

Required Report: Required - Public Distribution

Date: April 01,2020

Report Number: VM2020-0025

Report Name: Cotton and Products Annual

Country: Vietnam

Post: Hanoi

Report Category: Cotton and Products

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Report Highlights:

Post estimates Vietnam's cotton imports for marketing year (MY) 2019/2020 down to 1.28 million metric tons (MMT), or 5.90 million bales, due to the ongoing COVID-19 pandemic, which has affected many of Vietnam's key business partners, including China, Korea, Japan, the United States, and the EU. The pandemic has dragged down demand for apparel and has significantly affected cotton imports to Vietnam. U.S. cotton exports to Vietnam in MY19/20 are estimated at 707,000MT, or 3.24 million bales, down 15 percent from the previous year. Despite this decline, Post estimates that the United States will still maintain its market share of 55 percent. For MY20/21, Post forecasts that Vietnam's cotton imports will recover with 10 percent growth, importing about 1.42 MMT or 6.5 million bales. U.S. cotton should gain a 60 percent market share. This forecast is subject to ongoing COVID-19 developments; please see the Cotton and Products Semiannual in November 2020 for updates.

SITUATION AND OUTLOOK

Textile Industry

Vietnam's textile and garment sector remains one of the country's top export industries, significantly contributing to the country's Gross Domestic Product (GDP) growth and providing jobs to 2.8 million workers. According to Vietnam Customs' trade data, export revenue in calendar year (CY) 2019 reached \$37.6 billion, up 7.4 percent over the previous year. Although significant, this growth was still lower than the goal of 11 percent set by the Vietnam Textile and Apparel Association (VITAS) at the beginning of the year. The slower growth was mostly due to ongoing trade tensions between the United States and China and weak market demand.

For CY20, VITAS originally projected Vietnam's exports of textiles and garments at \$41.5 to \$42 billion. However, these expectations have been disrupted by COVID-19, which has affected the United States and the EU, Vietnam's largest markets for garments.

Vietnam's textile and apparel industry heavily relies on China for both the supply of materials and for yarn consumption. China accounts for 60 percent of the fabric, 55 percent of the yarn and fiber, and 45 percent of the trims used in Vietnam's garment production. In addition, approximately 60 percent of total yarns and 80 percent of cotton yarn exported from Vietnam go to China. Therefore, even small changes in China will affect Vietnam's textile and apparel industry. When China was under lockdown, numerous Chinese factories had to reduce or pause operations, causing fears of material shortages among Vietnam's textile and garment industry. Accordingly, imports of Chinese fabrics dropped to \$813 million in the first two months of 2020, down 19 percent over the same period last year.

While concerns of supplies from China have abated as Chinese factories gradually came back online beginning in late February 2020, Vietnamese garment producers began encountering another challenge in March of this year as the COVID-19 outbreak accelerated in the United States and the EU, Vietnam's two largest customers. According to Vietnam Customs, Vietnam's 2019 exports of textile and garment products to both the United States and the EU totaled \$19.2 billion, accounting for over 50 percent of Vietnam's total textile and garment exports. Although exports to the EU increased only 4 percent to \$4.3 billion in 2019, exports were expected to soar when the EU-Vietnam Free Trade Agreement (EVFTA) enters into force. The EVFTA was ratified by the EU on February 12, 2020 and is scheduled to be ratified by Vietnam in May 2020. The EVFTA will remove the tariffs of up to 12 percent that are currently imposed on textiles and garments made in Vietnam.

In response to COVID-19, the United States and the EU temporarily closed borders, schools, and non-essential stores, limited travel, and slashed commercial flights. Store closures have reduced market demand, and this has begun to affect exports of Vietnamese textiles and apparel. Numerous Vietnamese garment producers have already reported that their U.S. and European customers have suspended or canceled orders due to crashing consumption. In addition, exports to Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) member countries and other traditional markets, such as South Korea and Japan, have also slowed due to COVID-19. Industry sources note that, if the pandemic in the United States and the EU lasts until May, a large number of

Vietnamese garment producers could suffer serious economic damage that could potentially lead to bankruptcy.

Yarn

Vietnam's yarn spinning capacity continued to expand in CY19, with the number of mills increasing to 107 from 98 in the previous year. Spindles equivalence surged to nearly 10 million, up about 1 million compared to that of CY18, and yarn production could reach 2.5 million MT per year (see Table 1).

Table 1: Vietnam Textile/Spinning Industry Overview

	Unit	2014	2015	2016	2017	2018	2019
Total number of spindle	Thousand	6,100	6,300	7,000	7,500	7,800	8,250
Total number of rotors	Thousand	103	103	103	93	97	138
Total yarn production	Thousand MT	930	990	1,550	2,050	2,250	2,500
Yarn exports	Thousand MT	858	962	1,167	1,349	1,479	1,715
Yarn imports	Thousand MT	740	792	861	876	1,035	1,105
Fabric production	Billion m ²	1.5	1.7	2	2.3	n/a	n/a
Fabric imports	Billion USD	9.4	10.2	10.2	10.7	12.8	13.3

Source: CCI, Vietnam Customs and Post's estimate

Vietnam's yarn exports amounted to 1.72 MMT in 2019, up 16 percent over 2018. However, export values did not correspond with this increase in sales and rose only 3.8 percent, from \$4.0 billion in CY18 to \$4.2 billion in CY19 due to falling prices.

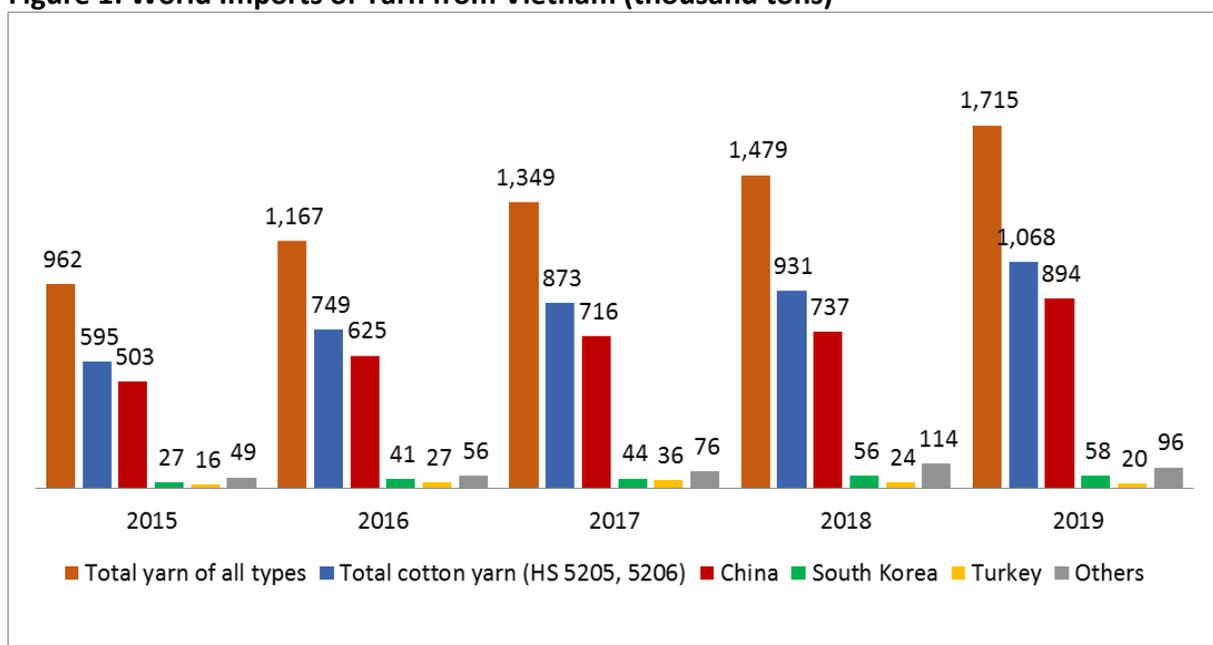
Cotton yarn under HS codes 5205 and 5206 make up 60 percent to 65 percent of Vietnam's total yarn exports. Exports of cotton yarn in CY19 reached nearly 1.11 MMT, up 15 percent over CY2018. China, South Korea, and Turkey remain the largest importers, buying over 90 percent of Vietnam's total cotton yarn exports (see Table 2 and Figure 1).

Table 2: Vietnam's Yarn Exports to Global Markets (thousand tons)

Importing countries	Calendar Year					Change b/w 2019/2018	Market share in 2019
	2015	2016	2017	2018	2019		
Total cotton yarn (HS 5205, 5206)	595	749	873	931	1,068	15%	
China	503	625	716	737	894	21%	84%
South Korea	27	41	44	56	58	4%	5%
Turkey	16	27	36	24	20	-19%	2%
Others	49	56	76	114	96	-16%	9%
Total yarn of all types	962	1,167	1,349	1,479	1,715	16%	
% cotton yarn/ total yarn	62%	64%	65%	63%	62%		

Source: Post's calculations; Trade Date Monitor and Vietnam Customs data

Figure 1: World Imports of Yarn from Vietnam (thousand tons)



Source: Post's calculations, Trade Date Monitor and Vietnam Customs data

Vietnam's cotton yarn exports to China continued to increase in CY19, reaching 894 TMT and \$2.3 billion, up 19 percent in volume and 7 percent in value over the previous year. Rising exports by Chinese and Taiwanese-invested spinning mills largely contributed to the increase. Although there are only 17 Chinese and Taiwanese-invested mills out of 107 total mills in Vietnam, their spindle equivalence accounts for 45 percent of Vietnam's total yarn production (see Table 3).

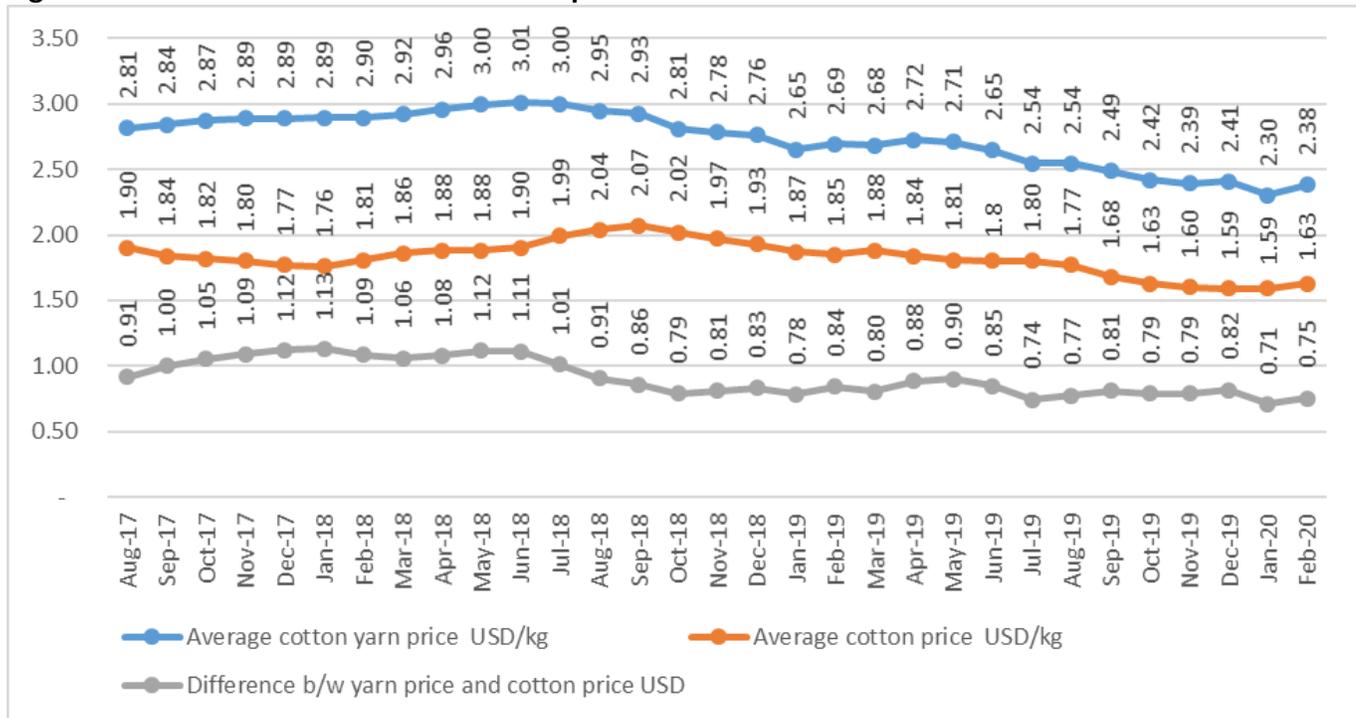
Table 3: Structure of Vietnam Spinning Industry in 2019

No.	Country	No. of Mills	Spindles Equivalence	Percentage
1	China	10	3,126,320	32%
2	Taiwan	7	1,276,422	13%
3	Korea	10	578,240	6%
4	Others	4	542,592	6%
5	Vietnam	76	4,109,522	43%
	Total	107	9,633,096	

Source: CCI and Post's estimates

Exports of cotton yarn to China remain robust, but local spinning mills are facing the challenge of crashing yarn prices. Cotton prices, which have dropped steadily from around \$1.87/kg in January 2019 to around \$1.69/kg in December 2019, continued to fall to \$1.63/kg in February 2020 (see Figure 2). As Chinese yarn buyers often use the cotton price as a reference to set cotton yarn prices, this drop has strained many Vietnamese spinners, especially those who are exclusively exporting their cotton yarns to China. Therefore, as cotton prices decrease, spinners suffer marginal profits or even losses. However, FDI spinning mills usually produce cotton yarns for their parent companies and are less susceptible to yarn price fluctuations.

Figure 2: Price of Vietnam's Cotton Yarn Exports to China

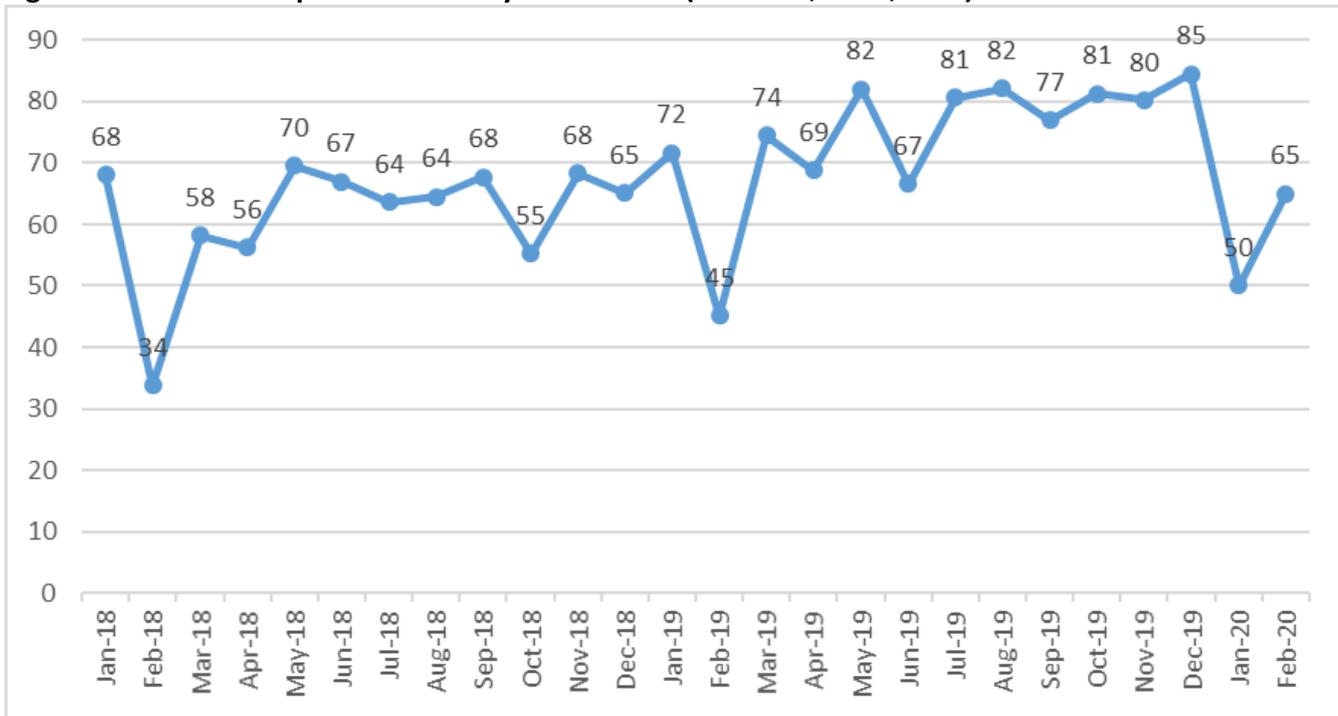


Source: Post's calculations, Vietnam Customs and Trade Data Monitor's data (HS code: 5205 and 5206)

Following the announcement of the Phase 1 U.S.-China deal in mid-January 2020, Vietnamese spinners began to ramp-up production for the Chinese market, but this was rapidly disrupted by the occurrence of COVID-19 and the temporary closures of numerous weaving and knitting factories throughout China noted earlier. Although cotton yarn exports in the first two months of 2020 remained positive, local spinning mills reported that they were carefully watching developments from China (see Figure 3).

When Chinese factories gradually came back on-line in late February, it released pressure on Vietnamese spinners. But, as outlined above, there is now reduced demand from the United States and the EU, reducing Vietnamese yarn consumption.

Figure 3: Vietnam's exports of cotton yarn to China (HS: 5205, 5206, TMT)



Source: Trade Date Monitor (TDM) and Vietnam Customs

Vietnam also imports yarn for its weaving and knitting industry, most of which is synthetic yarn. Vietnam's cotton yarn imports are insignificant compared to total yarn imports, reflecting an improving supply of domestic cotton yarn (see Table 4).

Table 4: Vietnam's Yarn Imports from Worldwide Markets (TMT)

Reporting Country	Calendar Year					% change 2019/2018	Market share in CY 2019
	2015	2016	2017	2018	2019		
Total yarns imported	792	861	876	1,035	1,105	7%	
China	301	359	383	508	610	20%	55%
Taiwan	193	195	173	179	173	-3%	16%
Thailand	83	79	78	80	72	-10%	7%
South Korea	80	78	82	85	75	-12%	7%
Indonesia	53	60	61	60	63	5%	6%
Others	83	91	99	123	112	-9%	10%
Cotton yarns imported (HS: 5205, 5206)	76	63	77	113	107	-5%	
% cotton yarns/ total yarns imported	10%	7%	9%	11%	10%		

Source: TDM and Vietnam Customs

PRODUCTION

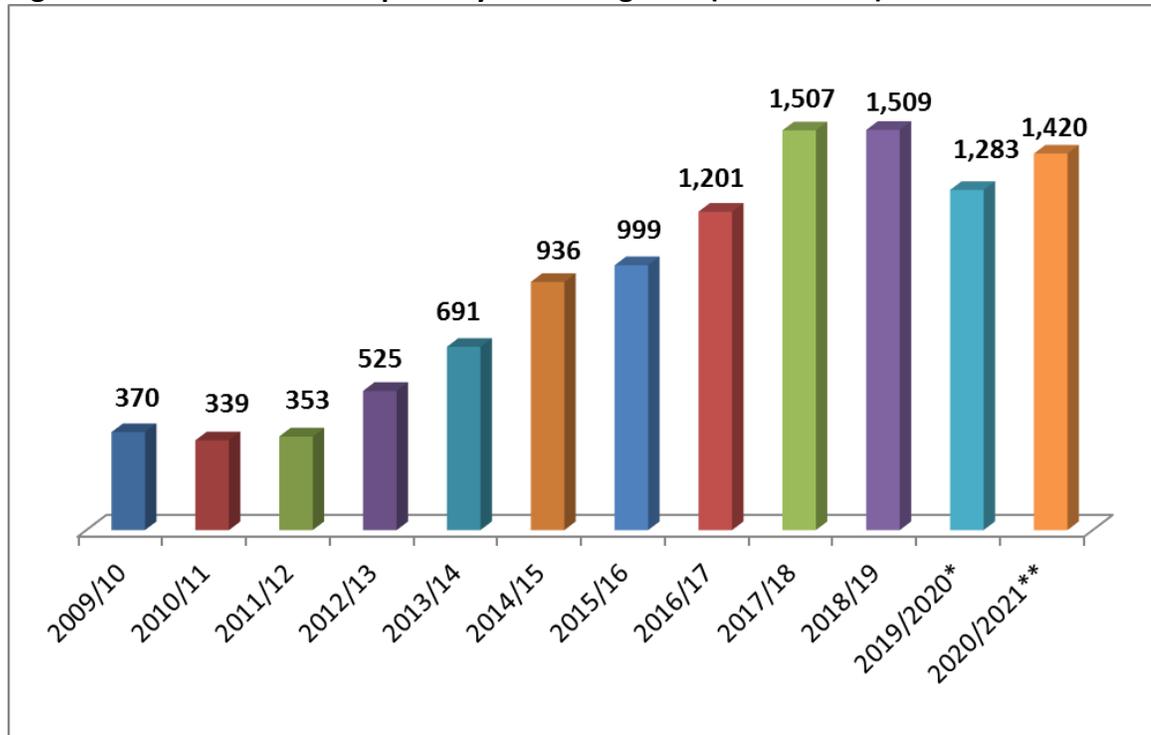
Vietnam's cotton planted area continued to shrink to an insignificant amount. FAS/Vietnam estimates the domestic cotton supply at less than 1 percent of total market demand. For a further discussion of the decline in planted area, please see [GAIN Report VM7019: Cotton and Products Annual 2017](#).

TRADE

Cotton shipments to Vietnam remained normal until the end of February 2020, but the situation remains volatile due to COVID-19. While FDI spinning mills, especially Chinese ones, are maintaining their normal operations, most local spinners have reported that they are receiving messages from their yarn buyers for order suspensions and/or delayed shipping schedules. Some spinners reported that their warehouses were full of unshipped yarns. In response, local spinners have started considering reductions in operations, which would lead to lower cotton imports. Industry experts have predicted that cotton imports are likely to drop to a record low in MY19/20.

Post estimates MY19/20 cotton imports to Vietnam at 5.9 million bales (or 1.28 MMT), down from the USDA official number, on COVID-19. Assuming the situation becomes contained and allows for normal business operations by July 2020, Post forecasts that in MY20/21, Vietnam's cotton imports will recover with 10 percent growth, to about 1.42 MMT, or 6.5 million bales. Post also forecasts that U.S. cotton will gain a larger market share of 60 percent, due to available supply. Again, this forecast recovery is subject to change based on COVID-19 developments.

Figure 4: Vietnam Cotton Imports by Marketing Year (million tons)



Source: Post's calculations, Vietnam Customs' data; *Post estimate, **forecast

Vietnam's Top Cotton Suppliers

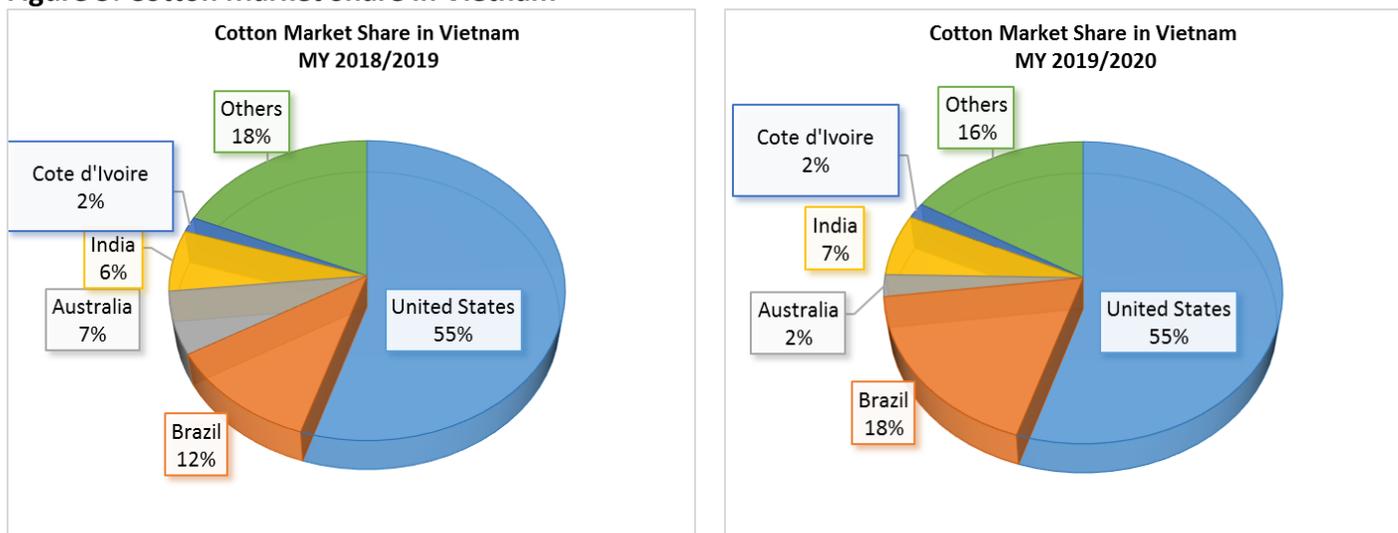
The country's top five cotton suppliers are the United States, India, Brazil, Australia, and Cote d'Ivoire (see Table 5).

Table 5: Vietnam Cotton Imports by Marketing Year (TMT)

Reporting country	Marketing Year (August - July)			% Change 2019/2020 vs 2018/2019	Market share		
	2017/ 2018	2018/ 2019	2019/ 2020*		2017/ 2018	2018/ 2019	2019/ 2020
United States	730	829	705	-15%	48%	55%	55%
Brazil	190	176	232	32%	13%	12%	18%
Australia	189	102	30	-71%	13%	7%	2%
India	200	100	85	-15%	13%	7%	7%
Cote d'Ivoire	25	25	21	-15%	2%	2%	2%
Others	173	277	210	-24%	11%	18%	16%
Total	1,507	1,509	1,283	-15%	100%	100%	100%

Source: Trade Data Monitor, Vietnam Customs and *Post estimate

Figure 5: Cotton Market Share in Vietnam



Source: Trade Data Monitor, Vietnam Customs and Post estimate

The United States has topped the list of cotton suppliers to Vietnam for nearly a decade. U.S. cotton exports to Vietnam in the first half of MY19/20 were robust, but have been declining in the second half due to a slump in the entire textile and apparel supply chain due to COVID-19. Post estimates that U.S. cotton exports to Vietnam will fall by 15 percent in MY19/20, coming in at 707,000MT.

Brazil has emerged as a direct competitor of the United States and most spinners in Vietnam also use Brazilian cotton for their production. Brazil's exports of cotton to Vietnam have accelerated over the

past five years, from 100,000MT in MY14/15 to 176,000MT in MY18/19, and are expected to climb to over 200,000MT in MY19/20 due to large crop.

Meanwhile, Australia's cotton exports have dropped significantly in MY18/19 and are continuing to slide in MY19/20 due to unfavorable weather conditions.

Table 6: U.S. Cotton Exports to Vietnam by Grade (MT)

HS Code	Product	Marketing Year (August - July)			
		2015/2016	2016/2017	2017/2018	2018/2019
5201009000	Cotton, not Pima,>28.58	199,679	282,671	334,611	428,406
5201001090	Cotton,>25.4,<28.58	215,925	340,972	362,638	327,158
5201001025	Raw cotton,<25.4	2,367	15,523	24,762	66,604
5201002030	Pima,ETC,>28.58	2,849	4,578	7,205	6,874
1404200000	Cotton linters	14	14	128	170
	Total	420,834	643,758	729,344	829,211
	% Change	4%	53%	13%	14%

Source: U.S. Census Bureau Trade Data

Exports of raw cotton < 25.4 have steadily increased over the past four years due to higher production of open-end yarns (OE) and shorter supply of cotton waste.

Table 7: U.S. Cotton Exports to Vietnam by Grade (Thousand USD)

HS Code	Product	Marketing Year (August - July)			
		2015/2016	2016/2017	2017/2018	2018/2019
5201009000	Cotton, not Pima,>28.58	294,164	490,668	584,093	757,709
5201001090	Cotton,>25.4,<28.58	293,467	537,839	591,774	534,338
5201001025	Raw cotton,<25.4	3,077	25,974	42,291	115,925
5201002030	Pima,ETC,>28.58	7,057	13,604	19,154	20,545
1404200000	Cotton linters	12	13	51	95
	Total	597,777	1,068,099	1,237,362	1,428,612
	% Change	1%	79%	16%	15%

Source: U.S. Census Bureau Trade Data

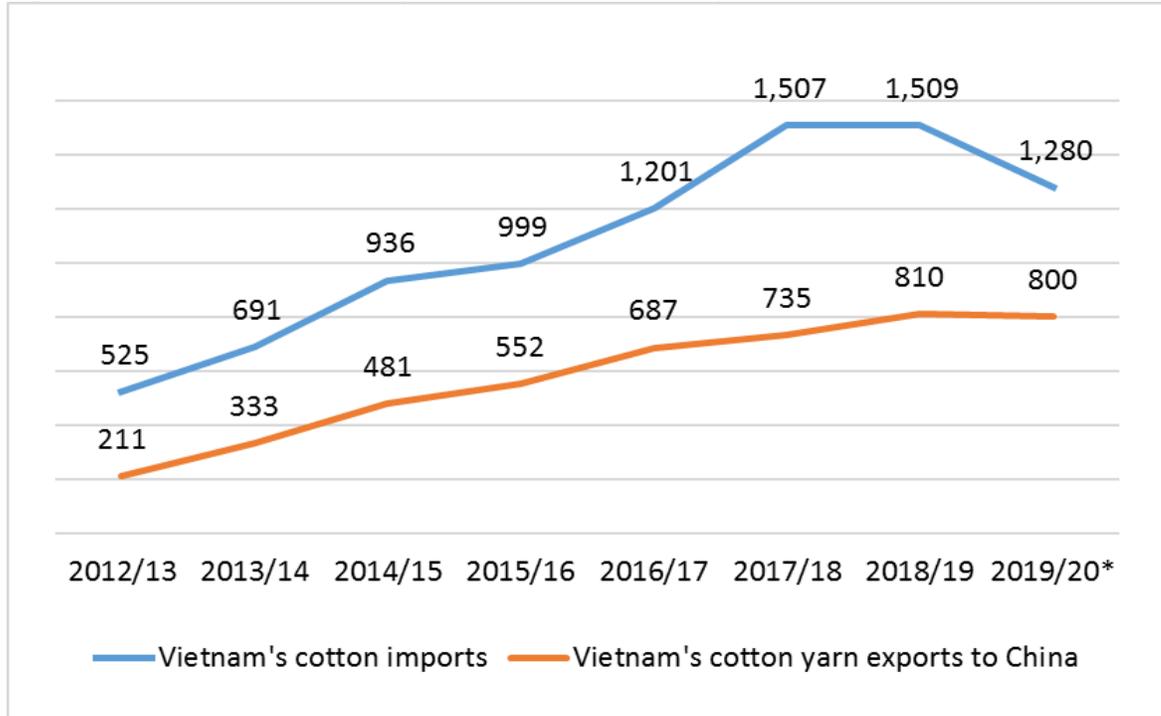
CONSUMPTION

As noted above, Vietnam's cotton consumption is forecast to drop in the second half of MY19/20 and Post forecasts that this reduction will continue into MY20/21 due to COVID-19 as a drop in consumer demand in these markets will directly affect Vietnam's cotton consumption.

As most yarn exports go to China, any changes in China's demand and policies regarding cotton and cotton yarn will impact Vietnam's cotton yarn production and exports. Vietnam's exports of cotton yarn to China in CY19 reached 894 TMT, accounting for 84 percent of the total cotton yarn export volume. China's exports of garments to the United States and the EU are forecast to drop, lowering

Vietnam's cotton consumption. Post estimates MY19/20 consumption in will sharply drop to 5.9 million bales or 1.28 MMT and forecasts that MY20/21 consumption will rebound to 6.5 million bales, or 1.42 MMT

Figure 6: Vietnam's Cotton imports vs. Cotton Yarn Exports to China (MY, value in TMT)

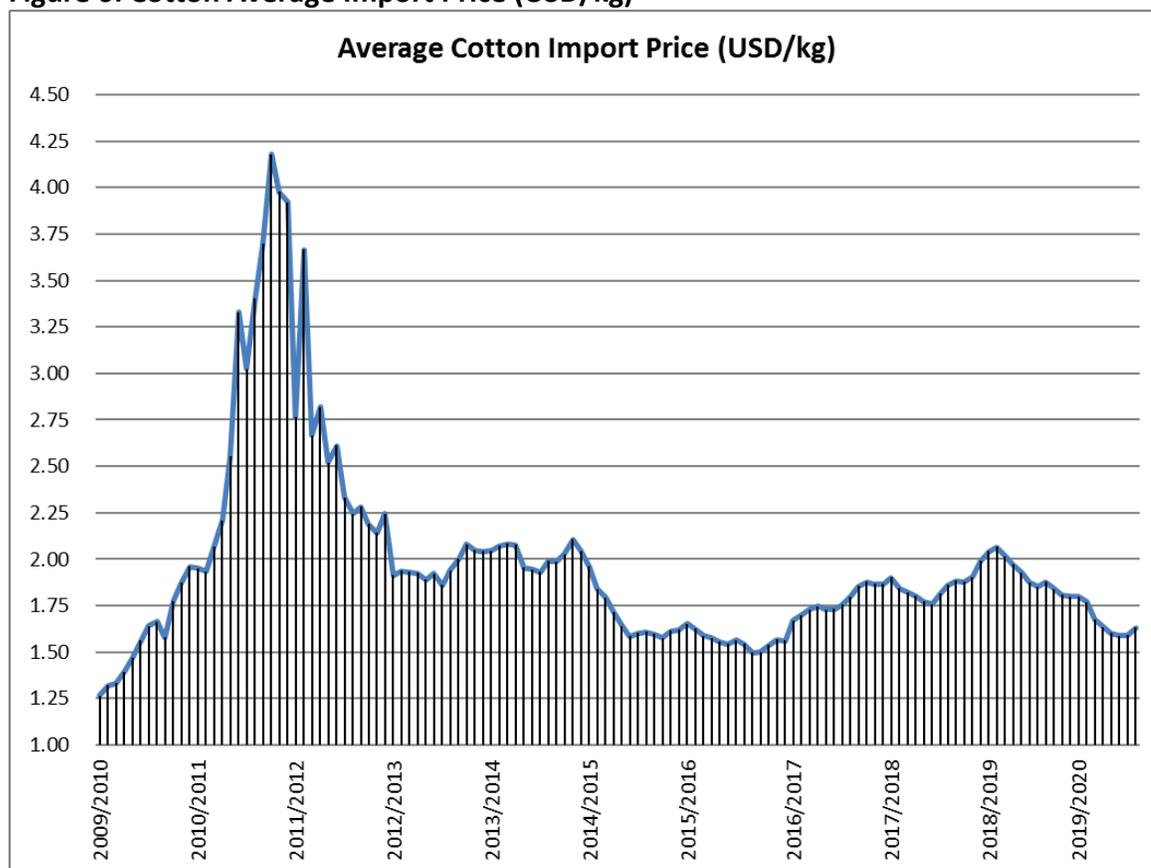


Source: TDM, Vietnam Customs and *Post estimate

PRICES

Average cotton import prices steadily dropped in MY18/19, from \$2.04/kg in August 2018 to \$1.80/kg in July 2019. Prices continued to slide to a record low of \$1.59/kg in January 2020. The crashing prices are attributed to a combination of aforementioned trade tensions between the United States and China, low demand, and impacts of COVID-19 pandemic.

Figure 6: Cotton Average Import Price (USD/kg)



Source: Vietnam Customs

STOCKS

Local spinners have been continuing to minimize stocks in MY19/20 due to the global large supply in combination with decreasing cotton prices. Post estimates the stocks-to-use ratio in MY19/20 to remain at 17 percent and forecasts the same stocks-to-use ratio for MY20/21.

MARKETING/ POLICY

Tariffs on cotton

Cotton fiber (HS code 5201, 5203) has a zero tariff, but a 5 percent value added tax is assessed.

Tariff on cotton yarn

Cotton yarn (HS codes 5204, 5205, 5207) has a 5 percent tariff, and a 10 percent value added tax.

Biotech Policy and Cotton Production

Commercialization of biotech cotton is not yet approved in Vietnam. However, confined field trails for biotech cotton are authorized. To date, no field trials have been conducted. For more information on agricultural biotechnology in Vietnam, please refer to GAIN Report [VM2019-0052](#)

PRODUCTION, SUPPLY AND DEMAND DATA STATISTICS:

Cotton	2018/2019		2019/2020		2020/2021		
Market Begin Year	Aug 2018		Aug 2019		Aug 2020		
Vietnam	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
							(Units)
Area Planted	-	-	-	-	-	-	(1000 HA)
Area Harvested	1	-	1	-	-	-	(1000 HA)
Beginning Stocks	1,285	1,285	1,188	1,208	-	1,008	1000 480 lb. Bales
Production	3	-	3	-	-	-	1000 480 lb. Bales
Imports	6,900	6,923	6,800	5,900	-	6,500	1000 480 lb. Bales
MY Imports from U.S.	-	3,803	-	3,243	-	3,900	1000 480 lb. Bales
Total Supply	8,188	8,208	7,991	7,108	-	7,508	1000 480 lb. Bales
Exports	-	-	-	-	-	-	1000 480 lb. Bales
Use	7,000	7,000	6,800	6,100	-	6,400	1000 480 lb. Bales
Loss	-	-	-	-	-	-	1000 480 lb. Bales
Total Dom. Cons.	7,000	7,000	6,800	6,100	-	6,400	1000 480 lb. Bales
Ending Stocks	1,188	1,208	1,191	1,008	-	1,108	1000 480 lb. Bales
Total Distribution	8,188	8,208	7,991	7,108	-	7,508	1000 480 lb. Bales
Stock to Use %	17	17	18	17	-	17	(PERCENT)
Yield	653	-	653	-	-	-	(KG/HA)
TS=TD	-	-	-	-	-	-	

Source: FAS, Official USDA's estimate and Post's estimate

Attachments:

No Attachments