMARC through resources, reforms and technical capacity is the surest hope for food, income and forex security of Malawi.

In building a new and/or revisiting an existing cotton supply chain, enterprises should seize the opportunity to revisit their business continuity plans in the wake of COVID-19 supply chain disruption. Companies are adapting entities, therefore the pandemic requires companies that have already abandoned their operations in the cotton value chain such as Malawi Cotton Company and Agri-Value Chain to conduct self-assessment and then innovate and adapt to remain competitive at local and global scene. The national regulatory body such as CCM and other sector actor need to re-adjust with the aim of re-incorporating all remaining ginners into the market. Market growth entails having competitive system with a lot of players taking part. A roundtable needs to be necessitated to ensure that all stakeholders iron out challenges and issues to ensure that ginners re-introduced.