

Rarely can you enter a shoe shop these days without finding a pair of shoes with a 'Made in China' label, particularly if it is athletic footwear you are looking for. However, it seems we are likely to see a shift in the coming months, with more pairs of shoes set to bear the 'Made in Indonesia' mark.

Made in Indonesia

According to the Indonesian Footwear Association (Aprisindo), six footwear manufacturers owned by a mix of Taiwanese and South Korean companies, are to relocate their production plants from China and Vietnam. These firms produce shoes for some of the world's biggest brands including Nike, Geox, adidas and Reebok. The majority will settle in the East and West Java regions by the end of the year and are expected to invest approximately $550 million in the new plants.

The four Taiwanese firms which are planning to relocate to Indonesia will produce shoes for Nike and adidas, and are expected to invest around $400 million collectively. The two South Korean producers, who are currently based in Vietnam and outsource for adidas and Geox, will invest $150 million.

According to the chairman of the Aprisindo, Eddy Widjanarko, around 100,000 pairs of Geox shoes will be produced per month at the new plant, while up to 850,000 pairs of adidas shoes are expected to be made each year. The plant producing adidas footwear will be located on 200,000 square-metres of land in Serang, west of Jakarta, at a cost of $100 million, while the site producing Geox shoes will be set up on 56,000 square-metres of land in Pasuruan, East Java, with an investment of $50 million.

Keeping costs low

The reasons behind the moves include rising labour costs and raw material costs in China and also in Vietnam, the world's second-largest shoe producing country. Gita Wirjawan, chairman of the Investment Coordinating Board (BKPM), believes Indonesia could soon become an even more serious competitor for these countries, potentially leapfrogging Vietnam into second place by 2012. He estimates that the country's shoe exports will

Four Taiwanese and two South Korean firms are relocating to Indonesia and will produce shoes for Nike, adidas and Geox, among other brands.

Nike

grow to $2.1 billion per year within two years, with a particular strength in the athletic shoe segment. "Indonesia is now able to produce more than three million pairs of shoes of famous brands such as Nike, adidas and New Balance per year," he claims.

Mr Wirjawan believes the country's strong labour force and low wages will lure many manufacturers away from China and Vietnam. Reports suggest labour costs have been rising rapidly in China—as much as 20% within the shoemaking sector this year—and that Vietnam's footwear sector has struggled to find workers to fulfil its production requirements.

According to Mr Wirjawan, Indonesia also offers "conducive political and economic conditions", by which he appears to be alluding to the anti-dumping duties imposed on shipments of leather shoes from China and Vietnam to countries within the EU. Despite repeated protests from both countries, as well as from some prominent European brands, the duties—16.5% on Chinese shoes and 10% on Vietnamese shoes—have remained in place and may be extended again in March 2011. As a result, many leather shoe manufacturers believe it would be cheaper to uproot their operations to countries where the duties are do not apply.

Land of opportunity

Aprisindo claims that exports of sports footwear produced in Indonesia are likely to rise by almost 25% to $1.6 billion this year compared with 2007 figures, and that this figure could rise rapidly from 2011 onwards as more major sport shoe brands move production to the island nation. Added to this, Indonesia boasts the world's fourth-largest population of around 229 million people, according to a 2009 estimate. So the domestic market also offers a significant opportunity for sport shoe firms as disposable income levels in the country start to rise.

To back up Aprisindo's claims, Reebok has doubled production in the country in recent years and is reportedly looking to expand further, while Collective Brands has also said it wants to produce more footwear in Indonesia as a way of reducing its outgoings. A new plant making running shoes for New Balance recently opened in Tangerang, near Jakarta, and the company plans to increase the number of shoes it makes in the country to around six million pairs compared with 500,000 last year.

The new unit currently employs around 500 workers, but is expected to employ up to 5,000 by the time the factory is fully operational.

"Indonesia has a ready supply of workers and their wages are not going up as fast as in China," Jim Sciabarrasi, New Balance's vice president of sourcing and procurement recently told The Boston Globe. "People are looking at Indonesia as one of the places that has some pretty good growth potential."

Protecting workers

Responding to statements like this, some human rights groups have complained that Chinese workers are finally starting to earn better wages and that moving production to Indonesia will simply shift the exploitation of cheap labour from one country to another. While the moves will obviously create new jobs, critics suggest conditions for workers will be exploitative and substandard. Figures show that footwear factory workers in China's Guangdong province now typically earn $160 a month, while their Indonesian counterparts are currently paid around $100-120 per month.

However, some of the bigger brands argue that this is not the case in their factories and that as workers become more skilled their pay levels will increase. Added to this, they claim the US dollar goes further in Indonesia, that there is less bureaucracy and that counterfeiting, which cuts into company profits, is a far less serious problem there than in China, which has a knock-on effect for employees. They also claim that Indonesia has more stringent labour laws and better working conditions than China.

Aprisindo said further footwear manufacturers are expected to relocate to Indonesia over the next few years, but that current rises in electricity prices could temporarily hamper the investment wave. Regardless of this, Mr Widjanarko is expecting 20 more major shoe production relocations to take place in 2011, the majority of which will produce sport and outdoor footwear.



Gita Wirjawan, chairman of the Investment Coordinating Board (BKPM), claims Indonesia's shoe exports will grow to $2.1 billion per year by 2012.

Wikipedia/Gobonobo



Aprisindo chairman, Eddy Widjanarko, claims 100,000 pairs of Geox shoes will be produced per month at their new Indonesian plant.

Geox