

2.6 Recommendations for Comprehensive Promotion Programs for the Handicraft Industry

(1) Main Problems

The main objectives of the survey process during this study are to identify the present status and problems in the selected industries, to identify development measures to date and to study solutions to problems, from both the supply-side and demand-side points of view, in order to formulate promotion programs. Surveys from the demand-side viewpoint cover (1) trends in handicraft industries world-wide and Indonesia's position vis-a-vis these trends; (2) trends in handicraft imports by the United States and the United Kingdom as well as these countries' evaluations of Indonesian handicrafts; (3) trends in imports of handicraft by Japan and that country's evaluation of Indonesian handicrafts; and (4) the forecast for trends in demand. The supply-side surveys involve (1) field survey in Indonesia and (2) development measures in Thailand and the Philippines, Indonesia's competitors. In addition, review and study of development measures have been conducted.

Following are problems which deter exports from the handicraft industry and a summary of survey results.

1) Major Points

There are two types of problems facing the handicraft industry in Indonesia: problems common to all products and problems specific to each product. Accordingly, it is necessary to formulate common policies as well as product-specific policies.

There are two problems common to all products: marketing and production technology. The problem in terms of marketing is the absence of marketing functions. The most significant deterrent to exports is the overall lack of marketing functions such as collection of market information, product development, sales promotion and other promotion activities, particularly in the small-scale firms which dominate the handicraft industry. Under the circumstances, the creation of marketing functions is an urgent necessity. In the field of production technology, problems include the lack or insufficient implementation of measures for upgrading quality and adapting products to overseas markets, something which is required if Indonesian handicrafts are to be accepted in importing countries. To deal with problems related to production technology, the cooperation programs of foreign economic cooperation organizations may be introduced in the handicraft industry along with the current policies for small-scale industry.

In addition to these common problems, each product faces problems specific to it. These product-specific problems and measures to solve them are described in the following chapter.

2) Summary of each chapter

[1] Evaluation of and Problems with Indonesia's Handicrafts as Revealed in Surveys Overseas

Surveys conducted outside Indonesia covered (a) trends in world handicraft trade and Indonesia's position; (b) import trends in main importing countries (the United Kingdom and the United States) and their evaluation of Indonesia's handicrafts; and (c) trends in imports of handicrafts by Japan and that country's evaluation of Indonesia's handicrafts.

(a) Trends in World Handicraft Trade and Indonesia's Position

Based on OECD statistics, an analysis was made of the main importing countries/regions, exporters by main importing country/region and trends among Indonesia's competitors between 1980 and 1987. The outcome of the analysis can be summarized as follows.

< Import value >

Generally speaking, handicraft imports by OECD countries showed expanded during the seven years between 1980 and 1987 on a value basis, although there are differences by product. Even taking into account inflation rates, there is no doubt continuing the growth in imports by OECD countries.

< Importing countries/regions >

Except for some products, the United States was the largest importer of handicrafts and, after adjusting for inflation, it was clear that its imports were increasing during the term. Japan also increased its import between 1980 and 1987 and it has assumed a more significant position as an import market. Among EC members, imports by Italy and its neighboring countries are very large.

< Exporters >

Traditional exporters have maintained their share in the world market for some products such as embroidery. Asian NIEs and Thailand in ASEAN expanded their share during the 1980-1987 period. Although Indonesia's share is still relatively smaller than other ASEAN countries, it marked gains in terms of both import value and share during the period.

(b) Handicraft Imports in the United Kingdom and the United States and Their Evaluation of Indonesia's Handicrafts

< The United Kingdom >

Import trends

Imports of handicrafts by the United Kingdom expanded between 1985 and 1988, with the exception of some items. The main exporters were neighboring European countries. Imports from Asian NIEs recorded a remarkable increase. Among ASEAN countries, the Philippines and Thailand were the top exporters. As suggested by the fact that it is grouped into "other countries" in import statistics, the share of Indonesian products among the United Kingdom's imports was small.

Demand forecast

Importers interviewed expressed optimistic views about the demand forecast for handicrafts. Because handicraft products are marginal consumer goods, an exact forecast is very difficult. They are also influenced heavily by fashion trends.

Evaluation by importers

Indonesia is a very well-known producer of handicraft products. Among its handicraft products, wooden handicrafts are the largest export item. On the other hand, exports of textile handicrafts are very small. While packaging and delivery are cited as problems, Indonesian handicrafts are highly evaluated in terms of colors and ethnic appeal. There are problems in terms of quality with some products such as wooden handicrafts. Defective products are mixed in some packages in such high frequency that importers have to set higher prices to absorb additional costs.

Export promotion activities by competitors

No exporting country or region is very active in export promotion activities in the United Kingdom. In this sense, their activities are very passive. They are dependent on private importers and wholesalers in the U.K. in terms of promotion of their products in that country.

< The United States >

Analysis was made of giftware, accessories, wooden handicrafts and hand-woven products.

Import Trends

On a long-term basis, imported products have been increasing their share in the U.S. market. Generally speaking, European countries are the main exporters of higher priced products, although the main exporters differ from one product to another. Products in other price segments come from Asian NIEs, Japan and Mexico. Due to the adjustment of currency exchange rates since September 1985, products from Japan and Asian NIEs have been losing their competitive edge. On the other hand, products from Thailand and the Philippines have maintained their competitiveness and imports from China have been increasing remarkably.

Demand trends

Demand for handicrafts is heavily influenced by consumers' disposable income. Accordingly, sustained economic growth is required for an expansion of demand. Changes in consumer preferences are other factor in the fluctuation of demand. In recent years, fashion trends have been changing very quickly, making inventory control and exact delivery more important. Despite some differences by product, growth in demand for handicrafts can be expected to some degree in the coming years, with many baby boomers over the age of 40 entering the high income bracket.

Evaluation of Indonesian Handicrafts

Although Indonesian culture, particularly that of Bali, is well-known in the United States, Indonesia's handicrafts have not established a strong position in the country's market. However, people in the industry evaluate Indonesian handicrafts highly because of their exotic appeal and colors.

In this sense, the failure in penetrating the U.S. market is mainly attributable to the lack of promotion at the government policy level and to insufficient activity by exporters at the private sector level.

(c) Trends in Imports of Handicrafts by Japan and Evaluation of Indonesian Handicrafts

<Import trends>

A survey has been made of import trends between 1984 and 1988 using customs clearance statistics. The survey covers several products: (1) wooden picture frames, (2) woven housewares, (3) bamboo basketwork, (4) other basketwork, (5) shell crafts, (6) ceramic crafts, (7) silverware, (8) cotton products and (9) silk products.

The following general tendencies can be seen, despite slight differences by product.

The handicrafts can be grouped into three categories: those for which imports have been increasing, including wooden handicrafts, bamboo baskets and ceramics; those for which imports have turned upward after a slump, including textile handicrafts; and those for which imports have been declining, including shell crafts and "other basketry".

There are many products for which certain countries/regions hold a dominant share of the market such as shell crafts from the Philippines. Main exporters among ASEAN are Thailand and the Philippines. The import value and share of Indonesian products are small. Because most of them are new items to Japan, the import value has been showing a steady increase.

<Evaluation of Indonesian handicrafts>

According to the 74 Japanese firms in the handicraft industry which responded to questionnaires (a total of 209 were distributed), the present status of their businesses and their evaluation of Indonesian handicrafts can be summarized as follows.

Demand trend

Their imports of handicrafts have been expanding during the past five years due to the continued appreciation of the yen. The majority of respondents said that further growth can be expected in the future, but that ideas for the expanding business are required.

Indonesia is relatively well-known as a producer of handicrafts. Its competitors include China, Thailand, the Philippines and India.

Promising products

Items which are imported in large volume include small rattan products and wooden products. Among products which are expected to grow in the future are small rattan products, wooden products, hand-woven products and batik. Small rattan products are main item.

Evaluation of Indonesian handicrafts

Ethnic appeal is the most evaluated element of Indonesian products, followed by color and design. Elements which receive low ratings are delivery, durability and quality. There is a need to improve in these areas.

Defective Products and Claim Measures

Defective products are often found among imported products. Many people say that it is difficult to expect a solution to problems related to claims.

Problems

In the import business, many firms demand exact delivery. In the case of handicraft products, which are in many cases seasonal products, the failure to meet delivery terms often leads to the loss of business opportunities. The failure to meet delivery schedules is something which causes importers many problems. Lack of marketing efforts such as product development, product mixing and product strategy development is cited as another problem as is packaging. Some pointed out that exporters are not accustomed to export procedures.

There is a demand for PR activities such as production of catalogs, holding of exhibitions and demonstrations. In the area of production technology, technical guidance, implementation of inspections and development of raw material sources are desired. In addition, establishment of better infrastructure facilities such as telecommunications and transportation systems are requested by business people in Japan.

(d) Demand Forecast

Demand for handicraft products is dependent on consumers' disposable income because handicrafts are not daily necessities but marginal consumer products in industrialized countries. If the expansion of economies in developed countries continues, growth in demand for handicraft products can be expected. In the case of Indonesian handicrafts, however, market shares are small in industrialized countries. Under the circumstances, strengthening of promotion measures and active approaches by exporters are necessary.

[2] Present Status of and Problems in the Handicraft Industry as Identified by Field Surveys

Field surveys were conducted mainly through visits to handicraft companies and questionnaire surveys in Indonesia. In addition, related organizations were visited for collection of statistical data. Based on these surveys, an analysis was made of the present status of and problems in the handicraft industry.

(a) Present Status of and Problems in the Handicraft Industry

a) According to data from the Ministry of Industry, there are 117,019 unit of establishment belonging to the handicraft industry and Sentra in the general industry. They employ a total of 280,578 people. Companies are extremely small as shown in the figure of employees per unit (2.4 percent) and value-added per employee (440,000 Rp.).

Due to limitations in terms of manpower, the surveys focused mainly on the characteristics of the handicraft industry as a regional industry and surveys were conducted on a regional basis. During the survey period - from the end of August to early October, 1989 - the surveys were conducted in the regions of Jakarta, North Sumatra, South Sulawesi, Bali, Yogyakarta and Bandung. The study team visited a total of 131 firms and related organizations. It also collected 184 responses to questionnaires. Handicrafts covered in the field surveys were hand-woven products (including silk products), anyaman made of bamboo and mendong, small rattan products, ceramic handicrafts, wooden products such as wood carvings (including pop art products), stone carvings and fashion accessories such as silver products, precious stones, stone accessories, brass products and shell products.

A variety of problems were found among the 184 firms surveyed. By region, there were differences in terms of the development stage of handicraft firms, exports and visits by foreign tourists. Highly individualized promotion measures appear to be required, taking into account the large differences by region, product and firm size. Despite the wide variety of problems, however, there are problems common to each product. These are summarized in b) "Common Problems in the Handicraft Industry," while problems specific to each product are described in c) "Main Problems Specific to Each Product Category."

Differences by firm size and by region can be clearly observed in export results, access to promotion measures, dependence on government and requests to government.

By region, exports from Bali and Jakarta are large while the export volumes from North Sumatra and South Sulawesi are relatively small. Yogyakarta and Bandung rank mid-way between these regions. By firm size, large exporters export a large volume in contrast to very small volume exported by small-scale firms. Medium-scale firms ranked between small and large firms in terms of export volume.

A look at access to promotion measures through the rate of participation in exhibitions shows that ratios for Jakarta and Bali are high. In the case of South Sulawesi, the ratio is zero. The ratios for Bandung and North Sumatra are low. Yogyakarta ranks in the middle. By firm size, the ratio for small-scale firms is low while medium-scale firms and large-scale firms participate at the same rate.

An analysis of dependence on government using the responses to questions about expectations of the government indicates that Bali relies less on the government compared to other regions. When it comes to information sources on overseas markets, South Sulawesi and North Sumatra are highly dependent on the government while Bali and Jakarta collect information through overseas buyers without dependence on the government.

A look at the requests to the government, North Sumatra and South Sulawesi request guidance from the government in the areas of technology and export procedures, while there are many requests concerning PR and exhibitions in foreign countries from Bali and Jakarta.

An analysis of firm sizes by region indicates that the percentage of small-scale firms is high in North Sumatra and South Sulawesi while the percentage is low in Jakarta, Bandung and Bali. Yogyakarta ranks mid-way between them.

Fig. 2-6-1 ~ Fig. 2-6-4 illustrate the relationship between the ratio of exporting firms and each product, while paying attention to the tendency in each region. From these figures, the following tendency is evident.

Fig. 2-6-1: Ratio of Exporters by Region and Access to Promotion Programs

Ratio of exporters	High			Bali Jakarta
	Medium		Yogyakarta Bandung	
	Low	North Sumatra South Sulawesi		
		Small	Medium	Large
	Access to promotion measures			

Fig. 2-6-2: Ratio of Exporters by Region and Dependence on Government

Ratio of exporters	High	Bali Jakarta		
	Medium		Yogyakarta Bandung	
	Low			North Sumatra South Sulawesi
		Small	Medium	Large
	Dependence on government			

Fig. 2-6-3: Ratio of Exporters by Region and Number of Small-scale Firms

Ratio of exporters	High	Bali Jakarta		
	Medium	Bandung	Yogyakarta	
	Low			North Sumatra South Sulawesi
		Small	Medium	Large
	Ratio of small-scale firms			

Fig. 2-6-4: Ratio of Exporters by Region and Requests to Government

Ratio of exporters	High	Bali Jakarta		
	Medium		Yogyakarta Bandung	
	Low			North Sumatra South Sulawesi
		Marketing -related		Technological guidance-related
	Requests to government			

There is a correlation between the number of exporting firms and the ratio of small-scale firms. This means that by region, the higher the export ratio is, the smaller the percentage of small-scale firms.

An observation of the ratio of exporting firms and the ratio of small-scale firms shows that Bali and Jakarta are advanced regions while North Sumatra and South Sulawesi can be classified as under- developed regions. Yogyakarta and Bandung rank between them. Access to promotion measures is better in the advanced regions. For the regions ranked in the middle and under-developed regions, difficulty in accessing promotion measures increases as the level of development becomes lower.

When it comes to dependence on government, underdeveloped regions are highly dependent on the government. The dependence declines in regions ranked in the middle and advanced regions. Accordingly, regions which rely heavily on the government have difficulty in accessing promotion measures. Conversely, regions which are less dependent can more easily access promotion measures. Regarding promotion measures requested, more requests come for marketing related policies from advanced regions while many requests concerning guidance and training come from under-developed regions.

These relationships are the result of differences by firm size in terms of ability to solve problems relating to exports.

In other words, large-scale firms have problem-solving ability even if they cannot necessarily solve all of their problems. On the other hand, there are very few small-scale firms which are exporting their products and it is difficult for them to solve problems for themselves. It is necessary to develop basic management capability through guidance and training in the area of quality control and export procedures. To begin exporting, it is also necessary to establish marketing functions which combine firms' capabilities in the spheres of technology, product planning required for designing and exporting, sales and information collection.

Indonesia's foreign trade statistics show that exports of handicraft products increased four-fold during the six years between 1983 and 1988, making handicraft

products the ninth largest non-oil export in 1988. Main importing countries are Singapore, the United States and Japan. By item, anyaman showed outstanding growth.

b) Common Problems in the Handicraft Industry

Problems related to corporate management

Problems related to the development of human resources include the insufficient experience and ability of middle-ranked management and staff. In this sense, education of middle management and staff is necessary. Because of the large number of cottage-industry-level manufacturers in the handicraft industry, difficulties arise in the development of human resources. Despite these difficulties, the development of human resources is essential. Solutions may include the utilization of programs for the development of small and medium-scale firms offered by public-sector facilities (Cevest, Export Training Center). In the area of financial management, the lack of financial management systems and production planning systems can be cited as problems. Inventory systems for raw materials and products are still not well established. The modernization of management systems should be implemented for large-scale firms in a short-term program while medium and long-term programs are necessary for small-scale cottage-industry-level firms.

Solutions may include implementation of current promotion measures and guidance through cooperation programs and the invitation of foreign experts from overseas organizations.

The lack of marketing functions, particularly in the case of small-scale firms, can be called the biggest deterrent to exports. As previously mentioned, only specific problems will be described here regarding marketing functions and solutions to problems. They involve difficulties in the collection of overseas market information, lack of ability to meet new market demands, lack of complete strategies from production to sales, poor packaging and insufficient knowledge of business practices and export procedures. Problems which urgently require solutions are related to delivery and packaging.

Problems related to production technology

Problems related to product development include lack of information required for product development and lack of R&D budget and these have resulted in difficulties in developing new products. Product development is one factor of the marketing functions. Solutions include the creation of marketing functions. R&D at public-sector facilities such as BBKB is necessary. The implementation of survey on the revitalization of BBKB may be considered as one option.

In the area of design, there is a lack of overseas design information. In some firms, the lack of awareness of the importance of design and design development capability can be cited as problems. In the case of Indonesia's handicrafts, however, the ethnic appeal is highly evaluated in importing countries. As for design guidance, attention should be paid to maintaining traditional appeal while selecting products by designers in importing countries and dispatching Indonesian designers to importing countries. Active use of public-sector facilities and cooperation programs of overseas organization can be considered as solution measures. Regarding factory management, efforts to keep factories clean and well-organized are insufficient. Guidance by use of TPL methods can be considered as one of the solution measures. In the area of quality control, basic quality control systems are lacking in small-scale firms. In the case of large and medium-scale firms, the upgrading of existing quality control systems may be

necessary. It is also necessary to set standards which can meet the quality standards in targeted markets. The implementation and revitalization of current policies may be considered as solution measures, together with guidance by experts on quality control from importing countries. In export inspection, cooperation with PPMB should be strengthened. In the area of procurement of raw materials, soaring prices, unstable supply and lack of information about suppliers can be pointed out as problems. More specifically, there are problems in cotton and silk for handwoven products, wood for wooden products and glaze for ceramics. The supply of raw materials is under the jurisdiction of the Ministry of Agriculture and Ministry of Forestry. In the case of imported raw materials, the Ministry of Trade has responsibility. Under the circumstances, cooperation and coordination with related government agencies are required.

In the supporting industry, the improvement of the quality of raw materials/components such as metal clasps and settings is required. Establishment of standards for raw materials is required in the case of silver and brass products.

Regarding product costs, higher prices for raw materials and increases in wages for skilled workers can be cited as a problems. Orientation toward higher quality and higher prices will be necessary to deal with higher wages for skilled workers.

(c) Main Problems Specific to Each Product Category

In addition to common problems such as the lack of marketing functions, there are the following product-specific problems.

Traditional handicrafts

Hand-woven products

Color fading is a common problem in products in producing areas such as North Sumatra, Bali, South Sulawesi, Yogyakarta and Bandung. The color fading is attributable to (1) primitive dyeing techniques and (2) the use of sun drying which results in deviations in color and color fastness. Other problems include defects in weaving resulting from poor preparation for looming and warping and raw materials. PT GOKAK monopolizes the supply of mercerized cotton yarn and this results in higher-priced raw materials and an inadequate supply volume. This poses problems specific to the hand-woven handicraft industry. By region, Ulos in North Sumatra produces a wide variety of items in small lots (production of 150 meters of 30 kinds of woven products per day). Orientation toward higher quality may be a basic solution measure. Quality control should be introduced in the dyeing process and preparatory process for weaving. To that end, technology guidance is essential. Specifically, it may include the dispatch of experts to MA firms and the establishment of a model process for dyeing at PTKI in Medan. Joint procurement of dyed yarns may be considered, ending in-house dyeing. In the case of hand-woven products in Toraja, it is recommended that purchasing of cotton yarn from Bandung be ended and that yarn be spanned by use of one-spanned spinning tools. Yarn produced by use of one-spindle spinning tools has an original texture so it could sell well at higher prices in Japan. Otherwise, the use of silk from Sulawesi can be considered an option. The upgrading of yarn as raw materials should be the first step toward further development of the industry. Diversification of sources of raw material procurement is necessary and should include imports.

Silk

It should be recognized that the silk industry in South Sulawesi has the potential to develop into a silk supply base for the world in light of the large amount of land which is suitable for mulberry farms and the abundant workforce in the region. In reality, however, there are many problems. First, cocoons are small and the length of silk filaments is only 600-800 meters compared to 1,500 meters in Japan. Second, the filaments are reeled using water at room temperature, resulting in huge losses. This also has negative effects on quality as shown by frequent yarn breakage. It is basic know-how in handling silk that filaments are reeled by use of hot water which softens the sericin which binds the silk. A problem in the weaving process is the high frequency of yarn breakage. In the case of high-quality textiles like silk, yarn breakage should be completely eliminated. However, breakage occurs every 40-50 centimeters. This is attributed to the lack of basic knowledge required for the handling of silk, exemplified by the fact that water at room temperature is used for filament reeling, causing breakage. Specifically, (1) ATBM (weaving tools) for cotton are used instead of those meant for silk and as a result, the distance between the head and back load is long. (2) Adjustment of yarn guide and tension is necessary.

Solution measures include (1) species improvement of cocoons, (2) improvement of reeling methods, (3) guidance in the weaving process. For the species improvement of cocoons, cooperation from the Ministry of Forestry is necessary. For the improvement of reeling process, guidance by experts sent by MA firms and public-sector facilities can be considered as a measure. As for (3) the weaving process, replacement of old ATBM with new ones and guidance by experts sent by MA firms and public-sector facilities can be considered as a measure. Regarding the ATBM replacement, costs can be calculated as follows in a case where 5,000 units of Senkang are replaced. Because the per-unit price of an ATBM is about 450,000 Rp. (¥36,000), if all 5,000 ATBMs are replaced by new ones it would cost 180 million yen. In addition, the cost for replacing defective machines in the preparatory process for weaving and in the yarning process would be about ¥100 million. Including ¥100 million for technical guidance and know-how, the total cost would amount to ¥380 million. In this scenario, the total cost of ¥380 million may be depreciated over two years if the annual interest rate is 10 percent. If ¥380 million is depreciated over two years at an annual interest rate of 10 percent, its incremental cost per meter would be only ¥76 (960 Rp. per meter). The calculation formula is described below.

Total output would be 10,000 meters per day if each of the 5,000 weaving machines can weave 2 meters per day. Total output for two years (600 days excluding Sundays and holidays) would amount to 6 million meters. If the total investment cost of ¥380 million is divided by 60,000 meters, depreciation costs would be 63 yen per meter. The interest rate of 10 percent a year would bring about an increment of ¥13 per meter, resulting in a total cost of ¥76 (950 Rp. per meter). Even at a cost of 4,450 Rp, it appears to be feasible.

On a long-term basis, a spun silk project may be considered as an official in the Sulawesi regional office of the Ministry of Industry has emphasized it.

Bamboo Craft/Anyaman

A problem with bamboo craft and Anyaman (North Sumatra, Toraja, Bali, Yogyakarta, Bandung) is transportation costs. The lack of quality controls such as the insufficient boiling of bamboo is cited as another problem. As solution measures, the strengthening of technology guidance by TPL can be considered. For reduction of

transportation costs, introduction of a knock-down system is one measure. Exports of bamboo houses by Bali Gedeg can be highly regarded.

There are no problems with rattan anyaman because it has already become an export item. There are many unclear factors in terms of basic physical properties (strength, expansion, coloring characteristics) in the case of anyaman made of other plant textiles. In this sense, research by public-sector facilities such as BBKB is required.

Ceramic Handicrafts

In ceramic handicraft producing regions, (North Sumatra, Bali, Yogyakarta, Bandung), there are problems such as insufficient firing capacity and poor temperature control of the kiln during production as well as difficulty in procuring glaze. Forming skills are very good. In this sense, technical guidance in terms of the production process is necessary. Solution measures may include cooperation with public-sector facilities and strengthening of guidance through TPL.

Carved Wooden Products

Cracking is one problem. This is due to insufficient drying of wood at the raw material stage. As solution measures, the introduction of UPT or KOPINKRA drying machines in production regions can be considered.

Fashion Accessories

In the case of silver products (Bali, Yogyakarta, South Sulawesi, Bandung, Jakarta) almost all manufacturers requested the introduction of rollingators. On principle, however, the introduction of machinery aimed at realizing mass production is not recommended because handcrafting is regarded as value in importing countries. Precious stones have problems such as limited variation of size, over-sized rings and poor working conditions. It is necessary to introduce cutting and polishing machines to improve processing precision. For the improvement of working conditions, it is necessary to have workers wear dust-protection masks

In the case of brass products, improvement is necessary in repousse and forming skills. Furthermore, product diversification should be attempted.

As for fashion accessories (shell and other products), product development should focus on the creation of a high-quality image.

[3] Review of Handicraft Industry Development Policy

(a) Industrialization Policy

The development policies for the handicraft industry are included in the small-scale industry development policy. The small-scale industry development policy consists of (1) expansion of employment and business opportunities (2) promotion of exports (3) strengthening of business capabilities and self-reliance and (4) increase in income. The target during Repelita V is (1) to create 1.5 million new jobs (300,000 a year), (2) to establish a total of 260,000 (52,000 a year) new firms and (3) to achieve exports of about US\$2,126.7 million. Problems facing small-scale industry involve (1) low productivity, inadequate quality/technological levels, (2) a shortage of skilled labor, and (3) insufficient capital.

The gist of the small-scale industry development plan is as follows:

- 1) Programs for improvement of productivity/quality
- 2) Development programs for export expansion
- 3) Development programs through Bapak Angkat system
- 4) Programs for development of entrepreneurship and specialized skills

(b) Trade and Investment Policies

BPEN promote export of handicrafts as target item in the non oil export promotion policy. Export of handicraft have jumped up from 92.8 million dollar in 1984 to 381.5 million dollar in 1988. Many sectors of Handicraft industry are included in reserved areas for small scale industry under the decree No.21 Presidential of May 1989.

(c) Financing for the development of the handicraft industry

Special financing measures do not exist for the handicraft industry. Although various institutional financing schemes were once available for small-scale firms, which are the majority in the handicraft industry, all institutional financing schemes for individual firms were abolished. They were replaced by a guideline stating that more than 20 percent of total loans should be earmarked for small-scale firms with assets of less than 600 million Rp. Since then, there have been no special loan schemes targeted at small-scale firms.

At present, the only special loan scheme applicable to the handicraft industry involves cooperative credit loans which are available only to primary cooperatives.

[4] Problems with Implementation of Current Promotion Policies

(a) Current promotion policies and the present status of public-sector organizations

Handicraft development policies are implemented under the framework of the small-scale industry policy. There are no promotion policies which target the handicraft industry only. UPT and TPL activities fall short of requirements in view of the large number of businesses and the vast number of employees in the handicraft industry.

Activities of Balai Besar, UPT and LIK, which were visited by the study team, do not appear to function very well. According to data from the Ministry of Industry, a budget shortage is the problem. Interviewees agreed with this assessment. Because these organizations and their activities can be selected as a target for cooperation programs, efforts should be made to revitalize and strengthen them.

Since the handicraft industry is, generally speaking, located in rural villages, the geographical distances from cities from which information is sent are very large. In addition, the telecommunication infrastructure required for the exchange of information is inadequate. The establishment of a sound infrastructure such as telephone and facsimile lines is required to facilitate information supply and daily business operations. Officials at the Ministry of Industry pointed to this necessity as well.

(b) Requests to government

Requests for market information services related to exports are the most common requests to the government. In addition, more than 100 firms called for guidance and training in the area of quality control as well as technological guidance and training in design. Requests for the holding of seminars were small in number for almost all products.

By region, the percentage of firms which made requests was very low in Bali. The following are the most common requests by region.

Jakarta:	PR activities overseas for Indonesian handicraft products
Bali:	Holding of exhibitions
Yogyakarta:	Market information services
North Sumatra:	Guidance and training in quality control
South Sulawesi:	Guidance and training in quality control
Bandung:	Guidance in business practices and export procedures

By product, a similar tendency can be observed, with the exception of jewelry and precious metal manufacturers located in Jakarta and its neighboring regions. Following are the most common requests by product.

Textile handicrafts : such as hand-woven products:	guidance and training in quality control
Wooden products:	Market information, guidance in business practices and export procedures
Bamboo, rattan small-sized products, etc.:	R&D for raw materials
Ceramic:	Market information, guidance in business practices and export procedures
Other traditional handicrafts:	Market information services
Silver products, etc.	Guidance and training in production technologies
Jewelry, precious metal products, etc.:	Holding of exhibitions
Other fashion accessories:	Market information services and investment for improvement of raw material quality

There are no substantial differences in terms of requests by firm size. While many requests for guidance and training came from small-scale firms, there are many requests related to marketing such as overseas PR from large and medium-scale firms.

(c) Present status of and problems in the handicraft industries in competing countries

a) Thailand

<Exports>

Thailand's handicraft exports increased sharply during the period between 1985 and 1987. Because of changes in the product classification code, direct comparisons are difficult after 1988. However, there is no doubt that, overall, exports are on the rise. Main importers include the United States, Japan, Australia and the EC.

<Production>

Manufacturers of jewelry and wooden products are relatively large in size. Problems can be found with raw materials for ceramics and wooden product manufacturers.

<Policy>

Promotion policies which target only the handicraft industry do not exist. The promotion of the handicraft industry is done through projects or programs. One example is the Thailand Arts and Crafts Year 1988-1989.

Government organizations responsible for the industry include Department of Export Promotion (DEP) (export promotion), Department of Industrial Promotion (DIP) (technological guidance), Tourism Authority of Thailand (TAT) (tourism promotion), Board of Investment (investment attraction). The remarkable increase in jewelry exports is the result of efficient linkage of policies and measures by these organizations.

<Factors for Success>

The following three factors can be referred to as reasons for the success of jewelry exports.

(1) Excellent craftsmanship and low labor costs, (2) successful tourism promotion which contributed to export expansion, (3) policies by DEP, DIP, TAT and Board of Investment are well linked

b) The Philippines

<Exports>

Handicraft exports from the Philippines showed a trend toward stagnation similar to that of exports from other industries between 1980 and 1985. However, exports of fashion accessories grew in 1986. The main importer of handicrafts from the Philippines is the United States, which accounts for about 50 percent of the total exports. Exports to Japan, the Federal Republic of Germany and Australia are relatively large.

<Problems>

- High dependence on imported raw materials and unstable domestic procurement
- Insufficient ability to handle large volume orders
- Copying of designs and low design capabilities

<Solution measures>

- Establishment of bonded warehouses for the storage of raw materials
- Development of supporting industries
- Establishment of data banks
- Strengthening of support for design development and technology development

c) Japan

Japan's handicraft industry is dominated by extremely small-scale firms. The industry faces problems such as decline in demand, difficulty in finding successors and difficulties with procurement of raw materials. The law concerning the promotion of the traditional handicraft industry was formulated in 1974. Based on the law, the Japan Traditional Craft Center was established to implement promotion policies. Its promotion activities are aimed at developing successors to carry on the trades and developing demand. Its main measures are subsidy schemes and tax incentives.

(2) Overall Perspectives

1) Establishment of an image as original products

Handicrafts can be defined as valuable products which reflect national culture and tradition and products which can be used practically as well. The government should recognize the value of handicrafts and establish the an image of handicrafts as original products. The establishment of this image is required to develop the orientation toward higher quality products which is necessary if Indonesian handicrafts are to be accepted in importing countries.

In Japan, Soetsu Yanagi launched folk art promotion campaign before the World War II. The campaign involved (1) collection and display of folk art, (2) the study of aesthetics and enlightenment movements and (3) production and distribution of new folk art. For the promotion of the handicraft industry in Indonesia, the government is expected to play an active role in that direction.

2) The need for an integrated handicraft industry promotion policy

The handicraft industry has the following features:

- [1] The industry tends to decline along with the advancement of modern industry.
- [2] The industry is characterized by the dominance of small firms.
- [3] Guidance is necessary concerning whether or not machinery should be used or what sales channels should be used.
- [4] Price setting has significance because the value of traditional skills cannot be reflected based on labor costs.
- [5] A variety of problems exist depending on product item, region and firm size

The handicraft industry is different not only from modern industry, which uses machinery, but also from other small-scale industries. Considering the characteristics of the handicraft industry, an integrated handicraft industry promotion policy is necessary in order to keep the industry from declining and to develop the industry as export industry.

A handicraft promotion policy should be developed by dividing the measures into two groups: common measures to deal with problems common to the entire handicraft industry and individual measures to handle problems specific to each product and region.

3) Creation of marketing functions

To begin exports, it is essential that firms develop marketing functions to link their production technology and the demands of overseas markets. Among large-scale firms, the percentage which are exporting their products is high. This is due to the fact that they have marketing functions that involve risk taking and cost sharing. It is difficult for small-scale firms to develop functions on their own. Accordingly, the establishment of marketing functions in small-scale firms is required. Marketing functions include gathering of information on markets and evaluation of demand, product development, price setting and PR.

4) Revitalization of public-sector facilities--orientation toward privatization

Some public-sector facilities under the Ministry of Industry which the study team visited are not sufficiently active to realize the objectives of their articles of incorporation as shown in the case of Balai Industri Tekstil Medan in Medan. They are caught in a

vicious cycle of budget shortages, malfunctioning equipment and insufficiently effective activities. In order to break the cycle and improve its effectiveness, the facility should be more independent in seeking financing. This indicates the necessity for a privatization policy. Specifically, one way to earn money for activities is by offering inspection services and taking on sales consignments.

5) Continuation and strengthening of current small-scale industry development measures and cooperation programs with international organizations

Handicrafts are used as practical products in producing countries. In importing countries, the trends in handicraft sales change at a rapid pace. In order to develop exports of daily-use handicraft products, it is necessary to improve and adapt quality to a level where they can meet the various conditions, needs and trends in importing countries. For the development of the handicraft industry in coexistence with modern industry, an orientation toward high-quality products is required through the production of high-quality products with high aesthetic value with which machine-made products cannot compete. To that end, it is necessary to utilize and strengthen the current programs of the Ministry of Industry and cooperation programs with foreign countries.

(3) Formulation of Comprehensive Promotion Programs

1) Development and strengthening of marketing functions

There are various definitions of marketing functions. For example, the American Marketing Association defines marketing functions as the management of the flow of goods and services from manufacturers to consumers. Marketing activities include identification of consumer preferences, market surveys such as measurement of demand, market development, new product development, brand development, packaging, price setting, setting on sales channels and promotion such as PR. A strategy which integrates these functions is necessary.

For example, information about new products ranging from raw materials to production to sales should be collected on a world-wide basis. Experts should analyze the information collected, discover problems, identify solution measures and find required financing. In addition, attainable sales prices and sales volumes should be calculated. If a new product proves promising, prototype production should be undertaken, followed by test sales. In the final stage, if an operation proves to be feasible, production and sales on a realistic scale should begin.

Functions such as these are assigned to specialized sections at large-scale firms. The required financing comes from the R&D budget and will be reflected in the sales price of the products.

However, it is difficult for small-scale firms or cottage-industry-level operations to undertake marketing activities in this way due to shortages of funds and human resources.

Consequently, the creation of marketing functions is necessary to begin exports from the handicraft industry, which is dominated by small-scale and cottage-industry-level firms. Specifically, it would be realistic to create organizations with marketing functions in both the public and private sectors on a national level and on a regional level. In the public sector, establishment of handicraft development and promotion center (HDPC) can be considered an option on the national level while in the private sector, establishment of MA firms may be considered on a regional level. In addition to marketing function, HDPC is supposed to lead R&D activities in Handicraft Industry such as Product Development, Design Development and Research on the Raw Material as well as give guidance on technical matters and QC.

Fig. 2-6-6 shows the role of marketing functions in the promotion of handicraft exports.

Fig. 2-6-5: Overall Perspectives for Development of Handicraft Exports

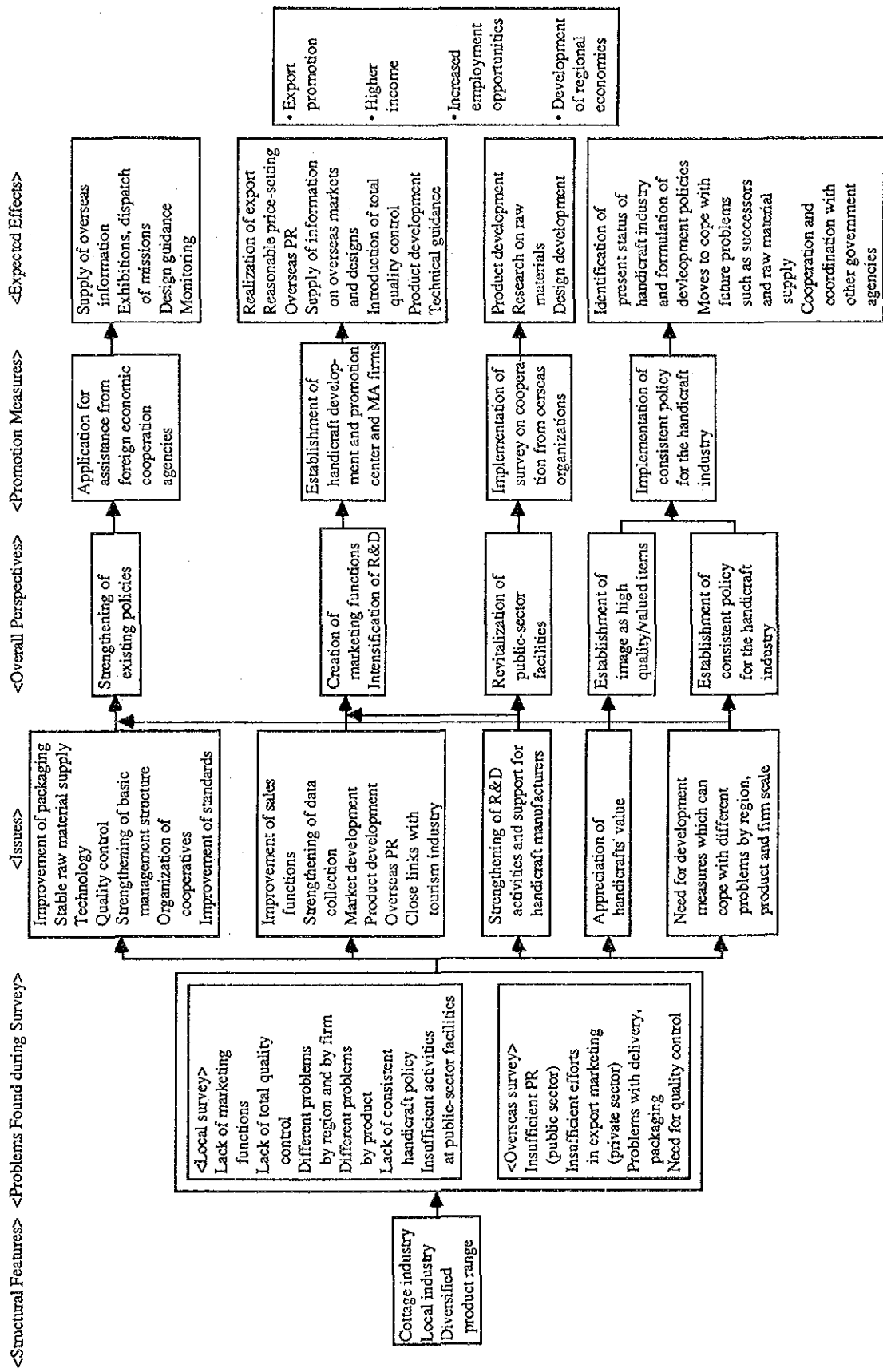
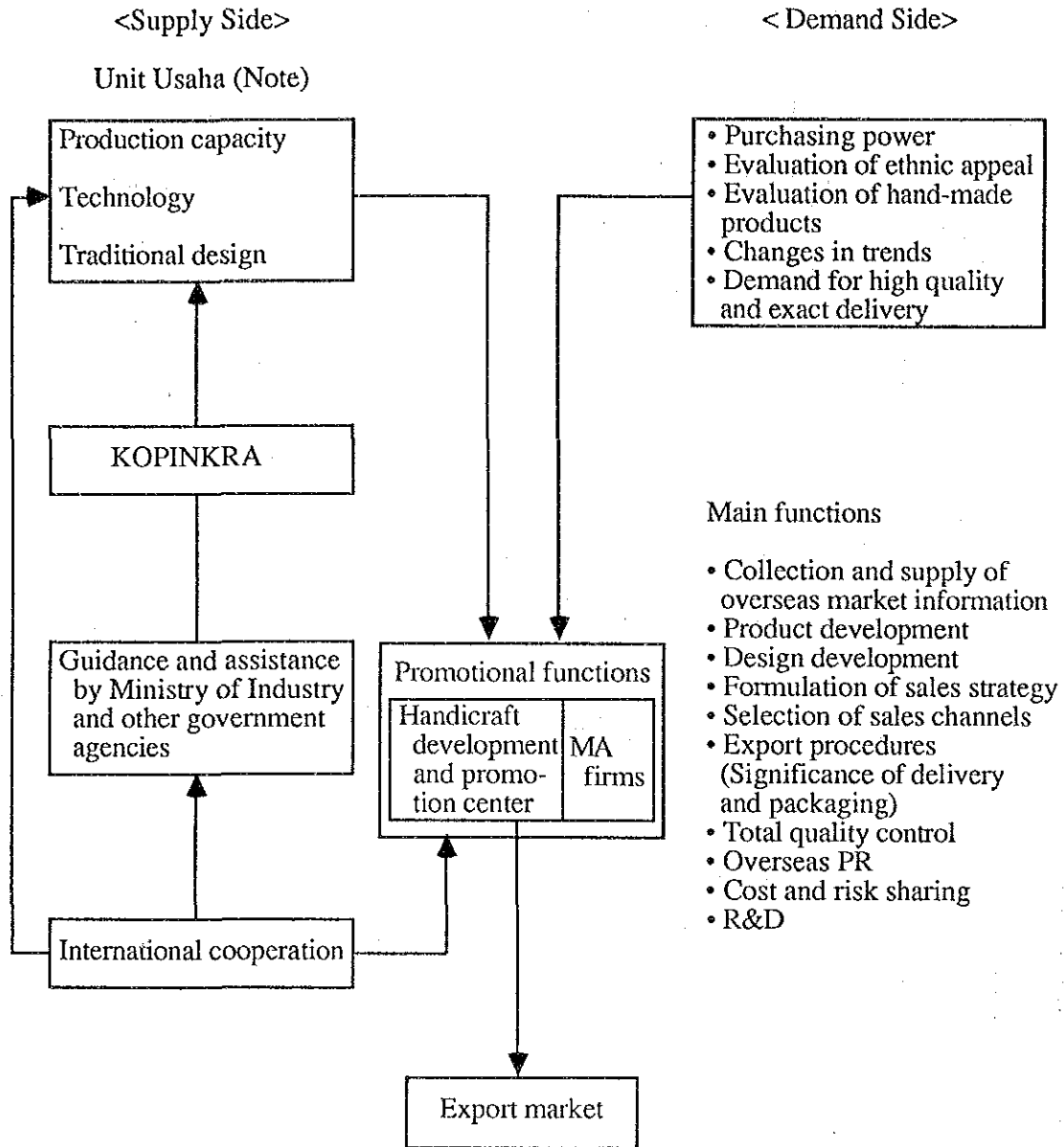


Fig. 2-6-6: Scenario for Promotion of Exports from Small and Medium-scale Handicraft Firms



(Note) Unit Usaha means production units and business entities

2) Integrated handicraft promotion measures

Historically, the handicraft industry has attracted attention in times of economic crisis. During such critical periods, the industry has played the role of a buffer industry for which development was hoped for. (note).

In order to establish the handicraft industry as an exporting industry and to develop the industry overall, it is necessary to formulate active handicraft industry development policies for the reasons listed below.

(note) Loekman Soetrisno (1985)
Problematic External Terhadap Pengembangan
Kerajinan Rakyat di Indonesia,

- [1] The experiences in Japan and Korea indicate that handicraft industries tend to decline in line with the development of modern industry.
- [2] Original cultures have developed in each region of Indonesia which is an archipelago which stretches 5,000 kilometers from east to west. Original cultures are maintained in daily life and outstanding handicrafts exist which are based on daily life.
- [3] Orientation toward high-quality products with which machine-made products cannot compete is necessary for the handicraft industry to coexist with modern industry.
- [4] Handicraft firms are small in size, even compared to other small-scale industries.
- [5] The situation is different by region, product and firm. It is necessary to introduce a policy which can deal with the diverse nature of the handicraft industry as well as its small scale.
- [6] Guidance by the government is required regarding the use of machinery, price setting and design. For example, it should be noted that handicraft products have automatic added value in countries where machine production is dominant due to the fact that they are hand-made. In this sense, orientation and guidance are necessary regarding the levels and processes where machinery should be introduced. Furthermore, in the process of price setting, guidance should focus on the importance of added value based on culture and craftsmanship instead of labor costs.
- [7] Sales policy is very significant. Selection of sales channels and price setting are important. Guidance and orientation by the government are required.
- [8] PR is necessary to wipe out the image of cheap and low-quality products. If products have an image of being cheap and of low quality, realization of export will be difficult. Thai silk is a recent example of successful image improvement.
- [9] Protection of design and encouragement for design development are required
- [10] From a long-term perspective, the industry may face problems in securing successors and training them.

The handicraft industry policy should set targets for the establishment of an image of handicraft as valuable products.

For the formulation of handicraft policies, the following preparatory measures may be necessary.

- [1] Identification of present status and problems through a nation-wide fact-finding survey of the handicraft industry.

- [2] Surveys of handicraft industry development policies in third countries. (examples of success and failure)
- [3] Utilization of advisory committees to discuss policy framework and management.
- [4] Establishment of advisory bodies consisting of foreign experts with experience in giving guidance to assist Indonesia's handicraft industry
- [5] Legislation of laws on the development of and promotion of exports from the handicraft industry

These policies should consist of common policies and individual policies with focus on the following points.

- [1] Clarification of perspectives and strategies for development. In other words, it is necessary to heighten the status of traditional craft products and develop the industry.
- [2] Guidance on technology required to produce higher-quality products and to achieve good quality control
- [3] Improvement of the image of Indonesian handicrafts in overseas markets
- [4] Formulation of basic principals regarding the use of machinery
- [5] Priority setting for promotion measures (priorities should differ depending on whether they are long-term measures or short-term measures, government measures or private-sector measures)
- [6] Guidance on marketing strategy (such as price setting policy)
- [7] Improvement of working conditions
- [8] Establishing positions on regional promotion policy
- [9] Cooperation and coordination with other related government organizations including the Ministry of Post, Telecommunication and Tourism (tourism), the Ministry of Agriculture, the Ministry of Forestry (raw materials) and the Ministry of Trade (exports).
- [10] Support for Handicraft Development and Promotion Center (HDPC) and MA firms
- [11] Cooperation with other government organizations to establish stable supplies of raw materials

3) Formation of solution measures by region, product and firm size

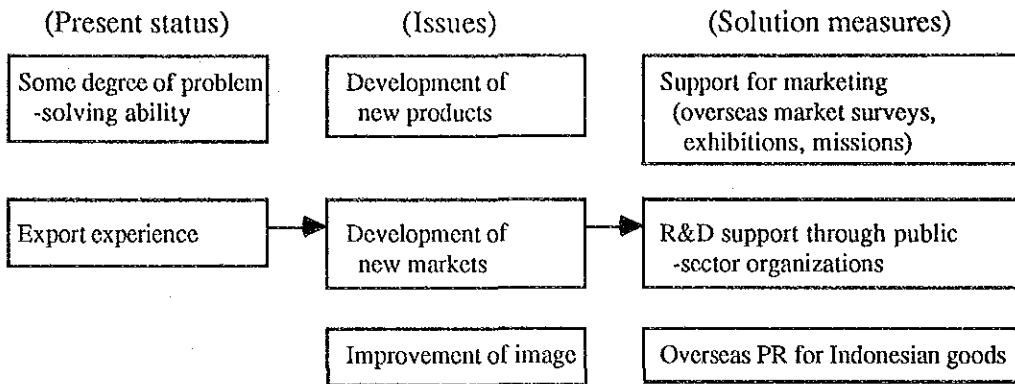
For the development of the handicraft industry, a development policy which responds to the diversity of problems depending on region, product and firm size is required. The guidance should be different even for firms belonging to the same region and same sector. This is very important in the handicraft industry as common promotion measures alone are inadequate. The handicraft industry promotion policy should consist of common policies implemented within the framework of the small-scale industry development policy as well as specific policies corresponding to the differences by region, product and firm size.

Fig. 2-6-(1) in section [2] (c) shows problems and solution measures by product.

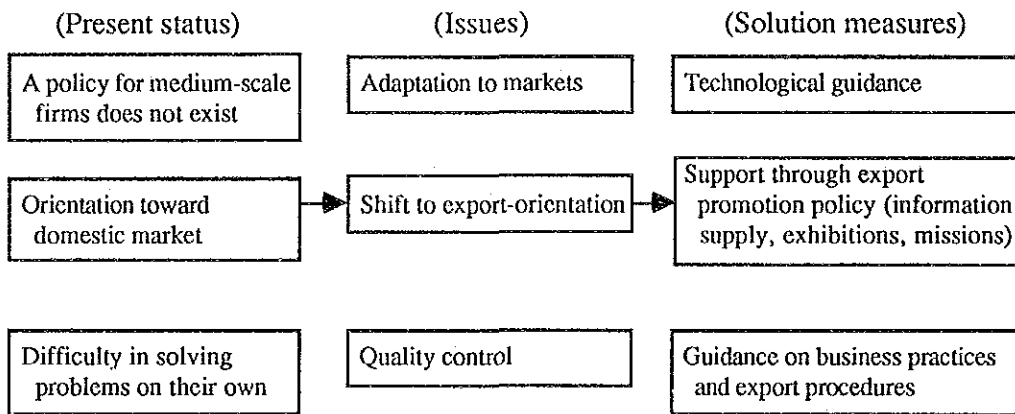
The following basic concepts can be taken into consideration as the foundation for development policies by region and firm size.

• Basic concept for solution measures by firm size

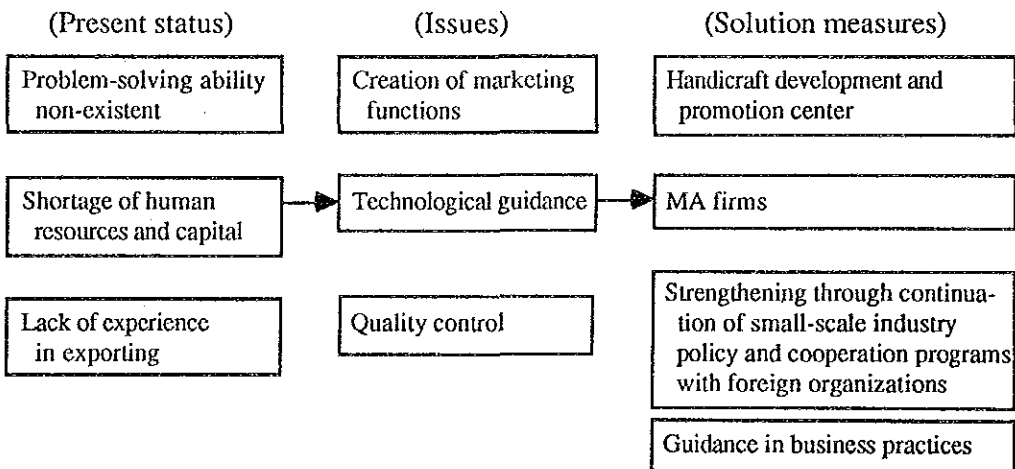
<Large-scale firms>



<Medium-scale firms>

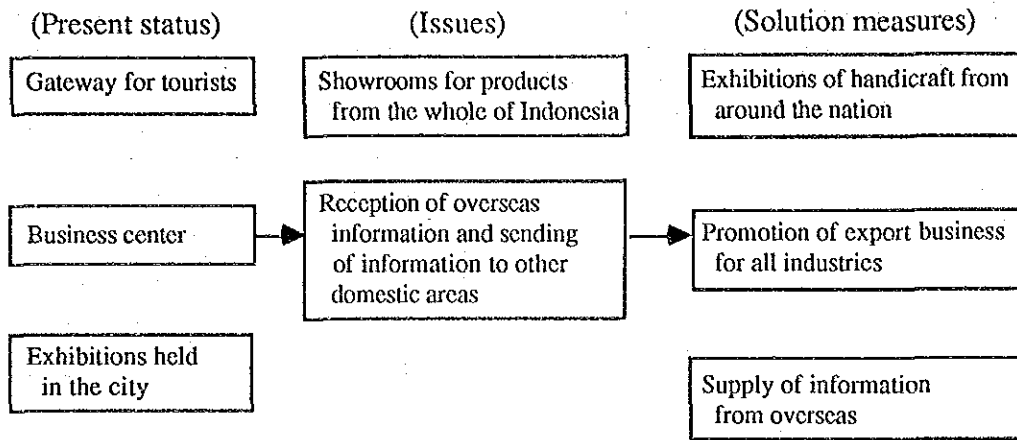


<Small-scale and cottage-industry level firms>

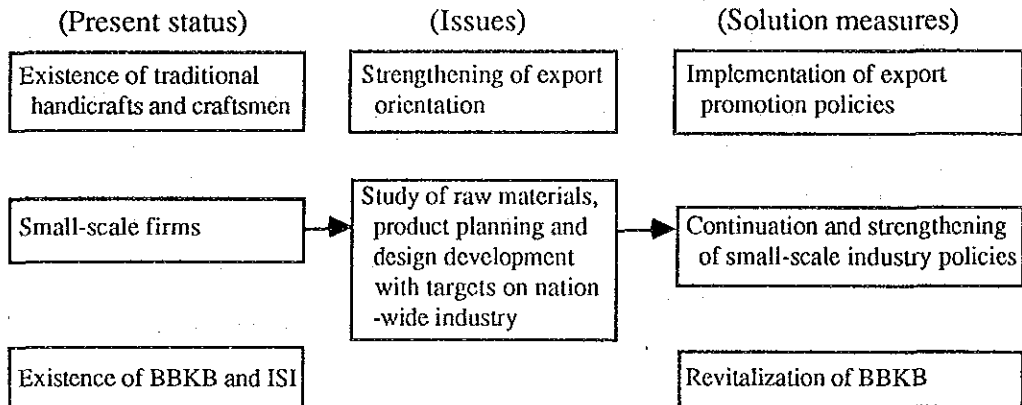


• Solution measures by region

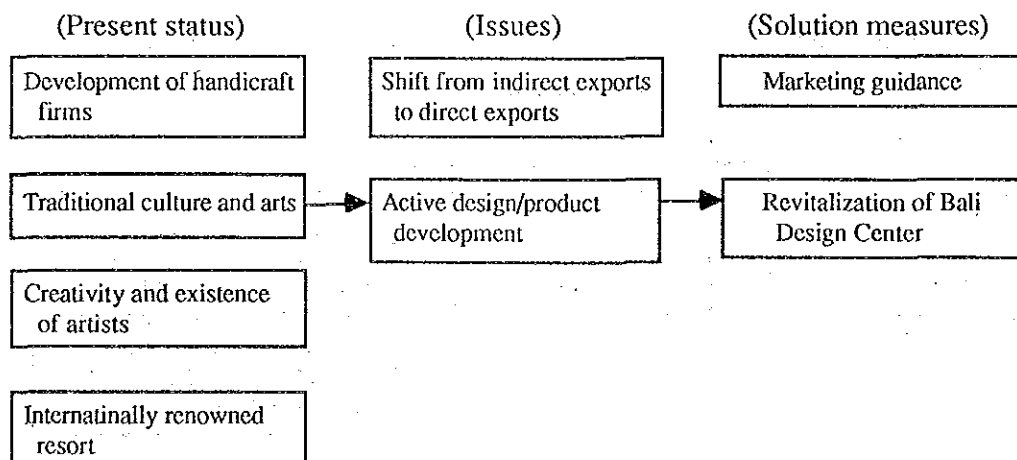
Jakarta



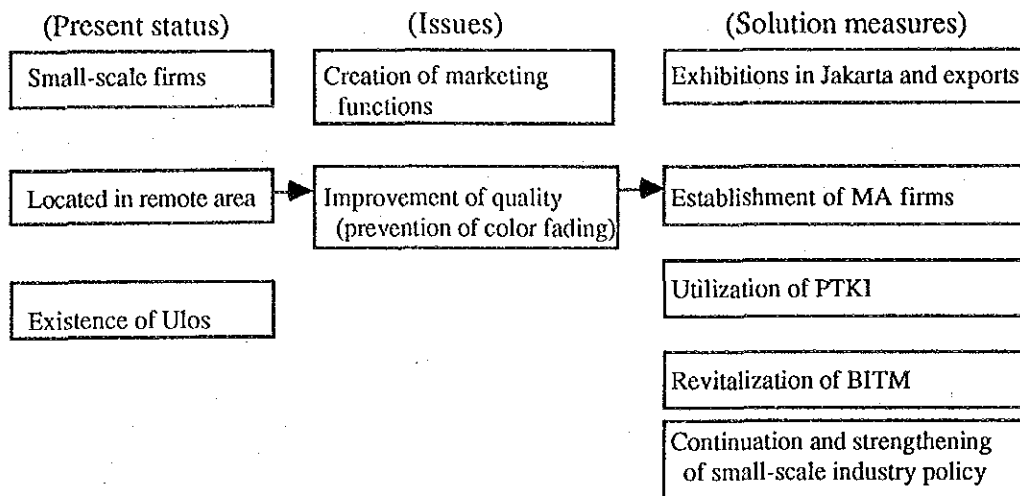
Yogyakarta



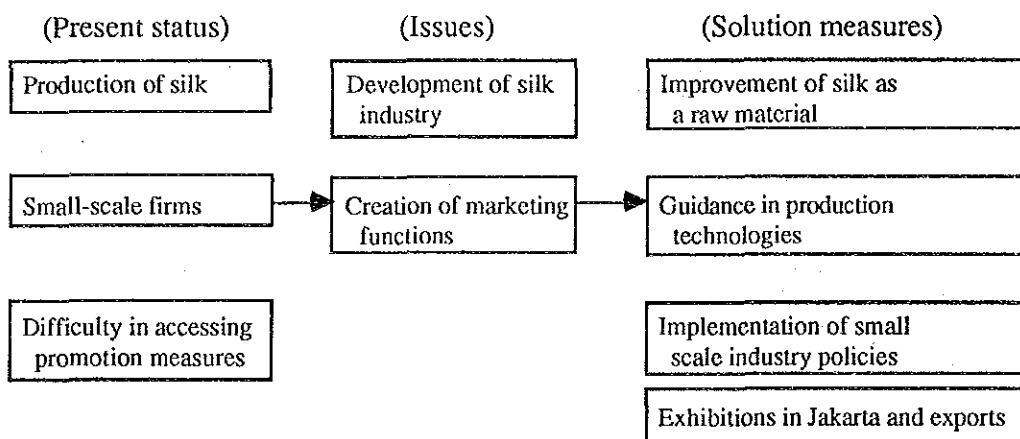
Bali



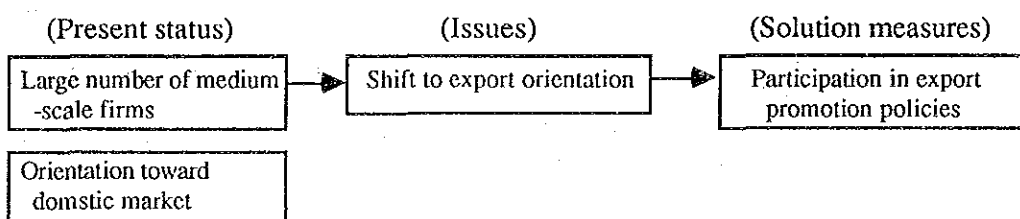
North Sumatra



South Sulawesi



Bandung



4) Continuation and strengthening of current small-scale industry development policies and revitalization of public-sector organizations

The current small-scale industry development policy should be continued and strengthened as a basic common policy for the development of the handicraft industry. Public-sector organizations should be revitalized through the strengthening of their independence in terms of financing and exchanges with related organizations overseas in order to encourage study activities in the areas of raw materials, product development and design development and technological improvement.

(4) Recommendations for Programs

[1] Establishment of Development and Promotion Functions

Objectives: In order to establish marketing functions, which are currently lacking in small-scale firms and which are essential for exports, Handicraft Development and Promotion Center (HDPC) should be established in the public-sector while MA firms should be formed in the private sector.

Handicraft Development and Promotion Center (HDPC)

Establish of HDPC which provide nation-wide exposure for all products.

- a) Establishment The Ministry of Industry takes the initiative.
- b) Operation The private sector should be encouraged to become involved in the center as much as possible through the establishment of an advisory panel for its operation. Independence in terms of operation should be aimed for through earnings from providing agency services for businesses.

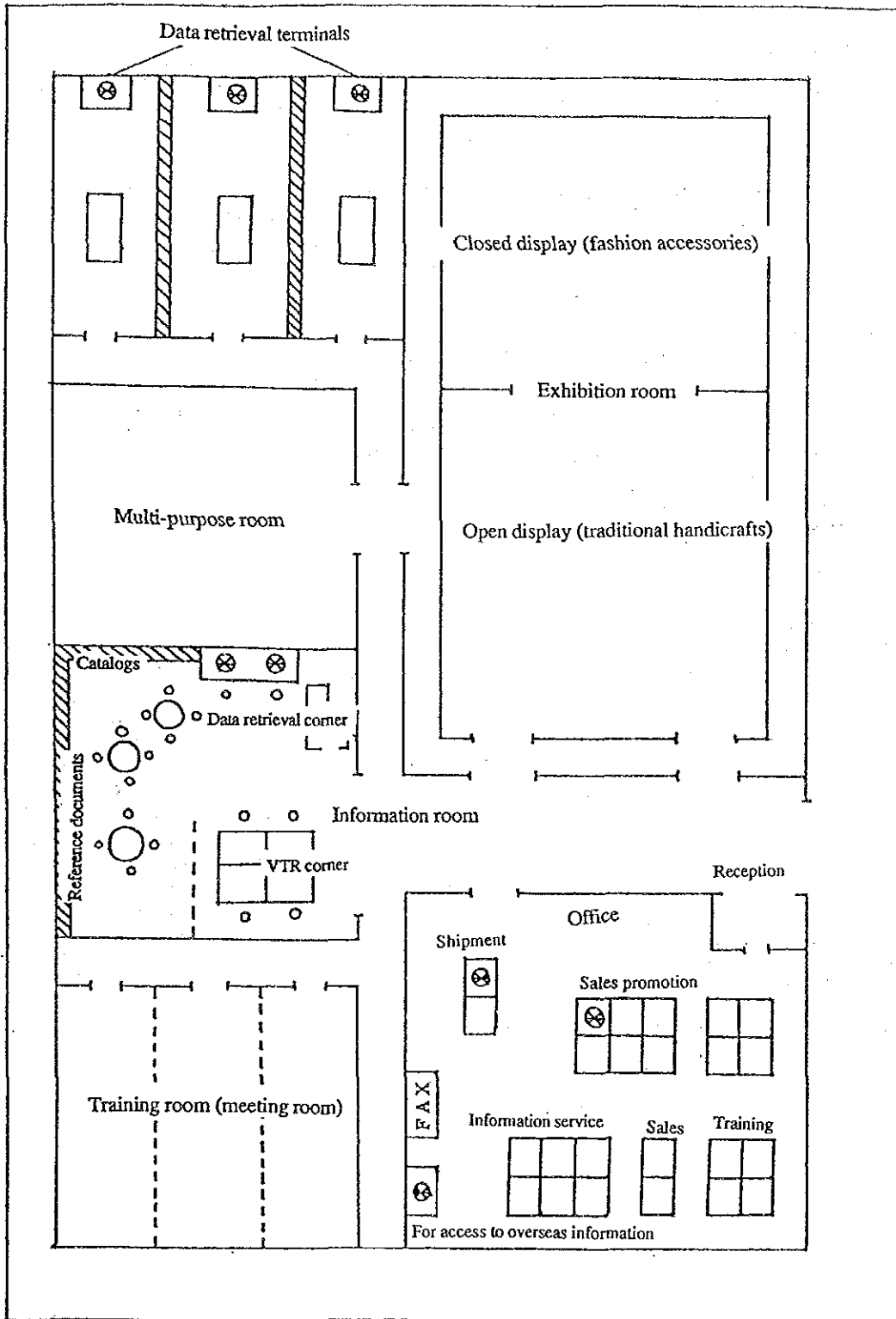
- c) Locations The locations should be decided in Jakarta after surveys of regions which are easily accessed by buyers and foreign tourists (the use of existing buildings such as state-owned departments should be considered.)

- d) Main functions
 - [1] Exhibitions of handicraft products from production regions across the nation
 - [2] Collection and dissemination of information required for business purposes
 - [3] Supply of information about products and businesses to visitors, mainly importers
 - [4] Agent services for business operations (from business talks to instructions on shipment)
 - [5] Supply of information to local manufacturers via UPT and KOPINKRA (establishment of nation-wide network through facsimile communication)
 - [6] PR overseas for Indonesian handicrafts (production of brochures)
 - [7] R&D (Product Development, Design Development, Research on Raw Material etc.)
 - [8] Dissemination of fruits of R&D activities to regional manufacturers through UPT and KOPINKRA
 - [9] Development of human resources through training
 - [10] Proposals concerning handicraft policies

Sample Outline of HDPC

Facilities	Objectives/size	Equipment	Officials in charge (example)
1. Multi-purpose room	Seminar, training, hosting of buyers	Screens, microphones, provision for division into 1-3 small halls	
2. Exhibition rooms	Exhibition of samples	Open display (Woven products, cotton products, bamboo crafts, etc.) Showcases (Jewelry, precious metals, etc.)	2 persons
3. Information rooms			
1. VTR corner	(1) Industry in general (2) By product (3) By region, etc.	VTR/touch control x 3-4 (roughly)	2 persons
2. Data retrieval system	(1) Information about Indonesian handicrafts	PC terminals x 2 (roughly)	
3. Library with catalogs, reading corner	(2) Business information (price, delivery, etc.)		
4. Information counter			
4. Meeting room for business talks	Catalogs, price lists, etc. (1-3 rooms)	PC terminals x 1-3	
5. Office		Telephone, facsimile, PC terminal x 1 PC terminal x 2-3 For access to overseas information x 1 For general administration x 1 For export operation x 1	Person in charge of: Each product x 5 (business talks - order placement) Shipment x 2 Sales promotion x 2 Information (for each product) x 5 Training x 3 General administration x 3
6. Training room (meeting room)			

Sample Floor Plan for HDPC



⊗
PC

MA firms

MA firms are organizations which assume marketing functions as well as play a leading role in the area of quality control and information supply in local producing regions where cottage industry-level firms are the majority. Based on firms which traditionally functioned as wholesalers in production regions or Koperasi, they should receive foreign experts which are required for guidance in marketing and quality control. For financing, use of Bapak Angkat system may be considered.

Because they should be established as private sector firms, the Ministry of Industry must implement administrative guidance to ensure they meet the requirements for receiving foreign experts.

[2] Revitalization of existing public-sector facilities

Existing public-sector facilities related to the handicraft industry should be used to improve production technology in the handicraft industry. The use of these facilities should focus on the study and improvement of raw materials, study and improvement of the production process, design development, exchanges with similar organizations overseas and dissemination of R&D results. The dispatch of advisors for the revitalization of these facilities should be studied. In the case of PTKI, establishment of a model process for dyeing and short-term training of craftsmen can be considered.

Table 2-5-3 shows the present status of the main public-sector organizations related to the handicraft industry. Because of time constraints, the study team could not visit all of these organizations. When formulating detailed programs, experts should visit these organizations to conduct detailed surveys on their present status and problems, required costs, required machinery and materials, required staff and formulation of training curricula.

[3] Measures to deal with differences by product and region

In addition to common policies, individual policies should be implemented to solve different problems by product and region.

Common policies should include implementation and strengthening of quality control and export promotion measures along with the above-mentioned creation of marketing functions and revitalization of public-sector facilities. For the implementation and strengthening of quality control, programs developed by overseas international cooperation organizations should be adapted to Indonesia's handicraft industry in consideration of the current policies of the Ministry of Industry. For example, dispatch of foreign experts and implementation of overseas organizations' cooperation programs can be considered. The export promotion policy should intensify the current promotion programs of BPEN by making use of cooperation programs offered by international cooperation organizations overseas. This would vitalize activities such as the supply of overseas information, business talks, exhibitions and dispatch of missions. Emphasis should be placed on guidance in meeting delivery terms and packaging. After surveying existing programs, efficient linkage should be realized between guidance by the Ministry of Industry on production technologies and export promotion programs by BPEN.

By product, silk products (South Sulawesi) are the most promising, followed by hand-woven products (North Sumatra), and these two products should be selected as targets for development. Individual development programs for each product including items other than those mentioned above should be implemented in addition to the common policies summarized below.

Handwoven products :

Dispatch of experts for guidance on preparatory processes and dyeing. PTKI and MA firms can be considered as recipients of experts.
Establishment of a model process for dyeing at PTKI and implementation of short-term training for craftsmen as well as spot guidance in production regions by invited experts (Medan).
Introduction of one spindle machine (Toraja) <long and mid-term basis>

Silk:

Implementation of study on project for improvement of sericulture <long and mid-term basis> (South Sulawesi)
Shift to ATBMs for silk <long and mid-term bases>
Dispatch of experts for technological guidance in filament reeling and weaving processes
Establishment of spun silk factory <long-term basis>

Bamboo craft anyaman:

Training of TPL officials to strengthen guidance by TPL (including training in Japan)

Ceramic products:

R&D for domestic production of glaze (including revitalization of public-sector facilities)

Carved wood products:

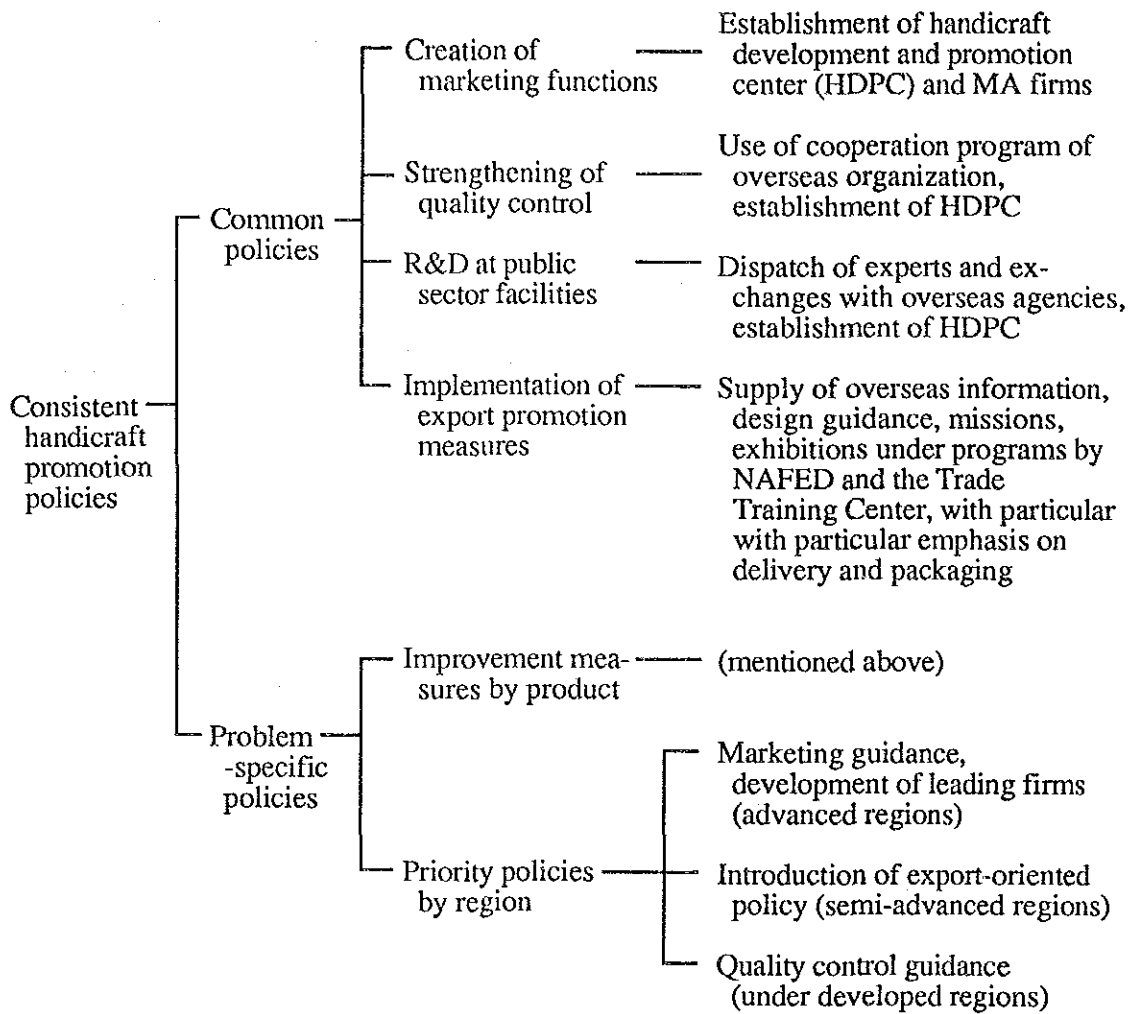
Introduction of drying facilities in production regions (UPT)

Fashion accessories:

Continued implementation of existing cooperation programs

Various programs for product development as mentioned above should be implemented in the appropriate production regions. At the stage of implementation of promotion measures, marketing should be emphasized in advanced regions while measures for export-orientation should be promoted in intermediate regions. In both advanced regions and intermediate regions, support for promising firms should be strengthened so that leading firms can develop. In under-developed regions, emphasis should be placed on quality control and technological guidance in addition to marketing.

Fig. 2-6-7: Common Policies and Specific Policies



Outline of Morioka Handicraft Square and Denparmanent

An outline of the Morioka Handiwork Square and Denparmanent will be presented as an example of a development and promotion center.

	Morioka Handiwork Square	Denparmanent
Established in:	1985	1931
Floorage	3,591m ²	2,600m ²
	Technology training room 450m ²	Sales floor 1,500m ²
	Hall 204m ²	Warehouse 400m ²
	Exhibition room for information 390m ²	Packaging room 300m ²
	Exhibition and sales room 542m ²	Office 400m ²
	Handicraft shops 7,155m ²	
Staff	17	78
		Retail sales 31
		Administration 18
		Exports 13
		Interior design 4
		PR 4
		Packaging 8
Management	No. 3 sector (prefecture, city, chamber of commerce and industry, cooperatives)	Managed by members independent of other organizations
Capital	<ul style="list-style-type: none"> • Earnings through sales of displayed products (30 percent commission) • Subsidies 	Earnings through consigned sales (27-40 percent commission)
Objectives	Promotion and development of local industry	Support for the handicraft industry through the formation of a sales organization. "Consumers do not want to go to the trouble of coming to the countryside to search for the works of craftsmen" (Kay Bojesen)
Functions	Information collection Survey and research Human resource development Sales promotion Exhibitions/PR	Exhibitions (permanent, special) (displayed products are selected by a committee) Information collection Information services (concerning handicrafts from around Denmark) Agent services for sales Agent services for exports Sales promotion Quality assurance labels

Fig. 2-6-8: Draft Schedule of Program for Promotion of Handicraft Industry

	1	2	3	4	5 years
[Short term action program]					
1. Implementation of export promotion program (cooperative activities, monitoring surveys, dispatch of missions, etc., training in trade training center)					
2. Implementation of technical guidance and quality control guidance programs (short term dispatch of experts and training by same)					
3. Dispatch of private sector experts for providing technical guidance (MA companies, Koperasi, silk and hand weaves)					
	Planning		Execution		
[Medium term program]					
1. Revitalization of public facilities (model factories in PTKI, revitalization of BBKB, etc.)					
Advance survey		Delivery, installation			
		Design, tender, fabrication		Technical cooperation	
2. Silkworm and silk industry project (silkworm raising techniques, unraveling)					
Advance survey		Delivery, installation			
3. Conversion of ATBMs to those for silk use and introduction of single spindle spinning machines		Design, tender, fabrication		Technical cooperation	
Advance survey				Technical cooperation	
4. Establishment of handicraft development and promotion center		Conversion (financing and investment)			
Advance survey		Design, tender, construction		Technical cooperation	
[Long term program]					
Spun silk project					Advance survey

2.7 Information Collection for Promotion of Investment and Technological Tie-up

A negative list for foreign investment was announced under Presidential Decree No 21, effective May 5, 1989. Under the decree, many sectors of the handicraft industry are designated as reserved areas for small scale industry. As a result, foreign investment is not an option for the development of exports of these items. Accordingly, it was decided, after consultation with the Ministry of Industry, that domestic surveys would be aimed at evaluating Indonesian handicrafts with the goal of developing measures to improve access to the Japanese market rather than identifying potential investors.

Japan's handicraft industry faces two main problems - difficulties in securing successors and difficulties in procuring raw materials due to the fact the industry is dominated by small-sized firms. There appears to be little prospect for tie-ups between handicraft firms in Japan and Indonesia, taking into consideration (1) the small size of handicraft firms in the two countries and (2) the originality of Indonesian handicrafts in terms of skills and appeal. What is required for the export of Indonesia's handicrafts is the creation of marketing functions as well as quality control systems which will open the way for an orientation toward higher quality products. These can be realized through the support of public sector organizations. If Indonesian handicrafts are accepted in the Japanese market in large volume on a continuous basis, there may a possibility for technological tie-up with Japanese firms which have an interest in the skills and resources of handicraft firms in Indonesia.

Annex: List of Handicraft Importers in Japan

This list indicates the importers and dealers who answered "deal in handicraft" or "wish to deal in handicraft" in the questionnaire survey in Japan.

Name	Address	Commodities
Dainaka Co., Ltd.	9-1 Toyotu-machi, Suita-shi, Osaka	Batik, hand woven textile, wood carving, silverware
Daimaru Co., Ltd., Kobe	40 Akashi-machi, Chuo-ku, Kobe-shi, Hyogo	Batik
Daimaru Department Store	1-4-5, Nishi-Shinsaibashi, Chuo-ku, Osaka-shi, Osaka	Batik, hand woven textile, Wood carving, wooden handicraft, silverware, rattan basketry, ceramics
Daimaru Peacock Co., Ltd.	1-32-10, Asagaya-Minami, Suginami-ku, Tokyo	Wooden handicraft, rattan basketry
Daimaru Co., Ltd., Shinnagata	5-5-1, Wakamatsu-cho, Nagata-ku, Kobe-shi, Hyogo	Rattan basketry
Hanshin Department Store	1-13-13, Umeda, Kita-ku, Osaka-shi, Osaka	Batik, wood carving, wooden handicraft, Silverware, shell handicraft
Hankyu Department Store Co., Ltd.	8-7, Tsunodamachi, Kita-ku, Osaka	Batik, hand woven textile, wood carving
Inagakishoten Co., Ltd.	8174 Hazaki-cho, Ibaragi	Wooden handicraft, rattan basketry
Isetan Co., Ltd., Matsudo	1307-1 Matsudo-shi, Chiba	Wood carving, rattan basketry
Isetan Co., Ltd., Urawa	1-15-1, Takasago, Urawa-shi, Saitama	Batik, rattan basketry, ceramics, shell handicraft
Kagofuji Shokai	9-28, Saiwai-cho, Beppu-shi, Oita	Rattan basketry
Kyushu Hama Home Co., Ltd.	167, Oaza-Yamada, Okagaki-cho, Toga-gun, Fukuoka	Rattan
Merbaru Co., Ltd.	3-1-1, Bingo-cho, Chuo-ku, Osaka-shi, Osaka	Wooden handicraft, rattan basketry
Misaka Shoji Co., Ltd.	1-6-3, Onotsu, Higashi-ku, Fukuoka-shi	Batik, hand woven textile, wood carving, wooden handicraft

Name	Address	Commodities
Mitsukoshi Department Store, Ikebukuro	1-5-7, Higashi-Ikebukuro, Toshima-ku, Tokyo	Hand woven textile, wood carving, wooden handicraft rattan basketry, shell handicraft
Mitokeisei Department Store, Co., Ltd.	1-7-5, Izumi-cho, Mito-shi, Ibaragi	Hand woven textile, wood carving, rattan basketry, shell handicraft
Milano Knit Co., Ltd.	1-8-6, Okoda, Daito-shi	Hand woven textile
Mitsukoshi Department Store	3-29, Shinjuku, Shinjuku-ku, Tokyo	Hand woven textile, wooden handicraft, wood carving, rattan basketry
Nichii Co., Ltd.	2-2-9, Awaji-cho, Chuo-ku, Osaka-shi, Osaka	Rattan basketry
Nichihan Co., Ltd.	3-8-23, Hiranonishi, Hirano-ku, Osaka-shi, Osaka	Wooden handicraft, rattan basketry, batik, hand woven textile
Nagasakiya Co., Ltd.	3-7-14, Higashi Nihonbashi, Chuo-ku, Tokyo	Rattan basketry
Odakyu Department Store Co., Ltd.	1-1-3, Nishishinjuku, Shinjuku-ku, Tokyo	Wooden handicraft
Seia Co., Ltd.	TOC Bldg., 7-22-17, Nishi-Gotanda, Shinagawa-ku, Tokyo	Batik, hand woven textile, wood carving, wooden handicraft, silverware, rattan basketry, ceramics, shell handicraft
Saikaya Co., Ltd., Machida	6-6-14, Haramachida, Machida-shi, Tokyo	Hand woven textile, wooden handicraft, silverware, rattan basketry, shell handicraft
Seibu Department Store, Shibuya	21-1, Udagawa-cho, Shibuya, Tokyo	Batik, hand woven textile, wooden handicraft, rattan basketry
Takashimaya Co., Ltd., Rakusei	2-5-5, Higashisakaiya-cho, Gharano, Saikyo-ku, Kyoto-shi Kyoto	Batik, hand woven textile, wood carving, wooden handicraft
Tobu Department Store Co., Ltd.	1-1-25, Nishi-Ikebukuro, Toshima-ku, Tokyo	Batik, wooden handicraft, Silverware, rattan basketry

Name	Address	Commodities
Tokyu Store Co., Ltd.	1-21-12, Kamimeguro, Meguro-ku, Tokyo	Rattan basketry
Toyama Industries Co., Ltd.	2-12-28, Nishiki, Naka-ku, Nagoya-shi, Aichi	Batik, hand woven textile, rattan basketry
Takashimaya Co., Ltd., Kyoto	Kawara-machi, Yonjyo, Shimokyo-ku, Kyoto-shi, Kyoto	Batik, hand woven textile, wood carving, wooden handicraft, rattan basketry
Matsuzakaya Department Store	3-29-5, Ueno, Taito-ku, Tokyo	Batik, hand woven textile, wood carving, wooden handicraft, shell handicraft
Kintetsu Department Store	5-5, Tomoda-cho, Wakayama-shi, Wakayama	Wood carving, wooden handicraft, rattan basketry, rattan products
Yorin Industries	7-2-13-313, Nishi-Nakajima, Yodogawa-ku, Osaka-shi, Osaka	Batik, wood carving, wooden handicraft
Yamahata-ya Co., Ltd.	3-1, Kinseimachi, Kagoshima-shi, Kagoshima	Batik, hand woven textile, wood carving, wooden handicraft, ceramics, shell handicraft
Yamashita Kagu Co., Ltd.	615, 5-bancho, Furumachidoi, Niigata-shi, Niigata	Rattan basketry, wooden handicraft
Yaohan Department Store Co., Ltd.	1256-1, Terabayashi, Okanomiya, Shizuoka	Rattan basketry
Matsuzaka-ya Co., Ltd., Yokohama	1-5, Isezaki-cho, Naka-ku, Yokohama-shi, Kanagawa	Batik, hand woven textile, wooden handicraft, silverware, shell handicraft

