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Malaysia

Cotton and Products Annual

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Approved By:

Joani Dong

Prepared By:

Abdul Ghani Wahab

Report Highlights:

Introduction of a 6 percent Goods and Services Tax (GST) on April 1, 2015 increased costs and discouraged transshipment of cotton from Malaysia to nearby regional markets. Thus, 2014/15 trade figures show Malaysia export of cotton down by 61.7 percent. Domestic consumption of cotton for the domestic spinning industry hovers between 40,000 and 45,000 tons. A new spinning company from China established in late 2015 is expected to increase domestic consumption to 50,000 tons. As a result, cotton use is expected to increase through 2015/16.

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Executive Summary:

The improved economic situation in the United States and European countries encouraged some spinners to increase production to meet additional demand that shifted from Bangladesh to Malaysia, thus increasing the use of cotton in domestic production. The signing of the Trans Pacific Partnership Agreement (TPPA) in 2016 saw a Chinese spinner shift its operation in Malaysia to benefit from the trade pact. In other words, to enjoy TPPA benefits, it has to import cotton from the United States, spin it into yard and produce clothing destined for TPPA countries at the advantageous 0 percent tariff. Once the partnership is fully enforced in two years' time, it is anticipated more Chinese companies will set up spinning operations in Malaysia.

The industry, however, faces challenges, as the industry relies mostly on foreign laborers. The moratorium on employing new foreign labors and the increase on the levy for current foreign workers caused uncertainty and made employing foreign workers more expensive. In addition, the implementation of minimum wages, increase in cost of operation, such as electricity and the implementation of Goods and Services Tax (GST) eroded profit industry margins. Nevertheless, with good infrastructure, financing, labor management, and a positive environmental and ecological record, some local companies have been able to secure new orders with key retailers in the United States and the European Union that switched sourcing from Bangladesh and India.

This has renewed optimism in the industry, curbing the slide in cotton use of previous years. In line with expectations for a rebound in local spinning activity, cotton imports for Malaysia's domestic were 44,120 tons in 2014/15 and forecast at 46,000 tons in 2015/16. Cotton stocks held by local spinners are 15,000 tons.



*Nike shirt made in Malaysia from U.S. cotton
(Source: Lazada Malaysia)*

In addition to the cotton imports and stocks listed above, from 2011-2013 about 150,000-175,000 tons of cotton was transshipped via Malaysia's two key ports: Port Tanjung Pelepas in Johor and Port Klang near Kuala Lumpur. This trading activity was completely separate from the performance and demand of the domestic spinning industry. International cotton merchandizers used the financial incentives and logistical advantages offered at Malaysia's ports to pre-position inventories for shorter-time and smaller quantity deliveries to yarn makers in other Southeast Asian countries. Based on exporting countries' reported shipments to Malaysia, the quantity of this trade is variable, and diminished significantly

beginning in 2014. Trade diminished substantially due to the introduction of 6 percent Good and Services Tax (GST) in April 2015. Although transactions at the Free Trade Zone areas are tax free, transportation charges are still subject to GST.

Production

Malaysia does not produce cotton.

Use

Cotton Yarn Production for Market Year Beginning in August

Year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Tons	55,899	48,831	53,399	53,332	42,639	37,862	42,796

(Source: Department of Statistics Malaysia)

Cotton Use

Year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Tons	57,628	50,341	55,050	54,981	43,958	39,033	44,120

Although yarn production has been falling for the past few years, the industry has high optimism for revival when TPPA comes into full force in 2018. Although Vietnam is viewed as a direct competitor as one of TPPA signatories, the bulk of the textile industry in Vietnam is involved in producing items of clothing (i.e., downstream activities) with the need to import more than 50 percent of its fabrics (imported mostly from Korea), whereas in Malaysia most of the textile companies are involved in spinning to produce yarn to supply to garment manufacturers (i.e., upstream or integrated activities), thus giving advantage to Malaysia as supplier of yarn for textile and garment manufacturers in Vietnam for export to TPPA member countries. While both countries also have integrated operations (both upstream and downstream), Vietnam's lacks adequate infrastructure (good roads and warehousing) so its integrated operation is mainly geared to production for local consumption rather than export.

A leading local integrated textile company is capitalizing on Malaysia's political stability, a robust economic climate, strong transport infrastructure and competitive energy and financial services to secure new contracts with leading European and U.S. retailers. Its positive image on ecological, environmental, and sociological factors has appeal to overseas buyers. More than 90 percent of the large integrated companies' production is destined for the export market, so these factors can be instrumental in establishing a competitive edge to overcome other factors where Malaysia is at a disadvantage, such as labor costs.

Imports

Cotton imports for domestic use are a direct function of demand from yarn manufacturers and are in line with trends described above. Malaysia imports most of its cotton from the United States (2 percent), Australia (22 percent) and Brazil (20 percent). Consistent with expectations for yarn manufacturing, cotton imports for Malaysia's domestic use is 45,000 tons. With the commencement of TPPA in 2018, the demand is forecast to increase to 50,000 tons onwards.

Transshipments

In recent years international cotton merchandizers used Malaysia's Port Klang and the southern port in Johor to warehouse cotton for onward shipment to nearby countries. This trading activity was separate and independent from Malaysia's cotton imports for domestic use. Based on exporting countries' reported shipments to Malaysia, between 2011 and 2013, about 80 percent of cotton shipped to Malaysian ports was transshipped. This activity stemmed from tax incentives, the ports' good storage facilities, and overall lower costs relative to Singapore, the region's traditional hub for transshipments.

Two major transport lines that handle cotton serve these ports. International cotton merchants used these lines to send cotton in big vessels, which were then off-loaded and prepositioned for eventual distribution to regional markets on smaller feeder lines. This service was extremely valuable to regional smaller buyers, who didn't want to be burdened with holding stock and needed smaller quantity-sized deliveries quickly.

Based on reported exporter shipments, the amount off-trade began to decline significantly in 2013/14. Furthermore, with Malaysia's recent implementation of a 6 percent Goods and Service Tax (GST), and reports of potential implementation of stricter phytosanitary requirements on cotton imports, the convenience and cost-effectiveness of using Malaysian ports for onward shipment may have become less attractive. Although the GST is not applicable on trade transactions conducted in these port free economic zones, transportation charges are, however, subject to 6 percent GST. As a result, the future of this trade is questionable. Similarly, the quantity of the pipeline stocks inventoried at any given time in the port warehouses is forecast to decline significantly.

PSD Cotton in 1000 – 480lb Bales

<i>Cotton</i>	2014/2015		2015/2016		2016/2017	
<i>Market Begin Year</i>	Aug 2014		Aug 2015		Aug 2016	
<i>Malaysia</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0		0
Area Harvested	0	0	0	0		0
Beginning Stocks	132	94	0	97		96
Production	0	0	0	0		0
Imports	1,150	280	0	230		270
MY Imports from U.S.	0	11	0	0		50
Total Supply	1,282	374	0	327		366
Exports	800	75	0	20		50
Use	185	202	0	211		250
Loss	0	0	0	0		0
Total Dom. Cons.	185	202	0	211		250
Ending Stocks	297	97	0	96		66
Total Distribution	1,282	374	0	327		366

PSD Cotton in MT

Cotton	2014/2015		2015/2016		2016/2017	
Market Begin Year	Aug 2014		Aug 2015		Aug 2016	
Malaysia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0		0
Area Harvested	0	0	0	0		0
Beginning Stocks	28,739	20,584	0	21,234		20,864
Production	0	0	0	0		0
Imports	250,381	61,000	0	50,000		58,800
MY Imports from U.S.	0	2,500	0	0		0
Total Supply	279,120	81,584	0	71,234		79,664
Exports	174,178	16,350	0	4,370		10,900
Use	40,279	44,000	0	46,000		54,500
Loss	0	0	0	0		0
Total Dom. Cons.	40,279	44,000	0	46,000		54,500
Ending Stocks	64,664	21,234	0	20,864		14,264
Total Distribution	279,120	108,584	0	71,234		79,664

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