

Indonesia Market Update

December 2016

Welcome to the December 2016 edition of "Indonesia Market Update. A new year and some challenges for Indonesia in 2017 to maintain a strong economic growth. Selamat membaca!

ECONOMY

Citibank projects 5.3% economic growth in 2017 - the Indonesian branch of US-based Citibank has offered a more optimistic view of Indonesia's economic growth target next year on the back of stronger consumer purchasing power and higher commodity prices. The bank forecast the country's gross domestic product (GDP) to grow by 5.3 percent in 2017, higher than the governments and the Asian Development Bank's (ADB) projection of 5.1 percent.

Indonesia eyes another big jump on World Bank flagship index - the Trade Ministry launched a new online registration platform that will help speed up the issuance of business permits in another coordinated effort from the government to improve the country's ease of doing business. After climbing 15 notches to secure the 91st ranking on the World Bank's latest ease-of-doing-business index, Indonesia is eager to make more improvements in various economic sectors to reach the 40th position by 2019.

Jakarta MRT project 60 percent complete - PT MRT Jakarta has reported that, as of Nov. 30, the Mass Rapid Transit (MRT) project was 60.22 percent complete. "The elevated section of the MRT Jakarta is now 42.7 percent complete while the underground section is 77.8 percent complete," MRT Jakarta corporate secretary, Hikmat said. Hikmat said the company aimed to open the MRT in February 2019.

Indonesia to finalize five trade deals next year in hunt for wider markets - as Indonesia accelerates talks with 15 Asia-Pacific nations, it is prioritizing the conclusion of five trade deals next year to open access to foreign markets and lure inflows of investment. The biggest one is the intensively discussed Regional Comprehensive Economic Agreement (RCEP), which will create a market of 3.4 billion people involving ASEAN and its six major trading partners – Australia, China, India, Japan, New Zealand and South Korea. The rest are two comprehensive economic partnership agreements (CEPA) with the European Free Trade Association (EFTA) and Australia and two free trade agreements (FTA) with Peru and Chile.

Indonesia, Japan to address issues on key projects - Indonesia seeks to settle issues surrounding flagship projects as well as the future of the gas-rich Masela block with Japan during an official visit to the East Asian country this week. During the visit, Coordinating Maritime Affairs Minister Luhut Pandjaitan is scheduled to meet Japan's top officials, including its foreign minister, transportation minister, defense minister and chief of staff to the prime minister. Discussions will touch on problems hampering a mega seaport project in Patimban, West Java and semi-high speed railway connecting Jakarta and Surabaya, of which financing will derive from Japan.

INVESTMENT

RI allots IDR 2t budget to lure investment in border areas - the government has allocated more than IDR 2.4 trillion (US\$177.4 million) for six regencies in the country's border areas in the 2017 state budget, to boost its overlooked economy. The investment potential spans from agriculture, tourism and fisheries, among others, with a different championed sector for each regency. The six regencies — Natuna, Nunukan, Belu, Talaud Islands, Morotai and Merauke — were the exemplary projects among the 41 regencies in the border areas prioritized to be developed.

Indonesia investment board upbeat about 2017, tourism potential - the Investment Coordinating Board (BKPM) says Indonesia remains attractive for foreign investors and is maintaining an optimistic investment outlook for next year, eyeing tourism as the key contributor to investment growth. BKPM chief Thomas Lembong said his office was confident that the realized investment target of IDR592 trillion (US\$43.97 billion) would be met this year, and therefore a larger goal could be set for 2017.

Industrial investment regains pace in 2016 - despite a global economic slowdown, Indonesia managed to see investment in the industrial sector increase by 41.6 percent year-on-year (yoy) to US\$18.7 billion during the first nine months of the year. Industry Minister Airlangga Hartarto said that foreign investment still dominated investment in the industrial sector, with US\$13.09 billion in foreign money coming into the sector from January to September, a 53.6 percent increase compared to the figure in the same period last year. Domestic investment, meanwhile, increased by 19.6 percent yoy to IDR75.41 trillion (US\$4.69 billion). "Investment is a growth engine for the sector," Airlangga said during the ministry's year-end press conference.

TRADE

Jokowi arrives in India to tap potential - shortly after arriving in the Indian capital of New Delhi for a two-day state visit, President Joko Widodo began making his sales pitch to Indian investors. "Indonesia invites India to increase investment in pharmaceuticals, information technology and automotive [industry]," President Jokowi said after meeting with Indian Prime Minister Narendra Modi and the Indian business community, before continuing on his journey to Iran. Jokowi also said Indonesia expected to increase trade with India. "Indonesia wishes to increase trade and diversify export products to India," he said.

Yuddy to increase trade and investment cooperation with Ukraine – Indonesian ambassador-designate to Ukraine, Armenia and Georgia, Yuddy Chrisnandi, seeks to increase cooperation in trade and investments when he is cleared to serve next year, citing massive unexplored potential in the three countries. Despite the uncertainty posed by Russia's occupation of Crimea, growing separatist sentiment at its borders and the ensuing instability of the Ukrainian economy, Yuddy said he believes there is much to gain from enhanced relations with Kiev.

EU, Indonesia seeks greater cooperation on maritime security - the European Union (EU) has sought to expand security cooperation with Indonesia under the recently reactivated EU-Indonesian parliamentary friendship group, which aims to bridge understanding between the two partners. During a meeting, Abdul Kharis Almasyhari, the chairman of the House of Representatives Commission I overseeing foreign affairs and EU Ambassador to Indonesia Vincent Guérend discussed the possibility of cooperation on maritime security.

AGRIFOOD

Sari Roti stock down amid boycott campaign - Nippon Indosari Corpindo the company behind the Sari Roti brand saw its share price go down by 1.32 percent to IDR1,500 in Wednesday trading following a social media campaign to boycott its products that went viral on Tuesday. The Sari Roti boycott campaign topped the Twitter trending topic chart after a company statement claimed the brand was not involved in the Dec. 4 rally. They claimed that a number of Sari Roti hawkers bearing the sign "Gratis untuk Mujahid" (Free for Mujahids) at the spot were coordinated by a "donor" and done without consent from the company. However Erdikha Elit Sekuritas analyst Wilson Sofan said the price decline was not caused by the social media campaign, but it was a usual stock market event. The boycott campaign would not significantly affect the company's performance, he said. "Its products are known by a lot of people and their market is also middle up, I think the campaign has not had any effect," he said in Jakarta on Wednesday. Based on the company's financial report in the third quarter, its revenue increased by 17.08 percent to IDR1.84 trillion (US\$137.73 million) compared to the same period last year. Its net income also increased by 5.83 percent year-on-year to IDR203.91 billion.

Indonesia fights against illegal potato – the government pledged to immediately stop illegal potato imports that have put local farmers at risk. Speaking after a meeting with representatives of local potato farmers at his office, Trade Minister Enggartiasto Lukita said the government only allowed imports of Atlantic potatoes, a variety used to make French fries and chips. Thus, imports of Granola potatoes, which are planted by most local farmers, are prohibited. "Some importers have violated their permits by importing Granola potatoes; it is illegal. We already told the police to investigate," said Enggartiasto. Agriculture Minister Amran Sulaiman, who was also present at the meeting, said the government would speed up efforts to help farmers boost productivity. According to Central Statistics Agency (BPS) data, potato imports reached 18,674 tons during the first nine months of 2016, with a total import value of US\$8.82 million.

Govt anticipates chicken, egg prices to continue rising – the Trade Ministry expects chicken and egg prices to continue to increase in line with growing demand during the Christmas, New Year and school holidays, all of which will fall in the

fourth week of the month. The ministry's director general for domestic trade, Oke Nurwan, said that the prices for both commodities were now higher than last month. He said the ministry would take measures to prevent dramatic price surges by monitoring regional markets.

Indonesian farmers losing appetite for fresh milk business - the Indonesian Association of Dairy Cattle Farmers (APSPI) has predicted that the sluggish trend in domestic fresh milk production will continue next year as more local producers are likely to resign from fierce competition with imported dairy products. The association estimates that next year local fresh milk production will drop to 700,000 tons from 750,000 tons in 2016. The figure makes up less than 20 percent of national demand for fresh milk, which currently stands at 3.82 million tons. The price of local fresh milk currently stands at around IDR4,500 per liter, leaving only a tight margin after being reduced by production costs. Many farmers, Agus said, finally decided to sell their cattle and start another more attractive business. Looking at the situation, Agus urged the government to issue a regulation to support existing farmers, for example by forcing dairy processing firms to absorb local production. Data from the Agriculture Ministry shows that Indonesia had almost 520,000 head of dairy cattle in 2015. This year, the number has increased slightly to 535,860.

High beef prices lead consumers to opt for chicken, goat - Indonesia's soaring beef prices have led consumers to shift to consuming more goat meat or chicken during the festive season, an industry player has said. "The price of beef remains high at IDR123,000 (US\$9.13) to IDR125,000 per kilogram," said Abdullah Mansuri, the chairman of Indonesian Market Traders Association (IKAPPI). With relatively high beef prices, consumers prefer to buy goat meat and chicken during the Christmas season, which were priced at IDR115,000 per kg and IDR33,000 per kg, respectively. Previously, the Trade Ministry facilitated a beef distribution cooperation agreement between the State Logistics Agency (Bulog) and Indonesian Meat Distributors Association (ADDI). The cooperation was made to ensure that beef prices do not exceed the government's upper price ceiling of IDR80,000 per kg.

Indonesia to challenge trade dispute ruling favoring US, NZ - the government said that it would file an appeal against a World Trade Organization (WTO) dispute panel ruling favoring New Zealand and the United States, both of which challenged Indonesia's import restrictions on food and animal products, including beef and poultry. Trade Minister Enggartiasto Lukita said Indonesia had deregulated such imports with the introduction of a number of economic policy packages over the past year. The deregulation, he added, had also addressed both countries' concerns on its current import rules. A WTO panel ruled that all 18 of Jakarta's measures affecting imported horticulture, animals and animal products were prohibited under WTO rules dating to its predecessor body, the General Agreement on Tariffs and Trade (GATT). The import restrictions cover products such as apples, grapes, potatoes, onions, flowers, juice, dried fruit, cattle, chicken and beef, the US trade office said in March 2015 when challenging the measures. According to the rule, Indonesia has 60 days to file an appeal or it would be considered to have accepted the decision.

More 7-Eleven stores close down amid alcohol ban, high operating expenses - PT Modern Internasional, the operator of 7-Eleven convenience stores in the country, has reported a shrinking sales figure in the first nine months of this year, mainly due to increasing operating expenses and the continued effects of the implementation of the alcohol ban regulation in minimarkets. The company reported that its net sales stood at IDR660.7 billion (US\$49.1 million) in the January-September period, down by 31.4 percent from IDR962.8 billion collected in the same period last year. Convenience stores were previously prohibited from selling any kind of alcohol, including beer, as former trade minister Rachmat Gobel issued a regulation on the control of alcohol in April last year in a bid to "protect young generations from the dangers of alcohol".

MANUFACTURING / AUTOMOTIVE

Indonesia sets high hopes on manufacturing sector in 2017 - the government projected the non-oil and gas manufacturing sector to grow by 5.3 to 5.6 percent in 2017, a higher figure compared to this year's anticipated expansion of between 4.67 and 5 percent. Industry Minister Airlangga Hartarto said the food and beverages subsector was expected to be the main driver of next year's growth. The subsector made IDR25.81 trillion (US\$1.92 billion) in revenue during the January to November period and is expected to grow by 7.5 to 7.8 percent next year. Airlangga added that the food and beverage industry currently contributes 33.6 percent share to gross domestic product (GDP) made by the non-oil and gas manufacturing industry, followed by the machinery and equipment sector with 10.7 percent.

Motorcycle industry sees exports soar despite sluggish domestic sales - the local motorcycle industry has seen a healthy improvement in exports this year despite sluggish sales in the domestic market, a business association reported. Indonesian Motorcycle Industry Association (AISI) chairman Gunadi Sindhuwinata said exports from January to November increased by 24.8 percent to 257,234 units compared to the same period last year. Counting back to 2013, the figure has increased by almost 900 percent compared to the 27,135 units exported at that time. Data from AISI shows that, as of November, domestic sales had decreased by 7.82 percent year-on-year to 5.49 million motorcycles. The slump in commodity prices, for example, has contributed to a decline in customers' purchasing power, especially outside Java, the association claims. He added that since the industry's peak performance in 2011, which saw over 8 million motorcycles sold, sales figures have continued to decline until today. Over the past two years, no principals put more investment into Indonesia, as their factories have also been far below their maximum production capacity.

ICT / MEDIA

DHL Express launches IDR17 billion service center and gateway - International logistics company DHL Express, part of Deutsche Post's DHL Group, launched a service center and a gateway worth IDR17 billion (US\$1.26 million) to support its business operations in and out of Batam, Riau Islands. DHL Express decided to expand its business in Batam given its potential as the third-largest city in Sumatra, well known as an industrial area, an emerging transport hub, and part of the Indonesia-Malaysia-Singapore golden triangle.

Blue Bird gradually implements cashless payment services - Indonesia's biggest taxi operator, Blue Bird, is gradually intensifying cashless payment services, narrowing the gap with its app-based competitors. Since the company's implementation of a credit card payment system in September, usage had accounted for 15 percent of payments as of November. The company is working with global payment company MasterCard for the service.

Emtek seeking to revive Blackberry's appeal to middle, upper class users - publicly listed company Elang Mahkota Teknologi (Emtek) will focus on restoring Blackberry Messenger's (BBM) market share among upper-middle-class phone users next year. Emtek vice president director Sutanto Hartono said that despite BBM still having 60 million active users in Indonesia, 75 percent of whom were active on a daily basis, the application was losing its market share of upper-middle-class phone users. Most of its active users came from rural areas. "Our goal for next year is to make BBM appealing to middle- and upper-class urban citizens once again," Sutanto said at Emtek's press briefing in Jakarta. Emtek acquired the BBM license in a US\$207.5 million deal in June, which Blackberry called a "long term partnership agreement".

Express, Uber team up to tap opportunities in Indonesian market - despite its roller coaster relationship with new competitors, publicly listed taxi operator Express Transindo Utama announced it would team up with ride-hailing application Uber for a ride-sharing integration in hope to improve services and increase revenue. Under the collaboration, Express drivers will be able to use Uber's application to take uberX orders apart from running conventional services.

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