



2016 Top Markets Report **Cold Chain** Country Case Study

Indonesia

Indonesia ranks high in opportunities as a potentially large market primed for infrastructure investment. Numerous challenges, however, limit the interests of cold chain providers. It is the fourth most populous nation, and its booming economy is experiencing rapidly rising incomes.

Overall Rank

16

Lower-Middle Category Ranking

2

With a GDP of nearly \$862 billion, Indonesia is the 16th largest economy in the world. Goods and services exports to Indonesia accounted for \$10.7 billion in 2015. U.S. majority owned foreign affiliate sales in Indonesia were \$31 billion in 2013, and while retail sales are not available, distribution services contributed more than \$2 billion.¹

The population of Indonesia is considered lower middle income, with a per capita income of about \$10,190 (PPP) per year. Unemployment has been stable around 6.2 percent, and inflation was 6.4 percent in 2014.² Household spending per capita is \$6,810 and is expected to reach \$9,098 by 2020 (PPP).³

The consumer economy in Indonesia is booming, and the country has abundant natural resources. Infrastructure development in the country, however, has not kept up, providing both opportunities and challenges for cold chain operators.

Small traditional shops dominate Indonesia’s retail landscape with little variety or few options available to consumers. Furthermore, shelf space is limited, which serves as a barrier to entry for many food producers wishing to sell products in the market. Significant opportunities, however, do exist for food retailers to find ways to better serve these markets.

Figure 1:

Competitiveness Index	Score
Government/Regulatory	4.0
Labor Force	4.2
Infrastructure	4.4
Demand	4.5
Industry Interest	3.0

World Economic Forum and Global Cold Chain Alliance

Economic Statistics

Population	258 Million
Cold Storage Capacity	12.3 M/m ³
Pharmaceutical Sales	\$5.8 Billion
Food Spending	\$179 Billion
Food Spending per Capita	\$697
Agribusiness Market	\$141 Billion
Agriculture Imports	\$4.7 Billion
Agriculture Exports	\$11.4 Billion

BMI and Global Cold Chain Alliance

Within the larger metropolitan areas, wealthier consumer groups often prefer fresh produce. Given the rise in consumer income, ITA expects a commensurate increase in demand for temperature-sensitive products sold by modern retailers.

Despite a growth in supermarkets, protectionist activities of Indonesia’s government have interfered with expansion of large retail markets. Deregulation has helped remove some barriers, but new local content requirements are becoming burdensome to business, and government corruption is a large concern.

The franchise sector in Indonesia is strong, with over 1,100 franchises and growth rates of 8 to 14 percent expected to continue for the foreseeable future. Food and beverage, quick serve and fine dining are all expected to expand in the country, as there is a strong demand for U.S. restaurants and bars, especially in the major cities.

E-commerce and m-commerce are rising in popularity across Indonesia, with 4.6 million online shoppers spending as much as \$3.5 billion in 2015. The industry is expected to grow to 8.7 million customers this year and 135 million by 2023. Across Asian nations, there has been a trend toward purchasing groceries and food products online. With Indonesia's young, tech savvy population this may be a great opportunity for cold chain service providers.

The pharmaceutical industry in Indonesia has reached nearly \$6 billion in 2015. Indonesia is in the process of implementing a national health insurance plan that will cover the entire country's population by 2019, and pharmaceutical sales are expected to rise to \$9.7 billion by 2020.

Indonesia's agriculture market is expected to grow to nearly \$200 billion by 2020. Poultry, beef and veal production are anticipated to increase 3 to 5 percent annually through 2020, while consumption is expected to rise 4 to 6 percent annually.⁴ Indonesia has a significant fishery sector that is also in need of cold chain services.

A swiftly growing domestic market was cited by Agility in ranking Indonesia fourth in their 2015 Emerging Markets Logistics Index.⁵ The index highlights markets that are primed for logistics investment.

Indonesia ranked 109th in the World Bank's 2016 Ease of Doing Business Rankings, an increase of 11 places since 2015, when the survey was recalculated. Of particular note were low rankings in the categories of Starting a Business, Enforcing Contracts and Paying Taxes.⁶

Indonesia is ranked 69th out of 124 countries in the World Economic Forum's Human Capital index 2015. The population has a median age of 27 and a labor participation rate of 67.7 percent. Less than 5 percent of the population is tertiary educated, and the country is ranked 37th in ease of finding skilled employees.⁷

Indonesia's quality of transport infrastructure is ranked 39th out of 140 countries in the World Economic Forum Global Competitiveness index. Every category of transportation receded in quality since 2013, indicating that Indonesia is not keeping up with the rest of the world in transportation development. Quality of port infrastructure was the lowest rated category of transport infrastructure.⁸ Due to traffic, poor infrastructure and pervasive corruption, many choose to utilize warehousing in Singapore rather than central warehousing in Indonesia.

Indonesia's ports are under strict government oversight, limiting the expertise and investment that foreign port operators and investors can provide. A report from Maersk Line cited a lack of equipment, low port efficiency and poor road access causing congestion and sub-optimal port-efficiency, making it difficult to keep produce fresh.⁹

Indonesia ranked 53rd out of 160 countries in World Bank's 2014 Logistics Performance Index (LPI). The LPI is an indicator of key dimensions of a country's logistics performance including Customs, Infrastructure, International Shipments, Competence, Tracking and Tracing, and Timeliness. Overall, the country has shown slight improvements in most categories since 2007, but the categories of Tracking and Tracing and Ease of International Shipments have shown downward trends.¹⁰

Figure 2: World Bank Ease of Doing Business Ranking

Country	Ranking (2016)	GDP Per Capita (PPP, 2014)
Indonesia	109	\$10,517
Russia	51	\$25,635
China	84	\$13,206
Brazil	116	\$15,838
India	130	\$5,701

Indonesia has been described as a complicated market for foreign producers and distributors to maintain an advantage in, due to geography and lack of infrastructure capabilities. There are 6,000 inhabited islands in Indonesia spanning 5,000 km from east to west, making it difficult to efficiently and quickly transport, store and distribute temperature-sensitive

products. Even consumers on the island of Java, which is home to the majority of the Indonesian population, are difficult to reach because shoppers are spread out across the archipelago.¹¹

A majority of Indonesia's remote sites lack available electrical power, which poses a significant constraint on cold chain development. The Government of Indonesia is striving to address these infrastructure deficiencies by building seven maritime clusters that will be powered by renewable energy and plans to

open up the cold storage sector to 100 percent foreign investment.

Halal logistics, which is prevalent in Malaysia (see Malaysia case study), is becoming increasingly prevalent in Indonesia and is a trend to monitor. U.S. firms that are unaware of the certification requirements and the special requirements involved in transporting, storing and distributing temperature-sensitive halal products may be at a competitive disadvantage.

Industry's Take:

Indonesia is on the list of low index cold storage markets. There are abundant natural resources; however, the infrastructure is too poor to exploit them efficiently. Another challenge is how to service a growing population that is spread over an island nation.

Richard Tracy, Global Cold Chain Alliance

Resources:

U.S. Commercial Service:

<http://www.export.gov/indonesia/>

Country Commercial Guide:

<http://export.gov/ccg/indonesia090815.asp>

Ministry of Trade:

www.kemendag.go.id

¹ Bureau of Economic Analysis; <http://bea.gov/international/factsheet/factsheet.cfm?Area=613>.

² The World Bank; <http://worldbank.org>

³ Business Monitor Online; <http://bmo.bmiresearch.com>.

⁴ Business Monitor Online; <http://bmo.bmiresearch.com>.

⁵ Transport Intelligence; Agility Emerging Markets Logistics Index 2015.

⁶ World Bank 2016; "Doing Business 2016: Measuring Regulatory Quality and Efficiency"; <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf>.

⁷ World Economic Forum; "Human Capital Report 2015"; http://www3.weforum.org/docs/WEF_Human_Capital_Report_2015.pdf.

⁸ World Economic Forum 2015; "Global Competitiveness Report 2015-2016"; http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf.

⁹ Complex Logistics Network, Inadequate Infrastructure Hinder Indonesia's Growth. Journal of Commerce. October, 2013

¹⁰ World Bank 2014; "Connecting to Compete: Trade Logistics in the Global Economy"; http://lpi.worldbank.org/sites/default/files/LPI_Report_2014.pdf.

¹¹ Food and Drink Report. Business Monitor Online. 2014/5