

Indonesia Market Update

November 2015

Welcome to the November 2015 edition of “Indonesia Market Update” with a major focus on the ICT sector and “doing business” - major business delegations came to Indonesia from Australia and Italy. Selamat membaca!

ECONOMY

Indonesian business and consumer optimism improve in Q3 - Indonesia's business tendency index (BTI) and consumer tendency index (CTI) improved to 106.04 in the third quarter of 2015 from 105.46 in the previous quarter. This improvement indicated that businessmen in Indonesia were more optimistic.

Indonesia's GDP at 4.73 percent in Q3 – according to the Central Statistics Agency (BPS), Indonesia's economy grew by 4.73 percent in the third quarter of 2015, a slower growth rate compared to the same period last year (5.01 percent).

Govt announced sixth policy package – this package addressed policies on special economic zones, private ownership in the drinking water business and trade policy related to customs. The package also addresses Indonesia's National Single Window (INSW) customs system, which is aimed at streamlining export and import flow and preventing smuggling. Moreover, foreign investors are allowed to own property in these special economic zones and investors will be able to import raw materials without being charged value-added tax (VAT). Furthermore, goods manufactured in these special economic zones are to be exempted from VAT when sold domestically, but remain subject to customs and excise fees.

Indonesian Officials Say No Language Tests for Foreign Workers – Indonesia will not compel foreign workers to take examinations to demonstrate proficiency in Bahasa, government officials said, denying media reports of plans for such a requirement to be introduced by the end of the year. A senior adviser to the manpower minister, Muhammad Hanif Dhakiri, confirmed that President Widodo's administration would not impose any language requirements. However, local governments could independently decide to adopt such measures, he added.

TRADE

Oz, RI look to strengthen trade and investment ties - around 350 Australian businesspeople and four ministers — one of the largest delegations in the country's relations history — attended the Indonesia-Australia Business Week (IABW) from November 17th to 20th to talk about business opportunities with their Indonesian counterparts. Australia concentrated on investment while looking at the potential of both services and traded goods businesses during the forum. The IABW program covered eight industry sectors, listed as investment and tourism, education and transnational skills, agriculture, premium food and beverage, automotive aftermarket, infrastructure and transportation, healthcare and senior living and also resources and energy.

RI, Italy exploring partnership potentials - In this visit to Indonesia, the Italian President Sergio Mattarella brought about 30 Italian business delegates who “will witness a contract worth US\$1.055 billion”, which covered new cooperation agreements, particularly those related to the logistics, energy and infrastructure sectors, as well as to expansion of the automotive industry. The two countries also signed two agreements on cultural cooperation and on visa exemptions for diplomatic and service passport holders.

Governments to intensify preparation to face AEC - preparatory steps have been made by the Indonesian government ahead of ASEAN Economic Community (AEC) 2015. However, whatever measures are implemented now is surely subject to change, as regional economic integration will be a long process, not a single event.

Jokowi urges bigger role for emerging markets in G20 - President Joko Widodo has suggested to G20 leaders that global financial architecture should be reformed so that developing countries play a bigger role in international funding organizations. The President also underlined that a new global reserve currency was needed to reduce dependency on the US dollar at the G20's first working session on the global economy and inclusive growth in Antalya, Turkey.

RETAIL

ACE Hardware, Informa to open more stores - major retail chain, Kawan Lama Retail, plans to venture into Sorong, Papua, and Pontianak, West Kalimantan, next year by opening ACE Hardware and Informa stores as part of its business expansion. The company saw its business grow this year despite a weak macroeconomic environment. As of October, it has opened 11 stores: seven ACE stores and four Informa stores. ACE Hardware currently has 116 stores across 34 cities nationwide. It began Indonesian operations in 1995. Informa has 60 stores nationwide.

AGRIFOOD

Indofood sees profit almost halved amid weakening rupiah - publicly listed consumer goods giant PT Indofood Sukses Makmur saw its net profit drop by nearly half during the first nine months of the year owing to lower commodity value and weakening of the rupiah. Indofood booked net profit of IDR1.68 trillion (US\$123.80 million) during January to September this year, down by 45.2 percent year-on-year (yoy) from last year's IDR3.07 trillion.

Indonesia dairy - a challenging "dark horse" - Indonesia's dairy market has enjoyed solid expansion in the last decade. According to figures from Nielsen, Indonesia's dairy industry has seen demand grow around 10 percent on an annual basis for the past decade. Euromonitor says in 2014, the value of retail sales in the dairy category grew 7.7 percent, with growth of 8.8 percent seen in 2012. Looking at the Euromonitor data, the value of the dairy category at retail in Indonesia was US\$1.87bn in 2014 and is estimated to grow to US\$1.99bn this year.

'Livestock vessel' to reduce logistics costs - President Joko Widodo inaugurated a vessel specifically designed to transport livestock in a bid to reduce logistics costs between cities on different islands. Named KM Camara Nusantara I, the "livestock vessel" has a capacity to transport 500 cattle and is claimed to meet international standards. So far, the government has built around 56 ships this year and the government aims to add 160 more ships next year.

MANUFACTURING

Kimia Farma to build pharmaceutical raw materials plant - listed state-controlled pharmaceutical giant PT Kimia Farma plans to build an active pharmaceutical ingredient (API) plant next year. The plant would produce 6 raw materials and 8 high functional chemicals needed in the pharmaceutical industry. The firm has welcomed a joint venture with a foreign investor to build the 12-hectare plant for which phase one will cost IDR110 billion. Kimia Farma has also commissioned another development – a medicinal salts plant in Jombang, East Java, which will cost IDR28.8 billion.

INFRASTRUCTURE

Four regional drinking water systems to open next year - four new regional drinking water treatment systems (SPAMs) will start operations next year as the government strives to increase the country's access to clean water.

Govt to build affordable housing for homeless - the Public Works and Public Housing Ministry plans to build special affordable housing for the 40 percent of Indonesians who do not have enough money to buy a house. The ministry was aiming to construct 900,000 housing units through the housing loan liquidity facility (FLPP), a government-backed mortgage program, through which the government subsidizes 7 percent of the total 12 percent commercial interest rates, allowing low-income people to pay only 5 percent interest on loans for up to 20 years. The government was also aiming to construct 550,000 apartment towers and 450,000 self-help homes.

ICT

E-commerce regulation to be ready in January – the draft regulation, which contains the requirements for companies involved in e-commerce to register their operations and to meet the Indonesian National Standards (SNI) for their products, was currently being finalized. E-commerce transactions had been estimated to have risen by 50 percent from the US\$8 billion listed in 2013 to US\$12 billion in 2014. Indonesia is forecasted to be the largest e-commerce market in Southeast Asia in terms of value, as internet penetration and smartphone users have been forecast to hit 55 percent and 41 percent, respectively, in the next two years.

Payment system, logistics key for growth - as of 2014, only 8 percent of Indonesians had access to debit cards, while only 1 percent actively used credit cards. Bank account penetration only added up to 36 percent nationally in 2014, with

only 19 percent in rural areas. By including banks in their operations, e-commerce ventures would be able to create a more efficient payment system for its customers and it would also benefit customers by having an easier method to pay for goods.

Expanding the usage of electronic money - based on data from GSMA Intelligence, the number of unique mobile phone service subscribers in Indonesia reached a total of 106 million people in the first quarter of 2015, a 9 percent increase from the previous year. With this amount, the penetration rate was at 41 percent of the total population. Meanwhile, the number of mobile phone numbers circulating in the community (subscriptions) has reached 302 million. Total subscribers and the large number of cellphone numbers offer huge business potential for service providers of financial transactions using electronic money via mobile phones. Based on data from Bank Indonesia, the value of electronic money transactions from January to August 2015 reached IDR3.47 trillion (US\$255.8 million).

Ericsson to assist Indonesian telecom firms in 4G/LTE rollout - Swedish telecommunications and services provider Ericsson has signed comprehensive deals with major Indonesian telecommunications firms to help them roll out their 4G/LTE connections in different parts of the country. The deals were signed between Ericsson and PT XL Axiata, PT Indosat and PT Telkomsel to cover connections in Jakarta, Central Java and Kalimantan.

Govt to remove e-commerce firms from negative list - the government will revise its negative investment list, particularly by allowing foreign-established e-commerce companies to do business in the country, in a bid to draw funding for local e-commerce players. The Communications and Information Minister, the Trade Minister, and the Investment Coordinating Board (BKPM) agreed to propose the removal of established e-commerce companies from the country's negative investment list.

Taxi operators to get tech savvy to catch-up with app services - major taxi operators are gearing up to push further into digital markets, particularly that of mobile applications, in a bid to compete with the rising popularity of app-based transportation companies. Publicly listed taxi operator Blue Bird Group said that the company planned to revamp its current mobile booking application My Blue Bird next year. Meanwhile, taxi operator PT Express Transindo Utama plans to step up efforts to catch up with app-based services by launching its own booking app in January next year. Express has also allowed its drivers to join the app-based transportation company GrabTaxi.

Govt to assist 1000 SMEs to enter e-commerce platforms - the government will help local small and medium enterprises (SMEs) to enter the e-commerce industry in an attempt to boost economic growth. The Trade Ministry for domestic trade had teamed up with the Indonesia E-commerce Association (IDEA) to train 1,000 SMEs in e-commerce practices. The training will serve to prepare local businesses to compete in the digital era. IDEA predicts that Indonesia's e-commerce industry will be worth IDR295 trillion (US\$20.7 billion) by 2016, triple the IDR94.5 trillion recorded in 2013.

CONTACT DETAILS

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

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

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.