RESEARCH PAPER

# Export competitiveness and direction of trade of Indian cotton

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## ABSTRACT

Cotton is an important fibre crop of India which plays a dominant role in the country's economy by meeting the domestic and export demands. It contributes significantly to both agriculture and industry in terms of farm income, employment and export earnings. India, despite being the second largest producer of cotton in the world, has not exploited its potential to emerge as a major player in the world raw cotton exports. Exports of yarns, textiles and clothing to the world market are increasingly important source of derived demand for Indian cotton. Although domestic demand accounts for most Indian cotton consumption, growth in textiles and clothing exports is outpacing domestic demand and is increasingly important determinant of overall cotton and fibre demand in India. India's exports have been rising sharply in the past few years. Export was highest in 2007-08 accounting 80 lakh bales. It declined in 2008-09 to 50 lakh bales due to recession led lower demand. In 2009-10, the export was 65 lakh bales within short period. Several factors have contributed to the variability in exports; these included large domestic consumption, fluctuations in production due to vagaries of weather, competition from other cotton growing countries and insufficient exportable surplus of cotton production during certain years and the absence of a steady export policy. Primarily, the export of cotton depends on domestic production and government's intervention in its export trade. Under such a scenario, it is appropriate to examine the export competitiveness and direction of exports to various markets with a suitable econometric model, which may help us to quantify the shifts in the shares to different markets as well as between the markets over a period of time. In the era of globalization, foreign trade policies have given high importance in boosting agricultural exports. This has resulted in cut-throat competition among nations in the trade scenario of various commodities and in this connection a country's exports will be decided by its efficiency in trade promotion and its price competitiveness. Therefore, the main objective of this study was to analyse the dynamics of changes in the export of cotton from India by estimating the probability of retention and switching pattern by employing Markov chain model.

**KEY WORDS :** Cotton, Export, Markov chain analysis, Trade

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