



Signs of recovery but industry asks for help

Generally speaking, the Indonesian economy is still not in good shape but there have been signs of recovery of late.

Despite the economic fall-out from the Bali bomb, the improving macroeconomic situation means inflation is currently hovering around the 10.5% mark - just above the government target of 9%. Combined with the new found stability seen in the Rupiah, this has so far succeeded in persuading overseas investors to stay put, though the situation naturally remains jittery in the wake of the bombing.

The Central Statistical Agency reports that the Indonesian economy grew by 3.9% during the third quarter of 2002 compared with the year before, with domestic consumption being the key driver. This was accompanied by a steady rise in the Jakarta composite index, which in the long run is seen as having a good chance of reaching the 400 level. Balanced against this, however, is slowing consumer consumption, which means the country is unlikely to meet its full year economic target of 4%.

Exports in October rose 4.31% to \$5.32 billion - their highest point for two years - and their second consecutive monthly rise. Although net exports contribute little to overall growth, export sales are seen as creating employment opportunities for the country's 40 million unemployed and it is expected that Indonesian exporters will

need to expand their capacity to meet rising demand.

Mirroring the wider economic picture, the Indonesian leather industry has not done well since the monetary crisis at the beginning of 1998, when the dollar exchange rate rocketed from Rp2 to Rp18. Today, the exchange rate stands at Rp9 per dollar.

As most of the chemicals and machines needed for leather processing are imported, this has inevitably inflated the price of the finished product. Indeed, because of the dramatic decline seen in the domestic consumer's purchasing power, this has led to a situation where many leather footwear and leather goods manufacturers have been forced to reduce their output, or even suspend production altogether.

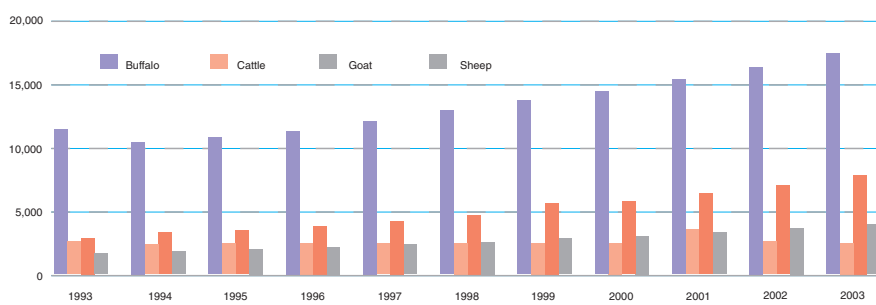
Against this backdrop, most of the country's tanners have taken to exporting

wet blue hides and skins, simply as a means of survival - the export tax on these commodities having previously been abolished by an agreement between the IMF (International Monetary Fund) and the Indonesian government.

The Indonesian finished leather sector's prospects have further been blighted by the fall off seen in the availability of domestic (Java) hides. As hides sourced from the USA and Australia are still seen as being too expensive, imported hides have largely become the sole preserve of joint venture operations. The picture is no brighter in relation to small skins (sheep /goats) for the production of shoe upper, garment and glove leathers for export, as most of these raw materials are exported in pickle and wet blue state.

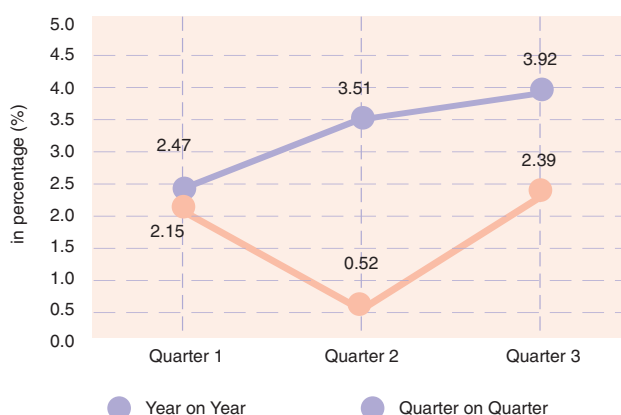
The supply of domestic raw materials could best be described as very bad.

Supplies of raw materials in tons



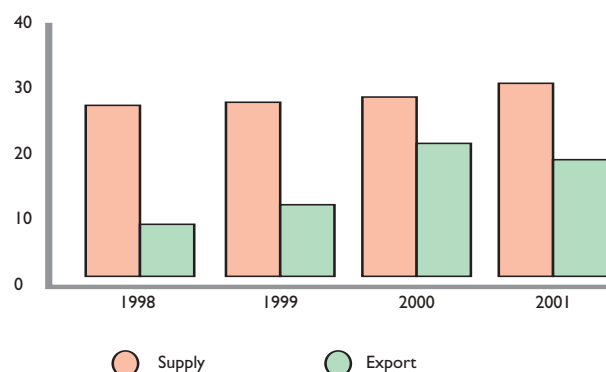
Source: Ditjen Peternakan

Economic Performance (GDP)



Source: Jakarta Post

Supplies and export of raw hides/skins in thousands of tons



Source: Biro Pusat Statistik



Because an estimated 70% of the country's raw materials are exported in wet blue or pickled form, domestic tanners are currently securing around only 30,000 of the 70,000 tons of dry hides and skins they need to keep going. To overcome the shortage of sheepskins (hair sheep), tanneries used to import pickled skins from Ethiopia. However, they are now no longer able to do so, due to the government's ban on import of any kind of skins from Africa - even in their pickled state.

Performance of the leather industry in

1996 was \$2.4 billion, falling to \$2 billion in 2001. In an attempt to reverse this decline, the Association of Indonesian tanners has suggested that the government imposes an export tax on hides in both their raw and semi-processed (pickled/wet blue) forms.

The Indonesian shoe industry is also seeking government support to enhance its competitiveness. According to the secretary general of the Indonesian Footwear Association (Aprisindo), Djimanto, a multitude of problems had left the sector unable to compete with

producers from other countries, such as China and Vietnam. The main reasons cited were rising production costs, high interest rates, government-level corruption and the lower productivity of workers in Indonesia compared with China and Vietnam.

Djimanto's statement was given an added degree of urgency by reports of closures among a number of shoe producers, due to the termination of supply contracts by foreign buyers. Most publicly, the giant US sports company Nike ceased orders from PT Doson Indonesia, resulting in 30% of the workforce being laid off. It also prompted a massive demonstration on November 19, by thousands of former workers seeking severance pay.

Despite ending its relationship with PT Doson, Nike Indonesia's general manager Jeff DuMont said the company remained committed to the country as part of its 'global strategy'. However, chairman of Aprisindo, Herry Rumawatin, said in a statement that Nike had reduced orders from its Indonesian subcontractors by around 40% - an assertion that Nike continues to deny.

Djimanto confirmed that government support was now being sought to boost the industry's competitiveness. As part of this, the Regent of Tangerang, Agus Djunara, had written to the Minister for Trade and Industry, Rini Suwandi, requesting that steps be taken to resolve the problem.

But there is one bright spot in that the Indonesian leather sector is among several that now stand to gain from an \$8-million grant from the United Nations Industrial Development Organisation (UNIDO). The grant is aimed at encouraging the development, small- and middle-sized enterprises (SMEs) and bringing environmental improvements to industry. This Memorandum of Understanding (MoU) for the grant was signed by Indonesian Ministry of Trade and Industry Rini Suwandi and UNIDO Director General Carlos A. Magarinos at the Ministry of Trade and Industry in Jakarta at the end of November.

Speaking to local correspondents after the meeting, Suwandi said the government had already appointed the leather tanning industry in Jogjakarta as a pilot project and that \$1.5 million of the total had already been disbursed for this and other projects. ●