

A WEALTH OF PRODUCE

Indonesia, which recently overtook Malaysia to become the world's number-one exporter of palm oil, is the world's number-two producer of rubber, and the second-largest exporter of cocoa. As a large and diverse economy with low labour costs, it is also well-placed to export a wide variety of manufactured goods.

TEXTILES & FOOTWEAR

Currently, the textiles and garment industry in Indonesia employs about 15% of all workers in the formal economy, and is responsible for US\$8 billion in exports—about 8% of the value of the country's total in 2006.

Footwear is another major export earner. There are about 300 shoe factories in Indonesia found mainly in Batam, Java and North Sumatra. Sportswear giant Nike sources many of its shoes from Indonesian factories, as do other brands such as Rockport and Lacoste. Indeed, Indonesia is the world's second-largest exporter of sports shoes, with 23% of the world market.

AUTOMOTIVE & ELECTRONICS

Another sector that has grown in recent years is automotive parts. Companies such as Nissan, Toyota, Isuzu and Daihatsu have all set up plants in Indonesia, and Indonesian-made automotive parts are now exported around the world.

Electronics manufacture is another strong area. Indonesia is the world's number two exporter of office printers, for example, and many global brands, such as Samsung, LG, TEAC and Panasonic now operate plants in Indonesia.

HANDMADE GOODS

Indonesia is also renowned for the quality of its handmade goods, many of which draw on traditional techniques. Products include leather goods, jewellery, silver and gold crafts, woven cloth, ceramics and handicrafts. The value of craft exports was US\$168.8 million in 2006.

Another area that draws on traditional skills in Indonesia is the area of wooden furniture manufacture. While traditional furniture is in demand all over the world, the plentiful supply of timbers such as teak, mahogany, pine and fast-growing sengon has led to more modern furniture designs.

AGRICULTURE & AQUACULTURE

In the area of agriculture, palm oil dominates, but Indonesia's warm climate, large land area and reliable rainfall lends itself to a wide variety of agricultural produce (see page 22).

Being an archipelago, there is no shortage of sea surrounding Indonesia and the country is the fourth-largest exporter of prawns (shrimp), after Vietnam, Thailand and India. Most Indonesian prawns are exported frozen. ■

TRADE EXPO SHOWCASES INDONESIAN EXPORTS

As a major economy, Indonesia produces an enormous variety of goods for export as well as local consumption.

For importers looking to source goods and services from Indonesia, NAFED's regular Trade Expo Indonesia is an excellent place to start. In 2008, the event will be held from 21–25 October in Jakarta's extensive fairgrounds.

In 2007, Trade Expo Indonesia attracted well over 7000 buyers from 109 countries. Transactions totalled US\$208 million, with Indonesian furniture accounting for over half of all business conducted at the event, followed by gifts/craft and automotive components.

The business-to-business event showcases the enormous range of Indonesian goods for export, including:

- agricultural products
- automotive components
- building materials
- chemical products
- electronics & electrical equipment
- leather products
- food & beverages
- furniture
- glassware
- handicrafts
- heavy machinery & equipment
- household goods
- healthcare, herbal and medicine
- jewellery
- paper products & stationery
- rubber products
- sporting equipment
- textiles & garments
- wooden products

Further information

www.tradexpoindonesia.com

PROMOTING INDONESIA'S GOODS TO THE WORLD



NAFED'S BACHRUL CHAIRI

The role of promoting Indonesia's exports around the world—with the exception of oil and gas—falls to the National Agency for Export Development (NAFED). *Business Advantage* spoke with its Chairman, Bachrul Chairi.

If Indonesia is to achieve GDP targets of 6% or more, it must export more, and also diversify its exports beyond oil and gas by building on the success of palm oil and cocoa. This is why the country's National Agency for Export Development (NAFED), an agency under Indonesia's Ministry of Trade, has such a crucial task.

'NAFED's role is to help Indonesian products find markets, and also the niches within those markets,' explains the organisation's Chairman, Bachrul Chairi.

A GLOBAL PROMOTIONAL NETWORK

In addition to 10 Indonesian Trade Promotions Centres around the world (see box below), Indonesia also has trade representative offices attached to 25 of its embassies and consulates. Bachrul told *Business Advantage* that the organisation has ambitious plans to build on this network:

'In 2008, I am going to add 11 new offices in the emerging markets. In Asia: in Busan (Korea), Shanghai (China), and industrial centres in India. Santiago in Chile, Lagos in Nigeria. In North America: Vancouver and Chicago. In Europe, we'll have one in Barcelona.'

BROAD RANGE OF ACTIVITIES

As well as providing a 'shop window' for Indonesian goods around the world, NAFED also provides a first port of call for those seeking to import Indonesian goods, as well as gathering useful market data, running export training centres for small and medium-size enterprises to develop export knowledge, and coordinates attendance at international trade fairs. It also runs the massive Trade Expo Indonesia (see box on page 20).

STRATEGIC FOCUS ON KEY SECTORS

With such a broad-based economy, NAFED has had to be strategic in selecting which sectors it promotes.

'We have identified our major export markets and our potential export markets. We can't go into them all, we have to decide which ones to go into,' Bachrul explains. 'We have 10 priority product lines: textiles and garments, electronics, travel, palm oil, forest products, shoes, automotive, cocoa, coffee and shrimp. These accounted for 48.6% of our total exports in 2007, worth US\$24 billion.'

A further 10 categories have been identified as having significant export potential, including handicrafts, medicinal herbs, spices, jewellery and leather. Also on NAFED's radar is Indonesia's burgeoning IT industry, creative design services and the export labour market.

BRANDING FOR EXPORT

Bachrul is mindful that products that work in the Indonesian domestic market may not necessarily be successful internationally. NAFED is therefore also focusing on how to brand Indonesia's products overseas.

'From 2010, we are targeting to promote about 200 Indonesian brands around the world. We are helping some products and branding them for international recognition.'

CUSTOMS REFORM

One major hurdle remains if Indonesia is to achieve its export potential: the need for swifter processing through Indonesia's customs system and ports. The mining industry already has single process for clearances, and Bachrul welcomes the pilot 'single window' import/export gateway currently being trialed in the Batam Free Trade Zone (see page 24).

'At a national level we are introducing a national single window. This is a gigantic leap. It has to coordinate about 40 institutions. Previously, you had to go to Customs and the banks, now you will go to one place. It is much more efficient. The pilot project started in Batam last year. By 2009 all export ports will be implementing cuts to bureaucracy.' ■

Further information

www.nafed.go.id

INDONESIA'S TRADE PROMOTIONS CENTRES AROUND THE GLOBE

In addition to 25 trade representative offices sited in embassies and consulates, NAFED manages Indonesian Trade Promotions Centres in 10 countries:

- Australia (Sydney)
- Brazil (Sao Paolo)
- Germany (Hamburg)
- Hungary (Budapest)

- Italy (Milan)
- Japan (Osaka)
- South Africa (Johannesburg)
- Taiwan (Taipei)*
- United Arab Emirates (Dubai)
- United States (Los Angeles)

*Indonesia Economic and Trade Office

INDONESIA'S AGRICULTURE POTENTIAL

CREDIT: MINISTRY OF AGRICULTURE

This country has the potential to be a powerhouse for agriculture,' noted Kenneth Courtis, former Managing Director of Deutsche Bank Group, at an investment forum in Jakarta in May 2008. Certainly, at a time when the world is experiencing both fuel and food shortages, Indonesia has plenty of both resources.

'We have an obvious strength in agriculture because of a combination of fertile land, [large] population and a farming tradition,' agrees Mahendra Siregar, Deputy Minister at the Coordinating Ministry for Economic Affairs.

PALM OIL

Versatile palm oil, with its uses as a food, fuel and manufacturing additive, is Indonesia's leading agricultural export. In 2006, the country produced 16.5 million tonnes of palm oil, the vast majority for export to countries such as India, the Netherlands, Singapore, Malaysia, Pakistan and China. It now produces about six times as much palm oil as it did in 2000. Encouragingly, refined and processed palm oil product accounts for 57% of all exports.

Riau Province, close to Malaysia, alone accounts for about 30% of Indonesia's palm oil production. Currently, an industrial estate specifically dedicated to palm oil is being built there in the city of Dumai.

Value-adding to Indonesia's palm oil production creates higher value exports and more jobs. There are now 46 palm oil refineries (for more on biofuel, see pages 15–17), seven oleochemical factories and seven biodiesel factories in Indonesia but there is a declared need for much greater refining capacity to keep up with increases in production.

The Government, along with the Indonesian Palm Oil Board, has instituted a number of measures in response to concerns that clearance burning and unsustainable practices may be damaging the sector. These include a 'zero burning policy,' sustainability training according to the principles set out by the Roundtable on Sustainable Palm Oil (RSPO), waste management and recycling of nutrients. In 2007, about 80% of palm oil plantations met the Forest Stewardship Council's High Conservation Value Forest criteria.

CATTLE & LIVESTOCK

The feedlot industry in Indonesia has grown markedly in recent years, although breeding is not yet up with demand. Cattle are currently being imported in record numbers from countries such as Australia.

'We want to bring the success of crude palm oil and plantations to the beef industry,' Juan Permata Adoe, Chairman of the Standing Committee for Food Security and Primary Industry at KADIN (Indonesia's influential Chamber of Commerce and Industry), told *Business Advantage*.

COFFEE

In the United States, the word 'Java' is synonymous with coffee, and its use goes back to the 19th century, when the US imported much of its coffee from what is now Indonesia's most populous island. Coffee is still a mainstay of the Republic's economy. In 2007, it was the world's fourth-largest exporter of coffee, exporting to the United States, Germany, Japan, Italy, Singapore, Algeria and the United Kingdom.

While beans remain by far the most common form of coffee export, Indonesia now also exports coffee husks and skins, coffee powder, and roasted and decaffeinated coffee. A recent development is the entry of worldwide consumer coffee chains into Indonesia. US chain Starbucks now buys direct from primary producers, ensuring the coffee meets its own very stringent quality standards.

COCOA

Indonesia is the world's third-largest producer of cocoa beans, accounting for about 10% of the world market. In 2007 it produced 770,000 tonnes, with major export destinations being Malaysia, USA, Singapore and Brazil. Export growth has been steady, at around 8% per annum since 2001. As well as beans, the country also exports processed products such as cocoa butter, powder and chocolate. Plantations and processing factories are based primarily in Sulawesi, Sumatra, Java, Maluku, Kalimantan and Papua.

FOOD CROPS

In the words of President Susilo Bambang Yudhoyono, 'Indonesia can become a major food producer with the right investment.' In addition to six major food crops (see box), Indonesia produces a wide variety of foods, not the least of which is a broad range of tropical fruits, such as bananas, papaya, guava, the famously smelly durian, mangos, starfruit and pineapples. Vegetables such as chillies, cabbage, eggplant, tomatoes and potatoes are also staples, while the country is a notable source of tea, vanilla, pepper, cloves, cinnamon, cashews and nutmeg. ■

INDONESIA'S SIX MAJOR FOOD CROPS

- Cassava
- Corn/Maize
- Rice
- Peanuts
- Soybean
- Sweet potato



CREDIT: MINISTRY OF AGRICULTURE

BATAM FREE TRADE ZONE LEADS THE WAY

Free trade zones are part of the Indonesian Government's strategy for attracting foreign direct investment. *Business Advantage* visited Indonesia's first free trade zone, on Batam Island near Singapore, to see the model working first hand.

Travelling to the island of Batam in Indonesia's Riau Islands Province takes just an hour by high-speed ferry from Singapore, one of the world's busiest ports. On the way, you pass along the Straits of Singapore. About 55,000 ships pass through here each year, carrying approximately 25% of the world's trade volume and half the world's oil consumption.

As the tall buildings of over-crowded Singapore recede into the distance, and the buildings of Batam Center ferry terminal approach, it's easy to understand why the Indonesian and Singapore Governments, combined with many shrewd private Indonesian, Singaporean and international investors, have invested US\$13.08 billion in turning Batam and its five neighbouring islands—now linked by bridge—into a major manufacturing, trade, trans-shipment and tourism hub.

ZONE BENEFITS

Land and labour in Batam is cheap and plentiful, compared not only to Singapore, but also to Indonesia's Asian neighbours generally. Infrastructure is mostly in place, and most convenient of all, goods and raw materials can be brought in and out of Batam (and adjoining islands, Rempang and Galang) free from

Government taxes, and with minimal delays.

'It takes only half a day to clear goods from Singapore to Batam—no problems,' Yoshio Takayama, President Director of Japanese-owned manufacturer PT Tomoe Valve Batam, told *Business Advantage*.

RAPID GROWTH

It has all happened quite quickly. Back in the 1970s, Batam was home to a population of just 6000 people, most relying on fishing for a livelihood. Thirty-six years on, the Batam free trade zone has a population of over 700,000, about 40% of whom work in one of the zone's 22 industrial parks or 71 shipyards.

The island archipelago is now home to almost 1000 foreign companies from 38 countries, and almost 10,000 local ones. Its free port status, shared in Indonesia only with Sabang in the province of Aceh, makes it particularly attractive to those companies bringing in raw materials and exporting finished goods.

LONG-TERM CERTAINTY

In August 2007, Indonesian President Susilo Bambang Yudhoyono signed instruments declaring Batam and parts of neighbouring Bintan and Karimun islands as a free trade zone, exempt from import and export taxes, customs and excise charges and sales tax.

'The declaration is really a continuation of Batam's existing status,' Mustofa Widjaja, Chairman of the Batam Industrial Development Authority (BIDA), told *Business Advantage*. 'However, the declaration's guarantee of free trade zone status for 70 years will guarantee that business conditions here are stable.'

KEY INDUSTRY SECTORS

The 22 industrial parks dotted across Batam provide a broad range of facilities and rental rates, and also allow companies in similar industries to cluster together to achieve efficiencies. Key



CREDIT: BIDA

CASE STUDY: LOGISTICS GIVES TEAC AN ADVANTAGE



TEAC'S OTA KENSHI

If you use a laptop computer, there's a reasonable chance that its optical CD or DVD drive was assembled in Batam. Japanese electronics giant TEAC, which manufactures optical drives for most of the major computer manufacturers around the world, is one of a number of electronics

companies situated in Batam. In operation since 1994, PT TEAC Electronics Indonesia now manufactures all TEAC's optical drives out of Batam.

The company employs about 1700 people at its plant in the Batamindo Industrial Park. According to President Director

Ota Kenshi (pictured), Batam's proximity to the major port of Singapore was a key benefit to a business heavily reliant on importing components and exporting finished goods.

'Singapore is the number-one country for logistics. We export drives to the US, China, the United Kingdom, Japan and Taiwan—to Dell, Hewlett Packard and Toshiba, among others. It's very easy here. Customs checks are kept to a minimum and we can make same-day shipments.'

The flexibility and affordability of the workforce is another factor: up to 90% of TEAC's Batam workforce, mainly women, are contractors.

TEAC Electronics Indonesia's business looks set to grow. Ota Kenshi is already making plans to commence manufacture of the next generation of optical disk drives, Blu-Ray.

CASE STUDY: TOMOE VALVE BATAM



Since the 1970s, when Indonesia's state energy company Pertamina first established a presence in Batam, the free trade zone has built a reputation as a centre for the provision of services and equipment to the coal, oil and gas industries.

PT Tomoe Valve Batam, the Japanese-owned manufacturer of high performance valves for use in oil and gas pipelines and refineries, commenced business in Batam in 2006 and now exports its equipment to Japan, Southeast Asia, the USA and Saudi Arabia.

Like many other export-focused companies, Tomoe Valve chose Batam because of its proximity to Singapore. But for a company that manufactures critical parts for an industry

where safety is paramount, the workforce was also a factor.

'We have experienced managers here, and the skills for manufacturing here are higher than in Singapore,' notes President Director Yoshio Takayama (pictured). 'Much higher even than in Japan or China.' Costs are lower too: Takayama estimates that labour costs are about 90% of those in China.

Takayama told *Business Advantage* that setting up in Batam had been a straightforward matter: 'They have many advantages for newcomers on this island.' Established industrial parks and cheap land meant a suitable building could be found and leased quickly, while affordable and available labour meant a workforce could also be assembled without delay.

industry sectors include oil and gas (and related services), shipyards electronics, manufacturing, engineering, logistics, construction, plastics and consumer goods.

INFRASTRUCTURE KEEPS PACE

Such has been the pace of change in Batam, it is hardly surprising that the island's infrastructure has at times struggled to keep up with industrial growth. However, companies *Business Advantage* spoke with during our visit in June 2008 seemed to think most of the zone's growing pains were in the past.

With four cargo ports, six passenger ferry terminals, a freight airport with Indonesia's longest runway, and a modern road and bridge network, the zone is well-served with transportation infrastructure, although a US\$330 million bridge network linking Batam with Bintan Island—considered by BIDA to be a vital next stage in the region's expansion—is currently stalled due to the lack of a regulatory structure under which it could be built by private capital.

Water, energy and telecommunications are areas where there have been capacity issues. Regular power cuts imposed by state power company PLN due to natural gas shortages continue to be a very sensitive issue, with backup power supplies proving essential for most businesses. BIDA is encouraging the building of new coal-

fired power stations in Batam to help overcome these problems.

A new reservoir will soon add about 16% more fresh water to Batam's existing supply, while a permanent link to Bintan Island—if and when it eventuates—will ensure better access to water in the longer-term.

PLACED FOR FUTURE GROWTH

With Singapore's thirst for space, Malaysia experiencing labour shortages, and labour costs in China rising, Batam is strategically placed for growth.

'Over the next five years, we want to attract another 400 foreign companies to Batam,' explains Mustofa Widjaja.

Further investment incentives, such as tax holidays, have already been signalled for free trade zones by the Indonesian Government, and there are also advanced plans to create a fully electronic 'single window' clearance system for customs and quarantine in Batam—a pilot scheme for the rest of Indonesia.

All this is likely to further assist BIDA—or its successor agency (a national free trade zone authority is currently being established, which may incorporate Batam's administration)—in achieving its ambitious targets. ■

Further information

Batam Industrial Development Authority: www.batam.go.id

CITRA TUBINDO: ENABLING THE OIL AND GAS SECTOR

'When we set up in 1983, there were only two or three companies here, and one or two fisherman looking for crabs among the mangroves,' reminisces Independent Commissioner Sri M Srimardji of PT Citra Tubindo Tbk, Indonesia's leading supplier of seamless pipes, and related services, to the oil and gas industry.

Situated in a 500-hectare site in the Kabil Integrated Industrial Estate—a centre for the energy sector—Citra Tubindo is a pioneer in Batam. In 1989, it became the first company in Riau Islands Province to be listed on what is now the Indonesia Stock Exchange (trading code: CTBN).

'We supply logistics to all the major oil and gas companies. By sourcing locally energy companies can improve their recovery costs here,' Srimardji explains. Citra Tubindo has its own port and this, combined with the Batam's customs efficiencies and the availability of most components locally, means the company can benefit from a 'just-in-time' approach to stock control.

Export is also a priority, with 50% of business coming from exports to the Middle East, the USA, Malaysia, Japan, Canada and Venezuela.

Peters Vincen, Director of parent company PT Citra Agramasinti Nusantara, says the Indonesian Government is attracting foreign investment to the country's oil and gas sector, but 'the next challenge is whether there are enough supporting companies to help them achieve that goal.' He encourages more entrants into the sector: 'oil and gas specialists are the best businesses to come to Batam.'

Citra Tubindo is certainly reaping the benefits of its strategic positioning in Batam. Turnover has grown from US\$72 million just five years ago, to US\$279 million in 2007. Profits have grown by over 1000% over the same period, and the company's share price has never been higher.