Investment in Indonesia: A to Z Factors You Should Consider

It takes a great deal more than just an uprising number of GDP to invest in a certain country. The rank of Foreign Direct Investment (FDI) in Indonesia may not make the friendliest list in the world, but it does attract some valuable foreign companies. Some contributing factors of **Indonesia investment** are the number of citizens, GDP per capita, economic fundamental, regulatory barriers, ease of doing business, as well as social and cultural demography.

While the FDI flows in Indonesia have undergone a slight decrease in the fourth quarter of 2016, the figure rose almost 100% in the first half of 2017.

1. Foreign Guide Investment in Indonesia

In conducting their business, two legal terms are admissible for a foreign investor in Indonesia **investment services**. The first one is a foreign investment limited liability company, or PT PMA (Penanaman Modal Asing). In another side, a foreign company can opt to invest in the form of representative office or KPPA (Kantor Perwakilan Perusahaan Asing).

The country is a home to over 245 million inhabitants with growing middle class; such a promising prospect both for production and consumption sectors. Some foreign investors are still reluctant to trust their capital, despite a growing easiness in gaining permits and licenses.

Since 2014, the elected president, Joko Widodo, has prioritized in increasing foreign investment to achieve growing Indonesia’s economic goals. The policy of **Indonesia investment law** includes reducing complicated bureaucratic barriers. Unfortunately, another burden to carry is making foreign investors find it's challenging to invest. That’s being said, including the decentralized decision-making process, legal distrust, and high rate of corruption in Indonesia.

- **Indonesia’s Foreign Investment Climate**

As the previous statement, foreign investment in Indonesia has decreased by 2.1 percent in Q4 of 2016 compared to 7.8 in the preceding quarter. The slowing growth happened not without reason, considering the high level of uncertainty that affects the world and the country's economic situation. The U.S. election also takes a toll on Indonesia's FDI, causing major change of the US political and economic policies.

The uprising tension of ethnic and religious matter due to blasphemy in Jakarta also becomes contributing factor in the decreasing amount of FDI during 2016. Although the strain from both Islamic and Christian groups has somewhat eased in 2017, foreign investors tend to analyze the situation, wait and see first before taking the next step.

By the end of 2016, Indonesia's total investment realization stands at IDR 612.8 trillion from both FDI and DDI sectors. The figure increased by 12.4 percent compared to the year of 2015, resulting 434.466 employment opportunities in the country. The government claims that this realization is exceeding the national investment target by 3 percent. In 2017, Indonesia targets IDR 678.8 trillion of direct investment, or about 10.8 percent higher than the year of 2016.

Albeit the decreased number during the Q4 0f 2016, the investment realization in Indonesia remains promising, showing a positive trend amidst the global economic slowdown. The trend also shows steady trust of the foreign investors in the Indonesian economy.

- **Industrial Policies in Indonesia**

The government applies tax scheme that exempts certain business from paying corporate income taxes, including industrial machinery sector, renewable resource, telecommunication equipment, resource extraction, and resource refinement. Those businesses are obliged to have operated for at least 12 months before the tax holiday issuance.

Pioneer sector is also exempted from paying the taxes. Also, the government facilitates a tax incentive program considering the status as high-priority sectors.

However, a business may only apply for either tax incentive or tax holiday regulation that has extended period up to 20 years under the updated regulation of the Minister of Finance.

- **Money, Banking, and Capital Markets in Indonesia**

The Indonesia Stock Exchange (IDX) list shows capitalization amounted to USD 440.15 billion of 535 listed companies during the third quarter of 2017. This figure consists of more than half domestic companies, amounting 61 trades in the stock trades.

Speaking of foreign debt, Indonesia's sovereign debt is graded BB+ by Standard and Poor, an American financial service company. Although the rate is less vulnerable than those lower-rated countries, Indonesia still has to face ongoing uncertainties of business, financial, and economic conditions. That results in the possibility of the inadequacy of meeting the country's financial commitment.

However, the capital and securities market in Indonesia is friendly to foreign investors, allowing them to be the major source of portfolio investment. Currently, foreigners have access to 38 percent of the government securities. Also, not just any business can be conducted by foreign investors, because the Negative Investment List limits some sectors.

The concern regarding the management of Indonesia's small and medium-sized banks doesn't affect the trust of foreigners to **invest in Indonesia**. Bank system in Indonesia has the widest interest rate margins, with total assets of USD 278.35 billion generated by ten largest banks only. Foreign investors can purchase more than 25 percent of the total shares with Bank Indonesia's approval. In total, foreigners can take up to 99 percent of the domestic bank's total shares on the stock exchange by using private placement.

When foreign banks want to open a branch in Indonesia, the institution must be listed in the 200 top global banks by assets. Opening a representative bank office also requires the bank to be listed in the 300-top global rank by assets. OJK has also loosened the rules for foreigners who want to open a bank account; merely with a balance amounting to USD 2,000-50,000 and a passport. For funds amounting greater than USD 50,000, more supporting documents are required to be presented.

Relying on the Investment Law year 2007, Indonesia assures investors in transferring and repatriating funds in foreign currency. Also, BI obliges exporters to restore the earnings from export via domestic banks within three months after the declaration. Investors then can transfer the funds of the export earning abroad after repatriated.

Starting March 2015, **Indonesia investment law** requires the use of Rupiah for the domestic transaction under the new regulation. Whereas export and import transaction can utilize foreign currency, import transaction within the country must use Rupiah. Unfortunately, the application of the new regulation is considered obscure and jagged for some parties.

2. Indonesia's Investment Opportunities in 2017

Some factors affect a great number of investment opportunities in Indonesia. The abundant resources, cheap labors, and rising consumption rate are among the reasons why you should invest in Indonesia. Add to that, the number of foreign direct investment has a positive growth trend, allowing investors to conduct business activities through two options; PT PMA or KPPA.

- **Investing Through PT PMA**

Under the Law No. 25/2007 about the new investment law, the foreign party (that includes personal, company, and government) is allowed to run a commercial activity in Indonesia. The form of the business can be fully foreign-owned or partially foreign-owned limited liability company.

Engaging in a legal direct commercial activity and generating profit is possible through PT PMA. However, to be allowed in investing, you should look at the Indonesia's Negative Investment List. The catalog gives you a thorough direction of whether a certain sector is opened to a foreign investor. Say, you find the business suitable, and then comes the second question. Does it need to have a local partner? If the sector requires partial domestic ownership, finding a good partner is necessary.

Some foreign investors will turn into the **Indonesia Investment Coordinating Board** (BKPM) to get help. Unfortunately, the procedure of getting a permit can be quite costly and timely. Therefore, setting up a deal with a local service company is a preferred option to help you deal with the bureaucracy in a smooth manner. This, surely, can cause an extra cost. A standard cost is amounting to USD 3,500, depending on the business sector, and you will hear the good news in about ten weeks to receive approval from BKPM and engaged in the business.

The **Indonesia Investment Coordinating Board** requires foreign companies to have a minimum capital of IDR 10 billion to set up a PMA. The capital must be paid at least 25 percent of the investment plan before you can operate as independent limited liability company. In some other sectors, the paid-up capital number should be higher.

All shareholders, board of directors and commissioner of the company are eligible for a work permit and tax number. Once your application is granted, PT PMA has monthly withholding tax report as well as quarterly or semi-annual investment report compliance.

- **Investing Through KPPA**

Investing in Indonesia doesn't necessarily mean that you have to be engaged in all profitable market. Sometimes, foreign investors are willing to test the water first before jumping in. Setting up a KPPA, or your representative office means you have a greater opportunity for a market research, building networking, etc. Unlike the PT PMA, KPPA doesn't require a large number of capitals paid up.

This option is more popular among foreign investors who kind of worry or reluctant about settling up their money to join **investment service** in Indonesia. Exploring business opportunity will give a greater chance of finding what kind of 'it' business now. Opening a rep office is also favorable for investors with limited financial resources. Therefore, the choice is to find business partners, promote your service, and explore the market without actually engage in a direct business activity or generate revenue.

Another good thing about setting a rep office in Indonesia is that there is no shareholders or directors requirement. You have full control over the legal entity, but remember that this choice is down for a business that already has a parent company abroad. Consider this option as a mean to establish a great portfolio and promote the company's product to the local clients. Once you find that the business has a great opportunity to survive in the industry, foreign investors can decide to open a PT PMA.

A representative office has no restriction on ownership and no minimum capital requirement. Unlike the PT PMA, KPPA takes less time to establish, approximately within six weeks upon the application to BKPM with cost amounting to USD 2,000. However, the validity of the permit only lasts up to 5 years, with compliance to submit monthly withholding tax report and annual activity report to BKPM.

According to Presidential Regulation of The Republic of Indonesia Number 44 The year 2016 about the list of business fields 'closed to' and 'open with the condition' to **Indonesia investment**, here is the negative investment list of some sectors in Indonesia:

- Cultivating marijuana
- Catching endangered fish species
- Lifting valuable artifacts from shipwreck
- Utilization of living and dead coral from nature
- Chloral alkali making industry under mercury process
- Industry of active pesticide substances
- Industrial chemical industry and Ozone Depleting Substances
- Industry of concerning Use of Chemicals as Chemical Weapons
- Alcoholic hard liquor and beverage Industry

- Malt beverages Industry
- Organization and operation of terminals for passenger land transport
- Organization and operation of weigh stations
- Telecommunication/aids to shipping navigation and Vessel Traffic Information System (VTIS)
- Provision of air navigation services
- Administration of testing of types of motor vehicles
- Management and operation of radio frequency spectrum and satellite orbit monitoring stations
- Public museums
- Historical and archaeological remains
- Gambling/casinos

In other words, any closed business sectors are those that challenging Indonesian law, heritage, national security and cause heavy pollution.

Among the investment opportunities in Indonesia in 2017, some high potential sectors are telecommunication, transportation, energy (oil, gas, and electricity), construction, security, medical treatment, the pharmaceutical industry, retail trade, and franchise service.

*What is The Largest **Foreign Investment in Indonesia** in 2017?*

It seems that the answer to the question above is the hospital industry. The investment rose to USD 14.3 million in the first half of 2017, from USD 0.8 million and $0.2 million compared to the year of 2015 and 2016, respectively. The key factor of this uprising is the new Presidential Regulation that allows foreign investors to have 67 percent of stake in general hospitals. Previously, foreigners are limited to invest in specialist hospitals only.

The biggest contribution comes from Netherlands, with capital fund amounting USD 10 million invested in a new hospital in Jakarta by the first half of 2017. Foreign investors from the US and South Korea also show visible interest in investing in the hospital industry.

The opportunities to invest in Indonesia are not limited to the hospital, but another aspect of the healthcare industry. The rise in investment figure is influenced by Indonesia's policy of National Health Insurance Program by the year 2019. The number of an older citizen in the country is expected to reach 17 million citizens (over 65 years), that estimated, will need medical attention by 2020.

Unfortunately, the rise of some **investment grade Indonesia** in the medical sector is also a challenge on improving the service. Many rich citizens prefer to fly to Singapore when they need medical attention. However, the number of Indonesian who seeks for medical care in Malaysia decreased by 3.6 percent in 2015. This can be a positive trend if the country can maintain a reliable health care service.

3. Business Investment Opportunities in Indonesia

Last year, the largest industries contributing to the rise of FDI investment in Indonesia were machinery, electronic, base metal, and pharmaceuticals. The largest foreign investors conducting business in the country is coming from Singapore, Japan, China, Hong Kong, and Netherlands.

Steady economic growth and increasing GDP per capita of Indonesia also affect the ability to consumption power, and rising middle-class society also has the means to spend on healthcare service.

Why should you do business and invest in Indonesia?

The country is considered the largest economy in Southeast Asia and ranked the 8th for the purchasing power in the world. The IMF estimates Indonesia’s consumption power will reach 5.1% growth by 2017. The steady economic growth is visible over the last decade is influenced by sound macroeconomic policy, increasing domestic demand, and economic expansion.

The country’s GDP is more superior to many ASEAN countries, amounting $3,604 per capita, contributing to nearly half of the ASEAN’s economy expenditure. The market opportunity leads to consumer-related market, with almost 50 percent of the citizens are under the age of 30. The world's fourth largest nation had abundant human resources for cheap labors and marked as potential consumers.

For foreign investors interested in IT sector, the competitive climate and expanding nature of banking system provide a significant number of opportunities for technology providers, equipment, and advanced software.

Business opportunity in Indonesia also comes from the aviation market, which grows 20 percent per year. The industry requires aircraft replacement, airport logistic service, ground support equipment, as well as air traffic control. That being said, the industry is shown to favor many U.S. products.

With every great opportunity, there comes the challenge. The largest concern of **doing business in Indonesia** still comes from the high level of massive corruption. The country’s infrastructure and service networks also make a great barrier, because it leads to a costly transaction for both importers and exporters. Indonesia needs to develop the facilities to keep pace with the growing economic development. Although deregulation has reduced some complication in the bureaucracy, the process can still be tiresome, and the conflicting laws often cause legal distrust among foreigners.

The good thing is, many business opportunities are opened to attract foreign investors. Despite the challenges, Indonesia has the fastest growing economy among other ASEAN countries and already plans to improve infrastructure by building access to energy as well as broadening telecommunication and networks in the country.