Overseas Market Information

Report on Passenger Cars and Commercial Vehicles in Indonesia

Preamble

Indonesia's resource base for the manufacture of transport equipment is tenuous. The continued absence of an adequate upstream iron and steel industry and the still embryonic state of the country's broader engineering industry precludes the availability of an efficient and competitive raw material and component supply structure. The principal resource at the disposal of Indonesia's transport equipment industry is the country's large pool of labour, with its comparatively high level of basic education and impressive capacity to acquire new industrial skills. With the increasing automation of the transportation equipment industry, however, the utility of this resource is being eroded.

Significance

Despite the absence of an obvious resource base, the Government of Indonesia has long regarded the establishment of a comprehensive transport equipment industry as a strategic imperative because of the country's vast size and geographical peculiarities. The transport equipment industry has therefore been devised as a quintessentially import-substituting industry, and nurtured at considerable cost behind a variety of direct and indirect protective barriers. Its development has therefore not been based on the premise of exploiting available resources, but on the perceived need to establish an industry deemed politically necessary irrespective of the economic cost.

Economy

In November 2005, inflation grew by 1.31% per month though the growth rate was not as high as 8.70% reached in October. This belied the public expectations of a decline in inflation rate or its containment to less than 1% in November. Inflation rate by the calendar year (January-November 2005) is already at 17.17%. It is projected to reach 19% for the year 2005. The impact of fuel price-hike, which triggered the inflation in October, continued to be felt, particularly, in the Transport & Communication sectors which recorded a cumulative inflation of 44.70% up to November. It has led to fears of percolation of inflationary pressure on to essential consumer items.

GDP grows by 5.34% in third quarter

The Indonesian economy grew by 5.34% year-on-year in the third quarter of 2005, according to the report released by the Central Statistics Agency (BPS). However, it grew by 2.87% only when compared to the previous quarter. When compared to the first nine months of last year, Gross Domestic Product grew by 5.76%. The growth has, so far, fallen short of the projected target of over 6% for 2005.

Increased flow of Foreign Direct Investment

According to the latest data from the Investment Coordinating Board (BKPM), Investment in Indonesia has remained strong despite rising inflation and interest rates. The BKPM said actual foreign direct investment (FDI) from January to October had more than doubled to US$ 8.55 billion as compared to $ 3.23 billion for the same period last year. Domestic investments up to October, too, grew by 36 per cent. BKPM's figures exclude investments in the oil and gas industry and in banking and non-bank financial institutions, as licences for these are issued by other government agencies. Indonesia has been struggling to lure back overseas investments - which peaked at $ 39.66 billion in 1995, before falter-ing to $ 13.64 billion following the 1997-1998 Asian crises - to help spur on economic growth and create more jobs.

Indonesian automotive components background

For 30 years, the Indonesian automotive components industry was effectively closed to imports of completely built up automobiles as a result of high tariffs and luxury taxes and direct restrictions on who could import vehicles and vehicle parts. Under this umbrella of protectionism, the industry became beset by a number of long-term problems such as limited scale of operations, excessive dependence on the domestic market, excessive reliance on foreign manufacturers, cost competitiveness and quality challenges. The economic crisis of the past two years made the old system untenable, nearly bringing this industry to its knees. It became obvious that old policy parameters that supported the automotive industry for decades no longer have a place in the current global economic and trade structure. The domestic automotive parts and components industry will be exposed in the coming years to fierce international competition. Factors ushering this competition include the introduction of the June 24, 1999 policy which substantially lowered tariff rates in all market segments for motor vehicles, and its commitments to liberalization. The short-term problem for the Indonesian automotive components industry is how to survive in the face of the current contraction of the domestic market. Over the medium to long-term, the problem is how to survive in the impending face of international competition that will grow increasingly intense in the coming years.

Industry Overview

During 1960s, when Indonesia's automobile industry was in its early developmental stages, the market consisted primarily of imported CBU (Completely Built-Up) vehicles. Later, during the 1970s, a second developmental phase was ushered in when the Indonesian government instituted import substitution policies in the hopes of encouraging local assembly and reducing foreign exchange outlays. These new policies gave rise to the automotive assembly industry when Mitsubishi and Toyota set up joint venture assembly operations with local partners. From this small beginning, Indonesia's manufacturing assembly industry would grow to more than twenty brands over the next couple of decades.

Additional policies requiring the sourcing of local components were passed in 1974, and served as the beginning of the Indonesian components industry. In 1979, a "deletion program" was implemented that banned the import of universal components requiring automakers to source these parts from Indonesian companies. In 1983, more restrictions were placed on certain main components further requiring automakers to source locally. In 1996, the Indonesian government established the Timor national car program, which is a joint venture with Kia Motors of Korea. Similar to other national car programmes, Timor was to receive preferential tax incentives and was required to source a high percentage of its parts domestically. The special tax privileges were rescinded in 1998, and now it must compete with other automakers on an equal basis.

Throughout the early and mid-1990s, the Indonesian automotive industry showed strong growth. According to the Association of Indonesian Automotive Industries (GAIKINDO), total new vehicle sales (not including exports) in 1991 were 261,344 units, and by 1997, that number had increased to 386,691 units. However, beginning in mid-1997, the Indonesian automotive industry felt strong effects from the regional economic crisis, which caused domestic effects such as a high interest rates and a severe credit crunch. As a result of these circumstances, new vehicle sales in 1998 decreased significantly to 58,311 units. The adjoining chart illustrates the historical vehicle sales in Indonesia.

It is estimated that over 80% of all new passenger car and commercial vehicle sales in Indonesia are claimed by Toyota, Mitsubishi, Isuzu, Suzuki and Daihatsu. As passenger car ownership has been discouraged through progressive taxes, and because utility vehicles are well suited to local usage patterns, approximately 80% of the market is made up of commercial vehicles. Indonesia's vehicle parc is estimated at just over 4.6 million units, of which a fifth are passenger cars and the rest are commercial vehicles.

The Indonesian automotive industry is essentially an assembly industry, dominated by the major Japanese car manufacturers. The major assembler is P.T. Astra International, whose subsidiaries build cars and trucks for Toyota, Daihatsu and Isuzu, and motorcycles for Honda. The industry is also dominated by automotive brand representatives and sole distributors (ATPMs) of which there are currently some 26 in the country. Other major assemblers in the country include the Indomobil Group and the P.T. Krama Yudha Group, which dominate more than 90% of the industry.

The automotive market in Indonesia is complex and intensely competitive. With some 2.9 million commercial vehicles and cars on the road, Indonesia does have an after market. Unfortunately, the industry is distorted by the availability of a wide range of counterfeit parts and other extremely cheap components sources from Korea, Taiwan, China and India. Price is a critical element in the aftermarket sales. The table below shows the assemblers and their principal operated in Indonesia.

List of car assemblers

No.	*Assemblers/Manufacturers*	*Brand/Principal*
1	PT. Toyota Astra Motor	Toyota
2	PT. Astra Daihatsu Motor	Daihatsu
3	PT. Astra Nissan Diesel	Nissan (Diesel)
4	PT. Gaya Motor	Isuzu Nissan Peugeot BMW Fiat
5	PT. Kramayudha Ratu Motor	Mitsubishi
6	PT. Kramayudha Kusama Motor	Mitsubishi
7	PT. Indomobil Suzuki International	Suzuki
8	PT. Honda Prospect Motor	Honda
9	PT. National Assembler	Hino
10	PT. Tri Citra Karya	Ford
11	PT. DaimlerChrysler Indonesia	Mercedes Benz/ Chrysler
12	PT. Ningz Pacific Motor	
13	PT. General Motor Indonesia	Chevrolet/Opel
14	PT. Ismac Nissan Mfg	Volvo
15	PT. Panca Motor	Isuzu
16	PT. Alun Indah	Daewoo
17	PT. Timor Putra Nasional	Timor/KIA
18	PT. Proton Edar Indonesia	Proton
19	PT. Hyundai Indonesia Motor	Hyundai
20	PT. Hino Indonesia Mfg	Hino

Indonesia was the hardest hit during the crisis with social and political unrest ravaging the country. This also exacerbated its economic difficulties. The economic crisis of the past two years made the old system economically untenable. Under the old regime, the automotive sector was effectively closed to imports of completely built-up automobiles as a result of high tariffs and luxury taxes and direct restrictions on who could import vehicles and vehicle parts. The long-term result of the policy was over-investment in the automotive sector and far too many assembly operations - sixteen - relative to demand for any to reach economies of scale. Also, a combination of sharply higher prices for imported components and an evaporation of domestic demand have crushed domestic automobile producers. Domestic vehicle production in 1998 fell 85%, to 58,000 units, from 389,000 units the year earlier. Production in the first five months of 1999 has continued to fall to only 14,335 units. This compares with total industry production capacity of 700,000 units. As a result, many component making companies went bankrupt following the severe depreciation of the country's currency, the rupiah. However, despite ongoing political instability and economic uncertainty, post crisis total vehicle sales for Indonesia rose significantly. The table below illustrates total vehicle sales and forecasts for Indonesia and the various ASEAN countries. For Indonesia, vehicle sales this year are seen at 329,000 units versus 300,000 units in 2001 and in 2010, 530,000 units will be sold. The outlook seems positive for the rest of ASEAN, Thailand, will see vehicle sales of 400,000 units this year compared with 297,000 in 2001. The figure is projected to climb up to 585,000 units in 2010.

In the Philippines, 2002 auto sales are projected at 81,000 units from 77,000 units last year and will increase to 153,000 units in 2010. Malaysia's auto sales in 2002 will hit 461,000 units, up from 396,000 last year and will total 620,000 in 2010.

Total Vehicle Sales ('000)

Country	*1995*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*(fore-cast)*	*2010 (fore-(cast)*
				Annual growth rate during 00-10 (%)					
Indonesia	384	301	300	329	357	376	397	530	5.8
Malaysia	286	343	396	461	435	415	505	620	6.1
Philippines	125	84	77	81	82	86	93	153	6.2
Thailand	570	262	297	400	390	420	468	585	8.4