

# Indonesian Marketplace Rebounds From Financial Crisis

By *Dennis Voboril and Fahwani Y. Rangkuti*

Since economic crisis began gripping Asian countries in 1997, U.S. agricultural exporters have had first-hand experience with Indonesia's economic roller coaster, exacerbated by severe drought in 1997/98 and ongoing political uncertainties.

In 1996, U.S. agricultural exports to the country soared to a record \$900 million, but by 1998, they had dipped to \$489 million. Since this low point, U.S. agricultural exports to Indonesia have rebounded, to a new high of \$953 million in 2001.

The re-creation of this export market in Indonesia owes much of its success to USDA's implementation of export programs designed to help emerging markets evolve and, sometimes, cultivate future markets for U.S. products—most notably:

- The Export Credit Guarantee Programs (GSM-102 and GSM-103) underwrite commercial loans of U.S. agricultural exports.
- The P.L.-480 food assistance program (Food for Peace) provides for government-to-government sales (also to private entities) of agricultural commodities to developing countries on credit terms or for local currencies.
- Surplus commodities (mostly soybean meal), provided in 2000 under Section 416(b) economic development assistance, helped lead to significant commercial sales in 2001.
- The Emerging Markets Program (EMP), which aims to develop or expand markets for U.S. agricultural exports, helped create a market for U.S. high-protein



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wheat in Indonesia's flour milling and baking industries.

- Annual marketing plan funds used in conjunction with the EMP helped expand annual sales of U.S. high-value food products to nearly \$80 million.
- USDA cooperators provided technical assistance for many activities undertaken by the FAS Agricultural Trade Office (ATO) in Jakarta.

In fiscal 2001, the United States guaranteed credit for \$725 million worth of agricultural sales and provided almost \$20 million worth of food aid to Indonesia.

The overall economic outlook for Indonesia is for slow but continued growth, with annual U.S. agricultural exports expected to show steady, moderate increases.

The Indonesian marketplace does present challenges that seem intimidating, among them a crippled banking sector, large public- and private-sector debts, exchange rate volatility and political uncertainties. But on the positive side, fundamental political changes have made Indonesia the world's third largest democracy, and there has been dramatic market growth over the past few years.

## Market Opportunities Abound

Indonesia's 200-million population is relatively young: More than half the popu-

lation is under 25. Nearly 60 percent of the residents live on Java and buy 60-65 percent of consumer goods.

Most upper and middle-income people live in urban areas. While this consumer group numbers about 40 million now, in pre-crisis times it was nearer 78 million. Economic stability and growth promise an increase in the number of affluent consumers.

The population is becoming more literate and Westernized due to overseas study and travel, access to international television, expansion of modern malls and major hotel and restaurant chains, the presence of Western expatriates and dramatic growth in tourism.

Consumer spending rises during holiday seasons, which include the Muslim month of Ramadan and celebrations of Lebaran or Idul Fitri, Chinese New Year and Christmas. During these times, consumption goes up for flour, sugar, eggs, poultry and other meats, cheeses, cakes, cookies, pastries and fresh and dried fruits.

The Indonesian consumer remains very price-conscious and susceptible to economic swings. There are signs that brand loyalty, once pronounced, is diminishing, while "brand image," a perception based on marketing portrayals, has become more important.

## THOUGH NOT YET REQUIRED, IT IS STRONGLY RECOMMENDED THAT *HALAL* CERTIFICATION BE INCLUDED IN LABELING.

More urban women are entering the workforce and staying there after they marry and have children. With less free time, their focus is increasingly on convenience.

The average Indonesian kitchen does not have many appliances. In Jakarta, the capital city, just 43 percent of households have refrigerators; only 27 percent have stoves. Microwave ovens are found in only 10 percent of Jakarta homes. Consequently, retail products need to be shelf-stable. Besides relying on stored foods, consumers may shop daily at street stalls or eat out.

### Face-to-Face Works Best

While quality and price are important to importers, in Indonesia they are secondary to the personal interaction of business partners.

Agents can help conduct market research. They also can register your product with the Ministry of Health. Singapore distributors, agents and importers can be considered. They transship large quantities of products in the region.

Once selected, supporting your agent with a quality product and providing education on the best ways to promote, handle and prepare the product will enhance your chances of success.

### Keep in Mind ...

Indonesian consumers retain some brand loyalty and prefer good quality, well-packaged, well-distributed and promoted products that are competitively priced.

Indonesia's bound tariff rates on major food and agricultural items generally range from 5 to 30 percent. However, tariffs on all food items were cut to a maximum of 5 percent in February 1998 under an International Monetary Fund agreement that remains in effect. The major exception is the 170-percent duty applied to imported alcoholic beverages.

The government levies a 10-percent value-added tax and a luxury tax ranging from 20 to 35 percent on certain products. These taxes are collected at point of import.

New government regulations on labeling for *halal* certification (for products meeting Islamic dietary and handling requirements) are not yet fully implemented. However, it is strongly recommended that *halal* certification be included in labeling, since 85 percent of the population is of the Islamic faith.

### Retail Sector To Grow

The retail food business in Indonesia was not greatly affected by recent economic and political uncertainties. Only specialty stores with a high percentage of imported products lost sales.

Looking to the future of retail stores, most growth is predicted in the supermarket, hypermarket and mini-market sector that had impressive sales estimated at \$1.1 billion in 2000. Sales are expected to triple by 2005.

Most of the larger stores buy imported products from distributors or agents. If a product is imported directly, it is usually perishable. However, direct imports by these stores are expected to increase.

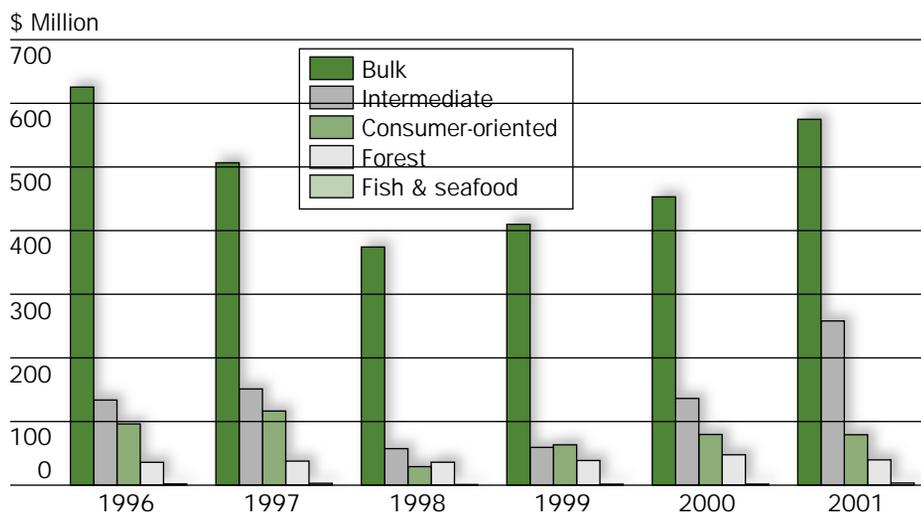
The best way to gain retail market entry is to find an agent who will assure the widest distribution for products as well as undertake the marketing efforts necessary to create product awareness.

Best prospects include fresh fruits, frozen french fries, sauces and seasonings, canned foods, beans, pastas, salad dressings and snack foods. Niche markets exist for frozen pizzas, frozen meats and poultry, deli items, biscuits, confectionery items, breakfast cereals, tomato paste, cooking and salad oils and nonalcoholic beverages.

### HRI Diversity Reflects Populace

The hotel, restaurant and institutional (HRI) industry in Indonesia is as diverse as its population. There are fast-food outlets,

**Bulk Products Lead U.S. Exports to Indonesia**  
Recovery From Financial Crisis Began in 1999



clubs, hotels and restaurants that serve local and Western foods. But the majority of HRI outlets are small restaurants, street stalls known as *warungs* and other vendors.

However, catering operations do serve airlines, factories and private functions. Cruise and military ships, mining and oil operations, prisons and hospitals, although to a lesser extent, are also a part of this sector.

Success in the HRI area requires a reputable importer/distributor. These companies have the import licenses and knowledge of customs clearance procedures required to bring in products and can assure the widest distribution for your items. Jakarta and Bali are ideal locations to target market-entry efforts, since they have the most five-star hotels and upscale restaurants.

About 60 percent of HRI imports are purchased by the better hotels and restaurants that sell Western food. Western fast-food outlets follow with 30 percent. Caterers and institutional users account for the rest.

Exporters who supply HRI items should be aware that there has been a tourism slowdown since Sept. 11, 2001, though the Indonesian Ministry of Tourism does predict a tourism rebound in 2002. The HRI industry is now focusing on Indonesian customers, who are more price-conscious than tourists.

U.S. products with the best HRI market prospects include: beef and beef liver; chicken parts, duck and turkey; french fries, pastry products, sauces, seasonings, oil and vinegars, cereals, canned goods, tree nuts, ice cream and snacks for hotel use; wines, liquor, beer, soft drinks and juices; and Mexican foods.

### Food Processing Entry

While the Indonesian food processing

### Key Trade Information for Indonesia

Item	Imports From the World (\$ Million)			U.S. Market Share (Percent)		
	1998	1999	2000	1998	1999	2000
Total agricultural products	3,765	4,543	4,164	12	14	17
Consumer-oriented products	388	483	818	10	11	11
Fish & seafood products	17	25	37	3	2	2

market is huge, the market for imported products is small. Of the 4,500 food processing companies in Indonesia, fewer than 10 major groups are dominant. Most companies are small-scale family businesses. Significant growth potential exists, however, for U.S. food ingredients, as the economy develops and the population becomes more urban.

As always, take care when choosing an agent for this sector. Check out the financial standing and commercial acumen of prospective partners. It is also best to test the waters before granting exclusive rights to represent your product.

Best prospects for food processing include wheat, food-use soybeans, beef, dairy products, flavorings, processed poultry products, processed potato products, fruit concentrates, peas and lentils.

### Distribution Needs Improvement

Indonesia's hundreds of small islands make distribution difficult. Problems include inadequate ports and unreliable shipping schedules. Outside the big cities and Java, infrastructure facilities, such as the cold chain, are often underdeveloped.

About 10 national distributors service the entire country, while numerous agents and distributors handle local areas. Most imported products enter Indonesia through

a distributor or agent who sells them directly to modern retail outlets. Major food processors and a few large retailers buy directly from foreign suppliers.

Ironically, trade in fresh fruits differs from other consumer-ready products. Whereas most products have a more direct distribution line to retailers, fresh fruits will change hands several times before reaching the consumer, usually at street markets. ■

*The authors are the director and the agricultural marketing specialist with the FAS Agricultural Trade Office in Jakarta, Indonesia.*

*For up-to-date information on trade opportunities in Indonesia, contact that office at: Tel.: (011-62-21) 3435-9399; Fax: (011-62-21) 571-1251; E-mail: atojkt@cbn.net.id*

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