



## Southeast Asia

### ECONOMICS

## The Chicken Industry Lays an Egg

*In the early 1990s foreign investors attempted to start a poultry industry in Indonesia. This reading describes how foreigners' poor understanding of the country contributed to the industry's failure and the loss of millions of dollars in investments.*

It looked like one of those ideas that couldn't miss. In the early 1990s the sprawling nation of Indonesia, with its 200 million hungry citizens, was in the midst of an economic boom. It wouldn't be long before they would be adding meat protein to their diets. And since pork is forbidden to the majority Muslims and beef to the minority Hindus, the logical choice was chicken. . . . Encouraged by international financial institutions like the World Bank and by chicken retailers such as KEG and McDonalds . . . local entrepreneurs began forming chicken companies.

Quickly, foreign investors began pecking at the hen-house door. Poultry optimists projected Indonesians would soon be eating 60 chickens a year each, or 12 billion chickens, up from an average of one chicken per year when the boom began.

Almost overnight chickens were roosting everywhere. . . . But making a killing in chickens was not to be. As it turned out, it was the investors who got plucked. . . . Analysts say the foreign investors were victims of ignorance and naiveté [innocence]. Not only did they grossly overestimate the Indonesian population's interest in eating chicken, but they backed a highly fragile, fledgling [new] and corrupt business structure that was, among other problems, totally dependent on imported chicken feed. When the [Asian] financial crisis [of the late 1990s] more than doubled the cost of those imports, disaster was inevitable [certain]. . . .

Trouble began when it became clear that there was no reliable transportation network to bring the chickens to market. But the crucial weak point was chicken feed, consisting mostly of soybean meal and corn. Indonesia grows some corn, but not for animal feed. And it produces soybeans—a local version of tofu [a soybean product] . . . is a staple [basic food]. But soybean meal for chicken feed had to be imported because Indonesia does not have milling [processing] capacity . . . for animal feed. To make such mills viable [economically practical], investors would need a market for soybean oil—a byproduct [of producing chicken feed]. But soybean oil isn't price competitive in Indonesia, which is the world's second-largest producer of palm oil. A chicken grower could substitute fish meal, which is available locally, but the result is a fishy tasting chicken. . . .

Already wobbly, the business suffered mightily after the [Asian financial crisis of 1997]. . . . By the end of 1997, chicken feed had more than doubled in price. Chicken processors had little choice but to pass those costs on to consumers, and so by January 1998 the price of chicken in

local markets had also more than doubled, thus drastically reducing demand.

That set off a spiral of bankruptcies among small farmers. . . . By early 1998 the industry was in chaos. In February many major chicken producers . . . stopped operating. Local executives of McDonald's, which has 51 restaurants in Indonesia, declared an emergency; they could find no chicken to make their McNuggets. . . .

The collapse is now complete, and lots of investors are left with, yes, egg on their faces. . . . Meanwhile, in Indonesia the rebuilding process is not going well. Throughout the main island of Java, hungry mobs have . . . raided the remaining chicken farms, making off with all the birds they can carry and destroying equipment.

---

From "Beggar's Chicken" (retitled "The Chicken Industry Lays an Egg") by Christine Hill from *Institutional Investor*, May 1999. Copyright ©1999 by *Institutional Investor*. Reprinted by permission of the publisher.

**Understanding What You Read** After you have finished reading the selection, answer the following questions.

1. Why did people in the early 1990s think chicken farming could succeed in Indonesia?

---

---

2. How did Indonesia's transportation system affect the industry?

---

3. Why was feeding the chickens a big problem? What solution was found?

---

---

4. How did the Asian financial crisis of the late 1990s cause the industry's collapse?

---

---

**Activity**

Make a list of things you would want to find out about another country before you would invest in a chicken farm there.