

Indonesia Market Update

July 2017

Welcome to the July 2017 edition of “Indonesia Market Update”. The Jakarta city is getting back to normal as people return from their annual leave and children go back to school. Selamat membaca!

ECONOMY

BI expects Q2 economic growth of 5.1% - Bank Indonesia (BI) has expressed its confidence that the country’s economy grew by 5.1 percent year-on-year (yoy) in the second quarter of this year as retail sales began to recover. BI deputy governor Perry Wajiyo said the real sales index (IPR) in May rose by 4.3 percent yoy with BI estimates the June figure at a strong 6.7 percent, driven mainly by strong growth in food and beverage sales.

Dwell time at ports worsens - the government’s effort to improve services at seaports has suffered a setback, as indicated by the worsening dwell time to 3.6 days in the first half of 2017 from 2.9 days in late 2016. The Transportation Ministry’s maritime affairs director general, Antonius Tonny Budiman, said the longer dwell time was caused by an increase in freight volume at the ports, particularly prior to the Idul Fitri holiday. His office would evaluate activities at ports to make sure dwell time could be immediately shortened.

TRADE

Indonesia, Switzerland discuss cooperation on vocational education - President Joko Widodo met with the Federal Councillor of Economic Affairs, Education and Research of Switzerland, Johann N. Schneider-Ammann, to discuss cooperation between the two countries, particularly in developing vocational education in Indonesia. The meeting mostly encompassed vocational training and how Switzerland, as one of the world’s model countries for vocational education, could help Indonesia improve its existing system, said Coordinating Economic Minister Darmin Nasution.

Korean Importers Association meet Indonesian counterparts - The Korea Importers Association (KOIMA) held a business-to-business meeting with Indonesian traders at Sheraton Hotel Jakarta. “The main purpose (of this meeting) is to buy some of your outstanding products, like oil palm, rubber (and) timber,” KOIMA chairman Myoung Jin-shin told reporters. He added that it also aimed to secure purchases of Indonesian goods, ranging from fruits, vegetables and spices, to palm oil and rubber.

Indonesia, Australia reaffirm commitment to IA-CEPA - President Joko Widodo and his Australian counterpart, Malcolm Turnbull, discussed progress on the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) during a bilateral meeting on the sidelines of the G-20 summit. Indonesian Foreign Minister Retno LP Marsudi said the two countries reaffirmed their commitment to completing the IA-CEPA by the end of the year. Indonesia and Australia have had seven rounds of negotiations on the IA-CEPA, which is based on the existing ASEAN-Australia-New Zealand free-trade agreement (AANZ FTA) and will rule out tariffs for 10,012 types of goods.

Two agreements to be signed during Jokowi’s visit to Turkey - the signing ceremony for agreements on health care and the launch of negotiations to establish an Indonesian-Turkish Comprehensive Economic Partnership Agreement (CEPA) will be witnessed by Jokowi and Turkish President Recep Tayyip Erdoğan.

INVESTMENT

Indonesia seeks more investment from Singapore - the government is hoping to boost investment and trade ties with neighboring Singapore following a bilateral meeting. The talks focused on six issues: the Batam-Bintan-Karimun Special Economic Zone, investment, transportation, tourism, manpower and agribusiness. Singapore had agreed to increase its investment in the Kendal industrial park in Central Java.

Investment from China grows strongly - the Investment Coordinating Board (BKPM) has recorded that investment from China grew by 92.79 percent year-on-year (yoy) to US\$1.96 billion in the first half of 2017. Both the quantity and quality of Chinese investments has increased, said BKPM chairman Thomas Lembong, adding that in addition to their main investments in smelters and infrastructure, the Chinese investors had also started to invest in tourism.

Java still main destination for investors: Investment board - the Investment Coordinating Board (BKPM) has recorded that Java is still the main investment destination as investors remain reluctant to put their money into the country's other islands although infrastructure development is being intensified. In the first half of 2017, 46 percent of Rp 336.7 trillion investment realization went to areas outside Java. Meanwhile, investment in Java grew by 11.75 percent to Rp 181.7 trillion compared with Rp 162.6 trillion in the first half of 2016.

Investment in 11 Special Economic Zones reaches US\$ 16.49 million - the Special Economic Zones (KEK) National Council has recorded that the total investment in 11 KEK across the country reached Rp 221 trillion (US\$16.49 million) as of June 30. "We hope the investment will reach Rp 726 trillion by 2030," said chairman of KEK National Council's implementation team Wahyu Utomo in Jakarta. The 11 KEKs include Kek Sei Mngkei, KEK Tanjung Lesung, KEK Palu, KEK Bitung, KEK Morotai KEK Maloy Batuta Trans Kalimantan-MBTK, KEK Tanjung Api-Api, KEK Mandalika, KEK Tanjung Kelayang, KEK Sorong and KEK Arun Lhokseumawe. The government expects to operate 25 KEKs in 2019, said Wahyu, adding that the next KEKs would include those in Kuala Tanjung in North Sumatra, Galang Batang and Karimun Island (Riau Islands).

AGRIFOOD

F&B investment records US\$ 2.8 billion in first semester: Gapmmi – the Indonesian Food and Beverage Producers Association (Gapmmi) has recorded a Rp 37.3 trillion (US\$2.8 billion) first semester investment in the food and beverage (F&B) industry. The association's records also showed that local investors contributed Rp 21.6 trillion to total investment, while foreign investors contributed Rp 15.7 trillion.

Indonesia to import 75,000 tons of salt from Australia - the government has issued an import permit for state-owned salt producer PT Garam to import 75,000 tons of raw salt material from Australia. The salt will enter Indonesia through three ports on Aug. 10.

South Africa offers cheaper frozen beef to Indonesia - South Africa has offered frozen beef to Indonesia at prices that are roughly half of the current retail prices, Trade Minister Enggartiasto Lukita has said. The minister said his ministry would, in assessing the offer, refer to regulations set in the 2014 Animal Health and Husbandry Law, hygiene standards set by the Agriculture Ministry and halal standards set by the Indonesian Ulema Council (MUI). He further said the frozen beef from South Africa was equal to Rp 40,000 (US\$3) per kilogram to Rp 45,000 per kg at the retail level, lower than today's government price ceiling of Rp 80,000 per kg. The Animal Health and Husbandry Law stipulates that beef can be imported from foot and mouth disease (FMD) free zones across the world. South Africa is listed as an FMD-free zone, according to the World Organization for Animal Health (OIE).

Indofood CBP records positive profit trend in first half - publicly listed packaged food producer giant PT Indofood CBP Sukses Makmur ended the first half of 2017 by recording a Rp 2.09 trillion (US\$156.8 million) net profit, an increase from Rp 1.98 trillion in net profit last year. The company also recorded a 1.6 percent rise in consolidation net sales worth Rp 18.46 trillion. Instant noodles, dairy products and snacks dominated net sales, contributing 63 percent, 19 percent and 8 percent respectively.

Halal certification shouldn't burden industry: F&B producers – the Indonesian Food and Beverage Producers Association (Gapmmi) has called on the government not to add to the burden of the industry through mandating halal certification for their products. The government is now preparing a regulation to establish the Halal Certification Agency (BPJPH), which will be authorized to issue halal certificates.

F&B industry must expand, innovate: Minister - Industry Minister Airlangga Hartarto has called on the food and beverage (F&B) industry to expand its market, both domestic and overseas, stressing that opportunities are wide open. He stressed that industry innovation was the key to success in attracting customers. "The domestic and export markets are huge," he said. Airlangga added that one of the major tasks for the industry was to prepare human resources that were ready to innovate, so that an F&B company could produce high-quality, attractive products.

Govt to streamline registration of trademarks - the Law and Human Rights Ministry expects to streamline procedures to register trademarks in the hope of slashing the time needed for businesses to gain official recognition of their brands. "Such an improvement is part of the implementation of Law and Human Rights Ministry Regulation No. 67/2016 on Brand Registration," said the ministry's trademark and geographical indication director, Fathlurachman. The regulation is based on Law No. 20/2016 on trademarks, passed by lawmakers in November last year. The ministerial regulation would provide guidelines to, for example, deal with trademark disputes, Fathlurachman said.

Govt to issue new ceiling prices for rice, cooking oil, garlic - the Trade Ministry has confirmed its plan to set new ceiling prices for rice, cooking oil and garlic. The ministry will coordinate with the Agriculture Ministry, which regulates staple food production. Currently, the ministry has set ceiling prices for rice, bulk cooking oil and simple packaged cooking oil at Rp 9,500 per kilogram, Rp 10,500 per liter and Rp 11,000 per liter, respectively.

Sari Roti shareholders approve plan for rights issue - PT Nippon Indosari Corpindo announced that shareholders had approved its plan to conduct a right issue in a bid to further expand its business in Indonesia and the Philippines. "All of the funds obtained from the rights issue will be used to build new factories for producing white bread and sweet bread, both in Java and outside, as well as in the Philippines," the company's independent director, Alex Chin said. Four to five new factories will be opened in the next five years, which will support its plan to become one of the biggest bread producers in Southeast Asia.

AUTOMOTIVE

Auto battle hits RI streets - the rivalry between China and Japan over gaining influence in overseas markets will soon move to a new battleground: Indonesian streets. Despite being relatively minor players in the global automobile industry, Chinese carmakers have been gearing up to invest in Southeast Asia's largest economy to pave their way to grab slices of the local auto market, which has long been dominated by Japanese brands such as Toyota, Honda and Daihatsu. BMI Research estimated that more than 90 percent of Indonesia's car market is currently dominated by Japanese brands.

- Earlier, PT SAIC-General Motors-Wuling (SGMW) Motor Indonesia, also known as Wuling Motors, launched the operation of its first local production facility in Indonesia. With a US\$700 million investment, the facility, located in Cikarang, West Java, is designed to produce 8,000 units of the Wuling Confero S by year-end.
- Last year, another Chinese player, PT Sokonindo Automobile, a subsidiary of a joint venture between the Chinese Dongfeng Motor Group and the Chongqing Sokon Motor Group, entered the Indonesian market with the operation of a factory in Cikande, Banten. The company produces pickup trucks under the Super Cab brand and has planned to market its sport utility vehicles (SUV) starting in 2018.
- Meanwhile, PT Geely Mobil Indonesia, a subsidiary of Zhejiang Geely Holding Group Co. Ltd., and PT Cherry Mobil Indonesia, a subsidiary of Cherry Automobile China, have been in the Indonesian market since 2009 and 2012, respectively.

CONTACT DETAILS

For further information or inquiries about this "Indonesia Market Update", please contact:

<p>Phillip Morey Director - Morelink Asia Pacific M + (61) 417 322 190 (Australia) M + (62) 816 198 0002 (Indonesia) P + (62 21) 5708086 / 5707209 E phillip@morelink.com.au</p>	<p>Lenny Fitri Yanti Business Development Manager - Morelink Asia Pacific M + (62) 8999 20 05 04 P + (62 21) 5708086 / 5707209 F +(62 21) 570 3472 E lenny@morelink.co.id</p>
---	---

Sources: The information in this newsletter is a summary of various articles from Indonesian newspapers, magazines and other media outlets. A copy of any of the articles is available by emailing "Morelink".

Disclaimer: "Indonesia Market Update" is published for the information of readers only. The information in this market update is published with due care and attention to its accuracy, but the authors accept no liability if, for any reason, the information is inaccurate, incomplete or out of date.