

Trade War Impact to Indonesia Textiles

Contributed by Maizer
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Jiangsu Lianfa Textile, listed on the Shenzhen Stock Exchange, will launch its factory next year with an investment of between 5 and 6 trillion rupiah (US\$350 million and US\$422 million), said Ade Sudrajat, chairman of the Indonesian Textile Association (API).

China company's bid to set up a textile manufacturing plant in Indonesia's Central Java province is raising hopes the Southeast Asian country can benefit from Chinese firms seeking to shift their production centres amid the ongoing US-China trade war. The factory will produce yarn for shirt-making, reducing the cost of yarn imports by US\$1 billion for Indonesian shirtmakers and helping them produce final goods such as fabrics and shirts more speedily for the US market, he said. "There isn't a single Chinese investor that has pumped money into Indonesia in the last one to two year and we hope this planned shift by the Chinese textile company is a sign that more will come to Indonesia," Sudrajat said. "Our buyers in the US will benefit because the shipment processes for materials will be shorter and faster." Textile exports contributed US\$13.8 billion last year, or about 2 per cent of Indonesia's GDP, and the Industry Ministry said close to 3 million new jobs were created. Its aim is to grow textiles exports this year to US\$15 billion for the US, Japanese and European markets. Sudrajat said he spoke with Jiangsu Lianfa officials last year, and talks centred on the challenges posed by Southeast Asia's largest economy's complicated industrial and labour regulations, compared to other lower-cost manufacturing hubs in neighbours Malaysia and Vietnam. Among other things, companies in Indonesia must pay a high minimum wage and commit to high severance payments. Lagging infrastructure, such as poor roads and power shortages, have turned away investors. Indonesia wants to increase its slumping exports amid a record trade deficit, and is seeking to sign trade pacts to look for new markets, Bloomberg reported last month. It recently signed a comprehensive economic partnership with Australia that removed duties on some of its exports. Industry Minister Airlangga Hartarto told local media in January that several textile and shoemaking companies were considering moving operations from China to Indonesia to avoid trade tariffs. The size of Chinese investments last year – US\$2.4 billion – ranked third behind those from Singapore and Japan, according to the Indonesia's Investment Coordinating Board in February. Indonesia had about US\$27 billion worth of foreign investments last year. PT Bank Permata economist Josua Pardede urged the government to smoothen the path for domestic and international investors to grow Indonesia's textile industry, which has been prioritised as a key sector. "The government should capitalise on the US-China trade war and urge investors to relocate their plants, so that Indonesia can sell more products to overseas markets," Pardede said. China and the US have started a fresh round of talks to end the trade war but it is unclear how much of the US tariffs – currently imposed on US\$250 billion worth of Chinese goods such as chemical products and textiles – will be eliminated. Jiangsu Lianfa's factory in Kendal will be in an industrial estate jointly set up by Indonesia's PT Jababeka, an Indonesian industrial estate operator, and Singapore's Sembcorp Development. Salaries in Central Java province are lower compared with those in West Java province, where car and motorbike manufacturing plants are housed in cities like Karawang and Bekasi. Semarang, the capital of Central Java, has the highest minimum wage in the province of 2.9 million rupiah (US\$200) compared with Bekasi and Karawang's 4.2 million rupiah (US\$290) per month. Sudrajat said he was hopeful ongoing negotiations between Indonesia and the European Union for a free-trade deal that would scrap import duties would wrap up soon. But for this, Sudrajat said in reference to the country's upcoming elections on April 17, political continuity was essential. Incumbent president Joko Widodo is seeking re-election for another five-year term and is up against former general Prabowo Subianto. "A new leader for the nation would only mean that we will start from a scratch again. And the ideal to hit US\$15 billion in textile exports value will remain a dream," Sudrajat said.