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**Vietnam**

**Cotton**

**November Cotton Update**

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**Report Highlights:**

**Vietnam is a small but growing market for cotton. Production, although limited to less than 10 percent of consumption, is rising slowly due to government policy.**

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Includes PSD changes: Yes  
Includes Trade Matrix: No  
Unscheduled Report  
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## Executive Summary

Vietnam is pursuing a limited policy of expanding area planted to cotton. Efforts thus far have had mixed results, with total production of only about 5,000 metric tons, or about 10 percent of import requirements.

## Production

### Vietnam presses ahead on program to expand cotton area

Vietnam's state-owned Cotton Corporation (VCC) has set an ambitious goal of doubling area planted to cotton to 30,000 hectares over next few years. This program focuses on expanding area under cultivation in highland Dak Lak province and, to a lesser extent, in low-lying Dong Nai province, the center of cotton production. Cotton is an important element of Vietnam's crop diversification program for mountainous areas such as Dak Lak (see table below).

Yields are variable, but improving. The comparatively recent rise in fiber production is a result of both expanded area and higher yields from better varieties. In fact, Vietnam hopes to convert as much planted land as possible to hybrid varieties, some of which are reportedly imported from California and Iowa. Average yields for 1998/99 are forecast to reach 330 kg/hectare, a three-fold increase from just eight years ago, and comparable to yields in India.

**TABLE: Vietnam Cotton Area, 1994-1998 1/  
1000 Hectares; Calendar Years**

REGION/Province	1994	1995	1996	1997	1998
<b>SOUTH EAST</b>					
Dong Nai	4766	6385	5290	5940	6625
Song Be	400	700	140	305	860
BR Vung Tau	0	0	1700	600	1800
<b>SOUTH CENTRAL</b>					
Ninh Thuan	1468	2350	1820	600	1340
Binh Thuan	0	0	410	1100	2650
<b>CENTRAL HIGHLANDS</b>					
Dak Lak	975	2200	1415	2695	6675
<b>TOTAL</b>	<b>7609</b>	<b>11635</b>	<b>10775</b>	<b>11240</b>	<b>19950</b>

Source: Vietnam Cotton Company, MARD, FAS/Hanoi.

1/ Data are for principal cotton producing areas, about 90 percent of total area.

**Vietnam policy encourages production but not self-sufficiency**

Vietnam has no master plan to become self-sufficient with respect to cotton production. As with other crops such as corn, Vietnam has no comparative advantage in production vis-a-vis the major suppliers. Moreover, the import duty on cotton is zero, a clear indication Vietnam seeks to promote development of the spinning industry and not to protect cotton farmers. However, the government's crop diversification policy encourages production in areas where it is a viable substitute for other crops.

The VCC was recently pulled from the Ministry of Agriculture and Rural Development and placed under the Ministry of Industry, an sign of the extent of official interest in supplying local cotton to mills. Vietnam is able to use low-quality local cotton because the larger share of textile products of this segment is bound for the domestic market, where price is the primary consideration. Spinners note that low-cost West African and CIS (Uzbekistan) cotton meet quality standards for the domestic Vietnam market. Some importers note that U.S. cotton is used primarily for export items. One major U.S. supplier has remarked that in some cases, Vietnamese buyers would benefit from more information on the U.S. grading system and the availability of different quality grades.

## Consumption

Vinatex estimates that current import demand for cotton will likely stabilize at around the 60,000-MT level for the next few years unless Vietnam receives higher quotas from export markets, e.g., the EU. Demand for cotton could also rise if regional neighbors transfer portions of their quotas to Vietnam. Singapore, Indonesia and the Philippines are reportedly negotiating with Vietnam on this matter. Garment exports in 1998 are projected to reach a record \$1.35 billion, and industry insiders are optimistic that 1999 garment exports will set a new record.

### Textile industry needs investment to meet modernization plans and expand demand for cotton

Vietnam officials estimate the textile-garment sector requires about \$5.7 billion for investment in the full range of new technology to reach government production and export targets. Much of the textile industry dates from the 1970s and is in need of modernizing. Steps in the manufacturing chain from raw cotton to finished garment are incomplete. Foreign investment would account for perhaps 70 percent of the total. A major portion is earmarked for the textile industry for the gradual replacement of outmoded spindles (1.2 million) and weaving machines. Investment has already begun; some mills have recently installed new technology Swiss spindles. Vinatex estimates that Vietnam will eventually achieve a product mix of 40 percent cotton, 30 percent cotton/polyester, and 30 percent synthetic cloth.

## Trade

### Cotton imports return to levels of a decade ago as textile production expands

Cotton imports in 1998/99 are projected at reach 59,000 MT, a rise of 60 percent over the previous year as spinners took advantage of low world prices to fill new export contracts. Major suppliers to Vietnam are West Africa and Uzbekistan. U.S. cotton accounts for about 10 percent of total import volume.

## Stocks

Stocks are difficult to estimate. Vinatex assumes stocks fluctuate around a band of 8,000-10,000 MT.

## Marketing

One dimension of demand for cotton fiber is the tendency to import yarns or finished cloth from which garments are made using comparatively cheap Vietnamese labor. This limits demand for raw cotton. Moreover, it does

not bode well for future development of the domestic textile industry. Our position in this market will improve along with increased investment in new technology and a shift from lower to higher quality products for export markets. At present, the market is extremely price sensitive, and cheapest cost cotton meets specifications. Another potential drag on demand is the abundance of cheap polyester fiber available from China. Low income consumers often buy the cheapest cost product, which means polyester or cotton/poly blend.

PSD Table						
Country:	Vietnam					
Commodity:	Cotton					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		03/1996		03/1997		03/1998
Area Planted	28000	15000	31000	15200	33000	20000
Area Harvested	28000	15000	31000	15200	33000	20000
Beginning Stocks	12000	8000	13000	8000	13000	8000
Production	1000	4000	1000	5000	1000	7000
Imports	57000	36000	57000	37000	60000	59000
TOTAL SUPPLY	70000	48000	71000	50000	74000	74000
Exports	0	0	0	0	0	0
USE Dom. Consumption	57000	40000	58000	42000	60000	66000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	57000	40000	58000	42000	60000	66000
Ending Stocks	13000	8000	13000	8000	14000	8000
TOTAL DISTRIBUTION	70000	48000	71000	50000	74000	74000

Table 1:	COTTON SUPPLY AND USE IN VIETNAM									
	AREA	YIELD	PROD.	BEG STOCK	IMPTS	TOTAL SUPPL.	CONS.	EXPTS	END STKS	S/U
	000 Ha	Kgs/Ha	000 Metric Tons							Ratio
1985/86	13.8	107	1	16	52	69	52	3	14	0.26
1986/87	12.9	120	2	14	60	76	57	6	13	0.2
1987/88	13.2	107	1	13	64	78	59	6	13	0.21
1988/89	12.3	113	1	13	57	71	57	5	9	0.15
1989/90	9.3	117	1	9	56	66	57	3	6	0.1
1990/91	7.9	120	1	6	44	51	41	0	10	0.24
1991/92	16.3	173	3	10	18	31	25	0	6	0.23
1992/93	19.2	220	4	6	10	20	18	0	2	0.12
1993/94	11.5	147	2	2	24	28	26	0	2	0.07
1994/95	13.2	220	3	2	36	41	35	0	6	0.17
1995/96	17.5	243	4	6	35	45	37	0	8	0.22
1996/97	15	250	4	8	36	48	40	0	8	0.19
1997/98, est.	15.2	307	5	8	37	50	45	0	5	0.1
1998/99, for.	20	330	7	5	59	71	60	0	11	0.18
1999/00, for.	25	330	8	11	59	78	68	0	10	0.15
2000/01, for.	30	330	10	10	58	78	69	0	9	0.13
2001/02, for.	33	330	11	9	58	78	69	0	9	0.13
2002/03, for.	37	330	12	9	58	79	70	0	9	0.13
2003/04, for.	37	330	12	9	58	79	70	0	9	0.13