

Indonesia Market Update

August 2015

Welcome to the August 2015 edition of “Indonesia Market Update”. The Indonesian President has restructured his Cabinet and introduced some experienced former Ministers to improve Indonesia’s economy. Selamat membaca!

POLITICS

Who are the newly sworn-in ministers? - President Joko “Jokowi” Widodo has made some major changes to his Cabinet by bringing in ‘veterans’ to replace some non-performing Ministers. The changes include:

- the former chief of the Presidential office **Luhut Binsar Pandjaitan** is the new ‘coordinating political, legal and security affairs minister’, replacing Tedjo Edhy Purdijatno;
- former Bank Indonesia governor **Darmin Nasution** is the new ‘coordinating economic minister’, replacing Sofyan Djalil;
- former coordinating economic minister **Rizal Ramli** is now ‘coordinating maritime affairs minister’, replacing Indroyono Soesilo;
- former official of the Indonesian Bank Restructuring Agency (BPPN) **Thomas Trikasih Lembong** is the new ‘trade minister’, replacing Rachmat Gobel;
- senior PDI-P politician **Pramono Anung** is the new ‘Cabinet secretary’, replacing Andi Widjajanto;
- **Sofyan Djalil** has been made the new ‘national development planning minister’, replacing Adrinof Chaniago.

Govt lifts restrictions for expats - as a sign that Indonesia is embracing expatriates to help lure foreign investment the government has lifted several restrictions on foreigners working in the country. Aside from scrapping requirements for foreigners working in Indonesia to master Indonesian, the government will also ease the process of obtaining a Temporary Stay Permit (KITAS). The new regulation would also ensure faster and simpler procedures for foreign workers to get work permits as the entire process would be conducted online. The number of foreign workers in Indonesia in 2014 was around 68,500 with most citizens coming from China, Japan, South Korea, India and Malaysia.

ECONOMY / INVESTMENT

New Trade minister signals less protectionism - Indonesia’s new trade minister, has signaled he’s ready to push back against protectionism, breaking from the stance of his predecessor as President Jokowi seeks to reboot a struggling economic agenda. The highest priority in trade policy is to bring confidence, bring a measure of stability and coherence.

Rupiah sinks deeper despite BI’s measures - the rupiah continued its losing streak as it fell to the psychologically significant 14,000 per US dollar mark despite Bank Indonesia’s (BI) latest efforts to prop up the currency. With the latest trading data, the rupiah has so far depreciated by 12.5 percent since early this year.

SOEs to Get \$2.8b in Capital Injection Next Year to Jump-Start Projects - the government aims to improve the capacity of SOEs to be “agents of development” in five priority sectors: food security, infrastructure and maritime development, energy security, strategic industry development, and national economic autonomy.

Indonesia Extends Tax Incentives For 'Pioneering' Industries to Boost Investment – Indonesia is now offering a tax reduction of between 10 and 100 percent for up to 15 years to firms investing a minimum of US\$71.5 million in certain industries such as maritime transport, telecommunications, downstream metal production and agricultural processing.

RETAIL

Despite Slowing Economy, Positive Earnings for Matahari Putra - Matahari Putra Prima’s net sales rose 6.6 percent to Rp 6.9 trillion compared to the same period last year, while operating profits increased 29.4 percent to Rp 220.3 billion.

Singapore's Courts Asia Eyes Expansion despite Retail Downturn - Courts Retail Indonesia plans to open seven more stores in Indonesia by the end of 2017 as it bids to take top spot in the electronics, furniture and household appliances retail market. In the year since its entry into Indonesia in 2014, Courts has opened three stores.

Pioneerindo to expand with satellite CFC outlets - Indonesia's Pioneerindo Gourmet International, the operator of California Fried Chicken, will expand its business through establishing 50 satellite outlets by the end of 2015 with investment of US\$11,200 per outlet serving ready-to-eat products delivered from their central kitchen.

AGRIFOOD

Market Control is still the Objective – The state-owned enterprise Bulog is set to become a major importer of both boxed beef and live cattle (both feeder and ready for slaughter) with a suggestion that the government may gradually reduce the role of private importers.

Bulog to get exclusive corn import permit -Indonesia's government plans to give an exclusive permit to the National Logistics Agency (Bulog) to import corn for animal feed in anticipation of a corn shortage, as well as to stabilise the price.

New Trade Minister Reverses Cattle Import Restriction, Orders 300,000 More Head - the Indonesian government plans to import an additional 300,000 head of cattle by the end of the year to address a shortage sparked by a controversial earlier throttling of imports. Beef currently sells for around Rp 109,000 (\$7.90) per kilogram, 11 percent higher than a year ago, according to the Trade Ministry. The government earlier this month ordered state procurement agency Bulog to import an additional 50,000 head of cattle in the third quarter – on top of the 50,000 that had been approved – following a public outcry over rising beef prices.

KPPU to try beef cartel cases in September - the Business Competition Supervisory Commission (KPPU) said that it would try beef cartel cases involving 24 companies in Greater Jakarta in September this year. KPPU had been investigating the 24 beef suppliers since 2013 for their alleged role in inflating the meat prices by cutting the supply.

MANUFACTURING

Coca-Cola Breaks Ground for New Distribution Center - leading beverage company Coca-Cola Amatil Indonesia held a groundbreaking ceremony for its fourth major distribution center and inaugurated its sixth production line this month as part of its commitment to invest up to US\$500 million in Indonesia over the next three to four years.

Govt expects to woo more investors as manufacturing grows - the government remained optimistic for the prospect of direct investment in the non-oil and gas manufacturing industry, which grew 5.27 percent in the second quarter of this year, a slight increase from 5.21 percent in the first quarter. Of all manufacturing sectors, pharmaceuticals, food and beverages, metals and the automotive industries booked high growth of between 6 and 9 percent.

Kimia Farma builds new plant to expand production - state-run pharmaceutical company Kimia Farma is establishing a new plant with a bigger production capacity to supply a climbing demand for chemical and herbal medicines.

Govt facilitates Korean firm to build factory in C. Java - the government is working to help a South Korean footwear company accelerate its plan to build a factory in Indonesia, as the country expects to draw in more foreign investments to boost economic growth. The company, which manufactures sports shoes and apparel, will build a US\$120 million factory in Jepara, Central Java and employ 20,000 workers, according to the Investment Coordinating Board (BKPM).

Asia Green Capital to Build 62.5MW Wind Farm in South Sulawesi - The Jeneponto One wind farm will be funded by the IFC (World Bank) through its US\$150 million global infrastructure development fund, IFC InfraVentures.

AUTOMOTIVE

Toyota Motor Indonesia's CBU Car Export Rises 36% in First Half - car manufacturer Toyota Motor Manufacturing Indonesia obtains completely built up (CBU) car export sales growth of 36 percent to 92,200 units from 75,246 units in the same period in 2014. The export volume hike is contributed from sales of Toyota Fortuner and Kijang Innova cars. In addition, the company's completely knocked down (CKD) car export for the first semester reached 21,100 units, with engine export reaching 21,731 units, in addition to ethanol-based engine export of 4,900 units.

New Strategy at General Motors Indonesia - General Motors Indonesia has appointed a new president director, Gaurav Gupta, to make the company profitable again after it closed its assembly plant outside Jakarta and continues to lose ground to Japanese rivals. GM Indonesia continues to sell the Spin as well as the Chevrolet Orlando MPV and Captiva SUV which it imports from South Korea and Thailand, respectively. Unlike some other importers, it benefits from a lower import tax under Indonesia's free-trade agreement with ASEAN countries and the bloc's major trading partners: Japan, South Korea and India. Under a new import policy, all vehicles imported from outside the FTA countries are now subjected to a 50 percent tax and 10 percent for completely knocked-down cars.

Car Sales Target Dips below 1m as Economic Reality Bites for Manufacturers - Indonesia's automotive manufacturers' association, Gaikindo, has once again cut its domestic car sales target for 2015, citing weak commodity prices that have undermined demand in regions dependent on resource exports. Gaikindo now expects full-year sales to fall in the range of 950,000 to 1 million cars. Local manufacturers sold 581,941 cars in the first seven months of 2015, a decline of 21 percent from the 733,444 cars sold in the same period last year. The companies sold 1.2 million cars for the whole of 2014, down from 1.22 million in 2013 and the first annual decline since 2009.

Car Manufacturers Pin Hopes of Sales Revival on Twin Motor Shows - Two competing motor shows open in August, offering a glimmer of hope for car and motorcycle manufacturers to boost sales, which have shrunk 21 percent in the first seven months of this year. The 23rd Indonesia International Motor Show (IIMS) opened at the Kemayoran fairground in Central Jakarta on August 19th while the inaugural Gaikindo Indonesia International Auto Show (GIAS) opens on August 20th in the BSD Township west of the capital.

July auto sales fall 39.1% year-on-year - Indonesia's automobile sales in July fell 39.1 percent from a year earlier, the 11th straight monthly decline on an annual basis, data from Association of Indonesian Automotive Manufacturers (Gaikindo). Sales fell 32.3 percent on a monthly basis. A total of 55,618 cars were sold in Southeast Asia's biggest economy in July. Toyota Motor Corp led the sales, followed by Suzuki Motor Corp. and Honda Motor Co.Ltd.

Motorbike sales fall 21.1% in July - Indonesia's motorcycle sales in July fell 21.1 percent from a year earlier, an industry association said. On a monthly basis, sales declined 26.6 percent. Total sales in Southeast Asia's biggest economy, where motorbikes are hugely popular, amounted to 421,838 in July. Sales were led by Honda Motor Co Ltd, Yamaha Motor Co.LTd, and Suzuki, the data showed.

Chinese Joint Venture With GM Eyes Hefty Slice of Indonesian Car Market - an Indonesian joint venture between General Motors of the US and China's SAIC Motor and Wuling Motors is eyeing a 10 percent stake of the Indonesian car market by 2022. Construction of SGMW Motor Indonesia's US\$700 million plant in Bekasi started this month, with production expected to start in July 2017 with an annual output of 150,000 Wuling-badged MPVs. SAIC controls the joint venture with a 50 percent stake, while GM owns 44 percent and Wuling holds the remainder.

INFRASTRUCTURE

Infrastructure Spending Predicted to touch \$90 Bln by 2019 – PwC Indonesia and Oxford Economics predict spending in the infrastructure sector to rise to US\$90 billion by 2019 and US\$139 billion by 2025 from US\$57 billion in 2014. The compounded annual growth rate of investments in the infrastructure sector for the period of 2014-2019 will reach 9.5 percent.

Lippo Group Maintains Solid Profit - revenue from Lippo Karawaci's residential and urban development division (especially in health care business) went up by 10 percent to Rp 2.1 trillion, contributing to 44 percent of the total revenue.

Trump Hotels teams up with MNC for first hotel in Asia - Trump Hotels Collection has signed a deal with Indonesian investment group PT Media Nusantara Citra (MNC) to manage a planned six-star luxury resort and residential development in Bali. The location of the planned six-star resort will be on the island's southwest coast "set against the Indian Ocean" and the popular and renowned Tanah Lot temple. It will be Trump Hotel Collection's first resort in Asia.

Sinar Mas invests Rp 11t in first half - conglomerate Sinar Mas Group has invested US\$838 million in the first half of this year. The majority of the investment was in the property sector, which included investment channeled by the country's largest listed developers, PT Bumi Serpong Damai, PT Duta Pertiwi and PT Puradelta Lestari.

ICT / MEDIA

Online Retailer MatahariMall Sets 20% Market Share Target - Lippo Group's new e-commerce unit MatahariMall is embarking on an ambitious expansion plan, aiming for a 20 percent market share of Indonesia's web-based retail sector by 2020. Indonesia's e-commerce market is currently worth around US\$1.3 billion, constituting only 1 percent of the national retail market. Lippo Group, one of Indonesia's largest business conglomerates, has committed to invest US\$500 million for the next three years in its e-commerce arm.

Foreign Logistics Firms Gain an Edge on Local Rivals in Booming E-Commerce Market - foreign companies are seizing logistics and warehousing opportunities in the Indonesian e-retail sector, while local firms make a late entry to the retail shipping industry.

Chinese technology firms to make Indonesia a regional hub - Chinese Internet companies, UCWeb Inc. are aiming to make Indonesia their respective hubs for the Southeast Asia region, given the country's population and growing mobile Internet market. Indonesia is now UCWeb Inc. biggest market in the region and the company wants to use Jakarta as a hub to expand to other countries (in the region).

Deutsche Bank Provides \$30m Trade Finance Facility to Huawei in Indonesia - Deutsche Bank is providing a US\$30 million trade finance facility to Jakarta-based Huawei Tech Investment for hardware sales to a local broadband company.

Indonesian taxi industry: In a jam - with the arrival of mobile applications offering new transportation services, the Indonesian taxi business is facing a huge number of challenges ahead, especially with a shortage of drivers and skyrocketing public demand. Go-Jek, a local mobile application, has seen phenomenal growth on high consumer demand for its services and is now supported by around 14,000 motorcycle taxi drivers in Jakarta.

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.