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Report Name: Cotton and Products Update

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Post: Jakarta

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Report Highlights:

In line with gradual economic recovery due to improving COVID-19 pandemic conditions, Indonesia's cotton consumption is forecast to increase to 2.5 million bales in 2021/22, up approximately 2 percent from 2.45 million bales in 2020/21. The United States is losing market share in Indonesia mainly due to price and lead time uncompetitiveness compared to other major suppliers.

Production

Indonesia's domestic cotton production is forecast at 2,000 480-lb. bales, less than 1 percent of total national demand. The cotton sector continues to receive minimal support or incentives from the Government of Indonesia (GOI), so over the past few years production has been either stagnant or in decline (see [ID2021-0016](#)).

Consumption

2020/21 cotton consumption is revised up 22.5 percent to 2.45 million bales from Post's previous estimate of 2 million bales due to recovering economic conditions and the loosening up of COVID-19 social distancing measures. Although this economic recovery is expected to continue into 2021/22, high cotton prices in the international market will hinder further growth in consumption. Therefore, 2021/22 cotton consumption is forecast to increase by just 2.04 percent from the previous year to 2.5 million bales.

The Indonesian economy contracted by 2.1 percent in 2020 as nearly every sector struggled to adapt to the challenges of the global pandemic. In early November 2021, the Indonesian Statistics Agency (*BPS, Badan Pusat Statistik*) reported that Indonesia's economic growth was 3.51 percent year on year (yoy) in the third quarter of 2021, lower than the 7.07 percent growth (yoy) in the previous quarter, but higher than during the third quarter of 2020 which had experienced a contraction of 3.49 percent (yoy). According to BPS, the industrial, agricultural, construction, and trade sectors are the main drivers of Indonesia's current economic growth rate. These sectors contributed to 66.42 percent of Indonesia's total Gross Domestic Product (GDP) in the third quarter of 2021. The economic slowdown in the third quarter of 2021 compared to the second quarter was due to an increase in daily cases of COVID-19 as the Delta variant entered the country. The significant increase in positive cases led to the government's implementation of the Imposition of Emergency Community Activity Restrictions (*PPKM, Pemberlakuan Pembatasan Kegiatan Masyarakat*) to slow the spread of COVID-19.

Bank Indonesia (BI) is optimistic that in the fourth quarter of 2021 the economy will improve. This expectation is supported by continued high exports and increased consumption and investment activities in response to the relaxation of PPKM policies as active cases of COVID-19 have been on the decline since September 2021. The Ministry of Health reported that as of November 2, 2021, approximately 75.2 million people (28.3 percent of total population) were fully vaccinated and 121.3 million had received a first vaccination dose. The government's goal by the end of 2021 is to have at least 123 million Indonesians completely vaccinated. With this vaccination rollout and the lifting of PPKM restrictions, 2021 economic growth is estimated between 3.5 and 4.3 percent. Furthermore, BI forecasts the Indonesian economy will grow by 4.6 to 5.4 percent in 2022.

Although the manufacturing sector grew 6.91 percent on an annual basis (yoy), the textile and textile product industry still recorded a contraction in the second quarter of 2021. BPS recorded that the performance of the textile and apparel sector in the second quarter of 2021 declined by 4.54 percent compared to the second quarter of 2020. This decline is due to the stricter enforcement of social distancing restrictions implemented during the peak of Delta variant cases from June to July 2021. During this period, manufacturers were only allowed to carry out one work shift per day. Industry associations reported that in July 2021 utilization fell to 50 percent from the previous level in July 2020.

of 80 percent. Following the significant decline of COVID-19 cases in late August 2021 and the relaxation of social restriction measures, the textile industry is also faring better than earlier in the year. BPS reported that in the third quarter of 2021, the textile and clothing industry's productivity contracted by 3.34 percent year-on-year (yoy). However, it is still an improvement over the second quarter, which saw a decline of 4.54 percent (yoy), and the first quarter, when it declined by 13.28 percent (yoy).

The recovering global economy and new demand for Indonesian textiles from major destination countries that normally source from countries now in lock-down due to the Omicron variant of COVID-19, have led to a number of export-oriented textile manufacturers increasing their production capacity. The Ministry of Industry (MOI) reported that overall textile utilization has been increasing from around 65 percent in August 2021 to approximately 75 percent in October 2021. Industry associations reported that the average utilization of the export-oriented textile industry has reached 100 percent and several manufacturers have begun expanding their capacities. Yet, the export volume is not expected to reach the same pre-pandemic level until next year. MOI reported that the value of Indonesia's textile and textile products exports during the period of January to October 2021 reached a total of \$377.03 million, an increase of 21.9 percent from \$309.27 million recorded during the same period of 2020.

Indonesia's textile and textile products industry consists of three integrated sectors: the upstream sector, midstream sector, and downstream sector. The upstream sector produces fiber and yarn from domestically produced and imported raw material. Currently, the upstream sector is made up of approximately 43 fiber-making companies and 294 spinners. Cotton fiber is usually used to produce apparel for middle-upper income consumers, while rayon, polyester, and fiber mixtures are used for apparel for middle income consumers. In line with a gradually recovering economy, cotton fiber consumption is also forecast to rebound to around 80 percent in 2021/22. However, higher prices of imported cotton compared to locally produced rayon and polyester, and longer lead time to purchase imported cotton have driven some small mills to switch to polyester and rayon.

Trade

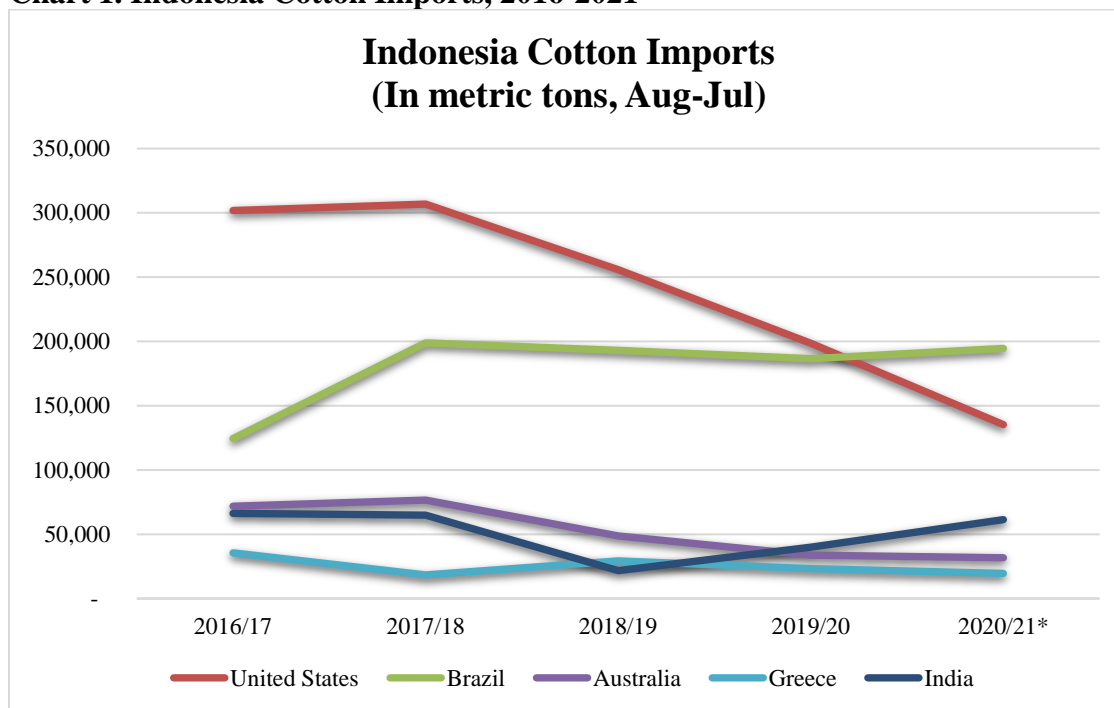
In line with the increase in consumption due to the relaxation of social distancing measures and gradual economic recovery, 2021/22 cotton imports are expected to increase by 8.4 percent to 2.5 million bales compared to 2.307 million bales imported in 2020/21. Both import numbers have been revised up from the previous report (about 5 and 9 percent respectively due to higher demand.)

Surging cotton prices combined with high freight rates and difficulties finding containers continue to create challenges for traders and spinners to import U.S. cotton. Despite spinners' preferences for U.S. cotton, its higher price is their main reason for sourcing cotton from other suppliers. Industry reported that currently the price of middling quality U.S. cotton to Indonesia is quoted at \$1,800 per pound, while Australian and Brazilian cotton are at \$1,100 and \$1,200 per pound respectively. In addition to benefitting from production recovery and having cotton quality comparable to U.S. cotton, Australia enjoys closer geographical proximity to Indonesia. Purchasing from Australia requires a lead time of just one week compared to two to three months' lead time if purchasing from the United States or other suppliers.

During the period of August 2020 to July 2021, Brazil overtook the United States as Indonesia's largest cotton supplier, raising its market share to 38.8 percent with a volume of 894,050 bales. The United

States and India followed with 26.9 percent (621,320 bales) and 12.2 percent (281,550 bales), respectively. However, for the period of August to October 2021, Australia took over the lead with approximately 54.61 percent market share by increasing its exports to Indonesia 1,165 percent to 68,077 tons from 5,380 tons exported during the same period of 2020. Brazil and the United States followed with 25.9 percent and 7.32 percent market share respectively.

Chart 1. Indonesia Cotton Imports, 2016-2021



Source: Trade Data Monitor, November 2021.

Indonesian cotton yarn exports during the period of January to September 2021 increased by 10.2 percent to 133,889 tons from 121,497 exported during the same period of 2020. In that period, China received most of the exports (50.6 percent), followed by Bangladesh (14.21 percent), and South Korea (8.95 percent). Meanwhile, cotton fabric exports during the period of January to September 2021 declined by 6.83 percent to 9,018 tons from 9,679 tons exported during the same period of 2020, reflecting slower demand from the United States, European countries, as well as major garment producing countries that are affected by surging COVID-19 cases. The main destinations for cotton fabrics are Japan (44.7 percent), the United States (12 percent), and Portugal (7.95 percent).

Stocks

In line with high prices of cotton in international market and longer lead times due to trade logistic issues, local spinners continue to source raw materials on an as-needed basis. Combined with demand recovery and rebounding running capacity, 2021/22 ending stocks are forecast to further decline to 493,000 bales from the previous 2020/21 ending stocks of 496,000 bales.

Marketing

Cotton Council International remains active in the Indonesian market. The U.S. Cotton Protocol and Cotton USA logo have created customer confidence in using US cotton as the raw material for spinning. Nonetheless, industry expects clear information on the requirement of minimum level US cotton content in a product to be eligible to use the Cotton USA logo. Industry considers the logo as a privilege to gain market preference. Furthermore, as spinners' human resources are moving to new and younger personnel, ensuring exposures to U.S. cotton farm-to-fashion and close engagement with industry are expected to continue expanding U.S. cotton market share in Indonesia.

I. Statistical Tables

Table 1. Production, Supply, and Distribution Cotton (HS Code 5201) in bales

Cotton	2019/2020		2020/2021		2021/2022	
Market Begin Year	Aug 2019		Aug 2020		Aug 2021	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	3	0	3	0	3
Area Harvested	2	2	2	2	2	2
Beginning Stocks	532	532	643	643	446	496
Production	3	3	2	2	2	2
Imports	2512	2512	2307	2307	2500	2500
MY Imports from U.S.	0	912	0	621	0	0
Total Supply	3047	3047	2952	2952	2948	2998
Exports	4	4	6	6	5	5
Use	2400	2400	2500	2450	2500	2500
Loss	0	0	0	0	0	0
Total Dom. Cons.	2400	2400	2500	2450	2500	2500
Ending Stocks	643	643	446	496	443	493
Total Distribution	3047	3047	2952	2952	2948	2998
Stock to Use %	26.75	26.75	17.8	20.2	17.68	19.68
Yield	327	327	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 2. Production, Supply and Distribution Cotton (HS Code 5201) IN MT

Cotton	2019/2020		2020/2021		2021/2022	
Market Begin Year	Aug 2019		Aug 2020		Aug 2021	
Indonesia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	3	0	3	0	0
Area Harvested	2	2	2	2	2	0
Beginning Stocks	115,830	115,830	139,998	139,998	97,106	107,992
Production	653	653	435	435	435	435
Imports	546,929	546,929	502,295	502,295	544,316	544,316
MY Imports from U.S.	-	198,566	-	135,208	-	-
Total Supply	663,412	663,412	642,728	642,728	641,857	652,744
Exports	871	871	1,306	1,306	1,089	1,089
Use	522,543	522,543	544,316	533,430	544,316	544,316
Loss	-	-	-	-	-	-
Total Dom. Cons.	522,543	522,543	544,316	533,430	544,316	544,316
Ending Stocks	139,998	139,998	97,106	107,992	96,453	107,339
Total Distribution	663,412	663,412	642,728	642,728	641,857	652,744
Stock to Use %	26.75	26.75	17.8	20.2	17.68	19.68
Yield	71,197	71107	47,464	47405	47,464	47,464

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

TRADE MATRICES

Table 3. Cotton Export Trade Matrix (MY 2019 – 2021)

Export Trade Matrix			
Country	Indonesia		
Commodity	Cotton, HS Code 5201		
Time Period	Aug-Jul	Units:	MT
Exports for:	2019/20		2020/21
U.S.	0	U.S.	0
Others		Others	
Bangladesh	676	Bangladesh	653
India	123	Vietnam	41
Vietnam	71	Malaysia	7
Malaysia	22		
Total for Others	892	Total for Others	701
Others not Listed	3	Others not Listed	0
Grand Total	895	Grand Total	701

Source: Trade Data Monitor

Table 4. Cotton Import Trade Matric (MY 2019 – 2021)

Country	Indonesia		
Commodity	Cotton		
Time Period	Aug - Jul	Units:	1,000 MT
Imports for:	2019/20	Imports for:	2020/21
U.S.	198	U.S.	135
Others		Others	
Brazil	187	Brazil	195
India	40	India	61
Australia	34	Australia	32
Greece	23	Greece	20
Argentina	15	Cote d'Ivoire	10
Cote d'Ivoire	10	Argentina	9
Mali	5	Mexico	5
Mexico	5	Mali	5
Cameroon	4	Zimbabwe	4
Burkina Faso	4	Burkina Faso	3
Mozambique	3	Chad	3
Pakistan	3		
Spain	2		
Paraguay	2		
Singapore	2		
Total for Others	339	Total for Others	347
Others not Listed	10	Others not Listed	20
Grand Total	547	Grand Total	502

Source: Trade Data Monitor

Table 5. Cotton Yarn Export Trade Matrix (CY 2020 – 2021)

Export Trade Matrix			
Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2020		2021*
U.S.	1		2
Others		Others	
China	115	China	68
South Korea	13	Bangladesh	19
Bangladesh	11	South Korea	12
Japan	10	Japan	10
Honduras	6	Honduras	6
Hong Kong	2	Vietnam	3
Vietnam	2	Malaysia	2
Portugal	2	Hong Kong	1
Egypt	1	Dominican Rep.	1
Total for Others	162	Total for Others	122
Others not Listed	14	Others not Listed	10
Grand Total	177	Grand Total	134

Source: Trade Data Monitor.

Note: *Only for the period of January to September 2021

Table 6. Cotton Yarn Import Trade Matrix (CY 2020 – 2021)

Import Trade Matrix			
Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2020		2021*
U.S.	0	U.S.	0
Others		Others	
India	6	India	4
China	4	Vietnam	3
Vietnam	3	China	2
South Korea	2	South Korea	1
		Singapore	1
Total for Others	15	Total for Others	11
Others not Listed	2	Others not Listed	3
Grand Total	17	Grand Total	14

Source: Trade Data Monitor.

Note: *Only for the period of January to September 2021

Table 7. Cotton Fabric Export Trade Matrix (CY 2020 – 2021)

Export Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Units:	1,000 MT		
Time Period	Jan-Dec		
	2020		2021*
U.S.	2	U.S.	1
Others		Others	
Japan	6	Japan	4
Belgium	1	Portugal	1
Total for Others	7	Total for Others	5
Others not Listed	4	Others not Listed	3
Grand Total	13	Grand Total	9

Source: Trade Data Monitor.

Note: *Only for the period of January to September 2021

Table 8. Cotton Fabric Import Trade Matrix (CY 2020 – 2021)

Import Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Units:	1,000 MT	Units:	
Time Period	Jan - Dec		
Exports for:	2020	Exports for:	2021*
U.S.	0	U.S.	0
Others		Others	
China	26	China	18
Hong Kong	4	Hong Kong	3
Malaysia	3	Malaysia	2
Pakistan	2	Pakistan	2
South Korea	2	South Korea	2
India	1	India	1
Total for Others	38	Total for Others	28
Others not Listed	3	Others not Listed	1
Grand Total	41	Grand Total	29

Source: Trade Data Monitor.

Note: *Only for the period of January to September 2021

Table 9. Exchange Rate (In Rp/\$1)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
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	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	14,237	14,084

Source: Bank of Indonesia.

Attachments:

No Attachments