Data and Profiles - Market Profiles

Indonesia: Market Profile

23 Feb 2021

Fitch Solutions

1. Overview

Indonesia is one of Asia Pacific's most vibrant, middle-income economies and the fourth-most-populous country globally. The large domestic market base, various natural resources and its strategic location on global shipping lanes enhance Indonesia's investment potential. The country's economic planning follows a 20-year development plan (2005 to 2025). It is segmented into five-year medium-term plans called the Rencana Pembangunan Jangka Menengah Nasional, each with different development priorities. The current medium-term development plan – the last phase of the long-term plan – runs from 2021 to 2025. It focuses on infrastructure development and social assistance programmes related to education and healthcare, among other areas. The relocation of the capital city to East Kalimantan, Borneo, should provide many new opportunities for companies in the infrastructure, construction, banking and financial services sectors. To strengthen the country's economic growth, the government continues to pursue trade agreements with various countries and economic blocs. Indonesia also continues to carry out policy reforms intended to cut red tape and make it easier to conduct business in order to improve the investment climate of the country. However, the Covid-19 pandemic, which has impacted inward investment and resulted in a recession for the first time in decades, has meant that the government has had to roll out an emergency economic response package, supported by the World Bank. The package has enhanced the social and healthcare systems while ensuring the financial sector remains resilient.

Sources: World Bank, Fitch Solutions

2. Major Economic/Political Events and Upcoming Elections

August 2019
The government revealed Borneo as the proposed site for the new capital of the country. Indonesia was seeking to move its capital away from the flood-prone city of Jakarta, parts of which have permanently sunk due to constant flooding. The new capital was estimated to cost upwards of USD33 billion to build. An Indonesian unit of the management consultancy McKinsey had been appointed to do feasibility studies, including the exact funding needs and transport links with nearby cities.

October 2019
PT Borneo Alumina Indonesia selected a consortium led by Black & Veatch to manage the development of an alumina refinery in West Kalimantan. The facility would feature 1 million tonne per annum smelter-grade alumina refinery, a coal gasification plant and a coal-fired power plant.

November 2019
Hyundai Motor Company entered into a memorandum of understanding with the Government of Indonesia to build its first car manufacturing plant in Jakarta. The investment of around USD1.5 billion until 2030 includes product development and operational costs. The facility was expected to become operational in the second half of 2021 and would have an initial production capacity of 150,000 units annually. When the plant becomes fully operational, production was expected to reach nearly 250,000 vehicles.

February 2020
The Indonesian Consulate General stated that the business community of Karachi, Pakistan, was in consultation with Indonesian counterparts to boost bilateral trade and economic cooperation between the two states.

President Jokowi announced that the National Development Agency would submit a bill for parliamentary approval to accelerate the relocation of the capital city to Borneo. The government plans to move the capital in phases commencing in 2024 and expects that it would become home to between 6 million and 7 million people.

March 2020
The government moved to relax the constitutional deficit cap of 3% of GDP and launched a number of fiscal stimulus packages to support the economy through the Covid-19 pandemic.

April 2020
The government raised USD4.3 billion through the issuing of pandemic bonds of up to 50-year dollar debt – the first of its kind in the region. The bonds would be used to fund the economy's Covid-19 relief and recovery efforts.

The government announced that it would postpone deliberations on the labour law reforms in the wider Omnibus Bill.

June 2020
The central bank cut the benchmark policy rate by 25 basis points to 4.25% to maintain economic stability in light of the Covid-19 pandemic. The government's relief package was also increased to 5% of GDP.

July 2020
The central bank agreed to buy USD40 billion of government bonds for the first time since the Asian financial crisis to finance the 2020 fiscal deficit and help fund the country's economic recovery.

The Indonesia Investment Coordinating Board (BKPM) announced that incoming foreign direct investment (FDI) had declined 6.9% year-on-year in the second quarter of 2020, excluding investment in banking and the oil and gas sectors, with the top sources being Singapore, Hong Kong, Mainland China and Japan.

August 2020
The government revealed Borneo as the proposed site for the new capital of the country. Indonesia was seeking to move its capital away from the flood prone city of Jakarta, parts of which have permanently sunk due to constant flooding. The new capital was estimated to cost upwards of USD33 billion to build and an Indonesian unit of the management consulting company McKinsey had been appointed to do feasibility studies including exact funding needs and transportation linkages with nearby cities.

September 2020
Minister of Finance Sri Mulyani Indrawati and then secretary of the United States Treasury Steven Mnuchin signed the Cooperation Framework to Strengthen Infrastructure Finance and Market Building. The deal seeks to encourage private sector participation in public infrastructure projects. The framework addressed regulatory and legal barriers to private sector investment through the creation of financial instruments for use on both local debt and capital markets. The 2021 state budget allocated IDR414 trillion (USD28.5 billion) for infrastructure development – a 47% increase from the 2020 budget.

October 2020
Indonesia's Omnibus Law, passed on October 5, amends 79 existing laws, which Jokowi said is essential to help bolster the economy, which has been hit hard by Covid-19. Some of the new measures are as follows:

- The law removes red tape by watering down Indonesia's labour regulations through the removal of the sectoral minimum wage in favour of minimums set by regional governors.
- The law also reduces severance pay from a maximum of 32 months' pay to a maximum of 19 months' salary.
- Allowable overtime would be increased to a maximum four hours in one day and 18 hours a week – businesses would only be required to give workers one day off a week instead of two.
- Environmental impact analyses are required only for projects considered high risk.

November 2020
During a working visit to the Netherlands by Bahlil Lahadalia of the BKPM, global pipe manufacturer Wavin BV announced that it would be building a factory in the Batang Integrated Industrial Estate, costing around IDR1.7 trillion (USD125 million), with production planned to start in 2022.

December 2020
President Jokowi stated his wish to see 70% or more of the population vaccinated in order to achieve herd immunity, while he awaited approval for the vaccine from the Food and Drug Monitoring Agency. Making progress with an immunisation programme will affect the prospects of an economic recovery in 2021.

Jokowi inaugurated the Patimban Seaport in West Java, intended to become a strategic gateway and key export hub for electric vehicles, an industry sector that nickel-rich Indonesia has high hopes for.

January 2021
Indonesia posted a USD21.7 billion trade surplus in full-year 2020, its biggest since 2011 and a solid recovery from the US$3.6 billion trade deficit that the country experienced one year earlier.

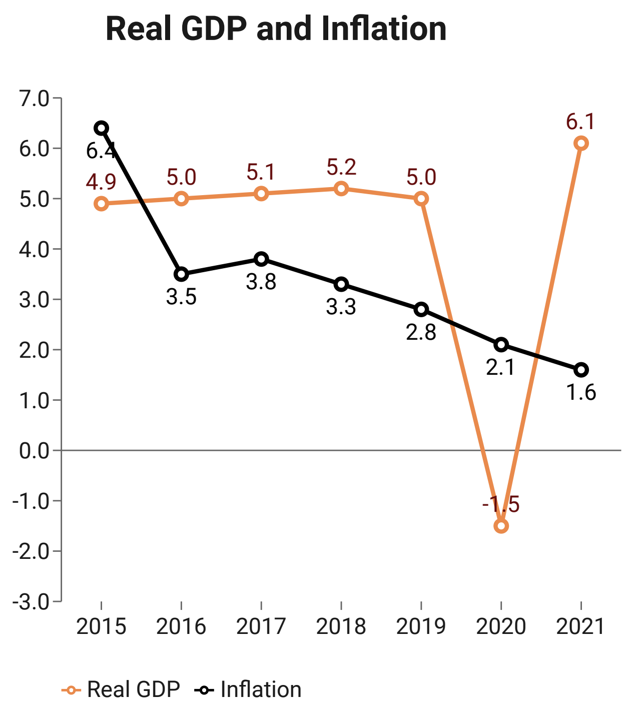
The first phase of Indonesia's nationwide vaccination programme began when President Jokowi received the first shot, in a strategy that prioritises the productive age range rather than the elderly.

Indonesia announced its intention to launch a sovereign wealth fund in early 2021, which would be seeded with USD5 billion of cash and shares in state companies in the hope that it will attract a further USD15 billion from international investors to be used for infrastructure projects. Interest has been expressed by the United States International Development Finance Corporation, the Japan Bank for International Cooperation and the Canada Pension Plan Investment Board.

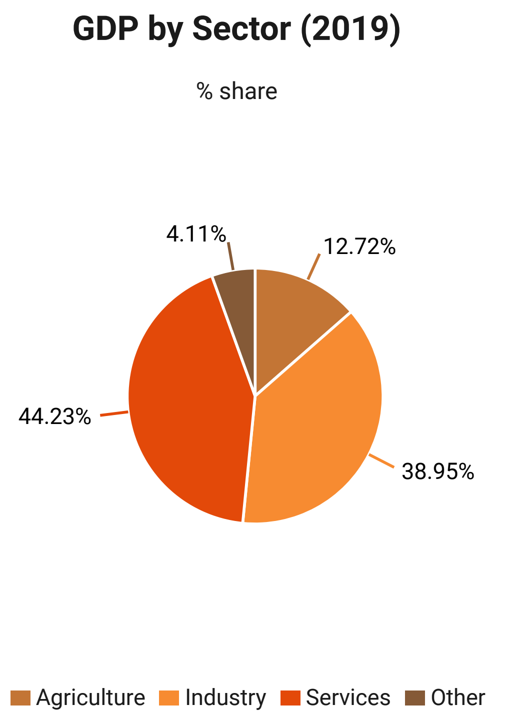
The Indonesian government successfully raised USD3 billion and EUR1 billion in sovereign bonds issued through four tranches.

Sources: BBC Country Profile – Timeline, IMF, The Strait Times, The Jakarta Post, The Guardian, Reuters, Al Jazeera, Fitch Solutions

3. Major Economic Indicators

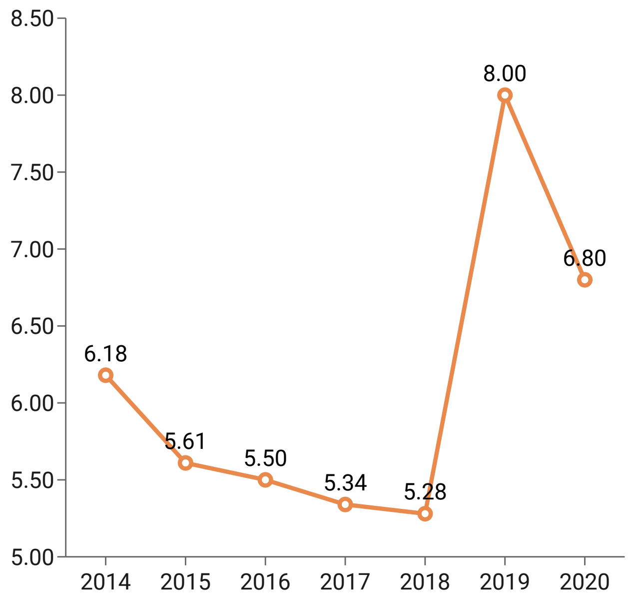


2020 (estimate); 2021 (forecast)
Sources: IMF, World Economic Outlook Database
Date last reviewed: January 18, 2021



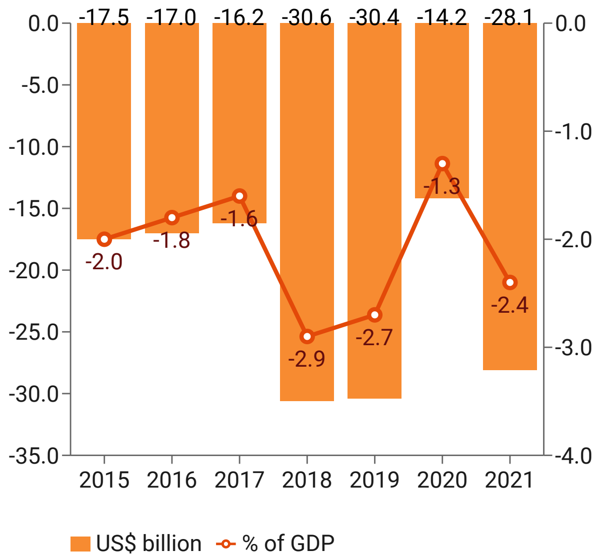
Source: World Bank
Date last reviewed: January 18, 2021

Unemloyment Rate



2021 (forecast)
Sources: IMF, World Economic Outlook Database
Date last reviewed: January 18, 2021

Current Account Balance



2020 (estimate); 2021 (forecast)
Sources: IMF, World Economic Outlook Database
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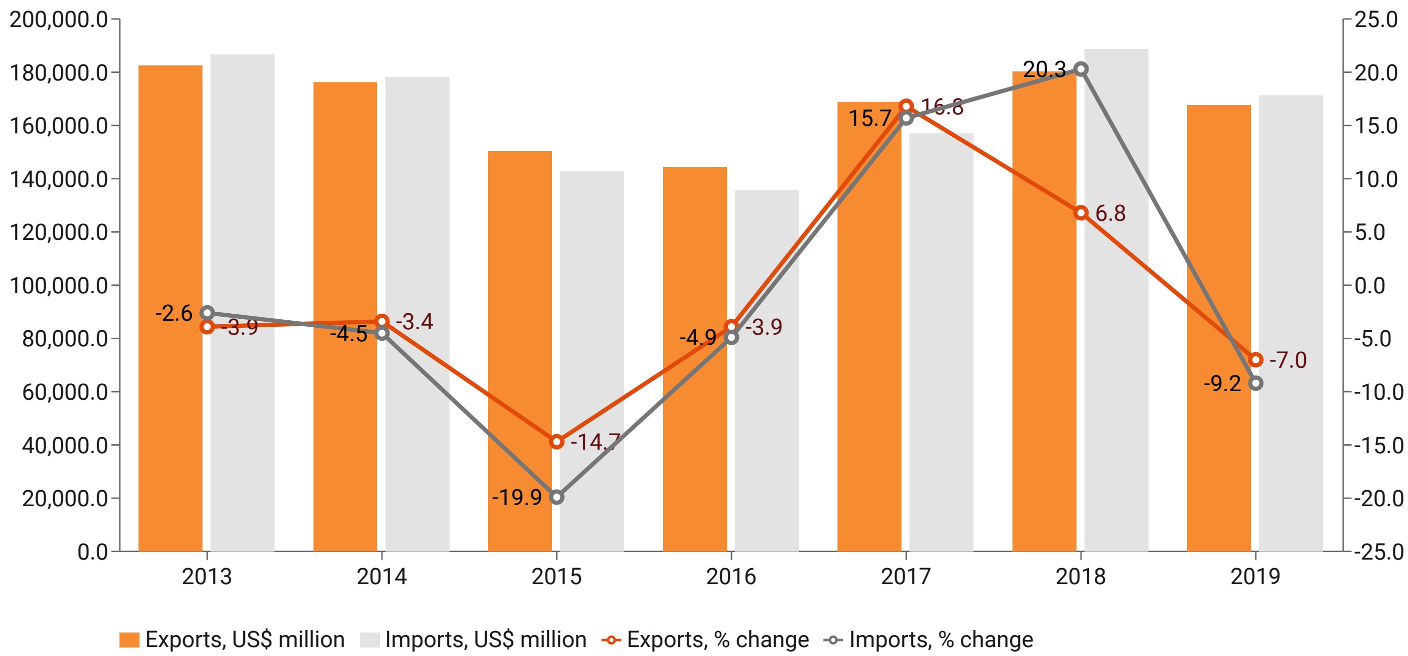
4. External Trade

4.1 Merchandise Trade

Merchandise Trade



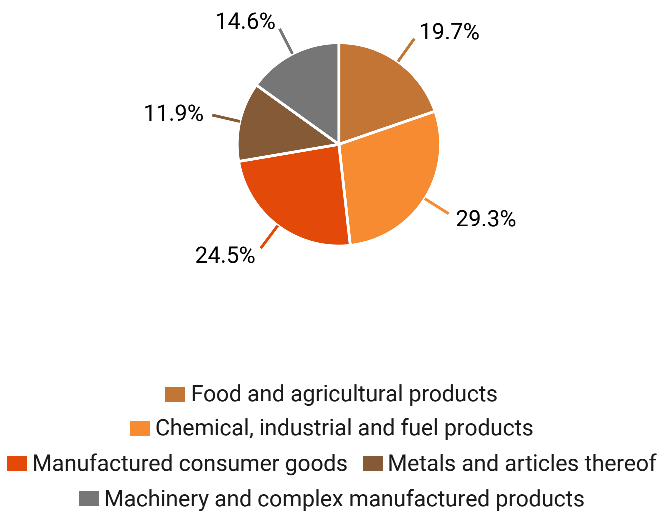
Source: WTO
Date last reviewed: January 18, 2021

Major Export Commodities (2019)

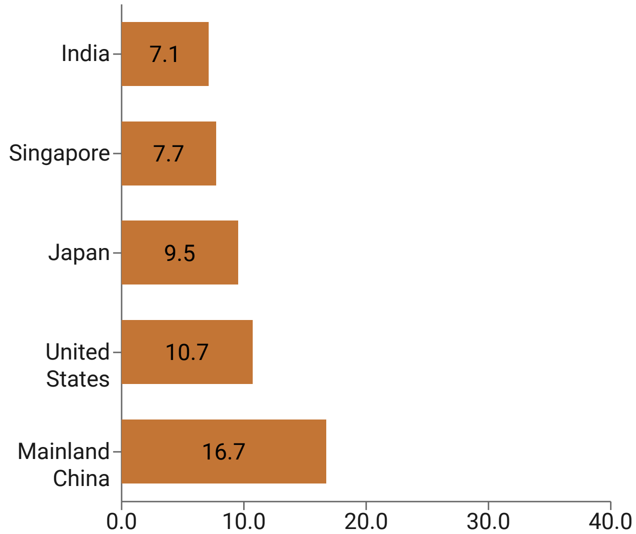
% share

Major Export Markets (2019)

% share



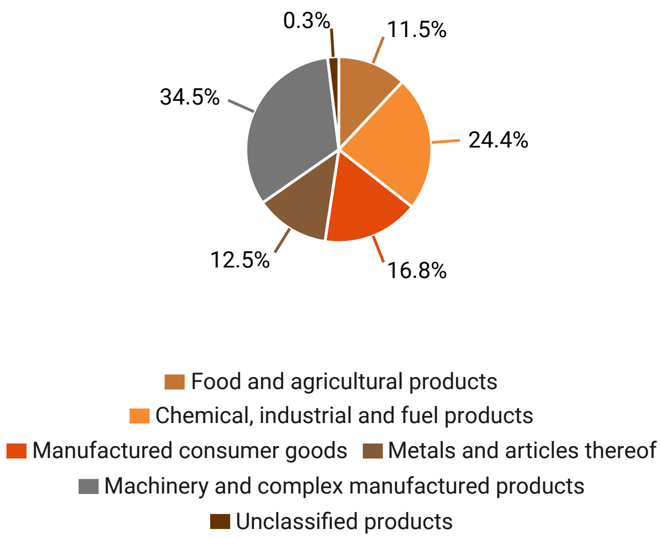
Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 18, 2021



Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 18, 2021

Major Import Commodities (2019)

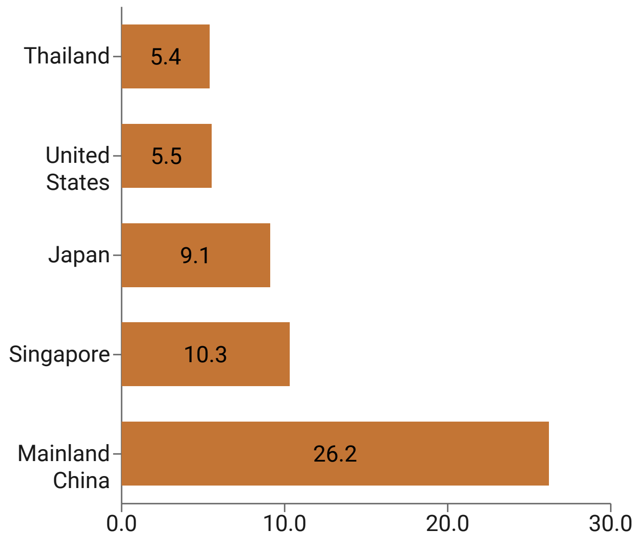
% share



Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 18, 2021

Major Import Markets (2019)

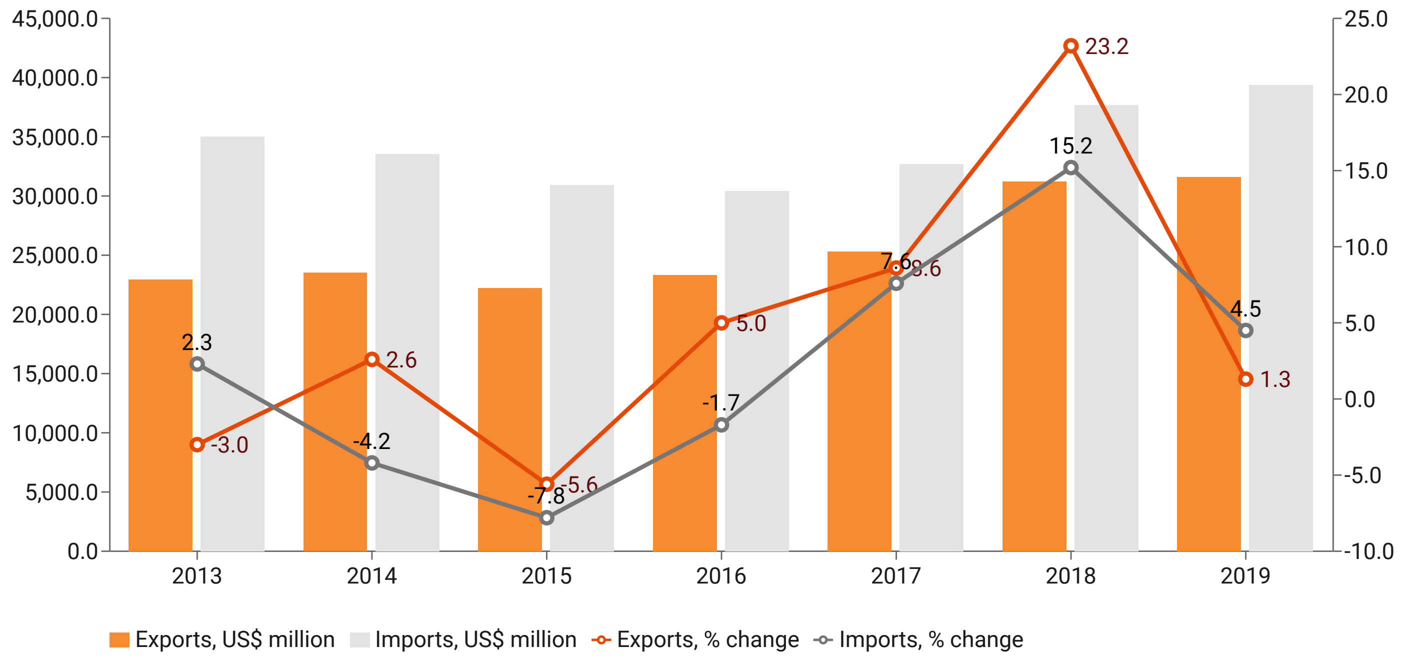
% share



Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: January 18, 2021

4.2 Trade in Services

Trade in Services



Source: WTO
Date last reviewed: January 18, 2021

5. Trade Policies

- Indonesia has been a member of the World Trade Organization (WTO) since January 1, 1995 and a member of the General Agreement on Tariffs and Trade since February 24, 1950.

- Indonesia is a member of the ASEAN and a signatory to the ASEAN Free Trade Agreement (FTA) which aims to reduce tariff and non-tariff barriers to trade between member states. ASEAN has also negotiated FTAs with Australia, New Zealand, Mainland China, India, South Korea and Japan. Japan has a separate bilateral FTA with Indonesia.

- In 2015, the ASEAN Economic Community (AEC) was launched, with member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar and Vietnam. The AEC aims to integrate ASEAN member states into a single market, which will provide a base for facilitating freer flows of goods, services, investment, educated labour and capital flow between members.

- While Indonesia's membership of numerous regional and economic blocs and FTAs has resulted in the country having a very low applied average tariff rate of 2.3% (the sixth lowest in East and South East Asia), there are numerous other barriers to trading with the country. There is significant trade bureaucracy (time and costs) involved for supply chains when exporting out of and importing into Indonesia, with various permit and licensing requirements.

- The Indonesian government provides various subsidies and tax incentives to local businesses and farms as it seeks to make local agriculture, manufacturing and labour-intensive industries more competitive. These different subsidies or subsidy-like protective measures affect trade with many states. Indonesia's inefficient fossil-fuel subsidy policy was the subject of a report by the G20 in Japan, which accused Indonesia of encouraging wasteful energy consumption.

- Indonesia has imposed a variety of import bans on foreign companies, including bans on alcohol and foodstuff such as meat and corn. Import quotas have also been imposed on other agricultural products, including fruits and vegetables.

- Indonesia has implemented anti-dumping duties on imports of polyester staple fibre from Mainland China, Taiwan and India and on imports of cold-rolled coil/sheet from Mainland China, Taiwan, Japan, South Korea and Vietnam.

- Value Added Tax (VAT) is applicable on deliveries (sales) of goods and services within Indonesia at a rate of 10%. VAT on exported goods is zero-rated, while imported goods are subject to VAT at a rate of 10%.

- In January 2017, Indonesia relaxed the ban on unprocessed mineral exports in an attempt to boost the economy and ease budgetary pressures. The ban was implemented in 2014 to promote the domestic mineral processing industry and encourage exports of high value-added mineral products.

- In August 2018, the Indonesian government announced an increase in tariffs on over 500 consumer goods to 7.5% in order to reduce imports and improve the current account. Since the announcement, the planned number of goods affected by the tariffs has increased from 500 to 900, and some tariffs have increased to 10%. Affected products are primarily consumer goods, as opposed to raw materials, as imported consumer goods can easily be substituted for domestic ones.

- In June 2020, the Ministry of Trade announced a ban on the imports of complementary goods, test market goods and after-sale service goods for all sectors. According to the regulation, complementary goods are those imported by companies to complement the main products which they manufacture.

- In August 2020, Indonesia exempted VAT on the import of fish.

- In response to the Covid-19 outbreak and its economic effects, Indonesia introduced a range of non-fiscal measures, including: reducing import restrictions for goods under the 749 Harmonized System (HS) code, including in the fisheries and forestry industries, and no longer requiring a health certificate and V-legal documents; simplifying import restrictions for raw materials, including steel and alloy steel, as well as some food commodities (including sugar); and simplifying regulations on agriculture, animal products, medicine and food imports. The relaxation measures are believed to be applicable up to March 31, 2021.

Sources: WTO – Trade Policy Review, Global Trade Alert, OECD, Fitch Solutions

6. Trade Agreement

6.1 Multinational Trade Agreements

Active

1. ASEAN Free Trade Area (AFTA): AFTA entered into force on January 1, 1993. AFTA reduces tariff and non-tariff barriers between member states. The 10 members of AFTA are Brunei, Indonesia, Malaysia, the Philippines, Singapore, Vietnam, Laos, Myanmar, Indonesia and Cambodia. AFTA particularly boosts Indonesia's trade with Malaysia and Singapore. Since January 1, 2010, the original ASEAN-6 (Malaysia, Thailand, Indonesia, Brunei Darussalam, Singapore and the Philippines) have largely established a FTA, eliminating import duties on 99% of products on the ASEAN Inclusion List. For Cambodia, Laos, Myanmar and Vietnam, collectively referred to as CLMV, 49.27% of the tariff lines in the inclusion list are already at 0%.

2. ASEAN-Mainland China FTA and Economic Integration Agreement (EIA): The FTA, which came into effect in January 2005 for goods and July 2007 for services, is a comprehensive economic cooperation agreement (CECA) between ASEAN member states and Mainland China. The goal of the agreement is to eliminate tariffs and address behind-the-border barriers that impede the flow of goods and services. Mainland China is Indonesia's largest trade partner. The FTA is a major boost to trade between these countries.

3. Indonesia-Japan FTA and EIA: The FTA which was signed on August 20, 2007, and came into effect on July 1, 2008, is aimed at facilitating, promoting and liberalising trade in goods and services between the parties. Japan is Indonesia's third largest export and import partner. This FTA provides a strong boost to trade ties and helps the country balance its reliance on Mainland China. Indonesia also forms part of the FTA between ASEAN and Japan.

4. ASEAN-South Korea FTA and EIA: The FTA covers goods and services; the agreement on goods was signed on August 24, 2006, and came into force on January 1, 2010, while the agreement on services was signed on November 21, 2008, and came into force on October 14, 2010. The FTA allows 90% of the products traded between ASEAN and South Korea to enjoy duty-free treatment. The agreement is significant given the high trade flows between the countries.

5. ASEAN-India FTA: The FTA covers goods and services; the agreement on goods was signed on August 13, 2009, and came into force on January 1, 2010, while the agreement on services was signed on November 13, 2014, and came into force on July 1, 2015. The FTA involves the liberalisation of tariffs on more than 90% of the products traded between the two regions, including the so-called special products, such as palm oil (crude and refined), coffee, black tea and pepper. India is the fifth-largest market for Indonesian exports.

6. ASEAN-Hong Kong FTA: The agreement came into force on January 1, 2019 but it will take time for all members of ASEAN to comply as implementation is subject to completion of the necessary procedures. The deal aims to cover all aspects of trade in goods, such as tariffs, rules of origin, non-tariff measures, customs procedures and trade facilitation, trade remedies, technical barriers to trade, and sanitary and phytosanitary measures. Indonesia will eliminate the customs duties of approximately 75% of its tariff lines within 10 years, whereas Hong Kong will grant tariff-free access to all products originating from ASEAN member states when the FTA takes effect.

7. Australia-Indonesia FTA: The FTA between Australia and Indonesia entered into force on July 5, 2020. Under the deal, Indonesian goods will enter Australia tariff free, while tariffs on 94% of Australian goods exported to Indonesia will be gradually eliminated. Increased trade between the two states boosts trade opportunities for businesses and will expand supply chains, which will increase and diversify revenue streams. Trade agreements under the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) will remain unchanged.

Ratification Pending

Regional Comprehensive Economic Partnership (RCEP): A regional economic agreement that involves the 10-member ASEAN bloc and their FTA partners: Australia, Mainland China, Japan, New Zealand and South Korea. RCEP is envisioned to be a mutually beneficial economic partnership agreement that aims to advance economic cooperation and to broaden and deepen integration in the region. The RCEP will lower tariffs and other barriers to the trading of goods among the 15 countries that are in the agreement or have existing trade deals with ASEAN. The agreement was signed on November 15, 2020, and is expected to enter into force 60 days after at least six ASEAN signatories and at least three non-ASEAN signatories have completed their domestic ratification procedures and notified they are ready. Businesses should benefit from increased trade flows and opportunities once the agreement enters into force, further enhancing Indonesia's investment attractiveness.

Under Negotiation

1. India-Indonesia CECA: The arrangement seeks to expand and develop bilateral relations and cooperation in the fields of trade, industry, investment and other economic fields.

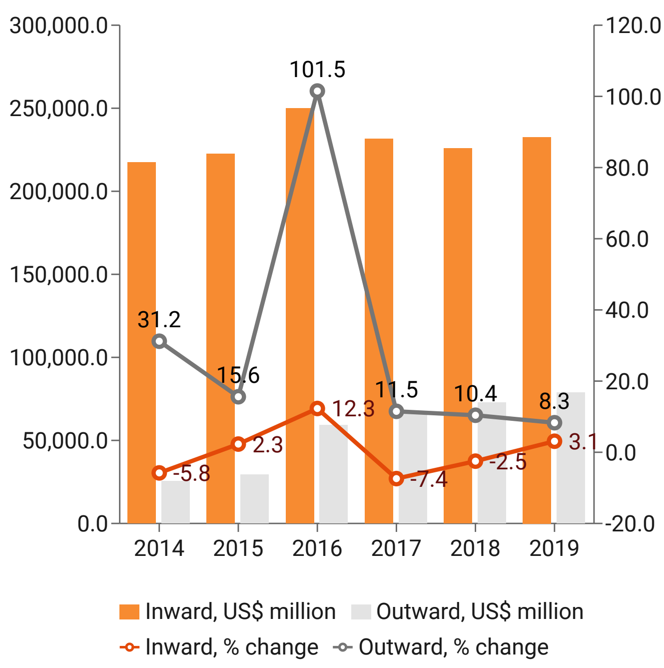
2. Indonesia–European Union (EU): Negotiations for an FTA between Indonesia and the EU were launched in April 2016, with the 10th round of talks taking place remotely in June 2020. The EU is Indonesia's fourth-largest trade partner. Indonesia already benefits from the EU's Generalised Scheme of Preferences, with about 30% of Indonesia's exports to the bloc subject to lower duties. Indonesia currently has a partnership and cooperation agreement with the EU, which has been in force since 2014. The objective of the FTA is to facilitate trade and investments, and address various issues such as tariffs, non-tariff barriers to trade, the production of palm oil, trade in services and investment, trade aspects of public procurement, competition rules and intellectual property rights, as well as sustainable development.

Note: Only major FTAs cited
Sources: WTO Regional Trade Agreements database, European Commission, government websites, Fitch Solutions

7. Investment Policy

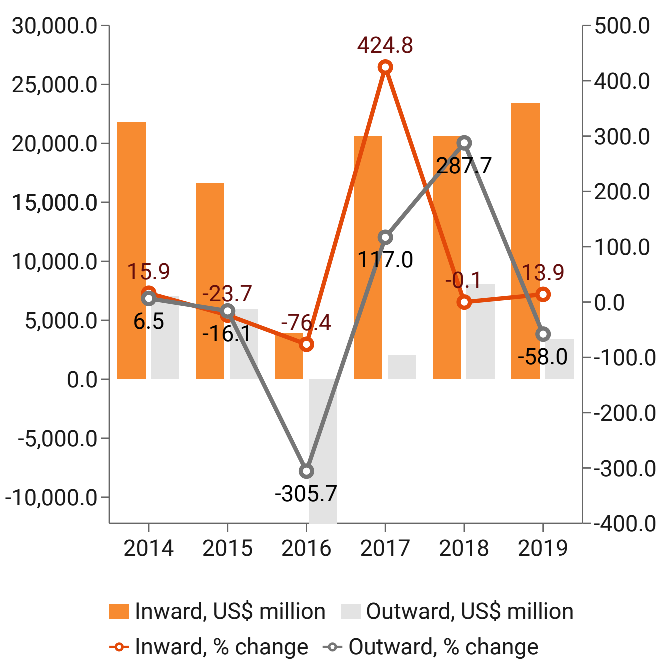
7.1 Foreign Direct Investment

Foreign Direct Investment Stock



Source: UNCTAD
Date last reviewed: January 18, 2021

Foreign Direct Investment Flow



Source: UNCTAD
Date last reviewed: January 18, 2021

7.2 Foreign Direct Investment Policy

1. Since coming into power in 2014, the incumbent Indonesian President Joko 'Jokowi' Widodo has taken a pro-investment approach by seeking to attract foreign investment in order to boost the country's manufacturing sector and infrastructure. The Indonesian government has promoted some policies and initiatives to encourage foreign direct investment (FDI), particularly those that assist in developing the country's economy and skills base.

2. The Foreign Investment Law regulates FDI in the country by granting licensing procedures principally controlled and overseen by the Indonesia Investment Coordinating Board (BKPM). It specifies that foreign investment should be in the form of a limited liability foreign investment company incorporated in Indonesia in which the investor goes into partnership with an Indonesian person or entity as a shareholder. The BKPM opened an online portal in 2012 to streamline bureaucratic procedures associated with investment and opening a business. The BKPM is intended to act as a one-stop shop for business licences, but investment in the mining, oil and gas, and plantation sectors, among others, requires further authorisation from relevant ministries. Investment in the first quarter of 2020 had increased 8% year on year, before the effects of the global pandemic began to be felt on the economy and inward investment.

3. The government encourages FDI by offering a number of fiscal and non-fiscal incentives, including tax holidays, tax allowances, and the exemption of import duties for capital goods and raw materials required for investment. However, the economy remains significantly closed to foreign investment as a result of the multitude of barriers that exist for foreign investors.

4. Foreigners cannot effectively own land in Indonesia in either urban or rural settings. They can, however, obtain formal rights to use the land for a certain period for purposes such as mineral expropriation, agriculture, and building and commercial purposes by forming a legal entity (company) incorporated according to Indonesian law and domiciled in Indonesia. Businesses can purchase apartments and office space in Indonesia valid for a period of time if various stringent stipulations are complied with. It is a difficult and time-consuming process. There is also the possibility of land expropriation.

5. Indonesia restricts foreign investment in some sectors through the Negative Investment List. The Negative Investment List aims to consolidate FDI restrictions from numerous decrees and regulations in order to create greater certainty for foreign and domestic investors. There are a number of business operations in which foreigners are explicitly barred from participating. These include national defence, the production of alcoholic beverages and establishing casinos. In addition, FDI in other sectors faces a variety of restrictions, most of which include requirements for special licences and/or caps on foreign ownership. Some of these more-restricted industries include mining and finance. The list was last revised in 2016 and was set for an update in 2020. It remains unclear whether the passing of the pro-business Omnibus Law in November 2020 will lead to the reduction of barriers to foreign investment, less 'resource nationalism' and a more open economy for the post-pandemic era.

6. In order to conduct business in Indonesia, foreign investors must be incorporated as a foreign-owned limited liability company in Indonesia. Investors are also required to participate in the Workers Social Security Programme.

7. The Indonesian government is attempting to ensure that it maintains a stake in the exploitation of the country's national resources by insisting that foreign-owned mining companies must gradually divest 51% of its shares to Indonesian interests over 10 years, with the price of divested shares determined based on fair market value and not taking into account existing reserves. Under new proposed oil and gas laws, the state's national oil company will have the right of first refusal over any new oil and gas contracts in Indonesia.

8. High regulatory uncertainty exists in the mining, oil and gas, and construction industries. Indonesia regularly issues and reverses various policies on export bans, taxes and licensing requirements, which creates significant investor uncertainty in these sectors.

9. Various incentives are offered to companies located in bonded zones throughout the country, the largest of which is based on the island of Batam. These include acceptance of 100% foreign ownership; exemption from import duties, income tax, VAT and sales tax; and fewer required permits and licences.

10. Despite the restrictions, the five biggest inward investors in Indonesia are Singapore, Mainland China, Hong Kong, Japan and Malaysia. The sector that dominated investment in 2020 was transportation, warehouses and telecommunications.

11. Indonesia has several special economic zones (SEZs) and industrial zones, although development is sometimes limited. These provide further incentives for foreign investment.

12. Indonesia has identified 18 industries entitled to apply for a tax holiday (requiring a minimum investment of IDR500 billion, resulting in a two-year 50% reduction on corporate income tax, or CIT) or mini tax holiday (requiring a minimum investment of IDR100-500 billion, resulting in a two-year 25% CIT reduction). The 18 industries are automotive and its components; inorganic chemicals; organic-based chemicals sourced from agriculture, plantation or forestry products; digital data processing; economic infrastructure; manufacturing irradiated, electromedical or electrotherapy equipment; manufacturing components for electric power-generation machinery; making engines or machine components; making components for the electronic industry or telematics equipment; raw materials for pharmaceuticals; aerospace; trains; oil and gas refining; petrochemicals; agriculture, plantation, or forestry products processing; robotics; shipbuilding; and upstream base metal.

13. Indonesia has identified 183 business activities in four groupings (oil and gas; power generation; agriculture; and manufacturing and industry) to which it will grant tax allowances, including geothermal, soya plantation, tyres, and fish and shrimp processing.

Sources: WTO – Trade Policy Review, Indonesia Investment Coordinating Board, ITA, US Department of Commerce, Invest in Indonesia, Fitch Solutions

7.3 Free Trade Zones and Investment Incentives

Free Trade Zone/Incentive Programme	Main Incentives Available

Batam Island Free Trade Zone (FTZ)	- This is Indonesia's largest FTZ and is located just south of Singapore (bonded zone). - Investors are not required to apply for additional implementation licenses (location, construction, and nuisance act permits; and land titles) - Foreign companies allowed 100% ownership - Import duty, income tax, VAT and sales tax exemption on imported capital goods
SEZs: Industry SEZs (Arun Lhokseumawe, Sei Mangkei, Galang Batang, Tanjung Api-Api, Kendal, Maloy Batuta Trans Kalimantan, Palu, Bitung and Sorong); and tourism SEZs (Tanjung Kelayang, Tanjung Lesung, Singhasari, Mandalika, Likupang and Morotai)	- Since 2009, Indonesia has designated 15 areas nationwide as SEZs (nine for value-added industrial activities, from minerals to fishing; and six for tourism business activities), which as a result benefit from fiscal and non-fiscal incentives to attract investment. - An entity conducting business from an SEZ may be granted a reduction in corporate income tax and other exemptions.

Sources: US Department of Commerce, Indonesia Investment Coordinating Board, Fitch Solutions

8. Taxation – 2021

- Value Added Tax: 10%
- Corporate Income Tax: 22%

Source: Indonesia's Directorate General of Taxes

8.1 Important Updates to Taxation Information

- In March 2020, the Indonesian government issued Government Regulation in Lieu of Law No.1 Year 2020 to help economic policy in areas of taxation and expenditure during the Covid-19 pandemic. Perppu-1 has been legalised as Law No.2 Year 2020 and introduced a set of new tax policies to be implemented through a reduction in the corporate income tax (CIT) rate and a tax on e-commerce.

- Commercial trade transactions conducted through electronic devices and procedures by foreign players (foreign e-commerce) will be subject to Income Tax/Electronic Transaction Tax (ETT) and VAT. Foreign e-commerce players with a 'significant economic presence' in Indonesia can be deemed as having a Permanent Establishment (PE) in Indonesia. If the existing rules of an applicable tax treaty mean that a PE cannot be deemed, affected e-commerce players will be subject to an ETT. ETT will be imposed on direct sales or sales through the marketplace.

- VAT on e-commerce will be applied where certain foreign intangible goods or services are provided and used in Indonesia through an e-commerce system. The Ministry of Finance has released a regulation about VAT on foreign e-commerce and it became applicable on July 1, 2020, where the transaction value with customers in Indonesia exceeds IDR600 million in a year or IDR50.0 million in a month; or when access to the e-commerce platform from Indonesia exceeds 12,000 users in 12 months, or 1,000 users in one month.

- On November 2, 2020, the sweeping Omnibus Bill Law No. 11 Year 2020 was passed, which will cut CIT to 22% in 2021 and 20% in 2023. Publicly listed companies that meet certain criteria will also get an additional 3% cut below the general rate. Digital companies such as Netflix and Spotify, with a significant economic presence, regardless of where they are based, will be considered PEs and become subject to local rules. This means that digital companies will have to charge 10% VAT on customers buying or using their products or services, as well as paying income tax to the government.

Source: Indonesia's Directorate General of Taxes

8.2 Business Taxes

Type of Tax	Tax Rate and Base
CIT	22% on profits (2020-21) and 20% in 2022. Public companies that satisfy a minimum listing requirement of 40% and other conditions are entitled to a tax cut of 3%.
Capital Gains Tax	Capital gains derived by residents are included in taxable income and are subject to tax at the normal income tax rate. Capital gains derived by non-residents are subject to tax at a rate of 20%.

VAT	10% standard rate. VAT on export of goods is zero rated, while the import of goods is subject to VAT at a rate of 10%. Basic commodities essential to the public (rice, corn, soybean and so on), food and beverages served at eateries and suchlike, and services such as medical, entertainment and public transport are all zero rated.
Withholding Tax	15% each on dividend income, interest and royalties (20% on each if the corporation/individual is from a non-treaty country), which may be reduced if a double taxation agreement exists. For example, Hong Kong has a treaty limiting these rates to 10%, 10% and 5% respectively.
Social security contributions	Employees and employers contribute to the programme by paying contributions, deducted from the payroll, which are calculated as a percentage of total monthly gross income, at rates varying from 0.24% to 4% for work accident protection, death insurance, pension plan and healthcare scheme.
Withholding Tax (payments to non-residents)	20%
Transfer duty on land and buildings	maximum rate of 5%, charged to the seller

Source: Directorate General of Taxes
Date last reviewed: January 18, 2021

9. Foreign Worker Requirements

9.1 Localisation Requirements

There are stringent localisation requirements in terms of workforce and supply chain partners in a wide variety of sectors in Indonesia. This makes it much harder and more expensive, and presents higher risks for businesses wishing to hire foreign workers. Given the low levels of skills present in the Indonesian labour market, which makes the hiring of foreign workers for highly and technically skilled positions a necessity in many cases, this is a significantly risk for business operation.

A company can hire foreigners only for positions which the government has deemed open to non-Indonesians. Employers must have training programmes aimed at replacing foreign workers with Indonesians. The foreign worker must meet education, work experience and Indonesian language requirements and commit to the transfer of knowledge to an Indonesian counterpart.

9.2 Obtaining Foreign Worker Permits for Skilled Workers

Staying in Indonesia for work purposes for a long period (more than five weeks) requires the approval of the immigration office in Indonesia. Foreign workers must have the necessary visa and work and stay permits, all of which can be applied for at the immigration office by a sponsor or counterpart in Indonesia. Foreigners can only be issued with limited or temporary resident visas for a maximum period of 12 months, with the possibility of extension; subject to approval from the immigration office. The process of obtaining a visa and work permit for foreigners in Indonesia is lengthy, taking an average of three months. It is also a bureaucratically complex process. The temporary resident visa can only be obtained if the applicant has a sponsor or counterpart in Indonesia to help them obtain the visa by applying to the immigration office.

9.3 Visa/Travel Restrictions

Given that Indonesia has a significant tourism industry, there are many countries (such as those in the European Union and those party to the Asia-Pacific Economic Cooperation Agreement) whose citizens can obtain visas on arrival in order to enter Indonesia for a period of 30-60 days. The Covid-19 pandemic has had a significant effect on the ease with which people can transit internationally and conditions are subject to sudden change.

9.4 Language/Cultural barriers

Indonesian (Bahasa) is the official language of Indonesia and is widely spoken across the country. Javanese is also spoken throughout Java Island and some provinces in Sumatra and Kalimantan Island. While it is possible to conduct business in English, a little understanding of local languages is helpful for forging successful business relationships in the country. Hierarchy in business is respected a lot more in Indonesian culture in comparison with the United States and Western Europe.

Sources: Government websites, Directorate General of Immigration, Fitch Solutions

10. Risks

10.1 Sovereign Credit Ratings

	Rating (Outlook)	Rating Date

Moody's	Baa2 (Stable)	10/02/2020
Standard & Poor's	BBB (Negative)	17/04/2020
Fitch Ratings	BBB (Stable)	10/08/2020

Sources: Moody's, S&P Global, Fitch Ratings

10.2 Competitiveness and Efficiency Indicators

	World Ranking		
	2018	2019	2020
Ease of Doing Business Index	72/190	73/190	73/190
Ease of Paying Taxes Index	114/190	112/190	81/190
Logistics Performance Index	46/160	N/A	N/A
Corruption Perception Index	89/180	85/180	102/180
IMD World Competitiveness	43/63	32/63	40/63

Sources: World Bank, IMD, Transparency International

10.3 Fitch Solutions Risk Indices

	World Ranking		
	2019	2020	2021
Economic Risk Index	**42/202**	**44/201**	**43/201**
Short-Term Economic Risk Score	70.0	58.5	68.3
Long-Term Economic Risk Score	67.8	64.1	64.5
Political Risk Index	**91/202**	**94/201**	**93/201**
Short-Term Political Risk Score	71.0	65.8	64.6
Long-Term Political Risk Score	63.2	62.7	62.7
Operational Risk Index	**77/201**	**70/201**	**68/201**
Operational Risk Score	53.8	55.2	56.0

Source: Fitch Solutions
Date last reviewed: January 18, 2021

10.4 Fitch Solutions Risk Summary

ECONOMIC RISK
Indonesia's short-term economic risk centres on the Covid-19 pandemic. The economy contracted in 2020 due to the slowdown in foreign demand and restrictions on economic activity. Looking ahead, the continued downward pressure that the pandemic has placed on domestic demand is likely to remain as Indonesia grapples with its ongoing Covid-19 outbreak, making the economy's recovery slow and uneven. Indonesia's economy continues to be constrained by an inefficient tax system and reliance on resource revenue, issues further compounded by the ongoing pandemic.

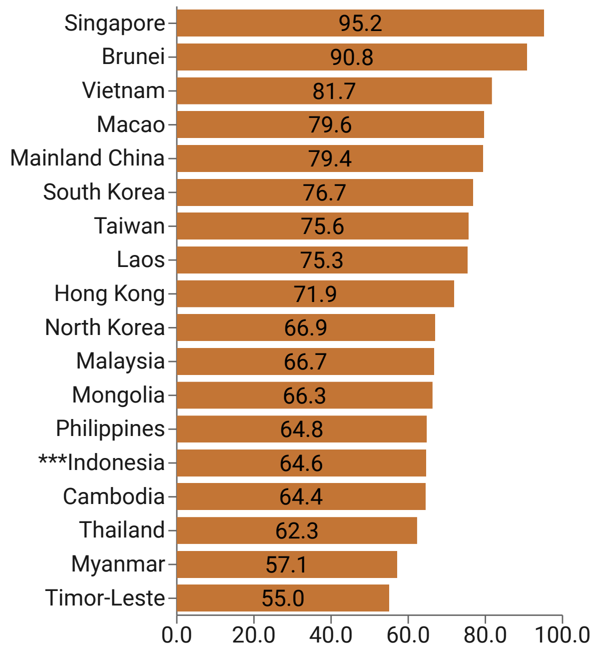
OPERATIONAL RISK
There are various opportunities for investment in Indonesia, which is South East Asia's largest economy. The manufacturing, information and communications technology, financial services, oil and gas, and infrastructure sectors represent attractive options for foreign direct investment (FDI). The domestic financial market is well developed, providing opportunities for portfolio investment, access to credit and links to international finance centres. Restrictions on FDI and excessive red tape in setting up a business pose a number of challenges. Nonetheless, businesses in Indonesia are able to make use of the country's strategic location on vital global shipping lanes, which bodes well for the future, especially when

considered with the various port projects currently under way. Connections to international maritime trade routes facilitate efficient export times and very low-cost trade procedures, further facilitated by Indonesia’s membership of the ASEAN free trade agreement. An expanding pool of technical workers and staff with specialised degrees in science and engineering can be found in Indonesia's larger cities.

Source: Fitch Solutions
Date last reviewed: January 20, 2021

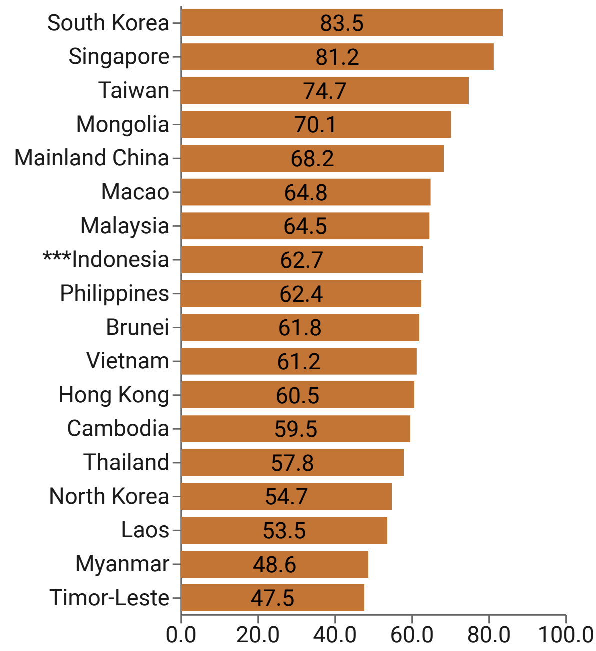
10.5 Fitch Solutions Political and Economic Risk Indices

Short Term Political Risk Index



100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: January 19, 2021

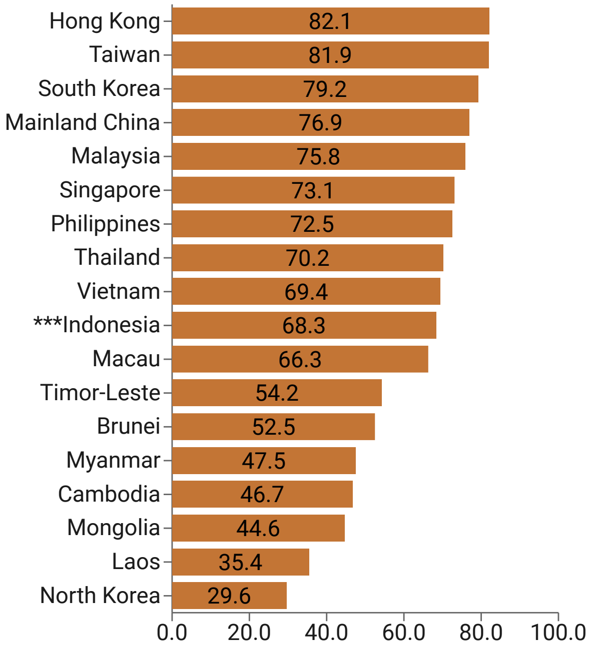
Long Term Political Risk Index



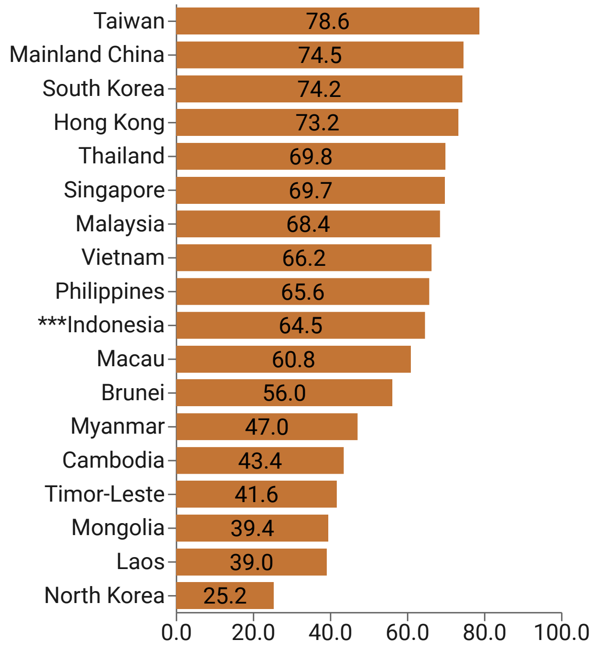
100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: January 19, 2021

Short Term Economic Risk Index

Long Term Economic Risk Index



100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: January 19, 2021

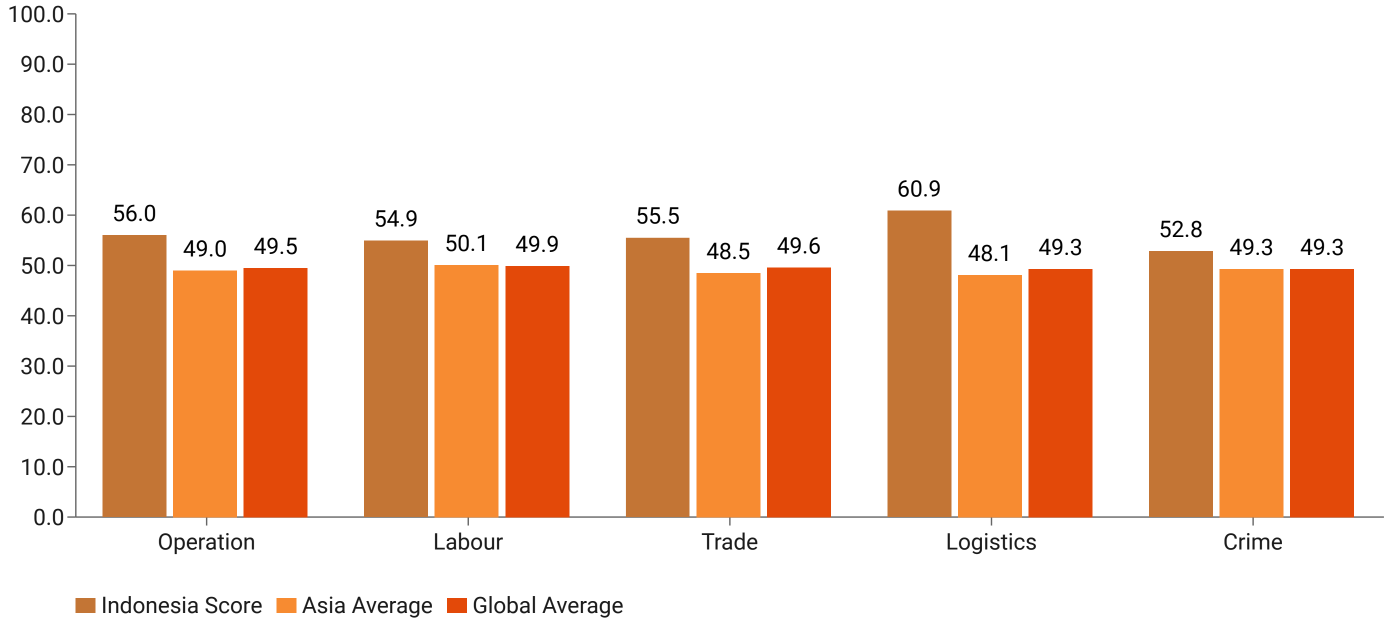


100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: January 19, 2021

10.6 Fitch Solutions Operational Risk Index

	Operational Risk	Labour Market Risk	Trade and Investment Risk	Logistics Risk	Crime and Security Risk
Indonesia Score	**56.0**	**54.9**	**55.5**	**60.9**	**52.8**
East and Southeast Asia average	56.5	57.5	57.6	57.3	53.5
East and Southeast Asia position (out of 18)	10	10	11	11	9
Asia average	49.0	50.1	48.5	48.1	49.3
Asia position (out of 35)	10	10	11	12	14
Global average	49.5	49.9	49.6	49.3	49.3
Global Position (out of 201)	68	67	78	63	88

Indonesia vs Global and Regional Operational Risk Averages



Note: 100 = Lowest Risk, 0 = Highest Risk
Source: Fitch Solutions Operational Risk Index
Date last reviewed: January 18, 2021

Country/Region	Operational Risk	Labour Market Risk	Trade and Investment Risk	Logistics Risk	Crime and Security Risk
Singapore	84.8	79.4	91.3	81.5	87.0
Hong Kong	81.1	72.6	89.0	81.2	81.5
Taiwan	74.6	71.4	76.7	77.3	73.1
South Korea	71.7	62.1	71.1	80.6	72.8
Malaysia	70.4	62.0	76.1	76.5	66.8
Macau	64.9	62.0	65.5	64.5	67.8
Brunei	62.8	62.4	58.8	63.8	66.2
Thailand	61.0	56.6	68.3	70.1	48.8
Mainland China	59.4	55.8	61.8	73.3	46.8
Indonesia	**56.0**	**54.9**	**55.5**	**60.9**	**52.8**
Vietnam	54.6	51.9	57.4	61.1	48.2
Mongolia	50.1	54.7	52.7	37.6	55.3
Philippines	47.6	54.8	51.0	47.0	37.6
Cambodia	42.1	47.4	43.9	35.6	41.2
Laos	37.1	40.5	34.3	39.3	34.2
North Korea	35.3	54.8	24.7	29.3	32.3
Myanmar	32.3	46.8	32.8	31.4	18.2
Timor-Leste	31.2	44.8	26.5	21.0	32.4
Regional Averages	56.5	57.5	57.6	57.3	53.5

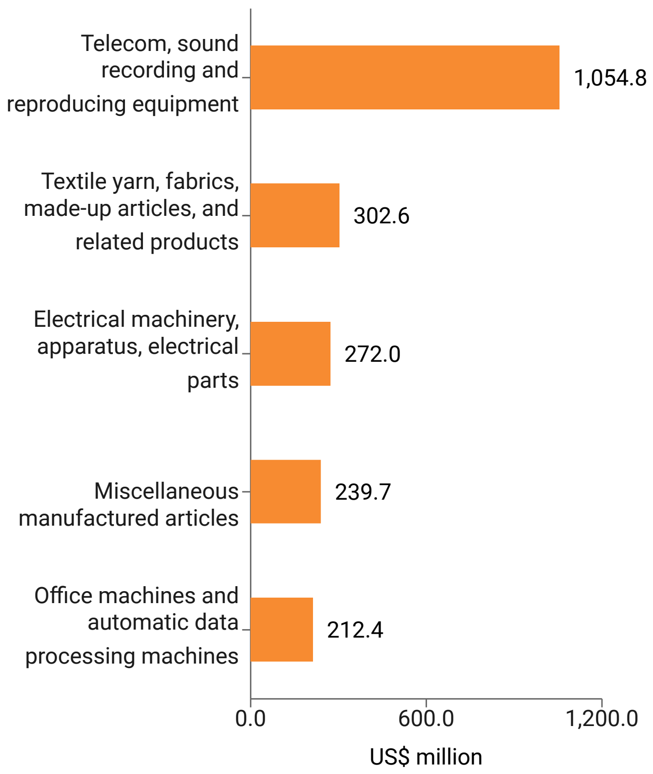
Emerging Markets Averages	46.8	48.3	47.1	45.8	46.1
Global Markets Averages	49.5	49.9	49.6	49.3	49.3

100 = Lowest risk, 0 = Highest risk
Source: Fitch Solutions Operational Risk Index
Date last reviewed: January 18, 2021

11. Hong Kong Connection

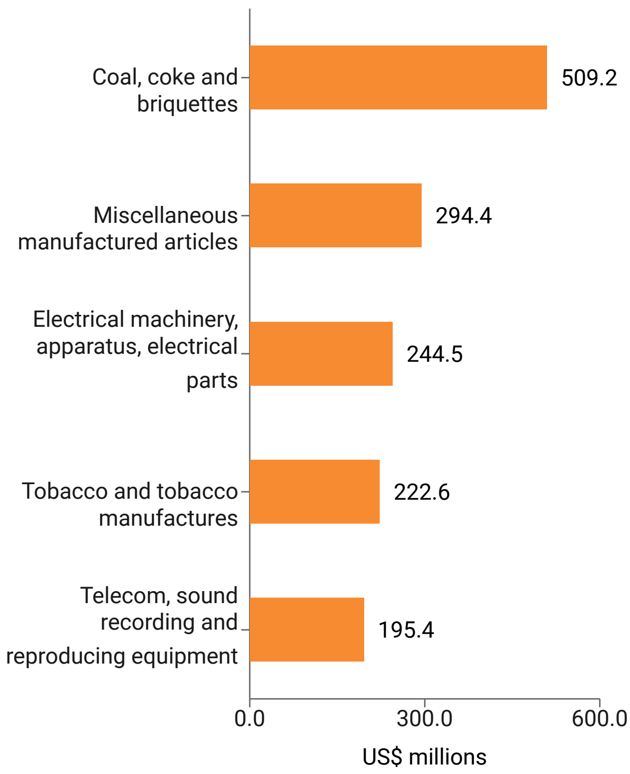
11.1 Hong Kong's Trade with Indonesia

Major Export Commodities to Indonesia (2019)



Note: Graph shows the main Hong Kong exports to Indonesia (by consignment)
Sources: Hong Kong Census and Statistics Department, Fitch Solutions
Date last reviewed: January 18, 2021

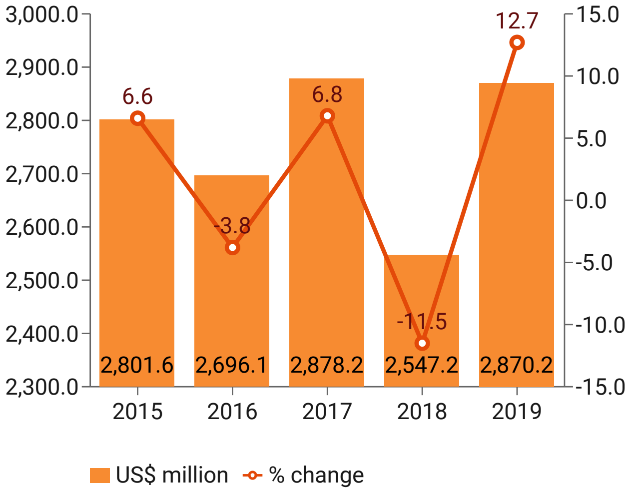
Major Import Commodities from Indonesia (2019)



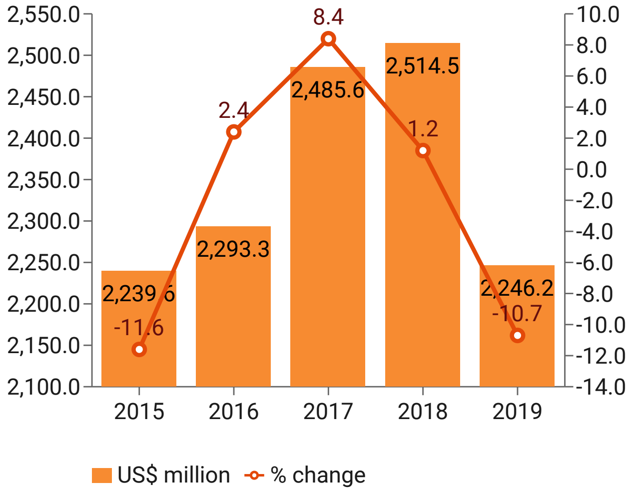
Note: Graph shows the main Hong Kong imports from Indonesia (by consignment)
Sources: Hong Kong Census and Statistics Department, Fitch Solutions
Date last reviewed: January 18, 2021

Merchandise Exports to Indonesia

Merchandise Imports from Indonesia



Note: Graph shows Hong Kong exports to Indonesia (by consignment)
Source: Hong Kong Trade Statistics, Census & Statistics Department
Date last reviewed: January 18, 2021



Note: Graph shows Hong Kong imports from Indonesia (by consignment)
Sources: Hong Kong Census and Statistics Department, Fitch Solutions
Date last reviewed: January 18, 2021

Exchange Rate HK$/US$, average
7.75 (2015)
7.76 (2016)
7.79 (2017)
7.84 (2018)
7.84 (2019)

	2019	Growth rate (%)
Number of Indonesia residents visiting Hong Kong	375,781	-12.0
Number of Asia Pacific residents visiting Hong Kong	52,326,248	-14.3

Sources: Hong Kong Tourism Board, Fitch Solutions

	2019	Growth rate (%)
Number of Indonesians residing in Hong Kong	174,380	29.6
Number of East Asians and South Asians residing in Hong Kong	2,834,871	3.4

Note: Growth rate for resident data is from 2015 to 2019. No UN data available for intermediate years.
Sources: United Nations Department of Economic and Social Affairs – Population Division , Fitch Solutions
Date last reviewed: January 18, 2021

11.2 Commercial Presence in Hong Kong

	2021	Growth rate (%)
Number of Indonesian companies in Hong Kong	N/A	N/A
- Regional headquarters		
- Regional offices		
- Local offices		

11.3 Treaties and agreements between Mainland China/Hong Kong and Indonesia

- Indonesia has a double taxation agreement with Hong Kong that entered into force in March 2012.
- Hong Kong has an air service agreement with Indonesia that entered into force on June 27, 1997.
- Indonesia has a double taxation agreement with Mainland China that came into force in August 2003 and was amended in March 2016.

Source: Inland Revenue Department, Government of Hong Kong

11.4 Chamber of Commerce or Related Organisations

Indonesia Chamber of Commerce in Hong Kong
Address: 11/F, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Hong Kong
Email: info@inachamhk.com
Tel: (852) 2110 1645
Fax : (852) 2110 1649

Source: Indonesia Chamber of Commerce in Hong Kong

Consulate General of the Republic of Indonesia in Hong Kong
Address: 127-129 Leighton Road, 6-8 Keswick Street, Causeway Bay, Hong Kong
Email: info@cgrihk.com
Tel: (852) 3651 0200
Fax: (852) 2895 0139
Source: Consulate General of the Republic of Indonesia in Hong Kong

11.5 Visa Requirements for Hong Kong Residents

Visa-free access valid for 30 days.

Source: Visa on Demand
Date last reviewed: January 18, 2021

Related Topics