Embassy of India

Jakarta

No. Jak/Com/201/4/2011 16 April 2012

Economic and Commercial Report for January to March 2012

Bilateral

India Show In Jakarta – An 'India Show' was held in Jakarta on 6th to 8th March 2012 which was organized by the Ministry of Commerce & Industry, Confederation of Indian Industry and the Embassy of India, Jakarta. 72 India companies representing large corporations and SMEs participated in the exhibition. The industrial sectors represented in the Exhibition included mining machinery, power, energy, two wheelers, passenger cars, agricultural equipment, steel products, auto components, medical equipment, oil extraction, furnishing, consultancy, software services and financial services. The 'India Show' also included a food festival and performance by a Kathak cultural troupe from India.

The 'India Show' was inaugurated by Mr Anand Sharma, Hon'ble Minister for Commerce, Industry & Textiles and Mr Gita Wirjawan, Minister of Trade of Indonesia on March 6, 2012. During his visit to Jakarta, Mr Anand Sharma called on Mr Hatta Rajasa, Coordinating Minister for the Economy, Mr Gita Wirjawan, Minister of Trade and Mr Mohamad Hidayat, Minister of Industry. Mr Anand Sharma extended invitations to the three Indonesian Ministers to visit India on mutually agreeable dates in the near future. It was agreed to launch the CEOs Forum during the visit of Mr Gita Wirjawan to India in 2012.

A major outcome of the meeting with the Trade Minister was the agreement to set up five working groups in the following areas: (i) Healthcare, Pharma and Biotech; (ii) Mining; (iii) Agro-processing and Food-processing; (iv) Research and Development and Technology and (v) Skills Training and Manufacturing. With a view to accelerating the growth of bilateral trade, the two sides discussed various issues including the conclusion of the India ASEAN FTA on Services and Investment and the Bilateral Comprehensive Economic Cooperation Agreement (CECA). There was also a discussion on Non-Tariff Barriers in bilateral trade.

Economy

GDP growth – Due to increase in the private consumption by 4.9 per cent (y-y), government spending (+2.8% y-y), direct investment (+11.5% y-y), exports (-7.9% y-y), and imports (-10.2% y-y), Indonesia's GDP growth of 6.5 per cent y-y in the fourth quarter (4Q11) brought GDP growth in 2011 to 6.5 per cent compared to 6.1 per cent in 2010; the highest level since the 1998 Asian financial crisis. The Government targets to achieve economic growth of 6.7 per cent in 2012. However, the economists view that it would be difficult to achieve the target because of the European crisis.

Central Bank limits forex purchases – In order to curb speculation against the Rupiah and support economic activities, the Central Bank of Indonesia, Bank Indonesia, has barred individuals to purchase foreign currency above US$ 100,000 a month. The list for individual customers included importers, forex debt payment and travel agents.

Trade

Exports – According to the Central Statistics Agency (BPS), Indonesia's exports hit an all time high last year with a total value US$ 203.2 billion, buoyed by surging demand from emerging economies, particularly from China (with exports of US$ 21.60 billion, up 53.36 per cent from 2010) and India (US$ 13.33 billion up 34.5 per cent from 2010). Total value grew by 29.05 per cent compared to 2010, with non oil and gas export contributing 79.57 per cent. Exports to other emerging economies such as South Africa, Egypt, and Russia also contributed to the growth in exports.

Indonesia limits gateways for horticulture import – Indonesia intends to limit gateways for horticulture imports as part of a concerted effort to ensure food safety requirements. In order to seek validations for the move, it will notify the WTO and clarify that such a move is necessary to ensure consumer health and safety. The Government had recently issued a set of new regulation that reduces the number of entry gateways from 8 to 4 for imported horticulture products, covering 47 kinds of fresh fruits and vegetables beginning March this year. The entry gateways are Belawan seaport in Medan, Soekarno-Hatta International Airport Jakarta, Tanjung Perak seaport Surabaya and Soekarno-Hatta seaport in Makasar.

Investment

Rating upgrade – Following upgrade by Fitch International in December 2011, Moody's Investors Service upgraded Indonesia's sovereign credit rating to an investment grade. Indonesia companies will benefit from the upgrade, but risks remained because of issues related to weak infrastructure, policy uncertainties and corporate governance. The upgrade would indirectly buoy foreign direct investment and will open doors for new investors.

New investment road map – The Indonesian Investment Coordinating Board (BKPM) revealed a scheme to sustain robust levels of investment until 2025. The scheme, which includes supporting quick return investments and investment incentives, is part of the General Guidelines for Investment that the President signed in a 2012 presidential regulation on Feb.7. According to BKPM Chairman and Trade Minister, the road map for the implementation of the guidelines which will act as a reference for governmental and administrative bodies is divided into four phases. First phase will concentrate on investments that offer quick wins and low hanging fruit. The second phase will focus on infrastructure construction. The third phase is geared towards large scale industrialization. The fourth phase will aim at ways to position Indonesia as knowledge based economy.

New tax incentives for boosting investment – Government has launched a new round of tax incentives aimed at boosting downstream investment, widening the floor for 129 business sectors to be eligible for ”tax allowance”. Tax allowance will give 5 to 10 year tax breaks in five industrial sectors such as base metal, oil refining, petrochemicals, renewable energy and telecommunications equipment with an investment of US$ 109 million or more. The tax allowance will reduce taxable income to 30 per cent of total investment carried over 6 years, accelerate depreciation and amortization, impose income tax of up to 10 per cent for offshore taxpayer and carry forward losses from 5 to 10 years.

Govt. to end monopolies in franchising – According to a new government regulation foreign franchising companies will be required to have more than one local partner to avoid market monopolies and encourage more competition. Most franchisees of foreign companies are currently controlled by single “master franchisee”, resulting in a monopoly. The new regulation requires foreign franchisors not to restrict their master franchisee and not to build their own outlets as much as possible.

FDI rises to US$ 19 billion – Foreign Direct Investment (FDI) in Indonesia jumped by 18.4 percent to US$19.28 billion in 2011. FDI accounted 69.8 percent of total investment in 2011, with Singaporean investors being the top spender with US$ 5.1 billion, or 26.3 percent of the total foreign investment, followed by Japanese (US$ 1.5 billion), USA (US$ 1.5 billion) and South Korea (US$ 1.2 billion). Most of the foreign investment was channeled into the transportation, warehousing and telecommunications sectors (19.51 per cent), mining (18.58 per cent), and electricity, gas and water projects (9.58 per cent).

Indonesian investment abroad – Direct investment made by Indonesian companies abroad almost tripled last year, according to Indonesia Central Bank data. During 2011, Indonesian companies had invested US$ 7.7 billion in a variety of business sectors in Asia, Americas and Africa.

Google to enter Indonesia – Google Inc. announced the opening of Google Indonesia. The Internet giant’s local extension aims to grow business through a strong focus on building a local team and pushing mobile centric plans. Google’s strong focus on mobile based Internet access in Indonesia is in line with the overall trend in which Google has noticed a 500 per cent increase in mobile-based Internet searches.

IKEA to open in Indonesia – IKEA has signed a franchise agreement with PT. Hero Supermarket (HERO). According to the franchise development agreement, IKEA gives rights and responsibilities to HERO to open and operate IKEA stores in Indonesia. HERO will establish IKEA stores according to the agreed quantity from 2014 to 2021; there are possibilities to increase the number after 2021.

Russia – Russian railways will build a railway line in East Kalimantan with investment of approximately US$ 2.4 billion to transport coal. The construction is expected to commence in 2013 and will be ready by 2017. The first stage of the railway line will be for coal and afterwards it can be used for crude palm oil, plantation harvests, rubber and public transportation.

Indonesia to develop high speed railway – Government of Indonesia and Japan’s Land Infrastructure, Transportation and Tourism Ministry (MLIT) is planning to develop a 144 km high speed railway system connecting Jakarta and Bandung. The investment for the project is expected to approximately USD 6.11 billion and will be financed by the public private partnership scheme (PPP). The trains will operate at a speed of up to 210 kilometer per hour.

Indomaret to open 1,000 new outlets – Local retail chain Indomaret expects its sales to surge by 30 per cent to US$ 2.62 billion this year on the back of rising purchasing power in the country. The company would open around 1,000 outlets this year throughout the country, including at the sub district level, adding to its 6,003 existing outlets. In line with its expansion, it would also build three new distribution centers in Riau, Bali and East Kalimantan.

Big chains to build at least 60 hotels – According to reports, more than 60 hotels, ranging from budget to luxury hotels will be built across Indonesia in 2012 in view of surge in the number of business and leisure travelers. Major hotel chain, Kompas Gramedia's Santika Group will open more than 20 hotels this year with half of them at budget rates under the brand Amaris. Another major player Aston International will open 23 hotels ranging from two star to five star hotels nationwide. New player Tauzia Hotel Management is planning to open 12 new hotels under the brand Harris and POP.

Automotive

Japanese auto companies expansion plans – Major Japanese automotive companies have announced expansion or investment plans to Indonesia. Toyota Motors has announced plans to invest US$ 195 million in Indonesia to raise the production capacity of its second plant in Karawang, West Java, from 70,000 to 120,000 cars. This upgrade will bring Toyota's total production capacity to 230,000 units from 2014. The company plans to increase exports from the present 15-20% to about 30% of its production in Indonesia. Honda Motor Co. plans to invest US$ 337.9 million to build a new auto plant in Indonesia, tripling its current production capacity. The plant would be located in Mitrakarawang Industrial Estate in West Java. The new plant would be able to produce 180,000 cars per year once it starts operating in the first quarter of 2014. Nissan also plans to invest US$ 400 million to expand the production capacity of its existing production plant in West Java to 250,000 units per year 2014. Nissan also expressed interest in producing low cost and green cars.

INAPA 2012 – Nine Indian automotive manufacturing companies under the aegis of the Automotive Component Manufacturers Association of India (ACMA) participated at INAPA, Indonesia International Auto Parts, Accessories and Equipment Exhibition in Jakarta from 28th to 31st March 2012.

Energy

Indonesia to increase oil production – Upstream oil and gas regulator BPMigas has announced several plans to increase production to reach the target of 950,000 bpd in 2012. The plan includs installation of early production facility by Mobil Cepu Limited (MCL) at its Banyu Urip field at the Cepu block in East Java. BPMigas also announced that 15 oil and gas projects would begin production in 2012 which are expected to advance Indonesia's average production by 15,000 bpd. Indonesia's oil and gas reserves as of January 2012 are estimated at 3.9 billion barrels of oil and 104 trillion standard cubic feet of gas. New discovery at West Madura Offshore has discovered new reserves at the block that could also add to the country's oil and gas production in the third quarter this year. Meanwhile, Pt. Pertamina Gas (Pertagas), a subsidiary of state oil and gas firm PT. Pertamina revealed its plan to acquire gas blocks overseas. According to the company, Indonesia may become a gas importer a few years later and, therefore has to be ready with the infrastructure and the gas resources.

New petrochemical estate – Indonesian government plans to build a petrochemical industry estate in West Papua in 2013 to meet the rising demand for petroleum based products and reduce dependency on import. The investment for the project will cost approximately US$ 4.3 billion. The first phase of the petrochemical industrial estate will require around 382 million standard cubic feet per day (mmscfd) of gas to fuel two urea plats with a total production capacity of 3,500 tons per day, two ammonia plants with a production capacity of 2,000 tons per day and a methanol plant. The second phase of the project will need around 200 mmscfd of gas to develop a diesel plant.

PLN to launch geothermal plants – State power company PT. PLN will open three geothermal power plants with a total production capacity of 135 megawatts (MW) this year. The plants were identified as the Lehendong Unit 4 plant in North Sulawesi, the Ulubelu Unit 3 and 4 plants in Lampung and the Ulumbu plant in Kupang, East Nusa Tenggara. PLN hopes to boost geothermal use to 7 per cent in 2012, while boosting coal use to 51 per cent and reduce use of expensive oil based fuel to 14 per cent.

Commodity

Indonesia to import sugar – Indonesia will import 240,000 tons of raw sugar this year to meet domestic demand for white sugar, which is expected to reach 860,000 tons for January – May period. Domestic sugar production for that period would amount to 598,578 tons of white sugar, leaving a deficit of 261,422 tons. Indonesia imported 118,129 tons of white sugar last year from Thailand (60 per cent), Brazil (20 per cent) and Australia (10 per cent).

Rubber council opposes Govt. export tax plan – Indonesian rubber producers have disapproved the Government's plan to introduce an export tax on rubber exports, to help the local downstream industry and encourage trading in rubber in the Indonesia Commodity and Derivatives Exchange (ICDX) to serve as an international price reference in the future. According to Indonesian Rubber Council Chairman, the export duty planned on natural rubber would not be effective in stimulating the growth of downstream industry and would put an additional burden on farmers if prices rise in line with international market prices. It wants the Government to rather provide tax incentives in supporting the local downstream rubber industry. Indonesia's export of rubber and rubber products US$ 14.35 billion last year.

Resources & Mining

New regulation for foreign mine ownership – Indonesian Government's New regulation limits the foreign ownership of mines to 49 per cent; it will apply only to new contracts. The regulation, stipulates that foreign shareholders must gradually divest 51 per cent of their shares in local mining companies to local investors after the fifth year of commercial production and complete the divestment by the 10th year of production. Under the new requirement, mining companies must divest a total 20 per cent of their foreign shares six years of production, 30 per cent by the seventh year, 37 per cent by eighth year, 44 per cent by the ninth year and 51 per cent by the 10th year.

Ban on metal ore export – A Ministry for Energy and Mineral Resources regulation has affirmed the ban on metal ore exports starting 2014. The regulation stipulates that all raw materials wiz gold, copper, nickel, bauxite and iron have to be processed in the country as mandated by the 2009 Mineral and Coal Law. The export ban aims to boost the capacity of the country's metal production, utilize the processed products for domestic purposes, use the byproducts of processed metals for chemicals and fertilizer industries' raw material and increase the country's revenue. However, with the limited smelting facilities, the Government acknowledged that the ban was not realistic and decided to grant a grace period for mineral producers to formulate contingency plans, which could include establishing smelter companies.

<u>Bilateral with Other Countries</u>

Pakistan – Indonesia and Pakistan signed a preferential trade agreement to boost bilateral economic cooperation and expected to expand the trade deal into a free trade agreement in the near future. Under the agreement, Indonesia will reduce tariff on 216 items from Pakistan. Pakistan has extended preferential rates on 287 Indonesian products. The agreement will enable Indonesia would be allowed to sell its main export commodity (palm oil) at 15 per cent lower tariff.

China – Indonesia signed business and strategic agreements in several sectors with China during the state visit of President of Indonesia to Beijing. The agreements covered cooperation in areas including trade, tourism, anti-drug efforts and fisheries management. In business sectors, Indonesia companies signed 15 investment agreements with Chinese companies worth a total of US$ 17.4 billion in sectors including steel, infrastructure, finance, etc.

China to invest in Maritime sector – China State Oceanic Administration (SOA) and Indonesia's Maritime Affairs and Fisheries Ministry signed an agreement for a joint cooperation that would involve capital investments worth USD 152.6 million over five years to develop the domestic maritime industry. The agreement covered the setting up of the Indonesia-China Center for the Ocean and Climate (ICCOC) in Indonesia, scholarships for Indonesian to study maritime and fisheries in China, and a submarine that will help Indonesia to conduct research on oceanography.

Korea – Indonesia President Yudhoyono met South Korean President Lee on 28 March for a bilateral meeting during his visit to Seoul for the Nuclear Security Summit. The two leaders agreed to enhance their partnership in trade and investment, targeting a three folds increase in annual trade volume to US$ 50 billion by 2015 and to US$ 100 billion by 2020. Indonesia and South Korea also pledged to strengthen cooperation in order fields, such as renewable energy projects and infrastructure. Indonesia and South Korea governments launched a joint secretariat to facilitate economic partnership programs and investment between the nations.

***

Business Visa issued in the last 12 months

S. No	Month	Visa issued
1	April 2011	339
2	May 2011	328
3	June 2011	291
4	July 2011	299
5	August 2011	404
6	September 2011	426
7	October 2011	472
8	November 2011	584
9	December 2011	338
10	January 2012	446
11	February 2012	570
12	March 2012	492
Total		**4,989**

Trade Figures

Bilateral Trade between India and Indonesia

(Value: In US$ million)

Period	India's Exports	India's Imports	Total Trade
During CY 2011	4,322	13,335.7	17,657.7
During CY 2010	3,294.7	9,915	13,209.8
Percentage Variation (+ or -)	31.2 %	34.5 %	33.7 %

Source: Central Bureau of Statistics

Export to Indonesia

The following table gives the top ten items of Indian exports to Indonesia during Jan-Dec, 2011 and their percentage variation from the previous year.

(Value: In US$ million)

SITC	Commodity	India's exports during 2008	India's exports during 2009	Change (%)	India's exports during 2010	India's exports during 2011	Change (%)
511	Hydrocarbon and their halogenated, nitrated derivatives	332.78	192.29	(-) 42	293.31	517.43	76.4
044	Maize, unmilled	862	14.44	1,574	35.24	381.40	982.3
334	Petroleum products, refined	374.23	111.89	(-) 70	591.77	338.56	(-) 42.8
782	Motor vehicle for the transportation of goods	77.68	81.62	5	145.28	299.05	105.8
764	Telecommunication equipments and parts	226.34	417.77	85	396.43	266.10	(-) 32.9
222	Oil seeds use for extraction of soft fixed vegetables oils	88.1	132.39	50	181.89	224.12	23.2
081	Feeding stuff for animals	313.33	137.43	(-) 56	130.23	158.75	21.9
263	Cotton	153.01	49.88	(-) 67	117.55	124.67	6.1
675	Flat rolled products and alloy steels	64.92	75.12	16	94.17	123.68	31.3
575	Other plastics in primary forms	20.77	33.48	61	53.39	100.58	88.4

Import from Indonesia

The following table gives the top ten items of India's imports from Indonesia during Jan-Dec, 2011 and their percentage variation from the previous year.

(Value: In US$ million)

SITC	Commodity	India's imports during 2008	India's imports during 2009	Change (%)	India's imports during 2010	India's imports during 2011	Change (%)
422	Fix vegetable fats and oil solid, crude, refined or fractioned	4,249.95	3,490.08	(-) 18	4,563.62	5,447.63	19.4
321	Coals, pulverized or not	1,230.98	1,952.28	59	2,408.39	4,625.52	92.1
283	Copper ores and concentrates	273.09	636.24	133	973.70	1,041.04	6.9
231	Natural rubber latex,; natural rubber and similar natural gums	71.88	125.84	75	301.17	315.72	4.8
251	Pulp and waste paper	81.33	82.76	1.8	145.21	154.98	6.7
512	Alcohols, phenols, phenols-alcohols and their halogenated	161.91	97.77	(-) 40	97.69	144.78	48.2
511	Hydrocarbons, n.e.s. and their halogenated, nitrated Derivatives	8.56	32.73	282	86.54	105.79	22.3
776	Thermionic, cold cathode and photo cathode valves/Tubes	50.78	53.53	5.4	72.38	80.68	11.5
641	Papers and paperboards	75.51	55.09	(-) 27	57.50	69.69	21.2
761	Television receivers	4.57	1.23	(-) 73	17.08	67.54	295.4

Foreign Trade of Indonesia

(Value: In US$ billions)

Period	Indonesia's Exports	Indonesia's Imports	Total Trade
During CY 2011	203.49	177.44	380.93
During CY 2010	157.78	135.66	293.44

Source: Central Bureau of Statistics

Top 5 Export Destinations

CY 2011

(Value: In US$ billions)

No	Country	Value	Percentage of total exports (%)
1	Japan	33.71	16.56
2	China	22.94	11.27
3	Singapore	18.44	9.06
4	United States	16.45	8.10
5	Republic of Korea	16.38	8.05

Source: Central Bureau of Statistics

Top 5 Import Sources

CY 2011

(Value: In US$ billions)

No	Country	Value	Percentage of total exports (%)
1	China	26.21	14.77
2	Singapore	25.96	14.63
3	Japan	19.43	10.95
4	Republic of Korea	12.99	7.32
5	United States	10.81	6.09

Source: Central Bureau of Statistics

(Rakesh K. Arora)

First Secretary (Eco & Com)