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Indonesia

Cotton and Products Annual

Indonesia Cotton and Products Annual Report 2019

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Report Highlights:

Due to little or no growth expected in textile exports, cotton imports are forecast to increase only marginally in 2019/20. Rising costs continue to lead to consolidation in the spinning sector.

Meanwhile, prospects for U.S. cotton demand remain bright, as the local industry continues to favor U.S. cotton and government officials are promoting U.S. cotton as a mutually beneficial way to boost U.S.-Indonesia bilateral trade.

Situation and Outlook

Executive Summary

A continued weak rupiah, fierce competition among yarn spinners for share in the domestic market, the closing of some major retail markets, uncompetitive cotton yarn prices for export, and less demand from export destinations will likely lead to slower growth in cotton use in 2018/19. As a result, 2018/19 cotton imports are forecast to be relatively stable at 3.5 million bales. Based on expectations for expansion among larger mills, cotton imports for 2019/20 are forecast to increase slightly to 3.55 million bales. Indonesia's completion of several bilateral trade agreements should also drive cotton demand from the textile industry.

According to Indonesia's Textile Association (*API, Asosiasi Pertekstilan Indonesia*), the export value of textile and textile products increased from \$12.54 billion in 2017 to \$13.28 billion in 2018. The industry grew about 9 percent, exceeding Indonesia's 5.17 percent GDP growth in 2018. Most textile products were exported to the United States (32.87 percent), Japan (10.08 percent), China (5.7 percent), and South Korea (4.7 percent). Local demand for domestically-made textiles continues to decline due to competition from low cost imports. The rupiah fluctuated from Rp. 13,765 per US dollar in March 2018 to Rp. 14,242 in March 2019, reaching a high of Rp. 15,227 in October 2018.

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).

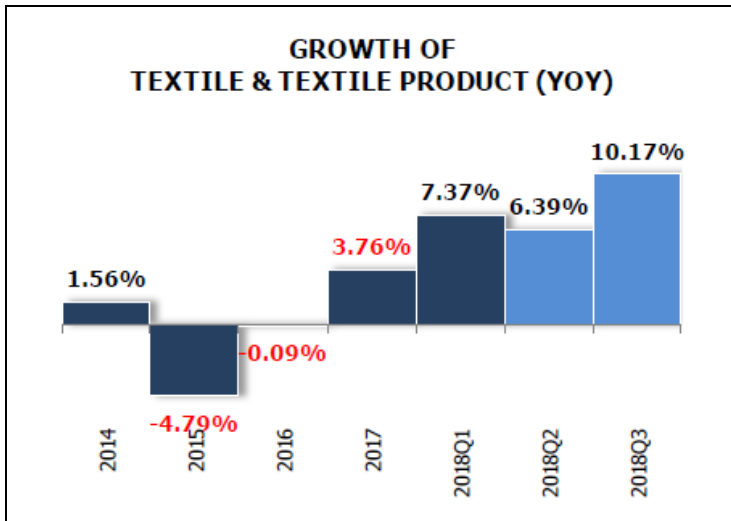
Consumption

Cotton use is expected to increase to 3.55 million bales in 2018/19, from 3.5 million bales in 2017/18. Use is forecast to increase to 3.6 million bales in 2019/20 due to expansion among larger mills and increased global production and demand.

As of March 2019, local mills are waiting to gauge price developments before making additional purchases. Reportedly, recent rising cotton prices are squeezing margins among smaller millers, who are unable to increase yarn prices. As a result, some have temporarily halted production.

Meanwhile, 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.

Chart 1. Indonesian Textile and Textile Products Exports and Growth.



Source: API

In July 2018, an Indonesian trade delegation went to the United States and committed to increasing use of U.S. cotton. In addition, both 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. Meanwhile, the potential conclusion of an Indonesia–European Comprehensive Economic Partnership Agreement (IEU-CEPA) in 2019 could increase textile exports to the European market.

Just over 300 spinners are operational, running at about 80 percent capacity.

Chart 2. Characteristics of Indonesian Textile and Textile Products Industry

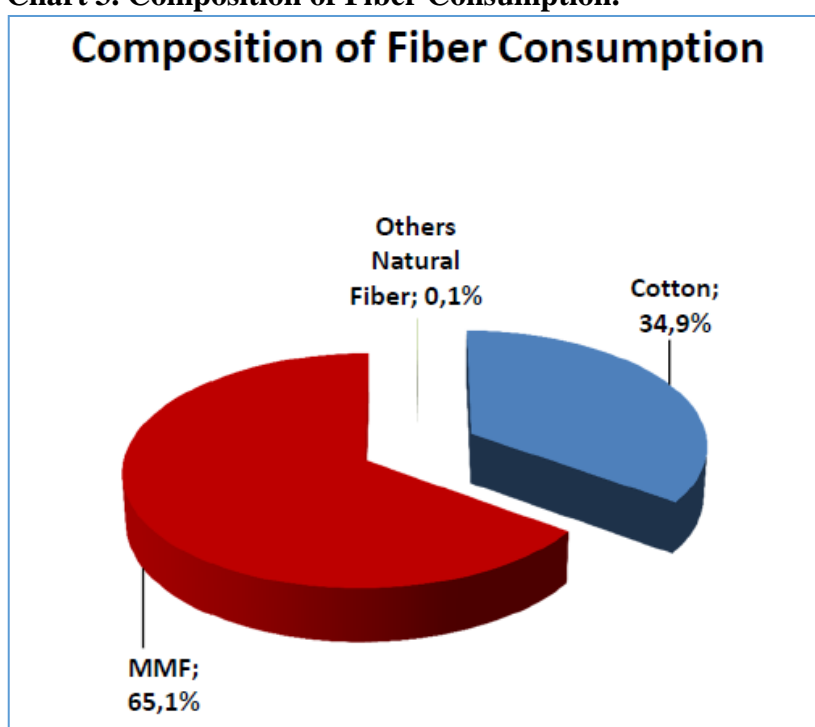


Source: Indonesian Textile Association (API), 2018.

Cotton accounts for about half of cotton yarn production cost. Reportedly, rising production costs compared to those of competing countries has reduced Indonesia's cotton-yarn competitiveness in the export market. As a result, there have been some recent closures of some small-scale spinning mills, while others are struggling with cash flow problems. Prominent large-scale cotton mills with strong capital have been buying these small-scale and medium-scale mills. With rising production costs, textile manufacturers are seeking to increase exports as a proportion of total production. Meanwhile, in the near future at least, cotton should remain competitive with synthetics as there has been little investment to expand synthetic fiber manufacture and imported synthetics are higher priced than domestic.

The Ministry of Industry reports that the textile industry accounted for 7.46 percent of the total manufacturing workforce of 18.25 million in 2018.

Chart 3. Composition of Fiber Consumption.



Source: Indonesian Textile Association (API).

Trade

Absent prospects for growth in textile exports, 2018/19 cotton imports are forecast at 3.5 million bales, basically unchanged from the previous year. Imports are forecast to increase to 3.55 million bales in 2019/20 due to expectations for a rebound in textile exports.

U.S. cotton exports to Indonesia reached a record \$602 million in 2018, allowing the U.S. to regain its position as the leading supplier of cotton with a 35.3 percent market share. Meanwhile, Brazil and Australia accounted for 25.2 and 9.3 percent, respectively.

Stocks

Local spinners source raw materials on an as-needed basis. Ending stocks are forecast stable at 615,000 bales in 2018/19. Use is forecast to outpace imports in 2019/20, reducing stocks to 562,000 bales.

Marketing

Cotton Council International (CCI) continues to educate the local industry about the advantages of using higher quality cotton from the United States. CCI has conducted seminars in the major textile manufacturing areas of West Java and Central Java in order to promote U.S. cotton. Information on the benefits of using U.S. cotton for traditional *batik* fabrics, global fashion trends, and the benefits of using the “Cotton USA” logo was presented at the well-attended seminars.

Policy

The Ministry of Finance imposes zero percent duty on cotton imports and higher import duties and value added taxes on cotton yarn and fabrics.

Table 1. Harmonized Tariff Nomenclature

No.	HS Code	Description	Import Duty		V A T
			New (20 17)	Old (20 15)	
1.	5201	Cotton, not carded or combed	0	0	0
2.	5204	Cotton sewing thread, whether or not put up for retail sale			
	-520411	Containing 85 % or more by weight of cotton	7.5	5	10
	-520420	Put up for retail sale	5	5	10
3.	5205	Cotton yarn (other than sewing thread), containing 85 percent or more by weight of cotton, not put up for retail sale	7.5	5	10
4.	5207	Cotton yarn (other than sewing thread) put up for retail sale	7.5	5	10
5.	520811 - 520829	Woven fabrics of cotton, containing 85 percent or more by weight of cotton, weighing not more than 200 gram/square meter	10	10	10
	52084110	Ikat fabrics	15	10	10
6.	520911 - 520929	Woven fabrics of cotton, containing more than 85 percent or more by weight of cotton, weighing more than 200 gram/square meter	10	10	10
	520931	Plain weave	15	10	10

I. Statistical Tables

Table 2. PSD Cotton (HS Code 5201) in bales

Cotton	2017/2018		2018/2019		2019/2020	
	Aug 2017		Aug 2018		Aug 2019	
Indonesia	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	0	2
Beginning Stocks	619	619	615	615	0	615
Production	3	3	3	2	0	2
Imports	3498	3498	3550	3500	0	3550
MY Imports from U.S.	0	307	0	250	0	300
Total Supply	4120	4120	4168	4117	0	4167
Exports	5	5	5	2	0	5
Use	3500	3500	3550	3500	0	3600
Loss	0	0	0	0	0	0
Total Dom. Cons.	3500	3500	3550	3500	0	3600
Ending Stocks	615	615	613	615	0	562
Total Distribution	4120	4120	4168	4117	0	4167
Stock to Use %	17.55	17.55	17.24	17.56	0	15.59
Yield	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 3. PSD Cotton (HS Code 5201) IN MT

Cotton	2017/2018	2018/2019	2019/2020
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Market Begin Year	Aug 2017			Aug 2018			Aug 2019		
Indonesia	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	3	3	5	0	0	3	0	0	3
Area Harvested	3	2	3	3	0	2	0	0	2
Beginning Stocks	134773	11496 0	134773	133902	0	133902	0	0	133902
Production	653	653	653	653	0	435	0	0	435
Imports	761607	67495 2	761607	772929	0	762042	0	0	772929
MY Imports from U.S.	0	16111 8	66842	0	0	54432	0	0	65318
Total Supply	897033	79056 5	897033	907484	0	896380	0	0	907266
Exports	1089	1089	1089	1089	0	435	0	0	1089
Use	762042	67495 2	762042	772929	0	762042	0	0	783815
Loss	0	0	0	0	0	0	0	0	0
Total Dom. Cons.	762042	67495 2	762042	772929	0	762042	0	0	783815
Ending Stocks	133902	11452 4	133902	133466	0	133902	0	0	122362
Total Distribution	897033	79056 5	897033	907484	0	896380	0	0	907266
Stock to Use %	17.55	16.94	17.55	17.24	0	17.56	0	0	15.59
Yield	47464	71197	47405	47464	0	47405	0	0	47405

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

TRADE MATRIXES

Table 4. Cotton Export Trade Matrix (MY 2017 - 2019)

Export Trade Matrix					
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	
Taiwan	335	Bangladesh	304	Bangladesh	312
Vietnam	279	India	242	Vietnam	268
Hong Kong	217	Vietnam	122	India	90
Sri Lanka	202	Thailand	108	Malaysia	34
Malaysia	202	Taiwan	96	Turkey	19
Greece	113	Malaysia	63	Japan	19
Japan	56	Philippines	36	China	2
Bangladesh	53	Japan	19		
India	50				
China	41				
Total for Others	1548		990		744
Others not Listed	32		3		0
Grand Total	1580		1013		745

Source: Global Trade Atlas.

Note: *for the period of August 2018 to January 2019 only.

Table 5. Cotton Import Trade Matrix (MY 2017 – 2019)

Import Trade Matrix					
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.	121
Others		Others		Others	

Brazil	124	Brazil	196	Brazil	86
Australia	72	Australia	76	Australia	32
India	67	India	65	Argentina	22
Greece	36	Greece	18	India	15
Argentina	16	Pakistan	17	Greece	10
Cote d'Ivoire	15	Cote d'Ivoire	14	Tanzania	9
Burkina Faso	13	Argentina	10	Cote d'Ivoire	9
Mali	13	Mexico	7	Turkey	6
Cameroon	10	Spain	6	Burkina Faso	5
Benin	7	Togo	6	Mali	3
Turkey	6	Burkina Faso	6	Togo	3
Pakistan	5	Cameroon	5	Cameroon	2
Spain	5	Mali	5	Kazakhstan	2
Uganda	4	Tanzania	4	Uganda	2
Zambia	4	Benin	4	Malaysia	2
Mexico	4	Ethiopia	2	Pakistan	2
Togo	3	Uganda	2	Paraguay	2
Total for Others	404	Total for Others	443	Total for Others	212
Others not Listed	31	Others not Listed	12	Others not Listed	10
Grand Total	739	Grand Total	762	Grand Total	343

Source: Global Trade Atlas.

Note: *for the period of August 2018 to January 2019 only.

Table 6. Cotton Yarn Export Trade Matrix (CY 2017 – 2019)

Export Trade Matrix					
Country	Indonesia				
Commodity	Yarn				
Time Period	Jan-Dec	Units:	1,000 MT	Units:	1,000 MT
Exports for:	2017		2018		2019*
U.S.	1		1		0
Others		Others		Others	
China	130	China	115	China	12
Japan	18	Japan	17	Japan	1
South Korea	7	Bangladesh	12	South Korea	1
Bangladesh	7	South Korea	11	Bangladesh	1
Hong Kong	2	Colombia	2		
Portugal	1	Malaysia	1		
Vietnam	1	Vietnam	1		
Germany	1	Germany	1		
South Africa	1	South Africa	1		

Philippines	1	Romania	1		
Total for Others	169	Total for Others	162	Total for Others	15
Others not Listed	8	Others not Listed	8	Others not Listed	2
Grand Total	178	Grand Total	171	Grand Total	17

Source: Global Trade Atlas.

Note: * Only for the period of Jan 2019.

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

Import Trade Matrix					
Country	Indonesia				
Commodity	Yarn				
Time Period	Jan-Dec	Units:	1,000 MT	Units:	1,000 MT
Exports for:	2017		2018		2019*
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
India	6	India	10	India	1
China	3	China	4		
South Korea	3	Malaysia	1		
		Hong Kong	1		
		Thailand	1		
Total for Others	12	Total for Others	17	Total for Others	1
Others not Listed	2	Others not Listed	1	Others not Listed	1
Grand Total	14	Grand Total	18	Grand Total	2

Source: Global Trade Atlas.

Note: * Only for the period of Jan 2019.

Table 8. Textile and Textile Products Exports In 2016 – 2017

Value is in \$1,000 and volume is in MT

Products	2016		2017	
	Value	Volume	Value	Volume
Manmade Fibers	478,925	391,728	600,283	449,094
Yarns	2,219,375	1,000,818	2,284,601	982,485
Fabrics	1,226,253	216,668	1,004,424	173,464
Garments	7,171,030	443,311	7,752,846	432,231
Other Textile Products	465,806	104,279	672,699	144,803
TOTAL	11,561,389	2,156,804	12,314,853	2,182,077

Source: BKPM, BPS, and MOI

Table 9. Textile and Textile Products Imports In 2016 – 2017

Value is in \$1,000 and volume is in MT

Products	2016		2017	
	Value	Volume	Value	Volume
Manmade Fibers	1,882,466	1,052,707	2,202,999	1,125,361
Yarns	651,345	245,353	590,527	218,097
Fabrics	4,361,568	654,817	4,006,973	618,475
Garments	410,533	61,569	568,375	67,530
Other Textile Products	468,003	100,544	1,080,210	223,695
TOTAL	7,773,915	2,114,990	8,449,084	2,253,158

Source: BKPM, BPS, and MOI

Table 10. Exchange Rate (In Rp/\$1)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
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	14,188	14,079	14,242									

Source: Bank of Indonesia