

Indonesian nationalism takes a bite out of Apple

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Apple is battling to gain a foothold in Indonesia after nationalistic regulations hit the US tech giant's efforts to compete in the booming emerging market against Samsung and other rivals.

The iPhone 6S and 7 are yet to be released in Southeast Asia's top economy as Apple struggles to fulfil requirements that phone makers must have 20 percent "local content" for 4G handsets sold in the country.

South Korea's Samsung has been able to meet the demands and gain a share of the market in Indonesia—a country of 255 million people, with an army of young consumers—more than 25 times bigger than Apple.

Officials say the regulations that came into force this year are aimed at supporting the growth of the local manufacturing industry, which lags behind its Asian peers, and plan to raise the local content requirement to 30 percent at the start of next year.

But to critics, it is just the latest example of misguided nationalistic rules that hamper rather than help business in Indonesia, which is ranked 109th on the World Bank's ease of doing business index.

The new rules "force companies to rethink the entire supply chain and that is expensive for them to do," Sudev Bangah of International Data Corporation (IDC), a consumer technology market research firm, told AFP.

Apple has encountered problems in other emerging markets, notably India where the Silicon Valley giant is facing roadblocks in its quest to open stores instead of selling products through third-party retailers.

The Indian government reportedly refused in May to exempt Apple from rules stating foreign single-brand retailers must buy at least 30 percent of their parts locally to open their own outlets.

Local content rules

In Indonesia meeting the local content rules has been easier for Samsung, as it already had factories in the country, and has added assembly lines to the plants to carry out the final stages of production.

Other competitors, including Asus, Lenovo, Oppo and Blackberry—which used to dominate in Indonesia but has seen its market share obliterated—have also taken steps to fulfil the government's demands.

However officials admit that so far the rules are not boosting Indonesia's phone manufacturing industry as they had hoped. Firms have met the demands by getting local vendors to supply simple parts, such as boxes, manuals and chargers, and hi-tech components are still being imported.

But Apple, which makes most of its handsets in China, has not yet met the requirements. Its iPhone 6S was never released in Indonesia while the 7, currently being rolled out globally, seems unlikely to hit the country's shops any time soon.

Even before the new rules came into effect, things were not easy for Apple in Indonesia.

The iPhone 6 made it into the local market in early 2015, but it was the

last country in the world where the model was released as the firm had a tough time getting import licences, according to a source close to the matter.

An Apple spokeswoman refused to comment when contacted by AFP.

Still, government officials pushing the new scheme appear unfazed.

"With the local content requirement, we hope the component industry can grow," Dini Hanggandari, an official overseeing communications technology at the industry ministry, told AFP, adding that smartphone imports had in recent years contributed to Indonesia's negative trade balance.

Throwing up barriers

Indonesia is attractive for phone makers and more than 30 million handsets are expected to be shipped to the country this year, according to IDC, but Apple's share of the smartphone market has been languishing at under one percent.

Nevertheless the tech giant is not ready to give up, recently pledging an investment of \$45 million to open app development centres in several Indonesian cities in a bid to meet the requirements, according to a proposal submitted to the government by Apple and seen by AFP.

In July the industry ministry relaxed the rules to allow software, such as apps, to be classified as "[local content](#)", senior official I Gusti Putu Suryawirawan said.

But the plan has met resistance, highlighting divisions within the government over how to deal with foreign investment.

The barriers being thrown up to smartphone makers fly in the face of President Joko Widodo's own avowed aim to transform Indonesia into Southeast Asia's biggest "digital economy" by 2020, by attracting foreign investment in the tech sector and boosting e-commerce.

"On the one hand you talk about the digital economy, on the other hand, all the regulations cancel out those intentions," John Riady of major conglomerate Lippo Group said at a recent forum in Jakarta.

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