

Spotlight of the Emerging ASEAN



Indonesian Auto Parts



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Rapid Growth of Indonesia Economy Drives Automotive Industry Development



With 10 countries making up a total area of 4.44 million sq km, a population of 576 million, and GNP of USD 1.5062 trillion, the Association of Southeast Asian Nations (ASEAN) is a very influential regional organization. Indonesia, as one of the Southeast Asian countries, has a population of 240 million and rapid growth in its economy. Morgan Stanley has also listed Indonesia, with the economic growth rate of 6.5% in 2012, as one of the “BRICs” (Brazil, Russia, India, Indonesia, China), making it the only member of ASEAN listed into BRIC. Indonesia has also been listed as one of the “Next 11” by the Goldman Sachs Group Inc. and into “VISTA” by BRICs Economic Research Institute of Japan. Indonesia is hoped to be another new spotlight in the Asia economy after China and India, and to lead the reform of the Asia economic territory and industrial supply system. The enormous domestic market and the emerging middle class of Indonesia are driving its rapid economic growth. The domestic demand makes up almost 70% of the country’s GDP. The Asian Development Bank estimated that Indonesia will have a 6.6% economic growth rate in 2013, and that the vast consumption shall contribute over 3% to the 2013 economic growth.



Thailand, the Philippines, and Indonesia are countries open to the automobile and auto parts industry; amongst them, Indonesia has replaced Thailand as the biggest automobile market in the ASEAN since 2011. Toyota, Suzuki, Daihatsu have their vision on Indonesia’s development potential, and made it their auto parts manufacturing and completely built unit (CBU) exporting base in ASEAN; and they are also planning to make it their multi-purpose vehicles (MPVs) exporting base in ASEAN. Comparing to the other ASEAN countries, Indonesia has a rather low demand for cars, and most of its residence still use motorcycles for transportation. Due to the economic development in the recent years, the consumer behavior has changed and led to an increase in the demand for low-price subcompact cars. To the ASEAN automobile industry and its development trend, Indonesia will be a competitive area for the CBU and auto parts companies.

To have a grasp of the Indonesia auto parts market and setup for opportunity development, here we will briefly outline the current production and sales status of the Indonesia auto parts market, as a reference for the Taiwan auto parts companies to enter the Indonesian market.





Japan Automobile Industry Leads the Trend of Indonesian Car Production and Sales

According to the statistics of GAIKINDO, the Association of Indonesia Automotive Industries, there was a significant growth in the 2012 automobile CBU sales, mainly benefiting from the good condition of the Indonesian economy. The increase in the national income and purchasing power of the Indonesia residence has prompted more people from the middle class to purchase cars for transportation. Indonesian consumers often prefer Japanese cars, and Japanese brands cover over 90% of the market; within that, Toyota takes up to 35% market share, followed by Daihatsu (15%), Mitsubishi (14%), Suzuki, Honda, and Isuzu; the rest 10% of the market is distributed among the Europeans, Americans, Koreans, etc.

According to GAIKINDO's statistics, Indonesia has invested in new model CBU manufacturing and expanded in the domestic demand in order to push the production demand further, localize the business and lower the costs, avoid the appreciation in Japanese Yen, and concentrate the production in an effort to manage risks. Based on that, the auto parts companies have been strengthening the local business.

In 2012, the GDP per capita of Indonesia has reached USD 3,500, together with the government advocating low inflation and low interest rates, deferring the petrol price hike, and implementing subsidies to suppress the petro price, all of which are generally considered to have helped the automobile market sales. In June 2012, Indonesia has imposed restrictions on car loans, which has once worried the market about the impact on sales. However, owing to the

promotions of low interest rate in car purchasing and the progressive effort of the companies within the business, the market sales were maintained

at its level. The Low Cost Green Car (LCGC) policy is to be implemented in 2013. With Indonesia's steady economic growth, the subcompact car models developed based on the LCGC, and the rising domestic demand from the middle-income group, the sales performance of 2013 is expected to be driven further up.

In 2012, the total sales of automobile in Indonesia was 1.116 million units, second to Thailand among ASEAN. With the economic growth and transformation needs of Indonesia, its sales is estimated to reach 1.322 million units in 2013, up 18.5% from 2012.

Figure 1 below shows the automobile sales over the past 5 years.

Syndicated Auto Parts Supply Chain



There are 20 automobile CBU manufacturers in Indonesia, and the biggest one is Astra International Group. This joint venture of Astra and Toyota gained a license for establishing assembly factories as a local company. In the 1970s, Japanese products were disadvantaged due to the anti-Japan sentiment. However, the Japanese automobile companies took advantage of two cut-down plans and the opportunity to partner with local Indonesian automobile factories to expand their market.

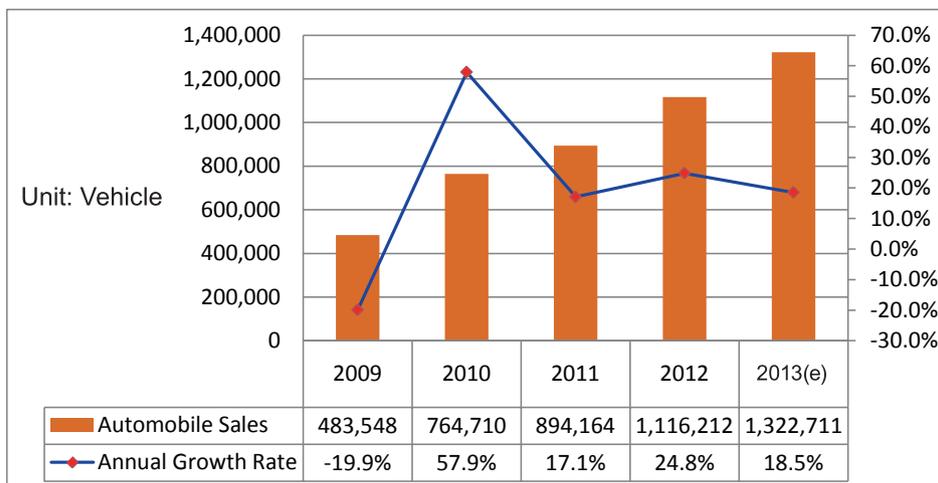


Figure 1. Indonesia Automobile Sales
Source: GAIKINDO, arranged by ITRI IEK (2013/06)

Astra International Group currently covers a diverse business range including automobile and motorcycle manufacturing and marketing, financial services, heavy machinery, mining, energy, agriculture, IT, infrastructure and logistics, with a total number of 230 thousand employees. Astra International Group manufactures, assembles and sells the following brands: Toyota, Daihatsu, Isuzu, Peugeot, BMW, Nissan Diesel trucks and Honda motorcycles. The automobile and auto parts sales value occupies up to 60%. Indomobil is the second largest automobile group. It manufactures, assembles and distributes Suzuki, Nissan, Volvo, Volkswagen, Renault, Audi, Chery, Hino Trucks, Volvo Trucks and Suzuki motorcycles.



Within Indonesia, there are 250 Tier1 auto parts companies, with 420 thousand employees; 550 Tier 2 & Tier 3 auto parts companies with 280 thousand employees, where almost no 100% locally invested OEM auto parts companies, most of which are joint ventures with Japanese or Korean companies. According to the statistics from Indonesian Automotive Parts & Components Manufacturing Association (GIAMM), they have 138 member companies, in which 79 are Foreign Investments (PMA), 63 are Japanese companies, and 59 are joint ventures or Domestic Investments (PMDN).

The Industrial Characteristic of Indonesia's Dependence on Imported Auto Parts

The automobile manufacturing in Indonesia has been the biggest within ASEAN, because it started early and has a supportive domestic demand, making it more advantageous in its development in the industry, compared to the other ASEAN countries. Indonesia has its domestic market potential and natural resources, together with the implementation of the ASEAN Free Trade Area that lifted 5% import tariff for automobiles and parts in the 6 ASEAN countries, including Thailand, Malaysia, Singapore, Brunei, the Philippines and Indonesia. It has become much easier to export automobiles and auto parts from Indonesia to other ASEAN countries, making Indonesia very competitive in its costs.

The world renowned market research company, Frost Sullivan, indicated that if the Indonesia government implemented tax incentives to drive the development of the automobile industry, Indonesia may become a main market of low-cost green vehicles. In 2012, the Indonesia government has announced the “Low Carbon Emission Plan” to promote the development of green vehicles including hybrid vehicles and electric cars, to reduce fuel consumption. Following that, automobile companies such as Toyota, Daihatsu, Honda, etc. also proposed related development plans. According to the data, the automobile sales of Indonesia in 2013 shall expect a growth of more than 7.5% compared to 2012, reaching up to 1.2 million



units. As the automobile prices are increasing along with the commodity prices, the low-price green vehicles will play an important role in the future of Indonesia market.

The Indonesia government has listed automobile assembly and manufacturing as a main developing industry, and will be progressively driving its development in the next 5 years in hopes of replacing Thailand and becoming the biggest automobile assembly and manufacturing base in Southeast Asia. In 2011, the major flood in Thailand led to an imbalance in the supply chain of auto parts and also inadequate supply and demand in the industry. As a result, the major car companies realized the downside of having all the production bases concentrated in one place, and started to seek the second and third production locations. Indonesia has a vast domestic market and natural resources. Together with the implementation of the ASEAN Free Trade Area, it is hopeful in gaining the opportunity of becoming the ASEAN regional auto parts assembly and manufacturing center.

Due to the new models coming into production and the market expansion, the demand for localization of auto parts is increasing gradually. In 2012, to avoid the pressure of inflation in Japanese Yen and control risks of concentrated production like those from the flood in Thailand, the major automobile and parts companies have been continuously strengthening the investment and factory setup business in Indonesia.



The Indonesia auto parts industry can be separated into 3 categories: Import of Completely Built Up (CBU); Semi-Knocked Down (SKD); and Completely Knocked-Down (CKD). **Figure 2** shows the Indonesia auto parts (including CBU, SKD and CKD) import and export forecast. In 2012, the total exporting CBU in Indonesia was 173 thousand units; following the growth of rising ASEAN markets demand, the forecast in 2013 is 214 thousand units, up 23.8% from 2012. Also in 2012, the total importing CBU was 125 thousand units, and the forecast in 2013 is 150 thousand units, up 19.2% from 2012.

In 2012, the total exporting SKD and CKD was 100 thousand units; following the growth of rising ASEAN markets demand, the forecast in 2013 is 135 thousand units, up 35.1% from 2012. With the growth in the Indonesia auto parts market and its production scale, the import value of CBU (code 8703 passenger car and code 8704 truck) has a significant increase; and in order to accommodate the demand from the Middle East countries like Saudi Arabia, the export value of CBU (code 8703 passenger car and code 8704 truck) has also increased.



The export value of Indonesia auto parts in 2012 was USD 1.34 billion, up

20.4% from 2011. As Indonesia lacks a complete auto parts supply chain, and it has to rely on imported semi-finished auto parts materials, engine systems, and automatic transmission, etc. The import value being greater than export value is a characteristic of the Indonesian market. The auto parts import value in 2012 was USD 2.76 billion, up 21.4% comparing with 2011. It is estimated that in 2013, the automobile sales in Indonesia will continue to grow, together with factors like the increasing car demand, and the export value shall reach USD 1.43 billion, up 13.1% from 2012. **Figure 3** shows the estimate of Indonesia auto parts import and export values.



The auto parts manufactured in Indonesia are mostly made of materials that can be obtained locally. The technology level for producing these parts is relatively low, and the products have less added values, or generate higher amount of pollution. Examples are tires production, forging, molding, stamping, and gearset production, etc. as well as other metal processing, assembling of parts and batteries, and plastic injection molding, etc. The major auto parts exporting countries include Japan (23.8%), Thailand (20.2%), Malaysia (10.1%), the Philippines (7.8%), Brazil (5.1%), China (4.6%), etc. **Figure 4** shows the Indonesia's auto parts exporting countries and the corresponding shares.

The auto parts needed for CBU assembly are mostly imported as semi-finished goods, these critical parts include automotive electronics, chassis,

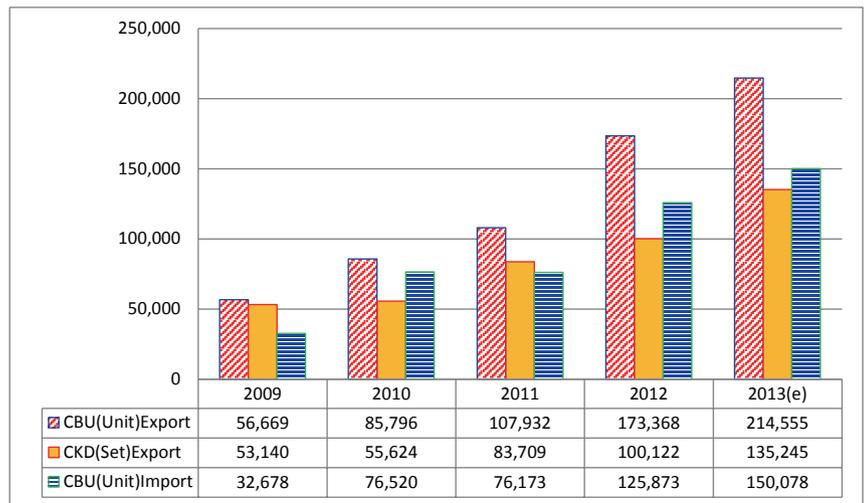


Figure 2. Indonesia Auto Parts Import and Export Volume Forecast
Source: GAIKINDO, arranged by ITRI IEK (2013/06)

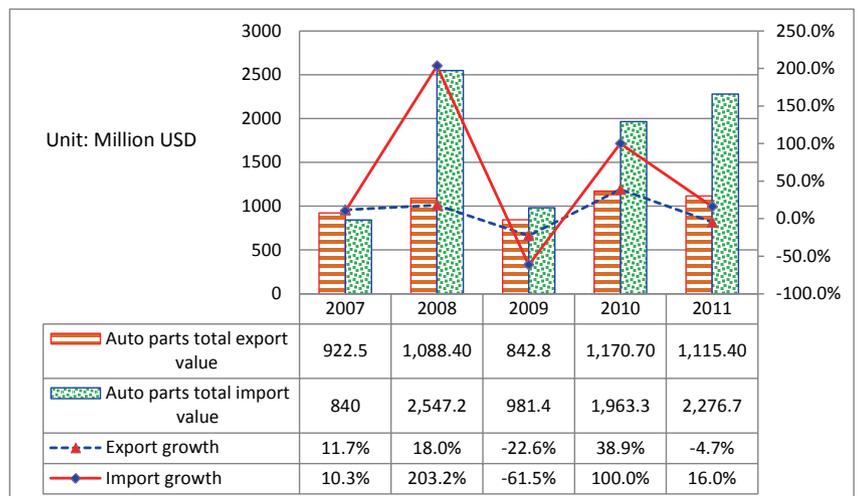


Figure 3. Estimate of Indonesia auto Parts Import and Export Values
Source: GAIKINDO, arranged by ITRI IEK (2013/06)

engines systems, steering mechanism and systems, transmission systems, brakes, suspension, etc.

In 2012, over 75% of the imported auto parts came from Japanese companies. The major importing countries include Japan (39.2%), Thailand (36.1%), Germany (5.1%), China (4.2%), Brazil (3.6%), etc. **Figure 5** shows Indonesia's auto parts importing countries and the corresponding shares.

Setup Opportunities for Indonesian Auto Parts

The foundation of the future development of the automobile manufacturing industry among the ASEAN countries has been well established, thanks to their own local advantages: relatively high level techniques, the active investment in setting up production plants in ASEAN by the Japanese and other major automobile companies around the globe, well-established economies of scale, adequate labor power, low labor cost and land values, great potential in the automobile industry and in marketing development, etc. The automobile industries in ASEAN are located mostly in Malaysia, Indonesia, the Philippines, Thailand, etc., and since 2010, the import tariff of automobiles in 6 countries, including the above, within ASEAN has been lifted, as well as the taxes on auto parts. The auto parts supply system shall become more efficient and flexible.

With the industrial integration in ASEAN, the international open market, the steady economic growth, the improving investment conditions and the influence from the domestic middle class, the scale of the Indonesian automobile industry and market is growing continuously. It is also attracting lots of foreign investment, which may let Indonesia have

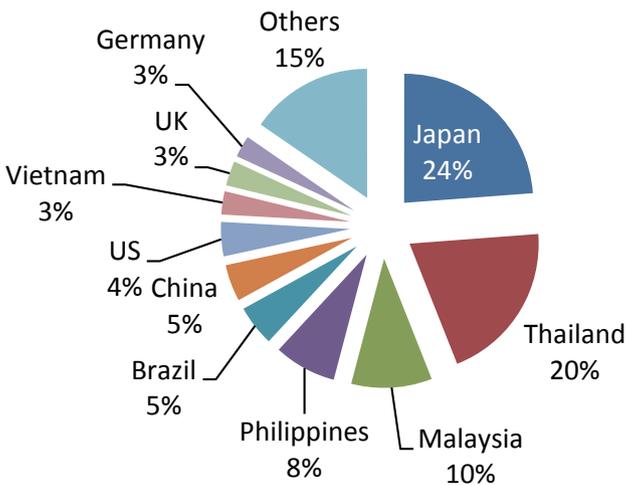


Figure 4. Indonesia's Auto Parts Exporting Countries and Corresponding Shares
Source: GAIKINDO, arranged by ITRI IEK (2013/06)

the biggest automobile manufacturing and sales volume within ASEAN in the near future. According to the forecast by the Indonesian Ministry of

Industry, if every citizen can have an average annual income of USD 4,000, the annual sales of automobiles will reach 1.5 million vehicles, which will be far more than 610 thousand and 480 thousand units in the domestic markets of Thailand and Malaysia, respectively. The future prospect of the Indonesian automobile and parts industry is rather optimistic.

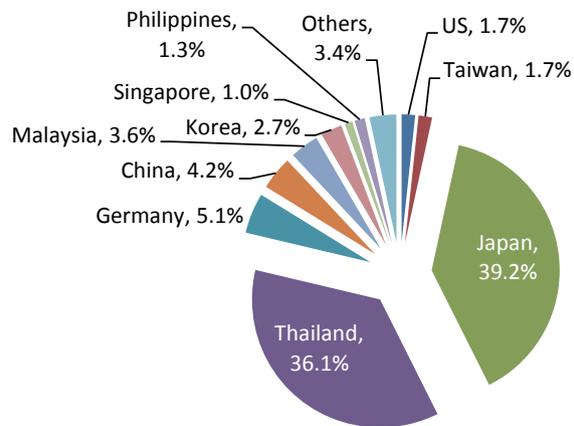


Figure 5. Indonesia's Auto Parts Importing Countries and Corresponding Shares
Source: GAIKINDO, organized by ITRI IEK (2013/06)

The auto parts industry in Taiwan is limited by its low-demand domestic market, leading to overcapacity. Under the Free Trade Agreement (FTA) signed among multiple countries in different regions, the impact on the auto parts industry is far greater than that on the CBU industry. Taiwanese auto parts companies are mostly AM export-oriented. While faced with the diverse demand in automobile price reduction, subcompact cars, and new energy vehicles in ASEAN, it may be wise for Taiwanese companies to break away from the habit of copying auto parts production, while maintaining the current advantages in the AM competition and the global supply market. Taiwan should start setting up for opportunities in the Indonesian market, and transform the industry into focusing on auto parts OEM supply chain, and utilizing the advantages of the ICT technology from Taiwan to develop innovative auto parts with price differentiation and high added values, such as GPS navigators, tachographs, vehicle gaming and entertainment systems, driving safety support systems, etc. Taiwan should compete for business by setting up for opportunities in the Indonesian auto parts market based on the competitiveness amongst companies, product properties, technical capacities, etc. ■