

# MARKET FUNDAMENTALS



Commercial Trade Section  
Developing Economies Branch  
Agriculture and Trade Analysis Division  
U.S.D.A. Economic Research Service

## THAILAND: COTTON

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### RECENT POLICY DEVELOPMENTS

#### Government Assistance to Cotton Farmers Low, But Growing

Provincial agricultural offices are offering farmers assistance in choosing the farming techniques and types of cotton that are most likely to earn the best returns on investments. Domestic cotton production only satisfies about ten percent of demand, and the Thai Cotton Mills Association (TCMA) has begun pushing for additional government support to increase local production. (BP, ERS)

Market Fundamentals are updated twice a year. All information in this report is from sources believed to be reliable. Not all data are U.S.D.A. official data. Official U.S.D.A. data are clearly indicated. Sources for statements in text are indicated in parentheses at the end of each paragraph. See glossary for acronyms.

The Agricultural Extension Department has set aside 11 million baht (US\$434,000) for use in helping farmers select pesticides for use on their cotton crop during the 1988/89 crop year. (BP)

**Cotton Crop Insurance Delayed Another Year**

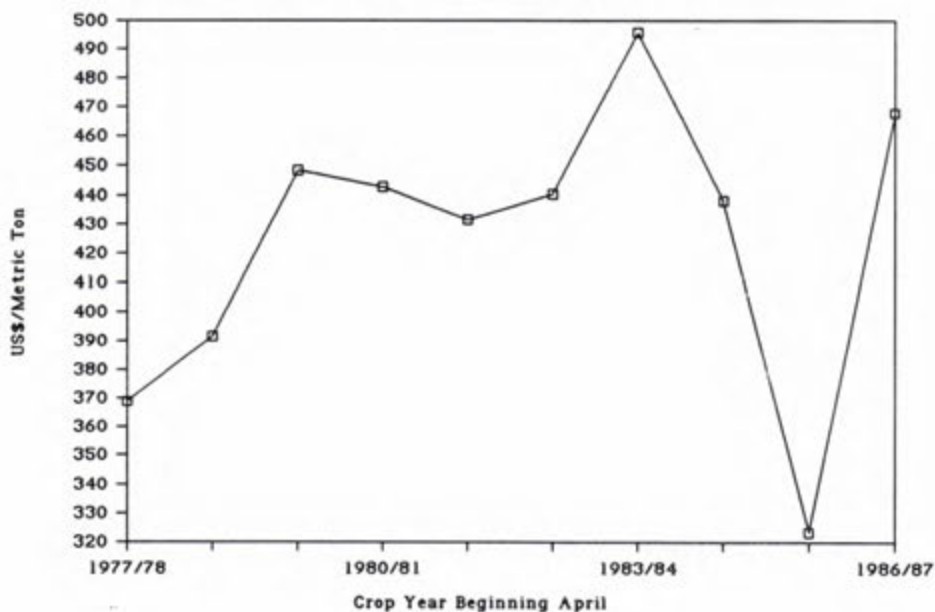
The crop insurance scheme intended to encourage import-substitution production of cotton and soybeans has been held up by the National Economic and Social Development Board. The scheme was originally to have been introduced in July, 1987, and run for five years, but still was not implemented by the 1988 crop. The plan was to minimize risk for farmers in Lop Buri, Saraburi, Petchabun, Nakhon Sawan, Nakhon Ratchasima, Sukhothai, Uttaradit and Kamphaeng Phet by insuring 1.28 billion baht (US\$50 million) worth of the commodities over the period. The NESDB must approve the plan before it goes to the Council of Economic Ministers for endorsement of government funding, but the NESDB is reportedly concerned about demands from farmers of other crops asking to join and boosting the contribution required from the government. (BP)

**SUPPLY DEVELOPMENTS AND OUTLOOK**

**Production to Rise, But Less Than Half of 1980 Peak**

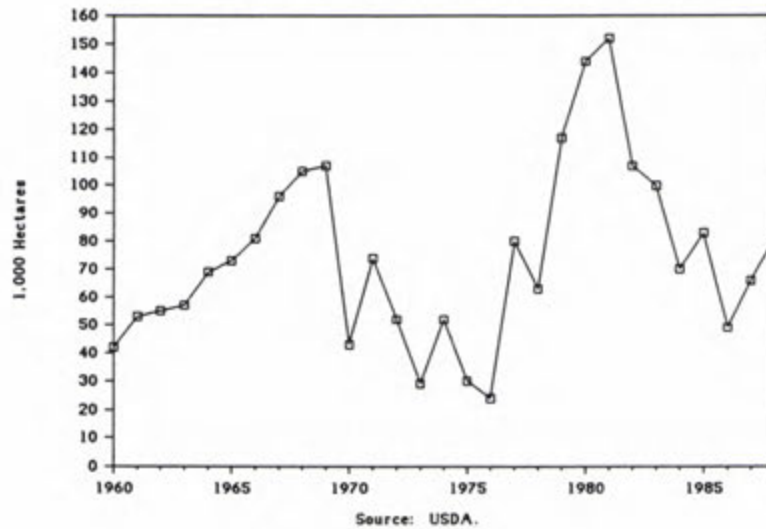
Thai cotton lint production for 1988/89 is forecast to reach 137,000 bales of 480 lb. each, an increase of 20 percent. Government support and favorable prices the previous year led farmers to increase their acreage for the second year in a row. However, area and production decisions are influenced by relative prices of alternative crops, and both forecast area and production remain well below their 1980 levels. The TCMA has predicted 1988/89 cotton prices in the range of 12-14 baht/kg (US\$0.47-0.55/kg), depending on grade, type, and world market price fluctuations. (BP, FAS, ERS)

**FARM PRICE OF COTTON**

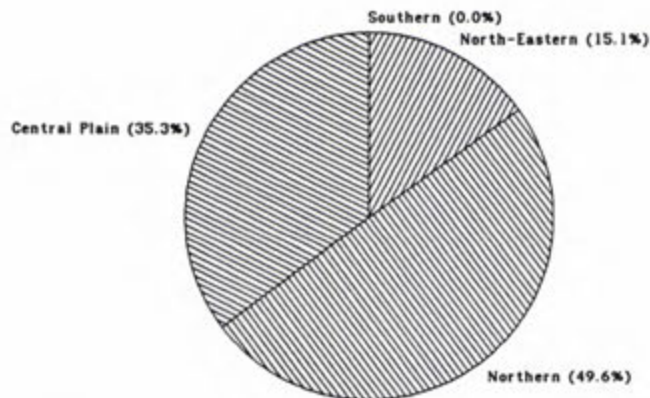


Almost half of the production of Thai cotton takes place in the North, especially the Lower North, and most of the rest occurs in the Central Plain. Both regions received favorable weather in 1988. However, this did not translate into increased yields as high prices for alternative crops kept most of the area expansion to less productive land. (ERS)

THAILAND: COTTON AREA HARVESTED



Regional Shares of Production  
1986/87

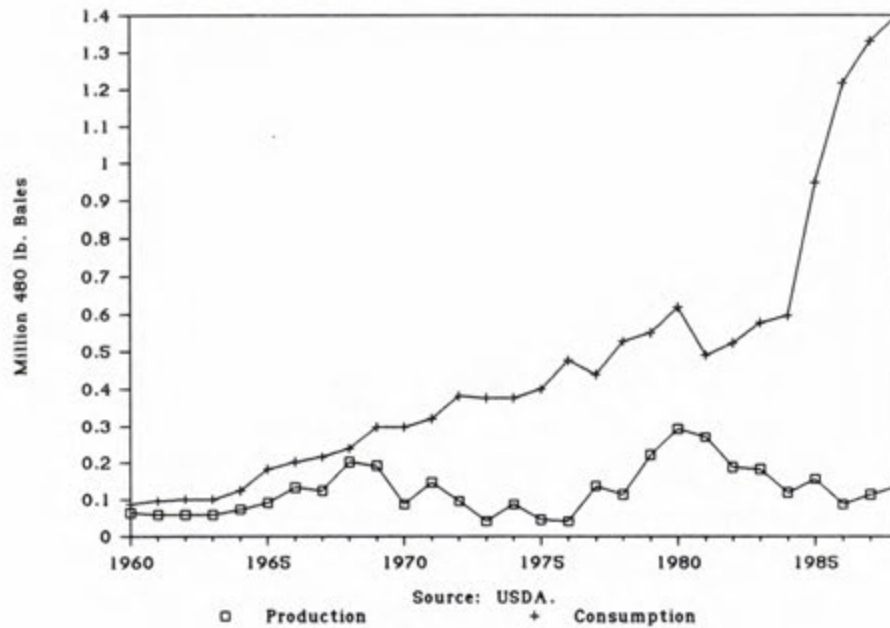


THAILAND: COTTON YIELD



Source: USDA.

COTTON PRODUCTION AND CONSUMPTION



Source: USDA.

□ Production + Consumption

## DEMAND DEVELOPMENTS AND OUTLOOK

### Strong Economic Growth Raises Domestic Cotton Demand

Thailand's gross domestic product grew at a 22-year high annual rate of 11% in 1988, compared to 7.1 % in 1987, according to the National Economics and Social Development Board. The agricultural sector grew 8.6%, as it recovered from the previous year's drought, but is expected to grow only 1% in 1989. National GDP growth for 1989 is expected to be 8.5%. (NESDB, ERS)

A one million spindle expansion in the textile industry and expanding garment and cotton yarn exports are expected to keep Thai demand for cotton at high levels. Cotton consumption for 1988/89 is forecast to reach a record 1.4 million bales, an increase of 5.2 percent over the previous year. (BP, FAS, ERS)

### Plans for Major Textile Complex Rejected, But Investment Continues

The Thai Melon Group had its application to set up a 1 billion baht (US\$40 million) spinning and weaving complex rejected by the Industry Ministry because no definite site for the complex was mentioned in the application. It was feared the location would be near Bangkok rather than up-country where the Government is trying to increase income and employment. However, the Thai Melon Group is presently expanding its other operations and has plans to cooperate with The Textile Organisation of the Ministry of Defense to manufacture cloth, yarn, and cotton wool for the military in the near future. (BP)

Increasing investment from Hong Kong and Taiwan in the garment industry of Thailand is helping to increase the demand for cotton. Hong Kong investors have found the investment conditions in Thailand more favorable than those in the special economic zones on the Chinese mainland, especially in the textile sector. By opening garment factories in Thailand, the businesses are able to share large quantities of unused quotas for garment exports. (BT, ERS)

### Rapid Growth in Garment Exports Fuels Demand for Cotton Imports

The Thai Garment Manufacturers' Association has predicted that garment export earnings could grow to 51 billion baht (US\$2 billion) in 1989. This would represent an increase of 19 percent over 1988 earnings of about 43 billion baht (US\$1.7 billion). The share of earnings coming from the United States, the traditional market for Thai garments, is expected to decline as shipments to Japan increase rapidly. Although Thai exporters have not been filling their quotas in the United States market, they are looking increasingly to non-quota markets, such as Japan. As growth in garment and textile exports continues to outpace growth in domestic cotton production, raw cotton imports can be expected to continue to increase rapidly. (BP, ERS)

## TRADE DEVELOPMENTS AND OUTLOOK

### After Dip in 1987/88, Cotton Imports Forecast at Record Level for 1988/89

Despite the increase in production forecast for 1988/89, Thai cotton imports are expected to reach a record 1.35 million bales. Imports in 1987/88 were down slightly from a year earlier since beginning stocks were more than double their 1986/87 level. The forecast for 1988/89 shows a decrease in beginning stocks that is greater than the expected increase in production. This drop in domestic supply, combined with the growth in demand, is expected to boost imports by 11 percent. (FAS, ERS)

### Textile Pact With U.S. Expires

The bilateral textile pact between Thailand and the United States expired on December 31, after talks to renew the pact failed. On January 1, the U.S. Government requested consultations with the RTG under the MFA to discuss limits on seven Thai textile exports to the U.S.. Among the seven products are cotton pullovers (category 345), cotton trousers/shorts (category 347/348), and cotton towels (category 369 partial). According to Article 3 of the MFA, the U.S. could impose quotas on the seven imports if it proves market disruption caused by the imports from Thailand within 60 days of the consultations failing to reach an agreement. Thai exporters were urged to speed up their shipments of these items to the United States to increase Thailand's performance record for use in negotiating a new agreement. (BP)

### Thailand Sells Textile Value-Added to Soviets

A Thai garment mission signed an agreement in August with the Soviet Union, under which the Soviet Union will ship 600,000 square yards of grey fabric to Thailand for manufacture into 200,000-300,000 shirts, jackets, and pairs of trousers to be re-exported back to the Soviet Union. At the current level, the fabric imports will not significantly reduce the Thai demand for raw cotton imports. However, the Soviets originally sought a similar arrangement involving several million square yards of fabric, and may expand the arrangement later. (BP, ERS)

### GLOSSARY

BP.....	Bangkok Post (English-language Thai newspaper)
BT.....	Business Times (English-language Malaysian newspaper)
ERS.....	Economic Research Service, USDA
FAS.....	Foreign Agricultural Service, USDA
MFA.....	Multifibre Arrangement
NESDB.....	National Economic and Social Development Board, Thailand
RTG.....	Royal Thai Government
TCMA.....	Thai Cotton Mills Association

TABLE 1.  
COTTON SUPPLY AND USE  
(1000 of 480 lb. Bales)

Crop Year	Area Harvested (1000 ha)	Yield (Bales/ha)	Production	Beginning Stocks	Total Imports	Total Supply	Total Exports	Total Consumption	Destroyed or Unaccounted	Ending Stocks
1960	42	1.52	64	13	27	104	0	87	0	18
1961	53	1.11	59	18	41	118	0	96	0	22
1962	55	1.07	59	22	41	122	2	101	0	27
1963	57	1.04	59	27	45	131	0	101	0	32
1964	69	1.06	73	32	82	187	0	124	0	64
1965	73	1.25	91	64	105	260	0	183	0	73
1966	81	1.64	133	73	105	311	0	202	22	87
1967	96	1.29	124	87	128	339	9	215	18	101
1968	105	1.92	202	101	78	381	32	238	22	82
1969	107	1.79	192	82	133	407	4	298	18	91
1970	43	2.02	87	91	211	389	0	298	32	55
1971	74	1.97	146	55	229	430	0	321	18	91
1972	52	1.85	96	91	298	485	0	381	32	73
1973	29	1.41	41	73	390	504	0	376	32	96
1974	52	1.67	87	96	261	444	0	376	18	45
1975	30	1.50	45	45	390	480	0	399	22	59
1976	24	1.71	41	59	408	508	0	477	18	13
1977	80	1.71	137	13	330	480	4	440	13	22
1978	63	1.81	114	22	459	595	4	528	13	45
1979	117	1.88	220	45	376	641	27	551	9	50
1980	144	2.03	293	50	404	774	45	620	0	78
1981	152	1.78	270	78	243	591	82	491	0	18
1982	107	1.76	188	18	394	600	59	523	0	13
1983	100	1.83	183	13	555	751	55	578	0	119
1984	70	1.70	119	119	615	853	55	597	0	202
1985	83	1.88	156	202	702	1,060	32	946	0	82
1986	49	1.78	87	82	1,276	1,445	36	1,217	0	192
1987	66	1.73	114	192	1,217	1,523	45	1,331	0	146
1988	81	1.69	137	146	1,350	1,633	45	1,400	0	188

Note: Crop year is August 1 - July 30.

4.593 bales of 480 lb. each = 1 metric ton

Source: USDA. Data are current as of 2/9/89.