TEXTILE AND SHOES INDUSTRY IN INDONESIA

TEXTILE AND GARMENT INDUSTRY

Introduction

Indonesia, as one of the most populated countries in the world, has enormous potential in its textile sector. In 2011, Domestic consumption of Textile and Garment products reached US$ 11.1 Billion (or Rp, 96.9 Trillion), growing7.8% compared to 2010. The Indonesian Textile Association (API) predicts that the Textile and Textile Product Industry will grow around 5% in 2012.

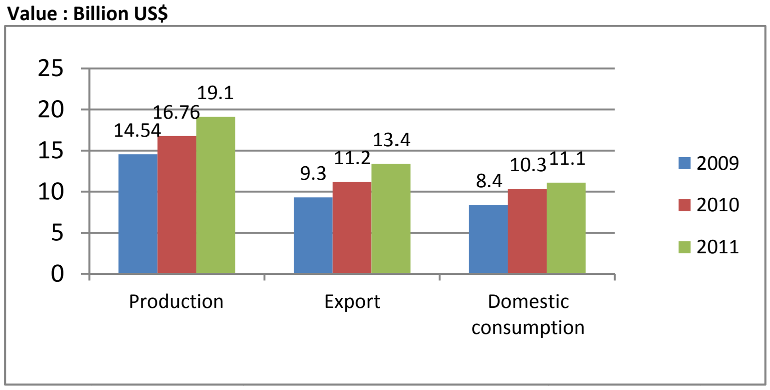
Total production of Textile and Textile Products reached 6,539.75 Million tons in 2011 (growing 13.81% compared to 2010). There are currently no fewer than 2880 textile manufacturers.

However, the number of textile imports from China increased significantly, in 2011. It dominates the domestic market with a market share of around 58%. The business doers and entrepreneurs are very optimistic surrounding the growth of the industry in the next future.

Highlights Indonesia

Indonesia has more than Rp 155,77 trillion worth of investments in the Textile and Garment Industry so far this year. This is spread across 2.880 companies, collectively employing 1,474,960 labour workers.
The Indonesian Textile and Garment Industry has a utilization rate of 83%.

Value : Billion US$



Investment Opportunities

In the last 3 years, the total investment towards the Textile and Textile Product industry has been relatively low. The total investment for 2011 reached Rp.151.77 Trillion, increasing 1.26% from 2010 and 3.83% from 2009.

The Indonesian Textile sector employs a huge work force, reaching 1,474,960 in 2011 labour (an increase of 4.78% compared to 2010).

The cost of labour is quite competitive in comparison to China. However, labour is still cheaper to source in Vietnam, all be it for a lower skilled force labour.
South Korea and Taiwan have set up textile and clothing manufacturing plants in Indonesia due to its labour intensive focus. Some textile manufacturers from China plan to move their operations to

Indonesia, mainly because of the increasing labour costs in China.

Trade Opportunities

In 2011, Textile and Clothing exports from Indonesia reach 1,787.7 Million EURO (an increase of 10.6% compared to 2010). In contrary for January - May 2012, the value of exports only reached 690.2 Million Euro (a decrease of 8.4% compared to 2010).

One of the barriers for Textile and Clothing exports from Indonesia to the EU is that the tariff is currently between 12%-16%. It is considered too high. On the other hand, the tariff for Textile and Clothing machinery imports from the EU to Indonesia is at 0%.
The current tariff agreement between Indonesia and the EU seems unfair and unbalanced. Indonesia and the EU need to review the current tariff agreement to achieve a win-win solution.

To increase the competitiveness of the Indonesia Textile Industry the Ministry of Industry has been running a Restructuring Program for Textile Machinery and Equipment, which has been running since 2007. Through this Restructuring Program, the Ministry of Industry gives financing remission for some Textile and Footwear manufacturers. In 2010, there were 191 manufacturers who acquired financial remission with total investment value of Rp. 286.87 Billion, while in 2011 only 134 manufacturers acquired it with a total investment of Rp. 73.54 Billion.

China has become the main provider for Textile Machinery and Equipment in Indonesia, although the qualities of the products are low. The EU has opportunity to provide textile machinery and equipment with that are of a better quality than that of China.

SHOES INDUSTRY

Introduction

Indonesia has great potential in the footwear production consumer market. Footwear production reached a total value of US$ 7,193 Million in 2011 (a growth of 13.81% from 2010) or equal to 855 Million pairs produced by 528 textile manufacturers.

In 2011, the Indonesian domestic consumption reached a total of US$ 3,382 Million (a growth of 5% from 2010) or, equal to 400 Million pairs of footwear.

Trade Opportunities

Footwear exports in Indonesia reached US$ 2,948.4 Million (an increase of 30% from2010).This is equal to 46.7% of the total number of footwear produced in Indonesia for 2011 that is regarded to be a higher quality than products from China.

Investments Opportunities

Indonesia provides employment for a huge number of people. Labour In 2011 the number of workers in the Indonesian footwear sector was 650,000 (an increase of 18% from 2010). The total investment within the footwear industry grew significantly in 2011, reaching Rp. 1,887 Billion (an increase of 93% on 2010).

Labour costs in Indonesia are competitive in comparison to China but, still more expensive than Vietnam labour.
Most International brands, such as Nike and Adidas, place their orders in Indonesia, whilst foreign owned companies such as Clark, Timberland, Echo and Fortuna are already well established in Indonesia.

Manufacturers in China are looking to follow South Korea and Taiwan in establishing their manufacturing plants in Indonesia due to the labour intensive environment as labour costs in China continue to increase.

Investment Opportunity for Machinery and Equipment Restructuring Program

To increase the competitiveness of the Indonesian Footwear Industry the Ministry of Industry, in 2009, launched a Restructuring program for Textile Machinery and Equipment. Through this restructuring Program, the Ministry of Industry gave financial remissions for some footwear and textile manufacturers. In 2010, there were 191 manufacturers who had acquired financial remissions with total investment value of Rp. 286.87 Billion, while in 2011 only 134 manufacturers acquired financial remissions worth a total of Rp. 73.54 Billion.

Presently, the main producer of Footwear Machinery and Equipment is Italy, with China looking to over-take in the near future. In terms of quality, Chinese products are of a lower standard than those originating from Italy. The EU has the opportunity to continue providing footwear machinery and equipment with better quality.

Issues, Impact, Solution and Action for the Textile and Shoe Industry

1. **Unbalanced Tariff Export-Import between Indonesia and EU.**
   The Indonesian tariff of 12%-16% is considered too high, whilst the import tariff for machinery for Textiles and Shoes from the EU to Indonesia is set at zero. This will have a directly negative impact on Indonesian products as their prices cannot be as competitive as those from China.

   The Head of the Indonesian Textile Association (API) said that current tariffs on textile exports to Europe are too high. They are unbalanced with the tariffs on textile machinery imported to Indonesia. Therefore, the government should re-negotiate these tariffs which could potentially lead to three times as many exports to Europe.

   Solutions can be proposed to review the agreement on export tariff system for textiles and shoes products between EU and the government of Indonesia, by reducing the export tariff from Indonesia to EU.

2. **Un-synchronized regulations between the Ministry of Trade and the Ministry of Industry.**
   Regulations that have been issued by the Ministry of Industry, the Ministry of Trade and the Ministry of Finance have different interpretations, some of which are in contradiction to one another, causing uncertainty throughout the industry. We strongly recommend that more comprehensive regulations be issued jointly from the Ministry of Trade and the Ministry of Industry in order to put an end to these uncertainties.

3. **Crucial investment process at province and regional/municipality level**
   One of the main obstacles facing the industry is the difficulties that surround Foreign Direct Investment. This uncertainty needs to be addressed through the harmonization between both the central and local Governments.

4. **Labour pressure for wage hike, anti-outsourcing and health insurance.**
   Labour demonstration related to wage-hikes, anti-outsourcing and health insurance have negative impacts on the Industry. However, until the present date, there has been no decisive action from the government in solving the problem.
   The direct impact will be on investors and capital outflow.
   The Indonesian Government should step in to review multi-party agreements, those held between manufacturer associations and labour federations.

5. **Skilled labours only concentrate on certain area.**
   Labour intensive areas such as in Tangerang and Bandung serve as obstacles in the development of manufacturers across Indonesia.
   The Director General of Textiles and Miscellaneous Manufacturing Industry Base said that The Ministry of Industry will conduct labour training for 7,200 people ready for the textile sector. 3000 people will be allocated to central Java, 2000 people will be allocated to West Java and the remainder will be allocated to East Java."
   Solution is to have a high scale training programs for the labors, which can be held by EU. The training programs can consist of a European high quality material and working standards that Indonesia system can adapt to be implemented in the nation's Industrial sectors.

6. **Value Added Tax (VAT)**
   Currently, Indonesian Textile products compete viciously with textiles made in China, Pakistan and India. While China, India and Pakistan apply sales tax, Indonesia applies Multiple Value Added Tax (VAT).
   It is not suitable to apply this to products from the Textile and Textile Product Industry. It affects the production cost and has a negative impact to the competitiveness of Indonesian textile prices. The tax regulation should be reformed to become sales based.

7. **Domination of China textile product**
   The domination of low priced Chinese textile products has a direct impact on local manufacturers on the domestic market.
   Products from China will become increasingly dominant in the local market if the competitiveness of

Indonesian products continues to decline, due to an increase in manufacturing and other costs.
The Indonesian Government should take firm measures to support the country's Textile and Garment sector.
By reducing the export tariff from Indonesia to EU, also by developing technology, equipment and skilled labor, Indonesia can dominate China Textile Product in world competition.
Procurement of high technology machineries for Indonesian Textile and Shoes Industries can be proposed to have cooperation with European companies to invest on technology and equipment.

8. **Limitation of available raw materials (such as rubber) for the shoes Industry.**
Raw materials for the Small and Medium sized enterprises are still in great shortage. The reason for this is that most of raw materials such as cotton and rubber are still imported. This results in high production costs and ultimately production instability.
The Director General of the Ministry of Industry for SME's, has to intervene to ensure that large scale producers of raw materials in Indonesia are selling their products to local SME's.
Other solution that can be provided by EU is to have a government to government import agreement of raw materials for shoes industries due to local shortage. The agreement can offer special treatment on importation tariff from EU to Indonesia and provision on exclusive procurement on shoes materials.

LOCAL ISSUES	IMPACT	PROPOSE SOLUTION	WHO SHOULD TAKE ACTION
Multiple Value Added Tax (VAT). While in China, India and Pakistan apply sales tax	The price will be competitive	Tax reform, apply sales tax	Indonesian Government
Labour pressure for wage hikes, anti-outsourcing and health insurance	Investor and Capital outflow	Review multi-party agreements between manufacturer associations, labour federations and Government.	Indonesian Government (Ministry of Labour)
Domination of Chinese textile products in the domestic market, with lower prices	The share of the domestic market held by Local manufacturers will decrease.	Local Market Protection	Indonesian Government (Ministry of Trade)
Limitation of raw materials availability.	High production costs and Production	G to G export import agreements.	Indonesian Government in cooperation with Manufacturers

Indonesia only produces fiber & polyester as a basic material, while high quality cotton is totally imported from Brazil.	instability		
Crucial investment process at provincial and region/municipality level	High investment costs	Set up a Foreign investment desk	Indonesian Government
EXTERNAL ISSUES			
Unbalanced Tariff Exports/Imports between Indonesia and the EU			
- Tariff of Textile exports from Indonesia to the EU is considered too high. (12%-16%) - Zero import Tariffs for Textile Machinery and equipment from the EU to Indonesia	The textile price from Indonesia will not be as competitive as Chinese product.	Review the agreement on the tariff system for Textile products. Textile tariff reductions will increase textile will almost triple exports to the EU.	Indonesian Government and the EU