US Embassy Jakarta

ECONOMIC SECTION

INDONESIA TRADE AND INVESTMENT HIGHLIGHTS - JANUARY 2007

Summary:

- Indonesia's exports soared to a record US$ 100.7 billion in 2006, largely due to high world commodity prices.
- Ministry of Industry (MOI) Secretary General Agus Tjahajana announced on January 18 that the Government of Indonesia (GOI) expects manufacturing sector output to grow by 7.9% in 2007.
- Director General for International Trade Diah Maulida announced on January 15 that the Ministry of Trade (MOT) is considering abolishing a 2002 Textile Decree because it is leading to trade distortions.
- On December 29, 2006, the Ministers of Trade and Marine Affairs and Fisheries issued a joint decree to extend a ban on shrimp imports for another six month period.
- Indonesian cellular phone operator Telkomsel claimed on January 15 that the company had become the 10th largest 3G telecommunication service provider worldwide in terms of numbers of subscribers, only four months after it launched 3G services in Indonesia.
- Ministry of Industry Director of Multifarious Industries Nugraha Sukmajaya announced on January 18 that the GOI expects new investment of $125 million in the footwear sector and a 15% increase in shoe exports to $1.8 billion in 2007.

Exports Exceed $100 billion in 2006

Indonesia's Central Bureau of Statistic (BPS) announced on February 1, that Indonesia's total export value in 2006 rose to $100.7 billion from $85.6 billion in 2005, an increase of 17.6% year-on-year (YoY). Imports rose to $61.08 billion, a 5.9% YoY increase from $57.70 billion in 2005. For the year, Indonesia had a total trade surplus of $39.61 billion compared to $27.96 billion in 2005. Exports of fats and vegetable oil, particularly crude palm oil, recorded the highest gain in value among non-oil-and-gas exports in December 2006. Minister of Trade Mari Pangestu told the press on January 18 that record world commodities prices -- such as those for rubber and palm oil -- and some improvement in manufacturing output contributed to the dramatic export growth in 2006. For the first 11 months of 2006, manufactured goods, according to Pangestu, contributed 67.5% of Indonesia's non-oil and gas exports. Moreover, Indonesian garment and textile exports during the January-November period grew by 10.5%, footwear by 13.7%, automotive components by 28.5%, and iron and steel by 79.8.

Pangestu further predicted that Indonesia's exports could grow by up to 19% in 2007. She added that her ministry would continue to encourage exporters to target prospective export markets, such as the Middle East, where there is an ongoing construction boom. To effectively compete for these markets, Pangestu said Indonesia must improve its investment climate to further develop its export manufacturing base.

Manufacturing Sector Shows Moderate Growth

Ministry of Industry Secretary General Agus Tjahajana announced on January 18 that Indonesia's manufacturing sector output expanded 7.9% in 2007. Rising private consumption, government expenditure and construction sector investment drove the expansion. Agus noted that manufacturing sector output grew by only 5% in 2006, below the GOI’s 6% official forecast, due to weak domestic demand and high interest rates. Manufacturing growth in 2005 was just 4.6%. In the past, Indonesia's manufacturing sector has been a key driver of economic growth, with factories producing a range of products, including textiles, footwear, iron and steel, and petrochemical products. Analysts say labor rigidities, poor infrastructure, regulatory and legal uncertainty, and security concerns have hurt Indonesia’s ability to compete for new investment with regional competitors like China.

GOI Considers Abolishing Textile Decree

Ministry of Trade Director General for International Trade Diah Maulida announced on January 15 that the GOI may abolish a controversial Textile Decree. The regulation, according to Diah, lacks a sound legal basis and is often the source of criticism from other members of the World Trade Organization (WTO). However, Coordinating Ministry of the Economy Deputy for Trade and Industry Edi Putra Irawady on January 15 said that the GOI would maintain its current trade policies for textiles in spite of calls for their revision from a number of trading partners, including the United States. According to Edi, in practice the regulation does not restrict textile imports, and only imposes some additional administrative procedures.

On October 22, 2002, the Minister of Industry and Trade issued Decree No. 732/2002 concerning Textile Import Arrangements. Under the Decree, only companies that have production facilities that use imported fabrics as inputs for finished products, such as garments or furniture, may obtain textile import licenses. The GOI has often noted that the Decree is designed to curb smuggling, but an increasing gap between GOI import statistics for fabrics and partner country exports figures for those same items indicate that smuggling remains prevalent.

GOI Extends Shrimp Import Ban

The Ministers of Trade and Marine Affairs and Fisheries issued a joint decree on December 29, 2006 extending for another six months a ban on the import of frozen and fresh shrimp into Indonesia. Ministry of Marine Affairs and Fisheries Head of Statistic and Information Saut Hutagalung on January 10 explained that an outbreak of fish diseases and the continued prevalence of antibiotics in shrimp produced in international markets compelled the GOI to extend the ban. Hutagalung noted that the disease infectious myonecrosis was discovered in shrimp in East Java in May 2006. Decrees No. 02/2006 and No.40/2006 ban the importation of the following species of frozen and fresh shrimp: penaeus vanamae, penaeus monodon and penaeus stylirosttris. However, the GOI continues to allow the import of these species for research purposes.

Telkomsel's 2G Operations Grow

Telkomsel Operation Director Alan Ho told the press on January 15 that the state-owned telecommunications provider plans to build more than 1,500 base transceiver stations across Indoensia (BTS) in an effort to develop third generation (3G) services in the country. According to Ho, Telkomsel, Indonesia's largest cellular phone operator, ranks as one of the top ten 3-G providers worldwide in terms of number of subscribers, only four months after it launched the service in Indonesia. A subsidiary of state-owned telecommunications company PT Telkom, Telkomsel had 1.7 million 3G subscribers in January 2007, ranking it 10th out of the 159 3-G providers worldwide. 3G service allows its users to combine voice, text, pictures and video-streaming, plus broadband internet connection, on mobile interfaces. Other licensed 3G operators in Indonesia include Indosat, Excelcomindo, Hutchison CP Telecommunications, and Natrindo Telepon Seluler.

$125 Million Investment in Footwear Sector

Ministry of Industry Director of Multifarious Industries Nugraha Sukmajaya announced on January 18 that the GOI expects $125 million in new investment in the footwear sector in 2007, as well as a 15% increase in shoe exports to $1.8 billion. Nugraha said his optimism is based on the expectation that Indonesian footwear export producers will increasingly enter European Union (EU) footwear markets with the EU maintaining trade sanctions on large producing countries like China and Vietman. Nugraha added that Indonesia's footwear sector remains promising, and he claimed that 16 companies invested $80 million in the industry in 2006.

Table 1: Indonesian Footwear Industries – Profile

Number of companies	350 companies
Production capacity	1,123 mln pair
Capacity utilization	73.64%
Labor force 2005	392,000 workers
Labor force 2006	375,000 workers
Raw material	60% imported, 40% local
Exports value 2005	$1.43 billion
Exports value 2006	$1.60 billion

Source: Ministry of Industry

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