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Report Highlights:

Post estimates Vietnam's cotton imports for marketing year (MY) 2018/2019 down to 1.51 million metric tons (MMT), or 6.9 million bales, due to lower demand for cotton yarns from major importers, including Turkey, South Korea, and Hong Kong. For MY19/20, FAS/Vietnam revises its primary forecast of 7.6 million bales down to 7.2 million bales due to global economic uncertainties, including trade tensions between the United States and China. U.S. cotton continues to be the leader in Vietnam's cotton import market, accounting for nearly 55 percent of all imports in MY18/19, with this market share continuing in MY19/20.

SITUATION AND OUTLOOK

Textile Industry

Vietnam's textile and garment sector continues to steadily grow and remains one of the county's top export industries, significantly contributing to the country's Gross Domestic Product (GDP) growth. The Vietnam Textile and Garment Association estimates that export revenue in calendar year (CY) 2018 will reach $36 billion, up around 16 percent over the previous year. Vietnam's textile industry has set an ambitious goal of reaching $40 billion in export revenues for CY19, a year-on-year increase of 11 percent.

Ongoing trade tensions between the United States and China would give Vietnam an opportunity to increase apparel exports to the United States. In anticipation of potential punitive tariffs, there have been movements of orders and production facilities from China to Southeast Asia, including Vietnam. The United States is the largest importer of Vietnamese apparel products, accounting for over 35 percent of Vietnam's total exports on average. Garment exports from Vietnam to the United States reached nearly $14 billion in CY18, up 12 percent over 2017, and have continued to grow in the first two months of 2019, up 10 percent over the same period last year.

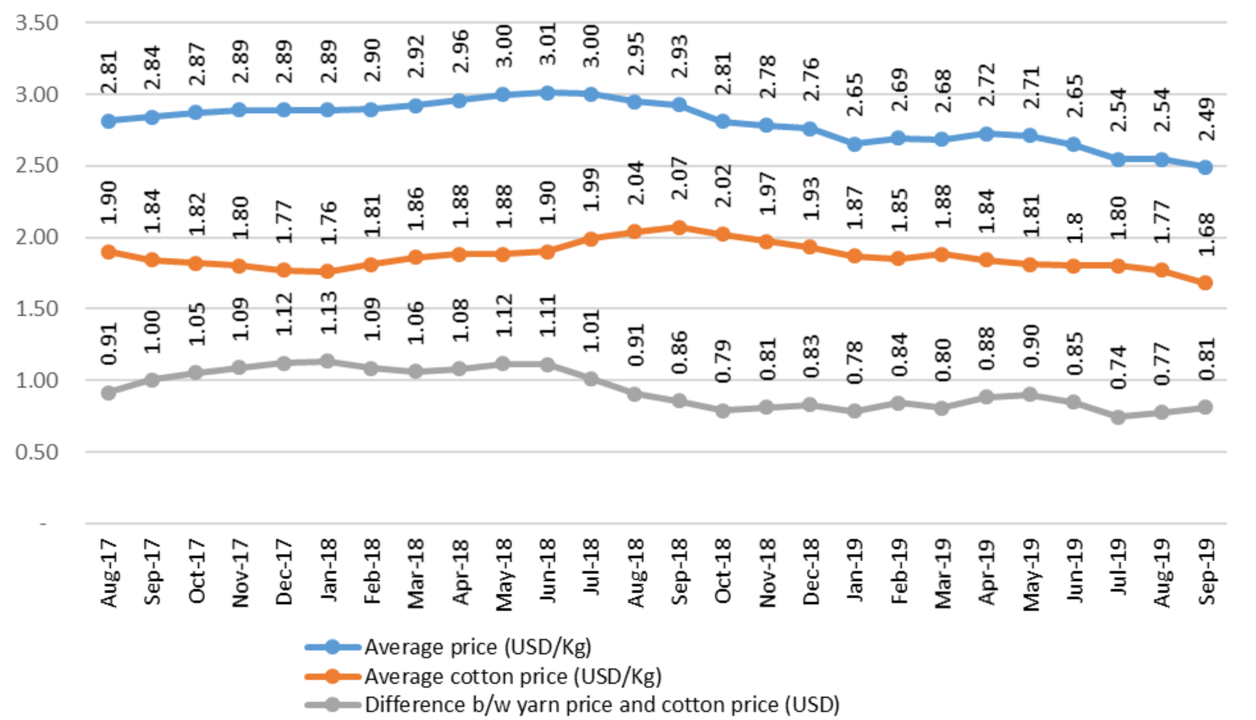
The recent Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which went into effect on January 14, 2019, is expected to boost Vietnam's exports of textile and apparel products, if the industry can meet the "yarn forward" rules of origin. These strict requirements are a real challenge for Vietnam as the country is still heavily dependent on materials sourced from non-CPTPP member countries, most significantly China. However, the CPTPP has the potential to help Vietnam attract more foreign direct investment (FDI) in this sector.

The EU-Vietnam Free Trade Agreement (EVFTA), which was signed in June 2019 and is expected to be ratified in late 2019, is another great opportunity for Vietnam to increase its exports of textile and apparel products. The EU is one of the largest importers of Vietnamese garments, accounting for 15 percent of Vietnam's total exports. Last year, Vietnam's exports of textiles and garments to the EU increased 10.5 percent (Vietnam's General Statistic Office). After entering into force, EVFTA will remove the tariffs of up to 12 percent that are currently imposed on textiles and garments made in Vietnam.

However, Vietnam's textile and apparel industry could encounter several other challenges due to these FTAs, including strict requirements for rules of origin and increasing production costs.

Meanwhile, local spinners continue to encounter difficulties due to fluctuations in cotton and yarn prices and lower demand due in part to ongoing global trade tensions. Cotton prices steadily increased for most of 2018, reaching a peak during the July to October 2018 period. However, prices subsequently dropped, hitting a record low in September 2019. At the same time, export yarn prices to China have steadily decreased. Vietnamese spinning mills usually have small margins and can suffer losses when the difference between cotton and cotton yarn prices drops below $1 per kilogram (kg). (see Figure 1)

Figure 1: Vietnam's Cotton Yarn Exports to China



Source: Post's processing on Vietnam Customs and Trade Data Monitor

Although Vietnam's cotton yarn exports to China increased 3 percent in CY18 and 19 percent during the first 8 months of CY2019, most of this increase was largely in Chinese and Taiwanese-invested spinning mills.

Although the number of Chinese and Taiwanese spinning mills is not significant, their spindle equivalence, which reflects their production capacity, accounts for nearly half of Vietnam's total yarn production (see Table 2). Since these FDI spinning mills provide cotton yarns for their parent companies in China, they are less susceptible to yarn price fluctuations.

Local spinners are closely watching ongoing global trade tensions and have been struggling with additional constraints caused by recent price increases in minimum salaries[1] and electricity[2] since early 2019. These price increases have had a severe effect on the spinning industry and could jeopardize the competitiveness of Vietnamese cotton yarns.

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[1] Decree 157/2018/ND-CP issued by Vietnam Government on Nov 16, 2018 and took effect on Jan 01, 2019, increasing the minimum salary by 5 percent.

[2] Decision 648/2018/QD-BCT by Vietnam's Ministry of Industry and Trade. Accordingly, power retail prices have increased 8.36 percent since March 2019. However, Electricity of Vietnam (EVN) has applied a complex calculation method, which results in a much higher hike. Local spinners revealed that their electricity bill in April went up 20 percent over March.

Table 1: Vietnam Textile/Spinning Industry Overview

	Unit	2013	2014	2015	2016	2017	2018
Total number of spindles	Thousand	6,000	6,100	6,300	7,000	7,500	7,800
Total number of rotors	Thousand	103	103	103	103	93	97
Total yarn production	Thousand MT	720	930	990	1,550	2,050	2,250
Yarn exports	Thousand MT	720	858	962	1,167	1,349	1,479
Yarn imports	Thousand MT	695	740	792	861	876	1,035
Fabric production	Billion m^2	1.3	1.5	1.7	2	2.3	n/a
Fabric imports	Billion USD	8.3	9.4	10.2	10.2	10.7	12.8

Source: CCI, Vietnam Customs and Post's estimate

Table 2: Structure of Vietnam Spinning Industry in 2018

No.	Country	No. of Mills	Spindles Equivalence	Percentage
1	China	9	2,880,000	32%
2	Taiwan	6	1,280,000	14%
3	Korea	10	520,000	6%
4	Others	3	270,000	3%
5	Vietnam	70	4,000,000	45%
	Total	**98**	**8,950,000**	

Source: CCI and Post's estimates

Vietnam's yarn exports are expected to increase in CY19. Yarn exports in the first 10 months amounted to 1.40 MMT, up 14.8 percent over the same period last year. However, export values did not correspond with this increase in sales and rose only 3.6 percent. The discrepancy between quantity vs export value reflects the situation that local yarn producers have been under pressure from falling prices.

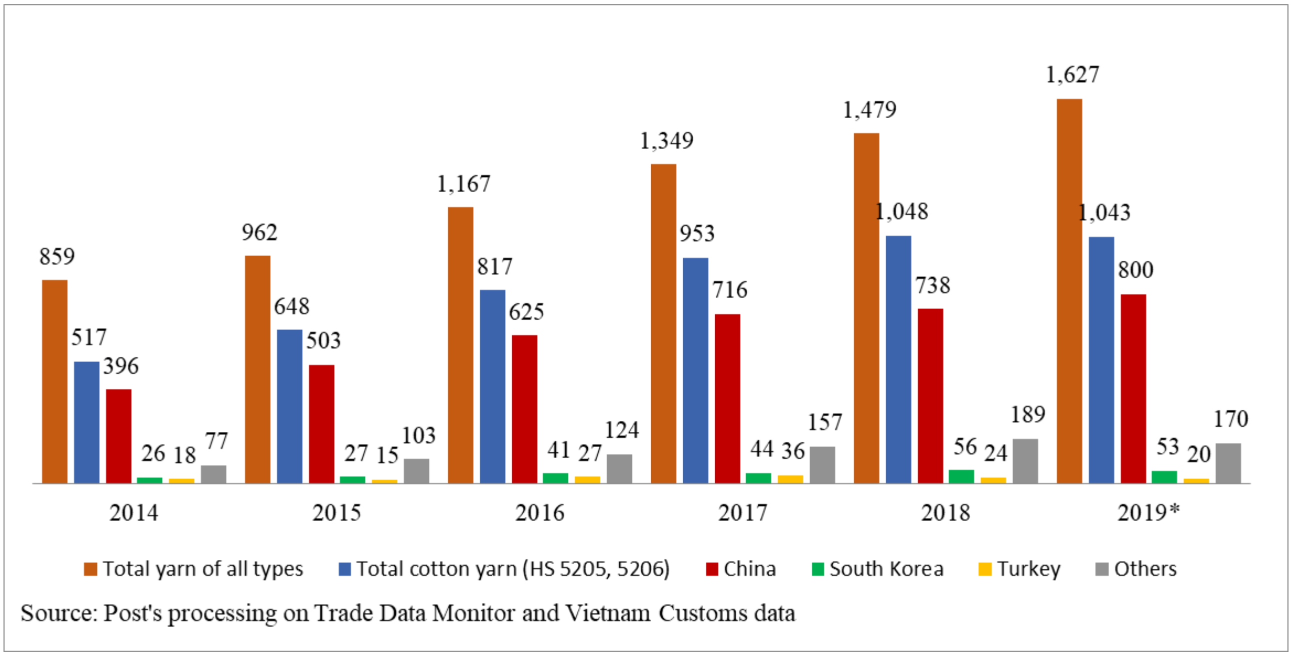
China, South Korea, and Turkey remain the largest importers, buying over 80 percent of Vietnam's total cotton yarn exports. The decline in exports to Turkey and South Korea was offset by higher exports to China (see Table 3 and Figure 2).

Table 3: Vietnam Yarn Exports to Global Markets (TMT)

Importing countries	Calendar year						Change b/w 2019/2018	Market share in 2019*
	2014	2015	2016	2017	2018	2019*		
Total cotton yarn (HS 5205, 5206)	**517**	**648**	**817**	**953**	**1,048**	**1,043**	**10%**	
China	396	503	625	716	738	800	8%	77%
South Korea	26	27	41	44	56	53	-5%	5%
Turkey	18	15	27	36	24	20	-17%	2%
Others	77	103	124	157	189	170	-10%	16%
Total yarn of all types	**859**	**962**	**1,167**	**1,349**	**1,479**	**1,627**	**10%**	
% cotton yarn/ total yarn	60%	67%	70%	71%	71%	64%		

Source: Post's processing on Trade Date Monitor and Vietnam Customs data; *Post estimates

Figure 2: World Imports of Yarn from Vietnam (thousand tons)



Vietnam also imports yarn for its weaving and knitting industry, most of which are synthetic yarns. 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 Imports of Yarns from Worldwide Markets (TMT)

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Reporting Country	Calendar Year						Market share in CY 2018
	2015	2016	2017	2018	2019	% change 2018/2018	
Total yarns imported	**792**	**861**	**876**	**1,035**	**1,090**	**5%**	
China	301	359	383	508	600	**18%**	49%
Taiwan	193	195	173	179	170	**-5%**	17%
Thailand	83	79	78	80	72	**-10%**	8%
South Korea	80	78	82	85	76	**-11%**	8%
Indonesia	53	60	61	60	61	**2%**	6%
Others	83	91	99	123	111	**-10%**	12%
Cotton yarns imported (HS: 5205, 5206)	**76**	**63**	**77**	**110**	**110**	**0%**	
% cotton yarns/ total yarns imported	**10%**	**7%**	**9%**	**11%**	**10%**		

Source: Global Trade Atlas, Customs Vietnam

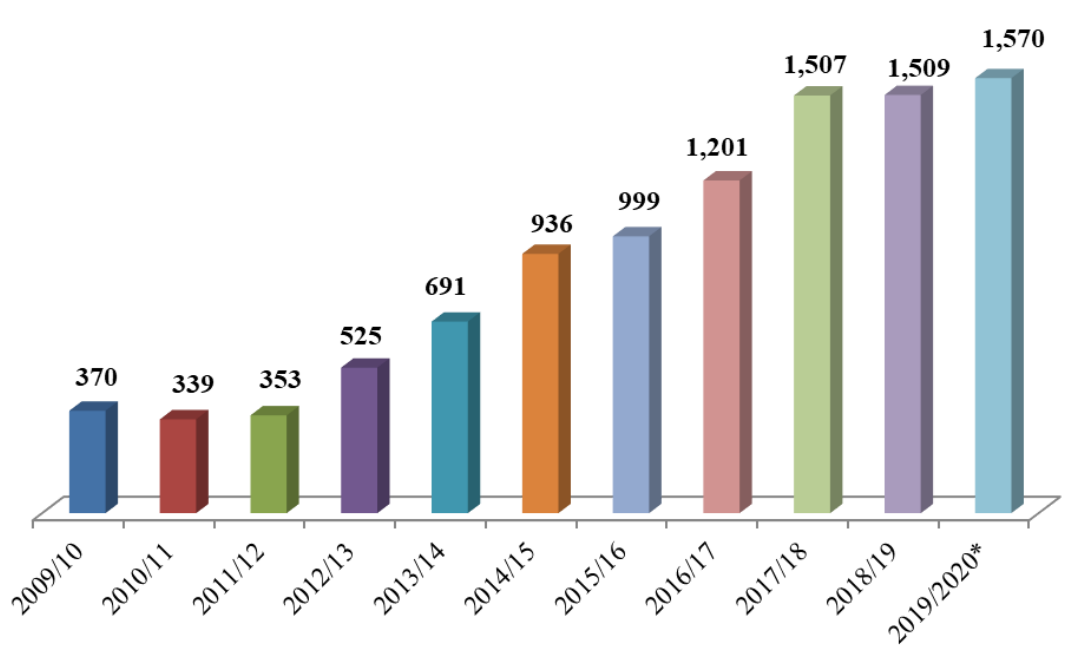
PRODUCTION

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

According to Vietnam Customs, Vietnamese cotton imports in MY18/19 reached 1.51 MMT, or 6.9 million bales, the same as MY17/18. For MY19/20, Post revises its preliminary forecasts from 7.6 million bales down to 7.2 million bales (or 1.57 MMT) due to market uncertainties, especially the escalating trade tension between the United States and China. Further detail on this downward trend can be found in the Consumption section of this report.

Figure 3: Vietnam Cotton Imports by Marketing Year (million tons)



Source: Post's processing on Vietnam Customs' data; * Post forecast

Vietnam's Top Cotton Suppliers

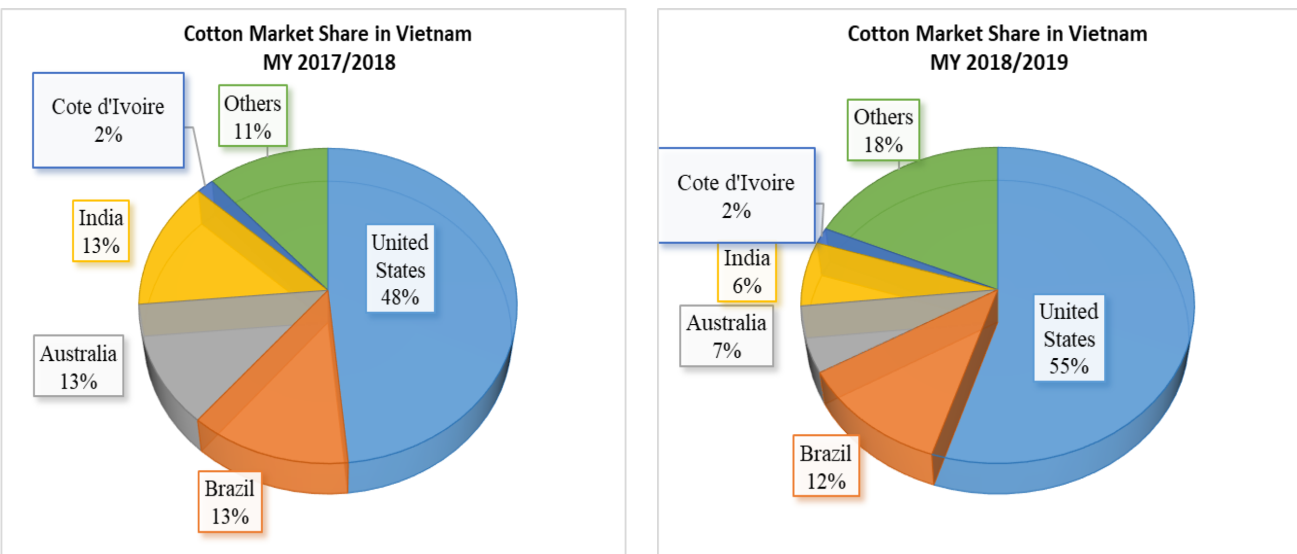
The country's top five cotton suppliers are the United States, India, Brazil, Australia, and Cote d'Ivoire. These countries make up 70 to 80 percent of the total cotton supply to Vietnam.

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

Reporting country	Marketing Year (August - July)			% Change 2018/2019 vs 2017/2018	Market share		
	2016/ 2017	2017/ 2018	2018/ 2019		2016/ 2017	2017/ 2018	2018/ 2019
United States	644	730	829	14%	54%	48%	55%
Brazil	83	190	176	-7%	7%	13%	12%
Australia	106	189	102	-46%	9%	13%	7%
India	134	200	100	-50%	11%	13%	7%
Cote d'Ivoire	18	25	25	0%	2%	2%	2%
Others	215	173	277	60%	18%	11%	18%
Total	**1,200**	**1,507**	**1,509**	**0%**			

Source: Trade Data Monitor & Vietnam Customs

Figure 4: Cotton Market Share in Vietnam



Source: Trade Data Monitor and Vietnam Customs

The United States has topped the list of cotton suppliers to Vietnam for nearly a decade. U.S. cotton exports to Vietnam in MY18/19 reached 829,000 MT, up 14 percent over MY17/18, and three percent higher than the previous Post estimate. Post forecasts U.S. cotton exports to Vietnam to continue to grow by 5 percent in MY19/20, reaching 870,000MT. As in previous years, the U.S. cotton success story in Vietnam stems from various factors, including:

- The increase in Vietnam's cotton imports to meet the growing demand for cotton yarn from both the domestic and export market.

- U.S. cotton's strong reputation as contamination free and easily traceable.
- Major spinners in Vietnam representing Chinese, Taiwanese, and Korean investments continue to favor U.S. cotton for its stability, quality, availability, price competitiveness. As a result, they are replacing Chinese-produced cotton with U.S. cotton yarn.

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 has 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					

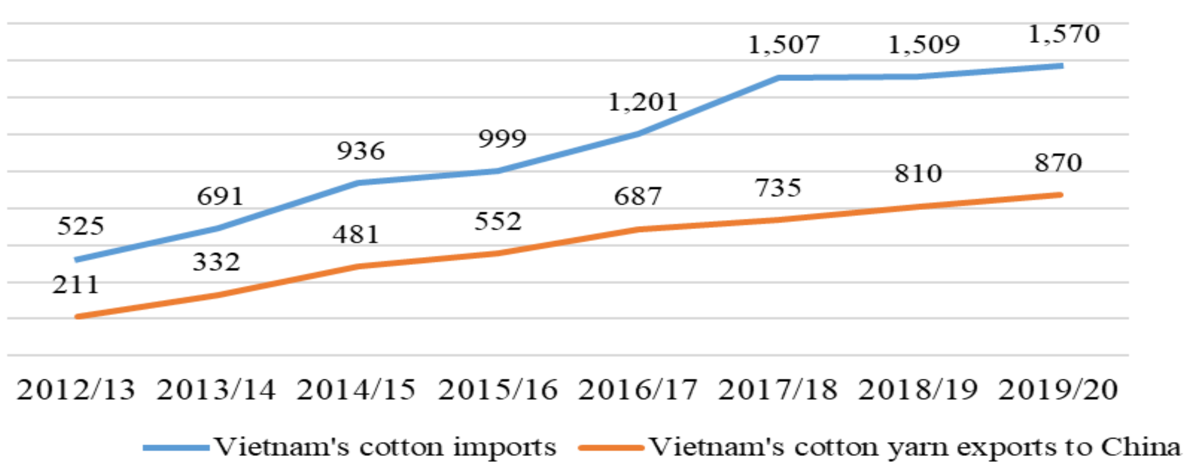
CONSUMPTION

As noted above, Vietnam's cotton consumption continues to increase to meet the growing demand for cotton yarn from export markets, most significantly China, South Korea, and Turkey. FAS/Vietnam estimates that 80 percent of imported cotton was spun into cotton yarn (HS codes 5205, 5206) for export, while the rest was made into yarns of various types for domestic consumption. There are no records of cotton re-exports.

Vietnam's cotton consumption heavily depends on China's demand for cotton yarn; domestic consumption of cotton yarn is less robust. Vietnam's exports of cotton yarn to China in CY19 is estimated at 800 TMT, accounting for 80 percent of the total cotton yarn export volume. As such, any changes in China's policies regarding cotton and cotton yarn will cause immediate impacts on Vietnam's cotton yarn production and exports. The escalating trade tensions between the United States and China, Vietnam's largest cotton supplier vs Vietnam's largest cotton yarn buyer, has had a serious effect on the Vietnamese spinning industry, especially native spinners.

Vietnam's cotton consumption in MY18/19 is estimated at 6.9 million bales, or approximately 1.51 MMT. For MY19/20, Post forecasts the consumption will increase slightly to 7.2 million bales or 1.57 MMT.

Figure 5: Vietnam's cotton imports vs. cotton yarns exports to China (MY, value in TMT)

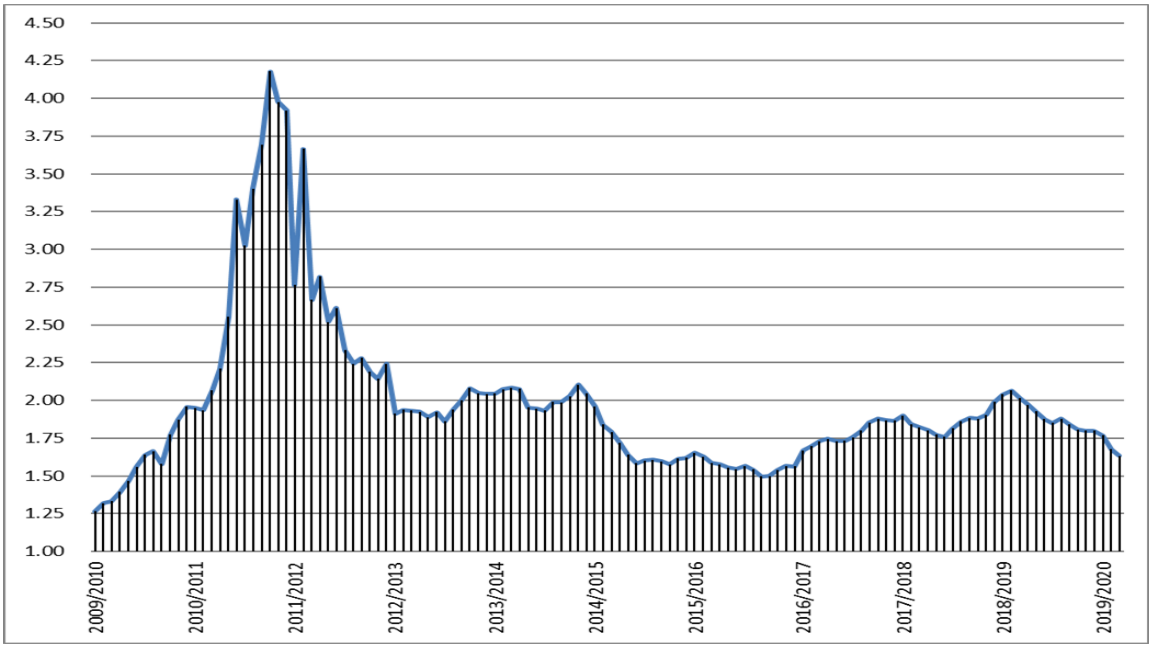


Source: Trade Data Monitor and Vietnam Customs

PRICES

Average cotton import prices jumped from $1.90 per kg in June 2018 to their peak at $2.07 per kg in September 2018. Since then, they have decreased to $1.68 per kg in September 2019.

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



Source: Vietnam Customs

STOCKS

As global supply of cotton is estimated to be larger than in previous years, local importers can easily and competitively source cotton and do not need to keep large stocks. Spinners have reduced stocks for production from 60 days to 45 or even 30 days. Post estimates the stocks-to-use ratio in MY18/19 at almost 17 percent and forecasts it will decrease slightly in MY19/20.

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 VM8051.

PRODUCTION, SUPPLY AND DEMAND DATA STATISTICS:

Cotton	2017/2018		2018/2019		2019/2020	
Market Begin Year	Aug 2017		Aug 2018		Aug 2019	
Vietnam	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	-	-	-	-	-	-
Area Harvested	1	-	1	-	1	-
Beginning Stocks	882	882	1,285	1,197	1,188	1,120
Production	3	-	3	-	3	-
Imports	7,000	6,915	6,900	6,923	7,500	7,200
MY Imports from U.S.	-	3,348	-	3,808	-	3,990
Total Supply	7,885	7,797	8,188	8,120	8,691	8,320
Exports	-	-	-	-	-	-
Use	6,600	6,600	7,000	7,000	7,400	7,200
Loss	-	-	-	-	-	-
Total Dom. Cons.	6,600	6,600	7,000	7,000	7,400	7,200
Ending Stocks	1,285	1,197	1,188	1,120	1,291	1,120
Total Distribution	7,885	7,797	8,188	8,120	8,691	8,320
Stock to Use %	19.47	18.14	16.97	16	17.45	15.56
(1000HA), 1000 480 lb. bales, (PERCENT), (kg/ha)						

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

Note for unit measures:

- Planted area/Harvest area: 1,000 ha
- Yield: kg/ha
- Beginning stocks/Production/Imports/ MY imports from U.S/ Total Supply/Exports/Use/Total Domestic Consumption/Ending Stocks/Total distribution: 1,000 bales (480-lb bale equivalent to 218-kg bale)

Attachments:

No Attachments