



The finishing department in the Budi Makmur tannery in Yogyakarta. The Indonesian government wants to help footwear factories and the tanneries that supply them invest in new machinery. CREDIT: WTP

Indonesia aims high

The industry ministry in Jakarta has revealed details of plans that 22 footwear manufacturers from Korea, Taiwan and China have for expanding their production in Indonesia. According to the ministry, the companies' expansion plans could lead to the creation of 60,000 new footwear industry jobs in the country. Ministry secretary-general, Ansari Bukhari, said these manufacturers want to set up or expand production facilities in Indonesia and have asked for government support in ensuring the availability of workers. This emphasises once again why footwear is such a popular industry in developing economies: it's labour intensive and creates large numbers of jobs, something that's of particular importance to the Indonesian government at the moment because of the size of the country's population, almost 240 million, and the need to create jobs, particularly for young people leaving education.

"We've agreed to provide training for trainers. Those trainers will then train workers for the 22 companies," Ansari Bukhari said at a press conference covering the Indonesian industrial sector's 2010 performance. He said providing enough workers for the footwear companies would be a challenge because people with stitching skills

The government in Jakarta has confidence in Indonesia's future as a footwear sourcing destination. It is setting up a new training programme, which it hopes will make 60,000 skilled shoe workers available to footwear manufacturers who are keen to outsource more of their production to the world's fourth most populous country.

were required. The idea behind employing professional trainers was to make sure companies coming to Indonesia would be able to find enough workers with the right skill-set.

Internal improvement

In parallel to these moves to help attract investment from manufacturers from outside Indonesia, the industry ministry has allocated approximately \$20.4 million for 2011, on a programme to revitalise the businesses of

Indonesian manufacturers in a number of industrial sectors, including footwear production. Director general of the ministry's manufacturing industry division, Panggah Susanto, said on announcing this development that the proportion of this financial aid earmarked for footwear would be distributed to 20 shoe manufacturers and tanners to allow them to replace ageing machinery. Under previous initiatives of this type, the government has issued money in the form of loans that companies need to pay back over time, but the help in not having to find independently the capital required for an equipment overhaul will be very welcome.

"We expect that with improved technology, the firms can be more productive and efficient, and therefore they will be more competitive," he said. He added that with better production and increased output, the local firms might also win a greater share of the global market.

Whether the manufacturers that are looking to boost their production are local or from overseas, Indonesia's role in the global footwear industry is growing in importance. Most observers believe that big footwear brands in Europe and North America and their Asian-owned outsource manufacturing partners are placing greater faith in and more importance on Indonesia because of rising costs elsewhere, most notably China.

Labour costs in China

Labour costs have risen steeply in China. Chinese media have reported that shoes made in Guangdong province, a huge hub for footwear manufacture for many years, are now 30% more expensive than footwear from more newly developed Chinese provinces inland. But, even here, labour costs are going up and labour availability is going down. Those Guangdong footwear factories have largely built their prominent position in the global shoe industry by attracting factory workers from distant rural communities to the north and west. With businesses opening closer to home, people in the interior are more reluctant to give up almost all contact with family and friends to live in workers' dormitories in the south, scrimping and saving to send as much money home as possible, visiting once or twice a year. The response from manufacturers in Guangdong has been to try to increase rates of pay, but most attempts to pass this increase on to



Indonesia is the fourth most populous country in the world. Its population is young as well as large, 240 million, and creating employment for young people leaving education is another government priority. The footwear industry appeals because it's labour intensive and can create thousands of jobs. CREDIT: WTP

brands are going down badly.

The China Leather Industry Association (CLIA) has confirmed that 300 shoe manufacturers moved out of the province's Dongguan city during 2009. Manufacturers have been leaving Guangdong since as early as 2008, and instead moving to neighbouring provinces such as Hubei, Hunan, Jiangxi and Guangxi. The Guangdong Leather Association claims that leather shoe production in that province fell by 25.1% in 2009.

There can be no doubting the speed at which infrastructure is developing in China's interior, making inland manufacturing locations seem less distant and more accessible than ever before. In spite of this, the world's footwear brands have reacted to the issue of labour cost increases in China by looking to increase the proportion of their shoes manufactured in alternative Asian countries.

The Indonesian Footwear Association (Aprisindo) is optimistic that Indonesia will win its fair share of this business. It has set its member companies a new record target in shoe exports of \$3 billion for this year as a result of the rapid growth in demand. Aprisindo secretary-general Binsar Marpaung has said that Indonesia achieved \$2.5 billion in footwear exports in 2010. "This year, we are confident that we can make it to \$3 billion," he says, adding that the domestic market is also an important area for potential growth. He explains: "We have a huge population. If everyone buys two pairs of shoes twice a year, then we should produce loads of shoes." 🌐



As well as growing its share of the global market through increasing exports, the Indonesian footwear industry also has a large and growing domestic market to serve. CREDIT: WTP