



COUNTRY FOCUS: INDONESIA

Paint sector benefits from Indonesia's economic growth

The Indonesian paint market is expanding both locally and globally with the increase of government investment into building and infrastructure and the region's expansion of exports and demand for higher quality products

As Indonesia's economy continues to grow so too does demand for paint and coatings in the region. In 2008, the archipelago recorded a 6.1% increase in gross domestic product (GDP), moving from a GDP per capita of US\$3,700 in 2007 to US\$3900 the following year (using purchasing power parity adjustments). With this growth the nation has seen an improvement in local transport and energy networks - which require paints and coatings.

"Growth is expected to continue as the Indonesian government focuses on upgrading and building a new infrastructure," said Sheila Rajah, Frost & Sullivan market analyst. According to Frost's research the country's paint and coating market is valued at US\$1bn with a market size of 639,128t. Although the outlook is positive, paint consumption per capita is currently at 2.8kg per person, "which is well below the [average] Asia level of 4-4.5kg per person," added Ms Rajah.

'As Indonesia's political and economic climate becomes more stable there has been increased FDI into the region, which is boosting paint and coating sales directly and indirectly'

Despite this growing industrial demand, Indonesia's largest market sector is decorative coatings. Industry player Jotun Indonesia concentrates on this segment along with marine and protective coatings. "We sell approximately one third [of our paint] into the marine market, one third into the protective market and one third to the decorative market," said Bjorn Abraham Bache, president director of PT Jotun Indonesia. "The decorative market holds the biggest potential for us since we are still small with approximately 3% of the market share [in this segment]." According to Mr Bache, Jotun is the market leader in marine coatings and holds the number two position in the protective arena. In 2009, the company introduced two new decorative products: Gardex, a premium gloss paint for interior use on wood and metal and Jotashield Extreme, a

high-end exterior paint. The company's new line-up is in sync with the current trend of increased market demand for premium and mid-tier products.

"Decorative coatings account for 60% of the industry value and 80% of the volume," said Ms Rajah. The segment is showing high growth potential, while industrial paints - mainly wood coatings, automotive original equipment manufacturing (OEM), and refinish coatings - have felt the strain of the economic downturn. "90% of wood finishing material is exported to Western countries," she said. "Growth is currently hampered by the drop in demand from the USA and Europe. Similarly the automotive OEM coating sector is also predicted to move faster in the coming years after the automotive industry recovers from the economic slump."

Following the global trend Indonesia has seen tighter environmental controls in recent years that, according to Mr Bache, have influenced the market in a positive way. "[There is]

more focus on the production process and waste management," he said, adding "This opens up the market for new products like Jotashield Extreme." Jotashield's formula can reduce the temperature of the building by about 5°C - a welcomed feature in a country where the average temperature in Jakarta is in the late twenties to early thirties' degrees Celsius all year round (around 85°F).

POLITICS BOOSTS INVESTMENT

As Indonesia's political and economic climate becomes more stable there has been increased foreign direct investment (FDI) into the region, which is boosting paint and coating sales directly and indirectly. According to an October 2009 article featured in the Jakarta Post: "In 2008 there were 1029 FDI projects with a realised investment value of US\$14.2bn, while there were only 210

domestic direct investment projects with a value of around US\$1.7bn (excluding investment in the oil and gas and financial sectors)." The government has implemented a number of regulations since 2007 to make Indonesia more attractive to foreign investors - however, despite this the country still lags behind neighbouring nations.

In July 2009, US-based Evercrete successfully entered the Indonesian market through a partnership with local coatings specialist PT Multicoat Prima Abadi. Otto Dwiyanto, PT Multicoat Prima Abadi's representative, believes the company has had a strong year and agrees that there has been an increase in demand for more quality products. "I would say that the demand for high quality coatings has tremendously risen recently." He believes companies are foregoing cheaper solutions that require more maintenance for more durable coating types. According to Mr Dwiyanto the chemical, food, construction, oil and gas and marine industries have increased demand for coatings.

EXPORTS ON THE UP

As well as expanding locally, Indonesian companies are also increasing their exports. "Indonesia is now looking to export into other emerging markets such as the Middle East and some African nations," said Ms Rajah. "Export goods include furniture and construction materials which directly impacts the respective coating sales," she added.

In the paint and coatings industry Indonesia still falls behind other countries in the region, but it is showing strong signs of improvement. Consumer confidence as well as the confidence of companies involved in the paint industry is on the rise. A February 2009 report by Frost & Sullivan tagged the nation to be the "fastest growing paint market in Asia over the next two to three years."

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