Indonesian Logistics Overview

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KADIN INDONESIA

AFFA

FIATA

FAPAA

15 Packages of Economic Policies

9 Sept 2015
Package 1
Improvement of industrial competition level

29 Sept 2015
Package 2
Investment promotion and foreign exchange

7 Oct 2015
Package 3
Expanding access to financing and reducing production costs

15 Oct 2015
Package 4
Wage system guarantees and securing work termination

22 Oct 2015
Package 5
Asset revaluation and access to sharia financing

5 Nov 2015
Package 6
Drive economies in the periphery and the smoothness of raw material of medicine

7 Dec 2015
Package 7
Industry tax incentives and land certification

21 Dec 2015
Package 8
Business certainty and investment of aircraft and oil maintenance services

2015

27 Jan 2016
Package 9
Electricity and logistics infrastructure

11 Feb 2016
Package 10
Openness of investment

29 Mar 2016
Package 11
Financing access, Dwelling Time, and pharmaceutical industry

28 Apr 2016
Package 12
Ranking enhancement of Ease of Doing Business

24 Aug 2016
Package 13
House provision for low income communities

10 Nov 2016
Package 14
Drive economies in the periphery and the smoothness of raw material of medicine

2016

15 Jun 2017
Package 15
Development of national logistic industry

2017

Understanding Logistics

"Logistics is that **PART of the SUPPLY CHAIN PROCESS** that plans, implements, and controls the efficient, effective flow and storage of goods, services, and related information from the point-of-origin to the point-of-consumption in order to meet customers' requirements" (**Council of Logistics Management**)…

Lambert, 4th Edition

Logistics and Supply Chain Management

Effective organizing activities on the flow of raw materials, inventories of manufactured goods, finished goods, and related information from the point of origin to the point of consumption to meet customer needs.

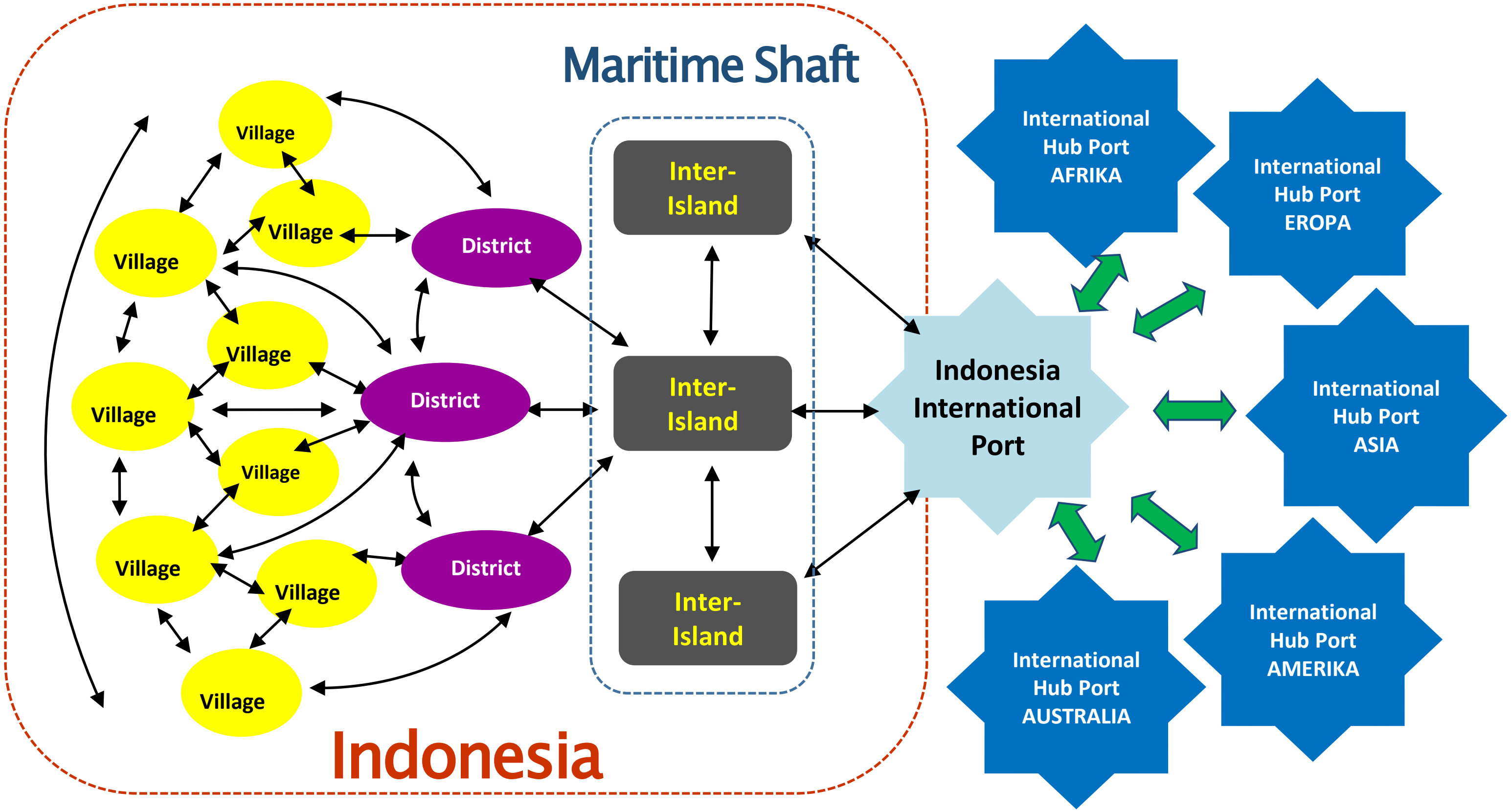
The Importance of Logistic and Transportation

Logistics

- Part of building nation's competitiveness
- Supporting the creation of national efficiency
- Encourage National Economic Integration
- Ensure availability, access, price stabilization, and quality of goods

Enabler for Trading

Network of National Logistics System



Integration of Local and National Networks

Global Networks Connectivity

Matrix of Logistics Infrastructure

Financial Network	Service Actors	Banking, Insurance, LKBB						Money	Logistics Infrastructure
Financial Network	Tools	ATM	Internet Banking	SMS Banking	T/T	Cash Basis		Money	Logistics Infrastructure
Information Network	Message	Documents						Data	Logistics Infrastructure
Information Network	Application	Applications						Data	Logistics Infrastructure
Information Network	Means of Transportation Data	Security	Typical Application	Delivery Channel				Data	Logistics Infrastructure
Information Network	Physical Network	Messaging Hub						Data	Logistics Infrastructure
Information Network	Information	Telecommunication Network						Data	Logistics Infrastructure
Transportation Network	Storage Facilities	W/H, CY, CFS, Container, Pallet, Depot						Freight	Logistics Infrastructure
Transportation Network	Means of Transportation	Ships, Airplane, Trucks, Railways, Pipes						Freight	Logistics Infrastructure
Transportation Network	Transport Node	Port	River Port	Airport	Land Port	Station	Depot	Freight	Logistics Infrastructure
Transportation Network	Modes of Transportation	Sea	River	Air	Road	Railway	Pipe	Freight	Logistics Infrastructure
Distribution Network	Provider	Manufacturer, Importer, Exporter						Trade	Logistics Infrastructure
Distribution Network	Distributor	Trader, Distributor, Wholesaler, Agent, Retailer						Trade	Logistics Infrastructure
Distribution Network	Infrastructure	Agro Terminal, Central Market, Traditional Market, Stall, Store, Hyper/Super/Mini Market						Trade	Logistics Infrastructure

Logistics Service Provider

1PL : Shipper / Consignee (Sender / Receiver)

2PL : Actual Carriers (airline, shipping line or truck operator)

3PL : A company that provides multiple logistics services, including transportation, warehousing, cross-docking, inventory management, packaging, and freight forwarding.

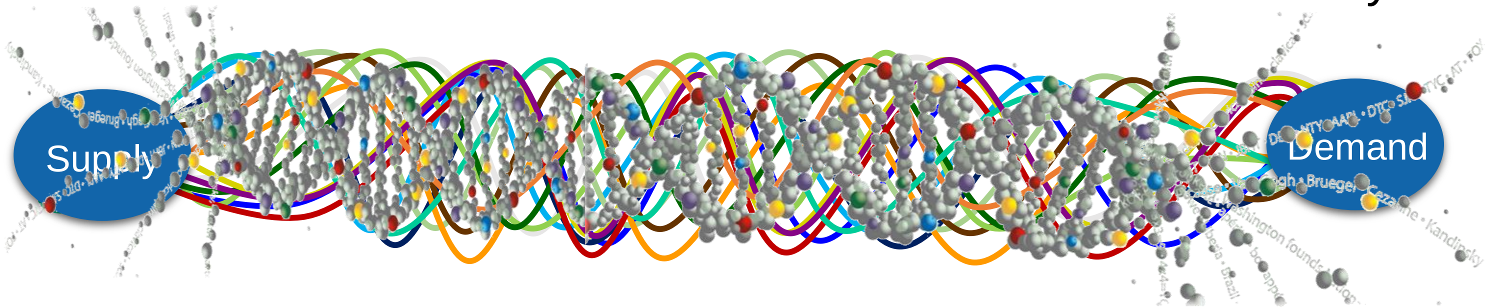
4PL : Consulting firm specializing in logistics, transportation and supply chain management. Sometimes described as non-asset service providers, their role is to provide a wider scope of management throughout the supply chain.

5PL : Logistics service providers who plan, organize and implement logistics solutions on behalf of the contractor (especially information systems) by utilizing appropriate technology, extend further scope for e-business.

Supply Chain Management

Supply chains are complex interdependent systems and involve:

- Whole of Chain Thinking
- Labour
- Oil and alternative energy
- Transport
- Logistics
- Finance
- Business Processes
- Transaction Systems
- Information Technology
- Procurement
- Supply Chain Management
- Commercial Power
- Legal and Regulatory Systems
- People and Relationships
- Strategic Asset Investment
- Geo-Political Economy



Sector Overview – Logistics Sector

- The growth of each logistics service in ASEAN has continued to achieve double-digit growth. In particular, express & small parcel (last mile delivery) and cold chain (low temperature logistics & refrigerated warehousing) are expected to grow the most rapidly.

Logistics Market Size by Country

Logistics Service	Contract Logistics* (incl. land transportation and warehousing)			Air & Sea Freight Forwarding			Express & Small Parcel		
Country (US$ billion)	2013	2017	CAGR 13-17	2013	2017	CAGR 13-17	2013	2017	CAGR 13-17
Singapore	1.0	1.3	7.3%	3.7	5.0	7.7%	0.7	0.9	9.8%
Malaysia	1.2	1.8	10.2%	1.9	2.6	8.8%	1.4	2.7	23.0%
Thailand	1.5	2.2	9.7%	2.1	2.8	8.0%	1.7	2.9	17.1%
Indonesia	2.4	3.7	11.7%	1.9	3.0	11.8%	4.0	7.6	21.7%
Vietnam	0.6	0.9	10.9%	0.9	1.4	12.5%	0.6	1.0	20.9%
Philippines	0.7	1.0	11.3%	0.6	0.9	12.3%	1.2	2.4	24.1%
Japan	21.5	23.5	2.3%	7.2	7.8	1.9%	23.8	25.8	2.8%

** Contract Logistics/ Third-Party Logistics (3PLs) normally providing long-term contract carriage and warehousing services supplying tractors, drivers and management.*

Pros) Strong Growth in Logistics Market (3PL)

- 3PL revenue expects to grow at <u>CAGR (Compound Annual Growth Rate) of 11.7% for the forecast period of 2013 to 2017</u> due to the increment of 3PL outsourcing needs in Indonesia.
- The growth rate would be the highest percentage among ASEAN6.

Indonesian Contract Logistics Market Forecast (2013-2017F)

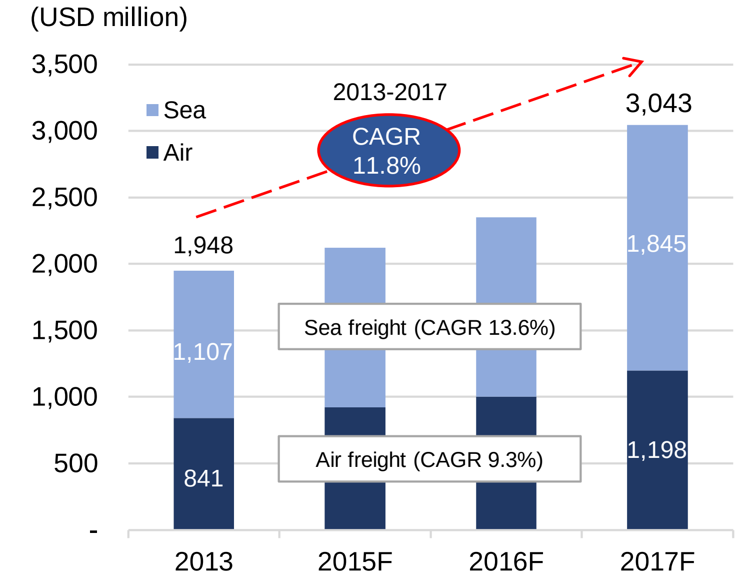
Contract Logistics Market Size By Country

Country	2013	2017	Growth 13-17(%)
Indonesia	2,402	3,747	11.7
Thailand	1,543	2,233	9.7
Malaysia	1,244	1,837	10.2
Singapore	961	1,276	7.3
Philippines	659	1,011	11.3
Vietnam	603	910	10.9

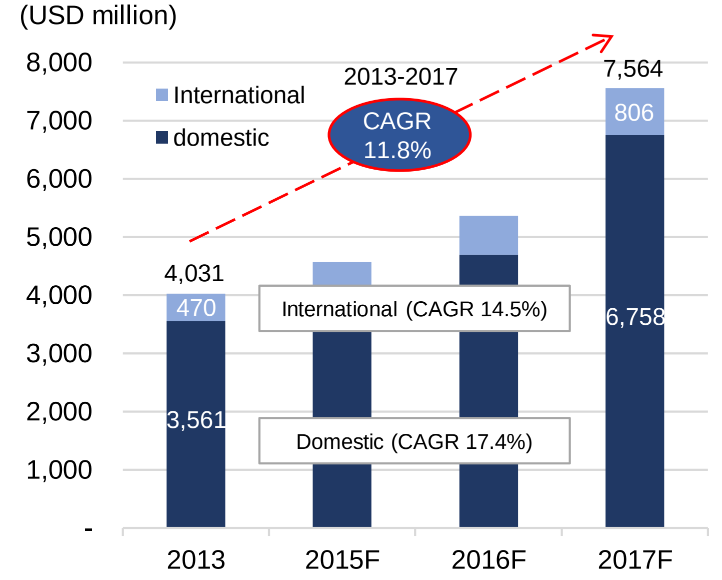
Pros) Strong Growth in Sea Freight Forwarding and Domestic Express and Small Parcel Market

- Freight forwarding revenue expects to grow at CAGR of 11.8% for the forecast period of 2013 to 2017. The growth of sea freight would be larger than air freight for the next few years.
- Domestic express and small parcel market in 2017 expects to be twice larger than the market size in 2013

Freight Forwarding Market Forecast (2013-2017F)



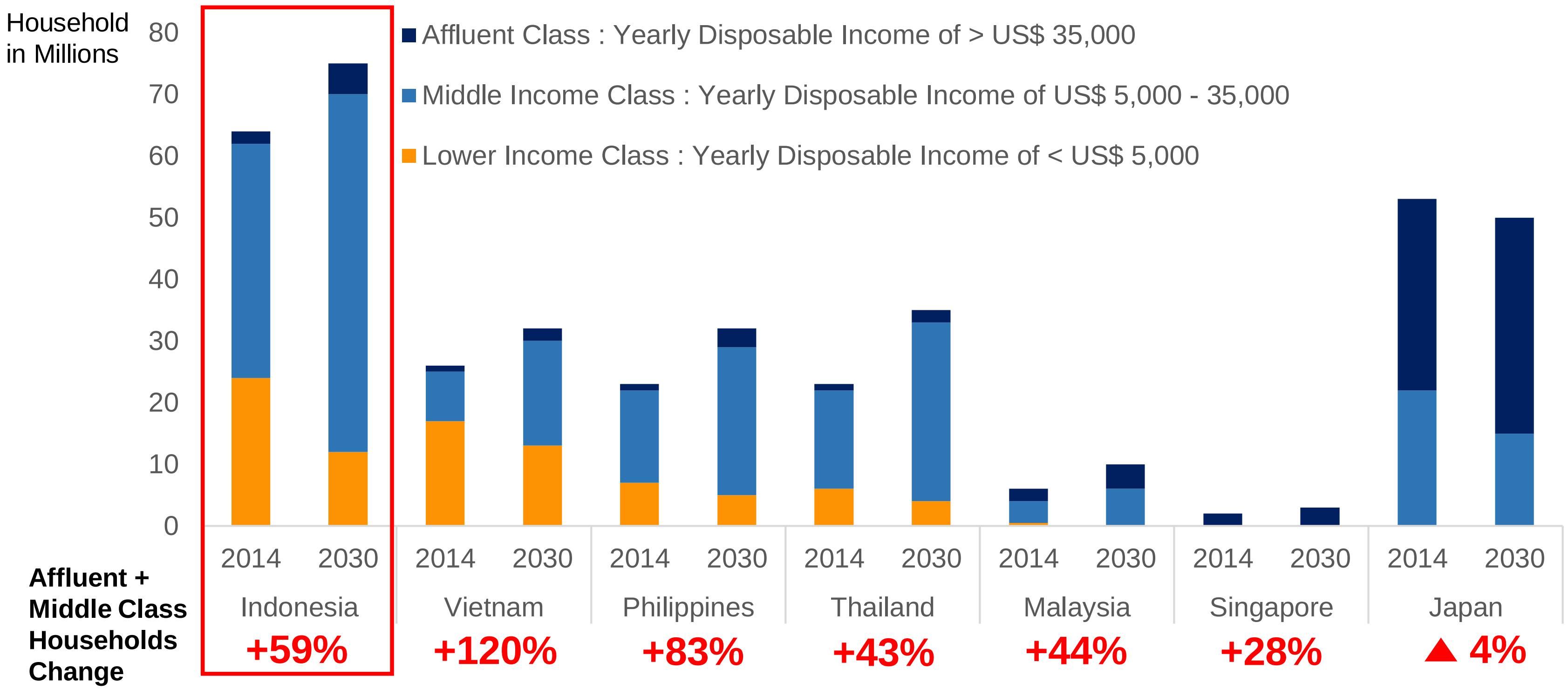
Express and Small Parcel Market Forecast (2013-2017F)



Expanding Middle Class

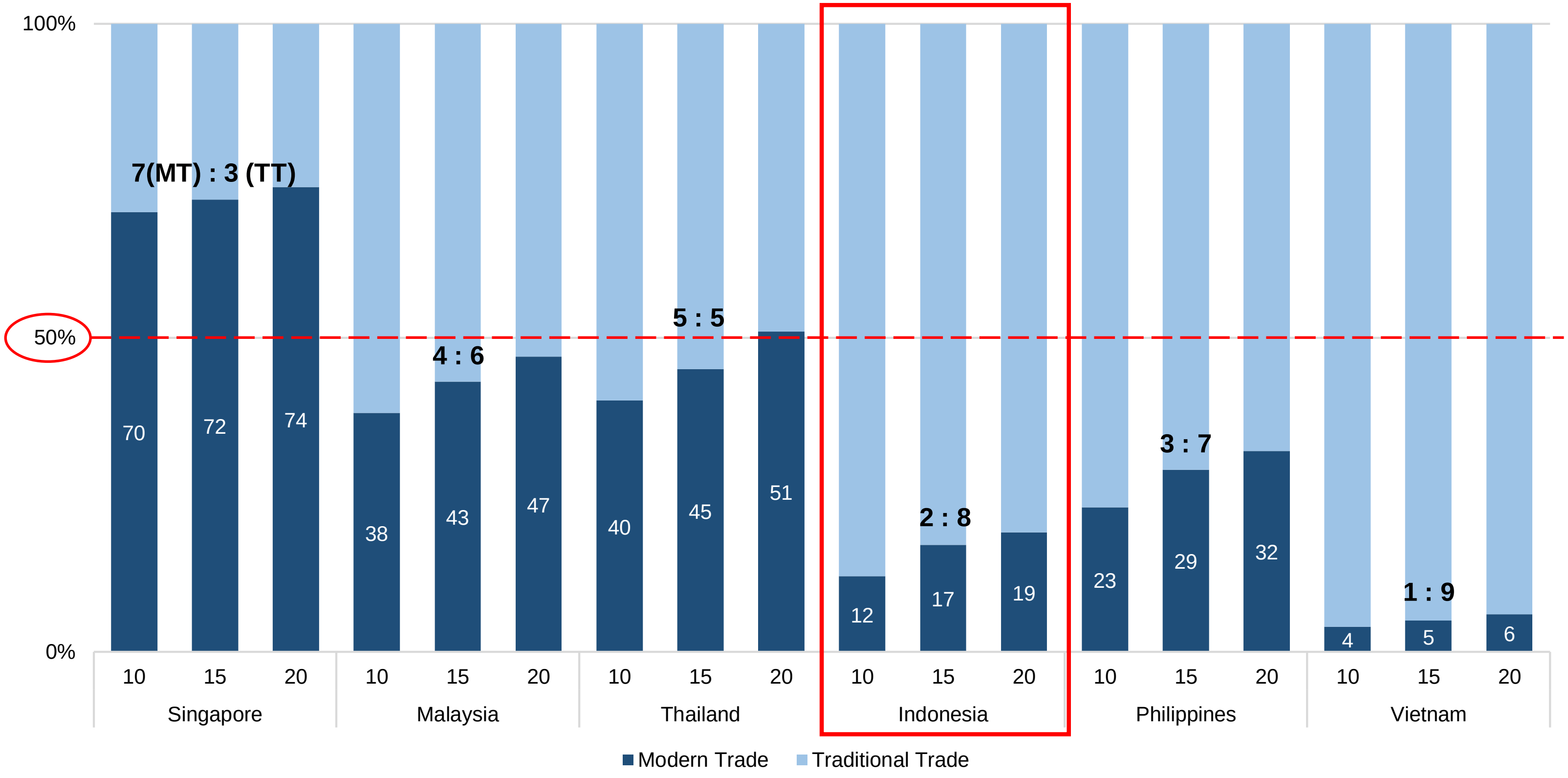
Pros) Rising Middle Class in Indonesia

Forecast of Household Disposable Income (2014-2030F)



Pros) Rapid Growth on Modern Trade in Indonesia

Modern Trade vs. Traditional Trade in ASEAN

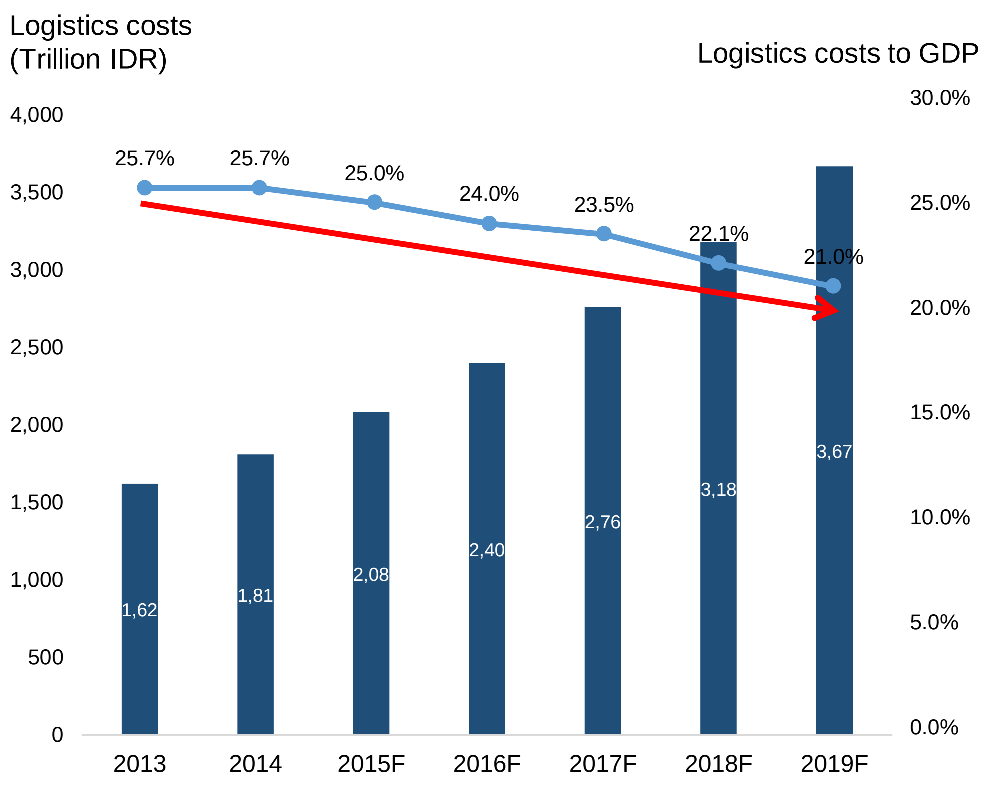


Pros) By the rising middle classes in Indonesia and the increasing popularity of mobile devices, Indonesia is the fastest growing and the largest market in ASEAN.

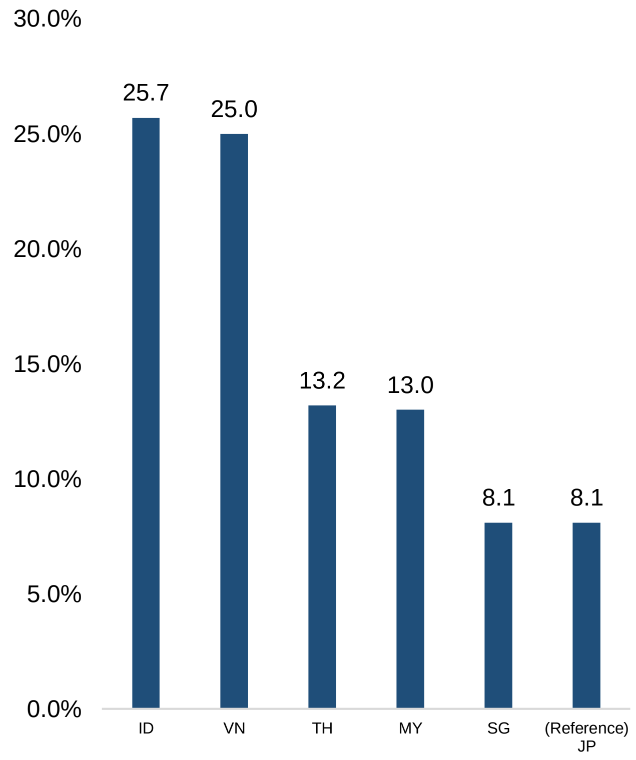
Country	2015 EC Market Size (USD million)	CAGR 2011-2015	CAGR 2016-2020
Indonesia	1,682	44.4%	37.0%
Thailand	1,441	21.7%	12.0%
Singapore	980	12.4%	10.0%
Vietnam	698	44.0%	22.7%
Malaysia	519	15.9%	10.7%
Philippines	354	14.4%	6.7%
China	293,045	65.4%	11.7%
Japan	69,074	13.5%	9.9%

Cons) The Cost of Logistics Remains High

Logistics Cost per GDP, Indonesia (Indonesia, 2013-19F)



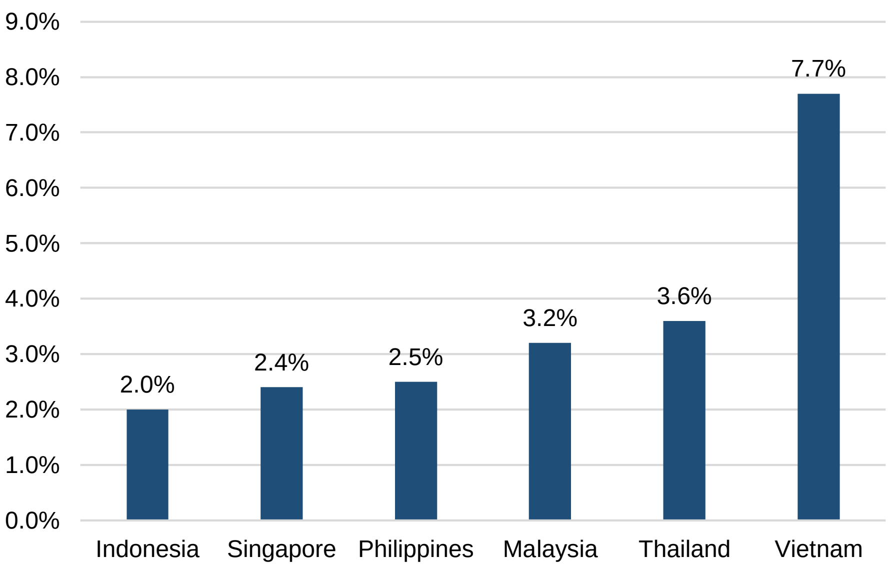
Logistics Costs (ASEAN, 2014)



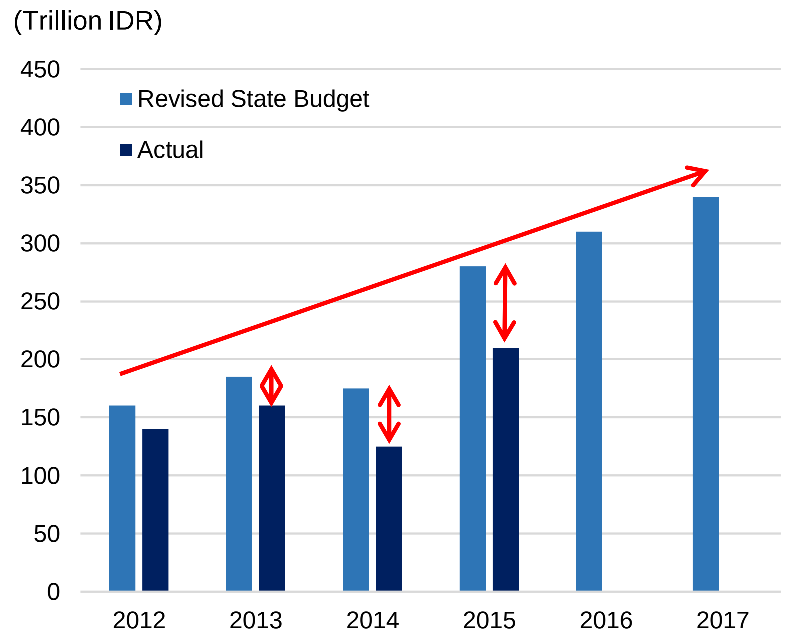
Cons)
Require to bridge a gap between Indonesia’s infrastructure budget and actual

- Indonesia’s infrastructure spending to GDP ratio is one of the lowest among other ASEAN countries
- The new government show its commitment to increase its budget for infrastructure. The planned government infrastructure spend increase by 9% in the 2016 budget on the precious year’s planned spend. However, there has been a huge gap between the revised state budget and the actual over the past four years.

Share of Infrastructure Spending to GDP, ASEAN (2014)



Government Spending on Infrastructure (2012-17)



Cons) Indonesia ranks 63rd in LPI /2016

Need to improve in each logistics indicator

Logistics Performance Indicators: LPI Results (2016)

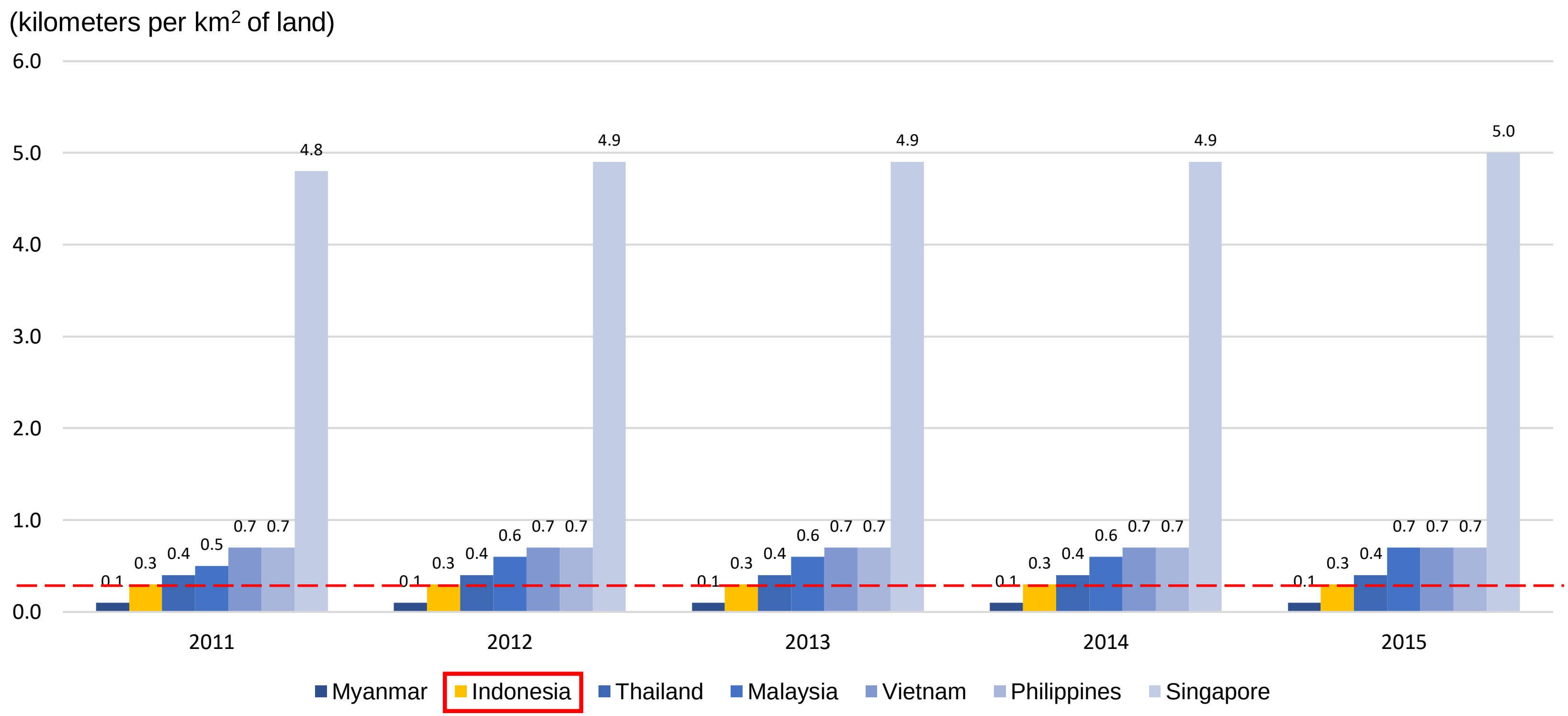
Country	LPI Rank	LPI Score	Customs Rank	Infrastructure Rank	International Shipments Rank	Logistics Quality and Competence Rank	Tracking and Tracing Rank	Timeliness Rank
Germany	1	4.23	2	1	8	1	3	2
Luxembourg	2	4.22	9	4	1	10	6	1
Sweden	3	4.20	8	3	4	2	1	3
Netherlands	4	4.19	3	2	66	3	6	5
Singapore	5	4.14	1	6	5	5	10	6
Belgium	6	4.11	13	14	3	6	4	4
Austria	7	4.10	15	12	9	4	2	7
UK	8	4.07	5	5	11	7	7	8
Hon Kong	9	4.07	7	10	2	11	14	9
US	10	3.99	16	8	19	8	5	11
Switzerland	11	3.99	10	7	14	14	12	14
Japan	12	3.97	11	11	13	12	13	15
Australia	19	3.79	22	18	21	17	19	21
China	27	3.66	31	23	12	27	28	31
Malaysia	32	3.43	40	33	32	35	36	47
India	35	3.42	38	36	39	32	33	42
Thailand	45	3.26	46	46	38	49	50	52
Indonesia	63	2.98	69	73	71	55	51	62
Vietnam	64	2.98	64	70	50	62	75	56
Bunei	70	2.87	57	66	62	93	68	84
Philippines	71	2.86	78	82	60	77	73	70
Cambodia	73	2.80	77	99	52	89	81	73
Myanmar	113	2.46	96	105	144	119	94	112
Lao PDR	152	2.07	155	155	148	144	156	133

The international LPI analyzes countries in six components :
- The efficiency of customs and border clearance (“Customs”)
- The quality of trade and transport infrastructure (“Infrastructure”)
- The ease of arranging competitively priced shipments(“International shipments, Ease of arranging shipments”)
- The competence and quality of logistics services-trucking, forwarding, and customs brokerage(“Service quality, Quality of logistics services”)
- The ability to track and trace consignments(“Tracking and tracing”)
- The frequency with which shipments reach consignees within scheduled or expected delivery times(“Timeliness”)

(Reference)
Lack of Road Network Connectivity

- The result of poor connectivity in Indonesia causes a longer lead time and an insufficient supply chain.
- The density of road network <u>has been staying at around 0.3 kilometers per km^2 of land</u> over the past 5 years.

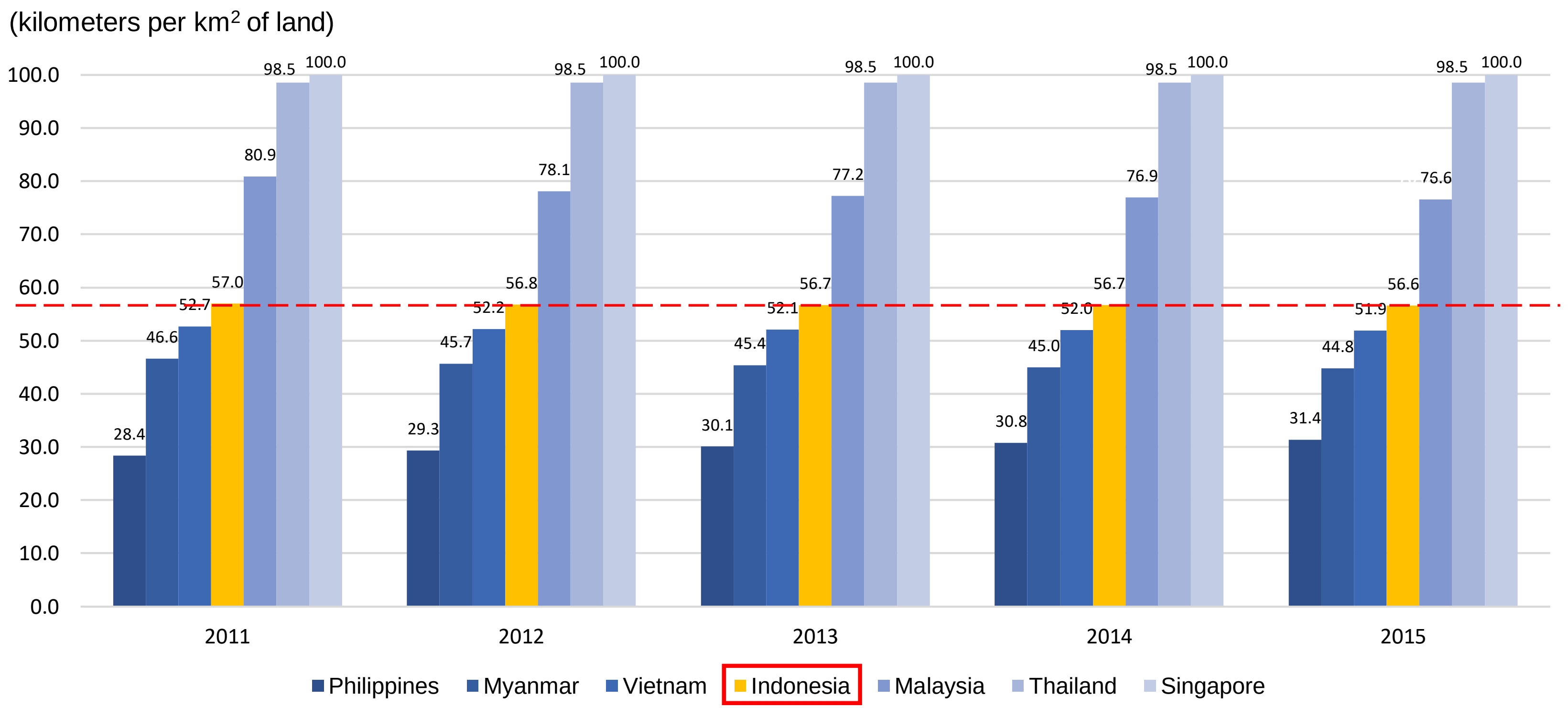
Density of Road Network (2011-2015)



(Reference)
Undeveloped Infrastructure (Unpaved Roads)

- The weak infrastructure and unpaved road will slow down the growth of logistics industry.
- The proportion of paved roads has been staying at around 57% of total road network in Indonesia over the past 5 years.

Proportion of Paved Roads (2011-2015)



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