

Indonesia Market Update

April 2017

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

ECONOMY

World Bank optimistic that Indonesia’s economy will grow by more than 5 percent – the World Bank has projected Indonesia's economy would grow in the next three years. The report forecast 2018 and 2019 gross domestic product (GDP) to grow to 5.3 and 5.4 percent respectively, higher than the 5.02 percent in 2016. That is in line with global economy growth, which is predicted to be 2.7 in 2018 and 2.9 percent in 2019, compared to 2.3 percent in 2016.

IMF maintains 5.1% growth estimate for Indonesia amid headwinds - while expressing optimism on global economic momentum this year, the International Monetary Fund (IMF) has maintained its estimate for GDP growth in Indonesia at 5.1 percent, unchanged from its 2016 estimate. The IMF sees Indonesia’s annual growth rate at 5.3 percent in 2018.

Indonesia’s trade surplus reaches five-year high - Indonesia booked a trade surplus of US\$3.93 billion during this year's first three months, the highest first-quarter figure since 2012. Total exports from January to March this year reached a value of \$40.61 billion, 20.84 percent higher than in the same period last year. Meanwhile, first-quarter imports stood at \$36.68 billion this year, 14.83 percent higher than last year.

TRADE

Indonesia, Australia discuss transportation cooperation enhancement – Indonesia and Australia are discussing ways to enhance their cooperation in the transportation sector in a meeting in Nusa Dua, Bali, from April 5 to 7. Representatives of the two countries will discuss issues such as priorities in the transportation sector, infrastructure investment, security and safety and regional maritime pollution preparedness and response.

Indonesia, South Korea agrees to expand trade – the Indonesian Trade Ministry has signed a joint statement with the Korea International Trade Association (KITA) to promote trade and business-to-business cooperation between the two countries. KITA is the largest business organization in South Korea with around 74,000 members, mostly small and medium enterprises (SMEs).

Korea, Indonesia to boost cooperation in food sector - food experts from Korea and Indonesia will gather in Jakarta to discuss ways to boost cooperation in the food sector. The ASEAN-Korea Centre and Indonesia’s Ministry of Trade will organize the “Trade Facilitation Workshop for Indonesian Food Micro, Small and Medium Enterprises” in Jakarta and Makassar on April 4-6.

RI, US sign trade, investment agreements worth \$10 billion - Vice President Jusuf Kalla and his US counterpart Mike Pence celebrated more than US\$10 billion worth of trade and investment agreements, which according to both countries demonstrate the strength of the US-Indonesia economic relationship. Among deals agreed is the delivery of cutting-edge US technology, which hopefully can help meet Indonesia’s energy needs and process waste into valuable byproducts, the US Embassy said in a statement. Two agreements were also signed to enhance aviation and defense cooperation. The agreements will contribute to economic growth and create jobs in both countries.

INVESTMENT

Upstream investment in Q1 only 14 percent of 2017 target – investment in the upstream oil and gas sector amounted to only 14 percent of the full-year target during the first three months of 2017. Data from the Upstream Oil and Gas Regulatory Special Task Force (SKKMigas) show that investment in the upstream sector reached US\$1.9 billion by the end of the first quarter. The government has set a target of \$13.8 billion by the end of this year. Investment in the upstream oil and gas sector has continued to decline in Indonesia, partially because of low oil prices and also stifling red tape in the country. Last year, total investment in the upstream sector amounted to \$12.01 billion, dropping from \$15.9 billion in 2015.

RETAIL

7-Eleven sold as business declines - retail operator PT Modern Sevel Indonesia (MSI) plans to sell its 7-Eleven convenience stores for Rp 1 trillion (US\$75.24 million) to PT Charoen Pokphand Restu Indonesia (CPRI), a business entity of PT Charoen Pokphand Indonesia (CPI). Under the deal, CPRI agrees to take over the business activities of MSI – mini-restaurants (resto) and convenience stores – as well as assets that use the franchise system. The 7-Eleven chain of convenience stores and mini restaurants are popular among young people as most of the outlets remain open for 24 hours. However, sales have been on the decline as most customer come to enjoy the store's free Internet and chat with their friends. Other local retailers like Alfa Mart and Indomart have also opened mini resto in their outlets in recent months.

New wholesale market to be built in East Jakarta - city-owned market operator PD Pasar Jaya has begun construction on a new wholesale food market, Jakgrosir, in Kramat Jati, East Jakarta. The new modern market will be built within the area of Kramat Jati market, one of the biggest traditional markets in Jakarta. The ground floor will be build for staple food vendors and a mezzanine for culinary stalls. The market will also have a loading area, parking lots and cold storage equipped with controlled atmosphere storage (CAS) machines.

Jakarta to operate 44 city-owned convenience stores this year – the Jakarta administration's plan to open another 42 convenience stores under the *Jakmart* brand by the end of 2017 has been given the green light by the city council, which considers them important for food supply. Currently, there are two Jakmart stores in the capital. PD Pasar Jaya president director Arief Nasrudin has said that the stores have begun selling more than 600 products. Arief said he planned to build the stores in many promising spots of the city, including near governmental offices and Mass Rapid Transit stations.

AGRIFOOD

Central Bank to launch app for monitoring food prices - Bank Indonesia (BI) plans to launch a mobile app through which the public and regional administrations can monitor *harga pangan* (the prices of staple foods) on a daily basis. The public would be able to use the app to avoid being deceived, while the regional administrations can use it to observe when prices go too high so they can tackle them faster. The public can already download the app or use it on the *hargapangan.id* website, but it has not been officially launched. The program managed by the Information Center for Strategic Food Prices (PIHPS) collects data from traditional markets in 82 cities in all 34 provinces in the country for 10 commodities: rice, shallots, garlic, red chili, birdseye chili, beef, chicken, eggs, sugar and vegetable oil.

Indonesia will still import buffalo meat from India - the State Logistics Agency (Bulog) has proposed to import 51,728 tons of buffalo meat from India this year to guarantee adequate stocks throughout 2017. “We are in the process of gradually importing it. Our quota is 51,728 tons by December,” said Bulog commercial director Febrianto. Last year, the buffalo meat quota was 100,000 tons. He said the buffalo meat stocks in the Bulog warehouse reached 39,500 tons in April. The Central Statistics Agency (BPS) records that meat production in 2017 will total 468,369 tons while consumption will be 729,911 tons.

Malaysia puts high hopes on one halal certification with Indonesia - Malaysia is putting high hopes on the planned unified halal certification with Indonesia, the country with the world's largest Muslim population, in a bid to strengthen halal trade relations between the two countries. Meanwhile, the State of Global Islamic Economy Report 2016/2017 puts the size of Islamic economy at an estimated \$3 trillion by 2021, rising from \$1.9 trillion in 2015. In 2015, Muslims' spending on food and beverages stood at \$1.1 trillion and there was \$415 billion estimated revenues from halal-certified food and beverage products.

Agro-processing industry grows by 6.39 percent – the agro-processing industry grew at a rate of 6.39 percent in 2016, beating overall non-oil-and-gas processing industry growth of 4.42 percent and domestic economic growth at 5.02 percent last year, the Industry Ministry data show. The industry grew by 5.82 percent in 2015. The biggest contributors to growth in 2016 were the food and beverage industry, which increased by 8.46 percent, followed by pulp and paper with 2.16 percent, wood products and handicraft at 1.8 percent, tobacco processing at 1.64 percent and the furniture industry at 0.47 percent.

MANUFACTURING

Chemical maker Clariant sets foot in East Java - Switzerland-based specialty chemical producer Chemical set foot in East Java by opening a new factory under PT Clariant Absorbents Indonesia in the Java Integrated Industrial and Port Estate (JIPE). The site in JIPE is Clariant's sixth in the country. It has five production sites in North Sumatra and West Java. Expansion in the country is important as Clariant Indonesia contributes 30 percent to Clariant's sales in the Southeast Asian and Pacific region. Besides bleaching earth, the firm produces chemicals for the plastics and coatings industry, as well as halal shampoos and hair conditioners. It produces a total of 450,000 tons of chemicals a year.

Panasonic Gobel aims to triple sales growth by 2020 - PT Panasonic Gobel Indonesia, one of the country's major electronics manufacturers, wants to triple the growth of its sales within the next three years. To achieve the target, the company said it would boost its promotional activities and advertisement spending to maintain its relations with its dealers and consumers. For this year, the company, a subsidiary of Japan's electronics giant Panasonic, said it plans to launch 121 new models in all product categories, such as air conditioners, televisions, refrigerators and washing machines. With this expansion, the company said it hopes the product varieties between the top-end and low-end markets will be balanced, Suga said. For the April 2017 to March 2018 fiscal year, the company said it expects its sales to grow by 20 percent, an improvement from the 15 percent growth in the previous fiscal year. The company claimed that it controls a 23 percent share in Indonesia's home appliance market.

Manufacturing sector remains biggest growth contributor – the manufacturing sector remains the biggest contributor to economic growth in Indonesia, Central Statistics Agency (BPS) data show. The sector contributed 0.92 percent to total economic growth of 5.02 percent last year. Other contributing sectors were trade with 0.53 percent, followed by construction with 0.51 percent, information and communication with 0.42 percent and others with 2.64 percent. The biggest GDP contributor in the manufacturing sector outside of oil and gas is food and beverages with 32.84 percent, followed by metal, computer, electronics, optical and electricity equipment with 10.71 percent, transportation equipment with 10.47 percent and chemicals, pharmaceutical products and herbs with 9.86 percent.

AUTOMOTIVE

Mercedes-Benz introduces body and paint facility – Mercedes-Benz Indonesia inaugurated its newest body and paint facility to be operated by PT Cakrawala Automotif Rabasha (CAR), which has been certified by Daimler AG of Germany. This is the first time such a facility has been opened in Indonesia. PT CAR is the first authorized Mercedes-Benz facility to receive a body and paint center certification from Daimler AG. It is complementary to the 3S network run by PT CAR in Kuningan, West Java.

Mercedes-Benz hopes to keep market share by assembling cars locally - German car manufacturer Mercedes-Benz aims to keep its "number one position" in the premium car market in Indonesia by increasing its amount of completely knocked down (CKD) vehicles that offer premium products at competitive prices. By assembling the car locally at its Wanaherang plant in Bogor, East Java, the company can offer the same type of cars as completely built-up (CBU) cars, but at lower prices because it will not need to bear the import duties. As of March, the company controls a 56.8 percent share of Indonesia's premium car market.

Mitsubishi announces sales increase of 23 percent in Q1 - authorized Mitsubishi truck distributor PT Krama Yudha Tiga Berlian Motors (KTB) has announced its sales increased by 23 percent in the first quarter of 2017, compared to the same period last year. The total sales up to March this year reached 10,068 units of vehicles, compared to 8,197 units in the same period in 2016, said KTB marketing director Duljatmono. This year, KTB aims to increase its commercial vehicle share to 48 percent, compared to 45.8 percent in 2016.

Suzuki hopes new Ignis will propel sales in Indonesia - the sole distributor of Suzuki cars in Indonesia, PT Suzuki Indonesia Sales (SIS), aims to increase monthly sales by 20 percent to around 10,000 cars in the coming months from 8,000 monthly units in the first quarter by introducing an Indian-manufactured SUV, the Suzuki Ignis. SIS's sales division head Makmur said the new model was expected to increase its share in the domestic market to over 10 percent this year, with the Ignis contributing around 2,000 units to monthly sales.

ICT / MEDIA

Grab acquires Kudo as first investment in four-year plan - Malaysia-based ride-hailing app Grab has acquired Indonesian online-to-offline (O2O) e-commerce platform Kudo in a deal that is part of the app's masterplan for 2020 to invest up to US\$700 million into Indonesia to expand its digital economy. Through the acquisition, Grab plans to support and accelerate the expansion of Kudo's agent network while also leveraging Kudo's reach to bring in more riders, drivers and users into its platform.

INFRASTRUCTURE

Jakarta allocates Rp 300b to expand green space - The Jakarta administration has allocated Rp 300 billion (US\$22.5 million) to expand the city's green spaces this year. There are currently more than 150 public suggestions on where to enlarge the public green spaces, according to Jakarta Forest Agency head Djafar Muchlisin. Ten percent of the city's territory is now public green space, but the law requires regional governments to allocate 30 percent of land for green spaces.

Indonesia inches closer to realizing port hub dream - Indonesia is inching closer to realizing its dream of making Tanjung Priok Port a major international transshipment hub and taking a slice of Singapore's business pie. The government, along with French container shipping firm CMA CGM Group, launched the first Jakarta-Los Angeles direct route, which promises faster shipping and lower costs.

EDUCATION / TRAINING

Jakarta's daily construction workers to pass certification program - Jakarta's daily rate construction workers will have to complete a certification program that aims to standardize production and improve workers' welfare through education. The certification program, a mandate by incumbent Jakarta Governor Basuki "Ahok" Tjahaja Purnama, would certify the workers' abilities to paint, plaster, install ceramics, apply roofing and so on. The certified workers could earn double the UMP [provincial minimum wage] and work on projects auctioned by the administration to private companies. Jakarta Goods and Services Procurement Agency (BPPBJ) have asked the National Profession Standardization Agency (BNSP) to control the exams and certifications.

Govt launches vocational education program for Central Java, Yogyakarta - Industry Minister Airlangga Hartarto inaugurated a vocational education program for Central Java and Yogyakarta to strengthen cooperation between vocational schools and industrial companies across the two provinces. The program synergizes 117 companies and 389 vocational schools (SMK) in Central Java and Yogyakarta. Under the program, Airlangga said, 1,775 SMKs and 845,000 students would cooperate with 355 companies until 2019. The program would also be launched in stages in Banten, Jakarta, West Java and several areas across Sumatra and other provinces across the country, he added.

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