

# Why Indonesia?

## Summary

**Area:** 1,904,569 km<sup>2</sup> (735,358 mi<sup>2</sup>)

**Population:** 261.1 million [*Source: World Bank, 2016*]

**Urban population:** 54.5%

**Population density (people per km<sup>2</sup>):** 144.1

**Population growth rate (change):** 1.3%

**Capital city:** Jakarta

**Official language:** Indonesian

**Currency:** Indonesia Rupiah or IDR (symbol Rp)

**Nominal GDP:** \$932.4 billion

**Real annual GDP growth:** 5.0%

**GDP per capita:** \$3,604.3

**Annual inflation rate:** 3.5%

**Unemployment rate:** 5.6%

**General government gross debt:** 27.9% of GDP

**Fiscal balance:** -2.5% of GDP

**Current account balance:** -1.8% of GDP / \$-16.8 billion

**Exports of goods to UK:** £1,283 million

**Imports of goods from UK:** £559 million

[*Source: mostly FCO Economics Unit, Dec 2017*]

## Geography

Situated in Southeast Asia and Oceania, between the Indian and Pacific Oceans and latitudes 11°S and 6°N, and longitudes 95°E and 141°E. Indonesia is the largest island

and archipelago country in the world, with more than 18,000 islands, about 6,000 of which are inhabited.

The country extends 5,120 km (3,181 mi) from east to west and 1,760 km (1,094 mi) from north to south, and straddles the equator. It shares a land border with Malaysia (on the island of Borneo), Papua New Guinea (on the island of New Guinea) and East Timor (on the island of Timor), plus maritime borders with Singapore, Malaysia, Vietnam, Palau and the Philippines to the north, and Australia to the south.

Java is the most densely-populated island, with a population density of 940 per km<sup>2</sup>, nearly three times the world average. The country's four largest cities are all situated on Java, including the capital, Jakarta, with a population of 10 million.

Indonesia is prone to frequent earthquakes and has over 150 active volcanoes, including Krakatoa and Tambora. However, volcanic ash combined with the tropical climate provides fertile soil, and vast areas of tropical rainforest cover 60% of the islands, supporting the world's third-highest level of biodiversity after Brazil and Colombia.



## General overview

With 260 million inhabitants, Indonesia is the world's fourth most populous country and the largest in Southeast Asia. Indonesia has 18,307 islands, over 742 different languages and a middle class larger than the population of Malaysia or Australia.

Currently the 16th largest economy in the world, it is projected to be the seventh largest economy in the world by 2030.

Doing business in Indonesia takes patience and perseverance. Companies should be prepared to invest time and resources in regular visits over a period of months, sometimes years, before seeing returns.

Contact a Department for International Trade (DIT) export adviser at: <https://www.contactus.trade.gov.uk/enquiry/topic> for a free consultation if you are interested in exporting to Indonesia.

Contact UK Export Finance (UKEF) about trade finance and insurance cover for UK companies, see: <https://www.gov.uk/government/organisations/uk-export-finance>. You can also check the current UKEF cover position for Indonesia at: <https://www.gov.uk/guidance/country-cover-policy-and-indicators#indonesia>.

*[Source: DIT/ UKEF/gov.uk]*

Government overview

### **Political situation**

Indonesia is the world's third largest democracy, the largest economy in Southeast Asia, and a member of the G20. It is a role model for a successful political transition. Indonesia is stable politically and has a Presidential system of democracy. A comprehensive push for decentralisation has seen much power transferred to the regions.

President Joko Widodo took up office on 20th October 2014. He is the first leader of Indonesia to come from outside the political and military elite. The next Presidential election is due in 2019.

Parliament is constituted by the House of Representatives and the Regional Representational Council. The House of Representatives contains members from ten different political groupings. The Regional Representational Council includes representatives from each of Indonesia's 34 provinces.

Laws are passed by Parliament or by Presidential decree. A Presidential decree must be confirmed by Parliament for it to take effect.

*[Source: FCO Overseas Business Risk/gov.uk]*

## Human rights and business

Indonesia was the first Asian country and the fifth country in the world to ratify all core International Labour Organisation (ILO) Conventions. Since becoming a member in 1950, Indonesia has ratified a total of 18 ILO conventions. Domestically, laws have been passed which have specific provisions referring to human rights and business including the 2007 Corporate Law which imposes mandatory duties on every limited liability corporation working directly or indirectly with natural resources to limit the environment and social impact of its activities.

There are a number of institutions responsible for human rights issues related to business. These include, but are not limited to, the National Human Rights Commission (KOMNAS HAM); Ombudsman and the Corruption Eradication Commission (KPK). KOMNAS HAM has stated that the main human right issues related to business are ownership of property and land, indigenous people's rights, environment, health, water and labour rights. In 2016 KOMNAS HAM received 1009 complaints involving corporations, a slight increase from previous years.

Trade unions are legal and active in Indonesia, but only represent a small proportion of the total workforce. Strikes and demonstrations do occur, for example on Labour Day and often over pay and working conditions. There is a statutory minimum wage but there are issues with compliance and enforcement of this.

Child rights are protected according to the constitution and several national laws. For example, the Manpower Act sets the minimum age for work at 15 and the minimum age for hazardous work at 18. The Act also permits light work for children between ages 13 and 15, as long the work does not disrupt their physical, mental and social development.

The Indonesian Government has also stated that ratification of the Optional Protocol to the Convention on the Rights of the Child is a priority. However, child labour is prevalent in Indonesia, particularly in informal employment and in the agricultural and domestic service sectors. Girls under 15 are often employed as domestic workers, sometimes with long hours and no holiday.

Women make up approximately 40% of the employed population in Indonesia; however, they are disproportionately represented in certain occupations, for example in the informal economy, and as unpaid family workers. Women are significantly under-represented in senior professional positions but there has been some recent progress demonstrated by an increase in women's participation in politics and management. This gap is largely because of cultural and social barriers, education attainment and lack of work experience. The National Commission on Violence against Women states that there are 389 local bylaws which intentionally or in practice discriminate against women.

*[Source: FCO Overseas Business Risk/gov.uk]*

## Economic overview

Indonesia, with a GDP of US \$941 billion in 2016, is the largest economy in Southeast Asia. Indonesia's GDP is ranked 16th globally and is larger than that of most EU countries. Average annual economic growth of 5.5% over the last six years has reduced unemployment (from 7.1% in 2010 to 5.5% in 2016) and the poverty rate (from 13.3% in 2010 to 10.9% in 2016).

Indonesia is facing two major challenges: widening income and regional disparity, and gradual economic slowdown. Its Gini coefficient rose from 0.35 in 2006 to 0.40 in 2016 and almost 60% of GDP is generated on Java Island. Although the economy expanded by 5.02% in 2016, the economy slowed in the fourth quarter and compared poorly to previous years. This is due in part to the state's budget cuts policy, which aims to lower the country's deficit.

Exports were expected to stay weak due to unfavourable external conditions, especially given China's economic slowdown. From this standpoint, positive improvement in infrastructure disbursement, business-friendly regulations and stable food prices are essential to achieve its growth target in 2017 of 5.1%.

Fuel subsidy reform has improved public spending capacity to boost growth, but it is uncertain whether this reform can be sustained when oil prices go back up. Stagnant tax collection remains a challenge to achieve fiscal sustainability. Improvement in tax administration and reducing informality in the economy are key factors to collect more tax revenue.

Indonesia remains an open economy but in recent years there has been an increase in legislation and government regulations that place limits on foreign investment and imports, many of the latter being non-tariff barriers. The Parliament has also become increasingly nationalistic and looks set to stay this way. The recent decision to increase foreign ownership in several sectors and to open up sectors previously closed to foreign investors, however, has sent a positive signal for greater openness in the future.

Indonesia's open economy and high dependence of foreign portfolio inflows (foreign investors account for nearly 40% of Indonesian Government bond ownership and 40% of trading value on the stock exchange), and reliance on commodity exports makes it vulnerable to global economic developments, notably normalisation of US monetary policy and the declining demand from China.

The government's priority is to increase Indonesian exports and increase the share of manufacturing exports and processed commodities rather than the raw commodities that dominate exports at present. Improving the business environment, particularly improved regulatory and licensing processes, is another top priority that will benefit foreign and Indonesian businesses alike, but there are hints that the focus on developing and supporting Indonesian business may mean continuing restrictions on

imports and foreign investment. Despite these challenges Indonesia offers good opportunities for foreign businesses and those that are present generally achieve good returns.

Indonesia's economy has high rates of informality particularly in the labour market. The International Labour Organization (ILO) estimates that 60% of non-agricultural jobs in Indonesia are informal. Rigid labour market regulation (stringent hiring and firing rules) has encouraged Indonesian firms, micro enterprises in particular, to run unregistered business to avoid compliance with local labour law.

A complex and dynamic legal and regulatory environment can present challenges for business. However, the economic reform programme has slowly given positive results. Key reforms are in place to improve the business environment, access to electricity, registering property, acquiring finance, paying taxes, cross-border trade and establishing contracts. Structural reforms and solid macroeconomic fundamentals will see Indonesia continue its positive growth trajectory in 2017.

Indonesia is a large and geographically diverse country that relies heavily on the export of natural resources. Geographical and infrastructure constraints can cause logistical challenges. Companies should research the market and prospective partners thoroughly and seek professional advice before entering into contracts.

*[Source: FCO Overseas Business Risk/gov.uk]*

### **Industries importing into Indonesia**

The top ten industries importing into Indonesia are:

- oil
- machines, engines, pumps
- electronic equipment
- plastics
- iron and steel
- organic chemicals
- vehicles
- iron or steel products
- cereals

- food waste, animal fodder

You can read more about what Indonesia imports at World's Top Exports: <http://www.worldstopexports.com/indonesias-top-10-imports/>.

## **Economic growth**

Indonesia has the largest economy in South East Asia with nearly half of the region's Gross Domestic Product (GDP). It is the only G20 member from Southeast Asia and is predicted to be in the top 4 largest economies in the world by 2050.

Indonesia's economy has grown at a steady 5.4% from the year 2000. This is a more stable rate than any of the Brazil, Russia, India and China (BRIC countries) or Organisation for Economic Co-operation and Development (OECD) countries. Domestic consumption makes up 55% of Indonesia's GDP. This helped to protect Indonesia from the global economic crisis.

Indonesia is the:

- world's largest producer and exporter of crude palm oil
- second largest exporter of coal
- second largest producer of cocoa and tin
- fourth largest exporter of natural gas

Indonesia also has abundant resources such as nickel, gold, coffee and other forest and marine resources.

## **Free Trade Agreements (FTAs)**

Indonesia is a member of the Association of Southeast Asian Nations (ASEAN).

The ASEAN Free Trade Area (FTA) is part of the Asian Economic Community (AEC) agreement among 10 ASEAN countries which allows free movement of goods and services with 0% tax. The country of origin must be one of the ASEAN countries.

The AEC will benefit British companies operating in the region. The AEC agenda helps promote reform and raise economic growth in the region.

Improved trade facilitation, regulatory reform and financial development will benefit all domestic and foreign firms. British firms producing and shipping goods within the region can also benefit from intra-ASEAN tariff reduction. There will be some areas where the AEC gives other ASEAN countries better market access than UK firms have, but these are likely to be fairly limited.

Indonesia is also negotiating FTAs with Australia and the European Free Trade Association (EFTA), both of which are slated for completion in 2017. They also launched negotiations with the EU on a Comprehensive Economic Partnership Agreement (CEPA) in July 2016, and are targeting an ambitious end-2018 conclusion.

Indonesia has commenced negotiations on the EU/Indonesia Comprehensive Economic Partnership Agreement (CEPA) in July 2016 after progress had been stalled for some years. The first round of negotiations took place in Brussels in September 2016 and the second round took place in January 2017 in Bali. The Government has set a (ambitious) two year timetable of two years for concluding the CEPA. While this is probably unachievable, it gives a useful sense of urgency to the negotiations.

### **Growing middle class**

Indonesia's economic growth is driven by a middle class of 45 million – more than the population of Malaysia and Singapore combined, and is set to increase to 141 million people by 2020.

Indonesian consumers are:

- young, with 60% under 30 years of age
- IT savvy
- interested in new international brands

International surveys show that Indonesians are trusting consumers, highly receptive to advertising and keen to try new things. Indonesia is the world's third largest Facebook market and fifth largest Twitter market.

Demand from the new middle class is increasing for:

- modern retail and consumer goods
- healthcare
- education and professional qualifications
- information and communications technology (ICT)
- transport
- construction
- manufacturing



## Strategic location

60% of global growth is expected to come from Asia by 2025. Indonesia is part of ASEAN which has a free trade zone. It is also strategically placed to do business with Indonesia, China, Japan and Australia.

## UK and Indonesia trade

UK exports of goods to Indonesia totalled £559 million in 2016.

The UK's main exports to Indonesia are:

- machinery and transport equipment
- chemical and related products
- crude materials

An unknown amount of the UK's exports to Indonesia go via Singapore.

The UK is the seventh biggest investor, after Singapore, Japan, US, South Korea, Netherlands, and British Virgin Islands in Indonesia.

Major British investors include BP, Jardines Matheson, Unilever, Shell, Standard Chartered Bank, HSBC, Prudential, Rolls Royce and GlaxoSmithKline. There is also a strong and growing UK retail presence including Marks & Spencer, Burberry, Alexander McQueen, Karen Millen, Coast, New Look, Super Dry, Topshop, Ted Baker, Mothercare and Early Learning Centre.

*[Source: DIT/gov.uk]*

In addition:

- In 2016 Indonesia was ranked 90th out of 176 countries in Transparency International's latest Corruption Perceptions Index (the UK ranked 10th): [http://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2016](http://www.transparency.org/news/feature/corruption_perceptions_index_2016)
- Indonesia is ranked 72nd out of 190 countries in the World Bank's 2018 Ease of Doing Business index (the UK ranks 7th): <http://www.doingbusiness.org/data/exploreeconomies/indonesia>
- The World Economic Forum's Global Competitiveness report 2017-18 ranks Indonesia 36th out of 137, (the UK is ranked 8th): <https://www.weforum.org/reports/the-global-competitiveness-report-2017-2018>

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*[Source: DIT/UKEF/gov.uk]*

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