TATA STRATEGIC MANAGEMENT GROUP

A handbook on

Export opportunities in Indonesia

for

Indian chemical companies

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Executive summary

Indonesia is a high growth economy with strong foundation as the growth is primarily driven by domestic consumption. Less dependence on exports and high global demand for its natural resources shelters it from the global jitters dampening demand in the developed markets.

Proximity to China has contributed to its trade relations with China. Low cost Chinese goods are easily available in Indonesian markets. However, the issue of smuggling of low quality products has been a point of contention between the two nations in recent past. Young population has contributed to consumption driven economy as well as helped in the high growth of South East Asia's largest economy. The government projects an addition of ~2.4 Million people to the workforce in 2013.

Local demand is undisputed; however, meeting that demand has been a challenge. Capital investments have been low for infrastructure. Government needs to put in more efforts to attract foreign investments. While an increasing number of foreign firms are taking a closer look at Indonesia's growing market of close to 240 million people, the government needs to step up to lower the barriers to business and create more policies like the tax break to attract foreign investors.

The economy has been growing at ~7% even during the global economic slowdown. Trade agreements are being signed with multiple nations to boost the trade as well as investments in Indonesia. Foreign firms have established their bases in Indonesia as availability of labour has not been an issue and domestic demand is rising with the increase in disposable income of the population.

This provides a window of opportunity for exporting nations, like India. The main factors for Indian exporters will be to provide the products which Indonesian market needs and tailor their offerings as per their capability (e.g. cost competitiveness, regional product needs etc.). This report will give you an insight as to which are the key import requirements of Indonesia and what capabilities India can leverage or develop to capture the most of the import market for those products.

1. Country overview

Indonesia is an archipelago comprising approximately 17,508 islands in Southeast Asia and Oceania. It has 33 provinces with over 238 million people, and is the world's fourth most populous country. Jakarta is the national capital of Indonesia. The country shares land borders with Papua New Guinea, East Timor, and Malaysia. Other neighbouring countries include Singapore, Philippines, Australia, Palau, and the Indian territory of the Andaman and Nicobar Islands. (Refer figure 1).

Figure 1: Indonesia overview

The GDP of the country was USD 846 Bn in 2011 and grew by 6.1% in 2012. Per capita GDP of Indonesia is ~USD 3,542 in 2011. Indonesian economy is the world's sixteenth largest by nominal GDP and fifteenth largest by purchasing power parity. Indonesia is also a founding member of ASEAN and a member of the G-20 major economies.

The industry sector is the economy's largest and accounted for 46.4% of GDP (2011), followed by services 37.1% and agriculture 16.5%. The country has extensive natural resources, including crude oil, natural gas, tin, copper, and gold. Indonesia's major imports include machinery and equipment, chemicals, fuels, and foodstuffs. And the country's major export commodities include oil and gas, electrical appliances, plywood, rubber, and textiles

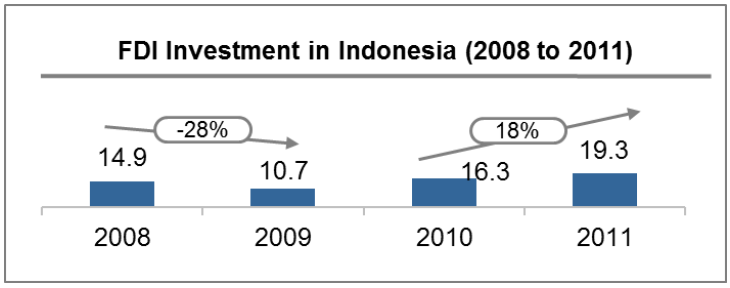
Indonesia's growth is being boosted by strong domestic demand. With domestic consumption still accounting for 65 per cent of GDP, Indonesia is well cushioned from the deteriorating global outlook. Indonesia has also regained its investment grade rating from Fitch Rating in late 2011, and from Moody's Rating in early 2012. Strong policy management has had a beneficial impact on improving

the economy and liberalizing the international trade regime. Small firms have accounted for most of the new jobs in the country and are responsible for some 50% of the growth in production.

Business Environment

Indonesia's overall Doing Business 2012 ranking is 129 out of 183 economies. Poor infrastructure is a major shortcoming of the nation. Despite notable improvements, its roads and railroads remain are in poor condition, and the capacity of seaports remains limited. Energy infrastructure is of major concern, as well. The uptake of information and communication technologies also remains limited among businesses, as well as within the population at large. As a result, Indonesia places 91st in the technological readiness pillar. Another major area of concern relates to the allocation of human resources due to the rigidity of the labour market, which contributes to a high degree of informality and precarious working conditions, and which hinders the reallocation of the labour force to more productive sectors as Indonesia develops. Corruption remains widespread at all levels of administration, and bureaucracy is still too burdensome. Greater transparency and predictability are needed in the policy-making process. And the security situation, although far better than in the past, is still a concern to the business community. (Refer figure 2).

Figure 2: FDI investment in Indonesia (2008 to 2011) – in USD Bn



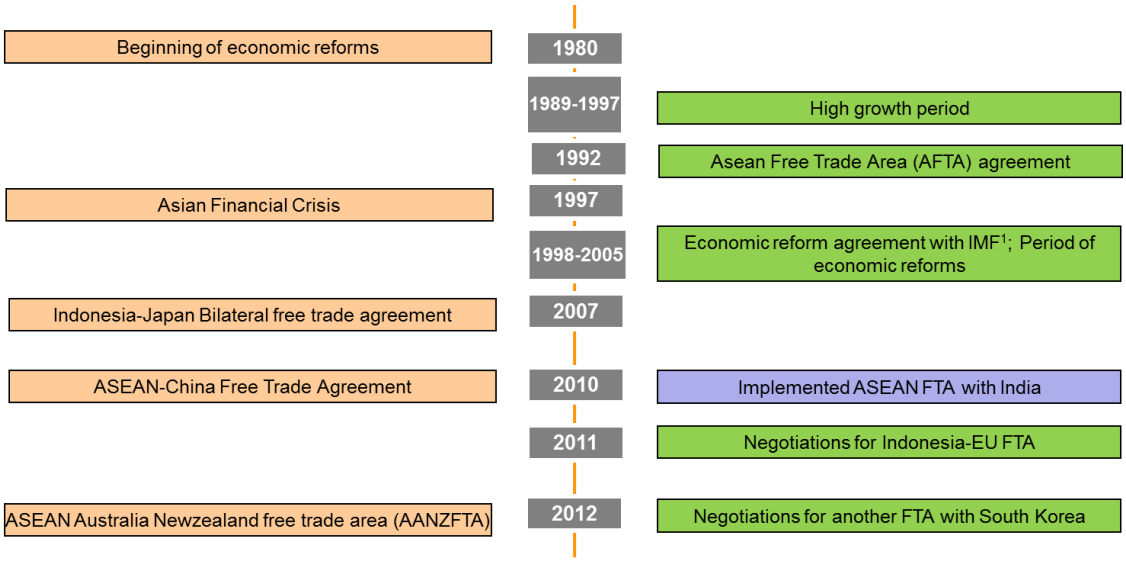
The FDI inflows declined in 2009 due to the impact of global economic crisis. However, FDI in Indonesia jumped by 18.4% in 2011 and is expected to rise even further after two international credit rating agencies upgraded Southeast Asia's largest economy's sovereign rating to investment grade. Foreign direct investment accounted for 69.8% of overall investment in 2011, with Singaporean investors being the first big spenders, giving $5.1 billion of the total foreign investment, followed by Japanese investors ($1.5 billion) and US investors ($1.5 billion). For the first time, South Korea joined the top-five investors with investments of $1.2 billion.

Chemical sector is one of the fastest growing industries in Indonesia where currently for the manufacturing and production process nearly 60% of the chemical demand is imported from overseas. However, the growth of Indonesia's chemical industry faces twin obstacles of lack of capital investment in infrastructure and underfunding in research and development. As a result, in spite of possessing an abundance of natural resources, Indonesia's upstream markets remain detached from the country's downstream industries.

2. Trade agreements

The figure below represents the chronological order of some of the key milestones in the Indonesian trade relations.

Figure 3: Milestones in Indonesian trade relations



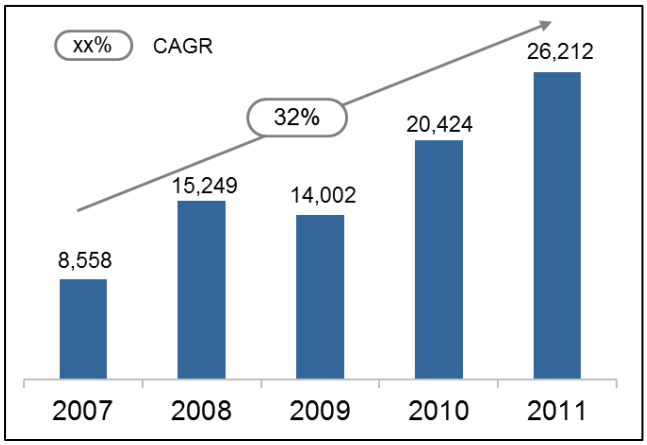
As evident from the above figure, India has implemented the ASEAN Free trade agreement with Indonesia in 2010. Indonesia is one of the members of ASEAN since 1992. Indonesia has been on a fast growth track post the reforms for the Asian Financial crisis. After opening up of economy in 1980s, Indonesia experienced a high growth period from 1989-1997. However, with fast economic growth, the gaps in the economy became more evident as Indonesia was gripped in Asian Financial Crisis in 1997. The Rupiah (Indonesian Currency) fell sharply and reached 8000 to 1 USD in 1998. To overcome the financial crisis, International monetary fund introduced a series of reforms. The Indonesian economy has recovered from the crisis by 2005. Multiple trade agreements have been signed by Indonesia since then. Indonesia has good trade relations with China and Japan. It is

negotiating trade agreements with South Korea, the US and European Union as well. ASEAN-India Free trade agreement was signed in 2009 and implemented by both India and Indonesia in 2010.

Trade relation with China

Association of Southeast Asian Nations (ASEAN)–China Free Trade Agreement (ACFTA) was fully implemented in early 2010. However, even prior to the implementation of this free trade agreement, Indonesian market had been flooded by cheap, often illegal, imports from China. Total trade between the two sides had, in fact, risen significantly since ASEAN and China agreed on the implementation of the EHP, which took effect in early 2005. The trade between Indonesia and China has grown at a CAGR of 32% during 2007-11 (Refer figure below).

Figure 4: Imports from China (USD Mn)



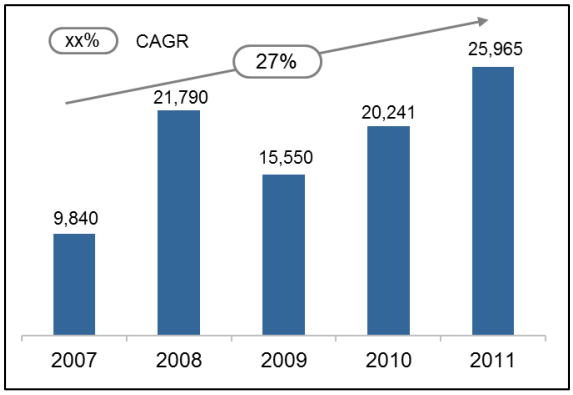
China is Indonesia's second-largest trade partner, and Indonesia supplies more than half of China's imports of nickel ore, bauxite ore and coal. Imports in 2011 from China were $26bn, against $22.9bn of Indonesian exports. The two countries want to lift bilateral trade to $80 billion by 2015. Although other factors, such as the appreciation of the Indonesian rupiah against the dollar, have contributed to a sharp increase in imports, Indonesia's increasing trade deficit with China (USD 3.2 Bn in 2011) has been the Indonesian media's main focus of attention.

Despite all the commercial concerns, the Indonesia-Chinese trade is growing and is expected to grow in future as well. ~USD 17bn worth of deals have been signed between the two nations in 2012 to increase investment in mining, agriculture, power generation and steel production.

Trade relation with Singapore

There is also a common understanding between Indonesia and Singapore on the importance of regional cooperation and economic integration through ASEAN. Indonesia is Singapore's 3rd largest trading partner in 2011 with total trade amounting to S$78 billion. Indonesia imported USD 25,965 Mn of goods from Singapore and exported ~USD 52,776 Mn of goods.

Figure 5: Imports from Singapore (USD Mn)



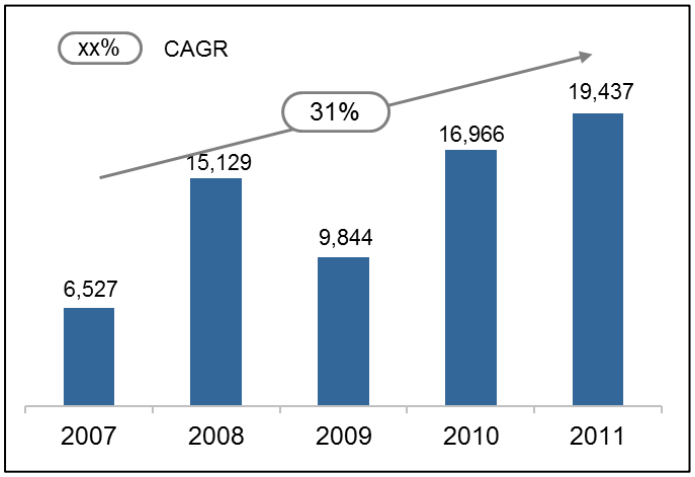
Singapore has been the top foreign investor into Indonesia for three consecutive years, with investments amounting to US$5.1 billion (S$6.4 billion) in 2011. Indonesia is a very attractive investment destination for Singapore businesses as they have developed a good working knowledge of the business opportunities and environment there. As a result, not just the larger Singapore companies but many small and medium enterprises and retail outlets have successfully made their foray into the Indonesian market.

Rampant smuggling across the border is an issue affecting Indonesia's economic development. However, six working groups covering investment, tourism, air connectivity, manpower, agribusiness and the special economic zone in Batam, Bintan and Karimun (BBK), as well as a seventh working group on counter-terrorism are working on improving the ties between Indonesia and Singapore.

Trade relation with Japan

Indonesia and Japan signed an economic partnership agreement (EPA) which was implemented on July 1, 2008. The agreement provides mutual benefits to Japan and Indonesia as Japan will be exempted from 93 of Indonesia`s 11,163 import duties, while Indonesian products will be exempted from 90% of Japan`s 9,275 import duties. Imports from Japan have grown significantly at a CAGR of 31% after the trade agreement and stood at USD 19.437 Bn in 2011.

Figure 6: Imports from Japan (USD Mn)



Under the new trade agreement, Indonesia eliminated 58% of the proposed 93% of its 11,163 tariffs immediately. In turn, Japan reduced ~80% of the proposed 90% of its 9,275 tariffs immediately, including those for textile and agricultural products. Indonesia is further expected to remove tariffs on Japanese cars and auto parts by 2016, and Japan will immediately remove tariffs on almost all industrial products from Indonesia.

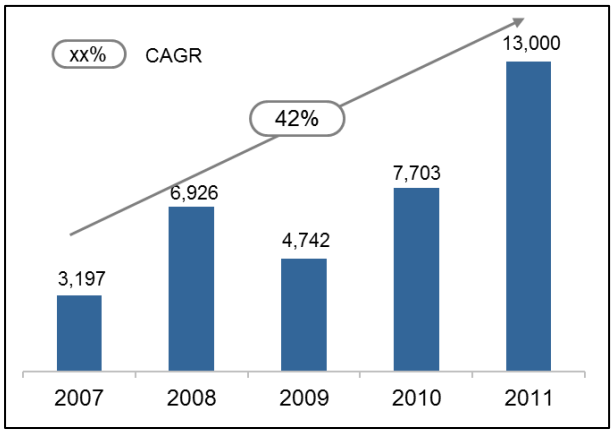
Japan's net direct investment is on course for a record year after surging to ¥288 billion in 2011 from ¥41 billion in 2010. In the first eight months of this year (2012), net Japanese investment already totalled 237 billion yen.

The Indonesian commerce and industry chamber however, highlighted the USD 825 Mn deficit in its bilateral trade with Japan and is interested in re-negotiating the trade terms with Japan.

Trade relation with South Korea

South Korea and Indonesia have started official negotiations to open up trade between the two countries in 2012. South Korea has a free trade accord with the 10-member Association of Southeast Asian Nations (ASEAN) that includes Indonesia. But the country has also been seeking bilateral pacts with some ASEAN members to further boost trade with the region. Indonesia is South Korea's eighth-largest trading partner. The trade between the two countries has expanded rapidly to USD 30 Bn in 2011 from USD 11 Bn in 2007. In 2011 Indonesia imported USD 13 Bn goods from South Korea.

Figure 7: Imports from South Korea (USD Mn)

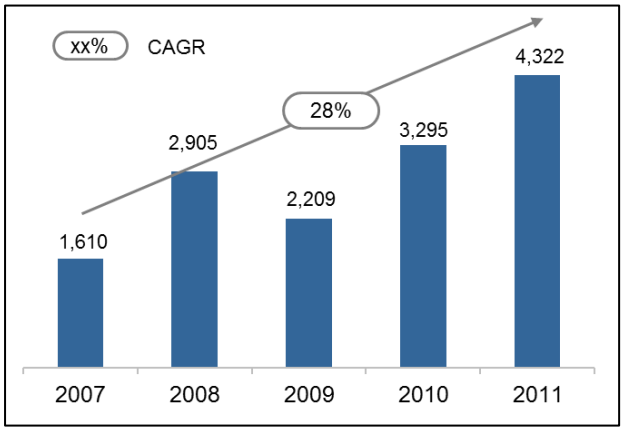


South Korea has also increased investments in Indonesia. South Korea is the fourth-biggest foreign investor behind Singapore, the United States and the Netherlands. Investment by South Korean companies in Indonesia quadrupled to USD 1.2 Bn in 2011 from USD 328.5 Mn in 2010. South Korea also entered into agreements for cooperation in eight large-scale projects worth $50 billion in Indonesia. The agreement is important in helping to reach the targeted bilateral trade volume of $100 billion by 2020 and to boost Korean investment in Indonesia.

Trade relation with India

India and Indonesia are negotiating a comprehensive market opening pact, aimed at enhancing bilateral economic engagement between the countries. India and the 10-member Association of South East Asian Nations (ASEAN) has already implemented free trade pact in goods and are engaged in intense negotiations to widen the scope of the pact. Indonesia is India's second largest export market in ASEAN (after Singapore) and one of the leading export destinations among developing countries.

Figure 8: Imports from India (USD Mn)



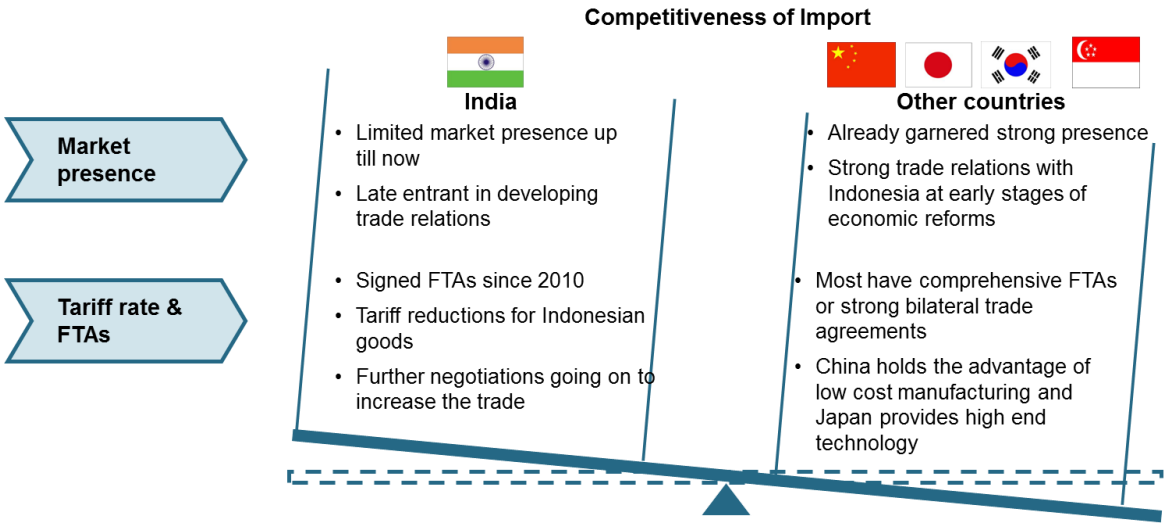
The bilateral trade between India and Indonesia stood at over USD 20 billion in 2010-11. The bilateral trade target has been set at USD 25 billion for 2015. The emphasis has been laid on increasing economic cooperation in sectors like mining, energy and infrastructure building. India and Indonesia have also identified certain areas for joint working groups which includes manufacturing and skill training; healthcare and pharmaceuticals; mining, agro and food processing.

Indonesian exports to India include palm oil and its derivatives, palm kernels, coal, briquettes, copper ore and copra, while its imports include petroleum oil, transmission applications for radio-telephony, trucks, and cyclic hydrocarbons.

Summary of trade agreements

An analysis of Indonesia's trade relations with other major exporters showcase the fact that India needs to aggressively pursue trade relations to capture the upcoming window of opportunity for imports in Indonesia.

Figure 9: India v/s other countries in Indonesia's trade



Other countries like China, Japan and Korea have an advantage over India as they have established trade relations with Indonesia. India and Indonesia's trade basket consists of complimentary goods and hence India's trade had been limited with Indonesia. However, India has recently increased its focus on improving bilateral trade with Indonesia, India needs to increase its focus towards developing a comprehensive FTA with Indonesia to ensure its cost competitiveness as compared with other Asian exporters and develop trade agreements for niche segments where the needs of Indonesia and capabilities of India is a good match.

3. Product segments

We would look in detail at some of the focus segments and understand which products are the key import requirements of Indonesia and where do Indian companies (Especially SMEs) need to focus to ensure a strong presence in Indonesia.

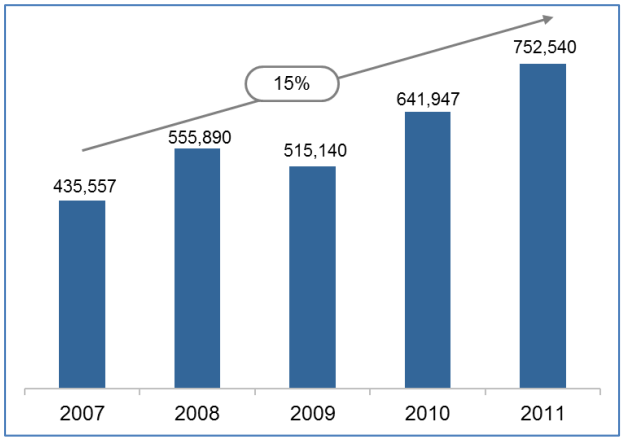
For the purpose of this report, the key focus segments will mostly be focused in these broad segments:-

1. Essential oils, perfumes, cosmetics & toiletries (HS 33)
2. Inorganic chemicals (HS 28)
3. Castor Oil (HS 15)
4. Dyes (HS 32)
5. Soaps (HS 34)
6. Agrochemicals (HS 38)
7. Organic chemicals (HS 29)

1. Essential oils, perfumes, cosmetics & toiletries

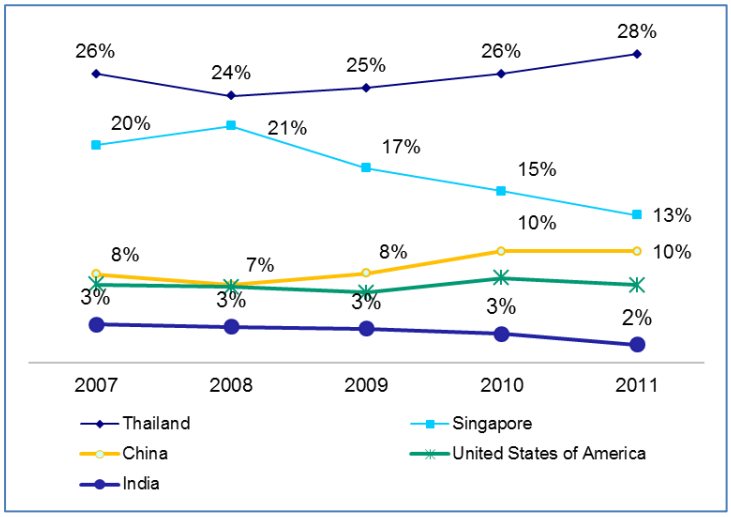
Indonesia has seen a strong rise in imports of these products over the last few years. The imports have grown at ~15% CAGR during 2007-2011. Figure below represents the growth scenario:

Figure 10: Imports in Indonesia ('000 $)



Historically, Thailand and Singapore has been the leading exporters to Indonesia in this category (Refer figure below). FTAs with fellow ASEAN countries have contributed to this trend.

Figure 11: Imports in Indonesia (% share of total HS33 imports)



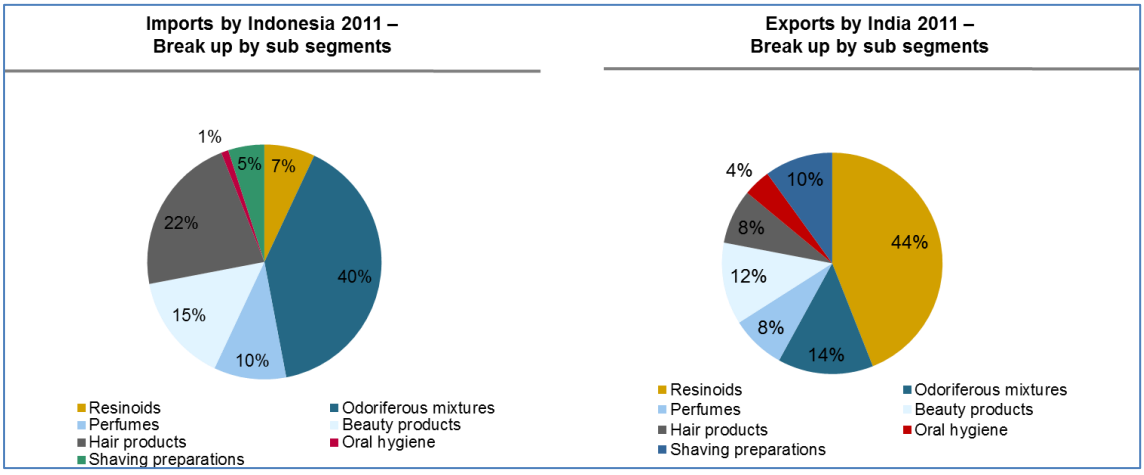
Thailand and Singapore have maintained a high share in the total imports of Indonesia for this category. China has maintained its share between 8-9%. This has been mostly due to their cost competitive offering which has further been accentuated in recent times due to lowering of tariff rates. In next section we go deeper into the sub segments of these products to map the key levers to target the various sub segments of these products.

The sub segmentation of products is given below

- 3301- Resinoids,
- 3302- Odoriferous mixtures,
- 3303- Perfumes,
- 3304- Beauty products,
- 3305- Hair products,
- 3306- Powder,
- 3307- Shaving preparations

From the figure below we could conclude that odoriferous mixtures and hair preparations are the major imports for Indonesia and India has proven global competitiveness in odoriferous mixtures and resinoids.

Figure 12: Mapping of sub segment focus of Indonesia and India



From the above figure we conclude that; For Indonesia, odoriferous mixtures, hair products and beauty products contribute to 62% of overall imports with 40%, 22% and 15% share respectively. And for India, resinoids, odoriferous mixtures and beauty products contribute to 70% of overall exports with 44%, 14% & 12% share respectively.

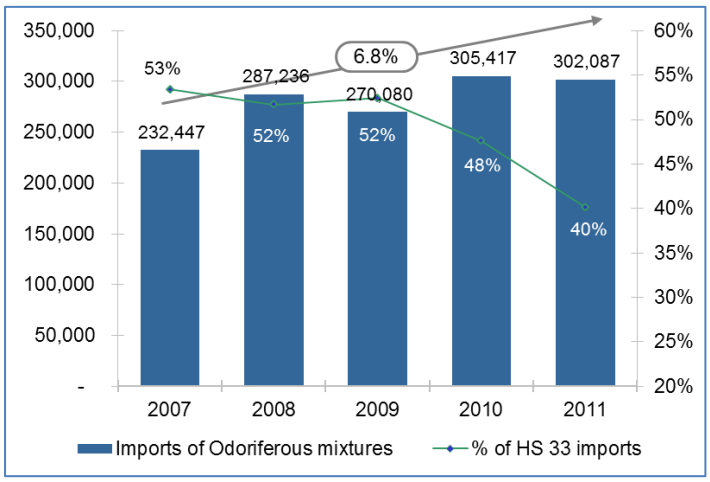
A direct mapping of needs of Indonesian market with India's competitiveness concludes that Indian companies should focus on improving their export focus on odoriferous mixtures and beauty products for Indonesia. The next section further covers these two segments and their sub segments.

i. Odoriferous mixtures

Classification of odoriferous mixtures is based on the industries where it is used and its main use is in Food & Beverages industry (HS code 330210). Other users include leather, soaps, textiles, and pharmaceuticals industries.

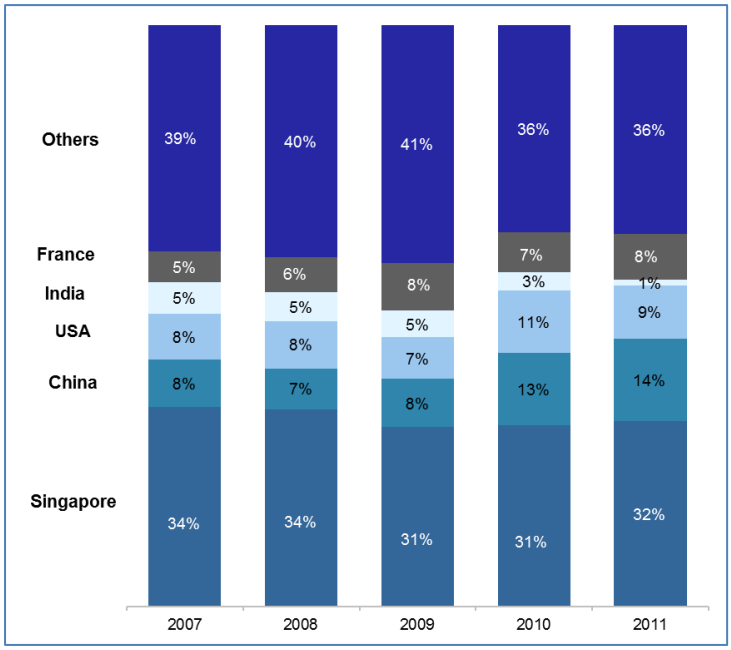
Import of odoriferous mixtures has been consistent in Indonesia. It has grown at ~6.8% CAGR in the last 5 years. Odoriferous mixture contributed ~50% of the overall imports of essential oils, perfumes, cosmetics & toiletries till 2010. However, their share in overall imports has come down in 2011 to 40% primarily due to increase in share of hair preparations and perfumes. This demand has proven to be more or less recession proof with continued demand across the recessionary period (Refer figure below).

Figure 13: Imports in Indonesia ('000 $)



While evaluating the key suppliers for these products (Refer figure below), it is evident that India's share is more or less stagnated where as China has been growing very strongly in this sector.

Figure 14: Country wise import share



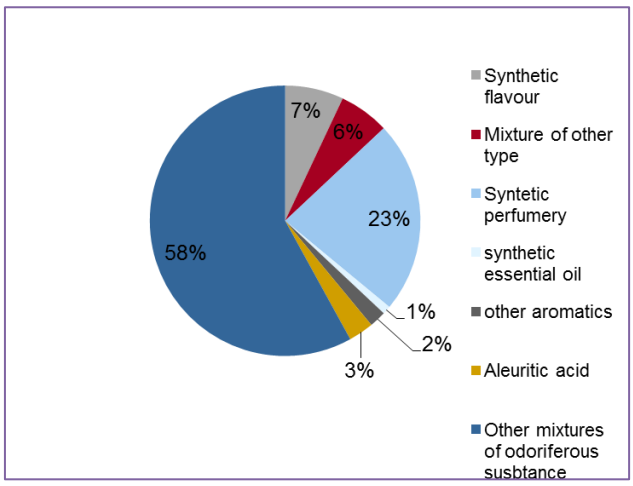
India's share has declined from 5% to 1% and is lagging way behind China. China has emerged as a strong exporter to Indonesia; its share has increased from 8% to 14%. Stagnant share of France and USA suggest low inclination towards high technology vis-à-vis the cost. Increasing share of China suggests cost competitiveness as the key differentiator for a growing market. Singapore has maintained a constant share in Indonesia imports for odoriferous mixtures because it has been able to achieve cost competitiveness due to economies of scale.

While mapping the requirement within odoriferous mixtures, (refer figure below) Indonesia's requirement seems to be more for odoriferous mixtures that are used in other industries such as leather, soaps, textiles, and pharmaceuticals.

Imports of odoriferous mixtures in other industries and food & beverages have maintained their share of 91% and 9% in the overall imports of odoriferous mixtures. Overall the share of other industries is now at 91% of the total imports for odoriferous mixtures making it a good choice for Indian players to focus upon.

To better understand the segment to focus upon we need to look at where India currently stands in supplying these products also (Refer figure below).

Figure 15: India exports for sub segments of odoriferous mixture, 2011

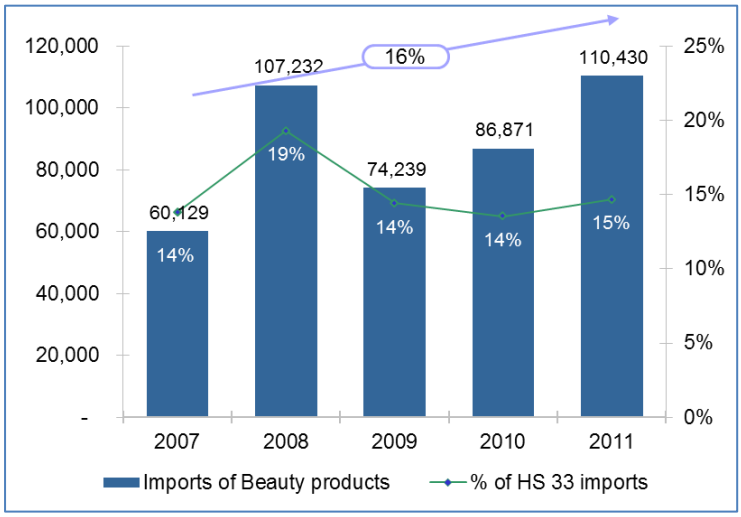


Analysis of exports by India suggests that India has strong competitiveness in odoriferous mixtures for other industries. India exports almost $185 Mn of odoriferous mixtures. India's global competitiveness is currently in other mixtures odoriferous substance and synthetic perfumery compounds. Whereas in terms of competitiveness it has focus mostly on providing odoriferous mixtures for other industries as compared to food & beverages. Since that is the key focus of Indonesia also, India stands a good chance to capture significant import share if it strategically targets this segment.

ii. Beauty products

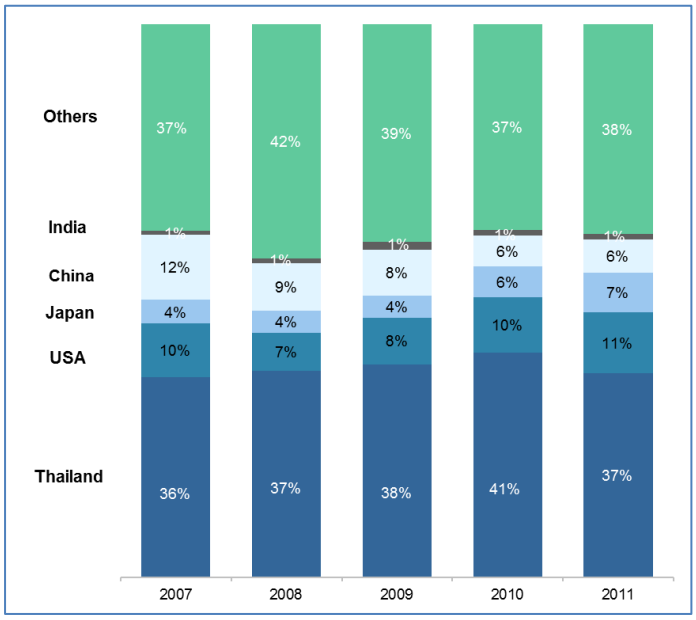
Beauty Products includes Beauty, make-up & skin-care preparations etc. These contribute ~15% of the overall imports of essential oils, perfumes, cosmetics & toiletries. Imports have grown steadily at a CAGR of 16% during 2007-11. The imports declined in 2009 due to global recession but picked up after that. (Refer figure below).

Figure 16: Imports in Indonesia ('000 $)



While evaluating the key suppliers for these products (Refer figure below), it is evident that Thailand has a strong presence in this segment.

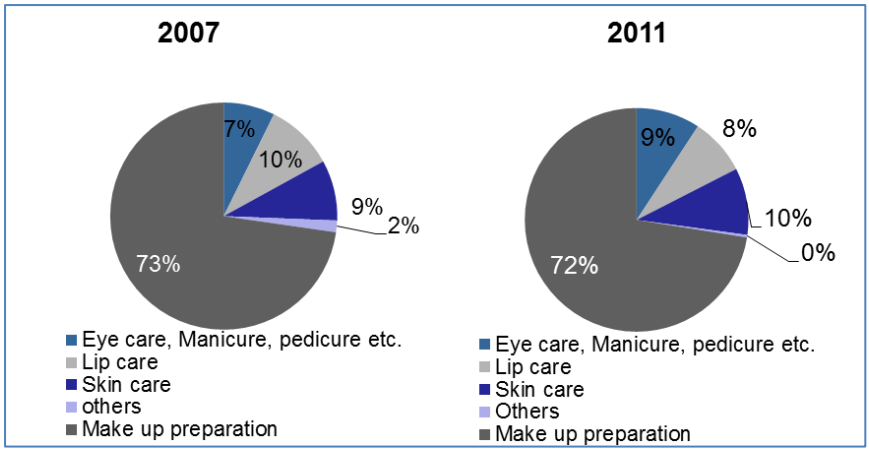
Figure 17: Country wise import share



While China is losing its share, India is non-existent in beauty products as it's share is less than a percent. Share of Thailand has declined only slightly from 41 % to 37% in 2011 as it is a key global manufacturing hub. Share of USA and Japan has increased marginally possibly due to innovative products. Increase in disposable income and presence of youth consumers has led to increase in imports for these aspirational products.

While mapping the requirement within beauty segments, (refer figure below) Indonesia's requirement seems to be increasing for make-up preparation which includes "Beauty or make-up preparations; sunscreen or sun tan preparations".

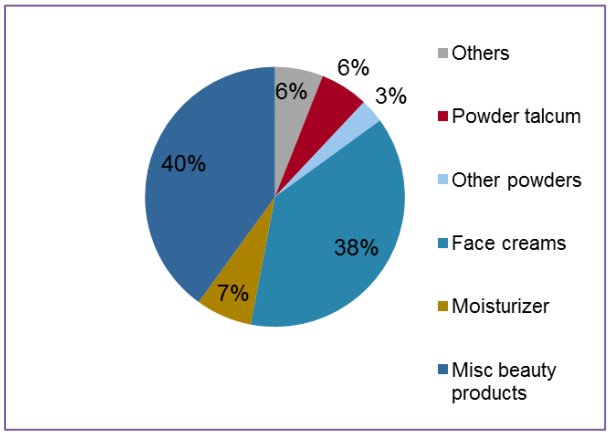
Figure 18: Import requirements within beauty products



Import of make-up preparations has been growing at the same rate as the import of overall beauty products has grown. Their share has remained stagnant at ~72% while share of other segments forms a very small proportion of the total beauty products category. Other beauty product segments are “Powders, skin care, lip make-up preparations, eye make-up preparations manicure or pedicure preparations”.

To better understand the segments where Indian companies should focus, we look at India’s export status (Refer figure below).

Figure 19: India’s exports for sub segments of beauty products, 2011



Analysis of exports by India reveals that Indian SME players lack advanced product formulations & established brands; which are a requirement in Indonesia for beauty products. Indian exports in this segment are mostly based on planning of large MNCs who have set up production facility in India to cater to Indian market and near-by countries.

iii. Strategic recommendations

Based on the detailed analysis of the products in these segments, the requirements of Indonesian markets and the capability of Indian players, the following are the key recommendations:

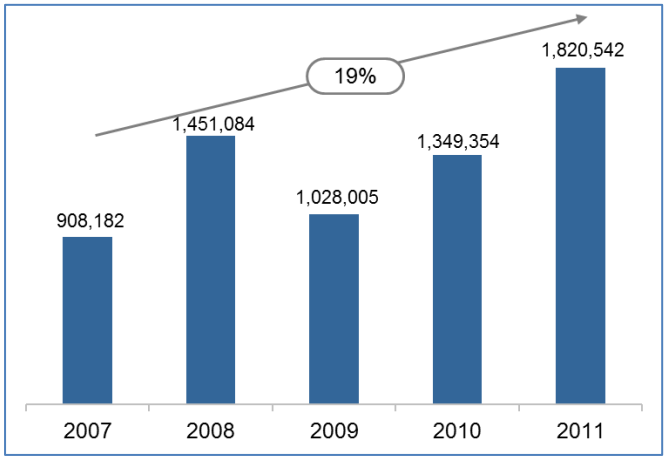
- *Indian exporters could target odoriferous mixtures segment as they are competitive in this segment and could increase their share in coming years by targeting price sensitive importers*
- *Indian SMEs could target beauty products segments by becoming "approved" vendors for MNCs such as Unilever and P&G.*
    - *Thailand is a strong supplier to Indonesia for beauty products as key global MNCs like Unilever and P&G have established large manufacturing sites.*

Besides the above, Indian companies should focus on product application and development to create long term advantage and position as preferred sourcing partner.

2. Inorganic chemicals, precious metal compound, isotopes

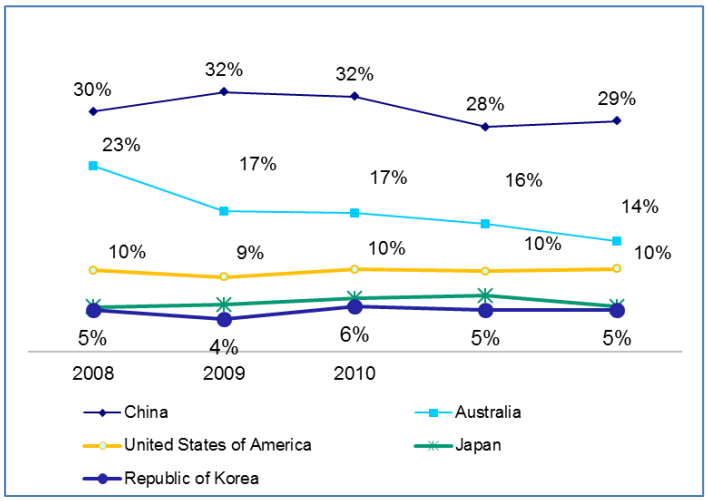
Indonesia has seen a strong rise in imports of these products over the last few years except for a decline in 2009 due to the economic slowdown. The imports have grown at a CAGR of ~19% during 2007-11. Figure below represents the growth scenario:

Figure 20: Imports in Indonesia ('000 $)



Historically, China has been the leading exporter to Indonesia in this category with ~30% share followed by Australia and USA who hold 10-14% share (Refer figure below). Good trade relations with China have been the major contributor to this trend.

Figure 21: Major exporting nations to Indonesia (% share of total HS28 imports)



China has maintained its position as the leading exporter to Indonesia in this category. This is primarily due to the lower tariff rates as well as the ability of China to provide products specific to Indonesian market needs.

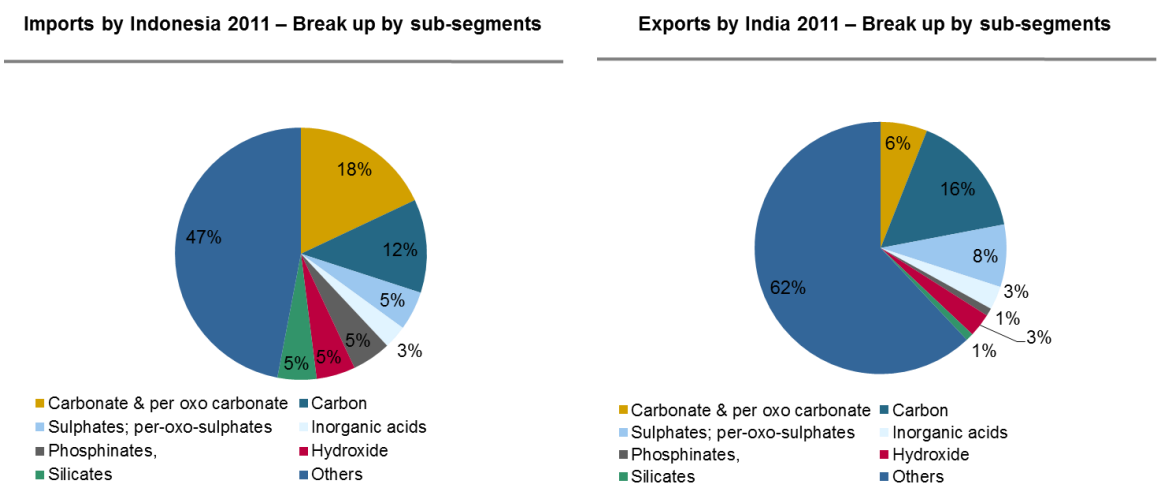
The sub segmentation of products is given below

- 2836 - Carbonate; peroxo carbonate, commercial ammonium carbonate
- 2846 - Rare-earth metal compounds of yttrium or scandium
- 2803 - Carbon (carbon blacks & other forms of carbon)
- 2814 - Ammonia, anhydrous or in aqueous solution
- 2833 - Sulphates; alums; per-oxo-sulphates (per-sulphates)
- 2811 - Inorganic acids, other inorganic oxygen compounds of non-metals
- 2835 - Phosphinates, phosphonates, phosphates & polyphosphates hypophosphites
- 2815 - Hydroxide, sodium (caustic soda)&caustic potash; peroxide of sodium & pot
- 2839 - Silicates; commercial alkali metal silicates
- Others – Including 2818 (Aluminium oxide (including artificial corundum); aluminium hydroxide), 2840 (Borates; per-oxo-borates (per-borates)), 2817 (Zinc oxide; zinc peroxide), 2827 (Chlorides, bromides, iodides & their oxides; chloride hydroxides), 2825 (Hydrazine & hydroxylamine & their inorganic salts; other inorganic bas), 2843 (Colloidal precious met; precious met compounds; amalgams of precious metals), 2823 (Titanium oxides), 2828 (Hypochlorite; commercial calcium hypochlorite; chlorites; hypo bromides), 2847 (Hydrogen peroxide), 2804 (Hydrogen, rare gases & other non-metals), 2807 (Sulphuric acid), 2821 (Iron oxides & hydroxides), 2849 (Carbides, whether or not chemically defined), 2844 (Radioactive chemical elements & isotopes, their compounds, mixtures & residues), 2842 (Salts of inorganic acids or per-oxo-acids, excluding azides), 2841 (Salts of oxo metallic or per oxo metallic acids), 2834 (Nitrites; nitrates), 2831 (Dithionites and sulpho xylates), 2819 (Chromium oxides and hydroxides), 2809 (Di-phosphorus penta-oxide; phosphoric acid and polyphosphoric acids), 2829 (Chlorates & perchlorates; bromates & perbromates; iodates & periodates), 2808 (Nitric acid; sulphonitric acids), 2820 (Manganese oxides), 2837 (Cyanides, cyanide oxides and complex cyanides), 2853 (Inorganic and organic compounds, incl. distilled or conductivity water), 2832 (Sulphites; thio sulphates), 2805 (Alkali/alkaline-earth metal; rare earth metal, scandium & yttrium; mercury), 2810 (Oxides of boron; boric acids), 2802 (Sulphur, sublimed or precipitated; colloidal sulphur), 2830 (Sulphides; polysulphides), 2826 (Fluorides; fluorosilicate, fluoro aluminates &other complex fluorine salt), 2824 (Lead oxides; red lead and orange lead), 2822 (Cobalt oxides and hydroxides; commercial cobalt oxides), 2848 (Phosphides, excluding ferrophosphorus), 2816 (Hydroxide & peroxide of magnesium;

oxide, hydroxide & peroxide of strontium), 2852 (Compounds, inorganic or organic, of mercury (excl. amalgams)), 2845 (Isotopes, and their compounds), 2806 (Hydrogen chloride (hydrochloric acid); chloro sulphuric acid), 2801 (Fluorine, chlorine, bromine and iodine), 2812 (Halides and halide oxides of non-metals), 2850 (Hydrides, nitrides, azides, silicides & borides), 2813 (Sulphides of non-metals; commercial phosphorus trisulphide), 2851 (Other inorganic compounds; liquid & compressed air), 2838 (Fulminates, cyanates and thiocyanates)

From the figure below we could conclude that the leading sub segments in imports of Indonesia are carbonates and carbon. India has also proved its global competitiveness in some of these segments like carbon, carbonates and inorganic acids along with aluminium compounds, chlorides, and sulphates among others.

Figure 22: Mapping of sub segment focus of Indonesia and India



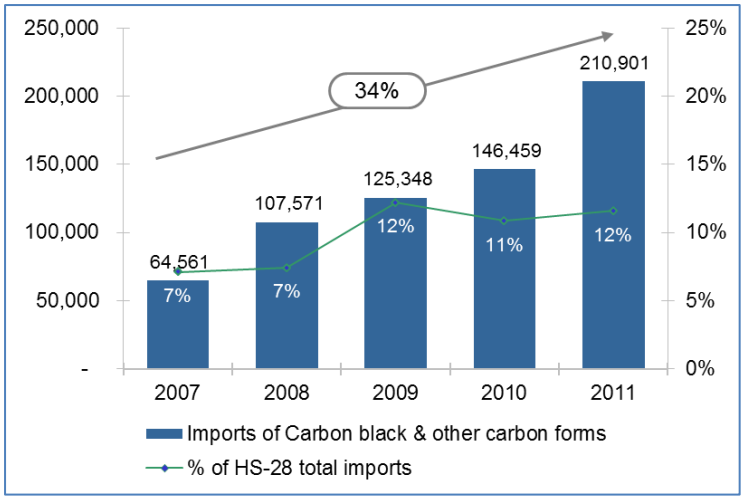
From the above analysis, we conclude that there is no major sub segment in the imports of Indonesia as well as exports from India; however, top 5-6 sub segments hold at least 5-15% share each in the overall imports & exports.

A direct mapping of needs of Indonesian market with India's competitiveness gives us that Indian companies could focus on improving their export focus on carbonates & peroxo-carbonates and carbon compounds for Indonesia. The next section will cover these three segments and their sub segments for more clarity.

i. Carbon (carbon blacks & other forms of carbon)

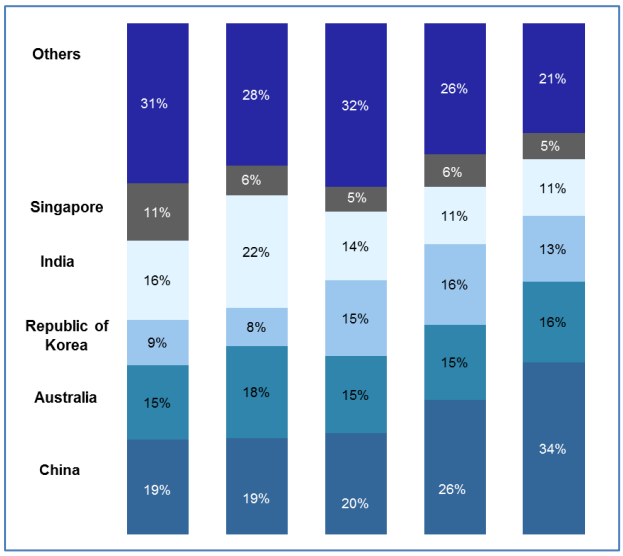
Import of carbon in carbon black and other forms have grown over the years at a CAGR of 34% during 2007-11. Carbon products contribute ~12% of the overall imports of Inorganic chemicals, precious metal compounds & isotopes (Refer figure below).

Figure 23: Imports of Carbon (Carbon black & other forms) in Indonesia ('000 $)



While evaluating the key suppliers for these products (Refer figure below), it is evident that China and Australia are leading players in this segment.

Figure 24: Country wise import share



India's share has come down from 16% to 11%. China has remained a strong exporter to Indonesia with increase in share from 19% to 34%. Australia's share has been stagnant at 15% while share of Republic of Korea has increased from 9% to 13%. Cost competitiveness and FTAs with Republic of Korea has contributed to this trend.

To better understand the segment to focus upon we need to look at where India currently stands in supplying these products also (Refer figure below).

Figure 25: Country wise export share – India'2011

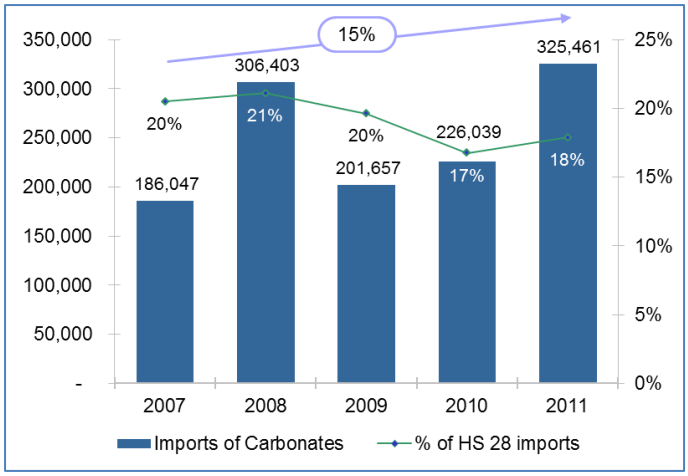
Countries	% of total carbon products exports from India
United Arab Emirates	59%
Sri Lanka	9%
Japan	7%
Indonesia	7%
Vietnam	6%
Iran	3%
Turkey	2%
Philippines, Chinese Taipei, Malaysia, Thailand	1%
Others	4%

Figure above suggests that India has major focus towards UAE for carbon products. South East Asian countries hold a relatively smaller share in India's exports. Since, India has close to USD 23 Mn of exports to Indonesia currently with ~11% share in Indonesia's imports, India stands a good chance to capture significant share if it strategically targets this segment.

ii. Carbonate, per-oxo-carbonate, commercial ammonium carbonate

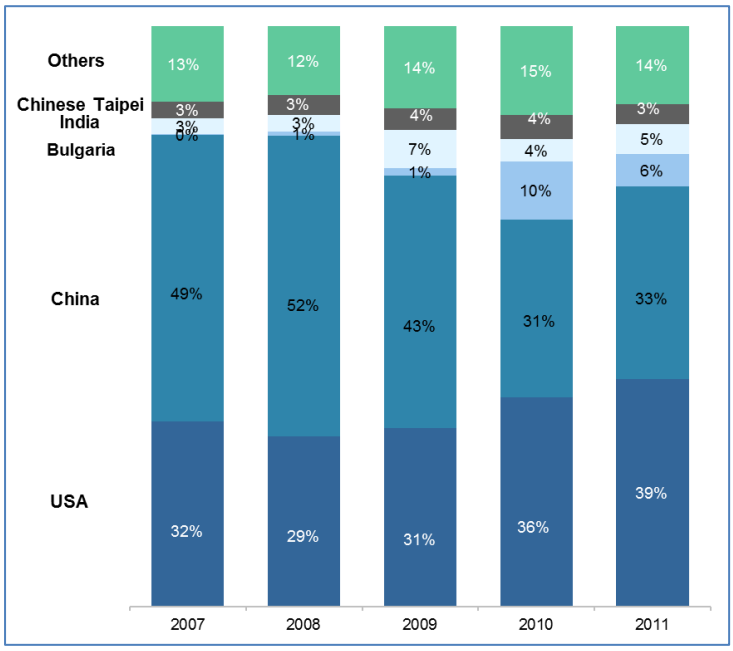
Import of carbonates and per-oxo-carbonates has increased significantly in Indonesia except for a decline during the economic slowdown of 2009. It has grown at a CAGR of ~15% during 2007-11. Carbonates & per-oxo-carbonates contribute 17-18% of the overall imports of Inorganic chemicals, precious metal compounds & isotopes (Refer figure below).

Figure 26: Imports of carbonates & per-oxo-carbonates in Indonesia ('000 $)



While evaluating the key suppliers for these products (Refer figure below), it is evident that China and USA are the leading exporter to Indonesia in this category.

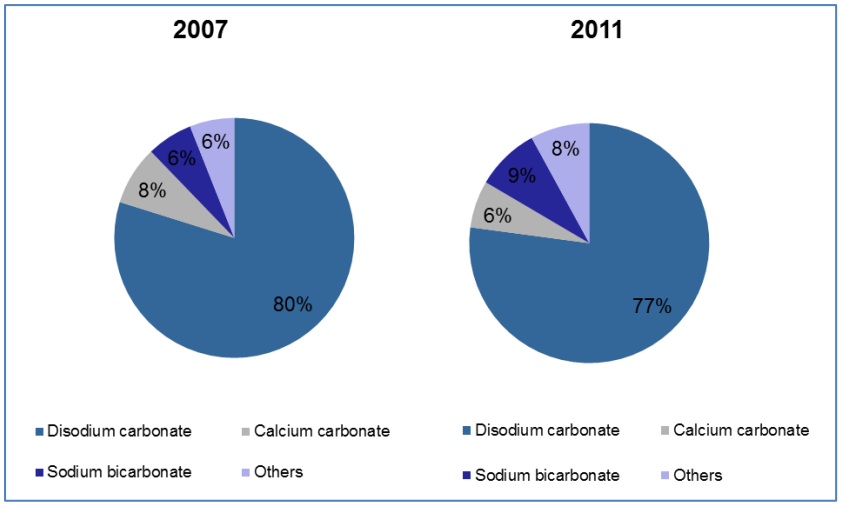
Figure 27: Country wise import share



China's share has stayed at >30% during 2007-11. USA is another leading player with ~39% share. India's share has increased marginally from ~3% in 2007 to almost 5% in 2011 in Indonesia's imports. Increasing cost competitiveness and FTA with China could be the reasons for China's strong presence in Indonesian market.

While mapping the requirement within carbonates segment, (refer figure below) Indonesia's requirement seems to be increasing for Disodium carbonates

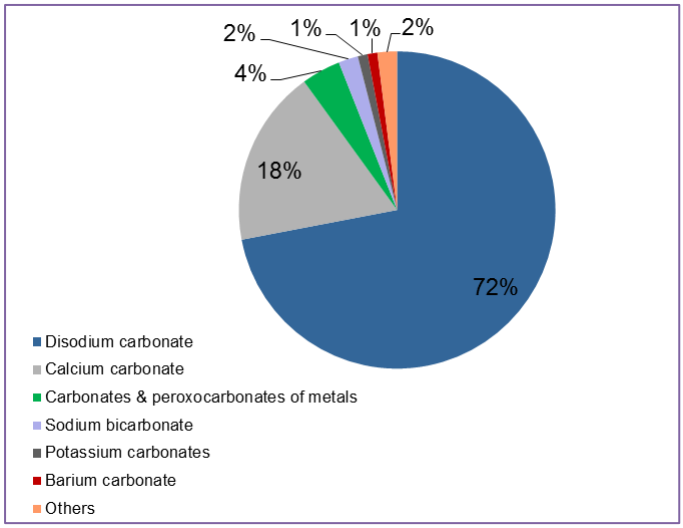
Figure 28: Import requirements within carbonates segment



Share of Disodium carbonates in the overall carbonates imports in Indonesia have remained >75% from 2007 to 2011, while the share of Sodium bicarbonate has marginally increased during the same period.

To better understand the segments for Indian companies to focus upon we need to look at where India currently stands in supplying these products (Refer figure below).

Figure 29: India exports for sub segments of carbonates, 2011



Analysis of exports by India suggests that India has strong competitiveness in Disodium carbonate. Since that is the key focus of Indonesia also, India has a good opportunity to capture significant import share if it strategically targets this segment.

iii. Strategic recommendations

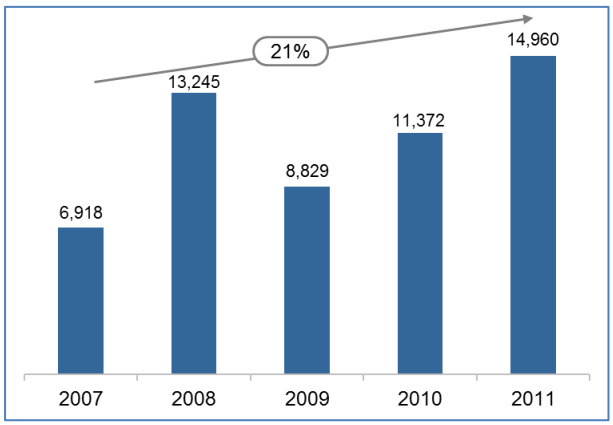
Based on the detailed analysis of the products in these segments, the requirements of Indonesian markets and the capability of Indian players, the following are the key recommendations:

- *Inorganic chemicals, precious metal compounds and isotopes segment presents huge opportunity for Indian players as this segment is growing at ~19% CAGR over the last five years in Indonesia.*
    - *Based on competency match between Indonesia and India, three segments emerge as the major focus areas- Carbon as carbon black and other forms of carbon and Carbonates, per-oxo-carbonates and commercial ammonium carbonate*
- *Indian exporters could target carbon black & other forms of carbon as they are competitive in this segment and could increase their share in coming years by targeting price sensitive importers*
    - *India had a strong presence in Indonesia market till 2008 with almost 22% share in the imports of this segment to Indonesia.*
- *Within the carbonates and per-oxo-carbonates segment, Indonesia's demand is high for Disodium carbonate and India is also strongly placed for this product category. Hence, Indian SMEs should focus on achieving more market share in Indonesia imports for Disodium carbonates*

3. Fixed vegetable fats & oils & their fractions

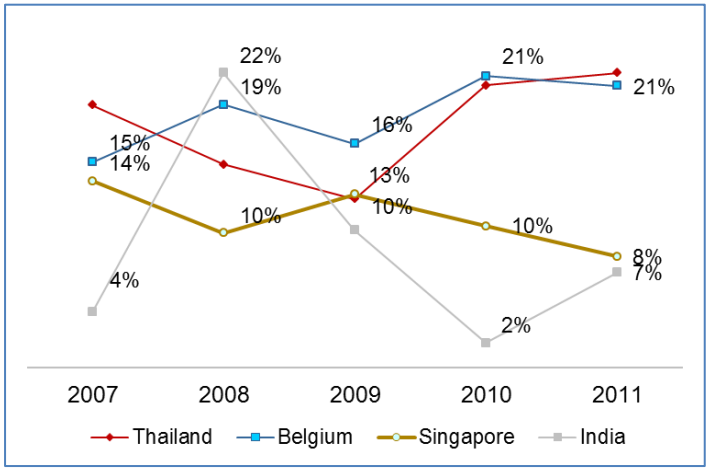
Indonesia has seen a strong rise in imports of these products over the last few years except for a small decline in 2009. The imports have grown at a CAGR of ~21% during 2007-10. Figure below represents the growth scenario:

Figure 30: Imports in Indonesia ('000 $)



The market has been dominated by different players at different times. While India was the leading exporter to Indonesia in 2008, 2009 saw emergence of Belgium as the leading exporter. Thailand and Belgium has been close since then in terms of market share in Indonesia's imports. (Refer figure below).

Figure 31: Major exporting nations to Indonesia (% share of total HS1515 imports)



We would study the sub segments in this product category in detail in the next section to map the key levers to target the various sub segments of these products.

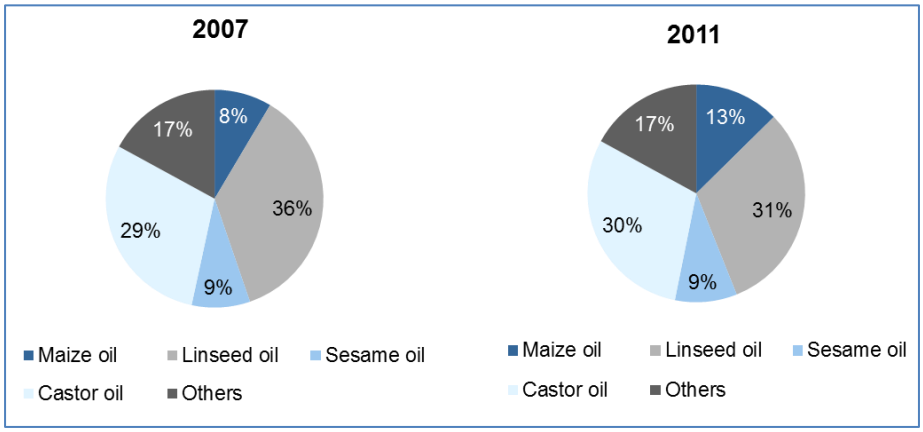
The sub segmentation of products is given below

- 151529 - Maize (corn) oil and its fractions, refined but not chemically modified

- 151590 - Veg fats & oils &their fractions, refined or not but not chemically modified
- 151519 - Linseed oil and its fractions, refined but not chemically modified
- 151550 - Sesame oil & its fractions whether/not refined, but not chemically modified
- 151530 - Castor oil & its fractions, whether/not refined, but not chemically modified
- 151511 - Linseed oil, crude
- Others – Including 151560 (Jojoba oil & its fractions whether/not refined, but not chemically modified), 151540 (Tung oil & its fractions, whether or not refined, but not chemically modified) and 151521 (Maize (corn) oil crude)

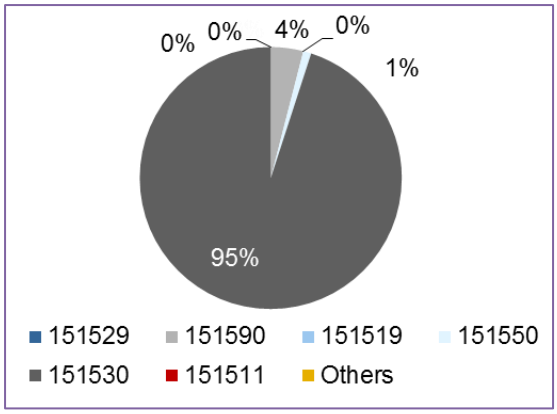
From the figure below we could conclude that the share of maize oil & its fractions and castor oil in the overall vegetable oil & fats segment has increased from 2007 to 2011, while share of linseed oil has declined in Indonesia imports.

Figure 32: Import requirements within Vegetable oils and fats segment, Indonesia



To better understand the segments Indian companies should focus we need to look at India's current situation in these products (Refer figure below).

Figure 33: India exports for Vegetable oils and fats segment, 2011

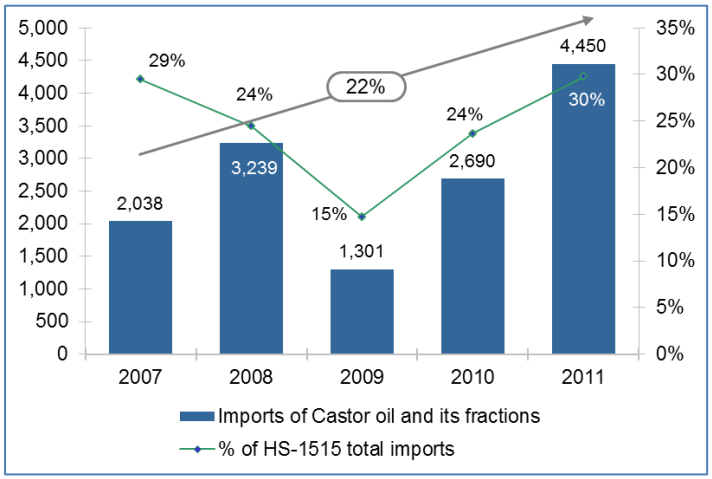


Analysis of exports by India suggests that India has strong competitiveness in castor oil as India is the main producer of castor seed in the world with 74% of the world production in 2010-11. India also has an advantage over other leading producers like China and Brazil since India's production has increased at a CAGR of 2% over the last four years giving advantage to small farmers as castor seeds can be cultivated on marginal land not suitable for other crops while China and Brazil have not seen significant increase in production over the last four years owing to low market prices

i. Castor Oil and its fractions

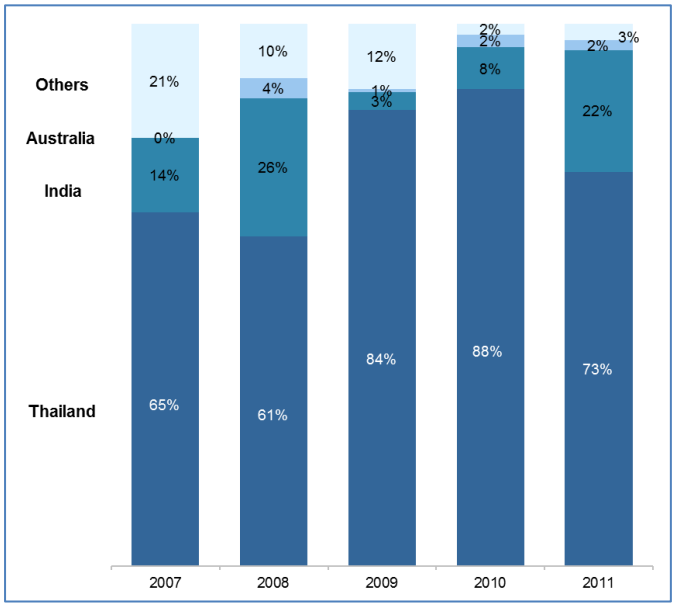
Import of castor oil and its fractions have increased at a CAGR of ~22% during 2007-11.Even though the imports contribute 24-30% of the overall imports of vegetable oil, fats & its fractions, the segment presents significant growth opportunities (Refer figure below).

Figure 34: Import of Castor oil and its fractions, Indonesia ('000 $)



While evaluating the key suppliers for these products (Refer figure below), it is evident that Thailand is the leading exporter to Indonesia in this category with ~73% share due to its strength as the major castor oil producer.

Figure 35: Country wise import share, Indonesia



Thailand's share has declined in 2011 while share of India has increased significantly. To better understand the segment to focus upon we need to look at where India currently stands in supplying these products also (Refer figure below).

Figure 36: India exports for castor oil, 2011

Countries	% of total castor oil exports from India
China	36%
France	16%
Netherland	15%
USA	12%
Thailand, Japan	4%
Belgium, UK	2%
Korea RP, Russia, Brazil, Turkey, Mexico, South Africa	1%
Indonesia	0.1%
Others	5%

Analysis shows that India exports almost $883 Mn of castor oil & its fractions; however its focus is limited in Indonesia (~0.1%). There is huge scope of increasing the exports further as India already has the advantage of being the leading exporter of Castor Oil to Indonesia

ii. Strategic recommendations

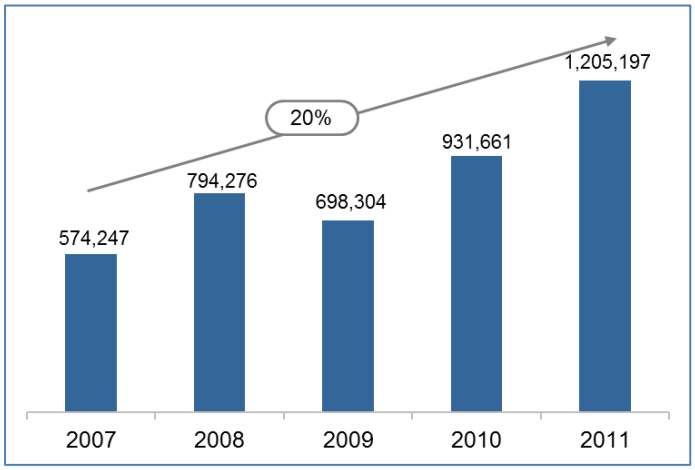
Based on the detailed analysis of the products in these segments, the requirements of Indonesian markets and the capability of Indian players, the following are the key recommendations:

- *Castor oil market is dominated by few big players who are competitive and have the ability to drop prices to increase their market share*
    - *SMEs would need to establish good networks among the intermediaries and crushers to enter the market*
    - *Consolidation of the fragmented agri-value chain would bring more efficiency*
- *SMEs could capture the incremental demand for castor oil which is expected to grow in future owing to the following factors*
    - *Environmental concerns of using synthetic lubes is seen as a major demand driver for castor oil in future*
- *Indian exporters are strong in export of castor oil owing to strong production and manufacturing competitiveness; However more focus can be given to increase the exports further in Indonesian market*

4. Tanning or dyeing extracts, tannins & their derivatives, pigments etc.

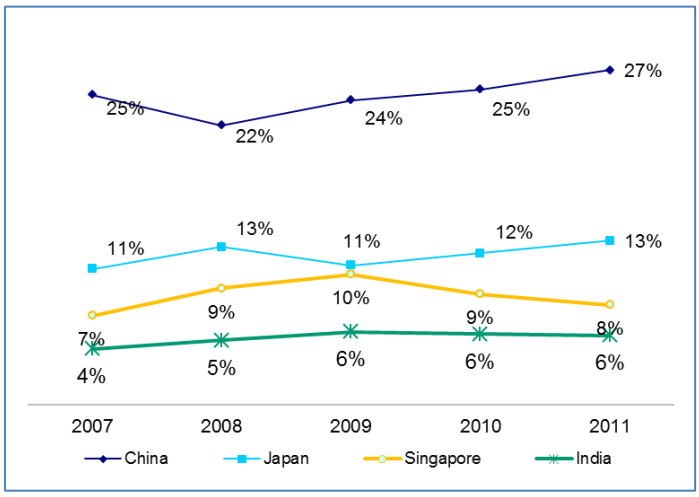
Indonesia has seen a rise in imports of these products over the last few years. The imports have grown at a CAGR of ~20% during 2007-11. Figure below represents the growth scenario:

Figure 37: Imports in Indonesia ('000 $)



China has been the leading exporter to Indonesia in this category with ~27% share in the imports followed by Japan who hold ~13% share (Refer figure below).

Figure 38: Major exporting nations to Indonesia (% share of total HS32 imports)



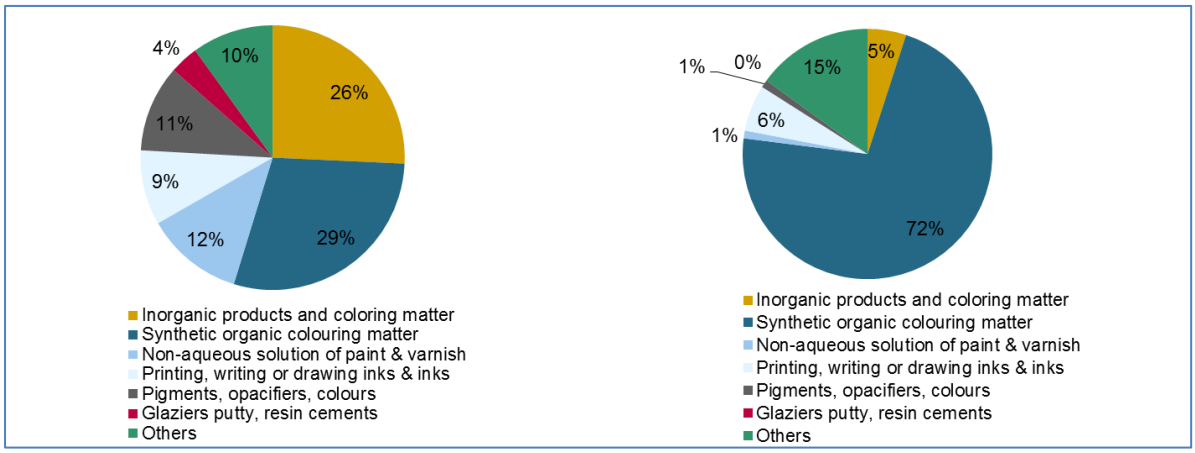
China has increased its share to become the leading exporter to Indonesia in this category. This is primarily due to the lower tariff rates offered to Chinese products as well as the ability of China to provide products specific to Indonesian market needs. Japan has increased its share from ~11% to 13%. We would study the sub segments in this product category in detail in the next section to map the key levers to target the various sub segments of these products.

The sub segmentation of products is given below

- 3206 - Other colouring matter; inorganic products used as luminophores
- 3204 - Synthetic organic colouring matter & preparations
- 3208 – Non-aqueous solution of paint & varnish
- 3215 - Printing, writing or drawing inks & inks
- 3207 - Pigments, opacifiers, colours; enamels & glazes; engobes; liquid lustre
- 3214 - Glaziers putty, grafting putty, resin cements, painters fillings
- Others – Including 3209 (Aqueous solution of paint & varnish), 3212 (Pigments non-aqueous media, (liquid, paste) for paints and dyes), 3210 (Paints & varnishes), 3202 (Synthetic organic or inorganic tanning substances; tanning preps; enzymes), 3205 (Colour lakes and preparations based thereon), 3203 (Colouring matter of vegetable/animal origin), 3213 (Artists' colours, modifying tints, amusement colours), 3211 (Prepared driers), 3201 (Vegetable tanning extracts; tannins & their salts)

From the figure below we could conclude that the leading sub segments in imports of Indonesia are Synthetic organic coloring matter and inorganic products used as luminophores. India has also proved its global competitiveness in some of these segments like Synthetic organic coloring matter & preparations.

Figure 39: Mapping of sub segment focus of Indonesia and India

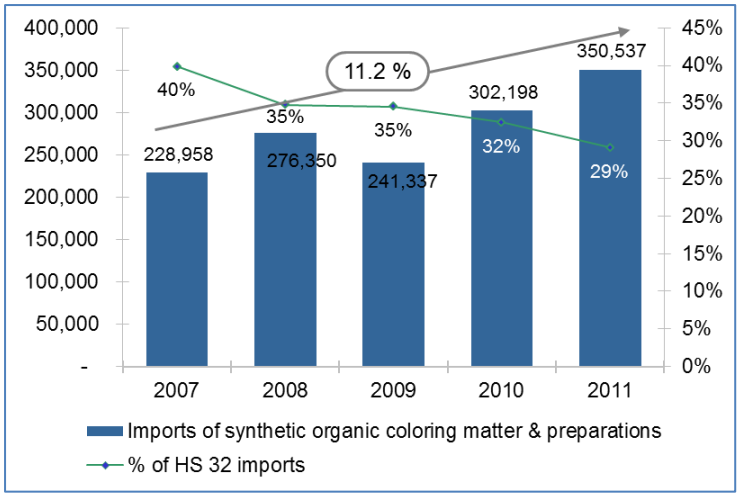


A direct mapping of needs of Indonesian market with India's competitiveness reveals that Indian companies should focus on improving their export focus on Synthetic organic coloring matter & preparations.

i. Synthetic organic coloring matter & preparations

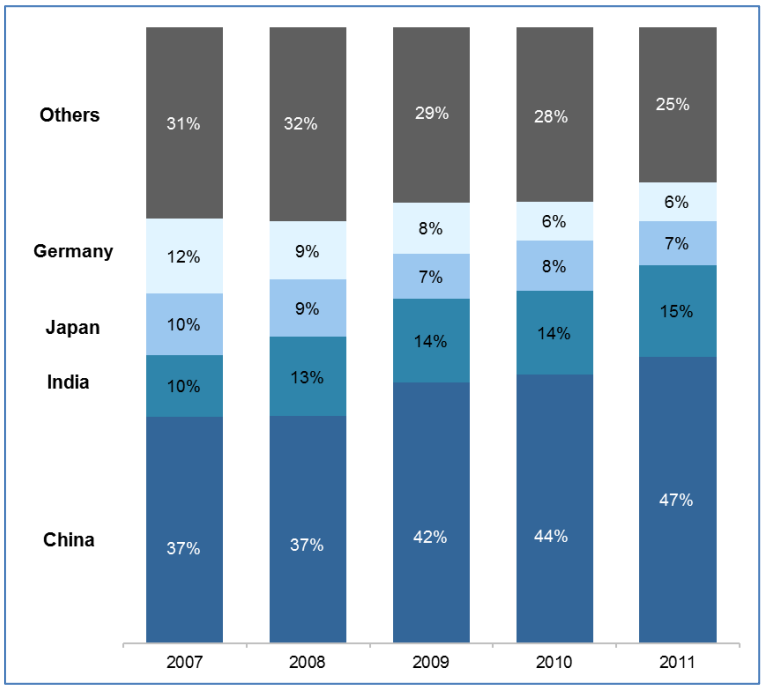
Import of synthetic organic coloring matter & preparations have grown over the years at a CAGR of ~11% during 2007-11. This segment contributes ~29% of the overall imports of tanning or dyeing extracts, tannins & their derivatives, pigments etc. (Refer figure below).

Figure 40: Imports of Synthetic organic coloring matter & preparations in Indonesia ('000 $)



While evaluating the key suppliers for these products (Refer figure below), it is evident that China is the leading exporter to Indonesia in this segment followed by India.

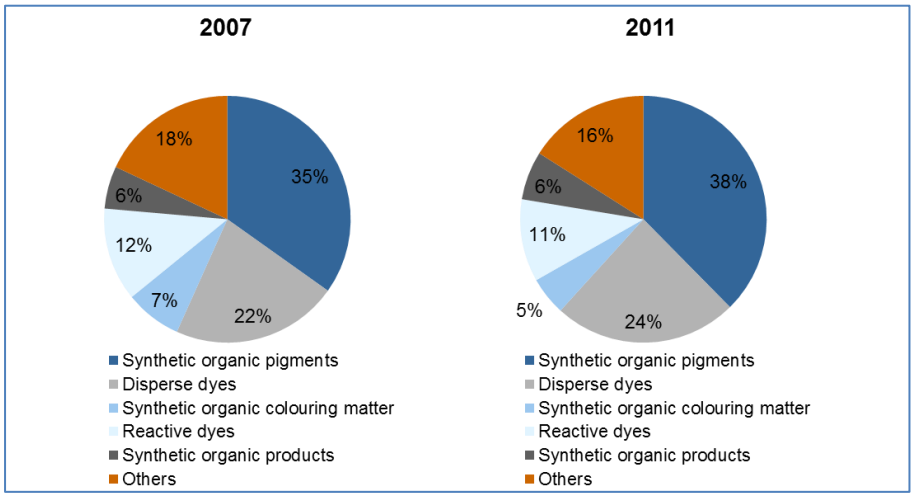
Figure 41: Country wise import share



Cost competitiveness and FTAs with China could be the major factors which have contributed to this trend. India has improved its share from 10% to 15% in the overall exports to Indonesia.

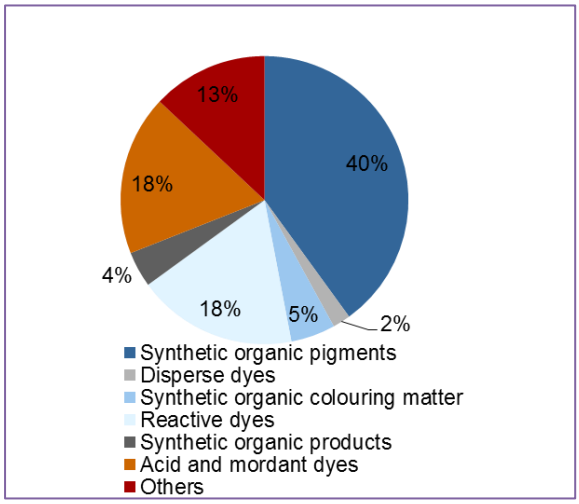
While mapping the requirement within synthetic organic coloring matter & preparations segment, (refer figure below) Indonesia's requirement seems to be increasing for synthetic organic pigments and preparations and disperse dyes.

Figure 42: Import requirements within synthetic organic coloring matter & preparations segment, Indonesia



To better understand the segment to focus upon we need to look at where India currently stands in supplying these products also (Refer figure below).

Figure 43: India exports for sub segments of synthetic organic coloring matter & preparations segment, 2011



Analysis of exports by India suggests that India has strong competitiveness in Synthetic organic pigments and preparations, Acid and mordant dyes and preparations, and Reactive dyes and preparations. Since Synthetic organic pigments and preparations is the key focus of Indonesia also, India stands a good chance to capture significant import share if it strategically targets this segment.

ii. Strategic recommendations

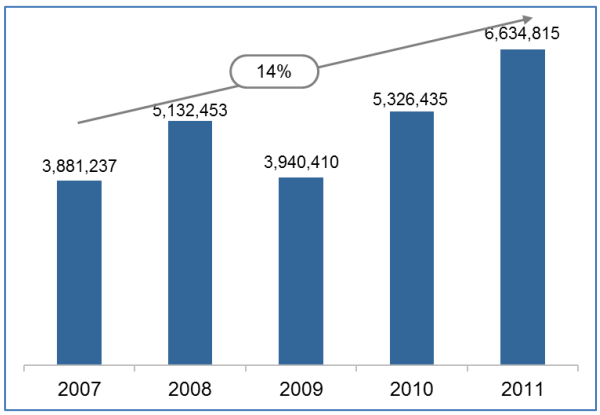
Based on the detailed analysis of the products in these segments, the requirements of Indonesian markets and the capability of Indian players, the following are the key recommendations:

- *Tanning or dyeing extracts, tannins & their derivatives, pigments etc. segment presents good opportunity for Indian players as this segment is growing at ~20% CAGR over the last five years in Indonesia.*
    - *Based on requirement-competency match between Indonesia and India, Synthetic organic pigments and preparations emerge as the major focus areas*
- *Indian exporters could target Synthetic organic coloring matter & preparations as they are competitive in this segment and could increase their share in coming years by targeting price sensitive importers*
    - *Synthetic organic pigments and preparations could be the major focus areas for Indian exporters for Indonesia*

5. Organic chemicals

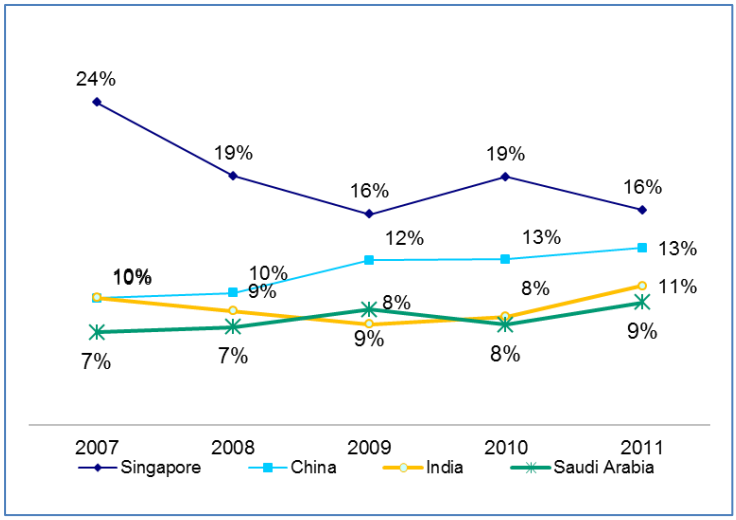
Indonesia has seen a rise in imports of organic chemicals products over the last few years except for a decline in 2009. The imports have grown at a CAGR of ~14% during 2007-11. Currently the imports stand at ~$6Bn. Figure below represents the growth scenario:

Figure 44: Imports in Indonesia ('000 $)



Singapore has been the leading exporter to Indonesia in this category with ~16% share in the imports followed closely by China who now hold ~13% share (Refer figure below).

Figure 45: Major exporting nations to Indonesia (% share of total HS29 imports)



China has increased its share to become one of the leading exporters to Indonesia in this category. It's share has increased from ~10% to 13%.

The sub segments of products are -

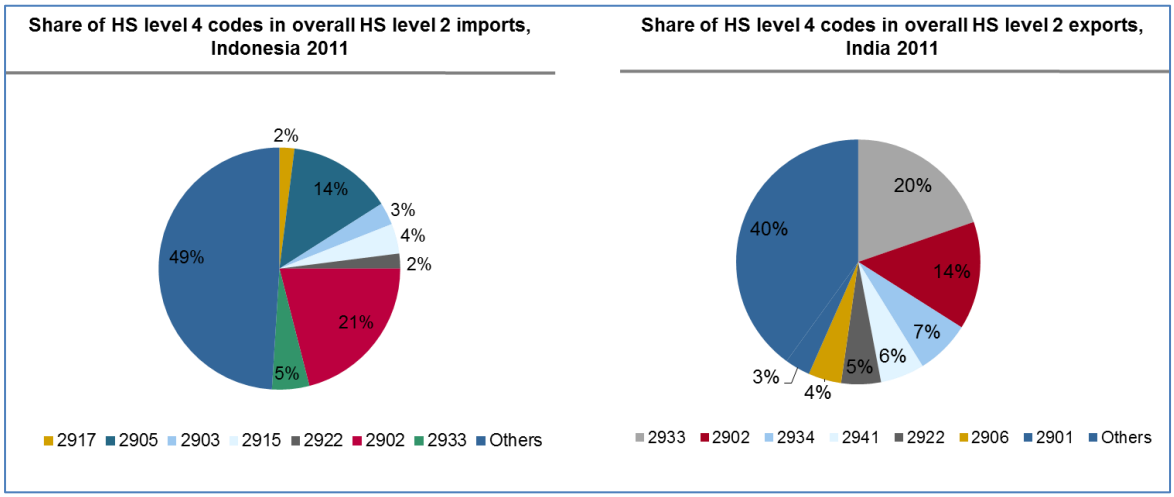
- '2917 Polycarboxylic acids, their anhydrides, halides etc & their derivative
- '2905 Acyclic alcohols and their derivatives

- '2903 Halogenated derivatives of hydrocarbons
- '2915 Saturated acyclic monocarboxylic acids & their derivatives
- '2922 Oxygen-function amino-compounds
- '2902 Cyclic hydrocarbons
- '2933 Heterocyclic compounds with nitrogen hetero-atom; nucleic acids
- '2916 Unsaturated acyclic & cyclic monocarboxylic acid & anhydrides, halides
- '2941 Antibiotics
- Others –Including 2936 Provitamins&vitamins, natural/reproduced by synthesis, 2929 Compounds with other nitrogen function, 2930 Organo-sulphur compounds, 2914 Ketones & quinones, & their derivatives, 2934 Heterocyclic compounds, 2932 Heterocyclic compounds with oxygen hetero-atom(s) only, 2924 Carboxyamid-functn compound; amide function compound of carbonic acid, 2923 Quaternary ammonium salts & hydroxides; lecithins, 2918 Carboxylic acids & their derivatives, 2909 Ethers, ether-alcohols, ether-phenols & peroxides & their derivatives, 2921 Amine-function compounds, 2906 Cyclic alcohols & their derivatives, 2931 Organo-inorganic compounds, 2927 Diazo-, azoor azoxy-compounds, 2912 Aldehyde;cyclic polymer of aldehyde;paraformaldehyde, 2920 Esters of inorganic acids nes, their salts and their derivatives, 2919 Phosphoric esters, their salts and their derivatives, 2937 Hormones; their derivatives; steroids, 2926 Nitrile-function compounds, 2939 Vegetable alkaloids & their salts, ethers, esters & other derivatives, 2935 Sulphonamides, 2904 - Hydrocarbon derivatives, sulfonated, nitrated, 2907 Phenols; phenol-alcohols, 2901 Acyclic hydrocarbons, 2940 Sugars, chemically pure, their ethers, esters and their salts, 2925 Carboxyimide-function compounds; imine-function compounds, 2942 Organic compounds, 2908 Derivatives of phenols, 2928 Organic derivatives of hydrazine or of hydroxylamine, 2938 Glycosides & their salts, ethers, esters & other derivatives, 2910 Epoxides, epoxy alcohols, epoxy phenols &epoxy ethers & their derivatives, 2911 Acetals & hemiacetals & their derivatives, 2913 Derivatives of aldehydes, cyclic polymers of aldehydes

From the figure below we could conclude that the leading sub segments in imports of Indonesia are Cyclic hydrocarbons (2902) and acyclic alcohols and their derivatives (2905). India on the other hand

has proved its global competitiveness in other segments like Heterocyclic compounds with nitrogen hetero-atom (2933), Cyclic hydrocarbons (2902) & Heterocyclic compounds (2934).

Figure 46: Mapping of sub segment focus of Indonesia and India

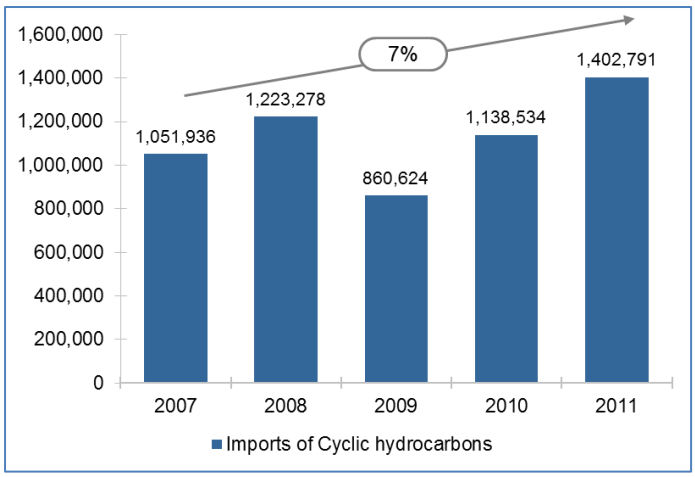


A direct mapping of needs of Indonesian market with India's competitiveness reveals that Indian companies should focus on improving their export focus on Cyclic hydrocarbons (2902).

i. Cyclic hydrocarbons

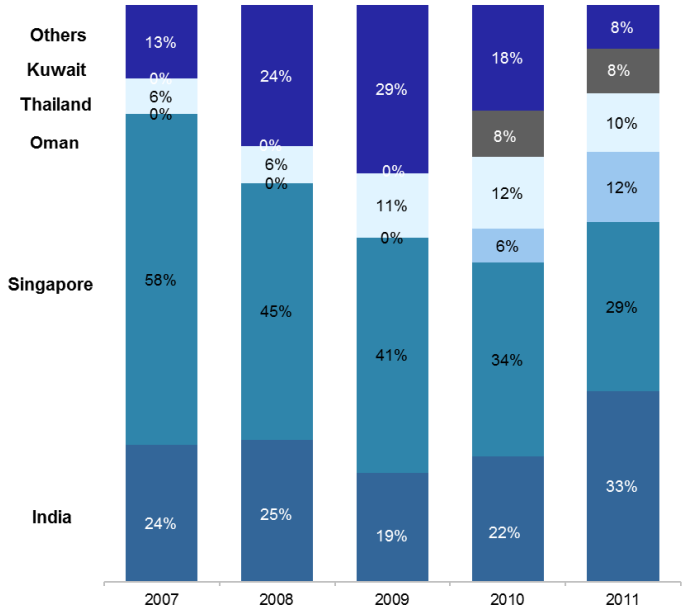
Cyclic hydrocarbons represent products like toluene, styrene, benzene etc. Import of cyclic hydrocarbons has been growing strongly in the recent time since 2009. Overall the imports declined strongly in 2009 riding on global recession, however post 2009 it has picked strongly (Refer figure below).

Figure 47: Imports of cyclic hydrocarbons ('000 $)



While evaluating the key suppliers for these products (Refer figure below), it is evident that India and Singapore are the leading exporters to Indonesia in this segment.

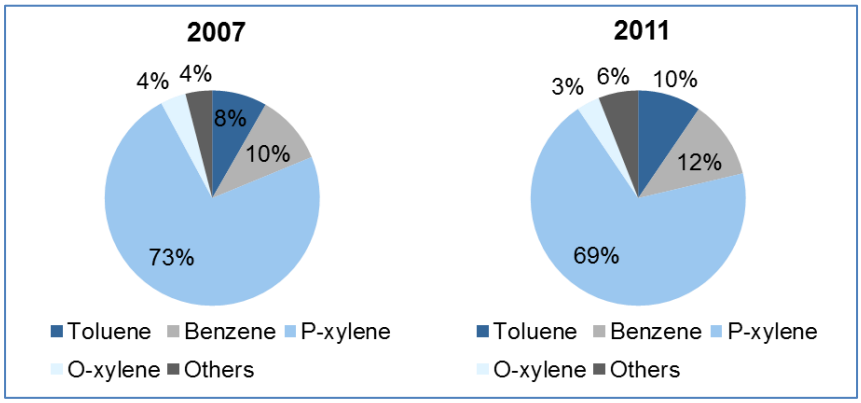
Figure 48: Country wise import share



Share of India, Oman, Thailand and Kuwait has increased while share of Singapore has decreased in last 4 years. Coming up of downstream industries in Singapore has decreased its surplus for these cyclic hydrocarbons and hence also decreased its focus on export of these. India's share has increased from 24% to 33%.

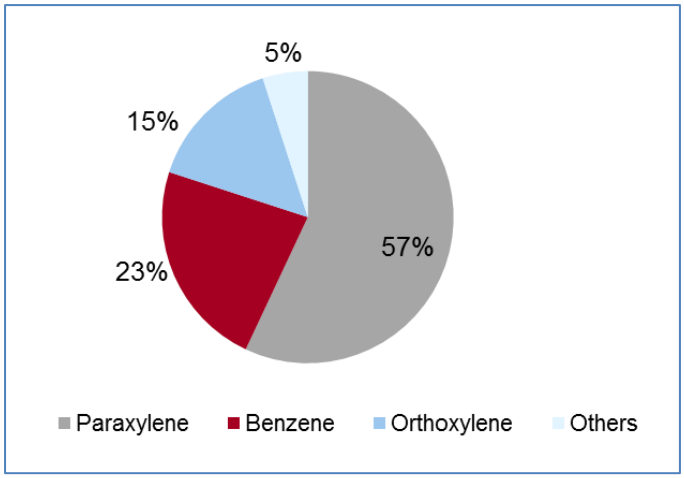
While mapping the requirement within cyclic hydrocarbons the three largest import requirements of Indonesia are for P-xylene, toluene and Benzene. Over the years, import requirements for Toluene and Benzene have increased whereas the imports for P-xylene have gone down marginally.

Figure 49: Import requirements within cyclic hydrocarbons, Indonesia



To better understand the segment to focus upon we need to look at where India currently stands in supplying these products (Refer figure below).

Figure 50: India exports for sub segments of cyclic hydrocarbons, 2011



Analysis of exports by India suggests that India has strong competitiveness and surplus in Para-xylene, Benzene and Ortho-xylene whereas its export capacity is very limited in Toluene & Styrene. Since the key focus of India exports and the requirements of Indonesia match completely, Indian exporters should focus on gaining more share in Indonesian markets for this segment.

ii. Strategic recommendations

Based on the detailed analysis of the products in these segments, the requirements of Indonesian markets and the capability of Indian players, it is evident that India has good export potential for P-xylene and Benzene. Since, these are the key requirements of Indonesian markets, Indian players can focus on these segments to gain more share in Indonesian imports.

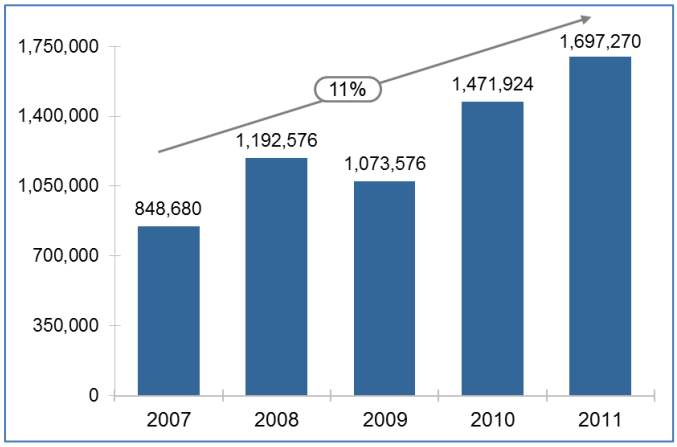
6. Agrochemicals

Indonesia is an agrarian society with agriculture as its one of the core sectors. Agriculture accounts for 43% of total employment and directly contributes 15% to the GDP. Its fertilizer consumption per hectare is close to 180 Kg/ ha as compared to global average (~122 Kg/ Ha). 52 % of the fertilizers consumed in Indonesia are applied to rice, 12 % to maize, 13 % to oil-palm, 5 % to vegetables and 4 % to fruits, the remaining 14 % to various other crops.

Indonesia traditionally has imported ~$1 Bn of miscellaneous chemical products (HS code 38) every year. Agrochemicals are a major part of this product segment. The variation in extent of imports is due to the global price fluctuation as well as fluctuation in demand due to natural causes (rain/ flood etc.)

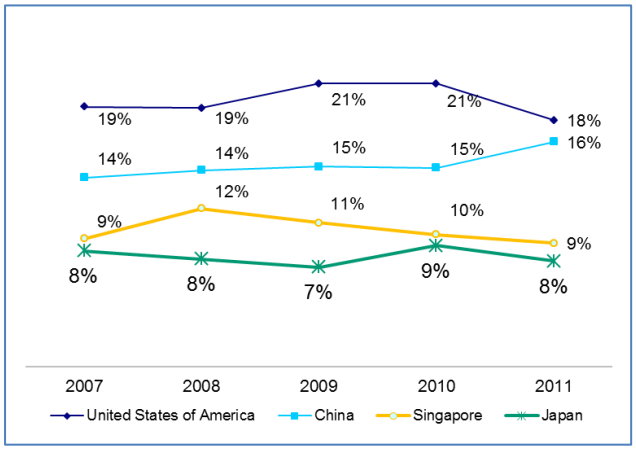
Figure below represents the import scenario for last four years:

Figure 51: Imports in Indonesia ('000 $)



USA and China has been the leading exporters to Indonesia in this category with 16-18% share in the imports followed by many countries with share of 8%-9% (Refer figure below).

Figure 52: Major exporting nations to Indonesia (% share of total HS38 imports)



The key consumers for agrochemicals are farmers who are very cost conscious and also demand good product at the same time. With many subsidies coming into play, China has been able to establish its low cost advantage and hence garner good market share.

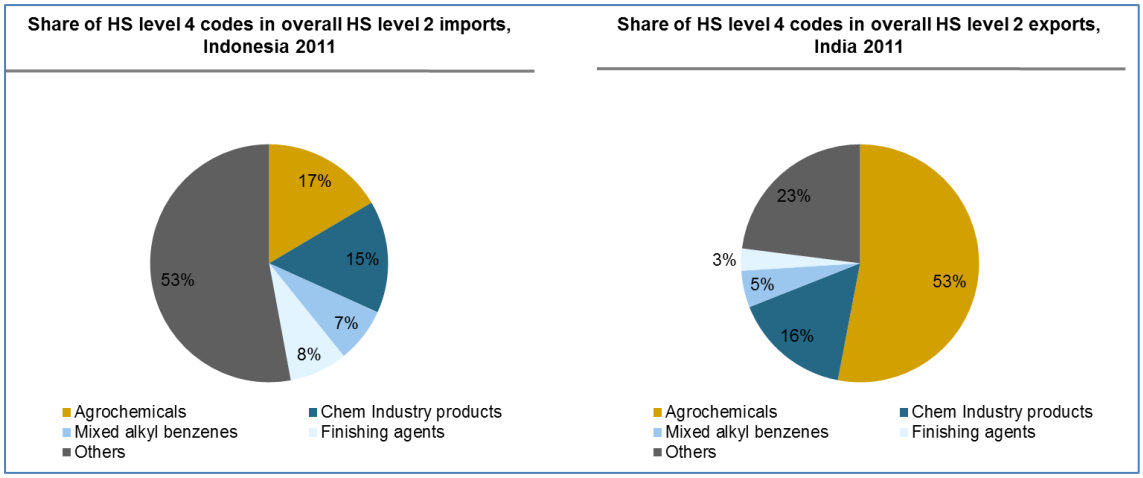
Other countries like Malaysia, India and Germany has been able to maintain 5%-8% market share. Other countries have specific molecules whose demand has ensured consistent market share, whereas China & USA provide products across the entire miscellaneous chemical products which it supplies.

The sub segmentation of products is given below

- 3808 Insecticides, fungicides, herbicides packaged for retail sale
- 3824 Chemical industry products and residuals nes
- 3817 Mixed alkylbenzenes & mixed alkylnaphthalenes, nes
- Others - 3809 Finishing agents, dye carriers or fixing for text., paper, leather etc., 3812 Prepared rubber accelerators; compound plasticizers, & other compound, 3811 Antiknock preparations, oxidation & gum inhibitors, viscosity improver, 3822Composite diagnostic or laboratory reagents, 3814 Organic composite solvents & thinner, paint/varnish removers 3810 Pickling preparations for metal surfaces; powders, pastes, coatings, 3823 Binders for foundry molds or cores; chemical products and residuals, 3815 Reaction initiators & accelerators, catalytic prep, 3816 Refractory cements, mortars, concretes and similar compositions,. 3801 Artificial graphite; colloidal or semi-colloidal graphite, 3802 Activated carbon; activated natural mineral products; animal black, 3818 Chemical compound in form of disc, 3806 Rosin & resin acids, and derivatives; rosin spirit & oils; run gums, 3804 Residual lyes from the manufacture of wood pulp, ecl. Tall oil, 3819 Hydraulic brake fluids & liquids for hydraulic transmission, 3820 Anti-freezing preparations and prepared de-icing fluids, 3821 Prepared culture media for development of micro-organisms, 3807 Wood tar, vegetable pitch & similar preparations based on rosin, resin, 3813 Preparations and charges for fire-extinguishers, 3805 Turpentine oils; crude dipentene; pine oil etc, 3825 Residual products of the chemical or allied industries, .; municipal waste; sewag, 3803 Tall oil, whether or not refined.

From the figure below we conclude that the leading sub segments of miscellaneous chemical products in terms of imports by Indonesia are Agrochemicals (3808), while India's major exports are also agrochemicals and Chemical Industry products.

Figure 53: Mapping of sub segment focus of Indonesia and India

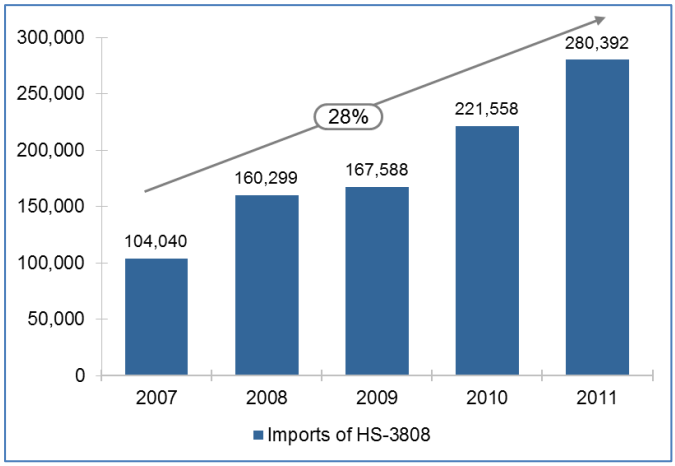


A direct mapping of needs of Indonesian market with India's competitiveness reveals that Indian companies should focus on improving their export focus on agrochemicals (3808).

i. Agrochemicals

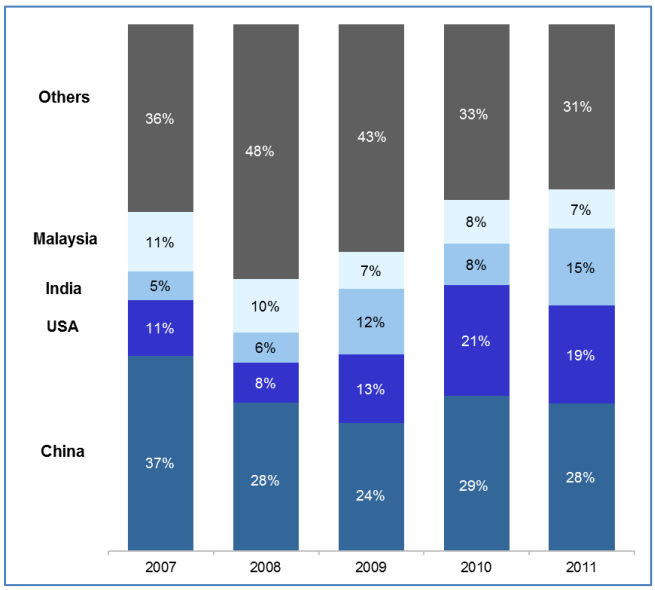
Agrochemicals represent products like Insecticides, fungicides, herbicides etc. The import trend of agrochemicals has been very volatile as it is a pull driven market. Here, the demand varies based on the natural conditions. And the variation in revenues is due to the fluctuation in global prices. Also the shelf life of many products is high hence based on global prices the stocking and destocking happens resulting in varying demand for imports. (Refer figure below). Imports have hovered around ~$ 400 Mn in the last four years.

Figure 54: Imports of agrochemicals ('000 $)



While evaluating the key suppliers for these products (Refer figure below), it is evident that China and USA are the leading exporter with India on the third position. Other suppliers to Indonesia are Malaysia and Switzerland.

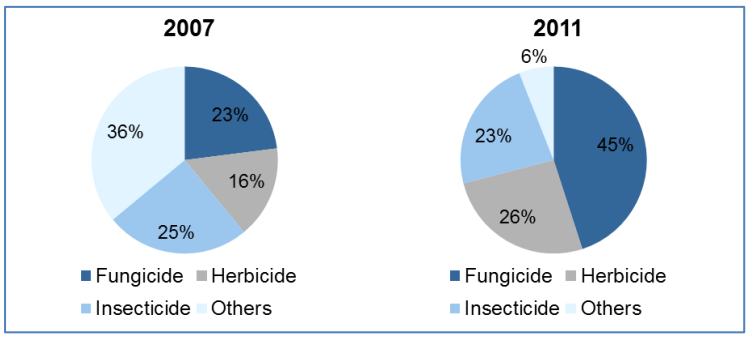
Figure 55: Country wise import share



India and China have strong focus on agriculture sector in their respective countries. Hence their capabilities in these sectors are high, especially for China. China has been able to keep abreast with the changing requirements for different crops and type of pests. By leveraging their economies of scale and good trade relations with Indonesia, they have been able to establish leadership position and strengthen it.

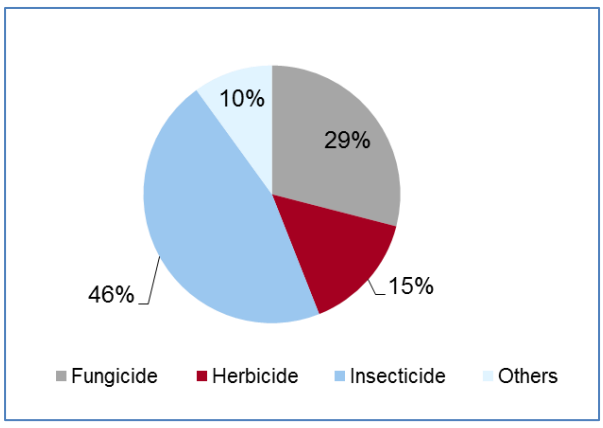
While mapping the requirement within agrochemicals the largest import requirements of Indonesia in agrochemicals are for Fungicides, Herbicides and Insecticides. The rise in imports for Fungicide and herbicide is quite significant whereas the relative import requirement for insecticides has almost remained same.

Figure 56: Import requirements within agrochemicals, Indonesia



To better understand the segment to focus upon we need to look at where India currently stands in supplying these products (Refer figure below).

Figure 57: India exports for sub segments of agrochemicals, 2011



Analysis of exports by India suggests that India has strong competitiveness in all the products which are the key requirement of Indonesia. Especially in fungicide and herbicide there is a scope of huge growth while for insecticides a consistent growth could be expected. Since the key focus of India

exports and the requirements of Indonesia imports match perfectly, agrochemicals are a good segment for India companies to target Indonesia import markets.

ii. Strategic recommendations

Based on the detailed analysis of the products in these segments, the requirements of Indonesian markets and the capability of Indian players, the following are the key recommendations:

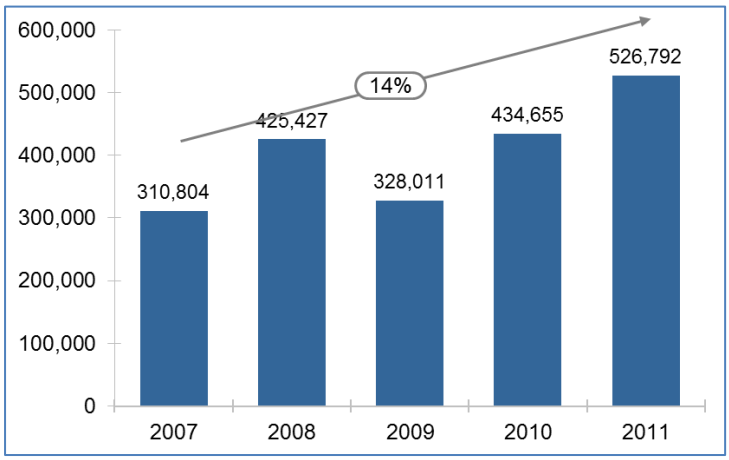
- *Indian companies should focus on providing agrochemicals to the Indonesia market as it is a consistent and growing demand.*
- *Within agrochemicals companies could focus on fungicides and herbicides (as the demand for these products is high for imports by Indonesia) and these segments have been the fastest growing amongst all agrochemicals*
- *Indian companies need to provide newer & more reliable molecules at lower cost to compete with China & USA.*

7. Soaps

Indonesia imports for Soaps, lubricants, waxes, candles, modelling pastes (HS code 34) has been growing strongly in the past four years. The overall imports have grown at the rate of ~14% p.a. during 2007-11. During recessionary times the demand slugged a bit in 2009 however it quickly bounced back in 2010, suggesting a very robust demand for these products by the Indonesian markets. The imports currently stand at ~$526 Mn.

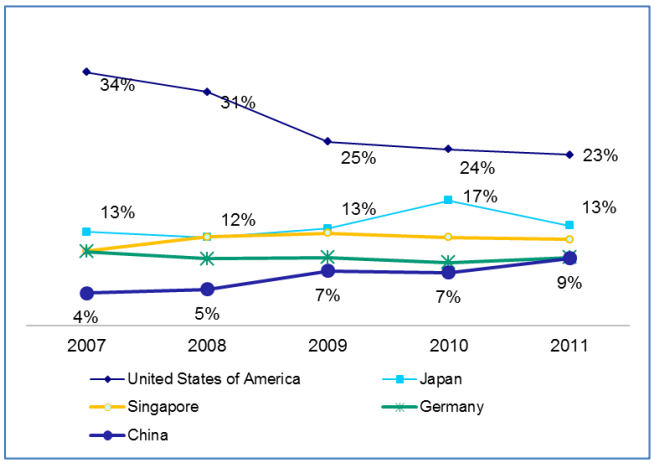
Figure below represents the import scenario for last four years:

Figure 58: Imports in Indonesia ('000 $)



For this segment there are many suppliers who have got presence in Indonesia market. USA and Japan are the leaders with 23% and 13% market share respectively. However they are closely followed by Singapore (~12%), Germany (~9%) and China (9%). India has only managed a share of ~1% in the total imports. (Refer figure below).

Figure 59: Major exporting nations to Indonesia (% share of total HS38 imports)



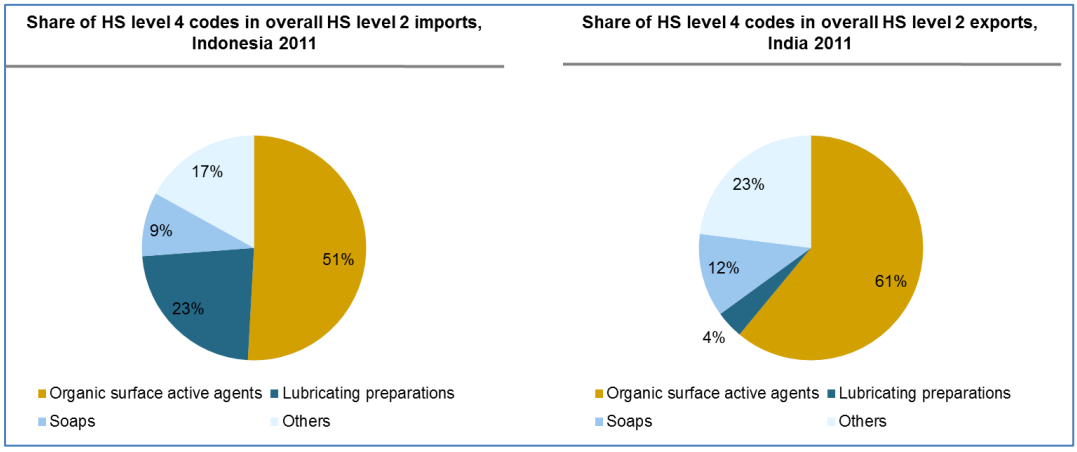
We would study the sub segments in this product category in detail in the next section to map the key levers to target the various sub segments of these products.

The sub segmentation of products is given below

- 3402 Organic surface-active agents, washing & clean preparations, nes
- 3403 Lubricating preparations, antirust or for treating textiles, leather
- 3401 Soap; organic surface-active preparations for soap use
- Other - 3405 Polishes & creams for footwear , furn, floors, glass, metal etc., 3404 Artificial waxes & prepared waxes, 3407 Modelling pastes including those for children; dental wax, 3406 Candles, tapers & the like

From the figure below we could conclude that the leading sub segments of Soaps, lubricants, waxes, candles, modelling pastes segments in terms of imports by Indonesia are the Organic surface active agents (3402) and lubricating preparations (3403). While India's major exports are in organic surface active agents (3402) and Soaps (3401).

Figure 60: Mapping of sub segment focus of Indonesia and India

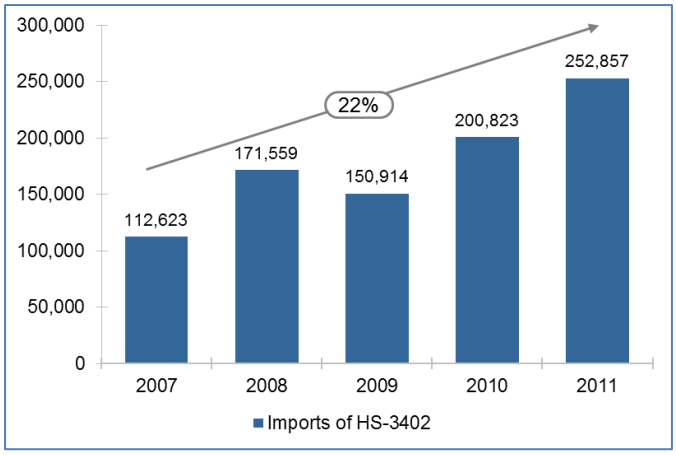


A direct mapping of needs of Indonesian market with India's competitiveness gives us that Indian companies could focus on improving their export focus on Organic surface active agents (3402). The next section will cover this segment and its sub segments for more clarity.

i. Organic surface active agents

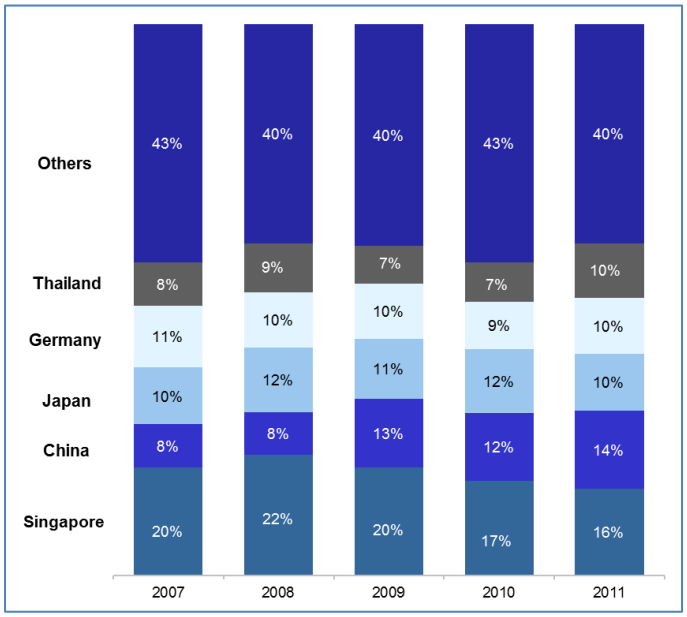
Organic surface active agents import has been growing steadily at the rate of ~22% p.a. over the last four years to reach ~$252 Mn in 2011. The growth slowed a bit in 2009 (during recession) but quickly bounced back in 2010 and maintained the growth in 2011 also. (Refer figure below).

Figure 61: Imports of organic surface active agents ('000 $)



While evaluating the key suppliers for these products (Refer figure below), it is evident that Singapore is the leading exporter closely followed by China and Japan. Other key suppliers to Indonesia are Germany and Thailand.

Figure 62: Country wise import share

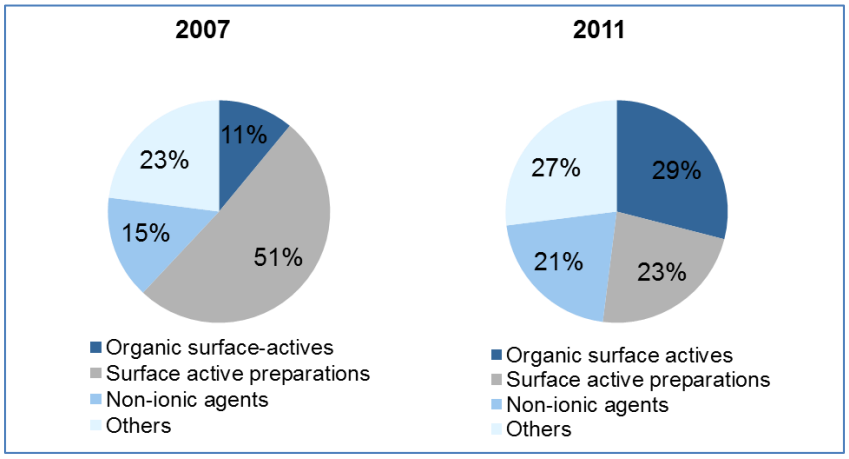


India has very limited presence as supplier for this, accounting for <1% of the total imports by Indonesia. This market for organic surface active agents is a cost sensitive market as well as it has certain loyalist large MNC consumers which are ready to pay premium for quality too. Increasing cost

pressure in Indonesia has resulted in the share of china to grow from 8% to 14% in just 4 years. And the preference for low cost products is likely to maintain in near future.

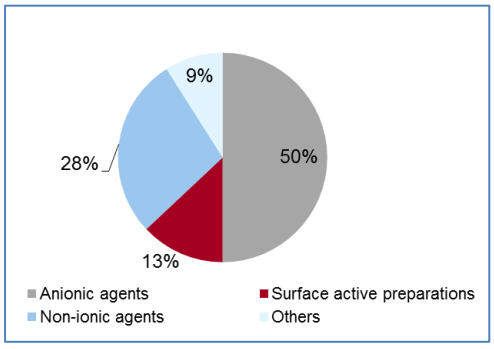
While mapping the requirement within organic surface active agents the largest import requirements of Indonesia are for organic surface-actives which is closely followed by surface active preparations and non-ionic agents. Especially the rise in organic surface actives requirement has been quite rapid in last four years resulting in increase of its share from meagre 11% to 29%. Share of non-ionic agents have also improved from 15% to 21%. While there has been a decline in the import preference for surface active preparation over the years.

Figure 63: Import requirements within agrochemicals, Indonesia



To better understand the segment to focus upon we need to look at where India currently stands in supplying these products (Refer figure below).

Figure 64: India exports for sub segments of agrochemicals, 2011



Analysis of exports by India suggests that India has strong competitiveness in anionic agents and non-ionic agents. Since, these don't match with Indonesian requirements as such, Indian exporters can focus on the niche non-ionic segment or build competency in organic surface active preparations.

ii. Strategic recommendations

Based on the detailed analysis of the products in these segments, the requirements of Indonesian markets and the capability of Indian players, the following are the key recommendations:

- *Indian companies should focus on providing organic surface active agents*
    - *Within this segment there focus should be on supplying non-ionic agents followed by organic surface active preparations.*
- *Most of the consumers of organic surface active agents have integrated usage of all the sub products i.e. including surface active preparations along with anionic agent or non-ionic agents. It will be prudent to ensure that Indian suppliers act as one stop solution for the Indonesia importers. For this Indian suppliers should also keep the low priority products in their basket of offerings.*

4. Conclusion

While studying the product categories in detail for each of the seven product segments we also looked at focus areas for each of these segments. We have recommended key products in those segments where Indian manufacturer can successfully compete and become preferred supplier to companies in Indonesia. However, it is imperative for Indian exporters to analyse their competencies vis-à-vis the opportunities available.

India's trade relationship with Indonesia is weak as compared to China and Thailand. To improve this Ministry of Commerce (GOI) must enable SME's to establish strong presence and provide them an opportunity to compete with other countries.

5. References

The following resources were looked at for reference and data:

1. International Trade centre (Intracen)
2. ASEAN (Association of Southeast Asian Nations)
3. General Statistics Office of Indonesia
4. Annual Report 2011-12, Department of Chemicals & Petrochemicals
5. Working Group on Indian chemical industry for formulation of the 12th Five Year Plan, Planning Commission, Government of India
6. Indonesia and Bilateral trade agreements – institute of Global Justics
7. www.worldtrade.net
8. Council of European Union
9. www.asean.org