



商業信託
Commercial Trust



Country Profile: Indonesia

The Facts

Location	Southeastern Asia, archipelago between the Indian Ocean and the Pacific Ocean
Languages	Official – Bahasa Indonesia Spoken – English, Dutch, Javanese
Nationality	Indonesian
Religions	Muslim – 86.1% Protestant – 5.7% Roman Catholic – 3% Others – 5.2%
Government	Republic
Head of Government	President
Legislature	People's Consultative Assembly
Constitutional Document	Constitution of Indonesia
Economy	Indonesia is one of the fastest growing G20 economy, with high and stable real GDP growth in recent years. It is also the largest economy in Southeast Asia. Indonesia's main industries include petroleum and natural gas, mining, cement, chemical fertilizers, plywood, rubber, textiles and tourism etc. The government has made significant effort to support the financial sector by tax and customs reforms, the use of Treasury bills, and capital market development and supervision.
Currency	Indonesian Rupiah (IDR)
GDP (2011)	Total – IDR 7,427,086.08 billion Per capita – IDR 30,813,907 Real GDP growth – +6.5%
Population	248,645,000 (approx.)
Percentage of population	Javanese – 40.6% Sundanese – 15% Others – 44.4%
Area	1,904,569 km ²
Time zone	CIT (UCT +8)
Public Holidays	National holidays – 13
Climate	Tropical



Sources: Indonesia Investment Coordinating Board, Index Mundi, Central Intelligence Agency, International Monetary Fund

Indonesia

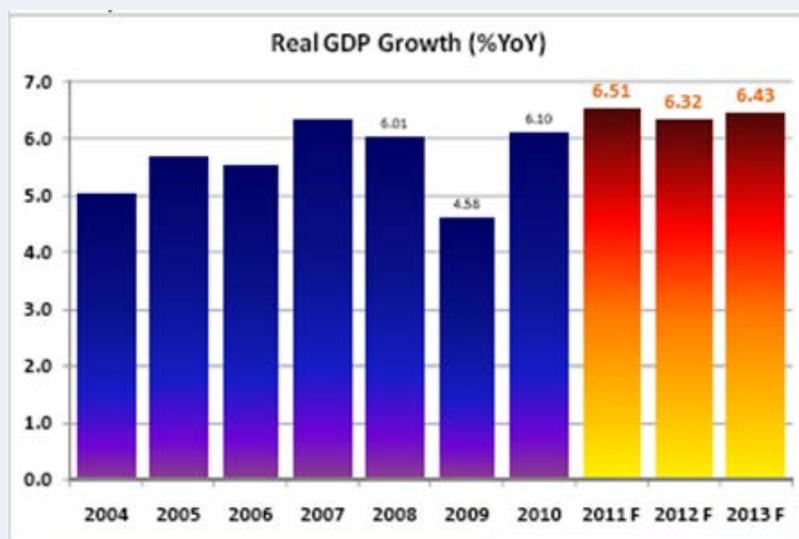
A published on April 17, 2012 in the Jakarta Globe, a popular daily newspaper of Indonesia, referred to a recent survey conducted by the ASEAN Business Advisory Council to find out “the top investment destination in the 10-member Association of Southeast Asian Nations.” According to the survey, around 50 percent of the respondents selected Indonesia as the most preferred investment destination among the 10 ASEAN members.

Another report published in the Jakarta Post on 05 March 2012, revealed that foreign direct investment (FDI) in Indonesia increased by 20 percent to US\$20 billion in 2011. Although Indonesia was one of the worst affected countries by the Asian financial crisis of 1997-98, it has recovered dramatically over the last two decades. It is one of the few Asian countries to have seen steady growth in GDP, even during the recent global economic downturn of 2008-09. Here are some major reasons why Indonesia is now being considered as one of the best places to start a business in.

The Indonesia Business Climate

There are several reasons to invest in Indonesia:

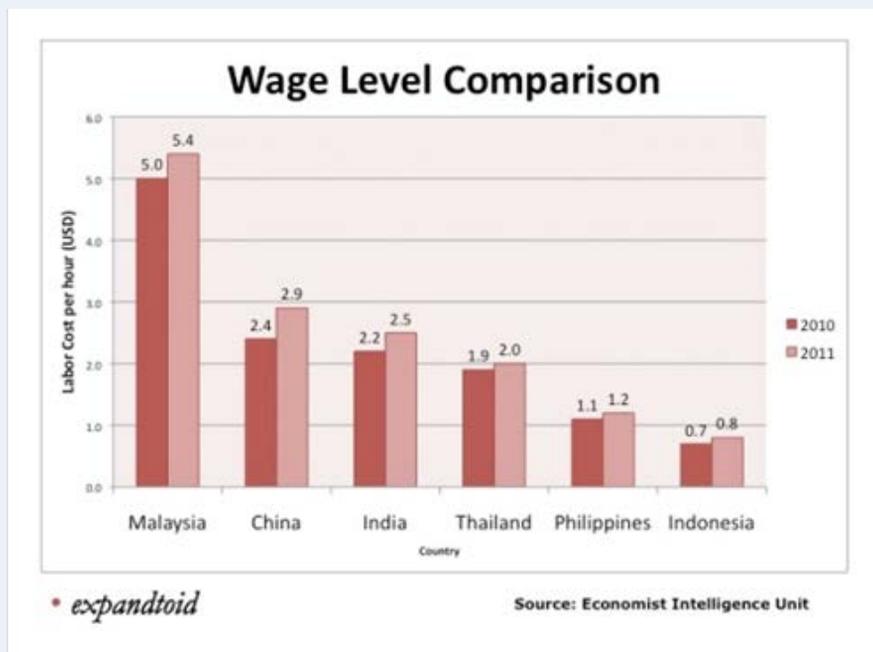
- **Promising Economy:** According to the report, Indonesia Surprises with Surge in Economy, published on August 6, 2012, in the New York Times, “Indonesian economy is growing faster than other major emerging- market economies except for China’s.” Some leading economic analysts, as mentioned in the report, believe that Indonesia is a strong contender to join the BRICS Group, an association of leading emerging economies of the world.



Source: CEIC, Danamon Estimates

The country had around 4.6 percent, 6.2 percent, and 6.5 percent GDP growth, respectively, in 2009, 2010 and 2011. Moreover, according to projections made by Standard Chartered Bank in 2011, the country's economy is expected to grow from \$708 billion in 2011 to \$9 trillion by 2030. This may make Indonesia the sixth largest economy in the world by 2030, after China, America, India, Brazil and Japan. With huge economic growth prospects, this is perhaps the perfect time to invest in Indonesia.

- **Low Cost of Workforce:** When compared with India, China and other South East Asian nations, Indonesia offers very competitive labor costs. Moreover, a majority of the country's workforce is well educated and skilled. The country uses around 16 percent of the government expenditure on education. Around 28 percent of the graduates in Indonesia specialize in economics, while another 27.5 percent specialize in science and engineering. Simply put, Indonesia is home to a low cost yet skilled workforce.
- **Strategic Location:** Indonesia is close to several highly prosperous countries, such as Singapore, the Philippines, Australia and Malaysia. This makes it easy to start and operate a business in the nation. Moreover, the country is surrounded by the Pacific Ocean on the east and the Indian Ocean on the West. With a majority of international shipping going through Indonesia, the region is well connected with the world via waterways. Quite obviously, location advantage is one of the reasons why Indonesia is one of the most preferred investment destinations in the world.



Source: Economic Intelligence Unit

- **Abundance of Natural Resources:** Indonesia is home to an assortment of natural resources, such as petroleum, gas, timber, bauxite, tin, silver, copper, fertile soils, coal, nickel and gold. According to statistics released by the Indonesia Investment Coordinating Board, some important facts about the country's natural resources are as follows:
 1. Indonesia is the world's largest producer of rubber, and the second largest exporter of thermal coal.
 2. Indonesia's total proven crude oil reserves are more than 3.5 billion barrels
 3. Indonesia produces around 19 million tons of palm oil per year. The country is the world's largest exporter of palm oil.
 4. Indonesia is second largest producer of tin, with a production of 770 thousand tons per year.
 5. The country has around 112 ton cubic feet of natural gas reserves

With an abundance of natural resources, it is quite easy to operate a business in Indonesia.



Setting up a Business in Indonesia

Foreigners can do business in Indonesia in two ways. They can either establish a foreign company (PMA Company) with 100 percent ownership, or go for a joint venture with a domestic shareholder. In May 1994, the government of Indonesia revised its regulations for PMA companies. This was a major step towards attracting more foreign investment into the country. Here's a look at some significant features of this regulation:

- 100 percent of all foreign direct investment is allowed in some selected business areas
- A joint venture PMA company should allow a minimum of five percent ownership to a domestic investor.
- Allowing FDI is subject to certain conditions
- Certain sectors where FDI is restricted have been specified

How to Form a New Foreign Direct Investment Company in Indonesia

Foreign investors who want to set up a company in Indonesia should complete the following procedure:

- **Step 1:** Foreign investor should first send an application to the Indonesian authority that they want to establish a company in Indonesia. Depending upon investment plan, they should attach all required documents with the application. When applying for setting up a joint venture, they should also attach the joint venture agreement with Indonesian investors.
- **Step 2:** The next step is to obtain the Initial License (SPPP BKPM) from the Indonesian authority. This initial license comes with a validity of three years.
- **Step 3:** Several major tasks need to be completed in this step. Some of the major tasks include establishing Articles of Association with a Public Notary and getting it approved from the Ministry of Justice, registering IRD, registering address of the proposed company with local authority, and registering with the Department of Industry and Trade.
- **Step 4:** The next step is to obtain work permit and Fixed Operating License
- **Step 5:** Then the investor should submit the 6-month report (LKPM) to the provincial BKPM office. It is also important to obtain a nuisance act permit from the regional office of BKPM.
- **Step 6:** In the next step, the investor should obtain BAP or Fixed Licenses from the provincial authority.
- **Step 7:** The next step is to obtain Fixed License (IUT). Any limited liability company, whether fully controlled by foreign shareholders, a joint venture, can obtain this license, which is valid for 30 years. Obtaining this license is subject to approved by the Ministry of Justice.

How to Establish a Representative Office

If the proposed business doesn't initially require establishing a local legal entity, the foreign investor can either choose to establish a representative office, or operate through a local agent. In any case, they can apply for the status of Foreign Direct Investment Company later when the business grows.

A representative office is not allowed to do direct sales in Indonesia. In most cases, the purpose of setting up a representative office is market research. Formation of a representative office is subject to approval of the Ministry of Industry and Trade, Indonesia. Nature of the proposed business is one of the major parameters judged for approval.

Those who want to form a representative office in Indonesia require issuing the following three letters to the related Indonesian authority.

- **Letter of Intent:** This should clearly mention the purpose of establishing a representative office
- **Letter of Appointment:** This letter should mention that the foreign company has appointed a chief representative.
- **Letter of Statement:** This should state that all Indonesian regulations will be followed by the chief representative.

Business Etiquette

When it comes to starting a new business in Indonesia, it is very important to know how to practice major business etiquettes in the country. Here's a look at some major business etiquettes followed in Indonesia.

The attire for business meetings should be formal. Men should wear jacket and tie. On the other hand, women are expected to wear formal business suites. However, depending upon dress code of the industry, men and women can wear more casual outfits later when they get acquainted with the business circle.

Presenting a business card to each associates of a business meeting is also one of the major business etiquettes in Indonesia. More importantly, the card should be given with both hands in order to show respect to the recipient. It is also important to attend any business meeting in time.

Taxation

Foreign companies doing business in Indonesia may require paying different types of taxes, such as corporate income tax, withholding tax, branch profit tax, value added tax (VAT), resource loyalty tax, and several other indirect taxes. However, they don't need to pay any additional tax on excess profit.

Depending upon the nature and potential of a proposed business, a foreign company can gain several tax benefits when doing business in Indonesia. If it is a limited liability company, it may enjoy tax incentives for doing business in one of high priority economic zones specified by the Indonesian government. Based on certain criteria, a foreign investor doing business in Indonesia may qualify for the following tax benefits:

- Up to 30 percent of the total investment amount can get a special tax reduction
- Tax loss can be carried forward for up to ten years
- Withholding tax on dividends paid to non-residents can be reduced for up to 10 percent.



Immigration and Visa Requirements

Foreigners who want to visit Indonesia for business purpose should obtain business visa from the Indonesian authority. Applying for an Indonesia business visa requires submitting the following documents:

- **A letter of intent from sponsor:** The applicant should get a letter of intent from the foreign company. The letter should clearly state the purpose of the visit and the duration of the stay. It is also important to mention in the letter that the foreign company will sponsor traveling and living expense of the applicant during his/her stay in Indonesia.
- **Letter of invitation:** Those applying for multiple entries should get a letter of invitation from a business partner in Indonesia. This letter should also clearly state the applicant's purpose of visit.
- **Authorization letter:** If the applicant requires entering into restricted regions (such as, Maluku, Aceh) during his/her stay in Indonesia, he/she should get a special authorization from the relevant authority in Indonesia. Even Freeport employees and/or those who previously worked in those restricted regions should also obtain an authorization from proper Indonesian authority.

An Indonesian visa or passport remains valid for a minimum of six months and is required for all foreign nationals who want to visit Indonesia for more than at least six months. In some cases, the Indonesian authority may approve Visa-on-Arrival from certain airports and seaports. A Visa-on-Arrival (VOA) can be obtained upon arrival in the country. The purpose can be anything like short business tour or pleasure trip.

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