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Problems of Development in Indonesia with Particular Emphasis on the Textile Industry

THE REPUBLIC OF INDONESIA is a densely populated country of about 120 million people with an annual increase of about three million. Its land area is made up of some 3,000 islands.

The country is rich in natural resources and possesses oil, tin, bauxite, nickel, diamonds, manganese, coal, asphalt rocks, sulphur, gold, silver and natural gas. The area of arable land is estimated at 180 million hectares, or about 1½ hectares *per capita*. Offshore fishing is facilitated by numerous wide beaches. Indonesia is potentially a very rich country but its potentialities have not been fully exploited.

The main problems hindering development are shortage of capital, insufficient knowledge of development techniques and a lack of expertise.

Shortage of capital

Most of the country's resources are unexploited, the standard of living is low and the budget is usually not balanced. The lack of exports causes a shortage in foreign currency and the low *per capita* income makes it impossible to save and create new capital, although there are profit making agricultural, commercial and industrial enterprises.

Bank loans are difficult to get and if granted the rate of interest is extremely high (five per cent per month). The rate of profit in commerce and industry is also high and Indonesia has recently suffered from inflation when the value of the rupiah fell rapidly. As a result, in 1966 the Government nationalized nearly all large enterprises and foreign employees were obliged to leave.

Insufficient knowledge and expertise

The Government is developing industries that are dependent on loans from foreign countries and job oppor-

Machinist at the Patal Bandjaran textile factory

tunities are being created in these projects for Indonesian young people who are recent high school, academy, or college graduates. It is government policy to appoint Indonesians to the chief positions in such projects.

Finding qualified Indonesians for top management posts vacated by foreigners has been a great problem. To develop an efficient managerial staff for an enterprise requires considerable time. Candidates for top management posts should have four or five years of specialized training at the university level plus considerable managerial experience. After the nationalization of industries a managerial gap was created in many Indonesian enterprises.

Measures for reconstruction

Economic measures have been taken recently in an attempt at reconstruction. The most important of the measures are:

1. Rescheduling debts

Because of inability to pay its debts and the imbalance of the annual budget, the Government negotiated with its creditors for long-term credit.

2. The Five-year Development Plan

The Government has announced a plan for development (1969–1974) aimed at the rehabilitation of industries and the encouragement of new projects or the expansion of existing ones. This plan has been drawn up with the aid of United Nations experts.

3. The annual budget

In order to execute its Five-year Development Plan or "Repelita" as it is called, the Government has organized its annual budget and divided it into two parts, one for normal services and the other for development. The first part must be covered by revenue and the second part by special revenues and loans.

The Government has succeeded in balancing the first part of the 1970–1971 budget, allocating some income to help in financing the development programme with the assistance of foreign and private capital investments. To date there seems to be a possibility of executing most of the projects of the second part.

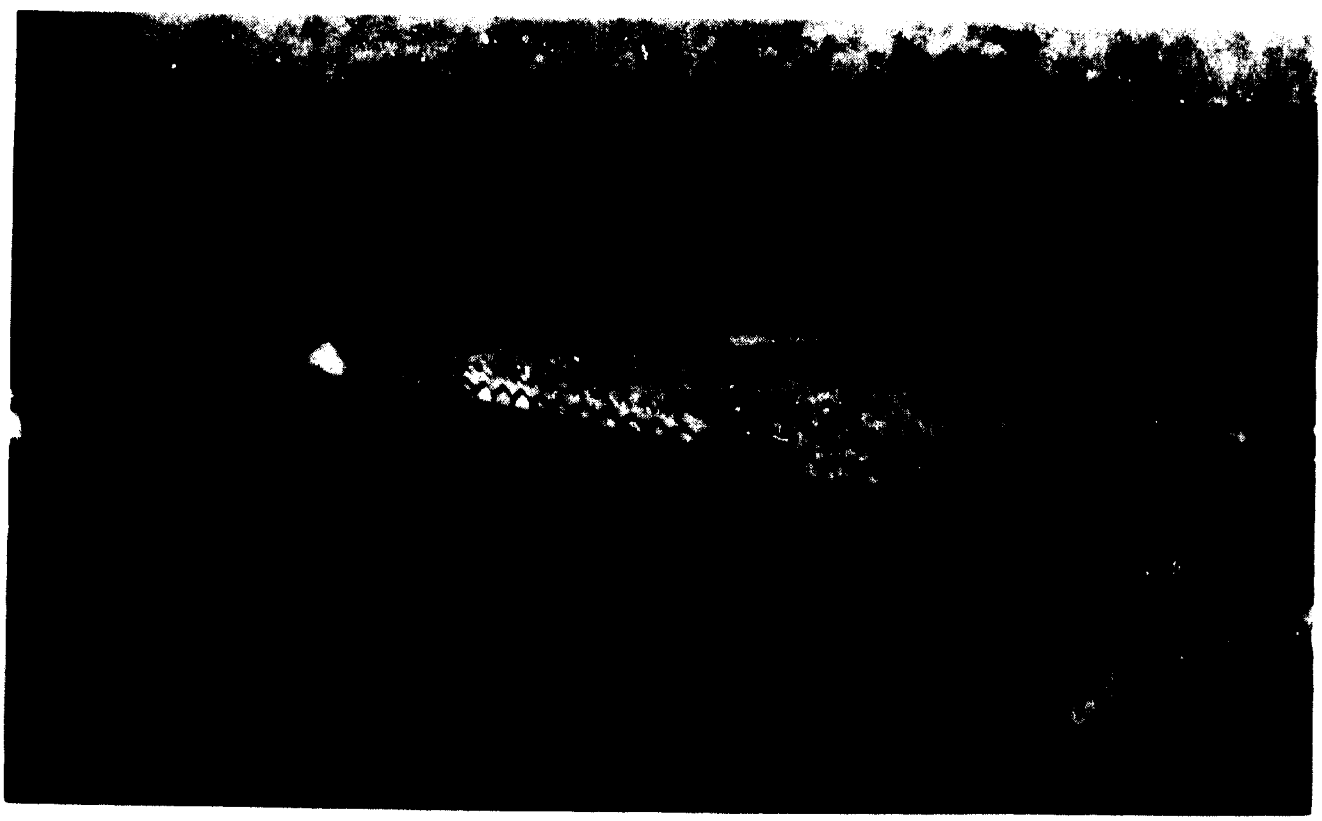
4. Foreign aid

Donor countries are assisting Indonesia by giving aid or long-term loans at low interest rates. In addition, a comprehensive United Nations programme of technical assistance has been launched in nearly all branches of activity.

5. Fellowships

A number of UN fellowships are being offered to help train workers to build up Indonesia's technical and managerial staff.

Patal Bandjaran about fifteen km south of Bandung with a capacity of 30,784 spindles. This is one of the factories that has made significant progress



6. *Act No. 1/1967 on Foreign Capital Investment*

One of the most important measures in the development of Indonesia was the Foreign Capital Investment Law passed in 1967. Its object is to attract foreign investment to take part in the modernization, expansion and rehabilitation of Indonesian industries.

The main advantages for foreign investors provided by the law are:

- Exemption from corporation tax on profits for a period of up to five years and exemption from dividend tax for a similar period;
- Authority to select the management and to recruit foreign technicians for positions that Indonesians are not yet capable of filling;
- Exemption from import duties for equipment, machinery, tools and initial plant supplies, and
- Exemption from capital stamp tax on foreign capital investment.

The new law authorizes the Government to grant an additional reduction of the corporation tax by 50 per cent, or to grant complete exemption for a period not exceeding a further five years after the initial tax free period. The granting of this additional reduction is particularly applicable to important projects in the economy.

Foreign capital enterprises have the right to transfer current profits, expenses for foreign employees in Indonesia, depreciation of the fixed capital assets, compensation in the event of nationalization and other costs that may be specified by the Government in the original currency. Capital repatriation is not permitted while exemption from corporation taxes is in effect.

In 1967 Indonesia signed a bilateral agreement which enabled the United States to offer insurance to its nationals against losses incurred in Indonesia because of nationalization, inconvertibility of currency or damage due to war, revolution or insurrection.

Results

The results of the economic policy adopted since 1967 have materialized in 1969. Although economic growth was only 2 per cent while the increase in population was 2.5 per cent, economic growth in 1969 shows an upward trend compared with 1968. It is estimated that 1970 will show further increases. Taking 1969 as a starting point, the future appears more hopeful. A growth of 6 per cent to 7 per cent in the economy or 3.5 to 4.5 per cent *per capita*, which is considered satisfactory in developing countries, should be realized if the targets of the Five-year Development Plan are to be achieved. There was an increase in quantity and quality of industries producing paper, cement, glass, cigarettes, coconut oil, cooking oil and tires. The most outstanding increase was in textiles where a 30 per cent increase in 1969 over 1968 was achieved.

Development problems in the textile industry

The textile industry is the most important of the manufacturing industries of Indonesia because:

- It employs 30 per cent of the total number of workers in manufacturing;
- It supplies the population with one of its most needed commodities;
- Its techniques are quickly learned thus making it an industry suitable for a developing country;
- Its *per capita* expenses are low compared with other industries.

The Government therefore has given textiles priority in the Repelita 1969–1974.

The chief problems in the textile industry are:

1. *Imbalance in the potential capacity of its sectors*

The capacity of the mechanical automatic weaving looms working in three shifts, and of the hand looms working in one shift, is sufficient to supply demand, but the existing spindles are unable to supply more than 30 per cent of the weaving requirement.

2. *Small size of the weaving sheds*

This affects the economics of the units where liquidity is short and the ability to obtain loans is difficult. In the finishing there are some good units, and others of the same size as in the weaving sheds. The spinning units are mostly of a reasonable size.

3. *High cost of production in spinning owing to:*

(*a*) Low productivity of the machines. Productivity was only 30 per cent in 1967—it increased to 40 per cent in 1968 and to 50 per cent in 1969; and (*b*) The high density of labour. The number of workers per unit has been found to be more than three times the number in similar units in the developing countries of South America.

4. *The low degree of integration with bad internal communication*

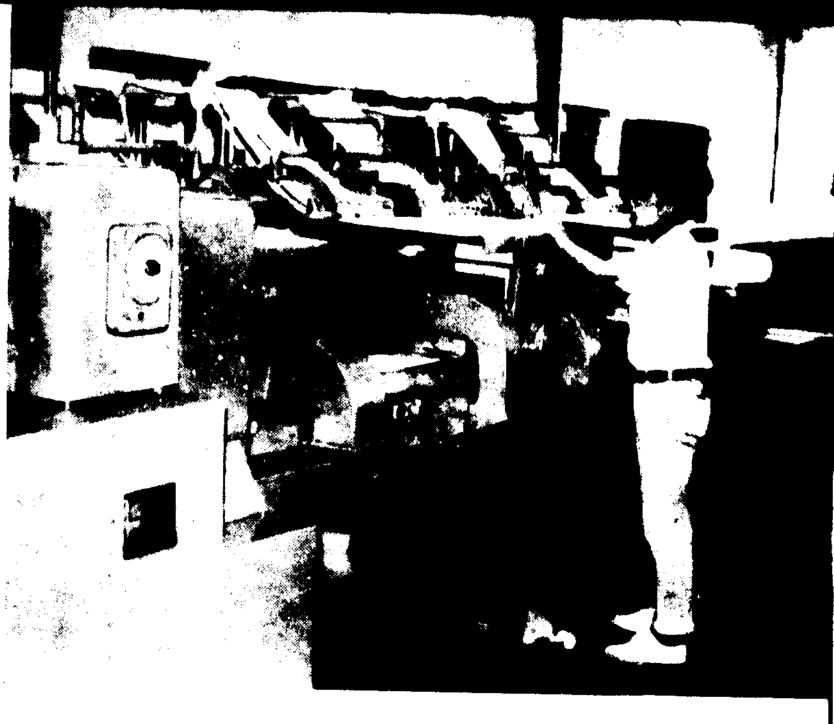
Because of the bad roads and the distances between the spinning units and the weaving sheds the cost of yarns varies from one location to another as a result of high freight charges. Moreover, the weaving sheds are obliged, in these circumstances, to maintain a large stock of yarn to ensure a regular supply.

Owing to lack of finance the weaving units mostly work only one shift instead of three and some stop completely during the off season.

This occurs when there are large quantities of finished material to be imported and sold.

At the present time the textile industry is working in unfavourable conditions. There is very low productivity, a high density of workers, a low degree of integration, insufficient management skills in production and in marketing, and a shortage of finance. These factors lead to high cost of production and the inability to compete with imported materials.

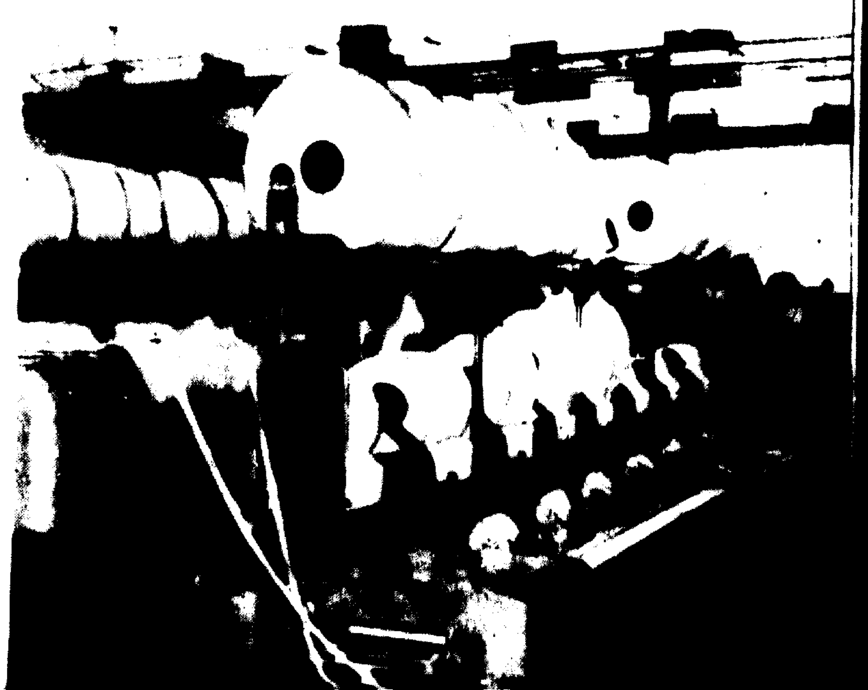
Among the measures taken to improve conditions are:
1. With assistance from UNIDO experts and donor countries, rehabilitate existing units, specially spinning, and increase production to 320,000 bales of yarn yearly compared with 160,000 bales in 1969 and 129,000 bales in 1968;
2. Decrease the import of textiles, double the production of yarns and increase the finishing capacity by 40 per cent and weaving by 23 per cent;
3. Teach workers to operate more efficiently through a programme of technical instruction planned by UNIDO and the donor countries in conjunction with the Directorate General of Textiles. Workers may be trained in Indonesia or abroad;



Interior of the Patal Bandjaran factory

4. Give priority for extension to existing units to enable factories to absorb the surplus labour;
5. Encourage the small weaving sheds to amalgamate into co-operatives which will bring them the benefits of mass-production;
6. Increase the level of integration which will assist in improving production;
7. Improve management by adopting scientific methods such as: quality control, efficient planning and control, costing system and budgetary control, payroll systems and the adoption of incentives.

A special fund project has been requested from the United Nations through UNIDO to assist in executing this development programme.



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