

INDONESIA

**Ahmad Pathoni** reports from Jakarta on how the robust economic growth in Indonesia offers major opportunities for the country's coatings industry

# Indonesia's booming economy creates growth



Indonesia's paint and coatings sector is expected to continue to grow, driven by an expanding middle-class population, the fast-growing construction sector and ambitious government infrastructure projects, encompassing transport networks, energy and utilities.

The South East Asian country's paint and coatings market has grown to almost US\$2.5bn in sales revenue in the past year and sales are expected to expand at a fair rate of between 6-7% annually in the next five years, according to industry analysts Frost & Sullivan. Architectural, protective, wood and marine coatings constitute between 80% and 90% of the total market volume, with the architectural segment leading the share, it said.

These sales are consolidated as regards to market share, with the top four players – PT Propan Raya ICC, Avia Avian PT, Dutch multinational AkzoNobel and Japan-based Nippon Paint Co Ltd accounting for 75% of the total market, according to Frost & Sullivan. Other players, such as Japan's Kansai Paint Co Ltd, Norway-based paint producer Jotun and PT Asian Paints Indonesia, are also expanding their reach in Indonesia to take advantage of the growth potential.

## MAJOR URBAN CENTRES

The middle class has been growing faster in this archipelago of 264M people than other groups and there are now at least 52M economically-secure Indonesians, according to the World Bank. Indonesia is also home to the fastest-growing urban population, with the number of city-dwellers expanding at a rate of 4.4%/yr. Major urban centres are particularly important in terms of generating economic growth and, hence, paint and coatings sales – by 2025, Jakarta will be contributing nearly US\$700bn to Indonesia's gross domestic product, while Bandung and Surabaya (both also on Java)

could potentially emerge as megacities by 2030, Frost & Sullivan said. "With such a high population density in urban areas, Indonesia is rightly placing infrastructure and housing as the top priority in development plans, which bodes well for the growth of the paints and coatings industry," the report said.

Indeed, the bulk of Indonesia's paint and coatings demand is supplied by its strong manufacturing industry, which, analysts told APCJ, has been developing through an increasing adoption of interactive and robotics technology, a stronger emphasis on brand differentiation and creating environmentally-sustainable and family-friendly products.

With demand high and industry growing to meet it, Indonesia's paint and coatings exports have been falling – they were valued at US\$68.6M during 2019, down 5.13% yr-on-yr compared to 2018's US\$72.3M export revenue, said Kasan Muhri, the Head of Research and Development at Indonesia's Trade Ministry. Singapore and Vietnam are important buyers of Indonesian paint and coatings, accounting for 18% of sales combined. Imports reached US\$209M

in 2019, down 1% from 2018's US\$211M, he said.

At home, however, "The paint and coatings sector remains promising, with rising demand not only in the infrastructure sector but also in automotive and residential housing," said Taufiek Bawazier, Director for the downstream chemical industry and pharmacy at the Industry Ministry.

Indonesian producers are already capable of producing marine, protective and offshore coatings (MOPC), as well as decorative, automotive, industrial and wood finishings, noted Bawazier. Growth in the automotive, wood coating and decorative sectors is expected to reach 4.5% in coming years, driven by demand for cars, furniture and middle-class housing, Bawazier said.

Demand for MOPC is likely to be stagnant because of the global economic uncertainty and low commodity prices, said Muhammad Farid, a Director at Sigma Utama Paint, a manufacturer in Bogor, West Java.

The Indonesian industry's progress in making safer and more environmentally-friendly paints and coatings has included products that are not only low odour and low in volatile organic compounds (VOC) but also include health and wellness attributes, such as anti-viral, anti-stain and air-purifying elements. "The adoption of ecological and green paint is growing thanks to the ban on lead-based paint," Farid said.

But there is a trade-off with adopting green technology, said Pengundjungen Tarigan, Head of the Member Empowerment Committee, of the Indonesian Coatings Association (ASCOATINDO). "In Indonesia, the decorative segment has mostly adopted green technology," he told APCJ, "but not yet in the protective segment as green technology is not always corrosion-proof," he added.

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■ UP TO THE CHALLENGE

Farid, however, said growth was not even across the industry, saying he expected sales expansion in the decorative segment to be “lacklustre” this year, while protective coatings sales would do well. Indonesia’s GDP is projected to have grown 5.1% in 2019 and will reach 5.2% in 2020, according to the World Bank.

Drilling down further into market segments, Frost & Sullivan has noted that Indonesia-owned manufacturers have been expanding into flooring and adhesives, where competition with coatings majors is less intense. For example, Banten, Java-based PT Propan Raya provides waterproof flooring solutions and acrylic sealants, while Jawa Timur, East Java-based Avia Avian produces resins and polymers for adhesives, said the market researcher.

And overseas players are strengthening their positions. TOA Thailand Co Ltd opened a new facility in Tangerang, near Jakarta, last year (2019). Meanwhile, Asian Paints and AkzoNobel also opened new facilities and are expanding existing plants to meet increased demand, as did Indonesia’s Propan Raya.

Looking ahead, the government of President Joko ‘Jokowi’ Widodo, now in its second term, has reaffirmed its commitment to large infrastructure projects, with spending expected to reach a total of US\$455bn over the next five years. One such project, announced in December 2019, is the extension of Jakarta’s mass rapid transport (MRT) [mass rapid transit] network. All these projects will boost coatings sales.

That said, “while Jokowi’s announcement bodes well for continuing optimism, uncertainties abound due to bureaucratic delays and financial challenges, with previously planned projects progressing at a slow pace and some having even been scrapped,” Frost & Sullivan noted.

Farid, of Sigma Utama, said the government’s emphasis on using locally-produced products for infrastructure projects carried out by state-owned construction companies could help domestic players.

Moreover, as nearly 90% of the raw materials required for paint manufacturing in Indonesia are imported, the government has introduced an incentive, offering to pay (in effect waive) import duties for some imported materials, with a total budget for the scheme currently being Indonesian Rupiah IDR10bn (US\$733,000) starting last year (2019), Bawazier said.

So, there is much demand and government assistance for Indonesian paint

manufacturers to exploit: “The question is this: Are we up to the challenge?” said Farid. ■

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