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## Thailand

## Cotton and Products

## Annual

## 2000

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### Report Highlights:

**In line with increased domestic consumption of raw cotton, imports should grow in MY 2000/2001. However, the U.S. cotton still faces fierce competition from its competitors, especially Australia. The performance of Thai cotton yarn and fabric industries is generally favorable.**

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**Executive Summary**

Due to minuscule domestic production, Thailand clings to imported cotton to meet demand from textile industry. Domestic consumption of raw cotton in MY 2000/2001 is forecast to grow further in anticipation of an economic recovery and a favorable export outlook on textile products. As a result, cotton imports should grow in MY 2000/2001. Meanwhile, the U.S. cotton still faces fierce competition from its competitors, especially Australia. In recent years, many spinners switched to purchase Australian cotton due to its price competitiveness and good quality at the expense of the U.S. and West Africa. Continuing improvement in Australian cotton may pose a serious threat to U.S. cotton in years to come, unless prices for U.S. cotton become competitive again.

The performance of Thai cotton yarn and fabric industries is generally favorable. Both cotton yarn and cotton fabric production is forecast to increase in 2000, in line with domestic consumption and a substitution of 100% cotton products for polyester- content textile products. Thailand's textile industry will encounter a vital challenge for its survival in years to come as a result of the Agreement for the ASEAN Free Trade Area (AFTA) and the Agreement on Textiles and Clothing (ATC). After implementing these agreements, Thailand will benefit in general from increased export opportunity in the global market. However, the likelihood of heavier competition among worldwide manufacturers may strike out inefficient textile manufacturers, especially those in garment industry.

## SECTION I: SITUATION AND OUTLOOK

### 1.1 Upland Cotton

With a relatively high cost of production, cotton production in Thailand remains insignificant. Cotton lint production in MY 2000/2001, all of which is upland variety, is forecast to increase by 10 percent to 7,000 tons following an expansion in growing area. Although the Thai Government has banned growing transgenic cotton on a commercial basis, trade sources report that several cotton farmers illegally cultivate transgenic seed. These farmers are confident that growing the transgenic cotton (especially Bt cotton) is more profitable because of decreased pesticide application and higher productivity. While the Government has made public announcements to warn farmers to stop growing this cotton, its effectiveness is doubtful.

Transgenic cotton is among the first group of GMO crops which multinational seed companies have been trying to introduce into Thailand for some years. According to related government and private sources, several tests on Bt cotton were conducted by ad hoc committees, and the results were reportedly satisfactory. However, pressure from strong NGO activists on Government authorities has blocked the process of approval thus far. At the moment, the Government limits importing and planting transgenic seeds (including cottonseed) to scientific research purposes only.

The Office of Agricultural Economics (OAE) estimated in its most recent survey that the total cost of cotton production in MY 1999/2000 was US\$ 517/hectare, of which 95 percent was variable costs. The average cost for harvested seed cotton in MY 1999/2000 was 14.10 baht/kg (about 37 US cent/pound), down 6 percent from 15.05 baht/kg in MY 1998/99. As indicated in Table 2, farmgate prices for seed cotton from Nov 1999-March 2000 (MY 1999/2000) were relatively lower than those in MY 1998/99, reflecting a decline in world market prices.

As there are both domestic-oriented and export-oriented textile mills in Thailand, demand for raw cotton closely parallels domestic and export demand for cotton yarn, cotton fabric and other cotton-content textile products. In addition, raw cotton demand is partly determined by relative cotton prices against substitutable man-made fiber.

Total domestic cotton consumption in MY 2000/2001 is forecast to grow further in anticipation of a continued recovery in economy, growth in exports of cotton-content textile products, and an upward trend in cotton yarn production at the expense of T/C yarn production by export-oriented textile mills. Some spinners and weavers reported that they are likely to increase production of 100% cotton yarn and fabric in order to be competitive globally, as the Government's protection has made prices for domestic man-made fiber relatively uncompetitive in international markets.

Although several export-oriented textile mills are making efforts to upgrade their products (especially cotton yarn) which favors demand for extra long staple (ELS) cotton, there will be no significant change in structure of cotton demand in Thailand over the next 2-3 years. About 95 percent of total raw cotton being used by spinning mills is upland cotton, while the balance goes into ELS cotton. Out of upland cotton utilization, about two-thirds is medium

staple cotton with lengths of 1 3/32" to 1 1/8". The rest is short staple cotton with the lengths up to 1 1/16".

Because of minuscule domestic supplies, Thailand clings to imported cotton to meet demands from its textile industry. In line with improved domestic consumption, cotton imports recovered in MY 1999/2000 (Table 3), and are forecast to increase further in MY 2000/2001. As Thai textile industry is export-oriented, its demand for imported cotton is price and quality sensitive. In recent years, Australia has become the most important supplier at the expense of the United States and West African countries. According to trade sources, several spinners switched to purchase Australian cotton due to its competitiveness on price and quality. The quality of Australian cotton has been reportedly close or equivalent to U.S. cotton, but its prices are now cheaper by 500-700 points (5-7 cents/pound). As indicated in Table 3, in the first 8 months of MY 1999/2000, Australia captured 25 percent of total imports, followed by U.S. (14 percent), Zimbabwe (10 percent), China (10 percent), and etc. Most spinners believe that, despite the likelihood of growing Australian cotton production, the U.S. market share in MY 2000/2001 may be close to the previous year's level. Nevertheless, continuing improvement in Australian cotton may pose more serious threat to U.S. cotton in years to come, unless prices for U.S. cotton become competitive again. At the moment, some spinners are adhering to U.S. upland cotton due to its advantage of strength and punctual delivery. Meanwhile, these spinners prefer buying ELS cotton from U.S. origin to manufacture high end products.

The U.S. has supplied a wide range of staple lengths, from short staple to ELS cotton. The most popular U.S. cotton imported into Thailand is SJV, followed by Memphis varieties and C/A. According to trade sources, SJV cotton is still in highest demand among U.S. cotton due to its strength. However, demand for California cotton is less now because of the detection of sugar content and high micronaire in some shipments to Thailand in recent years. After demand for M/O/T cotton almost disappeared in recent years due to uncompetitive price, several spinners began to use it again in MY 1999/2000 following its increased price competitiveness against competing countries like Pakistan, Syria, China, West Africa, Argentina, and others.

There has been no significant change in production policy, and tariffs and non-tariff barriers for cotton since the latest report. Import duties for cotton are presently zero.

As mentioned in the 1999 Annual Report, USDA began to facilitate the GSM-102 Export Credit Guarantee Program for Thailand since FY 1998. The program covers a wide range of commodities, including cotton, cotton fabric, and cotton yarn. Although the program continued in FY 1999 and 2000, the utilization for all commodities dropped sharply from US\$ 103 million in FY 1998 to US\$ 31 million in FY 1999 and US\$ 4 million (Oct 1, 1999- May 5, 2000). Thus far, the program has been used to facilitate only US\$ 7.6 million to purchase U.S. raw cotton in FY 1998. A sharp reduction in program utilization is mainly attributed to prevailing low rates of interest on domestically sourced loans in 1999 and 2000 (see Table 4), which made lending rates obtained from the GSM-102 program uncompetitive.

## 1.2 Value-added Cotton

While Thailand is a promising market for raw cotton, its textile industry has developed in the last few decades to the extent that it becomes one of the most important export-earning industries for the country. Although Thailand has not been a large exporter of textiles and apparels into developed countries (i.e.; 0.9 percent in U.S., 2.6 percent in the EU, and 2.4 percent in Japan- in 1998), total exports of textile products and apparels reached to 211 billion baht (US\$ 5 billion) in 1998, which accounted for 9 percent of the country's total exports. The industry employs about 1.1 million workers. About three-quarters of textile workers are in clothing industry, with the balance going into spinning, weaving, knitting, and dyeing and printing operations (Table 5).

Domestic cotton and imported cotton is purchased and used by 158 spinning mills in Thailand, which operate about 3.8-3.9 million spindles. Products from those mills include cotton yarn (mostly 100% cotton), T/C yarn (blended yarn containing about 65% polyester and 35% cotton), and CVC yarn (cheap value cotton yarn). Spun yarn, both weaving and knitting yarn, is sold domestically for fabric weaving or knitting, and/or is exported. Several spinners also operate weaving/knitting factories. About 730 weaving factories and 660 knitting factories are manufacturing cotton fabric and other fabric, and sell them domestically and/or internationally.

Cotton yarn production (excluding T/C and CVC yarn) in 2000 is forecast to increase by 5 percent from the 1999's level, in line with domestic consumption (Table 6) and the likelihood of increased cotton yarn at the expense of less profitable T/C and CVC yarn. It is estimated that about 60-70 percent of spun yarn is weaving yarn, while the rest goes into knitting yarn. Favorable textile exports in recent years, driven by Thai currency devaluation, have led many spinning mills to fully utilize their operating capacity at this moment. As a result, some spinners reportedly plan to install about 200,000 spindles by the end of 2000, and nearly all spindles should be ring spinning type. Due to fierce competition from other low-wage exporting countries like China, Indonesia, Pakistan, Bangladesh, and etc., Thai export-oriented spinners have made their effort to upgrade the quality of cotton yarn for export. Production of higher-end products, like medium count and fine count yarn, has increased in recent years.

Thailand is both exporter and importer of cotton yarn. Despite a claim by exporters that sales of cotton yarn for export in the first half of 2000 grow sharply, total exports throughout 2000 are forecast to be close to the 1999 level following an anticipated slowdown in the second half of the year. This slowdown should happen in such buying markets as the U.S., China, and Hong Kong. However, exporters reported that average export prices for cotton yarn in 2000 may increase by 5-6 percent from the previous year. Total exports of cotton yarn in 1998 and 1999 are illustrated in Table 7. Major buyers for Thai cotton yarn include China, Hong Kong, Japan, and the U.S. Meanwhile, major competitors for Thai cotton yarn are Indonesia, India, Pakistan, Turkey, Greek, and etc. Weaving and knitting mills also import cotton yarn when prices for imported cotton yarn from certain producing countries are cheaper and/or when local supplies are not sufficient. Total imports of cotton yarn in 2000 should be close to the 1999 level, about 10,000-11,000 tons. Total imports in 1998 and 1999 are presented in Table 8. Major suppliers for imported cotton yarn are Pakistan, India, China, and South Korea.

Fabric production in Thailand is forecast to grow by 5-6 percent in 2000 due mainly to improved domestic sales of cotton fabric, which is partly purchased by export-oriented garment factories (Table 9). It is estimated that 60 percent of cotton fabric is woven fabric, while the balance goes into knitted fabric. Like cotton yarn, Thailand is both exporter and importer of cotton fabric. Most of exported cotton fabric is unfinished products. Like cotton yarn, cotton fabric exporters have struggled to upgrade their products to enhance their international competitiveness. According to trade sources, the export outlook for cotton fabric is similar to that of cotton yarn. Despite sharp exports in early 2000, an export slowdown in the second half of the year may lead total exports to be close to the 1999 level (Table 10). Major importers of Thai fabric should remain unchanged, including the U.S., the EU, and Hong Kong. Some cotton fabric has been exported to neighboring countries such as Myanmar, Laos, and Vietnam for garment manufacturing owned by Thai weaving/knitting mills. Thailand also imports cotton fabric from other producing countries such as China, Hong Kong, Taiwan, Japan, South Korea, and India. A portion of the imported cotton fabric is high quality items, mainly from Japan, Taiwan, and Hong Kong. These high-end products are mostly used by export-oriented garment factories. On the other hand, cotton fabric from China and India is less expensive items and mainly used for domestic-oriented garment production. Following the implementation of tariff reduction under the AFTA agreement, imports of cotton fabric in 2000 is forecast to grow by 10 percent from 20,000 tons in 1999 to about 22,000 tons. Import data for cotton fabric for 1998 and 1999 is presented in Table 11.

It is apparent that Thailand will encounter a vital challenge for its survival in textile industry in years to come, due to an upcoming new economic order in international trade in textile products.

Firstly, as a result of Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA), import tariff for goods originating from ASEAN countries (which have been identified for inclusion) must be reduced to 0-5 percent by 2003. Under this scheme, preferential import duties were reduced in 2000 to 5% for textile products (including cotton yarn and cotton fabric), 5% for chemical used in textile manufacturing, and 2.50-15.0% for textile machinery and equipment (Table 12). These tariff rates are apparently lower than current calculated tariff applied for non-AFTA countries, which are 10% for cotton yarn, 20% for cotton fabric, 10-15% for textile chemicals, and 5% for textile machinery and equipment (Table 12). Reflecting these preferential import duties, Thailand may benefit from increased exports of its comparative-advantageous textile products to other ASEAN countries. Meanwhile, Thailand's less competitive textile manufacturers (especially those who produce low-end products) may not survive, following an influx of textile goods from a cheaper-cost producing countries like Indonesia.

Secondly, as a WTO member state and an export-oriented textile producer, Thailand will be affected significantly by the Agreement on Textiles and Clothing (ATC). Under this Agreement, all WTO member countries will gradually liberalize their imports of textiles and apparels within 10 years, from January 1, 1995 to December 31, 2004. In addition to increasing the import quota on a year-basis, the implementation of agreement means that all importing countries must terminate their import quota system by January 2005. Again, this full implementation in 2005 will benefit Thailand in general from its increased export opportunity in

the global market. However, based on the fact that Thailand is presently less competitive in some textile products (especially garments) against cheap-labor countries (mostly in Asia ), many manufacturers in Thailand may not survive. Thailand currently has bilateral agreements on textiles and clothing quota with most of the important importing countries; i.e., the U.S. and the EU; and also with Canada and Norway.

Realizing the impact of this international trade development, there have been efforts to improve productivity by both private companies and the Government. Some textile manufacturers are restructuring their companies to upgrade their products, optimize the cost of production, improve management, and provide labor training. Many manufacturers are not aware of the impending change in their industry and may also suffer from a lack of money investment in improvements. The Thai Government has also launched some measures to help textile manufacturers. Out of its several measures, the key instruments include: 1) the provision of soft loans to textile industry (see details in 1999 Cotton Annual Report under "Policy" section); and 2) a plan to restructure import duties in order to improve the competitiveness of Thai textile manufacturers for export.

**SECTION II: STATISTICAL TABLES**

Table 1: Thailand Demand &amp; Supply Table for Raw Cotton

PSD Table						
Country	Thailand					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		08/1998		08/1999		08/2000
Area Planted	0	0	0	0	0	0
Area Harvested	14000	14000	15000	13500	0	14000
Beginning Stocks	93405	93405	81865	72061	89268	77261
Production	6967	6967	6532	6300	0	7000
Imports	263667	263705	315704	330000	0	340000
TOTAL SUPPLY	364039	364077	404101	408361	89268	424261
Exports	0	2001	0	100	0	500
USE Dom. Consumption	272158	280000	304817	320000	0	335000
Loss Dom. Consumption	10015	10015	10015	11000	0	11500
TOTAL Dom. Consumption	282173	290015	314832	331000	0	346500
Ending Stocks	81865	72061	89268	77261	0	77261
TOTAL DISTRIBUTION	364038	364077	404100	408361	0	424261

Table 2: Farm Gate Prices for Lint Cotton

Prices Table			
Country	Thailand		
Commodity	Cotton		
Prices in	Baht	per uom	Kilogram
Year	1999	2000	% Change
Jan	16.86	15.42	-8.54%
Feb	16.90	15.00	-11.24%
Mar	15.50	14.25	-8.06%
Apr	0.00	0.00	
May	0.00	0.00	
Jun	0.00		
Jul	0.00		
Aug	0.00		
Sep	0.00		
Oct	0.00		
Nov	15.14		-100.00%
Dec	15.46		-100.00%
Exchange Rate	39.00	Local currency/US \$	
Date of Quote	05/31/00	MM/DD/YYYY	
Note: Price is based on the average farm gate price for good-quality cotton			
Source: Office of Agricultural Economics			

Table 3: Thailand's Raw Cotton Imports			
	1997/98	1998/99	1999/2000
	Aug/Jul	Aug/Jul	Aug/Mar
United States	51,231	20,328	32,572
Argentina	2,441	5,797	3,892
Australia	54,142	71,528	55,514
Benin	8,209	10,011	4,512
Brazil	100	427	343
Chad	10,085	4,745	1,464
China	854	14,871	21,713
Egypt	1,151	2,204	1,898
Ivory Coast	8,395	9,854	5,619
India	2,980	420	278
Mali	24,717	27,722	16,294
Mexico	6,370	4,395	4,019
Netherlands	1,296	597	321
Pakistan	9,130	161	7,533
Sudan	17,599	7,784	4,790
Syria	5,549	4,060	4,113
Russia	900	499	445
Tanzania	7,134	2,789	1,992
Togo	3,396	1,609	1,182
Turkey	151	5,605	436
Uzbekistan	4,119	11,508	6,164
Zimbabwe	10,559	12,246	22,082
Others	38,533	44,545	28,351
TOTAL	269,041	263,705	225,527

Source: Department of Customs

Table 4: Thailand's Key Economic Indicators					
	1996	1997	1998	1999	2000
				(Prelim.)	(Fore.)
1. Population	59.9	60.5	61.2	61.8	62.3
2. GDP at constant 1998 price					
(% change)	5.9	-1.7	-10.2	4.2	4.5
3. CPI (% change)	5.9	5.6	8.1	0.3	2.5-3.0
4. External Account (billion US\$)					
4.1 Export	54.7	56.7	52.9	56.8	62.2
(% change)	-(1.9)	(3.8)	-(6.8)	(7.4)	(9.6)
4.2 Import	70.8	61.3	40.6	47.8	56.9
(% change)	(0.6)	-(13.4)	-(33.8)	(17.7)	(9.6)
4.3 Trade Balance	-16.1	-14.6	12.2	8.9	5.3
4.4 Current account balance	-14.4	-3.1	14.3	11.2	7.7
4.5 Balance of payments	2.2	-10.6	1.7	4.6	0.2
5. Government Finance (bil. baht)					
5.1 Cash balance	104.3	-31.1	-115.0	-134.3	-161.5
5.2 Total public debt	735.1	936.2	1,240.9	1,956.1	n/a
6. Monetary Statistics					
6.1 Domestic Credit (% change)	14.0	34.5	-1.2	-4.2	n/a
6.2 Deposit (% change)	13.7	16.0	8.8	-0.5	3.0
6.3 Interest rate					
Prime rate	13.00-13.25	15.3	11.50-12.00	8.25-8.75	n/a
Fixed deposit	8.50-9.25	10.00-13.00	6.00-6.25	4.00-4.25	n/a
7. Exchange rate					
Baht: US\$ average	25.3	31.4	41.4	37.8	n/a

Source: Bank of Thailand

Table 5: Status of Textile Industry in Thailand					
	1994	1995	1996	1997	1998
Number of Employment					
-- Man-made fiber	16,500	16,500	16,600	17,070	17,000
-- Spinning	62,460	65,050	65,570	65,890	63,450
-- Weaving	65,280	65,590	63,570	64,250	60,730
-- Knitting	64,800	67,840	61,850	60,670	58,870
-- Dyeing and printing	51,020	51,870	47,510	47,840	47,280
-- Clothing	862,500	877,040	862,120	857,830	849,570
TOTAL	1,122,560	1,143,890	1,117,220	1,113,550	1,096,900
Number of Textile Machinery					
- Spinning (No. of spindles)	3,824,966	4,034,478	4,150,254	4,170,254	3,763,438
- Weaving (No. of looms)	135,176	135,316	132,436	133,861	131,479
- Knitting (No. of machines)	115,673	116,813	112,597	111,977	111,291
- Clothing (No. of machines)	771,495	779,396	773,828	772,128	764,618
Source: Thailand Textile Institute					
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Table 6: Thailand's Production and Consumption of Yarn							
	1994	1995	1996	1997	1998	1999	2000
Production(TMT)							
Cotton yarn	280.0	305.9	317.0	297.4	267.2	280.5	294.5
Man-made yarn	474.4	473.4	452.9	472.2	509.9	n.a.	n.a.
Total production	754.4	779.3	769.9	769.6	771.1	n.a.	n.a.
Consumption(TMT)							
Cotton yarn	266.2	285.8	289.3	261.9	242.5	264.0	275.0
Man-made yarn	372.4	405.9	349.1	362.1	n.a.	n.a.	n.a.
Total production	638.6	691.7	638.4	624.0	n.a.	n.a.	n.a.
Note: From 1994-1998, data are sourced from Thailand Textile Institute							
From 1999-2000, data are estimated by FAS/Bangkok							
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Table 7: Thailand's Exports of Cotton Yarn		
	1998	1999
	Quantity	Quantity
	(Tons)	(Tons)
U.S.A.	1,795	1,736
Australia	675	468
Belgium	3,320	1,496
China	6,768	8,103
Germany	2,681	1,358
Hong Kong	2,645	4,435
Spain	1,031	817
Japan		2,378
S. Korea	7	855
Malaysia	1,221	1,500
France	1,789	17
Italy	1,008	466
Singapore	1,391	937
Others	4,593	2,965
TOTAL	28,924	27,531
Source: Department of Customs		
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Table 8: Thailand's Imports of Cotton Yarn		
	1998	1999
	Quantity	Quantity
	(Tons)	(Tons)
U.S.A.	72	17
China	1,232	2,515
France	19	8
Hong Kong	162	779
Indonesia	967	295
India	2,501	2,826
Japan	112	183
S. Korea	774	2,113
Pakistan	2,930	1,825
Taiwan	221	207
Others	83	232
TOTAL	9,073	11,000
Source: Department of Customs		
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Table 9: Thailand's Production and Consumption of Woven Fabric							
	1994	1995	1996	1997	1998	1999	2000
Production (TMT)							
Cotton fabric	173.5	186.5	189.7	172.6	159.2	170.0	180.0
Man-made fabric	243.7	267.5	228.9	238.7	224.7	n.a.	n.a.
Total production	417.2	454.0	418.6	411.3	383.9	n.a.	n.a.
Consumption (TMT)							
Cotton fabric	155.5	168.5	168.0	142.0	127.1	140.0	147.0
Man-made fabric	233.2	239.4	202.1	202.8	183.0	n.a.	n.a.
Total production	388.7	407.9	370.1	344.8	310.1	n.a.	n.a.
Note: From 1994-1998, data are sourced from Thailand Textile Institute							
From 1999-2000, data are estimated by FAS/Bangkok							
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Table 10: Thailand's Exports of Cotton Fabric		
	1998	1999
	Quantity	Quantity
	(Tons)	(Tons)
U.S.A.	7,679	9,034
Bangladesh	1,360	1,068
Belgium	2,134	2,546
Benin	252	1,482
China	481	591
Germany	2,858	2,835
U.K.	2,428	1,345
Hong Kong	1,737	2,263
Italy	1,961	1,580
Laos	853	1,186
Myanmar	1,298	2,661
Malaysia	474	715
Netherlands	1,113	1,257
Others	7,118	7,962
TOTAL	31,746	36,525
Source: Department of Customs		
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Table 11: Thailand's Imports of Cotton Fabric		
	1998	1999
	Quantity	Quantity
	(Tons)	(Tons)
U.S.A.	180	388
China	3,591	7,105
Hong Kong	2,939	2,700
Indonesia	659	1,591
India	1,530	3,287
Japan	946	1,146
South Korea	169	306
Malaysia	110	332
Pakistan	1,200	1,000
Taiwan	1,590	1,468
Others	433	729
TOTAL	13,347	20,052
Source: Department of Customs		
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Table 12: Tariff for Cotton and Textile Products			
	Current calculated tariff for non-AFTA countries (% Ad Valorem)	Current tariff applied for AFTA countries under CFPT scheme <sup>1/</sup> (% Ad Valorem)	Tariff Schedule Commitment with WTO (% Ad Valorem)
Raw cotton	0	3.75	30% as general tariff
Cotton yarn	10	5	21
Cotton fabric	20	5	50
Chemical used in textile	10-15	5	30
Textile machinery	5	2.50-15.0	18
<p>1/ CFPT Means the Common Effective Preferential Tariff, and it is an agreed effective tariff, preferential to ASEAN countries, to be applied to goods originating from ASEAN Member States, and which have been identified for inclusion in the CFPT Scheme.</p>			
<p>Source: Customs Department Department of Business Economics</p>			
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