MENGAPA MENGGUNAKAN METODE KASUS (Hartono,2016)

❖**Alasan utama menggunakan metode kasus di pembelajaran bisnis adalah karena manajemen merupakan** suatu keahlian yang lebih dari sekedar teknik **atau konsep (Shapiro, 1975).**

Cara terbaik untuk mempelajari suatu keahlian adalah melatihnya di dalam suatu proses simulasi**.**
Misalnya perenang, pemain piano, belajar naik sepeda, koki .

Belajar memasak lain dengan belajar menjadi ahli masak atau koki. Belajar memasak dapat belajar teori-teori memasaknya tanpa harus berlatih memasaknya, tetapi cara ini tidak akan menjadikannya seorang ahli masak. t

Text

❖**Untuk belajar sesuatu dengan efektif,** seseorang harus mengotorkan tangannya dan kemudian melihat apa yang dihasilkannya**.**

Manusia banyak belajar dari ceritera-ceritera. Novelis besar memahami ini, orangtua juga memahami ini dan dosen seharusnya juga memahaminya. **(Hartono,2016)**

KASUS

KASUS YANG BAIK (Hartono,2016)

Lebih lanjut Professor Lawrence (di Leenders dan Erskine, 1978: 12) menjelaskan:

"a good case is the vehicle by which a chunk of reality is brought into the classroom to be worked over by the classs and the instructor. A good case keeps the class discussion grounded upon some of the stubborn facts that must be faced in real life situations…."

2 KASUS INDUSTRI

- ❑ Kasus 1 : **INDONESIA'S TEXTILE AND ITS PRODUCTS INDUSTRY: Recent Development and Challenges dipresentasikan pada** *International Trade & Academic Research Conference (ITARC) London, UK, 4-5 November 2013*
  Kasus ini memperoleh dua penghargaan sekaligus, yaitu: *Best Tract Presentation* dan *Award of Honour* dari *Academy of Business & Retail Management.*

- ❑ Kasus 2 : **A QUEST FOR CLOVE CIGARETTE INDUSTRIAL CLUSTERS: INDONESIA 1996-2003 dipresentasikan pada ASIA COMPETITIVENESS FORUM 2008 National University of Singapore May 22-23, 2008**

INDONESIA'S TEXTILE AND ITS PRODUCTS INDUSTRY:
Recent Development and Challenges

International Trade & Academic Research Conference (ITARC)
London, UK, 4-5 November 2013

Prof. MUDRAJAD KUNCORO, Ph.D

Professor of Economics, Faculty of Economics and Business UGM
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Visit my site:

http://www.mudrajad.com

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April 2nd, 2008 Posted in Uncategorized | Comments Off

Greeting from Prof. Mudrajad Kuncoro, PhD

Welcome to my home page. The main purpose of this page is to give interested parties - students, academics, politicians, the business community and journalists - easy access to scholarly articles, books and lectures which I have developed in the pursuit of intellectual excellence.I am a lecturer and researcher at the prestigious Faculty of Economics and Business, Gadjah Mada University(FEB UGM), Jogjakarta, Indonesia. Minister of National Education has assigned me as a professor in Economics since October 1, 2006. I have become the Head Department of Economics at FEB UGM since 2007. Notwithstanding a busy work schedule, I have conscientiously produced numerous books and articles; many of which were presented at both domestic and international conferences and seminars. I assisted Indonesian Chamber of Commerce and Industry (KADIN) as one of Economic Expert Team. I have also been actively involved in different state-sponsored and privately-funded research projects as well as journal editing and consultancy work. I have trained a lot of local government officers, lecturers, and students in many regions across Indonesia.

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6

INTRODUCTION INDONESIA PROFILE

KEY STATISTICS	
Administrative Area	33 provinces, 497 districts
Population 2010 (millions)	237,6
Population Growth Rate 2000-2010 (%)	1,49
Economic Growth Semester 1 2011 (%)	6,5
GDP per capita 2010 (US$)	3,005
Unemployment Rate Feb 2011 (%)	6,80
Poverty Rate March 2011 (%)	12,49

INTRODUCTION

- The Textile and Its Products industry (abbreviated as TPT industry in Indonesia) played an important role in the Indonesia's employment and non-oil export.

- There have been not less than 2,869 companies involved in the TPT industry. It absorbs and creates employment as much as 1.4 million workers or 11% of the total workforce in the entire manufacturing industry.

- As far as trade is concerned, export performance of the TPT industry reaches up to 9% of Indonesia's total non-oil and gas exports.

- Table 1 highlights the key role of Indonesia Textile, Fiber & Clothing in terms of number of companies, value of investment, and employment.

Description	Unit	2005	2006	2007**	2008	2009	2010
Number of Company	Unit	2,656	2,699	2,726	2,818	2,853	2,869
Value of Investment	Rp (Bn)	132,381	135,648	137,906	142,068	146,170	150,525
Emplyment	People	1,176,773	1,191,326	1,234,250	1,289,400	1,337,497	1,399,856

TABLE 1 Indonesia Textile, Fiber,& Clothing Highlight, 2005-2010

Source: API (2011)

OBJECTIVES & OUTLINE

This paper attempts to explore the **recent development and challenges** in the **Indonesia's TPT industry**.

Outline of this paper:

On the onset, this paper will highlight industrialization and sectoral changes in Indonesia. Next section will focus on the role of the TPT industry in Indonesia by exploring the upstream, midstream, and downstream in the TPT industry. As the TPT exports always on the top ten Indonesia's non-oil exports, next section will focus on the textile and apparel trade. It is followed by identification of major clusters in the Indonesian TPT industry. The last section will summarize the key challenges in Indonesia's TPT sector.
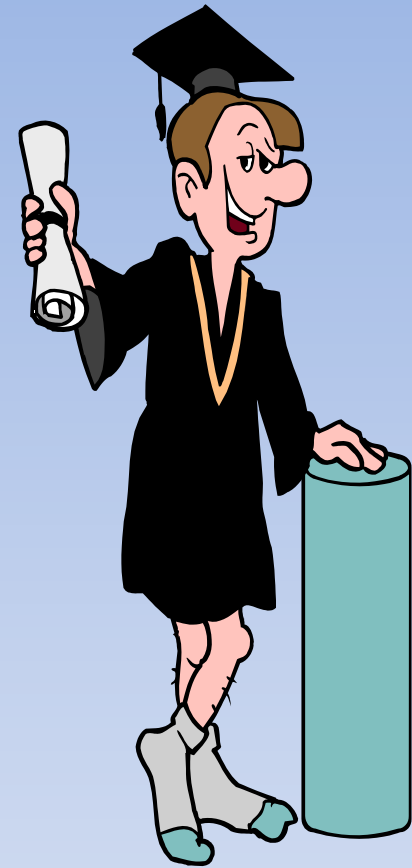
Indonesia and Asia's Economic Growth 2009-2013

Countries	2009	2010	2011	2012*	2013*
Indonesia	4.5	6.1	6.4	6.0	6.3
Malaysia	–3.6	7.2	5.3	4.4	4.7
Singapura	–3.3	14.5	4.8	2.0	2.9
Thailand	–3.5	7.8	4.5	5.5	5.9
Filipina	1.0	7.3	5.0	4.8	4.7
China	8.5	10.4	9.2	7.8	8.2
India	5.4	8.6	8.2	4.8	5.9
Emerging & developing economies	2.1	7.5	6.2	5.6	6.9
Advanced economies	-3.2	2.1	1.6	1.4	1.9

* projected   Source: World Bank (2013); BPS (2013)

The Indonesian government quite effectively steered the national economy through 'storm' of the 2008 Global Financial Crisis (GFC) (Kuncoro, et al. 2009).
The ASEAN economies are projected to grow by 5.1% in 2012 and 5.5% in 2013. Going forward, growth is projected to pick up very gradually, and Asia should remain the global growth leader, expanding over 2 percentage points faster than the world average next year (IMF, 2012).

Industrialization has led to structural transformation in Indonesia

- Agriculture sector which has been the main sector by 1968 contributed 51% of Indonesia's GDP; at the same time, industry sector only contributed 8.5% of GDP.

- Industrialization in Indonesia has brought structural transformation. Manufacturing sector has become the main sector in Indonesia since 1993.

- Manufacturing sector's contribution to Indonesian GDP has been relatively stable between 26.3%-28.3% since 2000.

Sectors	1968	1993	1998	2000	2004	2011
Agriculture	51	17.9	17.4	15.6	15.4	14.7
Mining and excavation	4.2	9.6	8.3	12.1	8.6	11.9
Manufacturing industry	8.5	22.3	23.9	27.8	28.3	24.3
Others	36.3	50.3	50.3	44.6	47.7	49.1
GDP	100	100	100	100	100	100

Note: Other sectors include the following: electricity, gas, and water sector; construction sector; trade, hotel, and restaurant sector; transportation and communication sector; finance, rental, and company service sector; and service sector.
Source: Calculated from BPS (2009a)

Sectoral Contribution to GDP: Indonesia, 2006-2010

Description	2006	2007	2008	2009	2010
1. Agriculture, Livestock, Forestry, and Fishery	12.97	13.72	14.46	15.29	15.34
1. Mining and Excavating	10.98	11.15	10.92	10.54	11.15
1. Manufacturing Industry	27.54	27.05	27.89	26.38	24.82
a. Oil & Gas Industry	5.15	4.61	4.89	3.81	3.27
a. Non-Oil & Gas Industry	22.38	22.43	23.00	22.57	21.55
1). Food, Water and Tobacco	6.37	6.68	6.99	7.49	7.24
2). Textile, Leathers, and Footwear Industry	2.70	2.37	2.12	2.08	1.93
3). Wood Product and Forestry Industry	1.34	1.39	1.48	1.43	1.25
4).Paper and Printing	1.19	1.15	1.05	1.09	1.02
5). Fertilizer, Chemical, and Rubber Industry	2.82	2.80	3.11	2.90	2.74
6). Cement and Mineral Excavating Industry	0.87	0.83	0.81	0.77	0.71
7). Iron Metal and Steel	0.62	0.58	0.59	0.48	0.42
8). Transportation and Parts	6.27	0.44	6.66	6.17	6.06
9). Other Goods	0.21	0.19	0.18	0.17	0.16
1. Electricity, Gas and Clean Water	0.91	0.88	0.82	0.83	0.78
1. Construction	7.52	7.72	8.48	9.89	10.29
1. Trade, Hotel and Restaurant	15.02	14.99	13.97	13.37	13.72
1. Transport and Telecommunication	6.93	6.69	6.31	6.28	6.50
1. Finance, Leasing and Service	8.06	7.73	7.43	7.20	7.21
1. Services	10.07	10.08	9.73	10.22	10.19
Product Domestic Bruto	100,00	100,00	100,00	100,00	100,00
Product Domestic Bruto Without Oil and Gas	88.85	89.46	89.41	91.68	92.23

- The non-oil and gas industries hold a very significant role in terms of contribution towards Indonesia's GDP compared to the national oil & gas industry.

- In the year 2010, the share of textile, leathers, and footwear industry to GDP was as low as 1.93% as a result of decrease from the 2006 share of 2.7%. This indicates that a deindustrialization exists in the textile and its products (TPT).

# Table 5 TPT Industry Contribution to GDP, Net export, Domestic sales, Investments (in billion USD)

	2007	2008	2009**	2010**
Net Export	5.69	5.16	5.09	5.04
Domestic Sales	3.67	4.17	5.30	5.83
Investments	2.26	0.44	0.40	0.48
Total	11.62	9.77	10.79	11.35
National GDP	431.02	513.03	546.53	590.25
Contribution of Textile & Clothing (Estimation)	2.7%	1.9%	2.0%	1.92.%

Source: API (2011)

- Table 5 describes the contribution of the TPT industry to the Indonesian GDP., next export, domestic sales, and investments.

- The following figure highlights that TPT industry consists of the upstream, midstream, and downstream.

  - In the upstream side, the industry produces natural fibers, synthetic fibers, rayon fibers, with the majority of them being capital-intensive and technology-intensive, although absorbing only very little workforce.

  - In the midstream, the TPT industry includes dying, weaving, knitting,, threads, curtain, blankets, car seats, tents, carpets, with the majority of the industry characterized as labor-intensive, and the majority of workers are female, with a technology that combines labor-intensiveness and semi capital intensive.

  - In the downstream, the TPT industry includes mainly garment that largely labor intensive industry, mostly women.

VALUE-CHAIN IN TPT INDUSTRY

- This figure illustrates the interlinkages among upstream, downstream, and upstream activities in TPT industry.
- Upstream industry involves producers of inputs (cotton, acrylic, rayon fiber, polyster) for non-woven manufacturing, spinning, knitting, weaving, and dyeing-printing-finishing industry. Outputs of midstream TPT industry are then proccessed by garment, weavers, and polyster manufacturers.

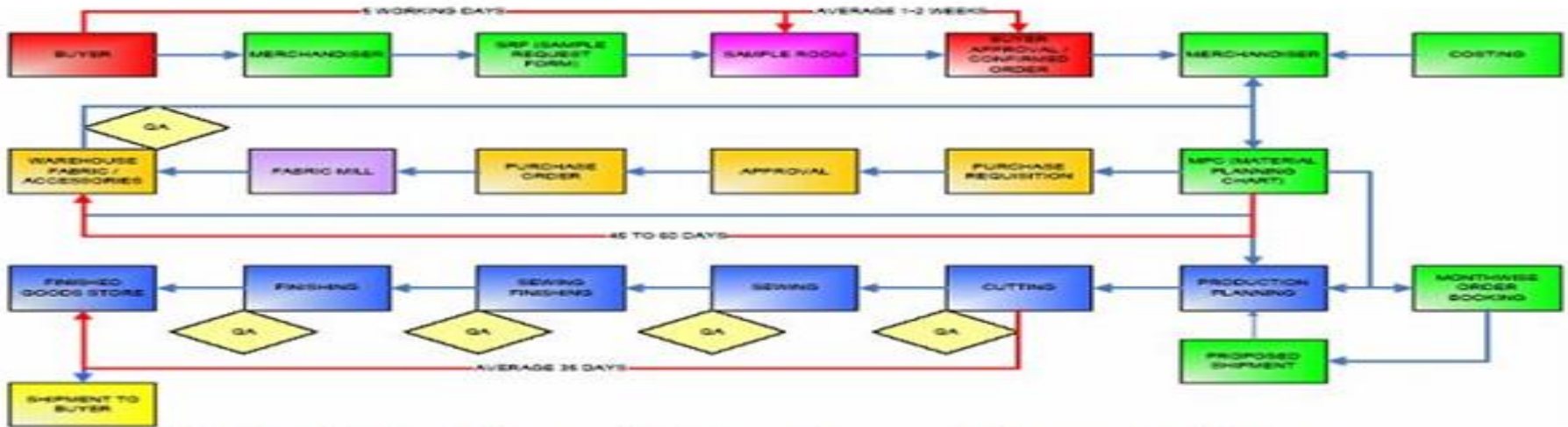Sumber : API
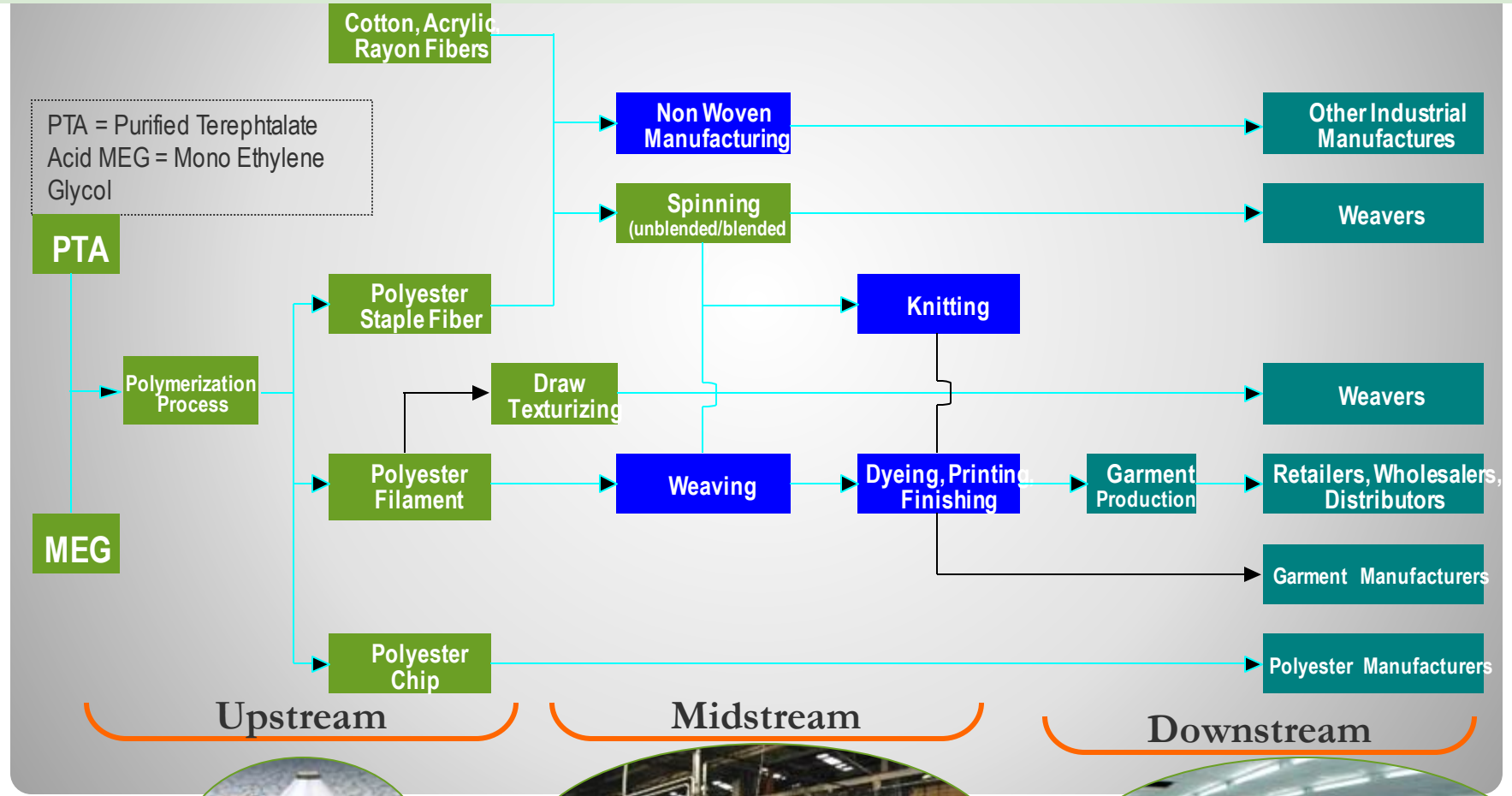
Business Process in Garment Industry

FIGURE 1 Value Chain and Business Process in Garment Industry

Source: Astuti (2011)

- Business process in the industry is started from merchandisers, fabric mill, warehouse, production planning, cutting, sewing, finishing, and finished good stores to buyers.

- The Indonesian TPT sector can be divided by two different subsectors:
  - One is traditional. Traditional production provides textiles mainly for the domestic market and traditional ceremonies, which are made out of traditional raw materials. Many yarns and dyes are obtained from local tropical plants, often by processes unique to the archipelago.
  - The other one uses modern technology and knowledge. The development of Indonesia's textile industry has branched out into a large number of subsections, from synthetic fiber manufacturing, yarn, spinning, fabric forming and finishing, to manufacturing of made-up goods.

TPT Industry's Contribution to Indonesia's Export

45
40
35
30
25
20
15
05
00

Percent

Textile   Furniture   Clothing   Footwear

Product

□ 1990
■ 1993
□ 1996
□ 2000
■ 2001
■ 2003

FIGURE 3 Various ULI Items: Indonesia, 1990–2003 (%)

Note: NRI   : SITC 53,63,66 (except 664, 665, 666)
         ULI   : SITC 65, 664, 665, 666, 81-85, 89 (except 896, 897)
         PCI   : SITC 51, 52, 67, 71, 72, 73, 75, 751
         HCI   : SITC 55, 62, 64, 69, 775, 78, 79, 885, 896, 897
         TI   : SITC 54, 56, 57, 59, 752, 789, 76, 77 (except775), 87, 88 (except885)

Source: Calculated from BPS, various years.

- Figure 3 shows during the 1990-2003 period garments have made the largest contribution to Unskilled Labour Intensive (ULI) exports, followed by textiles, shoes, and furniture.

Export of Indonesian TPT Industries

Year	Volume (thousand kg)	Value (thousand USD)	Average Price (USD/kg)
2000	1,777,132	8,377,397	4.71
2001	1,721,312	7,678,422	4.46
2002	1,758,675	6,888,559	3.92
2003	1,555,920	7,052,181	4.53
2004	1,626,461	7,647,441	4.70
2005	1,796,800	8,555,000	4.76
2006	1,877,400	9,376,000	4.99
2007	1,898,000	10,004,000	5.27
2008	1,833,000	10,399,000	6.67
2009	1,760,000	9,262,000	5.26
2010	1,969,000	11,223,000	5.69

TABLE 7 Development of Indonesian TPT Exports, 2000-2010

Source: Miranti (2007), API (2010)

- Export of Indonesian TPT industries had a significant decline in 2003 but it has recovered since 2004 in term of volume and value (Miranti, 2007). In 2006 the export value and volume of TPT even surpassed of that of in 2000.

The contribution of the TPT industry towards the total national export has been declined since 2006. In 2006, the rate of contribution was 9.1%. However, in the year 2010, there was a drastic drop resulting in only 7.5%.

Billion US$	2006	2007	2008	2009	2010	Jan-Jun 2010	Jan-Jun 2011
Total National Export	103.5	118.0	139.6	116.5	157.8	72.5	97.3
Non Oil & Gas Product	80.6	93.1	107.9	97.5	129.7	58.8	79.1
(Textile+Fiber) & Clothing	9.4	10.0	10.4	9.3	11.2	5.5	6.9
% Share Textile & Clothing Product to National Export (Oil & Gas + Non Oil & Gas)	9.1%	8.5%	7.4%	7.9%	7.1%	7.5%	7.1%
% Share Textile & Clothing Product to Non Oil & Gas	11.7%	10.7%	9.6%	9.5%	8.7%	9.3%	8.7%

Source: API (2011)

The primary export products

FIGURE 5 Development of Primary Export Products,
Indonesia January 2010-April 2011

Source: Ministry of Trade (2011)

- The development of manufacturing exports textile products increased due to volume, which indicates an increase in output of manufacturing industry.
- Indonesian export products of textile industry currently ranks second biggest non-oil export after the rubber and rubber products.

INDONESIA'S EXPORT DESTINATION

- Out of the total contribution of the TPT industry towards the Indonesian export, the export destination of the TPT industry is the United States, accounting for almost 37.6%, followed by the EU 18.9%. ASEAN countries (Malaysia, Thailand, etc) are considered as an export destination that could still be developed and possesses a very high prospect in terms of developing Indonesia's TPT industry export.

2010 (TPT=US$11,22 billion)

In Value

US
37%

Rest of The World
30%

Japan
6%

Germany, Fed. Rep.
Of
5%

Turkey
4%

Korea, Republic Of
4%

Malaysia
2%

China
3%

Brazil
3%

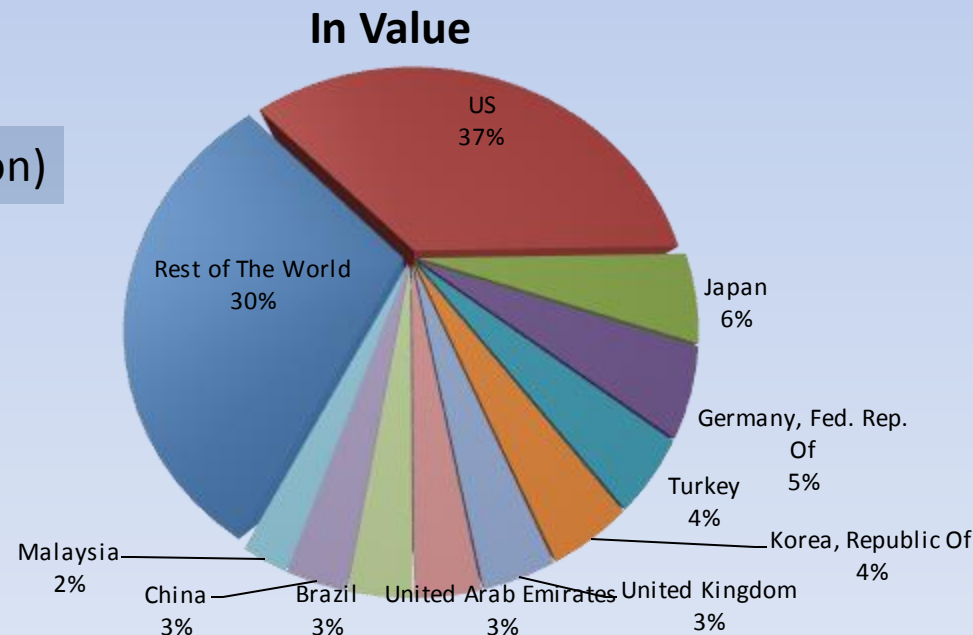United Arab Emirates
3%

United Kingdom
3%

Figure 4 Destinations of Indonesia's TPT Exports, 2010

Where are the major locations of TPT industry?
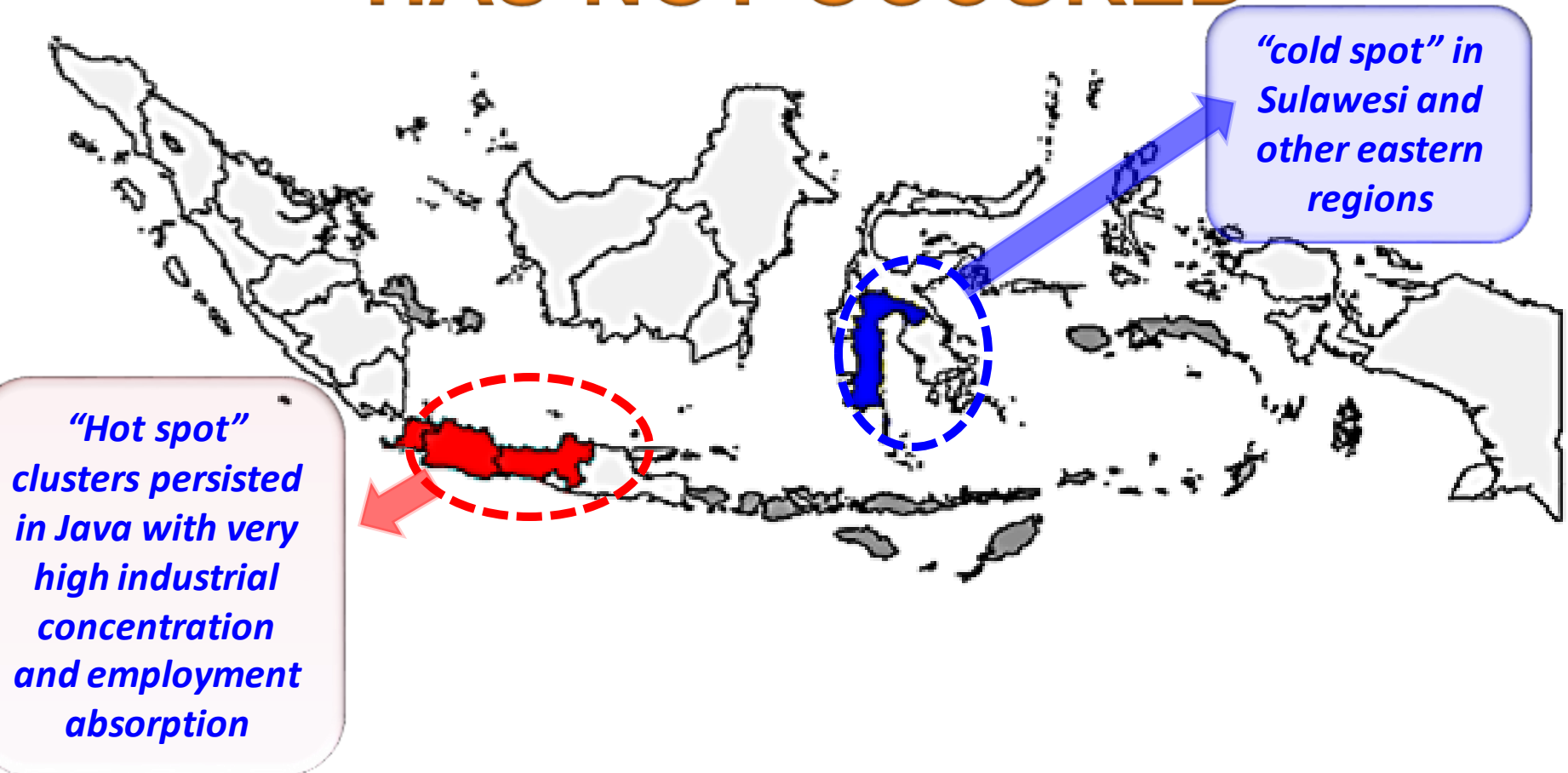## Main Clusters of TPT Industries

- The geographical distribution of the Indonesian TPT industry is highly concentrated on the island of Java, and in particular in West Java.

- Almost 90% of the textile industry is located in Java, and 54.8% are concentrated in West Java alone; for the garment industry, high concentration is to be found in West Java and Jakarta (Chongbo, 2005).

- The industry's locations are mostly concentrated in West Java (57%), Central Java (14%), and Jakarta (17%). These regions can be classified as 'hot spot clusters'. The rests are spread out from East Java, Bali, Sumatera, and Yogyakarta.

Provinces	Employment (Workers)		Value Added (Rp 000)		Number of Firms (Units)	
	2001	2007	2001	2007	2001	2007
DKI Jakarta	109.211	105.619	2.181.238.873	5.488.502.126	577	743
West Java	189.459	222.528	3.282.203.848	7.561.548.533	475	732
Central Java	77.674	87.531	1.423.750.769	2.042.586.415	346	811
DIY	4.523	10.370	61.910.936	339.688.381	32	32
Banten	45.208	46.224	1.024.697.567	4.514.230.885	71	99
TOTAL 5 PROVINCES	426.075	472.272	7.973.801.993	19.946.556.340	1.501	2.417
OTHERS	53.772	50.846	952.722.053	1.218.031.567	516	500
JABODETABEK	237.602	240.855	4.729.338.719	13.751.854.879	802	1.011
INDONESIA	479.847	523.118	8.926.524.046	21.164.587.907	2.017	2.917
TOTAL ALL INDUSTRY INDONESIA	4.385.923	4.624.937	269.629.898.821	598.399.645.156	21.396	27.998

**TABLE 9 Main Clusters of TPT Industries, 2001-2007**

Source: BPS (2002; 2008)

INDUSTRIAL DECENTRALIZATION HAS NOT OCCURED

"cold spot" in Sulawesi and other eastern regions

"Hot spot" clusters persisted in Java with very high industrial concentration and employment absorption

Gi Cluster Map (indo_provinces): TOTALTK, pseudo p (499 perm), row-standardized

- Not Significant (23)
- High (4)
- Low (1)
- Neighborless (5)

TPT Industrial Clusters
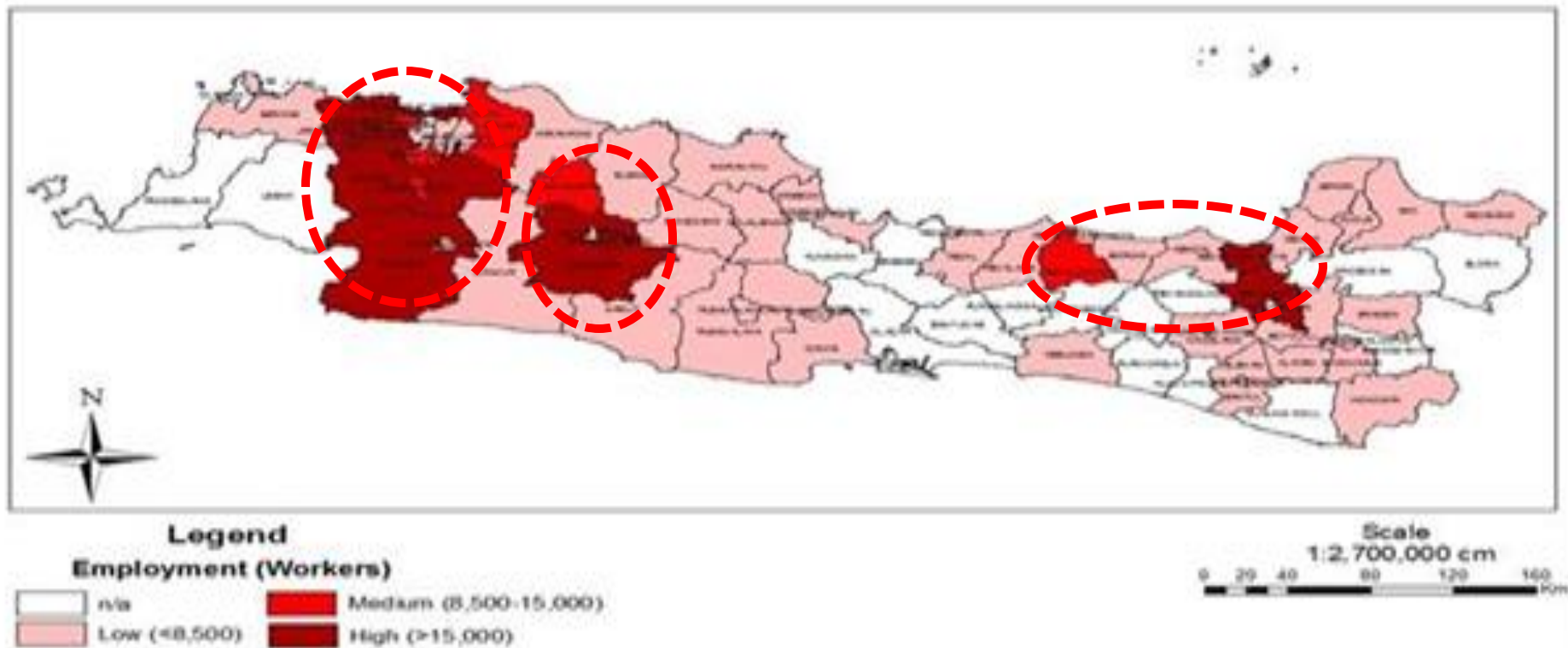
FIGURE 6 Major TPT Industrial Clusters By Employment Per District in 5 Provinces (DKI Jakarta, West Java, Central Java, Yogyakarta, Banten), 2007

- Figure 6 shows a map of TPT industrial clusters in terms of employment by districts.
- Young, single, women workers dominate this labor-intensive industry.
- The major location of TPT industry clustered heavily in the Capital City of Jakarta and its exteded metropolitan regions (Bogor, Tangerang, Bekasi, Sukabumi), Bandung Extended Metropolitan regions (Bandung plus Purwakarta), Semarang-Ungaran corridor, and Pekalongan.

Challenges of TPT Industry

- The biggest obstacle facing the TPT industry is old machineries.
- According to Ministry of Industry, about 80% of 8.38 million unit machineries in 2006 were more than 20 years old. Productivity declined to half.
- With that condition, productivity of TPT industry is estimated to drop 50%. To restructure those old machineries, the industry needs Rp. 44.07 trillion comprising of Rp. 13.26 trillion for spinning industry, Rp. 8.07 trillion for fiber industry, Rp. 20.9 trillion for weaving, knitting and finishing industry, and Rp. 1.84 trillion for garment industry.

Preferential Suppliers	%	Former Asian Large Quota Holders	%
Mexico	0.58	Taipei, China	19.41
Israel	0.94	Hong Kong, China	18.29
ATPDEA	1.14	Macao, China	17.52
Colombia	2.45	Korea, Rep. of	17.51
Jordan	2.71		
AGOA	4.72	Small Asian Suppliers	
CAFTA-DR	4.78	Mongolia	18.32
Egypt	7.89	Lao PDR	16.08
		Maldives Islands	8.10
		Nepal	15.41
Competitive Asian Suppliers		Other Major Non-Preferential Suppliers	
Indonesia	17.88	Turkey	15.72
Philippines	17.00	European Union	13.29
Viet Nam	16.97		
Bangladesh	16.37		
Cambodia	16.35		
Sri Lanka	16.08		
Pakistan	15.40		
India	14.88		
Thailand	13.17		
PRC	11.33		
Malaysia	9.92		

Table 11 Comparison of Average Duties on Textile/Apparel Exports to the US Market (2005)

Source: FIAS (2006)

THE MOST PROBLEMATIC FACTORS FOR DOING BUSINESS, SELECTED ASIAN COUNTRIES, 2011-2012 (% OF RESPONDENTS)

	Malaysia	Singapore	China	Thailand	Indonesia	Philippines
Inefficient government bureaucracy	12.9	2.4	10.9	11.7	14.3	18.3
Corruption	9.6	0.3	8.5	14.5	15.4	24.4
Inadequately educated workforce	8.7	15.0	6.6	8.3	6.3	2.5
Policy instability	8.3	0.7	9.9	12.9	7.4	7.9
Restrictive labor regulations	10.4	16.8	4.5	1.2	3.6	4.6
Poor work ethic in national labor force	7.0	8.1	6.1	5.5	6.2	1.9
Inadequate supply of infrastructure	6.4	6.1	7.8	5.3	9.5	16.5
Foreign currency regulations	5.5	2.8	3.8	6.8	2.3	0.5
Access to financing	10.6	6.3	11.5	3.1	7.2	2.2
Inflation	5.8	29.1	11.6	5.1	6.1	2.0
Tax rates	4.0	7.0	6.9	5.6	4.2	5.7
Tax regulations	2.9	3.7	6.4	2.8	6.0	5.6
Crime and theft	4.1	0.2	0.5	2.0	2.7	5.6
Government inability/coups	2.9	0.7	2.9	15.2	6.1	1.9
Poor public health	0.9	0.7	1.8	0.0	2.5	0.5

Source: WEF (2011)

LABOUR PROBLEM: *hard to hire, hard to fire.. and costly too*
Law No.13/2001 should be reformed in particular minimum wages, outsourcing, redundancy costs, and severance costs.
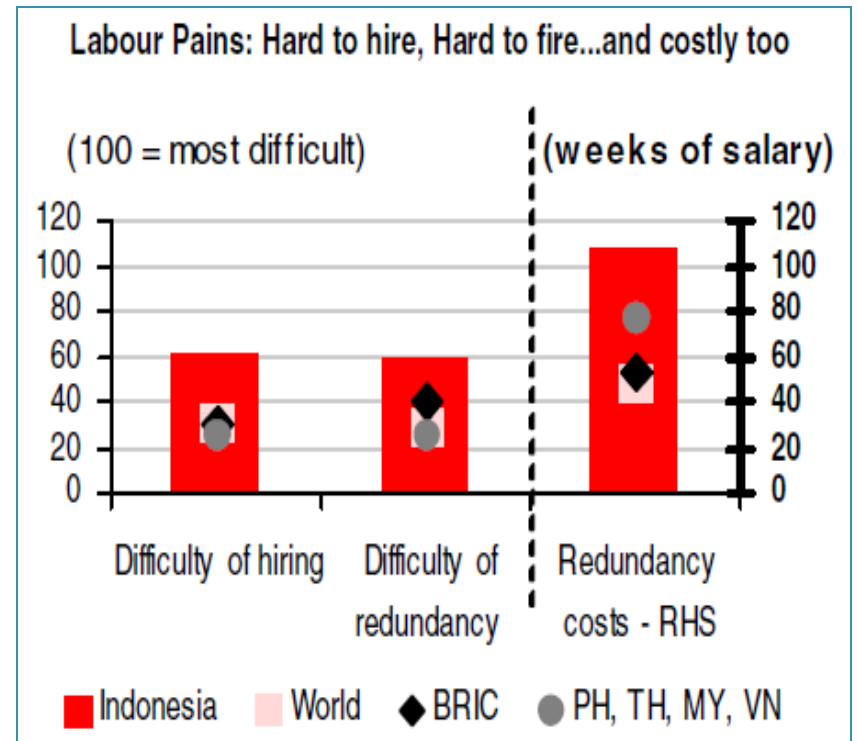
Doing Business: Employing Workers
2010 Rank: **149/183**   2009 Rank: **150/183**

*high values represent rigidity

Indicator	Indonesia	East Asia & Pacific	OECD Average
Difficulty in hiring index (0-100)	**61**	**19.2**	**26.5**
Difficulty of redundancy index (0-100)	**60**	**19.6**	**22.6**
Rigidity of employment index	**40**	**15.8**	**26.4**
Redundancy costs (weeks of salary)	**108**	**42.4**	**26.6**

Indonesia vs. Others

Labour Pains: Hard to hire, Hard to fire...and costly too

(100 = most difficult)   (weeks of salary)

Difficulty of hiring   Difficulty of redundancy   Redundancy costs - RHS

■ Indonesia   ■ World   ◆ BRIC   ● PH, TH, MY, VN

Source: World Bank Doing Business Report 2010, HSBC

Provincial minimum wages (PMW) nationally have icread sharply from 8.19% to 19.1% during 2008-2013.

NO.	Year	PMW in average	Increase in PMW (%)
1	2008	Rp. 745,709.22	10.89
2	2009	Rp. 841,529.55	11.29
3	2010	Rp. 908,824.52	8.19
4	2011	Rp. 988,829.39	8.69
5	2012	Rp. 1,088,902.64	10.12
6	2013	Rp. 1,296,908.48	19.10

Sumber: Kemenakertrans (2013)

➢ **The determination of PMW is based on decent life need and taken into account future inflation and economic growth.**

Labour cost does matter because labour cost contributed about 13.3-17.4% in total cost of TPT industry in Indonesia, after raw material costs.

No	Cost Type	TEXTILE	GARMENT	Shoes	Furniture	Electronic	Wood based	Grand Average
1	Raw Material	63.3	55.5	46.2	44.4	53.6	54.2	51.5
2	Labor	13.3	17.4	25.3	34.5	16.5	24.0	23.6
3	Central Tax	2.0	2.8	5.3	3.9	5.6	4.2	4.3
4	Local charges/ Taxes	2.0	2.2	3.2	3.2	6.0	4.0	3.8
5	Transport	3.3	3.1	5.4	2.7	2.5	3.8	3.6
6	Engine	5.6	3.3	2.5	2.2	4.4	2.5	3.0
7	Gasoline	3.8	2.7	1.5	3.0	2.8	2.5	2.5
8	Lobbying Cost	1.5	2.0	2.1	1.4	3.2	2.5	2.3
9	Telephone	1.4	1.6	1.8	2.5	1.9	2.2	2.0
10	Water	0.4	1.9	1.5	1.7	1.9	2.8	2.0
11	Others	3.7	8.1	11.4	2.9	4.6	3.9	5.9

Source: Based on field survey

Future Trends

- In the future, it is predicted that the consumption of TPT will be increasing each year, in line with the world population growth and the demand driven by lifestyle. For the export market, it is projected that until December 2011, the export value of the TPT industry will reach US$ 12.5 billion, or in other words growing at the rate of 12.6%.

- It is predicted that in 2011 the supply of garment contributed by the local garment industry will only reach 45%, or sales valued at 45 trillion Indonesian Rupiahs.

Million US$	2008		2009		2010 est.		2011 Forecast	
		%08/07		%09/08		%10/09		%11/10
Textiles+Fiber	4,128	-1.0	3,603	-10.5	4,549	26.3	5,171	13.2
Clothing	6,016	7.5	5,659	1.1	6,674	17.9	7,369	11.0
(Textile+Fiber) & Clothing	10,399	3.9	9,262	-3.5	11,223	21.2	12,559	11.9

Improving the Competitiveness of TPT Industry

Figure 7 Improving the Competitiveness of Garment Industry
Source: API (2007)

- Indonesian Textile Association (API) (2007; 2011) argued that there at least 4 measures to improve the competitiveness of the TPT industry: increasing productivity, restructuring, expansion, and adaptable to market structure change.

CONCLUSION

- The TPT industry has played an important role in the top ten Indonesia's non-oil exports and created 1.4 million employment in 2,869 companies.
- To improve the competitiveness of TPT industry requires a thorough understanding of the upstream, midstream, and downstream of TPT industrial chain, its cost structure, and fundamental challenges.
- We have identified some key challenges with respect to TPT industry, includes in particular old machineries, labour problems, and licensing.
- To overcome those key challenges, there should be a significant changes and continuous policy reforms:
  - To cut bureaucratic costs and eliminate multilevel corruption.
  - To offer attractive business climate by reforming labour law.
  - To support 4 measures to improve the competitiveness of the TPT industry as suggested by the API.
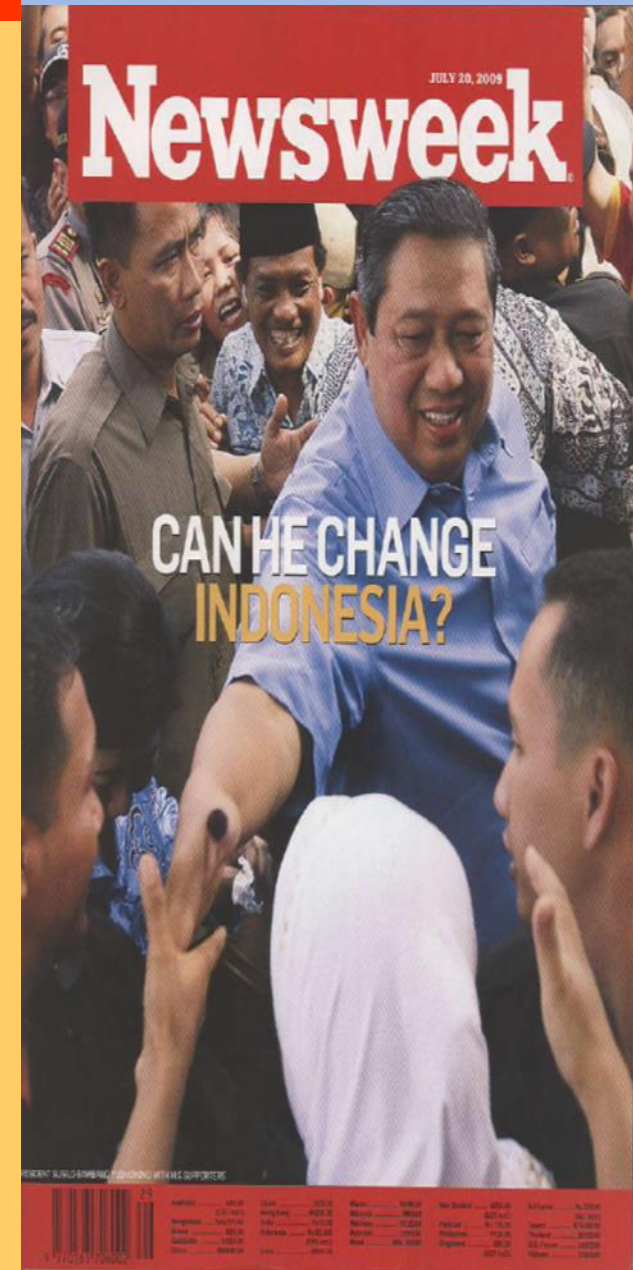
TOP TEN INDONESIA'S COMPANIES IN THE '200 TOP COMPANIES IN ASIA', 1999-2003

2003	2002	2001	2000	1999	Company	Point
3	2	1	1	2	Astra	6.06
1	1	2	2	3	Indofood	5.9
6	5	3	3	6	Sampoerna	5.72
4	3	4	4	1	Gudang Garam	5.55
7	6	5	5	5	Indosat	5.42
8	7	6	8	7	Djarum	5.1
9	10	7	9	-	Telkomsel	5.03
-	-	8	-	-	Satelindo	4.97
10	8	9	7	-	Sosro	4.95
-	-	10	10	-	SCTV	4.94

Source: Far Eastern Economic Review (2003)

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CIGARETTE INDUSTRY HAVE PLAYED A REMARKABLE ROLE FOR EXCISE TAX

Government Revenue from Cigarette Excise Tax: Indonesia, 1970 – 2003 (billions Rp)
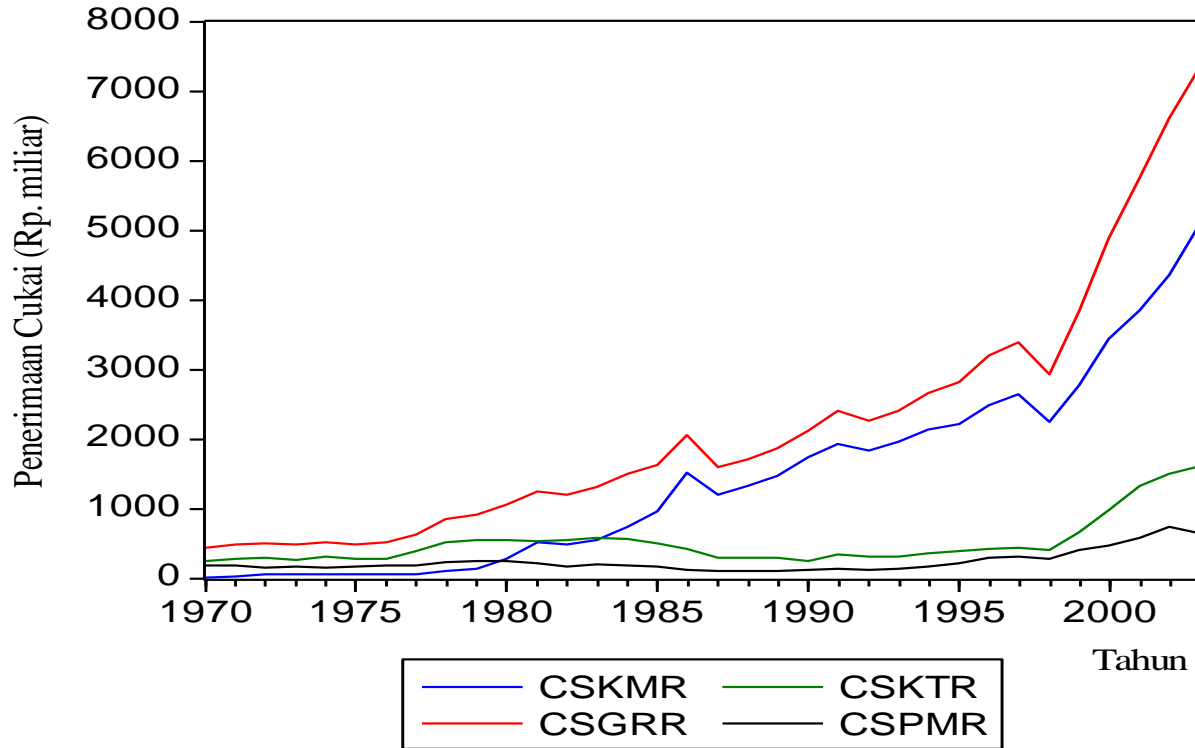

Why Cigarette Industry ?

- Not affected by monetary crisis

- 4 biggest firms predominated

- Labor intensive industry

- Contributor of Excise Tax

Note: CSGRR = Cigarette Excise Tax Total;
CSKMR = Cigarette Excise Taxes from Machined Clove Cigarettes;
CSKTR = Cigarette Excise Taxes from Hand Made Clove Cigarettes;
CSPMR = Cigarette Excise Tax from Machined Imported Cigarettes.
Source: Calculated from Directorate General of Customs and Excise

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INDONESIAN TOBACCO STATISTICS

TOBACCO ECONOMY

Annual per capita Consumption, Three Year Moving Average, 1970 = 100

Level of cigarette consumption compared to 1970

100 ... 189 ... 227 ... 287

1970 ... 1980 ... 1990 ... 2000
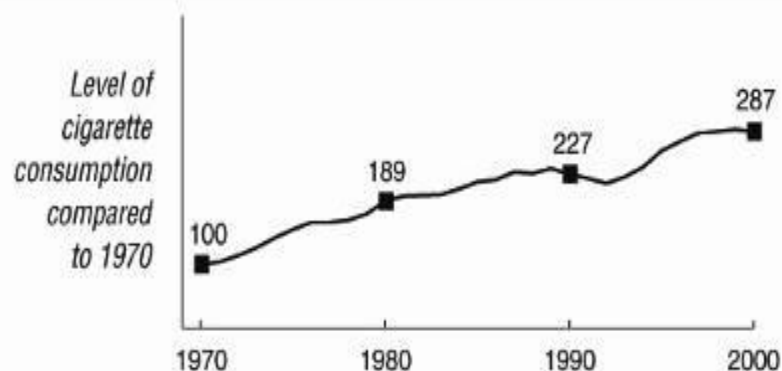
Annual Cigarette Consumption

Year	Per capita Consumption (cigarette sticks)	Total Consumption (millions of cigarette sticks)
1970	469	32583
1980	942	84378
1990	1145	133743
1995	1191	156980
2000	1434	210525

Annual Tobacco Trade and Agriculture Statistics

|	Unit of Measurement	1970	1980	1990	1995	2000
Cigarette imports	sticks in millions	53	602	16	427	562
Cigarette exports	sticks in millions	–	124	21573	29647	22504
Tobacco leaf imports	metric tons	3950	19985	26545	47954	34248
Tobacco leaf exports (% of total exports)	metric tons (%)	16828 (1.98%)	28339 (0.27%)	17401 (0.23%)	21989 (0.14%)	35658 (0.12%)
Cigarette production	sticks in millions	32530	83900	155300	186200	232467
Tobacco leaf production	metric tons	76666	85487	156432	140169	135578
Land devoted to tobacco growing (% of agricultural land)	hectares (%)	170044 (0.44%)	141225 (0.37%)	235866 (0.52%)	216148 (0.51%)	168688 (0.38%)
Employment in tobacco manufacturing	people	132000	158700	204921	344710	–

EXPORT GROWTH OF CIGARETTE IN INDONESIA, 1996-2001

YEAR	CLOVE CIGARETTE		WHITE CIGARETTE		Total	
	VOLUME (TON)	VALUE (US$ .000)	VOLUME (TON)	VALUE (US$ .000)	VOLUME (TON)	VALUE (US$ .000)
1996	26.918	127.198	n.a.	n.a.	26.918	127.198
1997	32.327	136.927	300	490	32.627	137.417
1998	23.931	99.978	87	978	24.018	100.956
1999	23.799	112.514	121	1005	23.92	113.519
2000	22.473	139.222	31	501	22.504	139.723
2001*)	13.123	78.4	39	462	13.162	78.862

Source: Indocomercial (1999; 2002)

*) until June
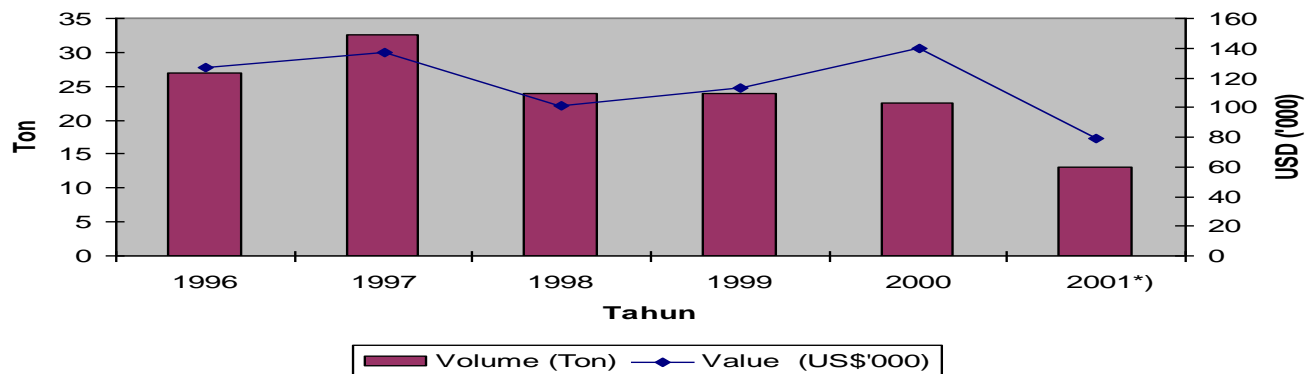
EXPORT GROWTH OF CIGARETTE IN INDONESIA, 1996-2001
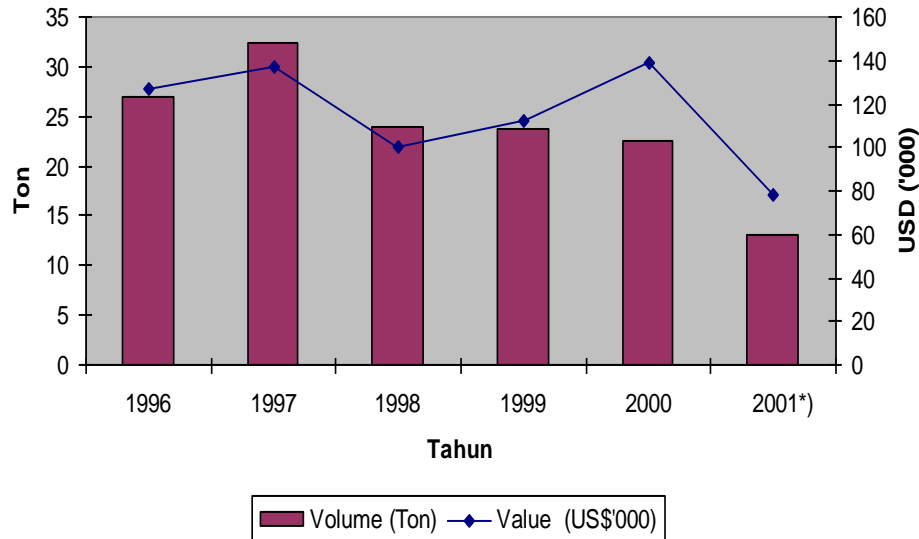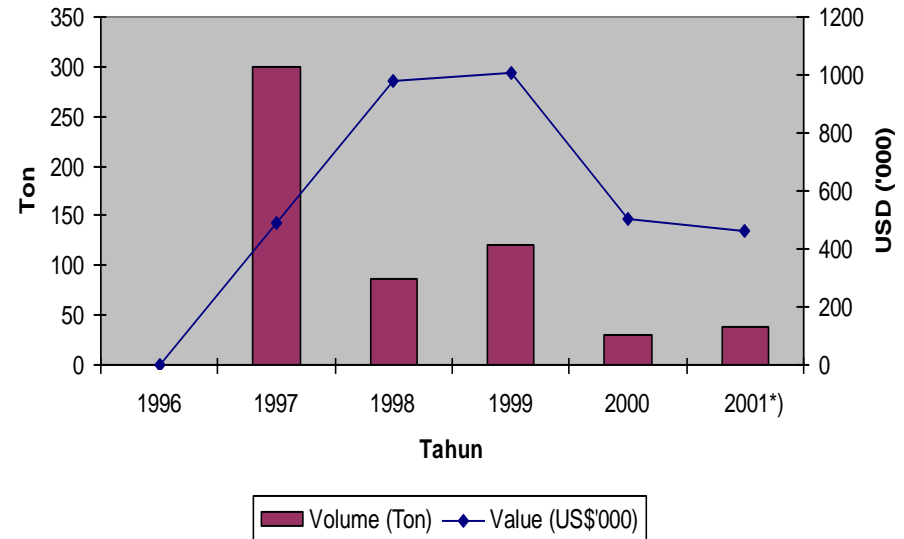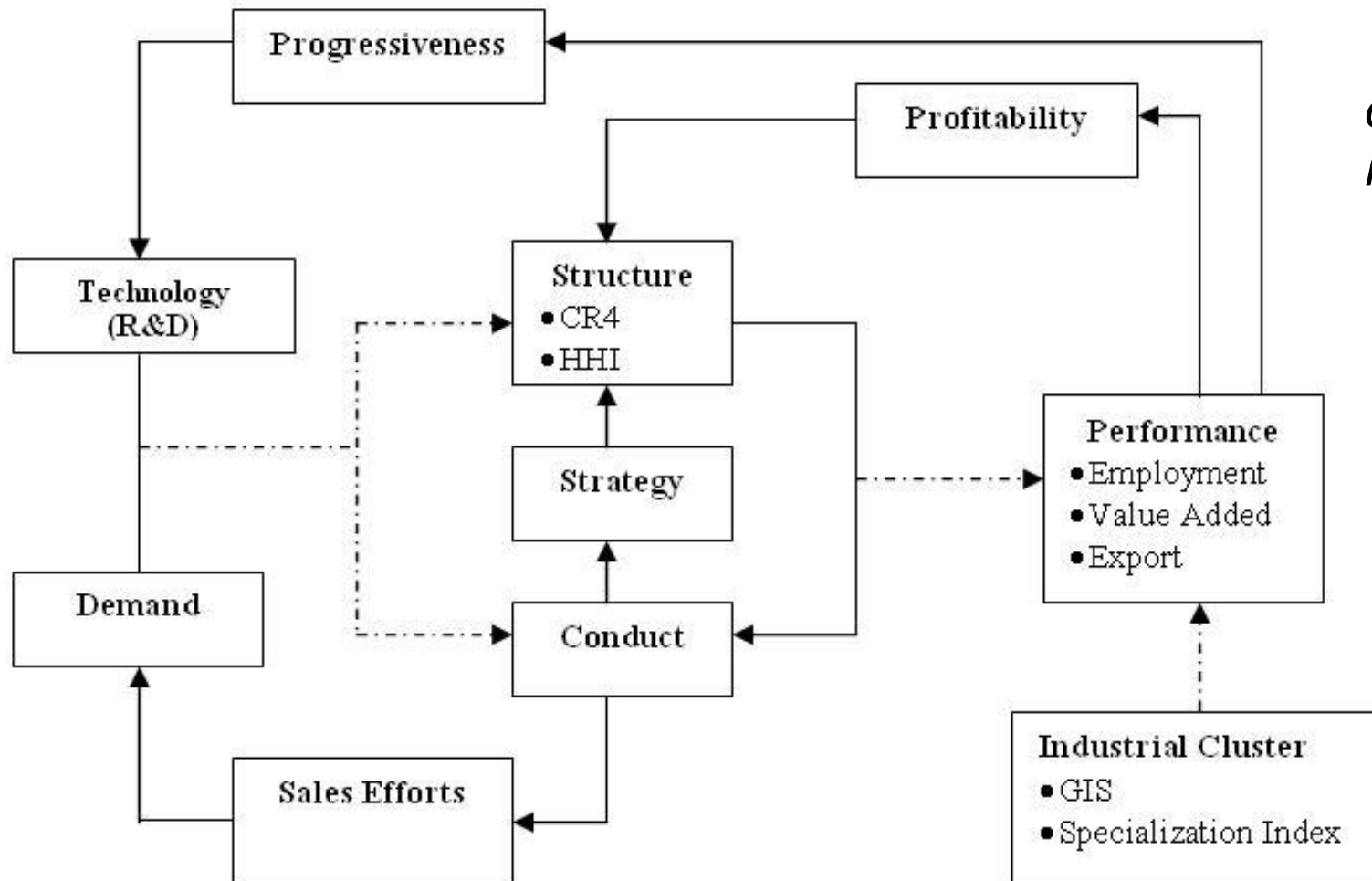
METHOD OF ANALYSIS
SCP and Industrial Cluster Approach

The dynamics of Indonesia's clove cigarette industry will be explored by using Structure-Conduct-Performance (SCP) paradigm and industrial cluster approach

Source: Modified from Martin (1999:7), Kuncoro (2007: Ch. 7)

ANALYSIS OF INDUSTRY STRUCTURE OF CLOVE CIGARETTE

Industrial structure of clove cigarette industry is identified using some industrial concentration indicators:

- **Concentration Ratios:**
  - CR4 is market share of 4 biggest companies. If CR4 = 40%, the industrial structure can be classiffied as an oligopoly.
  - CR 8 constitues market share of 8 biggest companies in an industry
  - According to Stigler, an industry told to have oligopoly structure when having industrial concentration more than 60% (Hasibuan,1993).

- **Herfindahl-Hirschman Index (HHI):**
  - Sum up from square of market share of every company in an industry.
  - HHI has value between 0-1
    - If the value is close to 0, it implies the industrial structure tends to classsify as perfect competition market.
    - If the value is close to 1, it implies that the industrial structure is getting to be perfect monopoly market.

CONCENTRATION OF CLOVE CIGARETTE INDUSTRY, 1996-2003

- **Output of Concentration Ratios**:
  - In terms of CR4, concentration of clove cigarette industry in average is equal to 79.18%.
  - In terms of CR8, concentration of clove cigarette industry in average is equal to 89.94%.
  - According to classification of industrial structure by Bain (1956), industrial structure of clove cigarette in Indonesia is classified as type II (oligopoly with high concentration level).

- **In terms of HHI, average value of 0,28 implies that the structure of clove cigarette industry is not monopoly.**

Year	CR4	CR8	HHI	Total Firms
1996	0.8109	0.9174	0.3131	191
1997	0.8216	0.9071	0.3207	190
1998	0.6807	0.8206	0.2056	204
1999	0.7891	0.8812	0.2716	206
2003	0.8565	0.9706	0.2939	207
Means	0.7918	0.8994	0.2810	-

Source: Processed from BPS (Indonesian Statistics)

INDUSTRIAL CONCENTRATION OF CLOVE CIGARETTE IN INDONESIA, IN 1996 - 2003
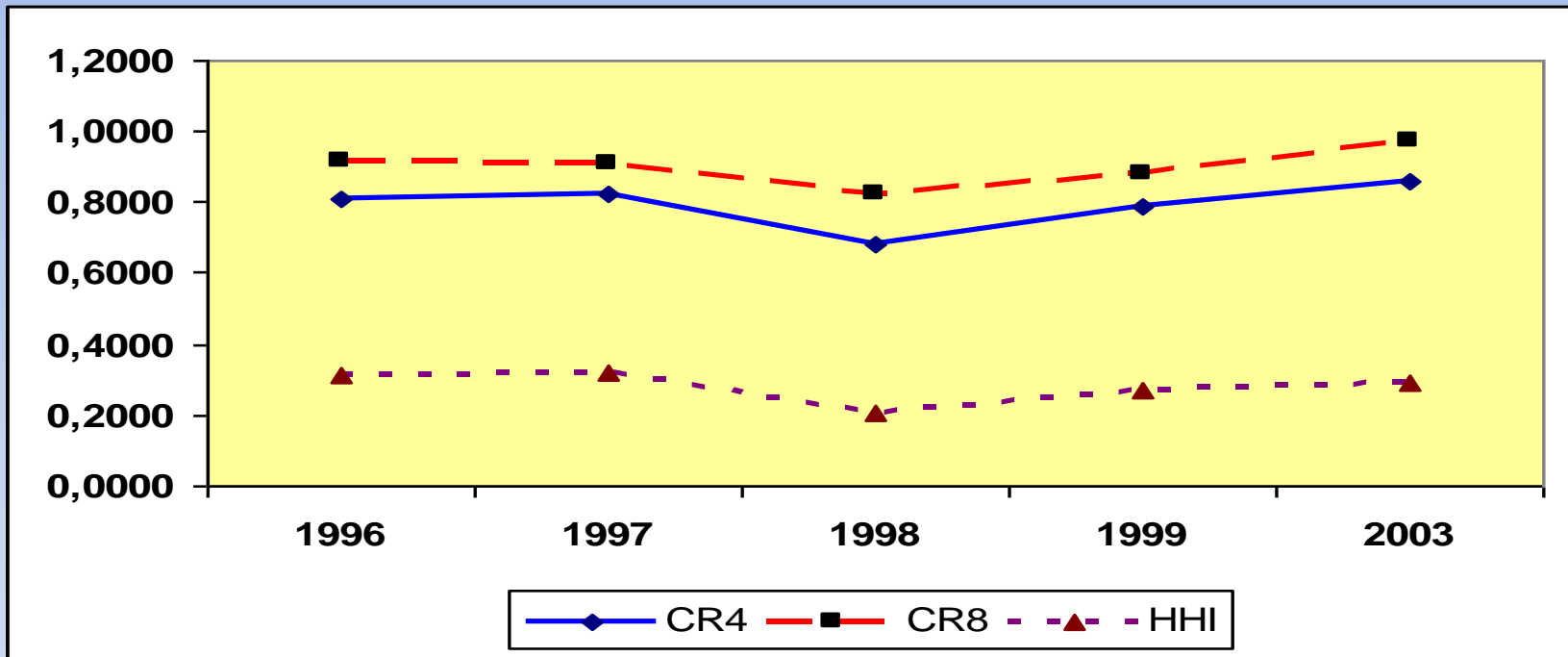
- Declining of industrial concentration in 1998 occurred because of two reasons :
  1. The increase in number of company lessen market share of the 4 biggest companies (CR4)
  2. Economic crisis culminated so that four largest cigarette companies are affected by a sharp drop in demand.

- This findings supports previous study conducted by Hornaday (1994: 129-132) and the Association of Clove Cigarette Factory in Indonesia (GAPPRI). Both studies suggested that clove cigarette industry is dominated by four largest companies, namely PT Gudang Garam, Tbk., PT HM. Sampoerna, Tbk., PT Djarum and PT Bentoel.

ANALYSIS OF INDONESIA'S CLOVE INDUSTRY PERFORMANCE

Share of Clove Cigarette Industry to Total Manufacturing Industry in Indonesia (%)

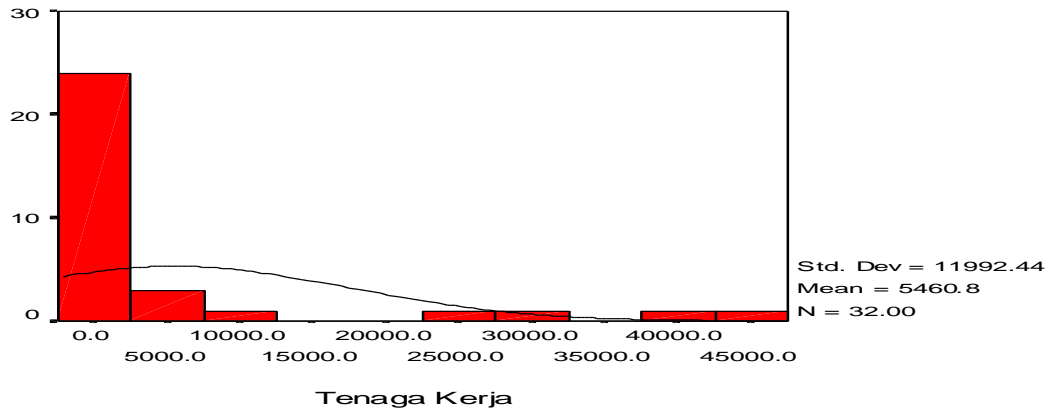| No	Key Variable	1996	1999	2003
1	Employment	4.15	4.65	5.53
2	Value added	8.79	10.15	10.88
3	Number of establishments	0.83	0.93	1.02

Source: Processed from BPS

Share of clove cigarette industry to total manufacturing industry in terms of employment, value added, and number of establishments shows a slight increase between 1996 and 2003.
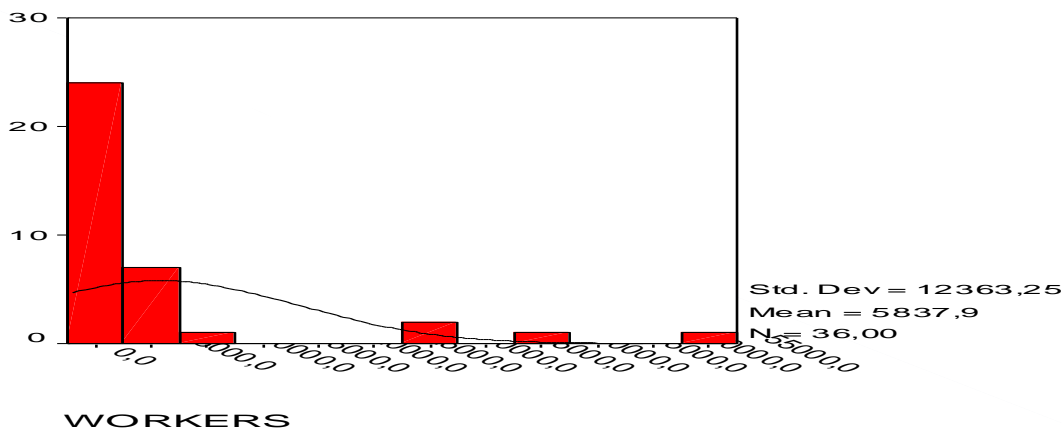
CLUSTER ANALYSIS OF CLOVE CIGARETTE INDUSTRY

- We apply the Geographical Information System (GIS) to identify industrial locations and clusters of clove cigarette firms.

- In 1996 and 1999, Kudus, Kediri, Surabaya, and Malang were classified as a very high level in terms of employment and added value.

- In terms of added value, contribution from four area for the clove cigarette industry in Indonesia is equal to 98.23% (in 1996).

- Average value of specialization index of clove cigarette in Indonesia is equal to 4.15.

Employment Distribution:
Clove Cigarette Industry, 1996 & 2003

Tenaga Kerja 1996

Std. Dev = 11992.44
Mean = 5460.8
N = 32.00

Tenaga Kerja

Tenaga Kerja 2003

Std. Dev = 12363,25
Mean = 5837,9
N = 36,00

WORKERS

The distribution of employment and value-added by *kabupaten /kotamadya* is skewed rather than normal statistically.

The positive skew of the histograms indicates that there are some districts (*kabupaten/kotamadya*) that possess high industrial density (in terms of employment and value added), while most of them contain very low industrial density.

Indeed, there is an evidence of spatial concentration in Indonesia's cigarette clove industry.

GEOGRAPHIC CONCENTRATION

**Main Clusters of Clove Cigarette Industry in Java, 2003**
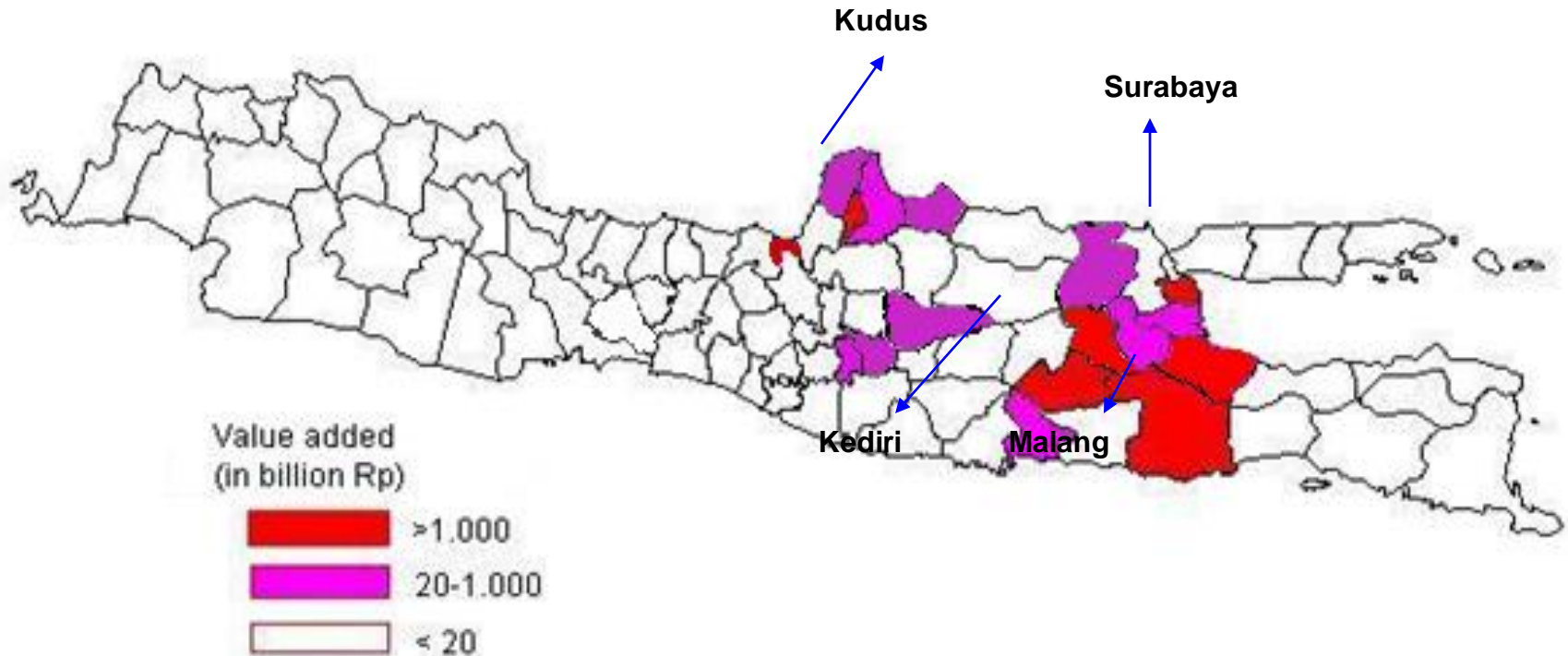
- **Districts that are classified as a very high class in terms of employment and added value have specialization index more than one (Kudus 15.75; Kediri 18.81; Surabaya 3.94; Malang 15.19)**
- **Main districts of clove cigarette shows that there was no change both before and after monetary crisis .**

GROWTH OF CLOVE CIGARETTE INDUSTRY BY REGIONS, 1996, 1999, 2003

- **There's change in terms of clove cigarette industry area.**

- **In 1996, clove cigarette industry was still exist outside Java, e.g. Bali, North Sumatera and North Sulawesi. In 1999, only Middle Java and East Java remained.**

- **In 2003, overall, labor of cigarette industry increased from 1999. But still Jatim was the province that have highest amount of clove cigarette industry labor.**
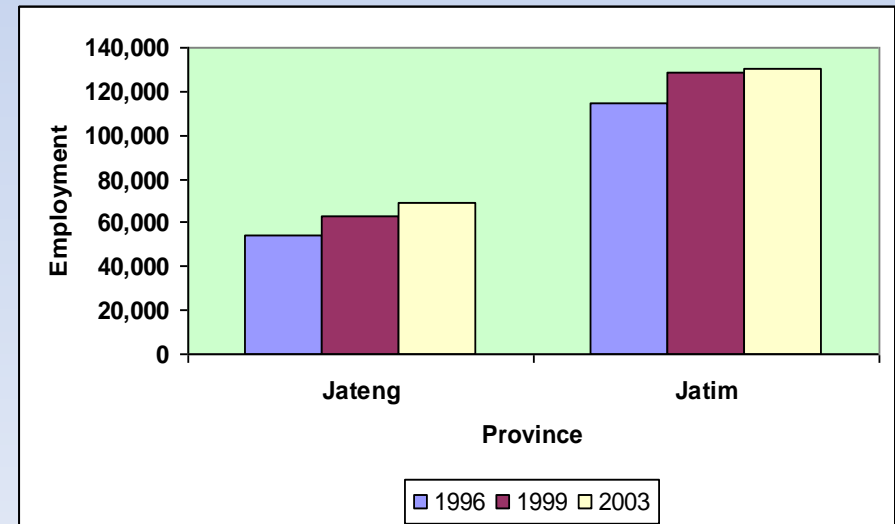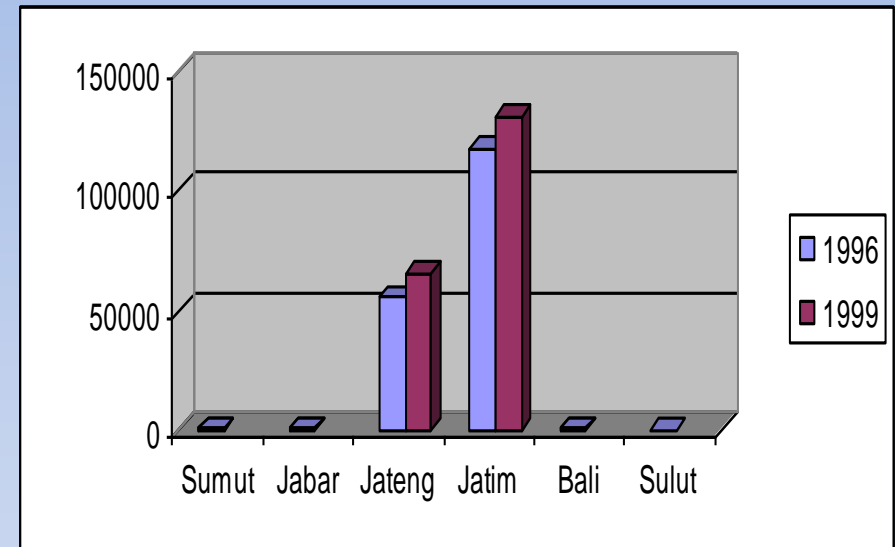
INDONESIAN CLOVE CIGARETTE INDUSTRY

Market Share by Cigarette Manufacturer, 2000

Gudang Garam 36%
Sampoerna (RJR) 17.4%
Djarum 9%
Other 37.6%
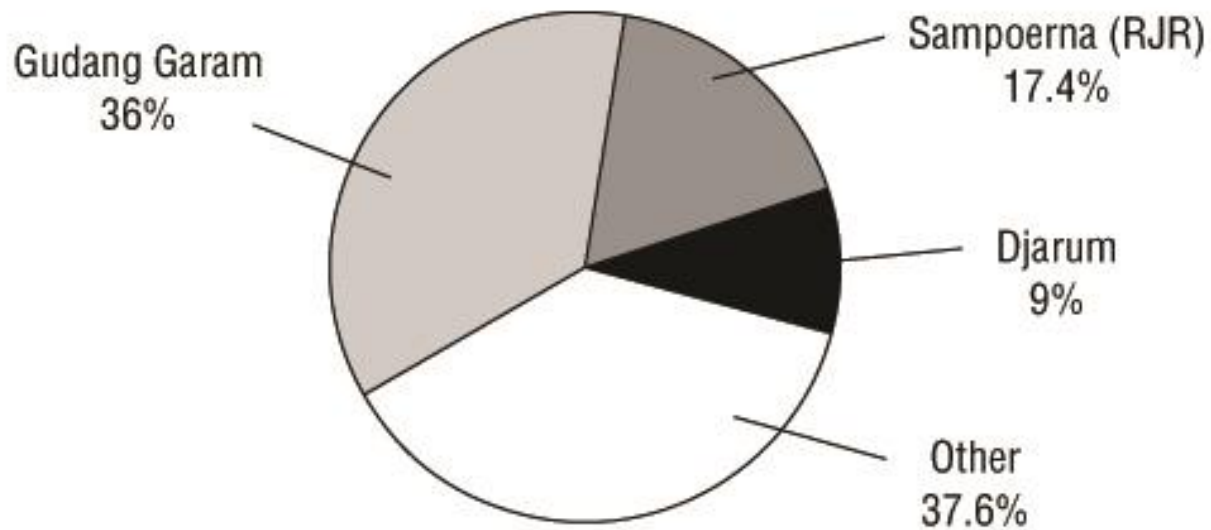
Source: ERC

GUDANG GARAM, Tbk

- *T u r n o v er:*
  - 94% cigarettes ;5% paper ;
    1% service and commerce
  - Sales Value equal to Rp 20,94 trillion (US$2.35 billion) in the end of 2002.

- *Dominate 45% market share*
  - 74,4 billion cigarettes, 83% SKM

- *Prime Products*:
  - GG Filter Internasional
  - GG Surya
  - GG King Size
  - GG Surya Pro

GUDANG GARAM, Tbk

- Labor: 41.461 employees
- Company town: Kediri
- Profit in 2002 only 10% from sales, descending compare by to 2001 (11,6%)
- Share price fall drastically from Rp 20.250 (1999) to   Rp 7.650 (4/4/2003)

Sales Comparisons (Fiscal Year ending 2002)

Company	Sales (US$blns)	Sales Growth	Sales/ Empoy- ments (US$)
P.T. Gudang Garam (Perusahaan Rokok Tjap	2.345	16.5%	56,563
P.T. Hanjaya Mandala Sampoerna Terbuka	1.694	7.6%	44,528
PT Bentoel International Investama Terbu	0.534	23.2%	48,574,257
British American Tobacco (Malaysia) Berh	0.809	2.1%	569,242

PT HM Sampoerna, Tbk

- **Production**:
  - 25 billion cigarettes
  - 62,4% SKT

- **38,053 workers with turnover Rp 15.13 trillion.**

- **Prime Products**
  - SKT
    - Djie Sam Soe (2+3+4=9= means lucky in China belief)
    - Sampoerna Hijau
  - SKM
    - A Mild (Merah 12,16; Hijau 12 & 16)
    - Dji Sam Soe Filter
    - A King Merah & Hijau

Summary of company valuations (as of 4/4/03).

Company	P/E	Price/ Book	Price/ Sales	52 Wk Pr Chg
P.T. Hanjaya Mandala Sampoerna Terbuka	8.0	2.49	0.86	-35.50%
PT Bentoel International Investama Terbu	7.6	0.71	0.16	-51.06%
British American Tobacco (Malaysia) Berh	16.8	16.96	3.62	13.04%
P.T. Gudang Garam (Perusahaan Rokok Tjap	7.1	1.80	0.70	-31.08%

PT BENTOEL

- **During 2002:**
  - **Market share accounted for 23,2% (the highest)**
  - **Sales Value: Rp 4,77 trilion**

- **Labor: 11.000 employees**
- **Pioneer of automatic rolling (1968):**
  - **SKT: Bentoel Merah**
  - **SKM: Bentoel Internasional, Star Mild, Bentoel Mild**

PT Bentoel International Investama Terbu
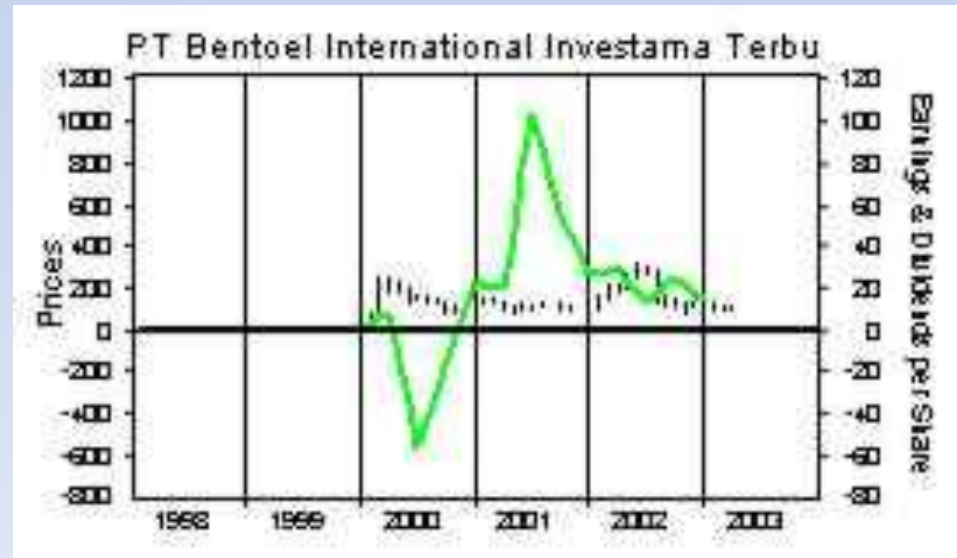
DJARUM GROUP

- **Produce 20,9 billion cigarettes, with 55,5% SKT**
- **Employ 75.000 workers, although there are 64 cigarette firms exist in Kudus with 100.000 workers (Swa, January 2003)**
- **Mission of Djarum:**
  "Kami hadir untuk memuaskan kebutuhan merokok para perokok."
- **Core Values**
  - Customer focus
  - Professionalism
  - Learning Organization
  - One Family
  - Social Responsibility

Products Diversification
  - Domestic Products

  - International Products

DJARUM'S BUSINESS DIVERSIFICATION

Djarum began as one of **King of Cigarette**, then it expanded in various businesses:

- **Bank**

  bought BCA stock collaborated with Farallon Capital; Bank Haga & Hagakita

- **Property**

  WTC Mangga Dua. Mal Daan Mogot, Perum Karawang Resinda, Griya Padma Semarang, Hotel Padma

- **Optics**

  the biggest player in lens.

- **Electronic**

  Polytron & Digitec

- **Textile**

  fashion & garment

- **Funiture**

  Ligna, Kudus Istana Furniture
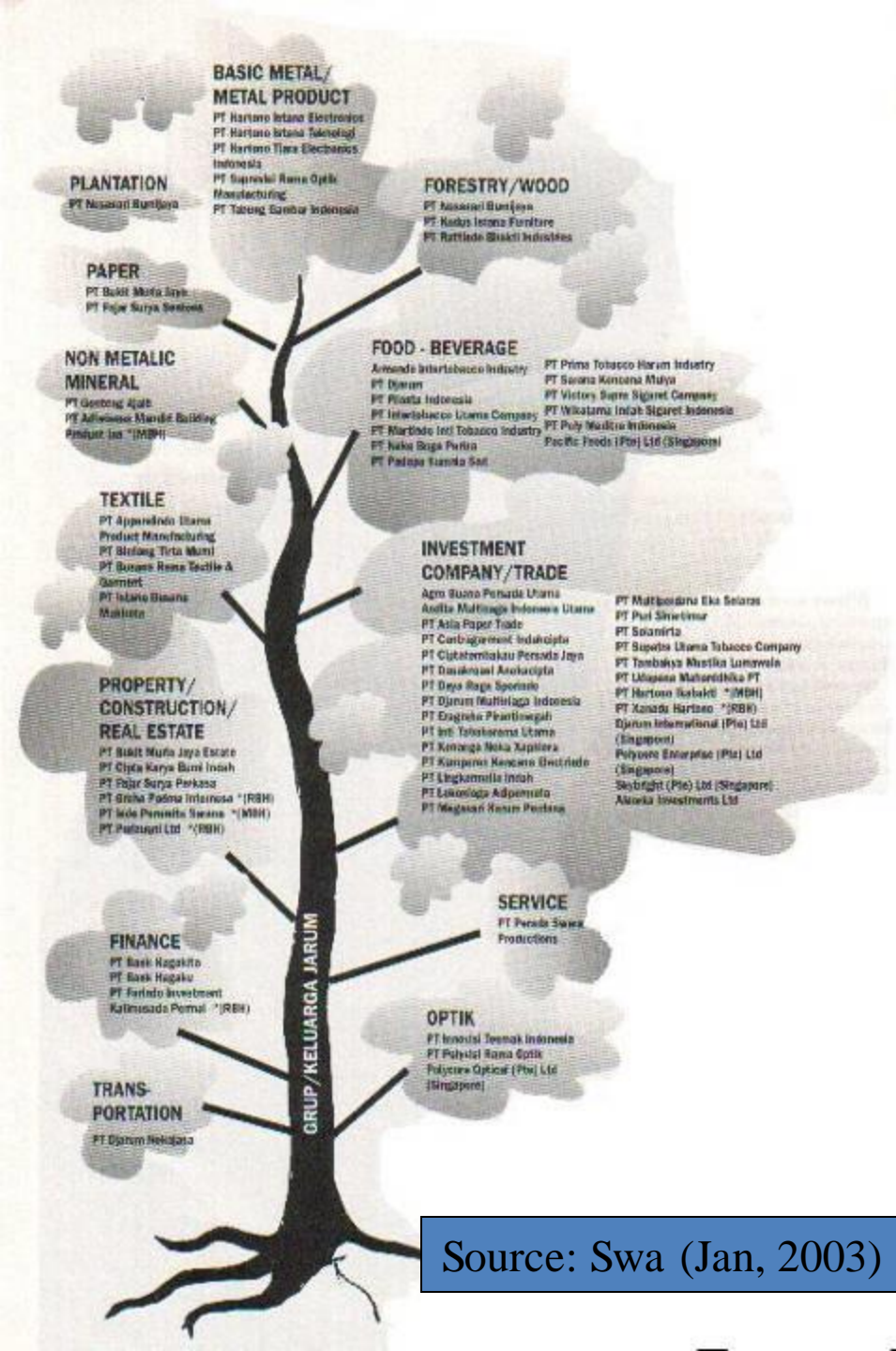
Source: Swa (Jan, 2003)

Non-Dominant Cigarette Players

The Followers' strategy

– Imitate 4 biggest cigarette companies by using a relatively similar design, name and product package

– Offer cheaper price

– Operate in limited marketing areas, which cover only a few subdistricts, districts, or a province

– Employ bombastic advertisement & magic word, such as:

- This cigarette contains very sophisticated tobacco and suitable for academicians (Dja Yen Ng)

- From Ummat (people) to Ummat (people) (Aseng Jaya, 565)

THE WAY TO IMITATE TOP BRANDS

- **234 (DJI SAM SOE)**
  369 (Sam Liok Kioe), 565 (Dja Yen Ng), 33 (Sam Sam), 21 (Dji It), 468 (Soe Laa Pan)
- **Gudang Garam**
  Gudang Gandum, Gudang Gamping, Gudang Rasa

Focus Strategy on Islamic segment: application of Arabic language to convince cigarette as halal products

Key Explanatory Variables in the Empirical Study

VARIABLES	EXPLANATION	HYPOTHESIS
Market share (MS)	Market share of each firm by production workers	Higher market share will increase industrial performance
Research & Development (RD)	R&D spending	Higher R&D spending will increase industrial performance
Productivity (PROD)	Productivity of labour (ratio of output to workers)	Higher productivity will induce higher industrial performance
Concentration Ratio (CR)	CR4 as a proxy of market structure	Higher CR will tend to encourage higher industrial performance
Industrial clusters (DR)	Regional Dummy for industrial clusters, 1=districts with very high and high in terms of employment, 0=otherwise	Regional variation matters in industrial performance
Time dummy (D)	Time Dummy, 1=2003, 0=otherwise	Regional variation matters in industrial performance

Variable	Full Model	Best Model
Constant	10.59* (9.42)	10.32* (10.75)
Market Shares (MS)	2.23 (1.23)	-
Concentration Ratio (CR)	0.81* (8.39)	0.89* (12.91)
Research & Development (RD)	0.02 (0.60)	-
Productivity (PROD)	0.37* (3.00)	0.41* (3.80)
Time Dummy (D)	0.75*** (1.98)	0.67** (2.18)
Industrial clusters (DR)	1.695* (6.25)	1.65* (6.55)
Adjusted R2	0.847	0.851
F Statistic	63.90	97.84
Durbin-Watson stat	1.50	1.49

Determinants of Clove Cigarette Performance

The industrial performance can be explained by SCP and cluster theories. Productivity, concentration ratio, time dummy and industrial clusters influenced industrial performance

significantly.

Note: *, statistical significance at the 0.01 level .
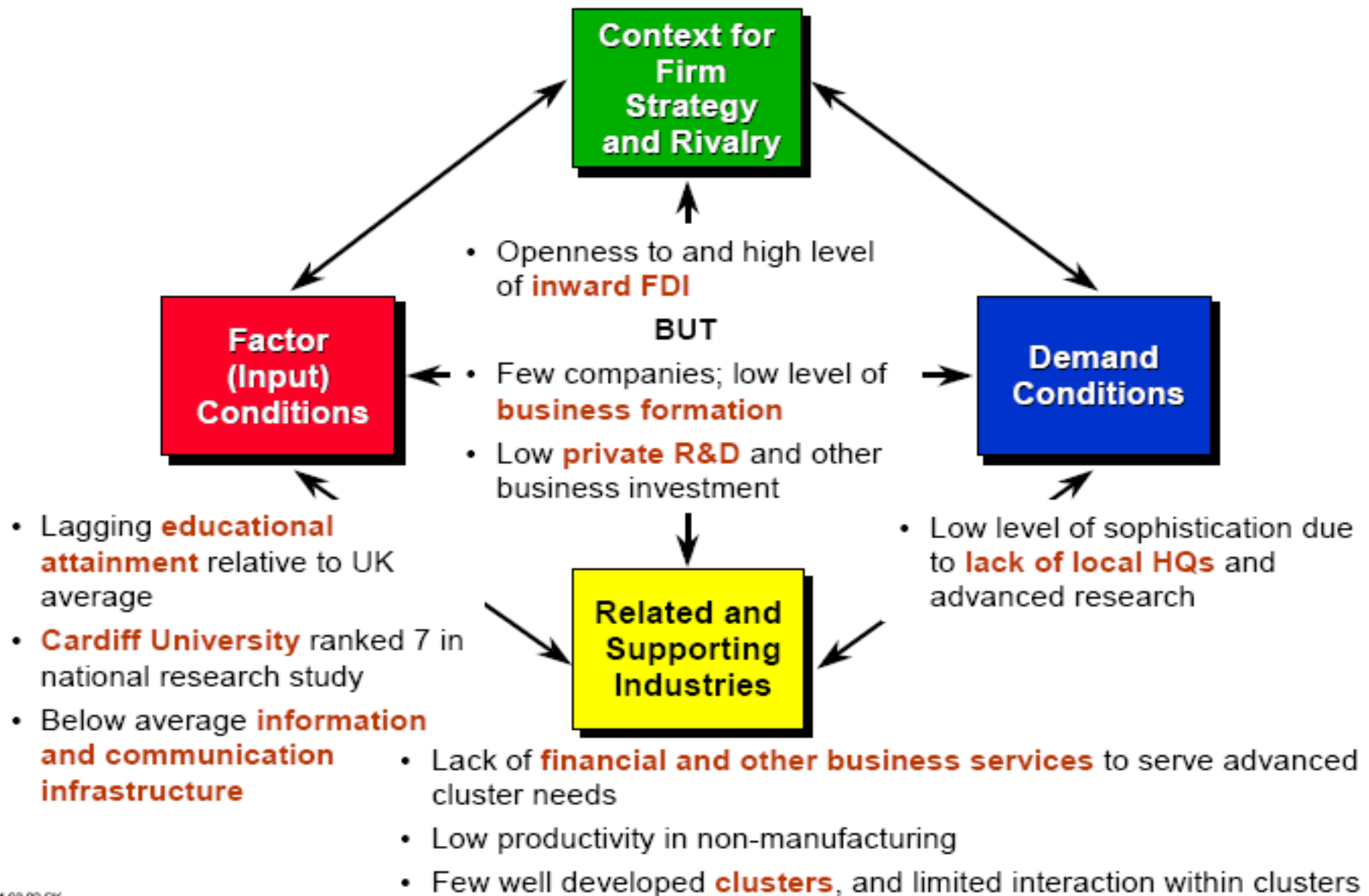**, statistical significance at the 0.05 level.
***, statistical significance at the 0.1 level

The dependent variable is log of value added as indicator of industrial performace. All regressions are are tested by White Heteroskedasticity-Consistent Standard Errors & Covariance test. The t-statistics are in parentheses.

CONCLUSIONS

- This study has found that clove cigarette industry in Indonesia has been complied with characteristics of an oligopolistic structure with high concentration ratio in terms of CR4, CR8, and HHI. Economic crisis, which culminated in 1998, did not change the industrial structure of clove cigarette in Indonesia drastically.

- The persistence of high industrial concentration is coincided with high spatial concentration. We have identified the main clusters of Indonesia's clove cigarette industry in only two provinces, namely Central Java and East Java.

- The most striking feature of Indonesia's clove cigarette industry in which four giant cigarette companies clustered heavily in four districts: PT Djarum in Kudus, PT Gudang Garam in Kediri, PT HM Sampoerna in Surabaya and PT Bentoel in Malang.

Priorities in Enhancing the Microeconomic Business Environment

Context for Firm Strategy and Rivalry

Factor (Input) Conditions

Demand Conditions

Related and Supporting Industries

- Openness to and high level of **inward FDI**

BUT

- Few companies; low level of **business formation**
- Low **private R&D** and other business investment

- Lagging **educational attainment** relative to UK average
- **Cardiff University** ranked 7 in national research study
- Below average **information and communication infrastructure**

- Low level of sophistication due to **lack of local HQs** and advanced research

- Lack of **financial and other business services** to serve advanced cluster needs
- Low productivity in non-manufacturing
- Few well developed **clusters**, and limited interaction within clusters

Wales 04-03-02 CK

Productivity and the Microeconomic Business Environment

Context for Firm Strategy and Rivalry

- A local context that encourages **efficiency**, **investment**, and **sustained upgrading**
- Open and vigorous competition among **locally based rivals**

Factor (Input) Conditions

- **High quality, specialized inputs** available to firms:
  - human resources
  - physical infrastructure
  - administrative infrastructure
  - information infrastructure
  - scientific and technological infrastructure
  - capital resources
  - natural resources

Demand Conditions

- **Sophisticated and demanding** local customer(s)
- Unusual local demand in **specialized segments** that can be served globally
- Customer needs that **anticipate** those elsewhere

Related and Supporting Industries

- Presence of capable, locally-based **suppliers** and firms in **related fields**
- Presence of **clusters** instead of isolated industries

GROUP ASSIGMENT

- Take an industry as a case study. Analyze to what extent the performance of industry is influenced by industry and sectoral policy?

- Deadline of paper submission: one & half month after the lecture.

SUGGESTED WEB SITES

- KEMENTRIAN PERINDUSTRIAN, http://www.kemenperin.go.id
- KEMENTRIAN PERDAGANGAN, http://www.kemendag.go.id
- ASEAN, http://www.aseansec.org
- World Bank, http://www.worldbank.org
- International Monetary Fund, http://www.imf.org
- Badan Pusat Statistik, http://www.bps.go.id
- Bank Indonesia, http://www.bi.go.id
- Kementerian Keuangan, http://www.kemenkeu.go.id

OUTLINE OF YOUR PAPER

1. INTRODUCTION
   – Research question?
   – Outline
2. MAIN BODY
   – Contribution of an industry:Mengapa memilih suatu industri? Pakai data BPS untuk menunjukkan sumbangan industri tsb terhadap total ind manufaktur: nilai tambah, jumlah perusahaan, penyerapan tenaga kerja
   – Overview related macro and sectoral policies
   – Impacts of those policies on industrial performance
3. CONCLUSIONS:
   – Lessons learned
   – Key findings
4. REFERENCES: books, articles (journals, magazine, newspapers, web)