Country Profile

Market Opportunities Report

Foreign Agricultural Service

Horticultural and Tropical Products Division

Indonesia

Figure 2 The capital city of Jakarta contains an estimated 12 million people.

Indonesia is an archipelago that encompasses 13,000 islands and more than 210 million people. It is the largest muslim country in the world, and following the elections of 1999, the third largest democracy. While GDP per capita is one of the lowest in the world at US$600 per annum, Indonesia does contain a sizable middle class that can afford imported products.

One of the hardest hit economies during the economic crisis, Indonesia has just begun to recover from the twin shocks of capital flight and severe currency devaluation during the 1998 crisis. Some economic stability has begun to materialize, however continued political instability plagues the nation and is slowing economic recovery.

Paradoxically, the Indonesian economy is still strong outside of the major financial center of Jakarta. The weak Rupiah supports many of Indonesia's base export industries such as timber, mining , and oil. However, in Jakarta, financial institutions are still weak. One reason for this was that many Indonesian loans are US dollar based to take advantage of lower interest rates. However, when the Rupiah collapsed, many companies could not make the payments. Indonesia set up a loan resolution fund which by some estimates, now controls up to 67 percent of GDP. By comparison, during the US savings and loan crisis, the Resolution Trust Fund never exceeded more than 3 percent of GDP.

Despite all this bad news, consumption and production figures are strong. The economy is not in depression and residential construction is booming. While opinions vary, many economists in and out of the country are predicting about 4 percent growth for 2000.

Trade:

US exports of consumer-oriented agricultural products fell from $115 million in 1997 to less than $29 million in 1998. Within this sector, US horticultural product exports fell 78 percent from $68.9 million in 1997 to $14.9 million in 1998. Fresh fruit accounted for most of the drop in US horticultural exports to Indonesia, falling 89 percent from an all-time high $49.2 million in 1997 to $4.9 million in 1998. Not surprisingly, apples, table grapes, and citrus, which accounted for the majority of exports, took the biggest hits. Processed fruit and vegetable exports fell 41 percent, from $15.5 million in 1997, sinking to $9.1 million in 1998. Smaller sectors such as juices and tree nuts took huge hits, falling 88 percent and 77 percent respectively.

Figure 3 Fruit Stand in Jakarta Displaying an Array of US Fruits

In 1999, all U.S. horticultural exports rebounded 98 percent, reaching $29.6 million. Fresh fruit exports, lead by apples, rebounded 265 percent to $18 million. Preliminary data for 2000 shows US horticultural exports continuing to rise but at a slower pace. Oranges are the only fresh fruit that are up significantly. US horticultural exports for the first six months of 2000 rose 19 percent over the same period in 1999.

The Market:

Imported, high value fresh fruits and vegetables are primarily marketed to the middle class, which totals approximately 20 million people, mainly in Jakarta. One major supermarket reported that about 60 percent of fruits sold in its markets are imported. The percentage was much less for vegetables and other horticultural products. More than 80 percent of fruits and vegetables are still sold through wet markets or warungs as they are called in Indonesia. The old fruit cart sellers are still prevalent but are not as common as in the past.

There is an old Chinese saying that from crisis, opportunity rises, and in many ways, this could describe Indonesia in 2000. In the eyes of many, one of the key benefits of the crisis was the weeding out of weaker importers and traders and the concurrent need by those remaining to become more efficient. In the long run, this will benefit consumers by forcing handlers to provide a better product to the consumer, especially in areas outside of Jakarta where infrastructure deficiencies limit market potential. Also, the lowering of key fruit tariffs has had a positive effect on the market.

Many fruit and vegetable products are imported by Indonesia. Temperate fruits include apples from the US, China, New Zealand, France, pears from China, South Africa, and the US, oranges from the US, South Africa, Pakistan, and Australia, as well as grapes from the US, Australia, and Chile.

As mentioned above, consumption and construction continues to expand despite continued economic and political uncertainty, and the food retail sector is no exception. Hypermarket and supermarket chains are continuing to expand, primarily in Jakarta. The huge French multi-national Carrefour is well established in Jakarta, and Makro (Dutch) stores is in the process of building four new stores in the next year. Similarly, the Delhaize Group has signed a long term agreement with the Salim Group and is restructuring the Super Indo chain, which caters to lower-middle class to upper class customers. The aggressive positioning by these companies has put chains like Hero supermarkets, the largest retail chain in Indonesia, on the defensive. Hero owns 105 food stores nation-wide (concentrated in Jakarta) and is continuing to upgrade stores to keep customers and meet the pressure exerted by the large multi-nationals. Likewise, Matahari, Indonesia's second largest chain with a total of 60 outlets, is upgrading it's stores and reports that it plans to increase the floor space devoted to fruit and vegetables to 30-35 percent, up from 15 percent now.

Infrastructure still remains a problem in Indonesia. While some cold storage exists in Jakarta, refrigerated trucks are rare or non-existent. While many fruits can handle the trip in non-refrigerated trucks from the cold storage warehouse, many supermarkets are not capable of re-establishing a cold chain. Furthermore, knowledge on how to handle fruits is marginal.

Outside of Jakarta, the situation worsens. Generally non-refrigerated trucks are used to transport product to secondary cities. The journey from Jakarta to Surubaya, Indonesia's second largest city, can take as long as 16 hours. Drivers leave at night to take advantage of the cooler hours, but this does make up for poor handling. There is very little marine transport available due to poor port facilities unable to handle refrigerated containers. In general, only apples can handle the punishment of truck transport.

Opportunities and Constraints:

According to Indonesian importers, handlers and retailers, the outlook for US exports of horticultural products is good but there are many factors to weigh.

US fruits still maintain an excellent reputation for quality and value, and still maintain certain advantages, especially around the holiday season. Also, Australian fruits and vegetable marketing has tapered off significantly. This is due to the desire for the Australians to maintain a low profile because of their role in the East Timor conflict.

However, constraints to expanding the market remain. The strong US dollar will most likely inhibit any significant growth in the near term. Importers noted that while US product has become expensive, it is not the exchange rate itself that is the problem, but rather the fluctuations, which make it difficult for importers to plan ahead. Some importers have worked around this problem by moving all their financial dealings to Singapore, where an extremely efficient banking system helps remove uncertainty.

Third country competition is also a challenge that will need to be met by US exporters. China will have begun shipping Fuji apples and various pear varieties to Indonesia. Reportedly, price is ranges at about US$7.00 per 20 kg box for grade 2 product apples and US$13 per 20 kg box for top quality. Both prices are C&F Jakarta. This is compared to US Fuji's which are US$12-16 FOB, Yakima. Quality is expected to be good, and improving, especially as China develops its controlled atmosphere capabilities. Furthermore, pears from China and Korea have made significant inroads into the market, as well as citrus from Australia and South Africa. Grapes, especially Red Globes, have benefitted from a steady recovery, up 44% in 1999 to $2.2 million,but still well below the $7 million plus shipped in 1997. However, importers believe that grapes will recover well as there are no major competitors to the US.

Tariffs: Applied tariffs on all imported food products are limited to a maximum of 5 percent under an agreement between the Government of Indonesia and the IMF as part of a Letter of Understanding signed in the early part of 1998.

Conclusion:

While many challenges remain, Indonesia still provides an opportunity for increased sales in the long term. The retail industry is expanding and the Indonesian middle class is demanding better product on the shelves. While cold storage deficiencies, a strong US dollar, and increased third country competition will be the primary drawbacks to expanding US exports of fruits and vegetable, the biggest obstacle to progress will be the political situation. If that settles, US exports to Indonesia are expect to reach 1997 by 2002.

Given currency fluctuations and a tenuous economic situation, exporters interested in Indonesia should consider using credit programs available through FAS. FAS has an active GSM-102, GSM-103, and of most interest to fresh food exporters, a Supplier Credit Guarantee Program. To learn more about these credit programs, please refer to: http://www.fas.usda.gov/export.html

With regard to cold chain problems, many opportunities to help improve the distribution are being explored. USDA is working with companies through the Emerging Markets Program to develop post harvest training programs and identify appropriate investments in cold chain technology. Companies interested in investing in Indonesia's infrastructure may want to review FAS' Facilities Credit Guarantee Program. To learn more about the Emerging Market Program , please visit: http://www.fas.usda.gov/mos/em-markets/em-markets.html

Many non profit trade associations use FAS' Market Access Program (MAP) to generically promote US horticultural products in Indonesia . Furthermore, FAS works with State Regional Groups to allocate branded MAP funds for Indonesia and other countries. To learn more about MAP, please visit: http://www.fas.usda.gov/mos/programs/mapprog.html . If you are a producer or exporter and want to participate, contact a trade association that represents your specific product. If no trade association exists, contact one of the four State regional trade groups:
- Eastern US Ag & Food Export Council (EUSAFEC), website: http://www.foodexportusa.org
- Mid-America International Agri-Trade Council (MIATCO), website: http://www.miatco.org
- Southern US Trade Association (SUSTA), website: http://www.susta.org
- Western US Agricultural Trade Association (WUSATA), website: http://www.wusata.org.

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