






Indonesia Market Primer

2020



Toy Sector Overview

- Indonesia plays a significant role in the global supply chain for toys. Roughly half of the world's toy dolls are produced in Indonesia, and Indonesia is home to one of the largest toy factories in the world.
- There are over 300 toy companies operating in Indonesia —more than 180 local manufacturers, around 50 distributors, and over 100 importers. Toy products mainly produced in Indonesia include plastic toys, plush toys and dolls, and wooden toys.
- The export value of children's toys reached around USD 400 million in 2018, and is projected to reach USD 500 million by the end of 2020.
- The Indonesian government maintains an “open for business” ethos and has recently pushed for foreign investment in the toy sector to meet growing domestic demand. The government is supported in this by the local Indonesian Toy and Toy Entrepreneurs Associations.
- The government recognizes the toy industry's potential to boost the national economy, as well as the opportunity presented by the shifting of global supply chains related to the US-China trade war, and is aiming to capitalize on that and attract investment.
- While challenges related to import requirements and ownership arrangements often arise for foreign investors wishing to enter the Indonesian market, there are many opportunities to capitalize on the Indonesian toy industry's potential.



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Opportunities

Indonesia is well positioned to develop as a global toy production hub by **building on its sizable export market and capitalizing on a fast growing domestic market**. Several key factors provide opportunities for foreign investors to play key roles in realizing the potential of the Indonesian toy industry:

1) Fast Growing Domestic Market

- With almost five million babies born each year, nearly a quarter of Indonesians are children under 14 years of age, representing a large domestic demand for toys.
- In addition, Indonesia's middle class is growing rapidly (in main cities like Jakarta and in second-tier cities such as Surabaya), leading to increased private consumption and a higher demand for lifestyle consumer products including toys. The toy industry growth is also buoyed by the proliferation of online marketplaces.
- There is also increased awareness on the value of play for Indonesian children's education, creativity, bonding, and wellbeing.
- The Toy sector has contributed to Indonesia's trade surplus since 2015. Many companies in the toy industry have also started to use more local raw materials as it is relatively cheaper for toy companies to procure domestic-sourced production raw materials to export from. Combined with the additional cost incurred by procuring imported raw materials, this presents significant opportunities to source locally.

2) US-China Trade War - Manufacturing and Supply Chain Diversion

- The ongoing trade tension between the United States and China has created a significant opportunity for Indonesia's toy sector.
- As the United States pivots to non-Chinese suppliers to meet its domestic demand for toys, Indonesia is well-placed to capture this supply chain diversion. Indonesia's local toy manufacturers are experienced in working with multinational corporations and are potential sourcing partners.

Opportunities

3) Improvements to the Investment Environment

- The toy manufacturing sector is one of the industries into which up to 100 percent foreign investment is allowed. This means that foreign investors are not required to enter into joint-venture arrangements to operate in Indonesia, although they may choose to.
- To improve the country's investment climate, the Indonesian government is prioritizing to pass an "Omnibus" law which will cover issues ranging from taxation, labour, to permitting. If passed, the law would more efficiently resolve other conflicting regulations or implementing guidelines.
- The "Omnibus" law will relax foreign ownership rules, local content requirements, permits, and land procurement—all of which can be expected to create a more conducive business environment in the toy industry.
- In addition, the Investment Coordinating Board (BKPM) has taken an increasingly active approach to facilitating investment to Indonesia, having formed a dedicated task force that will guide investors as they enter the Indonesian market, including in debottlenecking licensing procedures and connecting investors with local suppliers.

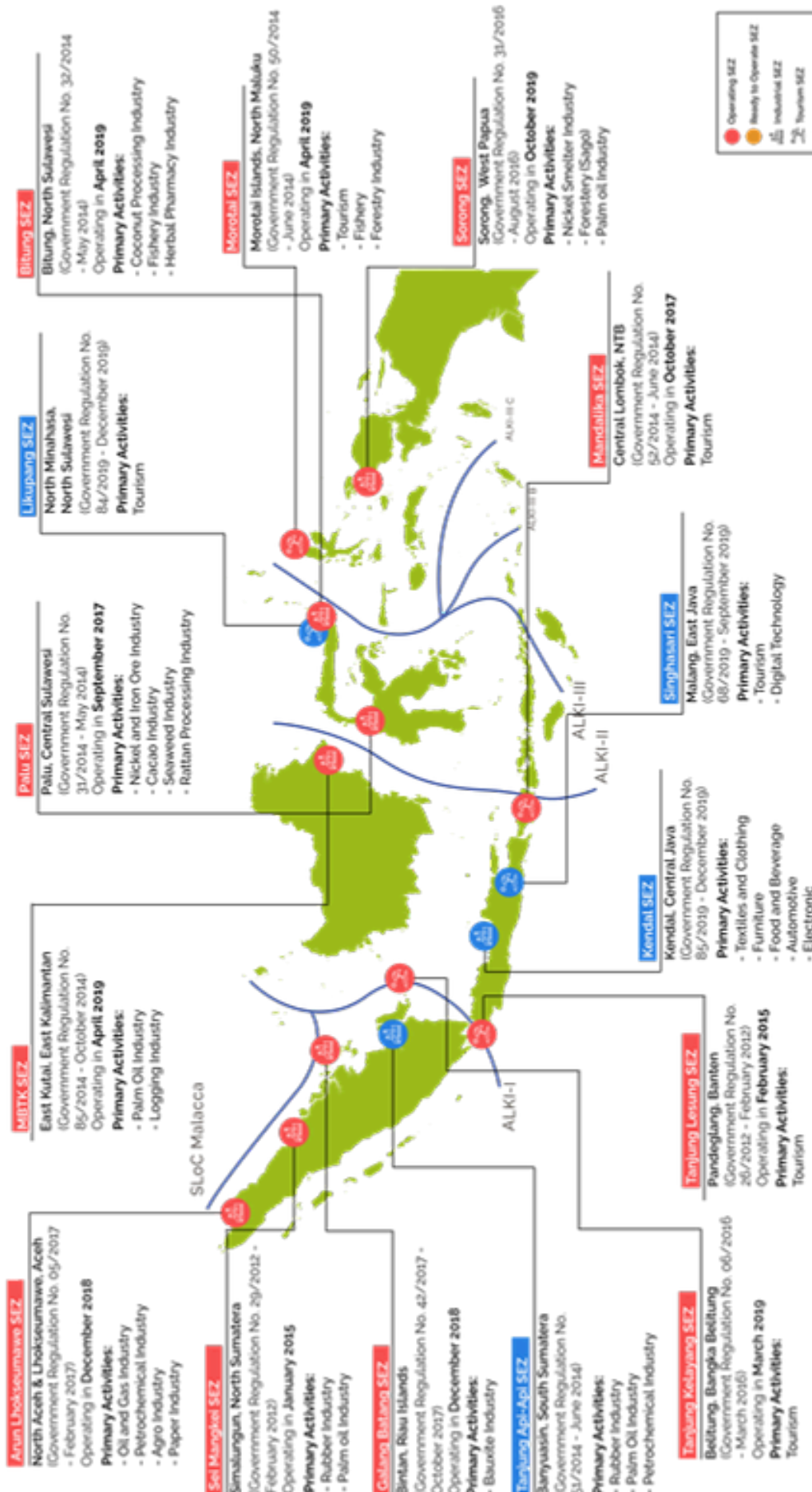
4) Special Economic Zones (SEZ)

- There are currently 11 SEZs in operation, with four new SEZs expected to become operational in 2020. Companies located within SEZs are granted easier rules for payments of export, import, luxury and value added tax. In addition, regulations on foreign workers are more relaxed compared to outside of the SEZs.
- Moving forward, the government is committed to expanding and simplifying the incentives it offers for investments in SEZs. President Joko Widodo has recently announced that the government will invest over USD 50 billion into SEZs in the next decade.



Opportunities

Mapping Indonesia's Special Economic Zones (SEZ)



Opportunities

5) Making Indonesia 4.0

- The Indonesia government is developing the Making Indonesia 4.0 Roadmap for manufacturing sectors, which seeks to boost industries' competitiveness by incorporating major innovations such as artificial intelligence, robotics and sensor technology into their manufacturing ecosystems.
- Both the Ministry of Industry and local toy manufacturers have expressed openness in receiving technical guidance and knowledge transfer from foreign manufacturers, particularly in implementing new technology and strengthening manufacturing processes amid the government's push for Industry 4.0. This presents collaboration and partnership opportunities in capacity building between foreign investors, local industry players, and the government.

Doing Business in and with Indonesia

1) The Indonesian Business Environment

Ease of Doing Business

- Indonesia has demonstrated continuous improvement on the World Bank's Ease of Doing Business (EOB) Index, rising from 128th out of 178 countries in 2008 to 73rd place in 2019.
- The Joko Widodo administration is committed to improving existing services and governance to facilitate the ease of doing business in Indonesia, including through streamlining bureaucracy and licensing procedures through the Online Single Submission (OSS) platform.
- Business reforms implemented include reducing the number of forms required to apply for a company registration certificate and trading license; introducing an electronic single billing system to speed up the import process; and lowering the rate for capital gains tax.

Key Risks

- There is a lack of capacity in the workforce, as many people leave vocational schools with poor skill sets and are unprepared for rapid technological change in manufacturing. As such, it is not uncommon for manufacturers to invest heavily in upskilling and training their workforce.
 - The government has acknowledged this gap, with President Joko Widodo prioritizing human resource development as one of the key agenda items in his final term.
 - The government has also created tax incentives for manufacturers who invest in upskilling Indonesia's human resources in recognition of this

Doing Business in and with Indonesia

1) The Indonesian Business Environment

Key Risks

- The Indonesian Labour Law can prove challenging for toy companies which may require a more flexible workforce to allow for peak and low manufacturing cycles.
 - However, the government has indicated its wish to create a more competitive labor market with the parliament set to deliberate reforms to the sector through the upcoming Omnibus Bill on Job Creation.
- Despite recent improvements, the regulatory framework is still challenging to navigate, with foreign businesses often uninformed in the policymaking process.
- The sanctity of contracts and legal protection that investors experience in more developed markets is not always similar as that in Indonesia. While the vast majority of businesses successfully navigate and thrive in this environment, it is not uncommon to hear challenges for investors, particularly in the energy sector.
 - Investors should be aware of these underlying challenges and ensure they undertake proper due diligence on any partners or suppliers. It is also important for companies to build robust relationships with key stakeholders and illustrate a positive impact.
- Intellectual property rights (IPR) infringement remains one of the main challenges faced by toy businesses in Indonesia. The government still lacks the capacity and resources to monitor and strictly enforce the laws on IPR protection.
 - In recognition of this, the government has shown more participation in regional and global discussions on IPR protection, as well as expressed interest in improving the capacity of front line customs officers.



Doing Business in and with Indonesia

2) The Policy and Regulatory Framework for the Toy Sector

The Indonesian National Standard (SNI)

- Indonesia, similar to most countries in the world, applies conformity assessment on toy products to ensure their safety.
- The Indonesian National Standard (Standar Nasional Indonesia - SNI) is the national standard regulation formulated by the National Standardization Agency of Indonesia. All toy products distributed in Indonesia must be tested following the SNI parameters to get SNI certificate from a certification body (LSPPro).
- In the short term, the procedures of obtaining SNI certificate has presented numerous challenges to the domestic and international toy industry, and has significantly raised costs.
- That said, the toy industry has adapted, and the SNI has continued to face improvements. Recently the SNI was revised to put Indonesia more closely in line with international standards.
- In November 2018, the Indonesian government relaxed SNI regulations to address the different practices and testing requirements between imported and domestically produced toys.
- Importers can choose to apply Scheme 1 or Scheme 5. Scheme 1 is often preferred by companies testing the market, as it is easier for small quantity imports and those having a low number of stock keeping units (SKUs). Scheme 5 is a new conformity assessment process to demonstrate compliance with the safety requirements which allows for a four-year certification based on factory of origin audits.
- The government's guidelines on Scheme 5 procedures are still being amended and yet to be finalized. As such, the importer can still opt for using Scheme 5 process using the internal policy of the LSPPro it appointed.
- ATPA is working with the government on this and the guidelines are expected to be published in 2020.
- Given the process, it is critical for the importer to identify the right LSPPro partner

Scheme 1

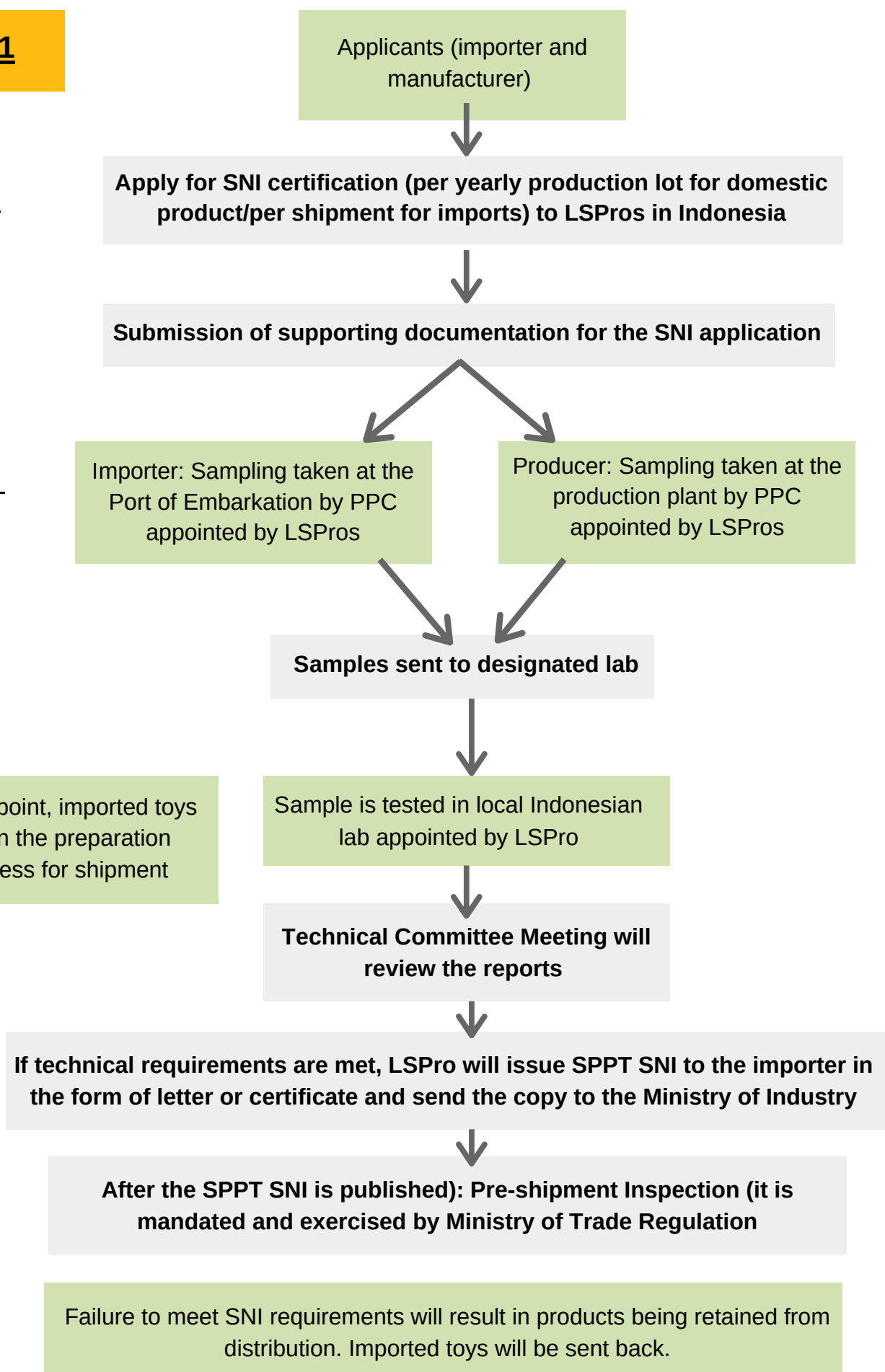
Application Stage:
1 Working Day

Sampling Selection
2 -3 Working Days

Sampling Delivery
1 - 2 Working Days

Sampling Testing
7 Working Days

**Result Review &
Certification**
1 - 2 Working Days



*Timeline provided is an approximation and differs depending on LsPro

Scheme 5

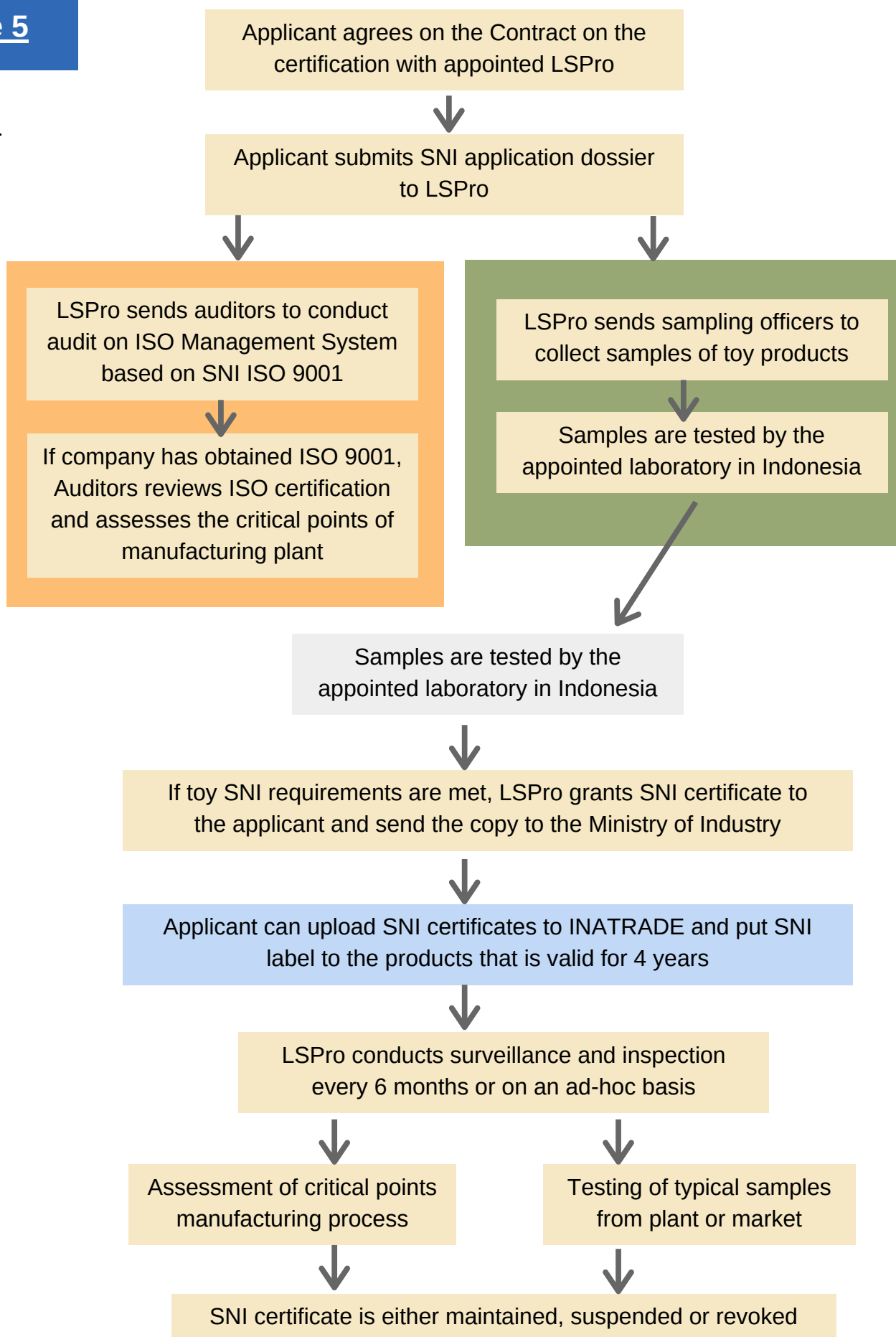
Application Stage:
3 Working Days

Sampling & Audit:
20 Working Days

Sample Delivery:
3 - 5 Working Days

Sample Testing:
7 Working Days

**Result Review &
Certification:**
7 - 8 Working Days



*Timeline provided is an approximation and differs depending on LsPro

Doing Business in and with Indonesia

2) The Policy and Regulatory Framework for the Toy Sector

Importing/Exporting

- Indonesia has ratified the ASEAN Free Trade Agreement (FTA) with other ASEAN countries—where it enjoys a zero percent tariff for toy product export and import activities, including for toy finished products. The special tariff preference is available when the exporter/importer provides a statement that the goods are made in and sent to one of ASEAN members.
- Indonesia has also entered into an FTA with Hong Kong, which covers toy products, and is expected to sign the Regional Comprehensive Economic Partnership (RCEP). The RCEP will also entail FTAs with Australia, China, New Zealand, Japan, and South Korea, although it remains to be seen whether toy products will be included.
- Given that Indonesia has yet to enter into any mutual recognition agreement (MRA) on toy quality standards with any country, all toys distributed in Indonesia including the imported products must go through another conformity assessment process to meet SNI standards.
 - On the other hand, toy exporters will need to conduct conformity assessment procedures following the product standards of the targeted market.
- All import and export processes are administered through INATRADE—the Ministry of Trade's electronic import-export platform—which the industry must use to upload all required dossiers. The platform is connected to the Indonesian National Single Window system, where Customs official monitor export-import activities.
- Toy importers will need to upload their SNI certificates to the INATRADE before their goods can enter the Indonesian territory.
- Importers are required to send a team of surveyors consisting of Ministry of Trade officials to check the goods at the port of embarkation before shipping them to Indonesia. Importers also need to send LSPro auditors to conduct the conformity assessment procedures for SNI certification process. Such process incurs varying costs, depending on the LSPro chosen by each industry player.

Recommendations

For a foreign company looking to invest in Indonesia's toy sector, it is recommended to:

- Seek detailed advice on business procedures, monitor regulatory developments, and review regulations particularly concerning importing.
- Connect with a regional association with presence in the country to help navigate the Indonesian political and business climates.
- Conduct extensive due diligence on potential local partners, suppliers and distributors.
- Map and understand key stakeholders in the Indonesian toy industry, both at central and local- government levels.
- Connect and build relationships with the domestic toy industry through local associations, and find collaboration opportunities when applicable.
- Understand your key government counterparts to pinpoint opportunities, incentives and other avenues of assistance.

Domestic Toy Industry

Industry Associations

- The Indonesian Toy Traders and Manufacturers Association (Asosiasi Pengusaha Mainan Indonesia – APMI)
- The Indonesia Toy Association (Asosiasi Mainan Indonesia – AMI)
- The Association of Toy Importers and Distributors Indonesia (Asosiasi Importir & Distributor Mainan Indonesia – AIMI)
- The Indonesian Educative and Traditional Toy Association (Asosiasi Penggiat Mainan Anak Edukatif dan Tradisional Indonesia – APMETI)
- The Indonesian Bicycles and Toys Association (Asosiasi Pengusaha Sepeda dan Mainan – APSMI)
- Indonesian Consortium for Toys (Konsorsium Mainan Anak Indonesia – KMAI)
- Indonesian Retailers Association (Asosiasi Pengusaha Ritel Indonesia – APRINDO)



Key Regulators



Ministry of Industry (Kementerian Perindustrian)

The main regulator for the toy industry, it creates policies to support the toy industry's growth, including handling the execution of technical guidance and supervision of policy implementation.

Coordinating Ministry for Maritime Affairs and Investment (Kementerian Koordinator Bidang Kemaritiman dan Investasi RI)

The Ministry is in charge of planning, coordinating and synchronizing policies in maritime affairs and investment. All matters in relation to investment for all sectors are under the Minister's purview.



Coordinating Ministry for Economic Affairs (Kementerian Koordinator Bidang Perekonomian)

Coordinates and synchronize ministries and policies across line ministries involved in economic affairs, including the Ministries of Industry and Trade.

Ministry of Trade (Kementerian Perdagangan)

Responsible for trade policies in all sectors, including import and export requirements. It also ensures Indonesia's participation at the World Trade Organization (WTO) and compliance with international trade standards.



Ministry of Finance (Kementerian Keuangan)

The Ministry is responsible for Indonesia's fiscal policy and operations related to taxation, excise and customs.

Investment Coordinating Board (BKPM)

Potential and current foreign investors can seek advice from BKPM on operational matters, such as licensing and partnership arrangements.



**National Standardization Body (Badan Standardisasi Nasional)**

The body facilitates various stakeholders—including representatives from the relevant ministries, producers, consumers and experts—in developing and implementing the Indonesia National Standard (SNI).

LSPro Association (Asosiasi Lembaga Sertifikasi Indonesia - ALSI)

ALSI hosts the majority of certification bodies and testing agencies (“LSPros”) operating in Indonesia. Some of ALSI’s members are the LSPro partners of major toy producers in Indonesia, conducting testing for SNI compliance.

