

# Indonesia Market Update

## February 2017

Welcome to the 'bumper' February 2017 edition of "Indonesia Market Update". A new year - the year of the "rooster"  
Selamat membaca!

### CONSUMER

**Consumer Confidence declines slightly in Q4** - Indonesian consumer confidence declined slightly in the fourth quarter of 2016 to 120 points, according to the latest survey report from Nielsen. The decline was due to low consumer optimism in regards to future personal finance. Consumer spending intentions slightly decreased from the previous quarter.

### ECONOMY

**Indonesia's GDP to reach US\$9.1 trillion by 2045** - President Joko Widodo said he recently ordered the Finance Ministry to calculate the GDP figure in order to predict the country's standing over the next two decades (in year 2045), during which Indonesia's population is expected to reach around 310 million.

**February inflation tamed despite price hikes in volatile foods** - monthly inflation in February stood at 0.23 percent month-on-month, bringing annual inflation to 3.83 percent. February inflation was mainly caused by administered prices, such as the 900 volt-ampere (VA) electricity rates, as well as volatile foods including green chilies and shallots.

**Moody's raises Indonesia debt rating outlook to 'positive'** - Moody's Investors Service has revised the outlook on its ratings of Indonesian government debt to "positive" from "stable.", due to "emerging signs of a reduction in structural constraints on Indonesia's rating, including its level of external vulnerability and the strength of its institutions."

**Indonesian economic growth accelerates** - Indonesia's GDP rose by 5.02 percent last year, compared with 4.88 percent in 2015. Bank Indonesia (BI) has projected the economy may see slower growth in the first quarter of 2017 than its previous prediction of 5.05 percent year-on-year (yoy) on account of weak push in government spending.

**Wealth of four richest Indonesians equal to wealth of 100 million poorest** - Indonesia is the sixth worst country in the world in terms of economic inequality, says a report from Oxfam Indonesia and the International NGO Forum on Indonesian Development (INFID). In their report "Towards a more equal Indonesia," the NGOs record that the wealth of the four richest in Indonesia is equal to the wealth of the country's poorest 100 million citizens, indicating that Indonesia's stable economic growth has not been followed by a fair distribution of income.

### BUSINESS

**More companies are eligible for simpler customs clearance processes** - the government has increased the number of companies eligible for simpler customs clearance processes at ports to reduce dwell times and logistics costs. The Directorate General of Customs and Excise has 264 export or import companies categorized as "main partners" (MITA).

**Business permits no longer need renewing as of today** - the Trade Ministry has distributed circulars to inform officials that business permits (SIUP) no longer need to be renewed and that registration certificates (TDP) can be renewed online. Previously, business players had to renew the two licenses every five years, a procedure that was lengthy.

**Jakarta administration launches online business licensing logbook** - people seeking a business license from the Jakarta administration can now track their order online as the city administration's investment coordinating agency and one-stop integrated service agency have together launched an online licensing tracking logbook. This service also helps the agency document and search for licensing orders that have been processed.

### INVESTMENT

**Indonesia pins hopes for growth on direct investment** - to achieve its 2017 target of economic growth above 5 percent, the government aims for investment to increase at a rate of 5.4 percent this year. According to Bappenas data, investment grew at a rate of 4.7 percent last year, while household consumption increased by 5 percent and exports fell by 1 percent.

**Accelerated construction program launched for 18 industrial estates** - the Investment Coordinating Board (BKPM) has launched an accelerated construction program (KLIK) for another 18 industrial estates across the archipelago in an effort to boost investment amid a global economic slowdown. There are now 32 estates with KLIK facilities.

**BKPM to standardize investment procedures and forms** - the Investment Coordinating Board (BKPM) plans to create one-size-fits-all standards to better serve potential investors across the country, in response to complaints about different registration forms and procedures in various regional administrations.

## TRADE

**Jokowi's visit to Australia 'special'** - President Joko Widodo visited Australia on Feb. 25 to 26, with an emphasis on strengthening trade and maritime cooperation. The neighboring countries aim to strengthen bilateral relations that are "mutually beneficial and respectful", the Indonesian Foreign Ministry says. The visit is set to focus on boosting economic relations between the two countries, especially to push the ongoing negotiations on the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) that Jakarta expects to conclude this year. Indonesia also aimed to expand market access on sustainable products. Other areas of focus between the two countries would include cyber security training, investment, tourism, as well as Indonesian language education.

**Oz minister to bring major trade mission to Indonesia** - following a visit by President Joko Widodo, Australian Trade, Tourism and Investment Minister Steven Ciobo will lead a major trade mission to Indonesia in early March to help create more export opportunities for Australian businesses. As many as 120 business delegation members will attend the Indonesia-Australia Business Week (IABW) March 6-10 in several cities across Indonesia. IABW will highlight opportunities in vocational education and training, tourism, financial services and technology, water and sustainable urban design and agribusiness supply chains.

**Australia to open fourth Indonesian diplomatic post in Surabaya** - Australia is set to open a consulate general in Surabaya. On the heels of President Joko Widodo's state visit to the country, the Australian Foreign Ministry said in a statement released that the office in Indonesia's second-largest city was set to deepen trade and business ties in the "dynamic eastern region," including in financial services, education, health, manufacturing and infrastructure.

**Many MoUs to be signed during King Salman's visit** - Indonesia and Saudi Arabia are set to discuss 10 memorandums of understanding (MoUs) during the visit of King Salman bin Abdulaziz Al Saud of Saudi Arabia, a Saudi top official has said. Some would be signed during the visit. The MoUs would cover fields such as security, Islamic affairs, health, culture, education, investment, small and medium enterprises (SMEs) and civil aviation, Osama said.

**Indonesia, South Africa talk to boost trade** - Indonesia and South Africa are strengthening their economic cooperation as a delegation of state officials and businesses seeks to bolster the country's presence on the African continent. Foreign Minister Retno LP Marsudi was in Cape Town for bilateral talks with her South African counterpart.

**French President to visit Indonesia** - French President Francois Hollande and Foreign Minister Jean-Marc Ayrault are scheduled to visit Indonesia on Mar. 29 and Feb. 28, respectively, the French Embassy in Indonesia has announced. Economic diplomacy, including the country's interest in renewable energy, is the main purpose of their visits, the embassy says. The largest French business lobby group Mouvement des Entreprises de France (MEDEF) brought 34 company members to deepen its knowledge about Indonesia's investment climate on Feb. 20 to 21.

**Indonesia – US want cooperation based on bilateral agreements** - Industry Minister Airlangga Hartarto has said Indonesia will try to strengthen bilateral cooperation with the United States to boost trade between the two countries. During the meeting, the minister said he was informed that the US government preferred to cooperate with countries through bilateral agreements. Airlangga said bilateral agreements between the two countries needed to be expanded because Indonesia wanted to increase textile exports to the country.

**Indonesian signs LoI with Switzerland on vocational education** - Indonesia and Switzerland signed a letter of intent (LoI) for cooperation to strengthen Indonesia's vocational education system in the manufacturing sector. The cooperation will come under a dual education-and-training system and would allow students to combine learning processes at school and in the workplace.

**Switzerland to spend millions on development projects in RI** - Switzerland has allocated US\$75.56 million for various development projects in the 2017-2020 period to enhance bilateral relations with Indonesia. The funds would be allocated to macroeconomics assistance, private sector development, infrastructure and trade.

## RETAIL

**Ace Hardware plans to open new stores in 2017** - publicly listed home-improvement retailer PT Ace Hardware Indonesia plans to open between 10 and 12 new stores this year, with most of them located in Java. Last year, the company opened 13 new stores despite its initial projection of 10. On its website, the company says it currently operates 99 stores across the country. The firm has allocated Rp 300 billion (US\$22.5 million) in capital expenditure (capex) sourced from internal reserves to finance the planned expansion.

## AGRIFOOD

**Bulog allocates Rp 37 trillion to buy commodities from farmers** - the State Logistics Agency (Bulog) has allocated Rp 37 trillion (US\$2.7 billion) from bank loans to buy several commodities, including rice, soybeans, corn and sugar, from local farmers and other countries in an effort to stabilize prices.

**Foreign oranges put Indonesia's own in tight squeezes** - inflows of imported oranges have put the country's own exotic orange variants in a tight squeeze, further jeopardizing local businesses that are already facing a hard time against their foreign counterparts. What sells now are imported oranges, such as the Mandarin variety from China and Navel from Australia, Egypt, Turkey and the United States, thanks to their bright, smooth skin and fresher taste. Various statistics show that the volume of imported oranges has indeed been on the rise over the past few years. From 2006 to 2015, the volume rose by an average 10.4 percent, with the total figure reaching 106,140 tons in 2015. China remains the largest import source in terms of volume, followed by Pakistan, Australia, South Africa and Egypt.

**Local breeders welcome court decision on cattle and meat imports** - local breeders have welcomed the Constitutional Court's decision on cattle and meat imports, which they claim will ban buffalo meat imports from India, except in emergency situations. Cow and Buffalo Breeders Association (PPSKI) chairman Teguh Boediyana said that meat purchased from countries prone to foot and mouth disease (FMD) could only happen during specific occurrences like natural disasters leading to beef shortages. "The government's reason for allowing buffalo meat imports [from India] last year wasn't because of a natural disaster, but merely high beef prices. As it was not triggered by an urgent situation, this means there must be no more [buffalo meat] imports [from India]," he said after the reading of the court's decision. However, the Constitutional Court decided to maintain most of the provisions of a judicial review of the 2014 Animal Health and Husbandry Law. Petitioners, namely breeders, sellers of dairy products and veterinarians, had earlier demanded the court prohibit imports of feedlot cattle and meat from countries prone to FMD. The court rejected the petition, but stressed that imports of meat and live cattle could only be made as long as they complied with principles of prudence and maximum security to avoid FMD and if there was a national beef shortage.

**Buffalo meat to still be imported from India** - State-run logistics firm Perum Bulog will still sell buffalo meat from India as the recent Constitutional Court (MK) decision allows the government to do so. The firm has secured an import permit to bring 70,000 tons of buffalo meat from India late last year and thus far, only 49,000 tons of it has arrived in the country.

**Two SOEs team up to develop livestock industry** - Two state-owned companies – PT Rajawali Nusantara Indonesia (RNI) and PT Berdikari – have signed an agreement to develop the livestock industry, specifically cattle and chicken breeding, as well as the animal feed industry. Citing data from the Central Statistics Agency (BPS), the consumption of animal protein in Indonesia amounted to just 53.91 grams per capita per year, below to the recommended minimum of 57 grams. PT Berdikari is appointed by the government to develop the country's livestock industry, while PT RNI also has

experience in the industry and owns large farms. The two companies, for example, will develop the cattle business, from the import and fattening of cattle to the breeding and selling of livestock. In the poultry business, the two companies plan to engage in activities from chicken breeding to sales of ready stocks, as well as develop chicken-feeding plants.

**Over Rp 1 trillion earmarked to boost livestock numbers via artificial insemination** - the Agriculture Ministry has allocated Rp 1.1 trillion (US\$82.47 million) of its budget to increase the country's livestock population through a special artificial insemination program (Upsus SIWAB), which breeders will get assistance to improve livestock reproduction. The ministry's animal health and husbandry director general, I Ketut Diarmita, said the program was one of the government's prioritized programs for the animal husbandry sector, which aimed to increase the national birth rate of livestock.

**Government to exclude F & B plastic packaging from new tax rule** - the government will move forward with its plan to impose plastic excises, particularly for plastic bags used in retail outlets to prevent the overuse of plastic, but will exclude plastics for food and beverage packaging for now, an official has said.

**Yakult still relies on imported ingredients** - PT Yakult Indonesia Persada, one of the major producers of fermented milk products, still relies on imported raw materials for its production in Indonesia. Yakult Indonesia vice president director Hiroyuki Kawada said the company had to import ingredients because local milk had yet to meet the standards for the company's fermented milk production. We mostly import the skimmed milk from Australia, and the rest is from Belgium.

**Malindo allocates US\$50 million in capex in 2017** - publicly listed poultry feed producer PT Malindo Feedmill will allocate up to US\$50 million in capital expenditure (capex) this year to build a new factory and other production facilities. The company's finance director, Rudy Hartono, said in Jakarta on Tuesday that the new production facilities would include a corn drying machine, a silo for poultry feed production and poultry farms.

## MANUFACTURING

**Lotte Chemical to kick off Cilegon project in 2018** - South Korean chemical manufacturer Lotte Chemical Titan expects to start the construction of a US\$4 billion naphtha cracker plant in Cilegon, Banten, next year. The facility will produce ethylene, propylene, polypropylene, polyethylene, polymer, olefin and aromatics – material for the manufacturing of plastics, synthetic fibers, paint and pharmaceuticals.

**Indorama invests US\$25 million in rubber glove industry** – the world's largest polyester value chain company Indorama has injected US\$25 million investment into its subsidiary, PT Medisafe Technologies, which produces rubber gloves. With the move, Medisafe will build its sixth plant at its North Sumatra complex, which has existed since 1989. After the expansion, production capacity is expected to increase to 2.7 billion rubber gloves per year and give employment to 1,700 people, Indorama chairman Sri Prakash Lohia says.

## AUTOMOTIVE

**Ministry to launch prototypes of multipurpose cars for farmers** - the Industry Ministry is finalizing prototypes of cars designed especially for local farmers to harvest crops and carry out other agricultural tasks. Industry Minister Airlangga Hartarto said the vehicle prototypes would be ready by August. Each car features an engine under 1000 cc and will be tagged at Rp 60 million (US\$4,484). The ministry claims that each prototype is made from 100 percent local components. Airlangga said that once the prototypes were launched, the ministry would open up opportunities for whoever wanted to produce and distribute them.

**Mitsubishi distributor eyes sales rebound in 2017** - after poor sales over the past four years, PT Krama Yudha Tiga Berlian Motors (KTB), the country's authorized Mitsubishi car distributor, has increased its sales target for the year on the back of rising demand from logistics, constructions, mining and plantation businesses and public transportation. KTB president director Hisashi Ishimaki said Friday that the company expected to see 10 percent sales growth this year and at least 6 percent growth for the sales of commercial vehicles, a confident outlook he attributed to rising commodity prices and better infrastructure.

**Local content requirement for cars to hit 90% by 2019: Industry Ministry** - the Industry Ministry plans to raise the local content requirement for cars to 90 percent by 2019 from 60 percent at present to strengthen the national automotive industry and create more jobs. "Today, the local content requirement has reached 60 percent but we will push this to 90 percent by 2019," said Industry Minister Airlangga Hartarto during a visit to a plant operated by moulding firm PT Sugity Creatives.

**Gaikindo auto show to showcase latest models, driverless car prototype** - the Association of Indonesian Automotive Manufacturers (Gaikindo) will showcase the latest automotive technology from renowned global car producers, including a prototype of an autonomous vehicle, during its annual car exhibition in August. At least 27 carmakers will showcase their latest models at the expo. Indonesia is among the largest automotive markets in Southeast Asia. The country's car sales reached 1.06 million cars in 2016 and are projected to slightly increase to 1.1 million cars this year.

**Honda upbeat about business prospect in Indonesia** - despite weak domestic car sales in the past years, automotive firm Honda Prospect Motor (HPM), a subsidiary of major Japanese car maker Honda Motor Co. Ltd., has reiterated its commitment to further expand its businesses in Indonesia as customers' demand for its cars remains high. HPM, the country's sole agent and assembler of Honda vehicles, celebrated 1 million units that it had produced over 14 years.

## INFRASTRUCTURE

**Private sector urged to invest in infrastructure** - private companies taking part in infrastructure development is highly important because of the state's limited funds for infrastructure projects, a government official has stressed. Public Works and Housing Ministry secretary general Anita Firmanti said that the government needed about Rp 800 trillion (US\$60 billion) over the next five years, but the ministry's allocation was only Rp 300 trillion. She said the government had deregulated various licensing processes to facilitate the involvement of foreign investors in the infrastructure projects. She said that in the last three years, infrastructure development had significantly increased, proven by the Indonesian infrastructure competitive index strengthening to 60th position in 2016 from 62nd in the previous year.

**Skytrain to connect terminals at Soekarno-Hatta airport** - Soekarno-Hatta International Airport in Tangerang, Banten, will be equipped with a driverless train connecting its three terminals. Operation of the so-called skytrain is expected to commence in June. Initially, two train cars with a capacity of 176 people will connect Terminal 2 and Terminal 3, according to state-owned airport operator PT Angkasa Putra II (AP II). He added that the headway of the skytrain would be 5 minutes, with 7 minutes needed to get from Terminal 1 to Terminal 3. Passengers could access the schedule for skytrain arrivals on their smartphones through the Indonesia Airport application, he added. Investment for the project is estimated at Rp 950 billion (US\$71.25 million), which includes the construction of infrastructure and the procurement of moving stock. The skytrain itself is built by state-owned company PT LEN in cooperation with Woojin from South Korea, while the infrastructure will be handled by state-owned construction company PT Wijaya Karya Tbk and PT Indulexco.

**Astra International enters property business** - publicly listed conglomerate Astra International held a topping-off ceremony for two property projects -- Menara Astra and Anandamaya Residences -- on Monday in its first foray into the property business. The Rp 8 trillion (US\$600 million) projects stand on a 2.4-hectare plot of land. The towers are 260 meters high and will join other skyscrapers in the Sudirman Central Business District in South Jakarta. Meanwhile, the Anandamaya Residences is a joint-venture project between Astra International and Hongkong Land.

**Indonesia's MNC Group plans US\$2b worth of expansions in multiple sectors** - business tycoon and politician Hary Tanoesoedibjo, a business partner of Donald Trump's business empire, said that his diversified conglomerate MNC Group plans to invest Rp 30 trillion (US\$2.25 billion) in the next five years to fund expansion in various sectors, including property, financial services and media.

**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.

**ICT / MEDIA**

**Grab to invest US\$700 million in Indonesia** - ride-hailing app Grab has announced its plan to invest US\$700 million in Indonesia in the next four years, reinstating the importance of the country for the company. The company will allocate the funds toward building a research and development center in Jakarta, provide funding for emerging startups with social purposes and increase mobile payment access, including with Grab's own GrabPay credit system, among others.

**Public transportation app readied for Greater Jakarta** - residents of Jakarta and neighboring cities can soon check their smartphones for real time reports and timetables on public transportation services, such as Transjakarta buses, commuter trains and public minivans. The Greater Jakarta Transportation Agency (BPTJ) said the application would give users information on which mode of public transportation they could use to reach a particular destination.

**InMobi sees gold in Indonesian ad market** - InMobi, an India-based mobile advertising platform provider, will invest up to US\$50 million within the next five years to expand its business in Indonesia. InMobi founder and chief executive officer Naveen Tewari said in Jakarta that the company would focus its investment on developing a mobile video advertisement and customer-relationship management platforms. The company's survey showed that in 2016, video-based advertisement on mobile devices in Indonesia rose by 380 percent. InMobi is a mobile advertising platform, which was established in Indonesia in 2008, marking its first office outside India.

**Startups continue to attract investors** - after dominating the investment market for the past few years, startups continues to attract investors this year. Investors see a startup (such as Gojek, Tokopedia) as a company which fulfills three categories required in businesses, said Morgan Stanley president director Oki Ramadhana. "There are three things, which are usually used as benchmarks in potential businesses that will give profit to investors. Those are scalable, profitable and tractable records," he added.

**CONTACT DETAILS**

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

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