

# Regulatory and Policy Arrangement of The Textile Industry and National Textile Products for Clothing Resilience

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**Abstract:** This article discusses the challenges and prospects in the national textile industry. As an important industry in economic development, the textile industry needs regulatory support and strategic policies to overcome several upstream and downstream obstacles. From the upstream industry, TPT includes the fiber industry, spinning, and yarn, knitting, stamping, and finishing, while downstream, it includes the apparel industry. Through the right policies, the textile industry is expected to be able to absorb labor, support national economic growth, and realize clothing resilience. This research uses empirical juridical research methods through tracing and studying secondary data in the form of laws and regulations, academic manuscripts, policy recommendations, and scientific papers of experts in the cybersecurity and empowerment of the small and medium enterprises sector. Secondary data are obtained through Library Research from printed and electronic library materials. Doctrinal research is needed to understand the legal norms that are currently in force (Law in the Book) through a statute approach and a conceptual approach (Conceptual Approach). The results showed that some of the obstacles to the textile industry include limited transportation and electricity infrastructure, low quality of human resources, and access to financing, which is still narrow. For this reason, regulations and policies are needed to guarantee the financing of the textile industry, as well as innovation support for research institutions and related institutional cooperation—notably the Indonesia Central Bank (B.I.) and Financial Services Authority.

**Keywords;** Textile Industry, Clothing Resilience, Institutional Cooperation

## I. INTRODUCTION

The textile and textile product (TPT) industry is one of the pioneering industries and backbones of the manufacturing industry in Indonesia and is one of the important sectors in the national economy, both in terms of employment and its contribution to the gross domestic product (GDP). From the upstream industry, TPT includes the fiber industry, spinning, and yarn, knitting, stamping, and finishing, while downstream, it includes the apparel industry. The apparel industry is a priority industry grouped in the flagship industry included in the National Industrial Development Master Plan (RIPIN) for 2015 – 2035.<sup>[1][2]</sup>

However, the textile industry faces several problems and pests, ranging from weakening Competitiveness, falling export performance, and reduced contribution to GDP. Additionally, the negative stigma from the banking

community categorizes this industry as a high-risk<sup>[3]</sup> or sunset industry. Other obstacles that undermine the industry's Competitiveness are expensive energy costs, port infrastructure that is not yet conducive, old textile machinery, and the rise of illegally imported products, especially from China.<sup>[4]</sup>

The commitment of the central and local governments needs to be realized through establishing regulations, policies, and institutions to ensure the revival and sustainability of the textile industry and the progress of its supporting MSME sector. Until now, Indonesia did not have a law regulating textiles (Law on Clothing). In fact, like food and housing (board), clothing is also a basic need of every human being. Every citizen, from birth to death, needs textile products. At birth, a baby needs a diaper cloth. At the time of death, the body must be wrapped in a clean shroud. The Population Census (SP2020) in September 2020 recorded the total population of Indonesia at 270.20 million people. With a population growth rate of 1.25% per year, the total population will increase to 305.6 million by 2035. The need for the availability of clothing for such a large population cannot be hung on the supply of imported apparel. It is time for the government, industry, and the community to re-strengthen their commitment to the independence of the sustainable national textile industry.<sup>[5]</sup>

Some indicators of community welfare that are widely known are the fulfillment of the needs of nutritious food and decent housing. For Indonesians, the fulfillment of clothing needs, including footwear (shoes and sandals), also completes a prosperous life at birth and in mind. Even though we already have sufficient and highly nutritious food and live comfortably in a healthy and sustainable residential environment, our lives will not be complete if it is not supported by appropriate clothing and footwear (clothing). The fulfillment of the need for clothing can be realized if the national textual and textile products (TPT) industry can run well and not rely on imports of *apparel* products from other countries.

To ensure adequate food and decent housing, the central and local governments have paid adequate attention, as seen in the regulations, policies, and institutions.

Several regulations in the food security field; for example, there is Law No. 18 of 2012 concerning Food and Law No. 41 of 2009 concerning Sustainable Agricultural Land. Both laws are supported by several government regulations, presidential regulations, regulations of the Minister of Agriculture, and regional regulations related to quality and nutrition security and usage of local food sources.

Some previous research related to the problems of the textile industry is still partial, both from the upstream industry and the downstream industry. There is no comprehensive study that can be used as material for academic manuscripts for the preparation of the Draft Law on Textiles (Law on Independence and Resilience of Clothing). The birth of the law is expected to be an entry point for the revival of the textile industry through the harmonization of related laws and regulations.

Harmonization of legislation and coordination between relevant institutions is very necessary to reorganize the national textile industry so that its Competitiveness increases. Efforts to support the growth of the TKT industry agree with the national commitment to realize the *Sustainable Development Goals* (SDGs), especially the eighth target, namely, the goal of increasing inclusive and sustainable economic growth, productive and comprehensive employment opportunities, and decent work for all. Based on the background description, this study proposes two main problems: a) What are the obstacles faced by the textile industry and national textile products? Moreover, b) What are the regulations and policies needed to support the rise of the national textile and textile products industry toward clothing sovereignty?

Industry Textiles and products the textile industry (ITPT) is a product of Indonesia's flagship, which plays a role in a critical growth economy national. An industry that absorbs power work fulfills the clothing community's needs and is one source of state foreign exchange. As a strategic sector in the economy national, ITPT, including in sector-congested work and oriented export, includes processing, spinning, weaving, and finishing textiles and material clothing, manufacturing goods textiles not clothes (such as bed sheets, cloth drapes, tablecloth tables, blankets, rugs, Etc.).

Industry clothes so include the production process, starting from the profession sew from all profession sew material, the type of clothes, as well accessories, The Ministry of Industry has targeted many targets development industry until the year 2035, listed in Regulation Government No. 14 of 2015 concerning Plan Parent of National Industrial Development 2015–2035 (PP RIPIN 2015-2035). The plan parent shared in three stages, in line with National Long-Term Development Plan (RPJMN). Target the among others: Growth sector industry non-oil and gas by 10.5 %; contribution industry non-oil and gas by 30 %; percentage power work in the sector industry to total workers by 29.2 %;

contribution industry non-oil and gas to GDP, each of which will be achieved by 2035.

GDP data is one of the indicators important for knowing the condition economy of a country at a period certain, which is the amount of score added value generated by all business units in a country, or the amount scored goods and services the final output generated by all economic [3] units. The development economy of a country is measured through the growth GDP value. Until In 1990, the Indonesian economy was dominated by agriculture. Based on these data, the production sector of agriculture becomes the apex contributor to national production. After 1990, agriculture to sector industry; therefore, if the land sector decreased, the industrial sector increased.

Figure 1. Contribution Sector Agriculture and Sector Industry against GDP

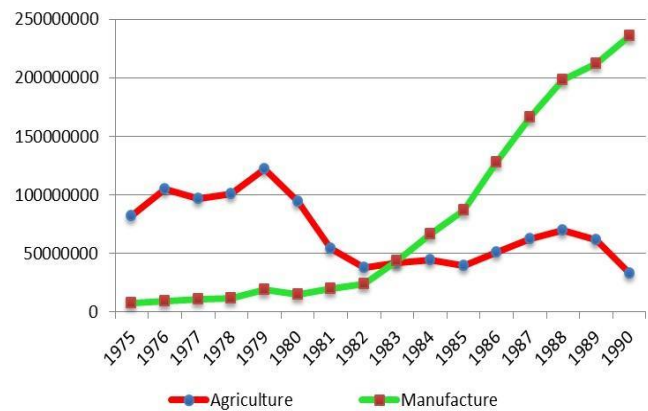
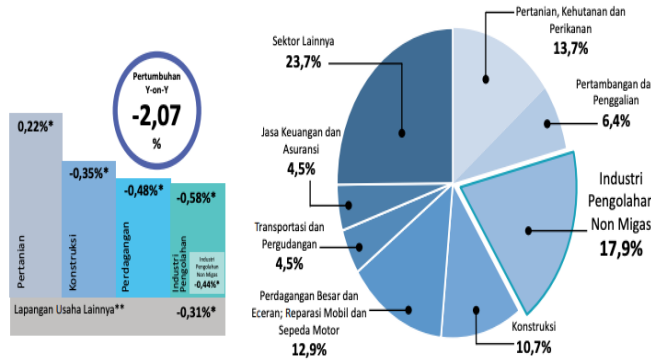


Figure 1 shows agriculture's contribution to the GDP sector, which is gradually experiencing a decrease; temporary sector industry manufacturers show an increase. Trend the survive so that in 2010 the Indonesian economy grew by 6.2 percent, and the contribution sector industry processing to GDP reached 4.3 percent. Next, industry processing still is a driving force for the primary growth of the Indonesian economy during 2014-2019, which grew above 4% per year. Though God's number tends to be volatile, recorded contribution industry processing remained at the average figure of 20 percent, while contribution sector industry processing non-oil and gas by an average of 17 percent.

During a pandemic Corona Virus Disease COVID-19 (in 2020), growth industries processing non-oil and gas experienced a contraction by -2.52 percent, slowing down compared same period \_ in 2019, which is 4.34%, while the contribution remained at the level of 17.52% of total GDP. Policy restrictions on social activity during the pandemic to cut off the chain of the spread of the virus has pushed the growth economy national until it is at the level of -2.19%.

Policy restrictions on social activity during the pandemic to cut off the chain of the spread of the virus has pushed the growth economy national until it is at the level of -2.19 percent, as shown in figure 2.

Figure 2 Source Economic Growth and the Role of Industry Non-Oil and Gas



Source: Faculty of Economics and Business, University of Indonesia, 2020.

Sector performance industry processing in 2020 shows expansion though it had time to experience a slowdown in the second Quarter of 2020 because of the COVID-19 pandemic. Sector performance industry processing in 2020 started experiencing expansion, though it had time to experience contraction in the second quarter of 2020 due to the COVID-19 pandemic. Based on the former, the majority component, sector agriculture, mining, construction, trade, transportation, warehousing, and service finance experience increase.

In the quarter of 2019, the textiles and clothing performance industry showed brilliant performance, recording an increase of 18.9 percent. Industry textiles and products textiles (ITPT) is one of the reliable sectors because of its contribution to the economy national. Growth in the sector is supported by increasing investment in the sector upstream, especially in the production of rayon fabric, incl. investment in P.T. Asia Pacific Rayon (APR), Riau, which investment amounts to Rp. 11 trillion. Operation factory, the rayon cloth lift capacity production amounts to 240 thousand tons per year, partly addressed for the export market.

Besides that, the development of the textile industry is also supported by policies, education, and training conducted by the Ministry of Industry to increase quality Source Power Humans (HR) are productive and competent. Policy the in line with Revolution Roadmap Industry 4.0 (Fourth Industrial Revolution), which provides movement direction and strategy for the Indonesian industry to become ten economies' most significant [9]. The textile industry is one of the five sectors focusing on central policy. Other sectors are food and beverage, automotive, chemical, and electronics.

## II. RESEARCH METHODS

This research uses empirical juridical research methods through tracing and studying secondary data in the form of laws and regulations, academic manuscripts, policy recommendations, and scientific papers of experts in the field of cybersecurity and the empowerment of the MSME sector. Secondary data are obtained through *Library Research* from printed and electronic library materials. Doctrinal research is needed to understand the current legal norms (*Law in the*

*Book*) through a *statute* and conceptual approach (*Conceptual Approach*).<sup>[7]</sup>

Meanwhile, empirical research is carried out through observations, interviews, and *focus group discussions* (*Focus Discussion Group*) on understanding the law in the field (*Law in Action*). Primary data are obtained through interviews with selected speakers<sup>[8]</sup> and focus group discussions on exploring the issues or specific phenomena of the sources involved.<sup>[9]</sup> This method is needed to obtain data or information with a more diverse perspective on the problems faced by the textile industry, from the upstream to the downstream industry.

## III. DISCUSSION

### 1. Contribution of Textile Industry and Textile Products to the National Economy

The textile and textile products industry (ITPT) is one of Indonesia's leading products and plays a crucial role in national economic growth. This industry absorbs labor, meets people's clothing needs, and becomes one of the country's foreign exchange sources. As a strategic sector in national commerce, ITPT is included in labor-intensive and export-oriented sectors, including processing, spinning, weaving, and finishing textiles and clothing materials, manufacturing textile goods for clothing (such as bed linen, curtain fabrics, tablecloths, blankets, rugs, and others).<sup>[10]</sup>

The apparel industry includes the production process, starting from the sewing work of all the work of sewing materials, types of clothing, as well as accessories. The Ministry of Industry has targeted several industrial development targets until 2035, as stated in Government Regulation No. 14 of 2015 concerning the National Industrial Development Master Plan for 2015-2035 (PP RIPIN 2015-2035). The preliminary plans are divided into three stages, in line with the National Long-Term Development Plan (RPJMN). Targets include Growth non-oil and gas industry sector by 10.5 %; contribution of the non-oil and gas industry by 30 %; the percentage of labor in the industrial sector to the total workers of 29.2 %; the contribution of the non-oil and gas industry to GDP, each of which will be achieved in 2035.<sup>[11]</sup>

GDP data is one of the crucial indicators for knowing the state of a country's economy at a certain period, which is the amount of added value generated by all business units in a country or the amount of value of final goods and services produced by the entire economic unit. The development of a country's economy is measured through the growth rate of the value of GDP. Until 1990, the Indonesian economy was dominated by the agricultural sector. Based on this data, agricultural sector production is the most significant contributor to national production. After 1990, it gradually took place from agricultural to industrial sectors. The land sector began to decline, while the industrial sector increased.<sup>[12]</sup>

During the *Corona Virus Disease/Covid-19* pandemic (in 2020), the growth of the non-oil and gas processing

industry contracted by -2.52 percent, slowing down compared to the same period in 2019, which was 4.34 percent, while the contribution was still holding at the level of 17.52 % of total GDP. The policy of limiting social activities during the pandemic to break the chain of virus spread has suppressed national economic growth to the level of -2.19 %.<sup>[13]</sup>

The performance of the manufacturing industry sector in 2020 showed expansion even though it had experienced a slowdown in the second quarter of 2020 due to the COVID - 19 Pandemic. Based on the constituent components, most components have increased, namely the agricultural, mining, construction, trade, transportation, warehousing sectors, and financial services.<sup>[14]</sup>

In the quarter of 2019, the performance of the textile and clothing industry showed a brilliant performance, recording an increase of 18.9 percent. The textile and textile products industry (ITPT) is one of the sectors relied on because of its contribution to the national economy. The growth in this sector is supported by increasing investment in the upstream sector, especially in the production of rayon fabrics, including investment in P.T. Asia Pacific Rayon (APR), Riau, which invested Rp 11 trillion. The operation of the rayon fabric plant raised the production capacity by 240 thousand tons per year, part of which was intended for the export market.<sup>[15]</sup>

In addition, the development of the textile industries is also supported by education and training policies carried out by the Ministry of Industry to improve the quality of productive and competent Human Resources (H.R.). The policy is in line with the Fourth Industrial Revolution Roadmap 4.0, which provides direction and strategy for Indonesia's industrial movement to become the ten largest economies. In this policy, the textile industry is one of the five sectors that focus on the policy. Other industrial sectors are food and beverage, automotive, chemical, and electronics.<sup>[16]</sup>

The choice of the five leading sectors is based on the economic impact and feasibility which includes a contribution to GDP, trade and potential impact on other industries, the amount of investment, and the acceleration of market penetration, through several strategies, 1) Increasing capacity in the law sector, with a focus on the production of quality and competitive chemical fibers and clothing materials; 2) Increase manufacturing productivity through the application of technology, factory efficiency, and increase human resource capacity; 3) Improve the production capability of functional clothing; 4) Increase economies of scale to support the production of functional clothing, for domestic and export market purposes.

The contribution of the textile industry to PDP has decreased, from 2.08% in 2009 to 1.9% in 2012. In 2013, the contribution of the textile industry to the GDP of the tri-processing industry was 6.47 percent or 1.36 percent of the total GDP. Meanwhile, in 2015 there was an increase, and in 2016 it reached 5.64 percent of the GDP of the processing industry or 1.5 percent of the total GDP. The textile industry

is still struggling to be developed, due to the support of natural resources (SDA) and potential human resources, apart from the availability of a large enough domestic market.

In the production process, labor is a significant factor. Residents belonging to the labor force are those aged 15-64 years. The increase in population has not only an impact on increasing the number of housing needs, foodstuffs, and clothing materials but also jobs. Indonesia needs the existence of labor-intensive industries to absorb the labor force that is growing every year. Thus, all investment policies and business climate must support the creation of adequate job opportunities.

The shift in the economy's structure from the agricultural sector to the industrial sector has not been fully offset by changes in the structure of labor. This indicates that the shift in labor is slower than the shift in the sectoral economy. The problem of employment, especially in rural areas, will always be a challenge for the government due to the lack of ability of the nonfarm sector to provide good jobs. The shrinking of agricultural land also causes this condition due to the massive conversion of land functions for residential use, economic facilities, and transportation.

Labor is one of the factors that influence the increase in the Competitiveness of the national textile industry, in addition to factors of support for financial institutions, energy, infrastructure, and Indonesia's geographical location. Data from the national labor survey (SAKERNAS) showed that from 1999-2004, the absorption of the TPT sub-sector workforce reached an average of 3.4 % of the total national workforce. Meanwhile, based on Survey in 2020, the number of workers working in the processing industry subsector, including the TPT industry, is 13.6 %.

As a labor-intensive sub-sector related to other sectors, the textile industry absorbs 135 thousand people per year, equivalent to 22.5 % of the total labor needs in the industrial sector of 600 thousand people per year. Several economic policy packages, simplification of licensing, and trimming some regulations also raised the industry's performance to meet

domestic needs by up to 60 %. The number of workers in the textile and apparel industry sub-sector, throughout 2016-2020 also increased, namely 3,435,267 (2016), 3,768,273 (2017),

3,904,706 (2018), 3,913,700, and experienced a decrease in 2020, namely 3,430,479.<sup>[17]</sup>

In 1999-2000 there was a high increase in the number of workers in line with the economic recovery after the monetary crisis of 1998. The number of workers in the TPT industrial sub-sector occupies the highest number each year compared to other industries, where labor absorption reaches 22 percent of the total workforce in the large and medium-sized industrial sectors. It is noted that the absorption of labor continues to increase every year, with an average growth of 3.1 percent. From 2012-2013 the number of workers in the textile industry decreased, but it increased the following year



again. To pursue the growth of the number of workers, the government needs to pay greater attention to the development of this industry and the quality of human resources in the textile sector.

In 2016, Indonesia ranked 17th as the world's TPT supplier country by contributing 1.58%. Ten years earlier, Indonesia was recorded as still ranked third. The countries that are Indonesia's most prominent textile export destinations are the United States and the European Union due to the high needs of the people in these countries. The European Union's average per capita textile requirement increased by 28 kilograms. Based on the role of exports of industrial products group on exports of industrial products from 2007-2011.<sup>[19]</sup> The textile industry ranks third, and the export value has consistently grown.

Until 2014, Indonesia's textile exports experienced sustained export growth, albeit with a limited increase. The decline began to be seen in the period 2015-2016. In that period, the decline in exports reached 3.61 percent per year. Nonetheless, the export contribution rating of the textile industry ranks second. This means being submissive. Exports also occur in other sectors. The contribution of TPT exports to the industrial sector was 10.1 percent. Meanwhile, its contribution to the total national export value reached 8.1 per se, with an average export value of USD 12.28 billion.<sup>[20]</sup>

The subsector of the textile industry that contributes the most to the export value is the spun yarn commodity. From 2012-2017, the commodity's contribution outperformed other sectors. In 2016, spun yarn accounted for USD 1.85 billion from the total export value. Woven fabric ranks second, with an export value of USD 1.13 billion. Meanwhile, silk contributes an export value of USD 117,000. For these three commodities, the main export destinations are the United States, the European Union, and Japan.

Export market destinations need to be diversified and developed to reach other countries, such as Turkey, South Korea, the United Kingdom, the United Arab Emirates, Brazil, Malaysia, Belgium, Saudi Arabia, Thailand, and Taiwan.<sup>[21]</sup>

The cause of the decline in the value of textile exports in the past five years is the stagnation experienced by the textile industry in the past ten years. Several factors have caused the weakening of TPT export performance in recent years: a) Availability of inadequate infrastructure; b) Increase in wage rates; c) Low quality of logistics services; d) Uncertain business climate. Rising commodity prices have led to the neglect of the revamping of the manufacturing sector. After the decline in commodity prices in recent years, there has been an awareness to look for new sources of export growth outside of commodities. When viewed the performance of Indonesia's manufacturing exports in the global market, the number of products has a comparative advantage in several manufacturing industries, especially labor-based industries such as the textile and apparel industries.<sup>[22]</sup>

## 2. Challenges and Policies for the Development of the Textile and Textile Products Industry (TPT)

Several studies often state that national textile products lack adequate Competitiveness, so they are less competitive than products owned by the most authoritarian competing countries, namely India, Vietnam, and Bangladesh. One of the causes is geographical factors, where Indonesia's position is the farthest to go to the most prominent textile export destinations, namely the United States and Europe. In addition, several problems from upstream to downstream also hinder industrial growth.

The dynamics of problems that have arisen in the last ten years include import duties, slow restructuring of production machines, an abundance of imported products, and rising gas prices. The government's plan to restrict imports of raw materials in the industry has been troubling for textile entrepreneurs. The problem is that not all local raw materials can meet the needs of the industry. Regulations related to imports need to balance the interests of various peaks, domestic raw material producers, and industries that need imported raw materials. Thus, it will create an export-import balance that does not harm the balance of international trade.

The government must implement import substitution strategies in connection with the import of raw textile materials, which is still quite high. This strategy equates to developing types of industries to replace the need for imported products. The final goals of this strategy are a) Achieving self-sufficiency in producing finished, semi-finished consumer goods and production machines; b) Exporting such goods to other countries. To this end, the government encourages the development of the textile industry of raw materials and auxiliary materials, such as synthetic fiber factories, dyes, spinning, and others.

Several policies can be implemented, including fiscal policies (*tax holidays*), encouraging ease of investment, and providing land for agriculture as a source of raw materials and factories.

One of the factors that the TPT industry costs that are quite high are electricity. Unlike in other countries, electricity for the industry in Indonesia costs very expensive; its value reaches 10 cents per kWh. While other countries such as South Korea and Vietnam, the price of electricity is only 6 cents per kWh. In fact, when compared to Indonesia, Vietnam is a country whose industrialization process is just developing. Today, Vietnam has become the second largest supplier of TPT in the United States market. In contrast to Indonesia, based on the results of a survey by the China National Garment Association (CNGA), administrative costs are<sup>[24]</sup>the highest cost in the TPT industries in China.

From 2008 to 2014, Indonesia's TPT production was supported by the number of companies that did not fluctuate too much. The number of national TPT companies tended to remain from 2008 to 2014. The number of apparel companies tends to decline every year. Until 2014, the number of apparel

companies reached 2,141, a decrease of about 17.78 percent compared to 2008 of 2,604 companies.

The rampant invasion of illegal imported textile products has also worsened the performance of the I TPT industry. In some areas, there are still cases of smuggling used clothing through ports. The demand for used clothing is very high because they are much more affordable. The export-import performance of the national TPT cannot guarantee that the TPT industry will remain competitive in the future. Export performance in recent years has tended to slow down due to the complexity of various factors faced, both internal and external factors.

Internal factors faced by the textile industry are, a) The condition of machinery whose technology is already used and needs to be revitalized; b) The unavailability of the textile machinery industry in the country, which results in dependence on imported machinery; c) Cotton raw materials that are still imported, about 99.5 percent; d) Auxiliary materials such as dyes are not yet available in the country in sufficient quantities; e) a Limited number of skilled and professional human resources; f) Insufficient banking support in providing working capital credit, and g) Wasteful use of energy.

Meanwhile, the external factors faced include: a) non-continuous energy supply; b) The absence of priority adequate market access for domestic textile products in the modern market; c) Limited marketing facilities for TPT products abroad; d) Inadequate facilities and infrastructure for transportation facilities and infrastructure, ports, and the absence of certainty of the timing of tax restitution settlement. The development of the value of Foreign Direct Investment (FDI) for the textile industry during 2013-2016 also experienced a slowdown. The most significant decrease in FDI occurred in 2014, which was 43.72 percent compared to the previous year. The decline in investment value occurred due to the high cost of production in Indonesia, so the industry was no longer competitive.

The spread of textile industries in Indonesia is still centered on Java Island, which covered 95% of the industry in 2013. The distribution includes, among others, the provinces of West Java, Central Java, DKI Jakarta, and East Java. The determination of the location of the textile industry is based more on access to labor. The factor of establishing industrial sites close to labor is influenced by the regional minimum wage (UMR). Based on data from the Ministry of Manpower and Transmigration, the four provinces with the lowest provincial minimum wage (UMP) in 2017 were the Yogyakarta Special Region (DI), Central Java Province, and West Java Province.

The low UMP in the four provinces has encouraged the textile industry to be more located in The Provinces of West Java (40 %), West Java (23 %), and East Java (13 %) to obtain labor with cheaper wages compared to other regions. With many workers, the increase in the minimum wage has an impact on the company's cost structure in the TPT industry in

DKI not because of the labor wage factor but of the access factor to the market, where Jakarta is the province with the highest per capita income level in Indonesia.

The increase in the minimum wage has an impact on the cost structure of enterprises in the textile industry. For this reason, the improvement of the quality of labor needed must be in line with the type of textile industry, along with the increase in the minimum wage, so that the productivity of textile companies can be increased. To see the needs of the type of labor, the TPT industry can be grouped into two parts.

*First*, industries that are capital-intensive with the support of high-tech machinery/ equipment require a workforce that has certain technical specifications. Examples of industries that have capital-intensive textiles are the fiber, yarn, and fabric industries. *Second*, the textile industry, which is labor-intensive, requires the support of a workforce that has certain skills, such as sewing, cutting, and folding, which is dominated by the female workforce. An example of labor-intensive textile industry is the garment industry, and garment products, which have the largest absorption of labor, is the apparel industry (garment). One of the efforts to develop the quality of human resources carried out by the government to provide an expert workforce in the field of TPT is to establish a special school in the textile field. <sup>[25]</sup>

Development efforts that need to be carried out by the government to encourage the TPT industry in the field of quality and marketing, including a) Creating *National Branding* for textile products; b) Promoting TPT products through exhibitions both nationally and internationally to obtain new marketing networks and input on product quality and design attributes that are liked by the market; c) Participating in the promotion of TPT products through the utilization of tourism potential in tourist areas; d) Developing fines on traditional woven fabrics (design training/collaboration with designers); e) Facilitate collaboration between weaving designers and designers (the use of regional weaving fabrics at well-known design fashion shows); and f) Facilitating the ease of obtaining yarn raw materials for the weaving industry (cooperation with yarn producer industries in West Java or Central Java).

For the textile industry, cotton as a raw material is a considerable component of costs, about 60 percent of the total operating costs. The great demand for cotton as a raw material in the textile industry cannot be met from within the country. The condition of domestic natural fibers (cotton) produced by farmers in a small part of Indonesia is estimated to be unable to meet the quantity and quantity of raw materials required by the industry. <sup>[26]</sup>

The lack of farmer cotton production has encouraged farmers' demand to shift imported cotton. The volume of imported cotton in 2015 was recorded at 475 thousand tons (USD 774 million), even experiencing the highest value in the previous year with the volume of imported cotton of 711 thousand tons in the last seven years. As farmers' cotton production declined, local cotton was exported to other

countries. The volume of cotton exports in 2015 amounted to 20.5 thousand tons or worth USD 24 million—similarly, artificial fibers such as rayon and polyester, with a comparison of export and import volumes.

The textile industry's dependence on imports and the volume of farmers' cotton exports to other countries has resulted in the growth of Indonesia's textile industry sector, inseparable from fluctuations in the rupiah currency against foreign currencies in every export-import trade transaction. The depreciation of the rupiah against the United States (U.S.) dollar caused the price of imported raw materials to increase, and so did the selling price.

In 2015, the rupiah depreciation against the U.S. dollar reached Rp 14,000, which caused the textile industry to slump, which is entirely oriented towards the domestic market.

The crisis that occurred in the textile industry at that time was driven by the influence of dependence on imported raw materials. This condition was also influenced by the global crisis, which affected the efficiency of the Indonesian textile industry in the period 2006-2008 through its imported raw materials. Due to the dependence of the Indonesian textile industry on imported cotton raw materials and the target market for export textiles, the stability of the rupiah exchange rate against foreign currencies is one of the determinants of the sustainability of the textile industry.

The highest price of imported raw materials will impact the selling price of domestic textile products. The increasing selling price of domestic textile products will reduce people's purchasing power toward domestic clothing goods. Moreover, the need for clothing is considered not to be a prior item, causing the domestic textile market to be sluggish. The company's strategy for cost efficiency due to the high cost of imported raw materials often determines the quality produced. The product strategy in the form of reducing the quality of the products produced is taken by a company based on imports. Low-quality imported *low-end* textile products entering Indonesia threaten the Indonesian textile industry.

In the short-term strategy of reducing the number of imported textiles entering Indonesia, the government needs to stop the dependence on imported textile products by prioritizing the use of the domestic market over foreign markets. However, it risks a decrease in the value of exports.

The effect of this policy will have an impact on reducing the value of exports derived from TPT in the short term.<sup>[27]</sup> In the textile industry, electrical energy is one of the main components of the production cost structure, in addition to raw materials and labor. Unlike the industry subsector garments, the energy cost component can be in the third position after raw materials and labor. This condition is more influenced by the labor required in subsector garments than others.

To increase the Competitiveness of domestic textile products through production cost efficiency, the government issued several electricity incentive policies for industries through the economic policy package volume III, launched in October 2015. The policy includes reducing electricity tariffs, fixing electricity tariffs, and delaying electricity payments. The textile industry's reduced electricity prices and the nightly tariff discount policy are less exploitable due to the enacted submissions. This electricity discount policy is highly recommended if given to the textile industry that does not pay electricity bills for three months. To ensure industries that deserve incentives, P.T. PLN needs to conduct a comprehensive audit of the textile industry and needs the support of machines that produce high-quality textile products with low production costs (*low cost*) and can operate automatically.

The Ministry of Industry noted that in 2013 out of 1500 textile factories, 500 still used machines over 25 years old. With such a condition of machinery, the textile industry is categorized as a high-risk business, so banks are very careful in lending to this sector. To provide working capital credit, the government provides incentives to increase the export value of the national TPT industry through export payment facilities for working capital in the form of Export-Oriented People's Business Credit, which is one of the XI Economic Policy Packages, includes the textile industry in it. The interest rate set for this policy is 9% without subsidies. The absorption of this facility is because the policy is considered only to touch the financing aspect and has not touched other factors in the financing aspect, such as the ease of access to market information.

Another challenge confronting the textile industry is the rise of used clothing imported from other countries illegally and traded at low prices. The illegally used clothing trade is rife in several regions, such as Jakarta, Bandung, Semarang, Sumatra, and Surabaya. The government's resilience is mandated by importers of illegally used clothing by entering through ports in Indonesia, as happened in Sumatra and Kalimantan. In Makassar, imported clothing is smuggled through Pattiro **Baji** Port, Bone Regency, which originated in Malaysia. To meet the national clothing needs in 2014, local textile products could only supply 62 percent of the national needs. The shortage of clothing supply was met by the legal importation of clothing by 31 percent, and the remaining 7 percent was allegedly from the importation of illegally used clothing. Based on data from the Ministry of Trade, in 2014, there was a recording difference between the import exports of Chinese used clothing to Indonesia in the two countries of USD 5.5 million and the recording difference between Malaysian used clothing import exports to Indonesia in both countries of USD 27 million.

This condition can be seen in the export value of Chinese clothing to Indonesia in the same year of USD 452. Like Malaysia, where the export value of Malaysian used clothing to Indonesia in 2014 was recorded at USD 27 million, Indonesia noted that there was no import of used

clothing from Malaysia in the same year. The excitement of used clothing imported illegally from other countries can be found in several regions in Indonesia, including Jakarta, Bandung, Semarang, Sumatra, and Surabaya. Then, the illegally used clothes are traded at a low price. In Lampung, imported used clothes are offered in the range of R.P. 20 thousand to

IDR 40 thousand for clothes, t-shirts, or shirts and IDR 40–80 thousand for pants, jeans, and cotton pants.

The presence of illegally used use in the textile product trade sector can kill the domestic textile industry because it damages the market price of clothing products. The population of more than 250 million people is a large market, so it is not surprising that Indonesia will always be the target of the imported used clothing business. Of course, the government is not only stopping the illegally used clothing trade line, but it must think of a solution to replace the livelihoods of the imported used clothing business people because many merchants depend on their lives on this business activity.

In aggregate, Indonesia's position is still ahead of some other developing countries in Asia. These advantages include market size, macroeconomics, higher education, and innovation. The biggest gap is in the market size, while the others are thin. This is an essential sign that countries that have just built can quickly catch up. To achieve an adequate level of clothing care, Indonesia needs a strong textile industry, a supportive business environment, and a competitive business organization. The environment or business climate determines the speed at which growth in competition and resilience despite a crisis. On the one hand, as an organization, TPT business actors must innovate continuously because of their short *life cycle* and the many technological innovations it has. However, business actors also need a conducive business climate to sustain their innovation.

The policy of developing research to find and develop raw materials that have advantages and can be developed domestically is an urgent need, both medium and long term. Research activities and results are public goods that have a positive *spillover* for the public environment because of the added value of the results of inventions and innovations. Therefore, the government, with a public budget sourced from taxes, must prioritize allocation and encourage the birth of research that seeks to develop raw materials the textile industry needs. The climate conducive to the growth of the textile industry lies in the efficiency of production costs and the effectiveness of the production process.

The efficiency of production costs is determined by the price of electricity supply, which is the main source of moving machines that process raw materials to produce materials and apparel. Limited supply and high electricity prices compared to competitors from abroad require policy innovation in the form of pricing that allows the TPT business to compete with its competitors. The problem is that machines

that are more than 20 years old are usually inefficient, so they must rejuvenate production machines. Even if entrepreneurs reduce production costs and maximize selling prices, it can increase their profit margins. However, some tax policies on raw materials, sales, and raw materials often create disincentives for business actors to develop their businesses. Alternatively, taxation that functions as distribution, redistribution, and a source of development funding must still work sustainably. This is intended to improve the quality of public infrastructure and the community environment, thereby supporting the production and marketing process of TPT products.

Educated and skilled human resources are a big capital for labor-intensive industries such as the textile industry. However, due to the substantial number of workers absorbed in this sector, the climate of workers' lives and the ability of companies to meet decent needs have always been an issue. The need for workers to live a decent life humanly and the demands of enterprises to increase productivity often produce industrial disputes.

In this context, it is necessary to make policies that can resolve disputes between companies and employees, without disrupting the production and marketing process of products.

To maintain the sustainability of the textile industry, in addition to the ability to manage the business and create a business environment that supports the growth of purging, incentives are issued to encourage innovation in the industry. Creativity born from uniqueness and innovative ideas is a characteristic of *the life cycle* of the textile industry, especially for materials or *fashion*. Creativity will continue to grow as the environment rewards and protects intellectual property rights. Without recognition and appreciation, creative people are less interested in producing new works. The diverse culture of the archipelago is a medium for the growth of creative ideas for textile products.

Creativity and innovation can also be generated from a systematic institutionalization process through R&D activities. Here, the problem lies in the connectivity between research institutions in the government, universities, and the industrial world. Public budgets spent through research institutions will produce products that support economic growth and employment. Meanwhile, taxes generated by the industry will support research institutions in developing further research.

Another breakthrough that the world of research is passionate about is the participation of universities in the form of *Business Ventures* so that research institutions also know *the tacit knowledge* which has developed in the business world. This will accelerate the link between research results and the market and strengthen *knowledge entrepreneurs* within research institutions. Several policies that encourage innovation within the scope of the textile industry will provide strong support for strong growth in the growth of the industry.



The idea of clothing sovereignty can be born from structured and programmatic processes toward innovation, both in raw materials, production processes, and the business climate. In the end, clothing is not just a concept on paper or text in laws and regulations but is also implemented through the support of stakeholders.

### 3. Regulation and Policy to Increase TPT Competitiveness

The difficulty of obtaining credit became a reason for the entrepreneur to revitalize his machine. Low capital goods expenditure is a fundamental problem facing the industry. This issue affects productivity and Competitiveness. Lagging engine technology causes the industry to be unable to meet or anticipate the increasing market demand because the capabilities of its machines are limited.<sup>[28]</sup>

Therefore, it is necessary to revitalize or rejuvenate the textile machinery used. The capital or costs needed for this purpose are not small, so textile companies need capital assistance or large credits. During this time, to finance the order, textile companies used a *Letter of Credit* (L/C) as working capital used to purchase raw and other materials needed. Some materials needed are domestic, some of which must be imported from outside other countries. Entrepreneurs will have difficulty obtaining these raw materials if the buyer does not want to open L/C. The intense competition between textile manufacturers causes many buyers not to open L/C, which is a down payment for purchases. Buyers prefer producers who can bear their own costs over producers who require financing from buyers.

In 2007, the government launched a program to improve the technology of the textile industry, namely, the TPT Industrial Machinery/Equipment Restructuring program. In this program, the assistance provided is in the form of discounts and loans with low-interest rates that are used to revitalize machines. As of the end of December 2006, of the 2,600 textile companies, 40 companies participated in this program. The total loan has exceeded the ceiling of IDR 3 trillion, while the ceiling provided is only IDR 2 trillion. Channeling is carried out in two schemes. In the *first* scheme, the discounted price of the machine. Each textile company was given a discount of 12.5% of the value of the machine issued by the Ministry of Industry's Budget Implementation Fill List (DIPA). This scheme is *reimbursed* by showing proof of *invoice* and a *bill of landing*. The discount given by the government is a maximum of IDR 10 billion for each company.

The second scheme is financing assistance for machine-building through loans with a low-interest rate level. In this scheme, the financing is carried out jointly with the textile industry (25 %), commercial loans (10 %), and low-interest Ministry of Industry loans (65 %). The minimum limit for applying for low-interest loans submitted is IDR 500 million, and a maximum of IDR 5 billion is worth 75%. The use of credit can be used entirely for investment financing or it can also be a combination (80 % investment financing and

20 % working capital). For the implementation of the second scheme, P.T. Permodalan Nasional Madani (PNM) is appointed by the Ministry of Industry as a non-bank financial institution to disburse credit. The requirements for the machines that will be funded are machines related to the production process, new machines made in 2002 and above, as well as machines that can increase efficiency and productivity.

Several things need to be considered in the implementation of this program. In Article 1 of the Regulation of the Minister of Industry Number 15/M-IND/PER2/2012 concerning Amendments to the Regulation of the Minister of Industry Number 123/ M-IND/PER11/2010 concerning the Industrial Revitalization and Growth Program through the Restructuring of Machinery/Equipment of the Textile Industry and Textile Products and the Footwear Industry, it is explained that companies that can get incentives for the purchase of machinery and equipment are companies that have carried out a commercial production for at least two years. This provision restricts new companies from obtaining incentives from the government.

The regulation also restricts companies wishing to apply for waivers in the purchase of machinery. In Article 3, paragraph (2), it is explained that financing relief is provided only to companies that use more advanced technology. This shows that the government provides requirements that are quite onerous to be met by the small and medium-scale textile industry. If the government enacts such regulations, the beneficiaries will be large-scale textile companies, while small-scale and unsustainable textile companies cannot revitalize production machinery and equipment because they are constrained by funds.

In addition to financing assistance from the government, another source of financing is banking. Financing can be through the People's Business Credit (KUR) or through the Export-Import Financing Institution (LPEI). The Financial Services Authority (OJK), as the supervisor of bank and non-bank financial institutions, does not have a policy specifically issued to support the development of the textile industry in Indonesia. Referring to the Financial Services Authority (POJK) Regulation No. 6/POJK.03/2016 concerning Business Activities and Office Networks-Based on The Bank's Core Capital, in general, OJK has encouraged banks in Indonesia to increase lending and financing to productive businesses. The portion of lending is classified based on Commercial Banks of Business Activities (BUKU) with the following details: a) At least 55 percent of the total credit or financing for BUKU 1; b) At least 60% of total credit or financing; for BUKU 2; c) at least 65% of total credit or financing, for BUKU 3; and d) At least 70 percent of total credit or financing, for BUKU 4.

In addition to encouraging banks to disburse loans in the productive sector, the OJK encourages banks to channel loans and financing to the MSME segment. Referring to Bank Indonesia Regulation (PBI) No. 14/22/PBI2012 concerning

The Provision of Credit or Financing by Commercial Banks and Technical Assistance in the Context of Developing Micro, Small, and Medium Enterprises, commercial banks must provide loans or financing for MSMEs of at least 20%. The target is to achieve 20 percent MSME loan disbursement by 2018 at the latest. Additionally, OJK also encourages participating banks to be able to provide productive and feasible but not yet *bankable facilities*, including farmers and entrepreneurs in the textile industry.

Banking is more focused on providing credit to the trading sector because Third Party Funds (DPK) are short-term, while the industrial sector needs funds for the long term. This is a consideration for banks in providing credit to the industrial sector. Therefore, the government has encouraged banks to be more active in seeking long-term funds. Several challenges are faced by banks in financing the productive sector, including a) the competence of bank human resources in supporting credit distribution in the sector still needs to be improved; b) The bank's interest in disbursing credit for the revitalization of production machines is still lacking.

This is because bank lending is mostly *collateral-based*. To support this credit distribution, it is necessary to develop a *project-based* scheme.

Based on the National Industrial Development Master Plan (RIPIN) for 2015–2035, financing is a prerequisite that will be needed so that the goals of industrial development can be achieved. In terms of realizing the development goals of the national industry, financing needed can come from Domestic Investment (PMDN), Foreign Investment (PMA), as well as from the government. The lack of financing has always been the main problem faced by business actors in the TPT industry.

#### IV. CONCLUSIONS

The textile industry can contribute to national economic growth, and employment, and generates foreign exchange through exports. Despite this, the industry still faces some obstacles. The challenge to innovate in the textile and textile products (TPT) industry raises many problems related to the future of the national industry in meeting the needs of domestic clothing. These problems are influenced by how much the national textile industry can produce innovation, both to pursue best practices in other countries and as a strategy to adapt to the rapid changes in the economic and industrial environment. Some of the challenges of the textile industry are in the form of factors of energy sources, human resources, financing sources, equipment, and industrial machinery, as well as raw material sources.

The regulations needed by the textile industry are laws, regulations, and policies that can answer industry challenges, especially in terms of revitalizing machinery and equipment, developing human and institutional resources, cotton self-sufficiency, electricity and transportation infrastructure, and access to financing. The presence of regulations on industrial development financing institutions will increase cooperation

between relevant institutions, namely the Ministry of Industry, the Bank of Indonesia (B.I.), and the Financial Services Authority.

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