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Report Highlights: This report presents changes in the PS&D for cotton, as well as tables of data on provincial production, cotton imports and textiles exports. Developments on policy are also provided.

Includes PSD changes: Yes
Includes Trade Matrix: No
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EXECUTIVE SUMMARY

Vietnam cotton production is small but expanding, supported by a government program to bring 100,000 hectares (100 Tha) of hybrid cotton under cultivation. Minimum guaranteed grower prices, hybrid seed, and improved irrigation and ginning facilities are part of the GVN's cotton development program, supported, in part, by French overseas assistance funds. The Vietnam Cotton Company (VCC) is responsible for implementing the program in cooperation with Vinatex, the state-owned textile corporation. Formerly under the Ministry of Agriculture and Rural Development (MARD), VCC has been placed under the Ministry of Industry in an effort to improve coordination with Vinatex membership on purchases of local cotton.

Production for marketing year 2000/01 is forecast to reach 9,300 metric tons (9.3 TMT) on a harvested area of 27.5 Tha. Domestic supplies fill only about 10% of import demand from VN's booming export textile sector. Imports for MY2000/01 are expected to reach 76 TMT, dominated by low-cost supplies from Uzbekistan and West Africa. U.S. cotton is reappearing in the market after an 18-month lull, during which very little was offered due to higher prices vis-a-vis lower quality competitor cotton. The GVN's target of modernizing the textile industry and achieving an export value of \$4 billion by 2010 will improve prospects for export sales, including supplies from the United States. USDA's credit guarantee program (GSM-102) might also help expand the market for U.S. cotton, as would a future bilateral trade agreement.

PRODUCTION

Vietnam's cotton production keeps climbing, supported by government policy.

Production for marketing year 1999/00 (Aug/Jul) is revised upward to 7.6 TMT on larger than reported area harvested. Strong support from the GVN's cotton development program has boosted enthusiasm for planting cotton, especially in DakLak province in the Central Southern Highlands, the center of production for industrial use. Cotton planted area in 2000 is forecast at 27.5 Tha (up 19% or 4,400 ha compared with previous year). Total production for the 2000/01 marketing year is forecast at 26.2 TMT of seed cotton equivalent, or about 9.3 TMT of cotton fiber, an increase of 24% compared with the previous year (see PS&D Table). Northern mountainous provinces contribute about a tenth of total domestic production, all for artisanal use, such as handspun clothing and handicrafts.

Cotton expansion proceeding with steady progress.

The GVN plans to extend area planted to 100 THa, about four times the current area under cultivation. Most of this expansion will occur in southern Vietnam, and will supply commercial mills. Assistance for the scheme is in part provided by France. A guaranteed floor price for seed cotton has encouraged farmers to add cotton to the mix of cash crops. In 1999, Vietnam expanded cotton planted area to 23.1 THa (about 4% over the previous year) and produced about 21.6 TMT of seed cotton equivalent to about 7.6 TMT of cotton fiber, or slightly above 1998's figure. Due to unfavorable crop weather (i.e., torrential rains and flooding), 1999's average yield was only about 0.94 MT/ha, slightly lower than the previous year. However, expansion of area harvested offset the reduction in yield (see Table 1). Harvested area has expanded rapidly, from 14.3 Tha in 1996 to 23.1 Tha in 1999, up 61% within the most recent four-year period. For the 2000 crop, we forecast that harvested area will increase to 27.5 Tha.

**Table 1: Vietnam Cotton Production
(Calendar year)**

Region / Province	Harvested Area (1,000 ha)			Yield (Ton / Ha)			Production (1,000MT)		
	1998	1999	2000	1998	1999	2000 for.	1998	1999	2000 for.
South Central									
Ninh Thuan	1.3	1.0	N/A	0.77	0.50	N/A	1.00	0.50	N/A
Binh Thuan	2.7	2.4	N/A	0.50	0.50	N/A	1.35	1.20	N/A
Central Southern Highlands									
Daklak	6.7	9.9	N/A	1.16	1.23	N/A	7.77	12.18	N/A
South East									
Dong Nai	6.8	4.9	N/A	1.21	1.00	N/A	8.23	4.90	N/A
BaRia VungTau	0.7	0.8	N/A	1.14	1.00	N/A	0.80	0.80	N/A
Subtotal South*	18.2	19.0	23.5	1.05	1.03	1.05	19.15	19.58	24.68
Subtotal North**	4.1	4.1	4.0	0.53	0.50	0.50	2.17	2.05	2.00
Total Whole Country	22.3	23.1	27.5	0.96	0.94	0.95	21.32	21.63	26.20
Cotton lint production									
North							0.76	0.72	0.70
South							6.70	6.85	8.64
Total Whole Country							7.46	7.57	9.34

Source: VN Statistic Yearbook 1998, VN Cotton Corporation and FAS Hanoi

Industrial cotton is mainly produced in Southern Vietnam.

Cotton for Vietnam's commercial spinning industry is based mainly on supplies from three key southern regions, mainly the Central Highlands where coffee is king and cotton serves as an alternative crop to soybeans and corn. In 1999, southern VN accounted for about 82% of total harvested area and 90% of total fiber production. Tellingly, yields in the south (1.0MT/ha) were about twice those reported for the north. According to the VCC, production in provinces such as DongNai, NinhThuan and BinhThuan should have increased by at least 35% over the previous year had the crop not been damaged by heavy rain and flooding that lowered harvested area and yields.

DakLak province has become the center of VN commercial cotton production.

From a humble start in 1990 as an experimental crop, cotton has become an important cash crop to farmers in DakLak, where 55% of total cotton is produced. Cotton growing areas increased rapidly in recent years from 6.7 THa in 1998 to 10.0 THa in 1999, in part due to the active network of provincial agricultural extension staff. Through the introduction of new higher yielding hybrid varieties, e.g., VN20, VN36, and VN35 (average yields of 3-4MT/Ha, seed cotton), farmers now view cotton as a profitable dry season alternative to corn or soybeans. About 70% of DakLak's cotton area is not irrigated. Also bolstering planting decisions is the VCC's minimum floor price. By 2005, Daklak province plans to have 18.5 THa under intensive cotton cultivation and about 5.0-10.0 THa of cotton intercropped with coffee, pepper, etc.

Cotton in Northern provinces is mainly for local handspun weaving.

Cotton production in mountainous northern provinces (CaoBang, BacCan, YenBai, NgheAn, etc.) is scattered across thousands of smallholder plots. Total output is about 2.0 TMT of seed cotton. Yields in these areas are extremely low (about 0.4 - 0.5 MT/ha) due in part to reliance on traditional varieties. Northern cotton, which usually accounts for about 10% of domestic output, is mainly used for handspun garments and handicrafts.

Vietnam targets 100THa of cotton by 2010.

According to a GVN survey, VN has about 200THa of agricultural land suitable for growing cotton, of which about 40-60Ha are in the Central Southern Highlands (i.e., Daklak, Gialai & KonTum). VN's stated objective is to have 100THa of cotton by 2010; currently, cotton covers less than a 30% of the target area. In coming years, improved technical assistance and VCC's minimum guaranteed price (5,300VND/kg, seed cotton) will likely spur production in other southern provinces such as DongNai, BinhThuan and NinhThuan (see Table 1).

Improved yields of new varieties attract farmer interest.

New hybrids such as L18, VN20, VN 35, etc. from the Cotton Research Center in Ho Nai have proved successful in raising seed cotton yields from 0.76 MT/ha in 1996 to 0.94 MT/ha in 1999, a 25% increase in four years. Ginning rates range from 35% to 36%.

CONSUMPTION

Domestic production accounts for only about 10% of cotton demanded by spinning mills.

Domestic consumption of cotton fiber in 2000/01 is forecast to reach a record 85 TMT, of which about 10% will come from local production (see Table 2, below). Domestic production of cotton alone cannot satisfy demand from VN's expanding spinning industry. Even the attainment of the 100 Tha scheme implies a supply of only about 35 TMT. Experts rate VN cotton as generally about 1-1/8 inch staple length with a trash content higher than African cotton.

Rising textile exports fuel demand for cotton.

From a low base several years ago, VN continues to develop as a textile exporter. Total value of textile and garment exports in 1999 set a new record of \$1.75 billion, a jump of 14% over the previous year. Indeed, textiles have become an important element of foreign exchange earnings. Prospects in calendar 2000 are encouraging. Textile exports through the end March 2000 were estimated at about \$210 million, up almost a third over the same period last year. According to Vinatex, yarn exports to foreign markets have risen dramatically, fueling demand for cotton and encouraging many spinning mills to operate at capacity. Industry insiders are optimistic that exports in 2000 will set a new record of at least \$2 billion, in large part supported by sharp increases in orders from the EU, Japan, East Asian countries and the United States. Of course, a trade agreement with the United States would improve prospects for VN exports. Currently VN's exports of cotton yarn and towels are very strong, a key component of increasing cotton demand. At a time when other Asian textile countries such as India and China are paring back spindle numbers, VN (and Indonesia) continue to add spindles. For VN this means replacing and upgrading spindles with both state funds and foreign investment. Any increase in quality of spindles implies a shift to better quality and uniformity of cotton.

Table 2: Vietnam cotton PSD Table

<i>PSD Table</i>						
Country	Vietnam					
Commodity	Cotton					
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		08/1998		08/1999		08/2000
Area Planted	15200	22300	20000	23100	0	27500
Area Harvested	15200	22300	20000	23100	0	27500
Beginning Stocks	8000	8000	8000	8000	8000	11720
Production	5000	6700	7000	7570	0	9340
Imports	37000	59000	59000	72000	0	76000
TOTAL SUPPLY	50000	73700	74000	87570	8000	97060
Exports	0	0	0	0	0	0
USE Dom. Consumption	42000	65700	66000	75850	0	85000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	42000	65700	66000	75850	0	85000
Ending Stocks	8000	8000	8000	11720	0	12060
TOTAL DISTRIBUTION	50000	73700	74000	87570	0	97060

TRADE

Up from the doldrums, cotton imports climb in 1999/00 and will likely continue to rise in 2000/01.

According to 1999 Customs data, VN imported 77TMT of cotton with the value of more than \$90 million. Traders, however, suggest that this total includes non-cotton lint or cotton of very low quality cotton that is not used in the textile industry. Table 3, below presents cotton imports for marketing year 1999/00, based on trade sources, and shows a 6% increase over the previous period (67.7TMT) . Major suppliers to Vietnam are NIS countries (primarily Uzbekistan), West Africa, United States, Syria, China, and Australia (see Table 3).

Table 3: Vietnam: Cotton Imports by Key Suppliers, 1999

Supplier	Quantity: Metric Tons
NIS	32750
African	22500
United States	3785
Australia	1475
Syria	1160
China	780
Greece	675

Argentine	490
Unknown	8380
Total	71995

Source: Trade

Based on discussions with the trader and mills, post forecasts VN will likely import about 76 TMT in the upcoming marketing year. VN Customs data for the Jan-Apr period list about 23 TMT of cotton imports valued at \$27million, up about 25% in quantity from the same period a year earlier. Unit values are lower due to lower cotton prices. Registrations of attractively-priced Chinese cotton were very active in the first three months of this year. However, trade sources speculate that imports from China will taper off because of the impact on exportable supplies from unfavorable crop weather.

U.S. cotton sales to VN revive in Q1/2000 after long dormant period.

After a spell of scarce sales due to lower exportable supplies and high prices vis-a-vis competitors, U.S. cotton is again being offered by the leading trading houses. During the first quarter of this year contracts for about 2.5 TMT of U.S. cotton (mainly short staple, < 1 1/8 inch) were registered. This represents about a fifth of import demand for the period. On the U.S. side, accumulated exports and outstanding sales as of May 4 were 56,600 running bales, an almost 8-fold increase from the same period last year on more attractive prices. According to some traders, U.S. cotton shipments to VN in 2000/01 are likely to recover to levels of 1997/8.

PRICES

Offer prices for cotton from various origins have been trending upward recently. Recent prices for African cotton 1-1/8 SM; U.S. cotton equivalent to 1-1/8 SM; Chinese T129; and, NIS cotton grade I, were being offered around US\$63.5/lb; US\$67.8/lb; US\$62.5/lb and US\$63.95/lb CIF, HCMC, respectively. These prices are up about 28% compared with January's offers (around US\$49.5/lb, CIF, HCMC, for African cotton). U.S. cotton 1-3/32 is being offered around US\$56.3/lb, CIF, HCMC, up a third compared with early January's offers (US\$40.9/lb, CIF, HCMC).

STOCKS

Stocks are difficult to estimate, as they are held by mills throughout the country. Vinatex assumes stocks fluctuate around a band of 8-12 TMT. Post forecasts carryover stocks will build slightly in the coming marketing year.

POLICY

GVN's cotton policy seeks to improve farmer incomes and conserve foreign exchange.

Since 1999 (Decision No.168/QD-TTg), the GVN has pursued a policy aimed at increasing the percentage share of domestically produced cotton in the total quantity demanded by the expanding textile sector. This policy seeks both to provide farmers with an economic alternative crop and to conserve foreign exchange.

Ambitious plans to expand area planted to hybrids.

One aspect of this overall policy is an ambitious program to increase area planted to cotton to 100THa by the year 2010. Another focuses on creating high-yielding varieties, and planting these in three regions: 1) the Central Southern Highlands (e.g., DakLak province); 2) South Eastern (DongNai, SongBe, BaRia-VungTau provinces);

and, 3) the southern parts of Central Vietnam (NinhThuan and BinhThuan provinces). The third element is expanding and upgrading of irrigation facilities and the cotton ginning industry.

VCC implements the Cotton Development Program.

The VCC, pulled out from MARD and placed under the Ministry of Industry (as is Vinatex), has responsibility for implementing the Cotton Development Program. VCC controls about 76% of total cotton planted area (nearly 15 Tha), and dominates crop procurement and ginning. The company provides technical assistance to farmers and assures a floor purchase price for seed cotton (about VND5,300/kg). In turn, the Vietnam Textile Corporation (Vinatex) has been asked to encourage members to buy local cotton as a national priority. Floor prices are determined by Vinatex at the start of each crop year, in coordination with the Government Pricing Committee and the Peoples' Committee of each province. Vinatex is also responsible for collecting a 1-2% surcharge on imported cotton; proceeds are plowed into a price stabilization fund.

Floor price policy ensures market for cotton growers.

Representatives of VCC sign forward contracts with farmers or farmer groups at the start of each planting season. Farmers are able to obtain advances in the form of inputs such as fertilizer, cotton seed and pesticides. VCC guarantees to buy cotton at a fixed price (for 2000, VND5,300/kg, seed cotton) regardless of quality. Farmers retain the option to sell at higher prices should the market rise above the floor price. However, farmers in some key cotton growing provinces like DakLak do not have the option of higher prices as VCC is the sole buyer in that area.

French soft credit of FF60 million supports efforts of VCC's cotton development program in 1999 and 2000.

France (under the French Agency for Foreign Development - AFD) provided soft credit of FF60 million in support of the cotton development project for the two-year period, 1999-2000. This project is implemented by the VCC with the view of expanding cotton planted area to 27 TMT.

VCC's cotton gin scheduled for operation in 2000.

VCC has invested in advanced cotton ginning technology in DakLak province. This plant, with ginning machinery from Lummus (USA), is capable of processing 125 MT of seed cotton per day, or about 10 TMT of cotton fiber per year.

Textile industry needs more foreign investment to meet modernization goals.

GVN estimates the textile-garment sector requires an additional \$5.7 billion in investment in the full range of new technology to reach production and export targets. Replacing old equipment and upgrading technology is the focus. At least 8,000 undersized textile and 55 dyeing machines in use more than 20 years should be replaced. About 20% of all sewing machines over ten years in use are also in need of replacement. More than 500,000 spindles need to be replaced. VN's largest mill, Phong Phu (10TMT cotton/yr) is renovating, as are Thanh Cong and Viet Thang. VN's most modern mill is Military Textile Company 28 (3TMT cotton/yr), which is vertically integrated and specializes in uniforms.

GVN aims for \$4.0 billion export value by 2010.

The textile industry has set a target of annual growth rates of 13% for the period 2000-2005, and 14% for the period 2005-2010. By the year 2010, textile and garment exports are expected to reach \$4.0 billion, with a product mix of 40 % all-cotton products, 30 % all-synthetics, and 30% cotton-polyester blended products (see Table 4).

Table 4: Vietnam: Garment & Textile Product Exports, 1997-2010 ^{1/}
(Units: US\$million)

Textile industry plan	1997	1998	1999	2000pro.	2005	2010
Total Export Value	1,569	1,530	1,747	2,000	3,000	4,000
- Garment & Clothing Accessories	1502	1450	1747	1,600	2,200	3,000
- Textile Products	67	80	n/a	400	800	1,000
of which: + yarn	34	35	n/a	n/a	n/a	n/a
+ woven fabrics	33	45	n/a	n/a	n/a	n/a

Source: Vinatex, VN Custom & Statistical Departments.

^{1/} Data for 1997-1999 are actual. 2005 and 2010 are targets.