

Overseas Market Information



Report on Indonesia : Potential for Engineering Exports from India

Overview

Indonesia at a glance

Indonesian economic performance achieved remarkable pace and grew at a average of over 6 per cent a year in the decade from the early seventies till the Asian crisis in 1996-97, transforming itself from a low income to middle income group of nations. This achievement was due to rapid strides in industrial growth which becomes the key driver of the economy. Though not fully recovered from the onslaught of the Asian crisis, the economy is ready for a rebound.

Indonesia having registered a growth rate of 4.3 per cent in the year 2003, is poised again to register a higher level than 2003. It is estimated that 4.9 or 5 per cent growth rate would be achieved in the year 2004. Reasons for this positive outlook stems out of buoyant private and government consumption as well as recovery in tourism. With this also it is expected that foreign demands would be stronger amongst its major trading partners for its manufactured products and this would lead to higher growth rate. Barring any major crisis the economy would continue to grow at an average expected rate of the 4<sup>1/2</sup> per cent in GDP in the years from the 2004 to 2008.

Several initiatives of the government would facilitate business friendly environment and this would be conducive for accelerated growth of the SMEs. The anticipation is more apt after a very successful election process which is being witnessed in Indonesia.

Foreign trade regime though restrictive at times would be further liberalized in the wake of the quick integration of the Asean economies. Tariff barriers still considered high in comparison to some of the Asean countries and this would further decrease in the coming years.

Banking system which was the center of the financial crisis has been streamlined but would need further strengthening and therefore the process would favour more transparency. Private investment would be encouraged.

Investment spending, measured by gross domestic fixed capital formation has been estimated to be around 20 to 25 per cent of GDP for the last five years and this according to some estimates is much lower than desired at 30 per cent which was the norm before 1997 crisis. The challenge would be to push this rate higher to the level, at least, of 1997 if not much higher. Moreover the efficiency of investment has to be significantly increased as according to some estimates it is much lower when compared to the pre-crisis period.

Foreign direct investment has been declining over the years and this has to be addressed for increasing the level of investment thereby sustaining a higher level of growth. Investments in mining and oil exploration sector has been bogged down by unclear rules of operation as well as the issue of profit sharing between the joint venture partners.

Some of the key challenges along with some mentioned earlier pertains to the infrastructure needs of the economy namely in the areas such as –

- Road transportations, Telecommunication, Electric power and Water supply and sanitations.

Some of the economic indicators, estimates are outlined below for information.

Major economic indicators, Indonesia, per cent (%)

Descriptions	2003	2004	2005
GDP growth	4.3	4.8	4.8
Gross domestic investment/GDP	16.0	15.9	15.9
Merchandise export growth	7.2	3.5	3.5
Merchandise import growth	9.4	4.0	4.0
Current account Balance/GDP	3.7	3.4	3.1

(Source : Bank of Indonesia; Central Bureau of Statistics, estimates)

Sectors of economic importance

Agriculture

Agriculture is the main economic activity of Indonesia on which the bulk of the population depends on it for its livelihood. Agriculture was by very much the largest source of revenue in the first three decades of independence and dominated the GDP but then afterwards as industrialization gather momentum this share gradually declined and was not so much important later in the GDP numbers.

Rice, maize, cassava, sweet potato, soyabean, peanuts, sugar, palm oil, rubber, spices, forest products, coffee, cocoa are some of the important crops that are extensively found in Indonesia.

Mining and processing

Indonesia is rich in mineral resources. Besides being rich in oil and gas, Indonesia is also one of the largest producers of tin and it also has rich deposits of bauxite, copper, nickel, gold, silver and high grade quality of coal.

Mining activity is very capital intensive and requires appropriate technology to exploit the existing resources. Mining of these resources have been carried out with the support of foreign direct investment but this has been limited due to the various unfriendly and ambiguous rules and regulations which has inhibited its full exploitation.

Recent various measures undertaken by the government with the hope of reviving this very vital sector has found positive reception amongst the foreign investor. These would translate in funds being directed to mining activities. Mining rights, sharing of profit, licenses are some of the issues being tackled.

Manufacturing

The manufacturing sector in Indonesia produces a wide range of goods ranging from the consumer goods to heavy industrial products. The manufacturing sector is dominated by the large and medium size industries which accounts for the bulk of the national output. It is estimated to be contributing more than three-fourth of the national output.

The ownership of these industrial sectors were mainly in the hands of the government or run through its agencies in the first two decades of its independence; gradually its dominance faded away with the emergence of the private investment in these industries.



### *Large enterprises producing range of manufactured products*

Indonesia over the years since its independence in the late forties have been able to build a sizeable manufacturing base ranging from iron and steel products, oil refining, smelting plant for aluminium, petrochemical plants, fertilizer, paper and pulp industry, well developed textile industry and auto assembling plants.

Some of the manufactured products that have flowed from these plants contributed a sizeable export revenue for the country. The oil and gas sector were the main contributors to foreign exchange earnings but their share has dwindled of recently due to the increased revenue from manufactured products. It is estimated to contribute more than 70 per cent to the export earnings. The manufacturing sector contributes to approximately about 26 per cent to its GDP, whereas agriculture contribution is about 17 per cent of the total GDP in the latest figures available.

### *The industry clusters revolves some of the heavy weights such as*

1. The iron and steel industry clusters primarily revolves the Krakatau Steel, an integrated iron and steel producing complex at Cilegon in West Java, which began production in 1973.
2. An aluminium smelter-run by Indonesia Asahan Aluminium (PT Inalum), a joint venture between the Japanese Overseas Economic Co-operation Fund (OECF) and the Indonesian government has been operating in North Sumatra since 1985.
3. The oil-refining industry is dominated by the state-owned oil company, Pertamina, which owns and operates eight major refineries with a combined installed capacity of some 1.02 m b/d.

### *Some of the industries that have sizeable presence*

1. Petrochemical industry produces a wide range of petro-chemicals and their feedstocks which find its uses in number of industries such as textile and chemicals, aromatics and others.
2. Textile industries : The development of the textile industries has able to provide not only sizeable employment but has also contributed to the exports revenue which is only second to oil and gas.
3. Cement plants : Initially cement production capacity was only at level of some 700,000 tonnes some where in the year 1970 but the production has increased to around 26 million tonnes by the middle of 1990s.
4. Paper and pulp industry : Dramatic changes have taken place due to private investment pouring into this particular sector. By the beginning of 2000, there were 17 pulp mills and 88 paper mills, with a combined annual production capacity of 4.9 m tonnes of pulp and 10.7 m tonnes of paper.
5. Auto assembling plant : Foreign investment has been encouraged and therefore there are many joint venture assembling foreign brands, the largest among them is the Indonesian manufacturer, Astra International, which has a market share of approx. over 40 per cent of the total vehicle sold in the year 2001 and the position has not reached since then. Astra assembles Daihatsu and Nissan cars, distributes Isuzu, BMW and Peugeot products, and accounted for 98.7% of exports in 2000. The auto component industry is very well developed. As of 2001, there were about 120 companies producing automotive components with sales worth US\$ 650 m, of which about 20% were exports.

### **Business Environment**

The Asian crisis in 1996-97 saw Indonesian economy plunged in deep contraction where all the sectors were badly hit. Structural reforms were badly needed to revive the various imbalances in policy, rules and regulations governing various financial institution and banks. The house was to be put in order on the prescription of the IMF which offered the bailout to get the economy right back on its tracks. It has taken many years to remedy the various imbalances and Indonesia has finally exited from the IMF bailout in December of 2003.

Some of the various measures introduced to make the economy competitive was the general reduction in overall tariff, make taxes as simplified as possible, enactment of banking laws to oversee that speculative lending and other forms of unproductive activity do not find support. The overall impact of all these would be to encourage domestic private investment and encourage all the foreign investor who had abandoned the country in the wake of the crisis.

Tariff reduction has taken place in phases over the years and now it is most liberalized regime. Tariff are in the range of 0 to 20 per cent for most of the products and majority of them are in the 0 to 10 per cent bracket. While tariff has been reduced licensing regime is being dismantled and the end objective of the government is to see that the overall transparency is maximum and leaves no room for discrepancy.

There were many restriction and controls which increased the distortion and created bottleneck in the growth process. Non- tariff barriers have been reduced and replaced by more transparent tariff barrier. Formerly trade were subjected to wide range of taxes and controls such as trading licenses, restriction on imports and exports, participation by foreigner in retail trade in designated areas only and monopoly existed in licenses for privileged firms.

Investment policy was liberalized and made more conducive for foreign direct investment. Foreign exchange controls were removed and rupiah were allowed to float against the US dollar to regain the competitiveness and the desired level in the international market. Float saw the currency depreciates against the dollar and eventually the rupiah has become relatively stable in the year 2003.

### **Foreign Trade**

#### *Indonesian global imports from the world*

Indonesia's global imports from the world of all commodities in the year 2001 (Jan. - Dec.) was approximately more than US\$ 30 billion and in 2002 this is over US\$ 31 billion and ultimately has reached a level over US\$ 32 billion in the year 2003 (Jan. - Dec.). This represents a rising trend in imports reflective of the changes that has moved forward and positively since the Asian crisis. The percentage change in imports in Indonesia is roughly amounting to 4 per cent in the year 2003 over 2002, this rough amounts to an equivalent changes in the GDP growth in that year. Rising trend in imports speaks well for the economy and reflects the strength of the Indonesian economy for absorbing more products and services.

It should be mentioned that the imports into Indonesia which reached an all time high in the year 1996 touching over US\$ 42 billion has yet to regain the level of that year however there are indication that barring another major disaster the economy is poised for rapid economic recovery and growth.

### Indonesian Trade

The key imports of Indonesia are as follows : Mineral fuels, oil and their products, machinery, organic chemicals, vehicle other than railway, electrical machinery, prime and semi-finished iron and steel, iron and steel products and plastics.

Exports of Indonesia are dominated by few products such as petroleum & products, garment & textile & natural gas.

### Major trading partners of Indonesia

The main export destination for Indonesian products are

	<i>Percentage of total</i>
1. Japan	25.7
2. USA	17.6
3. Singapore	12.6
4. South Korea	7.2

The origin of imports for Indonesia in the year 2003

– Japan	– South Korea
– Singapore	– Saudi Arabia
– China	– Germany
– USA	– Malaysia
– Thailand	– India
– Australia	

India is ranked at 14th position in the overall trading partners for imports.

The above gives a broad overview of Indonesia's external trading scenario and also highlights the various countries which are major forces in the Indonesian market as well the role they play as trading partners. By far, Japan is the most dominant of all the trading partners in Indonesia both as a destination for Indonesian exports as well as sources for imports.

Another significant development is the emergence of China as the source of imports as well as the destination for Indonesian goods and services.

### Global engineering imports into Indonesia

The merchandise global imports of engineering sector is highlighted as follows :

#### Machinery

Capital goods as always been for some time a major components of the import basket of Indonesia. Machinery has been the major import of Indonesia. Machinery imports has been almost steady with marginal variation over the years which has been surveyed. In the year 2001 (January to December), machinery imports was US\$ 4,709.416 millions, and in 2002 accounted for US\$ 4,671.035 millions a marginal decline and in 2003 again the level was maintained at US\$ 4,297.138 millions.

The share of machinery imports in percentage terms has been around 13.20 per cent of the total Indonesian imports in the year 2003. Though it fell by 8 per cent in the year 2003 over the previous year of 2003, the importance in absolute value has been steady.

Machinery import has been critical for sustained economic growth. The demand has been linked directly to the increased growth of the

small and medium industries in Indonesia. The replacement market for machinery has never been more buoyant as it is today. Some of the heavy industries which were supported in the initial years of independence have obsolete technology and therefore are in dire need of replacement.

### Vehicle other than railways

The vehicle and its parts and transport equipment imports into Indonesia are second most important component of the engineering import basket. In percentage terms it is 5.81 of the total merchandise imports into Indonesia.

During the three year of this survey, the imports under this category has registered a growth of over 13 per cent in the year 2003 over 2002 from a level of US\$ 1,662.919 million to a increased level of US\$ 1,890.291 millions. It has even surpassed the import level of US\$ 1,867.522 million of 2001.

### Electrical Machinery

Another growth area in imports is the electrical machinery segment which has increased to US\$ 1,768.980 millions in 2003 from US\$ 1,545.313 millions in 2002 and this increased from US\$ 1,385.359 millions in 2001. The electrical machinery segment has increased in absolute value and also in its share of the total imports in Indonesia, an increase from 4.47 per cent in 2001 to 5.44 per cent in 2003.

### Global imports of Indonesia

Indonesian engineering imports in the year 2003 are identified under broad category of HS code classification and according to the value are as follows :

*(in US\$ millions)*

<i>HS Code</i>	<i>Description</i>	<i>Value</i>
<b>All commodities</b>	<b>World</b>	<b>32,550.684</b>
84	Machinery	4,297.138
87	Vehicle, not railway	1,890.291
85	Electrical machinery	1,768.980
72	Iron and steel	1,286.958
73	Iron and steel products	688.887
89	Ship and boats	439.872
76	Aluminium	322.822
90	Optical, medical instruments	306.075
88	Aircraft, spacecraft	120.166
82	Tool, cutlery of base metal	113.172
74	Copper & articles thereof	92.817
83	Misc. article of base metal	89.166
79	Zinc & articles thereof	79.951
86	Railway, traffic signal equipment	26.425
81	Other base metals and articles	11.116
73	Nickel & articles thereof	9.992
80	Tin & articles thereof	2.211

*(Sources : Indonesian custom and other published sources)*

Engineering imports into Indonesia forms a significant components of import baskets and this represents approximately over 31 per cent of the total imports of all commodities into Indonesia.



Major trading partner and the main traded engineering products of Indonesia

Country/Commodity	2002		2003		Growth (%)	
	Quantity (000' Ton)	Value (Million US\$)	Quantity (000' Ton)	Value (Million US\$)	Quantity	Value
<b>Japan</b>						
Parts and accessories of the motor vehicles	73.7	575.7	81.9	673.5	11.13	16.99
Internal combustion piston engines and parts	34.5	307.9	29.1	311.7	-15.65	1.23
Motorcycles, scooters, and other cycles motorized/not	12.6	265.3	8.6	165.4	-31.75	-37.66
Flat rolled products not clad	370.6	134.0	329.4	147.3	-11.12	9.93
Civil engineering and contractor plants	41.9	133.9	35.4	132.9	-15.51	-0.75
<b>Singapore</b>						
Ships, boats, and floating structures	605.0	242.6	457.8	246.6	-24.33	1.65
<b>United States</b>						
Civil engineering and contractor plants	532.9	92.1	461.5	80.2	-13.40	-12.92
<b>Republic of Korea</b>						
Flat rolled products not clad	268.2	108.6	272.4	145.4	1.57	33.89
<b>Australia</b>						
Aluminium	85.2	14.9	736.0	180.2	763.85	1,109.40
Aluminium ores and concentrates	300.3	53.1	342.7	71.1	14.12	33.90
<b>Germany, Fed. Rep. of</b>						
Telecommunication equipments and parts	3.0	12.9	2.7	83.3	-10.00	545.74
Other non-electrical machinery, tools, and mechanical apparatus	72.3	56.9	69.7	67.6	-3.60	18.80
Ships, boats, and floating structures	179.6	68.3	149.6	67.0	-16.70	-1.90
Other machines and equipments specialized for particular industry	275.6	115.6	121.3	64.8	-55.99	-43.94
<b>Thailand</b>						
Motorcycles, scooters, and other cycles motorized/not	35.4	21.7	25.1	15.1	-29.10	-30.41

Indonesia and India : Trade potential unexplored

(in US\$ millions)

Indonesian economy is highly dependent on imports of raw material, semi-manufactured or intermediate products and capital goods. These are required to sustain the manufacturing industries and support the demands of the industrial sector.

The engineering imports from the world is estimated to be approximately US\$ 10,395.969 millions out of the total imports of US\$ 32,550.684 million in the year 2003. India's export of engineering goods to Indonesia amounted to US\$ 140.241 millions which constitutes a negligible share of the imports of Indonesia.

India's engineering exports

The principal exports of engineering goods from India to Indonesia in the year 2003 are as follows :

(in US\$ millions)

HS Code	Description	Value
72	Iron and steel	64.075
73	Iron and steel products	10.857
74	Copper and articles thereof	1.451
75	Nickel and articles thereof	0.002
76	Aluminium	10.641
78	Lead	0.030
79	Zinc and articles thereof	0.021

HS Code	Description	Value
80	Tin and articles thereof	0.000
81	Other base metal	0.009
82	Tools, cutlery of base metal	2.046
83	Misc. articles of base metal	0.438
84	Machinery	31.706
85	Electrical machinery	10.500
86	Railway, traffic signal equipment	0.038
87	Vehicles, not railway	7.677
90	Opticals, medical instruments	0.677

(Source : Indonesian Custom, DGCIS)

Identified engineering products which have potential for export from India

Indonesia's major merchandise imports under the various categories from the world are given below. India does have the supply capabilities/capacities to meet the needs of the Indonesian market. Majority of the products are presently exported from India to developed markets.

Machinery

Boiler and parts (steam/vapour/central heating), internal combustion engines and parts, pumps (all kinds), pumps for liquid, transmission



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products, air related pumps and compressors, pipes, taps, cocks, and valves, cleaning machines, temperature related machines/appliances such as heat exchangers, dryers, and others), gas turbines and parts, agricultural machines/implements/tools, pulp and paper machines, textile machines and parts, packaging machines, printing m/c, lifting machines, rubber/wood working machines, furnace not electric, tools (all kinds), lathes, hand tool pneumatic and other kinds, engine motors, metal rolling mills, ball/roller bearings and parts, centrifuge and filters, gasket and parts, machines for sorting out minerals, mining equipments.

### **Electrical Machinery**

Switching apparatus, automatic circuit breakers, apparatus for protecting circuits, electric generating sets and rotary converters, electric ignitions or starting equipments for engines and generators, cables, wire, conductors (insulated or enamelled), electric motors and generating set, batteries, storage batteries, industrial electric furnaces, electro-mechanical tools, drill, tapping, reamers, files, integrated circuits, electric machines for welding/brazing/soldering, primary batteries, storage batteries, permanent magnet and parts, heating appliances, electro-mechanical domestic appliances, electric insulators, elec-mech hand tools, transmission apparatus and parts.

### **Vehicles**

Gear and gear boxes for vehicles, clutches, motor vehicle body parts, brakes and parts, brake linings, steering wheel related parts, drive axles and differentials, bumpers, muffler and exhaust pipes, suspension and shock absorbers and radiators and parts.

### **Bicycle and Parts**

Frame, forks, hubs, saddles, brakes, rims, spokes, pedals and crank gears.

### **For tractors, transport vehicles and special purpose vehicles**

Suspension shock absorbers, steering wheel and parts, clutches and parts, body parts, non-driving axles and parts, road wheel and parts, bumper and parts, radiators, safety seat belts and parts.

### **Motorcycles and Parts**

#### **Prime Iron and Iron and Steel Product**

Tube pipe and fittings, fasteners, structures and parts, hollow profile, chains and parts, cast products, springs (all kinds), containers for compressed liquid and gas, household articles (kitchenware, utensil, cutlery). Castings, ferro-alloys, stainless steel wire, flat/rolled product, bar and rods of alloy or non-alloy steel, wire of alloy steel, tube, pipes and pipe fittings, chains and their parts, railway track construction materials.

- Aluminium (unwrought, plate sheet strip, foil, tubes and pipes etc.)
- Auto parts and transport equipment, bicycle and parts
- Medical instruments/optical products
- Manufacture of non-ferrous metals.

## **Strategies for increasing India's share**

### *Creating an India Brand Image*

Creating India's brand image is critical for success in the global market. Global competition have intensified as nations aggressively market their products globally. The need of the hour is to aggressively market their products globally. The need of the hour is to aggressively market "India Brand" and until this becomes a two way process. A success of a firm in the market place enhances the image of the country and thereafter this pull other products under the umbrella of the country's brand. A win – win situation.

### *Creating Awareness*

Creating awareness about the range of product that India can offer would be the first step forward, in establishing a contact with the market.

Achieving this objective would be the primary goal. Creating awareness is an uphill task and this can be achieved only if continuous engagement of the market are undertaken. Promotional activities need to be undertaken on a continuous basis by participating in specialized trade fairs, organizing buyer seller meet and trade delegation. The "Made in India Engineering Exhibition" such as IndiaTech would be ideal as this would able the buyer to get a feel of the range of the products that are available and also assess the quality and the price.

### *Creating Competitive Advantage*

The key element for creating the competitive advantage for India is being able to position itself as a reliable and quality supplier of engineering products. It should be seen that we are in a position to offer the most advanced and appropriate technology products at the most competitive price in the market place.

### *Market Segmentation*

Every market can be segmented. Engineering goods from India can be positioned as a low cost producer of high quality engineering products. Generic strategies such as these would be ideally suited since engineering products from India are generally perceived having the above qualities.

Indonesia is on the verge of sustained economic recovery. The Indonesian economy relies extensively on imports of raw material as well as capital goods to sustain the competitive edge of the various manufacturing sectors. The contraction in Indonesia has not seen major investment activity barring few in the oil and gas sector and therefore the environment is healthy for foreign direct investment as well as private domestic investment. Tourism has regained its vigour since the Bali blast and remains a major revenue earner. Indonesia has benefited from the high oil price in the international market.

The prospects of sustained economic growth has increased the possibilities of demand for products and services to rise exponentially and consequently there would be rise in imports of all commodities and especially of engineering goods including raw materials, intermediate goods and capital goods.

*(Source : EEPC Singapore Office)*