THE CONTESTATION OF BUSINESS NETWORKS IN LIBERALISING ECONOMY AND POLITY: EVIDENCE FROM REGIONAL TEXTILE BUSINESS IN INDONESIA[1]

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Abstract. The 1997 economic crisis followed by the step down of president Soeharto in 1998 changed the landscape of Indonesia's economy and polity. It was the beginning of the International Monetary Fund (IMF) in cooperation with the Indonesia's democratising state sailed to a new economic destination. Preaching market solution to social and economic problems become new medicines for healing Indonesia's economy. This paper argues that the imposition of economic liberalisation without accounting for institutional contexts in which it operates have implications for business inequality. By situating Pekalongan region in Central Java as a case study and by using new institutional approach, this paper shows a process of depletion of various textile business networks. A process characterised by the lessening positions of actors in the textile market and it leads to deindustrialisation. A mechanism of decoupling rather than close coupling occurs in the process of managing textile crisis.

In the political sphere, the rise of political parties and civic associations has opened public dialogue over the issues of textile deindustrialisation. Unfortunately, the issues seem to be kept floating on air. Recently, new and small movements seem to shed some lights in the tunnel. Young and uncorrupted politicians begin to win elections in several cities and regencies in the country. Much hope to recover textile industry will be determined by the results of the 2009 parliament and presidential elections.

1. Introduction

The 1997 economic crisis followed by the step down of president Soeharto in 1998 changed the landscape of Indonesia's economy and polity. It was the beginning of the International Monetary Fund (IMF) in cooperation with the Indonesia's democratising state sailed to a new economic destination. Preaching market solution to social and economic problems, drastically reduced the role of the state, and further trade liberalisation become new medicines for healing Indonesia's economy. In the political sphere, the country radically shifted from authoritarian to democratic political systems marked by the existence of multi-party competition and free elections.

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Within such contexts, this paper attempts to understand and explicate the contestation of textile business networks as a consequence of economic liberalisation. It is argued that the imposition of economic liberalisation without accounting for institutional contexts in which it operates have predictable implications for business inequality.

Recently, there seems to be a unanimous consensus among economic sociologists that the transplantation of institutional forms of economic liberalisation of the developed into developing societies will not produce the expected results and frequently backfired (Portes, 2006). Two cases are worth noting. Mexican economic liberalisation represents a failed model of transplantation. Under President Salinas, the privatization programme has been severely resisted by the managers of public owned companies, trade unions, the ministries dealing with programme‘s supervision, and national entrepreneurs (Portes, 2006). Salinas’ privatization programme clearly ignores the dynamics of power as important element of institutional context in Mexico’s economy. Another case, the China case of the reform of agriculture collectivism, represents adjusted model of market transition. Before implementing market economy, Chinese government has launched land reform programmes with different emphasis from region to region (Walder, 1996). Reform in power structure has been the priority so as to harmonise with formal rules of market economy. China’s experience informs the strategic importance of institutional context before voyaging into a new ocean of market economy.

This paper intends to enrich studies on institutional contexts of economic liberalisation with particular reference to a certain region in Indonesia. The implementation of economic liberalisation in Indonesia has been eloquently called by Stiglitz as “crying fires in the theatre” (Hill, 2003). His statement has informed not only the ignorance of accounting institutional context but also the complete withdrawal of the state in the intervention of textile economy. Within such circumstances, this paper argues that Indonesia’s economic liberalisation brings about the processes of de-industrialisation. The existing bonding and bridging types of business networks are being contested and they face difficulties to response to the transplanted liberalisation. As a consequence, business inequality has sharply increased as indicated by the decreasing power of entrepreneurs in the structure of textile market. The mushrooming of political parties and civic associations in a democratising Indonesia may constrain a further process of textile de-industrialization as far as their voices are considered in the process of public policy making.

In order to support the above-mentioned arguments, in-depth interviews with strategic actors and content analysis of local newspapers and government documents were carried out in Pekalongan region, Central Java from April to August in 2006.

2. A Glimpse of Research Area

Pekalongan region is located in the northern coastal area of Central Java and the total population is 844, 215 (Office of Statistical Bureau, 2004). This area is considered as one of the *training grounds* for several large entrepreneurs before they became national conglomerates in the Soeharto era Indonesia. Textile is the dominant industry in the region and it is shouldered by 144,889 workers with production value of more than IDR one trillion in 2003. It shares 18% out of total population (821,870 people) depends their incomes in textile industries. According to its size, textile industry in the region consists of 206 (2%) large, 4583 (40%), and 6742 (58%) small enterprises.

While large enterprises involve in export, small and medium enterprises engage in a variety of textile productions mostly for the domestic market. In contrast to the last two decades where weaving dominated, currently *batik* clothing and garment dominate and they respectively share 87% and 85% of textile industries.

3. The Contestation of Business Networks and Inequality

The coming of the International Monetary Fund (IMF) influence into Indonesia's economy has been considered as a logical consequence of the failure of the Indonesian government to stabilise the Indonesian Rupiah (IDR). Economic recovery and further trade liberalisation were the backbones of the IMF programmes to salvage Indonesia's economy.

Years of heavy economic challenges coloured the national textile community since 2001. On international scene, observers begun to witness the decline of Indonesia's exports in textile and apparel and the dominance of Chinese products in the US market ((James, 2003). For the first time in 2005, concerns evolved around the fear of losing competitive advantages of Indonesia's manufacturing products in international market. On domestic scene, the flooding of China's textile goods, the burning of *Jakarta market* as a centre of national and international textile market and the fuel price increase added to the already heavy challenges faced by the whole textile business community at the first half of the 2000s.

The current picture of the organisation of textile industry in Pekalongan region has strikingly changed. Large textile entrepreneurs who were capable for expansion and diversification in the years before the step down of president Soeharto apparently began to slow down their production process in the post-Soeharto years. Medium and small textile entrepreneurs shift their products from *sarong*[2] to batik clothing, garment, embroidery and textile-based handicraft. In contrast to the production of *sarong* which uses power looms, the latter productions need simpler and cheaper technological tools. Moreover, the products' shift needs a new arrangement of production relations.

Large textile entrepreneurs emerged during the early 1970s and continued to prosper the following decade. Using mass production technology, they produce *sarong*, batik clothing, undyed cloth (textile raw material) and bandage for the international and domestic market. The group consists of Chinese, Arabs and Muslim Javanese and these ethnicities have formed a different ways of experience before entering the business. Chinese and Arabs were big textile traders who cultivated institutional bases of ethnic networks for channelling textile commodities across the country. This occupation provided not only a position within the structure of the market but also strategic information for future decision to run textile factories. Trading, therefore, become the 'training ground' for Chinese and Arabs to become industrial capitalists.

In contrast, the Muslim Javanese followed different paths by working in state institutions, leading textile business associations and developed own markets before developing a large enterprise. They produce different products, develop different patterns of business networks and market orientations and these differences represent different population of large textile entrepreneurs in Pekalongan region.

3.1. The Domestic-Oriented Bandage Entrepreneur[3]

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3 Interview with Muhammad Arif, the general manager on 14 May 2006

The entrepreneur, a Javanese, established textile enterprise in 1967 after retiring as a pharmacist at the military hospital in Jakarta. At the beginning, he ran *sarong* production under the guidance of his father who was a leader of the textile association. As time went by, and the textile industry grew in the country in the seventies, he switched from *sarong* to bandage. The bandage is a sort of textile product that can be used for human beauty and health care and related purposes. His individual competency, experience and family reputation were important factors responsible for making joint-investments with Chinese and for seizing a secure position in the structure of the production market.

How did he maintain his position in the chaotic economic situation? First, the demand side of bandage products grew unaffected by current national economic uneasiness. The already developed long-term relationships with the loyal customers and the growing in numbers of private hospitals in regencies across Indonesia offered him the opportunity to expand. On the supply side, the increasing prices of state electricity, transportation cost and raw materials did not significantly shake his business.

Second, his expanding enterprise is indicated by the establishment of new factories and diversifying the products. In 2005, he made a business deal with Smith & Nephew, a Canadian health-care multi-national corporation, buying its adhesive bandage factory in Malang, East Java and agreeing to supply the product to the corporation. In 2006, again, he bought textile factory owned by local co-operatives to expand his bandage production. This is the last living factory-owned co-operatives sold to private entrepreneurs and it marks the closing curtain of factory's legacy of the 1950s economic protection policy. Supported by 1600 workers and 200 salesmen, his enterprise secures 30 market areas across the country.

In contrast to *sarong* production, bandage businesses are new comer in the textile history of contemporary Indonesia. Market actors were limited to foreign and state companies in the early years of the Soeharto era (1967-1975). Chinese and Arabs were not yet aware of the potentials of the commodity. This was the reason why he and his Chinese partner were capable for building and consolidating their positions in the structure of bandage market. One may wonder why his compatriot Javanese entrepreneurs did not follow his footsteps, considering technology and machinery they used were quite similar. He explains - by recalling his initiatives to persuade them to join his business in the 1970s -

no single entrepreneur who interested to cooperate because of a relatively good position of the *sarong* market.

3.2. A Global-Oriented *Sarong* Entrepreneur

The entrepreneur, an ethnic Arab, established a limited company for running a large and modern *sarong* factory in 1972. It is located at the heart of the Javanese small and medium enterprises, and as usual, he decided to run the factory after long engagement in textile trading. The Javanese entrepreneurs did not seem to realise that the existence of this large entrepreneur would threaten them considering the *sarong* market kept lubricating. A decade after the establishment, however, they began to witness evolution of textile and the down fall of "home factories" of *sarong* production. The home factories could not cope with difficulties in maintaining the continuation of production. *The Seated Elephant* - the brand name of this large enterprise - has good quality, relatively cheap and fashionable and they are available in every market place. An entrepreneur who closed down his *sarong* production and turned to run textile handicrafts recalled,

> Our customers (local traders) begun to ask a reduction of the quantity of *sarong* products and finally they delayed the payment to 2, 4, 6 and even 12 months. This severely affected the cash flow of our business.
>
> (Interview with former *sarong* entrepreneur, 13 May 2006)

This global oriented sarong entrepreneur consolidated by establishing an integrated textile factory spanning from spinning, dying, weaving to finishing in the 1980s. Indonesians across the country would not forget this well-known *sarong*'s trade-mark because it appeared almost every night at prime time in TV advertisement during the fasting months. The demand of *sarong* is high during that month and just after. "The seated elephant" concurred and occupied the top position in the structure of market production in Indonesia. Having successfully consolidated and dominated the domestic market, "the seated elephant" diversified the product into clothing and looked to international market in the 1990s. Currently, it exports 70% of its *sarongs* to the global market with final destinations in ASEAN, Africa and the Middle East. During the same decade, it engaged in businesses of real estate, health care, hotel and electronics (Radar Daily, 6 May 2006).

The production of the integrated textile factory begins to slow down in the first decade of the 2000s indicated by the reduction of workers' hours and 'revolt' in response to management policy to lay off workers. While the management keeps confidence to boost *sarong* and clothing for international market, the slowing down of production reflects current difficulties faced by the whole business of textile and apparel in the country. National textile entrepreneurs face considerable challenges at various fronts.

On demand-side, the increasingly liberalised and competitive international market drive the increasing role of China and to a lesser extent – Vietnam, Bangladesh, India and Pakistan. Export became the engine of Indonesia's economic growth and it constituted 80% of the total growth in 2005. While the manufacturing sector played a leading role in the 1990s, primary commodities such as palm oils, base metals and natural rubbers replace that sector in the contribution to export in 2000 to 2005. The export of manufacturing products - especially textile - stagnates, declines and loses competitive advantage in international market (Gaduh, 2005). The loss of the international competitive advantage also means that products of spinning and services of dying and finishing offered by the 'Seated Elephant' to domestic entrepreneurs decline. On supply side, Indonesia's textile entrepreneurs are severely affected by the increase of production costs such as the rise of fuel prices, taxes, the local government exaction and the poor quality of services at Indonesian ports.

Within this context of poor business climate, the integrated textile enterprise of the 'seated elephant' may revive their past policy of lay off workers sooner than latter. Just as small and medium textile entrepreneurs were the victims of state liberalisation during Soeharto era, so too large entrepreneurs will most probably be the victims of textile free trade in the post-Soeharto era.

3.3. A Domestic-Oriented Undyed Cloth Entrepreneur[4]

National business climate may sacrifice him on the altar of the domestic textile market. Similar to the bandage entrepreneur, he made joint-investment with a Chinese to establish a large and modern factory to produce undyed cloth for domestic consumption since 1983. It is a mass production enterprise using relatively modern power looms made in Belgium

[4] Interview with factory owner on 10 May 2006.

and China and run by more than 2000 workers. The entrepreneurs occupy a relatively good position in the domestic market by maintaining long term relationships to supply garment and batik clothing entrepreneurs across Java and Bali islands. Undyed cloth is the raw materials for garment and batik clothing production.

A month after the government increased fuel prices in September 2005, the factory laid off 1500 workers temporarily and stopped production for a month. Two reasons were put forward by the management. First, the enterprise's plan to shift from electric supply to coal to fuel production process and, second, the decline of domestic demand for undyed cloth. The customers disagree with new price and as a result, products remained unsold (Radar daily, 3 December 2005).

On first appearance, it seems that the increase of fuel price is the only factor behind the reason why entrepreneurs stop producing. In essence, however, the decline of domestic demand indicates complex problems faced by the whole textile industry in coping with the increase of international competition and a deteriorating national business climate. In fact, the price of domestic fuel (diesel) in Indonesia (US$ 18 cents/litre) still the cheapest in comparison to China (43), Cambodia (61), Vietnam (32), Laos (63), Malaysia (22), Philippines (34) (Gaduh, 2005).

3.4. Small and Medium Entrepreneurs

Sarong has been a dominant textile product for small and medium entrepreneurs. Historically, this was the product that ignited a gradual technological development in the area. If handlooms were dominant in the 1960s, power looms were dominant technology in the 1970s and after. Currently, however, the number of *sarong* producers declines sharply. The total number of *sarong* producers who used power looms was 162 in 1994 (Achwan, 1997), today, the numbers have been drastically reduced to 9 producers.

Two factors are responsible for the decline of the *sarong* industry. The *Seated Elephant* entrepreneur defeats small and medium producers by producing better quality and seizing the market domestically and internationally. It exports *sarong* to Middle East, South and Southeast Asia. The *sarong* market is not a stable institution in which participants watch each other in order to occupy niches, but it is an arena of actual free-fight. Second, the consumers' taste and life style have changed a result of modernisation in the country. These two factors constrain their positions in the market structure and lead to the close of their businesses.

> Running *sarong* production is becoming very difficult nowadays. In the past, buyers came to my factory, paying in advance before product delivery. Several years ago, the situation changed where buyers paid not in cash but delayed it for 4 to 6 months after delivery. Today, buyers come once in a year – around one month before great Islamic day of Idul Fitri – and pay me 6 months after delivery. So it means that business transactions occur once in every 18 months. It is the reason why I closed the business and sold the whole mechanised weaving tools.
>
> (Interview with female *sarong* producer, 15 May 2006)

Sons and daughters of *sarong* producers who are mostly university graduates and drop-outs turn down their parents' offer to keep running the *sarong* production. Instead, they run alternative textile products, *batik* clothing, embroidery and garments, and provide services in laundering and printing or involve in textile trading. This change of textile production has far reaching impacts on the organisation of textile business in terms of division of labour, business relations and marketing.

This new industry is marked by a larger variety of textile producers which were previously less privileged by the *sarong* producers due to its lower level of technological sophistication. An important development in textile production is also marked by the emergence of two types of textile productions which use different and contradictory raw materials. Custom batik cloth uses high quality of undyed cloth but does not for mass production and develops a specific network of market. Another product is the textile handicraft which uses handlooms. The new industry has also given birth to new positions such as wholesale yarn traders specialising for garment and textile handicraft. Moreover, new positions of producer-cum-middleman are on the rise and they displace local professional middlemen who played a pivotal role during the *sarong* era of the 1970s to the early 1990s.

In contrast to *sarong* production, batik clothing and garment industries are run by simpler technologies. The capital start-up for these productions is much lower and flexible in comparison to *sarong* production. The lower level of capital needs has made it possible for fresh university graduate or drop-outs to enter the industry.

> Everybody is able to become conventional batik clothing or garment entrepreneurs now. I start with a working capital of twenty million rupiahs to run garment production. With that amount, I can run five sewing machines, buy raw materials such as yarns, undyed cloth and pay wages for five workers. If the demand of garment products is good, I can produce four hundred pieces per week and earn a profit at around four hundred thousands rupiahs.
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> (Interview with young garment producer, 10 December 2005)

3.5. Inequality in Production and Market Relations

The putting-out system, a type of production relation, which appeared in the 1950s and disappeared in the following two decades, re-emerges and nowadays dominates production relations. In essence, the system worked differently in both periods. For old generation, running textile production, and developing a putting out system were a common strategy to expand production in the 1950s. This expansion was made possible because of two reasons. First, the type of technology used, handloom weaving tool, was available and cheap in the area and, second, the availability of market demand. The current emergence of the putting out system, however, should be understood as reaction on the failure to innovate existing technology. The simpler technology used for batik clothing, garment and textile handicraft meant that people are easier to enter the business.

The current putting-out system works not only in production but also in the supply of raw materials. In the production sphere, larger and smaller traders order to produce certain design of clothing and provide raw materials and labour costs to groups of producers. The bigger the trader, the larger the number who become their clients. Indeed, the current putting-out system create employment especially for local population in the lower ladder of economic stratification. However, as market demand remains highly volatile, production continuity is disturbed.

A more interesting phenomenon is the emergence of specific 'financial institution' played by large textile entrepreneurs to control textile trading. They provide money in cash to 'eligible' traders who need additional capital to maintain their trading.

> I have been involving in textile yarn trading for more than ten years. I started this business with a working capital from my parents and parent-in-law who formerly run large textile enterprises. So all of the local people know who are my parents and parents-in-law. This trading is highly

> uncertainty and it heavily depends on the market of textile products. For several times, my business stops and I come to the 'financial institution' and by submitting my house certificate, it is agreed that I continue my business on behalf of the producers' capital. It is calculated that I will earn 25% out of total profit. This earning is very small and I do my best to stop such cooperation as soon as possible.
>
> (Interview with yarn trader, 13 December 2005)

The current widespread of putting out system reflects not only on-going processes of de-industrialisation but also difficulties in maintaining textile business in a time of high uncertainty. Moreover, engaging in a putting out system is becoming more and more difficult as the above-mentioned Interview attests.

The current structure of the market is simpler than the previous market of *sarong*. The market actors consist of local entrepreneur-cum-traders, local entrepreneurs. This market continuously inflates, absorbing new comer of traders, deflates and cornering vulnerable traders respectively during high and low demands of textile products.

In contrast to previous periods, currently a new generation of textile entrepreneurs take over the role of local middlemen in the distribution of textile products. This is made possible because responsibility in the production process has been transferred to their producers. Moreover, relying on local middlemen will increase transaction costs and some time it has been difficult to predict the exact time of payment. Outward-oriented behaviour seems to become a new mindset of current entrepreneurs and it is such an orientation that contradicts with previous generation of entrepreneurs.

In fact, the position of local middlemen is vulnerable within the structure of the textile market. They are easily jeopardised by other 'traders' who can offer cheaper price of the same products to big traders in the provincial capital.

> I was a middleman specialising in distribution of *sarong* products in Pekalongan and other towns in Java in the 1990s. Within the context of deterioration of sarong demands in the second half of that decade, I had to compete against other middlemen and producers. I often faced difficult situations when I took sarong products from the owner (producer), he kept saying that he wanted to join me to go to my big trader in Jakarta. I understood I could not reject his offer. After he knew my big trader, he made his own transactions with him the following weeks.
>
> (Interview with retired local middleman, 15 march 2006)

The market of batik clothing and garment is conventionally centered at market places in Jakarta, Central Java, and Esat Java. Jakarta is the biggest market place for textile at which big, medium and small traders struggle to occupy market niche. Until the year 2001, the structure of the production market in Jakarta composed of big traders, usually of Chinese and Arab origins, who controlled the domestic and international textile market and small and medium traders who consistently supplied textile goods to big traders. Some Pekalongan big traders were able to occupy relatively similar positions with Chinese and the Arab and they developed business networks with actors in the centres of market places in outer islands. The Jakarta market was vibrant and reached it peaks around 1997 to 2001, years in which Indonesia suffered a tremendous economic crisis.

> I run trading of batik clothing from my kiosk at *Pasar Tanah Abang*, Jakarta and opened new kiosks at market places in Makassar, South Sulawesi and Bogor, West Java to maintain my long trading partners there. Demand of batik clothing was extra ordinary, especially in 1999-2000. My trading customers came and paid in advance before I delivered batik clothing. Averagely, I could earn a net profit of Rp. 125 million a month, an income higher than the monthly salary of the president director of state bank. Now, things have changed completely. The demand for batik clothing drastically declines and I closed the kiosk in Makassar and only maintain the kiosk in Bogor. I urge president SBY (Susilo Bambang Yudoyono) to ban the flooding of China's textile goods and used-clothing in Indonesian market if he wants to salvage Indonesian traders like us.
>
> (Interview with Pekalongan big trader, 25 May 2006)

A similar problem in trading is also faced by small and medium traders. Previously they had business relationships with big traders in Jakarta so they could easily contact over the phone to make business transactions and deliver textile goods. Now, such business deals could no longer be maintained because of the decline of demand of this trading.

> The market of batik clothing is deteriorating due to decreasing demands from the regions. I have never experienced such a situation before. However, one interesting fact is that the number of small and medium traders who come to my kiosk is sharply increasing. They are offering batik clothing with various kinds of design. Of course I can not manage their offers though they prepare to receive the payment 6 months after delivery.
>
> (Interview with Chinese big trader in Jakarta, 10 June 2006)

3.6. Customised Batik Clothing[5]

Customised batik clothing begins to reappear after more than 30 years of disappearance. The reappearance of this business may inspire other entrepreneurs to follow the footstep of this customised entrepreneur. It is an art business which is hand-made of high quality to be sold to specific customers. Minister of trade and industry appeals Batik clothing entrepreneurs to shift to this customised clothing, arguing such business has niches in the international and national markets (Kompas, December 22, 2003). Talent, a high sense of art, knowledgeable cultural background of an artistic batik are basic elements that must be possessed by the entrepreneur.

The owner, still in his thirties, seems to be born as an artist of batik designer. Since his childhood, he often made experiment, designing clothing with variety of colours. After finishing high school, he went to Jakarta to study art and design. He stayed in the house of a well-known batik fashion designer in Jakarta and become his assistant. After graduating from the institute of art and design, he went back to his home town and established a small workshop for batik clothing. Now, after five years running the workshop, he is able to occupy a small nice in the market of customised clothing by maintaining personal relationships with Jakarta and Semarang elite society and Japanese tourists. The average price of one piece of cloth is IDR one million (Euro 80) and he earns an annual net profit of around IDR a hundred million (euro 8,000).

In order to keep the customized batik alive, he organises a community of learning of customised batik by inviting youths to work and discuss in his workshop. It is hoped that from this community will emerge young creative designers who are keen to run customised batik businesses. However, he sadly predicts the possible dominance of this business in the future in Pekalongan. He perceptively says,

> Customised batik clothing is a culturally oriented production. One can not transform the tradition of printed batik and sarong production into this business. Creativity to paint the batik and the ability to engage in the high society matters and they should become part of the life blood of our community. Formal education plays a pivotal role in the dissemination of the culture of customised batik. Such culture of creativity also should be

[5] Interview with Mr Dudung, owner of customised batik clothing, on 20 May 2006. The customised batik clothing is different in comparison to conventional batik clothing. The former requires creativity in the design of batik, high quality of raw materials and hand made.

> socialised in family education. Here, in this area, the community runs a very good higher school of nursing, an education that has nothing to do with customised batik. The local government run general formal education which does not pay attention to this cultural business either. So there is no connection at all between formal education and local cultural richness of batik making. This makes me worried about the future of customised batik in Pekalongan.
>
> (Interview with customised batik owner, 20 May 2006)

Our study shows that all different groups of entrepreneurs, except the domestic oriented bandage entrepreneur, suffered from the pressures of external actors and show cracks their business relationships. One may recall that just as hand loom-based sarong production ruptured as consequence of national policy of textile liberalisation in the early period of the Soeharto era, so too the current global oriented liberalisation policy may bring about the rupture of large and modern textile enterprises in Pekalongan.

Small and medium entrepreneurs suffered most, indicated by the severe reality of developing personal business relationships with their trading partners. A number of young entrepreneurs begin to look to another direction for their future by joining the national selections to become officers in the offices of the local government. This selection process is extremely very competitive taking into account the huge number of candidates who apply. If the sons and daughters of the Pekalongan sarong producers could become state employees in big cities in the 1980s and the 1990s, today, young entrepreneurs and fresh graduates may become petty employees at village offices or unemployed.

Successful state policies should be built on what already exists, reinforcing and extending existing social ties among actors in business life. There is a need to create macro institutions –political institution – to salvage and nurture business networks. In the current context of democratisation and decentralisation, opportunities to create such institution are widely opened.

4. The Political Economy of Textile Business

Since the moment in 1998 when Soeharto stepped down as president and after, much works have been carried out to reform political institutions. After more than 30 years living with authoritarian politics, Indonesians witness the spring of democracy marked by the flowering freedom of press, freedom to organise and successful parliament and presidential elections. However, concerns begin to unfold over the fruits of the *Reformasi*. Democracy, good governance, social capita, and civil society - terms coined on daily media in the early years of Reformasi - have gradually been thwarted by corruption.

Within the context of such liberalisation, this section attempts to explain ways in which textile entrepreneurs, political and civic leaders struggle to express their interests in public policy making. Attention will be focused on the dominance of current economic ideology in policy making and their responses as they unfold on national and local media. I argue that the political liberalisation may facilitate the beginning of the embeddedness of political institutions in textile business.

In contrast to the network approach that emphasizes on the proximate, the institutional approach focuses on the underlying causes of the success and failure of businesses are rooted in the interaction between informal rules and large formal rules (Nee, 2005). This approach provides a framework to investigate the concrete interconnections between state and non state actors - be they political parties, business associations, civic associations and even individual actors – in the shaping of economic policy in textile businesses.

4.1. Nationalism and Liberalism

Nationalism and liberalism are two different ideologies of economic policies. Normatively speaking, both principles preach different roles of the state in the economy. The former advocates a drastic reduced of the role of the state and believes that individual rational self-interest and unrestricted pursuit of gain are the only solution of economic problem. “Let invisible hand and not the hand of government work to bring economic growth and prosperity” are metaphor usually coined by its supporters (Carruthers and Babb, 2000:148). The latter advocates state intervention in the economy by protecting domestic enterprises. In concrete reality, however, both principles may evolve from one to another.

Indonesian economy is coloured by subsequence of both economic ideologies since the post-independence The nationalism emerged as a mainstream economic policy, guiding the so called *fortress programmes*, a sort of affirmative policy, to protect indigenous entrepreneurs from foreign companies and Chinese business in the fifties. This economic ideology operated in different guises and contested against market supporters, kept inspiring public policy in the following decades (Chalmers and Hadiz, 1997). The liberal supporters begin to appear in the early years of the Soeharto era, guiding Indonesia's economy to integrate into a global economy.

Following the dramatic collapse of oil prices in the early eightieth, the liberal supporters won the race to convince Soeharto to implement a series of reforms under the banner of structural adjustment. A set of policy packages for the reforms in trade, banking, finance and state monopoly were launched to salvage Indonesian budget deficit. The influence of liberal supporters achieved its peak during the economic crisis in 1997 after Indonesia was unable to stabilise the rupiah. Under close supervision of the IMF, Indonesia's economic policy experienced sweeping reforms in banking, state own enterprises, state subsidy and last but not least in trade. The level of the IMF' influence in economic policy is so deep and unparallel in comparison to neighbouring countries which experienced similar crisis (Robison and Hadiz, 2003: 1). An Indonesian senior economist lamented the intervention of the IMF in trade reform, a domain beyond its mandate (Hadisusastro and Basri, 2005: 9). The curtailment of almost all tariff barriers significantly transforms Indonesian economy into a 'highway' of national and international textile trading. The ideal of the neo liberalism has become a reality in the Indonesian economy.

The deepening influence of liberalism in the current economic policy coupled with a recent development of the abolition of the US export quota for Indonesian textile and apparel considerably affect textile business at national and local levels. There is nothing to surprise, however, as Indonesian history of economic policy teaches us, these developments will be challenged by the proponents of economic nationalism. The contestation between liberalism and nationalism by *the political public*[6] needs to be investigated in order to understand not only the future direction of textile business but also the possible entanglement of political institution in textile business community at local level.

[6] The political public, a term coined by Chalmers and Hadiz, refers to actors (individual or institutional) who voices their ideas on the media over certain political and economic issues. For more information see Ian Chalmers and Vedi R Hadiz ed (1997). The Politics of Economic Development in Indonesia: Contending Perspectives. London: Routledge.

4.2. The National Political Public

Beside the IMF and the World Bank, the proponents of liberal economic policy come from international and national economists, the state ministries of trade and industry. The supporters of nationalism come from political parties and textile associations. In the middle of this spectrum emerges the Centre for Strategic and International Studies (CSIS), the Indonesia Chamber and Commerce (KADIN) and *Indonesia Bangkit (Indonesia Awakening)*. The CSIS is well-known as a think tank which had powerful influence in economic policy making of the state-nationalist in the period of 1975-1985 (Chalmers and Hadiz, 1977), whereas, *Indonesia Bangkit* is a loosely civil association led by former coordinating minister of economy and finance.

The economists are the group most prepared for the campaign of liberal economic policy. They reject not only the basic tenet of economic nationalism but also show the thrive of regional textile entrepreneurs during the liberalisation and economic crisis (Papanek, 2006; Sandee, 2000). Creating a conducive business environment has to be the prime area of Indonesian state. Economists keep arguing that the current problems faced by the Indonesian state should not be addressed to the limitation of liberal economic policy but it should be searched in the incapability of state bureaucracy and textile entrepreneurs to revitalise textile industries.

Hadisusastro and Basri (2005) show a number of problems that causes the erosion of competitiveness of Indonesian textile industries. They mention that textile industries suffer lack of new investment, low labour productivity, high cost of doing business, weak industrial relation policy and poor infra structure conditions. After liberating Indonesian textile economy, the liberal proponent blames the entrepreneurs, the state bureaucrats and the textile workers. One may ask question why did not they study the expected problems that might come out before the launching of sweeping liberalisation?

This question is implicitly raised by its critics. The Indonesia Chamber and Commerce (KADIN) and a CSIS economist (Gaduh, 2005) state that the government policy of no policy has been the prime source of the loss of competitive advantage of Indonesian textile in international and national markets. According to KADIN, the value of domestic consumption goods, especially textile goods, sold in Indonesia declined to 30% since October 2005 and the Jakarta market-place, a centre of textile market, has been inundated by import goods. In solving this problem, KADIN suggests that the government should prepare an integrated policy covering trading and agricultural sectors with a clear roadmap to which direction Indonesian textile economy has to follow (Tempo Interaktif, 7 August 2006).

Indonesia Bangkit and Indonesian Entrepreneur Association (Apindo) blame that the government does not care of textile de-industrialisation currently going on in the country (Tempo Interaktif, 28 July 2004). The issue of de-industrialisation was closely related to a series of disappointments of textile actors in coping with current liberalisation aired on the media from 2003 to 2006. In 2003, the chairman of the Indonesian Textile Association (API) lamented that the centres of garment markets in Indonesian big cities have been inundated by import textile goods which cheaper prices in comparison to similar domestic goods. Perhaps, we should change our profession from textile industrialists into traders, he desperately said (Kompas Daily, 19 January 2003). The chairman, who is also the owner of an export oriented large company, implicitly wants to say that an Indonesian textile community - be they large, medium or small – are the sufferers of two different but simultaneously attacks of international and domestic markets.

In 2005, triggered by the fuel price increase, the disappointments widen and culminate to its peak. Sixteen large textile and garment enterprises in Tangerang (the outskirt of Jakarta), including few leather enterprises, went bankruptcies (Kompas daily, 21 December 2005) and mass of workers' lay off had to be done by textile enterprises in Sukoharjo, one of the centres of textile industries in Central Java (Tempo Interaktif, 25 December 2005). Moreover, large group of textile entrepreneurs engaged in 'tag-of-war' against the PLN, state owned power company, for unilaterally increasing the price of electricity (Tempo Interaktif, 16 November 2005).

4.3. The Local Political Public

Earlier I explained that politics and textile business were two different and unconnected institutions in Pekalongan regency during the Soeharto era. The local government mostly focused on the development of formal education, health and physical infrastructures and allocation of small part of the budget to small and home industries. No bold attempt to bring textile business in the mainstream of policy of local government. The convincing involvement of textile entrepreneurs, especially the Javanese, in formal politics were the roles they played in the mediation of ethnic conflict that some time coloured local politics.

The All Indonesian Batik Co-operatives Association (GKBI) which played a pivotal political role during the fifties has transformed into a holding company controlling a series of large and integrated textile enterprises during the Soeharto era. However, her attempt to build an economic power has been constrained by the Soeharto closed associates of textile conglomerates. In the years prior to the down fall of Soeharto, GKBI was appointed by the Minister of Finance, who closed to Indonesian Moslem Intellectual Association (ICMI), to control the biggest integrated textile factory (KanindoTex) in the country. This factory was converted by the government because of non performing loan. After controlling it for three months, the factory was finally taken over by a conglomerate owned by the president's son. Again, years after the crisis, GKBI was defeated by the conglomerate, the former owner, in the bid of acquisition of Bank Central Asia (BCA), the biggest private bank in Indonesia. Currently GKBI nurtures relationships with textile entrepreneurs in the regencies by providing internet portal to promote their businesses.

The political parties, especially the National Mandate Party (PAN), the Nation Awakening Party (PKB) and the Crescent Star Party (PBB), theoretically can engage in the politics of textile business. These parties are supported by small and medium entrepreneurs and traders in the regencies and even the presidents of national PAN, local PAN and PKB come from this group.

At national level, the party leaderships begin to air the current problems faced by small and medium textile entrepreneurs in the regencies. The PBB leader in the national parliament appealed to the government to seriously focus on the economic empowerment of small and medium entrepreneurs rather than on national big entrepreneurs. The former has shown their successful performance during the crisis and their non performance loan have been low (Kompas, 25 September 2004). In a similar way, the PAN leader criticised the current government for its failure to develop a clear economic policy on people economy (Kompas, 30 December, 2005).

At local level, political parties tend to focus on the elections of local parliament and the head of regency and less on the problems faced by textile entrepreneurs. One of the reasons is the lack of resources and it affects the capacity to mobilise their members and formulate political programmes[7]. Second, both the party leaders of PAN and PKB did not have enough experience in running social organisations before becoming party leaders. However, these political parties have the potentials to play important roles in the future, considering their large mass supporters and the formal linkages to their national parties.

The Pekalongan Textile Entrepreneur Association (PPTK) was established in the fifties and during the Soeharto era it could hardly play pivotal role in representing the voices of textile entrepreneurs. Currently, the association begins to show her muscles by organising demonstration against the PLN, state owned power company. The oil price increased in September 2005 was the moment for the first time the association voiced their interests. At the beginning its members expressed their disappointment individually over the increase of production's cost and the decline of consumers' bargaining position. In the following month, the national office of PLN introduced *Daya Max Plus*, a policy to increase the price 50% for the use of electricity during the peak hours (6-10 PM). PLN is the only enterprise owned by the state relies heavily on oil for day to day operation. While being obligated to repay private debt inherited by the Soeharto administration and the persistence of corruption within the management, PLN had no option but increase the price for the use of power to the customers.

According to local PLN officer, *Daya Max Plus* was not a policy to increase basic price of the use of power. Instead, it was a policy to urge business world to use power wisely. However, Textile entrepreneurs and even the workers rejected that idea by arguing that this policy would have to slow down production process and laid off 20% workers next year 2006. 20 textile entrepreneurs, who were members of the Pekalongan Textile Entrepreneur Association (PPTK), was supported by local KADIN (Indonesian Chamber and Commerce), APINDO (Indonesian Entrepreneurs Association), and API (Indonesian Textile Association) marched to local office of PLN to demand the delay of policy implementation to January 2006. They argued that national office of PLN did not in advance inform this plan. In a similar way but in a bigger group, textile workers supported by local SPN (National Workers Union), KMB (United Society Coalition) and

[7] Member of local parliament from PAN faction informs that the chairman of local PAN finance all party activities without any support from outside. He also mentions that the candidates of local parliament were asked by the chairman to donate the money for financing the election campaign not for his own purpose.

ORI (Indonesian People Organisation) marched to PLN's office demanding the curtailment of the policy.

The head of regency, *the Bupati*, took an initiative by inviting textile entrepreneurs and PLN officers to seek a win-win solution over this policy dispute. Co-chaired by the *Bupati* and the local police commander, the meeting finally decided to write a petition for the delay of policy implementation to a higher office of PLN in Semarang, capital city of Central Java. However, because this policy was not created by local PLN office but it was a national policy, the meeting did not come up with any solution. The *Daya Max Plus* continued to be implemented and local PLN officers warned that those entrepreneurs who did not obey the rule would get penalties.

The smaller entrepreneurs who are not members of any local textile association expressed their disappointments individually. When Minister of Trade and Industry visited Pekalongan, she repeated statements what she often said in the media. Sarong and batik clothing producers must change their productions if they wanted to survive. The current quality of both products was out of date and priceless in the market. The minister advised them to use local contents for production likes silk which can be planted locally. Her statements sparked disappointments among small and medium entrepreneurs.

> I disagree with those who say that sarong and batik clothing goods are priceless now. In fact both goods had enough place in the market, especially in 1998 to 2000. Only recently we suffer badly because of the flooding of foreign textile goods and the burning of Jakarta market. We involve in this business for decades and we want to renew our industry. If renewal is meant as the change of our products and production technologies, they may take long time. You can not adapt to new industry within a week or months.
>
> (Interview with batik clothing entrepreneur, May 15, 2006)

At the beginning of this section, I argued that the double liberalisation currently going on in Indonesia facilitates the beginning of political institutions to engage in textile business. This study shows that business associations - especially the textile association – beginning to play roles in influencing the current state policy on textile industry. This is in contrast to the period of the Soeharto era where the conglomerates closed to the office of the presidency played a vital role. However, the continuing role of textile associations and other civic associations in steering the state policy depend on whether they are capable for bringing textile issues become a national issue in the media. Indonesian economic history provides an ample evidence of the roles of the political public in steering liberalisation. The mass disappointments over liberalization in the early years of the Soeharto era trigger mass demonstration in Jakarta in 1974. This radical challenge forced the government to legislate a new regulation on cheap credit for small and medium entrepreneurs.

Today, the re-emergence of textile associations and political parties in the supports of the interests of textile entrepreneurs at regency level still need to be salvaged, nurtured and developed. By developing them, all textile entrepreneurs from different level of ownership have a say in the process of policy making. Liberalisation without devising the possible social costs would bring about human catastrophe.

5. Theoretical Reflections

Throughout the previous sections, this study shed lights on the processes of business contestation that has been occurring in one of Indonesia's medium-sized urban areas. It is shown how economic liberalisation within the context of political liberalisation has shaken the underlying social institutions of business networks in the region. It is evident that the strong imposition of economic liberalisation - without accounting for institutional context - has led to the increasing inequality within various business networks in the textile market.

The findings of this study inform that the imposition of external institutional blueprint into liberalising economies and polities should be sceptically understood. Such imposition seems to be the dominant paradigm in various areas of life such as the implementation of Good Governance, development of civil society and social capital in Indonesia. It is not the economic liberalisation but the existing institutional arrangements that matter most. Walder (1996) warns the general claims about the impact of economic liberalisation on inequality. Market economies vary widely in their patterns of power and privilege, and the characteristics of emerging markets. They should be taken into account before the implementation of economic liberalisation.

In his seminal article, Nee (2005) offers a comprehensive institutional perspective of the economy in industrialising societies. His perspective, influenced by North, aimed at integrating informal social organization of close-knit groups and the formal rules of institutional structures, highlighting the mechanisms that regulate the manner in which both informal and formal institutions facilitate, motivate, and govern economic action. Moreover, he introduces concepts of close coupling and decoupling in order to explicate processes of integration and disintegration of both institutions. Following Nee's perspective, Indonesia's experience shows a mechanism of decoupling rather than close coupling occur in the process of managing textile crisis.

In the political sphere, the rise of political parties and civic associations has opened public dialogue over the issues of textile deindustrialisation in the country. Unfortunately, the issues seem to be kept floating on the air considering the weakness in the connections between textile entrepreneurs and politician/political parties at the local level, as well as between local politicians and their colleagues at the national level. The local politicians do not communicate well with the entrepreneurs as they uphold different issues as their political stakes. The national politicians, as a consequence, do not have sufficient input to what has happened to the regions. Moreover, the weakness of the Indonesia' political parties, organisationally and functionally as the articulation means for people's interests, are widely known. All in all, public dialogue or deliberation as a mechanism for salvaging textile industry seems to become an end itself. However, recently, new and small movements seem to shed some lights in the dark tunnel. Young and uncorrupted politicians begin to win elections in several cities and regencies in the country. This development may affect the 2009 general elections. Much hopes to recover textile industry will be determined by the results of he 2009 parliament and presidential elections.

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