



NEW ZEALAND
FOREIGN AFFAIRS & TRADE
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Indonesia: Trade and Economic Update

MARKET INTELLIGENCE REPORT

Summary

- Indonesia's economy grew by 5.11 percent in the first quarter of 2024. Its year-on-year inflation rate in June 2024 was 2.51 percent, and the unemployment rate in February 2024 was at 4.82 percent.
- Indonesia is New Zealand's 9th largest export market destination but ranked 11th for highest total (two-way) trade value. New Zealand goods and services exports for the year ending March 2024 were worth NZ\$1.62 billion. Together with imports worth NZ\$1.38 billion, this represents a total trade value of NZ\$2.99 billion (compared to NZ\$3.68 billion in the same period in 2023).
- In the year ending June 2023, there were 795 international student enrolments from Indonesia and 71.7 percent of the students were enrolled in universities.
- Indonesia is considering implementing anti-dumping import duties on seven commodities (textiles, ready-made garments, ceramics, electronics, cosmetics, finished textile products, and footwear)
- There are opportunities for NZ to partner with Indonesia in support of its economic priorities and new policies. We see potential in many sectors, including goods exports and services exports.

Report

Economic growth remains steady

Indonesia's economy grew by 5.11 percent in the first quarter of 2024. Indonesia's domestic household consumption growth is projected to decrease slightly due to a slowdown of economic activity in labour-intensive industries such as manufacturing, agriculture, and trade, driven by anticipated lower demand from China, Indonesia's largest trading partner.

Indonesia's year-on-year inflation rate in June 2024 was 2.51 percent. Indonesia's unemployment rate has also reduced to pre-pandemic levels at 4.82 percent in February 2024. The key contributors to commodity inflation were rice (0.44 percent), gold jewellery (0.25 percent), red chilli (0.16 percent), cigarette with filter and clove (0.12 percent), and sugar (0.07 percent). In April 2024, Indonesia's central bank raised its benchmark interest rate to 6.25 percent, the highest level since 2016, to manage inflation through to 2025 and stabilise the rupiah currency which has fallen to four-year lows amid global market volatility.

Bilateral Trade update

In the year ending March 2024, two-way trade with Indonesia totalled \$2.99 billion. Indonesia is New Zealand's 9th largest export market and is our 11th largest trading partner by total trade value. Total exports to Indonesia were worth \$1.62 billion, a decrease of 22.1% when compared to exports of \$2.08 billion in the same period in 2023.

In the education sector, there were a total of 795 international student enrolments from Indonesia in the year ending June 2023. Of the 795 students, 570 (71.7 percent) were enrolled in universities, 101 (12.7 percent) were enrolled in private training establishments, and 85 (10.7 percent) were enrolled in the New Zealand Institute of Skills and Technology.

Potential economic impact of President-elect Prabowo's free nutritious meal programme

The government has budgeted IDR 71 trillion (NZ\$ 7.1 billion) for the implementation of President-elect Prabowo's free nutritious meal programme in the 2025 Draft State Budget. In the programme, at least 83 million school children will be supported. This will

require more than 6 million tonnes of rice, 1 million tonnes of chicken meat, and 4 million kiloliters of fresh cow's milk every year. The budget was set at IDR 15,000 (NZ\$ 1.50) per portion, although the final cost has yet to be confirmed. On multiple occasions, Vice President-elect Gibran Rakabuming, has given out free milk to the public, showcasing the incoming government's commitment in the programme.

Some economists commented that the programme will increase the domestic consumption rate and has the potential to stimulate economic growth and raise Indonesia's GDP, whilst others noted that the programme could undermine Indonesia's track record of fiscal discipline.

Positive example of foreign direct investment flowing into Indonesia aimed at increasing milk consumption in Indonesia was the opening of PT Frisian Flag Indonesia's (PT FFI) third factory in Cikarang, West Java in July 2024. The factory, which covers an area of 25.4 hectares with an investment value of IDR 3.8 trillion (NZ\$ 380 million), is said to be the largest production investment in the world for Dutch dairy cooperative and parent company of PT FFI, Friesland Campina. The new plant will process 400,000 kgs of milk per day or 700 million kgs of dairy products per year, with the potential to grow to 1 billion kgs. The products produced in the factory are milk and condensed milk.

PT FFI will also take part in a free nutritious food pilot project (Kick Off Collaboration Programme) in August 2024. PT FFI is collaborating with the Indonesia Food Security Review Foundation (IFSR) to reach ten schools in Cikarang, benefitting more than 2000 students every day until December 2024. PT FFI will contribute to the distribution of fresh milk, which is one of the supporting components in the President-elect Prabowo's free nutritious meal programme.

Protecting certain sectors of domestic industries

Indonesia is considering imposing anti-dumping import duties - the seven imported commodities that will be reviewed by the Indonesian Anti-Dumping Committee (KADI) and the Indonesian Trade Safeguard Committee (KPPI) are textiles, ready-made garments, ceramics, electronics, cosmetics, finished textile products, and footwear. The committees will review whether the import rate for the past three years was excessive enough to disrupt Indonesia's domestic industry. The import duties will be calculated by KPPI and is anticipated to be between 100 to 200 percent.

The Ministry of Trade had formed a task force to monitor the import of certain goods entering Indonesia from July through December 2024 and is subject to extension. Bara Hasibuan, special staff to the Minister of Trade, said that the task force is authorised to stop illegally imported goods from entering Indonesia and is one of the resolution schemes to combat illegal imports in addition to the safeguard and anti-dumping import duties. Whilst some industry associations welcomed the government's initiative; others like the Chairman of the Indonesian Chamber of Commerce and Industry called for fair competition, rather than protectionism.

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