

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** COVID-19 Sows Uncertainty for Textile Industry

**Country:** Indonesia

**Post:** Jakarta

**Report Category:** Cotton and Products

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**Report Highlights:**

Indonesia's once booming textile and garment industries have faced enormous challenges as a result of the COVID-19 pandemic. Domestic and overseas demand have been shaken by economic shutdowns and other social distancing measures; leading to significant industry job losses, declining production and lower demand for cotton imports.

## **Background**

On March 2, 2020, Indonesia confirmed its first case of COVID-19. Since then, the virus has spread and been confirmed in all 34 provinces, with Java island representing the highest number of cases. As of September 25, Indonesia had confirmed 262,022 cases and reported 10,105 deaths related to the virus.

On March 31, 2020, the Government of Indonesia (GOI) issued a regulation implementing Large-Scale Social Distancing (locally known as PSBB - *Pembatasan Sosial Berskala Besar*) to mitigate the spread of COVID-19. By early April, 13 cities across four provinces had been approved by the Ministry of Health to implement PSBB. The restrictions include the temporary closure of schools and offices, restricted religious activities, limited access to public spaces, closure of social and cultural sites, and transportation restrictions. Businesses that provide “essential services”, including those producing Personal Protective Equipment (PPE), were exempted from mandatory closure. In early June, Indonesia began a phased transition to a “New Normal” status by opening up parts of the economy that had previously closed. As more businesses opened, confirmed cases of COVID-19 continued to increase throughout July and August. The increasing number of cases, combined with local hospitals reaching near capacity for ICU beds, led the Governor of Jakarta to re-impose PSBB for a two week period on September 14. The restrictions were extended for an additional two weeks into mid-October.

## **Impact on Indonesian Textile Industry**

COVID-19 and the resulting global shutdown of numerous economies has deeply impacted Indonesia’s textile and garment manufacturers. As Indonesia and its key export markets implemented social distancing policies throughout April and May, demand for textiles and finished garments both domestically and for export declined dramatically. In the US, sales of clothing in May 2020 decreased by over 60% compared to 2019; while in the EU sales of clothing, textiles and footwear declined by more than 50 percent. The dramatic decrease in overseas demand was compounded by declining domestic demand as retailers from high-end shopping malls to local traditional markets were forced to close as a result of PSBB guidelines. Although growth in online demand has helped to cushion the blow for some overseas outlets, Indonesian consumers have not adjusted to shopping for clothing online as they have to other items such as food and health products.

The simultaneous strain on domestic and export demand has led many textile manufacturers to produce only against firm purchase orders to prevent the accumulation of goods at distributors. As a result, capacity utilization of the textile industry from March - June 2020 reached only 50 percent, down from a normal range of 70-80 percent. Similarly, during the same period capacity utilization of the garment sector declined to 80 percent from a normal utilization of 90 percent.

Lower demand in the textile and garment sector as a result of COVID-19 is having an outsized impact on Indonesia’s economy. The industry accounts for 3.1 percent of the total workforce population of 121.02 million, employing an estimated 3.75 million workers in 2019. The Indonesian Chamber of Commerce recently reported that as of July 2020, the total newly unemployed population reached 6.4 million, of which an astounding 2.1 million or 33 percent were from the textile and garment sector. While many of the newly unemployed were furloughed and expected to return to work, the numbers reveal the depths of the shock to the industry as it attempts to navigate supply and demand during the global pandemic.

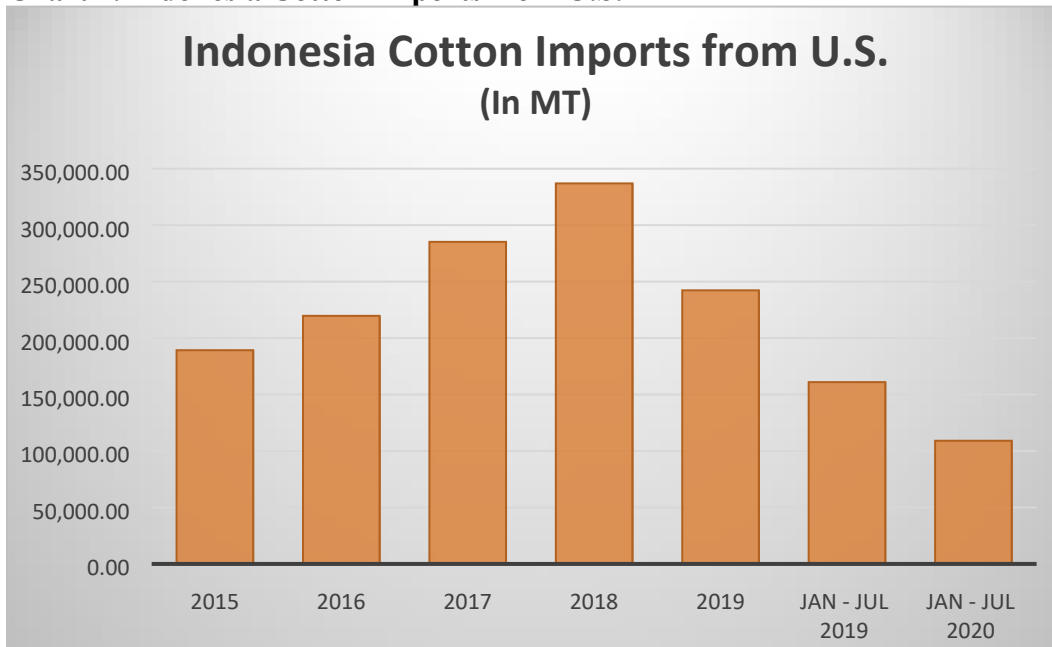
### **Impact on U.S. Cotton Exports**

As a consequence of the declining demand and capacity utilization in the textile industry, Indonesia cotton imports during the period of January to July 2020 declined by 20 percent to 302,370 tons (equal to 1,389 bales) compared to 379,203 tons (equals to 1,742 bales) during the same period of 2019.

Following a record year for US cotton exports in 2018 and a moderate decline as a result of high carryover stocks and sluggish domestic demand in 2019, Indonesian cotton imports from the United States during the period of January to July 2020 declined by 32 percent to 109,081 tons (equal to 501 bales) from 161,004 tons (equal to 739 bales) imported during the same period 2019.

The disproportionate decline of U.S. cotton exports to Indonesia is in part attributed to higher prices for US cotton as a result of demand generated from the implementation of the Phase One trade agreement between the United States and China. Increased US cotton purchases from China, which dramatically accelerated from June –August, have pushed Indonesian buyers towards more competitive supplies from Brazil and Africa.

**Chart 1. Indonesia Cotton Imports from U.S.**



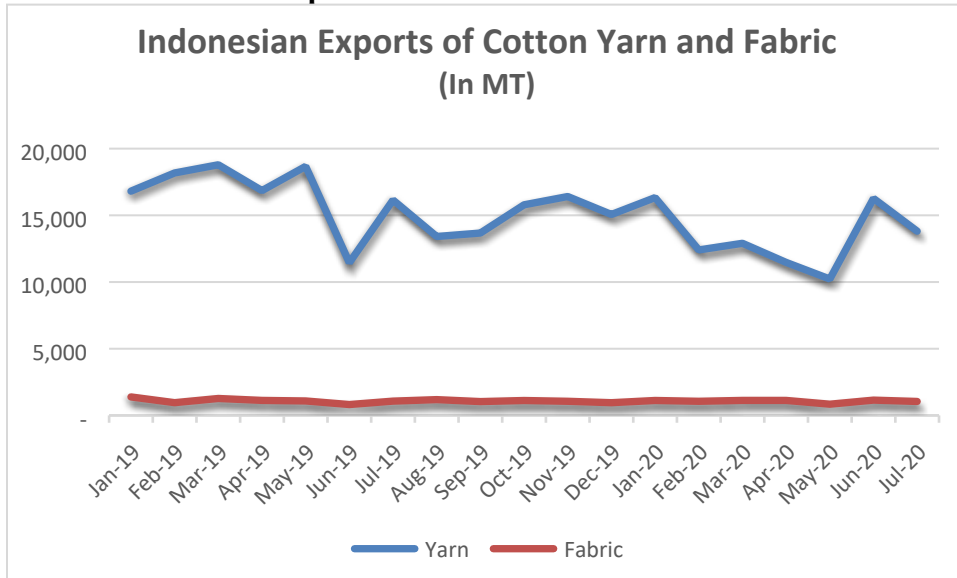
Source: USDA GATS.

### **PPE Production**

One bright spot for Indonesian textile and garment manufacturers has been the increased demand, both overseas and domestic, for personal protective equipment (PPE). Some major textile manufacturers have adjusted their operations to focus on the production of facemasks, gloves, gowns and other protective materials. The transition initially focused on supplying the domestic market due to regulation 23/2020 from the Ministry of Trade (MOT), which sought to ensure domestic supply by temporarily banning the export of PPE. However, as domestic supply concerns subsided, MOT issued regulation 57/2020 on June 17, providing opportunity for the export of PPE. The domestic and global demand for PPE has lifted the fortunes of some garment manufacturers, with one prominent company reporting and expected 10-15 percent sales increase over 2019 on export demand for PPE. The main destinations for

PPE exports are the United States, Canada, Middle East, France, Italy and Spain. Supported by exports of PPE, the Ministry of Industry noted that the export performance of the textile industry from January-July 2020 period it had exceeded \$ 6.15 billion, near 2019 levels. However, through July exports of cotton yarn and fabric declined by 20 percent and 3 percent, respectively.

**Chart 2. Indonesia Exports of Cotton Yarn and Fabric**



Source: TDM

The re-imposition of PSBB measures in September in Jakarta and other regions hard hit by COVID-19 demonstrates the uncertainty with which the industry is operating. As Indonesia moves from a pre-COVID GDP growth estimate of 5.1 percent to a possible negative growth rate for 2020, most industry contact believe the effects on the textile and garment industries will linger well into 2021. The challenging operating environment could result in further consolidation of mills as less efficient operations become unsustainable.

**Attachments:**

No Attachments.