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Monitoring the Socioeconomic Impact of the 2008/2009 Global Financial Crisis in Indonesia

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Impact on the Indonesian Manufacturing Industry, up to August 2009

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Fact Sheet

The findings of news monitoring in a number of mass media up to the beginning of August 2009 reveal that the 2008/09 global financial crisis (GFC) has had an impact on manufacturing in Indonesia, particularly on those manufacturing industries that are export-oriented and use imported raw materials. The signs are evident in, among other things, a rise in production costs, a drop in orders, and an accumulation of stock in a number of businesses. The industries most frequently reported as having been affected by the 2008/09 GFC are the TTP group (textiles and textile products, including garments), handicrafts, wood and wooden products (including furniture and rattan), paper, and electronics. News about the effect on the food and beverage industry and the fishing industry is more limited. The measures adopted by the various industries in attempting to overcome the downturn include the dismissal of contract, daily, and even permanent workers. Various news items have reported that the central government and regional governments have prepared and are preparing certain measures to reduce the impact of the crisis. These include assistance in finding alternative markets both abroad and at home, a reduction in the Bank of Indonesia's interest rate, and a tightening up of the import of finished goods. Nevertheless, there is still concern about the sustainability of industries that have been affected.

The Textile and Textile Products (TTP) and Footwear Industries

The 2008/09 GFC has caused world consumption of textiles and textile products to fall by 5% by comparison with consumption of these products in 2008. It appears that world TTP consumption, which according to estimates should have grown to 68.3 kg per capita in 2009, reached only 66.6 kg per capita. It has been estimated that consumption next year will continue to decline to 63.2 kg per capita. At the national level, the impact experienced by these industries can be seen in the fall in production, which has already reached 10%. According to the chairperson of APINDO (the Indonesian Textile Association), the possibility of dismissals could involve 100,000 workers, from around 1.2 million workers employed in the TTP industries, which absorb approximately 12.7% of the total workforce employed in the manufacturing sector. Most of these industries are located throughout the provinces of Java.

The Province of West Java, which is the centre of Indonesia's TTP industries, has more than 700 factories, which employ around 700,000 workers. In this region, most of the TTP and garment industries affected by the crisis are located in Bandung and Cimahi. The 2008/09 GFC has caused production costs to rise by as much as 25%, following an increase in the price of imported raw materials as a consequence of the jump in the dollar-rupiah exchange rate. It has been estimated that more than 40 TTP industries in this region have temporarily laid off several thousand workers, while approximately 100,000 other workers face the threat of losing their jobs. In addition, the livelihoods of 50,000 textile producers in approximately 150 small and medium businesses in Kabupaten Bandung are threatened with bankruptcy as a result of the increase in the price of imported raw materials, which has caused production costs to rise by about 20%. In the Dayeuhkolot Industrial Bonded Area (KBI) in Kabupaten Bandung, there are 12 TTP and garment companies that are likely to temporarily lay off thousands of contract workers. In reality, layoffs of these employees has been taking place since October 2008. This decision represents one of the attempts at efficiency made by companies to stem the effects of the 2008/09 GFC. The Dayeuhkolot KBI employs approximately 18,000 permanent and 4,900 contract workers; 1,810 of the permanent workers will be dismissed, while 855 will be temporary laid off and the contracts of all contract workers will not be extended.

Figure 1. Spinning industry is also affected by the 2008/09 GFC

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Although the proportion of products exported to the USA is only 4%, the high value of these products is having a serious impact on the industry. In Purwakarta, West Java, one company whose whole output is exported to the USA has suffered losses due to the termination of orders worth US$2 million. As a consequence, 6,536 workers are likely to be dismissed. In Bekasi, it has been reported that 11 industrial companies of the same kind are planning to reduce their work force by 3,000 persons.

Meanwhile, the TTP industry in Central Java has been experiencing trends similar to those in West Java. The TTP industry in Central Java has the potential to undergo a very serious impact during the next six months (from October 2008), with the possibility that 400,000 workers could lose their jobs. Several TTP companies in Solo, Semarang, and Kendal have already dismissed hundreds of workers as a consequence of the cancellation of orders from abroad. One TTP business in Boyolali dismissed 848 workers on the excuse that the country to which products were exported is facing economic difficulties that include the consequences of currency devaluation in South Korea and Turkey and other economic problems in Western Europe and the United States.

Figure 2. Trucks transporting export commodities are forced to cease business due to lack of orders

Unlike the major impact faced by TTP industries in West and Central Java, the effects of the 2008/09 GFC on TTP industries in East Java have been smaller and as of March 2009, some businesses had not reduced the number of employees as they were still working on the remainder of their 2008 orders. Nevertheless, it has been estimated that 1,000 workers in other labor-intensive industries in Surabaya lost their jobs between January and March 2009. In East Java, there are reports that the shoe industry has experienced a fall of 50% in exports. Up to March 2009, the livelihoods of workers in this export-oriented industry were still safe because these companies were still completing orders from 2008. Nevertheless, the future was uncertain after March 2009. Usually orders start to be placed in the month of December, but some foreign investors were already planning to leave. In Serang, West Java, it was reported that the shoe industry had already dismissed 450 employees.

From Jakarta, there were reports that seven garment factories which exported products to the USA in the Nusantara Bonded Zone (KBN) were threatened with closure. In addition, around 50 businesses in North Jakarta, including 16 companies located in the KBN, with a total labor force of 9,600 workers, were stopping their activities. PT KBN has three business areas, namely, the Cakung KBN with 100 investors, the Marunda KBN with 40 investors, and the Tanjung Priok KBN with 8 investors. Approximately 90% of the investors in these three areas are garment producers and 85% to 90% of their output is exported to the USA. Even so, the KBN management has stressed that in 2008 not even one company closed down or gave up doing business because of a slowdown in orders.

The Paper, Pulp, Electronics, and Other Industries

The paper and pulp industry in the Province of Riau has already dismissed 500 workers, while another 500 have been temporarily laid off and the rest (about 2,000 workers) are awaiting a decision by the company. The situation has led these factory workers to demonstrate at the office of the Governor of Riau. They want the regional government and the Central Government to take concrete steps to prevent the company from dismissing its employees. They have also asked the government to save the company in which they work.

In Bandung, an electronics company that was established in 1974 and produces small outline ICs, plastic-leaded chip carriers and transistor outlines has gone out of business. Many electronics companies of the same kind are to be found in Cikarang, West Java, and in Batam, Riau Islands. Some time ago, these companies temporarily laid off about 1,500 employees.

Between 2008 and mid-2009, 18 companies in Serang and Tangerang, the Province of Banten, stopped production. Dismissals of 16,407 employees had taken place. However, 4,402 of these employees have landed a job in other companies.

The Handicraft, Furniture, Rattan, and Timber and Processed Wood Industries

Handicraft industries connected with tourism constitute one activity that has been affected by the 2008/09 GFC. It has been reported that several handicraft industries in Bali have started asking their workers to stay at home. Bali has around 300 registered silversmiths who employ more than 20,000 workers. In Desa Celuk, for example, more than half of the people are silversmiths and 30 of them have already been temporarily laid off. The production of silver handicrafts has experienced a drop of 50% from an average of around 100 kg to 50 kg per month per worker. Most of the craftsmen have been completing orders placed up to the end of last year. Since then, orders have become increasingly limited. A similar problem has haunted craftsmen who make wooden masks in Desa Tegallalang, Ubud, Bali. Meanwhile, dozens of *songket* cloth weavers in Palembang and Ogan Ilir in South Sumatra have stopped production because some of their overseas buyers (from Singapore and the United States) have not been purchasing products since October 2008.

Since mid-2008, the national export of rattan furniture has continued to decline. In Cirebon, there used to be approximately 426 rattan businesses, which employed about 80,000 workers. According to the chairperson of AMKRI (the Association of Indonesian Rattan Furniture and Handicraft Producers), the export of rattan goods in 2008 was 50% less than the comparable figure for 2007. The value of exports of rattan products, which in 2007 had reached US$319 million, fell to only half of that amount in 2008. Up to June 2008, the figure had reached just US$70 million and projections for total exports in 2008 were around only US$140 million. Furthermore, the value of exports of rattan furniture in 2009 is likely to drop by another 20% over the 2008 figure. By the beginning of 2008, 144 rattan furniture-makers had gone out of business. Another 125 producers are threatened with bankruptcy in 2009. Producers of rattan handicrafts in Aceh have also experienced a fall in orders as a result of the global crisis and the decline in the number of expatriate workers in Aceh.

In East Java, the wood processing industry has undergone a fall in demand of between 30% and 50%, while production in the brass-casting handicraft industry has dropped by up to 50% because of a decline in demand from markets in the USA, Australia, Japan and Europe. Output has fallen in value from US$120 million to US$60 million per month, while it has been estimated that the number of workers who have lost their jobs has risen by 50%.

Figure 3. Orders for carved objects decreased sharply up to 50%

In Central Java, the wood processing industry, which produces such goods as *batik kayu* (wooden handicrafts decorated with batik patterns), and the industry producing furniture from rattan, wood, and bamboo have also faced a drop in export demands. As many as 31 businesses operating in the fields of wood processing, paper making, plastics, fertilizer, and other things have already dismissed 3,441 workers. Virtually all industries involving wood and bamboo products in Purbalingga, Central Java, for example, have obtained no overseas buyers, as a result of which their output has dropped to 30% in just two months. Some of these handicraft businesses are now beginning to close down. By contrast, entrepreneurs in the wig-making industry in Purbalingga feel confident that the marketing of their products is secure at least until the end of 2009 because they have export contracts for the next one to three years. Several companies have even experienced a rise of 20% in the demand for their products.

In South Kalimantan, there now remain only 6 out of the 16 plywood factories that once operated. The main export markets for plywood are Japan and the US. As a result of the 2008/09 GFC, however, buyers in these two countries have stopped placing orders. For that reason, companies must now look for new markets in Europe and the Middle East if they are to survive. At the same time, in order to reduce losses, companies are trimming operational costs by, for example, cutting back on their use of fuel and electricity, reducing working hours, and temporarily laying off and even dismissing their workers. One plywood company in Pangkalan Bun, Kabupaten Kotawaringin Barat, for example, has temporarily laid off 1,500 workers, who constitute 83% of its employees.

Figure 4. Workers in manufacturing industries are haunted by dismissals by their companies

The Food and Beverage Industries

It has been reported that several food and beverage industries in Central Java and Yogyakarta, such as those producing dried cassava, dried fish, and milk, have also been affected by the crisis. Even so, it is interesting that in the midst of the global crisis, food and beverage industries in West Java have actually experienced positive development, which is marked by a rise in the export of a food commodity called *petai* (a smelly, edible bean—*Parkia speciosa*) to Singapore, Malaysia, Hong Kong, Brunei Darussalam, and Thailand.

Figure 5. Empty containers taking up space in ports

The North Sulawesi town of Bitung, which is the centre of the fishing industry, has 20 canneries as well as businesses that preserve *ikan kayu* (tuna). They employ around 50,000 workers. Annual fish production in terms of catches of fish in Bitung is around 150,000 ton per year. Workers in a number of fish factories are threatened with redundancy because exports of fish products to other countries have fallen by 50%. One company that employs 300 workers and also 700 fishers who supply it with fish has been at a standstill since September 2008 because there have been no orders from Japan. Activities in the fishing industry in this province decreased drastically over the three months from October to December 2008 as a consequence of the global crisis. According to the head of the Fisheries Agency for North

Sulawesi, the drop of 40% in fish exports from 160,000 ton in 2007 occurred because of a decline in demand for fish in Japan, South Korea, Hong Kong, and the USA, and also in a number of European countries. The Fisheries Agency has received information that dismissals of workers have already taken place.

Efforts to Overcome the Impact of the 2008/09 GFC

The internal efforts of companies to overcome the impact of the crisis have generally taken the form of increasing or expanding markets both at home and abroad. Export-oriented companies have started looking for new marketing opportunities outside the USA, Japan, and Western Europe. A number of alternative markets that are still open exist in the Middle East and Eastern Europe. For example, in the Middle East, Dubai, which is in the process of constructing a mega project in the form of a new urban area, provides a potential market for various Indonesian products. The same is true of Eastern Europe, which has not been affected by the 2008/09 GFC because the basis of its banking system differs from that in Western Europe and the USA. To break into new markets, Indonesian exporters must face competitors from China and Malaysia. Fortunately, China has just experienced serious inflation, due to which the prices of their products have risen by 30%–35%. The price difference between Indonesia's products and those of China used to be around 30%–40%. Assuming that the prices of Indonesian products are still the same as previously, their ability to compete with products from China will rise.

Figure 6. Ports have often become a link in the smuggling chain

In addition to these efforts, a number of companies are urging the government to protect domestic markets by guarding harbors that are suspected of being locations for the smuggling of imported goods. They are also pressing for no increase in bank interest rates. The Bank of Indonesia has even cut the level of interest by 25 basis points to 9.25% to stimulate economic growth. Besides this, the government has injected funds of Rp12.5 trillion into the 2009 State Budget to compensate for measures that free businesses from income tax, added value tax, and import duty, in the context of helping to stimulate growth in the real sector.

There are several government policies that can have a positive effect on the garment industry, for example, a tightening up on the import of clothing, in particular used clothing. This policy is a blessing for businesses that are distributor outlets (*distro*). A number of factory outlets in Bandung that have difficulty in exporting their products are now very popular with domestic shoppers and shoppers from neighboring countries like Malaysia, Brunei Darussalam, and Singapore. The government also plans to increase the promotion of tourist attractions with a budget for this purpose of Rp235 billion this year; this is an increase of 30% by comparison with the 2008 figure for the promotion budget. The World Bank has also urged the government to raise and hasten release of the budget to the beginning of the year to encourage economic growth so as to reduce the level of unemployment.■

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