Indonesia Compared to China?

DATA SHEET

Introduction

The low-price expectations of the consumer markets in the US and Europe in conjunction with high manufacturing labour costs in those countries has prompted many of their wholesalers and retailers to look to importing at least part of their product range from lower cost countries to remain profitable or even viable. But which is the right country to source product from?

Price is typically the key driving factor for businesses to start searching for internationally based suppliers. And there is no doubt that price in any trading arrangement is important. However, no product is ever cheap, no matter how low its price, if its quality is so low that it cannot be sold at a profit or its not delivered in time to satisfy customer expectations. Therefore, there are clearly more things to consider than price alone when contemplating the sourcing of products from overseas manufacturers. The economic and cultural disposition of the country within which the manufacturer operates, language barriers, corporate culture (integrity), the capacity of the supplier to deliver and the quality of its management team are all important factors to consider.

Commencing a supply arrangement takes time, effort and cost to start and maintain and when done well can be very rewarding. But choosing the wrong supplier in the wrong country can be costly. Therefore, it would be wise to look more deeply than just on current product pricing alone when deciding on a country with which to start trading.

Why are Asia and Indonesia an Attractive Supply Combination?

Asia is the fastest growing economic region by GDP in the world according to Wikipedia. In addition, with a population of over two hundred and fifty million and a thirst for international trade to build its economy, Indonesia is now the sixth largest Asian economy after China, India, Japan, Russia and South Korea. So, Asia is booming and Indonesia is also now an up and coming economic powerhouse in the Asian region.

Indonesia V's China Labour Comparison

To formulate any form of comparison between the costs of doing business in each of the key countries in the Asian region it is handy to establish a comparative benchmark from which to work. Since labour costs are generally a key indicator of the cost of doing business in any country and since China is the big player in the Asian economy we have used China's labour costs as a basis for comparison between the costs of doing business in the largest Asian countries.

As you can see from the following table, Indonesia's cost of labour is considerably lower than China and apart from India it is considerably lower than the other key Asian manufacturing countries.

Country	Annual Minimum Wages $US	Annual Minimum Wages Adjusted to Include Health and Social Insurances $US	Percentage Comparison with China
China	2,472	3,337	100 %
India	689	740	22 %
Indonesia	1,087	1,187	36 %
Vietnam	1,296	1,581	47 %
Philippines	1,515	1,648	49 %
Thailand	3,012	3,168	95 %
Malaysia	3,107	3,534	106 %

Source: China Briefing – Business Intelligence from Dezan, Shira & Associates

It addition, the following "Numbeo" statistics are interesting when comparing the economic cost structure of China compared to Indonesia: -

- Consumer prices in China are 11.58% higher than in Indonesia – an indication of the lower cost of raw materials.
- Consumer prices including rent in China are 26.36% higher than in Indonesia – an indication of the lower cost of manufacturing facilities.

Lack of Supply & Service from China

China has historically relied quite heavily on Western investment to develop its manufacturing sector. However, over the past decade the business model of many of the factories developed with western investment has changed. These factories are no-longer solely driven by export-driven manufacture. The Chinese regulatory environment has now changed to enable them to sell their production directly into the Chinese domestic market. With the middle-income segment of the Chinese market growing literally by tens of millions of consumers a year, this is a vast and easy-to-get-to market that has reduced the quantity of products that would previously have gone to export markets.

There is one universal rule regarding economics, when demand outstrips supply prices go up and service goes down. And this is the story we are now consistently getting from the market about dealing with China.

Language & Cultural Barriers

It is most often a mismatch in language skills and commercial culture that are the cause of international supply relationships not meeting their potential. Therefore, it is essential in establishment international supply arrangements for the management of both parties to be in sync from both communication and commercial culture perspectives. This issue is no more evident than when an order hasn't been properly defined up front or a delivery is late or damaged upon arrival. The Chinese commercial culture does not have a very good reputation when it comes to solving problems that result from the tyranny of distance, language difficulties or commercial culture.

Conclusion

China's increased domestic demand has had a significant impact on Chinese manufacturers' ability to reliably supply product along with competitive pricing and customer service. On the other hand, the combination of Satu Bumi's strong management team and Indonesia's low manufacturing cost structure and booming economy is now a great alternative for sourcing high quality competitively priced manufactured goods.

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