

Country Market Profile: Indonesia

Euromonitor reports that Indonesia's economy started to recover over 2021, underpinned by strong exports, robust industrial activity and economic support measures. The economy is projected to expand at a faster pace in 2022, due to easing COVID-19 curbs, stronger private consumption and investment as well as the global commodity boom. However, pandemic-related uncertainty, ongoing supply constraints, global financial market volatility and withdrawal of economic stimulus in Indonesia could hinder economic growth.

- Following real gross domestic product (GDP) growth of close to 3.7% in 2021, Indonesia's economy is expected to expand at an average annual real rate of 4.8% over the medium term.
- Inflation in Indonesia is forecast to increase to 2.9% in 2022 from 1.6% a year ago.
- As Indonesia's exports increased by 40.5% and imports rose by 39% during 2021, the country remained a net exporter.
- Foreign direct investment (FDI) inflows into Indonesia rebounded over 2021.
- Public debt in Indonesia rose to 40.5% of GDP in 2021 from 36.6% in 2020, compared to the regional average of 94.7%.

Population was 277.3 million in 2022, (CIA World Factbook Est.), an increase of 71.3 million since 2000. The median age in 2022 was 31.1 years, 6.7 years greater than in 2000. Fertility was nearly halved in 1980-2019 and totaled 2.3 births per female at the end of that period. Fertility will gradually fall in the future but will still be about equal to replacement level (2.1 births per female) in 2030. As fertility falls, Indonesia will experience a moderate ageing process. The number of those over 65 years totaled 20.8 million in 2022 (7.8% of total population) and the share will rise to 9.2% by 2030.

In November 2020, Indonesia joined the Regional Comprehensive Economic Partnership (RCEP), the world's largest trade agreement, which consists of 10 Southeast Asian countries, China, Japan, South Korea, Australia and New Zealand. The pact is anticipated to help progressively reduce tariffs on industrial and agricultural products, and contribute to post-COVID pandemic economic recovery across Asia Pacific and Australasia. It will help Indonesia expand its market and integrate further into the global supply chain. Despite the gradual reduction in tariffs and quotas following these agreements, exporters and importers still continue to face lengthy and cumbersome custom procedures and non-tariff measures.

The USDA Jakarta Office of Agricultural Affairs, OAA, reports that in 2021, U.S. agricultural exports to Indonesia totaled US\$2.9 billion, making it the 10th largest market. Indonesia now trails only Vietnam and Philippines in Southeast Asia in market size. Major exports include soybeans, wheat, cotton, milk powder, feeds and fodders, dairy, fresh fruit, and beef and beef products. These products also have the best growth potential due to insufficient local production capacity to meet the growing demand for these ingredients. Despite an often challenging and unpredictable regulatory

environment, especially for those products that may compete with local products, opportunities exist for exporters to supply Indonesia's developed tourism market, growing food processing industry, and modern retail channels.

FAS Jakarta reports that import regulations are often complex and non-transparent, thus requiring close business relationships with a local agent. Getting a Food Product Registration (ML) number for imported retail packaged food products is complicated, but required. Labels must be written in Indonesian and attached before entering Indonesia. Consumers tend to require smaller package sizes and importers tend to require smaller shipment sizes, making shipments smaller and more costly.

U.S. exports of consumer ready products increased 4% to US\$680.8 million, or 23.4% of the agricultural total. Indonesia is the 4th largest market in Southeast Asia for the export of U.S. processed food products, totaling US\$564.3 million in 2021, and a decline of 7% from the prior year. Top 2021 processed food exports from the U.S. to Indonesia included:

- Processed/Prepared Dairy Products
- Food Preparations & Ingredients
- Syrups & Sweeteners
- Processed Vegetables & Pulses
- Non-Alcoholic Beverages
- Prepared/Preserved Seafood
- Chocolate & Confectionery

Market Opportunities and Key Issues in the Indonesian Food Market

Market Opportunities

- Indonesia is the largest economy in Southeast Asia, with a rapidly growing middle class.
- Modern grocery stores are expanding to regions outside Java and other major urban areas, increasing market presence for import products.
- Convenience store format fastest growing modern sales channel.
- The food safety control system for U.S. Fresh Food of Plant Origin (FFPO) has been recognized by the Government of Indonesia (GOI). This status provides 88 U.S. horticultural products an exemption of quarantine documents: Good Agricultural Practice, Good Handling Practice, and Certificate of Analysis prior to exporting to Indonesia.
- 120 U.S. dairy manufacturing plants are eligible to ship to Indonesia, and new plants can apply for access.
- U.S. food products have a reputation for quality among Indonesian consumers.
- Indonesia does not produce sufficient quantities of beef, dairy products, tree nuts, fresh fruit and vegetables, and pet food.

Key Issues

- Indonesia's tourism industry and foodservice sector have been negatively impacted by the pandemic, slowing demand for higher quality imported products and ingredients.
- Limited imported packaged foods sold through convenience stores.
- Importing horticultural products requires two-step license from MoA and MoT, often causing delays.
- The GOI reviews U.S. FFPO recognition every three years. There are 28 horticultural products that must have an import recommendation from the Ministry of Agriculture (MOA) and an import permit from the Ministry of Trade (MOT) before being imported to Indonesia, often causing delays.
- All processed food products of animal origin must be certified halal. Import recommendations from the MOA are required to obtain a registration number from the Indonesian Food and Drug Agency (BPOM) and Import License from MOT.
- Competition and promotions from New Zealand and Australia remain strong. Food product imports from China, Malaysia and Thailand are also growing.

Retail Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Indonesia are estimated to reach US\$38.2 billion in 2022, making it by far the largest in Southeast Asia. That represents a growth rate of over nearly 27.5% or US\$8.2 billion since 2018. The forecast for growth in this market is also promising. By the year 2026, the retail sales in the packaged food market in Indonesia is expected to reach US\$50.6 billion, a growth rate of 32.2%, or US\$12.3 billion from 2022. High growth categories in the forecast include:

- Edible Oils
- Ready Meals
- Sauces, Dressings & Condiments
- Soup
- Sweet Spreads
- Baby Food
- Dairy (ex. Cheese)
- Cheese

FAS Jakarta reports that Indonesian grocery retail sales reached US\$71 billion in 2021 (traditional grocery retailers held 76% of the market share). There are four players in the hypermarket space (Carrefour/Trans Mart, Giant, Hypermart, and Lotte Mart), and six in the supermarket segment (Alfa Midi, Hero, Superindo, Ranch Market & Farmers Market, Food Mart, The Food Hall). Major convenience stores include Indomaret and Alfamart. Convenience stores have contributed to the growth in sales of packaged food in Indonesia, as store expansions to rural areas have created opportunities to sell more packaged products across the country. Comparatively, the growth of supermarkets and hypermarkets has been slow, with total stores reaching only 1,794.

The Covid-19 pandemic has negatively impacted several modern grocery stores, including retailer Hero Group which posted a sales decline of 33% in 2020. The company closed all its Giant supermarket outlets in July 2021. Other retailers such as Matahari Putra Prima (brand owner of Hyfresh, Foodmart, and Primo Supermarket) reported a 2020 sales decline of 22%. However, sales for modern grocery companies such as Supra Boga Lestari (brand owner of Ranch Market and Farmers Market), which specializes in high quality fresh products, increased by 26% due to store expansions and efficiencies.

Indomaret continues to lead the category with more than 18,000 outlets across Indonesia, followed by Alfamart with nearly 15,000 outlets. About 90% of sales value for convenience stores in Indonesia is derived from these two companies, which have modern, integrated distribution systems and centralized procurement. Convenience stores are expected to continue to be the fastest growing grocery retail segment, with an average of 1,000 new outlet expansions each year. Convenience stores have demonstrated their resiliency and necessity during the pandemic, providing reasonably priced products closer to residential areas during periods of mobility restrictions.

Hypermarkets and supermarkets are generally located in malls and shopping centers, and generally offer 5% to 30% imported food and beverage products. The percent of imported products can be as much as 60% for some premium or high-end stores. Those premium outlets target upper-middle income and high-income consumers with a large variety of imported products such as fresh fruits, meat, snacks, condiments, and dairy.

Increasing demand for healthy food options has led to the expansion of specialty stores focusing on fresh meat, fruit and vegetables, and seafood. Found mostly in major urban areas, outlets such as Total Buah, Rumah Buah, Frestive, and All Fresh offer high quality fresh produce to middle-upper income consumers. Meatshops have also expanded, as demand for quality meat and seafood has increased. Stores such as Indoguna Meatshop, Goodwins Butchery, Celine Meatshop, Bumi Maestro Ayu, and Stevan Meatshop sell premium cuts of beef, fresh and frozen seafood, and condiments.

Best Product Prospects:

FAS Jakarta advises best prospective U.S. products for the Indonesian food retail market include fresh fruits, beef, cheese, snack foods, frozen food and sauces, dressings and condiments.

Food Service Sector Highlights:

FAS Jakarta reports the Indonesian foodservice industry is valued at USD\$24.3 billion, making it the largest market in Southeast Asia. The top three players in the Indonesian foodservice sector include international fastfood chains KFC, McDonald's, and Pizza Hut. Leading U.S. food prospects in this market include cheese, frozen potatoes, beef, fruits, pork, wine, and tree nut products. The Government of Indonesia's vaccination

program is expected to slowly ease social restrictions and boost recovery in the foodservice and tourism sectors.

KFC, McDonald's, and Pizza Hut dominate the fast-food chain sector in Indonesia, accounting for 49% of total fast-food sales. In 2020, International fast-food chains opened new outlets in primary and secondary cities to expand their network coverage. Among them is KFC, which opened 10 new outlets, including one store under the Taco Bell brand. This opening attracted a high level of interest among millennials and resulted in long queues during the first three months of the opening. In the fourth quarter of 2021, MAP Boga Adiperkasa, the Starbucks brand owner in Indonesia, re-opened the U.S.-based sandwich chain Subway after pulling out in the early 2000s.

Middle-high and high end restaurants groups such as Boga Group, Ismaya Group and Union Group, which often mix international and local tastes, continue to expand their outlets across Jakarta, Bandung, Surabaya, Yogyakarta, and other growing urban areas. Often located in highend shopping malls, these restaurants frequently use higher quality imported ingredients and cater to a young, urban demographic that follows food trends and embraces a dine-out lifestyle as part of their social activity.

Jakarta and Bali remain the ideal locations to target the HRI food service sector. These cities are home to many hotels and international restaurants that cater to sizeable expatriate communities, foreign visitors, and high-income consumers. Bali remains the 'trendsetter' in specialized cafés, hotel chains, and restaurants. Other large cities such as Surabaya, Bandung, Medan, Batam, Balikpapan, Lombok, and Makassar also have potential for import growth.

Since the government eased its Covid-19 mobility restrictions, Indonesians have begun to flock back to restaurants, malls, and cafes, which provide a great opportunity for U.S. exporters of food ingredients and consumer-oriented products to increase sales in Indonesia. Products such as meats (red meats, processed meats), seafood, condiments, fresh fruits, and other consumer-oriented products are in high demand from hotels and restaurants. They utilize these products to offer a wider variety of international cuisine to local consumers as well as international visitors.

The number of hotels in Indonesia increased significantly from 16,685 to 30,823 hotels, offering 870,783 rooms (2013 – 2020). Although most international hotel chains are in Jakarta, Bali, Bandung, Surabaya, Yogyakarta and Medan, more are expanding into secondary cities due to infrastructure development and promotion of new tourist destinations. As a result of Covid-19, star-rated hotels hit record low occupancy rates in 2021, registering just 22.3 in July. The low numbers were driven by the increase of positive COVID-19 cases in a second wave that forced the government to impose the emergency public activity restrictions. In 2020, foreign tourist arrivals reached 4 million, a decline 73% year on year. Visitors from Asian countries accounted for 77% of total tourist arrivals.

Indonesia's catering industry comprises four categories: hospitality (i.e., hotel, weddings, and other events), institutional, online, and in-flight catering. Hospitality, institutional

and online catering services are highly fragmented. Services offered in these categories range from five-star hotels and large institutional suppliers to individually run boutique catering businesses and lowcost providers. The hospitality sector was quickly growing prior to Covid-19, especially wedding receptions. The sector generated an estimated annual expenditure of US\$4 billion, of which 70%–80% were food and beverage sales.

Best Product Prospects:

FAS Jakarta advises that the HRI industry will continue as a leading consumer of imported food items. Opportunities for high-value U.S. food items include milk and cream powder and cheese, fresh fruits and vegetables, processed fruit, food preparations and ingredients, red meats, (Halal), french fries, bakery dough, butter, fruit and vegetable juices, breakfast cereals and pancake mix and tree nuts.

Food Processing Sector Highlights:

FAS Jakarta reports that there are approximately 7,868 large and medium-sized food and beverage manufacturers and 1.6 million micro and small establishments in Indonesia. The number of Indonesian workers in the food and beverage processing industry stands at 4.6 million or 28% of the total workforce in the manufacturing sector. Large and medium-sized food processors in Indonesia source raw materials both locally and globally. Large food processors directly import ingredients such as wheat, milk powder, cheese, meat, and horticultural products. Food processors usually purchase small quantities of additives, flavors, or preservatives through general importers or distributors.

The Indonesian food processing industry serves a domestic population of 277 million and is increasingly seeking new export markets in the region and globally. According to Statistics Indonesia (BPS), Indonesia's economy grew close to 3.7% in 2021, a rebound from the 2020 pandemic-induced recession, marked by the resumption of normal investment and business activities.

Java Island remained Indonesia's main economic driver in 2021, accounting for 58% of the country's economy. The domestic food manufacturing industry is growing, driven by growing middle and upper-income consumption, which constitutes 82% of national food consumption. Indonesia is Southeast Asia's largest economy and continues to offer significant market potential for U.S. suppliers of food and ingredients, including consumer-oriented products such as fresh fruits and nuts, as well as products utilized in food processing including soybeans, wheat, milk powder and other dairy products, corn (wet milling), and beef.

Increasingly Indonesians are consuming more processed and packaged foods, including frozen desserts, processed fruits and vegetables, and various chips and snacks. As more women in urban areas enter the workforce and have less time to prepare meals for their families, the market for convenient, processed food products is expected to grow. In Indonesia, women remain the primary grocery shoppers and meal planners of households and so have the most decisionmaking power over household food purchases. The

Ministry of Industry has reported that 60% of the food and beverage industry's raw materials come from imports. Additionally, the Indonesian Food and Beverage Industry Association (GAPPMI) notes that it imports 80% of milk ingredients, 70% of soybeans, 100% of sugar, and 80% of certain salts that it uses in its manufacturing.

Indofood continues to lead the packaged food market in Indonesia. The company has a wide-ranging product portfolio, including local and multinational brands. Other major processors include Nestlé and Royal Friesland Campina (Frisian Flag). Many of their products are sold through modern stores. The rapid expansion of convenience stores, which mostly stock locally produced products, has helped to expand the distribution of packaged food throughout Indonesia.

Despite the economic slowdown during the pandemic, in 2021, exports of U.S. agricultural products to Indonesia increased by 9% largely due to higher demand for soybean, beef, and corn. However, Australia overtook the United States as the largest supplier of imported agricultural products to Indonesia for the first time in the seven years due mainly to a substantial increase in Australian wheat exports to Indonesia in 2021.

Indonesia has implemented trade agreements with ASEAN countries, the People's Republic of China, Chile, the Republic of Korea, India, Japan, Hong Kong, New Zealand, Australia, and Pakistan in the form of Comprehensive Economic Partnership Agreements, Free Trade Agreements, and Preferential Trade Agreements. Agricultural products from those countries, such as milk powder, beef, apples, grapes, cheese, and oranges, enter the market at more competitive rates than U.S. products. However, many U.S. products continue to increase their market share based on price, quality, and availability.

Best Product Prospects:

The market presents significant opportunities for a range of U.S. agricultural products, including consumer-oriented products: dairy, fresh fruit, beef and beef products, tree nuts, powdered cheese, and dried egg yolk. Intermediate agricultural products: sugar and sweeteners, textured soy protein, cornstarch, natural honey, odoriferous substances.

FAS Jakarta advises that primary ingredients such as wheat, refined sugar, soybeans, dairy, fresh fruit, and processed fruit have high demand and are frequently imported. Blending products used for enriching products such as corn starch, potato starch, dehydrated potato, garlic powder, onion powder, and chili powder are also in demand. Coffee extracts or concentrates fresh fruits and vegetables, cheese and tree nuts are also in demand.