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Report Highlights:

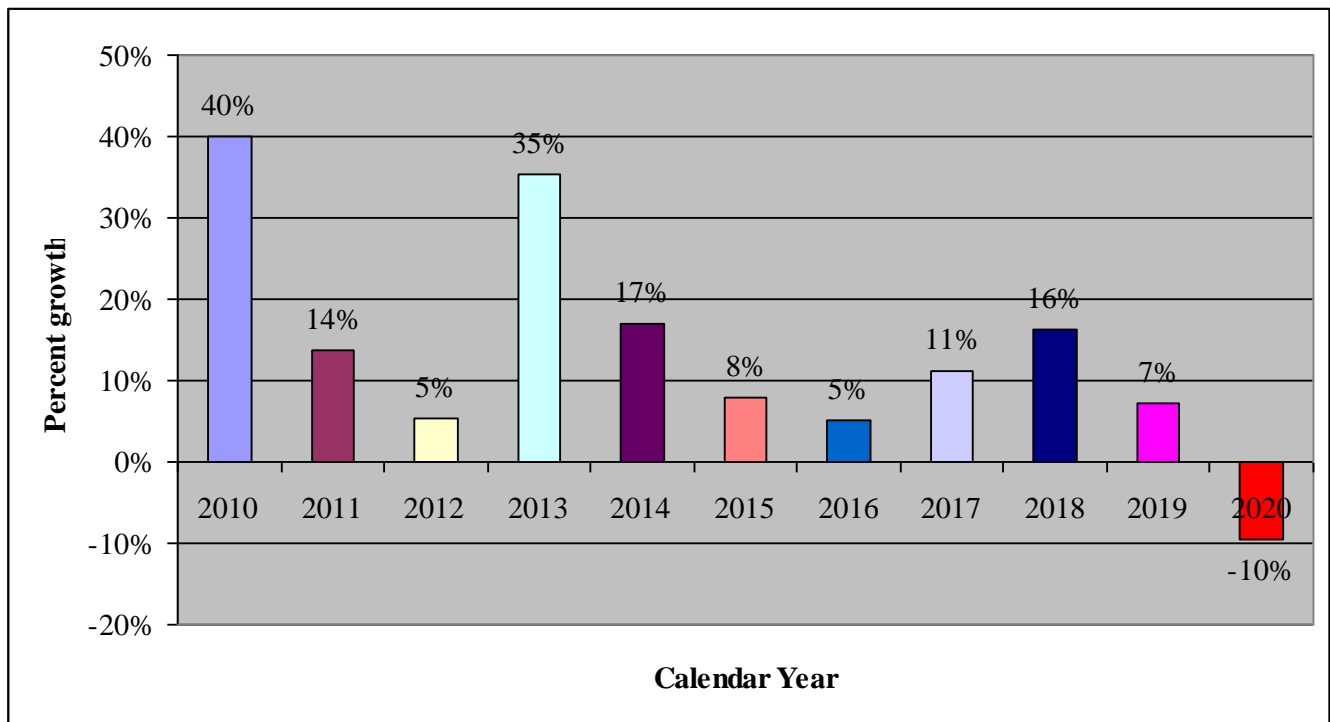
Vietnam's success in controlling COVID-19 has allowed textile and garment companies to maintain their operations, despite short-term disruptions. Post revises its estimate for Vietnam's cotton imports in MY20/21 up 5 percent to approximately 6.8 million bales or 1.48 million metric tons (MMT) due to high demand from China and South Korea. Despite this recovery, Post estimates that U.S. cotton exports to Vietnam will decline by 10 percent in MY20/21, as Vietnamese spinners are encountering difficulties in buying U.S. cotton due to major purchases by China. Brazil is using this opportunity to increase its cotton exports to Vietnam and will see its market share continue to grow in MY20/21. Post forecasts Vietnam's cotton imports for MY21/22 to increase 5 percent from the previous year, to 7.1 million bales or about 1.55 MMT.

SITUATION AND OUTLOOK

Textile Industry

In 2020, Vietnam's textile and garment industry experienced its first negative growth in its 25-year history with total exports dropping nearly 10 percent year on year to \$35 billion, according to the Vietnam Textile and Apparel Association (VITAS). The COVID-19 pandemic severely disrupted Vietnam's textile and garment industry, causing disruptions in production, exports, and logistics management. The first disruption occurred in production during the first quarter (Q1) of 2020 when China went into lockdown, causing shortages of materials (fabrics and accessories). The second (and more serious) disruption in exports, started in Q2 2020 when COVID-19 spread to Vietnam's export destinations, including the United States and the EU. 60 percent of materials used in Vietnam's textile and garment production come from China with nearly the same amount of Vietnamese garment products destined for the United States and EU. As a result, these back-to-back disruptions badly affected Vietnam's textile and garment industry, resulting in the historic decline (see Figure 1).

Figure 1: Growth of Vietnam's Exports of Textile and Garment Products



Source: Vietnam Customs

Furthermore, the ongoing worldwide container shortage crisis, resulting from COVID-19's negative effects on global trade, is the most recent disruption that Vietnam's textile and garment industry is facing. As mentioned above, Vietnam's textile and garment industry relies heavily on imports of raw materials, as well as exports of yarns and garment products. Trade flows are facing new challenges caused by the pandemic on global shipping, such as 1) lack of available containers to ship products to

key export markets, 2) sharp increases in ocean freight (defined as cost paid for the transportation of goods) and, 3) delays in shipments of raw materials and products for manufacturing and local consumption.

As China and Vietnam are among the few countries in Asia that have effectively controlled the pandemic, companies in these countries have resumed production and exports quicker than the rest of the world. However, many containers that have sailed from Asia to the United States and EU have faced delays in their return. Reduced U.S. and EU workforces have resulted in disruptions in production, inland transports, and the loading and unloading of containers at cargo depots and seaports. As a result, containers have piled up at seaports across the United States and EU and the loading/unloading and on/off boarding at these facilities is requiring additional weeks.

Although this backlog has slowed the turnaround of containers, demand in China and Vietnam remains robust. The resulting imbalance between the supply and demand for containers has pushed freight up, particularly for shipments from Asia to the United States and EU. Media reports that impatient carriers are rushing containers (sometimes empty) back to Asia for their next sailings. This movement has accelerated the lack of containers and higher freight costs. Delays are also occurring in shipments for a variety of U.S. products to Asia, including Vietnam. Contacts in the textile and garment industry confirmed increased delays in shipments of cotton from the United States to Vietnam and surging ocean freight since the third quarter of 2020, from \$2,000 per 40-foot container in October 2020 to a record high at \$10,000 per 40-foot container by early February 2021. The container shortage combined with higher freight has increased production costs, slowed down exports, caused large stocks in storage in warehouses, and affected cash flows.

Global demand for garment products remains uncertain due to the extended pandemic. Vietnam's textile and garment producers continue to closely watch developments in China, EU, and the United States to adapt their business plans to changing conditions. VITAS initially set an export goal of \$39 billion for CY21, noting that this target could only be obtained when 1) the United States and EU are able to control the COVID-19, 2) China continues to favor Vietnamese cotton yarn, and 3) local enterprises are able to capture opportunities offered by recent free trade agreements, such as EU - Vietnam FTA, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Regional Comprehensive Economic Partnership (RCEP).

Yarn

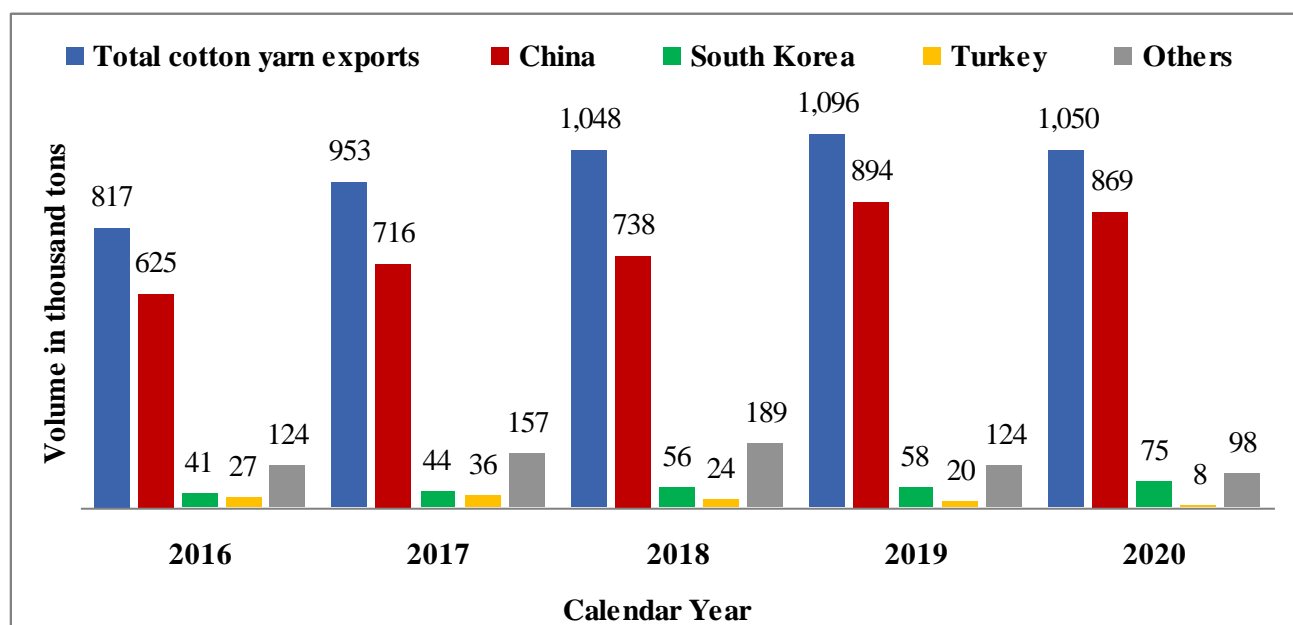
Vietnam's success in containing the pandemic has allowed spinning mills to maintain operations. However, the pandemic has slowed down this sector's growth. Due to market uncertainty, many spinning mills delayed their investment plans and there was no record of any new spinning mills being established in 2020. As a result, Post estimates that Vietnam's 2020 yarn spinning capacity remained unchanged in comparison with the previous year (see Table 1).

Table 1: Vietnam Textile/Spinning Industry Overview

	Unit	2015	2016	2017	2018	2019	2020
Total number of spindles	Thousand	6,300	7,000	7,500	7,800	8,250	8,250
Total number of rotors	Thousand	103	103	93	97	138	138
Total yarn production	Thousand MT	990	1,550	2,050	2,250	2,500	2,500
Yarn exports	Thousand MT	962	1,167	1,349	1,479	1,715	1,738
Yarn imports	Thousand MT	792	861	876	1,035	1,105	1,047
Fabric production	Billion m ²	1.7	2.0	2.3	2.3	n/a	n/a
Fabric imports	Billion USD	10.2	10.2	10.7	12.8	12.8	11.9

Source: Vietnam Customs, Trade Association and Post's estimate

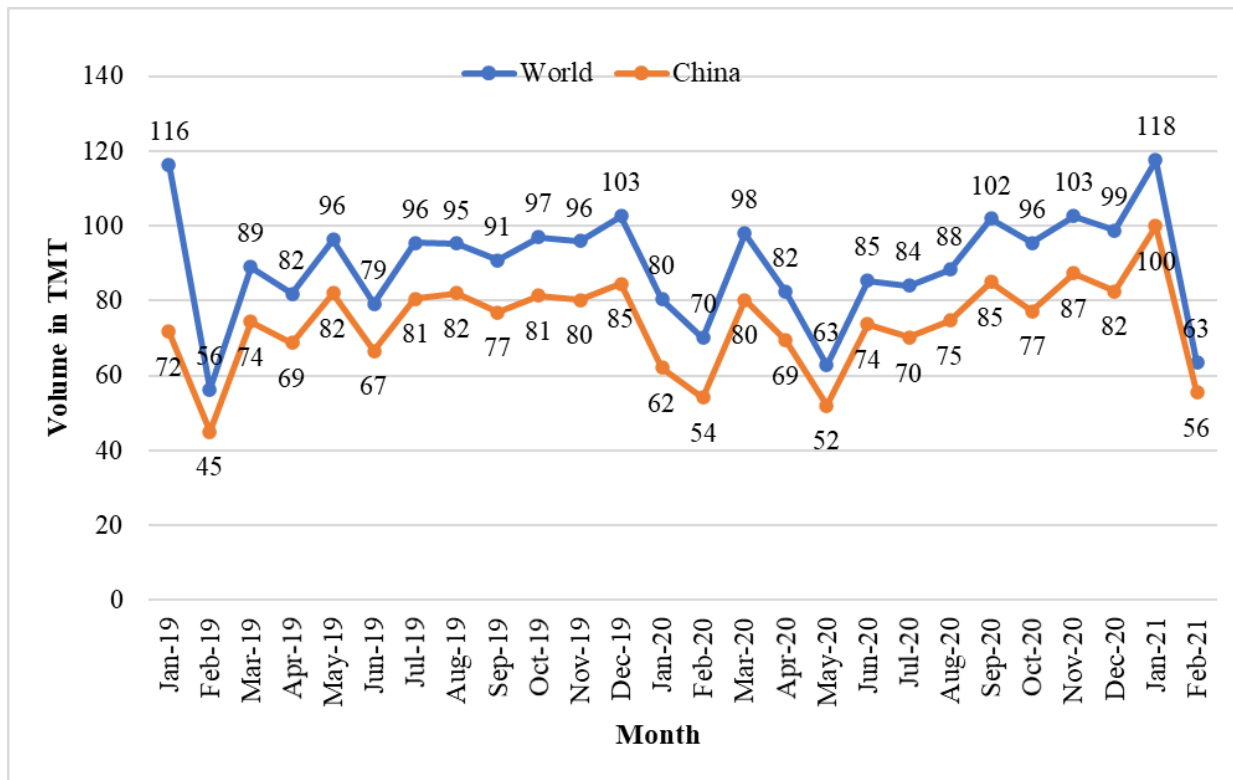
According to Vietnam Customs' preliminary data, Vietnam's global exports of yarn of all types in CY2020 reached 1.74 MMT, slightly up 1.2 percent year on year. Cotton yarn under harmonized system (HS) codes 5205 and 5206 continues to be key export items, making up 60 percent of Vietnam's total yarn exports. Vietnam's cotton yarn exports in CY2020 dropped 4 percent year on year to 1.05 MMT (see Figure 2). Export values decreased 11 percent to roughly \$2.5 billion, due to falling prices.

Figure 2: Vietnam's Cotton Yarn Exports

Source: Trade Data Monitor (TDM)

China and South Korea remain the largest importers of Vietnam's cotton yarn; with total imports in CY2020 recorded at 944 TMT, accounting for 90 percent of Vietnam's total cotton yarn exports. Notably, Vietnam cotton yarn exports to China have steadily rebound since June 2020, giving hopes of a good start for Vietnamese spinning mills in 2021 (Figure 3).

Figure 3: Vietnam's Cotton Yarn Monthly Exports to Global Market and China



Source: TDM

Vietnam also imports yarn for its weaving and knitting industry, most of which is synthetic yarn. All-type yarn imported to Vietnam in CY2020 dropped to 1,047 TMT, down 4 percent over CY2019. Vietnam's imports of cotton yarn are insignificant compared to total yarn imports, reflecting a strong capability of the country to supply cotton yarn for both local consumption and exports (see Table 2).

Table 2: Vietnam's Yarn Imports from Worldwide Markets (TMT)

Reporting Country	Calendar Year						Market share in CY 2020
	2016	2017	2018	2019	2020	% change 2020/2019	
Total yarns imported	861	876	1,035	1,090	1,047	-4%	
China	359	383	508	600	581	-3%	55%
Taiwan	195	173	179	170	147	-14%	14%
Thailand	79	78	80	72	74	3%	7%
South Korea	78	82	85	76	70	-8%	7%
Indonesia	60	61	60	61	57	-7%	5%
Others	91	99	123	111	118	6%	11%
Cotton yarns imported (HS: 5205, 5206)	63	77	110	107	100	-7%	
% cotton yarns/ total yarns imported	7%	9%	11%	10%	10%		

Source: Post's processing on TDM and Vietnam Customs data

PRODUCTION

Vietnam remains a net importer of cotton. 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](#).

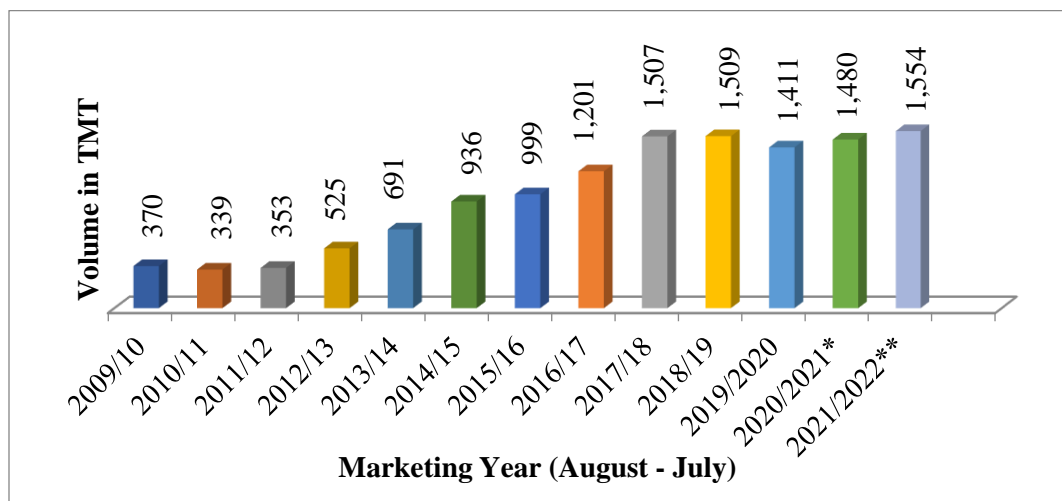
TRADE

According to Vietnam Customs, Vietnamese cotton imports from August 2020 to February 2021, or the first seven months of marketing year 2020/2021 (MY20/21 - August to July), increased 6 percent to 790 TMT over the same period last MY. Trade between China and Vietnam quickly resumed following the disruption caused by COVID-19 from January to May 2020. Exports of cotton yarn from Vietnam to China have resumed and increased since June 2020.

In contrast to the positive signs in the China market for cotton yarn exports, Vietnamese spinners have expressed their concerns on the volatility in cotton prices. From a record low of about 60 cents per pound in April 2020, the Cotlook's A index then climbed up to 99 cents per pound on February 25, 2021 before falling again. Such volatility has made local spinners hesitant to sign long-term contracts with both U.S. cotton suppliers and Chinese buyers of cotton yarn. To minimize risks during these price fluctuations, Vietnamese spinners have preferred short-term contracts (up to three months).

With rising demand for cotton yarn in China and South Korea, Post revises its estimate for Vietnam's cotton imports in MY20/21 up 5 percent to approximately 6.8 million bales or 1.48 MMT. Post also makes a preliminary forecast for a recovery in Vietnam's cotton imports in MY21/22 that will increase 5 percent year-on-year, to 7.1 million bales or about 1.55 MMT (see Figure 4). This forecasted recovery is subject to change based on COVID-19 developments and trade tensions between the United States and China.

Figure 4: Vietnam's Cotton Imports by Marketing Year (TMT)



Source: Post's processing on Vietnam Customs data, * Post's estimate and **Post's forecast

Vietnam's Top Cotton Suppliers

Vietnam's top five cotton suppliers are the United States, Brazil, India, Australia, and Cote d'Ivoire, supplying over 90 percent of cotton for the country's production.

The United States continues to be Vietnam's largest supplier of cotton. U.S. cotton exports to Vietnam were robust in MY19/20. While Vietnam's cotton imports fell to 1.41 MMT in MY19/20, a 7 percent decline year-on-year, U.S. cotton exports to Vietnam reached 838 TMT, up 0.5 percent over MY18/19. With this success, the U.S. cotton market share expanded from 55 percent in MY18/19 to 59 percent in MY19/20.

However, U.S. cotton exports to Vietnam in the first half of MY20/21 dropped by 24 percent over the same period last year, to 1.2 million bales or 260 thousand metric tons (TMT) as Vietnamese spinners are encountering difficulties in buying U.S. cotton due to major purchases by China. According to TDM trade data, U.S. cotton exports to China in this period went up 386 percent to roughly 777 TMT. With an assumption that U.S. cotton exports to Vietnam in the second half of MY 20/21 could reach the same volume as the same period of MY19/20, total U.S. cotton exports to Vietnam in MY20/21 would drop to 753 TMT, a 10 percent decline year-on-year.

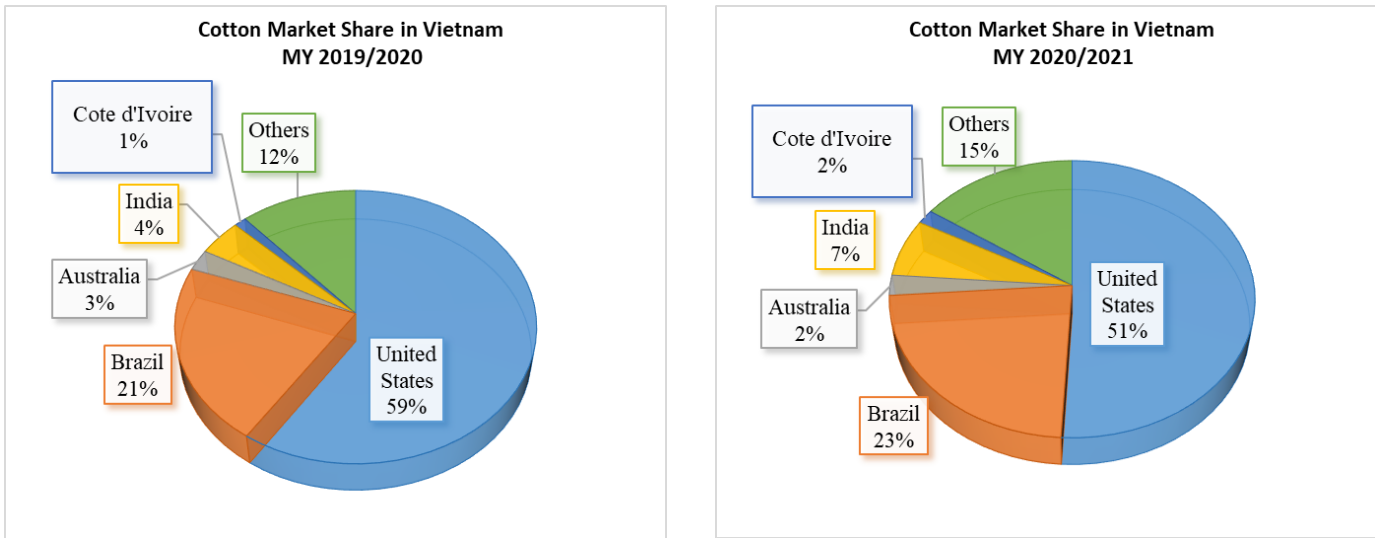
Brazil's cotton exports to Vietnam amounted to 298 TMT in MY19/20, a 68 percent increase year-on-year, according to TDM. Abundant supply, competitive prices, and improving quality helped Brazil increase its market share, from 12 percent in MY18/19 to 21 percent in MY19/20. Based on these developments and the calculation used for U.S. cotton as mentioned above, Brazil's cotton exports to Vietnam could climb up to 342 TMT, up 14 percent over MY19/20, and with more market share (see Table 3 and Figure 5)

Table 3: Vietnam Cotton Imports by Marketing Year (TMT)

Reporting country	Marketing Year (August - July)			% Change 2020/2021 vs 2019/2020	Market share		
	2018/2019	2019/2020	2020/2021		2018/2019	2019/2020	2020/2021
United States	829	838	753	-10%	55%	59%	51%
Brazil	176	298	342	14%	12%	21%	23%
Australia	102	35	33	0%	7%	2%	2%
India	100	61	102	64%	7%	4%	7%
Cote d'Ivoire	25	17	21	47%	2%	1%	2%
Others	277	162	229	40%	18%	11%	15%
Total	1,509	1,411	1,480	5%			

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

CONSUMPTION

Post previously forecasted that Vietnam's cotton consumption would drop sharply in the second half of MY19/20 and continue to decline in MY20/21 due to negative effects of COVID-19. However, Vietnam's cotton consumption, reflected by cotton imports and cotton yarn exports, has remained strong, mainly due to Vietnam and China's success in controlling COVID-19.

As most of Vietnam's cotton yarn goes to China, any changes in Chinese demand and policies regarding cotton and cotton yarn can have a serious impact on Vietnam's cotton consumption. Vietnam's cotton yarn exports to China in MY19/20 increased 7 percent to 867 TMT, equivalent to 83 percent of Vietnam's total cotton yarn exports. With China's higher imports of Vietnam's cotton yarn in the first half of MY20/21, Post estimates that Vietnam's cotton yarn exports to China in MY20/21 could increase 10 percent over MY19/20 and continue to grow in MY21/22 due to the ongoing global market recovery and possible effects of international sanctions on Xinjiang cotton. The increase in cotton yarn exports will result in higher demand for cotton. Post therefore revises its estimate for Vietnam's cotton consumption in MY20/21 at approximately 6.8 million bales or 1.48 MMT, up 5 percent over the previous estimate, and forecasts another increase of 5 percent increase for MY21/22 (see Figure 6).

Figure 6: Vietnam’s Cotton imports vs. Cotton Yarn Exports to China



Source: Trade Data Monitor; Vietnam Customs and * Post’s estimate

PRICES

Vietnam’s average cotton import prices dropped steadily in MY19/20, from \$1.77/kilogram (kg) in August 2019 to a record low of \$1.43/kg in August 2020, then gradually increased to \$1.66 in February 2021 (See Figure 7). Industry experts noted that unstable cotton prices often contain potential risks that deter local spinners from making long-term business plans.

Figure 7: Cotton Average Import Price (USD/kg)



Source: Vietnam Customs

STOCKS

Local spinners continue to minimize stocks due to unstable cotton prices. Post estimates that the stocks-to-use ratio in MY20/21 remains at 17 percent.

MARKETING/ POLICY

Tariffs on cotton

Cotton fiber (HS codes 5201, 5203) has a zero tariff, and a 5 percent value added tax.

Tariff on cotton yarn

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

Table 4: Production, Supply, and Demand Data Statistics

Cotton	2019/2020		2020/2021		2021/2022		
Market Begin Year	Aug 2019		Aug 2020		Aug 2021		
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	1,228	1,228	1,411	1,100	-	1,200	1000 480 lb. Bales
Production	3	-	3	-	-	-	1000 480 lb. Bales
Imports	6,480	6,472	6,800	6,800	-	7,100	1000 480 lb. Bales
MY Imports from U.S.	-	3,844	-	3,454	-	3,626	1000 480 lb. Bales
Total Supply	7,711	7,700	8,214	7,900	-	8,300	1000 480 lb. Bales
Exports	-	-	-	-	-	-	1000 480 lb. Bales
Use	6,300	6,600	6,800	6,700	-	7,000	1000 480 lb. Bales
Loss	-	-	-	-	-	-	1000 480 lb. Bales
Total Dom. Cons.	6,300	6,600	6,800	6,700	-	7,000	1000 480 lb. Bales
Ending Stocks	1,411	1,100	1,414	1,200	-	1,300	1000 480 lb. Bales
Total Distribution	7,711	7,700	8,214	7,900	-	8,300	1000 480 lb. Bales
Stock to Use %	22	17	21	18	-	19	(PERCENT)
Yield	653	-	653	-	-	-	(KG/HA)

Attachments:

No Attachments