

**Required Report:** Required - Public Distribution

**Date:** November 21,2019

**Report Number:** ID2019-0024

## **Report Name:** Cotton and Products Update

**Country:** Indonesia

**Post:** Jakarta

**Report Category:** Cotton and Products

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### **Report Highlights:**

Cotton imports for 2018/19 are lowered to 3.05 million bales due to competition from imported yarn and fabrics, a weak rupiah, and lower demand from export markets for garments. Consumption for 2019/20 is expected to remain stable at 3.1 million bales as expansion among larger mills and a new regulation on imports of yarn and fabrics is expected to balance lower overseas demand.

## Production

Indonesia does not produce significant volumes of cotton. Land conversion to nonagricultural uses and preference for higher margin crops such as rice and corn decreased 2018/19 cotton production to 2,000 bales, compared to 3,000 bales produced in 2017/18. Production for 2019/20 is forecast to remain at 2,000 bales. The Ministry of Agriculture (MOA) reported that in 2018/19 most cotton was grown on marginal lands, primarily in South Sulawesi (51 percent), East Nusa Tenggara (25 percent), East Java (8 percent), and West Nusa Tenggara (8 percent).

## Consumption

Cotton use is estimated to have declined to 3.1 million bales in 2018/19, from 3.5 million bales in 2017/18. Despite fierce competition with cheaper priced imports which has led to closures of some mills at the beginning of the marketing year, cotton consumption is forecast to remain stable at 3.1 million bales in 2019/20 due to expansion among larger mills and a recently issued government regulation to curb fabric and yarn imports.

Local cotton mills and the overall Indonesian textile industry face several challenges impeding production growth. Ministry of Trade regulation number 64/2017 provided opportunity for traders to import fabrics for garment production through bonded zones. The regulation led to significant volumes of cheaper priced products entering the commercial market, directly competing with local production. As a result, spinners reported higher stocks of yarn and fabrics in storage due to domestic market share loss. Imports of cotton yarn grew by 10 percent during the period of January to September 2019 compared to the same period of last year. The imported cotton yarn mostly came from India (41 percent), China (24 percent), and Vietnam (14 percent).

The Ministry of Industry reports that the textile industry accounted for 9.8 percent of the total manufacturing workforce of 17.003 million in 2018. Although cotton accounts for about half of the production cost to manufacture cotton yarn, labor is increasingly seen by industry as the determining factor in competitiveness. Annual increases in the minimum wage are monitored closely and are seen as the driving force for medium and large textile mills to relocate to Central Java, where the minimum wage is lower than West Java and East Java.

**Table 1. Comparison of Provincial Minimum Monthly Wage, 2019 - 2020 (In Rp.)**

Provinces	2019	2020
West Java	1,668,372	1,810,350
Central Java	1,605,396	1,742,015
East Java	1,630,058	1,768,777

In addition to wages, environmental policies are also playing a role in determining where manufacturers locate. Indonesian presidential regulation number 15/2018 aims to reduce pollution in Citarum river, the largest river in West Java. The regulation requires manufacturers in West Java to build water treatment facilities, which has increased production costs and led to some small manufactures located in the river basin areas to close-down operations due to their inability to meet the new requirements. Prominent large-scale cotton mills with strong capital continue buying these small-scale and medium-scale mills.

Rising production costs compared to those of competing countries has reduced Indonesia’s cotton-yarn competitiveness in the export market. The local textile industry continues to struggle with intense competition from Vietnam and Bangladesh. The industry points to the fact that in the last 15 years, Vietnam’s and Bangladesh’s textile exports have grown 1,028 percent and 699 percent, respectively, while Indonesia’s has only grown 82 percent. Lower labor cost in Vietnam make the textile products cheaper compared to Indonesia’s.

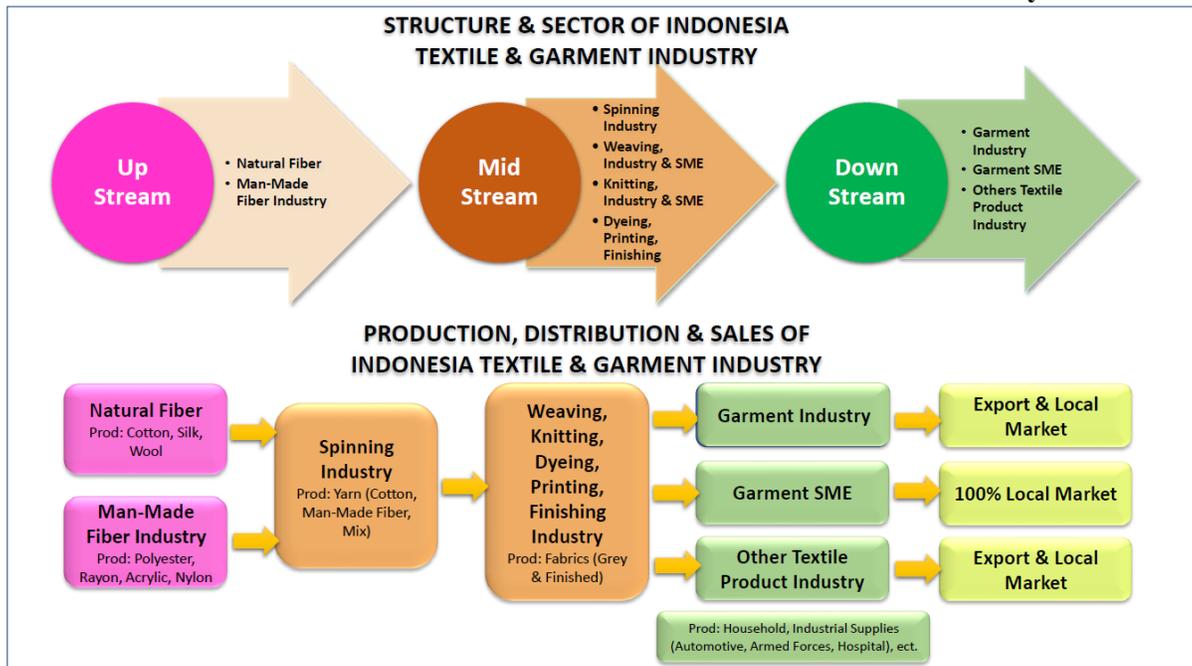
**Table 2. Comparison of Regional Average Monthly Wage (In US\$)**

Country	2014	2015	2016	2017	2018	2019
Indonesia	174.11	192.66	221.21	239.05	256.89	278.29
Vietnam	116.34	133.57	150.81	161.58	171.49	180.11
Philippine	-	285.97	291.91	304.40	319.26	319.26
Malaysia	217.92	217.92	242.13	242.13	242.13	242.13
Thailand	295.86	295.86	295.86	300.79	320.51	320.51

Source: Trading Economics.

As production costs rise, textile manufacturers are seeking to increase exports as a proportion of total production. In the near term, cotton is expected to remain competitive with synthetics as there has been little investment to expand local synthetic fiber manufacturing and imported synthetics are higher priced than domestic. Currently, just over 300 spinners are operational, running at about 84 percent capacity, a slight decrease from the previous year. Despite industry efforts, cotton yarn exports grew by only 4 percent during the period of January to August 2019, compared to 20 percent during the same period in 2018.

**Chart 1. Characteristics of Indonesian Textile and Textile Products Industry**



Source: Indonesian Textile Association (API), 2018.

Considering the abovementioned factors, 2018/19 cotton consumption is estimated to decline to 3.1 million bales. The recent issuance of Ministry of Trade regulation 77/2019 (*see Policy section below*), which is expected to reduce competition from imported yarn and fabric, is forecast to maintain 2019/20 cotton consumption at 3.1 million bales despite weaker export demand garments.

## **Trade**

In line with reduced consumption, 2018/19 cotton imports declined to an estimated 3.051 million bales, from 3.5 million bales imported in 2017/18. Imports are forecast to slightly increase to 3.1 million bales in 2019/20 due to expectations for more selling opportunity in the domestic market.

U.S. cotton exports to Indonesia reached a total of 1.18 million bales in 2018/19, allowing the U.S. to maintain its position as the leading supplier of cotton with a 38.53 percent market share. Meanwhile, Brazil and Australia accounted for 29.06 percent and 7.32 percent, respectively.

According to Indonesia's Textile Association (*API, Asosiasi Pertekstilan Indonesia*), the export value of textile and textile products declined to \$7.6 billion during the period of January – July 2019 from \$7.7 billion during the same period of 2018. Most textile products were exported to the United States (35.58 percent), Japan (10.87 percent), China (6.2 percent), and South Korea (5.05 percent).

## **Stocks**

Local spinners source raw materials on an as-needed basis. Ending stocks are estimated up slightly to 584,000 bales in 2018/19 due to lower running capacity at 84 percent compared to 85 percent in the previous period. In line with stagnant use, ending stock is forecast to remain stable at 584,000 bales in MY 2019/20

## **Marketing**

Indonesia has expressed interest to increase imports of U.S. cotton, including in a July 2018 trade delegation visit led by the Minister of Trade. Indonesian industry and government representatives believe that U.S.-China trade tensions will ultimately result in more Indonesian garment exports to the United States and more cotton imports from the United States. Compared to other origins, U.S. cotton is still considered to be higher quality and more consistent. To convince customers of the higher quality of US cotton compared to other suppliers, Indonesia's textile industry has encouraged US industry to expedite the development of a U.S. initiative to address sustainability, similar to the Better Cotton Initiative (BCI), which has gained prominence in other countries.

Cotton Council International (CCI) routinely conducts activities to educate the local industry about the advantages of using higher quality cotton from the United States and has recently partnered with API on several reverse trade missions.

Cotton spinners continue to raise concerns on the use of plastic packaging for US cotton bales. Poor handling during shipment can lead to ripped packaging resulting in plastic splinters entering the spinning process and yarn. The entry of plastic material to yarns can cause even absorption of dyeing materials into the fabrics.



Above: Ripped plastic cover of US cotton bales reported by cotton spinners.

## Policy

On October 16, 2019, the Ministry of Trade issued regulation number 77/2019 on Textile and Textile Products Imports. The regulation stated that only importers who hold a textile and textile products producer-importer identification number from the Ministry of Trade can import textile and textile products. The imported textile and textile products must only be used as raw material for further production. The regulation is intended to curb competition from cheaper priced imported textile and textile products in the domestic market, which had previously been allowed under regulation 64/2017.

## I. Statistical Tables

**Table 3. PSD Cotton (HS Code 5201) in bales**

Cotton Market Begin Year Indonesia	2017/2018		2018/2019		2019/2020	
	Aug 2017		Aug 2018		Aug 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	3	5	0	3	0	3
Area Harvested	3	3	3	2	3	2
Beginning Stocks	619	619	634	634	532	584
Production	3	3	3	2	3	2
Imports	3517	3517	3051	3050	3100	3100
MY Imports from U.S.	0	307	0	1190	0	1250
Total Supply	4139	4139	3688	3686	3635	3686
Exports	5	5	6	2	5	2
Use	3500	3500	3150	3100	3100	3100
Loss	0	0	0	0	0	0
Total Dom. Cons.	3500	3500	3150	3100	3100	3100
Ending Stocks	634	634	532	584	530	584
Total Distribution	4139	4139	3688	3686	3635	3686
Stock to Use %	18.09	18.09	16.86	18.83	17.07	18.83
Yield	218	218	218	218	218	218

(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)

Note: last column of each marketing year is not official USDA data.

**Table 4. PSD Cotton (HS Code 5201) IN MT**

Cotton Market Begin Year Indonesia	2017/2018		2018/2019		2019/2020	
	Aug 2017		Aug 2018		Aug 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	3	5	0	3	0	3
Area Harvested	3	3	3	2	3	2
Beginning Stocks	134773	134773	138039	138039	115830	127152
Production	653	653	653	435	653	435
Imports	765744	765744	664283	664066	674952	674952
MY Imports from U.S.	0	66842	0	259094	0	272158
Total Supply	901170	901170	802975	802540	791436	802540
Exports	1089	1089	1306	435	1089	435
Use	762042	762042	685838	674952	674952	674952
Loss	0	0	0	0	0	0
Total Dom. Cons.	762042	762042	685838	674952	674952	674952
Ending Stocks	138039	138039	115830	127152	115395	127152
Total Distribution	901170	901170	802975	802540	791436	802540
Stock to Use %	18.09	18.09	16.86	18.83	17.07	18.83
Yield	47464	47405	47464	47405	0	47405

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

## TRADE MATRIXES

**Table 5. Cotton Export Trade Matric (MY 2017 - 2019)**

Country	Indonesia					
Commodity	Cotton, HS Code 5201					
Time Period	Aug-Jul	Units:		Units:	MT	
Exports for:	2016/17	2017/18		2018/19		
U.S.	0	U.S.	20	U.S.	1	
Others	Others		Others		Others	
Taiwan	335	Bangladesh	304	Bangladesh	608	
Vietnam	279	India	242	Vietnam	365	
Hong Kong	217	Vietnam	122	India	180	
Sri Lanka	202	Thailand	108	Malaysia	69	
Malaysia	202	Taiwan	96	Taiwan	55	
Greece	113	Malaysia	63	Japan	37	
Japan	56	Philippines	36	Turkey	19	
Bangladesh	53	Japan	19	China	2	
India	50					
China	41					
Total for Others	1548		990		1335	
Others not Listed	32		3		2	
Grand Total	1580		1013		1338	

Source: Trade Data Monitor

**Table 6. Cotton Import Trade Matric (MY 2017 – 2019)**

Country	Indonesia				
Commodity	Cotton				
Time Period	Aug - Jul	Units:	1,000 MT	Units:	1,000 MT
Imports for:	2016/17	Imports for:	2017/18	Imports for:	2018/19
U.S.	304	U.S.	307	U.S.	256
Others		Others		Others	
Brazil	124	Brazil	199	Brazil	193
Australia	72	Australia	77	Australia	49
India	67	India	65	Greece	29
Greece	36	Greece	18	Argentina	28
Argentina	16	Pakistan	17	India	22
Cote d'Ivoire	15	Cote d'Ivoire	14	Cote d'Ivoire	13
Burkina Faso	13	Argentina	10	Turkey	10
Mali	13	Mexico	7	Tanzania	9
Cameroon	10	Spain	6	Burkina Faso	7
Benin	7	Togo	6	Mali	6
Turkey	6	Burkina Faso	6	Mexico	5
Pakistan	5	Cameroon	5	Togo	4
Spain	5	Mali	5	Mozambique	4
Uganda	4	Tanzania	4	Pakistan	4
Zambia	4	Benin	4	Benin	3
Mexico	4	Ethiopia	2	Malaysia	2
Togo	3	Uganda	2	Paraguay	2
Total for Others	404	Total for Others	447	Total for Others	390
Others not Listed	31	Others not Listed	13	Others not Listed	18
Grand Total	739	Grand Total	767	Grand Total	664

Source: Trade Data Monitor

**Table 7. Cotton Yarn Export Trade Matrix (CY 2017 – 2019)**

Country	Indonesia		Units:	1,000 MT	Units:	1,000 MT
	Commodity	Yarn				
Time Period	Jan-Dec					
Exports for:	2017		2018			2019*
U.S.	1		1			0
Others		Others		Others		
China	130	China	115	China		93
Japan	18	Japan	17	South Korea		11
South Korea	7	Bangladesh	12	Japan		10
Bangladesh	7	South Korea	11	Bangladesh		5
Hong Kong	2	Colombia	2	Vietnam		2
Portugal	1	Malaysia	1	Portugal		1
Vietnam	1	Vietnam	1	South Africa		1
Germany	1	Germany	1	Egypt		1
South Africa	1	South Africa	1	Hong Kong		1
Philippines	1	Romania	1			
Total for Others	169	Total for Others	162	Total for Others		125
Others not Listed	8	Others not Listed	8	Others not Listed		6
Grand Total	178	Grand Total	171	Grand Total		131

Source: Trade Data Monitor.

Note: \* Only for the period of Jan-Aug 2019.

**Table 8. Cotton Yarn Import Trade Matrix (CY 2017 – 2019)**

Country	Indonesia		Units:	1,000 MT	Units:	1,000 MT
	Commodity	Yarn				
Time Period	Jan-Dec					
Exports for:	2017		2018			2019*
U.S.	0	U.S.	0	U.S.		0
Others		Others		Others		
India	4	India	7	India		5
South Korea	4	China	4	China		3
China	3	Vietnam	3	Vietnam		2
Vietnam	2	South Korea	2			
Macao	1	Malaysia	1			
Total for Others	14	Total for Others	17	Total for Others		10
Others not Listed	3	Others not Listed	1	Others not Listed		3
Grand Total	17	Grand Total	18	Grand Total		13

Source: Trade Data Monitor.

Note: \* Only for the period of Jan-Aug 2019.

**Table 9. Cotton Fabric Export Trade Matrix (CY 2017 – 2019)**

Country	Indonesia					
Commodity	Fabric					
Units:	1,000 MT					
Time Period	Jan-Dec		Jan-Dec		Jan-Dec	
	2017		2018		2019*	
U.S.	2	U.S.	1	U.S.	1	
Others	Others		Others		Others	
Japan	8	Japan	8	Japan	5	
Belgium	2	Cambodia	1	Belgium		
Italy	1	Bangladesh	1	Italy		
Portugal	1			Portugal		
Netherlands	1			Netherlands		
Total for Others	13	Total for Others	10	Total for Others	5	
Others not Listed	5	Others not Listed	5	Others not Listed	3	
Grand Total	20	Grand Total	16	Grand Total	9	

Source: Trade Data Monitor.

Note: \* Only for the period of Jan-Aug 2019

**Table 10. Cotton Fabric Import Trade Matrix (CY 2017 – 2019)**

Country	Indonesia					
Commodity	Fabric					
Units:	1,000 MT		Units:		Units:	
Time Period	Jan - Dec		Jan - Dec		Jan - Dec	
Exports for:	2017		2018		2019*	
U.S.	0	U.S.	0	U.S.	0	
Others	Others		Others		Others	
China	22	China	45	China	29	
Korea, Rep. of	6	Hong Kong	8	Hong Kong	3	
Hong Kong	6	Korea, Rep. of	6	Korea, Rep. of	2	
Pakistan	2	Pakistan	3	Pakistan	2	
Taiwan	1	Taiwan	2	Taiwan	1	
India	1	India	1	India	1	
		Vietnam	1			
Total for Others	38	Total for Others	66	Total for Others	38	
Others not Listed	26	Others not Listed	3	Others not Listed	3	
Grand Total	64	Grand Total	69	Grand Total	41	

Source: Trade Data Monitor.

Note: \* Only for the period of Jan-Aug 2019.

**Table 11. Exchange Rate (In Rp/\$1)**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2016	13,846	13,395	13,276	13,204	13,615	13,180	13,094	13,300	12,998	13,051	13,563	13,436
2017	13,343	13,347	13,321	13,327	13,321	13,319	13,323	13,351	13,492	13,572	13,514	13,548
2018	13,413	13,707	13,756	13,877	13,951	14,404	14,413	14,711	14,929	15,227	14,339	14,481
2019	14,072	14,062	14,244	14,268	14,362	14,141	13,913	14,237	14,174	14,008	13,992	

Source: Bank of Indonesia

**Attachments:**

No Attachments