Contesting Business Networks in Liberalising Economy and Polity: Evidence from Regional Textile Business in Indonesia

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Abstract

A decade has passed since the fall of president Soeharto. The landscape of Indonesia's economy and polity has considerably changed. Preaching market and democratic solutions become new medicines for healing Indonesia's economy. This paper argues that the imposition of liberalisation without accounting for institutional contexts in which textile businesses operate have implications for deindustrialisation. By situating a textile producing 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. The rise of political parties and civic associations has opened public dialogue. However, long steps have to be taken to facilitate the emergence of strong textile business association to influence the politics of textile industry.

Keywords: Liberalisation, Institutional approach, Business network, Political public, Civic association, Textile entrepreneur, Indonesia

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. Within such contexts, this paper attempts to 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 business activities operate 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 explores the following questions: What is the general impact of economic liberalisation on the textile industry in Indonesia? More specifically, what patterns of business networks existed in the region before the introduction of the policy of economic liberalisation? How are these business networks being contested and reconstructed in response to economic liberalisation? What roles do political parties and civic associations have in supporting the development of the textile industry in a country that is in the process of democratisation, and how are these roles played out?

2. Methodology

This qualitative study uses methods of content analysis and participant observation. Content analysis is employed to gain an understanding of the discourse on the textile industry at the macro level published in national and regional newspapers from 2003 up to 2006. Participant observation is used to identify issues in the textile industry and their meanings as they are defined by key informants. The selection of key informants was a two-stage process. The first involved a review of regional statistical data on the textile industry provided by local governments. The second involved general observation aimed at selecting key informants who are knowledgeable in the day-to-day affairs of the textile business in the research area. At this stage, the author engaged in group discussions in the market place and informal meeting attended by entrepreneurs. It is important to emphasise that the "sampling" of a population of social institutions rather than a population of individual entrepreneurs was the main consideration in selecting knowledgeable informants. Therefore, their interpretations of the issues and questions surrounding business relations with other actors are important.

3. The Research Area

Kota Batik (Note 1) region is located in the northern coastal area of Central Java and the total population is 844, 215 people (Office of Statistical Bureau, 2005). This area is considered as one of the *training grounds* for several large entrepreneurs before they became national conglomerates in the Soeharto era. Textile is the important industry in the region and it is shouldered by 144,889 workers. It shares 18% out of total population and dependent their incomes on textile industries. According to its size, textile industry in the region consists of 206 (2%) large, 4583 (40%) medium, 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.

4. The Contestation of Business Networks and Inequality

The coming of the International Monetary Fund (IMF) influence into Indonesia's economy in 1998 was 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 China 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 picture of the organisation of textile industry in *Kota Batik* 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* 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, un-dyed 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 Kota Batik region. The following narrative description informs economic history of textile entrepreneurs and ways in which they construct, contest, and reconstruct their business networks in different macro economic environments.

4.1 The Domestic-Oriented Bandage Entrepreneur

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 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.

4.2 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)

This global oriented sarong entrepreneur consolidated by establishing an integrated textile factory spanning from spinning, dying, weaving to finishing in the 1980s. The demand of *sarong* is high during the fasting 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 drives 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 (Jakarta Post Daily, 31 December 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' predictably revives their past policy of lay off workers sooner than latter.

4.3 A Domestic-Oriented Un-dyed Cloth Entrepreneur

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 un-dyed cloth for domestic consumption since 1983. It is a mass production enterprise using relatively modern power looms made in Belgium 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. Un-dyed 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 un-dyed 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) (Jakarta Post Daily, 31 December 2005).

4.4 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)

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 un-dyed 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.

4.5 Inequality in Production and Market Relations

The putting-out system, a type of production relation, which appeared in the 1950s, re-emerges and nowadays dominates production relations. It 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. Indeed, this system creates 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)

The current structure of the market is simpler than the previous market of *sarong*. The market actors consist of local entrepreneur-cum-traders. 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.

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 Kota Batik 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)

The market of batik clothing and garment is conventionally centred at market places in Jakarta, Central Java, and East Java. Jakarta is the biggest market place for textile at which big, medium and small traders struggle to occupy market niche. Until the year 2005, 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. Some Kota Batik 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.

> 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 1999-2005. 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 Kota Batik big trader)

4.6 Customised Batik Clothing

Customised batik clothing begins to reappear after more than 30 years of disappearance. 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 Daily, 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 (USD 111) and he earns an annual net profit of around IDR a hundred million.

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 Kota Batik. 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 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 Kota Batik.
>
> (Interview with customised batik owner)

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 Kota Batik.

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.

5. 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 capital, 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.

5.1 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). 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 president 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 Rupiahs.* 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). An Indonesian senior economist lamented the intervention of the IMF in trade reform, a domain beyond its mandate (Hadisusastro and Basri, 2005). 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* (Note 2) 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.

5.2 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 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 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 raised by its critics. KADIN and CSIS economists (The Jakarta Post daily, December 31, 2005) state that the government policy of no policy have 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 daily, 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 daily, 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).

In 2005, triggered by the fuel price increase, the disappointments widen and culminate to its peak. Sixteen large textile and garment enterprises in Greater 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 in Central Java (Tempo Interaktif daily, 25 December 2005). Moreover, large group of textile entrepreneurs engaged in 'tag-of-war' against state owned power company, for unilaterally increasing the price of electricity (Tempo Interaktif, 16 November 2005).

5.3 The Local Political Public

Politics and textile business were two connected institutions during the Soeharto era. The All Indonesian Batik Co-operatives Association (GKBI) played a pivotal political role during the fifties. However, her attempt to build an economic power has been constrained by the Soeharto closed associates of textile conglomerates. 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 its members across Indonesia 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), engage in the textile entrepreneurs. The PBB leader in the national parliament appealed to the government to seriously focus on the economic empowerment of local textile rather than on national big entrepreneurs. In a similar way, the PAN leader criticised the current government for its failure to develop a clear economic policy on textile economy (Kompas daily, 30 December, 2005).

The Kota Batik Textile Entrepreneur Association (PPTK) was established in the seventies and it could hardly play pivotal role in representing the voices of textile entrepreneurs during the Soeharto era. Currently, the association begins to show her muscles by organising demonstration against the PLN, state owned power company. At the beginning the national office of PLN introduced a policy to increase the price 50% for the use of electricity during the peak hours. 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.

Textile association and even the workers rejected that idea by arguing that this policy would have to slow down production process and lay off 20% workers. Twenty textile entrepreneurs, who were members of the Kota Batik Textile Entrepreneur Association (PPTK), was supported by local KADIN, APINDO (Indonesian Entrepreneurs Association), and API (Indonesian Textile Association) marched to local office of PLN to demand the delay of policy implementation. They argued that 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 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 association and PLN officers to seek a win-win solution over this policy dispute. 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 local PLN officers warned that those entrepreneurs who did not obey the rule would get penalties.

This study shows that business associations beginning to play roles in influencing the current state policy on textile industry. However, their continuing role in steering the state policy depend on whether they are capable for bringing textile issues become a national issue. 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. Paradoxically, in the current era of democratisation, the capacity of the political public to influence public policy to the benefit of medium and small textile entrepreneurs seems unconvincing.

6. 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 business networks in the textile production and market.

Networks have become a major concept in social science. They span the globe and are used as a conceptual lens to study various social and economic problems. In essence, networks refer to relatively stable social relationships that form norms of trust in order to achieve certain social and economic goals. A network, therefore, is assumed to have commonalities with social capital. Networks may be classified as bonding, bridging, or linking (Szreter, 2002). A bonding network is characterised by the existence of relatively stable close social relationship where membership is based on commonality of ethnicity, language, region or religion. In contrast, a bridging network represents an open social relationship based on heterogeneous membership, and a linking network denotes a relationship that links between social groups and state policy. A vibrant linking network is a mutual complementarity of both. The existence of productive networks in any society is indicated by a balance of these three dimensions.

Referring to this basic concept of network, this study identifies patterns of business networks before the introduction of economic liberalisation and their implications. The structural dimensions of business networks vary and they have responded to liberalisation in different ways.

Matrix 1. Dimensions of business networks according to size of enterprise

Size of enterprise	**Bonding**	**Bridging**	**Linking**
Large	Extensive	Extensive	Less supportive
Medium-Small	Strong	Weak	Unsupportive

The matrix shows different patterns of networks between large and medium-small entrepreneurs. Bonding and bridging networks of large entrepreneurs were extensive before the advent of economic liberalisation in the region. Extensiveness refers to the capability of entrepreneurs to develop heterogeneous business relationships beyond the boundaries of their residence (bridging), and establish relatively stable business relationships in various places (bonding). This capability is made possible not solely by financial capital but also by the previous experience gained by large entrepreneurs prior to their engagement in the textile industry. This previous experience consists of trading, innovativeness, and engagement with textile associations. These three factors undoubtedly contribute to the enrichment of the networks.

Unfortunately, the healthy development of bonding and bridging networks that characterised large textile entrepreneurs is hindered by the less supportive policy of economic liberalisation (linking). Unlike the bandage industry, the sarong and un-dyed cloth industries have struggled to maintain their business networks. Labour unrest, fuel price increases, and loss of customers have coloured the landscape of the textile industry in the region

Those who have suffered most from the effects of economic liberalisation are medium-small entrepreneurs. Policy makers tend to impose economic liberalisation without taking into account the existence of business networks among these entrepreneurs. The strong bonding and weak bridging characteristics of their limited business networks are unable to cope with radical economic changes. The vulnerability, and in some cases the disappearance, of middlemen; the deterioration in production relations marked by the rise in outsourcing; severe market competition; the shift to lower technology; and the closure of businesses have brought about the depletion of their limited business networks. Needless to say, the failure of economic liberalisation policy to take into account existing business networks will have a negative impact on the future development of the textile industry in the region. The picture of the region's textile economy is largely one of strain on and depletion of business networks, and de-industrialisation.

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.

7. Conclusion

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.

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Notes

Note 1. Pseudonym

Note 2. The political public, a term coined by Chalmers and Hadiz, refers to actors (individual or institutional) who voice their ideas on the media over certain political and economic issues. For more information see Ian Chalmers, I. H., & Hadiz, V.R. (eds) (1997). *The Politics of Economic Development in Indonesia: Contending Perspectives*. London: Routledge.