

# Indonesia Market Update

## August 2017

Welcome to the August 2017 edition of “Indonesia Market Update”. Selamat membaca!

### ECONOMY

**Indonesia to maintain low inflation to boost consumer spending** - the government has promised to keep inflation low during the rest of the year so that consumer spending, the main driver of the country’s economic growth, will increase in the second half of this year. The latest data from the Central Statistics Agency (BPS) show consumer spending growth slowed to 4.95 percent year-on-year in the second quarter of this year from 4.94 percent recorded in the first three months of 2017. Indonesia’s annual inflation rate declined 3.88 percent in July from 4.37 percent in June.

**Indonesia to shorten list of prohibited, restricted goods** – Indonesia is now working to shorten the list of prohibited and restricted goods (from 49 percent of 10,826 HS codes to only 19 percent) and to simplify the process of verification in an attempt to reduce the dwell time in seaports. The shorter list of prohibited and restricted goods would accelerate import activities because it would improve the pre-custom clearance of goods that currently caused long dwell times. The import permits of certain goods would also be regulated under the supervision of one ministry.

**Jokowi to focus on economic justice in his third year** - in the state of nation address before members of the People’s Consultative Assembly, President Joko Widodo told the audience that the third year of his administration would focus on implementing economic justice policies to improve the welfare of the people. In his speech to the forum, he said that unity among state institutions was the key to achieve the noble goal and that all parties had to work hard and hand in hand to establish economic equality in the face of fast-growing global challenges, which directly impact Indonesia. Jokowi said that despite the significant efforts of the government to build infrastructure across the country, he was aware that many people had yet to enjoy the benefits, even though Indonesia had enjoyed independence for 72 years.

**Economic zones of Mandalika, Palu to start operations** - as part of the efforts to accelerate economic growth in eastern Indonesia, the government is gearing up to launch two special economic zones (KEK) in late August or in September, one in Mandalika, West Nusa Tenggara, and the other in Palu, Central Sulawesi. Three hotels -- Pullman Hotel, Royal Tulip Hotel and X2 Hotel – are being constructed in the KEK Mandalika, which focuses on the tourism industry, in Lombok Tengah regency. Construction on three more hotels, ClubMed Hotel, Paramount Hotel and Mozaique Jiva One Sky Hotel, is to begin next year. The construction of infrastructure will cost Rp 2.2 trillion (US\$164.84 billion) by 2025, while the potential investment from the private companies is Rp 28.64 trillion. Meanwhile, in the KEK Palu, three investors have started to construct factories. The infrastructure construction will cost Rp 1.7 trillion by 2015, while the potential investment from the private sector is estimated at Rp 92.40 trillion.

### TRADE

**Indonesia to talk with China, Russia about spaceport project** - Indonesia is eyeing the possibility of cooperation with China and Russia to support the government’s ambition to set up its first-ever satellite-launch station, said National Institute of Aeronautics and Space (LAPAN) chairman Thomas Djameluddin. He said Indonesia would also talk with other countries with vast experience in aeronautics such as Japan, South Korea and India to support the project. Morotai in Maluku and Biak in Papua are the strongest candidates as locations for the project given their proximity to the Pacific Ocean, according to LAPAN. The agency has yet to estimate the timeline of the project or estimated cost. But it has set a target of Indonesia having its own satellite-launch station before 2040.

**RI, Russia strengthens cooperation in cyber-security** - Indonesia and Russia pledged to strengthen cooperation in cyber-security and counter-terrorism as concern grows about the spread of radicalism in Southeast Asia. Russian Foreign Minister Sergei Lavrov, who is on a two-day visit to Indonesia, said the two countries would work together more closely to counter the spread of Islamic State (IS) ideology. Indonesian Foreign Minister Retno Marsudi said the two countries had strong ties on political and defence issues, and Indonesia wanted to deepen trade ties.

**AGRIFOOD****Indonesia needs more salt**

- **25,000 tons of Australian salt arrives** – at Ciwandan Port in Banten. There is a total of 75,000 tons of salt to be imported from Australia via three ports of Ciwandan, Tanjung Perak in Surabaya and Belawan in Medan. PT Garam, which the government has appointed as the exclusive importer of the salt, will distribute the imported salt to factories for processing into edible salt. Trade Minister Enggartiasto Lukita had said earlier that the 75,000 tons of imported Australian salt would fulfil domestic demand until local salt farmers were able to produce a harvest.
- **State salt firm to build US\$134.89m salt factory in NTT** - State-owned salt company PT Garam has expressed its agreement to develop a salt factory using technology invented by the Agency for the Assessment and Application of Technology (BPPT) to produce about 500,000 tons of salt per year. The company needs Rp 1.8 trillion (US\$134.89 million) in funds to develop the factory.
- **Indonesia aims to become self-sufficient in salt in 2019** - Indonesia, which has suffered from declining salt production in recent months, is aiming to become self-sufficient in the commodity by 2019 as a government team has begun the process of transforming idle land into salt fields. The government would increase salt productivity to 100 tons per hectare annually from 70 tons per hectare currently.

**Indofood to continue expanding despite sluggish economic growth** - publicly listed food giant PT Indofood Sukses Makmur (INDF) plans to increase production and the processing capacity of its various businesses despite sluggish domestic economic growth. The firm is now building more production lines for flexible packaging, milk, ice cream, instant noodle and flour, as well as greater processing capacity for palm oil. The expansion will be funded from the firm's allocated capital expenditure (capex) of Rp 9.1 trillion (US\$682.6 million) this year.

**INFRASTRUCTURE**

**Government to spend US\$30.23 billion on infrastructure projects in 2018** - next year, the government plans to allocate Rp 404 trillion (US\$30.23 billion) for infrastructure development, according to the draft state budget announced by President Joko Widodo. This year, the government projects to spend Rp 387.70 trillion. The President explained that 856 kilometers of new roads and 781 kilometers of irrigation channels would be constructed.

**Ministry to prioritize infrastructure in four sectors in 2018** - the Public Works and Public Housing Ministry will focus on building infrastructure in four sectors next year, namely transportation, food supply, waste management and housing. The ministry is set to obtain Rp 106.9 trillion from the proposed 2018 budget once it is approved, the highest amount of all ministries and government institutions, an official has said.

**West Java to maintain 51% ownership of Kertajati Airport** - West Java Governor Ahmad Heryawan has said the West Java administration will maintain 51 percent ownership of PT Bandara Internasional Jawa Barat (BIJB), the developer of Kertajati International Airport in Majalengka, West Java. Meanwhile, state-owned airport operator PT Angkasa Pura II (AP II), which will operate the airport, will own part of the company's shares. "Angkasa Pura will be a shareholder of the company," Ahmad said in Jakarta. The Kertajati Airport is set to operate in the first quarter of 2018. The construction of the airport costs Rp2.6 trillion (US\$194.35 million) in addition to Rp 1 trillion for land acquisition.

**Soekarno – Hatta airport's skytrain begins trial operation** - the first-ever skytrain, or automated people mover system (APMS), at Soekarno-Hatta International Airport began a month-long trial on Aug. 13. Transportation Minister Budi Karya Sumadi said the skytrain would start operations on Sept. 17. When the service starts in September with one train unit (consisting of two cars), it will be able to transport 176 passengers in one trip, in November two train units will transport 528 passengers per trip. State airport operator Angkasa Pura (AP) II has invested Rp 950 billion (US\$71.1 million) in the project, with Rp 530 billion for the rolling stock and Rp 420 billion for the infrastructure.

**Railway operator welcomes first airport train** - State railway operator PT Kereta Api Indonesia (KAI) welcomed the first train set to operate as an airport train connecting the Soekarno-Hatta International Airport in Tangerang, Banten to two stations in Jakarta. A total of 10 trains will be operated along the airport railway, each able to transport up to 270 passengers per trip. The rolling stocks were produced by Canadian multinational aerospace and transportation company Bombardier Inc. along with state-owned train manufacturer PT INKA. They cost about US\$70 million. The airport track

will connect the airport with Manggarai Station in South Jakarta and Kota Station in West Jakarta. The whole track will run along a 36.4-kilometer line.

**Astra launches Astra Biz Center in BSD City** - publicly listed diversified conglomerate PT Astra International (ASII) launched its second Astra Biz Center in BSD City, South Tangerang, Banten in a bid to boost sales in the premium township. The business center, located on 6.2 hectares of land, is comprised of seven buildings — six showrooms and another building for Astra's supporting businesses. The total investment for land, building and repair centers reached Rp 777.25 billion (US\$58.3 million). The six showrooms serve as sales and repair centers for Honda motorcycle and five car brands: Toyota, Daihatsu, Isuzu, BMW and Peugeot.

## ICT

**Domestic e-commerce transactions reach value of US\$5.6b** - Bank Indonesia Governor Agus Martowardojo said e-commerce transactions in the country amounted to US\$5.6 billion in 2016, indicating huge potential for online retail in Southeast Asia's largest country. "The great activity in Indonesia's online business is in line with the activity of Indonesians in social media. Jakarta is even known as the 'Twitter capital of the world'," said Agus. Citing data from market research firm Statista, Agus said some 24.74 million Indonesians were using the internet. The immense growth potential of the national digital economy was also indicated by 78 percent growth of the fintech industry in the last two years, he added.

**Indonesia issues e-commerce road map** - President Joko Widodo has signed the long-awaited e-commerce road map that will provide guidelines for the country's digital economy sector, said Communication and Information Minister Rudiantara. He explained that the roadmap was expected to be issued at the end of this year and would not only regulate technology, but also cover issues such as logistics, cyber securities, taxation, human resources development and consumer protection. "One of the issues in the road map also relates to the payment system by implementing the National Payment Gateway (NPG), which will be under the supervision of Bank Indonesia," Rudiantara said, after attending the coordination meeting on e-commerce at the Economic Coordinating Ministry office in Jakarta.

**Upper middle income people tend to shop online: BPS** - the Central Statistics Agency (BPS) has said that upper middle income people tend to purchase goods online. "Basically they are consuming the same things -- watches, purses, bags, handphones and accessories -- but the higher income people tend to make purchases through online shopping," BPS head Suhariyanto said on the sidelines of a discussion at the House of Representatives' compound in Jakarta recently. He said that based on a recent survey on 10,500 households conducted by the agency, 15 percent of the respondents said they had experience in online shopping. Experts attribute the decrease in consumption growth to 4.95 percent year-on-year (yoy) in the second half compared to 5.07 percent yoy in the same period last year to the growing trend of e-commerce transactions.

**Facebook opens Indonesia's office** - social media giant Facebook opened its office in Indonesia, after years of operating in the country. Indonesia is one of the important markets for Facebook as it has about 115 million people connect to the social media platform. The figure is a 40 percent increase from March last year, which reached 82 million. Meanwhile, Indonesia's daily number of Facebook users currently stands at 65 million. The company had established a representative office in the country in 2014.

**BPS, Association to discuss e-commerce data collection** - the Central Statistics Agency (BPS) and the Indonesian E-Commerce Association (idEA) will soon discuss how to collect data on the e-commerce sector. Amid news reports of a slowdown in household spending, many economists speculate that the online shopping trend has changed shopping patterns in the country. BPS head Suhariyanto said in Jakarta that BPS was currently studying changes in public consumption patterns, following the emergence of online retailers. According to BPS data, household consumption in the first half grew at a rate of 4.95 percent year-on-year (yoy), lower than the 5.07 percent yoy measured in the corresponding period last year.

**AUTOMOTIVE**

**Indonesia International Auto Show kicks off** - the Indonesia International Auto Show 2017, the largest auto fair in East Asia, opened at the Indonesian Convention Exhibition in Tangerang, Banten. Industry Minister Airlangga Hartarto said Indonesia's automotive industry was getting strong, as indicated by investment reaching Rp 16.5 trillion (US\$1.24 billion) in the first half of 2017. Indonesia was now working to produce environmentally friendly vehicles with very low emissions and to develop electronic cars, said Airlangga in his opening remarks at the fair organized by the Association of Indonesian Automotive Manufacturers (Gaikindo). "We are targeting to produce 2 million cars by 2025, 20 percent of which are electric vehicles," he said, adding that the Indonesian automotive industry had prepared prototypes for the electric cars.

**GIAS 2017 ends with 17,000 cars sold and 400,000 visitors** - the 2017 Gaikindo Indonesia International Auto Show (GIAS) closed its doors on Sunday, having sold 17,000 cars sold and attracting 400,000 visitors, according a statement issued by its organizer. At last year's event, a total of 16,334 cars were reportedly sold and 456,517 visitors attended. Automakers displayed more than 40 new car models, including three that had their world premiere in the show.

**Government offers incentive for electric car development** - Vice President Jusuf Kalla has stressed that the government would fully support any companies interested in developing electric cars, by offering incentives in the form of import duty cuts for spare parts required for manufacturing. He also stressed that the government would prepare the infrastructure, particularly an adequate electricity supply, to assure that car owners would not encounter difficulties charging the batteries of their vehicles.

**Tata Motors doubles sales target** - Indian automaker Tata Motors subsidiary PT Tata Motors Distribusi Indonesia (TMDI) has doubled its sales target for the March 2017 to April 2018 fiscal year. The company planned to establish 10 more dealers as an addition to the existing 20 dealers and 26 outlets in Java, Bali, Sumatra and Sulawesi and has prepared Rp 2 billion (US\$149,947) to Rp 3 billion to open the new dealers.

**Almost half of luxury car owners evading tax** - some 1,700 luxury cars in Jakarta are not taxed, a city official has claimed. Jakarta Tax Agency head Edi Sumantri said that the potential income from luxury car tax could be substantial as a single such car has a tax value of between Rp 100 million (US\$ 7,486) and Rp 500 million. However, many owners have not paid their taxes. Currently there are about 4,000 luxury cars registered in the capital.

**Auto industry calls for luxury tax cut on sedans** - the Indonesian Automotive Manufacturers Association (Gaikindo) chairman Jongkie Sugiarto said that the association had long lobbied the Finance Ministry to reduce the luxury tax on sedans. He said the cut in luxury tax for sedans from 30 to 10 percent, a similar rate for multi-purpose vehicles, would encourage producers to manufacture more sedans, not only for the domestic market but also for export.

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