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Market Report: Indonesia

VALUE CHAIN DIVERSIFICATION:

INDONESIA MANUFACTURING AND SUPPLY CHAIN CAPABILITIES

OFFICIAL PROGRAM

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VALUE CHAIN DIVERSIFICATION: INDONESIA MANUFACTURING AND SUPPLY CHAIN CAPABILITIES

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1. Foreword

The Covid-19 pandemic has highlighted gaps and weaknesses in global supply chains. Plant closures and supply shortages in China have led to extended supply chain disruption. Companies with exposure to suppliers in the impacted region of China have to relook at the magnitude of their risk exposure and formulate alternative plans to proactively alter their supply chains.

This report intends to showcase a valid alternative within the highly attractive ASEAN region – Indonesia. The country is the largest economy in Southeast Asia, and is en route to become the 4th largest economy in the world by 2050. With a massive population of over 260 million, it is the 4th most populous country in the world.

Indonesia is an increasingly attractive destination for foreign investment in manufacturing, with monetisable growth opportunities, thanks to its young and steadily rising population, ongoing urbanisation and the roll-out of structural reforms. Today, its manufacturing sector is ranked as the 12 largest in the world. The country is on an industrialisation drive, with plans to raise the GDP contribution of the manufacturing sector from 20% in 2019 to 25% by 2025. Producing in Indonesia will also give Swiss businesses access to 650 million consumers within the ASEAN bloc, one of the fastest growing regions in the world.

I urge Swiss businesses to read this report to learn more about the Indonesian market, its sound macroeconomic fundamentals, political stability, and strong potential as a manufacturing hub. The already existing SwissEcosystem with 150 locally active companies and brands, the experienced SBH team, a professional “SwissCham” with 70+ members, and the newly established “Swiss Centre Indonesia” offering one-stop-solutions are here to welcome any newcomer with its professional networks and authentic “Swissness”.

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2. Why Indonesia?

2.1. FACTS & FIGURES

- Indonesia is the largest economy in Southeast Asia. Its economy, valued at USD 1.2 trillion (CHF 1.15 trillion) in 2019, comprises nearly half of ASEAN's economic output. Today, it is the world's eighth largest economy in terms of purchasing power parity.

- Indonesia has sustained average economic growth rates above 5% since 2000. Expected to become the world's fourth-largest economy by 2050, the country displays impressive long-term growth prospects.

- With over 276 million people, Indonesia is the world's fourth most populous nation. It has a rapidly urbanising population and a large and abundant supply of young labour. Efforts have also been made to improve the education and skill levels of workers through policies focused on higher education and vocational training.

- Over the past five years, Indonesia has demonstrated its ability to withstand international shocks and has one of the lowest debt-to-GDP ratios in the world. Its macroeconomic fundamentals remain robust despite the short-term shock brought on by Covid-19. While the International Monetary Fund (IMF) has lowered its 2020 GDP growth projection for Indonesia to 0.5%, it expects growth to bounce back to 8.5% in 2021, the highest rate since 1995.

- In April 2019, credit rating agency S&P upgraded Indonesia's sovereign ratings to 'BBB with a stable outlook', from 'BBB-', mainly due to the government's policy measures and the economic growth prospects of the country.

- Indonesia is well positioned as a regional hub and is also emerging as a global market economy. It is an ideal production base for Swiss manufacturers to serve domestic and export markets.

- Indonesia and Switzerland have established strong trade and investment relations. Indonesia has a well-established SwissEcosystem, with 150 Swiss companies & brands employing more than 50,000 people in the country.

- The growth of its large domestic market combined with the 'Making Indonesia 4.0' initiative is turning the country into a regional and international manufacturing powerhouse, presenting countless opportunities for Swiss companies and investors.

$1 Trillion GDP — Nominal GDP of more than USD 1 trillion

Population of 276 mn, with 44% under 25

4th most prospective investment destination

Sovereign credit rating continues to trend higher

EODB ranking has improved significantly

5th highest number of internet users globally

- In December 2018, Indonesia and European Free Trade Association (EFTA) countries signed the Indonesia-EFTA Comprehensive Economic Partnership Agreement (IE-CEPA), which is currently being ratified by the countries.

- In the last four years, the Indonesian government has released sixteen Economic Reform Packages, which are intended to stimulate investment, including foreign investment.

- To boost investment, the government is considering enacting an Omnibus Law, which will reform a total of 80 laws and 1,201 articles that are believed to hamper business. The omnibus law will amend the current Income Tax Law, Value Added Tax Law, and General Tax Provisions and Procedures Law. A highlight will be the new and improved 'tax holiday' policy that increases the tax holiday period if the investment is higher.

- Business licensing applications between ministries are being expedited, synchronised, and integrated into an Electronic Single Submission System (OSS), making it easier for businesses to process applications and renewals of licenses and permits.

- The government's efforts to prioritise infrastructure and development are gaining the confidence of global and local investors. The Banten-Jakarta-West Java corridor is being developed to boost exports, while the Palapa Ring8 project demonstrates the government's commitment in enhancing Indonesia's nationwide 4G infrastructure. Some high profile projects include the recently launched first phase of Jakarta's Mass Rapid Transit system, and the Jakarta-Bandung High Speed Railway, which is currently under construction.

IE-CEPA will create new trade & investment opportunities

Access to a large workforce and a giant domestic market

Access to ASEAN market of 650 million and GDP of $2.9 trillion

Relaxing rules for foreign ownership & tax holidays for foreign investors

Did you know that…

Creative Economy

Creativity and innovation are helping boost the manufacturing sector by disrupting traditional supply chains. B2B platforms are connecting manufacturers with input suppliers, distributors and end-customers, enabling them to discover new growth opportunities. Digital logistics solutions are being used to address infrastructure and communication gaps.

Unicorn Start-ups

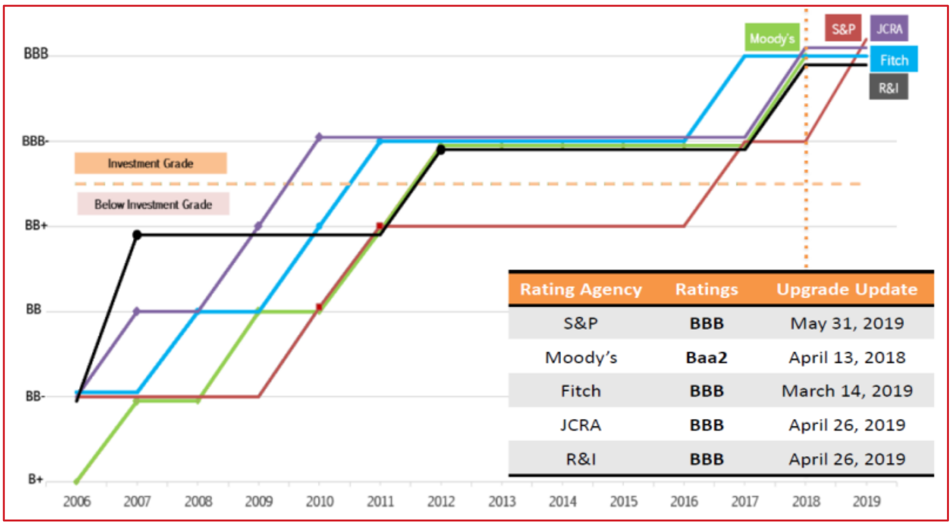
Traditional business is being revolutionised by the country's 'unicorns' (companies valued above CHF 957 million), which include on-demand transport and logistics service provider Go-Jek, hotel and flight booking platform Traveloka, digital payment service company OVO, and two B2B/B2C online marketplaces, Bukalapak and Tokopedia.

Digital Money

The value of e-money transactions has skyrocketed, from CHF 756 million in 2017 to CHF 8,870 million in 2019, a development with positive spillover effects for SMEs and manufacturing companies. As of April 2020, there were 47 licensed e-money operators, divided into two major categories of solutions: digital wallets and payment gateways.

2.2. INDONESIA IS AN ATTRACTIVE INVESTMENT DESITINATION

Indonesia has continuously improved its sovereign credit rating, and today the country is considered investment grade, by all the major international rating agencies, facilitating its establishment as a leading recipient of FDI.



Rating Agency	Ratings	Upgrade Update
S&P	BBB	May 31, 2019
Moody's	Baa2	April 13, 2018
Fitch	BBB	March 14, 2019
JCRA	BBB	April 26, 2019
R&I	BBB	April 26, 2019

Figure 5: Indonesia is Now Fully Rated as Investment Grade Country

Source: BKPM

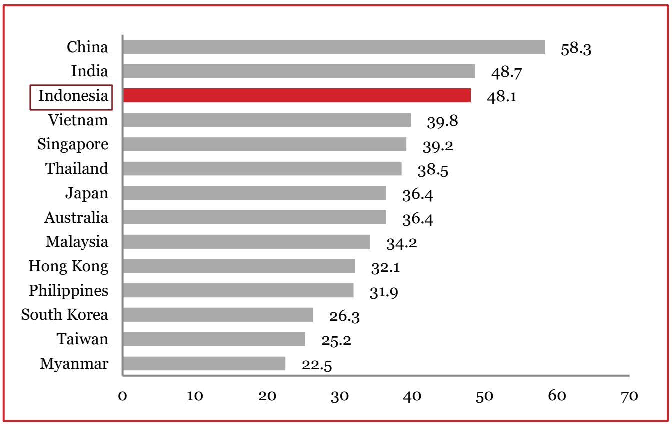


Figure 4: Do You Expect to Investment in the Following Economies? % of Yes

Source: The Economist Asia Business Outlook Survey, 2019

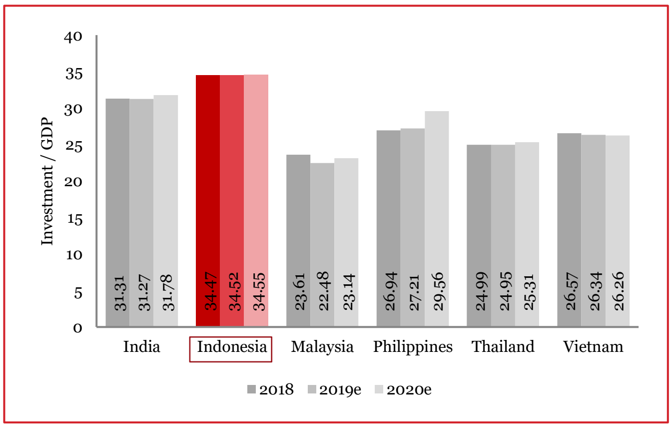


Figure 4: Indonesia Enjoys Large Investments Relative to Peers within the Region

Source: World Economic Outlook Database, October 2019

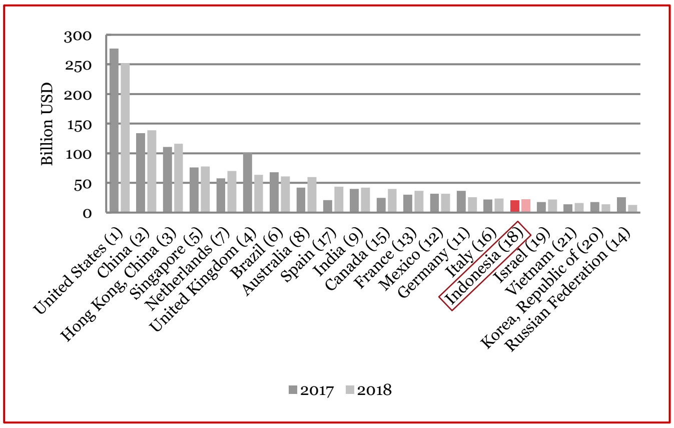


Figure 4:Indonesia is among the Top 20 FDI Recipients, (2017) and 2018

Source: UNCTAD World Investment Report, 2019

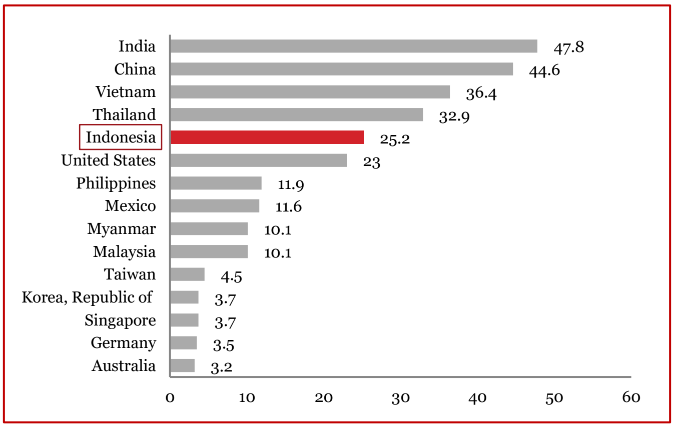


Figure 4: Which Country Has the Most Promising Business Prospects? % of Answers

Source: JBIC Outlook for Japanese Foreign Direct Investment (30th Annual Survey)

3. Indonesia’s Industrial Landscape

Indonesia’s manufacturing sector is buoyant as it benefits from the rare combination of an abundant workforce with low labour costs and increasing domestic consumption driven by its growing middle-class. One of the government’s top priorities is to upgrade and diversify the manufacturing sector through the ‘Making Indonesia 4.0’ initiative, while increasing FDI and modernisation efforts will support the sector’s growth. Currently, the manufacturing industry contributes 78.96% to national exports.

3.1. MANUFACTURING A KEY PRIORITY IN THE INDONESIAN ECONOMY

- Indonesia is still dependent on natural resources extraction. However, the government is imposing regulations to push developments towards local manufacturing with higher adding-value creation and vertical integration.
- The manufacturing industry registered IDR 147 trillion (CHF 10 billion) in investments from January to September 2019.
- Indonesia has ambitious plans to propel the country into the top 10 biggest economies in the world by 2030, and aspires to match up to China as a production base. Its goal is to push the contribution of the manufacturing sector to 25% of the nation’s economy by 2025, up from the current 20%.
- The ‘Making Indonesia 4.0’ roadmap is designed to enhance connectivity and digitisation of the manufacturing sector, and promote export-competitive industries. It includes labour-intensive industries, such as food & beverages and textile & garment, as well as capital-intensive industries such as automotive, electronics, and chemical products.
- The government aims to increase employment in this sector to 20% of the total workforce by 2024 through the export of more high-value and complex manufactured goods.
- Indonesia plans to open up more sectors to foreign investors and reboot its stringent labour laws to become a regional manufacturing powerhouse. A new measure launched in March 2020 allows global investors to utilise global and domestic custodian banks for investment activity in Indonesia.
- Given Indonesia’s determination to improve its manufacturing productivity and to further open the economy to foreign businesses, the country arguably has the most growth potential out of all the ASEAN countries. An increasing number of foreign investors, including Swiss companies, are benefitting from higher value-added activities in the country, by catering to the lucrative domestic and export markets, as well as integrating into the regional supply chain.

20%

Current manufacturing share of GDP - 2019

25%

Targeted manufacturing share of GDP - 2025

79%

Manufacturing industry’s contribution to exports

4%

CAGR in manufacturing Sector between 2016 - 2019

3.2. TRENDS AND OPPORTUNITIES IN THE MANUFACTURING SECTOR

The manufacture and export of higher value-added products sits at the heart of Indonesia's strategy to climb up global manufacturing supply chains. The United Nations Industrial Development Organization (UNIDO) estimates that the growth of manufacturing value added (MVA) in Indonesia was 5.6% in 2019,

Five manufacturing sectors show particular promise under the 'Making Indonesia 4.0' plan: automotive, chemicals, electronics, food and beverage, and textile and garment. In 2019, these sectors outgrew the rest of the Indonesian economy. They represent interesting opportunities for foreign investors as they rely on strong competitive advantages relating to resources, existing supply chains and growing demand, and stand to benefit greatly from the adoption of key technologies and digitalisation.

Figure 6: Growth in Key Manufacturing Sectors in Indonesia in 2019

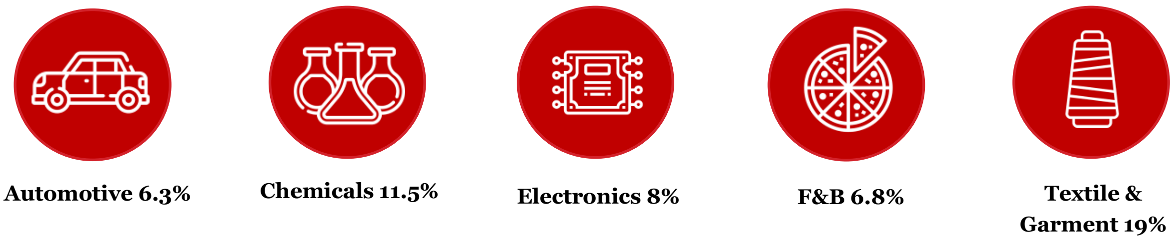


Table 1: Key Trends and Opportunities in Selected Sectors

	Key trends	Opportunities
Automotive	❖ The largest automotive market and the second largest automotive producer in Southeast Asia ❖ Domestic production of EVs to start in 2021 ❖ Switch to engines powered by fuel cells, biofuels, ethanol and flexible fuels ❖ Growing local content requirements	❖ Manufacturing automotive parts and components ❖ Participating in the local/regional value chains for electric, hybrid and autonomous vehicles ❖ Building of infrastructure to charge EVs ❖ New automotive technologies
Chemicals	❖ Universal health insurance coverage leading to an increased demand for healthcare ❖ Expansion of agricultural activities and industrial production, coupled with a lack of domestic production capacity of chemicals, has led to high dependency on imports of raw materials ❖ Major chemical companies have expanded their production capacities to meet growing demand	❖ Increase in demand for generic drugs, and expansion of pharmaceutical product range used ❖ Growing demand for agricultural chemicals ❖ Gap has led to opportunities and strong growth in FDI in paints, coatings, additives and adhesives; basic chemicals, pharmaceutical preparations, and agricultural chemicals
Electronics	❖ Availability of advanced telecommunication infrastructure such as 4G, leading to growing smartphone demand and sales ❖ Small but growing domestic industry producing parts & components ❖ Sharp and LG setting up operations in Indonesia. China-based electronic components manufacturers moving to Indonesia	❖ A lucrative domestic market for electronics is a key driver for investment ❖ Strong government support for growing production and exports of higher value-added electronic products ❖ Easy integration into the regional supply chain (electronics is the region's largest export sector, accounting for 25% of total goods exports)
F&B	❖ Growing health consciousness ❖ Expansion of the modern grocery retail channels	❖ Demand for health and wellness packaged food (organic, free from, better for you, fortified, etc)

	❖ Local food manufacturers adopting to modern technology to produce more food and improve efficiency and quality	❖ Locally produced food processing machinery mostly simple technology and local suppliers are unable to fulfil the demand from large local F&B manufacturers
Textile & Garment	❖ Recorded US$ 35 billion (CHF 33.6 billion) in exports in 2019; aims to double this by 2030 ❖ Benefiting from the shift out of China ❖ Building sophisticated capabilities, with vertical operations of spinning, weaving, printing and garment plants	❖ Needs investments in new technology and 'Industry 4.0' machinery to improve productivity and cost efficiency ❖ Foreign investors with the expertise to facilitate more value-added production techniques in high demand

3.3. KEY MANUFACTURERS

Major multinational companies have long established plants in Indonesia, attracted by the huge population and domestic consumption base, as well as for its increasingly dynamic business environment.

Table 2: Key Manufacturers in Selected Sectors

Automotive	Suzuki, Honda, Indomobil Group, Daihatsu (PT. Astra Daihatsu Motor), Mercedes-Benz, Mitsubishi, Isuzu, Wuling Motors (Drive For A Better Life), Astra International, Toyota Indonesia (PT Toyota Motor Manufacturing Indonesia)
Chemicals	Syngenta, Lotte Chemical, Omya, Clariant, SICPA, Dover Chemical Corporation (A Subsidiary of ICC Industries Inc.), Lonza, ASC AGC Group (PT Asahimas Chemical), BASF (We create chemistry), Pertamina
Electronics	Logitech, Haier, Sharp (PT Sharp Electronics Indonesia), Lenovo, Huawei, Samsung Electronics, Schneider Electric, Oppo, SN, LG (Life's Good), Panasonic
F&B	LDC (Louis Dreyfus Company), Firmenich (for good, naturally), Regal Springs (Lake-Grown Tilapia), Garudafood, Arnott's, Nestlé, Indofood (The Symbol of Quality Foods), Givaudan, Otsuka, Danone

Textile & Garment

Sritex – PT Sri Rejeki Isman Tbk
Asia Pacific Fibers – Winning Together.
Indorama Ventures
PT. Ever Shine Tex Tbk – A Public Listed Company
Trisula Textile Industries
PT TYF Ountex Indonesia
Kordsa Global
Indo Kordsa
Sinar Group

Packaging

amcor
Bosch – Invented for life
ecolean – a lighter approach to packaging
Tetra Pak
Gruppo Cerutti
Bühler
Sabmann Blasformtechnik
SIG Combibloc
Brückner Group

Assembly & Factory Automation

KUKA
GE Power
ABB
Schneider Electric
Siemens
Emerson.
Rockwell Automation

Machine Tools

Mitsubishi Electric – Changes for the Better
Toyo Machinery & Metal
Mori Seiki – The Machine Tool Company
Showa
Arburg
Fuji Seiko

Thanks to low labour costs and growing integration with foreign markets, Indonesia has emerged as a compelling alternative to China for multinationals shifting their manufacturing activities as well as for companies looking to diversify their supply chains. Some notable examples include:

- In 2019, the Taiwanese electronics manufacturing giant Pegatron Corporation established its Indonesian subsidiary PT Pegatron Technology Indonesia, opening a factory at the Batamindo Industrial Park in Batam, Riau Islands, worth USD 40 million. The facility, which can host 1,800 workers over a 1-hectare plot of land, inaugurates Pegatron's first operations in South East Asia. The Pegatron factory has capabilities to produce 2,000 pieces of miniature circuit breaker (MCB) per day.

- In May 2020 it was reported that Indonesia is preparing a 4,000-hectare industrial complex in Brebes, Central Java, for a US pharmaceutical company relocating from China. The Jakarta Globe linked this decision to a recent meeting between the Indonesian president Joko Widodo and his American counterpart Donald Trump. The chairman of the Industrial Estates Association (JKI), confirmed the news, saying that state-controlled Kawasan Industri Wijayakusuma industrial estate in Brebes would soon welcome the as-yet-unnamed company.

3.4. IMPACT OF COVID-19 ON THE MANUFACTURING SECTOR

As the Coronavirus Disease 2019 (Covid-19) outbreak continues to have enormous social and economic impact worldwide, its repercussions on the Indonesian manufacturing sector have been particularly severe, with manufacturing activities dropping in March 2020 as the government imposed stricter measures to contain the disease. In April, IHS Markit announced that Indonesia's Purchasing Managers Index (PMI), which gauges the level of manufacturing activities, recorded the worst figure in the survey's nine-year history.

Industry Minister Agus Gumiwang Kartasamita acknowledged in a press statement that several manufacturing sectors were enduring production drops of nearly 50%. The automotive industry, for instance, has seen significant disruption. Car manufacturers PT Suzuki Indomobil Motor and PT Honda Prospect Motor temporarily stopped their production activities in an effort to curb the spread of the virus. The Minister announced various fiscal and non-fiscal stimulus measures to counter the negative impact of worldwide lockdowns on the local and global market. The measures also aim to ease raw material imports and reduce both corporate and personal income taxes.

However, Swiss companies should not forget that even if the situation in Indonesia is challenging, it also presents significant opportunities. For instance, the Health Minister said the outbreak has created an opportunity to boost local production of pharmaceuticals and vaccines, as well as expand the use of local inputs in the manufacturing process. Given Indonesia's nascent medtech sector, the crisis also represents an opportunity for Swiss medtech companies with innovative products to join the fight against Covid-19 in the country.

3.5. MAJOR GEOGRAPHICAL CLUSTERS AND INDUSTRIAL ZONES

Indonesia has seen the number of its industrial clusters increase from 74 to 87 between 2014 and 2017, as the government has been supporting the creation of industrial parks to foster productivity gains and attract foreign investments. As part of these policies, 12 special economic zones (SEZs) were created to promote investment across the country. In addition, the government is looking to inaugurate seven new SEZs this year.

Key benefits of SEZs to companies that relocate include:

- **Access to the best infrastructure and facilities in the country.**
- **Easier rules for payments of export, import, luxury and value added tax.**
- **Regulations on foreign workers are also more relaxed compared to outside of the zones.**

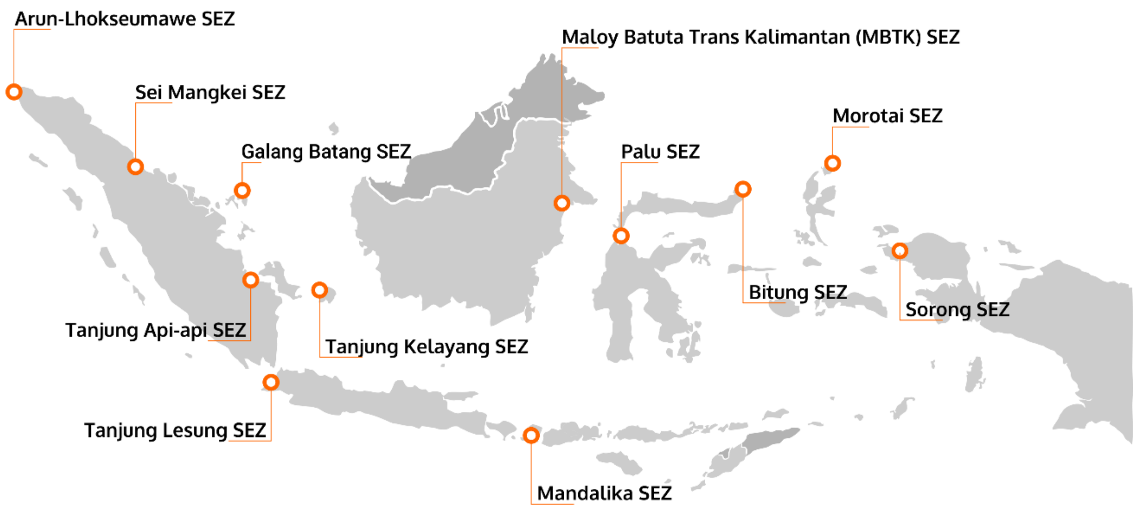


Figure 7: Indonesia's 12 Special Economic Zones

Source: Badan Koordinasi Penanaman Modal (BKPN)

The manufacturing sector is concentrated on the main island of Java where manufacturers can benefit from more efficient and developed logistics and transport infrastructure on the island.

Figure 8: Map of Java

Source: Google Maps

Table 3: Indonesia's Top 4 Manufacturing Clusters

	West Java	Central Java	East Java	Banten
Economic weight of manufacturing	❖ 60% of Indonesia's manufacturing activities	❖ 30% of Central Java's GDP	❖ Largest shipbuilding yard and cement factory in Indonesia	❖ Resource-rich province (gold, phosphate, etc.) ❖ Major steel industries
Top sectors	❖ Electronics, automotive, machinery	❖ Textiles, food and wood processing	❖ Food industry, machinery, furniture	❖ Chemicals, automotive, food and beverages
Examples of leading players	❖ Samsung Electronics, Suzuki, Mitsubishi	❖ Sritex, Indesso, Kutai Timber Indonesia	❖ Cargill, Heinz, Tropica Furniture, Kubota Machinery	❖ Dover Chemical, Lotte Chemical, Dolphin Food & Beverages Industry
FDI and DDI in 2019	❖ USD 2.2 billion	❖ USD 1.2 billion	❖ USD 732 million	❖ USD 732 million
Opportunities	❖ Livestock and agricultural equipment	❖ Modernisation of textiles manufacturing ❖ International airports and seaports	❖ Manufacturing parts for shipbuilding ❖ Export-driven food industry	❖ Export-driven processing industries ❖ Access to the country's largest international airport

3.6. INTERNATIONAL RANKINGS – INDONESIA VS. CHINA

Comparing Indonesia with China on a variety of parameters to evaluate the attractiveness of the two countries, the latter emerges higher on a majority of measures. However, Indonesia is an emerging market, on its way to become the fifth-largest world economy by 2030, according to PricewaterhouseCoopers. It has demonstrated sustained economic growth, supported by one of the largest domestic markets in the world and competitive labour costs.

With a democratic system and notable pluralism in politics and the media, Indonesia performs much better on freedom indices, compared to China, where the Chinese Communist Party has been tightening its control over the state bureaucracy, the media, online speech, religious groups, universities, businesses, and civil society associations. Indonesia scored 61 out of 100 on Freedom House's Global Freedom Scores 2020, while China scored a lowly 10. In the 2020 Press Freedom Index from Reporters Without Borders, Indonesia was ranked 119th, while China was placed in the 177th position out of 180 countries.

In line with the above, Indonesia displays significantly higher level of economic freedom, as seen from the Heritage Foundation's Index of Economic Freedom 2020. It is classified as moderately free, with the administration continuing efforts to encourage more private investment in infrastructure and manufacturing. China's ranking suffers due to widespread theft of foreign-owned intellectual property, government ownership of all land, policies favouring non-transparent state-owned enterprises and a top personal income tax rate of 45%. In contrast, in Indonesia, private ownership of land is recognised, the judiciary is more independent and the top individual income tax rate is 30%. (See Page 18 for the criteria for International Rankings.)

Table 4: Indonesia vs China

Parameter	Measure	Indonesia	China
Economic growth	Average real GDP growth rate over past 5 years (2014-2019)	**5.0%**	**6.6%**
Market size	Total consumption expenditure in current USD billions (2018) based on World Bank estimates	**687**	**7,260**
Competitiveness	The World Economic Forum's Global Competitiveness Index 2019	**50/141**	**28/141**
Economic freedom	The Heritage Foundation's Index of Economic Freedom 2020	**54/180**	**103/180**
Doing business	The World Bank's Ease of Doing Business Index 2020	**73/180**	**31/180**
Corruption	Transparency International's Corruption Perceptions Index 2019	**85/183**	**80/183**
Logistics	The World Bank's Logistics Performance Index 2018	**46/160**	**26/160**
Labour market	INSEAD's Global Talent Competitiveness Index 2019	**67/125**	**45/125**

Sources: Heritage Foundation; INSEAD; International Monetary Fund (IMF); Transparency International; World Bank; World Economic Forum
Note: Average real GDP growth rate over past 5 years (2014-2019) is a Compound Annual Growth Rate (CAGR) of constant prices GDP between 2014 and 2019.

Legend

Top | Intermediate | Can be improved

3.7. INTERNATIONAL RANKINGS – INDONESIA VS. OTHER ASEAN COUNTRIES

Comparing Indonesia with four other emerging ASEAN economies, on a variety of parameters to evaluate their attractiveness as a manufacturing destination, Indonesia emerges as comparable to its neighbours on most measures, while surpassing them all by significant distance in terms of domestic market size.

Indonesia's rankings on competitiveness, economic freedom, ease of doing business, logistics and labour market are similar to those of Thailand, which has one of the strongest manufacturing bases in the region. With its robust democratic political system, Indonesia appears to be better in economic freedom and corruption than Thailand, where the army exerts significant influence over the government. Moreover, Thailand has an ageing population, while in Indonesia more than 40% of the population is under 24 years of age.

Meanwhile, looking at Indonesia's scores/rankings vs those of Vietnam, which has been a favoured destination of companies seeking to diversify their manufacturing operations beyond China, Indonesia outperforms Vietnam in competitiveness, economic freedom and the labour market. On the ease of doing business and logistics, the two are comparable.

Malaysia ranks higher on a number of parameters, compared to its ASEAN neighbours. However, it should be noted that its domestic market is the smallest among the five countries.

Table 5: Indonesia vs Rest of Southeast Asia

Parameter	Measure	Indonesia	Malaysia	Thailand	Vietnam	Philippines
Economic growth	Average real GDP growth rate over past 5 years (2014-2019)	5.0%	4.9%	3.5%	6.7%	6.3%
Market size	Total consumption expenditure in current USD billions (2018) based on World Bank estimates	687.161	248.743	327.734	181.561	283.763
Competitiveness	The World Economic Forum's Global Competitiveness Index 2019	50/141	27/141	40/141	67/141	64/141
Economic freedom	The Heritage Foundation's Index of Economic Freedom 2020	54/180	24/180	43/180	105/180	70/180
Doing business	The World Bank's Ease of Doing Business Index 2020	73/180	12/180	21/180	70/180	95/180
Corruption	Transparency International's Corruption Perceptions Index 2019	85/183	51/183	101/183	96/183	113/183
Logistics	The World Bank's Logistics Performance Index 2018	46/160	41/160	32/160	39/160	60/160
Labour market	INSEAD's Global Talent Competitiveness Index 2019	67/125	27/125	66/125	92/125	58/125

Sources: Heritage Foundation: INSEAD; International Monetary Fund (IMF); Transparency International; World Bank; World Economic Forum
Note: Average real GDP growth rate over past 5 years (2014-2019) is a Compound Annual Growth Rate (CAGR) of constant prices GDP between 2014 and 2019.

Legend

Top | Intermediate | Can be improved

Criteria for International Rankings

Table 6: Thresholds used to categorise countries into the 'Top', 'Intermediate', and 'Can be improved' categories

Parameter	Measure	Top	Intermediate	Can be improved
Economic growth	Average real GDP growth rate over past 5 years (2014-2019)	>6%	4%-6%	<4%
Market size	Total consumption expenditure in current USD billions (2018) based on World Bank estimates	<200	200-500	>500
Competitiveness	The World Economic Forum's Global Competitiveness Index 2019	<30	30-75	>75
Economic freedom	The Heritage Foundation's Index of Economic Freedom 2020	<30	30-75	>75
Doing business	The World Bank's Ease of Doing Business Index 2020	<30	30-75	>75
Corruption	Transparency International's Corruption Perceptions Index 2019	<30	30-75	>75
Logistics	The World Bank's Logistics Performance Index 2018	<30	30-75	>75
Labour market	INSEAD's Global Talent Competitiveness Index 2019	<30	30-75	>75

The table above presents the ranges used for categorising the countries into 'Top', 'Intermediate' and 'Can be improved' categories. For the benchmarking exercise of Indonesia vs China, two exceptions have been made to the specified criteria:

- Market size: For the comparison of Indonesia with other South East Asian countries, we believe USD 500 billion is an appropriate benchmark for a country to enter into the Top category. But China's consumption is more than 10 times that of Indonesia. To ensure that this difference in scale is highlighted, we have categorised China as Top and Indonesia as Intermediate.

- Logistics: China is ranked in the 31st place, while Indonesia is 73rd in the World Bank's Logistics Performance Index 2018, placing the two at almost opposite ends of the Intermediate 30-75 range. We have categorised China as Top and Indonesia as Intermediate to highlight the difference between the two.

3.8. INDONESIA IS AN IDEAL ALTERNATIVE TO CHINA

International companies have accepted the reality that a truce between US and China will not materially improve the lay of the land for their Chinese-based operations. The manufacturing exodus from China is due to a confluence of factors: rising labour costs, a head-spinning regulatory environment, the ever-looming threat of more and higher tariffs, along with a sharp increase in the perception of risk associated with living and working in China. Indonesia stands out as an attractive alternative destination, given its improved regulatory environment, cost-effective workforce, and large domestic market.

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Jeder zweiten Firma fehlen Teile

Der Industrie reissen die Lieferketten, bei Autoteilen und Chemikalien fehlt es an Nachschub

Franziska Pfister

Reedereien annullieren einen Grossteil der Frachtschiff-Fahrten, weil Unternehmen weniger Güter zu transportieren haben.

Lager gehören zu den Themen, die Managern unangenehm sind. Unter Investoren sind Vorräte als unnötig, unsexy und teuer verrufen. Die Geldgeber lassen keine Gelegenheit aus, nachzubohren, wie es um die Lagerbestände steht. Auf ihren Druck hat sich in vielen Branchen bedarfsgerechtes Wirtschaften durchgesetzt. «Just in time» lautet die Maxime, möglichst wenig Kapital binden. Die Corona-Krise stellt diese Praxis infrage. Mancher Firmenchef wünschte sich, er hätte mehr Waren gebunkert.

Das Virus sprengt die Lieferketten und bringt Industrieunternehmen in Bedrängnis. 40% von ihnen warten auf Material, das sie bestellt, aber nicht erhalten haben. Das ergab eine Befragung der Unternehmensberatung Staufen unter 730 Firmen, davon gut die Hälfte aus der Schweiz und Deutschland.

Weniger Schiffe fahren

Anfang März seien erste Firmen abgeschnitten worden vom Nachschub. Bestellungen aus China seien nicht mehr in die Schweiz gelangt, weil weniger Schiffe fuhren und weniger Flugzeuge flogen, erklärt Marco Ziegler, Senior Partner von McKinsey Schweiz. Das habe schon eine gewisse Hektik ausgelöst.

Nestlé verkleinerte das Angebot. Fertigung und Lieferketten seien auf die gefragtesten Produkte begrenzt worden, sagt ein Sprecher. Mittlerweile gebe es keine Engpässe mehr.

Georg Fischer füllte Rohstoffvorräte rechtzeitig vor dem Produktionsstopp auf und sicherte kritische Produkte. «Anhand der Erfahrungen unserer Standorte in China sahen wir bereits vor dem Ausbruch der Krise in Europa, was auf die anderen Werke zukommen könnte», schreibt Sprecherin Szilvia Früh.

Engpässe bestünden bei Vorprodukten für die Spezialchemie sowie Bauteilen für Maschinen oder Autos, sagt der McKinsey-Manager. Autohersteller wurden hart getroffen, sie stellten die Bänder für viele Wochen ab und werfen die Fabriken nur zögerlich wieder an. Chemikalien dagegen sind gefragt. Die Chemie kämpft mit zwei anderen Problemen.

Lonza transportiert Rohmaterial, Produkte und Ausrüstungsgegenstände meist per Schiff. Das ging in der Corona-Krise aber oft nicht mehr. «Wenn Staaten die Grenze schliessen oder die Häfen sperren und die normalen Transportverbindungen unterbrochen sind, sind Unternehmen gefordert», sagt Chefjurist Andreas Bohrer, der den Krisenstab des Auftragsherstellers leitet. Also schickte der Konzern Güter auf alternativen Routen los, charterte Flugzeuge. «Das kostet zwar, ermöglichte uns aber, den Betrieb aufrechtzuerhalten.»

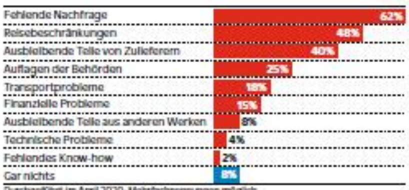
Die Kapazitäten in der Seefracht sind begrenzt. Ein Grossteil der Fahrten werde mangels Nachfrage annulliert, sagt ein Sprecher des Logistikkonzerns Kühne + Nagel. Sollte wieder mehr konsumiert und produziert werden, würden «die Reeder schnell zusätzliche Schiffe losschicken». Die Lage bleibe im zweiten Quartal anspruchsvoll. Für viele Kunden stünden die Kosten im Vordergrund, weniger die Transportdauer.

Lonza bezieht viele Rohstoffe in Asien. Sind die Lieferketten abgeschnitten, drohen Versorgungsengpässe. Eine Lokalisierung der Lieferkette ist laut dem Chefjuristen nicht möglich, weil gewisse Güter nur in bestimmten Ländern beschafft werden können.

Ein Teil der Industrie sei stark abhängig von Lieferungen aus Asien, sagt Marco Ziegler von McKinsey. Eigentlich hatten sie

Welche Probleme die Industrie plagen

Umfrage unter 730 Unternehmen zu ihren Schwierigkeiten infolge der Corona-Krise



Durchgeführt im April 2020; Mehrfachnennungen möglich

Quelle: Staufen

Als China ausfiel, wichen die Firmen auf Indien aus. Bis dort der Shutdown kam.

Vorprodukte in anderen Regionen bezogen, aber plötzlich festgestellt, dass sie Arbeitsschritte oder Rohstoffe aus China enthielten. Erst Corona habe die Dimension aufgedeckt und manchem Einkäufer ein böses Erwachen beschert. «Als China ausfiel, wichen die Firmen auf Indien aus. Bis dort der Shutdown kam.»

Nun setzt ein Umdenken ein, der Einkauf wird breiter aufgestellt. «Firmen suchen mit Hochdruck nach Lieferanten in anderen Ländern», sagt Marco Ziegler. Manche hätten sich beholfen, indem sie Fabriken in Osteuropa wieder in Betrieb nahmen, die sie schon stillgelegt hatten. «Das geht ganz schnell.» Die Industrie habe in den vergangenen Krisen gelernt, im Einkauf flexibel zu sein. Kein Schweizer Unternehmen habe die Produktion für längere Zeit niederlegen müssen.

Abhängigkeiten reduziert

Gemäss der Umfrage von Staufen will jede vierte Firma die Lieferkette neu aufstellen und Abhängigkeiten von Lieferanten reduzieren. Lonza baut gerade zusätzliche Transportkanäle und legt Vorräte an. «Das sind wir unseren Kunden in der Pharmaindustrie schuldig», sagt Andreas Bohrer.

Georg Fischer stellte den Einkauf kritischer Materialgruppen schon vor der Krise breiter auf und konnte Engpässe bei den Kunden vermeiden, wie die Sprecherin sagt. Nestlé betreibt in vielen der 187 Märkte eigene Fabriken und arbeitet eng mit Lieferanten und Vertriebspartnern vor Ort zusammen.

McKinsey sieht im zweiten Halbjahr eine Konkurswelle auf Zulieferbetriebe zurollen. Marco Ziegler geht davon aus, dass die Unternehmen Lieferanten auswechseln werden, um Lieferausfälle zu vermeiden. «Genügt die Bonität eines Lieferanten nicht mehr, erhält er keine Bestellungen mehr.»

Die Corona-Krise zwingt Grossunternehmen, die Lieferketten umzustellen und gewisse Produktionsschritte wieder selbst auszuführen. Eine Abkehr vom «Just in time»-Prinzip ist dagegen nicht in Sicht.

Testimonials from Key Opinion Leaders

“ Due to its growing & affluent middle class population and rising demand for high quality healthcare services, Indonesia is a compelling manufacturing base for medical technologies, including innovative medicines, medical devices/instruments as well as digital health solutions. Now is the right time to make a move and invest into this highly promising market”.

Luthfi Mardiansyah
Chairman of Swiss Indonesian Chamber of Commerce – SwissCham

“ Thanks to its huge domestic market, Indonesia is the right place to expand and grow our alternative machine production. We successfully sell to local customers but also capitalise on our presence in Indonesia to export directly to Chinese, ASEAN, American and European customers.

Erwin Spichtig
CEO of PT Sandmaster Asia based in Jakarta & Zofingen

“

Indonesia’s economic potential is confirmed! With steady GDP growth of 5%, a market with over 260 million people, growing government support and improving investment climate, investing in Indonesia, e.g. in industrial manufacturing products & solutions, could not be more attractive than it is today. There is no reason why Indonesia should not be one of your focus countries.

Henry Chia
President Director PT Endress+Hauser Indonesia
& Vice Chairman of SwissCham Indonesia

“

Indonesia is an attractive investment destination as it is the most populous country in Southeast Asia and boasts the largest market in the region. The majority of the population are young people under 30 years old, who are technologically-savvy and very receptive to new solutions. The consumer market is on an upward trajectory and the country holds significant growth potential. 2020 is the right time to invest in Indonesia and to seriously consider this country in your internationalisation strategy.

Anton Santoso
President Director PT SANTOSO TEKNINDO

4. Conclusion

Projected to become the world's fourth largest economy by 2050, Indonesia represents an opportunity that Swiss companies cannot afford to ignore. Today, the country is emerging as a key target on the radar of companies looking to diversify their supply chains, thanks to a number of strategic advantages such an enormous labour pool, contained labour costs, and a vast wealth of natural resources. For Swiss companies looking to complement operations in China, Indonesia offers an immense market with substantial room for continued growth.

Some of the country's most notable characteristics include:

- Indonesia's economy, valued at USD 1.2 trillion (CHF 1.15 trillion) in 2019, comprises nearly half of ASEAN's economic output, and is the world's eighth largest economy. Thanks to the Indonesian government's policy measures and the economic growth prospects of the country, Indonesia is considered ready for investment by all the major international rating agencies. The country has become a leading recipient of FDI, ranking among the top 20 recipients worldwide, with investments making up over 33% of its GDP.

- Currently, Indonesia's manufacturing industry is ranked as the 12 largest in the world. The inflow of investments is contributing to an upgrade and diversification of the country's manufacturing sector, which benefits from an abundant workforce with low labour costs and increasing domestic consumption driven by its growing middle-class. In addition, the Indonesian government is strongly promoting higher value-added manufacturing and vertical integration.

- Wages in Indonesia are fairly low, though there is considerable variation across regions. The minimum wage in Yogyakarta is IDR 1,705,000 (CHF 115), while in Jakarta, it stands at IDR 4,200,000 (CHF 284) per month. As of the third quarter of 2019, average monthly wages in the manufacturing sector across Indonesia stood at about IDR 2,704,000 (CHF 183).

- Today, there are already 150 Swiss companies operating in Indonesia, employing more than 50,000 people, and a strong SwissEcosystem. Business between the two countries will be further facilitated by the Indonesia-EFTA Comprehensive Economic Partnership Agreement (IE-CEPA).

- Swiss businesses should take note of the country's industrialisation plan, known as 'Making Indonesia 4.0', which targets the promotion of key export-competitive industries, such as automotive, electronics, food & beverage, chemicals (including pharmaceuticals), and textile and garments. These industries hold significant opportunities as they rely on strong competitive advantages relating to resources, existing supply chains and growing demand, and stand to benefit greatly from the adoption of key technologies and digitalisation. Some interesting opportunities include:

    - Indonesia is the largest automotive market, and the second largest automotive producer in Southeast Asia, offering an ideal base for the production of parts and components. Swiss companies are advised to consider participating in the local/regional value chains for electric, hybrid and autonomous vehicles as well as building of infrastructure to charge EVs, whose domestic production is set to start in 2021.

    - Universal health insurance coverage has led to increased demand for medical technologies, generic drugs, and to the expansion in the range of pharmaceutical products used, creating significant opportunities in the sector. Moreover, the Covid-19 outbreak has created an opportunity to boost local production of pharmaceuticals and vaccines, as well as expand the use of local inputs in the manufacturing process.

    - The country offers a lucrative market for electronics, and the government supports the growing production and exports of higher value-added electronic products. Swiss companies are advised to take into account that this sector is integrated into the regional supply chain, which is responsible for one-quarter of Southeast Asia's exports.

- The food and beverage sector in Indonesia offers vast opportunities. In addition to a growing demand for processed food, there is also the opportunity to offer modern food processing equipment and technology as local manufacturers strive to increase production as well as improve efficiency and quality.

- The textile & garment industry is benefiting strongly from the relocation of manufacturing activities out of China, and targets to record US$ 75 billion (CHF 71.9 billion) worth of exports by 2030, up from US$ 35 billion (CHF 33.6 billion) in 2019. Swiss companies can offer technology for higher-value products to help local players build up more sophisticated capabilities.

- On a final note, when considering Indonesia as a strategic location for establishing manufacturing plants, Swiss companies are advised to take into consideration the country's industrial clusters and 12 special economic zones, which offer the best infrastructure and facilities in the country and have more relaxed regulations and lower value added tax.

5. About Us and Service Offerings

As a non-profit organisation granted a mandate by the Swiss Confederation (State Secretariat for Economic Affairs, SECO), Switzerland Global Enterprise (S-GE) helps Swiss companies to export and do business internationally. Our organisation acts as a first point of contact to deliver professional advice, and supports Swiss businesses in finding contacts and partners, and identifying new business opportunities into global markets.

S-GE is represented abroad in 27 locations by Swiss Business Hubs (SBH) and Trade Points, and located in the Swiss Embassies or Swiss Consulates-General.

As part of the Embassy of Switzerland in Jakarta, Swiss Business Hub Indonesia (SBH Indonesia) is uniquely positioned to support a variety of business requirements, especially SMEs from Switzerland and Liechtenstein in their market entry into Indonesia.

Amongst the SwissEcosystem in the market, the Swiss Indonesian Chamber of Commerce called “SwissCham” and the Swiss Centre Indonesia “SCI” are strategic partners of the SBH Indonesia.

With an excellent network of contacts and industry experts in the market, SBH Indonesia will help Swiss companies understand on how to do business in Indonesia, decide on a suitable market strategy and connect with suitable local business partners. Based on a client-centred attitude and catered to specific requirements approach, these are typical service packages rendered by the SBH Indonesia and its expert partners:

- Market intelligence
- Legal and regulatory clarifications
- Distribution partner search
- Tailor made fact finding trips
- Trade Fair participation

If you are interested and require further information, SBH Indonesia can be of assistance. Please do not hesitate to contact us.

6. The Team and Contact Details

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