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Report Highlights:

Declining cases of COVID-19 globally and domestically are expected to increase overall demand for textile and textile products. Therefore, following an 8.2 percent decline in 2020/21, cotton imports are expected rebound by 12.7 percent to 2.6 million bales in 2021/22. However, higher cotton prices and production costs as well as ongoing supply chain challenges may dampen cotton import growth. Cotton imports in 2022/23 are forecast to increase less sharply by 3.8 percent to 2.7 million bales.

Glossary:

API	: Indonesian Textile Association
BPS	: Indonesian Statistics Agency
GDP	: Gross Domestic Product
GOI	: Government of Indonesia
KWh	: Kilowatt per hour
MOA	: Ministry of Agriculture
MOF	: Ministry of Finance
MOI	: Ministry of Industry
MMBTU	: Metric Million British Thermal Unit
OECD	: The Organization for Economic Cooperation and Development
UMSK	: District Sectoral Minimum Wage
WHO	: World Health Organization

Production

Cotton cultivation has become increasingly less attractive to Indonesian farmers due to lower margins and a lack of government incentives compared to other crops. Consequently, Indonesia's domestic cotton production is on the decline, meeting less than one percent of local industry demand. Production for 2021/22 is expected to decline to 1,000 bales as farmers continue to turn to producing other crops. Production in 2022/23 is forecast to remain stable at 1,000 bales. The Ministry of Agriculture (MOA) reported that in 2020/21, most Indonesian cotton was grown on a total area of 1,281 hectares of marginal land, primarily in South Sulawesi (75.5 percent), East Nusa Tenggara (12.6 percent), Central Java (10.2 percent), and West Nusa Tenggara (1.6 percent). There are currently no Government of Indonesia (GOI) support programs or incentives in place for encouraging cotton production.

Consumption

On March 21, 2022, the World Health Organization (WHO) reported a total of 1,156,854 COVID-19 confirmed cases globally, a significant decline compared to the peak of 4,040,347 confirmed cases on January 26, 2022. Indonesian cases reflect this global trend, with the WHO reporting a total of 29,204 confirmed cases in Indonesia on March 21, 2022, down 93 percent from the peak of 389,727 positive cases recorded on February 14, 2022. In line with declining cases of COVID-19, the global economy is projected to continue to recover while facing various challenges, such as the possible resurgence of the pandemic through new variants, geo-political tensions, and rising global inflation which has prompted a number of developed countries to normalize their monetary policies.

Despite the arrival of the Omicron variant in Indonesia in early 2022, the GOI did not implement measures as strict as those in place during the Delta variant outbreak in mid-2021, and so had a less severe impact on the economy. Indonesian Statistics Agency (BPS) reported that Indonesia's economy grew by 3.69 percent from 2020 to 2021. In line with this economic growth, BPS also reported that the textile and apparel industries have improved their performance. BPS data indicate the GDP of the textile and apparel industry increased by 4.06 percent in the fourth quarter of 2021 compared to the preceding quarter, although year on year, Indonesia's textile and textile products industry in 2021 still experienced a contraction of minus 3.44 percent compared to 2020. In 2021, the textile industry accounted for 6.12 percent of the GDP of Indonesia's manufacturing sector or 1.04 percent of total national GDP. Reflecting a gradually improving economy, Bank of Indonesia (BI) projects economic growth in 2022 at 5.5 percent, up from 4.7 percent in 2021.

Due to the reported declined in positive COVID-19 cases, the GOI has announced that it would not implement any new travel restrictions any time during the fasting month of Ramadan. This relaxation of travel restrictions will allow millions of Indonesians to conduct the traditional yearly return from major cities to their hometowns and villages called *mudik*. The resumption of this seasonal mass migration will likely raise domestic demand for garments and textiles, which are often bought as gifts during this holiday season. Ultimately, demand for cotton is expected to recover, although it will likely remain below pre-pandemic levels until vaccination rates are high enough for pandemic-related uncertainties to be fully cleared up. As of March 4, 2022, over 70 percent of the vaccination target population size of 208,265,720 have received at least a second COVID-19 vaccine dose (i.e., 146,577,204 doses have been administered).

In line with the domestic and global economic recovery, the textile industry is seeing a gradual return in demand for their products from major export destination countries. The Ministry of Industry (MOI) reported that exports of textiles and textile products during the period of January to October 2021 increased by 19 percent to \$10.52 billion. Additionally, the industry's investment value increased by 12 percent to 5.06 trillion IDR (\$353.7 million).

Table 1. Indonesian Textile Industry Profile and Performance (2021)

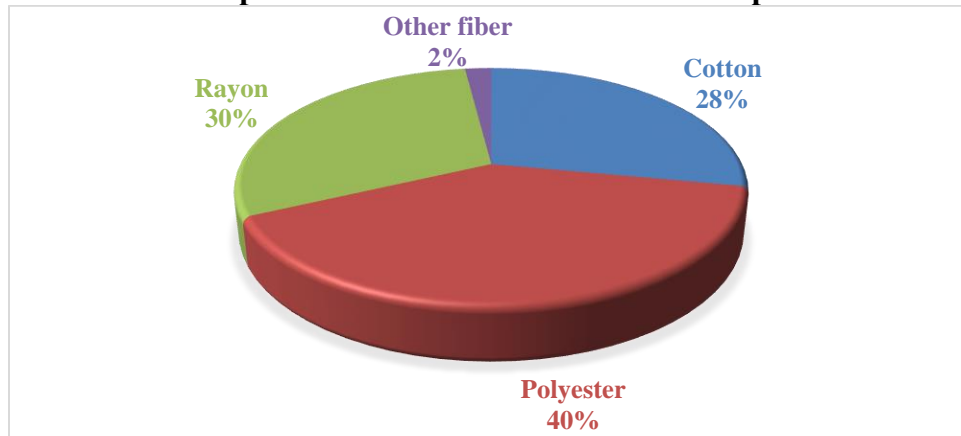
Sector	Fiber Making (Man Made)	Spinning	Weaving, Dyeing, Printing, and Finishing	Garments	Other Textile
Number of Companies					
- Large Scale	33	294	1,540	2,995	765
- Small and Medium Scale	14	0	131,000	400,000	0
Installed Capacity (MMT)	3.5	3.97	3.13	2.18	0.68
Running Capacity (%)	47.6	63.98	41.95	56.7	43.9
Manpower	33,087	244,059	678,360	1,788,265	89,507
Export (\$ million)	1.136	2.05	0.92	8.35	0.56
Import (\$ million)	1.839	0.75	4.8	0.63	1.41

Source: Ministry of Industry, November 2021

The MOI reported that the average utilization rate of the textile and textile product industry throughout 2021 was 60 percent. However, by the end of 2022, the utilization rate is forecast to increase to 75 percent for upstream and intermediate industries, while the garment industry's utilization rate is forecast at 85 percent. Therefore, MOI forecasts that the textile industry will grow by 5 percent in 2022.

Despite these prospects, Indonesia's textile industry faces challenges with production costs, particularly the cost of raw materials, energy, and labor. Cotton remains much more expensive than synthetic materials, which is why cotton fiber is typically used to produce apparel for middle to upper income consumers, while rayon, polyester, and fiber mixtures are used for apparel for middle to lower income consumers. And while 99 percent of the cotton used by industry is imported, almost all the polyester and rayon used by the textile industry is produced domestically and easier to procure than cotton. However, despite higher international cotton prices and longer lead times for cotton imports, as pandemic restrictions wane and the economy recovers, demand for cotton clothing will grow to meet the needs of consumers returning to the office, school, and other public settings. The forecast composition of Indonesia's 2022 fiber consumption is presented in Chart 1.

Chart 1. Composition of Indonesia's Fiber Consumption in 2022



Source: Industry, processed by FAS/Jakarta

Labor costs are also a major concern for the industry. Law No. 13/2003 on Employment states a local minimum wage can be based on local standards at the provincial or district/city level, or a local minimum wage can be based on industry standards within a district/city (*UMSK*). A district/city's industry-based minimum wage can be determined by the provincial governor based on an agreement between that industry's employers' association and labor union; however, this industry-based minimum wage must not be lower than the provincial or district/city minimum wage. After having increased the minimum wage in only a few provinces in 2021 due to the pandemic, the GOI increased the minimum wage in 2022 for almost all the major provinces of Indonesia (see Table 2).

Table 2. Provincial Minimum Wages (2021-2022)

Provinces	2021	2022	Change
Aceh	3,165,032 IDR	3,166,460 IDR	0.05%
North Sumatera	2,499,424 IDR	2,552,610 IDR	2.13%
West Sumatera	2,484,042 IDR	2,512,539 IDR	1.15%
Riau	2,888,564 IDR	2,938,564 IDR	1.73%
Riau Island	3,005,384 IDR	3,144,466 IDR	4.63%
Jambi	2,630,163 IDR	2,649,034 IDR	0.72%
South Sumatera	3,144,446 IDR	3,144,446 IDR	0.00%
Bangka Belitung	3,230,024 IDR	3,264,884 IDR	1.08%
Bengkulu	2,215,000 IDR	2,238,094 IDR	1.04%
Lampung	2,432,002 IDR	2,440,486 IDR	0.35%
West Java	1,810,351 IDR	1,841,487 IDR	1.72%
Jakarta (Java)	4,416,186 IDR	4,641,854 IDR	5.11%
Banten (Java)	2,460,997 IDR	2,501,203 IDR	1.63%
Central Java	1,798,979 IDR	1,813,011 IDR	0.78%
Yogyakarta (Java)	1,765,000 IDR	1,840,952 IDR	4.30%
East Java	1,868,777 IDR	1,891,567 IDR	1.22%
Bali	2,494,000 IDR	2,516,971 IDR	0.92%

Source: Provincial websites, compiled by FAS/Jakarta

Energy costs are also on the rise. The GOI plans to increase the electricity tariff in 2022. The new tariff will consequently increase production costs for Indonesia’s textile industry and reduce its competitiveness against other textile producing countries. Table 3 shows Indonesia’s current lower energy costs relative to those of neighboring textile producing countries, an advantage that would be eroded by the GOI’s planned tariff increases.

Table 3. Energy Cost Comparison among Major Textile Producing Countries in Asia

Country	Electricity (\$/Kwh)	Gas (\$/MMBTU)
Indonesia	0.078	6.00
People’s Republic of China	0.098	6.15
Vietnam	0.078	6.33
Bangladesh	0.105	10.00
Cambodia	0.130	Not available
India	0.110	6.13

Source: API, February 2022

In addition to production costs, aging machinery remains a key competitive constraint on industry growth. More than 57 percent of the textile industry’s machinery is more than 15 years old. Lower margins and cash flow challenges as a result of the global economic slowdown have further inhibited companies from reinvesting in new machinery, perpetuating a cycle of greater inefficiency and higher production costs.

Considering the above-mentioned factors, 2021/22 cotton consumption is estimated to increase by around 6 percent to 2.6 million bales compared to 2.45 million bales consumed in 2020/21. A recovering global and domestic economy along with increased vaccination rates are expected to further drive up cotton consumption to 2.75 million bales in 2022/23.

Trade

In line with increased consumption, 2021/22 cotton imports are expected to increase by 12.7 percent to 2.6 million bales compared to 2.307 million bales imported in 2020/21. Imports are forecast to further increase to 2.7 million bales in 2022/23 on higher domestic and global demand as major economies increase vaccination rates and consumption rebounds.

High freight rates and shipment delays continue to challenge imports. Industry

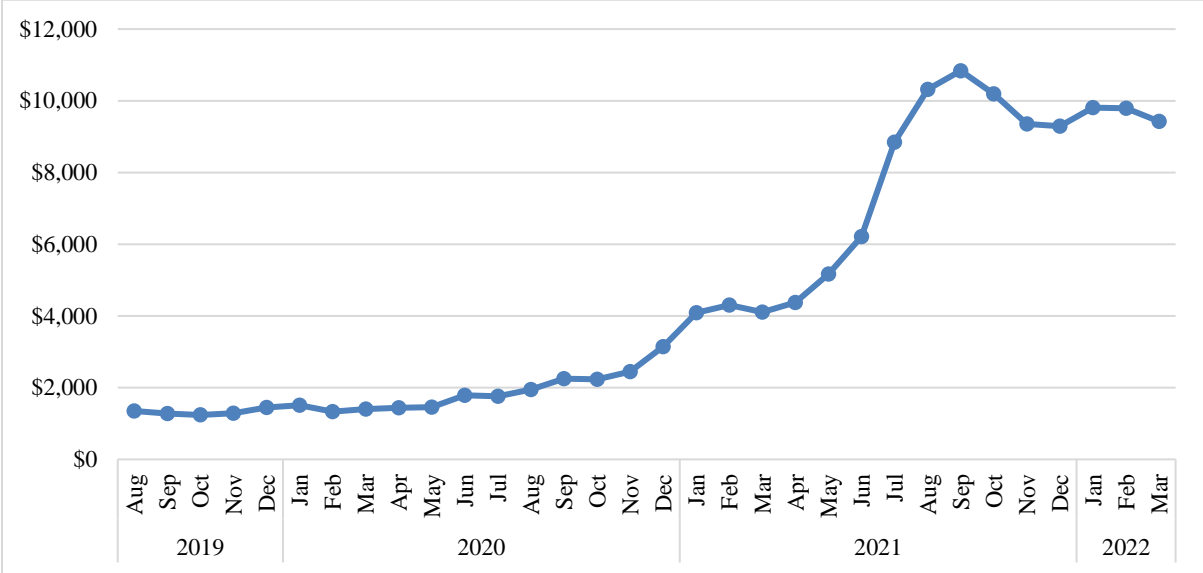
Photo 1: U.S. Cotton Stored in Bonded Warehouse



Source: FAS Jakarta, Semarang, Central Java, March 2, 2022

reported that lead time to purchase cotton from Australia has increased to 3-4 weeks from 14-15 days due to port congestion. The lingering shortage of shipping container vessels is impacting both ends of Indonesia’s textile industry, increasing freight costs and causing shipping delays for both its raw material imports and textile product exports.

Chart 2. Freight Rate Index for 40' Container (in USD)

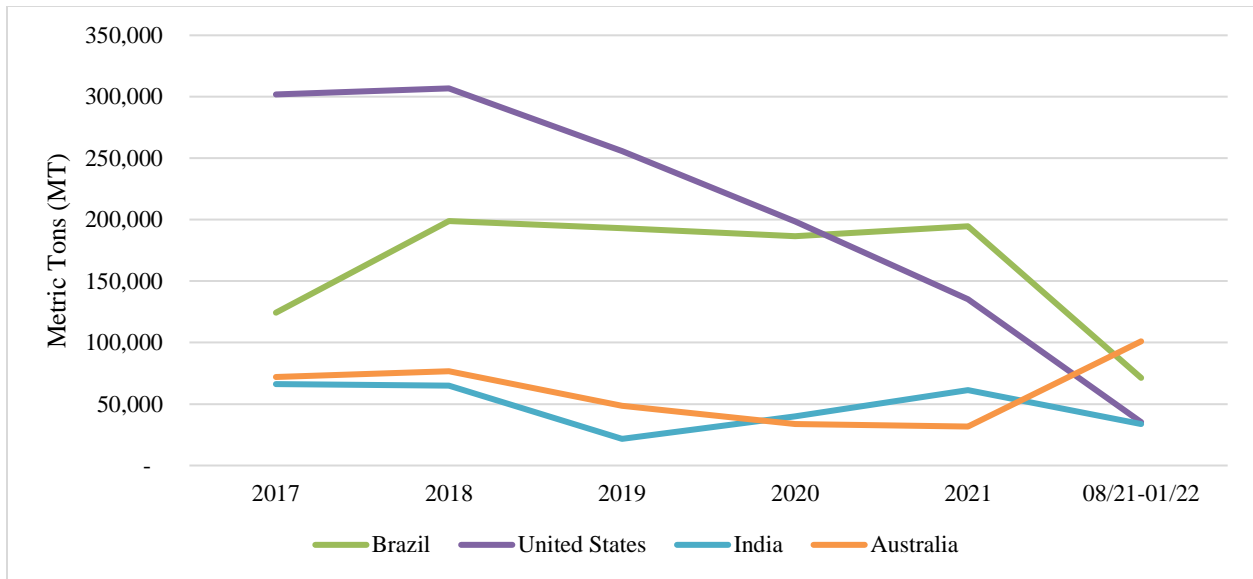


Source: Statista, March 2022

During the period of August 2021 to January 2022, Australia surpassed Brazil as Indonesia’s largest cotton supplier, raising its market share to 34 percent with a volume of 464,000 bales. Brazil and the United States followed with 24 percent (327,000 bales) and 12 percent (162,000 bales) respectively.

Indonesia’s cotton yarn exports in 2021 declined by 2.6 percent to 172,800 MT from 177,413 MT in 2020. In 2021, the People’s Republic of China (PRC) received the majority of Indonesia’s cotton yarn exports (46 percent), followed by Bangladesh (14 percent), South Korea (9 percent), and Honduras (8 percent). Meanwhile, Indonesia’s cotton fabric exports in 2021 declined by 12.5 percent due to slower demand from Japan, the United States, Malaysia, and Belgium. Exports of cotton fabrics in 2021 reached a total of 11,532 MT, 12 percent lower than 13,173 MT exported in 2020. The main destinations for Indonesian cotton fabric exports in 2021 were Japan (46 percent), the United States (12 percent), Portugal (7 percent), and the PRC (5 percent).

Chart 3. Indonesia Cotton Imports, 2016-2021 (MT, Aug-Jul)



Source: Trade Data Monitor, March 2022.

Stocks

Spinners continue to source raw materials on an as-needed basis. Cotton stocks in 2021/22 are estimated to decline slightly by 0.8 percent to 492,000 bales from 496,000 bales in 2020/21 due

Photo 2: Bonded Warehouse for Cotton



Source: FAS Jakarta, Semarang, Central Java, March 2, 2022

to improving demand from export destination countries and the domestic market, as well as increasing running capacity. Despite high international cotton prices, this trend is expected to continue. Therefore, 2022/23 ending stocks are forecast to further decline to 438,000 bales.

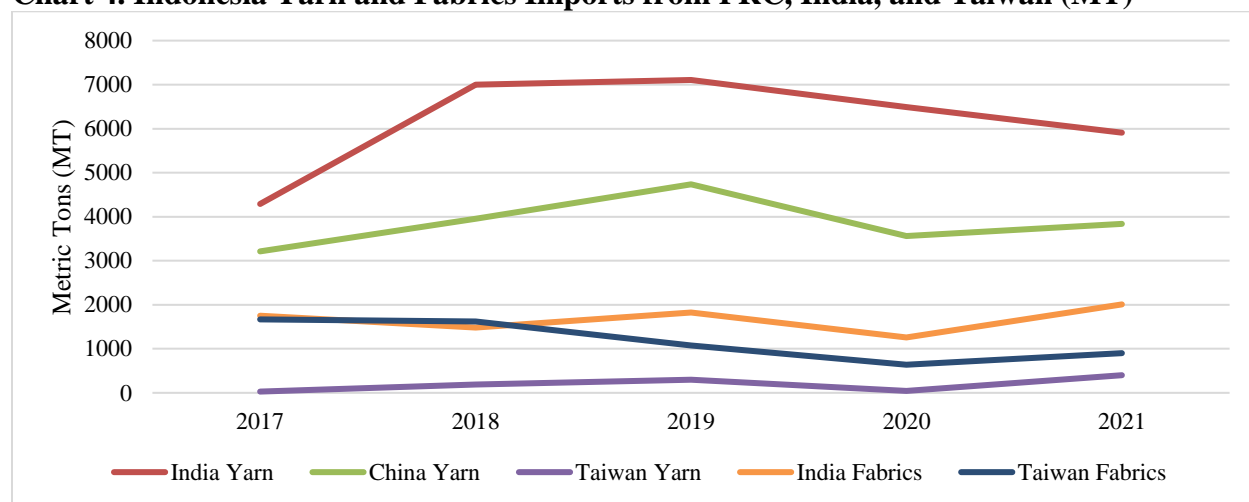
Currently, there is only one bonded warehouse in Indonesia holding cotton stocks (see Photo 1 and 2). It is located in Semarang, Central Java, and has a total capacity of 1,400 MT. In February 2022, its stocks were at 1,150 MT.

Policy

In order to increase competitiveness, productivity, and energy efficiency of the fabric refinement industry and fabric printing industry as part of industry textiles and textile products, the GOI issued MOI Regulation No. 18/2021 on Machinery and Equipment Restructuring Program in the Fabric Improvement Industry and the Fabric Printing Industry. The regulation stated that to be able to apply for this program, a company must have made a purchase of machinery or equipment with a total value of at least 500 million IDR (\$34,950) and the machinery must have been installed at the location stated on the company's business permit. The program reimburses companies some of the purchase price of newly acquired machinery and equipment. The value of the reimbursement is capped at 25 percent of the purchase price if the machinery and equipment are domestically produced or 10 percent if the machinery and equipment are imported. The reimbursement value shall not exceed the total of 1 billion IDR (\$69,900) per company per year.

The GOI continues to support the increased production of manmade fibers through several regulations, including Ministry of Finance (MOF) Regulation No. 115/2019 on Anti-Dumping Import Duties for Spin Drawn Yarn (SDY) and MOF Regulation No. 114/2019 on Safeguard Duties for Polyester Synthetic Fiber (PSF), which will remain valid until August 2022 (see [ID2021-0016](#)). With these regulations, imports of fabrics and yarns from certain countries into Indonesia declined in 2020. However, with the improving economy and recovering demand, imports of yarn and fabrics from those countries started rebounding in 2021 (see Chart 4).

Chart 4. Indonesia Yarn and Fabrics Imports from PRC, India, and Taiwan (MT)



Source: Trade Data Monitor, March 2022

Marketing

Cotton Council International continues to be active in the Indonesian market. The Council organized several webinars to share knowledge on how to take better advantage of using U.S. cotton to market finished products in line with consumer trends. Maintaining and expanding contacts with industry by providing regular updates on U.S. cotton crop quality and technology as well as consumer trends in domestic and international markets have proven successful in developing and sustaining interest in U.S. cotton.

I. Statistical Tables

Table 4. PSD Cotton (HS Code 5201) in Bales

Cotton Market Year Begins	2020/2021		2021/2022		2022/2023	
	Aug 2020		Aug 2021		Aug 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Indonesia						
Area Planted (1000 HA)	0	3	0	2	0	2
Area Harvested (1000 HA)	2	2	2	1	0	1
Beginning Stocks 1000 480 lb. Bales	643	643	496	496	0	492
Production 1000 480 lb. Bales	2	2	2	1	0	1
Imports 1000 480 lb. Bales	2307	2307	2500	2600	0	2700
MY Imports from U.S. 1000 480 lb. Bales	0	621	0	510	0	540
Total Supply 1000 480 lb. Bales	2952	2952	2998	3097	0	3193
Exports 1000 480 lb. Bales	6	6	5	5	0	5
Use 1000 480 lb. Bales	2450	2450	2500	2600	0	2750
Loss 1000 480 lb. Bales	0	0	0	0	0	0
Total Dom. Cons. 1000 480 lb. Bales	2450	2450	2500	2600	0	2750
Ending Stocks 1000 480 lb. Bales	496	496	493	492	0	438
Total Distribution 1000 480 lb. Bales	2952	2952	2998	3097	0	3193
Stock to Use % (PERCENT)	20.2	20.2	19.68	18.89	0	15.9
Yield (KG/HA)	218	218	218	218	0	218
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)						

Note: Last column of each Marketing Year is not official USDA data.

Table 5. PSD Cotton (HS Code 5201) in MT

Cotton Market Begin Year	2020/2021		2021/2022		2022/2023	
	Aug 2020		Aug 2021		Aug 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Indonesia						
Area Planted	0	3	0	2	0	2
Area Harvested	2	2	2	1	0	1
Beginning Stocks	139,998	139,998	107,992	107,992	0	107,121
Production	435	435	435	218	0	218
Imports	502,295	502,295	544,316	566,089	0	587,861
MY Imports from U.S.	-	135,208	-	111,040	0	117,572
Total Supply	642,728	642,728	652,744	674,299	0	695,200
Exports	1,306	1,306	1,089	1,089	0	1,089
Use	533,430	533,430	544,316	566,089	0	598,748
Loss	-	-	-	-	0	-
Total Dom. Cons.	533,430	533,430	544,316	566,089	0	598,748
Ending Stocks	107,992	107,992	107,339	107,121	0	95,364
Total Distribution	642,728	642,728	652,744	674,299	0	695,200
Stock to Use %	20.2	20.2	19.68	18.89	0	15.9
Yield	47,464	47,405	47,405	47,405	-	47,405

Note: Last column of each Marketing Year is not official USDA data.

TRADE MATRIXES

Table 6. Cotton Export Trade Matric (MY 2020 - 2022)

Country	Indonesia		
Commodity	Cotton, HS Code 5201		
Time Period	Aug-Jul	Units:	MT
Exports for:	2020/21		2021/22*
U.S.	0	U.S.	0
Others	0	Others	0
Bangladesh	1026	Bangladesh	535
Vietnam	140	Thailand	178
Thailand	113	Philippines	80
India	21	India	54
Total for Others	1300		847
Others not Listed	16		10
Grand Total	1316		857

Source: Trade Data Monitor

Note: *Only for the period of Aug 2021 - Jan 2022

Table 7. Cotton Import Trade Matric (MY 2020 – 2022)

Country	Indonesia		
Commodity	Cotton		
Time Period	Aug - Jul	Units:	1,000 MT
Imports for:	2020/21	Imports for:	2021/22*
U.S.	135	U.S.	35
Others		Others	
Brazil	195	Australia	101
India	61	Brazil	71
Australia	32	India	34
Greece	20	Cote d'Ivoire	9
Cote d'Ivoire	10	Argentina	7
Argentina	9	Greece	6
Mexico	5	Mali	6
Mali	5	Mexico	3
Zimbabwe	4	Zimbabwe	2
Burkina Faso	3	Burkina	2
Chad	3	Spain	2
Spain	3	Chad	1
Total for Others	350	Total for Others	244
Others not Listed	17	Others not Listed	15
Grand Total	502	Grand Total	294

Source: Trade Data Monitor

Note: *Only for the period of Aug 2021 - Jan 2022

Table 8. Cotton Yarn Export Trade Matrix (CY 2021 – 2022)

Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2021		2022*
U.S.	2		0
Others	0	Others	0
People's Republic of China	115	People's Republic of China	5
South Korea	13	Bangladesh	2
Bangladesh	11	Honduras	2
Japan	10	Japan	1
Honduras	6	Peru	1
Hong Kong	2	South Korea	1
Vietnam	2		
Portugal	2		
Egypt	1		
Total for Others	162	Total for Others	12
Others not Listed	13	Others not Listed	1
Grand Total	177	Grand Total	13

Source: Trade Data Monitor

Note: *Only for the period of Aug 2021 - Jan 2022

Table 9. Cotton Yarn Import Trade Matrix (CY 2021 – 2022)

Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2021		2022*
U.S.	0	U.S.	0
Others		Others	
India	6	Vietnam	1
People's Republic of China	4	People's Republic of China	1
Vietnam	5	Vietnam	
South Korea	2	South Korea	
Singapore	1		
Pakistan	1		
Thailand	1		
Total for Others	20	Total for Others	2
Others not Listed	0	Others not Listed	1
Grand Total	20	Grand Total	3

Source: Trade Data Monitor

Note: *Only for the period of Aug 2021 - Jan 2022

Table 10. Cotton Fabric Export Trade Matrix (CY 2021 – 2022)

Country	Indonesia		
Commodity	Fabric		
Units:	1,000 MT		
Time Period	Jan-Dec		
	2021		2022*
U.S.	1	U.S.	
Others		Others	
Japan	5	Japan	1
Portugal	1		
People's Republic of China	1		
Total for Others	7	Total for Others	1
Others not Listed	7	Others not Listed	0
Grand Total	15	Grand Total	1

Source: Trade Data Monitor

Note: *Only for the period of Aug 2021 - Jan 2022

Table 11. Cotton Fabric Import Trade Matrix (CY 2021 – 2022)

Country	Indonesia		
Commodity	Fabric		
Units:	1,000 MT	Units:	
Time Period	Jan - Dec		
Exports for:	2021	Exports for:	2022*
U.S.	0	U.S.	0
Others		Others	
People's Republic of China	40	People's Republic of China	5
Hong Kong	4	Hong Kong	
South Korea	3	Malaysia	
Pakistan	2	Pakistan	
India	2	South Korea	
Vietnam	2	India	
Taiwan	1		
Malaysia	1		
Total for Others	55	Total for Others	5
Others not Listed	2	Others not Listed	2
Grand Total	57	Grand Total	7

Source: Trade Data Monitor

Note: *Only for the period of Aug 2021 - Jan 2022

Table 12. Exchange Rate (IDR/USD)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2019	14,072	14,062	14,244	14,268	14,362	14,141	13,913	14,237	14,174	14,008	14,102	13,901
2020	13,662	14,234	16,367	15,157	14,733	14,302	14,653	14,554	14,918	14,690	14,187	14,105
2021	14,084	14,229	14,459	14,453	14,292	14,452	14,548	14,306	14,321	14,171	14,320	14,278
2022	14,392	14,369	14,306									

Source: Bank of Indonesia

Note: Exchange rate was 14,306 IDR/\$1 in March 2022

Attachments:

No Attachments