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The Indonesian Garment Industry: Past Performance and Future Challenges

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Abstract

This article attempts to analyze the developments and challenges faced by the garment industry in Indonesia. The results of this analysis show that for the last three decades the garment industry has been able to grow and develop with sufficient certainty. Because of this, the role of the industry in creating revenue and employment has increased significantly. Furthermore, this industry has also emerged as one of the primary export sectors in Indonesia. Yet, the analysis in this article also shows that at the same time changes have occurred in economic regulations and global trade, such as the removal of the MFA system, which have made the business climate increasingly competitive, and thus future development in this industry will face serious challenges. In order for the garment industry to continue to grow and develop in the future, this article recommends that businesses in the industry increase their technological and marketing skills. In addition, the government must be skilled in creating conducive macro economic conditions and industry policy, both of which are important determinants in achieving growth and development in the garment industry.

Keywords: *Garment industry-Indonesia*
JEL Classification: *L 19, L29*

1. INTRODUCTION

The Indonesian garment industry has some unique characteristics. In comparison with other Indonesian industrial sectors, the garment industry receives less protection from the government as indicated by a low effective rate of protection (ERP) (Basri, 2001). Furthermore, the structure of the Indonesian garment industry is characterized by low entry barriers (Hill, 1998). Accordingly, the Indonesian garment industry is often considered to be an example of a highly competitive industry (Thee and Hamid, 1998).

Empirical evidence indicates that the Indonesian garment industry was more successful than other Indonesian industrial sectors in adapting to the economic crisis. For example, from 1997 to 1999, revenue from the Indonesian industrial sector contracted by 3.5% per year. In contrast, during the same period, revenue from the garment industry grew annually by 13.2%.

Small and medium industrial enterprises (SMIEs) and large industrial enterprises (LIEs) are two distinctive players within the garment industry. These two players differ largely in terms of economies of scale, stages of production, chains of distribution (marketing), technological acquisitions, information procurements, and capital investments. Consequently, Indonesian garment industry products are very heterogeneous not only with respect to price, but also to quality, design, and market (van Diermen, 1997).

Small and medium industrial enterprises play an important role in the structure of the Indonesian garment industry (van Diermen, 1997; Hill, 1998; Thee and Hamid, 1998; Hill, 2002). The latest *Economic Census of 1996*[1] indicated that more than 55% of employees in the Indonesian garment industry worked in small and medium industrial enterprises. In the same year, small and medium industrial enterprises were also responsible for more than 37% of revenue in the Indonesian garment industry (BPS, 1996).

The aim of this article is to examine past performance and future challenges in the development of the Indonesian garment industry. It is organized as follows: Section Two examines the structure and characteristics of the Indonesian garment industry; Section Three analyzes the performance of the Indonesian garment industry under the strategy of export promotion; Section Four highlights future challenges for the development of the Indonesian garment industry; and finally Section Five discusses several important policy issues.

[1] An Economic Census is held every ten years; it covers all economic activities, including cottage and small industries.

2. STRUCTURE AND CHARACTERISTICS OF THE INDONESIAN GARMENT INDUSTRY

Over the last two decades, the Indonesian garment industry has undergone remarkable structural changes. Several factors, such as conducive government policies (Hill, 1998), increased export opportunities, growing demand from the urban middle class (van Diermen, 1997), and innovation in design and production process (Lall and Rao, 1995; Hill, 1998), contributed significantly to the rapid structural changes in the industry. These factors have encouraged the industry to become one of the most important industrial sectors in the Indonesian economy.

The remarkable structural change in the Indonesian garment industry is indicated by the rapid growth in the number of garment establishments, in the increased production of revenue, and in the creation of employment. Between 1975 and 2001, the number of establishments in the garment industry grew by 9.3% annually, an increase from 204 in 1975 to 2,080 in 2001. This high level of growth in the number of establishments made a real and substantial contribution to the ability of the garment industry to generate revenue and create employment. From 1975 to 2001, gross revenue grew by more than 24.3% per year in the garment industry (**Table 1**). Accordingly, the contribution of garment's revenue in total industrial revenue increased from 0.14% in 1975 (BPS, 1975) to around 5% in 2001 (BPS, 2001).

Table 1
Indonesian Garment Industry Growth, 1975-1996

	Number of Establishments	Value Added (Millions of Rupiah)	Employment (Thousand of persons)
Year			
1975	204	4,685.2	13.2
1985	575	43,188.8	66.8
1996	2,144	666,749.2	363.6
2001	2,080	1,341,260.0	471.7
Growth Rate (%)			
1975-1985	10.9	24.9	17.6
1975-2001	9.3	24.3	14.7
1985-1996	12.7	28.2	16.6
1985-2001	8.4	24.0	13.0

Source: Calculated from BPS, *Industrial Statistics*, various issues

Note: 1. Excluding Small Scale Enterprises

2. Garment revenue for 1985, 1996, and 2001 was deflated to 1975 prices using the textile wholesaler's price index from *Wholesale Price Index for Manufacturing Sectors*, BPS, various issues

Moreover, as can be seen from **Table 1**, employment generated by the garment industry increased significantly. Between 1975 and 2001, the number of employees in the industry rose by almost 15% per year or increased from 13,235 in 1975 to 471,740 in 2001. An interesting point here is that the structure of employees in the Indonesian garment industry is not the same as in many other Southeast Asian countries. In most of Southeast Asia, women dominate the structure of employment in both large enterprises and small and medium enterprises. In Indonesia, women dominate the structure of employment in large enterprises, while men dominate the structure of employment in small and medium enterprises (van Diermen, 1997).

In relation to labor productivity, empirical information indicates that the increasing ability of the garment industry to create employment is in line with rising labor productivity. From 1975 to 2001, labor productivity in the industry grew by 8.3% per year (**Table 2**). The increased capital intensity during that period, although not as rapid as in other Indonesian industries, has been an important influence on increased labor productivity in the industry (Basri, 2001).

Table 2
Labor Productivity in the Garment Industry (Thousands of Rp)

Year	Garment Industry	Manufacturing Sector
1975	354.0	750.0
1985	646.1	1,363.1
1996	1,833.7	2,682.8
1999	3,333.9	5,429.2
2001	2,843.2	6,377.2

Source: BPS, Large and Medium Manufacturing Indicators, various issues

However, it is important to note that in comparison with other Indonesian industries, labor productivity in the garment industry is still relatively low. In 2001, labor productivity in the garment industry was only 44.6% of the average labor productivity in other Indonesian industries (**Table 2**). The characteristics of the industry, labor-intensive (indicated by the low level of capital intensity) and requiring relatively low skilled workers (shown by low levels of education) (Hill, 1990), are perhaps the major reasons why labor productivity in the garment industry is lower than average labor productivity in the Indonesian manufacturing sector.

Furthermore, compared to labor productivity in the USA, Australia, and several selected Asian countries, labor productivity in the Indonesian garment industry is still low. By taking labor productivity in the American garment industry as a reference, Szirmai (1994) indicates that labor productivity in the Indonesian garment industry was only 22% of that in the American garment industry. Similarly, by taking labor productivity in the Australian garment industry as a benchmark, Shepherd *et al.* (1998) show that labor productivity in the Indonesian garment industry was only 32.8% of that in the Australian garment industry. This was also lower compared to South Korea's labor productivity. Yet, labor productivity in the Indonesian garment industry is higher than in India (Szirmai, 1994).

Similar to labor productivity, wage levels (an indicator of skill intensity) in the Indonesian garment industry are lower than the average wage levels in the Indonesian manufacturing sector (Hill, 1998). However, unlike in other Indonesian industries, there is little wage variation within the Indonesian garment industry. Hence, wage levels in large enterprises are relatively similar to those in small and medium enterprises (van Diermen, 1997; Thoha *et al.*, 2001)

Table 3
Distribution of Establishments, Revenue and Employment in the Indonesian Garment Industry, 1986 and 1996 (%)

	1986	1996
I. Small Scale Industry		
No. of establishments	96.3	94.7
Value added	53.7	30.9
Employment	66.5	47.0
II. Medium Scale Industry		
No. of establishments	2.7	3.9
Value added	9.1	6.2
Employment	8.2	8.2
III. Large Scale Industry		
No. of establishments	1.0	1.4
Value added	37.2	62.9
Employment	35.3	44.8
IV. Total		
No. of establishments	15,643.0	40,217.0
Revenue (Millions of Rp)	245,439.0	4,236,999.9
Employment (Thousands of persons)	199,666.0	686,185.0

Source: 1986 and 1996, BPS, *Economic Census*, unpublished data
Note: Revenue is in current prices

Small and medium industrial enterprises play an important role in the Indonesian garment industry. In 1996, small and medium sized garment enterprises accounted for more than 98% of all Indonesian garment enterprises. In that year, they produced 37.1% of the total Indonesian garment revenue and employed 55.2% of all Indonesian garment workers (**Table 3**). Accordingly, small and medium industrial enterprises in the garment industry are not only the locus for the creation of employment, but also the source for revenue generation (van Diermen, 1997; Hill, 1998).

In regard to ownership patterns, from 1975 to 2001 the garment industry remained predominantly owned by domestic private enterprises. In 1975, the ownership pattern in the industry was entirely in domestic private hands (van Diermen, 1997). However, in 2001, there was a slight change in the ownership pattern in the industry in which 4.8% of total investment in the industry came from foreign investors, while 95% were owned by domestic private enterprises and 0.2% by the government (BPS, 2001).

The majority of foreign investment in the Indonesian garment industry comes from Northeast Asia, particularly from Japan, Taiwan, South Korea, and Hong Kong. Rising wage levels in these Northeast Asian countries were rendering multinational enterprises in the labor-intensive garment industry less competitive. To maintain their competitive advantage, these multinational enterprises relocate their activities to lower wage countries, including Indonesia (van Diermen, 1997; Hill, 1998).

In terms of regional distribution patterns, the garment industry has always been located overwhelmingly in Java. In 1996, 86.3% of small and medium sized garment enterprises and 96.1% of large garment enterprises were located in Java (**Table 4**). In Java, Jakarta and West Java are the major hubs for the garment industry: 51.3% of small and medium (27% in Jakarta and 24% in West Java) and 70.8% of large (15.2% in Jakarta and 55.6% in West Java) garment enterprises are located in these two regions. Outside Java, Bali and North Sumatra are also minor centers for the garment industry. This pattern implies that various government policies to move the industry out of Java have not been successful (Hill, 1998).

Table 4
Garment Industry by Location, 1996 (%)

Region/Province	Small Enterprises	Medium Enterprises	Large Enterprises
I. Java	**86.3**	**86.9**	**96.1**
Jakarta	27.3	21.6	15.2
West Java	24.3	22.8	55.6
Central Java	18.8	20.5	13.0
Jogyakarta	1.6	2.2	1.4
East Java	14.3	19.8	10.9
II. Outer Java	**10.4**	**13.1**	**4**
North Sumatera	2.3	2.3	0.7
West Sumatera	3.6	1.3	0.4
Bali	3.2	5.4	2.0
North Sulawesi	0.3	0.8	0.4
South Sulawesi	1.0	1.6	0.4
Others	3.3	1.7	0.1
Total No. of Enterprises	**38,073.00**	**1,583.00**	**561**

Source: Calculated from BPS, *Economic Census 1996*, unpublished data

Economic considerations are the main reason for the majority of garment enterprises to locate their activities in West Java and Jakarta. These two regions have superior infrastructure, such as ports and other transportation infrastructure, to support the garment industry. In addition, Jakarta is the biggest Indonesian domestic market both to buy raw materials and capital goods and to sell products. Moreover, factory wages in these two regions remain competitive compared to other places in the country. Although the price of land in Jakarta and West Java is much higher than in other places in the country, particularly compared to land prices in Outer Java, this does not deter garment enterprises from locating their activities in West Java and Jakarta (Hill, 1998).

Although in general both large garment enterprises and small and medium garment enterprises are concentrated in West Java and Jakarta, their specific locations in these two regions vary. For example, van Diermen's study (1997) in Jakarta showed that on the one hand, small and medium garment enterprises are located close together to achieve economies of agglomeration, but on the other hand, large garment enterprises are located close to areas which offer economic benefits, such as location near main transport routes connected to the port.

3. THE INDONESIAN GARMENT INDUSTRY UNDER EXPORT PROMOTION STRATEGY

Over the last two decades high and sustained growth has been a salient feature of the Indonesian garment industry. From an economic policy perspective, Thee (1989), van Diermen (1997), and Hill (1998) agree that the shift in Indonesia's industrialization strategy from import substitution to export promotion was a major ingredient in stimulating the growth of the garment industry. Such a shift in the industrialization strategy, which commenced in the mid 1980s, succeeded in providing an essential framework for the garment industry to grow and develop (Hill, 1998).

For example, the reduction in import licensing and the removal of import monopolies for some commodities, two important points of deregulation to support the implementation of export promotion (James and Stephenson, 1995), made raw materials (like textiles) and capital goods (like sewing machines) required by the garment industry more easily obtainable. This condition then encouraged new players, particularly domestic private sectors, to enter the industry. Similarly, these conditions also stimulated existing players to accumulate and intensify their involvement in the industry (van Diermen, 1997; Hill, 1998).

The argument that the shift in Indonesia's industrialization strategy positively affected the growth of the Indonesian garment industry is supported by empirical evidence. As can be seen from Table 1, after the government implemented an export promotion strategy, particularly from 1985 to 1996 (before the eruption of the economic crisis), revenue, employment, and number of establishments grew more rapidly than before the government implemented this new strategy (1975-1985).

The implementation of the export promotion strategy also facilitated improvement in the competitiveness of Indonesian garment products in international markets. Accordingly, garment exports played an increasingly large role in the structure of Indonesian manufactured exports (Hill, 1998). From 1980 to 2002, high and sustained growth in the Indonesian garment exports averaged 18.3 % per year. As a result, the share of garment exports in total Indonesian manufactured exports increased from less than 0.4% in 1980 to almost 7% in 2002 (**Table 5**).

Table 5
Indonesian Garment Exports, 1980-2002 (US $ Millions)

Year	Garment Exports	Percentage of Garment Exports of Total Manufactured Exports
1980	98.3	0.41
1981	95.3	0.38
1982	116.1	0.52
1983	156.5	0.74
1984	295.5	1.35
1985	338.3	1.82
1986	521.1	3.52
1987	596.3	3.48
1988	795.7	4.14
1989	1,320.7	5.96
1990	1,720.2	6.70
1991	2,401.3	8.24
1992	3,339.0	9.83
1993	3,557.1	9.66
1994	3,268.3	8.16
1995	3,374.6	7.43
1996	3,591.7	7.21
1997	2,902.0	5.43
1998	2,628.0	5.38
1999	3,859.1	7.93
2000	4,733.8	7.62
2001	4,530.5	8.04
2002	3,945.0	6.90

Source: Calculated from BPS, *Indonesian Foreign Trade Statistics*, various issues

The fact that the garment industry plays a significant role in Indonesian manufactured exports is also indicated by its comparative advantage. By using the revealed comparative advantage (RCA) ratio, the calculation indicates that in 1985 and 2000, Indonesian manufactured exports from the garment industry (SITC 84 or ISIC 32210/18101 and 18102) had comparative advantages (with an RCA value of more than 1) in international markets (**Table 6**).

In regard to small and medium sized garment enterprises, Berry *et al.* (2001) found that small and medium sized garment enterprises

directly or indirectly (using large enterprises or commercial intermediaries) shared importantly in the structure of Indonesian garment exports. In 1999, together with textile and footwear, export earnings from small and medium sized garment enterprises was Rp 12.7 trillion or 27% of total export earnings from small and medium industrial enterprises.

Table 6
Revealed Comparative Advantage of Indonesia's Garment Exports, 1985, 1995, and 2000

SITC	Products	1985	1995	2000
	Emerging Comparative Advantage			
846	Undergarment Knit	-	2.2	2.2
	Continuing Comparative Advantage			
842	Men's Outwear Not Knit	6.1	2.8	2.8
843	Women's Outwear Not Knit	6.3	2.4	2.7
844	Undergarment Not Knit	13.6	3.6	3.4
845	Outwear Knit Non-Elastic	1.6	2.0	1.9

Source: Calculated from the UN, International Trade Statistics Yearbook 1985, 1995 and 2000, Washington

Besides strengthening its position in the structure of Indonesian manufactured exports, high and sustained growth also had an important role in upgrading the share of Indonesia's garment exports in the world market. Between 1985 and 2000, Indonesia's garment exports increased from less than 0.2% (Lall and Rao, 1995) to 2.4% (**Table 7**) of total world garment exports. Hence, in 1999, Indonesia emerged as the eleventh largest garment exporter or the third largest garment exporter of low-income economies after the People's Republic of China and India (**Table 7**).

Table 7
The World's Top 15 Garment Exporters in 2000

Countries	Rank in 2000	Value of Export (Millions of US$)	Share of World Export (%)
High-Income Economies			
Hong Kong	2	24,239.6	12.1
Italy	3	13,222.0	6.6
United States	4	8,634.4	4.3
Germany	6	6,850.8	3.4
France	9	5,428.1	2.7
United Kingdom	12	3,855.6	1.9
Belgium	13	3,852.5	1.9
Portugal	15	2,826.4	1.4
Middle-Income Economies			
Mexico	5	8,631.3	4.3
Turkey	7	6,533.3	3.3
South Korea	10	5,039.9	2.5
Low-Income Economies			
The People's Republic of China	1	36,147.3	18.0
India	8	6,163.7	3.1
Indonesia	11	4,806.7	2.4
Thailand	14	3,790.1	1.9
World Garment Export		200,912.30	100.0

Source: Calculated from the UN, *International Trade Statistics Yearbook 2000*, Washington

It must be pointed out that because Indonesia is a country which was relatively late in promoting its manufactured exports, the share of Indonesian garment exports still lags behind other exporter countries (Hill, 1998). For example, compared to other Asian exporter countries, except Thailand, Indonesian exports are relatively small. As can be seen in **Table 7**, the value of Indonesian garment exports is only 13.3% of those of the People's Republic China, 19% of those of Hong Kong, 78% of those of India, and 98.7% of those of South Korea.

4. FUTURE CHALLENGES FOR THE DEVELOPMENT OF THE GARMENT INDUSTRY

Empirical evidence indicates that Indonesia has been successful in developing its garment industry in recent years. However, some economists (Lall and Rao, 1995; Hill, 1998; Basri, 2001) are still doubtful about whether or not the rapid growth of the industry can be sustained in the future. This is because the future will be characterized by increasing world trade liberalization which will make both domestic and export markets more competitive (Lim and Siddall, 1997; Anderson and Pangestu, 1998; Tambunan, 2000).

In regard to the domestic market, increasing world trade liberalization will force the Indonesian garment industry to face heavy competition from imported garment products. For small and medium sized enterprises, the increasing growth of garment imports will become a serious problem (Tambunan, 2000) because garment products from small and medium sized enterprises are largely marketed in the domestic market. Moreover, in general, the quality of garment products from small and medium sized enterprises is still poor (van Diermen, 1997; Yamamoto, 2001).

Since the quality of their garment products is generally under-developed, small and medium sized enterprises usually use price as the main means to compete with imported garment products (van Diermen, 1997; Thoha *et al.*, 2001). The problem with this is that many raw materials used by small and medium sized enterprises are still imported. Accordingly, the rise in the price of imported raw materials due to depreciation of the rupiah might prevent small and medium sized enterprises from being able to use price to compete with imported garment products (Tambunan, 2000).

If small and medium sized enterprises fail to improve production process efficiency or the quality of their products, they might not be able to compete against imported garment products. This is dangerous because small and medium sized enterprises played an important role in the structure of both the production of output and the creation of employment of the Indonesian garment industry. Thus, the failure of small and medium sized enterprises to compete with imported garment exports will have a lot of bearing on confining the growth and the expansion of the Indonesian garment industry.

In regard to international markets, efforts to sustain future growth of garment exports will be more difficult. One of the reasons is that increasing world trade liberalization might alter opportunities for

Indonesian garment products to maintain their access to export markets (Tambunan, 2000) because increasing liberalization will be in line with changes in global market requirements. As Kelegama (1999) emphasized, increasing world trade liberalization will mean that marketing requirements for garments in the export market will change very rapidly.

Another factor which might hamper the future growth of Indonesian garment exports are problems related to structural weakness (Lall and Rao, 1995). The structure of Indonesian garment exports continues to be dominated by low quality products (Hill, 1998). The problem with this is that such products are vulnerable to competition since new entrants with lower wage costs and higher labor productivity will find the market for these products easy to enter (Lall and Rao, 1995; Hill, 1998).

In addition to problems associated with product quality, Indonesia also needs to diversify its export market (Lall and Rao, 1995). This failure is indicated by a situation in which Indonesian garment exports are largely governed by the MFA (Multi Fiber Agreement) system, which means that the larger part of Indonesian garment exports are concentrated on a few countries which are signatories to the MFA system (Hill, 1998; Basri, 2001).

The MFA system allows exports from country members to a certain level, defined by international import quotas (Basri, 2001). The criteria of import quotas are determined by the exporter country's past performance (Torre, 1984; Kelegama, 1999). However, since the indicators and measurements of past performance frequently change (Hill, 1998), the skill to lobby importer countries is also important in determining quotas (Boenjamin and Mahyudin, 1989; Basri, 2001).

Table 8
Indonesian Garment Exports by Country of Destination, 1992 and 2002

Country	1992		2002	
	Export (Millions of $)	Proportion (%)	Export (Millions of $)	Proportion (%)
I. MFA	**2,553.3**	**76.5**	**3,222.6**	**81.7**
USA	856.2	25.6	1,819.8	46.1
UK	226.8	6.8	333.9	8.5
Germany	282.4	8.5	267.8	6.8
Netherland	152.1	4.6	135.2	3.4
France	183.7	5.5	104.3	2.6
Others	852.1	25.5	561.6	14.2
II. Non MFA	**785.7**	**23.5**	**722.4**	**18.3**
Total Exports	**3,339.0**	**100.0**	**3,945.0**	**100.0**

Source: Calculated from BPS, *Indonesia Foreign Trade Statistics*, 1992 and 2002

Statistical information indicates that Indonesian garment exports are strongly dependent on the MFA system. In 2002, 81.7% of Indonesian garment exports were destined for MFA system country members, while in 1992 the proportion was 76.5% (Table 8). The problem is that the MFA system will be phased out by early 2005. Consequently, after 2005, there will no longer be MFA markets for Indonesian garment exports. In other words, after 2005 Indonesia will not be able to enjoy these special privileges to maintain or increase its garment exports.

Without the MFA system, the ability of Indonesia to maintain and increase its garment exports will be determined by market mechanisms. This means, as Lall and Rao (1995) and Hill (1998) have pointed out, whether Indonesia can sustain its rapid growth in garment exports will depend finally on Indonesia's ability to compete against all exporter countries in the free export market.

5. POLICY ISSUES

To sustain rapid growth and maintain or increase its position in the future, the Indonesian garment industry must improve its competitiveness (Lall and Rao, 1995; Hill, 1998). Intensified efforts to advance technology, efficiency, quality, products design, labor productivity, and marketing skills are several important steps that

should be undertaken to improve competitiveness (Thee, 1994; Lall, 1998). Likewise, the Indonesian garment industry should be more concerned with up to date and correct information about legal aspects of global market requirements (Cole, 1998). Similarly, the Indonesian garment industry should pay considerable attention to world market opportunities and access, such as new potential markets, changes in global taste and new competitors (Tambunan, 2000).

However, it must be pointed out that these intensified efforts can only succeed to improve competitiveness if there is strong support from an incentive system. This incentive system is largely shaped by government policies, specifically in the area of macroeconomic management and industrial policy (Lall and Rao, 1995; Soesastro, 1995; Thee, 1998; Hill, 1998).

In regard to macroeconomic management, Hill (1998) emphasized that macroeconomic stability is a necessary condition for the Indonesian garment industry to improve either its efficiency or its competitiveness. The problem is that the economic crisis which erupted in mid 1997 has made general macroeconomic conditions unstable and therefore unfavorable for the garment industry to enhance its efficiency and competitiveness. Accordingly, efforts to create and maintain macroeconomic stability by stabilizing real exchange rates, restraining inflation, and creating competitive interest rates remain one of the most important policy challenges to sustain high growth and rapid expansion in the garment industry.

In regard to industrial policy, the Indonesian industrial policy has actually been simplified and deregulated since the mid-1980's when the country began to implement export promotion (Bresnan, 1993; Pangestu, 1997). However, a wide variety of regulatory barriers, such as investment licensing, labor legislation, export and import licensing, and other various permits still characterize Indonesia's industrial policy. These regulations adversely affect efforts to improve the competitive environment, as they unnecessary increase the cost of doing business. Such regulations also reduce efficiency and confine economic opportunities since they consistently favor a small number of privileged business groups which have political and administrative connections to the government. For these reasons, further reform in Indonesia's industrial policy is urgently required to create a more competitive and open economic environment (Lall and Rao, 1995; Thee, 1998).

6. CONCLUSION

This article has discussed past performance and future challenges in the development of the Indonesian garment industry. The discussion

indicates that there has been rapid structural change in the Indonesian garment industry over the last three decades. Accordingly, the Indonesian garment industry has played an increasingly large role in the Indonesian economy.

The discussion also shows that small and medium sized enterprises are vital elements in the development, structure, and export growth of the Indonesian garment industry. Small and medium sized enterprises not only dominate the creation of employment, but also the production of output. Furthermore, small and medium sized enterprises also made an important contribution to the rapid growth of Indonesian garment exports.

Although statistical evidence indicates that Indonesia has been successful in adapting the structure and the growth of the garment industry in recent years, the discussion emphasizes that efforts to sustain rapid growth of the garment industry in the future will be more difficult. This is because the future will be characterized by increasing world trade liberalization which will make both the domestic and export markets more competitive.

To sustain rapid growth in this more competitive environment, the Indonesian garment industry should intensify its efforts to improve technology, efficiency, quality, product design, labor productivity, and marketing skills. In addition, the Indonesian garment industry should be responsive and anticipative to changes in global market requirements and to world market opportunities and access.

From an economic perspective, intensified efforts to improve competitiveness undertaken by garment enterprises will be insufficient without strong support from an incentive system. Two important elements of this incentive system required to support improvement in the garment's industry competitiveness are sound macroeconomic policies and a comprehensive industrial policy.

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