

Indonesia Market Update

January 2017

Welcome to the January 2017 edition of “Indonesia Market Update”. A new year - the year of the “rooster” Selamat membaca!

ECONOMY

Indonesia 2016 full-year inflation at 3.02% as prices stable - Indonesia recorded an inflation rate in 2016 of 3.02 percent, lower than a year earlier at 3.35 percent, as the government's policies stabilized prices. According to the Central Statistics Agency (BPS) the monthly inflation in December stood at 0.42 percent, the lowest figure since 2010. Despite the food ingredient and processed food prices increased by 5.69 and 5.38 percent year-on-year (yoy) respectively in December, the water, electricity and gas prices only rose by 1.90 percent, he added.

Consumer confidence soars to two-year high - consumer confidence rebounded to its highest point in two years, in December, as a result of more positive assessments on the current state of the economy and also its prospects, according to a survey by Danareksa Research Institute (DRI). The Consumer confidence index (CCI) rose by 2.7 percent to 101.9 points. However, consumers continue to worry about high food prices with 72.6 percent of consumers still citing pressures from the price of food as a major concern.

IDB disburses more than US\$1b financing for RI in 2016 - The Jeddah-based Islamic Development Bank (IDB) disbursed more than US\$1 billion in loans in 2016 for various government and private sector projects in Indonesia, which has the largest Muslim population in the world, as part of its five-year partnership with the country. Moreover, the IDB also disbursed \$177 million to support education developments at four national universities, \$100 million for the government's sukuk (Islamic bond) program and \$100 million to develop the country's coffee supply chain for small and medium-sized coffee exporters affiliated with the Association of Indonesian Coffee Exporters and Industries (AEKI).

Tourism Ministry to evaluate free-visa policy in April - the Tourism Ministry will evaluate the free-visa policy introduced last year to boost foreign tourist arrivals, following reports of frequent immigration violations. The free-visa policy for 169 countries was introduced based on Presidential Regulation No. 21/2016. Previously, free visas were given to visitors from 90 countries.

Government advised to formulate logistics master plan to cut costs – supply Chain Indonesia (SCI) has advised the government to formulate a comprehensive logistics master plan if it wants to achieve its target of reducing high logistics cost in the country. The master plan for the development of a national logistics system is so far only instructed in Presidential Regulation No. 26/2012. Indonesia aims to reduce logistics cost to 19 percent of its gross domestic product (GDP) from the 26 percent currently, which is double that of Singapore and Malaysia.

Indonesia to revise 20 regulations in next economic stimulus package – the government plans to revise 20 regulations pertaining to logistics in the planned 15th economic stimulus package. Transportation Minister Budi Karya Sumadi said the regulations would mainly address capital, non-tax state revenue and dwell activities in domestic logistics. Earlier, Coordinating Economic Minister Darmin Nasution said the 15th economic stimulus package would aim to ease domestic logistical activities and reduce dwell time in seaports. Among the reforms is the improvement of data processing through the Indonesia National Single Window (INSW).

Indonesian eyeing slice of Singapore's market - the government and state owned enterprises have sent a strong signal that they will strengthen the role of Tanjung Priok Port as an international trade hub, taking over a slice of the transshipment market currently dominated by Singapore. Transportation Ministry Director General for Sea Transportation Antonius Tonny Budiono said the government and state-owned port firms, Pelindo I, II, III and IV, were discussing the so-called *Indonesia Integrated Chain Port plan*, which would consolidate the export of cargoes from various domestic ports nationwide, including Bitung Port in North Sulawesi and Sorong Port in West Papua, with the country's busiest port. Such consolidation is aimed at making the transshipment more efficient and “attractive” for both local and global shipping lines.

INVESTMENT

At US\$46 billion, 2016 direct investment beats govt target - realized direct investment from local and foreign entities increased by 12.4 percent to IDR612.8 trillion (US\$45.97 billion) last year from IDR545.4 trillion in 2015, beating the government's target of IDR594.8 trillion. Investment Coordinating Board (BKPM) head Thomas Lembong said local investment had grown by 20.5 percent to IDR216.2 trillion, outpacing foreign investment, which had risen by 8.4 percent to IDR396.6 trillion. As for sectors, investors are most interested in chemicals and pharmaceuticals, followed by metals, food and beverages, electricity and power plants as well as mining.

Indonesia optimistic about 2017 prospects, eyes IDR678 t in investment - the Investment Coordinating Board (BKPM) is optimistic about the country's prospects in attracting foreign direct investment this year, as it expects to see double-digit growth in investment for 2017. BKPM chief Thomas Lembong said he was optimistic the country would remain one of the most attractive countries in the world compared to its counterparts in other regions. "For now, Indonesia is the safest, most stable and most reformist country." The BKPM was aiming to book IDR678 trillion (US\$50.17 billion) in investment this year, up 14 percent from last year's target.

2nd round of negotiations kicks off for Indonesia – EU CEPA – The IEU-CEPA study has been conducted since 2010 but the scoping paper had been in progress since 2012 until it was concluded last year, before the first round of negotiations proceeded in Brussels, Belgium, in September 2016. With an aim to be concluded by 2018, the deal could improve trade, investment and training cooperation between the two parties through a lack of tariffs and other facilities.

China's investment reaches US\$1.6 billion in Indonesia - the Investment Coordinating Board (BKPM) recorded investment of US\$1.6 billion from China up until the third quarter of last year, making the country the third-biggest investor in Indonesia after Singapore and Japan. The use of Chinese technology in Indonesia contributed to the large amount of Chinese investment in Indonesia.

TRADE

Japan, Indonesia target trade revival - Japan's Prime Minister Shinzo Abe and President Joko Widodo are widely expected to discuss the issue of reviving a decline in trade between the two countries in a meeting. Total exports and imports from the two nations have declined steadily by a total of 41 percent to US\$31.27 billion in 2015 from \$53.14 billion in 2011, according to data from Trade Map of International Trade Center. Shipments of Indonesian products to Japan plunged 46.5 percent during the period, outpacing the 33 percent drop in the country's overall exports.

Indonesia told to strengthen role in ASEAN - Indonesia should strengthen its role in ASEAN by taking a more active role and through intellectual leadership within the association's platforms. ASEAN as a driver for regional cooperation needs to strengthen unity between its member states and it should operate under universal values without neglecting the non-interference principle, said foreign policy scholar Dewi Fortuna Anwar.

Multilateral trade preferred over bilateral, plurilateral: WTO - World Trade Organization (WTO) member countries have agreed that multilateral trade negotiations are better than bilateral and plurilateral trade as it avoids the domination of trade rules by one country amid growing protectionism concerns.

RETAIL

Retailer Transmart Carrefour to open 30 new stores in 2017 – major retailer Trans Retail Indonesia will open dozens of new stores this year in a bid to attract more visits to its physical stores despite the booming online retail industry. The company will open 30 new stores under the Transmart Carrefour brand in 2017. Despite Indonesia's surging domestic retail business, Trans Retail Indonesia, part of business tycoon Chairul Tanjung's CT Corp business group, has decided to step up to the challenge posed by the burgeoning online retail business. The retailer says it is determined to be more creative by way of promotional activities, intensive marketing and sales of fresh products to lure customers to its stores. Currently, the company operates 94 Carrefour stores nationwide, of which 15 stock the Transmart Carrefour brand and the remainder will gradually follow suit.

AGRIFOOD

Food and beverage makers expect to maintain strong growth - food and beverage makers have released a preliminary projection showing that the industry this year could grow at a similarly strong pace to last year, with revenue seen rising by more than 8 percent to IDR 1.4 quadrillion (US\$104.47 billion). The steady growth projection is based on increasing investment last year compared to 2015 as well as on a recovery in consumer spending.

Food prices controllable up to March - Trade Minister Enggartiasto "Enggar" Lukita said the food supply was adequate to meet demands until March, making the prices controllable till that period. Beef monthly demand is 56,500 tonnes; sugar is 250,000 tonnes and rice is 1.73 million tonnes. Some 42,000 tonnes of buffalo meat has landed in Indonesia from India last year-end and the import permit of 1.5 million tonnes of raw sugar has been signed for 11 refinery factories.

Fruit, vegetable importers may have to buy local harvests - the government is mulling on a new import mechanism for fruits and vegetables that will urge importers to accommodate local harvests, as part of efforts to strengthen the horticulture industry in the tropical fruit and vegetable-rich country. Trade Minister Enggartiasto Lukita said he would maintain fruit and vegetable import levels but would ask importers to also buy and distribute local harvests.

Indonesia to be sugar self-sufficient by 2019 - the country is predicted to continue importing sugar until 2019 because of the ongoing revitalization of sugar factories owned by state-owned sugar company PT Perkebunan Nusantara, which is expected to be completed within two years.

Meat stocks secured up to Ramadhan - the Trade Ministry has announced that meat stocks have been secured up to the fasting month of Ramadhan in May, thanks to buffalo meat imports from India. Buffalo meat stocks now had reached 70,000 tons, while frozen beef stocks were between 60,000 and 70,000 tons, said Trade Minister Enggartiasto Lukito.

Agriculture Ministry to prioritize Bali cattle breeding in 2017 - to boost the population of local heifers, the Agriculture Ministry plans to focus on indigenous Bali cattle breeding this year. Indonesia, a major importer of Australian cattle, aims to reach self-sufficiency in beef by 2021, after several failed attempts to do so since 2004. The ministry's animal husbandry and health director general, I. Ketut Dirmita, said the extensive cattle breeding would rely totally on natural animal feed and exclude hormonal treatment. An icon of local cattle, Bali cattle are known for their high meat quality and ability to easily adjust to temperatures.

MANUFACTURING

Unilever Indonesia to spend US\$121 million in 2017 - publicly listed consumer goods giant Unilever Indonesia will earmark €115 million (US\$121 million) in capital expenditure (capex) this year, mainly to increase the production capacity at its factories. Unilever corporate secretary Sancoyo Antarikso said that as the firm had no plan to open any new facilities this year, the allocated funds would be focused on factory upgrades. Currently, Unilever, the local arm of Anglo-Dutch consumer goods giant Unilever NV and Unilever Plc, has 39 brands divided into four categories, namely personal care, home care, food and refreshments.

Fertilizer factory worth US\$1.5b to be developed in Papua - Trade Minister Airlangga Hartarto has lauded a plan by state-owned fertilizer company PT Pupuk Indonesia and Germany based Ferrostaal to develop a fertilizer factory in Bintuni Bay, West Papua. The two companies have agreed to carry out a feasibility study for the US\$1.5 billion project. The fertilizer producer is among industrial sectors that will enjoy the gas-price cut introduced by the government, as stipulated in Presidential Regulation No. 40/2016 on natural gas prices.

Krakatau Steel to launch blast furnace facility by March - after being delayed for months due to financial difficulties resulting from falling steel prices, state-owned steel maker Krakatau Steel projects its first blast furnace to begin production by March this year. The construction of the facility is reportedly close to completion. Krakatau Steel corporate secretary Iip Arief Budiman said the construction of the US\$500 million facility was "98 percent complete." The new facility will have the capacity to produce 1.2 million tons of hot metal, which will serve as an intermediary material to make a variety of finished steel products.

AUTOMOTIVE

Mercedes-Benz plans to assemble more models locally - the local unit of German car manufacturer Daimler AG says it wants to assemble more product lineups in Indonesia to help boost sales and increase the utilization of its local plant. President Director of Mercedes-Benz Distribution Indonesia (MDI), the local distribution unit of the firm, Roelof Lamberts, said that his side was considering assembling the entry level cars A-Class and B-Class in its plant in Wanaherang, Bogor, West Java after the E-Class recently. If realized, the two models will add to six models already produced there, namely the mid-size luxury sedan E-Class, the high-end luxury sedan S-Class and the sport utility vehicle GLC, GLS and GLE. MDI marketing communication deputy director Hari Arifianto said the Wanaherang plant was able to produce 6,000 cars each year, but last year only assembled 3,371 cars, equal to 56 percent utilization rate.

Patimban Port expected to help boost automotive exports - the government expects the Patimban deep-sea port in West Java to help pave the way to boost Indonesia's automotive exports in the future. The port, construction of which will begin in 2018, will have a container capacity of 1.5 million 20-foot equivalent units (TEUs) once it is partly completed by 2019 and then 7.5 million TEUs by 2027, which is half the capacity of Jakarta's Tanjung Priok Port, the country's busiest port. Data from the Transportation Ministry also show that the government plans to build a vehicle terminal within Patimban Port with a capacity of 485,000 completely built-up (CBU) units.

ICT / MEDIA

Kimia Farma Apotek launches online shopping platform – Kimia Farma Apotek has launched an online pharmacy service in a bid to ease access for younger consumers to purchase pharmaceutical products online. Collaborating with GO-MART shopping service, the e-commerce platform named kimiafarmaapotek.co.id provides 900 stock keeping units (SKUs) of over-the-counter medications and cosmetic products. The collaboration with GO-MART enables customers to purchase the products in eight cities, including Greater Jakarta, Bandung and Surabaya. Despite going digital, the company said it was still planning to expand its retail stores to reach 1,000 stores this year from 900 stores in 2016.

Graha Layar Prima rebrands CGV Blitz cinema chain – publicly listed cinema operator Graha Layar Prima (BLTZ) is rebranding its popular movie theater network from CGV Blitz to CGV Cinemas starting this month. CGV, owned by CJ CGV Co. Ltd., operates many movie theaters around the world. The firm aims to provide 270 screens at 40 cinemas nationwide from the current 27 movie theaters and 185 screens.

INFRASTRUCTURE

Terminal expansion, modernization looks to boost foreign tourist arrivals in 2017 - state airport operator Angkasa Pura (AP) II hopes to facilitate the arrival of more foreign tourists by expanding its 13 airports across the country this year. The firm expects to open new terminals at its airports, which includes Husein Sastranegara International Airport in Bandung, West Java; Depati Amir Airport in Pangkalpinang, Bangka Belitung; Silangit Airport in Siborong-borong, North Sumatra; and Supadio International Airport in Pontianak, West Kalimantan.

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