

Indonesia Market Update

October 2015

Welcome to the October 2015 edition of “Indonesia Market Update”. It is one year since Jokowi was elected President of Indonesia and while a lot has happened there is much more that needs to be done to grow the economy. A focus this month was on trade partnerships – TPP and AEC – to boost economic growth. Selamat membaca!

ECONOMY

RI could join Trans Pacific Partnership within two years - Indonesia could join the US-led Trans-Pacific Partnership (TPP) within two years after it finishes all the preparations necessary to join the free trade pact, Trade Minister said. The government would provide incentives to local businesspeople before it signed the agreement.

RI, US firms ink deals of \$20b during Jokowi trip - the second day of President Joko “Jokowi” Widodo’s trip to the US saw what Jakarta described as “successful concrete outcomes”, with over a dozen private-sector deals worth around US\$20 billion. Jokowi witnessed the signing of 12 deals between Indonesian entities and American companies, with six more deals announced during the event.

Business players see opportunity from AEC - Business groups have said that the upcoming economic integration, known as the ASEAN Economic Community (AEC) commencing in 2016 will create more opportunities than threats to local businesspeople as they will gain greater access to a bigger market. According to the AEC Plan of Action scorecard, the country’s readiness stood at 94 percent, higher than the ASEAN average of 92 percent.

WB cuts RI growth forecast - the World Bank (WB) has cut its 2016 economic growth forecast for Indonesia as uncertainties in the global economy are likely continue to cast a shadow over the country’s exports and foreign investment. The WB predicts that Indonesia’s gross domestic product (GDP) will hover at 5.3 percent next year, as stated in its latest East Asia and Pacific (EAP) Economic Update.

Govt releases 4th economic package, simplifying wage system - the government has released the fourth economic package, focusing on helping the workforce survive layoffs through entrepreneurship as well as simplifying the annual wage formula to create better business certainty. Bank Indonesia will support the economic package through maintaining the rupiah’s stability, strengthening the liquidity and bolstering foreign exchange supply and demand.

Govt eases rules for hiring foreigners - the government has relaxed requirements for foreign investment distribution companies (PMA) to hire foreign employees in an attempt to attract more investment to the country. Ministerial Regulation No. 35/2015 revises Ministerial Regulation No. 16/2015 on procedures for the employment of foreign workers. Manpower Minister Hanif Dhakiri said the new regulation would ensure faster and simpler procedures for foreign workers to get work permits, as the entire process could be conducted online.

BKPM launches three-hour license processing - the Investment Coordinating Board (BKPM) has started offering its three-hour permit service to cater for capital-and labor-intensive investments following the recently launched second economic package aimed at cutting red tape and boosting investment. It stipulates that investments worth more than IDR100 billion (US\$7.33 million) or projects that could employ more than 1,000 workers in industrial estates should be able to process their preliminary permits at the BKPM’s one-stop integrated service (PTSP) in just three hours.

INVESTMENT

Investment realization to exceed full-year target - the government is confident that full-year investment realization will exceed its target as the value of investments recorded up to the third quarter of this year remains on track. The Investment Coordinating Board (BKPM) announced that investment realization by both domestic and foreign businesses in the July-September period stood at IDR140.3 trillion (US\$10.35 billion), 17 percent up year-on-year (yoy). So far this year investment realization amounts to IDR400 trillion, which is 16.7 percent up on last year’s IDR342 trillion.

Chinese investors, BUMN consortium to cooperate in bullet train project - the government has decided to cooperate with China in Indonesia's first-ever high-speed rail project following its decision to change the project's cooperation scheme from government-to-government to business-to-business (B2B). The Indonesian government will not make any investment either through the state budget, loan guarantee or state capital injection (PMN) to BUMN. The high-speed train project is estimated to require around IDR60 trillion to go to completion and will commence in 2018.

List of priority projects ready for launch - the government will soon release the long-awaited list of national strategic projects to give clear guidance to investors on priority infrastructure projects to be carried out under President Jokowi's administration. The list would be part of a Presidential decree on the acceleration of national strategic projects that would be issued later this month. More than 500 infrastructure projects under various ministries had been proposed for inclusion on the list. Many of them are related to electricity works, smelters, dams and roads.

RETAIL

Courts Retail to open second megastore by year-end - PT Courts Retail Indonesia, a subsidiary of Singaporean retailer Courts Asia Ltd., will open a new megastore in Banten (at a cost of about \$5 million) this year as part of the company's expansion in Indonesia. Currently it has three stores and plans to have up to 12 stores by 2019 in Greater Jakarta.

Matahari books large growth in net income - Retail giant Matahari Department Store recorded positive results in the nine months through September 2015, with 30.5 percent growth in net income IDR1.4 trillion. Matahari currently operates 140 stores in 66 cities nationwide, having opened nine new stores in the first nine months of 2015.

AGRIFOOD

Tiga Pilar sees 30% sales growth this year - publicly listed food company PT Tiga Pilar Sejahtera Food (TPS) projects sales to raise by up to 30 percent this year despite the domestic economic slowdown, thanks to strong growth in its distribution network. Tiga Pilar, whose brands include Taro and Mie Kremes snacks, Gulas candy and Ayam 2 Telor noodles, booked a 27 percent surge in net sales last year to IDR5.14 trillion, with net profit growing by around 7 percent to IDR331.8 billion.

Imports for Quarter 4 - The Ministry of Trade has issued fourth Quarter (Q4) import permits for boxed beef of approximately 19,000 tonnes. Indonesia Logistic Agency (BULOG) still reportedly plans to import 10,000 tonnes of beef from New Zealand, which reportedly consist of several types of cuts and not just specifically prime cuts.

Sales of consumer goods slow as people reduce spending - the sales of fast-moving consumer goods (FMCG) in Indonesia have grown at a snail's pace during the past several months as people have reduced their spending to cope with the impact of the country's slowing economy. A survey by consumers research firm Kantar Worldpanel Indonesia showed that the growth rate of the sales of consumer goods in the country during the period of July last year to June this year plummeted to 7.4 percent from 15.2 percent in the previous period.

Indomie launches noodles for kids - Indofood CBP (ICBP) Sukses Makmur launched "My Noodlez", a new instant noodle product for kids under its Indomie brand flag. The new noodles, made from carrots and seaweed and sold in three flavors: salmon teriyaki, pizza cheese and seaweed, were produced after the firm conducted a six-month survey IDR3,800 (28 US cents) per package. Indomie has 15 factories nationwide in operation and two plants under construction in Cirebon (West Java) and Palembang (South Sumatra).

RI to further develop 'halal tourism' - Tourism Minister Arief Yahya has pledged to boost the promotion and development of "halal tourism", which has largely remained untapped, after the country took home three trophies from an international halal tourism awards. *The Global Muslim Travel Index 2015* report noted that the tourist segment was worth US\$145 billion, with 108 million Muslim travelers representing 10 percent of the entire travel economy. It is expected to grow in worth to \$200 billion with 150 million travelers by 2020. Indonesia with 2 million tourist visits for halal tourism last year, still lagged behind Thailand (6 million tourists) and neighbor Malaysia (5 million tourists).

MANUFACTURING

Nike factory in West Java starts operations – Taiwan based shoe manufacturer Pou Yuen has begun factory operations in Cianjur, West Java. The manufacturer of sports apparel giant Nike invested US\$36 million to build the factory, which has capacity of 12 million pairs of shoes annually. The factory aims to absorb 13,000 workers by 2019.

Unilever continues to book slower growth - consumer goods giant Unilever Indonesia continued to book slow growth in profits in the third quarter and impacts of the economic slowdown are expected to continue to squeeze the publicly listed company's performance next year. Its net sales rose by 5.6 percent on a yearly basis to IDR27.55 trillion, according to the report, with its quarterly trends also showing slower annual growth, compared with 8 percent and 7 percent in the first quarter and first half, respectively. A number of consumer surveys, including ones carried out by MasterCard Inc. and Nielsen Global Survey, showed an alarming decrease in confidence and rising concerns regarding the Indonesian economy, which is growing at its slowest pace since 2009.

AUTOMOTIVE

Honda opens first engine test facility in Indonesia - PT Honda Prospect Motor (HPM), a joint venture between Japan's Honda Motor Co. and Indonesia's Prospect Motor, inaugurated its first engine test bench facility in Indonesia as it seeks to cut costs and scale up efficiency.

Car sales in September hit 90,000 and growing - domestic car sales look to be back on track as September sales are estimated to hit over 90,000 units, similar to monthly figures when full-year automotive sales reached over 1 million cars, according to the Association of Indonesian Automotive Manufacturers (Gaikindo). It was driven by the disbursement of the government's budget, coupled with the issuance of the first government policy package, which had increased the public's optimism for better economic conditions.

ICT / MEDIA

Baidu going deeper into RI mobile market through cooperation - Chinese Internet giant Baidu Inc. is aiming to forge more local partnerships in Indonesia in order to strengthen its presence in the country's mobile applications market. Currently, Baidu's main focus in Indonesia revolves around the expansion of their MoboMarket mobile app store, which also hosts numerous third party apps from Indonesian developers. Baidu's mobile internet browser, as well as its battery saving and internet speed booster apps, are also the company's main sources of revenue from the Indonesian market.

Go-Jek, GrabBike continue to thrive - while cell phone application-based ojek (motorcycle taxi) firms GrabBike and Go-Jek have both been seeing consistent increases in terms of user and driver numbers this year, both companies are choosing to embark on their own approaches for their future operations. Go-Jek says that it will continue to expand into the service industry by providing services such as the recently launched GO-MART shopping delivery service, while GrabBike will center its focus on transportation only.

US app service to help local SMEs deal with customers - United States-based mobile app Boomer Marketing made its debut entry into the Indonesian market, aiming to provide convenient and more streamlined solutions for domestic small and medium enterprises (SMEs) struggling to interact with potential customers online. Teaming up with telecommunications operator 3 (Tri), Boomer Marketing allows SMEs to easily create a company website without the need for coding and also makes it simpler to interact with customers in real time through a live chat service.

INFRASTRUCTURE

New strategy needed to deal with sluggish property market - the economic slowdown and other macroeconomic factors have negatively affected the property market in Jakarta over the last several quarters. The combined impact of new policies introduced to combat the economic slowdown and the macroeconomic conditions had forced property developers to develop new strategies and review their development plans.

Railways connecting airports and city centers to be built - President Joko Widodo aims to build railway connecting airports and nearby city centers all over Indonesia as part of the government's mission to improve land connectivity. "All of the airports in the country will be connected with [nearby] cities either by train, light rail transit [LRT] or trams,"

Jokowi said in an official statement. He added that the type of train would depend on the condition of each city. The plan also includes the ongoing development of railway connecting Minangkabau International Airport and Padang in West Sumatra as well as Soekarno-Hatta International Airport in Cengkareng, Banten, and Jakarta.

Sinar Mas expands property portfolio in London - Sinar Mas Land Group has acquired one of London's iconic commercial buildings, the Alphabet Building, for 259.3 million pounds (US\$397 million). The acquisition further enhances the company's property portfolio as well as its position as one of the leading property firms in London.

MICE could become economic driver for RI - the government is being urged to see the meetings, incentives, conferences and exhibitions (MICE) industry as part of the economic sector as it has a bigger multiplier effect compared to the leisure tourism industry.

AccorHotels to spread word about RI tourism - the Tourism Ministry has boosted cooperation with the world's leading hotel operator, AccorHotels, in its bid to improve tourism promotion globally. Under the MoU, the hotel chain has agreed to promote Indonesian tourism brand "Pesona Indonesia" (Wonderful Indonesia) on a banner on its official websites, as well as facilitating the ministry's promotional events. The chain would also aid the government's efforts to boost digital marketing, with the ministry having bought 8,000 TV spots and commercials in major global media outlets to promote the country, including the dissemination of a recent policy scrapping tourist visas for citizens of 90 countries.

High speed train project to have effect on nearby cities - the Indonesian state enterprise consortium and its Chinese counterpart have promised accelerated economic growth in the areas between Jakarta and Bandung, West Java, as both countries signed a joint venture agreement on the Jakarta-Bandung high-speed rail project.

BSD meets 62% of 2015 marketing sales target - publicly listed property developer PT Bumi Serpong Damai (BSD) had secured IDR4.6 trillion (US\$339.9 million) in marketing sales as of the end of September this year, 62 percent of its IDR7.5 trillion target for this year. Residential sales account for 67 percent of BSD's marketing sales.

Maritime highway may take longer than expected - the implementation of President Jokowi's vision of a maritime highway might take longer than expected, a minister has said. Transportation Minister Ignasius Jonan said progress on the maritime highway could only be clearly observed in between three and five years, despite the ministry's efforts to improve the country's ports and add more ships. The ministry will also start the construction of 190 ships to support the program, including patrol vessels and navigation ships.

Industrial property sales to improve - publicly listed construction and property firm Surya Semesta Internusa (SSIA) booked sluggish industrial estate sales in the first nine months of the year but maintains a bright outlook with the fast-track industrial estate license introduced by the government.

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

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