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# Vietnam

## Cotton and Products

### Annual

### 2002

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**Report Highlights:** Vietnamese cotton imports rose by 16% in 2001 to slightly more than 88 thousand metric tons, with U.S. exports capturing a significant share. The Government of Vietnam has developed an ambitious plan, including high support prices, to dramatically boost domestic cotton production. Following ratification of the U.S.-Vietnam Bilateral Trade Agreement, and some increases in European quota allocations, the Vietnamese textile and garment industries hope to increase exports by 17% this year. Vietnam's cotton PS&D and trade data are also provided.

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## TABLE OF CONTENTS

PRODUCTION .....	<a href="#">Page 1 of 6</a>
Table 1: Vietnam Cotton PS&D Table .....	<a href="#">Page 1 of 6</a>
PRICE .....	<a href="#">Page 2 of 6</a>
TRADE .....	<a href="#">Page 2 of 6</a>
Vietnam 2001's exports of textile and garment products .....	<a href="#">Page 2 of 6</a>
Cotton imports .....	<a href="#">Page 3 of 6</a>
Table 2: Cotton Imports to Vietnam by Key Exporters .....	<a href="#">Page 3 of 6</a>
STOCKS .....	<a href="#">Page 4 of 6</a>
POLICY .....	<a href="#">Page 4 of 6</a>
Vietnam's strategy to develop cotton .....	<a href="#">Page 4 of 6</a>
The Garment and Textile sector given 50% interest subsidy for purchasing cotton .....	<a href="#">Page 6 of 6</a>
Cotton Development Assistant Fund proposed .....	<a href="#">Page 6 of 6</a>
Vinatex building four garment and textile complexes .....	<a href="#">Page 6 of 6</a>
A Textile-Garment Trade Center in U.S. proposed .....	<a href="#">Page 6 of 6</a>

## PRODUCTION

In calendar year 2001 (CY- 2001), Vietnam's cotton area was 30,000 hectares (ha). The production was around 30,000 metric tons (mt) of cotton (30,000 mt of cotton seed equal to 10,526 mt of cotton lint). Key cotton growing areas include the South Coastal provinces (Ninh Thuan, Binh Thuan and Phu Yen), the Tay Nguyen (Central Highland) region (Dac Lak and Gia Lai) and South-East provinces such as Dong Nai and Binh Duong.

In 2002, Vietnam plans to grow 35,000 hectares of cotton, an increase of 5,000 ha compared with 2001. Cotton production is targeted at 35,350 metric tons (12,400 mt of cotton lint). The expansion area is mainly in Tay Nguyen, South Coastal, Southern-East and Mekong River Delta (MRD) regions.

In Dac Lak province (Tay Nguyen-Central Highland region), cotton is considered a profitable crop compared with other major crops like coffee and sugarcane. The support price (VND 5,500/kg) offered by Vietnam's Cotton Corporation (VCC, a government-owned cotton sector parastatal under VINATEX, in turn under the Ministry of Industry) has encouraged farmers to expand cotton area in the province. The province plans to increase cotton area from 14,600 ha in 2001 to 18,000 ha in 2002.

It is reported that cotton did very well as an experimental crop in Quang Ngai province (South Coastal region). Provincial authorities have encouraged farmers to grow cotton as a good crop to inter-crop with peanuts and green-beans. The province plans to expand cotton area to 2,200 ha by 2005.

In the MRD, cotton was also planted as experimental crop on former rice land and some marginal land in Tra Vinh, Can Tho and An Giang provinces. Local extension officers were quoted as saying that cotton could be an alternative rotational crop with rice and other crops like sugarcane. In Can Tho province, there are about 2,000-3,000 ha of land suitable for cotton. In Tra Vinh province, cotton was planted to test the crop's adaptability to (overly) saline land and the results were encouraging. In An Giang province, some low-profit sugarcane land could be switched to cotton.

Authorities in the MRD provinces have set an ambitious plan to have 25,000 ha of cotton by 2005. However, fulfilling that plan will not be easy, as the region has problems related to cotton's adaptability to the region's soil, climate conditions (floods), various crop diseases, and pest infestations.

**Table 1: Vietnam Cotton PS&D Table**

PSD Table						
Country	Vietnam					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002

Area Planted	0	27,500	30,000	30,000	35,000	35,000
Area Harvested	27,000	27,500	30,000	30,000	35,000	35,000
Beginning Stocks	16,329	11,720	19,160	12,092	16,446	16,446
Production	9,362	9,340	10,886	10,526	12,280	12,280
Imports	87,091	76,032	103,420	88,828	89,000	89,000
TOTAL SUPPLY	112,782	97,092	133,466	111,446	117,726	117,726
Exports	0	0	0	0	0	0
USE Dom. Consumption	93,622	85,000	108,863	95,000	100,000	100,000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	93,622	85,000	108,863	95,000	100,000	100,000
Ending Stocks	19,160	12,092	24,603	16,446	17,726	17,726
TOTAL DISTRIBUTION	112,782	97,092	133,466	111,446	117,726	117,726

The Vietnam Cotton Corporation (VCC) offers cotton growers several user-friendly policies. In key cotton growing areas, VCC provides farmers with seed cotton, fertilizers, and technical assistance. The company commits to buy all cotton from farmers at a guaranteed price of VND 5,500/kg. In addition, cotton farmers will probably be blessed with a reduction, or even exemption, in the land use tax. Therefore, Post feels the 2002 area target, 35,000 ha, is achievable. Assuming that area, with an average crop yield of 1.01 metric tons per hectare, production should be around 35,350 mt of cotton seed or 12,280 mt of cotton lint (see table 1).

**PRICE** Exchange rate as of June 20, 2002 VND 15,310 equal to \$1

Currently, VCC is purchasing cotton at the guaranteed price of VND 5,500/ kg of cotton seed or VND 15,675/ kg of cotton lint. VCC has complained (to the Ministry of Industry) about their losses as they have to sell cotton at prices lower than the guaranteed level.

## TRADE

### **Vietnam 2001's exports of textile and garment products reached USD 2.15 billion.**

In 2001, Vietnam's textile and garment export value was \$2.15 billion an increase of 13% compared with 2000's level. Japan was the biggest importer of Vietnam's textile and garment products with the total import value of \$620 million. The Europe Union (EU) ranked in the second place, \$610 million, while the Republic of Korea and Singapore were also key markets for Vietnam's textile and garment exports.

### **Export value of textile and garment products was \$820 million in the first five months of 2002.**

Vietnam's exports of textile and garment products experienced a good increase in the first five months

of 2002. The value earned from exports of textile and garment products to the EU was \$202 million, an increase of 14% compared with the same period of 2001. The export value to Japan was \$205 million, a slight reduction compared with last year's level.

Due, in part, to the U.S.-Vietnam bilateral trade agreement (BTA), Vietnamese textile and garment exports rose in the first five months of 2002 to \$130 million, much higher than the total CY-2001 export value of \$50 million. Under the BTA, U.S. textile and garment tariffs were greatly reduced and, to date, the United States has not yet established any quotas on Vietnam's exports of certain garments to the United States. It is expected that later in 2002, Vietnam and the United States will begin negotiating textile and garment quotas.

In 2002, Vietnam's textile and garment industries hope to earn \$2.5 billion from exports, an increase of 16% compared with 2001. However, many observers doubt the target can be achieved, since Vietnam has already started to confront some EU quota allocation problems. Moreover, new Japanese policies, protecting their own domestic industries, seem to limit Vietnam's exports of textile and garment products to Japan.

On the other hand, low domestic supplies of cotton, high production costs, and poor marketing also make Vietnam's products less competitive than many of their regional competitors, such as China and Taiwan. Finally, Vietnam could face real problems in 2005 when the old quotas under the multifiber agreement expire. Vietnam is not a World Trade Organization (WTO) member, and is unlikely to be one by 2005, although they have started the WTO accession process.

### **Cotton imports**

In calendar-year 2001, Vietnam imported more than 88 thousand mt of cotton, an increase of 17% compared with 2000's level. Major cotton exporters to Vietnam include the Commonwealth of Independent States (CIS), including Uzbekistan, Turkmenistan and Tajikistan, African countries, and the United States. (See table 2)

U.S. cotton exports to Vietnam marked a big improvement in 2001. The United States exported 26 thousand mt, much higher than the volume exported in 2000 (12 thousand mt) as a result of good quality and reasonable prices (according to local cotton traders). U.S. cotton exports to Vietnam are expected to increase in 2002, due to ongoing technical assistance programs, relatively low prices, and the U.S. good quality aspects.

**Table 2:** Cotton Imports to Vietnam by Key Exporters (Unit: MT)

<b>Countries</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
CIS	32,750	21,748	19,995
African	22,500	18,929	17,600
USA	3,785	12,540	26,180

Australia	1,475	6,023	13,200
Iran	0	4,375	2,291
Syria	1,160	1,060	1,070
Hong Kong	0	1,877	1,310
Indonesia	0	1,771	1,899
China	780	1,577	0
Mexico	0	194	1,176
Argentina	490	0	0
Greece	675	0	0
Pakistan	0	760	0
Unknown	8,300	5,177	4,104
<b>TOTAL</b>	<b>71,915</b>	<b>76,032</b>	<b>88,825</b>

Source: Traders and Customs Department

Domestic cotton consumption is estimated to increase to 100 thousand mt in 2002, up slightly from 95 thousand mt used in 2001. Post estimates Vietnam's 2002 cotton imports will remain at roughly the same level as 2001, since increasing domestic production will offset the increase in domestic consumption (see table 2).

As of May 10, 2002, the quantity and value of cotton imported by Vietnam was 37,484 mt, worth \$37.26 million (average import price: \$994/mt), according to official data from Vietnam's Customs Department.

## STOCKS

It is not easy to estimate Vietnam's cotton carry-over stocks, but it is estimated to be about 16-17 thousand metric tons. VCC is reported to have a stockpile of 7,000 mt of local cotton lint because of slow sales. VCC bought local cotton at VND 15,500/kg of cotton lint (about \$1.013/kg) while the price of imported cotton (often with higher quality) is less than \$1/kg. Therefore, spinning mills prefer to use "cheaper" imported cotton.

## POLICY

### Vietnam's strategy to develop cotton (2001-2010)

On January 21, 2002, the Deputy Prime Minister Nguyen Cong Tan signed Decision 17/2002/QD-TTg outlining a new strategy for boosting cotton production. The Decision focuses on:

**S** Increase local cotton production by expanding growing areas. By 2005, Vietnam's cotton

area is planned at 115 thousand ha with estimated production of 80 thousand mt, to meet 50% of the cotton demanded by the local textile and garment industry. According to the plan, cotton area will expand to 230 thousand ha in 2010 with cotton production at 180 thousand mt - which would supply 70% of raw cotton to the textile and garment industry. The cotton growing area will be concentrated in Ninh Thuan, Binh Thuan and Phu Yen provinces of South coastal region; Gia Lai and Dac Lak province in the Tay Nguyen Central Highland, and some other provinces of Southern-East and MRD regions.

- S Development of cotton production must be done in parallel with the development of cotton processing industry. Vietnam plans to increase cotton ginning capacity to 470 thousand mt of cotton seed by 2010. The development plan also wants to diversify cotton products, including cotton fiber, cottonseed oil, and cottonseed meal for animal feed. Cottonseed oil extracting factories will be constructed which have total capacity of 200 thousand mt per year.
- S Boost leading agricultural research institutes namely: Nha Ho Research for Cotton and Fiber Crop, Southern Institute of Agricultural Sciences, Mekong Delta Rice Research Institute, Southern Fruit Research Institute, Agriculture and Forestry Research Institute in Highland, National Institute of Genetics and Central Research Center of Ag. (the center is under management of Vietnam Agriculture Sciences Institute). These research institutes are assigned to carry-out studies and research on cotton breeding and cultivation in order to create diseases resistant, high-yielding cotton varieties by applying biotechnology.
- S Applying Integrated Pest Management (IPM) methods for cotton cultivation.
- S Government's investment will focus on building irrigation systems; upgrading Research Institute for Cotton and Fiber Crops and seed production and F1 hybrid cotton processing mills; research and technical transfer.
- S The Government directed the Ministry of Finance to reduce the value-added tax (VAT) charged on seed cotton, to lower or exempt land use tax for cotton growers to reduce their cotton production costs. A cotton commodity subsidizing fund is being considered. If formed, the fund would collect contributions from both cotton users and buyers. The contribution level is proposed at 2% of the annual valued of purchased or imported cotton.
- S Member companies of Vietnam's Textile and Garment Corporation (Vinatex, a parastatal holding company for the textile sector which oversees many smaller related companies) are asked to sign contracts to buy all raw cotton produced by domestic processing and ginning factories. The processing and ginning mills are requested to sign contracts to buy all the cotton seed grown by Vietnam's farmers.
- S Ministry of Trade is assigned, in coordination with other relevant ministries, to develop a

market information system to forecast international cotton, textile and garment supply/demand and trade trends.

**The Garment and Textile sector given 50% interest subsidy for purchasing cotton.**

On May 31, the Deputy Prime Minister Nguyen Cong Tan signed Decree 2939/VPCP-KTTH to allow Vietnam Cotton Corporation (VCC) and other spinning factories to get a 50% reduction in bank interest rates for purchasing cotton. In other words, VCC will be able to borrow from commercial banks at one-half the normal interest rate (roughly 3-4 percent instead of 6-8 percent).

**Cotton Development Assistant Fund proposed.** The Government of Vietnam has given a green light to establish an assistance fund to support cotton development. Relevant ministries including MARD (Ministry of Agriculture and Rural Development), MOT (Trade) and MOI (Industry) are asked to develop the details.

**Vinatex building four garment and textile complexes**

Vinatex plans to build four key garment complexes by 2010, including Pho Noi complex in the northern Hung Yen province, Hoa Khanh complex in central Da Nang city, Binh An Complex in southern Binh Duong province and Nhon Trach complex in southern Dong Nai province.

In Pho Noi complex (on the area of 100 ha), a 20 million-meter dyeing mill equipped with Swiss, Germany and Italian technologies is expected to start operation next year. Two other mills, a 9,000 tonnes of fiber and a 12 million meters of cloth mill, will start operation early next year. These mills are expected to provide employment for about 900 local people.

The 11.5 ha Khanh Hoa complex includes a fiber plant, a textile mill and a dyeing mill and a waste water treatment plant. Estimated cost for the complex is VND870 billion (\$57.3 million).

The Binh An and Nhon Trach complexes will be build on an area of 25.7 and 100 ha respectively.

**A Textile-Garment Trade Center in U.S. proposed.** The Ministry of Industry has asked the Government to establish a trade center in the United States to increase textile and garment exports to the United States. Vinatex will implement this project, with an estimated cost of \$1 million.