Indonesian Textile Crisis Brews

Quota Expirations Leave Country to Bear Brunt Of Chinese Competition

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JAKARTA, Indonesia -- The country's economy appears set to take a pounding at the hands of China's industrial engine after global garment and textile quotas expire tomorrow.

Other Asian garment-exporting countries also will feel the competitive heat when China's low-cost, highly productive industry is freed from 30 years of quotas under an expiring global treaty, but complacency here by a government and industry long used to cozy practices means Indonesia stands to be hit especially hard.

As regional garment and textile producers seek to carve out niche markets in the shadow of China's growing industrial might, "I think Indonesia will be a loser," said Paul McKenzie, head of Asian-Pacific consumer research for brokerage firm CLSA.

Government and industry moves to prepare for the end of the Multifiber Agreement, which has regulated garment trade since 1974, have been too little, too late, observers say.

The end of the quota system will merely "hasten the decline" of the sector against more competitive factories in China and Vietnam, said Agost Bernard, Standard & Poor's associate director of Southeast Asian corporate and international finance ratings.

Indonesia, the leading garment exporter among the Association of Southeast Asian Nations, has plenty to lose.

The country's garment exports could drop as much as 15% in 2005 as buyers chasing cost savings have allowed Chinese-based producers to "swallow" a chunk of sales that would otherwise go to Indonesia, said A.T. Chuan, secretary-general of Indonesia's Apparel
Manufacturers Industries. "In the last three to four months, we seem to be getting fewer orders for the spring-summer sale season that calls for delivery in December and January."

Those orders have gone to China and may not be coming back, said Mr. Chuan, who is also managing director of garment manufacturer PT Metro Exim Indonusa. Analysts say China trounces Indonesia in productivity and has around 10% lower labor costs.

To be sure, Trade Minister Marie Elka Pangestu insists Indonesia's garment and textile manufacturing won't become a "sunset industry" after the fiber pact expires. And the head of the Indonesian Textile Producers' Association says 2005 exports should be able to exceed $8 billion, up from this year's projected $7.9 billion.

But many people involved in the industry are less optimistic.

Indonesia will claw back the erosion in its garment export sales only if China can't deliver on purchase orders already diverted from Indonesia, said Mr. Chuan of the apparel-makers group.

"There may be a situation in which [China] mightn't be able to digest the influx of orders," he said. "So buyers might be willing to give us a bit more in terms of price in order to retain us to provide consistent delivery and quality services."

China's juggernaut, though, at most will be slowed by Beijing's announcement this month of voluntary export tariffs of about two to six U.S. cents per item on six clothing export categories including coats, pajamas and underwear. Most analysts say the tariffs appear to be largely cosmetic measures meant to allay criticism at the expected surge of Chinese exports after the global quotas end. (See related article4.)

A decade ago, in what was hailed as a victory of free trade over traditional import barriers, global negotiators plotted the demise of the fiber pact. Jakarta can claim with some justification that any preparation for the looming end of the quota system was delayed by the 1997-98 Asian financial crisis.

But six years and five presidents later, Indonesia still has made scant progress to prepare for the wrenching changes to an industry that accounts for almost 18% of the country's exports and employs as many as 3.5 million full-time and contract workers.

Barely three weeks before the pact was to expire, the government of President Susilo Bambang Yudhoyono in mid-December issued a long-delayed action plan designed to protect the industry. It includes projected investment in the sector of 188 trillion rupiah ($20.2 billion) during five years and a target to expand the value of garment and textile exports to $11.8 billion within that period.

Complacency among Indonesia's government and the country's garment and textile producers has hobbled their capacity to cope with the coming challenges, charges Kus Prodjolalito, secretary-general of the Indonesian Synthetic Fibermakers Association.
"The announcement of this quota elimination was done 10 years ago, but in the past 10 years, even up to one year ago, those people enjoying the quota really believed they'd have an extension of the quota system," Mr. Prodjolalito said.

While China has funneled billions of dollars to fund productivity-boosting technology upgrades, the Asian financial crisis prompted Indonesia's producers to delay or ignore needed upgrades of machinery that are now plagued by frequent breakdowns, said Baari La Inggi, an expert with the Indonesian Textile Association of Greater Jakarta.

Even the upside of the regional crisis, a huge decline in the rupiah's value, which made Indonesian exports more competitive, even while China's currency stayed pegged to the dollar -- has merely meant less heat on garment and textile producers here to address issues of longer-term competitive strategy issues.

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