Automotive Parts Industry in Indonesia
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Automotive parts background

The automotive industry in Indonesia has suggestively increased during the past several years with more and more people investing in 2 and 4 wheel vehicles used as a primary mode of transportation for many individuals and families in Indonesia. According to the Indonesia Investments website (www.indonesia-investments.com), car sales for the first six months of 2013 have topped the 500,000 sales mark and strong sales numbers are expected for the remainder of 2013.

During the past 5 years, automotive sales totalled a staggering amount of more than 4 million vehicles sold in Indonesia alone. Experts in the automotive sales industry are predicting similar sales numbers for 2014 and beyond. No doubt the automotive parts industry is bound to see significant increases in demands for replacement parts during the next couple of years as older model vehicles begin to show signs of wear and tear.

Indonesia’s automotive parts market

During the past several years, the automotive parts market in Indonesia has seen a significant increase in demand due in large part to the rising middle class throughout the entire country. Poor public transportations systems have forced people to invest in their own form of transportation and other market place actions has afforded more and more people the opportunity to own a vehicle. There are some drawbacks to purchasing a newer model automobile in Indonesia which is forcing people to seek out automotive parts to repair older modelled vehicles versus buying a newer modelled vehicle in the marketplace.

Let’s take a look at some of the key drivers and major barriers the automotive parts industry may be dealing with in the current Indonesian markets:

<table>
<thead>
<tr>
<th>Key Driver</th>
<th>Major Barrier</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Economic improvements in Indonesia are contributing to a rising middle class throughout the entire country. This is allowing more and more people the ability for vehicle ownership.</td>
<td>▪ As Indonesia’s government continues to reduce fuel-subsidy in the state budget, there will continue to be an increase in subsidised fuel prices.</td>
</tr>
<tr>
<td>▪ People are looking to invest in their own personal vehicle- either a 2 or 4 wheel vehicle. They are looking to get something of their own due to the lacklustre public transportation systems throughout Indonesia.</td>
<td>▪ In 2012, Central Bank made a decision to set minimum down-payments for vehicles purchased at 30%.</td>
</tr>
<tr>
<td>▪ According to the Ministry of Finance, the MP3EI (master plan of acceleration and expansion of Indonesia’s economic development) will reach IDR 546 trillion in 2013. This is allowing for major economic development throughout the entire country with a younger workforce earning larger salaries, allowing for the investment in automobiles.</td>
<td>▪ The growth for better roadway systems in Indonesia’s major cities has been suspended due in large part to worsening traffic conditions.</td>
</tr>
<tr>
<td>▪ In 2015, the ASEAN economic community will expand its automotive market beyond domestic boundaries for the first time.</td>
<td>▪ For those working in the genuine automotive parts market sector and the after-market automotive parts sector, there has been a lot of pressure placed on them by counterfeit automotive products coming in from overseas manufacturers.</td>
</tr>
</tbody>
</table>

Source: *MP3EI whitepaper: http://www.ekon.go.id/media/filemanager/2011/07/06/m/p/mp3ei-english_final.pdf*
Indonesia’s population pyramid & human development index (HDI)

Indonesia Automotive Parts Market Potential

The younger generation in Indonesia is certainly going to be a major determining factor in helping investors to better understand the full potential of the current and future automotive parts market in Indonesia. With both an increasing youth population in the country and an increasing HDI happening in Indonesia today, this shows that there are signs of significant market potential for the automotive parts industry in Indonesia.

- The population in Indonesia has grown to more than 250 million people in 2012 and continues to rise at an increasingly rapid rate. Currently more than 50% of that population are between the productive ages of 20-54 years old.
- The larger youth population in Indonesia will more than likely have a larger earning income and thus larger spending habits than other age groups in the country. This trend also reveals their need for a personal vehicle, which significantly increases the potential automotive parts market.
- Another major factor includes the fact that the Human Development Index (HDI) in Indonesia shows that Indonesia’s HDI has increased for the past 5 years which points to improvements in the overall condition of the people living in the country. This takes into account factors like life expectancy, educational attainment and income.

Indonesia’s automotive market overview

Indonesia’s Vehicle Sales 2012

The automotive industry in Indonesia is growing rapidly, with new vehicle sales numbers from 2012 reaching over 8 million units sold in total. New milestones are currently being set in Indonesia, with the Indonesian automotive market being one of the fastest growing markets in the world! Indonesia is also one of the key production/manufacturing bases for some of the largest auto makers in the world including Honda, Daihatsu and Toyota.
Indonesia’s sales volume of new vehicles in 2012 for cars topped 1.1 million whilst motorcycles reached more than 7 million units sold. Indonesia’s automotive industry is home to the fastest-growing market in the world. With sales seen so far in 2013, it’s on pace for even better numbers than in 2012.

With more than 1.1 million units sold in 2012, car sales in Indonesia reached a new milestone. Motorcycle sales, however, saw quite a significant drop in sales from 2011 to 2012. This was due in large part to the new regulation set by the central bank for minimum down-payment requirements for the purchase of new vehicles.

What you may not realise is that Indonesia is also a major production base for international car makers from around the world including some of the worldwide leaders like Honda, Toyota and Daihatsu. It was estimated that in 2012 alone, exports of new automobiles reached nearly 200,000 with expected export volume to reach more than 30% of total production by 2017!

Indonesia’s car production and sales

Indonesia’s Car Sales by Vehicle Type
The Indonesian automobile industry is dominated mostly by family oriented vehicles. There are other types of vehicles that happen to pique the interest of the Indonesian consumer but as you can see by the charts provided, more of the vehicle types sold in the country are typical 4x2 family friendly vehicles with pick-up trucks coming in second.

- Indonesia’s car industry is dominated with the 4x2 family vehicles with more than 66% of consumers investing in this model vehicle whilst 30% of the consumers are investing in the pick-up truck.

- Typically Indonesian consumers are interested in investing in a 4x2 family car which can accommodate seating for 5 or 7 passengers as generally speaking this type of vehicle is more spacious and can easily accommodate consumers that want to travel in larger groups.

- Pick-up trucks are usually used for logistic transportation when the area needed to be reached is inaccessible by larger sized trucks due to road size or some other transportation issues.

- In Indonesia, a sedan is thought of more as a luxury vehicle and the usage of this type of vehicle is limited in major cities and urban areas.

- Most of the 4x2 family vehicles and pick-up trucks are assembled in Indonesia, but sedans and other luxury vehicles are still being imported either CKD (completely knocked-down) or CBU (completely built-up).
Indonesia’s motorcycle production and sales

Indonesia’s Motorcycle Sales by Vehicle Type

The motorcycle market in Indonesia has noticed a shift in demand since 2010 with the scooter becoming the most popular type of motorcycle vehicle purchased in the country. Overall, the entire motorcycle industry has begun a rapid decline since 2012 with automobiles quickly growing in popularity and affordability.

- The Indonesian motorcycle market has seen a shift in demand since 2010. In that year the ‘underbone’ motorcycle type dominated the marketplace with more than 60% of these types of motorcycles being sold on the market that year.

- Starting in 2011, the ‘scooter’ motorcycle starting to close the gap. In 2012, to a lot of industry leaders’ surprise, the ‘scooter’ surpassed the ‘underbone’ motorcycle to become the market leader that year.

- Indonesian consumers preferred the ‘scooter’ as it was easier to handle and they possessed an automatic transmission in comparison the ‘underbone’ which has a semi-automatic transmission. Another factor for the increased popularity of the ‘scooter’ includes the increased cost of fuel in Indonesia. Consumers had the perception that the scooter was a more fuel-efficient vehicle.

- The other category shown in the graphic included the ‘sport’ motorcycle, which also grew in sales numbers in 2012.

- The main factor in this graphic, though, indicates that the sales and production of all motorcycles during 2012 decreased due in large part to the new regulations on minimum down payments that were implemented by the central bank in Indonesia for consumers to purchase automobiles in the country.

Source: AISI
Top ten vehicle manufacturers sold in Indonesia for 2012

<table>
<thead>
<tr>
<th>Brand</th>
<th>Sales Volume (unit)</th>
<th>Market Share (%)</th>
<th>Brand</th>
<th>Sales Volume (unit)</th>
<th>Market Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toyota</td>
<td>333,991</td>
<td>36.18</td>
<td>Honda</td>
<td>4,092,693</td>
<td>57.31</td>
</tr>
<tr>
<td>Daihatsu</td>
<td>135,546</td>
<td>14.68</td>
<td>Yamaha</td>
<td>2,433,354</td>
<td>34.07</td>
</tr>
<tr>
<td>Mitsubishi</td>
<td>124,446</td>
<td>13.48</td>
<td>Suzuki</td>
<td>465,630</td>
<td>6.52</td>
</tr>
<tr>
<td>Suzuki</td>
<td>103,357</td>
<td>11.21</td>
<td>Kawasaki</td>
<td>131,657</td>
<td>1.84</td>
</tr>
<tr>
<td>Nissan</td>
<td>56,667</td>
<td>6.13</td>
<td>TVS</td>
<td>18,252</td>
<td>0.26</td>
</tr>
<tr>
<td>Honda</td>
<td>55,550</td>
<td>6.01</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hino</td>
<td>28,898</td>
<td>3.13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Isuzu</td>
<td>28,359</td>
<td>3.07</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kia</td>
<td>10,783</td>
<td>1.16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mazda</td>
<td>10,073</td>
<td>1.09</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: GAIKINDO, AISI

Indonesia’s automotive manufacturing production capacity

<table>
<thead>
<tr>
<th>Company</th>
<th>Production capacity, 2012</th>
<th>Brand</th>
<th>Production capacity, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Astra Daihatsu Motor</td>
<td>330,000</td>
<td>Honda</td>
<td>4,800,000</td>
</tr>
<tr>
<td>Suzuki Indomobil</td>
<td>140,000</td>
<td>Yamaha</td>
<td>3,700,000</td>
</tr>
<tr>
<td>Toyota Motor Mfg</td>
<td>120,000</td>
<td>Suzuki</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Krama Yuda Tiga berlian (Mitsubishi)</td>
<td>120,000</td>
<td>Kawasaki</td>
<td>100,000</td>
</tr>
<tr>
<td>Honda Prospect Motor</td>
<td>72,000</td>
<td>TVS</td>
<td>300,000</td>
</tr>
<tr>
<td>Isuzu Astra Motor</td>
<td>51,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Motors Indonesia*</td>
<td>40,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nissan Motors Indonesia</td>
<td>35,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hyundai Indonesia</td>
<td>27,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: * GM factory starts production in 2H 2013
Source: GAIKINDO, AISI
Indonesia’s Automotive Parts Industry in Indonesia

Indonesia’s Automotive Parts Sales Potential

The automotive industry in Indonesia is going to continue to grow over the next couple of years. The evidence that the younger generation will continue to invest in vehicles is overwhelming and the need for automotive parts in the region will continue to increase over the next couple of years. As vehicles get older, routine maintenance and mandatory repairs will become necessary for vehicles to remain in drivable conditions.

![Bar chart showing Indonesia’s Automotive Parts Sales from 2010 to 2012](chart.png)

- As the automotive industry in Indonesia continues to grow, there will be a direct impact on other supporting industries in the country including the automotive components industry which provides auto makers with the necessary components to assemble vehicles.
- By the end of 2012 it was estimated that the automotive components industry market totalled a combined $8.2 billion USD or IDR 78 trillion.
- Major sub-components for the automotive component industry include:
  - Chassis and body assembly
  - Engine block and transmission assembly
  - Fast moving spare parts which includes brakes and clutch systems, batteries, filters, etc.
- The current conditions in Indonesia show that growth will remain strong with the automotive industry despite there being some potential barriers such as:
  - Price hikes in electricity
  - Government to cut/reduce fuel subsidy
  - Minimum wage increases

Source: GIAMM (Association of Automotive Part and Component Industries)
Indonesia’s automotive component industry cluster

The automotive industry in Indonesia is centred on the West Java Region which consists of Banten, Jakarta and West Java provinces. However, there are a small number of other companies located in both Central and East Java.

<table>
<thead>
<tr>
<th>Province</th>
<th>Banten</th>
<th>Jakarta</th>
<th>West Java</th>
<th>Central Java</th>
<th>East Java</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Company</td>
<td>16</td>
<td>20</td>
<td>45</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Domestic company</td>
<td>9</td>
<td>23</td>
<td>16</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>TOTAL</td>
<td>25</td>
<td>43</td>
<td>61</td>
<td>2</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: Indonesia Investment Coordinating Board, GAIKINDO, AISI, GIAMM
Indonesia automotive component production

Indonesia’s automotive component export destinations

<table>
<thead>
<tr>
<th>Country</th>
<th>Value (USD)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>466,074</td>
</tr>
<tr>
<td>Japan</td>
<td>451,950</td>
</tr>
<tr>
<td>Philippines</td>
<td>382,332</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>378,708</td>
</tr>
<tr>
<td>Malaysia</td>
<td>284,401</td>
</tr>
<tr>
<td>Others</td>
<td>1,364,783</td>
</tr>
</tbody>
</table>

Note: * value based on 2011 data
Source: ITC Trade map, Ministry of Trade
Indonesia’s minimum wage and gross domestic product per capita (PPP)

Indonesia’s Automotive Sector- Minimum Wage
The minimum wage factor for Indonesia’s automotive industry is a very important factor to consider for those contemplating entering into the automotive parts industry in the country. Let’s take a look at some key insights for both the automotive minimum wage sector and the key insights for the GDP per capita in Indonesia as well.

![Automotive Sector Minimum Wage Graph]

![GDP per capita, PPP Graph]

Source: Municipal government decree, Ministry of labor
Source: World Bank, IMF

<table>
<thead>
<tr>
<th>Key Insights</th>
<th>Key Insights</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The automotive sector in Indonesia is one of the few sectors regulated for minimum wages in each region of the country.</td>
<td>• The GDP per capita (PPP, purchasing power parity) is a good method to compare generalised differences in living standards on the whole between nations.</td>
</tr>
<tr>
<td>• On average, the automotive sector offers workers 15% higher wages than regular minimum wages that are set by municipal/provincial government.</td>
<td>• Indonesia offers investors one of the lowest GDP per capita compared to other countries, with the exclusion of India.</td>
</tr>
<tr>
<td>• The minimum wages of the automotive industry saw significant increases in 2013 with raises of 45% in Jakarta and 30% in Bekasi respectively.</td>
<td>• This would indicate that Indonesia has one of the lowest costs of living in the world, but that would not be entirely accurate.</td>
</tr>
</tbody>
</table>

Government policies and regulations regarding the automotive component industry

• The regulation of the President of The Republic of Indonesia No. 28 Year 2008 Concerning National Industrial Policy
• The Government Regulation of the Republic of Indonesia No. 41 Year 2013 concerning “Low cost green car (LCGC)” which will regulate, among other things, the low cost green car to benefit the 0% luxury good VAT. LCGC is defined by the government as a spark-ignited motor vehicle with less than a 1200cc cylinder capacity with fuel consumption of 20 km per litre or more or a compression-ignited motor vehicle with less than 1500cc cylinder capacity with fuel consumption of 20 km per litre or more.
Further technical requirements will be released by the Ministry of Industrial Affairs.

- The automotive industry has reacted positively to the new regulations, stating that the incentives will help boost sales of motor vehicles in Indonesia.
- The government Regulation of the Republic of Indonesia No. 62 Year 2008 concerning the income tax exemption for investment for selected sectors and/or in certain regions.

Government investment plan through MP3EI program

The Government plan for Investments worth $421.1 billion USD of which 44% will go to infrastructure projects in Indonesia

Indication of Investment

Total Estimated Investment

- Infrastructure: 44%
- Main Activity: 56%

Investment in Main Activity

- Sunda Strait: 7%
- Nickel: 8%
- Copper: 9%
- Coal: 9%
- Oil & Gas: 21%
- Jabodetabek: 16%
- Others: 30%

Source: Indonesia’s Coordinating Ministry for Economic Affairs
More than $186 billion USD is planned for infrastructure projects in Indonesia with a major share going to the development of Power and Energy.

Investment in infrastructure

<table>
<thead>
<tr>
<th>Million USD</th>
<th>Road</th>
<th>Port</th>
<th>Power &amp; Energy</th>
<th>Airport</th>
<th>Railway</th>
<th>Waterway</th>
<th>ICT</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>35,684</td>
<td>12,316</td>
<td>70,421</td>
<td>3,368</td>
<td>34,316</td>
<td>1,894</td>
<td>25,474</td>
<td>3,263</td>
<td>186,736</td>
</tr>
</tbody>
</table>

Source: Indonesia’s Coordinating Ministry for Economic Affairs
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