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## **Vietnam**

### **Cotton and Products Annual**

#### **Commodity Report 2019**

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**Report Highlights:**

Post estimates Vietnam's cotton imports in marketing year (MY) 2018/2019 down to 1.55 million metric tons (MMT), due to the difficulties facing Vietnam's spinning sector at the end of calendar year 2018, including rising cotton prices and slowing demand for cotton yarns from China. In MY19/20, FAS/Vietnam forecasts Vietnam's cotton imports up to almost 7.6 million bales as the spinning industry continues to enlarge with the expansion of existing mills and new foreign direct investment (FDI) capturing business opportunities created from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam free trade agreement (EVFTA). U.S. cotton continues to dominate the Vietnam market, accounting for about 52 percent in MY18/19.

## **Commodities:**

Cotton

### **SITUATION AND OUTLOOK**

#### **Textile Industry**

Vietnam's textile and garment sector is growing steadily and remains one of the country'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 about 16 percent over the previous year. The industry has set an ambitious goal of reaching \$40 billion in export revenue for CY19, a year-on-year increase of 11 percent.

The ongoing trade tensions between the United States and China have given 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. Garment exports from Vietnam to the United States reached nearly \$14 billion<sup>1</sup> 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 came 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, CPTPP has the potential to help Vietnam attract more foreign direct investment (FDI) in this sector.

Vietnam is currently negotiating the EU-Vietnam Free Trade Agreement (EVFTA), which is expected to be signed in 2019. The EU is one of the largest importers of Vietnam's garments, accounting for 15 percent<sup>2</sup> of Vietnam's total exports. Last year, Vietnam's exports of textiles and garments to the EU increased 10.5 percent.<sup>3</sup> When entering into force, EVFTA will remove the tariffs of up to 12 percent that are currently imposed on textiles and garments made in Vietnam. EVFTA will help Vietnam increase exports of textiles and garments to the EU, and will likely increase FDI.

On the other hand, in CY18, local spinners had a difficult year due to cotton price variations and the trade tensions. Cotton prices have steadily increased since February 2018 and reached their peak during the July to October 2018 period, while, at the same time, yarn prices began to drop. Concerns with high tariffs imposed on China's cotton fabrics exported to the United States will likely result in lower imports of cotton yarns from Vietnam. Though Vietnam's cotton yarn exports to China increased 3 percent in CY18, this was largely due to Chinese and Taiwanese-invested spinning mills, not local ones.

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<sup>1</sup> Vietnam Customs

<sup>2</sup> Vietnam's General Statistic Office

<sup>3</sup> Vietnam's General Statistic Office

The number of Chinese and Taiwanese spinning mills is small, but their spindle equivalence, which reflects their production capacity, accounts for nearly half of the total yarn production (see Table 2). Since these FDI spinning mills provide cotton yarns for their parent companies in China, yarn price fluctuations affect them less.

Local spinners are closely watching the ongoing trade tensions and have been struggling with additional constraints caused by recent price increases in minimum salary<sup>4</sup>, electricity,<sup>5</sup> and gasoline<sup>6</sup> since early 2019. These hikes hit the spinning industry hard and could jeopardize the competitiveness of Vietnam's cotton yarns.

**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 <sup>2</sup>	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%
	<b>Total</b>	<b>98</b>	<b>8,950,000</b>	

Source: CCI and Post's estimates

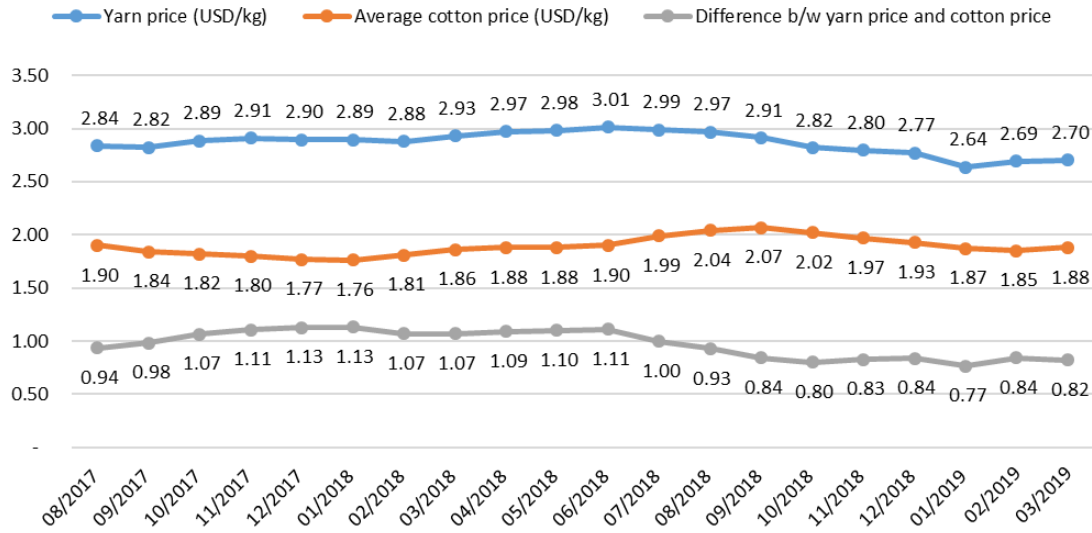
During the period from July 2018 to March 2019, yarn prices to China fell while cotton prices rose (see Figure 1). Local spinning mills usually have small margins and can suffer losses when the difference between cotton and cotton yarn prices drop below \$1 per kilogram (kg).

<sup>4</sup> 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.

<sup>5</sup> Decision 648/2018/QĐ-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.

<sup>6</sup> The price of RON95 gasoline increased 26 percent from VND 17,600 per liter on January 01, 2019 to VND 22,190 per liter on May 02, 2019.

Figure 1: Vietnam's Cotton Yarn Exports to China



Source: Post's processing on Vietnam Customs and Global Trade Atlas data

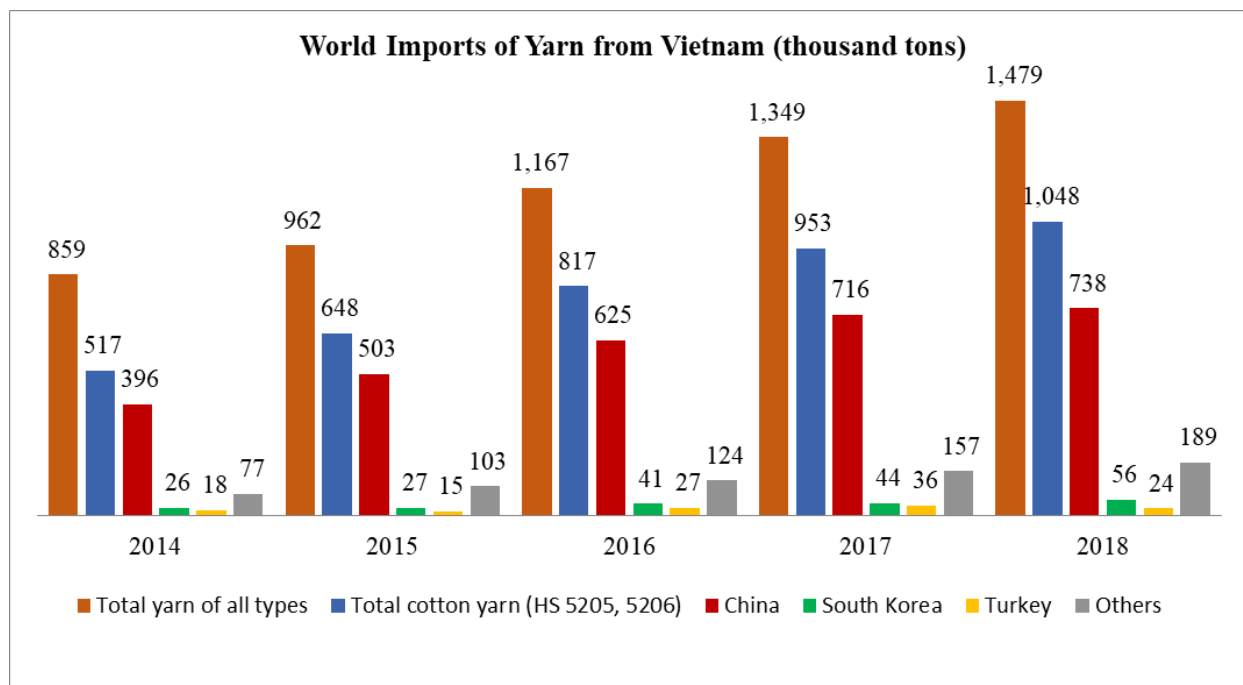
In CY18, Vietnam's total yarn exports reached nearly 1.50 million metric tons (MMT), up about 10 percent over the previous year, of which approximately 1.05 MMT were cotton yarns (HS codes 5205 and 5206). China, South Korea, and Turkey remain the largest importers, buying over 80 percent of Vietnam's total cotton yarn exports. The decline in exports to Turkey was more than offset by higher exports to China and South Korea (see Table 3 and Figure 2).

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

Importing countries	Calendar year					Change b/w 2018/2017	Market share in 2018
	2014	2015	2016	2017	2018		
<b>Total cotton yarn (HS 5205, 5206)</b>	<b>517</b>	<b>648</b>	<b>817</b>	<b>953</b>	<b>1,048</b>	<b>10%</b>	
China	396	503	625	716	738	3%	70%
South Korea	26	27	41	44	56	27%	5%
Turkey	18	15	27	36	24	-33%	2%
Others	77	103	124	157	189	20%	18%
<b>Total yarn of all types</b>	<b>859</b>	<b>962</b>	<b>1,167</b>	<b>1,349</b>	<b>1,479</b>	<b>7%</b>	
% cotton yarn/ total yarn	60%	67%	70%	71%	71%		

Source: Post's processing on Global Trade Atlas and Vietnam Customs data

**Figure 2: World Imports of Yarn from Vietnam**



Source: Global Trade Atlas, Customs Vietnam, Post estimates

Vietnam also imports yarn for its weaving and knitting industry. Most of the imports 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)**

Reporting Country	Calendar Year					% change 2018/2018	Market share in CY 2018
	2014	2015	2016	2017	2018		
<b>Total yarns imported</b>	<b>740</b>	<b>792</b>	<b>861</b>	<b>876</b>	<b>1,035</b>	<b>18%</b>	
China	261	301	359	383	508	33%	49%
Taiwan	209	193	195	173	179	3%	17%
Thailand	80	83	79	78	80	3%	8%
South Korea	77	80	78	82	85	4%	8%
Indonesia	47	53	60	61	60	-2%	6%
Others	67	83	91	99	114	15%	11%
<b>Cotton yarns imported</b>	<b>155</b>	<b>80</b>	<b>65</b>	<b>78</b>	<b>60</b>	<b>-23%</b>	
<b>% cotton yarns/ total yarns imported</b>	<b>21%</b>	<b>10%</b>	<b>8%</b>	<b>9%</b>	<b>6%</b>		

Source: Global Trade Atlas, Customs Vietnam

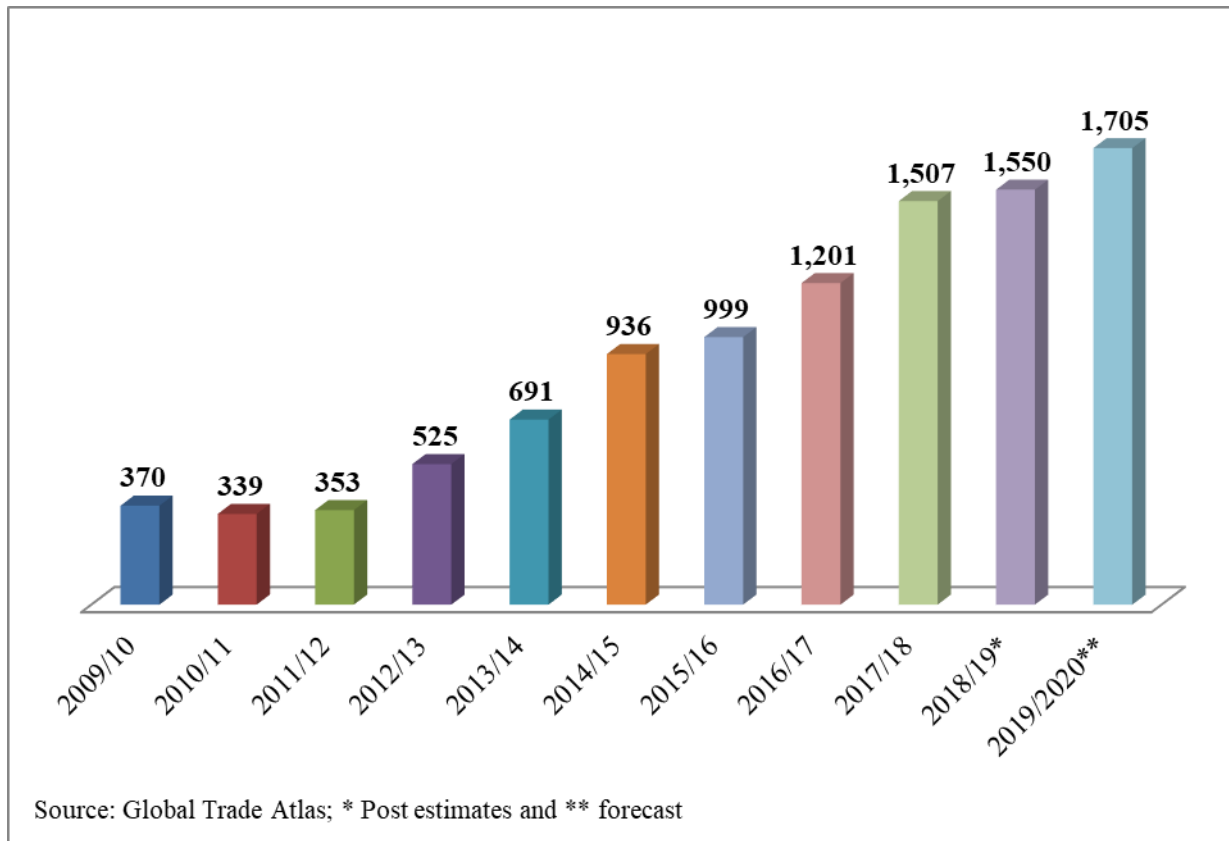
## PRODUCTION

Vietnam's cotton planted area continues to shrink to an insignificant amount. FAS/Vietnam estimates 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

Vietnam's cotton imports in MY17/18 reached 1.50 MMT, or 6.9 million bales, up 26 percent over MY16/17, due to higher exports of cotton yarns to China and South Korea. For MY18/19, due to the aforementioned increasing cotton prices, yarn production inputs price increases, and slowing demand from China, Post revises its import estimate down from the USDA official number of 7.3 million bales to about 7.1 million bales, or 1.55 MMT. This is still a marginal increase of 3 percent year-on-year. For MY19/20, Post forecasts Vietnam's cotton imports to increase 7 percent over Post's MY18/19 estimate to almost 7.6 million bales, due to increased demand for cotton yarns from both traditional export markets and domestic consumption.

**Figure 3: Vietnam Cotton Imports by Marketing Year**



## Vietnam's Top Cotton Suppliers

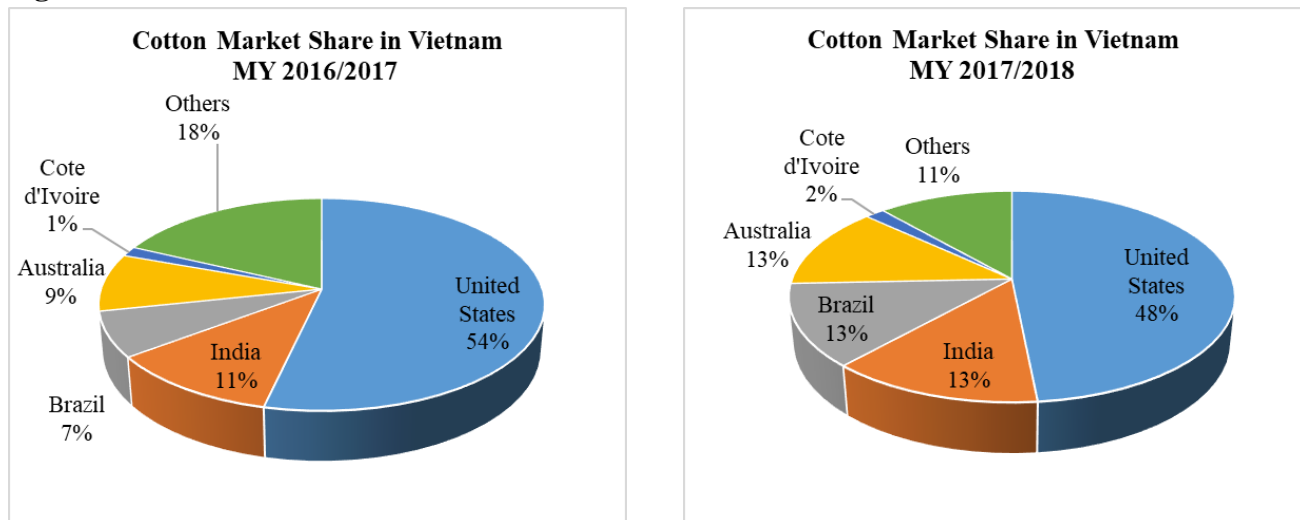
The country's top five cotton suppliers are the United States, India, Brazil, Australia, and Cote d'Ivoire. These countries make up 70 to 80 percent of the total cotton supply to Vietnam.

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

Reporting Country	Marketing Year			% Change 2017/2018 vs 2016/2017	Market share		
	2015/ 2016	2016/ 2017	2017/ 2018		2015/ 2016	2016/ 2017	2017/ 2018
United States	421	644	730	13%	42%	54%	48%
India	114	134	200	49%	11%	11%	13%
Brazil	142	83	190	129%	14%	7%	13%
Australia	85	106	189	78%	9%	9%	13%
Cote d'Ivoire	21	18	25	39%	2%	2%	2%
Others	216	216	173	-20%	22%	18%	11%
<b>Total</b>	<b>999</b>	<b>1,200</b>	<b>1,507</b>	<b>26%</b>			

Source: Global Trade Atlas and Vietnam Customs

**Figure 4: Cotton Market Share in Vietnam**



Source: Global Trade Atlas 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 the first seven months of MY18/19 reached 384,000 MT, up 11 percent in volume and 20 percent in value over the same period last year. FAS/Vietnam estimates that U.S. cotton exports to Vietnam will grow 10 percent in MY18/19, reaching about 803,000 MT or 3.68 million bales. As in previous years, the U.S. cotton success story in Vietnam stems from various factors, including:

- Vietnam's cotton imports increased to feed the growing demand for cotton yarn from both the domestic and export market.

- Major spinners in Vietnam representing Chinese, Taiwanese, and Korean investments continue to favor U.S. cotton for its stability, quality, availability, and price competitiveness.

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

HS Code	Product	Marketing Year (August - July)			
		2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018
5201001090	Cotton,>25.4,<28.58	227,574	215,925	340,972	363,010
5201009000	Cotton, not Pima,>28.58	174,953	199,679	282,671	334,676
5201001025	Raw cotton,<25.4	628	2,367	15,523	24,762
5201002030	Pima,>28.58	1,646	2,849	4,578	7,205
1404200000	Cotton linters	12	14	14	128
	<b>Total</b>	<b>404,814</b>	<b>420,834</b>	<b>643,758</b>	<b>729,781</b>
	<b>% Change</b>	<b>82%</b>	<b>4%</b>	<b>53%</b>	<b>13%</b>

Source: U.S. Census Bureau Trade Data

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

HS Code	Product	Marketing Year (August - July)			
		2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018
5201001090	Cotton,>25.4,<28.58	319,487	293,467	537,839	592,200
5201009000	Cotton, not Pima,>28.58	267,033	294,164	490,668	584,759
5201001025	Raw cotton,<25.4	863	3,077	25,974	42,291
5201002030	Pima,>28.58	3,801	7,057	13,604	19,154
1404200000	Cotton linters	12	12	13	51
	<b>Total</b>	<b>591,195</b>	<b>597,777</b>	<b>1,068,099</b>	<b>1,238,455</b>
	<b>% Change</b>	<b>41%</b>	<b>1%</b>	<b>79%</b>	<b>16%</b>

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.

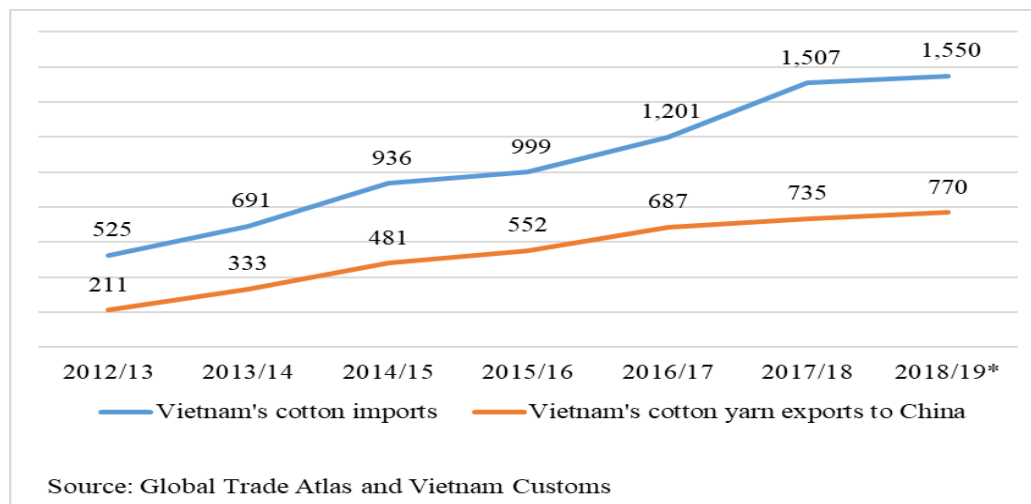
Vietnam's cotton consumption heavily depends on China's demand for cotton yarn; domestic consumption of cotton yarn is less robust. Vietnam's exports of cotton yarn to China in MY17/18 reached 735 TMT, accounting for 82 percent of the total export volume.

In MY18/19, FAS/Vietnam estimates Vietnam's cotton consumption at 7.1 million bales, or approximately 1.55 MMT, up over MY17/18, but down from the USDA official number of 7.2 million bales.



In MY19/20, Post forecasts consumption to increase to 7.5 million bales on the previously mentioned growing demand for cotton yarns.

**Figure 5: Vietnam’s cotton imports vs. cotton yarns exports to China (value in TMT)**



## PRICES

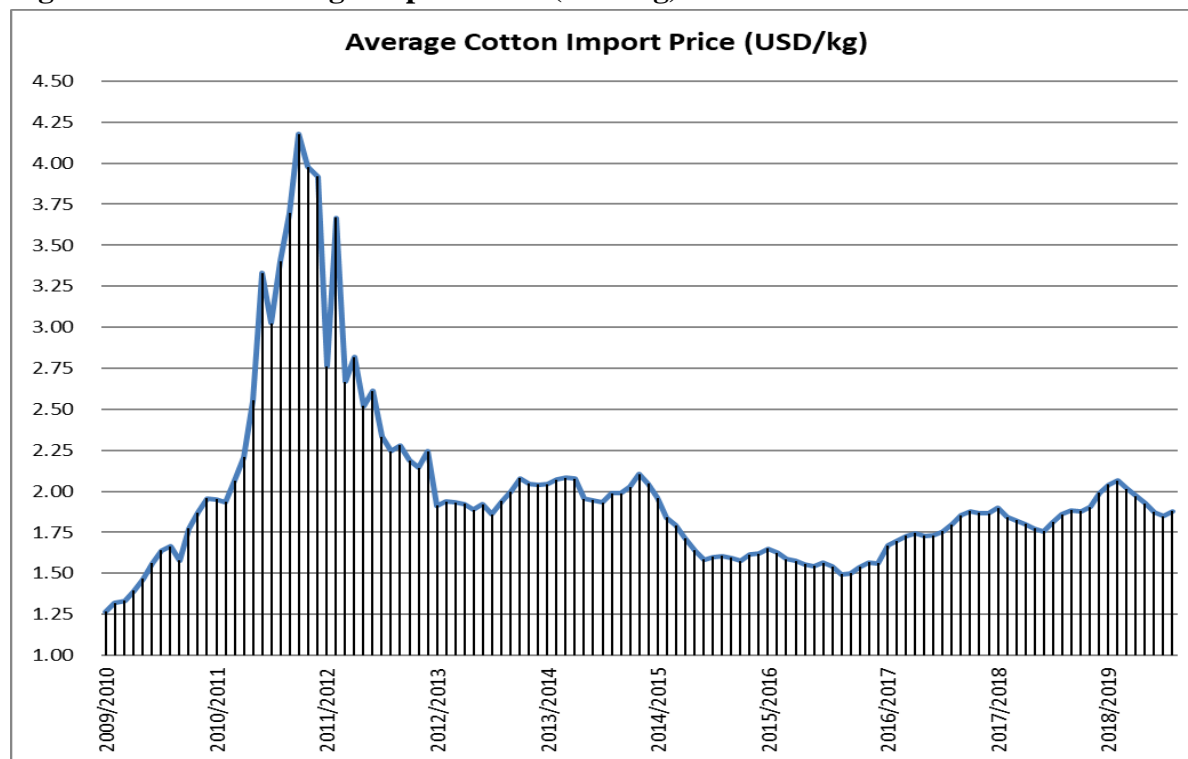
Average cotton import prices jumped from \$1.90 per kg in June 2018 to their peak at \$2.07 per kg in September 2019.

**Table 8: Cotton Average Import Price (USD/kg)**

Month	Marketing Year									
	2009/ 10	2010/ 11	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018	2018/ 2019
Aug	1.27	1.95	2.76	1.91	2.04	1.96	1.65	1.67	1.87	2.04
Sep	1.32	1.93	3.67	1.94	2.07	1.84	1.63	1.70	1.84	2.07
Oct	1.33	2.07	2.67	1.93	2.08	1.79	1.59	1.73	1.82	2.02
Nov	1.39	2.21	2.82	1.93	2.08	1.72	1.58	1.75	1.80	1.97
Dec	1.47	2.55	2.52	1.89	1.95	1.64	1.56	1.73	1.77	1.93
Jan	1.56	3.33	2.61	1.92	1.95	1.58	1.54	1.73	1.76	1.87
Feb	1.64	3.03	2.33	1.86	1.93	1.60	1.57	1.76	1.81	1.85
Mar	1.66	3.40	2.24	1.94	1.99	1.61	1.54	1.80	1.86	1.88
Apr	1.58	3.69	2.28	2.00	1.99	1.60	1.50	1.85	1.88	
May	1.77	4.18	2.19	2.08	2.03	1.58	1.50	1.88	1.88	
Jun	1.87	3.98	2.14	2.05	2.11	1.61	1.54	1.87	1.90	
Jul	1.96	3.92	2.24	2.04	2.05	1.62	1.57	1.87	1.99	
<b>Average price</b>	<b>1.57</b>	<b>3.02</b>	<b>2.54</b>	<b>1.96</b>	<b>2.02</b>	<b>1.68</b>	<b>1.56</b>	<b>1.78</b>	<b>1.85</b>	

Source: Vietnam Customs

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



Source: Vietnam Customs and Post estimates

## **STOCKS**

Since the 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 increase slightly in MY19/20.

## **MARKETING/ POLICY**

### **Tariff 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, field trials have not been conducted. For more information on agricultural biotechnology in Vietnam, please refer to GAIN Report [VM8051](#)

**PRODUCTION, SUPPLY AND DEMAND DATA STATISTICS:**

<b>Cotton</b>	<b>2017/2018</b>		<b>2018/2019</b>		<b>2019/2020</b>	
<b>Market Begin Year</b>	<b>Aug 2017</b>		<b>Aug 2018</b>		<b>Aug 2019</b>	
<b>Vietnam</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
Area Planted	-	-	-	-	-	-
Area Harvested	1	-	1	-	-	-
Beginning Stocks	882	882	1,185	1,197	-	1,197
Production	3	-	3	-	-	-
Imports	7,000	6,915	7,300	7,100	-	7,597
MY Imports from U.S.	-	3,348	-	3,683	-	4,051
Total Supply	7,885	7,797	8,488	8,297	-	8,794
Exports	-	-	-	-	-	-
Use	6,700	6,600	7,200	7,100	-	7,500
Loss	-	-	-	-	-	-
Total Dom. Cons.	6,700	6,600	7,200	7,100	-	7,500
Ending Stocks	1,185	1,197	1,288	1,197	-	1,294
Total Distribution	7,885	7,797	8,488	8,297	-	8,794
Stock to Use %	17.69	18.14	17.89	16.86	-	17.25
(1000 HA), 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)