

Chapter 5. Recommendation on Export Promotion Policies

5.1. Government Role in Export Promotion

5.1.1. Background

Trade orientation, especially the adoption of export promotion strategy is the one of the most critical factors for East Asia's exceptional economic performance.¹⁰ Until mid 1980s, Indonesia, however, had adopted import-substituting strategy and imposed various imports regulating measures such as high import duty, industrial license complicated custom clearance procedure under the pretext of protecting domestic industries. These protection policies prolonged custom clearance time, induced monopoly, collusion, corruption, and nepotism (so called KKN), finally brought about high cost economy.

Since the mid 1980s, Indonesia has adopted more export oriented direction together with pro-direct foreign investment policies and achieved rather high growth of non oil gas exports. Compared with NIEs or neighboring ASEAN countries, Indonesia has not adopted state led industrial promotion policies, a vision that shows the future ideal industrial structure. In addition, Indonesian government has not adopted active industrial and trade promotion measures except for monopolies for state owned enterprises.

Since Indonesian private sector has been still suffering from serious financial problems after the crisis, it is the time for the government to play more active role in trade and industrial promotion to achieve quick economic recovery and make sustainable growth.

5.1.2. Government role in export promotion

For the purpose of implementing export promotion policies, the role of government can be considered as in the followings.

¹⁰ The most prominent advocate for this thesis is Jagdish Bhagwati, "The Miracle That Did Happen: Understanding East Asia in Comparative Perspective", May 3, 1996, <http://www.columbia.edu/~jb38>.

1) Full utilization of private sector's vitality

The success of nation's export promotion will simply depend on private sector's international competitiveness. Government can only give advice and assistance in cultivating competitiveness of export industries and products.

2) Setting vision for future industrial and trade structure

Since developing country like Indonesia has scarce resources, the most expected role for the government is indeed "Selection and Concentration".

In order to realize that, some steps should be taken as:

- Analyzing business environment of each industry;
(Ex. comparative advantage, international division of labor, domestic market size, etc.)
- Setting promoted industries and products for export ;
- Formulating concrete measures to promote these industries;
(Ex. Institutional building, financial scheme, etc.)

3) Improvement of export business infrastructure

Export business infrastructure means such as:

- Development of industrial infrastructure:
(Ex. ports, roads, communication and information networks, etc.)
- Simplification and speeding up of export/import procedure:
(Ex. duty and taxation, forwarding, custom clearance, shipping, etc.)
- Facilitating export finance scheme:
(Ex. pre-shipment financing, post-shipment financing, etc.)
- Conforming to international business standard and practices:
(Ex. standardization, inspection, INCOTERMS, etc.)

4) Dissemination and diffusion of market information

The following market information should be accumulated and disseminated to private sectors.

- ① Political and economic stability

- ② Trade and non-trade barriers
- ③ Consumer purchasing power
- ④ Quality level awareness, products criteria
- ⑤ Pricing level
- ⑥ Degree of competitions
- ⑦ Distribution factors
- ⑧ Trade practices

5.2. Improving Export Business Infrastructure

5.2.1. Export and Trade Finance

1) SMEs Financial Problems After the Crisis

The year 1997/98 witnessed the most onerous pressures on Indonesia's economy over the course of three decades of development. Since the fourth quarter of 1997, the performance of all financial related institutions commenced to subside due to the monetary crisis. The crisis has raised cost of fund of those institutions as the Rupiah turmoil has pushed interest rate up. Many special financial institutions, especially banks, have been liquidated, (i.e., Bank Papan Sejahtera (Housing loan), Uppindo - Indonesian Development Finance Company) or merged (Bank Exim, Bapindo).

Under the current situation, SMEs exporters have some serious financial difficulties as follows:

- They cannot enjoy pre-shipment finance based on L/C although it was possible before the crisis, thereby have to borrow fund from the commercial bank at extraordinary high interest rate for importing raw material or semi-processed materials to make final products.
- They no longer can get cash upon presentation the shipping documents to the commercial bank. They are obliged to wait until the commercial bank collects money from the issuing bank.
- Now they have to get finance for even opening L/C because the commercial bank request

them to deposit 100~120% of L/C amount.

- They cannot accept D/A, D/P payment, because the bank does not accept it. They lose overseas buyers because of non-flexible payment requirement from the bank.

2) Recommendations: Trade Finance through Trading House

Although BEI has started operation, since their main activities are refinancing of working capital through commercial banks, they do not directly deal with SMEs exporters. In Japan, *Sougou Shousha*, large-scale general trading houses, have played significant role in identifying potential manufacturers and assisting their export and import activities in terms of marketing and finance. In terms of financial assistance, they usually extend pre-shipment and post-shipment finance to credible manufacturers. Since they have quite good expertise in marketing the potential products through their global network, trading house can play catalytic role between foreign exporters/buyers and domestic buyers/exporters. For example, PT. Bahana, a government owned venture capital, has established trading houses in Medan and Bali to support the export and domestic (inter-islands) marketing of SMEs' products. Accordingly, the linkage of marketing and finance is critical for SMEs export promotion.

5.2.2. Tax incentives

Under the WTO framework, in principle, corporate tax incentive directly aims to promote export is regarded as export subsidy and it is not permitted. Therefore, only possible incentive is in the category of import duty exemption and drawback system. Duty exemption scheme is rather beneficial for exporters in terms of the company's cash flow. These incentive have been already adopted by Indonesian government. As has been mentioned in the Chapter 3, Indonesian BAPEKSTA system does not have specialized scheme for indirect exporters. Since indirect exporters are normally SMEs and often take in charge of supporting industry, duty and VAT exemption for specifically targeted for indirect and SMEs should be considered.

5.2.3. Logistics on Export and Import

Some ideas of concrete measures to improve efficiency for custom clearance process, are illustrated as follows:

1) Speeding up and making transparent of custom clearance process by promoting EDI(Electric Data Intelligence) system

Since adopting EDI system for import process, the situation has been considerably improved. While the customs declarations cannot yet be processed electronically at all offices, the use of EDI has increased. The problem, however, is the banks participation for this system. Although EDI use has been growing among importers, exporters and shipping companies, nearly half of all banks are not yet connected to the system. Since the custom authorities can clear the goods electronically only when confirmation of payment of duty by banks is received through EDI, their participation in the system is crucial. Indonesia receives multilateral and bilateral technical assistance for custom training and administration. Now Japan is promoting bilateral technical and financial assistance on the standardization of intelligence notes and further development of EDI system.

2) Promoting SCM (supply chain management) and warehousing service (Ex. export-import license, handling EPTE cargo, etc.)

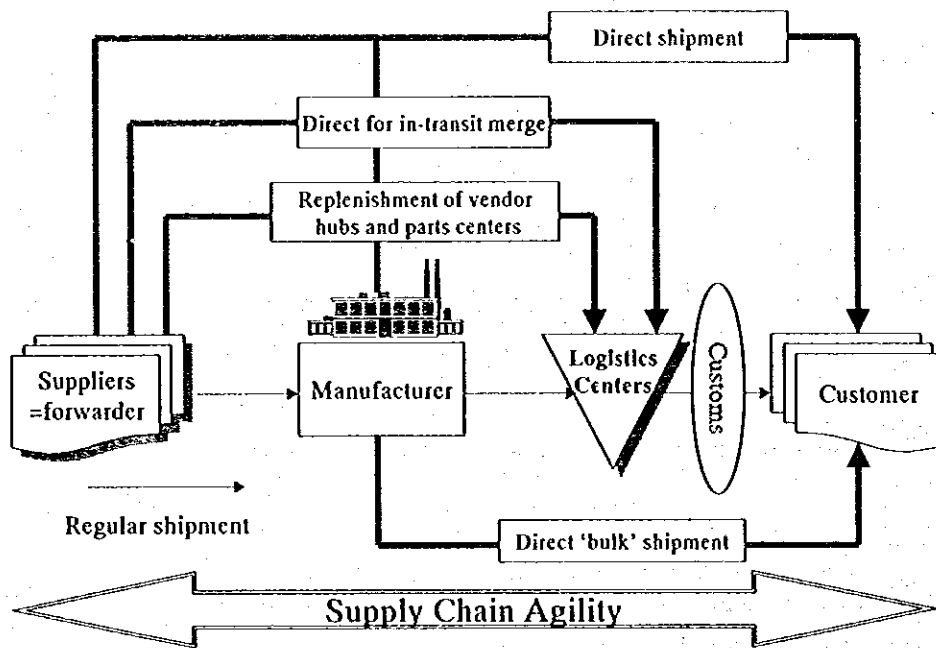
Although traditionally, the marketing, distribution, planning, manufacturing and purchasing organizations along the supply chain operated independently, companies are now fighting these inefficiency by introducing and improving logistics management and supply chain management at higher corporate levels. Global competition is forcing the companies to:

- co-ordinate all activities in the supply chain;
- compress the time from product development to market introduction;
- shift from forecast-driven to demand-driven chains;
- reduce the actual order to delivery times;
- increase the speed and reliability of transportation between all the parties in the chain, including inter-company moves;
- shorten the cash-to-cash cycle times.

In summary, fast processes are now seen as the key to keeping customers satisfied-and the way to speed up those processes is through real time integration of supply chains.

The concept of supply chain is illustrated in the following Figure.

Figure 5.2.1. Concept of Supply Chain



Source: JICA Study Team

Basically, suppliers no longer just ship just-in-time to manufacturers' warehouses but also to various other logistics centers downstream, as well as direct to customers, both large volumes and express parcels. Increasingly, logistics service providers no longer stock goods but function as flow managers. They enable manufacturers to deliver direct, often via bulk routes as well as through emergency pipelines. They perform various complex logistics and other functions such as cross-docking, systems integration, and so on.

In SCM system, since manufacturers assign suppliers to conduct all logistic management from procurement of materials and parts to delivery of processed or final products to customers, it is suppliers and warehousing companies' (same body) role to minimize stocks, time and cost of delivery.

However, in Indonesia, since warehousing companies cannot handle manufacturers' EPTE (bonded warehouse) cargo, it forces manufacturers incur additional cost of building their own warehouses. (Only manufacturers are eligible to build bonded warehouse.) This situation is certainly a significant drawback for export oriented manufacturers compared with neighboring

countries.¹¹ In this context, more liberalization should be considered in warehousing business to promote SCM system.

3) Increasing shipping capacity by promoting shipping services

Since Indonesia's shipping capacity is not enough, some commodity exporters are forced to ship through the third country like Singapore, then incurs additional cost to those exporters. Therefore, the government should consider to promote shipping services.

4) Improving loading and unloading services by opening these license

In Indonesia, since loaders and unloaders are enjoying monopolizing license with the Port Authority, their services are not efficient. Therefore, the Government should consider to dismantle the monopoly and open these services.

5.3. Strengthening Marketing Support

5.3.1. Brand Promotion

1) Need for brand promotion

In order to compete with China or Vietnam with labour intensive industries, it is crucial for Indonesian entrepreneurs to implement their own marketing strategies and create own brand awareness. The good brand image will improve the perception of Indonesia in international markets and add value to its products and strengthen competitiveness by differentiating them from those of competing countries. This is particularly so, the country as well as its product image has seriously damaged after the economic and political crisis. In this regard, Indonesia has to improve its country's image as a whole as well as products image by putting priority on brand promotion strategy.

¹¹ It is not only Singapore but also Malaysia, Thailand and Phillipines that have already approved warehousing companies to handle bonded warehouse's cargo.

2) Concrete measures to promote brand

For the purpose of diffusing the country as well as its products good brand image, some measures should be taken as follows. Two type of brand should be established: national brand and corporate own brand. Some ideas of concrete measures for promoting national brand and corporate brand are illustrated as follows:

① Identifying and creating a good brand image

First of all, unique and original Indonesian image has to be identified by the intensive survey on buyers from all over the world and to create the image in the form of language and logo. diffused through various campaigns and promotional activities.

② Establishing the image as unique and high quality standard

Secondly, the image has to be maintained as not only as unique but also as high quality standard. In order to do so, Indonesian government has to involve in the selection of products that can meet high export quality standard. As a tool to promote the marketing of corporate own branded products, contest and award would work well.

③ Diffusing the image into importers from all over the world

In order to diffuse the good brand image, Indonesian government has to take every public relations opportunity such as domestic and international trade fair, sales mission, buyers' mission and so on to appeal international business communities.

5.3.2. Design Promotion

1) Need for design promotion

Use of design is expected to contribute significantly to overcome the prevailing weakness of export sector, which are seen in the following points, fostering the export sector which has potentiality of sustainable growth, in a short period of time.

① Most industries fail to differentiate their products from those made in neighboring countries.

As a result:

- a) Labor-intensive industries are emerging in countries offering lower labor costs, such as

China and Vietnam, which attract increasing attention of buyers and customers.

- b) Industries processing agricultural, forestry and fishery products tend to have strong competitors in other countries where similar raw materials are available or Indonesian products can easily be imported.
- c) Development of new products by Indonesian industries serving the domestic market is being carried out almost exclusively by foreign partners or parents in the case of large enterprises or foreign-affiliated ones, while smaller enterprises copy or modify products on market. As these products are not distinguishable from competing products that are widely available in neighboring countries, in terms of design and performance, they must compete in export markets on the basis of price alone.

- ② As smaller enterprises do not directly deal with retailers and end users, they do not have knowledge or experience in developing and marketing products that meet the market needs.
- ③ Large enterprises and foreign-affiliated ones manufacture products that are planned and/or designed by foreign partners or parent companies, where local ideas and needs are not reflected:

2) Concrete measures to promote design

Some ideas of concrete measures to promote design strategy are illustrated as follows:

- ① Establishing a national "Design Center" to research the markets needs and train exporters to develop products that meet these needs.
- ② Employing foreign designers for targeted markets and products.
- ③ Promoting locally heaped up industries to develop their own unique design.
- ④ Promoting industrial linkages between local suppliers and potential buyers.

5.3.3. Promoting Penetration to Emerging Market

1) Need for diversifying export market

Indonesia's traditional export market is located at mainly developed region such as EU Japan and US, and accounts for 66.5% of total exports.¹² Since economy of these market is almost saturated and cannot be expected high growth, Indonesia has to make greater efforts to explore the potentiality of emerging market such as ASEAN, China, India, Middle East, Africa, Eastern Europe, and South America.

2) Concrete measures to develop emerging market

Some ideas of concrete measures to develop emerging market are illustrated as follows:

- a) Setting up mid term and short term target share and growth rate for each market
- b) Building information network for those market
- c) Promoting export to those region by providing incentives (i.e. tax, finance)
- d) Promoting export to those region by sending more sales mission and organizing more trade fairs and seminars

5.3.4. Promotion of Export Products Models

1) Need for creating success model

One of the most effective method to promote SMEs export is to select target products and concentrate support to those product categories. After making try and errors, government can understand some key important measures to lead those product categories to export successfully. These successful experiences shall be diffused to other exporters. In order to create star exporters for each product category, facilitating a fast-track, one-stop business service is badly needed.

2) Concrete measures to promote success model

Some ideas of concrete measures to promote success model are illustrated as follows:

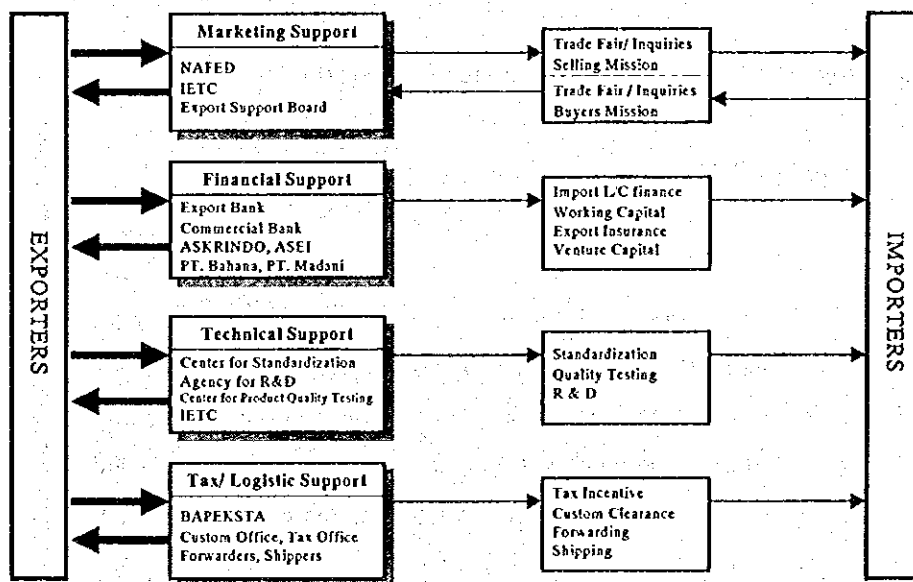
¹² See 1998 NAFED Annual Report

- a) Assigning one institution to be responsible for promoting selected potential export products (i.e. fabrics, garments, wood products, furniture, processed food and beverage)
- b) Creating greater cooperation between governmental and private agencies for promoting exports of those products (i.e. governmental institute, industrial association, university, etc.)
- c) Accumulating products information and increasing problem-solving capabilities in terms of increasing product competitiveness

5.4. Strengthening Linkage and Coordination among Export Supporting Institutions

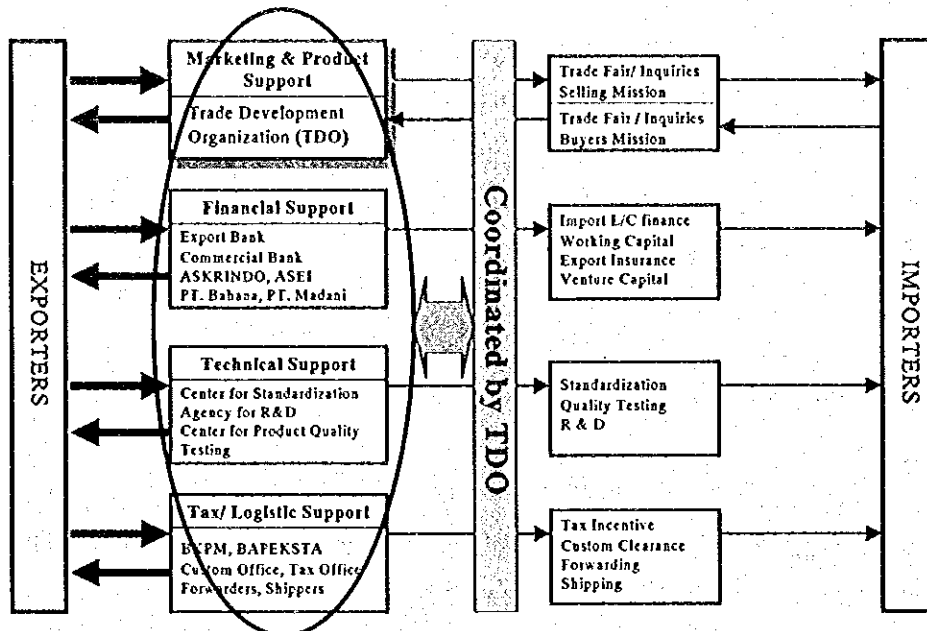
Figure 5.4.1. Illustrates the present system where each export supporting institution acts separately under no or very little coordination, whereas Figure 5.4.2. shows the close coordination done by the Trade Development Agency.

Figure 5.4.1. Present Export Supporting organizations



Source: JICA Study Team

Figure 5.4.2. Future export supporting organization



Source: JICA Study Team

5.5. Conforming to global standard and regional cooperation

1) Conforming to WTO Agreement

Indonesia once adopted tax incentives for "national car" manufacturer provided the manufacturer could achieve the certain local content target. This is certainly the tax incentive measure on the assumption that local products be taken preferential treatment against imported products and regarded as "red subsidies". Although WTO has approved transitional period for 5 years to Indonesia after effectuation of WTO agreement, the subsidy was regarded as "guilty" because it would widen the scope of its application after the effectuation. In February 1998, Indonesian government abandoned the national car plan.

According to WTO agreement, the import quota, local content requirement and export subsidies are basically prohibited. Therefore, it would also be essential to strengthen international competitiveness by promoting and restructuring domestic industries while conforming to international agreement.

2) Harmonizing with APEC, AFTA

As a member of APEC and AFTA, Indonesia has to also harmonize the liberalization process of tariff and non-tariff barriers. In order to do so, Indonesian government should analyze the export environment such as comparative advantage of export products, regional vertical and horizontal division of labor and domestic market size, and set strategic industries and products for promotion.

5.6. Restructuring of Export Promotion Organization

5.6.1. Overview

As it has been pointed out earlier, export orientation should be the crucial policy for economic recovery and sustainable economic growth of Indonesia. Although private sectors should take the initiative for export business activities, given the current business environment in Indonesia, the most urgent matter is to recover the confidence from both internal and external business communities. In order to improve the country's image as a whole and build up a good brand image, both the government and private sector should work together more closely to consolidate their efforts. In addition, consistent industry and trade (not only export but also import) promotion policy is badly needed for Indonesia now to show the new government's long-term vision to change its business infrastructure towards more open and competitive environment. In these regards, the existing promotion agency does not have enough competencies to implement these roles. Accordingly a new powerful and consolidated body that handles from policy to execution should be created.

5.6.2. Key Approaches to be Taken

For establishing an ideal trade development organization, some key approaches should be considered.

1) Strategic Approach to Compete with ASEAN Countries

Since most of Indonesian export products compete with ASEAN countries such as Thailand, Malaysia and Vietnam, the Government should take more strategic marketing approach to win

the competition. (Ex. Brand or design strategy)

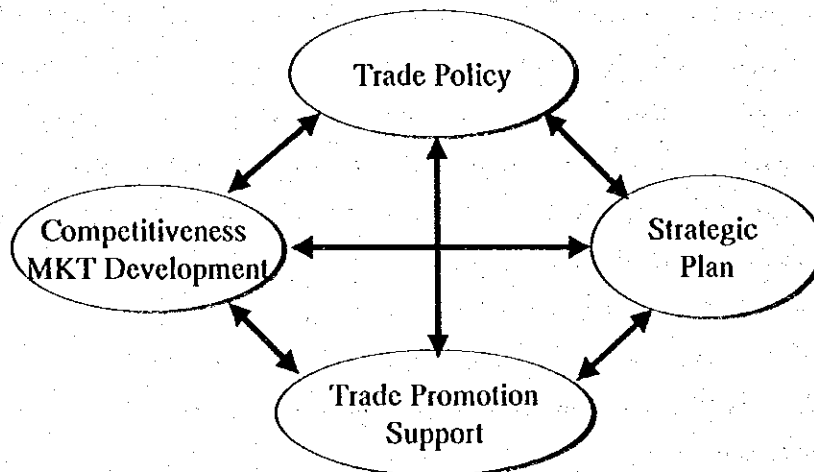
2) Efficient Approach

As it has been mentioned in the Chapter 3, Indonesia's export infrastructure has the problem of inefficiency with which the existing schemes are operated, more efficiency-oriented approach should be taken. (Ex. One stop export service)

3) Consolidated Approach: Policy and supporting activities

As it has been pointed out earlier, the governmental trade promotion policy and supporting activities in marketing, product, finance, technology, and logistic, etc. should be consolidated and coordinated by the new organization.

Figure 5.6.1. Consolidated Approach



Source: JICA Study Team

4) Professional Approach

In order to provide Indonesian exporters more vivid information and practical consultation, professionals such as marketing analysts, designers, and consultants should be hired, and other staffs should be facilitated in house training. In addition, the organization should be managed by professionals who have experience in export business. Furthermore, in order to get input from various sources such as academics, business association, large exporters, SMEs exporters and the government, the new organization should invite directors from outside.

5) Decentralized Approach

Before the economic crisis, the Indonesian economy had been too much dependent on its capital region and large firms and state owned corporations in terms of industrial development and income distribution. The new government has been trying very hard to promote regional development especially by the hands of SMEs. Therefore, the new trade development organization should also take the approaches in line with these direction.

5.6.3. Mission

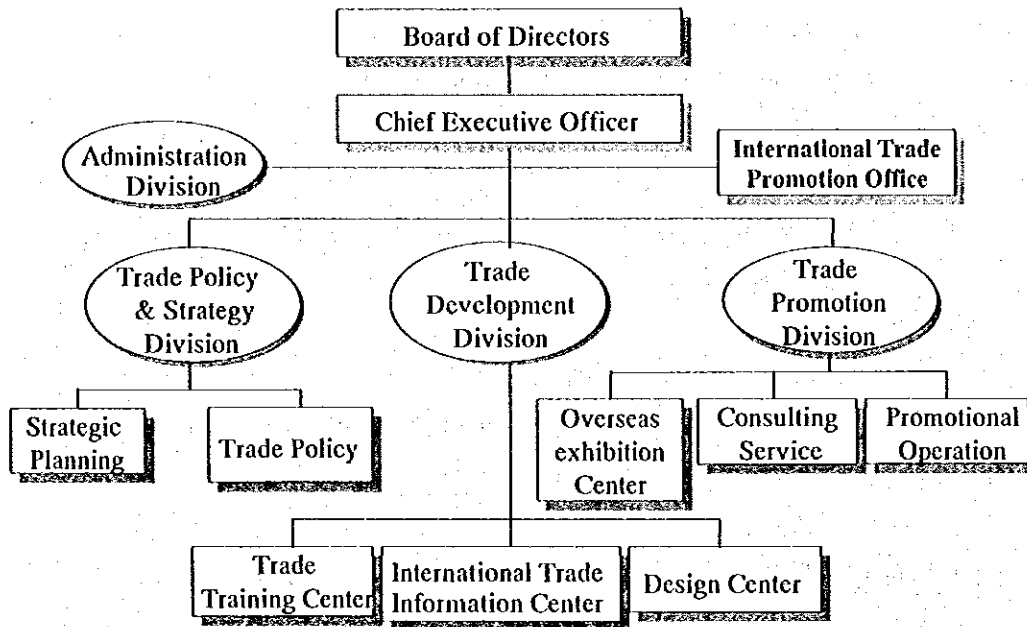
The new organization's mission is to increase Indonesia's sustainable growth and prosperity through trade expansion.

5.6.4. Organizational Status and Structure

The new organization should be established with special independent authority to set up export target, to formulate export strategy and to carry out export development and promotion. In order to implement those tasks in a very efficient manner, privatization should be needed in a long run. However, since the trade promotion business itself by nature cannot expect the high profitability, the Government should take into account its public mission and sustainability, and take the necessary measures to support the organization. The organization itself also should try every means to generate cash by providing services to SMEs. In addition, as has been mentioned in 5.6.2., in order to manage the organization in efficient and professional manner, board of directors should invite members from industrial association, private sector and academics as well as government. Furthermore, it is preferable that the Chief Executive Officer be recruited from private sector, which has strong background of international trade business.

As far as organizational status is concerned, semi-governmental status that has both government and private sector shareholders would be appropriate.

Figure 5.6.2. Ideal Organizational Structure



Source: JICA Study Team

As Figure 5.6.2. illustrates, the new organization shall have the following three core business domain.

- 1) Trade Policy & Strategy Making
- 2) Trade Development
- 3) Trade Promotion

The new organization shall have at least 10 international trade promotion office in major export market and strategic emerging market in order to assist marketing activities of Indonesian exporters in overseas.

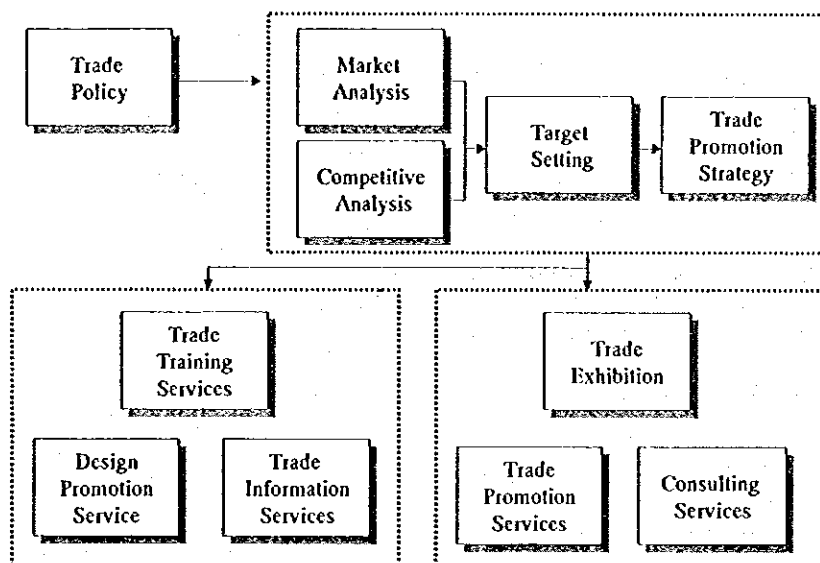
5.6.5. Role and function

Basic function for trade promotion could be shown as in figure 5.6.3.

First of all, in Trade Policy & Strategy Division, based on trade policy, market and competitive analysis is to be made and export target will be set. Then trade development and promotion strategy shall be made with concrete measures such as training, design promotion, market

information, exhibition and consulting service. Based on the above strategy, Trade Development Division and Trade Promotion Division shall render each service.

Figure 5.6.3. Basic Functional Flow



Source: JICA Study Team

The concrete function is mentioned in the followings.

1) Trade Policy & Strategy Division

- International trade policy: WTO
- Regional Initiatives: ASEAN, APEC
- Bilateral Initiatives
- Trade Promotion Incentive Scheme
- Formulating short and long term strategies
- Determining target products for each target market
- Determining the target for total export value
- Determining the target for each regional market
- Determining the target for export products in each region

2) Trade Development Division

- Analyzing external trade environment (opportunities and threats)
- Reviewing trade trend
- Competitive Analysis (Strength and weakness of Indonesian products)
- Building and improving the brand image of Indonesian products
- Improving qualities and designs of the target products
- Accumulating trade data base and providing trade information to both exporters and importers
- Developing human resource of Indonesian exporters
- Maintaining existing markets and penetrating into emerging markets
- Cooperating with foreign trade promotion organization

3) Trade Promotional Service

- Organizing trade fair and mission
- Managing permanent export exhibition center both in Indonesia and major target export market
- Providing export advisory services to Indonesian exporters
- Providing import advisory services to foreign importers
- Organizing business meeting with Indonesian exporters and foreign potential importers (i.e. Exporter Club)
- Identifying and making solution to trade related issues (i.e. tax incentive, export finance, custom clearance, logistics)
- Facilitating one stop service for strategically selected products

4) International Trade Promotion Office

- Providing export marketing information (Ex. Price, quality standard, design, colour, size, etc.) through Trade Promotion Center or directly to Indonesian exporters
- Providing import advisory services to foreign importers

II. Improving Export Competitiveness



Chapter 6. Questionnaire Survey for Exporting Companies

6.1. Objective

The main objective of the study is to examine how to improve Indonesian export activities at the business enterprise level and how the regulatory support could stimulate the export. Informational needed thus include:

- obstacles in exporting products,
- perceptions of export competitiveness
- awareness of NAFED and use of its services,
- evaluation of export promotion policies and institutions.

6.2. Methodology

Face to face interviews with 522 business enterprises were conducted in Jabotabek, Bandung, Semarang, Surabaya, Medan and Palembang. The breakdown of the sample is as follows:

Textile and textile products	133
Food and Beverages	126
Wood Products	158
Electric and electronic parts	55
Automotive parts	31
Machinery parts	19

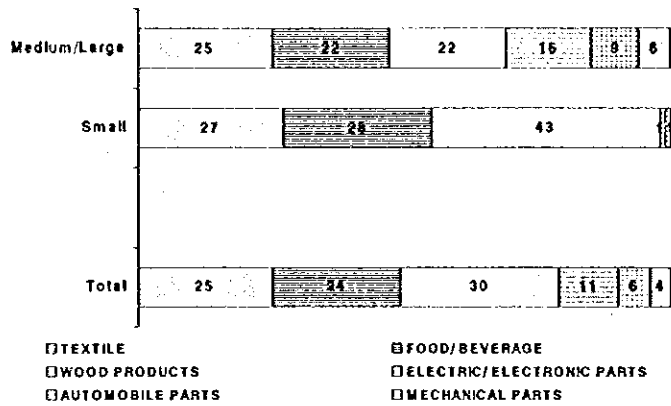
The fieldwork was conducted between August 14, 1999 and September 24, 1999. The list of exporters is randomly picked from "*The Business Directory*" and "*The Yellow Page Telephone Directory*" in the survey area.

6.3. The Main Findings

6.3.1. Profile of Exporters

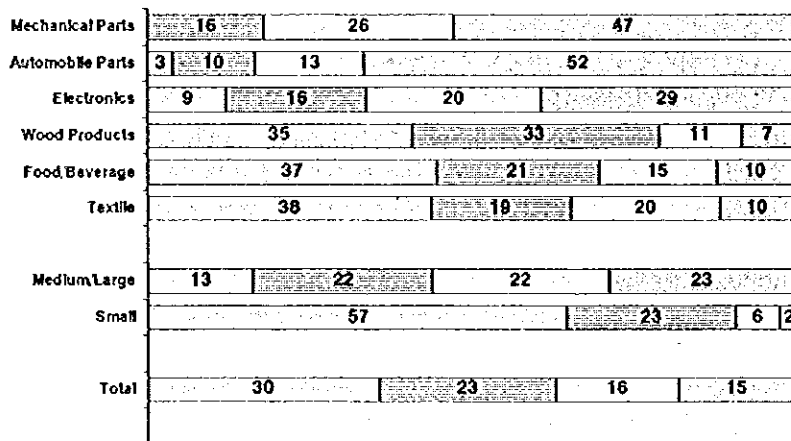
The sample consists mainly of exporters of wooden products, textiles, and food and beverages. Exporters of wooden products, however, compose a larger proportion of the sub-sample of small exporters, while exporters of electronic parts form a relatively higher proportion of the sub-sample of medium-sized and large exporters.

Graph 6.3.1. The Number of Respondents based on the Business Sector



Two-thirds (70%) of the companies represented in the sample were established either in the 1980s or in the 1990s. However, small exporters included a higher proportion of businesses formed in the 1990s. Half of the businesses represented in the survey are capitalized at below Rp. 600million. In particular, 57% of small exporters are capitalized below Rp. 100million. As may be expected, businesses engaged in the export of machinery parts, automotive parts, and electronic parts involve larger capital investment. (See Graph 6.3.2.)

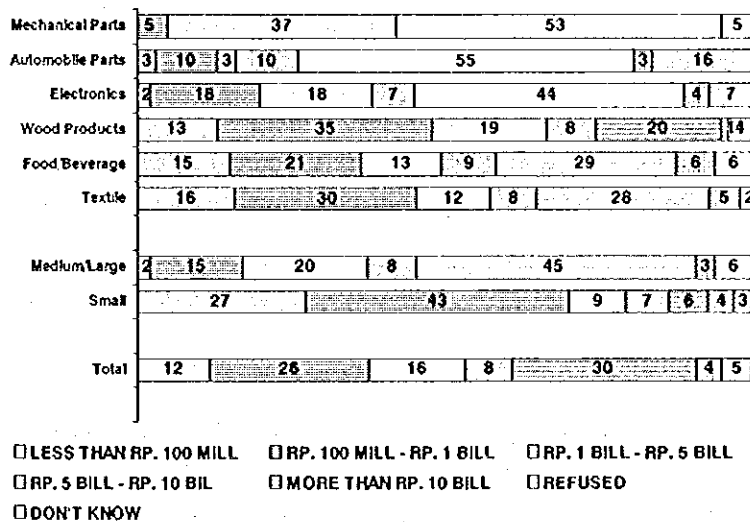
Graph 6.3.2. The Characteristic of Respondents based on Registered Capital



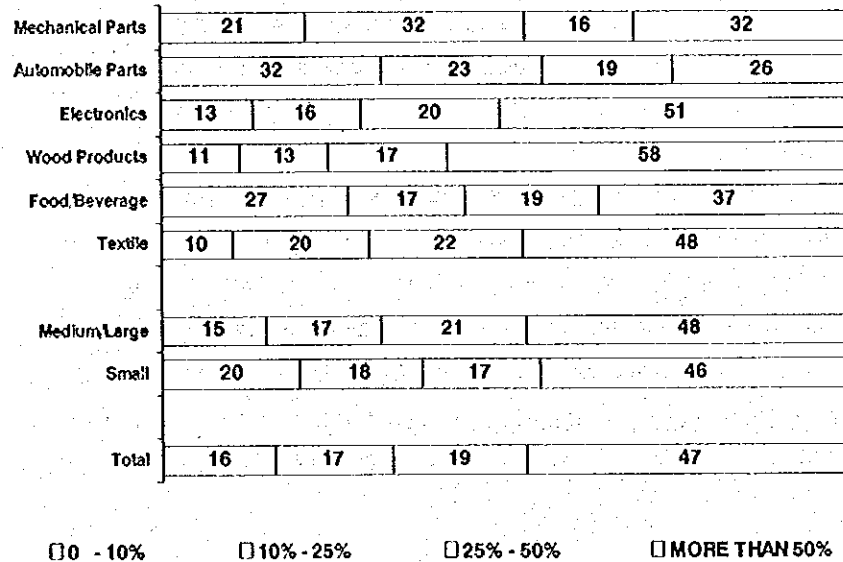
□ LESS THAN RP. 100 MILL. □ RP. 100 - 600 MILL. □ RP. 600 MILL. - 5 BILL. □ RP. 5 BILL.

About three-fourths (78%) of the respondents are locally-owned companies. Although making up only 18% of the entire sample, foreign-owned companies compose a higher proportion of medium-sized and large exporters, especially those engaging in the export of mechanical parts, automotive parts, or electronic parts. Three-fifths (61%) of the respondents have less than 100 employees, although medium-sized and large exporters, of course, generally employ more people. Businesses engaged in the export of automotive parts and electronic parts generally employ more people. Graph 3 shows that about half (54%) of the respondents have annual revenues of at most Rp 5 billion. Only 38% claim to have annual revenues exceeding Rp 5 billion. As may be expected, exporters of mechanical parts, automotive parts, and electronic parts generate greater revenues than other types of exporting businesses. As shown in the Graph 4 below, only 47%, regardless of the size of the business, export more than half of their turnover. Exporters of wooden products and electronic parts claim to export a greater proportion of their production, relative to exporters of other items.

Graph 6.3.3. Size of Turnover of the Respondents



Graph 6.3.4. Export Ratio of Total Turnover



From the total respondents included in the survey, apparels and textile materials are the main items sold by textile exporters. Vegetables and legumes are the main food-and-beverage export items, especially among small exporters. Tables and chairs are the most popular wooden-product exports, followed by wooden handicrafts and cabinets. Audio equipment is the major electronic export. Car and motorcycle components and spare parts are the major automotive parts exported.

6.3.2. Export Markets

Table 1 shows that Singapore, Saudi Arabia, Japan, the US, and Malaysia are the major markets for Indonesian textile exports. China and the US are cited to be the major competitive exporters of textiles. Food exports from Indonesia find their way mainly to Singapore and, secondarily, to Malaysia, Japan, Australia, Hong Kong, Taiwan, the US, Holland, and Saudi Arabia. Singapore, Malaysia, and China are the perceived main competitors to Indonesia as a food exporter. The US, Japan, Holland, Australia, Singapore, Germany, and England are the major markets for Indonesian exports of wooden products. Competition comes perceptually mainly from Malaysia, China, the Philippines, and Vietnam. Electronic exports from Indonesia find their markets mainly in Singapore, the US, and Japan. Competition comes from China, Japan, the US, Taiwan, Korea, and Malaysia.

Automotive parts from Indonesia find their way to a variety of countries, such as Malaysia, the Philippines, Singapore, Japan, Saudi Arabia, the US, England, Africa, Australia, and Germany. Competition comes mainly from Japan, the US, Korea, China, Taiwan, and Malaysia.

Table 6.3.1. Target Export Markets

	Textile	Food	Wood	Electronic	Automotive	Mechanical
	133	126	158	55	31	19*
• SINGAPORE	34	55	24	55	26	
• SAUDI ARABIA	28	14	9	13	26	
• JAPAN	26	23	42	36	26	
• USA	25	17	47	44	23	
• MALAYSIA	25	24	10	27	39	
• GERMANY	22	17	23	27	13	
• HOLLAND	20	16	28	7	3	
• AUSTRALIA	16	20	27	20	16	
• HONGKONG	14	20	12	11	10	
• TAIWAN	8	17	11	9	13	
• ENGLAND	17	10	20	16	19	
• PHILIPPINES	9	12	4	20	32	

Table 6.3.2. Perceived Competitors

	Textile	Food	Wood	Electronic	Automotive	Mechanical
	133	126	158	55	31	19*
• CHINA	53	29	31	35	29	
• THAILAND	18	34	20	18	29	
• VIETNAM	17	20	14	4	-	
• TAIWAN	14	14	7	25	26	
• KOREA	14	4	5	25	32	
• JAPAN	5	10	5	29	45	
• MALAYSIA	8	30	40	24	23	
• USA	7	10	6	11	10	
• SINGAPORE	3	6	5	7	-	
• PHILIPPINES	5	10	18	4	-	

6.3.3. Cost Structure

Almost all exporters purchase raw materials locally (98%). More than half (54 %) of the exporters imported materials, mostly from Japan, Taiwan, and Korea. Overall, chemical products are more

common materials imported for production, particularly amongst medium to large sized companies.

The textile industry mainly purchases fabrics (56%), yarn (65%) and accessories (34%) locally; and wood product companies get their timber(85%), chemicals (28%), glue (25%) and paint (24%) locally. Main trading partners for the importation of materials are Japan, Taiwan, and Korea. Japanese imports are focussed more dominantly in the electronic and automotive area.

6.3.4. Self Assessment of Competitiveness

Exporters generally take a dim view of the competitiveness of their businesses. Only two-fifths rate their marketing capability and manufacturing facility to be strongly competitive. Only one-third claim to be strongly competitive in the areas of financial capacity, information technology, and human resource development, while only a fourth rate themselves competitive in terms of research and development. As may be expected, medium-sized and large companies rate themselves to have stronger competitiveness than small exporters.

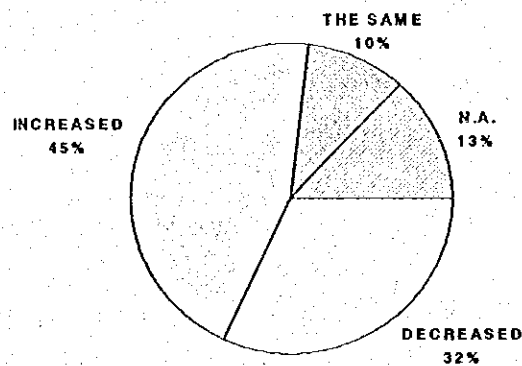
Table 6.3.3. Evaluation of Export Competitiveness

	No. Of Empl.			Business Sector					
	Total	Small	Medium / Large	Textile	Food	Wood	Electro nic	Auto motive	Mechanical
Base	522	205	317	133	126	158	55	31	19*
• Marketing capability	40	31	46	35	38	42	55	52	
• Financial capacity	37	28	43	28	35	37	47	67	
• Manufacturing facility	39	26	47	30	34	37	58	68	
• Research & Development	24	16	29	19	18	22	46	36	
• Human Resources Development	32	27	36	31	28	31	49	45	
• Information Technology	34	25	39	27	34	33	38	52	

A higher proportion of exporters claim to have increased their export volumes over the past two years (45%) than those who claim a shrinkage in their exports (32%). The increase in export

volumes is relatively higher among exporters of automotive parts. Nearly two-thirds (63%) of those claiming a shrinkage in business have suffered a decline of at least 25% in their export volumes. On the other hand, two-thirds (67%) of those claiming an increase in business cite an export volume expansion of at least 25%. Overall, more than half (55%) of exporters expect export volumes to increase by at least 50% over the next three years. Expectations are more buoyant in the automotive parts sector.

Graph 6.3.5. Change in 1998 Export Volume compared to 1996



6.3.5. Constraints in Export Activities

In terms of problems encountered in export, respondents report a myriad of problems involving finance, information, bureaucratic procedures, and human resource limitation. When probed further, production problems are seen to be the most serious obstacles (48%), followed by lack of information (38%), high cost obstacles (38%), and meeting quality requirements (36%). With regards to external obstacles, governmental bureaucracy, is seen to be the major limiting factor (35%).

Table 6.3.4. Problems in Export Activities

	No. Of Empl.			Business Sector					
	Total	Small	Medium /Large	Textile	Food	Wood	Electro	Auto	Mecha nical
All respondents	522	206	317	133	126	158	55	31	19*
• Information	38	42	36	43	44	35	33	19	
• Production	48	56	43	57	46	51	37	19	
• Quality	36	35	36	37	38	35	33	29	
• Delivery	23	18	26	29	21	19	27	19	
• Cost	38	43	35	47	38	36	29	26	
• R&D	30	27	32	39	27	28	25	19	
• Human resources	3	2	4	4	1	5	4	-	

Exporters are clearly seeking more market information (78%) in their bid to overcome obstacles. In terms of production problems, material availability is a serious limiting factor (52%), followed by capacity (37%). Quality is an issue where exporters are finding problems in conforming to customers specification (60%). With regards to delivery, inefficiency of freight forwarders is seen to be the major obstacle (60%). For R&D, the key problem is human resource availability (66%) together with technology information availability (42%). Quite predictably in the area of bureaucracy, it is licensing and custom procedures that are problematical.

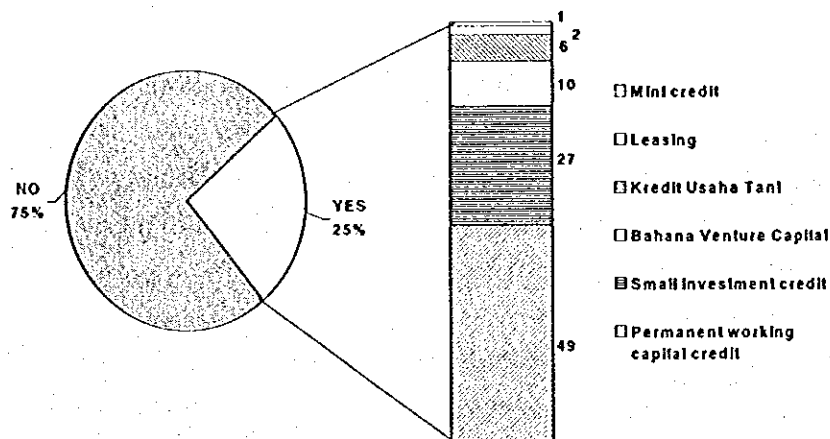
Table 6.3.5. Information Needed to Overcome Obstacle in Export Activities

	No. Of Empl.			Business Sector					
	Total	Small	Medium /Large	Textile	Food	Wood	Electro	Auto	Mecha nical
Base	198	87	111	58	56	55	18*	6*	5*
• Market information	78	78	77	83	73	78			
• Trade business	27	22	32	28	32	27			
• Product	25	24	25	22	27	27			
• Marketing	14	13	15	21	7	15			
• Market price	5	3	5		2	9			
• Information technology	5	2	6	7	5	2			
• Destination country	3	2	3	2	4	2			
• Information about how to get raw materials	3	2	3	3	2	2			

6.3.6. Access to Financial Facilities and Information Services

Graph 6.3.2. shows that only a fourth (25%) claim to have received financial facilities, these are mostly in the form of permanent working capital credits and small investment credits.

Graph 6.3.6. Incident of Receiving Any Financial Facilities



Only 25% say they have received financial facilities, with a majority receive permanent working capital credit

Ref.: Table 38, 39

In terms of permanent working capital credit, most users report accessibility to be good or very good. Likewise, period of lead time to process the loan is acceptable. The problem is, however, that permanent working capital credit is seen to be expensive by the majority of users (60%). The majority did not avail themselves of finance because of sufficient internal funds.

Table 6.3.6 Reasons for Not Taking any Financial Facilities

	No. Of Empl.			Business Sector					
	Total	Small	Medium /Large	Textile	Food	Wood	Electro nics	Auto motive	Mecha nical
Base	393	148	245	97	89	110	48	31	18 ^t
• Enough Internal funds	31	21	36	22	24	32	40	55	
• Have not yet submitted the proposal	24	26	22	22	21	27	23	23	
• Company is not a small/medium one	12	3	18	16	11	7	19	10	
• Lack of information on how to get financial facilities	8	13	5	7	7	11	6	3	
• Economic condition is bad	8	11	6	8	19	4	2	-	
• Takes too much time	7	11	5	11	6	7	6	3	

Most exporters, more particularly small exporters, choose to deal with private banks and state-owned banks. Some, especially medium-sized and large exporters, deal with foreign banks. In general, only a fourth (23%) claim that their banks provide them with the same amount of credit as before the crisis. Whilst the majority (53%) of exporters said that their importers do not ask foreign banks to confirm letters of credit issued by the Bank of Indonesia, a fourth (27%) are asked to present such a confirmation.

Terms and conditions of payment take a variety of forms, the most common of which is letter of credit at sight especially amongst small exporters. Medium-sized and large exporters receive payment most commonly through remittances. Only a third (32%), tending to be medium-sized and large exporters, say that banks grant them post-shipment financing facilities, mainly in U. S. dollars, which is their preference.

Only a third (34%) claim to receive working capital loans from banks. Table 9.8 shows the reason why the SMEs do not receive loan for working capital from Bank. These capitals, if received, are mainly provided in Rupiah and U. S. Dollars with the small exporter preferring the latter more dominantly. A large majority (74%) have not heard of pre-shipment, post-shipment, and L/C financial facilities provided by the Bank of Indonesia through commercial banks.

Table 6.3.7. Reasons for Not Receiving Post-shipment Financing from the Bank

	No. Of Empry.			Business Sector					
	Total	Small	Medium	Textile	Food	Wood	Electro	Auto	Mecha
Base	249	9*	150	60	47	95	29*	14*	4*
• Never applied	24		29	12	30	24			
• Not available since crisis	16		18	30	26	12			
• All post-shipment financing are incurred by selling agent /export trading house/buyers	13		5	30	4	12			
• All costs afforded on our own expenses	13		16	12	13	8			
• Bank doesn't have the facility	10		13	8	17	9			
• Never heard	9		9	2	6	16			
• Deal directly with customers	4		4	8	2	4			
• Using L/C	4		3	-	2	7			
• High interest rate	4		3	2	4	3			

Table 6.3.8. Reasons for Not Receiving Loan for Working Capital from Bank

	No. Of Empl.			Business Sector					
	Total	Small	Medium /Large	Textile	Food	Wood	Electro	Auto n/motive	Mecha nical
Base	340	146	194	82	76	105	39	26 ^a	12 ^a
• Never apply	28	37	22	26	25	38	23	23	
• Can still afford it myself	26	19	32	22	20	28	26	42	
• The impact of economic crisis on banks	13	14	12	18	17	10	13	-	
• Company doesn't need it	9	7	11	2	17	5	15	12	
• High interest rate	9	1	8	12	4	10	8	12	
• Bank's distrust to mortgage / security	5	8	3	13	5	1	-	-	
• Never offers	4	3	5	7	3	4	3	4	
• Never heard	4	5	4	2	3	7	3	4	
• The process is too long	3	3	2	4	3	3	-	-	

Regarding the post-shipment facilities managed by Bank Indonesia, more than 50% of the respondents think that there much to improved, while 34% said they are quite satisfied.

9.3.7. Export Marketing and Promotional Channels

Two-thirds (63%) of Indonesian exporters market and promote their products themselves. Only a fourth (24%) employ the services of sales agents. Even less make use of the services of export-trading houses (8%), assembly manufacturers (2%), import-trading houses (1%), or buying agents (1%).

Table 6.3.9. Finding Market for Exports

	No. Of Empl.			Business Sector					
	Total	Small	Medium /Large	Textile	Food	Wood	Electro	Auto n/motive	Mecha nical
All respondents	522	205	317	133	126	158	55	31	19 ^a
• Self effort	64	67	62	65	61	71	51	52	
• Agent	9	12	8	8	17	4	7	16	
• Export trading house	8	5	9	14	2	4	13	13	
• Importers	5	4	5	4	6	5	5	6	
• NAFED	4	3	4	5	6	4	-	-	
• Industry association	3	2	3	3	2	3	9	3	
• Exposition	2	2	2	-	1	4	2	-	
• Others	5	5	7	1	5	5	13	10	

Sales-promotional activities take the form mainly of expositions (47%), and internet-based materials (41%). Only a minority make use of public relations agents (28%), trade missions (18%), or show rooms (18%). Not surprisingly, medium-sized and large exporters do more sales promotional activities than small exporters.

To find customers, most exporters contact prospective customers directly, although a third develop contacts through trade expositions and also via the internet. Still others make use of company resources, industry associations, and government institutions to identify and reach prospective customers.

Table 6.3.10. Sources to Find the Customer

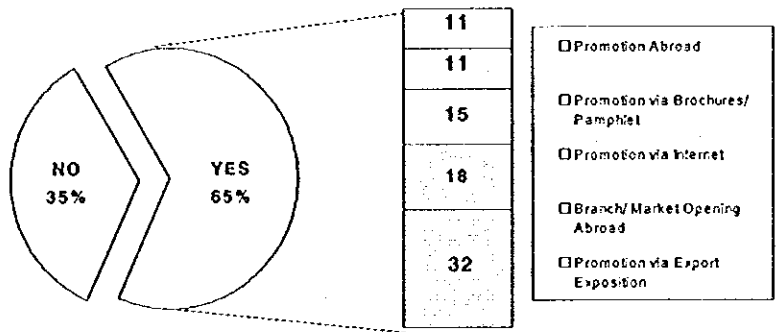
	No. Of Empty.			Business Sector					
	Total	Small	Medium / Large	Textile	Food	Wood	Electro	Auto / motorcycle	Mechanical
All respondents	522	205	317	133	126	158	55	31	19
• Self Personal Contact	66	71	63	70	59	77	53	39	
• Trade Exposition	34	33	35	36	25	42	35	29	
• Internet	30	23	34	22	30	35	31	19	
• Company Resources	28	15	36	24	21	23	44	52	
• Industry Association	21	15	25	18	14	25	31	13	
• NFED & Other Govt Institutions	19	17	21	15	25	20	24	6	

Whilst exporters do seem to use a number of sales promotion and marketing channels, the reader must bear in mind that marketing information and effective marketing is seen to be a major obstacle to export.

9.3.8. Planning for Expansion

Given the importance that exporters place on improving their marketing activities, two-thirds (65%) have developed real plans to drive the marketing of their products. These marketing activities include participation in export expositions, the establishment of branch offices abroad, promotional activities through the internet, promotions via brochures and pamphlets, and actual visits to foreign markets to promote their products.

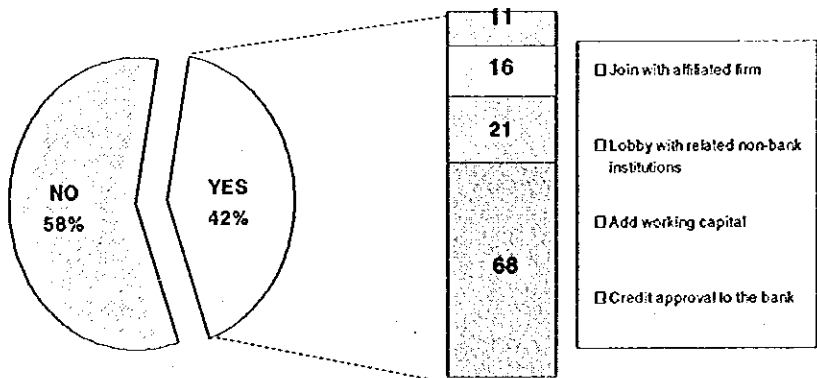
Graph 6.3.7. Real Plans to Increase Export Volume – Marketing



Conducting promotions abroad, via brochures/pamphlet, via the internet, opening branch abroad or promotion via export exposition are marketing activities done by exporters to increase export volume

In contrast, only two-fifths (42%), mostly those engaged in the export of textiles, have developed financial plans to increase their export volumes. These include seeking credit approval from banks and infusing more working capital into their businesses.

Graph 6.3.8. Real Plans to Increase Export Volume - Finance

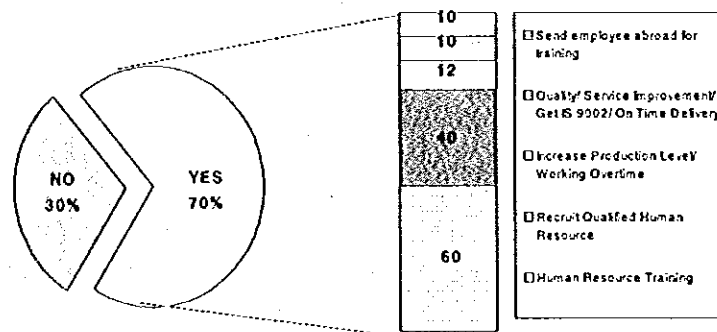


Most of those with financial plan choose to get credit approval to the bank. Others say they join with affiliated firm, lobby with related non-bank institutions or add working capital

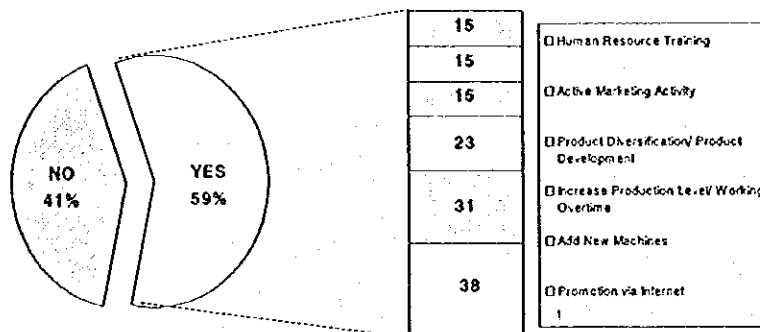
Ref.: Table 16B

Most (70%) are looking into human resource development to boost their export volumes, specifically through training of existing staff and recruitment of qualified personnel. More than half (59%) are seeking ways to improve export volumes through better use of information technology. In more specific terms, these exporters are planning to increase their export volume, via promotion on the internet, acquisition of new machines, and by increasing production levels.

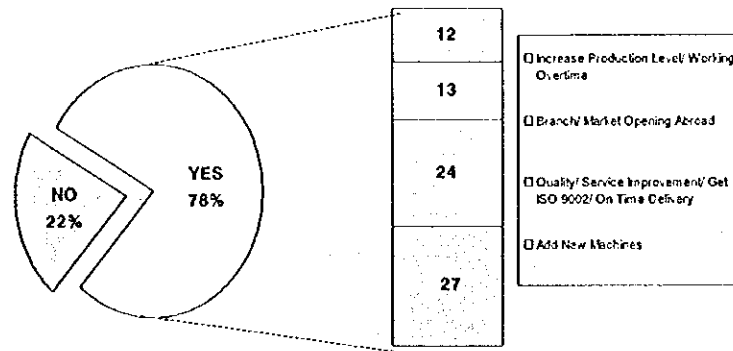
Graph 6.3.9. Real Plans to Increase Export Volume – Human Resources



Graph 6.3.10. Real Plans to Increase Export Volume – Information Technology



Graph 6.3.11. Real Plans to Increase Export Volume – Other Ideas



These ideas are to add new machines, quality/service improvement, open branch office abroad and increase production levels

Ref.: Table 16E

6.3.9. What the Market Needs

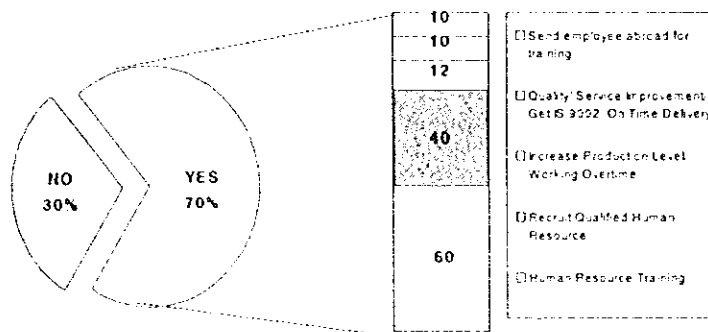
To increase export volume, exporters feel that improvements are needed particularly in the areas of marketing (47%) and human resources (16%).

Table 6.3.11. Improvements Needed in Order to Increase Export Volume

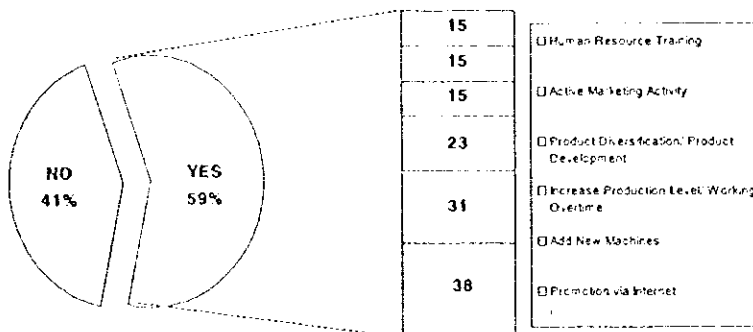
	Total	Small	Medium	Textile	Food	Wood	Elect	Autom	Mach
			Large		bevg.	Prod.	Parts	parts	parts
<i>All respondents</i>	522	206	317	133	126	158	55	31	19*
Marketing	47	45	47	45	49	47	36	45	
Human resources	16	14	18	2	13	18	13	16	
Increase production level	10	9	11	10	11	9	9	13	
Finance	9	17	3	13	10	7	7	3	
Information technology	4	3	5	3	4	3	7	6	
Quality	4	4	4	3	3	4	11	6	
Raw material	4	5	3		6	7	-	-	
Others	6	1	7	7	5	5	17	9	

Most (70%) are looking into human resource development to boost their export volumes, specifically through training of existing staff and recruitment of qualified personnel. More than half (59%) are seeking ways to improve export volumes through better use of information technology. In more specific terms, these exporters are planning to increase their export volume, via promotion on the internet, acquisition of new machines, and by increasing production levels.

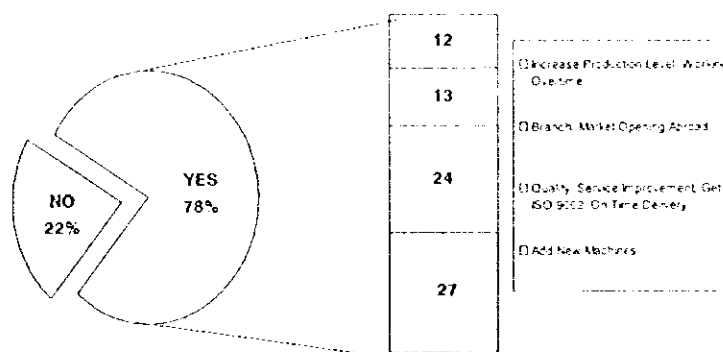
Graph 6.3.9. Real Plans to Increase Export Volume – Human Resources



Graph 6.3.10. Real Plans to Increase Export Volume – Information Technology



Graph 6.3.11. Real Plans to Increase Export Volume – Other Ideas



These ideas are to add new machines, quality service improvement, open branch office abroad and increase production levels
 Ref.: Table 19E

6.3.9. What the Market Needs

To increase export volume, exporters feel that improvements are needed particularly in the areas of marketing (47%) and human resources (16%).

Table 6.3.11. Improvements Needed in Order to Increase Export Volume

	Total	Small	Medium	Tex- tile	Food bevg.	Wood Prod.	Elect Parts	Autom parts	Mech parts
<i>All respondents</i>	522	205	317	133	126	158	55	31	19*
Marketing	47	45	47	45	49	47	36	45	
Human resources	16	14	18	2	13	18	13	16	
Increase production level	10	9	11	10	11	9	9	13	
Finance	9	17	3	13	10	7	7	3	
Information technology	4	3	5	3	4	3	7	6	
Quality	4	4	4	3	3	4	11	6	
Raw material	4	5	3		6	7	-	-	
Others	6	1	7	7	5	5	17	9	

Table 6.3.12. Level of Importance of Informational Types

Type	No. Of Empry.			Business Sector					
	Total	Small	Medium	Textile	Food	Wood	Electro	Auto	Mecha
	522	205	317	133	126	158	55	31	19
• Export policy and institution	40	41	40	40	40	41	40	39	53
• Export market information	63	60	65	68	60	64	65	35	68
• Product information	41	40	46	44	40	46	53	29	53
• How to develop export market	48	44	50	50	49	47	47	26	68
• Advanced technology information	42	36	45	38	38	44	49	45	42
• Design information	33	31	33	42	26	34	35	32	11
• Package information	18	15	21	16	29	13	18	13	21
• Information about competitors on price/ products/ quality	4	3	4	3	4	4	-	13	-

A constant theme through this report has been the need for information to enhance export effectiveness. Most specifically there is a critical need for market information, for "how to" information in the area of exporting in general and, simply general information about products. Realistically, at the end of the day, these exporters operate in an informational vacuum. Any assistance that is relevant and meaningful would be well received.

Another critical need area is in terms of finance and the option that these exporters relate most to is SME finance. This is particularly evident, quite logically, amongst smaller enterprises. Approximately twenty five percent of respondents expressed some interest in the other options aside from venture capital and tax incentives for R&D which score at a much lower level. (See table 6.3.16)

Table 6.3.13. Level of Importance of Financial Alternatives

	No. Of Empl.			Business Sector					
	Total	Small	Medium	Textile	Food	Wood	Electro	Auto	Mecha nical
Base	522	205	317	133	126	158	55	31	19*
• Increase of SME finance	50	60	43	53	56	50	38	23	58
• Export insurance	28	27	28	26	31	25	36	26	26
• Increase of venture capital	16	21	13	18	15	18	15	3	21
• Tax incentive for investment	23	20	24	19	19	23	24	42	42
• Finance for R&D investment	20	20	21	17	21	22	18	16	37
• Tax incentive for R&D	12	9	14	11	15	9	11	13	21
• Reduce the exportation cost	2	2	1	2	2	1	2	-	-

Table 6.3.14. Level of Importance of Financial Alternatives

	No. Of Empl.			Business Sector					
	Total	Small	Medium	Textile	Food	Wood	Electro	Auto	Mecha nical
Base	522	205	317	133	126	158	55	31	19*
• Drawback system	30	23	34	25	27	27	42	45	47
• Export finance	30	28	32	29	33	33	22	23	37
• Export processing zone	25	21	28	22	21	28	36	26	26
• EPTE	20	17	21	17	14	18	45	13	26
• Assistance to export comp.	26	28	25	27	26	26	29	13	37
• Export procedure	1	1	1	1	2	1	2	-	5

The final issue is to do with expectations of the government and simplifying and streamlining the bureaucracy is a critical and very evident need. The following table shows the expectation from exporters to the Government of Indonesia.

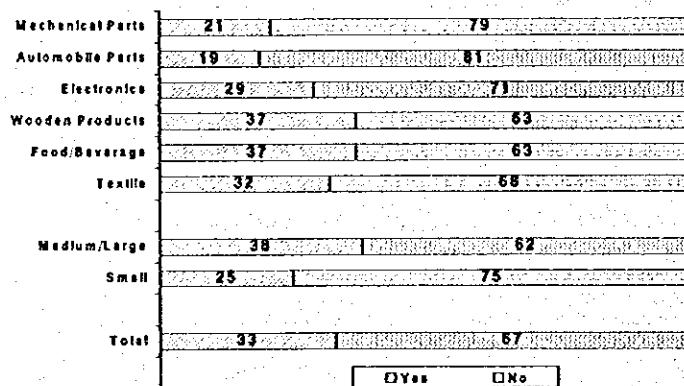
Table 6.3.15. Expectations from the Government

	No. Of Empl.			Business Sector					
	Total	Small	Medium	Textile	Food	Wood	Electro	Auto	Mecha
Base	522	205	317	133	126	158	55	31	19*
• Simplifying export rules / bureaucracy	42	33	47	39	41	42	47	39	47
• Provides market information / information on buyer's country	19	25	16	21	22	20	20	3	11
• Increase capital help	12	22	6	20	15	8	7	6	-
• Stable currency rate	11	11	10	8	8	14	9	16	16
• Political stability/ security	9	8	9	8	6	10	15	19	-
• Increase promotion overseas	9	9	9	7	10	10	5	6	11
• Giving fair attention even to small size companies/ eliminates "KKN" 8	8	14	4	11	6	8	9	-	5
• Eliminates bribery	6	7	6	8	8	4	11	3	-
• Consistent and definite rules	6	3	8	5	4	5	16	3	11
• Decrease interest rate	5	6	5	4	5	8	2	6	5

6.3.10 NAFED

Only a third (33%), mainly medium-sized and large exporters, have received services from NAFED. Awareness of these services comes mainly from NAFED. Of the various services provided by NAFED, the ones most popularly availed of are trade expositions, market information, and buyer information, mostly regarding markets in the Asia-Pacific region, Europe, the U. S. A., and Africa and the Middle East.

Graph 6.3.12. Incidence of Receiving Service from NAFED



Generally, users are luke warm about the NAFED services in the areas of market information, buyer

information, and trade exposition. They are even less positive to trade missions and business training acquired through NAFED. At the end of the day, only 29% say that they have been able to establish markets after receiving NAFED services.

6.4. Summary and Conclusion of the Questionnaire Survey

- The sample achieved is that of a broad, not random, cross section of Indonesian exporters located in major urban areas.
- Most are exporting timber and wood products, textiles, agribusiness, electronics, automobile parts and mechanical parts.
- Many of the sample comprised small companies with less than n=19 employees and thus levels of turnover and capitalisation are quite small. Most companies surveyed are locally owned.
- Only 47% are exporting more than half of their turnover.
- Most exporters are less than satisfied with their ability to compete in a world market on all aspects of the marketing and production mix.
- 45% of respondents say that their export volumes have increased in the past two years and all are expecting increases over the next three years.
- However obstacles stand in their way and these centre around financial limitations, lack of information, inadequate marketing skills and production difficulties. The bureaucracy confronting exporters is also seen to be a major retardant.
- Quite clearly the overwhelming need is for further information particularly of a marketing nature.
- With regard to financing only 25% are using facilities mostly in the form of permanent working capital credits and small investment credits.
- Most are dealing with local private or government banks.
- Payment is usually facilitated by letter of credit although larger companies are using the remittance method for settlement.
- The clear majority [74%] had not heard of the financing options that are available through commercial banks via Bank Indonesia.
- Whilst exporters are claiming to utilise a variety of marketing and sales promotional channels in reality lack of marketing information and skill is a major limiting factor in the development of exporting business.

- As we said most exporters expect their volume of offshore turnover to increase in the next three years and most are thus planning to meet this eventuality especially in the context of marketing and human resources planning.
- What exporters clearly need, and a recurring theme in this report, is information. They also need a more efficient and stream lined bureaucracy that does not "get in their way".
- Unfortunately NAFED is not meeting with exporters needs at present with only one in three receiving services from the organization. Satisfaction with services used is quite luke warm and indeed not particularly positive in the areas of trade missions and business training.

Chapter 7. Textile and Textile Products

7.1. Analysis of Export Statistics

7.1.1. Textile Export

In 1998 the export value of textile and textile products decreased by 21% as compared with 1996 because of the impact of the financial crisis. However, the export volume has increased by 40% in 1998 due to Rupiah depreciation. (See Table 7.1.2). Additionally, the plunge of international market prices of textile and textile products has set off export VALUE substantially. The value of textile such as fibers, yarns in 1998 did not decrease so much, while that of garments decreased by 27 % as compared with 1996.

Table 7.1.1. Export Value of Indonesia Textile and Textile Products (Unit: \$1,000)

	1996	1997	1998
FIBERS	146,862	135,509	146,583
YARNS	909,663	762,668	889,412
FABRICS	1,736,737	1,354,447	1,345,108
GARMENTS	3,303,594	2,678,682	2,406,967
TOTAL	6,096,856	4,931,306	4,788,070

Source: *The Indonesian Ministry of Industry, 1999*

Table 7.1.2. Export Volume of Indonesian Textile and Textile Products (Unit: ton)

	1996	1997	1998
FIBERS	111,958	109,318	137,632
YARNS	312,226	271,200	437,909
FABRICS	260,383	213,354	374,957
GARMENTS	221,385	211,590	196,047
TOTAL	905,952	805,462	1,271,081

Source: *The Indonesian Ministry of Industry, 1999*

The export volume of textile, such as yarns and fabrics significantly increased in 1998 in comparison with 1996, respectively 40% and 44%, while garments decreased by 11%.

7.1.2. Export by region

In 1998 Japan was the 3rd target market for export due to the worst economic situation and Yen currency depreciation. In 1999 after the economic recovery, Japan would have come back to No. 2 biggest export destination for textile and textile products after the US.

Table 7.1.3. Export Value and Share of Top Four Countries (Unit: thousand USD)

	1997	1998
USA	1,614,933(32.7%)	1,799,191(37.6%)
UK	459,935 (9.3%)	444,606 (9.3%)
JAPAN	581,871(11.8%)	433,179 (9.0%)
HONGKONG	320,124 (6.5%)	345,598 (7.2%)

Source: The Indonesian Ministry of Industry, 1999

7.1.3. Export by product

Table 7.1.4. Export Value and Destination for Yarns (Unit: thousand USD)

	1996	1997	1998
YARNS	909,663	762,668	889,412
JAPAN	150,065 (16.5%)	143,384 (18.8%)	113,693 (12.7%)
HONGKONG	118,881 (13.1%)	85,477 (11.2%)	148,214 (16.7%)
BELGIUM	65,101 (7.2%)	48,313 (6.3%)	61,699 (6.9%)

Source: The Indonesian Ministry of Industry, 1999

Note: Yarn includes cotton yarn and synthetic yarn.

Table 7.1.5., 7.1.6., 7.1.7. shows Japan's import statistics of cotton yarns. From the tables, we could analyze the competitiveness of Indonesian spinners in Japan market,

Table 7.1.5. Import Volume of Cotton Yarn into Japan in August 1999

(Unit: BALE, Bel.: Below, Ove.: Over)

Country Origin	Bel.8.3s	Bel.25.4s	Bel.30.7s	Bel.47.2s	Ove.47.s	Total
KOREA		174	558	873		1,605
CHINA		165	735	3,072	142	4,114
TAIWAN			210	726		936
INDONESIA		1,810	4,544	6,868	1,137	14,359
INDIA		3,732	628	1,135	3,992	9,487
PAKISTAN	834	29,565	6,936			37,335
OTHERS	4	1,435	351	755	530	3,075
Total	838	36,881	13,962	13,429	5,801	70,911

Source: Japan Cotton and Synthetic Yarn Association

Indonesia exports cotton yarns with balanced quantity mainly on 30s and 40s. Pakistan exports a very large quantity on 20s, which are used for towels. Pakistan does not export the quantity for 40s and over 40s, which used for woven and knitted fabrics. China exports less quantity and not much influence to Japan market. India exports mostly on 20s and 50s because India produces short and long cotton fibers. India will be a real competitor for Indonesia in the near future.

Table 7.1.6. Import Volume of Carded Cotton Yarn into Japan in August 1999

(Unit: BALE)

Country Origin	B.8.3s	B.25.4s	B.30.7s	B.47.2s	O.47.2s	TOTAL
KOREA		45	151	146		342
CHINA		17	439	2,341	12	2,809
TAIWAN						
INDONESIA		1,301	1,338	2,757		5,396
INDIA		3,612	186	498		4,296
PAKISTAN	834	28,621	6,069			35,524
OTHERS	3	1,206	342	2		1,553
TOTAL	837	34,802	8,525	5,744	12	49,920

Source: Japan Cotton and Synthetic Yarn Association

The above table shows that Indonesia exports with balanced on 20s,30s,40s to penetrate into various users.

Table 7.1.7. Import Volume of Combed Cotton Yarn into Japan in August 1999

(Unit: BALE)

Destination	B.8.3s	B.25.4s	B.30.7s	B.47.2s	O.47.2s	TOTAL
KOREA		129	407	727		1,263
CHINA		148	296	731	130	1,305
TAIWAN			210	726		936
INDONESIA		509	3,206	4,111	1,137	8,963
INDIA		120	442	637	3,992	5,191
PAKISTAN		944	867			1,811
OTHERS	1	229	9	753	530	1,522
TOTAL	1	2,079	5,437	7,685	5,789	20,991

Source: Japan Cotton and Synthetic Yarn Association

Indonesia's market share is as much as 43% in the market. It is great performance because combed yarn is high quality. Indonesia also exports a big quantity on 30s, 40s and over which means Indonesian yarns are being used for high standard woven or knitted fabrics to be proceeded to high quality garments like dress shirts. Indonesia has established a high reputation in Japan market. Actually, Indonesia is considered as No. 1 cotton yarn exporter to Japan market.

Table 7.1.8. Indonesia's Export Value of Cotton Fabrics and Country Destination

(Unit: thousand USD)

	1996	1997	1998
COTTON FABRICS	346,126	299,109	292,495
USA	57,480 (16.6%)	58,930 (19.7%)	57,801 (19.8%)
JAPAN	49,629 (14.3%)	33,668 (11.3%)	49,132 (16.8%)
HONGKONG	22,540 (6.5%)	23,019 (7.7%)	27,786 (9.5%)

Source: The Indonesian Ministry of Industry, 1999

Export of Indonesia's cotton fabrics to Japan has a promising potential in the future, because it has a high quality reputation in Japan market. Despite of the higher prices (about 20-30% higher than those of China), the export of Indonesian cotton fabrics will increase in the future because there is a demand for high standard garments. More Indonesian spinners/weavers should try to access Japan market so that Indonesia could increase the export to Japan.

Table 7.1.9. Indonesia's Export Value of Man-made Fabrics with Country Destination

(Unit: thousand USD)

	1996	1997	1998
Man-made Fabrics	1,150,689	854,007	905,392
United Arab Emirates	127,429 (11.1%)	108,399 (12.7%)	100,912 (11.1%)
HONGKONG	159,567 (13.9%)	99,885 (11.7%)	57,357 (6.3%)
SINGAPORE	122,727 (10.7%)	92,146 (10.8%)	85,797 (9.5%)

Source: *The Indonesian Ministry of Industry, 1999*

Polyester filament fabrics is the main item in the category of man made fabrics. The share in this category is about 65.5% in 1998. The exports expanded until 1993, but then stopped because of the changing world trend. Indonesian producers still manufacture light fabrics in large quantity with a few items and have not changed this production style since 10 years ago.

The world fashion has actually moved to heavier fabrics or knitted fabrics and buyers prefer to purchase in small quantity but with a lot of varieties. Indonesian producers have not been able to comply with this requirement. Therefore, they have to shift the export to Middle East or Africa for *sari* or *scarf* (but not limited to) because the domestic market is almost dead since the crisis started. They also have to sell in dumping prices in those markets.

In 1998, polyester filament fabrics increased its volume to 43,437 tons (42% up from the previous year), but the value increased only by 1%. It showed how they dumped prices. Korea, as the past competitor to Indonesia, now has superseded Indonesia for competitiveness because of their continuous investment to follow the world trend. Indonesian polyester filament fabrics have not been able to access Japan market.

Table 7.1.10. Indonesia Export Value of Garments

(Unit: thousand USD)

	1996	1997	1998
GARMENTS	3,303,594	2,678,682	2,406,967

Source: The Indonesian Ministry of Industry, 1999

Indonesian garment exports are facing serious problem. The export value is down by 27% in 1998 as compared with 1996. Garment plays an important role in textile industry. Garment manufacturers hire a substantial amount of workers. Therefore, Indonesia should enhance this industry by all means.

Table 7.1.11. Export Value of Men's Coat and Jacket with Destination

(Unit: thousand USD)

	1996	1997	1998
MENS COAT & JACKET	1,131,583	868,214	942,915
USA	360,752 (31.9%)	318,794 (36.7%)	415,071 (4.4%)
JAPAN	125,151 (11.1%)	78,545 (9.0%)	53,464 (5.7%)
AUSTRALIA	78,009 (6.9%)	66,184 (7.6%)	50,909 (5.4%)

Source: The Indonesian Ministry of Industry, 1999

Export for Japan in 1998 decreased by 57% as compared with 1996. It gave a strong impact to garments export because of high value products.

Table 7.1.12. Indonesian Textile and Textile Product Export Value and Share to Japan

(Unit: thousand USD)

	1996	1997	1998
EXPORT VALUE	479,448	498,476	418,233
SHARE	7.6%	9.9%	8.5%

Source: The Indonesian Ministry of Industry, 1999

Japan will increase its import in 1999 and onward because of the economic recovery.

Table 7.1.13 Import Value of Textile and Textile products from Overseas and Indonesia into Japan

(Unit: million USD)

	1996	1997	1998
TOTAL IMPORT	12,500	12,000	11,500
FROM INDONESIA	480 (3.8%)	500 (4.2%)	418 (3.6%)

Source: Japan Custom Office (1999)

Japan textile and textile product import has reached the peak in 1992 valued at US\$14.1 billion. Since then the import decreased until 1998. At that time, Japan still enjoyed the high consumption economy and the bubble economy. The year 1998 Japan reached the worst economy with Yen depreciation and 1999 showed mild recovery of the economy with Yen appreciation. Some statistics published recently, showed that garment imports from Asia has been increasing for the past 10 months.

Table 7.1.14. Import Value of Cotton Fabrics to Japan

(Unit: million USD)

	1996	1997	1998
TOTAL IMPORT	504	497	419
INDONESIA	44.7 (8.9%)	34.6 (7.0%)	34.8 (8.3%)
CHINA	297	302	247

Source: Japan Custom Office (1999)

Cotton fabrics import from Indonesia will increase because of the high quality products. Indonesia should develop the high quality items of cotton fabrics so that Indonesia can increase more export.

Table 7.1.15. Import Value of Yarn to Japan

(Unit: Million USD)

	1996	1997	1998
TOTAL IMPORT	1,148	1,361	1,028
INDONESIA	157 (13.7%)	216 (15.9%)	185 (18.0%)
CHINA	138	223	184.4

Source: Japan Custom Office (1999)

As shown in the Table, Indonesia is strong in this item including synthetic yarns.

Table 7.1.16. Man-made Fabric Import to Japan

(Unit: Million USD)

	1996	1997	1998
Total Import	389	358	269
INDONESIA	19.5 (5.0%)	24.7 (6.0%)	22.0 (8.1%)
CHINA	79	85	72

Source: Japan Custom Office (1999)

So far, man-made fabrics import from Indonesian to Japan are not expected to increase.

Table 7.1.17. Garment Imports to Japan

(Unit: Million USD)

	1996	1997	1998
TOTAL IMPORT	9,931	9,034	9,083
INDONESIA	247 (2.5%)	216 (2.4%)	170 (1.9%)
CHINA	6,370	5,992	6,135

Source: Japan Custom Office (1999)

For garment imports to Japan, Indonesia's share in 1998 was only 1.9%, while China's share was 67.5%. China is very strong in garments compared with Indonesia. However, Indonesia has the space to increase garment exports by concentrating efforts on certain items and can take certain market share from China.

Table 7.1.18. Value and Share of Import Textile and Textile Products from the Country Origins in 1998

(Unit: Billion USD)

	CHINA	INDONESIA	VIETNAM	THAI
VALUE	\$6.7	0.42	0.27	0.26
SHARE	58.3%	3.6%	2.4%	2.3%
(GARMENTS)	\$ 6.1	0.17	0.26	0.19

Source: Japan Custom Office, 1999

Table 7.1.19. Indonesian Import Value of Textile and Textile Products

(Unit: thousand USD)

	1996	1997	1998
FIBERS	1,495,965	1,246,154	1,194,914
YARNS	268,856	244,754	220,956
FABRICS	934,751	846,483	746,010
GARMENTS	9,867	11,922	5,019
TOTAL	2,709,439	2,349,313	2,166,899
TRADE BALANCE	3,512,717	2,694,811	2,749,123

Source: The Indonesian Ministry of Industry, 1999

7.1.4. Constraints for export from Indonesia

There are some constraints why Indonesian textile and textile products are not very competitive in world market:

1. Unstable political environment
2. Lack of marketing activity
3. Long lead-time for delivery
4. Lack of variety of fabrics for garments
5. Low level of quality standard and incomplete inspection system
6. Less attractive in designs/colors

7.1.5. Potentials for export expansion

However, there are potentials to increase export, such as:

1. Strong potential in spun yarns and fabrics supported by continuous investment
2. Polyester filament fabric export should recover if a proper investment is made.
3. Garments export will increase if the producers are concerned about marketing activity, upgrading the quality and improving the design.

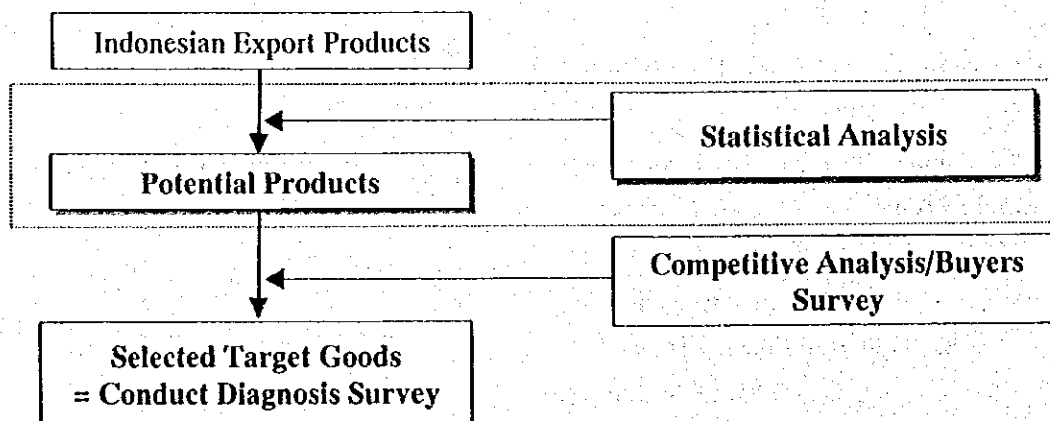
7.2. Selection of Target Export Items

Products and parts from the six target industries in this study are varied and each has different problems or target markets. In order to propose effective measures, the high potential items to export were selected from the six industries with certain criteria. The questionnaire survey and diagnostic survey were carried out focusing on those industries.

To select the potential products, we used the trade statistics published by the United Nations (UN) categorized by the Standard International Trade Classification 3 (SITC Rev.3). However, the characteristics and measures for export promotion of the three main industries (textile and textile products, foods and beverages and wooden products) are different from the other three supporting industries (electric and electronic parts, automobile parts and machinery parts). Therefore different criteria were used to select potential products or parts.

7.2.1. Selection flow

(1) Products: Textile and Textile Products, Food and Beverage, Wooden Products

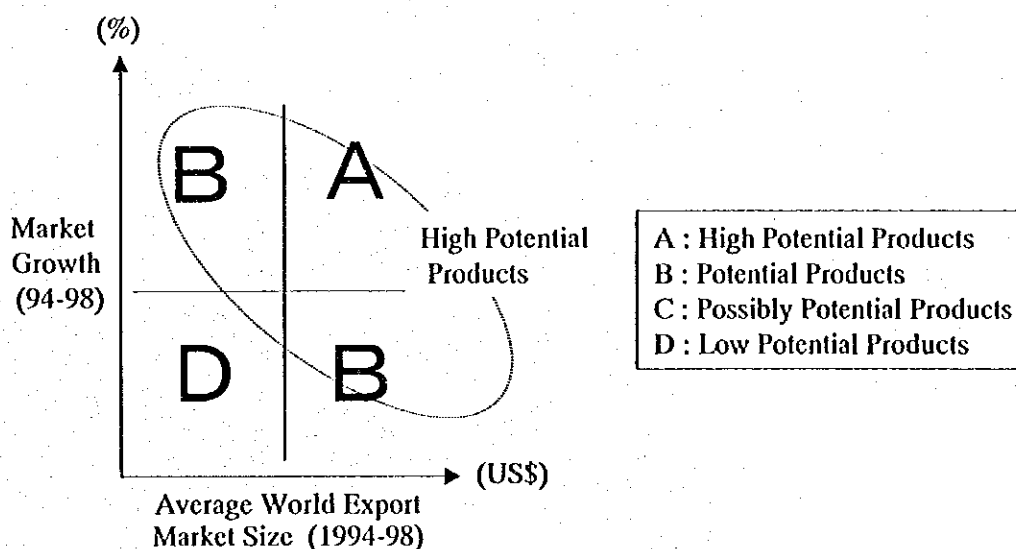


7.2.2. Criteria to select the potential products

- 1) Market Size (Average world export value in 1994 to 1998)
- 2) Average Market Growth in 1994 to 1998

The products that have large market size and high growth were selected from the group of products exported from Indonesia.

Figure 7.2.1. Matrix to select potential products (1)



7.2.3. Selected potential products

Numbers in front of each item indicate 3 digits SITC codes.

Group I : Products with large market size

- 842 WOMEN, GIRL CLOTHNG, XKNIT
- 841 MENS, BOYS CLOTHNG, X-KNIT
- 651 TEXTILE YARN
- 653 FABRICS, MAN-MADE FIBRES

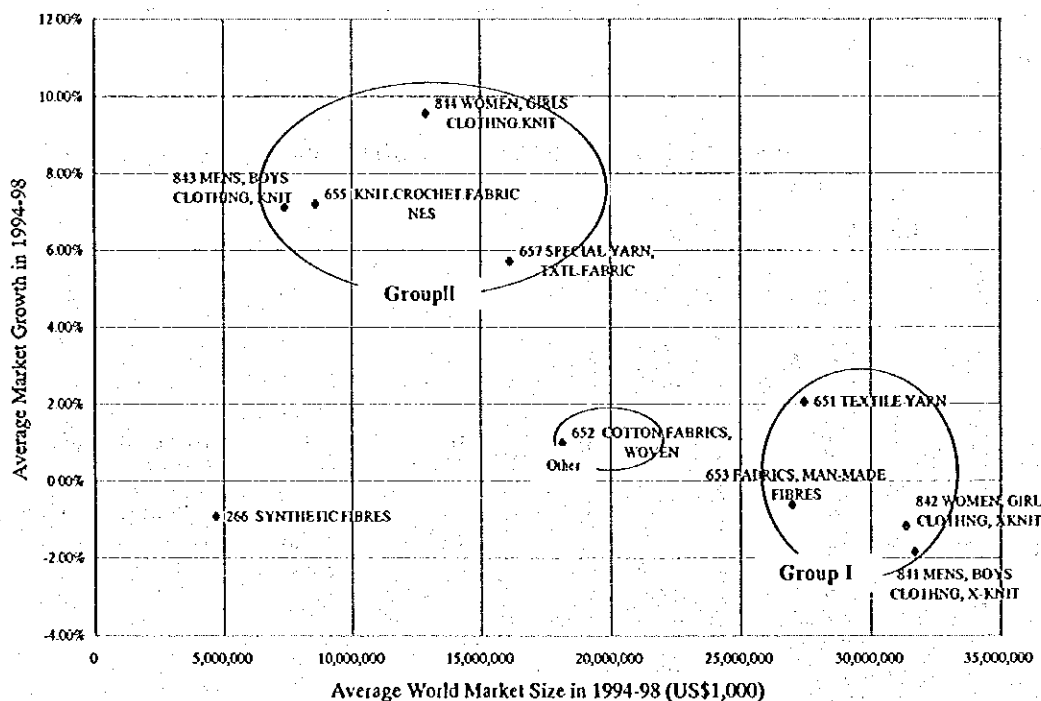
Group II : Products with high market growth rate

- 655 KNIT.CROCHET.FABRIC NES
- 657 SPECIAL YARN, TXTL.FABRIC
- 844 WOMEN, GIRLS CLOTHNG.KNIT
- 843 MENS, BOYS CLOTHING, KNIT

Others

- 652 COTTON FABRICS, WOVEN (Japan will not be able to produce spinning and woven cotton, thus import substituting may be needed in the future)

Figure 7.2.2. Selection of potential products (Textile and Textile Products)



Sources: ITC (International Trade Center)

7.3. Buyer's Satisfaction Survey in Japan

In order to grasp the buyers' evaluation of the Indonesian products, we conducted buyers' survey

7.3.1. Outline of the Target Companies

Total 11 companies were interviewed, consist of three large companies, five middle sized companies and three small companies.¹ Interview was conducted in Osaka (three companies for textile (yarns and fabrics) and four for garments) and Tokyo (four for garments).

¹ Large companies: Capital over Yen 50 billion, Middle: 10-50 billion, Small: below 10 billion)

Profiles of the target companies

1. *Company A (Osaka)*

Capital: Yen 3.95 billion. Own 10 stores with 5,540 employees.
Main business: Retailer (department store).
Annual turnover: Yen 299.7 billion
Handling items: Men's & Ladies garments
Ladies garments from the US
Cashmere sweater from Italy
Cashmere coat from the UK

2. *Company B, Osaka*

Capital: Yen 96million
Main business: Importer
Annual turnover: Yen 600 million
Main handling items: Men's & Ladies garments from China.
Ladies knitted shirts, printed dress from Indonesia.

3. *Company C, Osaka*

Main business: Producers & importer mainly for casual shirts and out-wear.
Annual turnover: Yen19.4billion
Main handling item: Casual shirts, out-wear.
Others: They have apparel factory in Shanghai and 70-80% imports from China out of garment import(Production in Japan shares 45-50% and the rest to import).

4. *Company D, Osaka*

Main business : General trading house, import & export, whole sales.
Annual turnover: Yen 200 billion just for textile and textile products.
Main handling items : All kind of textiles

5. *Company E, Osaka*

Main business: Import and wholesales of textile as cotton yarn, synthetic yarn
Annual turnover: Yen 20 billion
Handling items: Cotton yarn from Indonesia, China
Rayon yarn from Indonesia
T/C yarn from Indonesia

6. *Company F, Osaka*

Main business: Import of garments

Annual turnover: Yen 35 billion

Main handling item: Men's garments, ladies casual dress, casual shirts from China, Indonesia, Vietnam.

7. *Company G, Osaka*

Main business: Importer & wholesaler for yarns and fabrics.

Annual turnover: Yen 35 billion

Main handling item: Yarns and fabrics

8. *Company H, Tokyo*

Main business : Producer & Importer for Ladies garments.

Annual turnover: Yen 40 billion

Main handling item: Ladies garments, mainly from China ,Thailand, Indonesia, India.

Others : They have three J/V companies in China. Import ratio: 25-30%.

9. *Company I, Tokyo*

Main business: Ladies dress, jackets using antique traditional fabrics like batik and ikat

Annual turnover: Yen 70-80 million.

Main handling item: Ladies dress, jacket from Indonesia, Thailand, India.

10. *Company J, Tokyo*

Main business : Importer for super-markets.

Annual turnover: Yen 46 billion.

Main handling item: All kinds of garments from China, Thailand, Indonesia, Vietnam etc.

11. *Company K, Yokohama*

Main business : Importer for chain stores.

Annual turnover: Yen 2.5 billion.

Main handling item: All kinds of textile, general merchandise, food.

7.3.2 Channel of textile import:

Manufacturers/exporter -- Consumer

Manufacturers/exporter-- Importer--Consumer

Manufacturers/exporter-- Importer--Retailer--Consumer

Manufacturers/Exporter-- Importer -- Wholesaler--Retailer—Consumer

7.3.3. Assessment of Indonesian Products by buyers

Indonesian basic materials such as cotton yarn, polyester /cotton yarn and cotton fabrics have good quality reputation in foreign market. On the other hand, generally Japanese customers are not willing to buy Indonesian made-up garments due to poor quality standard. However, it is still possible to access Japan market if the manufacturers invite Japanese engineers to supervise the quality control in their factories.

For marketing activities including sales promotions, Indonesia is not so advanced as compared with China, Thailand, even Vietnam. Many customers are not familiar with Indonesian products. Moreover, Indonesian businessmen usually do not visit Japan, while the salesmen from other countries make frequent visits to customers for information and sales. Consequently, Indonesian manufacturers do not know what items are saleable, the quality standard, designs, prices etc.

The following is the summary of many voices from garment buyers in Japan:

- Indonesian products are cheap in price.
- Many buyers cannot depend on Indonesian manufacturers in terms of way of business, product quality, inspection, delivery, design, color etc in addition to country risk.
- Indonesia is still an attractive textile and textile products supplier because of abundant labor force

7.3.4. Suggestion to export promotion of Indonesian textile and textile products

The following actions are very important to improve the export of Indonesian products:

- 1) Strong marketing activity, including promotion
- 2) Up-grade the quality specially for garments
- 3) Design development to create Indonesian originality and specialty
- 4) Support from banks in providing finance with lower interest
- 5) Shorten the process of custom clearance for materials (fabrics)

7.4. Competitive Analysis for Selected Products

7.4.1. World textiles market overview

The biggest market for textile is US market, the consumption of textile and textile products in the US is four times bigger than that of Japan. Textile and textile products consumption in Japan is about \$20 billion. However, Japan market is recognized as a *large textile market (USD 11.5 billion import for 1998) and Non-Quota market (the world-biggest free market).*

7.4.2. Main players in textile and textile products market

- China takes 58.3% of Japan market share valued US\$6.7 billion (garments US\$6.1 billion, share 67.5%).
- Indonesia takes 3.6% of the market share valued \$ 0.42 billion (garments US\$0.17 billion, share 1.9%).
- Vietnam takes 2.4% of the market share valued US\$ 0.27 billion (garments US\$0.26 billion, share 2.9%).
- Thailand takes 2.3% of the market share valued US\$0.26 billion (garments US\$0.19 billion, share 2.1%).
- Italy and Korea share 10-15% each and they export higher quality garments.

7.4.3. Competitor Analysis

The competitiveness of Indonesian products should be judged from the following factors:

a. Price

- China's cotton yarn is 10% cheaper than that of Indonesia. The price of CD40/1 from China is US\$480/Bale, while Indonesia's is \$530/Bale as of October 1999. China's cotton fabrics is 25% cheaper than Indonesia, CD40 X CD40 130 X 70 48" in gray, China: CTS43/yard, Indonesia: CTS56-57 as of Oct 1999.
- China's polyester/cotton fabrics are 30% cheaper than those of Indonesia
- CMT (Cutting, Making & Trimming) for garments: based on standard dress-shirts per one piece:

Indonesia	US\$1.0
Vietnam	US\$0.8
China/Thai	US\$1.0-2.0
Korea/Taiwan	US\$5.0
Japan	US\$10.0
- Garments, as of Oct 1999: Indonesia's T-shirts is 20% cheaper than Thai, while China's Jeans pants are 30% cheaper than Indonesia. Indonesia's acrylic sweater is 20% cheaper

than Thailand and China. Indonesia's cotton and polyester blouse is 10-20% cheaper than Thailand. China's trunks and socks are a little bit cheaper than Indonesia.

b. Quality

Cotton yarn, fabrics and man-made fabrics from Indonesia are better than China. Cut and sewn products in Indonesia has an average quality. The quality of sweater and slacks does not meet Japanese standard and they need Japanese engineer to control the quality. The blouses/dresses have some problems especially in unevenness of quality and color mismatching. Therefore the supervision by Japanese engineers is needed. For trunks, the quality control of Japanese engineers is definitely needed. China, Thailand and Vietnam are trying to incorporate Japanese technology into their production process to improve their quality standard.

China becomes more eager to improve their skill to comply with Japanese customers requirement.

c. Delivery

Quick delivery is absolutely important for fashion items as the fashion cycle especially in Japan is very short and the companies avoid big inventory. At this moment, it takes 2 weeks for Japan to receive cargo from Indonesia and only two or three days from China.

d. Design and Color

Many Japanese buyers are interested to have Indonesian designs with traditional *batik* or *ikat* combined with Japanese taste. Training for designers in Japan will help Indonesian designers to understand Japanese taste and demand. Korean continuously sends their designers to Japan for study, while Thailand has been developing design technology catching up with Japanese standard.

Vietnam Government supports strongly for training designers.

e. Availability of Materials

As compared with China, the availability and varieties of woven and knitted fabrics are very limited. Consequently, garments from Indonesia are not so attractive. To solve this matter, Indonesian garment manufacturers should develop the powerful sources of materials such as Hong Kong.

f. Overall assessment

China is the real competitor for Indonesia in Japan market. Indonesia's basic materials, such as yarn and fabrics are better in term of quality as compared with China. For made-up garment, Indonesian garments are the cheapest among competitors, however Indonesia has problems in

the areas of marketing, quality, delivery, design-software, and variety of fabrics.

7.4.4. Strengthening competitiveness

- a. Upgrade the quality standard by incorporating Japanese technology
- b. Keep close contact with customers to obtain market information.
- c. Establish design particularity, such as "Indonesian fashion" or "Bali fashion".
- d. Establish more joint venture with Japanese apparel manufacturers supported by Indonesian government, by providing a favorable investment condition. For reference: there are over 1000 Japanese joint venture companies in China, and those companies have driven exports to Japan.

7.5. Diagnostic Analysis of Export Companies

7.5.1. Profile of the Companies:

1) *Company A* (Spinning Mill), Jakarta

Company Ai (Weaving, Printing Dyeing and Finishing), Jakarta

They are medium scale company. They have 70,000 spindles, 270 air-jet looms, dyeing: 600,000 yard per month, bleaching: 2.4 million yard per month, rotary machine: 1.6 million yard per month and screen capacity: 300-400 pieces per day. They employ about 3,000 personnel in the group. Product: cotton yarns and cotton fabrics. *Company Ai* is exporting 30% of finished fabrics for Vietnam, Sri Lanka, the Philippines, and the Middle East. *Company A* exports 45% of yarns to overseas (30% for Japan but only for weaving yarn in gray). They have a steady policy to run the company.

2) *Company B*, Jakarta

They are small scale garment factory (sewing machines: 80 sets and employee : 80 personnel). Their main products are men's trousers (cotton) and 100% export mainly to the Middle East and Africa. They want to export to Japan.

3) *Company C*, Bogor

They are small company (sewing machine: 100 units and 98 employees) and new-established garment factory (established in June 1999). But they plan to expand capacity up to 300 sewing machines in the next year. They are exporting 100% to overseas, mainly to the US.

4) *Company D*, Bali

They are producing ladies garment such as dress, louses, jacket etc, using woven fabrics and

knit fabrics. This company is a medium class company with 300 sewing machines and 600 embroidery machines (using substantial subcontractors for embroidery). They produce value-added garments with embroider, air-brush, beading which are their strength. Their annual sales turnover is US\$5.5 million and their sales target is US\$22 million in 5 years. They export 95% of their products, mainly to US and Europe. They started to export to Japan as well. Top management replaced by 2nd generation 2 years ago who are very educated, capable, aggressive and idea oriented.

They also have dyeing factory.

5) *Company E*, Bali

They have small class company with 200 sewing machines and 38 embroidery machines (subcontracting 800 machines for embroidery). They produce ladies dress, sweater, blouse etc with embroidery and beading. 100% of their products is being exported for USA and CANADA. But more than 95% is sent to one buyer in the US. Their annual sales turnover is US\$4.0 million.

6) *Company F*, Bandung

Company F has 2,500 machines and 3,000 workers. Exporting more than 50% to overseas. Majority is to Japan and UK. They have the big buyers such as Jichou-do, Itochu and Sumitomo corp. of Japan and Marks & Spencer of UK. Nike of USA. Sixty percent of their customers are Japanese (they buy one million pieces of men's trousers). Main products are formal dress trousers, causal pants, causal shirts, dress shirts and ladies-wears. But the machines are getting obsolete and the orders from Japan are decreasing. The management is reluctant to development new products because they don't want to change production system.

7) *Company G*, Bandung

Company G is a large company with 1,700 sewing machines. Their main products are ladies dress, blouses, casual-wear, skirts. They exports 20% of their products, half of the exports is for Japan market. They have established famous brand named "WATCHOUT" for men's and "TRISSET" for ladies in domestic market.

8) *Company H*, Bandung

Company H is a medium scale spinning and weaving company. They have 53,000 spindles and 120 air-jet looms. They add 20,000 modern & new spindles which are now under test-running and enter into commercial operation in Feb. 2000. They have dyeing, bleaching, printing and finishing factory. They export 30% of their products. They are exporting T/C and T/R yarns and fabrics to Middle East, South America and South Africa. The top

management is 2nd generation, young, educated and aggressive.

9) *Company I*, Bandung

Company I is a medium sized garment factory. It has 400 sewing machines and 600 employees. Their sales turn over is \$5-6 million per year. They are producing ladies sweatshirts, T-shirts, trousers pajama, boys & girls sweat pants, baby shirts. Ninety percent of their products are being exported to overseas and the main markets are Europe and USA. They have a plan to open another new garment factory. Their garments use knitted fabrics.

10) *Company J*, Bandung

Company J is a medium class spinning company, belonged to S. group. *Company J I* has 4,152 spindles and produces coarse yarn (Polyester and polyester/waste cotton) for flour bag. *Company J II* has 47,696 spindles and produces T/R yarns. *Company J* has a J/V with Nakayabo, Osaka based small company which re-located their machines & equipment to *Company J*. Seventy percent of their products are shipped back to Osaka and processed in Wakayama into denim etc. *Company J II* is trying to export 60-70% of their products. But they are not in good shape because they have sold their cotton spinning, which can make more profit.

7.5.2. Export competitiveness

a. Medium class spinning and weaving companies (*Company A*, *Company H*, *Company J*)

Strengths:

- No foreign heavy debt.
- Modernizing machinery and equipment by step-by-step approach to avoid over investment.
- Concentrate in cotton yarns and fabrics which are highly demanded by Japan market.

Weaknesses:

- Lack of marketing capability
- Insufficient market information

b. Large Garment Manufacturer (*Company F*, *Company G*)

Strengths:

- Good machinery and equipment.
- Have regular buyers and enough orders
- Have established brand image in domestic market

Weaknesses:

- Conservative and reluctant to develop new products and expand to new market

c. Medium sized Garment Manufacturers (Company D, Company I)

Strengths:

- Using *embroider, airbrush, and beading*. These factors contribute to value-added on normal ladies dress, blouses and jackets.
- Their products are saleable to Japanese market.

Weaknesses

- The machines and technology are getting obsolete, the productivity is not yet up to standard.
- Lack of knowledge about Japanese market, quality standard, pricing, design.
- No quota for US market.

d. Small Garment Manufacturers (Company B, Company E)

Strength:

- Manual oriented, so they can keep low level of pricing.

Weaknesses:

- They do not have appropriate machine/technology and production system that can manage big capacity.
- Lack of funding to buy new machine
- Lack of qualified personnel for marketing to overseas market.
- No capacity to create their own designs and brand.

7.5.3. Suggestion to promote export

1) Strong marketing activity

The companies should take initiative to strengthen their marketing effort by allocating budget and personnel for marketing activity. However, as the marketing activity is costly, it is suggested to share the cost by establishing a "Corporation" among SME who wishes to develop export market.

2) Collaboration with the engineers to upgrade the quality

It is very important to upgrade the quality of the products to meet the standards of exporting countries. For an example, Japanese buyers require for Indonesian manufacturers to invite Japanese engineer to supervise the production process and control the quality in the factory. However, it is very expensive for SME to invite such an engineer alone. Therefore, as the second best measure, there is an alternative to use foreign supporting programs such as a expert dispatched scheme of the Japan Overseas Development Corporation (JODC), an

incorporated foundation supported by Japan's MITI (Ministry of International Trade and Industry). To apply such a scheme through "Corporation", each individual company may reduce such a direct cost. Also by doing so, each SME will be able to consider the measures for improving their quality together.

3) Create original designs

In most of the cases, Indonesian manufactures only produce what the buyers decide its design. In order to compete the competitors such as China and Viet Nam, Indonesia should have something originality in their products. As Indonesian have great traditional designs, such as *batik* or *ikat*, they should use the best use of those traditions. However, those designs should be modified accordingly to meet the tastes of consumers in exporting countries.

7.5.4. Government Support

1) Government should support SME in short-term financing and long-term financing.

SMEs in Indonesia are facing serious problems in short-term financing, as follows:

- They can not enjoy pre-shipment finance based on L/C, which was possible before the crisis. Therefore, they have to borrow money to buy raw material from the bank at an extraordinary high interest.
- They cannot get money right away after submitting the shipping documents to the bank. They have to wait until the bank collect the money from the issuing bank. In both cases, heavy cost burden has to be borne by exporters.
- They cannot accept D/A and D/P payment, because banks do not accept. They are losing overseas buyers because of non-flexible payment requirement from the bank.

Manufactures, such as spinner, weaver and garment producers need long-term financing for continuous investment to improve competitiveness. The government should support them by providing fund with low interest.

2) Custom clearance of raw materials for re-export should be simplified and more shortened.

Indonesian custom clearance takes one week (if mistake in documentation it takes one month). This condition has been a constraint for Indonesian exporters to compete with the competitors. For the reference, clearance of China is said to be carried out in one day.

7.5.5. Diagnosis of the Model Companies

Model "Company A"

The reason to choose this company:

- 1) Strong management: Company A has no bad debt, as they have paid all their debt before the crisis. Company A has completed the modernization process of the existing 40,000 in their factory and the company does not have any plan to add their spindle. They are concerned of over capacity problem.
- 2) Market expansion: Company A concentrated in domestic market before the crisis and now has shifted to export as they do not have much order from domestic customer anymore. At this moment their export ratio is about 40% and the target markets are the Philippines, Srilanka and Vietnam as re-export bases to US market. For Japan market, we recommend them to export cotton gray fabrics woven by Toyoda air-jet looms to Japan market. They agree to start export poplin: CD40/CD40 130 X 70 and twill 3/1 CD20 X CD16 128 X 60 which are the best items for Japan market. We also suggest to develop cotton yarn for knitting . SRIC will introduce Company A to Japanese buyers especially for cotton fabrics and yarn for knitting.
- 3) They agree to strengthen their own marketing activity and not depending too much on Japanese trading house.

We consider this company as a "steady management model company".

It is important for SME to have steady policy for company management and export strategy as this company.

Model "Company H"

- 1) Company H has 73,000 spindles, including 20,000 new spindles which are now under test-run and entering into commercial operation in February 2000. They are now exporting T/R and T/C fabrics to Middle East, Central America and South Africa, but the demand of these items is very limited. They are considering to export cotton fabrics and cotton yarns to Japan, utilizing their newly established modern machinery. They always try to make production varieties which are required by Japanese buyers.
- 2) They plan to modernize their dyeing and finishing section. For technical assistance, they hire Japanese engineer specially for dyeing polyester/rayon fabrics.

We consider this company as an "Aggressive Model Company"

It can be good model for SME to show that taking positive and aggressive investment and export policy is important for their further growth.

Model "Company D"

- 1) They are manufacturing high standard ladies dress, jacket shirts, sweater etc, with embroidery, bead, and air-brush. They are exporting value added products, mainly to Europe (France and Germany) and the US. They started to export to Japan but the volume is still small. They put effort to create news idea and high class design with recognized brand.
- 2) We recommend that they should have an office in Japan to strengthen their market activity for Japan market. We propose to utilize JETRO free office space. They are planning to come to Tokyo on February 2000 to discuss with JETRO and SRIC will help with the arrangement.
- 3) They are planning to hire two Japanese designers for their Bali factory. SRIC will help to find appropriate candidates.

We consider this company as a " Strategy Oriented Model Company".

It can be good model for SME to show that the strategy and idea could break through difficult market like Japan.

7.6. Recommendations on Improving Export Competitiveness

Through the interview with both Japanese buyers and Indonesian exporters, we conclude that Indonesian exporters especially small and medium sized enterprises should improve their marketing activity, quality standard and design capability.

1) Strengthen marketing activity

For those purpose, we propose that Indonesian SME should establish: "Textile Export Corporation", which members are Indonesian SME.

The details of the "Corporation" are as follows.

When we made buyers survey on October 1999 in Japan, we have found that none of Indonesian textile and textile products company is making marketing activity in Japan.

As we mentioned, Japan is the biggest free market that does not require any quota.

The world textile export countries rush to Japan, because of possibility to increase their export.

Although the competition is fierce, competitors to Indonesia such as China and Thailand are

coming to Japan with aggressive marketing activity.

The followings are buyer's voices.

"We never know that Indonesian management or sales-staff comes to our office."

"We don't know what Indonesian is producing. We cannot have imagination for Indonesian products"

"Unless Indonesian management comes to Japan, how they can know what is the market now, what is salable, what is price ranges etc?"

"Recently, China and Thailand often come to us. Even Vietnam is trying to join many exhibitions"

While, we heard the voices of Indonesian exporters as follows.

"We know that Japan is big free market and we consider it as top target market, but we don't know how to get market information"

"It is said that Japanese respects face to face business talk but we don't know how to do."

"We don't know what kinds of sample to make for Japan market"

"We want to know how to get market information without going to there because expense is so high there."

These are completely "MISMATCHING" between exporters and buyers. We understand that Indonesia cannot improve export to any market in the world as long as these misunderstanding exist. Therefore, we must solve these "mismatching". Indonesian large company may enjoy receiving foreign buyers in Indonesia for the contract because of brand name, however not for SME. SME should collaborate to form CORPORATION with cost sharing philosophy to improve competitiveness against competitors. Indonesian government should support these costs.

Operation Plan:

1) Build-up strong marketing activity

a. The main office of the "Corporation" will be in Jakarta with a branch office in the export markets.

"Corporation" shall send to those branches 5 Indonesian staffs (management-staffs or administrative-staffs) for training as one shift. They stay for 4 months there. It takes 3 shifts in one year. At these branches, the way of "on the job training through actual business" shall be taken everyday, to know how to get appointment, how to obtain information, how to obtain enquiry, how to make business negotiation, how to make contract, how to make sample etc.

The senior Japanese who have a plenty of experience, always assist Indonesian trainees.

The "Corporation" will send weekly report to all members of the SME containing updated market information and daily activities.

The expenses should be basically on account of the "Corporation" members and beneficiaries.

In three years, it is expected that at least 45 Indonesian management staffs will have the network in export markets and understand the buyers' needs there quite well. This will boost the exports to the world markets.

- b. The "Corporation" shall hold a textile and textile product exhibition in the export markets countries once a year. The "Corporation" should organize a very attractive exhibition with more than 30 manufacturers. The expenses are on account of participants.
- c. The "Corporation" shall organize tour to China, Thailand and Vietnam, to learn the competitor's textile and textile products strategy for production and export. The expenses are on account of beneficiaries.

2) Upgrade the quality standard.

As we mentioned earlier, the foreign garment buyers do not fully trust the Indonesian qualities. For example, Japanese buyers declare that unless Indonesian manufacturers invite Japanese engineer in the factory to control the quality to meet Japanese standards, they will not buy the products.

Therefore, in order to improve its standards in quality, Indonesian manufactures should invite engineers from abroad. For a case of Japan, Japan Overseas Development Corporation (JODC), an incorporated foundation supported by Japan's MITI (Ministry of International Trade and Industry), has a scheme to dispatch engineers to Indonesian companies. However, this scheme is highly competitive due to its popularity especially for a field of textile and textile products industry, inviting foreign engineers by the 'CORPORATION' for training tour among SME members can be one of the options.

3) Develop design capability

Indonesia should develop original and particular designs that differ from the competitors such as China, Thailand and Vietnam.

For a case of Japan, there is a training tour to study designs in Japan organized by JETRO. The "Corporation" should coordinate for SME to joint these kinds of tours.