

Executive Summary

Developing Competitive Sustainable Manufacturing in the Indonesian Textile Industry

By

Titi Susanti

[April 27, 2017]

As global consumers have become more aware of the environmental impacts and health risks inherent to textile and apparel productions, the public along with nongovernmental organizations (NGOs) and global consumers have been putting pressure on the textile and apparel industry to produce environmentally and socially conscious products. In response to this increasing pressure, the Government of Indonesia launched in December 2015 a voluntary sustainability standard for the textile industry called “Standar Industri Hijau (SIH)” or the Green Industrial Standard (GIS). The objective of this regulation is to improve the textile industry’s competitiveness in global markets by driving the development of sustainable manufacturing using GIS.

This study examines GIS by analyzing: (1) GIS criteria alignment with other existing global international sustainability standards, (2) the Indonesian textile industry readiness to adopt and implement sustainable manufacturing and, (3) the benefits of sustainable manufacturing practices in increasing company competitiveness in global markets.

Two different research methods were employed for this study: (1) the benchmarking of four different international sustainability standards and initiatives against GIS, and (2) the mixed method of quantitative surveys and qualitative interviews with 92 different organizations. The respondents are 85 textile and apparel manufacturers in Indonesia who are either export-oriented or exposed to export markets through their customers. Other participants included those representing international brands and retailers, government organizations, textile associations, and independent testing and certification companies. The results of this study does not apply to manufacturers who primarily serve the domestic market, especially small-medium companies without exposure to export markets, as responses from these

types of companies were few. Further research would be needed to analyze the sustainability adoption for such companies.

This research finds that Indonesia's GIS criteria are in alignment with international sustainability standards with one exception concerning social responsibility and labor standard compliance. With current criteria, GIS will be struggling to be recognized internationally and that its criteria should be broadened to offer more competitive products globally. The study also revealed that there is a positive trend in manufacturing to adopt sustainability standards with two thirds of the companies having already implemented some of the criteria.

The quantitative survey results found that when implementing sustainability measures, over 85% of respondents believed that there was an increase in competitiveness and sales on the global market while over 75% of respondents agreed that competitiveness and sales increased in the domestic market. Furthermore, the qualitative interview results show that a majority of the respondents agreed with 5 sustainable manufacturing benefits as follows: (1) market expansion, (2) increased competitiveness, (3) increased sales, (4) minimized risk, and (5) becoming a preferred supplier to international brands and retailers.

However, barriers to compliance exist: it is recommended that the fostering of public-private partnership and collaboration with public organizations from other countries would offer more creative solutions to sustainable development while opening up global markets to Indonesia. Furthermore, the study revealed that the Government of Indonesia should offer a greater variety of both financial and non-financial incentives to manufacturers seeking to incorporate cleaner, greener technologies. The financial incentives could encompass tax incentives, low-interest loans, financial funding, or low import tariffs on green materials, chemicals, or technology. While, the non-financial incentives stated by respondents would be in the form of (1) expertise and training and an on-line information portal (2) simplification of government documentation such as import and export documentation, and (3) access to technological innovations.

Overall, there is a need for more detailed revisions to GIS to extend to all types of textile

and apparel manufacturing to foster international standard recognition. Moreover, with further support from the government, the Indonesian textile industry is ready to take advantage of cost saving sustainability practices and programs and to go beyond traditional manufacturing processes to produce more environmentally and socially conscious products that can compete on the global market.

Approved



(Signature)

Erika Weinthal, PhD.

____ April 24, 2017 _____
Date

Master's Project submitted in partial fulfillment of the requirements for the Master of Environmental Management degree in the Nicholas School of the Environment, Duke University