

Indonesia Market Update August 2019



Welcome to the August 2019 edition of 'Indonesia Market Update'. Selamat membaca!

POLITICAL

Jokowi announces East Kalimantan as site of new capital - President Joko "Jokowi" Widodo has announced that two regencies in East Kalimantan are to be the site of the country's new capital city. The new capital is to act as the center of government, while Jakarta would remain the country's business and economic center. East Kalimantan was chosen because its location complies the requirements for a new capital, including being relatively free from earthquakes and volcanoes. The President said the relocation will take place in 2023 or 2024 as soon as the State Palace building is ready. In the first stage, the government will begin to relocate infrastructure facilities, such as buildings and office spaces, to support the ministerial works. Following the first development project, the second project will be the construction of stations, universities, non-governmental offices, and high institutions.

ECONOMY

Jokowi sets 2020 growth target at 5.3 percent - President Joko "Jokowi" Widodo has set an economic growth target of 5.3 percent for the proposed 2020 state budget, similar to this year's target. The current administration, which will conclude its term in two months, set the figure by taking into account continuing global uncertainties, with Jokowi specifically mentioning the US-China trade war and depreciating Chinese currency. Consumer spending and investments will be the main motors of growth.

Jokowi to Optimize Tax Revenue from E-Commerce in 2020 - President Joko Widodo has pegged a target of the state income in 2020 at Rp. 2,221.5 trillion. To achieve the goal, the government will optimize the income from the tax sector and the non-tax sector.

- In the tax sector, the government will resume the tax reform, such as improving administration and compliance as well as strengthening the taxation database and information system. The government will also impose a policy on the equal level of playing fields between conventional and e-commerce businesses to optimize the tax revenue in this digital era.
- The reformation of the non-tax sector would be implemented by strengthening the regulation and management while maintaining the quality of public services. In order to support the improvement of competition and investment, the government will also grant tax incentives through several instruments, namely expanded tax holiday, changes in tax allowances, investment allowance, the super deduction for the development of vocational, R&D, and labor-intensive industries.

TRADE

Guangdong Haid expands in Indonesia, India - Chinese animal feed producer Guangdong Haid Group will spend USD 350 million on investments abroad. Li Yongqiang, Group Investment Development Director, said 13 projects over the next five years will also cover Indonesia and India. In Indonesia, Haid is building a feedmill with two poultry feed lines and two aquatic feed lines.

Bangladesh seeks more energy deals with Indonesia - Bangladesh is seeking more cooperation with Indonesia in the energy sector, especially for the supply of liquefied natural gas (LNG) to support its growing industrial sector. The country had invested US\$25 billion in the energy sector over the last six years and planned to invest more in the future. At present, Bangladesh had two floating storage regasification units (FSRU) to receive LNG imports. Bangladesh may import 17.5 million tons of LNG a year by 2025, as its domestic gas reserves are dwindling and demand grows. Besides supporting its garment industry, the country also needs more LNG from abroad to boost other growing sectors, such as the vegetable industry.

RETAIL

After Closing 6 Giant Outlets, Hero Invests Rp 500 Billion - PT Hero Supermarket Tbk (HERO) or Hero Group closed several Giant stores recently. Even so, the company will continue to expand this year and invest Rp 500 billion this year. Hero is strongly committed to remain a strong competitive retailer in every business unit they have. The 48-year-old Hero Group is transforming to improve long-term performance. Various renewals and revitalization were carried out in order to face the challenges of changing customer spending trends. In Giant, there is a Friend Pricing Program where Giant lowers prices for favorite products. Hero Supermarket offers inhouse bakery products with a fresh concept from the oven and also offering imported and premium products. In the non-food business, Guardian expanded its business by opening 22 new stores in the first half of this year. Then, IKEA provides a new place where development projects in Jakarta Garden City and Kota Baru Parahyangan, Bandung are taking place.

AGRICULTURE

IA-CEPA offers better position for Australian beef in Indonesia - With the ratification of the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) targeted to be completed this year, Australia will emerge as the main supplier of red meat to Indonesia. Valeska, Country Manager Indonesia of Meat & Livestock Australia said: "The agreement would result in further tariff removals, and foster more extensive end-to-end value chain collaborations between Indonesia and Australia." Australia's beef exports to Indonesia in 2017-18 reached 58,213 tons, a 14.45% increase over the previous period, making Indonesia as the 5th largest market for Australian beef.

Indonesia confirms halal status of broiler meat - Indonesia's Ministry of Agriculture has confirmed that all broiler slaughterhouses in Indonesia are halal certified and all chicken meat sold in modern and traditional markets are halal. Syamsul Ma'arif, Veterinary Public Health Director at the ministry said besides halal certification, the slaughterhouses also have veterinary control numbers to ensure food quality and safety. The central and local governments continue to monitor facilities that do not meet halal and veterinary standards and move them to government-run slaughterhouses.

Indonesia imports feeder cattle from Australia - Indonesian state-owned, integrated livestock company Berdikari has imported 9,000 heads of feeder beef cattle from Australia this year from a quota of 30,000 heads. President Director Eko Taufik is optimistic that by end of this year the company can import the rest. Berdikari is intensively developing its contract farming model for beef cattle feedlots. It provides the feeder cattle, operational capital and technical assistance to contract farmers and buys back the ready-to-slaughter cattle.

Australia Will Help South Sulawesi Become National Meat Barn - The Australian Government is ready to assist the development of cattle in South Sulawesi as a national meat barn. The Seko and Rampi areas are the areas which will become the development sites. The Australian Consulate General in Makassar, Richard Mathews said that the Australian side looked at the potential for cattle development in Parepare, Sidrap, Enrekang, Bone, Polopo, Masamba, Seko and Rampi. In the future South Sulawesi will be a region producing meat and also milk.

Indonesia to Import 50,000 Tons of Frozen Brazilian Beef - The Indonesian government has opened the official quota for imported frozen beef from Brazil. The 50,000 tons of Brazilian beef import will be handled by three logistics companies comprising of:

1. State Logistics Agency (Bulog) will handle 30,000 ton,
2. PT Berdikari (10,000 ton), and
3. PT Indonesia Trading Company or ITC (10,000 ton).

Considering the vast distance needed for it to be imported, the government has decided to have the meat products imported in frozen form. The beef import permit is set to be effective for up to the next 12 months.

Indonesia raises tariffs on EU dairy products - Indonesia's Trade Minister Enggartiasto Lukita recently has told dairy importers to look for suppliers outside Europe. He has threatened to hike existing tariffs on EU dairy products, which currently range from 5-10%, to 20-25%. This is in response to an EU proposal for anti-subsidy duties on palm bio-diesel from Indonesia. "The EU wants to impose an 8-18% tariff on palm bio-diesel. We will challenge this unfair treatment," said Mr Lukita.

FOOD AND BEVERAGE

Processed food subsidiary helps maintain Indofood's H1 sales performance - Food manufacturer conglomerate PT Indofood Sukses Makmur booked a positive financial performance throughout the first half of this year thanks to the increased sales and profit of its processed food subsidiary during the period. During the first half of this year, Indofood booked Rp 38.61 trillion (US\$2.75 billion) in sales, a 7.25 percent year-on-year (yoy) increase during the period. The publicly listed company's net profit jumped 30.12 percent yoy to Rp 2.55 trillion during the January to June period. Indofood's processed food subsidiary PT Indofood CBP Sukses Makmur (ICBP) booked total sales of Rp 22.13 trillion, a 13.72 percent yoy increase, while its net profit grew 12.38 percent yoy to Rp 2.57 trillion.

Santori focuses on wagyu, processed beef - The beef cattle business in Indonesia is more challenging since the government sanctioned imports of buffalo meat from India two years ago. To counter this, Santosa Agrindo (Santori), the beef cattle production and processing arm of Japfa Comfeed Indonesia, has switched focus to premium wagyu beef and value-added products such as meatballs and sausages, said Santori Director Samuel Wibisono. "The capex for Santori this year is around USD 2.14 million with emphasis on the processing business," he added.

Double-digit growth for Japfa Indonesia - Japfa Comfeed Indonesia targets its business to grow more than 10% this year amidst ups and downs in the poultry industry. "We have been in this business for more than 40 years. We are familiar with all the cycles which affect market growth," said Bambang Budi Hendarto, Vice President Director. Japfa this year set aside around USD 214 million for capital expenditure, mainly to set up feed warehouses and silos and poultry breeding farms and for expansion in commercial poultry farming and processing.

Kibif targets 100 meat distribution channels - Indonesia's Estika Tata Tiara, popularly known as Kibif, targets to open 100 distribution channels equipped with cold chain system by 2023 throughout Indonesia. This year the meat processor plans to open 10 new distribution channels and has opened four new channels in Palembang, Surabaya, Bandung and Central Java, said Corporate Secretary Gina Nasution. The rest are planned to be opened in Lampung, Medan, Makassar, Manado, Balikpapan and Banjarmasin. Kibif is a supplier of frozen meats and further processed meats, as well as a beef cattle integrator.

AUTOMOTIVE

Jokowi signs electric vehicle regulation - President Joko 'Jokowi' Widodo has signed the long-awaited presidential regulation (Perpres) on electric vehicles (EVs). "60 percent of the key to electric cars is the batteries and we have the components to make them [such as] cobalt and manganese in our country," Jokowi said. "So, this country is a strategic place [for businesses] to start designing an affordable and competitive electric car industry. "According to the draft, the Perpres would stipulate fiscal incentives, such as import tariff incentives for battery-based EVs and their supporting technology and materials, as well as value-added tax deductions and tax incentives for imported goods related to investments in the EV industry.

Jokowi wants 30% biodiesel in cars as soon as January next year - President Joko "Jokowi" Widodo said he wanted to increase the portion of diesel blended with crude palm oil (CPO) from the current 20 percent (B20) to 30 percent (B30) starting January next year and to 50 percent (B50) by the end of 2020. The leap is expected to bring down imports of oil, which drags down Indonesia's trade balance and by extension, its current account position, while also generating domestic demand for CPO amid external uncertainties affecting CPO prices.

ENERGY / OIL & GAS

South Korea's Michang Oil Opens up Shop in Indonesia - Michang Oil, one of the largest transformer oil producers in South Korea, has launched a new business in Indonesia under a locally registered entity called Sari Michang Concord in an effort to tap into the Southeast Asian country's growing electricity network. Transformer oil is a critical part for insulating and cooling transformers, a key component in the ever-growing power grid which President Joko "Jokowi" Widodo expects to reach every corner of Indonesia by the end of this year. The government is expecting completion of its 35,000-megawatt electricity development project that will ensure the country's energy independence as it continues its transformation into a developed economy. Sari Michang will be based in Jakarta with a branch office in Surabaya.

ICT

Indonesia's digital economy to double in value by 2024, says study - Indonesia's digital economy is expected to almost double in value from Rp 814 trillion last year to Rp 1.447 quadrillion (US\$101 billion) by 2024, a recent study says. The joint study by the Institute for Development of Economics and Finance (Indef) and non-profit research foundation Laboratorium Data Persada has found that the digital economy generated added value to several sectors, including manufacturing, trade and transportation, and communication. The manufacturing sector has benefited the most. The digital economy would create Rp 100 trillion value added in the manufacturing industry.

Online grocery in Asia to grow to USD 295b - Online grocery in Asia is set to grow from its current value of USD 99 billion to USD 295 billion by 2023, according to IGD Asia. "The penetration, size and growth of online grocery varies greatly by country. South Korea, China and Japan will be the most established online grocery markets in terms of market share and scale, while Singapore and Taiwan will also have well-developed online grocery channels by 2023. Markets in Southeast Asia will see some of the fastest growth. India and Indonesia will also become increasingly important," said Shirley Zhu, Program Director.

Groceries drive Blibli sales growth, eyes MSMEs - Out of 16 product categories available on homegrown e-marketplace Blibli.com, groceries (branded BlibliMart) recorded the fastest growth this year after order volume quadrupled over the past 12 months. The second-, third- and fourth-fastest growth was recorded by, respectively, consumer electronics (smartphones, computers and cameras), fashion (men's and women's) and digital products (tickets). Overall, all 16 categories doubled in order volume. Blibli had between 15-20 million monthly active users (MAU), which are defined as those who make at least four purchases on the site each month. The company currently had 10,000 micro, small and medium enterprises (MSMEs) that produced, rather than resold, goods. Although these MSMEs constitute one-seventh of total Blibli merchants, they only contributed 5 percent of sales. Going forward, Blibli aimed to double producer the MSME sales contribution by year end. The company will achieve this by extending payment and product collection services to all Alfamart minimarket outlets around the country. This will enable MSMEs to conduct e-commerce transactions even without adequate mobile payment and delivery systems. Blibli had also, since earlier this year, begun preparing its merchants and technology to push product exports next year.

GoPay to be available at 7,000 JNE outlets - Courier service and logistics company PT Tiki Jalur Nugraha Ekakurir (JNE) and GoPay e-wallet, a subsidiary of Gojek announced its partnership to provide more than 7,000 courier outlets with digital payment services. The partnership aims at improving courier and logistics services by providing customers with the option to pay through a digital payment system. Through this collaboration, JNE customers could use GoPay to send their packages at more than 7,000 outlets across Indonesia. JNE already offered GoPay services in several provinces, such as Jakarta, West Java, Bali and North Sulawesi.

Tokopedia Targets IDR 19 Trillion in Transactions - Tokopedia CEO William Tanuwijaya said that sales transactions made through the Tokopedia application had reached IDR 19 trillion. "Our transactions as of this month are almost IDR 18 to 19 trillion. So one percent of the Indonesian economy is in Tokopedia," William said. The transaction was recorded based on the number of Tokopedia users which exceeds 90 million visitors monthly. William claimed that Tokopedia is experiencing an increasing trend in transaction. "Now, monthly transaction had exceeds USD 1 billion. Growth remains positive," he added. He further stated that economic transaction in Indonesia for 2019 is forecasted to exceed USD 1 trillion.

Kibif to launch e-commerce platform for meat products - Indonesia's Estika Tata Tiara, popularly known as Kibif, plans to launch its e-commerce platform Tokokibif.com by the end of this year. President Director Yustinus Sadmoko said they started the platform to reach a broader segment of customers and consumers, as well as to adapt with markets that have shifted towards digitalization. Kibif will combine its online sales with its distribution channels that are currently being expanded. In its early stage, the platform will focus on the B2B market before shifting to the B2C market.

Australia Feel Threatened by the Model of Selling Meat through Social Media in Indonesia - The emergence of the model of selling meat through social media such as Instagram in Indonesia, is feared to disrupt the traditional Australian cattle trade. This concern was conveyed by one of the entrepreneurs engaged in the Australian beef trade, Jimmy Halim. Indonesian consumers usually prefer to buy freshly cut meat from the wet market. However, the current phenomenon of online selling has cut the traditional meat supply chain. He considered the rampant sale of meat on Instagram was alarming because customers actually did not know where the meat they were buying was from. "Consumers want to try Instagram and do transactions on Instagram because the account owner is able to meet demand at a price that is suitable and relatively fast," explained Jimmy. The Australian Meat and Livestock representative in Indonesia Valeska separately explained that customers in Jakarta turned to online to avoid traffic jams. She said the presence of thousands of motorcycle taxis at this time allowed the shipment of goods to be very cheap. According to Valeska, switching to online sales could be an opportunity for suppliers in Australia. "When shopping online, you have a better chance because you can tell customers that beef is from Australia. Which farm comes from," she said.

INFRASTRUCTURE

Santini Group to build Luwansa hotel in Manado - The diversified Santini Group conglomerate has begun construction of a Luwansa four-star hotel in Manado, North Sulawesi, having invested Rp 200 billion (US\$14.2 million) in the project. The Luwansa hotel is to be located on 5,000 square meters of land in Pomorouw and is expected to be built within 14 months so that it can open in September next year with 134 bedrooms, a ballroom and seven meeting rooms.

Nine toll roads stretching 406 kilometers to be launched this year - Nine toll road routes as long as 406.14 kilometers are set to be inaugurated in stages this year. This is part of President Joko Widodo's infrastructure push for better connectivity across the archipelago.

AP I Eyes Management of 2 Airports in the Middle East - State-run airport operator Angkasa Pura I (AP I) determined to set King Abdul Aziz Airport in Jeddah and Kuwait Airport as its main targets for overseas expansion in 2019. The Incheon International Airport Corporation (IIAC) - the partner in the expansion program, agreed on the planned expansion. They are also considered to be ready to assist the operations. The Middle East region is a strategic choice for expansion because of increasing numbers of Indonesian visiting the region for performing umrah and Hajj pilgrimage every year.

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