

Track: Economic policy, reform strategy and business government relations

Title: **Evaluating and modelling industrial policies in Indonesia: The Case of Shoes**

Industry

Principal Researchers: Janti Gunawan (Indonesia) and Felicitas Evangelista (Australia)

Research Development Partners: Erna Setijaningrum (Airlangga University) and Purwo Santoso (Gadjah Mada University)

Contact details (email, phone):

- a. Industrial Engineering Department, Sepuluh Nopember Institute of Technology (ITS)
Surabaya – Indonesia. Email: janti_g@ie.its.ac.id, Ph: +62 31 5939361, facsimile: +62 31 5939362
- b. School of Marketing, University of Western Sydney, Australia. Email: f.evangelista@uws.edu.au Ph: +61 2 9685 9687 ext. 9687 , facsimile: +61 2 9685 9612

Background :

Trade and investment policy has changed significantly in the last two decades. Having shifted from an inward looking to outward looking investment strategy since the mid 1980s (Feridhanusetyawan, AswicaHyono et al. 2000), today, Indonesia is shifting its policies toward better SME support and equal treatment to foreign and domestic investors (for example see the Law No.25/2007). With previous policies favour large and foreign firms and the shift from a centralised to a decentralised government, the role of local governance is very important in the development of industries in Indonesia, especially SMEs.

Small and medium enterprises (SMEs) have proven to be a strong economic component of the Indonesian economy. Unlike large and foreign firms in Indonesia, SMEs are located in rural and non-industrial district areas. However, the growth of SMEs in Indonesia has been slow due to limited and conflicted policies in Indonesia. In addition, local government has limited governance skill, including technical and operational knowledge and ability to evaluate and suggest policies to legislatures. The capability of the government to strategically enhance the SMEs would strategically enhance the entire chain of industrial activities (Feridhanusetyawan, T., H. AswicaHyono, et al.; 2000).

Aims :

The main objective of this study is to model industrial policies in Indonesia that allow SMEs, large and foreign firms to grow by empowering local government. This is conducted by investigating the extent to which current policies support the development of SMEs, identify the government agencies and other stakeholders that are involved in SME development and map their interrelationships. Currently, several ministries are involved with SME development and some of their policies and programs contradict each other (for example see the Law no. 23/1999 has restricted the Indonesian Central Bank from financing SMEs, but allows operational banks to introduce financial scheme for SMEs. How these policies affect SMEs need to be investigated).

This study will contribute to the literature on the impact of public policy on enterprise development and on SME performance. The project aims to make policy suggestion at various levels of governance in Indonesia.

Methodology:

The footwear industry will be the focus of this study. This industry was the target of inward foreign direct investment in Indonesia before 1980 and is now the second largest contributor to Indonesia's exports. Development Alternative Inc.(2007) reported that raw materials are imported from Australia and New Zealand, while the finished products are exported mainly to the US and Europe. This industry is under threat from footwear made in China. China has been banned to enter the EU market until 2009 because of antidumping violations.

The Indonesian government has adopted the clustering strategy to optimise the influence of various stakeholders in this industry. Currently, Mojokerto, a small town in East Java, has the highest number of SMEs in shoes industry. There are 1673 SMEs in 23 villages and employs

approximately 7000 workers. Both large and small shoes manufacturing firms including multinational firm are located in the area.

Mojokerto has two governance systems: kabupaten and kotamadya. Kotamadya is a central business district area and kabupaten covers the rural areas. Both kabupaten and kotamadya has their own mayor, legislative, representative of ministry of SME, ministry of trade and ministry of industry. The economic and trade policy is decentralised down three levels from the central government. By focusing on shoes industry in Mojokerto, this study expects to suggest policies for several governance levels in Indonesia and the study can be used as reference for other areas in Indonesia either at kabupaten or kotamadya.

Both secondary and primary data through interviews will be employed. This study will also investigate the industry's structure and related institutions. These information will be used as a guide in analysing how a policy can influence and be influenced by players and institutions. The role of large and foreign players in the development of SMEs will be explored using a Corporate Social Responsibility (CSR)'s scheme following Rodriquez, Siegel, Hillman and Eden (2006) and cluster approach (Porter 1998).

The results of this study will be disseminated through publications. Papers will be submitted to refereed journals both at local and international levels, such as Journal of Social and Politics, International Journal of Emerging Markets and Asia Pacific Management Journal. In addition, a seminar will be conducted. The results of this study and policy suggestions, will be presented to legislative bodies at regional and local levels, including ministries and policy executors. Continuous publication will be conducted through the local government website (www.mojokerto.go.id) and meetings with business associations. The research will be completed by September 2008.

Research Team: (This proposal was prepared with contributions from all team members).

- Janti Gunawan is a lecturer at Sepuluh Nopember Institute of Technology, Surabaya, who is the consultant of Indonesia Central bank of Surabaya in the development of shoes industry cluster in Mojokerto. She will be the team leader and will be responsible for overall project leadership and management. She will undertake the review of literature, contribute towards the development of the project's conceptual framework, establish direct contact with the major industry stakeholders in East Java and will coordinate fieldwork as well as conduct some field interviews. With her access to data, central, regional and local governments, she will be responsible for interviewing respondents from shoes manufacturers in Mojokerto and related institutions in the development of shoes industry including industry associations. She will help data collection and design inter and intra industry relationships.
- Dr. Felicitas Evangelista, Associate Professor of Marketing, University of Western Sydney has special interest and expertise in entrepreneurship, firm internationalisation & export marketing, and business networks. Her role in this project is to ensure that a theoretically sound and relevant framework, and appropriate research design are developed. She will also assist with the development of policy which relate to international business; and will be involved in writing articles based on the findings.
- Erna Setijaningrum is a lecturer, with expertise in community development and local governance projects. She will contribute in mapping current policies, interviewing policy makers, and evaluating the implementation of current policy toward SMEs growth and help in dissemination of the result to legislatives. While her previous research orientation is local, her expertise will contribute to the development of the model and her involvement in the project can broaden her scope of knowledge.
- Dr. Purwo Santoso MA is a lecturer at Department of Government at Gadjah Mada University. His research interest is on policy-making and governance. He has been conducted research and policy advocacy decentralization and democratization especially at local level. He will be the adviser for the project for developing the model.

References:

- Development Alternative Inc. (2007). Footwear Industry Value Chain (IVC) review: Operational mechanism and the inter relationships of firms in the IVC. Jakarta, Senada - US Aid.
- Feridhanusetyawan, T., H. Aswicahyono, et al. (2000). "The economic crisis and the manufacturing industry: The role of industrial networks." CSIS Working paper series(WPE 053).
- Narjoko, D. and H. Hill (2007). "Winners and losers during a deep economic crisis: Firm level evidence from Indonesian manufacturing." CSIS Working paper series(WPI-098).
- OECD, (2007); Enhancing the Role of SMEs in Global Value Chains, OECD Tokyo Statement On Strengthening The Role Of SMEs In Global Value Chains, Tokyo, 31 May - 1 June 2007
- Porter, M. (1998). "Clusters and the New Economics of Competition." Harvard Business Review 76(6): 77-90.
- Rodriquez, P., D. S. Siegel, et al. (2006). "Three lenses on the multinational enterprise: politics, corruption, and corporate social responsibility." Journal of International Business Studies 37(6): 733-746.

AIGRP PROJECT PROPOSAL BUDGET*

Project Title: Evaluating and modelling industrial policies

in Indonesia: The case of Shoes Industry

1 A\$ = Rp7.500,00

| Budget | | | amount in Rp | | | amount in A\$ |
|---|-----|--|--------------|--|--|--------------------|
| Personnel | | | | | | |
| Janti Gunawan, Indonesian Principal Researcher | 2 | | | | | \$20.000,00 |
| Felicitas Evangelista, Australian Principal Researcher | 1 | | | | | \$10.000,00 |
| Erna Setijanigrum, Development Research Partner | 1,6 | | | | | \$16.000,00 |
| Purwo Santoso, Development Research Partner | 0,4 | | | | | \$4.000,00 |
| Sub total | | | | | | \$50.000,00 |

| Project expenses | | | | | | |
|--|-----|---|-----------|-----------------------|------------|-------|
| International Airlines-(Excursion) | 1 | return trip Sydney- Sby- Sydney | | | | 1.000 |
| Visa and airport tax | 1 | people | | | | 150 |
| Domestic Airlines- (Economy) | 10 | return trips | 1.500.000 | per return trip | 15.000.000 | 2.000 |
| Per diem expenses - out of East Java, mainly to Jakarta | 25 | days people | | | | 1.625 |
| Per diem expenses - East Java (Mojokerto is about one and half hour from Surabaya) | 160 | days people | 250.000 | per night stay | 40.000.000 | 5.333 |
| Accommodation - in Indonesia (East Java for Fely/Purwo and out of East Java for the team) | 40 | nights | 500.000 | per night stay | 20.000.000 | 2.667 |

| | | | | | | |
|--|---|--------|-----------|-----------|------------|--------------------|
| Local travel - including car hire, driver and petrol during project | 8 | months | 5.000.000 | per month | 40.000.000 | 5.333 |
| Communications - telephone/faxes/text messages | 8 | months | 1.000.000 | per month | 8.000.000 | 1.067 |
| Communications - internet, to rent broad band connection when we are out of town | 8 | months | 500.000 | per month | 4.000.000 | 533 |
| Office supplies, including photocopy materials and questionnaire | 8 | months | 1.500.000 | per month | 12.000.000 | 1.600 |
| Seminar - invitation, room, materials, etc at Surabaya | 1 | time | | | 30.000.000 | 4.000 |
| Sub total | | | | | | 25.308 |
| TOTAL | | | | | | \$75.308,33 |
| In-kind or other home institution contributions | | | | | | |
| | | | | | | |

* Column J & K provide the calculation for each proposed budget