

## EIBN Sector Reports



# Textile and Footwear



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## Methodology

In the preparation of this report, EIBN drew on a variety of sources and methods that are briefly explained here. General information on the textile and footwear industry was retrieved from publicly available sources, including articles from the *Jakarta Post*, the Global Business Guide Indonesia, the Indonesian Commercial Newsletter, publications by APICCAPS, the official website of Indonesian Statistics Center (BPS), the Indonesian Investment Coordinating Board (BKPM), the Ministry of Trade and Industry of the Republic of Indonesia, and the World Trade Organization.

The primary source for this report was the shared data and output from in-depth interviews and business dialogues, held between July 2013 and January 2014 with the participation of footwear and textile associations, key players in the industry, representatives from the Ministry of Trade and representatives from the Ministry of Industry. In addition, COMEXT was used for foreign trade data regarding European Union Member States, while UN COMTRADE was used for the remaining countries.

Additional gaps in this information were completed using various methods. If for some reason the latest official data was not yet available to the public, the latest data on hand was used. For instance, where data was unavailable for 2014, data and figures regarding 2013, 2012 and 2011 references were used instead. Any data included is specifically mentioned in the report. Finally, other information provided in the report was gathered from trade publications.

This report was prepared with information available as of early 2014.

# Executive Summary

## Textiles

Acknowledged as one of the industries that “oil” the Indonesian economy, the textile and footwear sector continues to be a major contributor to the international market. Despite a decline of 3.3%<sup>1</sup> in terms of contribution towards GDP in 2012, the size of the Indonesian textile sector grew by 1.7% in mid-2013, performing well above other sectors. In addition, it attracted 5.6% of Indonesia’s industry investment in the third quarter of 2012, with a total of Rp2.6 trillion. That same year, the production of garment, fabric, yarn and fiber rendered exports with a cumulative value of US\$12.46 billion; the primary destinations were the United States, Europe, Japan and ASEAN countries. Indonesia was ranked in the top ten global exporters in 2011, with a total market share of 1.8% and contribution of US\$12.8 billion. The sector’s average export growth between 2005 and 2011 was 54.4%.

The Indonesian government has displayed confidence in the potential of this sector, having shown support for further development by implementing a machinery restructuring program for textiles and footwear in 2007. Price discounts and equity participation schemes in machinery funding have attracted increasing participation levels: 142 companies participated in the program in 2012. Weaving machinery is nonetheless one area where the Indonesian textile sector shows deficiencies, particularly related to processing knowledge and current trends information. Efforts to counter technical shortcomings across the industry have, however, opened opportunities for foreign companies, as reflected in the increase of textile machinery imports from 21.9% in 2007 to 24.2% in 2013.

Indonesia ranked tenth in the world for textile imports in 2011 and 2012. The three top imports were fabric (55.8%), fiber (27.2%) and yarn (7.9%); together with garments, these reached an import value of US\$ 8.14 billion.

Present challenges are linked mainly to broader domestic concerns, namely an increase in electricity tariffs, gas prices and labor wages. Nevertheless, there has been an increase in manufacturers relocating from China, responding to sustained demand that is decisively raising the sector’s profile. Although Indonesia has abundant supplies of synthetic fiber, it still lacks the availability of cotton—98% of the supply is still being imported from Australia, USA and Africa. The country’s labour supply is consistent with the needs of the sector, which already absorbs 9.7% of the national workforce. However, there is still a need to upgrade specific skills among workers in the textile industry.

## Footwear

Footwear is a very dynamic sector, employing 4.5% of the total manufacturing workforce. It employs 400,000 people in direct labor and 210,000 in indirect labor. With a high labor source and easily available raw materials, the footwear industry in Indonesia has thrived by making the most of existing key support factors and is showing consistent growth.

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<sup>1</sup> Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*, EIBD, Jakarta, October 2013. p.6

The Ministry of Trade acknowledged the importance of the sector, both for its domestic market weight and its global standing. Between 2007 and 2010, Indonesia was one of the top ten footwear producers in the world. The country was then recording average growth in the sector of 26.05% annually, reaching the value of US\$527.17 million in 2011. The latest data report from APRISINDO (the Indonesian Footwear Association) shows a production volume of 885 tonnes in 2012, an increase of 30 tonnes over the previous year, with an investment value of Rp1.298 billion split between 566 companies.

In spite of a certain degree of unrest among owners, workers and stakeholders regarding the question of the regional minimum wage, the sector has responded well. Even though the impact of a rise in production costs was expected to harm its performance, the footwear industry kept expanding, registering 14 major added investment projects between the year 2011 and 2012. It is however noteworthy that contrary effects have begun to be felt in 2013-2014, but it cannot be considered that the industry is faltering. It is estimated that revenues from footwear exports in 2013 were around US\$4 billion.

Indonesia is the fourth biggest footwear exporter in Asia after China, Hong Kong, and Vietnam. It boasts a 2.8% global market share, with an average selling price of US\$15.65. The top export destinations are the United States, followed by the European Union and emerging markets such as Brazil, Mexico, Panama, South Africa and Russia. Sports footwear accounts for 79% of exports.

# I. Introduction

Indonesia has recently risen to become the tenth largest economy in the world. With a consuming class of 45 million and 55 million skilled workers in the domestic economy, Indonesia has assumed a strategic position in the evolving global market; representing an estimated value of \$0.5 trillion regarding market opportunity in consumer services, agriculture and fisheries, resources and education<sup>2</sup>.

Indonesia is known to be among the major players in the manufacturing of good quality textile, textile products and footwear. While consistently meeting the domestic market demand, these sub-sectors have developed to become major export-oriented industries. In a recent release, the Ministry of Industry<sup>3</sup> announced that Indonesia held a global market share of 1.8% in textile products and 2.8 % in footwear products, while showing signs of an upward trend.

In general, the textile industry and products of Indonesia are known to be very competitive in the international market. The strengths of the Indonesian sector is that producers tend to operate in an integrated way, embracing synergies across industries, including spinning, weaving, knitting and garment manufacturers. In fact, Indonesia's spinning industry is among the largest in Asia and Oceania, while the Indonesian weaving and garment industries are also among the largest in the world after those of China.

The textile and garment sector offers promising opportunities, with the Indonesian government recognizing it to be a major engine of growth leading to 2030. The potential of this industry continues to expand in Indonesia, anchored in the country's competitive land prices for business development and an broad pool of labour prepared to work in the industry.

Many international footwear players consider Indonesia an attractive alternative to other offshore production hubs in Asia. Even within the continent, many manufacturers are taking steps towards relocating to Indonesia or initiating means of production in the country. The Indonesian Footwear Association (APRISINDO) notes that, since 2010, six large footwear companies have relocated their facilities from mainland China and Vietnam to the archipelago. Some of these include important global brands as Adidas and Nike, which have been operating in the country since 1988 and 1989 respectively, and have moved towards expanding existing facilities.

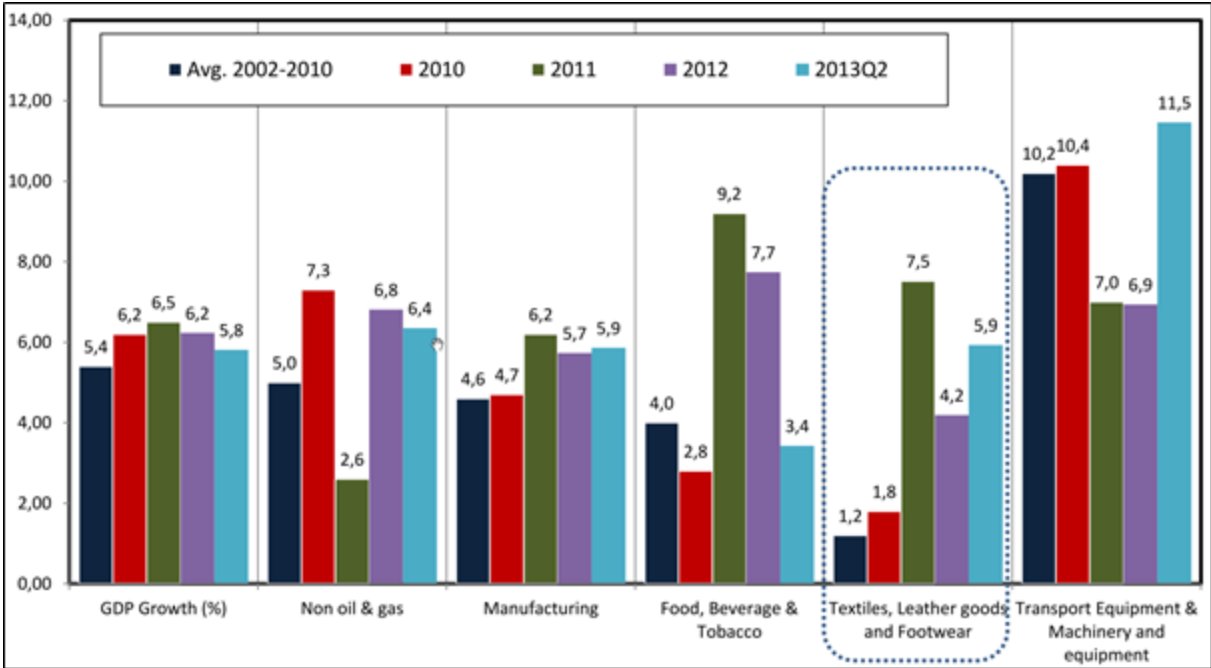
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<sup>2</sup> Bustami. Gusmardi. *Indonesia's Textile and Textile Product and Footwear*. EIBD, Jakarta, October 22, 2013

<sup>3</sup> Industry Ministry of Industry, Director Textile and Multivarious, *Opportunity to Increase Trade and Investment between Indonesia –EU on Textile and Footwear Industry*, EIBD, Jakarta, October 2013.

## II. The Role of Textile and Footwear in the National Economy

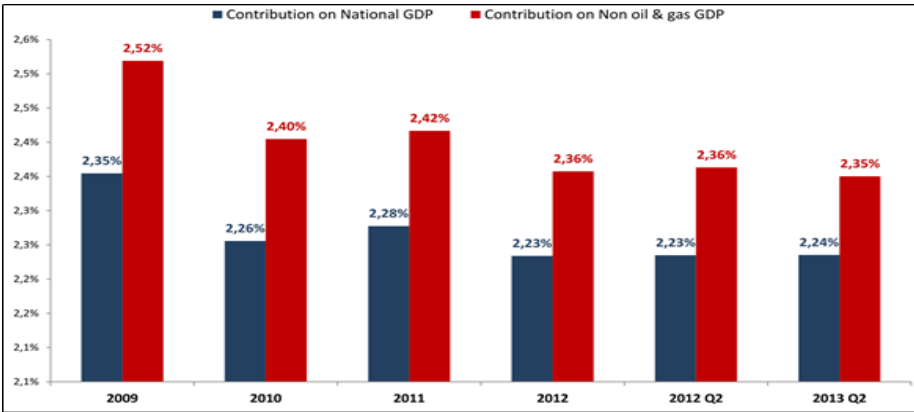
Figure 1: The Textile & Footwear Industry's contribution to the National Economy



Source: Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*

As seen above, the share of the national market represented by the textiles, leather goods and footwear industries fell 3.3% in 2012, but rebounded in mid-2013 with growth of 1.7% (alongside transportation equipment and machinery).

Figure 2: Contribution of Textile, Leather Goods, and Footwear on GDP



Source: Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*

## III. The Textile Industry in Indonesia

Indonesia finds a competitive advantage as a garment-producing country, more precisely because of the dynamics of the textile and clothing industries, which foster strong supply and service chains, building on the abundant raw material supply required by garment manufacturers. More specifically, this facilitation is found in the large network of yarns, fibers, fabrics, weaving and knitting factories which exist throughout the country.

### 3.1. Industry Growth

The textile industry in Indonesia has been growing for more than forty years. During that time, the industry has grown from a small sector to become a major contributor to the country's total industrial revenue. As mentioned above, the Indonesian government accords textiles and footwear the highest importance in the context of the nation's economic development, placing it among the country's top three key strategic industries<sup>4</sup>.

Indonesia's textile and textile products exports have grown consistently at around 5% to 6% annually. The country is in the top ten of the largest textile producing nations, although the government recognizes it still needs to increase productivity and competitiveness ahead of the ASEAN Economic Community (AEC) to be established in 2015. The AEC project plans to integrate the ASEAN region into a single market and production base, with free movement of goods and capital throughout the region. In this context, Indonesia has acknowledged the need to boost its textile industry and related industries in order to become the leading regional supplier.

At the beginning of the fourth quarter of 2013, the Indonesian Textile Association (*Asosiasi Pertekstilan Indonesia*, API) lowered Indonesia's export target due to domestic challenges, such as the increase in electricity tariffs, gas prices and labor wages (though all remain relatively low compared to Japan, Malaysia and Singapore). One of the main policies to counter these setbacks was a set of incentive schemes aimed at encouraging companies to relocate outside the larger cities of Java. This ongoing initiative has aimed to reduce production costs in the textile sector.

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<sup>4</sup> Ministry of Trade of the Republic of Indonesia, *Indonesian Kids' Wear - Fashion for the Young*, Jakarta, 2008. p.2



Indonesia's textile industry is considered to be an important player in the global market and has taken its place among countries competing in the US and EU markets. According to API, Indonesia's "real competitors" in the apparel trade are India, Vietnam and Bangladesh; in fabric, Thailand and Brazil; and in yarn, Pakistan.

While there are many strong players in the Indonesian textile industry, textile manufacture is led by PT. Sri Rejeki Isman, Tbk. (also known as Sritex), which is known as the biggest textile manufacturer in Southeast Asia. In garments, key players include PT. Eratex Djaja Tbk; PT. Evershine Tex Tbk.; and PT. Pan Brothers, Tbk.

### 3.2. Textile as a Strategic Industrial Sector

As mentioned previously, the Indonesian government has categorized textiles and clothing as strategic industrial sectors. These industries absorb a great number of workers, providing a substantial contribution to foreign exchange reserves, gains surplus on the balance of trade, and domestic supply.

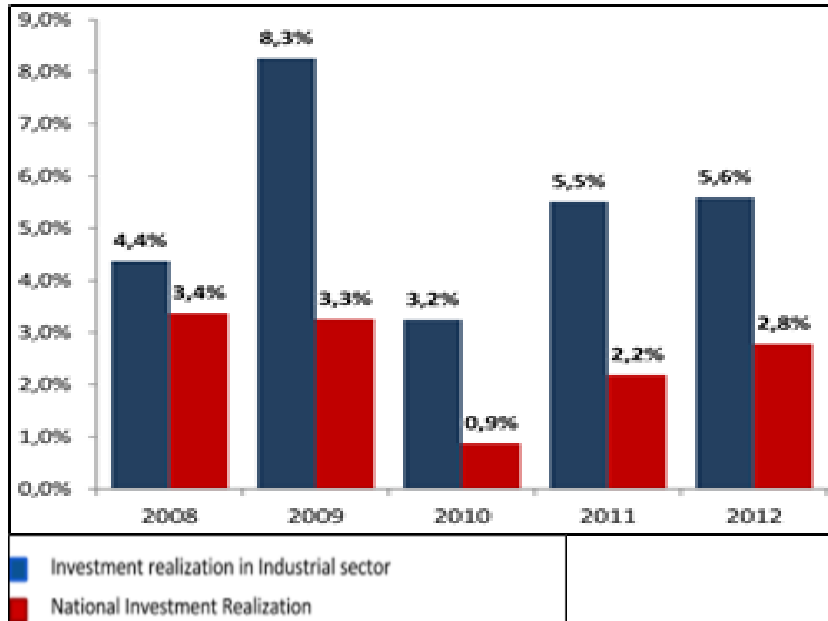
**Table 1: Profile of Indonesian Textile & Textile Products**

Description	Unit	2009	2010	2011	2012*	Δ 2011-2012 (%)
Company	Unit	2.841	2.869	2.894	2.930	1.24
Investment	IDR (Billion)	146.170	149.889	158.247	164.809	4.15
Operating capacity Level	Tonnes	7.403.297	7.616.413	7.348.863	7.860.594	6.96
Production Volume	Tonnes	5.350.433	5.929.167	6.367.880	6.290.666	-2.48
Manpower	People	1.337.496	1.407.678	1.471.759	1.525.061	3.62
Surplus Value	US\$	5.090.741	5.036.407	4.928.086	4.316.415	-12.41

**Source: Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry***

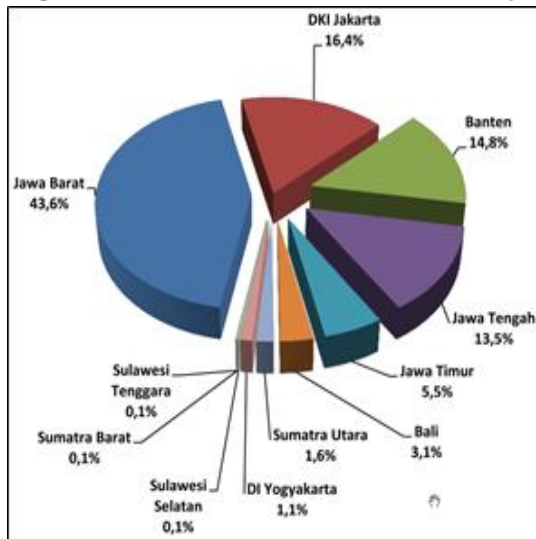
Investment is considered the key potential contributor for driving rapid growth in Indonesian textiles to make rapid strides. As the third biggest sector in Indonesia, the industry attracted 5.6% of the industry investment realization in the third quarter of 2012, with a total of 2.6 trillion rupiah.

**Figure 3: Contribution of Textile Industry to Investment**



Source: Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*

**Figure 4: Location of Textile Industry**



Source: Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*

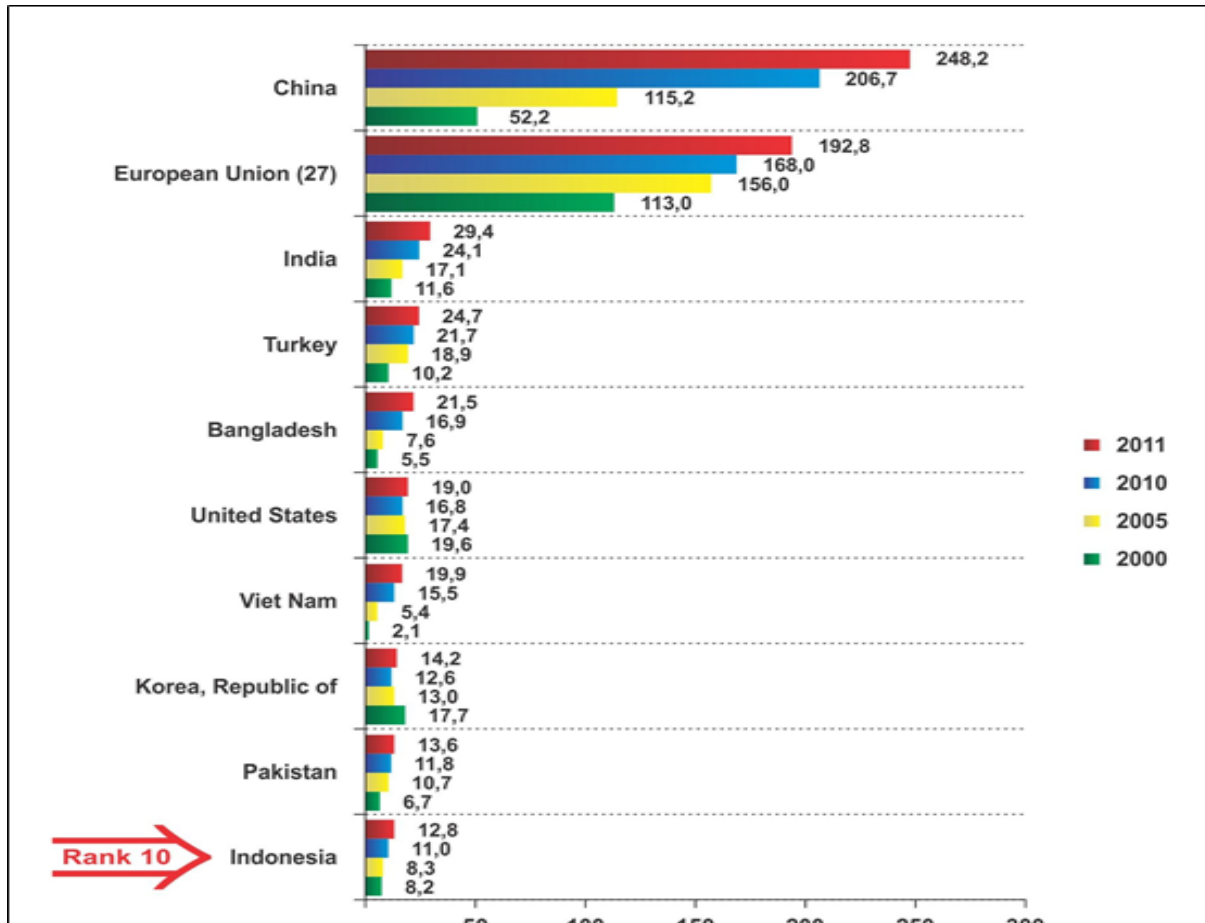
Indonesia is one of the countries that employs the highest range of human resources under a competitive payment structure. The latter is one of the biggest advantages for investors starting businesses that require a high number of workers. The textile industry is one of the sectors that absorb the highest amount of labor force, which in turn has a strong positive impact on the country's economy. Based on data from the Ministry of Manpower and Transmigration, in August 2012, the textile industry employed 1.35% of Indonesia's 110.8 million workers, or 9.7% of all workers employed in the manufacturing industries. These workers are concentrated throughout the islands of Java, Sumatra, and Sulawesi.

### 3.3. The Position of Indonesian Textile in the Global Market

Based on data from the World Trade Organization released in 2011, Indonesia ranked among the top ten textile and clothing suppliers in the world, with a contribution of US\$ 12.8 billion and average export growth of 54.4% between 2005 and 2011. Indonesia contributed 1.81%

toward global textile and clothing demand and 1.13% of the EU's demand. Historically, Indonesia has been popular in international export markets such as the US, because of its emphasis on quality, with domestic producers providing fabric to some of the world's best known fashion houses and clothing brands.

**Figure 5: Top-10 Global Suppliers of Textile and Clothing in 2011 (US\$ Billions)**



Source: Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*

**Table 2: Share of Indonesian Textiles Products in Major World Markets**

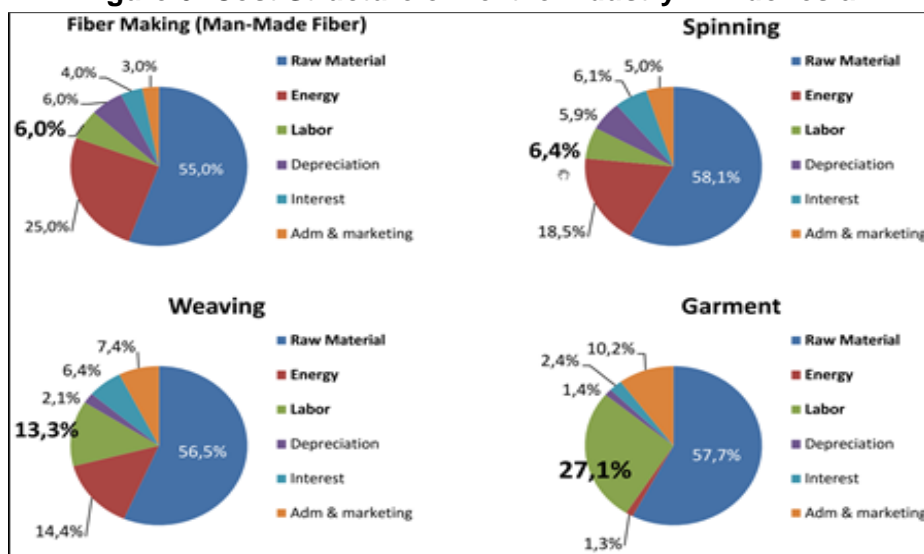
		2007	2008	2009	2010	2011	2012
World	<b>Textile &amp; Clothing</b>	<b>1.69%</b>	<b>1.67%</b>	<b>1.77%</b>	<b>1.88%</b>	<b>1.89%</b>	<b>1.81%</b>
	Textile	1.63%	1.56%	1.66%	1.80%	1.77%	1.73%
	Clothing	1.73%	1.75%	1.84%	1.94%	1.99%	1.88%
EU27	<b>Textile &amp; Clothing</b>	<b>1.09%</b>	<b>1.05%</b>	<b>1.06%</b>	<b>1.07%</b>	<b>1.12%</b>	<b>1.13%</b>
	Textile	0.74%	0.70%	0.63%	0.78%	0.79%	<b>0.73%</b>
	Clothing	1.30%	1.23%	1.26%	1.22%	1.29%	<b>1.32%</b>
US	<b>Textile &amp; Clothing</b>	<b>4.29%</b>	<b>4.49%</b>	<b>4.88%</b>	<b>4.92%</b>	<b>5.16%</b>	<b>5.05%</b>
	Textile	1.10%	1.18%	1.03%	1.15%	1.23%	1.08%
	Clothing	5.30%	5.54%	6.04%	6.13%	6.44%	6.38%
Japan	<b>Textile &amp; Clothing</b>	<b>1.76%</b>	<b>1.81%</b>	<b>1.60%</b>	<b>1.95%</b>	<b>2.63%</b>	<b>3.02%</b>
	Textile	5.80%	5.88%	4.92%	5.99%	6.96%	6.54%
	Clothing	0.55%	0.56%	0.64%	0.75%	1.27%	1.98%

Source: Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*

### 3.4. Production in Indonesia

Indonesia's textile industry is vertically integrated and involved in almost every sub-sector of the textile supply chain, including the production of man-made fibers, particularly polyester, nylon and rayon; man-made and cotton yarn spinning; weaving and knitting; dyeing, printing and finishing; and apparel manufacturing.

**Figure 6: Cost Structure of Textile Industry in Indonesia**



Source: Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*

#### 3.4.1. Fiber

The raw materials used in Indonesia are dominated by cotton (45%) and polyester (45%), followed by rayon (10%). Regarding the production of synthetic fibers, Indonesia's textile industry is one of the world's most independent industries with 90% of domestic production demand met by local suppliers. Rayon production enjoys a similar status, as 95% of its domestic needs are supplied internally, placing the country's production autonomy third only to China and India. Conversely, the production of natural fiber is hard to accomplish in Indonesia due to the country's climate conditions, with low feasibility regarding possible ventures on an industrial scale. For that reason, 98% of Indonesian cotton is currently imported from Australia, USA and Africa. The main players of the Indonesian fiber production industry are PT. Indorama Synthetics, Tbk and PT. KAHATEX.

#### 3.4.2. Yarn (Spinning)

Indonesia is known for its highly skilled manufacturing of yarn. With the support of the government's machinery restructuring program, Indonesia has emerged as the third largest yarn producer in the Asia-Pacific region. In 2013, it delivered 10 million spindles, and estimates for 2014 rise to 12 million. The destination of these goods is evenly divided, with 50% of the production oriented for export and 50% for the domestic market. The main domestic players in this industry are PT. Sri Rejeki Isman Tbk, PT. KAHATEX, PT. Delta Surya Textile, and Argo Manunggal Group.

#### 3.4.3. Weaving

Indonesia imported 600,000 tonnes and exported 300,000 tonnes of weaving products in 2013. The weaving industry in Indonesia faces some challenges in competing with China, Korea, India, and Japan. In order to increase the country's competitiveness, the Indonesian government set as a priority the restructuring of the industry's weaving machinery through 2015. Currently, 60% of the weaving machinery used in the industry originates from Belgium, 30% from Japan and 10% from China and Korea. Other challenges to be addressed are above all related to operational know-how and qualifications, but also to gaps in terms of research, development and market knowledge. The latter is partially caused by the inexistence of an efficient centralized R&D policy development Institution or organization. Moreover, Indonesia still lags behind Taiwan and Korea in terms of creativity and quality, and lags behind China in terms of pricing. Main players in the Indonesian weaving industry are PT. Indorama Synthetics Tbk, PT. Sri Rejeki Isman Tbk, PT. Delta Surya Textile, and PT. KAHATEX.

#### 3.4.4. Garment

In today's global market, foreign businesses often source their products from factories in supplier countries. Among the former are renowned international clothing brands, department stores, supermarkets, outlet discount stores and mail order service companies. This is widely practiced among Indonesian garment manufacturing companies, who are intensely sought out by local representatives of foreign businesses and other acquisition centers, typically based in Hong Kong (a traditional hub for global garment trade). In terms of production modalities, Indonesia is, due to its abundance in workforce number and skills, fertile ground for the labor-intensive cut-make-trim (CMT) system, using fabrics supplied by the buyer. The main players in

this industry are PT. Eratex Djaja Tbk; PT. Evershine Tex Tbk; PT. KAHATEX, Argo Manunggal Group; and PT. Pan Brothers Tbk.

Based on a 2011 publication of the Directorate General of National Export Development, Sukabumi, a city in West Java, is the most attractive place for foreign garment investors, in view of the fact that this city provides a large human resources pool. However, it is worthy to mention that other cities in Java, namely Bandung, Purwakarta, Surakarta, Sukoharjo, Karanganyar, and Ungaran. These cities have also implemented public policies to motivate the growth of integrated industrial systems through technology upgrading and planning.

Some factories have recently implemented an integrated hanger system, imported from Switzerland, which allows for a more automated and significantly more efficient production, packing, storage and transportation process. For instance, the hanger system responds to problems in storage; assisting the distribution of products within the factory area, especially regarding their transportation, accessibility and visibility; while reducing physical handling with mechanized mobility. The impact in potential output can allow for Indonesian companies to increase their share in main markets, but also to expand their operations in emerging markets such as Africa, Latin America, and Middle East<sup>5</sup>

In terms of machinery as such, Indonesian garment factories are now increasingly using sophisticated hardware equipped with advanced computer systems. Even some of the smaller companies are curious to catch up with these developments.<sup>6</sup>

### 3.5. Indonesian Textile & Clothing Foreign Trade

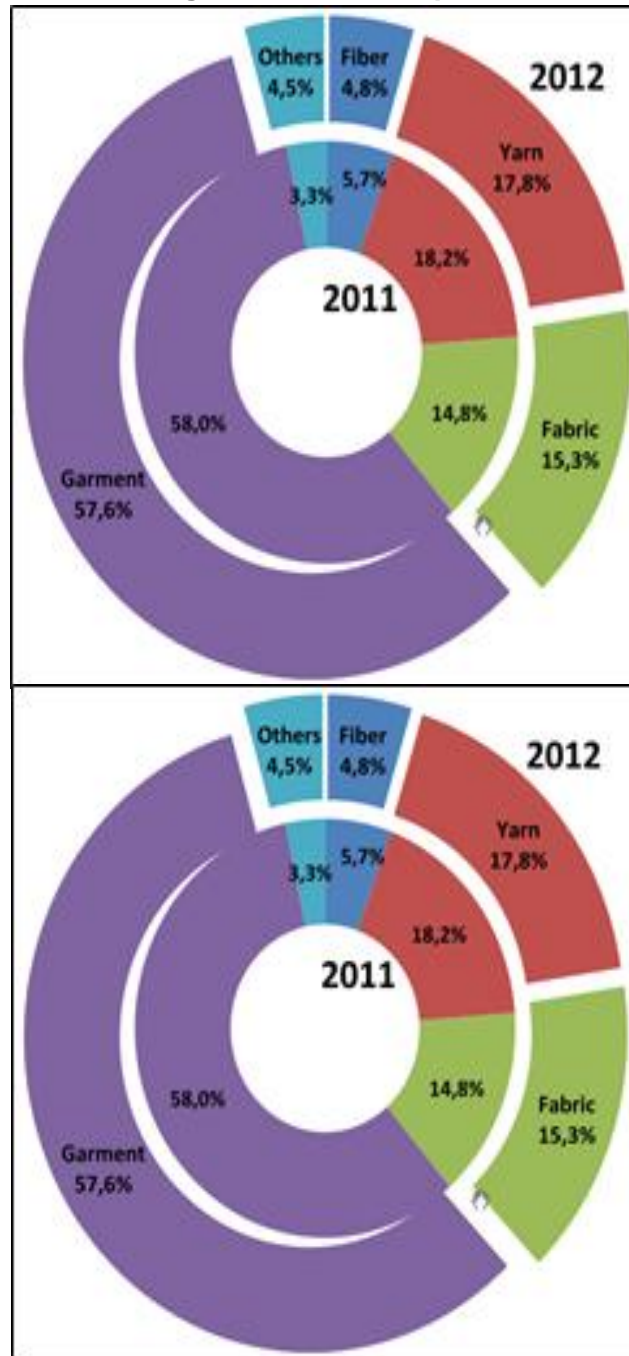
In 2012, the Indonesian textile and textile product exports value reached US\$12.46 billion, mainly sustained by garments, yarn, fabric and fiber. The major export destinations are the US, Japan, Germany, Turkey, Korea, China, United Arab Emirates (UAE), the United Kingdom (UK), Brazil, and Malaysia. In 2011, Indonesia ranked 11th in terms of global textile exporters, with a market share of 1.8%.

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<sup>5</sup> Ministry of Trade Republic of Indonesia, Roesfitawati, *Women's and Girls' Overcoats*, Export News Indonesia, May 2013. p. 5

<sup>6</sup> TREDA-Trade Research & Development Agency, Balitbangdag/PK/001/X/2008

Figure 7 : Textile Export

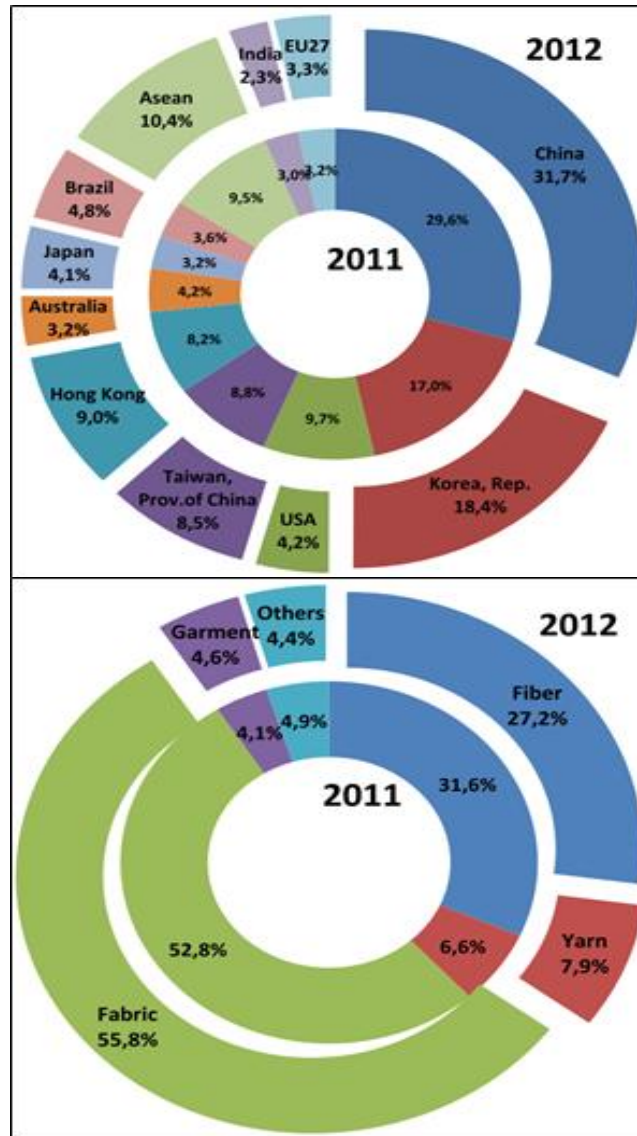


Source: Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*

Indonesia, as one of the most populous countries in the world, is presently experiencing a rapid expansion of its middle class, which has in turn led to a transformation in the country's consumer market. Businesses in a wide range of industries are now expected to capitalize on both the stronger purchasing power and the higher labor skills of the middle class. In order to meet high demand, Indonesia also imports textile and textile products from other countries, such as China, Korea, Hong Kong, Taiwan, Brazil, Thailand, US, Japan, Australia and India. In 2012, the value of Indonesian imports reached US\$8.14 billion, generated mainly by fabrics, fiber,

yarn and garment. In 2011, Indonesia entered the top ten textile-importing countries with a market share of 1.82%.

**Figure 8 : Textile Import**



Source: Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*

## IV. The Footwear Industry in Indonesia

Indonesian footwear relies on creativity to survive. Since the early eighties, this industry has grown rapidly with an influx of foreign investment directed towards producing footwear for the external market. Raw materials are in abundant supply in Indonesia, namely animal derivatives, such as cow, sheep, various leathers, alligator and snake skin. Indonesia sport and non-sport footwear products are well known around the world and highly valued for their quality. It is



expected that these characteristics, developed primarily under export-oriented dynamics, could facilitate the expansion of a domestic fashion industry in the medium-term.

## 4.1. Industry Growth

Recently, the Ministry of Trade has confirmed that Indonesia was one of the world's top ten footwear producers between 2007 and 2011. During that period, Indonesian footwear exports grew by an average of 26.05% each year, from US\$199.22 million in 2007 to US\$527.17 million in 2011.<sup>7</sup>

Since the second semester of 2012, the footwear industry, like many of the manufacturing industries in Indonesia, has faced challenges resulting from the global economy downturn. At around the same time, the Indonesian government decided to implement a new regional minimum wage (UMR), which had a direct impact on labor in the footwear sector. Until the first quarter of 2013, this policy was a source of disagreement between business owners, workers, entrepreneurs and stakeholders in the sector. However, concerns that the impact of the new UMR would discourage foreign investment have proven unfounded. Instead there has been an upward trend in investment projects in both the footwear and the leather industries, with a rise, from 59 projects in 2011 to 73 projects in 2012.

One fact that illustrates sustained investor confidence in Indonesia's footwear industry is the commitment made by one of the global "giants" of sports shoes, Nike. In 2013, the company announced plans to increase its global investment, while appointing Indonesia as its biggest production hub. It is noteworthy that Nike's exports in 2012 reached US\$1.5 billion, employing around 175,000 local workers in cooperation with 38 manufacturing companies.<sup>8</sup>

The major domestic players in sports footwear products are Pt. Adis Dimension Footwear, PT. KMK Global Sports, PT. Panarub Industry, PT. Nikomas Gemilang, and PT. Pratama Abadi Industri. The leaders in non-sport footwear products are PT. Sepatu Mas Idaman PT. Mangul Jaya, PT. Teguh Murni Perdana, PT. Pelita Tomangmas, CV. Fortuna Shoes.

## 4.2. Footwear: a Dynamic Industrial sector

The footwear industry directly employs around 400,000 people a further 210,000 people indirectly, accounting for 4.5% of jobs in the manufacturing industry. In recent years, it has become an attractive destination for foreign investors from China, Japan, India, and South Korea, among others. The footwear industry holds good prospects in Indonesia, a product of the country's self-sufficiency in terms of raw materials, competitive labor and increasingly modern facilities.

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<sup>7</sup> Ministry of Trade of the Republic of Indonesia, *Indonesia's Textile and Textile Product and Footwear*. EIBD, Jakarta, October 2013.

<sup>8</sup> Ministry of Trade of the Republic of Indonesia, Roesfitawati, *Footwear Keeps Growing After The New Policy of Regional Minimum Wage*. Export News Indonesia, April 2013. p. 4.

**Table 3: Profile of Indonesian Footwear Industry<sup>9</sup>**

Description	Unit	2009	2010	2011	2012*
Company	Unit	391	434	528	566
Investment	IDR (Billion)	1.173	979	1.887	1.298
Production Volume	Tonnes	759.577	864.689	1.045.505	1.097.780
Manpower	People	495	550	650	700
Utilization	%	83	86	88	90

Indonesia is a tropical country, richly endowed with natural resources, huge rubber plantations, cattle farms and rich oilfields. In addition, supporting industries, such as those in petrochemical, plastic, and metal sectors, are also developing positively. As a result, the footwear industry has ample access to required materials.

Footwear manufacturing is concentrated throughout several regions on the islands of Java and Sumatra, especially West Java, East Java, and North Sumatra. Formal and casual shoes manufacturers are mostly situated in Yogyakarta, West Java, East Java, and North Sumatra. Sandal industries are mostly concentrated in Banten, West Java, and East Java, while designer fashion sandals are produced mainly in Bali. Other footwear companies exist in West Sumatra, Riau, Lampung, and East Kalimantan Provinces, but usually on a smaller scale.<sup>10</sup>

Leather tanneries are located in the provinces of Java (Banten, West Java, Central Java, Yogyakarta, East Java, and Jakarta), and West and North Sumatra. There are about 100 leather tanneries, rendering a capacity of 140 million square feet per year. Indonesian fine leather is known by its special characteristics, especially appropriate for formal footwear.<sup>11</sup>

Most rubber soles and rubber accessory manufacturers are found in West Java and North Sumatra, while synthetic leather industries are concentrated primarily in Banten, West Java, and Central Java. On the other hand, textiles and metal accessories for the footwear industry can chiefly be found in the textile industry clusters Banten, West Java, and East Java.<sup>12</sup>

For more progressive footwear design, natural products like rattan, palm leaves and wood are abundant. The availability of such unique materials is conducive to design innovation and experimentation. This is seen in various footwear design clusters, mostly located in Jakarta, Bandung, Yogyakarta and Bali.<sup>13</sup>

<sup>9</sup> APRISINDO, Marpaung, Binsar, *The Challenge of Indonesia Shoes Industry Related to Investment and Tariff*. FGD, Textile & Footwear, Jakarta, July 31 2013.

<sup>10</sup> Ministry of Trade of the Republic of Indonesia, *Footwear*, Jakarta, 2012. p.6.

<sup>11</sup> Ibid. p.11.

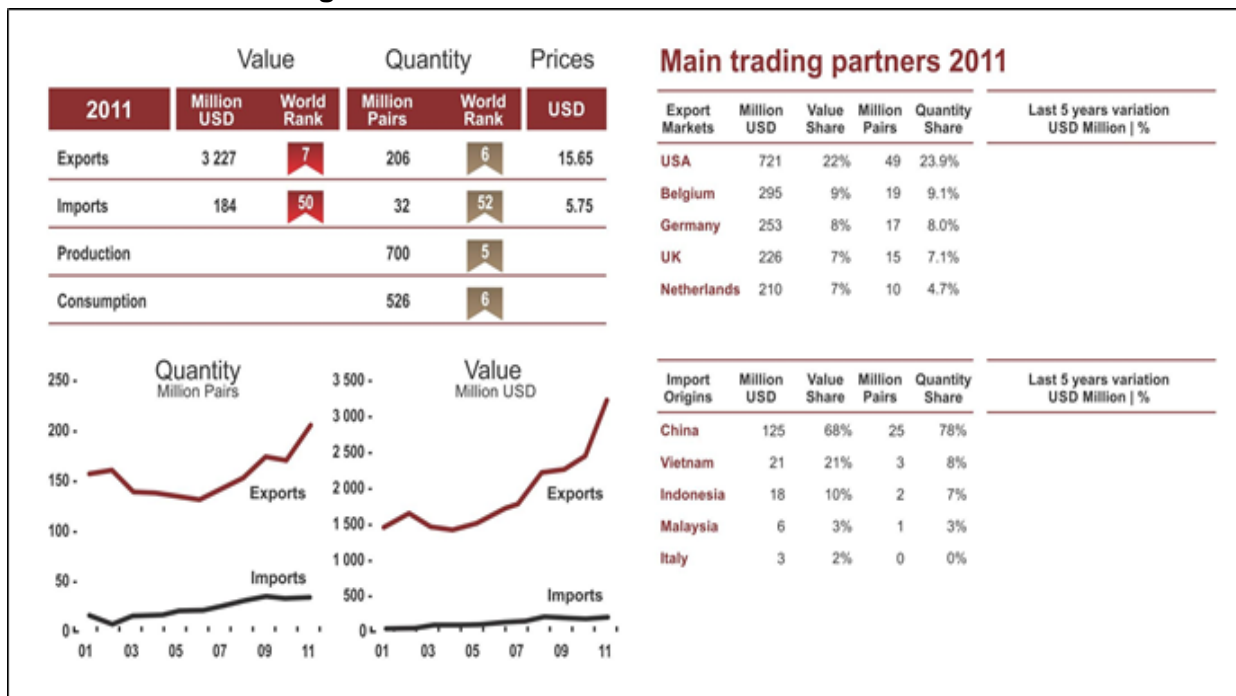
<sup>12</sup> Ibid.

<sup>13</sup> Ministry of Trade of the Republic of Indonesia, *Footwear*, Jakarta, 2012. p.11.

### 4.3. The Position of Indonesian Footwear in the Global Market

The Indonesian footwear industry is among the most important in the world. The country is among the world's top ten exporters with exports in excess of US\$3 billion. USA and Europe are the main markets for Indonesian footwear. Imports, though smaller, have been growing and are sourced mainly from regional neighbors such as China, Vietnam, and Malaysia. Based on the content of the *World Footwear 2012 Yearbook* (published by APPICAPS, the Portuguese Footwear, Components and Leather Good Manufacturers Association), Indonesia ranks fifth among the largest footwear producers, after China, India, Brazil, and Vietnam; and is the sixth footwear exporter in the world. Among Asian exporters, the country takes the fifth place, after China, Hong Kong, Vietnam and India, with a 1.8% market share and an average sales price of US\$15.65.

Figure 9: Indonesian Footwear in Global Market



Source: APICCAPS, *World Footwear Yearbook*, Portugal, September 2012I.

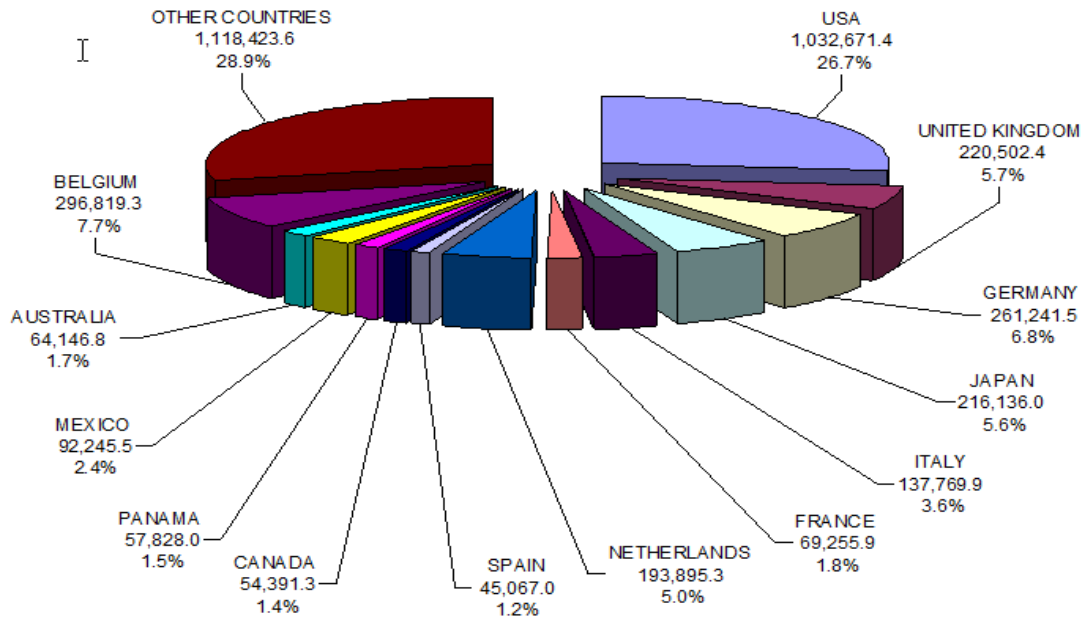
### 4.4. Indonesian Footwear Foreign Trade

As the world's sixth largest footwear exporter, Indonesia has not yet consistently entered other markets beyond USA and Europe. Since 2008, Footwear has been one of the best performing export products for Indonesia and its export value continues to grow. In terms of major export destinations, recent information issued by the Ministry of Trade<sup>14</sup> highlights the ongoing dominance of traditional markets, but also reveals six emerging or non-traditional markets,

<sup>14</sup> Ministry of Trade of the Republic of Indonesia, Roesfitawati, *Footwear Keeps Growing After The New Policy of Regional Minimum Wage*. Export News Indonesia, April 2013. p. 6

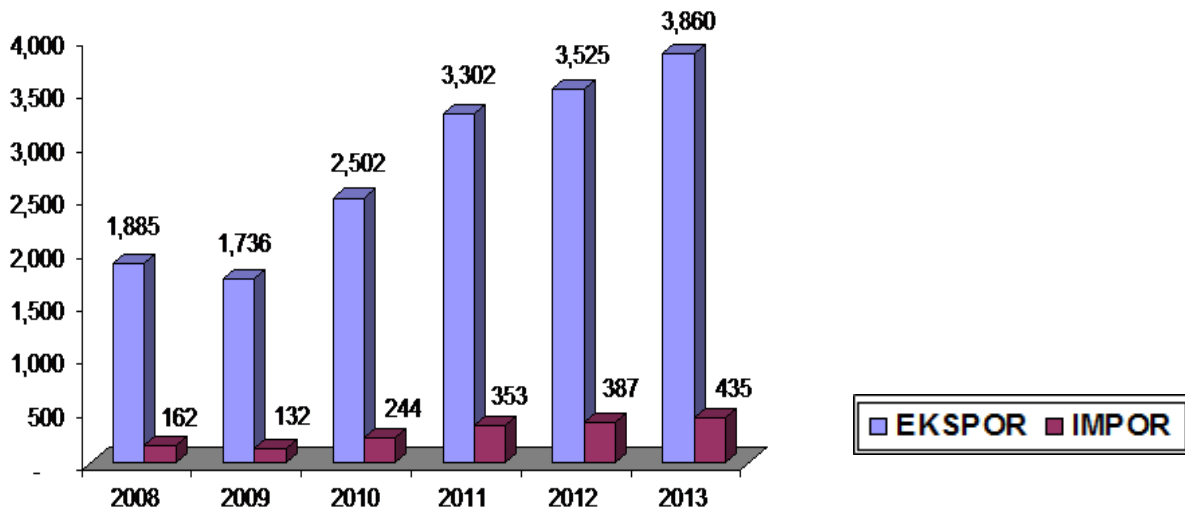
among the top twenty destinations: Brazil, Mexico, Panama, South Africa, Russia and Chile. It is also expected that these countries may enable market access to their neighboring markets, presenting additional export opportunities for the national industry. This potential was also highlighted by APRISINDO, which has called for more ambitious policies in tapping opportunities in emerging markets as a way to ease the impact of the global financial crisis on the industry.

**Figure 10: Export Destination January - December 2013 (Values in US\$ Million)**



Source: Data from APRISINDO (Indonesian Footwear Association)<sup>15</sup>

**Figure 11: Indonesian Footwear Export - Import - by Values (US\$ Million)**

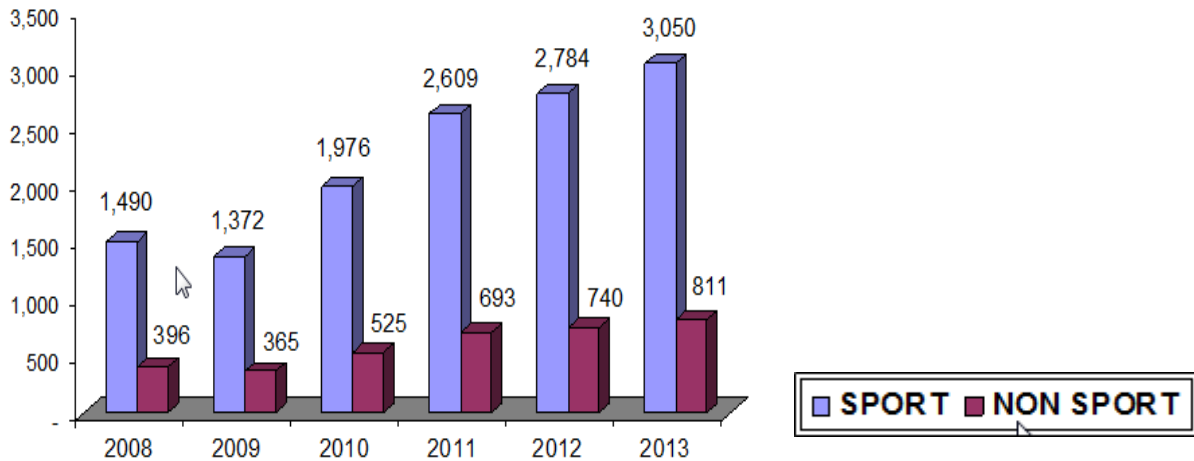


<sup>15</sup> Data retrieved from APRISINDO's data file and given during an interview which took place in Jakarta, 24<sup>th</sup> March 2014.

Source: Marpaung Binsar, *Information in Opportunities and Challenges in the Development of the National Footwear Industry*, Focus Group Discussion of the National Footwear Industry, Jakarta, March 2014.<sup>16</sup>

APRISINDO states that Indonesia's total value of shoes imported from the ASEAN region was worth US\$74.3 million in 2012. The biggest share of imports comes from Vietnam, valued at US\$ 53.9 million.

**Figure 12: Categories Export by Value (US\$ Million)**

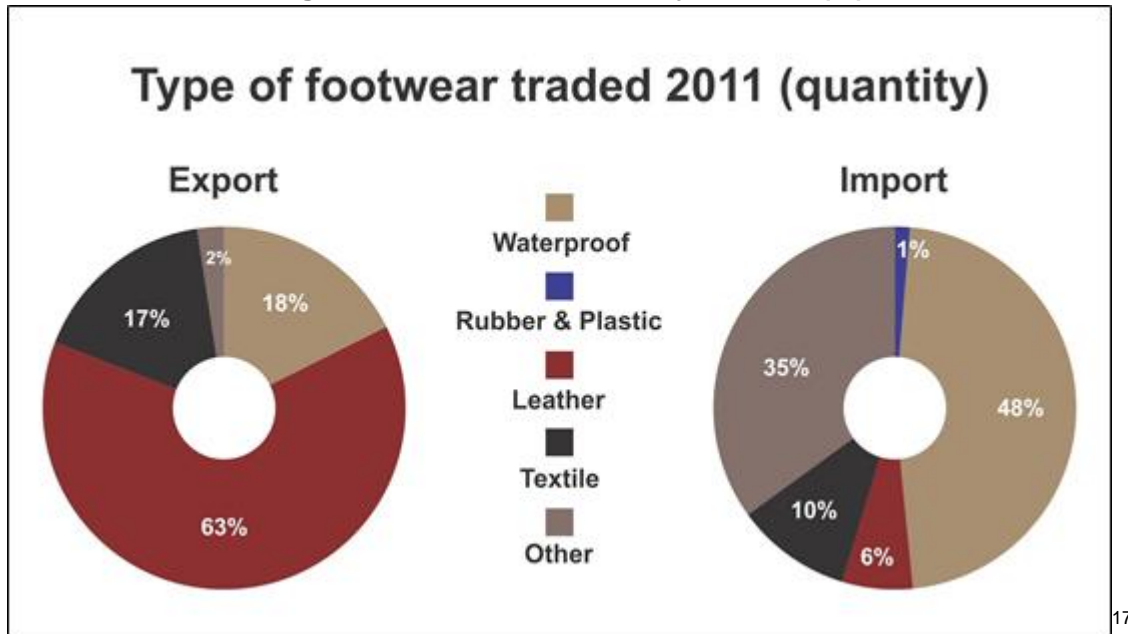


Source: Marpaung Binsar, *Information in Opportunities and Challenges in the Development of the National Footwear Industry*, Focus Group Discussion of the National Footwear Industry, Jakarta, March 2014

In 2012, the export value of the footwear sector reached US\$3.525 million, representing a 2% share of total exports. Its main destination countries were five EU Member States (Belgium, Germany, UK, The Netherlands and Italy), USA, Japan, China, Brazil, Mexico, Canada, Australia, and Panama. 79% of footwear exports were of the sports footwear category, while the other 21% were of the non-sports category.

<sup>16</sup> Marpaung Binsar, *Perkembangan, Peluang, dan Tantangan Pengembangan Industri Sepatu Nasional*. FGD Industri Sepatu Nasional, Jakarta, March 24 2014.

Figure 13: Traded footwear by material (%)



Source: Data from APRISINDO (Indonesian Footwear Association)<sup>18</sup>

#### 4.5. Production Characteristics

Recently placed fourth in the global market exports ranking, the shoe industry faces the challenges of meeting increasingly complex demand. This includes not only requirements in quantity and quality, but also the constantly shifting trends in footwear fashion. Indonesia is, however, well equipped to respond to demand transitions, as manufacturers can produce any type of footwear and are renowned for their superior creative and execution capabilities. One clear effect of this expertise is that Indonesian footwear exports already include lines produced initially for the domestic market.<sup>19</sup>

##### a. Sports shoes

Known to be a “paradise” for sport shoes, Indonesia has a long-standing tradition in the manufacture of this type of footwear, growing consistently since the 1950s. Production was initially driven by the local football business. Indonesia has now become a powerhouse for the manufacture of sport shoes global players such as Nike and Adidas.

##### b. Boots

Indonesia produces a wide variety of boots, including fashion boots, safety and working boots and high quality military boots. In fact, the local industry is a regular recipient of commissioned boots supplies for Indonesian and foreign military institutions.

<sup>17</sup> APICCAPS, *World Footwear Yearbook*, Portugal, September, 2012. p. 49

<sup>18</sup> Data retrieved from APRISINDO’s data file and given during an interview which took place in Jakarta, 24 March 2014.

<sup>19</sup> Ministry of Trade of the Republic of Indonesia, *Footwear*, Jakarta, 2012. pp.14-18

*c. Formal and style shoes*

Indonesia's footwear industry is also known for producing formal and fashionable shoes for European corporate and private clients.

*d. Casual shoes and leisure sandals*

As a country with an already favorable market due to its warm climate, Indonesia is home to a broad casual shoes segment. Casual footwear and leisure sandals are produced with modern PVC and PU materials; the combination of local know-how and the labor market context, yield a high level of quality at affordable prices. Furthermore, leisure sandals may include locally available quality raw materials, comprising animal skin, water lily fibers and ratta, among others.

*e. Specific Footwear*

Footwear produced for specific uses are also a part of the sector, and include ballet shoes, tap dancing shoes, ski boots, hazardous material-handling boots, swim fins and orthopedic shoes.

APRISINDO differentiates footwear products by the amount of workers employed, dividing them into three categories:

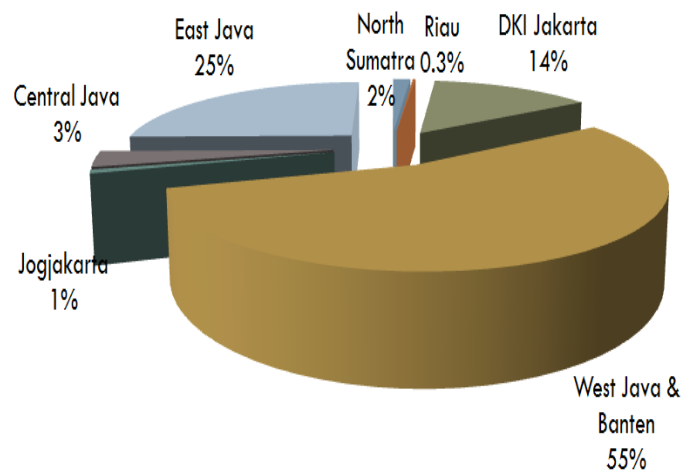
**Table 5: Traded footwear by material category (%)<sup>20</sup>**

<b>Category</b>	<b>Type</b>	<b>Labors</b>
A	Branded (big scale)	10.000 and above
B	Leather shoes (casual & formal)	2000
C	Local brands	400 - 200

The difference in the amount of workers is indicative of the type of manufacturer and the area in which it is located. The footwear industry is spread across West Java, East Java, Banten, Central Java, Jakarta and North Sumatra. More specifically, sports shoes industries are usually located in Banten, West Java, East Java and North Sumatra. Conversely, formal and casual shoes manufacturers are in Yogyakarta, West Java, East Java and North Sumatra; while leisure and fashionable sandals are produced mainly in Bali.

<sup>20</sup> Data retrieved from an Interview with the Chairman of APRISINDO, 4 February 2014

**Figure 13: Location of the Footwear Industry<sup>21</sup>**



Source: APRISINDO (Indonesian Footwear Association)

## V. Regulations, Tariffs and Taxes

Textile and textile products (TTP) are non-regulated goods for export, based on Ministry of Trade Regulation No.13/M-DAG/PER/3/2012 regarding General Principles of Export, enacted on 19 March 2012 (revising Regulations No. 558/MPP/Kep/12/1998 and No. 01/M-DAG/PER/1/2007<sup>22</sup>).

The government also controls the flow of imports through Ministry of Trade Regulation No. 23/PER/M-DAG/6/2009 (revised by No. 02/M-DAG/PER/1/2010 regarding Principles of Textile and Textile Products Import).<sup>23</sup>

Another notable regulation which is concerns the enforcement of safeguards to the importation of fabric and yarn. These rules are set forth in Regulation of the Ministry of Finance No. 58/PMK.011/2011, concerning the Imposition of Safeguard Measures Import Duty on the Import of Woven Fabrics of Cotton, Bleached and Unbleached.

Other relevant regulations:

- Ministry of Finance Decree No 241/2010 on the Setting of the Classification of the Goods System and the Imposition of Import Duty on Imported Goods.
- Ministry of Trade Regulation No. 84/M-DAG/PER/12/2012 on Provisions of Import Licenses.

<sup>21</sup> Data from APRISINDO (Indonesian Footwear Association)

<sup>22</sup> Bustami, Gusmardi, *Indonesia's Textile and Textile Product and Footwear*, EIBD, Jakarta, October 2013.

<sup>23</sup> Bustami, Gusmardi, *Indonesia's Textile and Textile Product and Footwear*, EIBD, Jakarta, October 2013.



- Ministry of Trade Regulation No.20/M-DAG/PER/7/2011, regarding import licenses, which stipulates that companies must choose to hold either a General Import License (API-U) or the Producer Import License (API-P).
- Ministry of Trade Decree 56/12/2008, which sets restrictions on ports where imports can be delivered, in an effort to combat illegal trade. The Decree covers 500 products and limits import delivery of garments and textiles to the ports of Tanjung Priok (Jakarta), Tanjung Emas (Semarang), Tanjung Perak (Surabaya), Belawan (Medan) and Soekarno-Hatta (Makassar); these imports are subject to non-automatic customs clearance.
- Customs Law 10/1995 and Customs Law 17/2006 gives the Directorate General of Customs and Excise authority to examine all imports, while delegating authority to the relevant port of entry.

**Table 6: Indonesian Import Tariffs on Textiles, Apparel, Footwear, and Travel Goods**

	HS Chapter/Subheading	Tariff Rate Range (%)
Yarn		
-silk	5003-5006	5
-wool	5105-5110	5
-cotton	5204-5207	5
-other vegetable fiber	5306-5308	5
-man-made fiber	5401-5406/5501-5511	0 - 5
Woven Fabric		
-silk	5007	5 - 10
-wool	5111-5113	10
-cotton	5208-5212	10 - 15
-other vegetable fiber	5309-5311	5 - 10
-man-made fiber	5407-5408/5512-5516	10 - 15
Knit Fabric	60	10
Non Woven Fabric	5603	5
Industrial Fabric	59	0 - 10
Apparel	61-62	0 - 15
Home Furnishings including: bed, bath, kitchen linens, etc.	63	5 - 15
Carpet	57	5 - 15
Footwear	64	5 - 25
Travel Goods	4202	10 - 15

**Source:** International Trade Administration, *Market Reports/Tariffs Textile, Apparel, Footwear, and Travel Goods Indonesia, 2011*<sup>24</sup>

Additional import taxes and fees include a VAT (Value Added Tax) of 10%, applied to the CIF. (cost, insurance, and freight) plus the import tariff applied.

<sup>24</sup>Retrieved January 8, 2014, from <http://web.ita.doc.gov/tacqi/overseasNew.nsf/alldata/Indonesia>

A luxury tax is applied to products deemed non-essential. The tax is collected on the customs value plus the sum of import duties levied for imports for the following products:

- Certain clothes and goods made of leather: 40%
- Carpets made of special material: 40%
- Suitcases, executive bags and boxes, and purses with an import value exceeding IDR 500,000: 40%

In response to the global economic downturn, the Ministry of Finance has issued Regulation No. 124/PMK.011/2013 (—PMK-124) on 27 August 2013 in order to provide short-term income tax relief for certain labor-intensive industries. Under this regulation, corporate taxpayers engaging in certain industries, including textiles, apparel, footwear, furniture, and/or toys, may be entitled to the following:

1. Reduction of monthly income tax liability (Article 25 Income Tax) for the tax period of September up to December 2013, as follows:
  - a. Reduction of up to 25% from the amount of Article 25 income tax paid for the August 2013 period, for certain corporate taxpayers that are not export-oriented; or
  - b. Reduction of up to 50% from the amount of Article 25 income tax paid for the August 2013 period, for export-oriented corporate taxpayers.
2. A three-month postponement of the deadline for settlement of any annual corporate income tax liability (Article 29 income tax or corporate income tax underpayment for fiscal year 2013), from the end of April 2014 to the end of July 2014; penalties ordinarily assessed for late payment penalty will be waived by the Director General of Taxes (DGTII).

The regulation regarding Tax Allowance PP no. 1 in 2007 has replaced by no. 52 in 2011, which regulated facilities for investment Income Tax in certain areas of business and/or in certain regions. It states that certain business areas categorized as national priorities are awarded special conditions. Many of these conditions apply to the textile and footwear industries.<sup>25</sup>

Finally, the Tax Holiday PMK 130/2011 clarifies the provision of facilities waiver or the reduction of income tax for the following pioneering industries:<sup>26</sup>

- Basic metal industries;
- Petroleum-refining industry and basic organic chemicals derived from petroleum and gas;
- Industrial machinery;
- Industries using or related to renewable sources;
- Communications equipment industries.

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<sup>25</sup> Industry Ministry of Industry, Director Textile and Multivarious, *Opportunity to Increase Trade and Investment between Indonesia –EU on Textile and Footwear Industry*. EIBD, Jakarta, October 2013.

<sup>26</sup> Ibid.

## VI. Government Support for the Textile and Footwear Industry

In April 2007, the Indonesian government launched a restructuring program for textile and footwear machinery. Its main goal is to develop and revitalize the textile and footwear sector. By encouraging the replacement of old machinery, the government aims to enhance the competitiveness of the industries and create an incentive for them to gain further ground in the global market. The rationale is to motivate an overall larger output volume at lower production costs. The program is backed by government funding and consists of two schemes. The first scheme is a price discount for the purchase of machinery, while the second scheme consists of loans for machinery funding at low interest rates by way of equity participation, mostly directed at SMEs.

Banks have started to show confidence in the textile industry, which was previously often associated with high-risk ventures. The increased interest of textiles companies in restructuring and revitalizing machinery has led the government to maintain this program to this day.

The number of companies that have joined the program since its launch in 2007 has increased significantly. Based on data from the Indonesian Textile Association, 92 companies benefited from the program in 2007, 109 companies in 2011 and 142 in 2012.

This initiative focuses mainly on upgrading industrial machinery that has been in use for more than 20 years.

**Table 7: Total Textile Machinery Industry Age >20 years & Result Upgrading<sup>27</sup>**

SUB-SEKTOR	UNIT	>20 YEAR		NUMBER OF UPGRADING		REST OF MACHINE AGE > 20 YEARS.	
			%		%		%
Spinning *	Spindle	5,025,287	64.4	1,720,784	34.2	3,304,503	65.8
Weaving *	Units	204,393	82.1	6,529	3.2	197,864	96.8
Knitting *	Units	34,743	84.1	2,068	6.0	32,675	94.0
Finishing *	Set	325	93.2	373	114.8	-48	-14.8
Garment *	Units	226,854	78	64,112	28.3	162,742	71.7
Footwear**	Set	1,500	50	181	12.1	1,319	87.9
Leather**	Set	600	60	42	7.0	558	93.0

Source: Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*, EIBD, Jakarta, October 2013

The restructuring program is thought to have had very positive effects on the industry in the past five years. For instance, there are now 92,000 additional workers employed by the industry;

<sup>27</sup> Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*, EIBD, Jakarta, October 2013

production capacity has increased from 16% to 21%; productivity increased from 6% to 10%; and energy efficiency rose from 5% to 9%.<sup>28</sup>

In the footwear industry, the restructuring program has also had a direct impact on the industry in recent years. It has had a direct impact on labor, creating up to 102,000 new jobs; helped raise production capacity by 34.65%, and productivity by 8.62% as well as increase the energy efficiency rate from 4.46% to 6.69%.<sup>29</sup>

## VII. Opportunities and Challenges

### 7.1. Opportunities

The textile and footwear industry is indeed one of the major industries fueling Indonesia's economy, creating millions of factory jobs, employing half a million workers, while tying other supporting sub-sectors to its growth. This sector and its related industries hold great potential, both for local and foreign enterprises.

Many foreign investors have been tapping into Indonesia's potential, as suggested by several factory relocations from China, a dominant location for manufacturing, as well as Indonesia's neighbors.

#### 7.1.1. Footwear Components

The continued growth of footwear demand in the domestic and global markets increases the potential for further developing supporting industries in Indonesia. While the country is rich in raw materials such as rubber, there is a marked technology gap, which has been hampering the growth of final processing industries. If these deficiencies were successfully addressed, the country could become a sound source of business opportunities in the manufacturing of shoe components such as rubber soles, heels, and glue, among others. This potential can only be realized if improved technology for design and production is widely introduced, including chemical supply and other supporting items.

#### 7.1.2. Leather

Output in the leather item industry is driven by the manufacturing of bags. In this industry, the key obstacle is a limited supply of varied raw leather, hindering growth prospects for leather manufacturing. Opportunities nevertheless exist, mainly in the export of processed leather and in upgrading the productivity, production know-how and technological capacity of tanneries.

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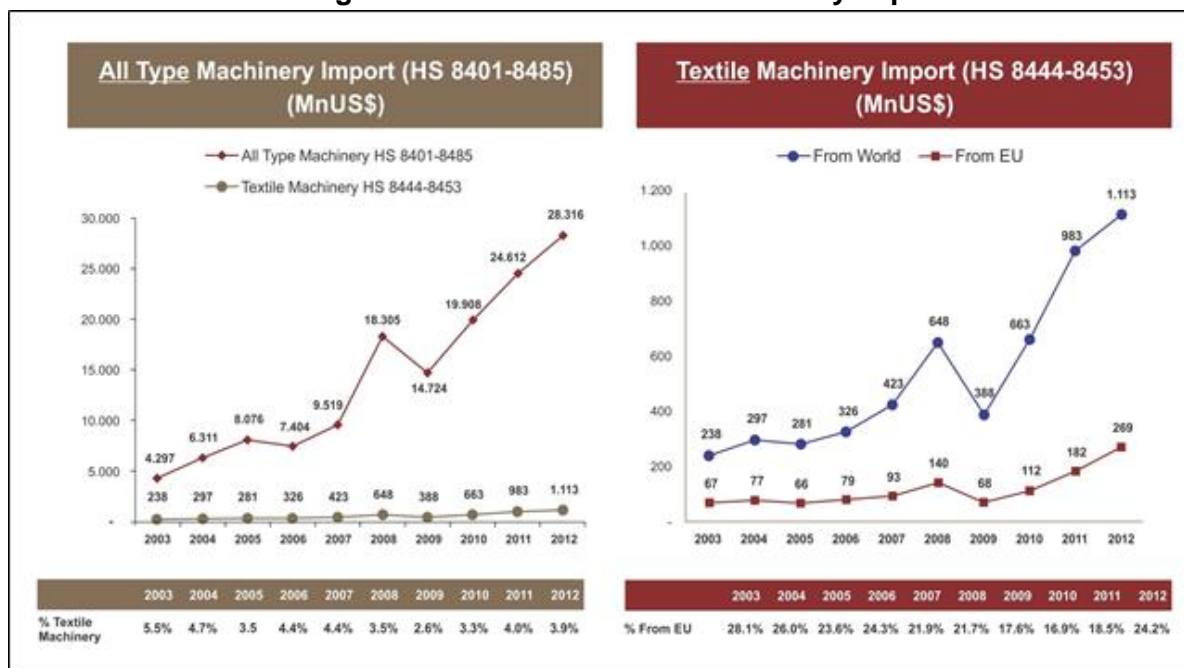
<sup>28</sup> Tjokrosaputro. Michelle, *Profile of the Indonesian Textile Industry*, EIBD, Jakarta, October 2013

<sup>29</sup> Ministry of Industry, Director Textile and Multivarious Industry, *Opportunity to Increase Trade and Investment between Indonesia –EU on Textile and Footwear Industry*, EIBD, Jakarta, October 2013

### 7.1. 3. Machinery

Based on data of the Textile and Footwear Industry Restructuring Program, EU companies can make the most of the present demand for textile and footwear industrial machinery. In 2011, the EU contributed around 14% of the total machinery supply. Those EU countries exporting machinery were: Germany, France, Switzerland, Italy, Belgium, UK, Austria, Spain, Finland, Czech Republic, Netherlands, Denmark, and Sweden.

**Figure 16: Indonesia Textile Machinery Import<sup>30</sup>**



Source: Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*, EIBD, Jakarta, October 2013.

In the textile sector, Indonesian factories produce a wide variety of products, thus creating a broad range of opportunities for EU companies. One example is cotton, a commodity in high demand which has thus far largely been imported from the USA or Australia. Recent reports by the Indonesian Synthetic Fiber Makers Association (APSyFI) suggest EU companies could be strong competitors.

Indonesia produces textiles for other purposes other than garments. API representatives have recently stated that the industry is also responding to a rising demand in non-woven and technical textiles for use in other growth industries in the country, such as automotive supporting materials, and other technical and industrial components. This trend represents an opportunity for investors looking to venture into the manufacturing and exporting of technical textiles.

In the case of machinery for textile production, problems arise in sustaining a stable flow of maintenance, particularly in parts replacement and repair. Regarding European machines, generally viewed as the standard in terms of quality, Indonesian industry operators often encounter obstacles in obtaining spare parts and repair solutions. Meanwhile, Korean and

<sup>30</sup> Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*, EIBD, Jakarta, October 2013. p.6

Chinese options often prove to be only temporary or inefficient. This gap is an encouraging opportunity for European machinery companies dealing with textile machinery and machine components, as well as technical assistance.

Beyond the prospects for providing hardware, EU companies can also become complementary to the Indonesian industry in providing know-how and trend knowledge in garments and textile. In Indonesia, it is often recognized that there is a lack of an R&D culture and mentality, both in the private and public sector. Hence, training is indeed a niche that can be exploited by the long-established, trend-setting European textile industry, particularly where processing and design are concerned. Indonesia's textile sector, particularly in its current status of **increasing** sustainability, stands to gain a lot from European know-how. But the enhancement of investment relations with Europe could also unleash the native creativity and quality that the Indonesian industry has the potential to provide. More European investment in Indonesia could lead to better quality production while also fulfilling European market expectations at a lower cost by combining specific demand with the local output capability.

One notable example of a successful exchange between Indonesian and European textile sectors can be found in textile dyeing process industries, as voiced by APSyFI.<sup>31</sup> In an interview conducted for this study, APSyFI noted that lack of knowledge in machine operations and access to quality chemicals has been negatively affecting production volumes and often leading to process failure. Accessories and dyestuff are currently mainly imported from China, where producers find more competitive prices and better delivery timing than available from European exporters. Nevertheless, European products are still considered to be of higher quality and some manufacturers have developed a certain degree of loyalty to European suppliers. Hence, there are opportunities to be found in the establishment of manufacturing companies for supporting chemical agents. Moreover, given that the Chinese government recently released regulations aimed at reducing chemical production, and the fact that many local manufacturers exporting to the European market have to comply with the REACH standards in chemical components, this is a time of good possibilities for European investors to enter this sub-sector.

## 7.2. Challenges

There are 388 factories now listed in APRISINDO, known to employ 610,000 workers. The footwear industry employs a massive amount of manpower in each factory, having reached an output capacity of 1.4 billion pairs in 2012. Yet, there are still challenges that need to be addressed.

### 7.2.1. Machinery and Manpower

Outdated machinery has long been holding back productivity in textile exports. In a study published in 2012, the Ministry of Industry concluded that an estimated 70% of all machinery in use was outdated (10-25 years). This is an industry setback that leads to higher energy consumption, lower quality results and lower production quantities, but it may also be seen as an opportunity for foreign suppliers.

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<sup>31</sup> Information provided during an interview with the APSyFI's Secretary General: Mr Redma Gita Wiraswasta, APSyFI's Head Office, Jakarta, April 2014

The same can be said in the footwear sector. Here, limited performance of technology and machinery is a contributing factor to the poor supply of processed raw materials (particularly related to leather and rubber) and supporting materials for shoe production. As mentioned above, while the country is widely known for its raw leather and rubber production, it still needs readily processed leather and rubber that can comply with sufficient quality standards.

The scarcity of leather in raw form is an area that can be exploited by foreign importers and investors. However, it should be noted that imports are constrained by the Presidential Decree No.40/1997, which limits the importation of rawhide from countries that are free from infectious animal diseases listed in the A list of the *Office International des Epizooties* (OIE); such as rinderpest and foot-and-mouth disease (FMD). Imports of animal products are subject to strict supervision under Law No. 6/1992 and can be subject to entry bans when imported or re-imported from prohibited countries or areas. The latter are specified in Article 30 regarding Animal Quarantine of government Regulation No. 82/2000. This regulatory strictness has hit external supply and shortages have been noted since the 1<sup>st</sup> quarter of 2014. As an example, out of the 5 million sheets of leather raw material in demand by the shoe industry, only 2 million sheets could be provided locally. Of the remaining 3 million sheets of leather required by the industry in exports, only 400.000 arrived to the local market as a result of these regulations.<sup>32</sup>

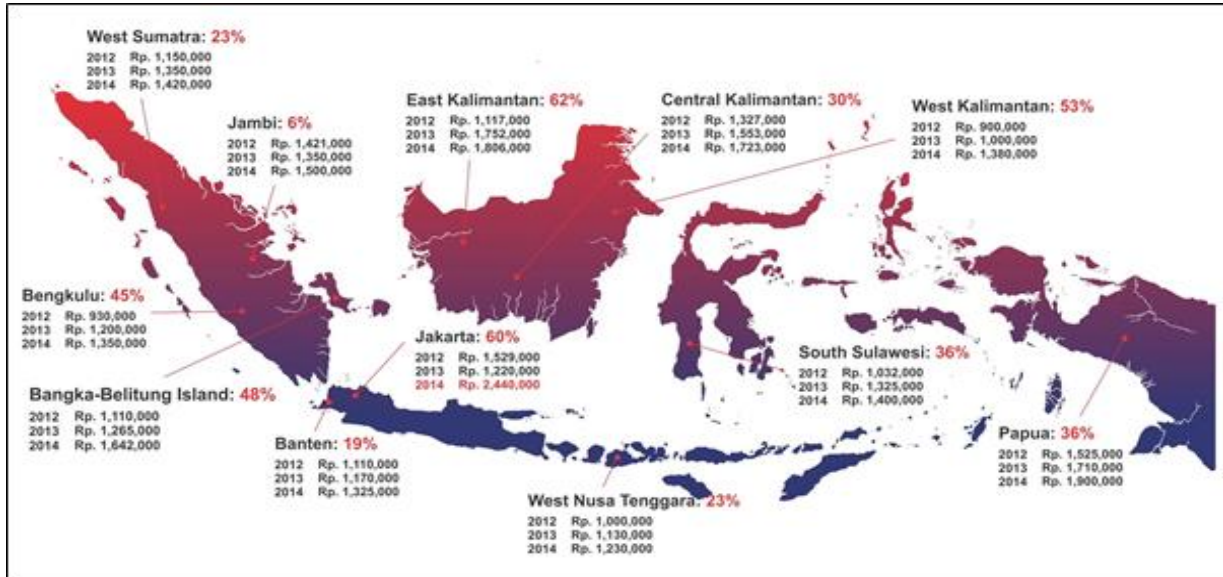
There is still a shortfall of up to 80.000 skilled laborers in production technology operations in the footwear industry, particularly in the areas of tailoring and product design. This creates challenges in achieving a smooth production flow. On the other hand, the social and political consequences of Indonesian labor policy have also affected labor supply and investment in the textile industry. A certain degree of vulnerability was already visible in late 2012, when large-scale labor strikes were carried out in the industrial areas of Tangerang and Bekasi in Greater Jakarta, as well as in Riau and Papua. The matter was initially sparked by a decision by the Indonesian Employers Association (APINDO), to challenge a minimum wages hikes in the West Java area of 20-30%. This issue highlighted the need for a restructuring of Indonesia's labour laws, which were last reformed in 2004 and are often seen as overly favorable to workers and unfriendly to business. These regulations are nevertheless poorly enforced and offer few real worker protections, a reality that is thought to be at the heart of ongoing disputes and friction between employers and workers.

Labor unrest has had a direct affect on the labor-intensive textile and garment industries but the impact has been more limited than in other industries; salaries rose by 13% in 2010 and again by 1.7% in 2011. Many of the country's largest textile and garment manufactures have already taken steps to hedge against the high operational costs in Jakarta, establishing additional production centers in areas such as Yogyakarta and the Central Java, where trade unions are less active.

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<sup>32</sup> Muhammad Khamdi, *Bisnis.com*, March 24, 2014: (<http://m.bisnis.com/industri/read/20140324/87/213172/pasokan-bahan-baku-kulit-minim-industri-sepatu-kelabakan>)

**Figure 16: 2014 Minimum Wage Map**



Source: The Jakarta Post, *Wages Rise as Strike Goes On, 2013*<sup>33</sup>

### 7.2.2. Taxation

Indonesian textile producers are finding it difficult to compete with China and regional neighbors on pricing. The Classification of Goods System and the raising of the Import Duty on Goods affects textile raw materials, adding to quarantine issues. Textile producers have had to raise their prices in line with import tariffs increases. Prices have also been affected by the 18% rise in electricity costs in the past year and the impact of tariff-free garment imports. It is hoped that these tariffs will soon be overturned, in line with revisions to the current regulation. The latter has been viewed as having a negative impact on around 2165 products across various manufacturing sectors.

Improving Indonesia's standing in the global textile and footwear market should come not only from improvements to the regulatory environment and updating of machinery, but also in improving its position in its own domestic market

### 7.2.3. International Presence

Branding and marketing of Indonesian-made textiles and footwear have traditionally been poorly conducted and domestic brands have not taken a strong footing among Indonesian consumers. Limited local and international publicity has curtailed the success of local brands domestically and abroad.

In fact, local manufacturers continue to be dependent on their foreign principals, thus preventing them from developing individually as a local brand. Foreign apparel and footwear brands have flourished in the upper end of the market, in parallel with imports of cheap garments from China, which are currently gathering momentum. This can be interpreted as a sign that a reorientation

<sup>33</sup> The Jakarta Post, *Wages rise as Strike goes on*. Retrieved February 9, 2014, from <http://www.thejakartapost.com/news/2013/11/02/wages-rise-strike-goes.html>



of the sector towards higher-quality goods and a greater focus on innovation and creativity could take Indonesian textiles to new heights.

Indonesia has the potential to achieve stronger economic growth, which has to date been hindered chiefly by infrastructure constraints. Examples of these constraints include poor intra-urban mobility, long road runtimes between major cities (with typical average speeds as low as 30-40 km/h, 100-200% below capacity), exhaustion of most major airports (many running at 200-300% capacity) and lengthy turnaround times at major national ports (average of 10-14 days). For the textile and footwear industries, which need efficient pathways for supply routes, export and import; infrastructure problems severely impact delivery times and mean a loss in competitiveness. Indonesia has around 2,400 ports with local, regional, and national bearings. However, only five ports are legally appointed for export and import activities. Lack of control in other small ports allows for Indonesian market to be flooded by illegal textile and footwear imports, while exports are hampered by import restrictions in destination designated countries.<sup>34</sup>

Better infrastructure development, more flexible trade regulations and stronger customs controls could close the gap in making Indonesia one of the world's top textile trading countries.

#### 7.2.4. Strategies for Challenges

In the face of various challenges within both industries, Indonesian business associations in the sector have been actively planning measures for the future. Some strategies that APRISINDO has formulated are:<sup>35</sup>

1. To become more involved in facilitating the necessary training towards increasing skilled labor.
2. To promote machinery modernization, especially for the footwear industry; revitalize tanneries and develop centers for shoe design, in order to elevate local brands in regards to local consumers.
3. To prepare the ISO 9001 for local manufacturers for products deemed to qualify for export.
4. To help formulate and jointly gather inputs towards the SNI (Indonesia National Standard), while promoting the standard among stakeholders.
5. To encourage and facilitate participation in international exhibitions.

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<sup>34</sup> Marpaung Binsar, *Perkembangan, Peluang, dan Tantangan Pengembangan Industri Sepatu Nasional*, FGD Industri Sepatu Nasional. Jakarta, March 24 2014.

<sup>35</sup> Directorate General for Basic Industry in Manufacture, *Principals, Strategy, and Plans for the National Footwear Industry*, FGD Industri Sepatu Nasional, Jakarta, March 24 2014.

**Table 6 : SWOT Analysis**

		Opportunities	Threats
		<b>EXTERNAL</b>	Archipelagic country situated in between two influential continents within the Asia Pacific region, with good access to other Asian countries.
<b>INTERNAL</b>	Produce different variety of textile and shoes	High Import duty of raw material for export products	
	Dynamic domestic demands by the fact of growing middle class.	Uncertainty in long term structure for tariff, wage, and regulations Indonesian consumers have no trust to local brand	
<b>Strengths</b>		<b>Comparative Advantages</b>	<b>Mobilize</b>
High number of manpower with Low wage standard compared to other Asian countries (Japan, Malaysia, Singapore) with similar production quality		Increase production	Focus Group Discussion among parties regarding the regulations and duties.
Abundant resource of raw material		Boost the export	Build the strong image of Indonesian products
<b>Weaknesses</b>		<b>Invest</b>	<b>Damage Control</b>
Infrastructure		New technology, Research, and Development.	Improve technology and provide the knowledge by training. Control from government in the port
Lack of technology to process the raw material to be able to be used as component		Boost Foreign Direct Investment	
Old machineries			

Source: Sri Kumala Chandra, IFCCI, 2014

## VIII. Relevant Contacts

Organization	Address	Contact
Education and Industrial Centers	Jl. Widya Chandra VIII no.34 Kebayoran Baru Jakarta Selatan 12190	Phone: (62-21) 5712619 Fax: (61-21) 5253040
Center for Textile	Jl. Jend. Achmad Yani no. 390 Bandung 40272	Phone: (62-22) 7206214 Fax: (62-22) 7271288  E-mail: <a href="mailto:texirdti@bdg.centrin.net.id">texirdti@bdg.centrin.net.id</a>
Center for Leather, Rubber, and Plastics	Jl. Sokonandi No. 9 Yogyakarta 55166	Phone: (62-274) 512929 Fax: (62-274) 563655 E-mail: <a href="mailto:bbkbp@bbkbp.go.id">bbkbp@bbkbp.go.id</a>
Indonesian Textile Association	Adhi Graha, 16th Floor Jl. Jend. Gatot Subroto Kav. 56 Jakarta 12950	Phone: (62-21) 5272171 Fax: (62-21) 5272166 E-mail: <a href="mailto:sekretariat@bpnapi.org">sekretariat@bpnapi.org</a>
Indonesian Footwear Association	Harmoni Plaza, Blok B no. 32 Jl. Suryopranoto Jakarta Pusat 10130	Phone: (62-21) 6321555 Fax: (62-21) 6321528 E-mail: <a href="mailto:aprisindo@centrin.net.id">aprisindo@centrin.net.id</a>  Website: <a href="http://www.aprisindo.or.id">www.aprisindo.or.id</a>
Indonesian Leather Tanner Association	Jl. Anyar Rt 02/ Rw 02, Desa Leuwinutug Citeureup - Bogor West Java 16810 – Indonesia	Phone & Fax: (62-21) 8795 1113  Email : <a href="mailto:secretariat@indonesiantanners.com">secretariat@indonesiantanners.com</a>  Website: <a href="http://www.indonesiantanners.com">www.indonesiantanners.com</a>
Indonesian Footwear Industry Service Center	Pasar Wisata, Tanggulangin Sidoarjo, Jawa Timur	Telp: (62-31) 8855149 Fax: (62 31) 8855149  Email: <a href="mailto:bpipi@kemenperin.go.id">bpipi@kemenperin.go.id</a>  Website: <a href="http://bpipi.kemenperin.go.id">http://bpipi.kemenperin.go.id</a>
The Indonesian Leather Technology Academy	Jl. ATEKA Bangunharjo, Sewon, Bantul Yogyakarta 55187 PO BOX 1186	Telepon: (62-0274) 383727 Fax : (62-0274) 383729  email : <a href="mailto:info@atk.ac.id">info@atk.ac.id</a>

## IX. Upcoming Events

### **Indoleather and Footwear Expo**

7 - 10 May 2014

JIExpo Kemayoran Jakarta - Indonesia

The 9th international exhibition on leather and footwear machinery, manufacturing technology, materials and services.

Featuring :

#### LEATHER & FOOTWEAR

- Semi-finished Leather • Finished Leather • Hides & Skins
- Exotic Leather • Synthetic/Natural Materials • Man Made Leather
- Equipments and Tools • Components & Accessories
- Footwear Machinery • Tanning Machinery • Process Chemicals & Dyes
- Manufacturing Equipments • Technology

#### FINISHED PRODUCTS

- Men & Women Footwear • Sports & Medical Shoes
- Leather Garments • Leather Goods • Travel wear • Fashion Accessories
- Baby Shoes • Handbags & Bags • Leather Furniture
- Leather Accessories

### **4th Jakarta International Yarn & Fabric Show 2014**

29-31 October 2014

JIExpo Kemayoran Jakarta - Indonesia

Indonesia's premier international Exhibition on international yarn, fabric, and accessory manufacturers and suppliers focused to the Indonesian Textile & Apparel Industry

Featuring:

- All kinds of Cotton / Synthetic fabrics (Woven / Knit)
- Denim
- Knitted Fabrics
- Fleece
- Natural Fabrics (Woven / Knit)
- Coated Artificial Fur
- Artificial Leather
- All kinds of Yarn & Fibre
- Fancy Finishing
- Home textiles
- Accessories

### **3rd Textech Indonesia 2014 International Expo**

29-31 October 2014

## JIExpo Kemayoran Jakarta - Indonesia

Indonesia's international exhibition on textile and apparel technology and machinery.

Features:

- Textile - Fiber - Fabric
- Bleaching - Dyeing
- Weaving - Knitting
- Embroidery - Printing
- Sewing
- Planning Design (CAD)
- Finishing - Inspection - Testing
- Cutting - Spreading- CAM
- Information Technology
- Facilities - Equipment
- Accessories Suppliers
- Distribution - Logistics

### **Indo Dyechem 2014**

23-26 April 2014

JIExpo Kemayoran Jakarta - Indonesia

INDO DYE CHEM 2014 is one of the key exhibitions showcasing all range of chemical and dyeing related to Textile and Textile Products (TPT) industries. Indo Dye Chem is a good place to promote, yet to broaden the information about the latest invention in dyeing and chemical technology and machinery for textile and garment industry.

Exhibit Profile :

Dry-Cleaners & Laundries: Products for washing & dry cleaning, chemicals agents for dry cleaners & laundry, colored fibers treatment machines for jeans and textile industries, dry-cleaners and laundries automation, dry-cleaning machines, industrial laundry equipment, self-service laundry equipment, steam generators, trolleys for laundries, washers and wringers, waste management.

Dye and Chemicals: Textile chemicals, processing chemicals, chemical equipment & engineering, fine & specialty chemicals, all kinds of dyestuff and pigment, disperse dye, acid dye, reactive dye, basic dye, direct dye, vat dye, sulphur dye, indigo blue, sulphureted black, organic pigment, printing plasm, color dyestuff, catalysts, adhesive, chemical enzymes, various dye intermediates. Textile, dyeing and finishing auxiliary. Inorganic pigments and ore stuff, organic impregnant, surface active impregnant, printing auxiliary, environmental and functional style auxiliary. Other auxiliary: chemical fiber monomer, activator, chemical fiber oil auxiliary, supple auxiliary, bond, finishing auxiliary, and other chemicals; textile industry environmental technology, quality authentication system and relative apparatus and equipments.

## **Indo Intertex 2014**

23-26 April 2014

JIExpo Kemayoran Jakarta - Indonesia

INDO INTERTEX 2014 is one of the key exhibitions showcasing all range of textile machinery and accessories from Textile and Textile Products (TPT) industries. Indo Intertex is well recognized as creative exhibition which intended to safeguard domestic market for textiles/ textile machinery products as well as to increase exports.

Exhibit Profile :

Textile: Fiber-making machinery, man-made fiber production for Viscose, polyester, spinning machinery, yarn machinery for nylon, spun yarn, non-woven fabric machine, fabric making machinery for woven, knit, winding and reeling machinery, weaving preparatory and weaving machinery, knitting and hosiery machines, textile testing and measuring equipment, CAD/CAM, quality control equipment.

Garment: Embroidery machines and accessories, sewing machines for garment and different applications, pressing machines, cutting machines and equipment, finishing equipment and systems, garment testing and measuring equipment, laboratory equipment, laundry machinery, laser cut machines, labeling, printing and packaging machines, leather machinery, ironing and steaming equipment, bar coding machines, CAD/CAM.

Others: Accessories and spare parts for textile and garment machinery, coolant system, air-conditioning, boiler, power generator, compress air, security systems, belting, conveyor belt.

## **INATEX 2014**

23-26 April 2014

JIExpo Kemayoran Jakarta - Indonesia

INATEX 2014 is one of the key exhibitions showcasing all range of products and accessories from Textile and Textile Products (TPT) industries. Inatex is well recognized as creative exhibition which intended to safeguard domestic market for textiles/ textile products as well as to increase exports.

Exhibit Profile :

- Fibers: Polyester, high performance fiber, natural fiber.
- Yarns: Cord yarn, filament yarns, fusible yarns, wool yarns, high technology yarns, jute and ramie.
- Fabrics for Fashions & Apparel: Woven & knitted fabrics, non-woven, interlinings, denims and high performance textiles.
- Trimmings & Embellishments: Labels, belts, zippers, buttons, buckles, needle and thread.
- Supporting Accessories: Home textiles, fashion schools, and textiles/ apparel publications.

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Marpaung, Binsar, *Perkembangan, Peluang, dan Tantangan Pengembangan Industri Sepatu Nasional [Information in Opportunities and Challenges in the Development of the National Footwear Industry]*, FGD Industri Sepatu Nasional [Focus Group Discussion of the National Footwear Industry], Jakarta, 2014

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Ministry of Trade of the Republic of Indonesia, *Indonesian Kids' Wear. Fashion for the Young*, Jakarta, 2008.

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Ministry of Trade of the Republic of Indonesia, Roesfitawati, *Women's and Girls' Overcoats*, Export News Indonesia, 2013

Michelle Tjokrosaputro, *Profile of the Indonesian Textile Industry*, EIBD, Jakarta, October 2013

### INTERVIEWS:

1. Chairman of APRISINDO (Indonesian Footwear Association), Mr. Binsar Marpaung, Plaza Indonesia-Jakarta, February 4<sup>th</sup>, 2014
2. Chairman of APRISINDO (Indonesian Footwear Association), Mr. Binsar Marpaung, Office Harmoni Plaza Complex-Jakarta, March 20<sup>th</sup>, 2014
3. Chairman of APRISINDO (Indonesian Footwear Association), Mr. Binsar Marpaung, The Borbudur-Jakarta, March 24<sup>th</sup>, 2014
4. Secretary General of APSyFI (Indonesian Synthetic Fiber Makers Association), Mr Redma Gita Wiraswasta, APSyFI's headquarters in Jakarta, April 1<sup>st</sup>, 2014

## **ONLINE RESOURCES:**

“Market Reports/Tariffs: Textiles, Apparel, Footwear and Travel Goods-Indonesia”, January 8, 2014 : <http://web.ita.doc.gov/tacgi/overseasNew.nsf/alldata/Indonesia>

“Wages rise as strike goes”, February 9, 2014:  
<http://www.thejakartapost.com/news/2013/11/02/wages-rise-strike-goes.html>

“Pasokan Bahan Baku Kulit Minim, Industri Sepatu Kelabakan (Minimal Supply for Leather Raw Material, Causing Panic Within the Shoe Industry), March 24<sup>th</sup>, 2014  
<http://m.bisnis.com/industri/read/20140324/87/213172/pasokan-bahan-baku-kulit-minim-industri-sepatu-kelabakan>

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